

## Muted consolidated performance....

**About the stock:** JSW Steel is one of the leading integrated steel companies in India. It has a strategic collaboration with global leader JFE Steel of Japan, enabling JSW to access new and state-of-the-art technologies to produce and offer high value special steel products to its customers.

- JSW Steel's manufacturing unit in Vijayanagar, Karnataka is the largest single location steel-producing facility in India with a capacity of 12 MTPA
- JSW Steel is the only Indian steel company to be ranked among the top 15 global steel producers by World Steel Dynamics for 13 consecutive years since 2008.

**Q1FY23 Results:** JSW Steel reported muted consolidated performance for Q1FY23

- For Q1FY23, JSW Steel reported quarterly saleable steel sales volumes of 4.03 Million tonnes (MT), up 12% YoY, however down 21% QoQ, broadly in line with our estimate of 4.1 MT. For the quarter, JSW Steel standalone operations reported EBITDA/tonne of ₹ 8318/tonne, down 68% YoY and 38% QoQ, broadly in line with estimate of ₹8250/tonne.
- For Q1FY23, JSW Steel reported consolidated topline of ₹ 38086 crore, up 32% YoY, however down 19% QoQ (our estimate of ₹ 38475 crore). Standalone EBITDA for the quarter stood at ₹ 3352 core, down 65% QoQ and 51% YoY, (our estimate of ₹ 3341 crore). However, subsidiaries performance came in lower than our estimate, and as a result of which consolidated reported EBITDA came in lower than our estimate. Consolidated EBITDA for the quarter stood at ₹ 4309 crore (down 58% YoY and 53% QoQ), lower than our estimate of ₹ 4716 crore. The ensuing consolidated PAT for Q1FY23 stood at ₹ 839 crore, down 86% YoY and 75% QoQ, lower than our estimate of ₹ 941 crore.

**What should investors do?** JSW Steel's share price has given a return of ~178% over the last two years (from ~₹ 209 in July 2020 to ~₹ 582 levels in July 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value JSW Steel at ₹ 565, 6x FY24E EV/EBITDA

**Key triggers for future price performance:**

- For JSW Steel standalone entity, going forward we have modelled EBITDA/tonne of ₹ 8500/tonne for FY23E and ₹ 12000/tonne for FY24E.
- Considering the current market conditions, the company expects to calibrate its capex spend to ₹ 15000 crore for FY23 (from ₹20000 crore earlier)

**Alternate Stock Idea:** In our sector coverage, we like Ratnamani Metals and Tubes.

- Ratnamani Metal and Tubes (RMTL) is a niche player with superior capabilities in the industrial pipes and tubes segment.
- BUY rating with a target price of ₹ 1967



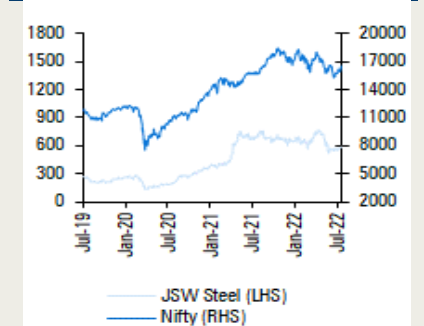
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,40,767
Debt-Cons. (FY22) (₹ Crore)	74,040
Cash and Cash Eq. Cons. (FY22) (₹ Crore)	17,390
EV (₹ Crore)	1,97,417
52 week H/L	₹ 790 / 520
Equity capital	₹ 240 crore
Face value	₹ 1

### Shareholding Pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	44.1	44.7	45.0	45.0
FII's	12.2	11.2	11.6	10.6
DII's	8.1	8.4	7.9	9.1
Others + Public	35.7	35.7	35.5	35.3
Total	100.0	100.0	100.0	100.0

### Price Chart



### Key Risks

- Higher than expected increase in steel prices
- Higher than expected rise in operating costs

