

# JSW Steel

## HOLD

Profitability below expectations

### Summary

JSW Steel's Q3FY23 profitability was below our expectation due to higher than expected mining and royalty expenses. Consolidated sales stood at 5.63 mn tonnes, higher by 41% YoY. EBITDA jumped 159% QoQ led by fall in coking coal price and lower other expenses. Net profit stood at Rs4.7 bn as compared to adjusted net loss of Rs 3 bn in Q2FY23. Net debt increased by Rs37 bn QoQ to Rs694 bn. We cut our FY23 EBITDA estimate by 27% to factor weaker than expected Q3FY23 profitability. Nevertheless, we broadly maintain our FY24 estimates and introduce FY25 forecasts in this report. We value the stock at an EV/EBITDA multiple of 6x FY25 (earlier 6x FY24) EBITDA to derive a target price of Rs751 (earlier Rs611) and maintain HOLD rating on the stock.

### Key Highlights and Investment Rationale

- Sales volumes flat QoQ:** During Q3FY23, standalone saleable steel sales volume remained flat QoQ to 4.9 mn tonnes even though the production grew 8% QoQ to 5.3 mn tonnes. Export sales fell by 56% YoY and 19% QoQ as there was an impact of export duty until November.
- Project updates:** JSW's brownfield expansion of coke oven plant (1.5 mtpa) at Vijaynagar plant has achieved capacity utilization of 85% in Q2FY23. JSW Steel Ispat facilities were also commenced in Q2FY23 after maintenance shutdown. The 6MW power plant has also commenced its operations in Dolvi. BSPL's second phase expansion (from 3.5 mtpa to 5 mtpa) will be completed by FY24.
- Outlook:** Rising costs have led to lower than expected spreads for JSW Steel during Q3FY23. While we expect spreads to improve gradually, JSW Steel's stock valuation at 6.4x FY25 EV/EBITDA discounts this positive. We await better entry point in the stock. Hence, we maintain our Neutral stance on the stock.

<b>TP</b>	<b>Rs751</b>
<b>CMP</b>	<b>Rs741</b>
Potential upside/downside	1%
Previous Rating	HOLD

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.7)	17.9	8.6
Rel to Sensex	1.1	15.5	6.6

### V/s Consensus

EBITDA (Rs bn)	FY23E	FY24E	FY25E
IDBI Capital	148	294	364
Consensus	204	326	379
% difference	(27.5)	(9.8)	(4.0)

### Key Stock Data

Bloomberg / Reuters	JSTL IN / JSTL.BO
Sector	Metal & Mining
Shares o/s (mn)	2,417
Market cap. (Rs mn)	1,791,039
3-m daily average value (Rs mn)	67.4
52-week high / low	Rs790 / 520
Sensex / Nifty	60,622 / 18,028

### Shareholding Pattern (%)

Promoters	45.2
FII	26.0
DII	9.3
Public	19.5

### Financial snapshot

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	798	1,464	1,388	1,583	1,703
Change (yoy, %)	9	83	(5)	14	8
EBITDA	201	390	148	294	364
Change (yoy, %)	70	94	(62)	98	24
EBITDA Margin(%)	25.2	26.6	10.7	18.6	21.4
Adj.PAT	85	188	20	121	164
EPS (Rs)	35.2	77.9	8.3	50.0	67.9
Change (yoy, %)	129.7	121.2	(89.3)	502.4	35.6
PE(x)	21.0	9.5	89.2	14.8	10.9
Dividend Yield (%)	0.9	0.9	1.1	1.4	1.4
EV/EBITDA (x)	10.8	5.9	16.2	8.1	6.4
RoE (%)	20.4	32.9	2.9	16.2	18.7
RoCE (%)	14.6	25.6	5.7	15.2	18.5

Source: IDBI Capital Research

**Exhibit 1: Quarterly Snapshot (Consolidated)**

(Rs mn)

