

India

REDUCE (no change)

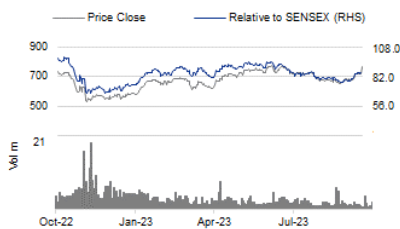
Consensus ratings*: Buy 9 Hold 8 Sell 14

Current price:	Rs757
Target price: ▲	Rs470
Previous target:	Rs330
Up/downside:	-37.9%
InCred Research / Consensus:	-37.5%
Reuters:	JSTL.NS
Bloomberg:	JSTL IN
Market cap:	US\$22,228m Rs1,850,231m
Average daily turnover:	US\$25.0m Rs2082.2m
Current shares o/s:	2,417.3m
Free float:	42.6%

*Source: Bloomberg

Key changes in this note

- We value JSW Steel at 7.5x EV/EBITDA to arrive at our new target price of Rs470.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.6)	(5.0)	17.6
Relative (%)	(5.8)	(4.7)	4.7

Major shareholders	% held
Promoter & Promoter Group	45.4
JFE Steel International Europe BV	15.0
Life Insurance Corporation	7.1

Analyst(s)



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JSW Steel

Shrinking margins; retain REDUCE

- Higher coking coal prices and rising Chinese steel exports will lead to margin erosion. India iron ore prices are firm as production growth remains tepid.
- We feel it's too early to become constructive on India's steel sector. Raw material cost pressure & dwindling global demand are likely to shrink margins.
- We value JSW Steel at 7.5x EV/EBITDA to arrive at our target price of Rs470. The rise in TP is due to a higher multiple of 7.5x (7.1x earlier). Retain REDUCE.

Rising coking coal prices and Chinese steel exports erode margins

Coking coal has been trading above US\$330/t for more than a month. We had assumed that as mining disruption was minor, production would resume quickly, causing coking coal prices to fall. However, it appears that the supply side is constrained, and the surplus may be lower than our earlier forecast of 10mt. All steelmakers raised their prices at the beginning of this month, but the surge in coking coal prices will not be compensated for by the 1.5% rise in domestic steel prices. Rising Chinese exports are a general headwind for global steel prices. Please see our earlier note on steel: [IN: Steel - Use all rallies to sell; retain Underweight.](#)

Iron ore prices are on an upward trajectory

Indian iron ore prices are rising as iron ore is facing the problem of low investment in mining assets (as most merchant mines have failed to ramp up production). Also, iron ore exports are viable now (after the removal of export tax on pellets). Higher pellet and fines exports and a slow rise in production are leading to the price rise. Iron ore mines, which were won at a 100%+ premium to the IBM's (Indian Bureau of Mines) prices, were unviable from Day 1 and now they are being surrendered by the winning bidders. In our view, the lack of supply will keep the prices elevated. Hence, unintegrated steel companies like JSW Steel will face additional margin headwinds.

Balance sheet unlikely to improve

A higher capex, combined with weaker operational cash flow (because of declining margins), will result in balance sheet debt remaining in the Rs800bn range for next three years. We expect the net debt-to-EBITDA ratio to remain at 3.1x (1.3x earlier). JSW Steel has stated that it will incur Rs200bn capex in FY24F. The prevailing view on balance sheet deleveraging has been reasonably optimistic, but we expect its net debt to climb to Rs890bn by FY26F (from Rs580bn in FY23). Collectively, these factors contribute to making JSW Steel the costliest steel stock, with its price-to-book ratio (P/B) at a premium of 3.5x compared to the peer average of 1.6x.

Retain REDUCE rating with a higher target price of Rs470.

