

4 April 2024

Jindal Steel and Power

Capacity expansion, RM links - growth catalysts; initiating, with a Buy

Rating: Buy

Target Price (12-mth): Rs.1,070

Share Price: Rs. 902

Jindal Steel and Power's strategic expansion would augment its crude steel capacity by 65% to 15.9m tonnes and enrich its product mix. As India enters a nation-building phase, demand for steel is likely to be robust. Therefore, with the company's huge capacity expansion, we factor in a ~24% sales volume CAGR over FY24-26. Also, the company is strengthening raw-material integration and increasing the share of VAPs. Considering its strong focus on margin expansion, we expect it to achieve ~Rs15,175 EBITDA/tonne by FY26. With a 0.9x net debt/EBITDA, it has one of the strongest balance sheets among domestic peers. We, thus, initiate coverage with a Buy and a Rs1,070 TP, 6.5x FY26e EV/EBITDA.

Capacity expansion to drive performance. The company's ongoing expansion would significantly enhance its crude steel capacity, by 65%, to 15.9m tonnes and finished steel capacity, by 90%, to 13.75m tonnes, catapulting it to the fourth largest steel manufacturer in India by FY26. On the capex completion, its share of flat-steel products is likely to rise to ~65%, which would boost margins.

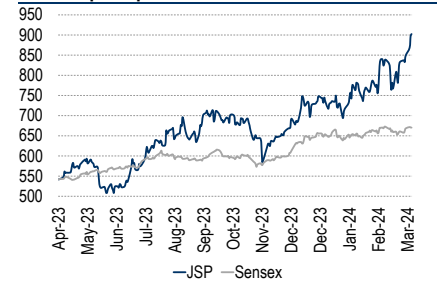
RM links to expand margins. The company has many iron ore and coal mines in India and internationally. This aids in timely raw-material availability and paves the way for it to be the lowest-cost domestic steel producer. The edge the company enjoys is the proximity of its mines to its manufacturing plants.

Outlook, Valuation. Robust demand for steel in India is expected to persist. Considering the company's strong focus on capacity addition, raw-material integration, cost-control initiatives, increase in share of VAPs and strong control of its balance sheet, we initiate coverage on it, with a Buy rating and a TP of Rs1,070, 6.5x FY26e EV/EBITDA. **Risks:** Delay in capex execution and domestic slowdown.

Key data	JSP IN / JNSP.BO
52-week high / low	Rs.917 / 503
Sensex / Nifty	73877 / 22435
3-m average volume	\$21.2m
Market cap	Rs.921bn / \$11,032.9m
Shares outstanding	1,020m

Shareholding pattern (%)	Dec '23	Sep '23	Jun '23
Promoters	61.2	61.2	61.2
- of which, Pledged	12.9	13.3	34.3
Free Float	38.8	38.8	38.8
- Foreign institutions	11.8	12.2	12.7
- Domestic institutions	15.3	15.2	14.8
- Public	11.7	11.3	11.3

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	5,10,856	5,27,112	4,80,452	5,92,267	7,54,102
EBITDA (Rs m)	1,55,135	99,349	99,637	1,34,155	1,76,377
EBITDA/t (Rs / tonne)	20,306	12,936	13,216	14,610	15,175
Net profit (Rs m)	86,613	45,205	57,788	69,170	98,329
EPS (Rs)	85.7	45.0	57.7	69.0	98.1
PE (x)	10.5	20.1	15.6	13.1	9.2
EV / EBITDA (x)	6.5	9.9	9.9	7.4	5.6
RoE (%)	24.5	8.5	14.0	14.7	18.0
RoCE (%)	21.5	11.7	12.2	15.8	19.6
Debt / equity (x)	0.4	0.3	0.3	0.3	0.2

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales volume (m tonnes)	7.6	7.7	7.5	9.2	11.6
Net revenues	5,10,856	5,27,112	4,80,452	5,92,267	7,54,102
Growth (%)	47.9	3.2	-8.9	23.3	27.3
Expenses	3,55,721	4,27,763	3,80,815	4,58,113	5,77,725
EBITDA	1,55,135	99,349	99,637	1,34,155	1,76,377
EBITDA / tonne (Rs)	20,306	12,936	13,216	14,610	15,175
EBITDA margins (%)	30.4	18.8	20.7	22.7	23.4
Depreciation	20,968	26,910	26,099	29,530	33,198
Other income	504	571	3,171	3,434	3,467
Interest expenses	18,877	14,459	15,451	15,451	15,056
PBT before excep. items	1,15,793	58,551	61,258	92,607	1,31,590
PBT after exceptional items	1,11,731	44,856	61,258	92,607	1,31,590
Effective tax	29,245	12,923	3,369	23,337	33,161
PAT (before Assoc/(Mino.))	82,485	31,934	57,888	69,270	98,429
+ Assoc/(Minorities)	(69)	420	100	100	100
Reported PAT	82,551	31,511	57,788	69,170	98,329
Adj. PAT	86,613	45,205	57,788	69,170	98,329
Adj. PAT growth (%)	36.3	-47.8	27.8	19.7	42.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
EBITDA	1,55,135	99,349	99,637	1,34,155	1,76,377
+ other Adj.	24,848	(4,626)	-	-	-
Oper. Prof. before WC	1,79,982	94,723	99,637	1,34,155	1,76,377
- Incr./ (decr.) in WC	100	5,078	(674)	(12,254)	(17,735)
Others incl. taxes	(19,604)	(27,047)	(3,469)	(23,437)	(33,261)
CF from op. activity	1,60,478	72,755	95,494	98,464	1,25,381
- Capex (tang. + intang.)	(28,722)	(64,021)	(80,000)	(90,000)	(95,000)
Free cash-flow	1,31,756	8,734	15,494	8,464	30,381
Others	5,409	23,836	3,171	3,434	3,467
CF from inv. activity	(23,313)	(40,185)	(76,829)	(86,566)	(91,533)
- Div. (incl. buyback & taxes)	(984)	(2,046)	(6,014)	(6,014)	(7,017)
+ Debt raised	(1,28,809)	(4,916)	20,000	(20,000)	(10,000)
Others	(21,403)	(18,042)	(15,454)	(15,451)	(15,056)
CF from fin. activity	(1,51,196)	(25,005)	(1,468)	(41,465)	(32,072)
Closing cash balance	35,045	42,611	59,807	30,240	32,015