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Net Sales	84,757	73,326	79,839	1,46,371	21%	1,57,907	1,64,253	6%
EBITDA	18,952	11,873	20,141	39,007	26%	24,162	31,418	-10%
EBITDA Margin (%)	22.4	16.2	25.2	26.6		15.3	19.1	
Reported PAT	7,524	3,919	7,873	20,938	43%	8,947	13,333	-20%
EPS (₹)	31.3	16.2	32.7	87.3		37.3	55.6	
EV/EBITDA (x)	9.5	5.0	8.2	6.1		8.2	6.1	
RoCE (%)	17.6	7.5	13.9	23.2		9.9	13.7	
RoE (%)	21.7	12.9	17.2	31.6		11.8	15.3	

## Key takeaways from conference call

- For Q1FY23, sequentially coking coal cost increased by ~US\$ 113/tonne when compared with Q4FY22. The coking coal consumption cost during Q1FY23 stood at ~US\$ 421/tonne (CNF India). A decline in coking coal cost to the tune of ~US\$ 50-60/tonne sequentially is expected for Q2FY23E.
- The lower operating margin for the quarter was on account of higher coal and energy costs. The operating performance for the quarter was also adversely impacted on account of a.) mark-to-market unrealized loss on outstanding foreign exchange currency loans due to rupee depreciation by ~4% (impact of consolidated Q1FY23 P&L of ~ ₹ 747 crore), b.) Net realisable value (NRV) provisions on closing inventory due to significant lower prices at the quarter-end (impact of consolidated Q1FY23 P&L of ~₹ 813 crore), c.) payment of export duty (impact of consolidated Q1FY23 P&L of ~₹ 242 crore) d.) cancellation of grant for the US subsidiary (impact of consolidated Q1FY23 P&L of ~₹ 80 crore).
- JSW Steel's capex spend was to the tune of ₹ 3702 crore during Q1FY23. Considering the current market conditions, the company expects to calibrate its capex spend to ₹ 15000 crore for FY23 (from ₹ 20000 crore earlier).
- During Q1FY23, JSW Steel's standalone operations (excluding Dolvi Phase – II) operated at 93% capacity utilisation as compared to 98% capacity utilisation during Q4FY22 due to pre-ponement of certain scheduled shutdowns.
- On a sequential basis JSW Steel's consolidated net debt increased by ₹ 10571 crore. As on 30<sup>th</sup> June, 2022 JSW Steel's net debt stood at ₹ 67221 crore as compared to ₹ 56650 crore as on 31<sup>st</sup> March, 2022. The sequential increase in debt was mainly due to higher working capital requirement on account of inventory accretion to the tune of ~₹ 7874 crore, ~ ₹ 1400 crore impact was on account of forex translation and balance was on account of capex related increase. Major portion of inventory build-up is likely unwind over the balance three quarters. Going forward, the unwinding of inventory is likely to aid in reduction in consolidated net debt levels from 30<sup>th</sup> June, 2022 levels.
- The company generally carries 50 days of coking coal inventory. The inventory of high-costs of raw material is likely to be consumed by October 2022.
- The 5 Million tonnes per annum (MTPA) brownfield expansion at Vijayanagar is progressing well, with civil works underway at the site. Long lead-time items have been ordered, and Letters of Credit established. The project is expected to be completed by end of FY24.
- The expansion at Bhushan Power and Steel (BPSL) to 3.5 MTPA is progressing well and is expected to be completed during Q2FY23. The Phase-II expansion (from 3.5 MTPA to 5 MTPA) is expected to be completed by FY24.