We roll forward our target price valuation of JSW Steel to Sep 2024F and hence, raise it to Rs470 (7.5x Sep 2025F EV/ EBITDA) from Rs330 earlier. Retain our REDUCE rating on the stock. Upside risk: Sudden rise in steel prices because of China economic stimulus.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	1,463,710	1,659,600	1,714,617	1,863,715	2,012,812
Operating EBITDA (Rsm)	390,070	185,470	232,259	269,391	308,913
Net Profit (Rsm)	209,659	41,669	69,278	93,082	111,018
Core EPS (Rs)	71.1	11.8	18.9	25.9	25.9
Core EPS Growth	236.4%	(83.5%)	60.3%	37.3%	0.0%
FD Core P/E (x)	10.90	54.84	32.99	24.55	20.58
DPS (Rs)	6.5	6.5	6.5	6.5	6.5
Dividend Yield	0.86%	0.86%	0.86%	0.86%	0.00%
EV/EBITDA (x)	7.24	15.53	12.89	11.52	10.33
P/FCFE (x)	102.62	12.93	(29.11)	17.60	13.99
Net Gearing	76.7%	86.7%	96.5%	101.3%	100.7%
P/BV (x)	3.40	3.48	3.23	2.92	2.62
ROE	37.7%	5.6%	10.2%	12.5%	13.4%
% Change In Core EPS Estimates			(164.18%)		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Shrinking margins; retain REDUCE

Sharp rise in coking coal prices is steadily eroding profit margin, and the surge in Chinese exports presents a challenge to global steel prices ➤

Figure 1: Coking coal prices are holding strong above US\$330/t



China’s steel exports are witnessing a resurgence, with YTD CY23 figures showing a robust YoY increase of 28.3% ➤

Figure 2: China’s steel exports continue to rise

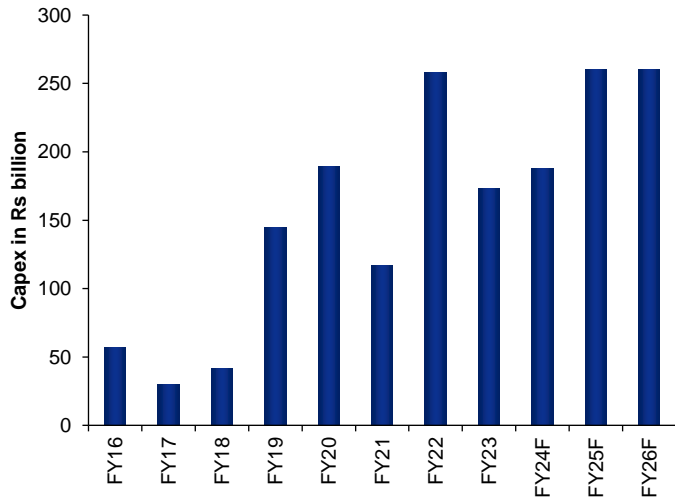


China’s steel exports continue to rise - never trust Chinese official data on closure of its steel plants ➤

While China makes policy announcements and makes promises of steel production cut, it never results in steel production decline. The rational argument of the 2021 steel bull phase – “Why China will pollute its environment and export finished steel to the outside world?” has fallen flat. China needs its blast furnaces running to give employment to its people. Don’t expect the capitalist goal of being EVA (economic value added) positive from communist China. This country had exported steel at prices below its raw material cost in 2015, and the same thing can happen again if China’s local demand declines.

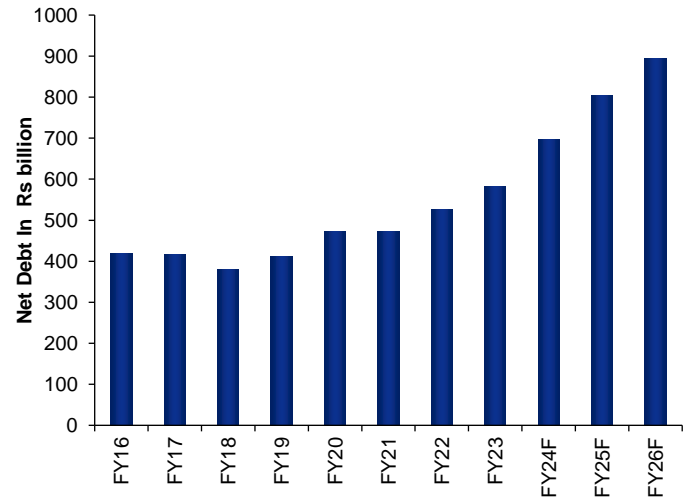
Balance sheet is unlikely to improve as the company embarks on its ambitious capex plan ➤