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

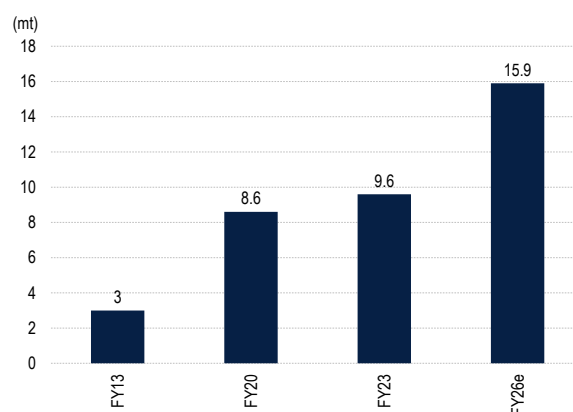
Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	1,011	1,005	1,002	1,002	1,002
Net worth	3,56,247	3,87,066	4,38,837	5,01,993	5,93,305
Debt	1,35,016	1,30,463	1,50,463	1,30,463	1,20,463
Minority interest	14,705	3,125	3,125	3,125	3,125
DTL / (Assets)	72,762	59,366	59,366	59,366	59,366
Others	76,875	11,897	11,897	11,897	11,897
Capital employed	6,55,606	5,91,918	6,63,689	7,06,845	7,88,157
Net tangible assets	4,22,440	4,08,035	4,64,546	5,27,969	5,93,090
Net intangible assets	35,980	34,469	31,859	28,906	25,586
Goodwill	4,480	554	554	554	554
CWIP (tang. and intang.)	17,362	71,059	76,059	81,059	86,059
Investments	1,378	1,425	1,425	1,425	1,425
Other non-current assets	18,707	23,973	18,973	13,973	8,973
Current assets (excl. cash)	2,66,089	1,54,757	1,69,061	1,61,856	1,95,999
Cash	35,045	42,611	59,807	30,240	32,015
Bank balance	4,961	12,206	12,206	12,206	12,206
Current liabilities	1,10,830	1,02,355	98,788	1,08,898	1,23,529
Capital deployed	6,55,606	5,91,918	6,63,689	7,06,845	7,88,157

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	10.5	20.1	15.6	13.1	9.2
EV / EBITDA (x)	6.5	9.9	9.9	7.4	5.6
EV / Sales (x)	2.0	1.9	2.0	1.7	1.3
P/B (x)	2.6	2.3	2.1	1.8	1.5
RoE (%)	24.5	8.5	14.0	14.7	18.0
RoCE (%) - after tax	21.5	11.7	12.2	15.8	19.6
DPS (Rs)	3.0	2.0	6.0	6.0	7.0
Dividend payout (%) - incl. DDT	3.5	4.4	10.4	8.7	7.1
Debt / Equity (x)	0.4	0.3	0.3	0.3	0.2
WC days	24	15	15	15	15
Volumes (m tonnes)	7.6	7.7	7.5	9.2	11.6
NSR / tonne (Rs)	66,866	68,634	63,727	64,500	64,880
EBITDA / tonne (Rs)	20,306	12,936	13,216	14,610	15,175
EBITDA margins (%)	30.4	18.8	20.7	22.7	23.4
Net profit margins (%)	17.0	8.6	12.0	11.7	13.0

Source: Company, Anand Rathi Research

Fig 6 – Capacity expansion over the years



Source: Anand Rathi Research, Company

Capacity expansion to drive performance

Ongoing capex to augment crude steel capacity by 65%

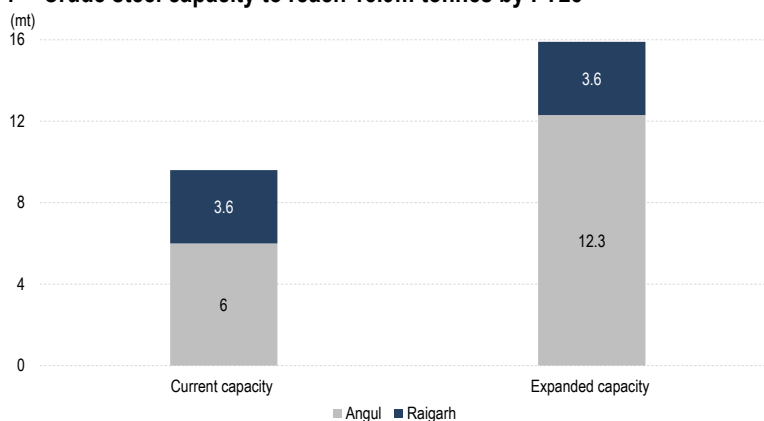
Demand for steel in India is expected to grow rapidly in the next two decades as the country enters a multi-year nation-building phase. India is at an inflection point now, like Japan in the 1950s and China in the 1980s. As consumption of steel is expected to rise, most domestic steel manufacturers are investing heavily in increasing crude steel capacities with Jindal Steel, one of India's largest integrated steel manufacturers, being in the forefront.

