

JSW Steel

HOLD

Rising costs hit margins

Summary

JSW Steel's Q1FY23 EBITDA was 23% below of our forecast. EBITDA fell 53% QoQ led by sharp rise in coking coal (\$410/tonne) and prices of other raw materials. Adjusted net profit stood at Rs8 bn (down 86% YoY and 80% QoQ). Net debt increased by 105 bn QoQ to Rs672 bn on account of inventory accretion. We now lower our FY23 EBITDA estimates by 24% to factor weaker than expected Q1FY23 profitability and steep decline in steel prices. Also, we cut our FY24 EBITDA estimate by 10% as we expect steel prices to remain weak over FY23-24. We value the stock at an EV/EBITDA multiple of 6x FY24 EBITDA to derive a target price of Rs564. Given the industry headwinds of export duty, we maintain HOLD rating on the stock.

Key Highlights and Investment Rationale

- Export duty hits export sales:** During Q1FY23, export sales fell by 27% YoY and 35% QoQ led by imposition of export duty. Overall, sales volumes fell 21% QoQ to 4.03 mn tonnes due to lower export volumes.
- Project updates:** JSW's brownfield expansion of coke oven plant (1.5 mtpa) at Vijaynagar plant is expected to be commissioned by Q2FY23 while whole project will be completed by FY24. The expansion at BPSL to 3.5mtpa will also be completed by Q2FY23 and its second phase (from 3.5 mtpa to 5 mtpa) will be completed by FY24.
- Outlook:** The government imposition of hefty export duties on steel will lead to decline in realizations for steel companies which have been resorting to exports in the last few years. Also, weak domestic demand in the near term will further lead to fall in steel prices in the domestic markets. In FY21-22, JSW derived 28% of its sales volumes from exports. Hence, we expect fall in profitability for JSW in FY23.

TP	Rs564
CMP	Rs582
Potential upside/downside	-3%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	5.8	(19.5)	(18.7)
Rel to Sensex	(2.4)	(17.6)	(24.9)

V/s Consensus

EBITDA (Rs bn)	FY23E	FY24E
IDBI Capital	251	287
Consensus	280	331
% difference	(10.4)	(13.3)

Key Stock Data

Bloomberg / Reuters	JSTL IN / JSTL.BO
Sector	Metal & Mining
Shares o/s (mn)	2,417
Market cap. (Rs mn)	1,407,668
3-m daily average value (Rs mn)	261.2
52-week high / low	Rs790 / 520
Sensex / Nifty	56,072 / 16,719

Shareholding Pattern (%)

Promoters	45.0
FII	10.6
DII	9.1
Public	35.3

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	733,260	798,390	1,463,710	1,297,162	1,462,946
Change (yoy, %)	(13)	9	83	(11)	13
EBITDA	118,730	201,410	390,070	251,522	287,144
Change (yoy, %)	(37)	70	94	(36)	14
EBITDA Margin(%)	16.2	25.2	26.6	19.4	19.6
Adj.PAT	36,970	84,910	187,830	96,220	112,519
EPS (Rs)	15.3	35.2	77.9	39.9	46.7
Change (yoy, %)	(49)	129	12	(9)	17
PE(x)	36.7	16.0	7.2	14.1	12.0
Dividend Yield (%)	0.9	1.2	1.2	1.4	1.8
EV/EBITDA (x)	15.5	8.7	4.8	7.5	6.6
RoE (%)	10.4	20.4	32.9	13.4	13.8
RoCE (%)	7.9	14.6	25.6	12.3	14.2

