

## Muted 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

**Q2FY23 Results:** JSW Steel reported a muted performance in Q2FY23. Performance in the quarter was significantly impacted by sharp fall in steel prices

- For Q2FY23, JSW Steel reported quarterly saleable steel sales volumes of 5.01 million tonnes (MT), higher than our estimate of 4.85 MT. For the quarter, JSW Steel standalone operations reported EBITDA/tonne of ₹ 3477/tonne, lower than our estimate of ₹ 4800/tonne
- For Q2FY23, JSW Steel reported consolidated topline of ₹ 41778 crore, up 29% YoY, 10% QoQ (our estimate of ₹ 37830 crore). Standalone EBITDA for the quarter was at ₹ 1742 crore, lower than our estimate of ₹ 2328 crore. Subsidiaries performance also came in muted during the quarter. As a result, consolidated reported EBITDA came in notably lower than our estimate. Consolidated EBITDA for the quarter was at ₹ 1752 crore, lower than our estimate of ₹ 3111 crore
- For Q2FY23, JSW Steel's standalone operations reported a net loss of ₹ 91 crore and consolidated operations reported a net loss of ₹ 915 crore

**What should investors do?** JSW Steel's share price has given a return of ~94% over last two years (from ~₹ 321 in October 2020 to ~₹ 622 levels in October 2022).

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

**Target Price and Valuation:** We value JSW Steel at ₹ 600, 6x FY24E EV/EBITDA

### Key triggers for future price performance:

- On a QoQ basis, coking coal consumption cost is likely to decline by ~US\$80/tonne in Q3FY23 (compared to Q2FY23). Hence, going forward, this is likely to result in increase in EBITDA/tonne on a QoQ basis.
- For JSW Steel standalone entity, going forward, we model EBITDA/tonne of ₹ 7000/tonne for FY23E and ₹ 11750/tonne for FY24E

**Alternate Stock Idea:** In our metal and mining coverage we like Coal India.

- Coal India (CIL) is one of the largest coal producers in the world. In FY22, CIL produced 623 MT, while offtake was at 622 MT
- BUY rating with a target price of ₹ 275



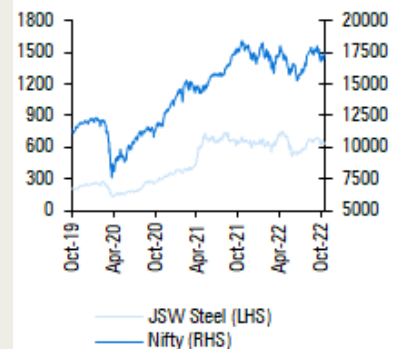
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,50,351
Debt-Cons. (Q2FY23) (₹ Crore)	79,010
Cash and Cash Eq. Cons. (Q2FY23) (₹ Crore)	13,291
EV (₹ Crore)	2,16,070
52 week H/L	₹ 790 / 520
Equity capital	₹ 240 crore
Face value	₹ 1

### Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	44.7	45.0	45.0	45.2
FII's	11.2	11.6	10.6	10.8
DII's	8.4	7.9	9.1	9.3
Others+Public	35.7	35.5	35.3	34.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 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%	1,63,254	1,79,565	11%
EBITDA	18,952	11,873	20,141	39,007	26%	19,411	32,518	-9%
EBITDA Margin (%)	22.4	16.2	25.2	26.6		11.9	18.1	
Reported PAT	7,524	3,919	7,873	20,938	43%	5,523	14,726	-16%
EPS (₹)	31.3	16.2	32.7	87.3		23.0	61.4	
EV/EBITDA (x)	10.0	5.3	10.9	6.2		10.9	6.2	
RoCE (%)	17.6	7.5	13.9	23.2		7.3	14.1	
RoE (%)	21.7	12.9	17.2	31.6		7.6	17.2	

