

Q4FY23 result review;
TP and Reco change

Metals

Target price: Rs675

Target price revision
Rs675 from Rs550

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	45.2	45.2	45.4
Institutional investors	19.9	19.9	35.5
MFs and others	1.8	1.8	1.8
Banks & FIs	7.4	7.6	7.7
FII	10.7	11.0	26.0
Others	34.9	34.5	19.1

Source: www.nseindia.com

ESG disclosure score

Year	2021	2022	Chg
ESG score	57.7	56.8	(1.0)
Environment	51.0	50.6	-0.3
Social	37.3	34.7	(2.6)
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

JSW Steel



HOLD

Upgrade from SELL

Rs694

Improved show, but leverage never sleeps!

JSW Steel's (JSTL) Q4FY23 EBITDA surpassed consensus estimates. Key points: 1) consolidated EBITDA surged 75% QoQ to Rs.79.4bn (down 14% YoY) owing to positive price-cost effect, mainly at standalone operations; 2) both shipments and EBITDA/te at the standalone level were ahead of estimates; 3) performance of all the subsidiaries improved; 4) gross debt was down by just Rs6.1bn QoQ to Rs800.6bn. Going ahead, management expects combined sales volumes at 25mnte for FY24 (FY23: 22.8mnte) and coking benefits to flow in from Q2FY24.

In our view, the risk-reward in JSTL stock is balanced at this stage. On one hand, volume growth in FY24E/FY25E is likely stay ahead of peers and, on the other, debt remains high and is unlikely to come off in light of the company's capital commitments. That said, the stock price has corrected and is trading near its 10-year historical mean EV/EBITDA. We introduce FY25E numbers at this stage and roll over to FY25E valuations. Our revised target price is Rs675 (earlier: Rs550) on an unchanged multiple of 6.2x FY25E EBITDA. Upgrade to HOLD (from Sell).

- ▶ **Impressive performance:** JSTL's Q4FY23 consolidated EBITDA of Rs79.4bn (up 75% QoQ, down 14% YoY) was 17% ahead of street estimates. Key points: 1) standalone EBITDA/te at Rs10,998 was 35% QoQ higher owing to higher blended realisation (up Rs3,000/te QoQ) and lower coking coal cost (down US\$6/te QoQ); 2) JSW Steel Coated Products' EBITDA rebounded to Rs4.3bn (post losses in three successive quarters); 3) Piombino (Italy) delivered EBITDA of EUR13.4mn (up nearly 2x QoQ) on steady rail orders from Italian Railways; 4) BPSL's EBITDA/te also surged 2.7x QoQ to Rs13,366; 5) FY23 standalone shipments at 19.8mnte were 3% lower than guidance; 6) capex in FY23 was at Rs142.1bn vs guidance of Rs150bn; 7) Board recommended a dividend of Rs3.4/share. Going ahead, management expects growth to be largely volume-driven with Dolvi-II and BPSL ramp-up in FY24 (adding ~2mntpa to sales volumes), followed by contribution from the 5mtpa brownfield capacity at Vijayanagar and expansion of BPSL capacity to 5mtpa (FY23: 3.5mpta). Besides, lower price of coking coal (down US\$100/te in past three months) is likely to flow into the P&L from Q2FY24, resulting in higher margins.
- ▶ **High gross debt and capex commitments make the stock more vulnerable to the steel cycle:** Despite JSTL's excellent performance, we are a tad disappointed at the insignificant reduction in gross debt QoQ. Furthermore, the company has capex plans of Rs188bn and Rs185bn for FY24 and FY25 respectively. During the earnings concall, management stated that gross debt is unlikely to come off and, in fact, is likely to rise by Rs30bn, once the consolidation of JSW Ispat Special Steel Products is complete. 'Net debt/EBITDA' at 3.2x is also much higher compared to peers. That said, we believe JSTL has the highest volume growth capability among peers over next two years and this balances the risk-reward at this stage.

