ANAND RATHI

India I Equities

Metals

Initiating coverage

5 August 2024

JSW Steel

Capacity added, RM security, strong return ratios; initiating, with a Buy

Rating: **Buy**
Target Price (12-mth): Rs.1,080
Share Price: Rs.870

India's largest and most diversified steel manufacturer, JSW Steel is the twelfth largest globally, with 29.7m tonnes capacity (in FY24). It is strengthening its position globally by intending to expand capacity to 37.7m tonnes by FY25 and 43.5m by Sep'27. It is also fortifying raw material security by increasing iron ore production (from all its mines), which will cement its position as one of the lowest cost producers in the ferrous sector. As India continues with its 'nation-building' phase, the company's focus on domestic steel demand would drive its multi-decadal growth story. Considering its focus on value added and special products (VASP), raw material integration, increased capacity, marquee global partnerships and all-India operations, we initiate coverage on the stock with a Buy and Rs.1,080 TP, 7.5x FY26e EV/EBITDA.

Fastest-growing domestic ferrous company. The company has embarked on a transformative growth journey, which would help sustain its market leadership in the domestic ferrous sector. It is on its way to expand capacity to 37.7m tonnes by FY25 (from 29.7m tonnes in FY24), 43.5m by Sep'27 and eventually 51.5m by FY31. It has earmarked Rs.644bn capex, which would help to increase capacity to 43.5m tonnes by Sep'27. This expansion would help catapult it to one of the top-10 ferrous manufacturers globally. We factor in a ~14% sales volume CAGR over FY24-26, with aggregate dispatches at 32.2m tonnes.

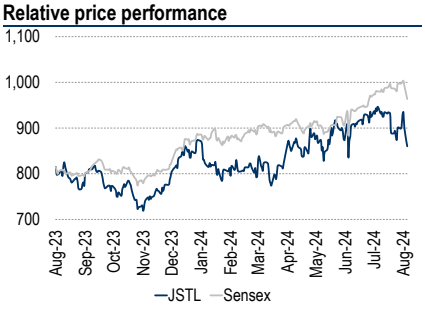
Optimising cost leadership through raw material linkages. With 12 iron ore mines already, the company acquired seven in FY24, expected to supply a further 3m-4m tonnes of iron ore p.a. Besides, it acquired coking coal assets in Mozambique and India. Its domestic coal blocks are expected to supply ~2m tonnes p.a. of coking coal over the next two years.

Outlook, Valuation. Considering its keen focus on capacity augmentation, raw material integration, cost-control measures and enhanced VASP, we initiate coverage on the company with a Buy recommendation and a TP of Rs.1,080, 7.5x FY26e EV/EBITDA. **Risks:** Fluctuations in ferrous metal prices, slowing demand, delayed capex execution.

Key data	JSTL IN
52-week high / low	Rs959 / 723
Sensex / Nifty	78619 / 24007
3-m average volume	$27.4m
Market cap	Rs2103bn / $25083.8m
Shares outstanding	2445m

Shareholding pattern (%)	Jun '24	Mar '24	Dec '23
Promoters	44.8	44.8	44.8
- of which, Pledged	15.2	15.2	14.8
Free Float	55.2	55.2	55.2
- Foreign institutions	25.2	26.1	26.3
- Domestic institutions	10.5	9.8	9.5
- Public	19.5	19.3	19.4

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs bn)	1,464	1,660	1,750	1,837	2,197
EBITDA (Rs bn)	390	185	282	322	428
EBITDA/tonne (Rs./tonne)	21,456	8,284	11,395	11,905	13,273
Adj. PAT (Rs bn)	214	36	82	111	180
EPS (Rs)	87.6	14.5	33.6	45.3	73.7
P/E (x)	9.9	59.9	25.9	19.2	11.8
EV / EBITDA (x)	6.9	14.7	10.2	9.1	7.0
Net debt / EBITDA (x)	1.4	3.2	2.7	2.5	2.0

Source: Company, Anand Rathi Research

Parthiv Jhonsa
Research Analyst

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Research Analyst

Quick Glance – Financials & Valuations (Consolidated)