## Key takeaways from conference call

- For Q2FY23, sequentially coking coal cost declined by ~US\$ 40/tonne when compared with Q1FY23. The coking coal consumption cost during Q2FY23 was at ~US\$381/tonne compared to US\$421/tonne in Q1FY23. A decline in coking coal cost to the tune of ~US\$ 80/tonne sequentially is expected for Q3FY23E
- During the quarter, JSW Steel's standalone crude steel production was at 4.95 MT, up 21% YoY but marginally lower QoQ due to the availability as well as logistics constraints in sourcing of iron ore. Sales of saleable steel at the standalone level were 5.01 MT for the quarter, up 24% QoQ, 32% YoY, led by improved domestic demand mainly in the retail segment
- During Q2FY23, consolidated Indian operations sales volumes were at 5.63 MT (up 30% QoQ), of which 90% was contributed by domestic sales (5.07 MT) and 10% was contributed by export sales (0.56 MT). During the quarter, for the consolidated Indian operations, export volumes fell sharply by 62% YoY and 37% QoQ due to imposition of export duty in May 2022
- The 5 million tonnes per annum (MTPA) Dolvi Phase – II expansion continued to ramp up and achieved capacity utilisation of ~80% in Q2FY23 compared to 60% in Q1FY23
- JSW Steel's capex spend was to the tune of ₹ 2891 crore in Q2FY23 and ₹ 6593 crore during H1FY23 vs. the revised planned capex spend of ₹ 15000 crore for FY23
- During the quarter, one-off items such as net realisable value (NRV) provisions and inventory losses, mark-to-market unrealised loss on outstanding foreign currency loans and payment of export duty on exports impacted the operational performance
- During the quarter, the company posted exceptional gain to the tune of ₹ 591 crore, which includes ₹ 335 crore on account of net gain due to sale of entire 70% stake in Santa Fe Mining in Chile and ₹ 256 crore on account of compensation received against a subsidiary claim pertaining to expenditure incurred on deallocated coal mine
- The 5 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. Equipment erection has commenced for all packages. The project is expected to be completed by the end of FY24
- Two downstream projects, Continuous Annealing Line (CAL) at Vasind and Tinplate Line-2 at Tarapur, were commissioned during Q2FY23
- The expansion at Bhushan Power and Steel (BPSL) to 3.5 MTPA was completed during Q2FY23. The Phase – II expansion from 3.5 MTPA to 5 MTPA remains on track for completion by FY24
- The company's consolidated net gearing (net debt to equity) was at 1.04x at the end of Q2FY23 (compared to 0.98x at the end of Q1FY23) and net debt to EBITDA was at 2.7x at the end of Q2FY23 (compared to 2.03x at the end of Q1FY23). Net debt at the end of September 30, 2022 was at ₹ 65719 crore, lower by ₹ 1502 crore over June 30, 2022 (net debt as on June 30, 2022 was at ₹ 67221 crore)

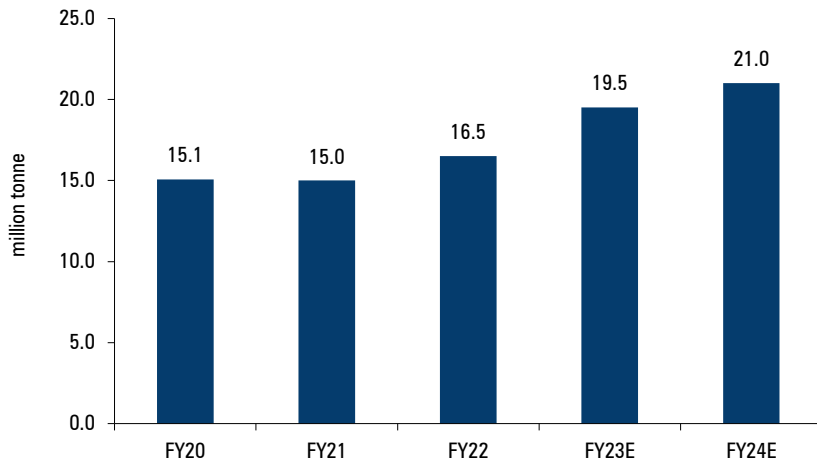
**Exhibit 1: Variance Analysis (Consolidated, except for sales volume and EBITDA/tonne, which are for standalone operations)**