Market Cap	Rs1677bn/US\$20.3bn	Year to March	FY22	FY23	FY24E	FY25E
Reuters/Bloomberg	JSTL.BO/JSTL IN	Revenue (Rs mn)	14,63,710	16,59,600	18,86,233	19,67,949
Shares Outstanding (mn)	2,417.2	EBITDA (Rs mn)	3,90,070	1,85,470	3,43,191	3,93,118
52-week Range (Rs)	775/528	Net Income (Rs mn)	2,09,380	41,390	1,45,457	1,75,167
Free Float (%)	54.6	EPS (Rs)	89.69	14.67	60.13	72.41
FII (%)	26.0	P/E (x)	7.7	47.3	11.5	9.6
Daily Volume (US\$'000)	16,131	CEPS (Rs)	6.1	15.2	7.5	6.4
Absolute Return 3m (%)	(4.7)	EV/E (x)	5.6	11.8	7.0	6.1
Absolute Return 12m (%)	19.2	Dividend Yield (%)	2.5	0.5	1.3	1.6
Sensex Return 3m (%)	1.5	RoCE (%)	19.7	6.4	13.3	14.4
Sensex Return 12m (%)	18.5	RoE (%)	38.0	5.3	20.3	20.7

Please refer to important disclosures at the end of this report

► **Outlook & valuations – Fairly valued:** Despite significant volume growth potential, we see the CMP already pricing-in many of the positives. That said, we expect the planned capex to be funded through internal accruals, hence a further increase in debt is unlikely. At CMP, the stock is trading close to its past 10-year historical average of 6.4x. We roll over our valuation to FY25E and value the stock at an unchanged multiple of 6.2x FY25E EBITDA. Our revised target price works out to Rs675 (earlier: Rs550). Upgrade JSTL to **HOLD** (from **Sell**).

Table 1: JSWS' standalone Q4FY23 result review

(Rs.mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Income from operations	3,71,530	3,60,110	3.2	3,09,350	20.1	13,16,870	11,88,200	10.8
Raw Material Consumed	1,85,510	1,71,640	8.1	1,69,760	9.3	7,62,840	5,16,910	47.6
Stock Adjustment	13,440	17,010	(21.0)	(150)	(9,060.0)	(5,900)	(31,120)	(81.0)
Gross Margin	1,72,580	1,71,460	0.7	1,39,740	23.5	5,59,930	7,02,410	(20.3)
Gross Margin (%)	46.5%	47.6%		45.2%		42.5%	59.1%	
Employee cost	5,100	4,770	6.9	5,290	(3.6)	19,750	18,700	5.6
Power & Fuel cost	32,330	27,350	18.2	33,820	(4.4)	1,38,420	89,300	55.0
Royalties	27,560	30,060	(8.3)	17,580	56.8	74,570	1,38,940	(46.3)
Other expenditure	45,120	40,210	12.2	42,750	5.5	1,73,480	1,36,790	26.8
EBITDA	62,470	69,070	(9.6)	40,300	55.0	1,53,710	3,18,680	(51.8)
Margin (%)	16.8%	19.2%		13.0%		11.7%	26.8%	
Other Income	5,520	4,160	32.7	3,150	75.2	15,720	19,290	(18.5)
Depreciation	13,050	12,250	6.5	12,630	3.3	49,520	45,110	9.8
EBIT	54,940	60,980	(9.9)	30,820	78.3	1,19,910	2,92,860	(59.1)
Interest	15,560	13,170	18.1	13,440	15.8	50,230	38,490	30.5
Extraordinary Items	-	(7,220)		-		-	-	
PBT	39,380	40,590	(3.0)	17,380	126.6	69,680	2,47,150	
Tax expense:	11,000	14,220	(22.6)	5,040	118.3	20,310	80,130	(74.7)
PAT	28,380	26,370	7.6	12,340	130.0	49,370	1,67,020	(70.4)
Sales volume (mnte)	5.68	5.11	11.2	4.95	14.7	19.76	16.41	20.4
Raw Material cost (Rs/te)	33,127	34,259	(3.3)	31,910	3.8	36,552	29,337	24.6
Power cost (Rs/te)	5,692	5,352	6.3	6,832	(16.7)	7,005	5,442	28.7
Realisation (Rs/te)	64,704	69,290	(6.6)	61,729	4.8	65,809	71,254	(7.6)
EBITDA/te (Rs/te)	10,998	13,517	(18.6)	8,141	35.1	7,779	19,420	(59.9)