Figure 3: Capex to rise in the coming years...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

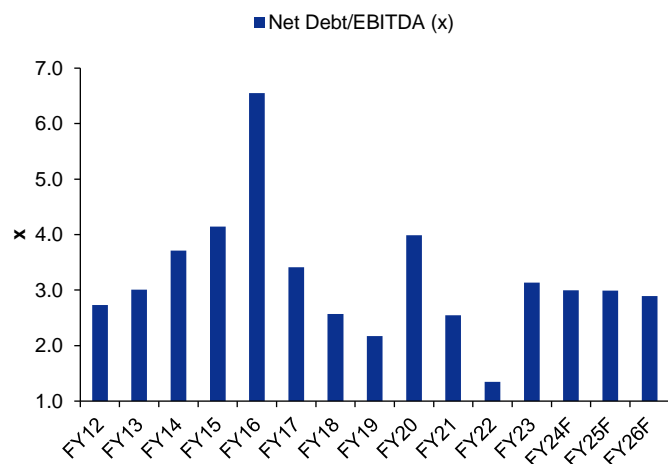
Figure 4: ...which will lead to a rise in net debt



SOURCE: INCRED RESEARCH, COMPANY REPORTS

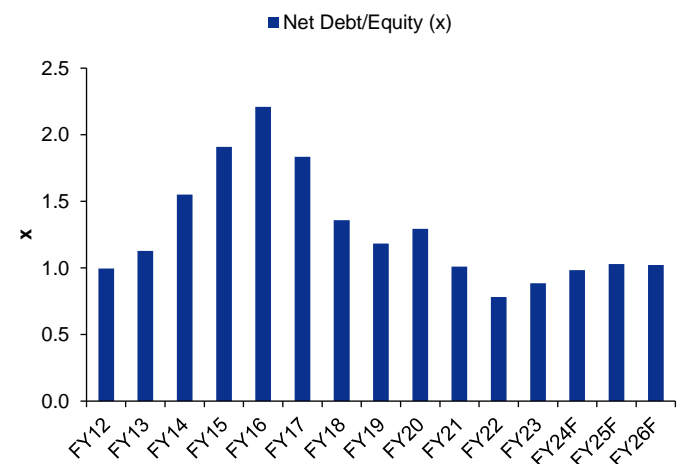
Balance sheet ratios will worsen ➤

Figure 5: Net debt/EBITDA ratio for FY24F/25F/26F to be at 3.1x/3.0x/2.9x, respectively



SOURCE: INCRED RESEARCH, COMPANY REPORTS

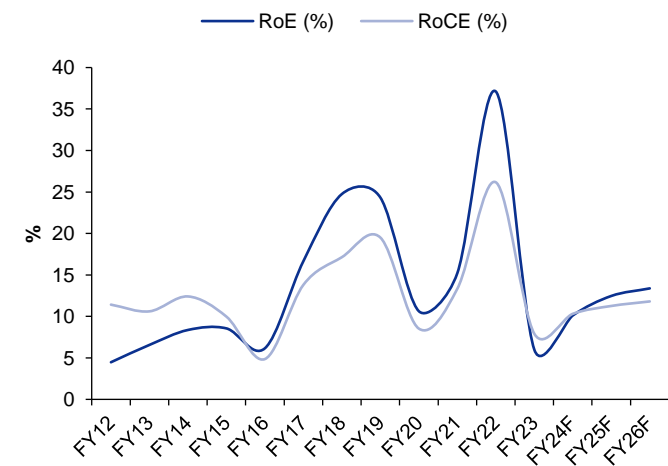
Figure 6: Net debt/equity ratio for FY24/25F/26F to be at 0.98x/1.03x/1.02x, respectively