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Revenue	1,464	1,660	1,750	1,837	2,197
Revenue growth (%)	*83.3*	*13.4*	*5.5*	*4.9*	*19.7*
Expenses	1,074	1,474	1,468	1,515	1,769
EBITDA	390	185	282	322	428
EBITDA/tonne	*21,456*	*8,284*	*11,395*	*11,905*	*13,273*
EBITDA margins (%)	*26.6*	*11.2*	*16.1*	*17.5*	*19.5*
Depreciation	60	75	82	88	97
Other income	15	10	10	8	7
Interest expenses	50	69	81	89	91
PBT before excep. items	296	52	130	153	247
Exceptional items	-7	6	6	0	0
PBT after exceptional items	288	58	136	153	247
Effective tax	88	15	44	39	62
PAT (before Ass. / (Mino.)	200	43	91	114	184
+ Associates / (Minorities)	12	-1	-0	-0	-0
Reported PAT	207	41	88	111	180
Adj. PAT	214	36	82	111	180
Adj. PAT growth (%)	*167.8*	*-83.4*	*131.4*	*34.7*	*62.7*

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	3	3	3	3	3
Net worth	673	657	777	864	1,006
Debt	722	809	880	895	930
Minority interest	12	13	21	23	25
DTL / (Assets)	76	74	94	94	94
Others	33	26	33	35	37
Capital employed	**1,517**	**1,579**	**1,804**	**1,909**	**2,091**
Net tangible assets	930	977	1,051	1,155	1,277
Net intangible assets	22	22	32	33	35
CWIP	168	219	292	299	307
Investments	49	48	72	72	72
Other non-current assets	143	158	186	186	186
Inventory	338	331	378	398	476
Accounts receivable	75	71	75	82	98
Cash (incl. bank balance)	174	207	124	94	67
Other current assets	67	72	68	71	85
Current liabilities	448	527	475	481	513
Capital deployed	**1,517**	**1,579**	**1,804**	**1,909**	**2,091**

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
EBITDA	390	185	282	322	428
+ other adj.	-1	23	2	-2	-2
- Incr. / (decr.) in WC	-73	31	-136	-23	-76
Others incl. taxes	-54	-6	-28	-39	-62
CF from op. activity	**263**	**233**	**121**	**259**	**288**
- Capex (tang. + intang.)	-100	-147	-155	-200	-230
Free cash-flow	162	86	-35	59	58
Others	-59	40	9	8	7
CF from inv. activity	**-160**	**-107**	**-146**	**-192**	**-223**
- Div. (incl. buyback & taxes)	-16	-42	-8	-22	-36
+ Debt raised	-81	51	39	15	35
Others	-50	-68	-81	-89	-91
CF from fin. activity	**-147**	**-60**	**-50**	**-96**	**-92**
Closing cash balance	-44	66	-76	-29	-28
Closing bal. (incl. bank bal.)	174	207	124	94	67

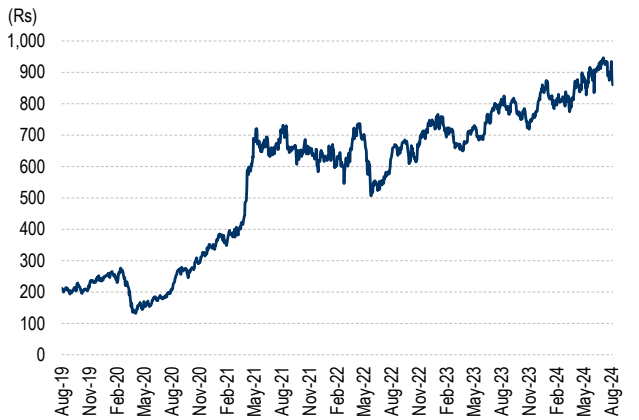
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
EPS (Rs)	87.6	14.5	33.6	45.3	73.7
P/E (x)	9.9	59.9	25.9	19.2	11.8
P/BV (x)	3.2	3.2	2.7	2.5	2.1
EV / EBITDA (x)	6.9	14.7	10.2	9.1	7.0
EV / Sales (x)	1.8	1.6	1.6	1.6	1.4
RoE (%)	36.6	6.2	12.3	13.5	19.3
RoCE (%)	25.5	7.8	12.5	13.0	16.9
DPS (Rs)	17.4	3.4	7.3	9.1	14.7
Dividend payout (%)	20	23	22	20	20
Net debt / EBITDA (x)	1.4	3.2	2.7	2.5	2.0
Inventory (days)	83	72	78	78	78
Debtors (days)	18	15	16	16	16
Payable (days)	76	27	32	32	32
EBITDA margins (%)	26.6	11.2	16.1	17.5	19.5
Net profit margins (%)	14.6	2.1	4.7	6.0	8.2