Source: Company data, I-Sec research

Table 2: JSWS' consolidated Q4FY23 result review

(Rs.mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Income from operations	4,69,620	4,68,950	0.1	3,91,340	20.0	16,59,600	14,63,710	13.4
Raw Material Consumed	2,43,500	2,16,310	12.6	2,14,350	13.6	9,59,700	6,28,710	52.6
Stock Adjustment	1,650	26,670	(93.8)	410	302.4	(26,360)	(36,010)	(26.8)
Gross Margin	2,24,470	2,25,970	(0.7)	1,76,580	27.1	7,26,260	8,71,010	(16.6)
Gross Margin (%)	47.8%	48.2%		45.1%		43.8%	59.5%	
Employee cost	10,070	9,710	3.7	10,190	(1.2)	39,150	34,930	12.1
Power & Fuel cost	40,920	36,070	13.4	43,250	(5.4)	1,74,520	1,12,890	54.6
Royalties	27,560	30,060	(8.3)	17,580	56.8	74,570	1,38,940	(46.3)
Other expenditure	66,530	58,290	14.1	60,090	10.7	2,52,550	1,94,180	30.1
EBITDA	79,390	91,840	(13.6)	45,470	74.6	1,85,470	3,90,070	(52.5)
Margin (%)	16.9%	19.6%		11.6%		11.2%	26.6%	
Other Income	4,650	2,330	99.6	1,880	147.3	10,300	15,310	(32.7)
Depreciation	20,090	18,150	10.7	18,820	6.7	74,740	60,780	23.0
EBIT	63,950	76,020	(15.9)	28,530	124.2	1,21,030	3,44,600	(64.9)
Interest	21,380	17,560	21.8	18,190	17.5	69,020	49,680	38.9
Extraordinary Items	-	(7,410)		-		5,910	(7,410)	
PBT	42,570	51,050		10,340		46,100	3,02,330	
Tax expense:	5,080	17,310	(70.7)	5,040	0.8	15,160	88,070	(82.8)
PAT	37,490	33,740	11.1	5,300	607.4	30,940	2,14,260	(85.6)
Sales volume (mnte)	6.04	5.37	12.4	5.19	16.3	20,93	17.50	19.6
Raw Material cost (Rs/te)	40,330	40,281	0.1	41,278	(2.3)	45,860	35,923	27.7
Power cost (Rs/te)	6,777	6,717	0.9	8,329	(18.6)	8,340	6,450	29.3
Realisation (Rs/te)	76,761	85,709	(10.4)	74,484	3.1	78,200	82,180	(4.8)
EBITDA/te (Rs/te)	13,149	17,102	(23.1)	8,756	50.2	8,863	22,288	(60.2)

Source: Company data, I-Sec research

Table 3: US – plate and pipe mill quarterly performance

(US \$mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Sales (te)	92,064	69,946	31.6	80,768	14.0	3,38,524	2,78,956	21.4
Plates	86,823	68,969	25.9	74,030	17.3	3,17,306	2,66,574	19.0
Pipes	5,241	977	436.4	6,738	(22.2)	21,218	12,382	71.4
Revenue	149	141	5.8	148	1.0	633	458	38.1
EBITDA	26	29	(11.5)	17	49.4	101	80	25.8

Source: Company data, I-Sec research

Table 4: US – Ohio quarterly performance

(US \$mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Sales (mnte)	0.20	0.09	127.5	0.09	123.1	0.58	0.53	9.6
Revenue	141	118	19.8	66	115.5	513	637	(19.5)
EBITDA	(12)	10	(215.8)	(23)	(47.0)	(74)	127	(158.3)