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>41778</b>	<b>37830</b>	<b>32503</b>	<b>29</b>	<b>38086</b>	<b>10</b>	Topline came in higher than our estimate
Other Income	188	225	946	-80	189	-1	
Total Operating expense	40026	34719	22086	81	33777	19	
<b>EBITDA</b>	<b>1752</b>	<b>3111</b>	<b>10417</b>	<b>-83</b>	<b>4309</b>	<b>-59</b>	EBITDA came in lower than our estimate. One-off items such as net realisable value (NRV) provisions and inventory losses, mark-to-market unrealised loss on outstanding foreign currency loans and payment of export duty on exports impacted the operational performance during the quarter
EBITDA Margin (%)	4.2	8.2	32.0	-2786 bps	11.3	-712 bps	EBITDA margin came in lower than our estimate
Depreciation	1805	1800	1239	46	1778	2	
Interest	1523	1450	936	63	1422	7	
Share of profit/ (loss) of Joint Ventures (net)	-56	0	603	PL	-17	229	
Exceptional Item	591	0	0	NA	0	NA	During the quarter, the company posted exceptional gain to the tune of ₹ 591 crore, which includes ₹ 335 crore on account of net gain due to sale of entire 70% stake in Santa Fe Mining in Chile and ₹ 256 crore on account of compensation received against a subsidiary claim pertaining to expenditure incurred on deallocated coal mine
<b>PBT</b>	<b>-853</b>	<b>86</b>	<b>9791</b>	<b>PL</b>	<b>1281</b>	<b>PL</b>	
Tax Outgo	62	22	2612	-98	442	-86	
<b>PAT for the Group</b>	<b>-915</b>	<b>64</b>	<b>7179</b>	<b>PL</b>	<b>839</b>	<b>PL</b>	Company reported loss at net level
<b>Key Metrics</b>							
Standalone Steel Sales (MT)	5.0	4.9	3.8	32	4.0	24	Standalone sales volumes came in higher than our estimate
Standalone EBITDA/tonne (₹)	3477	4800	22884	-85	8318	-58	Standalone reported EBITDA/tonne came in lower than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

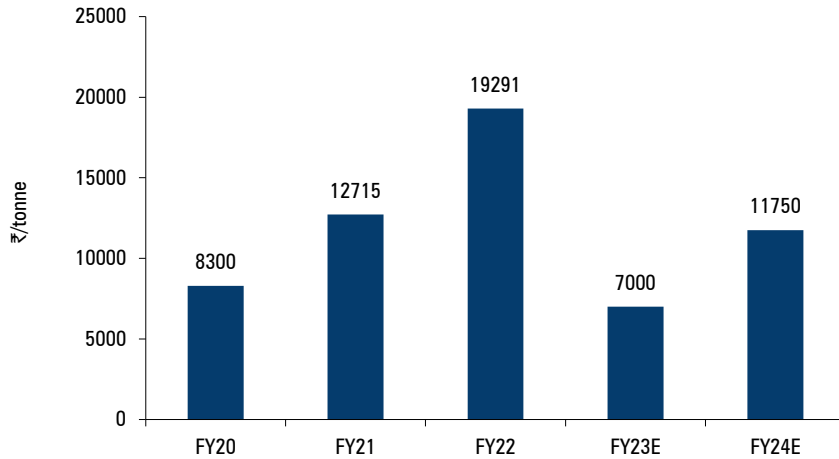
Exhibit 2: Trend in standalone sales volumes [in million tonne (MT) ]



We model standalone sales volume of 19.5 MT for FY23E and 21.0 MT for FY24E

Source: Company, ICICI Direct Research

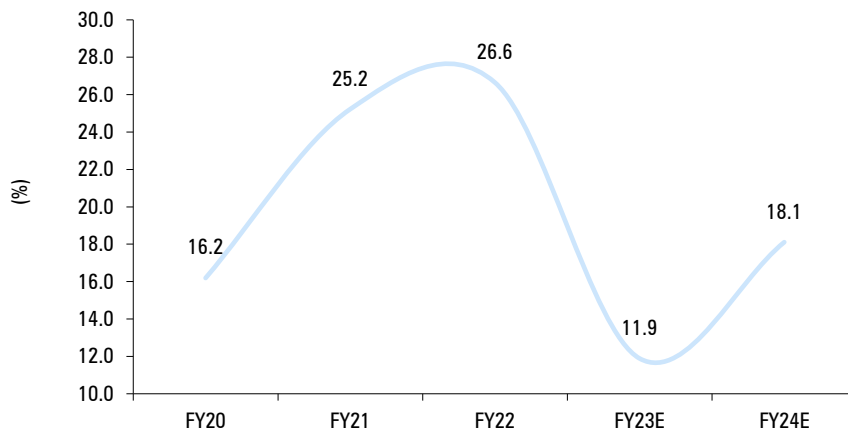
Exhibit 3: Trend in standalone EBITDA/tonne margin level (in ₹/tonne)



We model standalone EBITDA/tonne of ₹ 7000/tonne for FY23E and ₹ 11750/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 ~11.9% in FY23E and ~18.1% 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	19.9	10.3	4.3	21.7	17.6
FY20	73,326	-13.5	16.2	-48.1	38.4	17.1	4.1	12.9	7.5
FY21	79,839	8.9	32.7	101.7	19.0	10.0	3.3	17.2	13.9
FY22	1,46,371	83.3	87.3	167.1	7.1	5.3	2.2	31.6	23.2
FY23E	1,63,254	11.5	23.0	-73.6	27.0	10.9	2.1	7.6	7.3
FY24E	1,79,565	10.0	61.4	166.6	10.1	6.2	1.8	17.2	14.1