Its Rs310bn capex programme, would increase its iron-making capacity by 62% from 10.42m to 16.82m tonnes, crude steel capacity by 65% from 9.6m to 15.9m tonnes and finished steel capacity by 90% from 7.25m to 13.75m tonnes by FY26.

The company has two integrated state-of-the-art steel manufacturing plants, at Raigarh, Chhattisgarh (3.6m tonnes) and Angul, Odisha (6m tonnes) along with a bar mill and a wire-rod mill facility at Patratu, Jharkhand, and a 9m tonne pellet plant (50:50 dry/wet grinding unit) at Barbil, Odisha.

75% of the growth capex is earmarked to raise the Angul plant capacity from 6m to 12.3m tonnes, making it one of the largest single-location steel complexes in the world, 10% to set up ACPP-II, 5% to set up and enhance coal mines and 10% for micro pelletisation, setting up of rakes, etc.

Fig 7 – Crude steel capacity to reach 15.9m tonnes by FY25



Source: Anand Rathi Research, Company

Share of flat steel to increase to ~65%

Over the last decade, though the company raised its steel capacity from 3m tonnes to 9.6m tonnes, it was predominantly a long-steel manufacturer. However, with its greater focus on flat-steel products, the latter's share in the product mix is expected to rise to ~65% by FY26. Flat-steel products command a premium to long-steel products; hence the company increasing the share of "flats" augers well for its long-term growth prospects.

In Jan'24, it commissioned its 6m-tonne HSM in a record 29 months. This allows it to cater to several sectors such as automobiles, construction, oil & gas, colour coating, etc. All other facilities are progressing per timelines and are expected to come on-stream by Q4 FY25 (except the 0.5m-tonne plate mill, likely by Q3 FY26).

The ongoing capex works out to ~\$440 a tonne, on similar lines as the brownfield capex of JSW Steel at Vijayanagar. The value-accretive low-cost capex provides growth assurance.

Fig 8 – Facility-wise finished steel capacity enhancement (m tonnes)

Facilities	Current capacity	Capacity in FY25e	Capacity in FY26e
Raigarh (Chhattisgarh)			
Plate mill	1	1	1
Rail mill	1	1	1
Special purpose mill	0.75	0.75	0.75
Angul (Odisha)			
Bar-rod mill	1.4	1.4	1.4
Plate mill	1.5	1.5	2
HSM (incl. CRM)	0	6	6
Patratu (Jharkhand)			
Bar rod mill	1	1	1
Wire rod mill	0.6	0.6	0.6
Total	7.25	13.25	13.75

Source: Anand Rathi Research, Company

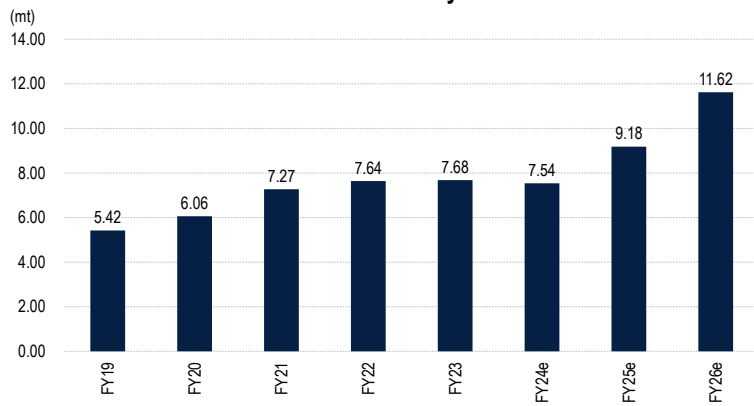
Increase in pellet capacity to support margins

As part of its ongoing capex, the company is setting up a 12m-tonne pellet facility at Angul (the 6m-tonne plant I already commissioned; plant II expected to be commissioned by Q4 FY25). On completion of plant II, capacity would increase 40%, from 15m tonnes to 21m tonnes. Once both the plants at Angul are operational, the pellets would be consumed in-house, those manufactured at Barbil would be sold in the open market.