Source: IDBI Capital Research

Bhavesh Chauhan

 bhavesh.chauhan@idbicapital.com
+91-22-2217 1849

Kuber Chauhan

 kuber.chauhan@idbicapital.com
+91-22- 2217 1854

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
Net sales	380,860	468,950	(18.8)	289,020	31.8
Expenditure	337,770	377,110	(10.4)	186,280	81.3
EBITDA	43,090	91,840	(53.1)	102,740	(58.1)
<i>EBITDA margin (%)</i>	<i>11.3</i>	<i>19.6</i>	<i>(827bps)</i>	<i>35.5</i>	<i>(2423bps)</i>
EBITDA per ton	10,692	17,973	(40.5)	28,460	(62.4)
Interest	14,220	17,560	(19.0)	9,930	43.2
Depreciation	17,780	18,150	(2.0)	11,830	50.3
PBT	12,980	58,460	(77.8)	82,960	(84.4)
Tax	4,420	17,310	(74.5)	27,190	(83.7)
Net profit	8,390	33,430	(74.9)	59,000	(85.8)
Adjusted Net profit	8,390	40,840	(79.5)	59,000	(85.8)
Adj. diluted EPS (Rs)	3.5	16.9	(79.5)	24.4	(85.8)

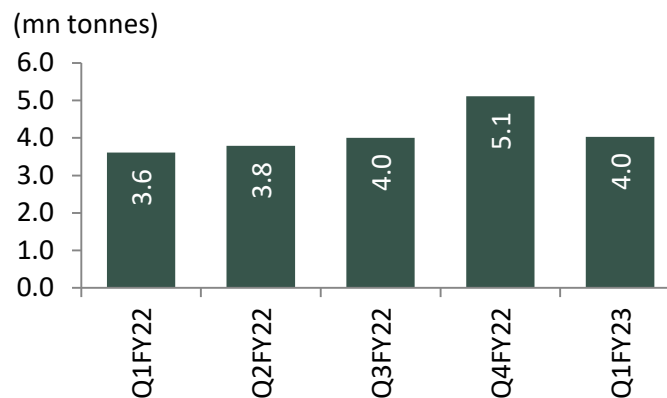
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

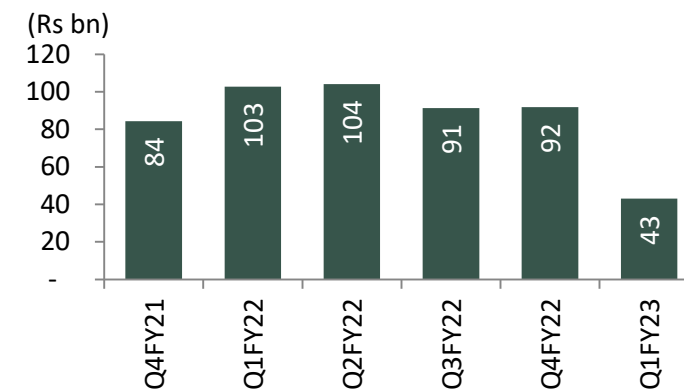
(Rs mn)

	Q1FY23E	Q1FY23A	Variance (%)
Net sales	382,361	380,860	(0.4)
EBTIDA	55,565	43,090	(22.5)
Margin (%)	14.5	11.3	(322bps)
EBITDA/tonne	17,973	10,692	(40.5)
Adj. PAT	16,298	8,390	(48.5)
Adj. diluted EPS (Rs)	6.7	3.5	(48.5)

Source: Company; IDBI Capital Research

Exhibit 3: Sales volume fell by 21% QoQ

Source: Company; IDBI Capital Research

Exhibit 4: Consolidated EBIDTA fell by 53% QoQ

Source: Company; IDBI Capital Research

Con-call highlights

- Saleable steel fell by 21% QoQ to 4.03 mn tonnes on account of decline in export volumes due to imposition of export duty and lower procurement by customers with an anticipation of further fall in steel prices.
- The company pre-poned certain shutdowns which lowered capacity utilization to 93% from 98% in Q4FY22.
- During the quarter, the coking coal cost incurred at an average of \$420/tonne while company expects the cost to reduce by 50\$-60\$/tonne in Q2FY23.
- The EBITDA fell by 58.1% YoY and 53.1% QoQ to Rs 43 bn due to lower sales volume, forex losses and NRV provisions.
- Exports fell 27% YoY and 35% QoQ to on imposition of export duty in May 2022. However, company expects the export volumes to be better in H2FY23.
- The company incurred capex of Rs37 bn in Q1FY23. JSW steel revised its capex target from Rs200 bn to Rs 150 bn in FY23.