Year-end: March	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
<b>Net sales</b>	<b>391,340</b>	<b>417,780</b>	<b>(6.3)</b>	<b>380,710</b>	<b>2.8</b>
Expenditure	345,870	400,260	(13.6)	289,390	19.5
<b>EBITDA</b>	<b>45,470</b>	<b>17,520</b>	<b>159.5</b>	<b>91,320</b>	<b>(50.2)</b>
<i>EBITDA margin (%)</i>	<i>11.6</i>	<i>4.2</i>	<i>743bps</i>	<i>24.0</i>	<i>(1237bps)</i>
<b>EBITDA per ton</b>	<b>8,076</b>	<b>3,052</b>	<b>164.6</b>	<b>22,830</b>	<b>(64.6)</b>
Interest	18,190	15,230	19.4	12,830	41.8
Depreciation	18,820	18,050	4.3	17,640	6.7
<b>PBT</b>	<b>10,340</b>	<b>(13,880)</b>	<b>(174.5)</b>	<b>62,390</b>	<b>(83.4)</b>
Exceptional items		(5,910)	NA	-	NA
Tax	5,040	620	712.9	17,450	(71.1)
<b>Net profit</b>	<b>4,740</b>	<b>(9,150)</b>	<b>(151.8)</b>	<b>45,160</b>	<b>(89.5)</b>
<b>Adjusted Net profit</b>	<b>4,740</b>	<b>(3,240)</b>	<b>(246.3)</b>	<b>45,160</b>	<b>(89.5)</b>
<b>Adjusted EPS</b>	<b>2.0</b>	<b>(3.8)</b>	<b>(151.8)</b>	<b>18.7</b>	<b>(89.5)</b>

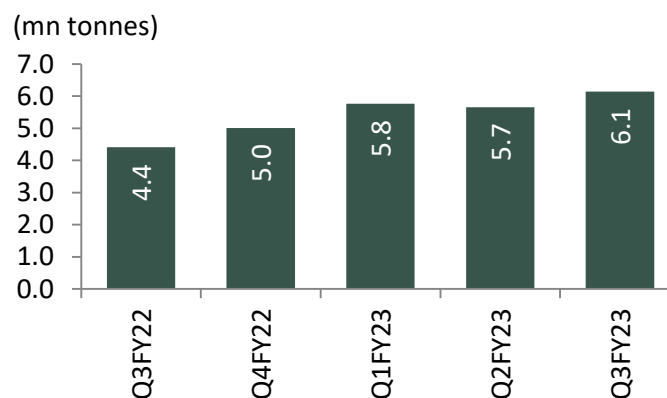
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

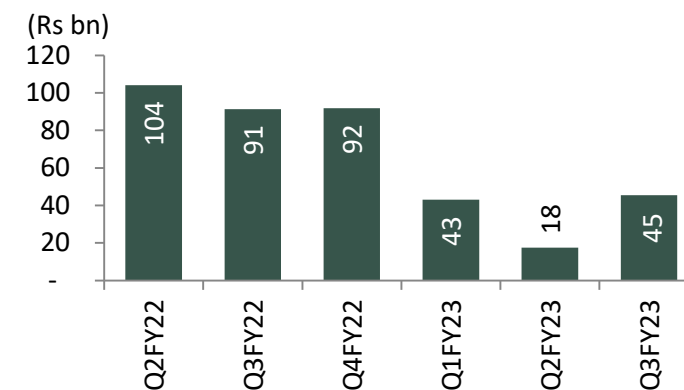
(Rs bn)

	Q3FY23E	Q3FY23A	Variance (%)
<b>Net sales</b>	<b>376,168</b>	<b>391,340</b>	<b>4.0</b>
EBTIDA	59,041	45,470	(23.0)
<b>EBITDA margin (%)</b>	<b>15.7</b>	<b>11.6</b>	<b>(408bps)</b>
<b>Adj. PAT</b>	<b>13,305</b>	<b>8,076</b>	<b>(39.3)</b>
Adj. diluted EPS (Rs)	20,108	4,740	(76.4)

Source: Company; IDBI Capital Research

**Exhibit 3: Consolidated Sales volume grew by 8% QoQ**


Source: Company; IDBI Capital Research

**Exhibit 4: Consolidated EBIDTA grew by 159% QoQ**


Source: Company; IDBI Capital Research

### Conference call highlights

- At industry level, domestic demand remained robust due to higher orders from Infrastructure and construction space, auto contracts and general engineering segment. Going ahead, Q4FY23 is expected to remain prominent.
- On standalone basis, crude steel production was up by 7% QoQ to 5.32 mn tonnes due to increase in capacity utilization. However, saleable steel volumes were flat to 4.95 mn tonnes.
- Exports fell 56% YoY and 19% QoQ. Hnand stood at 7% of volumes. The company expects the export volumes remain in the range of 10-11% in FY24 as export duty is nullified.
- During the quarter, the coking coal cost consumption was down by \$100/tonne. However, iron ore prices remained marginally up in Q3FY23. The cost of both the raw materials is expected to remain flattish in Q4FY23.
- Under PLI scheme, Out of 9 projects, the company has implemented 6 projects which require a capex of Rs53 bn.