Expect >24% sales volume CAGR over FY24-26

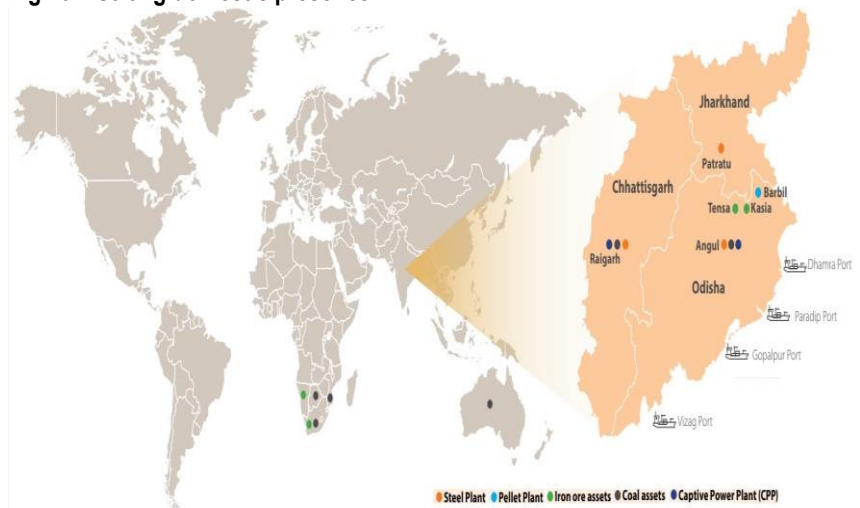
In line with the strong domestic demand and capacity growth, we expect the company to report strong volume momentum over the next two years. We expect demand to pick up post-elections and the company's sales volumes (>11.6m tonnes by FY26) to outpace domestic steel demand.

Fig 9 – Sales volumes to cross 11.6m tonnes by FY26



Source: Anand Rathi Research, Company

Fig 10 – Strong domestic presence



Source: Company

RM links, cost reductions to expand margins

Robust backward integration, regional operations provide requisite RM security, and potentially safeguards it from volatile international input prices

The company has huge iron ore and coal mines in India and internationally. At its current operations, it requires ~14.7m tonnes of iron ore. It has two iron ore mines, at Kasia (7.5m tonnes; R&R 278m tonnes) and Tensa (3.11m tonnes) catering to ~60% of its requirement with the Tensa mine operating at full capacity. The Kasia mines are of strategic importance owing to their high-grade iron-ore and proximity (~18km) to the Barbil pellet plant.

Besides, the company has acquired four coal mines: Gare Palma IV/6 (PRC 4m tonnes), Utkal C (PRC 3.37m tonnes) and Utkal B1 and B2 (PRC 8m tonnes) with a cumulative R&R of ~710m tonnes. It has already started production at Gare Palma IV/6 and Utkal C; these are now operating at respectively 80% and 60% of capacities. These two ramping up would help replace the coal procured via e-auction (~5m tonnes pa), strengthening its position as one of the lowest-cost steel producers in India. When all the coal mines are operational, it would suffice for 100% of the thermal coal required by the company (~10.75m-11m tonnes) at its current steel manufacturing.

The Gare Palma IV/6 mine produced ~1m tonnes in Q3 FY24 and is expected to reach a run-rate of 3.5m-tonnes in Q4. It being near the Raigarh steel plant ensures feedstock for the power plant. The Utkal C mine is expected to be completely ramped up by Q4 FY25, with added benefits expected to accrue from FY26.

The company also has coking coal, thermal/coking coal and anthracite coal assets in Australia (PRC 1.2m tonnes), Mozambique (PRC 5m tonnes) and South Africa (1.2m tonnes). It has received clearances to extract up to 3.7m tonnes of coal over five years from the Russell Vale mine, Australia, and to enhance production and improve the quality of coal; the Australian subsidiary is planning to set up a washery, which would help reduce the ash content, thereby improving BoF productivity.

The coal assets in Australia and Mozambique are capable of meeting up to 50% of the coking coal required for the Raigarh and Angul plants; they also cushion against potential increases in international coal prices.

Fig 11 – Domestic mine portfolio (m tonnes)

Mineral	Location	State	EC / PRC	R&R	Plant catering to	Premium / RS
Iron ore	Tensa	Odisha	3.11	-	Barbil	
	Kasia	Odisha	7.5	278	Barbil	Acquired at an 118.1% premium
	Gare Palma IV/6	Chhattisgarh	4	166.98	Raigarh	85.25% revenue sharing
Thermal coal	Utkal C	Odisha	3.37	196.347	Angul	Acquired at a 45% premium
	Utkal B1 and B2	Odisha	8	347.08	Angul	15.25% revenue sharing

Source: Anand Rathi Research, Company

Cost-saving initiatives

The company is not only expanding capacity or strengthening raw-material integration, but also undertaking many cost-saving initiatives, which significantly help manage margins through extreme raw material and steel cycles. As part of the ongoing capex, it is setting up an 18m-tonne 200km slurry pipeline connecting Barbil and Angul. The pipeline, which is expected to come on stream by Q1 FY25, would not only help reduce costs but also lower transportation time, emissions and fuel consumed in logistics.

Further, the company is setting up a berth at the western dock at Paradip, Odisha, which would assist in loading and unloading and reducing lead time, shortening the turnaround time for materials.

Fig 12 – Slurry pipeline WIP

Source: Company

Focus on high-margin VAPs

Continuously increasing share of VAPs (65% in Q3 FY24)

JSP has a strong portfolio of value-added products, which spans the steel value-chain. Its strong focus on operations and R&D enables it to manufacture many high-margin products such as 5-metre plates (the widest steel plates in India), one of the longest rails, medium and light sections, bars, wire rods, etc. Products in long steel and specialty grade flat steel are set to capture domestic markets with little threat from imports.

Share of value-added products expected at over 60%

The company has been at the forefront in developing and manufacturing niche VAPs such as head-hardened rails, track shoes and cathode collection bars, H piles, 50mm TMT bars, etc.

