

Spreads bottomed out; profitability set to improve ...

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

- Current Steel Capacity: India- 34.2 million Ton (MT) & US- 1.5 MT

Q2FY25 Results: JSW Steel reported a tad muted performance in Q2FY25 results. Consolidated topline stood at ₹39,684 crore (down 11% YoY, 8% QoQ) with steel sales volume of 6.13 MT (down 3% YoY, flat QoQ). Reported EBITDA stood at ₹5,437 crore vs ₹5,510 crore in Q1FY25, largely attributed to steep decline in realisation, partly offset by lower raw material cost. Standalone operations reported EBITDA/tonne of ₹8,757 vs ₹8,399 in Q1FY25 vs ₹12,750 in Q2FY24.

Investment Rationale

- Tangible growth lies ahead amidst rising steel demand domestically:** India despite being the world's 2nd largest consumer of finished steel, has lower per capita steel consumption at 98 per kg, which is significantly lower than global average of 233 per kg. Thus, amid need for infrastructure development and increased manufacturing set up, the government is targeting crude steel capacity of 300 MT, aiming to boost per capita steel consumption to 160 per kg by FY31. Leveraging its extensive industry experience, JSW Steel has embarked on expansion plan wherein it plans to raise its domestic steel production capacity to 42 MTPA by Sept'27, with a further increase to 50 MTPA by FY31. Most of these capacity expansions will be brownfield in nature at its existing plants, notably Vijayanagar, which is the largest integrated steel facility in India, undergoing an expansion from ~12 MT to ~19 MT by FY26. Moreover, JSW also aims to augment its downstream capacities, focusing on high-margin value added products. Looking forward, on a consolidated basis, we have modelled in a volume growth of 10% CAGR over FY24-27E to 33.4 MT in FY27.
- Higher volumes, calibrated price hikes and lower coking coal cost to aid EBITDA/tonne improvement:** With robust demand in domestic markets, higher volumes from new capacities, and reduced coking coal costs, EBITDA per ton is expected to improve at JSW Steel in the coming quarters. To secure critical raw materials for steel making, JSW has been scouting mines internationally through recent acquisitions, including Illawarra coking coal mines in Australia and pre-development mines in Mozambique. It also intends to increase the captive share of its iron ore requirements from current ~40% to ~50% by FY25E. With these steps toward raw material security, rising steel volumes and declining raw material costs, we project EBITDA/tonne to improve to ₹11.5k/12.5k per tonne for FY26E/27E.

Rating and Target Price

- With a strategic capacity expansion in place, favourable domestic steel demand and improvement in profitability, JSW Steel is positioned to achieve record performance going forward. We recommend **BUY** rating to the stock and value it at ₹ 1,130 i.e. 9x Avg. FY26E-27E EV/EBITDA.



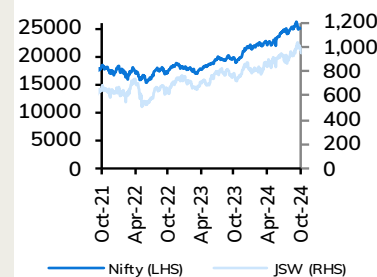
Particulars

Particulars	₹ crore
Market capitalisation	2,29,868
Total Debt (FY24)	85,575
Cash & Investment (FY24)	12,348
EV (₹ crore)	3,03,095
52 week H/L (₹)	1063 / 723
Equity capital (₹ crore)	305.0
Face value (₹)	1.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	44.8	44.8	44.8	44.8
FII	26.3	26.1	25.5	25.7
DII	9.5	9.8	10.5	10.5
Other	19.4	19.3	19.2	19.0

Price Chart



Recent event & key risks

- Posted muted Q2FY25 results. Guides for better volumes and EBITDA/ton in H2FY25
- Key Risk: (i) More than expected increase in operating costs (ii) delay in executing capex plans at Indian operation