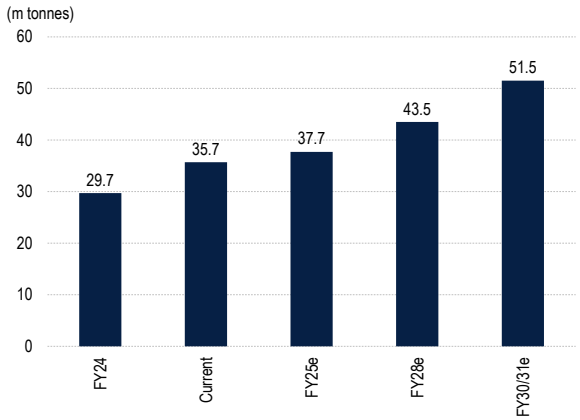
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Consolidated capacity to cross 50m tonnes by FY31



Current capacity incl. 6m tonnes under commissioning
Source: Company, Anand Rathi Research

The five key elements

"These transformative efforts have gathered further momentum and are being driven by five key elements: growth, product enrichment, cost optimisation, raw material security, and sustainability & green steel."

~ Sajjan Jindal, Chairman and Managing Director

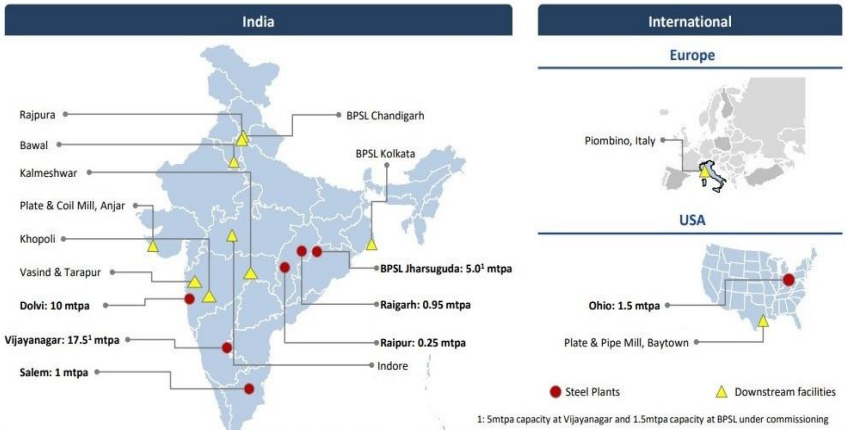
1) Growth: Capacity expansion to drive performance

In the last two decades, the company has emerged as one of the fastest growing global steel manufacturers. It is the largest ferrous manufacturer in India and the twelfth largest globally, with 28.2m tonnes of domestic capacity in FY24 (consolidated capacity 29.7m tonnes). It has undertaken mammoth capex, expected to increase consolidated capacity to 37.7m tonnes by FY25, 43.5m by FY28 and 51.5m by FY30-31, thereby propelling it to the top-10 global manufacturers.

The company is a vertically integrated steel manufacturer including mining, beneficiation, raw material processing, steel manufacturing and VASP. India's steel demand is expected to grow rapidly over the next two decades as the country continues with a multi-year nation-building phase, driven by the government's strong push to infrastructure, construction, energy, real estate and transportation. As domestic steel consumption is expected to rise, most steel manufacturers are investing heavily in increasing crude steel capacities with the company being the frontrunner.