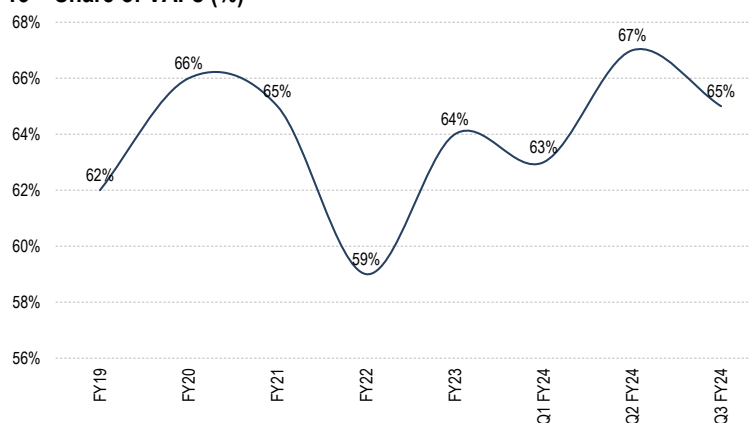
Over the last decade, global steel consumption has changed 180° with a major focus on niche and critical value-added applications. The company's strong focus on high-margin VAPs has helped strengthen its products, enabling higher ASP and margins.

As a part of its ongoing capex programme, the company continues to focus on VAPs with the share of flat steel expected to increase to ~65%.

It has strategically aligned its VAPs to cater to new-age thriving sectors such as shipbuilding, Defence, metro-rail, RE, etc. It has emerged as the sole private manufacturer of submarine-grade steel plates, and developed import substitution products such as track shoes and head hardened rails, used in Defence, the Railways, metro-rail and the military.

The company also has the largest fabricated-structures facility in India and has developed the country's first fire-resistant steel.

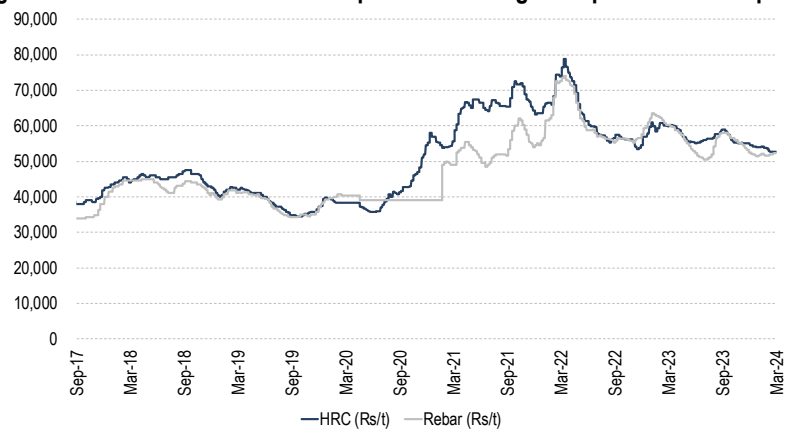
Fig 13 – Share of VAPs (%)



Source: Anand Rathi Research, Company

Since FY19, the company has kept its share of VAPs above 60% (except in FY22). Flat-steel products generally command a premium to long-steel and the company's structural shift to being a flat-steel manufacturer is in line with its long-term growth strategy.

Fig 14 – “Flats” have commanded a premium to long-steel products in the past



Source: Anand Rathi Research, BIGMINT

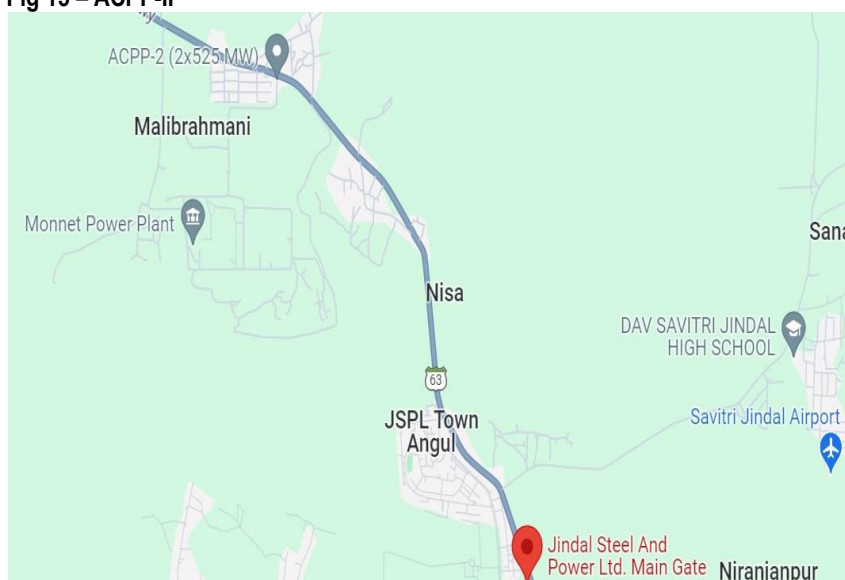
ACPP-II

In Q3 FY23, the company acquired 2x525MW (1,050MW) of power plant assets (under construction at Angul) for Rs4.1bn from Monnet Power via e-auction under the IBC liquidation process.

Once these assets are fully operational, the company would substantially augment its captive power from 1,634MW to 2,684MW. ACPP-II has greater efficiencies with a better station heat rate, expected to reduce coal consumed by 20-25%, driving further cost synergies and improving spreads.

ACPP-II is expected to be commissioned by Q2 FY25; as part of its ongoing growth capex, the company has already committed Rs30bn to the construction of this asset. The proximity of ACPP-II to its Angul plant gives the company an added edge.