SOURCE: INCRED RESEARCH, COMPANY REPORTS

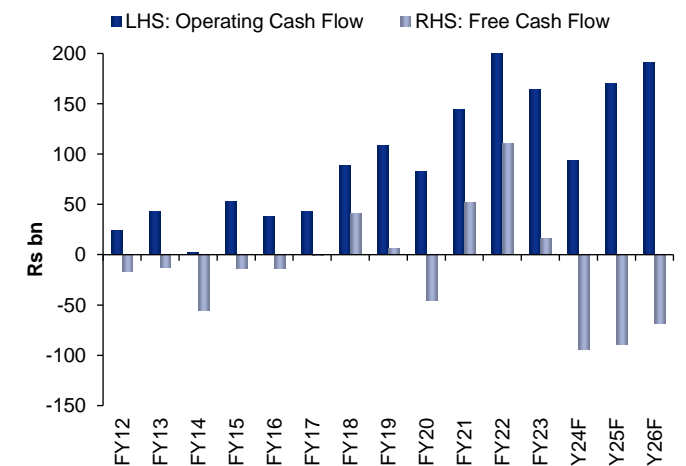
Return ratios and cash flow will also disappoint ➤

Figure 7: ROE and ROCE to remain in the range of 10-13%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: FCF to remain in the negative zone



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We value the stock at 7.5x EV/EBITDA to arrive at a higher target price of Rs470; retain REDUCE ➤

We believe it's too early to become constructive on the Indian steel sector. Raw material cost pressure and dwindling global demand to hit profitability. We value JSW Steel at 7.5x EV/EBITDA to arrive at a higher target price of Rs470 from Rs330 earlier. The rise in the target price is due to a higher multiple of 7.5x (vs. 7.1x earlier). We have retained our REDUCE rating on the stock.

Figure 9: Our fair value of the stock is Rs470

Target Price		
Unit	Item	Valuation
Sep 2025F EBITDA	Rs m	2,89,152
1-year forward multiple	x	7.5
Sep 2025F EV	Rs m	21,68,639
Sep 2024F net debt	Rs m	7,50,491
Sep 2024F equity value	Rs m	14,18,149
Sep 2024F equity value	Rs/share	470
1-year forward price target	Rs/share	470

SOURCE: INCRED RESEARCH, COMPANY REPORTS

We built an equally-weighted steel index based on four steel stocks: JSW Steel, Tata Steel, Jindal Steel, and SAIL ➤

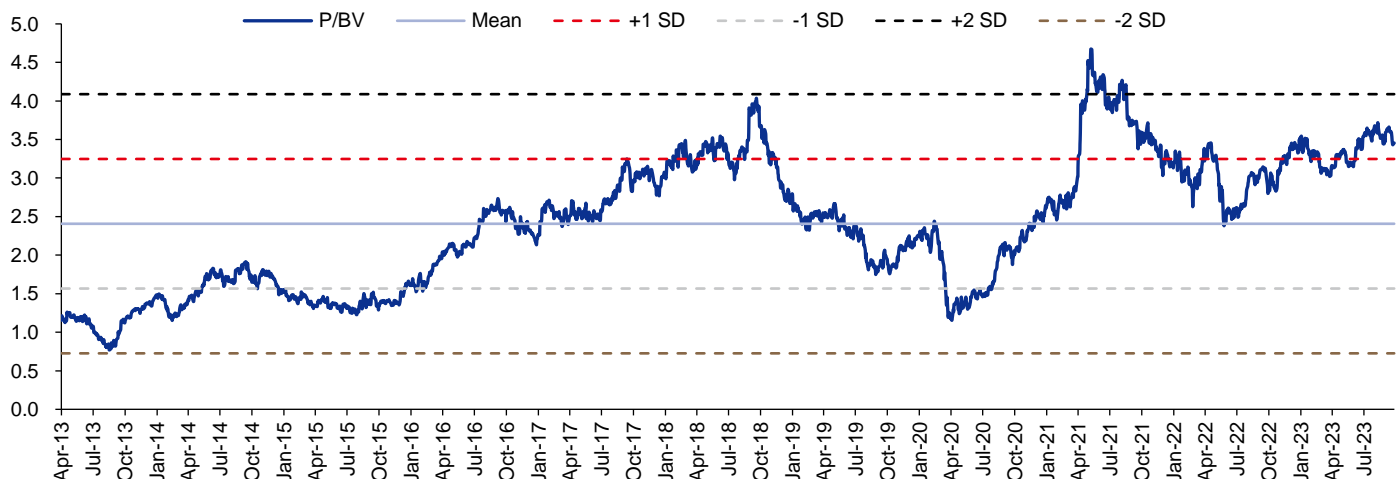
Figure 10: Valuations don't leave any room for a negative surprise



