

Guides for rise in profitability, expansion plan intact...

About the stock: JSW Steel (JSW), the flagship company of the JSW group, is one of the largest and most diversified steel producers' companies in India.

- Steel Capacity as of FY24: India- 28.2 million Ton (MT) & US- 1.5 MT

Q4FY24 Results: JSW Steel reported muted performance in Q4FY24 results. Consolidated topline stood at ₹46,269 crore (flat YoY, up 10% QoQ) with steel sales volume of 6.7 MT (up 3% YoY, 12% QoQ). Reported EBITDA for the quarter came in at ₹6,124 crore vs ₹7,180 crore in Q3FY24, largely attributed to higher raw material cost at its Indian operations and drop in metal realisations. Standalone operations reported EBITDA/tonne of ₹7,807 vs ₹11,113 in Q3FY24 vs ₹10,998 in Q4FY23.

Investment Rationale

- Ambitious capacity expansion aligns with growing steel demand in domestic market:** Despite being the world's second largest consumer of finished steel, India's per capita steel consumption at 77 per kg lags far behind the global average of 233 per kg. Aiming to increase per capita steel consumption to 160 per kg by 2030-31, the government is targeting a crude steel capacity of 300 MT. As a prominent player with decades of experience in this space, JSW Steel has embarked on an expansion path with the goal of increasing its steel production capacity domestically to 42 MTPA by Sept'27, and gradually expanding it to 50 MTPA by FY31. Most of the capacity expansions will be brownfield in nature at its existing plants, including Vijayanagar, which is the largest integrated steel facility in India, undergoing an expansion from ~12 MT to ~19 MT by FY25. Moreover, JSW also aims to augment its downstream capacities, targeting an increase in the share of high-margin value added products. Going forward, on consolidated basis, we have modelled in a volume growth of 10% CAGR over FY24-26E to 30 MT in FY26 vs. 25 MT clocked in FY24.
- EBITDA/tonne set to improve owing to better steel prices and lower raw material costs:** With demand recovery in global markets, improved steel prices and lower coking coal costs, EBITDA per ton is expected to improve for the company in coming quarters. With the aim of securing critical raw materials for steel making, it is also aggressive on scouting mines (iron ore, coal) with captive share of iron ore requirements set to increase from ~35% currently to ~50% by FY25E. It has also announced acquisition of coking coal mines (pre-developmental stage) in Mozambique. With raw material security in sight, better ASP's and decline in coking coal costs, we built in EBITDA/tonne at JSW to improve to ₹12k/13.5k per tonne for FY25E/26E.

Rating and Target Price

- With strategic capacity expansion in place, favourable steel demand and improvement in profitability, JSW Steel is poised to deliver record performance (450 bps improvement in margins) going forward. We assign **BUY** rating to the stock and value it at ₹ 1,125 i.e. 8x FY26E EV/EBITDA.



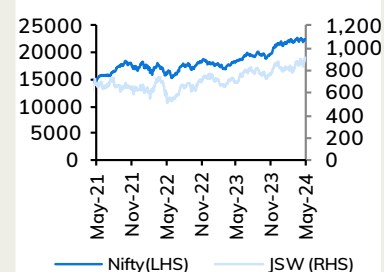
Particulars

Particulars	₹ crore
Market capitalisation	2,26,200
Total Debt (FY24P)	85,575
Cash & Investment (FY24P)	12,348
EV (₹ crore)	2,99,427
52 week H/L (₹)	929 / 690
Equity capital (₹ crore)	305.0
Face value (₹)	1.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	45.4	44.8	44.8	44.8
FII	26.0	26.1	26.3	26.1
DII	9.6	9.5	9.5	9.8
Other	19.0	19.6	19.4	19.3

Price Chart



Recent event & key risks

- Posted muted Q4FY24 results. Guides for substantial improvement in EBITDA/tonne
- Key Risk: (i) Higher than expected rise in operating cost (ii) delay in executing capex plans at Indian operation