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Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-26E)
Total Operating Income	79,839	1,46,371	1,65,960	1,75,006	15.6%	1,79,447	2,01,906	2,27,632	9.2%
EBITDA	20,141	39,007	18,547	28,236	8.3%	27,175	35,239	42,052	14.2%
EBITDA Margins (%)	25.2	26.6	11.2	16.1		15.1	17.5	18.5	
Net Profit	7,911	20,665	4,144	8,812	2.9%	6,293	12,374	17,115	24.8%
EPS (₹)	32.4	84.5	16.9	36.0		25.7	50.6	70.0	
P/E	29.1	11.1	55.5	26.1		36.5	18.6	13.4	
RoNW (%)	17.5	30.5	5.8	11.0		7.9	13.2	15.8	
RoCE (%)	13.0	21.9	7.0	11.1		9.6	12.7	14.9	

Source: Company, ICICI Direct Research

Key Takeaways of Recent Quarter

Q2FY25 Results: Reported a Tad Muted Performance

- Total operating income for the quarter came in at ₹39,684 crore (down 11% YoY, 8% QoQ) with steel sales volume stood at 6.13 MT (down 3% YoY, flat QoQ). This decline can be attributed to sharp reduction in export volumes due to weak global market, which consequently, impacted the standalone ASP, declining by 9% QoQ to ₹58,072/ton.
- Consolidated EBITDA for the quarter stood at ₹5,437 crore with corresponding EBITDA Margins at 13.7% (up 90 bps QoQ). Despite the significant decline in ASP, standalone EBITDA/tonne for Q2FY25 was maintained at ₹8,757 vs ₹8,399 in Q1FY25 due to lower raw material cost, an increased mix of captive iron ore, and reduced overall logistic cost.
- PAT for the quarter stood at ₹404 crore. This includes one-time exceptional item of ₹342 crores on account of proposed surrender of Jajang iron ore mine. Net Debt came in at ₹85,098 crore with a Net Debt to EBITDA ratio at 3.5x in Q2FY25 compared to 3x in Q1FY25. This is largely attributed to higher capex and recent acquisition of Illawara coking coal mine. Capex stood at ₹3,384 crore in Q2FY25.

Q2FY25 Earnings Conference Call Highlights:

- **Capacity Expansion:** During Q2FY25, JSW commissioned an additional 1 MT of capacity in BPSL, bringing its total capacity to 4.5 MT. Moreover, it has also commissioned 4.5 MTPA of blast furnace capacity, the raw material handling system, and a sinter plant at Vijayanagar in Oct'24. Steel melting shop at Vijayanagar is under commissioning and expected to ramp up by Q4FY25, taking the total capacity of Vijayanagar to 17MT.
- **CRGO facility:** Demand for Cold Rolled Grain Oriented (CRGO) steel in India is 3 lakh tons, of which 1.8 to 2 lakh tons are imported. JSW anticipates that demand for this steel will increase due to expanded application in transformers and generators. Thus, it aims to scale up the capacity of its CRGO facility, currently at 50,000 tons, over the next one to two years. This product is more margins accretive than other products. With the recent acquisition of thyssenkrupp electrical steel, JSW will be able to gain access to market and technology for electrical steel making.
- **Iron Ore:** JSW has increased iron ore mining capacity from 7 MT to 11 MT from its captive mines in Karnataka. It expects to mine 10 MT from by FY25. Of these three new mines in Karnataka, two are expected to commissioned by Q4FY25 with the third becoming operational by Q1FY26. This will increase Karnataka's total captive mining capacity to 15.5 MT. BPSL's mine in Odisha, with an estimated capacity of 2 MTPA, is expected to commence within the next three to six months. Captive iron ore consumption has increased from 38% in Q1FY25 to 41% in Q2FY25.
- **Coking Coal:** JSW witnessed a decrease in coking coal prices by \$27 per ton in Q2FY25. It expects another \$20 to \$25 per ton decline in coking coal in Q3FY25. It has completed the acquisition of 20% effective interest in the Illawarra coking coal mines in Australia, which is expected to operational by early FY26. It has also secured a long-term coking coal linkage from Coal India, providing ~2 MT of raw coking coal for a period of 15 years.
- **Guidance:** JSW remains firm with its production and sales volume target of 28.4 MT and 27 MT in FY25, respectively. It has revised its capex guidance from the earlier ₹20,000 crores to ₹16,000-17,000 crores, primarily due to the transfer of slurry pipeline to JSW Infrastructure and the revised shutdown of BF-3 at Vijayanagar for its 1.5 MTPA, expansion, now scheduled to H1FY26. It also reaffirms its guidance of Net Debt to EBITDA level of 3x by the end of FY25.