SOURCE: INCRED RESEARCH, COMPANY REPORTS

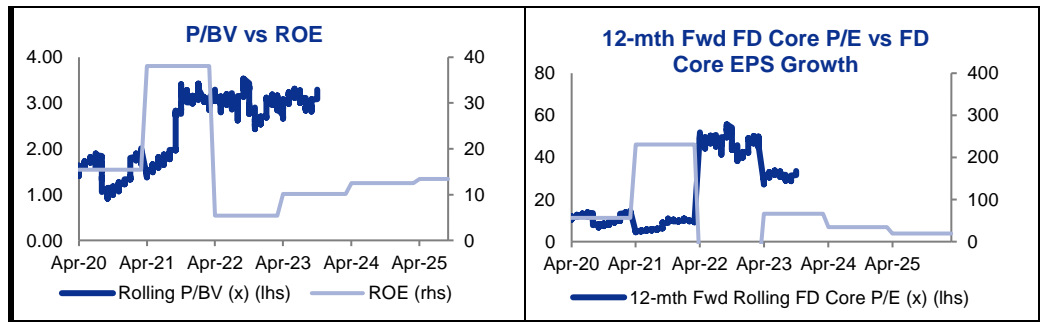
JSW Steel's stock price didn't fall, despite being one of the costliest steel stocks, but the time correction continues ➤

Figure 11: JSW Steel trades at 3.5x but our equally-weighted steel index, comprising four stocks, trades at 1.6x P/BV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	1,463,710	1,659,600	1,714,617	1,863,715	2,012,812
Gross Profit	871,010	726,260	781,669	849,641	917,612
Operating EBITDA	390,070	185,470	232,259	269,391	308,913
Depreciation And Amortisation	(60,010)	(74,740)	(79,161)	(81,397)	(84,192)
Operating EBIT	330,060	110,730	153,098	187,994	224,721
Financial Income/(Expense)	(49,680)	(69,020)	(64,943)	(69,245)	(81,995)
Pretax Income/(Loss) from Assoc.	9,170	(1,370)	(1,370)	(1,370)	(1,370)
Non-Operating Income/(Expense)	15,310	10,300	5,921	7,152	7,152
Profit Before Tax (pre-EI)	304,860	50,640	92,707	124,530	148,508
Exceptional Items	(7,410)	5,910			
Pre-tax Profit	297,450	56,550	92,707	124,530	148,508
Taxation	(88,070)	(15,160)	(23,707)	(31,727)	(37,769)
Exceptional Income - post-tax					
Profit After Tax	209,380	41,390	68,999	92,803	110,739
Minority Interests					
Preferred Dividends	279	279	279	279	279
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	209,659	41,669	69,278	93,082	111,018
Recurring Net Profit	214,875	37,343	69,278	93,082	111,018
Fully Diluted Recurring Net Profit	214,875	37,343	69,278	93,082	111,018