Fig 15 – ACPP-II



Source: Anand Rathi Research, Company, Google Maps

Steel sector at a glance

Global steel sector overview

With over 3,500 grades, steel is one of the most versatile metals. It is used in engineering, construction, transportation, infrastructure, consumer durables, shipbuilding, heavy engineering, aerospace, oil and gas, etc. Because of steel's flexibility and adaptability, the pattern of its consumption has undergone a sea change over the last decade, focusing on niche and VAP.

India is the only country where production grew in double digits in CY23

Global steel production during CY23 was unchanged at 1,850m tonnes, with China accounting for a commanding ~55%. Growth in global steel demand will be primarily driven by India and MENA. Though China dominates the global steel sector, it is still faced with issues such as oversupply and lower demand domestically. This kept prices muted in Q1 CY24 and caused a few mills to suffer losses. To tackle this situation, China is expected to cut production in CY24, which would help arrest the fall in prices.

Indian steel sector overview

India was the only country where production grew in double digits (11.8%) in CY23 to ~140m tonnes. As the country emerges as a steel hub, demand is expected to be robust, driven by the construction, infrastructure, consumer durables and automobile sectors. Besides, the strong government push via AatmaNirbhar Bharat, PM Gati Shakti, Bharatmala, Sagarmala, UDAN, etc., has laid a strong foundation for infrastructure development in India, driving demand for steel.

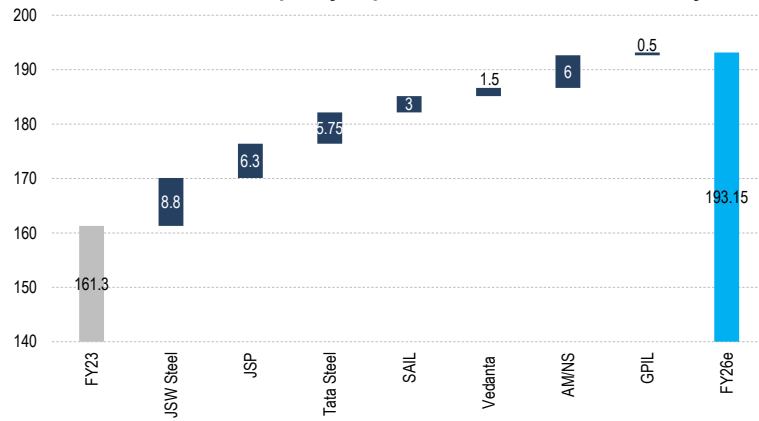
Expected to outpace global growth, domestic steel demand at an 8-10% CAGR over FY24-26 would be supported by strong GDP growth, higher standards of living and greater public/private capex. As the momentum in China slows, India is expected to pick up a portion of China's commodities over the next decade, making it a preferred destination for the metals and mining sector.

India is now at an inflection point, like Japan in the 1950s and China in the 1980s. As it enters a multi-year nation-building phase, demand for steel is expected to grow rapidly. Further, the record Rs11.1trn outlay on capex announced in the recent Union Budget augers well for the infrastructure sector, driving steel demand. The ~Rs2.5trn allocation for the Indian Railways also augers well for the company, which has strong operations here.

The domestic steel industry is expected to grow at 1.1x-1.3x real GDP, likely touching 175m-176m tonnes in FY24 and >193m tonnes by FY26.

To meet the swelling domestic demand for steel, all tier-I steel manufacturers are adding capacity. This would help India achieve crude steel production capacity of 300m tonnes by FY30-31 under the National Steel Policy (NSP). In the next 2/3 years, JSW Steel is expected to add 8.8m tonnes, JSP 6.3m tonnes, Tata Steel 5.75m tonnes, SAIL 2m-3m tonnes, Vedanta 1.5m tonnes; AM/NS 6m tonnes. To capitalise on domestic growth opportunities, after the present phase of capacity expansion, tier-I mills are expected to increase domestic operations, with JSW Steel reaching 50m tonnes pa by FY30, Tata Steel 40m tonnes, SAIL 33m-35m tonnes and JSP 22m tonnes.

Fig 16 – Domestic installed capacity expected to cross 190m tonnes by FY26



Source: Anand Rathi Research, Company, JPC

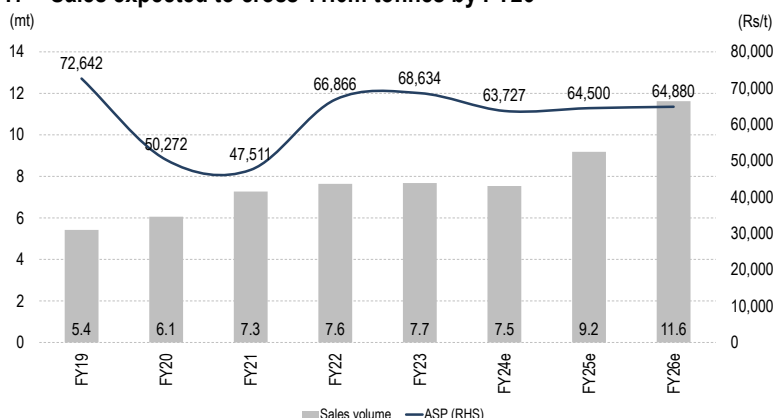
Per-capita steel consumption set to grow

India’s steel consumption, now over 81kg/pp, still lags developed and developing nations. The country’s per capita consumption is expected to increase to ~160kg by FY30-31.