Source: Company data, I-Sec research

Table 5: Italy – Piombino quarterly performance

(EU € mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Production (mnte)	0.08	0.11	(28.7)	0.08	0.3	0.08	0.32	(73.7)
Sales (mnte)	0.09	0.12	(19.5)	0.09	6.3	0.08	0.32	(73.6)
Revenue	138	98	40.4	100	38.4	387	241	60.3
EBITDA	13	(1)	(1,559.3)	7	71.0	(1)	6	(123.7)

Source: Company data, I-Sec research

Table 6: JSW Steel Coated Products quarterly performance

(Rs mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Production (kte)	0.84	0.79	6.3	0.73	15.1	2.93	2.93	(0.0)
Sales (kte)	1.02	0.94	8.5	0.84	21.4	3.33	3.23	3.1
Revenue	84,790	89,350	(5.1)	66,790	27.0	2,87,720	3,17,750	(9.5)
Realisations (Rs/te)	83,127	95,053	(12.5)	79,512	4.5	87,270	98,454	(11.4)
EBITDA	4310	3250	32.6	-110	(4,018.2)	1,870	28900	(93.5)
EBITDA (Rs/te)	4,225	3,457	22.2	(131)	(3,326.7)	207	9,301	(97.8)
PAT	8,350	1,160	619.8	(1,620)	(615.4)	2,040	18,860	(89.2)

Source: Company data, I-Sec research

Table 7: BPSL quarterly performance

(Rs mn)	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ	FY23
Production (kte)	0.78	0.71	9.9	0.74	5.4	2.76
Sales (kte)	0.71	0.78	(9.0)	0.68	4.4	2.51
Revenue	55,700	61,250	(9.1)	49,980	11.4	2,00,770
Realisations (Rs/te)	78,451	78,526	(0.1)	73,500	6.7	79,988
EBITDA	9,490	15,530	(38.9)	3,410	178.3	18,050
EBITDA (Rs/te)	13,366	19,910	(32.9)	5,015	166.5	7,191
PAT	4,290	-		(1,500)	(386.0)	1,600

Source: Company data, I-Sec research

Key highlights of Q4FY23 conference call

- **Volume guidance:** Crude steel production – India operations at 25.5mnte, JSW Steel USA at 0.84mnte. Sales volume – India operations at 24.2mnte; JSW Steel USA at 0.8mnte.
- As per the World Steel Association estimates, India is likely to account for 38% of 40mnte steel consumption growth in FY24.
- Achieved inventory reduction of 350kte in Q4FY23. Current level of inventory is at 1.69mnte (Mar'22 at 1.3mnte). Management expects inventory to reduce further in FY24, resulting in working capital unlocking.
- **Price outlook:** Price correction in India post Mar'23 has been due to decline in Chinese export prices. Prices in China have likely bottomed and production curtailments are expected in H2CY23. Hence, JSTL management expects H2CY23 to be better on the price front.
- **Coking coal:** Coking coal cost was lower by US\$6/te QoQ (US\$274/te in Q4FY23). Management expects coking coal cost to increase by US\$10-15/te in Q1FY24. However, considering the correction in spot prices by US\$100/te, Q2FY24 cost is expected to be lower.
- **Automotive contracts:** Negotiations are still on between steel and automotive players. Prices are being discussed for an increase in both flats and longs.
- **Capital expenditure:** JSTL's FY23 capex was at Rs142bn compared to the revised guidance of Rs150bn. Management has guided for Rs188bn, Rs185bn and Rs146.25bn of capex in FY24, FY25 and FY26 respectively. This includes sustenance capex of Rs49bn. Besides expansion capex, the focus is also cost reduction, new growth and mining projects.
- **New projects capex:** Of the total capex of Rs520bn planned over next three years, almost Rs170bn is likely in the areas of cost savings, new growth areas and mining projects. Slurry pipeline in Odisha, pellet plant and power plant in Dolvi (175MW) are the key projects.
- **Coking coal mining:** JSTL has won two coking coal blocks – Parabatpur and Sitanala. Parabatpur mine is likely to commence operations by mid-FY25. Sitanala mine might take 2-2.5 years to commence operations. Both the blocks together are capable of producing 1mtpa of coking coal, enough to meet 5% of company's total requirement. Supply to steel plants will be on logistics advantage basis. Hence, BPSL is likely to get the advantage of captive coking coal.
- **Gross debt:** Gross debt is likely to remain stable at the current levels as capex is expected to be funded through internal accruals. There would be an additional Rs30bn debt on balance sheet when JSW Ispat Special Products will get consolidated. 'Net debt/EBTIDA' is likely to decline as EBITDA increases
- **Overseas subsidiaries:** Piombino's Q4FY23 performance is likely to sustain on the back on good traction in rail orders from the Italian government.
- **Acceptance:** Revenue: US\$2.89bn; capital: US\$211mn.