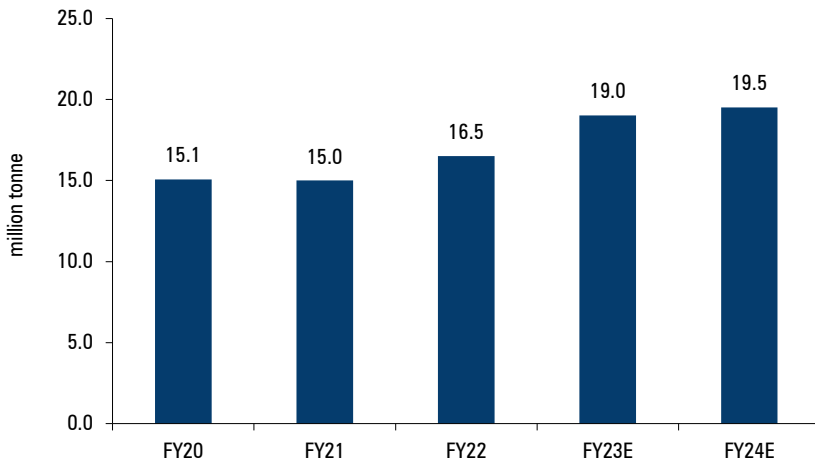
**Exhibit 1: Variance Analysis (Consolidated, except for Sales volume and EBITDA/tonne which are for standalone operations)**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>38086</b>	<b>38475</b>	<b>28902</b>	<b>32</b>	<b>46895</b>	<b>-19</b>	Consolidated topline came broadly in line with our estimate
Other Income	189	225	198	-5	233	-19	
Total Operating expense	33777	33759	18628	81	37711	-10	
<b>EBITDA</b>	<b>4309</b>	<b>4716</b>	<b>10274</b>	<b>-58</b>	<b>9184</b>	<b>-53</b>	Consolidated EBITDA came in lower than our estimate
EBITDA Margin (%)	11.3	12.3	35.5	-2423 bps	19.6	-827 bps	Consolidated EBITDA margin came in lower than our estimate
Depreciation	1778	1925	1183	50	1815	-2	
Interest	1422	1750	993	43	1756	-19	
Share of profit/ (loss) of Joint Ventures (net)	-17	0	323	-105	-31	-45	
Exceptional Item	0	0	0	NA	-741	NA	
<b>PBT</b>	<b>1281</b>	<b>1266</b>	<b>8619</b>	<b>-85</b>	<b>5074</b>	<b>-75</b>	
Tax Outgo	442	325	2719	-84	1731	-74	
<b>PAT for the Group</b>	<b>839</b>	<b>941</b>	<b>5900</b>	<b>-86</b>	<b>3343</b>	<b>-75</b>	Consolidated PAT came in lower than our estimate
<b>Key Metrics</b>							
Standalone Steel Sales (MT)	4.0	4.1	3.6	12	5.1	-21	Standalone steel sales volume came in broadly in line with our estimate
Standalone EBITDA/tonne (₹)	8318	8250	26291	-68	13517	-38	Standalone EBITDA/tonne came in broadly in line with our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

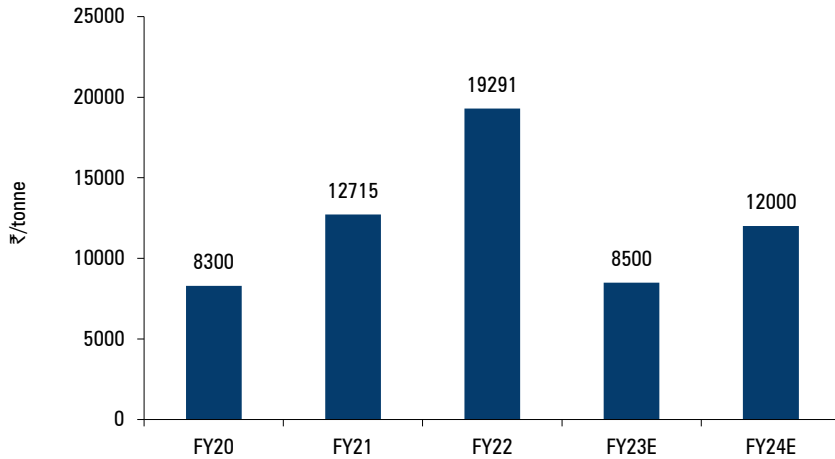
Exhibit 2: Trend in standalone sales volumes [in million tonne (MT) ]