JSW anticipates robust steel demand in H2FY25, driven by capex from the government and private players, along with a rural recovery supported by an improved monsoon season. Consequently, steel prices are expected to rise in the coming months.

Company has undertaken price hike in the domestic market across its flat and long products in the range of ₹1,000-2,000/tonne; with effect October 2024

With this positive industry outlook, JSW expects better performance, with margins anticipated to improve in H2FY25 due to incremental volumes from new capacities, lower coking coal cost, a recovery in steel prices.

Key Tables and Charts

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	39,684	44,584	-11.0	42,943	-7.6	Topline came in lower due to steep decline in ASP
Raw Material Expenses	22,905	26,181	-12.5	25,830	-11.3	RM costs was lower factoring in decline in coking coal prices which were down \$27/t on QoQ basis
Employee Expenses	1,220	1,097	11.2	1,248	-2.2	
Power & Fuel expenses	3,889	3,824	1.7	3,906	-0.4	Power and fuel expense came in broadly flat
Other expenses	6,233	5,596	11.4	6,449	-3.3	
EBITDA	5,437	7,886	-31.1	5,510	-1.3	EBITDA was marginally down QoQ amid decline in ASP, partially offset by lower raw material cost
EBITDA Margin (%)	13.7	17.7	-399 bps	12.8	87 bps	
Other Income	153	237	-35.4	164	-6.7	
Depreciation	2,267	2,019	12.3	2,209	2.6	Depreciation came in on expected lines
Interest	2,130	2,084	2.2	2,073	2.7	
Tax	385	1,812	-78.8	513	-25.0	
PAT	404	2,773	-85.4	867	-53.4	PAT was down by 50% QoQ due to one-time exceptional charge of ~₹340 crores for the quarter

Key Metrics

Standalone Numbers

Sales Volume (million tonne)	5.3	5.4	-2.0	5.1	4.1	On standalone basis, volumes marginally improved by 4% QoQ to 5.3 million tonne
Blended Realisations (₹/tonne)	58,072	62,362	-6.9	64,153	-9.5	Realisations fell by 10% QoQ due to lower domestic steel prices and decline in export volumes
EBITDA/tonne	8,757	12,750	-31.3	8,399	4.3	EBITDA/tonne improved QoQ to ₹ 8,757/tonne