- Net debt increased by Rs105 bn QoQ to Rs672 bn on account of inventory accretion for working capital.
- JSW steel aims to increase its Dolvi plant capacity to 23 mn tonnes by FY24.
- Out of 5 mn tonnes of expansion plan for BSPL, the 3.5 mn tonnes of expansion will be completed by Q2FY23. The Phase-II expansion is expected to be completed by FY24.
- The 5mtpa brownfield expansion at Vijayanagar plant is in process. The project is expected to get completed by FY24. However, company completed commissioning downstream projects (Continuous Galvanized lines and Colour coated Line (CCL) at Vijayanagar plant. The remaining downstream projects at Vasind and Tarapur expected to be completed by Q2FY23.
- Despite macro-headwinds, company remains confident towards achieving steel production of 25 mn tonnes and sales volume of 24 mn tonnes in FY23.

Exhibit 5: Change in estimates

	FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	16,51,214	12,97,162	(21.4)	15,13,720	14,62,946	(3.4)
EBITDA (Rs mn)	3,29,633	2,51,522	(23.7)	3,17,662	2,87,144	(9.6)
<i>EBITDA margin (%)</i>	<i>20.0</i>	<i>19.4</i>	<i>(57bps)</i>	<i>21.0</i>	<i>19.6</i>	<i>(136bps)</i>
Net profit (Rs mn)	1,61,706	96,220	(40.5)	1,43,370	1,12,519	(21.5)
EPS (Rs)	67.1	39.9	(40.5)	59.5	46.7	(21.5)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	847,570	733,260	798,390	1,463,710	1,297,162	1,462,946
<i>Change (yoy, %)</i>	18	(13)	9	83	(11)	13
Operating expenses	(658,050)	(614,530)	(596,980)	(1,073,640)	(1,045,640)	(1,175,802)
EBITDA	189,520	118,730	201,410	390,070	251,522	287,144
<i>Change (yoy, %)</i>	28	(37)	70	94	(36)	14
<i>Margin (%)</i>	22.4	16.2	25.2	26.6	19.4	19.6
Depreciation	(40,410)	(42,460)	(46,790)	(60,010)	(64,811)	(69,996)
EBIT	149,110	76,270	154,620	330,060	186,711	217,148
Interest paid	(39,170)	(42,650)	(39,570)	(49,680)	(55,145)	(61,211)
Other income	2,040	5,460	5,920	15,310	16,535	17,858
Pre-tax profit	111,680	38,180	120,980	304,860	148,101	173,795
Tax	(36,440)	9,060	(41,420)	(88,070)	(37,025)	(43,449)
<i>Effective tax rate (%)</i>	33	(24)	34	29	25	25
Minority Interest	(2,820)	(3,120)	6,190	(12,380)	(14,856)	(17,827)
Net profit	72,420	44,120	85,750	204,410	96,220	112,519
Exceptional items	(300)	7,150	840	16,580	-	-
Adjusted net profit	72,720	36,970	84,910	187,830	96,220	112,519
<i>Change (yoy, %)</i>	24.0	(49.2)	129.7	121.2	(48.8)	16.9
EPS	30.2	15.3	35.2	77.9	39.9	46.7
Dividend per share	3.9	5.0	6.5	7.0	8.0	10.0
<i>Dividend Payout %</i>	12.8	32.3	18.5	9.0	20.1	21.5