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	390,070	185,470	232,259	269,391	308,913
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(72,640)	31,050	(51,903)	(5,307)	(5,307)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(14,170)	10,720	(4,312)	302	323
Other Operating Cashflow	59,070	78,920	70,864	76,397	89,147
Net Interest (Paid)/Received	(45,840)	(66,550)	(64,943)	(69,245)	(81,995)
Tax Paid	(53,790)	(6,380)	(23,707)	(31,727)	(37,769)
Cashflow From Operations	262,700	233,230	158,258	239,810	273,311
Capex	(100,480)	(147,490)	(188,000)	(260,000)	(260,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(59,390)	40,380			
Cash Flow From Investing	(159,870)	(107,110)	(188,000)	(260,000)	(260,000)
Debt Raised/(repaid)	(80,560)	50,600	(48,770)	150,000	150,000
Proceeds From Issue Of Shares	720	590			
Shares Repurchased					
Dividends Paid	(15,710)	(41,940)	(19,912)	(19,912)	(19,912)
Preferred Dividends					
Other Financing Cashflow	(51,020)	(69,020)	(64,943)	(69,245)	(81,995)
Cash Flow From Financing	(146,570)	(59,770)	(133,625)	60,843	48,093
Total Cash Generated	(43,740)	66,350	(163,367)	40,653	61,404
Free Cashflow To Equity	22,270	176,720	(78,512)	129,810	163,311
Free Cashflow To Firm	148,670	192,670	35,201	49,055	95,306

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	173,910	207,190	43,833	84,486	145,889
Total Debtors	75,570	71,340	72,563	77,870	83,178
Inventories	337,870	331,350	375,807	408,485	441,164
Total Other Current Assets	66,390	71,620	71,620	71,620	71,620
Total Current Assets	653,740	681,500	563,823	642,461	741,851
Fixed Assets	1,166,660	1,264,900	1,373,739	1,552,343	1,728,151
Total Investments	49,320	48,010	48,010	48,010	48,010
Intangible Assets	1,190	1,280	1,280	1,280	1,280
Total Other Non-Current Assets	93,940	115,090	115,090	115,090	115,090
Total Non-current Assets	1,311,110	1,429,280	1,538,119	1,716,723	1,892,531
Short-term Debt	120,460	168,760	19,990	19,990	19,990
Current Portion of Long-Term Debt					
Total Creditors	308,890	382,030	375,807	408,485	441,164
Other Current Liabilities	146,160	148,840	148,840	148,840	148,840
Total Current Liabilities	575,510	699,630	544,637	577,315	609,994
Total Long-term Debt	579,290	619,660	719,660	869,660	1,019,660
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	33,680	27,790	27,790	27,790	27,790
Total Non-current Liabilities	612,970	647,450	747,450	897,450	1,047,450
Total Provisions	91,020	93,310	88,998	89,300	89,622
Total Liabilities	1,279,500	1,440,390	1,381,085	1,564,065	1,747,067
Shareholders Equity	672,980	656,960	707,417	781,679	873,875
Minority Interests	12,380	13,440	13,440	13,440	13,440
Total Equity	685,360	670,400	720,857	795,119	887,315

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	87.1%	13.4%	3.3%	8.7%	8.0%
Operating EBITDA Growth	110.4%	(52.5%)	25.2%	16.0%	14.7%
Operating EBITDA Margin	26.6%	11.2%	13.5%	14.5%	15.3%
Net Cash Per Share (Rs)	(174.09)	(192.43)	(230.37)	(266.57)	(295.90)
BVPS (Rs)	222.81	217.50	234.21	258.79	289.32
Gross Interest Cover	6.64	1.60	2.36	2.71	2.74
Effective Tax Rate	29.6%	26.8%	25.6%	25.5%	25.4%
Net Dividend Payout Ratio	9.0%	54.9%	28.3%	21.1%	
Accounts Receivables Days	15.02	16.16	15.32	14.73	14.60
Inventory Days	147.91	130.86	138.33	141.15	141.58
Accounts Payables Days	142.05	135.10	148.25	141.15	141.58
ROIC (%)	17.8%	6.2%	10.3%	11.3%	12.1%
ROCE (%)	25.8%	7.4%	9.9%	11.4%	11.9%
Return On Average Assets	14.6%	4.2%	6.4%	7.3%	7.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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