The company has manufacturing facilities in India, Europe and North America. However, its capacity expansion with exclusive domestic focus aligns with India's growth story. It has strong all-India operations with strategically located manufacturing plants at Dolvi, Vijayanagar, Salem, Raipur, Raigarh and Jharsuguda. Besides, it has 13.5m tonnes of downstream VASP facilities in Rajpura, Bawal, Kalmeshwar, Anjar, Khopoli, Tarapur, Kolkata and other domestic/ international locations.

Fig 7 – All-India manufacturing operations

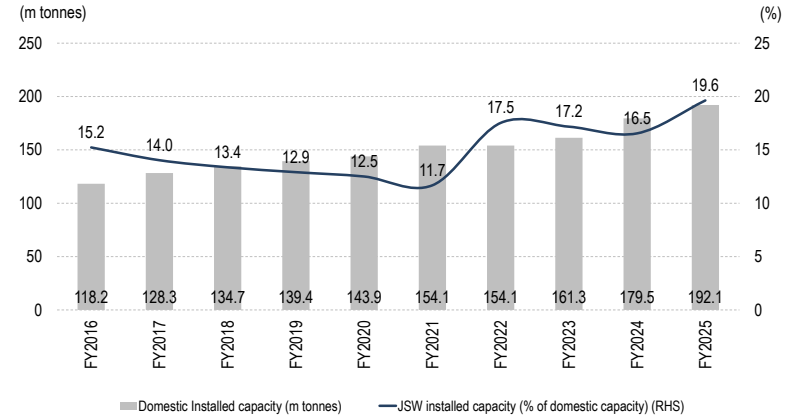


Source: Company

In the last 25 years, the Vijayanagar plant has come a long way, emerging as the largest single-location integrated steel plant in India, with ~17.5m tonnes of capacity (incl. 5m expansion underway), with potential to increase it by 6.5m-7.5m tonnes, to total 24m-25m tonnes. The 5m-tonne integrated capacity is on schedule and expected to come on stream by Q2 FY25 (the blast furnace and the steel melting shop (SMS) are expected to be commissioned in Q2 FY25), with added benefits likely to accrue from

FY26. Similarly, the 1m-tonne expansion at BPSL Jharsuguda, is to come on stream in Q3. The company's share (percentage of domestic steel capacity) is likely to rise to ~19.6% in FY25, from 11.7% in FY21.

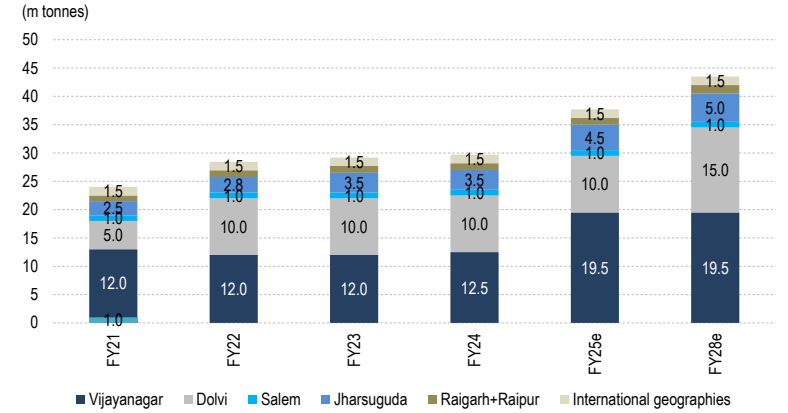
Fig 8 – We expect the share to increase to ~19.6% in FY25