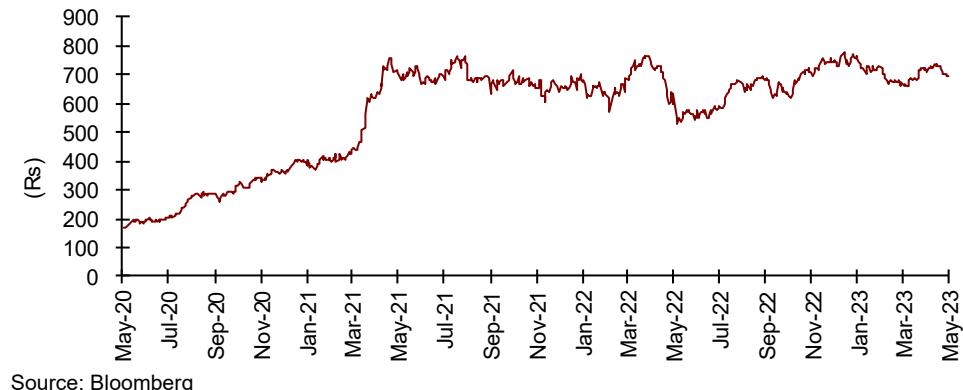
Upgrade to **HOLD**

We perceive the risk-reward balanced at this stage in JSTL stock. On one hand, there is impressive volume growth, while on the other leverage is higher than peers. At CMP, the stock is trading near the mean of its past 10-year historical range. We roll over our valuations to FY25E and value the stock at an unchanged multiple of 6.2x FY25E EBITDA. Our revised target price works out to Rs675 (earlier Rs550). Upgrade to **HOLD** (from **Sell**).

Key risks

Upside risks to our earnings and target price: i) recovery in steel prices, ii) better than expected demand growth; and 3) favourable macro environment. **Downside risks:** i) sustainable uptick in coking coal prices; 2) compression in spreads; and 3) downgrade in debt rating.

Price chart



Financial summary

Table 8: Profit & Loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	14,63,710	16,59,600	18,86,233	19,67,949
Operating Expenses	10,73,640	14,74,130	15,43,042	15,74,831
EBITDA	3,90,070	1,85,470	3,43,191	3,93,118
% margins	26.6%	11.2%	18.2%	20.0%
Depreciation & Amortization	60,010	74,740	78,757	86,791
Gross Interest	42,270	74,930	65,879	66,153
Other Income	15,310	10,300	8,240	9,064
Recurring PBT	3,03,100	46,100	2,06,795	2,49,238
Add: Extra ordinaries	-	-	-	-
Less: Taxes	88,070	15,160	62,039	74,771
Less: Minority Interest	-	-	-	-
Net Income	2,00,210	42,760	1,44,757	1,74,467
Recurring Net Income	2,09,380	41,390	1,45,457	1,75,167