Source: Company, ICICI Direct Research

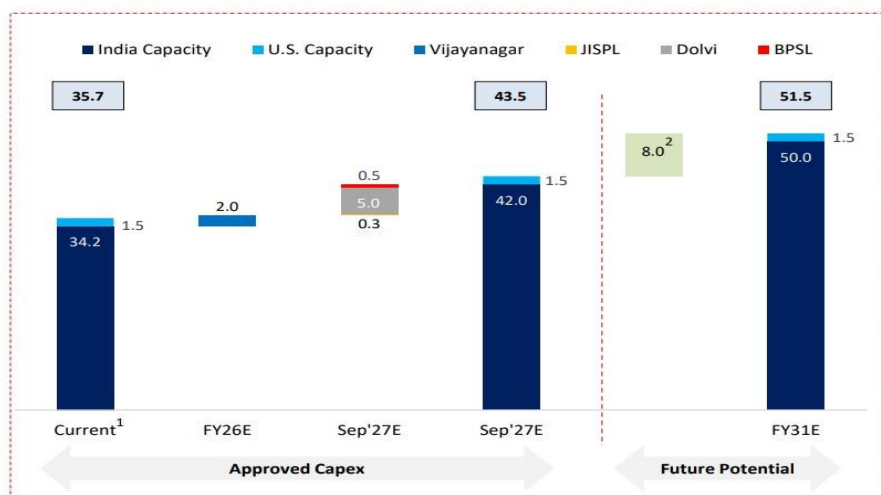
Exhibit 2: Change in Estimates

Change in estimates (Standalone)	FY25E			FY26E			FY27E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Sales Volume (MT)	23.0	22.8	-0.9	25.9	25.3	-2.5	28.2	On standalone basis, volumes at JSW Steel are expected to grow at 10% CAGR over FY24-27E.
Blended Realization (₹/tonne)	63,645	59,805	-6.0	64,500	61,000	-5.4	62,000	Lower our realisation estimates on account of steep decline in domestic steel prices
EBITDA (₹/tonne)	10,624	9,788	-7.9	12,876	11,534	-10.4	12,526	Consequently, we have reduced our EBITDA/tonne estimates for FY25E and FY26E
Consolidated PAT	9,378	6,293	-32.9	15,978	12,374	-22.6	17,115	Introduced FY27E estimates
Consolidated EPS	38	26	-32.8	65	51	-22.5	70	Expecting JSW Steel to report ₹ 70 EPS in FY27E

Source: ICICI Direct Research

Exhibit 3: JSW Steel- Capacity Expansion Roadmap

JSW Steel: Growth Path



Growth Options in the Portfolio

Organic

- Brownfield growth potential of ~5mt at each of Vijayanagar and BPSL
- 4mt brownfield Green Steel in 2 phases
- Greenfield growth in Odisha (13mt in phases)
- Greenfield EAF

Inorganic

- Selectively explore value-accretive acquisitions

Value Added and Special Products

- Maintain >50% share of VASP in total sales

Underpinned by Raw Material Security

JSW Steel Q2 FY25 Results Presentation / All capacities are in mt. 1: 5.0mt capacity at Vijayanagar under commissioning, 2: Subject to board approvals

43

Financial Summary (Consolidated)