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Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Total Operating Income	84,757	73,326	79,839	1,46,371	1,65,960	1,75,006	15.6%	1,84,986	2,08,920	9.3%
EBITDA	18,952	11,873	20,141	39,007	18,547	28,236	8.3%	34,696	43,019	23.4%
EBITDA Margins (%)	22.4	16.2	25.2	26.6	11.2	16.1		18.8	20.6	
Net Profit	7,639	4,030	7,911	20,665	4,144	8,812	2.9%	12,934	18,628	45.4%
EPS (₹)	31.2	16.5	32.4	84.5	16.9	36.0		52.9	76.2	
P/E	29.6	56.1	28.6	10.9	54.6	25.7		17.5	12.1	
RoNW (%)	22.0	14.2	17.5	30.5	5.8	11.0		14.7	18.1	
RoCE (%)	16.5	7.4	13.0	21.9	7.0	11.1		13.4	16.1	

Q4FY24 Earnings Conference Call Highlights

- Industry:** JSW anticipates robust steel demand in CY25 driven by higher government capex, with strong demand across the manufacturing, real estate and automotive sectors. It expects better domestic steel prices in the coming year. However, it remains cautious about the rise in steel imports, particularly from China and the ASEAN countries.
- Management Guidance:** With the commissioning of capacity expansion at the Vijayanagar and BPSL plants, JSW targets production and sales volume of 28.4 MT and 27 MT in FY25, respectively. It anticipates an improvement in EBITDA per ton to ~₹12,000 in FY25 due to a decline in coking coal prices, stability in steel prices, and commissioning of cost saving projects that will aid the cost reduction.
- Capacity Expansion:** JSW's consolidated capex spending for Q4FY24 stood at ₹3,500 crore, bringing total capex for FY24 to ₹16,752 crore. Capex for FY25 is anticipated to be ₹20,000 crore. It has commissioned its hot strip mill capacity of 5 MT and completed the phase 2-expansion of BPSL plant, which is expected to ramp up earlier by Oct'24, with full incremental capacity benefits in FY26. Additionally, its colour coated line capacity in Jammu and Kashmir will commence production by Q2FY25. Moreover, its slurry pipeline in Odisha is expected to commence by FY27.
- Downstream capacity:** JSW aims to increase downstream capacity, with a target of more than 50% of downstream capacities being in hot strip mills operation. Its current downstream capacity stands at 13.5 to 14 MT, yielding an incremental EBITDA per ton of ₹4,000. It has also received approval for Phase 3 expansion at Dolvi, with its capacity slated to increase from 10 MT to 15 MT.
- Iron Ore:** JSW aims to increase the captive iron ore production to ~50% in FY25 from current ~35%. Over the medium term, it will increase iron ore mining capacities in Karnataka from the current 7 MT to 15.5 MT, with an increase in evacuation capacity limits by 4 MT in existing mines. The gradual commissioning of three new mines will further add 4.5 MT, and goa mines will add another 1 to 2 MT. It will continue to participate in auctions of iron ore, particularly in Karnataka with a focus on mines proximate to its plants.
- Coking Coal:** JSW witnessed a coking coal price increase by \$22 per ton from the earlier guidance of \$20 to \$25 per ton, thereby cost reaching to \$274 per ton in Q4FY24. It expects a decrease in coking coal prices by \$22 to \$27 per ton in Q1FY25. It's in the process of commissioning three coking coal mines with a capacity of 2 MT.
- Mozambique Acquisition:** JSW has acquired a coking coal mine (pre developmental stage) in Mozambique with reserves and resources of ~800 MT, including more than 270 MT of prime coking coal capacity. It has secured 92.2% of this plant at an acquisition cost of ~\$74 million, with an enterprise valuation of ~\$80 million closing adjustments. It aims to ramp up the mines by H2FY25. It is largely aimed at raw material security.
- Exports:** Export sales volume for the quarter was at 1.3 MnT, up by 36% YoY, driven by restocking demand opportunity in the global market, which it able to liquidate 3 lakh tons of inventory in the quarter.
- Renewable Energy:** JSW plans to further expand its renewable capacity by 600 Mega Watts (MW) along with an earlier announcement of 1000 MW at the Vijayanagar plant. Additionally, it will install 320 MW of battery storage capacity at Vijayanagar. Thus, new capacity expansion will meet 26% of Vijayanagar's power requirement of ~18 MT capacity.