- Out of planned capex of Rs150 bn in FY23. JSW steel incurred a capex of Rs41 bn in Q3FY23.
- BSPL's reported a net loss of Rs1.5 bn due to higher cost of coal inventory, NRV losses and shutdown of pellet plant. However, Q4FY23 performance will remain better as company has already expanded capacity from 2.7 mn tonnes to 3.5 mn tonnes. The Phase-II expansion is expected to be completed by FY24.
- Net debt increased by Rs37 bn QoQ (average cost of debt up by 6.9%) to Rs694 bn due to FX impact and higher working capital requirement.
- The 5 mtpa brownfield expansion at Vijayanagar plant is in process. The project is expected to be completed by FY24. The downstream projects at Vasind and Tarapur have already been commissioned.
- The 6 MW power plant has been started in Dolvi which will lower the power cost in coming quarters. Therefore, reduction in cost, higher volumes and better realisation will strengthen Q4FY23 performance.
- JSW steel remains confident of achieving its steel production target of 23.6 mn tonnes and saleable steel sales target of 22.6 mn tonnes in FY23.

#### Exhibit 5: Change in estimates (Rs bn)

	FY23E			FY24E			FY25E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	1,518	1,388	(8.5)	1,821	1,583	(13.1)	1,703
EBITDA (Rs mn)	203	148	(27.0)	312	294	(5.8)	364
EBITDA margin (%)	13.4	10.7	(270bps)	17.1	18.6	144bps	21.4
Net profit (Rs mn)	60	20	(66.6)	131	121	(8.2)	164
EPS (Rs)	24.9	8.3	(66.6)	54.5	50.0	(8.2)	68

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Net sales</b>	<b>733</b>	<b>798</b>	<b>1,464</b>	<b>1,388</b>	<b>1,583</b>	<b>1,703</b>
<i>Change (yoy, %)</i>	<i>(13)</i>	<i>9</i>	<i>83</i>	<i>(5)</i>	<i>14</i>	<i>8</i>
Operating expenses	(615)	(597)	(1,074)	(1,240)	(1,289)	(1,339)
<b>EBITDA</b>	<b>119</b>	<b>201</b>	<b>390</b>	<b>148</b>	<b>294</b>	<b>364</b>
<i>Change (yoy, %)</i>	<i>(37)</i>	<i>70</i>	<i>94</i>	<i>(62)</i>	<i>98</i>	<i>24</i>
<i>Margin (%)</i>	<i>16.2</i>	<i>25.2</i>	<i>26.6</i>	<i>10.7</i>	<i>18.6</i>	<i>21.4</i>
Depreciation	(42)	(47)	(60)	(65)	(70)	(76)
<b>EBIT</b>	<b>76</b>	<b>155</b>	<b>330</b>	<b>83</b>	<b>224</b>	<b>289</b>
Interest paid	(43)	(40)	(50)	(55)	(61)	(68)
Other income	5	6	15	17	18	19
<b>Pre-tax profit</b>	<b>38</b>	<b>121</b>	<b>305</b>	<b>45</b>	<b>181</b>	<b>240</b>
Tax	9	(41)	(88)	(11)	(45)	(60)
<i>Effective tax rate (%)</i>	<i>(24)</i>	<i>34</i>	<i>29</i>	<i>25</i>	<i>25</i>	<i>25</i>
Minority Interest	(3.1)	6.2	(12)	(14)	(15)	(16)
<b>Net profit</b>	<b>44</b>	<b>86</b>	<b>204</b>	<b>20</b>	<b>121</b>	<b>164</b>
Exceptional items	7	1	17	-	-	-
<b>Adjusted net profit</b>	<b>37</b>	<b>85</b>	<b>188</b>	<b>20</b>	<b>121</b>	<b>164</b>
<i>Change (yoy, %)</i>	<i>(49)</i>	<i>130</i>	<i>121</i>	<i>(89)</i>	<i>502</i>	<i>36</i>
EPS	15.3	35.2	77.9	8.3	50.0	67.9
Dividend per share	5.0	6.5	7.0	8.0	10.0	10.0
<i>Dividend Payout %</i>	<i>32.3</i>	<i>18.5</i>	<i>9.0</i>	<i>96.6</i>	<i>20.0</i>	<i>14.8</i>