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	347,950	365,990	467,630	672,970	764,708	870,882
Share capital	3,010	3,010	3,010	3,010	3,010	3,010
Reserves & surplus	344,940	362,980	464,620	669,960	761,698	867,872
Total Debt	449,260	610,540	517,300	699,750	629,750	559,750
Other liabilities	89,050	74,350	91,420	124,700	124,700	124,700
Curr Liab & prov	267,380	273,070	413,000	455,050	400,996	440,187
Current liabilities	266,040	271,460	410,260	452,490	398,436	437,627
Provisions	1,340	1,610	2,740	2,560	2,560	2,560
Total liabilities	805,690	957,960	1,021,720	1,279,500	1,155,446	1,124,637
Total equity & liabilities	1,149,140	1,318,200	1,483,160	1,964,850	1,917,678	1,975,216
Net fixed assets	745,330	891,850	972,240	1,166,050	1,301,239	1,381,244
Investments	18,940	12,590	88,320	49,320	49,320	49,320
Other non-curr assets	50,140	48,090	64,160	95,740	95,740	95,740
Current assets	334,730	365,670	358,440	653,740	471,379	448,913
Inventories	145,480	138,640	142,490	337,870	231,507	261,094
Sundry Debtors	71,600	45,050	44,860	74,570	72,885	82,200
Cash and Bank	61,870	120,030	128,130	173,830	94,727	28,184
Loans and advances	5,610	7,420	6,220	7,590	7,590	7,590
Other current assets	50,170	54,530	36,740	59,880	64,670	69,844
Total assets	1,149,140	1,318,200	1,483,160	1,964,850	1,917,678	1,975,216

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	111,680	38,180	120,980	304,860	148,101	173,795
Depreciation	(40,410)	(42,460)	(46,790)	(60,010)	(64,811)	(69,996)
Tax paid	(23,540)	(13,110)	(23,100)	(46,950)	(37,025)	(43,449)
Chg in working capital	41,470	37,270	137,470	(184,410)	53,995	288
Other operating activities	24,360	(8,970)	40,134	(693)	(479)	-
Cash flow from operations (a)	193,600	87,810	322,274	132,817	229,402	200,630
Capital expenditure	(146,980)	(180,960)	(127,180)	(253,820)	(200,000)	(150,000)
Chg in investments	(4,250)	6,350	(75,730)	39,000	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(151,230)	(174,610)	(202,910)	(214,820)	(200,000)	(150,000)
Equity raised/(repaid)	(10)	-	-	-	-	-
Debt raised/(repaid)	20,890	161,280	(93,240)	182,450	(70,000)	(70,000)
Dividend (incl. tax)	(9,330)	(11,950)	(15,712)	(16,920)	(19,338)	(24,172)
Chg in minorities	(2,680)	(4,370)	5,750	6,190	(29,712)	(35,654)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	8,870	144,960	(103,202)	171,720	(119,050)	(129,826)
Net chg in cash (a+b+c)	51,240	58,160	16,162	89,717	(89,647)	(79,196)

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	144	152	194	279	317	361
Adj EPS (Rs)	30.2	15.3	35.2	77.9	39.9	46.7
Adj EPS growth (%)	24.0	(49.2)	129.7	121.2	(48.8)	16.9
EBITDA margin (%)	22.4	16.2	25.2	26.6	19.4	19.6
Pre-tax margin (%)	13.2	5.2	15.2	20.8	11.4	11.9
Net Debt/Equity (x)	1.1	1.3	0.8	0.8	0.7	0.6
ROCE (%)	18.4	7.9	14.6	25.6	12.3	14.2
ROE (%)	23.2	10.4	20.4	32.9	13.4	13.8

DuPont Analysis

Asset turnover (x)	0.8	0.6	0.6	0.8	0.7	0.8
Leverage factor (x)	3.3	3.5	3.4	3.0	2.7	2.4
Net margin (%)	8.6	5.0	10.6	12.8	7.4	7.7

Working Capital & Liquidity ratio

Inventory days	63	69	65	84	65	65
Receivable days	31	22	21	19	21	21
Payable days	40	59	93	105	86	87

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	18.6	36.7	16.0	7.2	14.1	12.0
Price/Book value (x)	3.9	3.7	2.9	2.0	1.8	1.6
EV/Net sales (x)	2.1	2.5	2.2	1.3	1.5	1.3
EV/EBITDA (x)	9.2	15.5	8.7	4.8	7.5	6.6
Dividend Yield (%)	0.7	0.9	1.2	1.2	1.4	1.8

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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