Source: Company, JPC, Industry, Anand Rathi Research

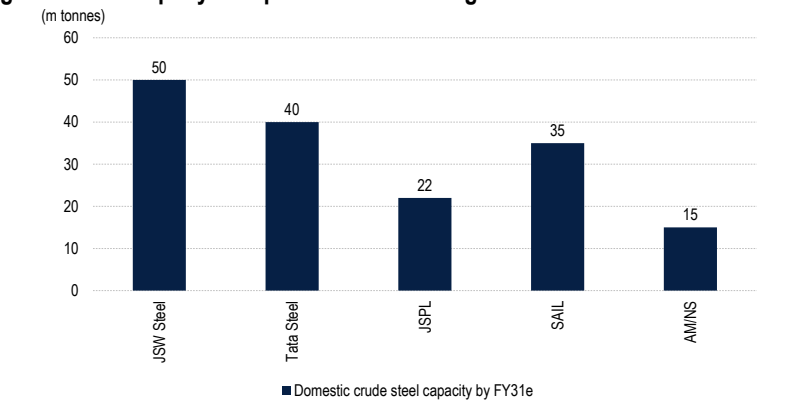
After the current phase of expansion is completed, the company plans to increase the Dolvi capacity by 5m tonnes, which would help augment its domestic capacity to 42m tonnes (consolidated, to 43.5m) by Sep'27. This brownfield blast furnace-based expansion is expected to be executed at less than $500/tonne (global benchmark: ~$1,000), which would make Dolvi one of the most efficient land-to-installed capacity plant in the world.

Fig 9 – ~10% installed capacity CAGR over FY24-28 (m tonnes)



Source: Company, Anand Rathi Research

Fig 10 – The company is expected to be the largest steel manufacturer in India



Source: Company, Industry, Anand Rathi Research

The company is the fastest growing domestic steel manufacturer to scale up operations to 29.7m tonnes in FY24 (from 2.5m in FY05). In the last two decades, it added ~27m tonnes, more than SAIL's capacity). It has not lost momentum over the years and the pace of capacity addition is likely to accelerate with a further ~22m-tonne increase in its crude steel capacity, to ~51.5m tonnes by FY31.

In the next phase of capacity addition, the company plans to set up a 1m-tonne greenfield electric arc furnace (EAF) in Andhra Pradesh and 4m tonnes of green steel manufacturing at its plants in two phases. It has also identified key products exported to the EU. Enhancing its plants and setting up new ones would help it cater to global customers seeking "greener" steel.

Besides, it plans to invest Rs650bn in Odisha to set up a 13.2m-tonne integrated greenfield steel manufacturing complex in Jagatsinghpur district, a cement factory, a 900MW plant and a cargo-handling facility at Paradeep. In Feb'24, it laid the foundation stone of a steel plant (spread over 2,958 acres).

2) Product enrichment: Enhancing the share of VASP

Since inception, the company has offered tailormade products to customers in various sectors (infrastructure, construction, consumer durables, engineering, the Railways, Defence, transportation, etc.). The company has strengthened its VASP portfolio, which spans the steel value-chain. As demand for steel in India swells in the next two decades, demand for VASPs is expected to outstrip the steel growth rate. The company's strong focus on optimising product quality and developing products for various applications have led to significant capacity building (~13.5m tonnes) in downstream capabilities.

Global steel consumption has changed 180°, with major focus on niche and critical applications. The company supplies VASP to new-age sectors, which have a greater requirement of specialised products. This led to its highest sales of VASP in Q1 FY25 (64% of consolidated sales). It supplies medium-/high-carbon steel, high tensile, high-strength low-alloy steel, API grade steel, non-grain oriented electrical steel, etc., to sectors such as automotives, appliances, renewables, electricals, etc.

Fig 11 – Key downstream operations

Plants	Products	Capacity (m tonnes)
Anjar Works	Steel plates and coils	1.2
Kalmeshwar Works	GI/GL, colour-coated products	0.96 GI/GL
Tarapur Works	GI/GL, colour-coated products, tin plates	0.73 GI/GL 0.50 tin plate
Rajpura Works	Tin plate, colour-coated products	0.12 tin plate 0.31 colour-coated
Vasind Works	GI/GL, colour-coated products & CRCA	1.42 GI/GL 0.5 CRCA
Khopoli and Bawal Works	HRPO, GI/GL, colour-coated products	0.72 GI/GL
Dhar	Colour coil, pre-painted profile sheets, galvanised corrugated sheets	0.35 GI/GL
Vijayanagar	Low relaxation pre-stressed concrete strand (LRPC)	0.14
USA	Plate and pipe mill	1.2 plate mill 0.55 pipe mill
Piombino, Italy	Rails, wire rods, bars and grinding balls	1.3