On consolidated basis, JSW aims to increase its capacity to 43.5 MT by FY27 and further expand to 51.5 MT by FY31. The incremental capacity will come from brownfield expansion from Vijayanagar and BPSL plants. It's also including a green steel capacity of 4 MT, which will be commissioned in two phases.

JSW has secured 24 iron ore mines through various auctions, with resources contributing to a capacity of 1.6 billion tons. Of these, 13 mines are operational and the remaining are in various stages of commission.

Key Tables and Charts

Exhibit 1: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	46,269	46,962	-1.5	41,940	10.3	Topline came in muted on YoY basis amidst flattish sales volume and muted realisations
Raw Material Expenses	28,107	27,271	3.1	23,098	21.7	Raw material costs came in higher due to higher coking coal costs
Employee Expenses	1,151	1,007	14.3	1,182	-2.6	
Power & Fuel expenses	3,690	4,092	-9.8	3,832	-3.7	
Other expenses	7,197	6,653	8.2	6,648	8.3	
EBITDA	6,124	7,939	-22.9	7,180	-14.7	EBITDA/tonne came in much lower due to pressure on realisations and higher RM costs
EBITDA Margin (%)	13.2	16.9	-367 bps	17.1	-388 bps	
Other Income	242	465	-48.0	194	24.7	
Depreciation	2,194	2,009	9.2	2,059	6.6	Depreciation was on expected lines
Interest	2,062	2,138	-3.6	1,996	3.3	
Tax	690	508	35.8	853	-19.1	
PAT	1,322	3,741	-64.7	2,450	-46.0	PAT for the quarter came in lower due to pressure on profitability & higher tax incidence
Key Metrics						
Standalone Numbers						
Sales Volume (million tonne)	5.7	5.7	0.2	5.2	9.4	Sales volume were flattish YoY at 5.7 MT
Blended Realisations (₹/tonne)	62,111	65,410	-5.0	64,058	-3.0	Blended realisations were down 5% YoY at ₹ 62k
EBITDA/tonne	7,807	10,998	-29.0	11,113	-29.8	EBITDA/tonne was down sharply 30% at ~₹8k