We model standalone sales volume of 19.0 MT for FY23E and 19.5 MT for FY24E

Source: Company, ICICI Direct Research

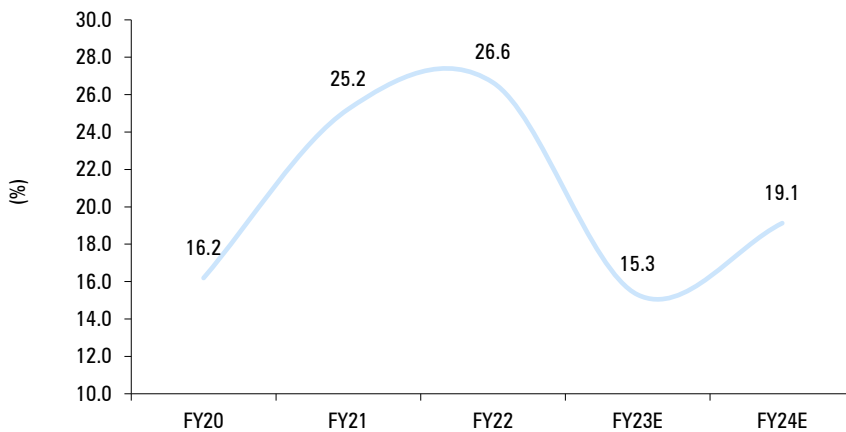
Exhibit 3: Trend in standalone EBITDA/tonne margin level (in ₹/tonne)



We model standalone EBITDA/tonne of ₹ 8500/tonne for FY23E and ₹ 12000/tonne for FY24E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated EBITDA margin (in %)



Over the next couple of years, we expect consolidated EBITDA margin to be ~15.3% in FY23E and ~19.1% for FY24E

Source: Company, ICICI Direct Research

**Exhibit 5: Valuation Matrix**

	Sales (₹ Crore)	Growth (% YoY)	EPS (₹)	Growth (% YoY)	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY19	84,757	20.7	31.3	23.6	18.6	9.8	4.0	21.7	17.6
FY20	73,326	-13.5	16.2	-48.1	35.9	16.3	3.8	12.9	7.5
FY21	79,839	8.9	32.7	101.7	17.8	9.5	3.0	17.2	13.9
FY22	1,46,371	83.3	87.3	167.1	6.7	5.0	2.1	31.6	23.2
FY23E	1,57,907	7.9	37.3	-57.3	15.6	8.2	1.8	11.8	9.9
FY24E	1,64,253	4.0	55.6	49.0	10.5	6.1	1.6	15.3	13.7