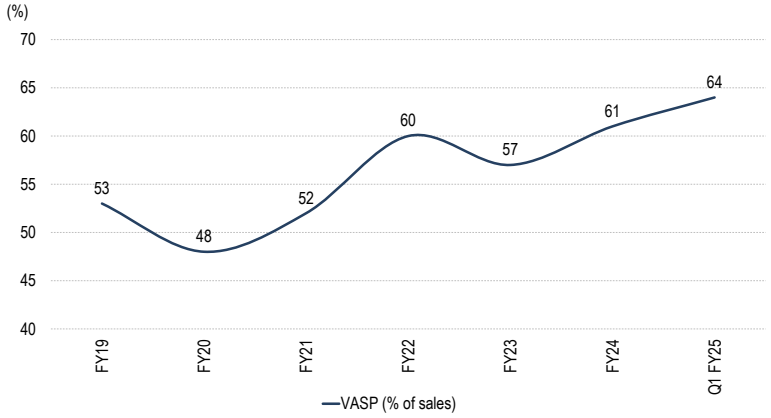
Source: Company, Anand Rathi Research

The company is one of the largest suppliers of colour-coated steel products and recorded the highest production and sales volumes in FY24. It is setting

up 0.14m tonnes (0.07m-tonne phase I commissioned) of LRPC in Vijayanagar, for applications in heavy-duty industrial construction, high-rise buildings and infrastructure projects. Besides, it is commissioning a 0.12m-tonne colour-coated line in J&K, expected to commence operations from Q2 (equipment erection is nearing completion).

Besides its domestic facilities, the company has vast operations in downstream products internationally. It has a rail mill, bar mill and wire rod mill in Italy and a plate and pipe mill in the US.

Fig 12 – Share of VASP at 64% in Q1 FY25

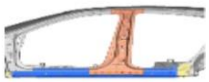
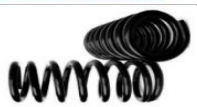


Source: Company, Anand Rathi Research

Developing high-strength steel used in automotives and electricals has been one of the company's major focus areas. In FY24, it developed 51 grades of steel, incl. 21 import-substitution grades and 15 advanced high-strength steel (AHSS) grades. It developed products such as Magsure – Coated, SPFC980DP – CR, SAE1524SI – Long & Special Alloy, etc. It received 48 product approvals in FY24, for use in renewable energy, transportation, Defence, the Railways, construction, etc.

In Q1, it received approvals for 27 grades/products such as tubes for two-wheelers, front bumpers and B-pillar crash parts, springs for railway coaches, LRPC for metro-rail, etc.