**Balance Sheet**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Shareholders' funds</b>	<b>366</b>	<b>468</b>	<b>673</b>	<b>687</b>	<b>799</b>	<b>955</b>
Share capital	3	3	3	3	3	3
Reserves & surplus	363	465	670	684	796	952
<b>Total Debt</b>	<b>611</b>	<b>517</b>	<b>700</b>	<b>630</b>	<b>610</b>	<b>560</b>
Other liabilities	74	91	125	125	125	125
<b>Curr Liab &amp; prov</b>	<b>273</b>	<b>413</b>	<b>455</b>	<b>418</b>	<b>463</b>	<b>494</b>
Current liabilities	271	410	452	416	461	491
Provisions	2	3	3	3	3	3
<b>Total liabilities</b>	<b>958</b>	<b>1,022</b>	<b>1,280</b>	<b>1,173</b>	<b>1,198</b>	<b>1,178</b>
<b>Total equity &amp; liabilities</b>	<b>1,318</b>	<b>1,483</b>	<b>1,965</b>	<b>1,859</b>	<b>1,980</b>	<b>2,100</b>
<b>Net fixed assets</b>	<b>892</b>	<b>972</b>	<b>1,166</b>	<b>1,301</b>	<b>1,381</b>	<b>1,456</b>
Investments	13	88	49	49	49	49
Other non-curr assets	48	64	96	96	96	96
<b>Current assets</b>	<b>366</b>	<b>358</b>	<b>654</b>	<b>413</b>	<b>454</b>	<b>499</b>
Inventories	139	142	338	248	282	304
Sundry Debtors	45	45	75	78	89	96
Cash and Bank	120	128	174	15	5	17
Loans and advances	7	6	8	8	8	8
Other current assets	55	37	60	65	70	75
<b>Total assets</b>	<b>1,318</b>	<b>1,483</b>	<b>1,965</b>	<b>1,859</b>	<b>1,980</b>	<b>2,100</b>

**Cash Flow Statement**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	38	121	305	45	181	240
Depreciation	(42)	(47)	(60)	(65)	(70)	(76)
Tax paid	(13)	(23)	(47)	(11)	(45)	(60)
Chg in working capital	37	137	(184)	50	(1)	3
Other operating activities	(9)	40	(1)	(0)	-	-
<b>Cash flow from operations (a)</b>	<b>88</b>	<b>322</b>	<b>133</b>	<b>148</b>	<b>205</b>	<b>258</b>
Capital expenditure	(181)	(127)	(254)	(200)	(150)	(150)
Chg in investments	6	(76)	39	-	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(175)</b>	<b>(203)</b>	<b>(215)</b>	<b>(200)</b>	<b>(150)</b>	<b>(150)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	161	(93)	182	(70)	(20)	(50)
Dividend (incl. tax)	(12)	(16)	(17)	(19)	(24)	(24)
Chg in minorities	(4)	6	6	(27)	(30)	(33)
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>145</b>	<b>(103)</b>	<b>172</b>	<b>(117)</b>	<b>(74)</b>	<b>(107)</b>
<b>Net chg in cash (a+b+c)</b>	<b>58</b>	<b>16</b>	<b>90</b>	<b>(169)</b>	<b>(20)</b>	<b>1</b>

### Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	152	194	279	285	331	396
Adj EPS (Rs)	15.3	35.2	77.9	8.3	50.0	67.9
Adj EPS growth (%)	(49.2)	130	121.2	(89.3)	502	35.6
EBITDA margin (%)	16.2	25.2	26.6	10.7	18.6	21.4
Pre-tax margin (%)	5.2	15.2	20.8	3.2	11.4	14.1
Net Debt/Equity (x)	1.3	0.8	0.8	0.9	0.8	0.6
ROCE (%)	7.9	14.6	25.6	5.7	15.2	18.5
ROE (%)	10.4	20.4	32.9	2.9	16.2	18.7

### DuPont Analysis

Asset turnover (x)	0.6	0.6	0.8	0.7	0.8	0.8
Leverage factor (x)	3.5	3.4	3.0	2.8	2.6	2.3
Net margin (%)	5.0	10.6	12.8	1.4	7.6	9.6

### Working Capital & Liquidity ratio

Inventory days	69	65	84	65	65	65
Receivable days	22	21	19	21	21	21
Payable days	59	93	105	78	86	89

### Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	48.3	21.0	9.5	89.2	14.8	10.9
Price/Book value (x)	4.9	3.8	2.7	2.6	2.2	1.9
EV/Net sales (x)	3.1	2.7	1.6	1.7	1.5	1.4
EV/EBITDA (x)	19.2	10.8	5.9	16.2	8.1	6.4
Dividend Yield (%)	0.7	0.9	0.9	1.1	1.4	1.4

Source: Company; IDBI Capital Research





# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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