Source: Company, ICICI Direct Research

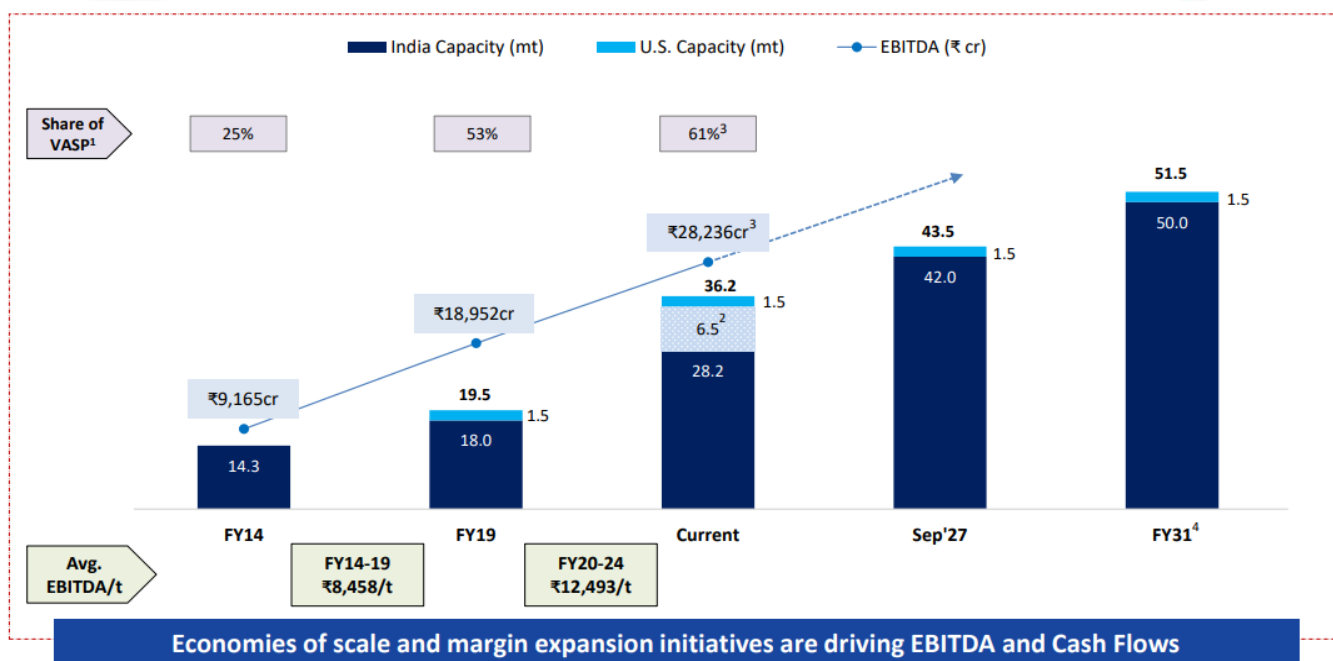
Exhibit 2: Assumptions

Standalone	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales Volume (million tonne, MT)	15.6	15.8	15.1	14.9	16.5	19.7	21.2	22.7	25.6
Blended Realisations (₹/tonne)	43,357	48,977	42,642	47,532	71,969	66,846	63,674	63,750	64,500
EBITDA/tonne (₹/tonne)	9,603	11,746	8,306	12,943	19,302	7,803	10,353	12,056	13,554

Source: Company, ICICI Direct Research

Exhibit 3: JSW Steel- Capacity Expansion Roadmap

JSW Steel: Transforming Scale and Profitability



Economies of scale and margin expansion initiatives are driving EBITDA and Cash Flows

JSW Steel Q4 FY24 Results Presentation

1: VASP share in total sales volumes, 2: Under commissioning, 3: Pertains to FY24, 4: Subject to board approvals
EBITDA and EBITDA/t values are for JSW Steel Consolidated