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	6,53,740	6,81,500	6,36,245	6,89,252
of which cash & cash eqv.	1,73,910	2,07,190	1,47,638	1,62,038
Total Current Liabilities & Provisions	3,45,700	4,24,150	4,29,702	4,46,493
Net Current Assets	3,08,040	2,57,350	2,06,543	2,42,759
Investments	51,120	48,870	58,870	68,870
Net Fixed Assets	9,95,810	10,42,380	11,11,713	11,74,922
Capital Work-in-Progress	1,190	1,280	1,280	1,280
Other non-current assets	95,130	1,16,370	1,16,370	1,16,370
Total Assets	16,19,150	16,86,630	17,53,156	18,97,581
Liabilities				
Borrowings	8,29,730	9,15,890	8,64,397	8,64,397
Deferred Tax Liability	76,210	79,360	79,360	79,360
Other long term liabilities	27,860	20,990	20,990	20,990
Minority Interest	12,380	13,440	13,440	13,440
Equity Share Capital	3,010	3,010	3,010	3,010
Reserves & Surplus	6,69,960	6,53,940	7,71,959	9,16,384
Net Worth	6,72,970	6,56,950	7,74,969	9,19,394
Total Liabilities	16,19,150	16,86,630	17,53,156	18,97,581

Source: Company data, I-Sec research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	2,62,700	2,23,230	2,73,108	2,97,230
Working Capital	-	-	-	-
Changes	(72,630)	93,170	(8,744)	(21,816)
Capital Commitments	(2,48,580)	(1,74,750)	(1,88,000)	(1,85,000)
Free Cashflow	(21,341)	82,512	72,884	1,00,748
Investing Cashflow	(1,59,870)	(1,07,110)	(1,89,760)	(1,85,936)
Issue of Share Capital	-	-	-	-
Buyback of shares	(10)	-	-	-
Inc (Dec) in Borrowings	1,85,680	86,160	(51,493)	0
Dividend paid	(48,927)	(6,227)	(25,528)	(30,742)
Others	41,120	3,150	-	-
Interest paid	(45,840)	(66,550)	(65,879)	(66,153)
Financing Cashflow	(1,46,570)	(59,770)	(1,42,900)	(96,895)
Chg. in Cash	1,73,910	2,07,190	1,47,638	1,62,038

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic Recurring)	89.7	14.7	60.1	72.4
Diluted Recurring EPS	89.7	14.7	60.1	72.4
Recurring Cash EPS	114.5	45.6	92.7	108.3
Dividend per share (DPS)	17.3	3.4	9.0	10.9
Book Value per share (BV)	278.4	271.8	320.6	380.4
Growth Ratios (%)				
Operating Income	83.3%	13.4%	13.7%	4.3%
EBITDA	97.4%	-52.5%	85.0%	14.5%
Recurring Net Income	178.2%	-80.2%	251.4%	20.4%
Valuation Ratios (x)				
P/E	7.7	47.3	11.5	9.6
P/CEPS	6.1	15.2	7.5	6.4
P/BV	2.5	2.6	2.2	1.8
EV / EBITDA	5.6	11.8	7.0	6.1
Operating Ratios (%)				
Gross Margin	11.2	18.2	20.0	11.2
Other Income / PBT	22.3	4.0	3.6	22.3
Effective Tax Rate	26.2	-	-	26.2
Asset Turnover (x)	0.9	-	-	0.9
Working Capital (days)	13.7	4.8	7.5	13.7
Debtor (days)	16.0	14.7	15.8	16.0
Inventory (days)	73.6	64.6	65.2	73.6
Creditor (days)	76.0	74.5	73.4	76.0
Net D/E Ratio (x)	1.2	1.4	1.1	1.2
Profitability Ratios (%)				
Rec. Net Income Margins	2.5	7.7	8.9	2.5
RoCE	6.4	13.3	14.4	6.4
RoNW	5.3	20.3	20.7	5.3
Dividend Yield	0.5	1.3	1.6	0.5
EBITDA Margins	11.2	18.2	20.0	11.2

Source: Company data, I-Sec research

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