Financial analysis

We estimate a ~24% volume CAGR over FY24-26

Fig 17 – Sales expected to cross 11.6m tonnes by FY26



Source: Anand Rathi Research, Company

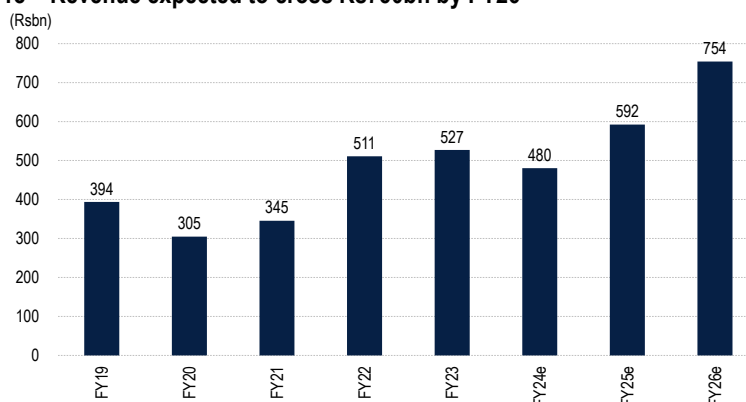
We estimate a ~25% revenue CAGR over FY24-26

The ongoing expansion would raise finished steel capacity to 13.75m tonnes and drive volumes.

International price movements (especially of flat steel) are linked to demand and supply in China. The slowdown in China has kept international prices of steel muted in recent months. But, from Q2 CY24 they are expected to pick up on easing housing-purchase restrictions (likely to extend to Beijing and Shanghai), reduced down-payments and interest rates for home purchases in China and full-financing of Chinese real-estate developers' financial requirements.

As the Chinese steel cycle picks up, international steel prices are expected to rise, which would drive domestic ASP.

Fig 18 – Revenue expected to cross Rs750bn by FY26



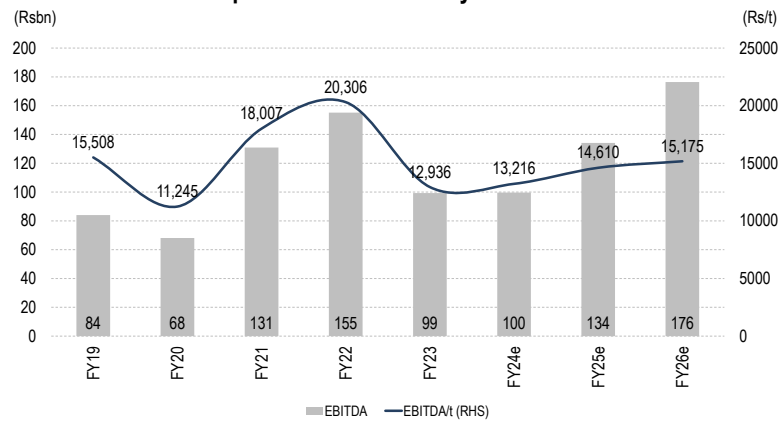
Source: Anand Rathi Research, Company

We estimate a 33% EBITDA CAGR over FY24-26

The company's EBITDA growth is expected to outpace its volume and revenue growth due to its raw-material links and cost-saving initiatives, which would boost margins.

The EBITDA margin is likely to reach 23.4% by FY26 (up from 18.8% in FY23). Similarly, EBITDA/tonne is expected to cross FY23 levels and reach Rs15,175 by FY26.

Fig 19 – EBITDA/tonne expected to continuously rise



Source: Anand Rathi Research, Company

Strong de-levering journey

In the last couple of years, the company has sharply reduced debt by focusing on its core business and divesting its high-debt non-core assets such as Jindal Power and Jindal Shadeed.

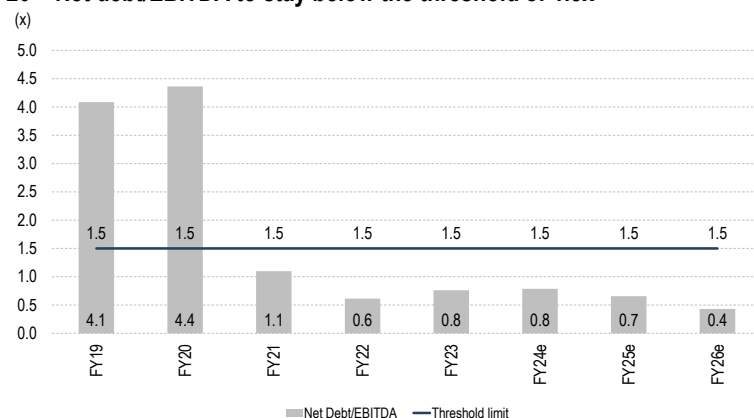
Further, more exports post-Covid enabled it to earn higher margins, which helped reduce net debt by Rs68bn during FY21-FY23.

The company has one of the strongest balance sheets among listed domestic peers and has followed a prudent de-levering policy, reducing net debt ~73%, from Rs343bn in FY19 to Rs91bn in Q3 FY24. Its net debt/EBITDA in Q3 FY24 was 0.9x, compared to JSW Steel's 2.6x and Tata Steel's 3.2x. (While the company de-levered its balance sheet by ~73% in the last five years, JSW Steel's debt has risen since FY19, though Tata Steel reduced debt ~18%.)