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Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Net Sales	1,63,646	1,72,588	1,82,211	2,05,786	
Other Operating Income	2314	2418	2775	3134	
Total Operating Income	1,65,960	1,75,006	1,84,986	2,08,920	
Growth (%)	13.4	5.5	5.7	12.9	
Raw Material Expenses	1,00,791	1,01,678	1,04,951	1,15,985	
Employee Expenses	3,915	4,591	4,204	4,639	
Other Operating Exp.	42,707	40,501	41,135	45,277	
Total Operating Exp.	1,47,413	1,46,770	1,50,290	1,65,901	
EBITDA	18,547	28,236	34,696	43,019	
Growth (%)	-52.5	52.2	22.9	24.0	
Depreciation	7,474	8,172	9,064	10,214	
Interest	6,902	8,105	8,533	7,916	
Other Income	1,030	1,004	1,110	1,254	
PBT	5,201	12,963	18,209	26,142	
Exceptional Item	-454	-417	0	0	
Total Tax	1,516	4,407	5,099	7,320	
PAT	4,144	8,812	12,934	18,628	
Growth (%)	-80.2	112.6	46.8	44.0	
EPS (₹)	16.9	36.0	52.9	76.2	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	4,144	8,812	12,934	18,628	
Add: Depreciation	7,474	8,172	9,064	10,214	
(Inc)/dec in Current Assets	552	-4,752	-3,173	-7,162	
Inc/(dec) in CL and Provisions	7,582	-5,243	3,967	8,443	
Others	6,902	8,105	8,533	7,916	
CF from operating activities	26,654	15,094	31,325	38,039	
(Inc)/dec in Investments	134	-2,440	-525	-522	
(Inc)/dec in Fixed Assets	-17,298	-23,180	-20,000	-23,000	
Others	-2,378	370	900	900	
CF from investing activities	-19,542	-25,250	-19,625	-22,622	
Issue/(Buy back) of Equity	0	4	0	0	
Inc/(dec) in loan funds	8,867	6,733	-500	-3,500	
Dividend & interest outgo	-11,096	-9,890	-11,100	-11,584	
Inc/(dec) in Share Cap	0	0	0	0	
Others	-1,552	4,943	0	0	
CF from financing activities	-3,781	1,790	-11,600	-15,084	
Net Cash flow	3,331	-8,366	99	333	
Opening Cash	17,383	20,714	12,348	12,447	
Closing Cash	20,714	12,348	12,447	12,780	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	301	305	305	305	
Reserve and Surplus	65,394	77,364	87,730	1,02,689	
Total Shareholders funds	65,695	77,669	88,035	1,02,994	
Total Debt	78,842	85,575	85,075	81,575	
Deferred Tax Liability	7,936	9,659	10,159	10,659	
Minority Interest / Others	5,518	7,451	8,201	8,951	
Total Liabilities	1,57,991	1,80,354	1,91,470	2,04,179	
Assets					
Gross Block	1,40,938	1,56,608	1,81,284	2,04,284	
Less: Acc Depreciation	36,614	44,786	53,850	64,064	
Net Block	1,04,324	1,11,822	1,27,434	1,40,220	
Capital WIP	22,166	29,676	25,000	25,000	
Total Fixed Assets	1,26,490	1,41,498	1,52,434	1,65,220	
Investments	4,934	7,885	8,410	8,932	
Inventory	33,135	37,815	40,545	45,791	
Debtors	7,134	7,548	7,602	8,586	
Loans and Advances	717	4	4	5	
Other Current Assets	6,445	6,816	7,205	8,137	
Cash	20,714	12,348	12,447	12,780	
Total Current Assets	68,145	64,531	67,803	75,298	
Current Liabilities	38,203	33,365	36,490	42,929	
Provisions	280	439	480	565	
Current Liabilities & Prov	53,087	47,844	51,811	60,254	
Net Current Assets	15,058	16,687	15,992	15,044	
Others Assets	11,509	14,284	14,634	14,984	
Application of Funds	1,57,991	1,80,354	1,91,470	2,04,179	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24P	FY25E	FY26E
Per share data (₹)				
EPS	16.9	36.0	52.9	76.2
Cash EPS	47.5	69.5	90.0	117.9
BV	268.6	317.6	360.0	421.2
DPS	3.4	7.3	10.5	15.0
Cash Per Share	84.7	50.5	50.9	52.3
Operating Ratios (%)				
EBITDA Margin	11.2	16.1	18.8	20.6
PAT Margin	2.5	5.0	7.0	8.9
Inventory days	72.9	78.9	80.0	80.0
Debtor days	15.7	15.7	15.0	15.0
Creditor days	84.0	69.6	72.0	75.0
Return Ratios (%)				
RoE	5.8	11.0	14.7	18.1
RoCE	7.0	11.1	13.4	16.1
RoC	9.6	14.5	16.6	19.7
Valuation Ratios (x)				
P/E	54.6	25.7	17.5	12.1
EV / EBITDA	15.3	10.6	8.6	6.9
EV / Net Sales	1.7	1.7	1.6	1.4
Market Cap / Sales	1.4	1.3	1.2	1.1
Price to Book Value	3.4	2.9	2.6	2.2
Solvency Ratios				
Debt/EBITDA	4.3	3.0	2.5	1.9
Debt / Equity	1.2	1.1	1.0	0.8
Current Ratio	1.2	1.5	1.5	1.4
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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