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>79,839</b>	<b>1,46,371</b>	<b>1,57,907</b>	<b>1,64,253</b>
Growth (%)	9	83	8	4
Total Operating Expenditure	59698	107364	133745	132835
<b>EBITDA</b>	<b>20,141</b>	<b>39,007</b>	<b>24,162</b>	<b>31,418</b>
EBITDA Margin (%)	25.2	26.6	15.3	19.1
Depreciation	4,679	6,001	7,539	7,863
Interest	3,957	4,968	5,818	6,473
Other Income	592	1,531	1,330	1,285
<b>PBT</b>	<b>12,097</b>	<b>29,569</b>	<b>12,134</b>	<b>18,366</b>
Exceptional Item	-83	-741	0	0
Total Tax	4,142	8,807	3,640	5,510
<b>Reported PAT Before MI</b>	<b>7,872</b>	<b>20,021</b>	<b>8,494</b>	<b>12,856</b>
Less - Minority Interest	1	917	453	477
<b>Reported PAT after MI</b>	<b>7,873</b>	<b>20,938</b>	<b>8,947</b>	<b>13,333</b>
Growth (%)	105	166	-57	49
<b>Adj PAT</b>	<b>7,956</b>	<b>21,679</b>	<b>8,947</b>	<b>13,333</b>
Reported EPS (₹)	32.7	87.3	37.3	55.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>7,873</b>	<b>20,938</b>	<b>8,947</b>	<b>13,333</b>
Add: Depreciation	4,679	6,001	7,539	7,863
(Inc)/dec in Current Asset	-67	-26,793	-41	1,942
Inc/(dec) in CL&Provisions	4,832	16,699	-1,022	4,049
Others	-2,568	4,112	245	124
<b>CF from operating activities</b>	<b>14,749</b>	<b>20,957</b>	<b>15,668</b>	<b>27,311</b>
(Inc)/dec in Investments	-7,667	-604	-850	-850
(Inc)/dec in Fixed Assets	-8,232	-14,198	-15,000	-19,124
Others	328	-169	50	50
<b>CF from investing activities</b>	<b>-15,571</b>	<b>-14,971</b>	<b>-15,800</b>	<b>-19,924</b>
Issue/(Buy back) of Equity	0	-2	0	0
Inc/(dec) in loan funds	-41	8,604	-1,004	-2,800
Dividend paid & dividend tax	-1,593	-4,187	-1,378	-2,038
Inc/(dec) in Sec. premium	0	0	0	0
Others	3,266	-5,831	0	0
<b>CF from financing activities</b>	<b>1,632</b>	<b>-1,416</b>	<b>-2,382</b>	<b>-4,838</b>
Net Cash flow	810	4,570	-2,514	2,550
Opening Cash	12,003	12,813	17,383	14,869
<b>Closing Cash</b>	<b>12,813</b>	<b>17,383</b>	<b>14,869</b>	<b>17,419</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Share Capital	241	240	240	240
Reserve and Surplus	45,903	68,295	75,864	87,160
Total Shareholders funds	46,144	68,535	76,104	87,400
Total Debt	65,436	74,040	73,036	70,236
Deferred Tax Liability	3,509	7,621	7,866	7,990
Minority Interest / Others	3,637	3,468	3,518	3,568
<b>Total Liabilities</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,60,524</b>	<b>1,69,194</b>
<b>Assets</b>				
Gross Block	1,08,864	1,50,211	1,63,733	1,81,379
Less: Acc Depreciation	47,630	53,631	60,108	66,908
Net Block	61,234	96,580	1,03,625	1,14,470
Capital WIP	32,433	16,756	17,171	17,586
Net Fixed Assets (Inc CWIP)	93,667	1,13,336	1,20,796	1,32,056
Investments	12,397	13,001	13,851	14,701
Inventory	14,249	33,787	32,784	30,779
Debtors	4,486	7,457	7,502	7,065
Loans and Advances	6,409	8,250	9,050	9,350
Other Current Assets	4,296	6,739	6,939	7,139
Cash	12,813	17,383	14,869	17,419
<b>Total Current Assets</b>	<b>42,253</b>	<b>73,616</b>	<b>71,143</b>	<b>71,751</b>
Current Liabilities	29,316	46,033	45,011	49,059
Provisions	274	256	256	256
<b>Total Current Liabilities</b>	<b>29,590</b>	<b>46,289</b>	<b>45,267</b>	<b>49,315</b>
Net Current Assets	12,663	27,327	25,877	22,436
Deferred tax Assets (net)	0	0	0	0
<b>Application of Funds</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,60,524</b>	<b>1,69,194</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	32.7	87.3	37.3	55.6
Cash EPS	51.9	111.4	68.2	87.7
BV	190.9	283.5	314.8	361.6
DPS	6.5	17.4	5.8	8.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	25.2	26.6	15.3	19.1
PBT / Total Operating income	15.2	20.2	7.7	11.2
Adj PAT Margin	10.0	14.8	5.7	8.1
Inventory days	160	150	135	130
Debtor days	21	25	20	18
Creditor days	134	110	120	125
<b>Return Ratios (%)</b>				
Adj RoE	17.2	31.6	11.8	15.3
Adj RoCE	13.9	23.2	9.9	13.7
<b>Valuation Ratios (x)</b>				
P/E	17.8	6.7	15.6	10.5
EV / EBITDA	9.5	5.0	8.2	6.1
EV / Net Sales	2.4	1.3	1.3	1.2
Market Cap / Sales	1.7	1.0	0.9	0.9
Price to Book Value	3.0	2.1	1.8	1.6
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.6	1.5	2.4	1.7
Net Debt / Equity	1.1	0.8	0.8	0.6
Current Ratio	1.4	1.6	1.6	1.5
Quick Ratio	1.0	0.9	0.9	0.8
Net debt/EBITDA	2.6	1.5	2.4	1.7
Net Debt/Equity	1.1	0.8	0.8	0.6

Source: Company, ICICI Direct Research

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Buy: > 15%

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Reduce: -15% to -5%;

Sell: < -15%



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