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Net Sales	1,72,588	1,76,809	1,98,877	2,24,218	
Other Operating Income	2418	2638	3029	3414	
Total Operating Income	1,75,006	1,79,447	2,01,906	2,27,632	
Growth (%)	5.5	2.5	12.5	12.7	
Raw Material Expenses	1,01,678	1,03,774	1,15,187	1,28,275	
Employee Expenses	4,591	5,065	5,282	5,873	
Other Operating Expense	40,501	43,434	46,198	51,431	
Total Operating Expenditure	1,46,770	1,52,272	1,66,667	1,85,580	
EBITDA	28,236	27,175	35,239	42,052	
Growth (%)	52.2	-3.8	29.7	19.3	
Depreciation	8,172	9,139	10,139	11,139	
Interest	8,105	8,658	8,272	7,567	
Other Income	1,004	623	606	683	
PBT	12,963	10,001	17,433	24,029	
Exceptional Item	-417	416	0	0	
Total Tax	4,407	3,123	4,881	6,728	
PAT	8,812	6,293	12,374	17,115	
Growth (%)	112.6	-28.6	96.6	38.3	
EPS (₹)	36.0	25.7	50.6	70.0	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Profit after Tax	8,812	6,293	12,374	17,115	
Add: Depreciation	8,172	9,139	10,139	11,139	
(Inc)/dec in Current Assets	-4,752	-1,024	-6,659	-7,628	
Inc/(dec) in CL and Provisions	-5,243	1,420	6,166	7,063	
Others	8,105	8,658	8,272	7,567	
CF from operating activities	15,094	24,486	30,292	35,255	
(Inc)/dec in Investments	-2,440	-5	-5	-5	
(Inc)/dec in Fixed Assets	-23,180	-16,500	-20,000	-20,000	
Others	370	10	10	10	
CF from investing activities	-25,250	-16,495	-19,995	-19,995	
Issue/(Buy back) of Equity	4	0	0	0	
Inc/(dec) in loan funds	6,733	2,000	-1,000	-5,000	
Dividend & interest outgo	-8,927	-9,636	-10,228	-10,012	
Inc/(dec) in Share Cap	0	0	0	0	
Others	3,980	0	0	0	
CF from financing activities	1,790	-7,636	-11,228	-15,012	
Net Cash flow	-8,366	355	-931	248	
Opening Cash	20,714	12,348	12,703	11,772	
Closing Cash	12,348	12,703	11,772	12,020	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Liabilities					
Equity Capital	305	305	305	305	
Reserve and Surplus	77,364	82,679	93,097	1,07,766	
Total Shareholders funds	77,669	82,984	93,402	1,08,071	
Total Debt	85,575	87,575	86,575	81,575	
Deferred Tax Liability	9,659	9,659	9,659	9,659	
Minority Interest / Others	7,451	7,461	7,471	7,481	
Total Liabilities	1,80,354	1,87,679	1,97,107	2,06,786	
Assets					
Gross Block	1,56,608	1,82,784	2,02,784	2,22,784	
Less: Acc Depreciation	44,786	53,925	64,064	75,204	
Net Block	1,11,822	1,28,859	1,38,720	1,47,580	
Capital WIP	29,676	20,000	20,000	20,000	
Total Fixed Assets	1,41,498	1,48,859	1,58,720	1,67,580	
Investments	7,885	7,890	7,895	7,900	
Inventory	37,815	38,348	43,147	48,645	
Debtors	7,548	7,866	8,851	9,978	
Loans and Advances	4	4	5	5	
Other Current Assets	6,816	6,989	7,864	8,866	
Cash	12,348	12,703	11,772	12,020	
Total Current Assets	64,531	65,910	71,638	79,514	
Current Liabilities	33,365	34,415	38,722	43,655	
Provisions	439	453	509	574	
Current Liabilities & Prov	47,844	49,264	55,429	62,492	
Net Current Assets	16,687	16,646	16,209	17,022	
Others Assets	14,284	14,284	14,284	14,284	
Application of Funds	1,80,354	1,87,679	1,97,107	2,06,786	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Per share data (₹)					
EPS	36.0	25.7	50.6	70.0	
Cash EPS	69.5	63.1	92.1	115.5	
BV	317.6	339.3	382.0	441.9	
DPS	7.3	4.0	8.0	10.0	
Cash Per Share	40.5	41.6	38.6	39.4	
Operating Ratios (%)					
EBITDA Margin	16.1	15.1	17.5	18.5	
PAT Margin	5.0	3.5	6.1	7.5	
Inventory days	78.9	78.0	78.0	78.0	
Debtor days	15.7	16.0	16.0	16.0	
Creditor days	69.6	70.0	70.0	70.0	
Return Ratios (%)					
RoE	11.0	7.9	13.2	15.8	
RoCE	11.1	9.6	12.7	14.9	
RoC	14.5	11.6	15.2	17.7	
Valuation Ratios (x)					
P/E	26.1	36.5	18.6	13.4	
EV / EBITDA	10.7	11.2	8.6	7.1	
EV / Net Sales	1.7	1.7	1.5	1.3	
Market Cap / Sales	1.3	1.3	1.1	1.0	
Price to Book Value	3.0	2.8	2.5	2.1	
Solvency Ratios					
Debt/EBITDA	3.0	3.2	2.5	1.9	
Debt / Equity	1.1	1.1	0.9	0.8	
Current Ratio	1.5	1.5	1.5	1.5	
Quick Ratio	0.4	0.4	0.4	0.4	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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