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>1,63,254</b>	<b>1,79,565</b>
Growth (%)	9	83	12	10
Total Operating Expenditure	59698	107364	143843	147047
<b>EBITDA</b>	<b>20,141</b>	<b>39,007</b>	<b>19,411</b>	<b>32,518</b>
EBITDA Margin (%)	25.2	26.6	11.9	18.1
Depreciation	4,679	6,001	7,539	7,863
Interest	3,957	4,968	5,818	5,491
Other Income	592	1,531	1,330	1,285
<b>PBT</b>	<b>12,097</b>	<b>29,569</b>	<b>7,383</b>	<b>20,448</b>
Exceptional Item	-83	-741	0	0
Total Tax	4,142	8,807	2,215	6,135
<b>Reported PAT Before MI</b>	<b>7,872</b>	<b>20,021</b>	<b>5,168</b>	<b>14,314</b>
Less - Minority Interest	1	917	355	412
<b>Reported PAT after MI</b>	<b>7,873</b>	<b>20,938</b>	<b>5,523</b>	<b>14,726</b>
Growth (%)	105	166	-74	167
<b>Adj PAT</b>	<b>7,956</b>	<b>21,679</b>	<b>5,523</b>	<b>14,726</b>
Reported EPS (₹)	32.7	87.3	23.0	61.4

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>5,523</b>	<b>14,726</b>
Add: Depreciation	4,679	6,001	7,539	7,863
(Inc)/dec in Current Asset	-67	-26,793	-1,794	1,503
Inc/(dec) in CL&Provisions	4,832	16,699	735	7,535
Others	-2,568	4,112	245	124
<b>CF from operating activities</b>	<b>14,749</b>	<b>20,957</b>	<b>12,249</b>	<b>31,750</b>
(Inc)/dec in Investments	-7,667	-604	-850	-225
(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>-19,299</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	-5,933	7,614
Opening Cash	12,003	12,813	17,383	11,450
<b>Closing Cash</b>	<b>12,813</b>	<b>17,383</b>	<b>11,450</b>	<b>19,064</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	72,440	85,128
Total Shareholders funds	46,144	68,535	72,680	85,368
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>1,57,100</b>	<b>1,67,162</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	14,076
Inventory	14,249	33,787	34,243	31,997
Debtors	4,486	7,457	7,795	8,688
Loans and Advances	6,409	8,250	9,050	8,850
Other Current Assets	4,296	6,739	6,939	6,989
Cash	12,813	17,383	11,450	19,064
<b>Total Current Assets</b>	<b>42,253</b>	<b>73,616</b>	<b>69,477</b>	<b>75,589</b>
Current Liabilities	29,316	46,033	46,768	54,303
Provisions	274	256	256	256
<b>Total Current Liabilities</b>	<b>29,590</b>	<b>46,289</b>	<b>47,024</b>	<b>54,559</b>
Net Current Assets	12,663	27,327	22,453	21,030
Deferred tax Assets (net)	0	0	0	0
<b>Application of Funds</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,57,100</b>	<b>1,67,162</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	23.0	61.4
Cash EPS	51.9	111.4	54.0	93.5
BV	190.9	283.5	300.7	353.2
DPS	6.5	17.4	5.8	8.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	25.2	26.6	11.9	18.1
PBT / Total Operating income	15.2	20.2	4.5	11.4
Adj PAT Margin	10.0	14.8	3.4	8.2
Inventory days	160	150	135	125
Debtor days	21	25	20	20
Creditor days	134	110	120	125
<b>Return Ratios (%)</b>				
Adj RoE	17.2	31.6	7.6	17.2
Adj RoCE	13.9	23.2	7.3	14.1
Adj RoIC	15.6	25.5	8.1	15.5
<b>Valuation Ratios (x)</b>				
P/E	19.0	7.1	27.0	10.1
EV / EBITDA	10.0	5.3	10.9	6.2
EV / Net Sales	2.5	1.4	1.3	1.1
Market Cap / Sales	1.9	1.0	0.9	0.8
Price to Book Value	3.3	2.2	2.1	1.8
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.6	1.5	3.2	1.6
Net Debt / Equity	1.1	0.8	0.8	0.6
Current Ratio	1.4	1.6	1.5	1.4
Quick Ratio	1.0	0.9	0.8	0.8
Net debt/EBITDA	2.6	1.5	3.2	1.6
Net Debt/Equity	1.1	0.8	0.8	0.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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