Ahead, the company is expected to further deleverage, which would keep its net debt/EBITDA below the threshold of 1.5x.

In line with reducing its debt, promoters' pledges too have been continuously falling, to 12.92% in Q3 FY24 from 39.98% in Q4 FY22.

Fig 20 – Net debt/EBITDA to stay below the threshold of 1.5x



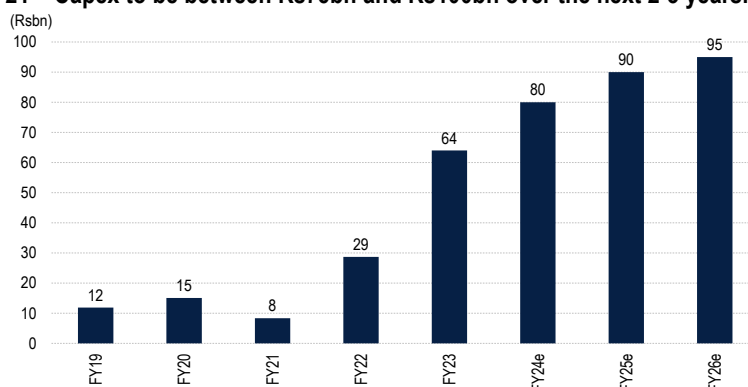
Source: Anand Rathi Research, Company

Capex

The company’s ongoing Rs310bn capex would augment its iron-making capacity by 62%, from 10.42m tonnes to 16.82m tonnes by FY26, crude steel capacity by 65%, from 9.6m tonnes to 15.9m tonnes, and finished steel capacity by 90%, from 7.25m tonnes to 13.75m tonnes.

Capex of Rs75bn–100bn is expected till FY26, and the company would fund this via internal accruals, which would help further de-levering.

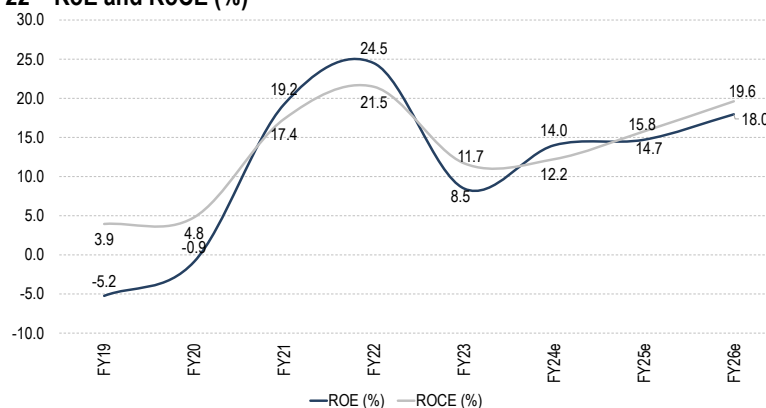
Fig 21 – Capex to be between Rs75bn and Rs100bn over the next 2-3 years.



Source: Anand Rathi Research, Company

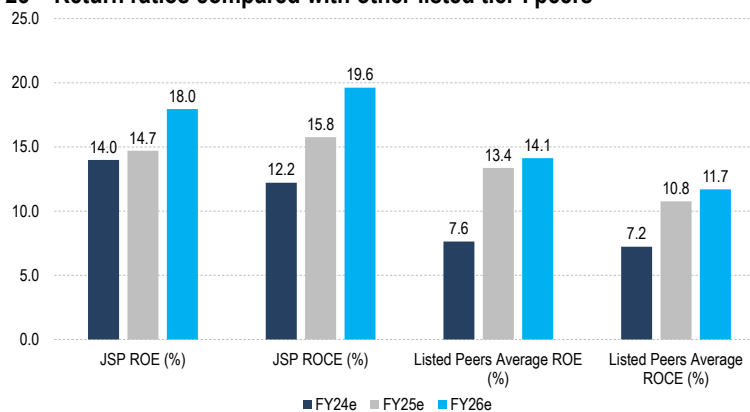
Expanded margins justify higher return ratios

Fig 22 – RoE and RoCE (%)



Source: Anand Rathi Research, Company

Fig 23 – Return ratios compared with other listed tier-I peers



Source: Anand Rathi Research, Company

Valuations

Considering all the above positive triggers, we have built in a ~25% revenue CAGR over FY24-26, driven by the strong volume momentum and better realisations. Further, in line with various cost-saving initiatives and RM links, we expect a ~33% EBITDA CAGR, outpacing revenue growth. We estimate EBITDA/tonne to cross FY23 levels and touch Rs15,175 by FY26.

On strong steel demand in India, we value the company at 6.5x FY26e EV/EBITDA, below the long-term average. Our TP works out to Rs1,070.

Fig 24 – TP of Rs1,070

YE Mar	UoM	FY26e
Volume	m tonnes	11.6
Blended EBITDA / tonne	Rs	15,175
Consol. EBITDA	Rs bn	176
Target EV / EBITDA	X	6.5
Target EV	Rs bn	1,146
Net debt	Rs bn	76
Equity value	Rs bn	1,070
No. of shares o/s	bn	1
Target price	Rs/sh	1,070

Source: Anand Rathi Research, Company

Risks

- Capex execution delays could impact performance.
- Delays/restrictions on coal mining would impact RM linkages, which would hurt margins.
- Slowdown in domestic consumption.

Appendix

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