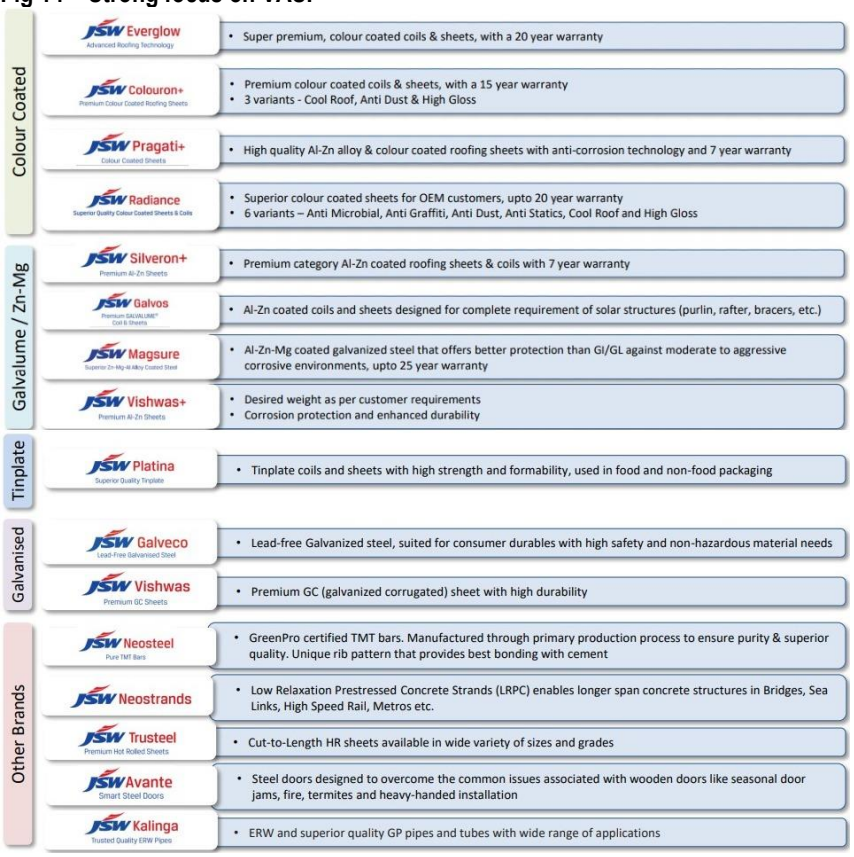
Fig 13 – Product development

Product	Application	
Solar module mounting structure (Magsure – Coated)	Designed for RE, offering enhanced durability and resistance for long-term solar installations	
Reinforcement & crash parts for PVs (SPFC980DP – CR)	CR steel for automotive structural and crash parts (providing excellent combination of strength & formability).	
Long members for CVs (BSK46 – HR)	HR steel for structural components in commercial vehicles (ensuring optimum strength and weldability)	
Ammunition shell casing for artillery guns	Special alloy steel for ammunition shell casings (meeting stringent defence specifications with high resistance to impact and stress).	
Oil & gas valves (SAE1524SI – Long & Special Alloy)	Alloy steel for manufacturing valves in the oil & gas industry, ensuring superior strength & corrosion resistance	
Railway wagon (E450BR CU – HR)	HR steel for railway wagons	
Appliances- AC (IS15961/EDDGalvalume)	Introduced bare galvalume steel for outdoor AC unit (AC-ODU) parts	
ISC44OW – CR	Tubes for 2W frames	
SPFC780DP – CR	Crash parts: front bumper & B-pillar	
52CrMoV4 – Long & Special Alloy	Springs for railway coaches	

Source: Company, Anand Rathi Research

The company has created a strong suite of brands catering to niche requirements of customers and has strategically aligned its VASPs to cater to new age thriving sectors, which helped strengthen its products, enabling higher ASP and margins.

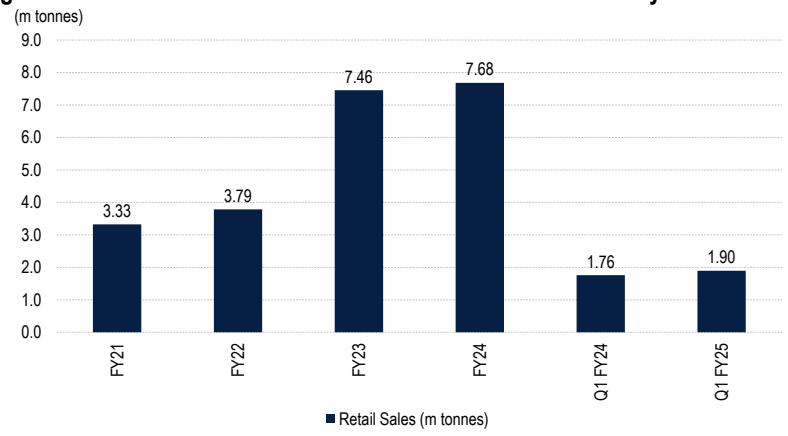
Fig 14 – Strong focus on VASP



Source: Company

The company also has a strong network of retail outlets and distributors across 530 towns/cities, which help connect customers to branded stores. It has been continuously investing in setting up its own stores under 'JSW Shoppe' and 'JSW Shoppe Connect', which have augmented sales points in the past few years. It added 15 'JSW Shoppe' and 78 'JSW Shoppe Connect' outlets in Q1 FY25, taking the count to 2,152 branded stores.

Fig 15 – Retail sales volumes more than doubled in the last four years

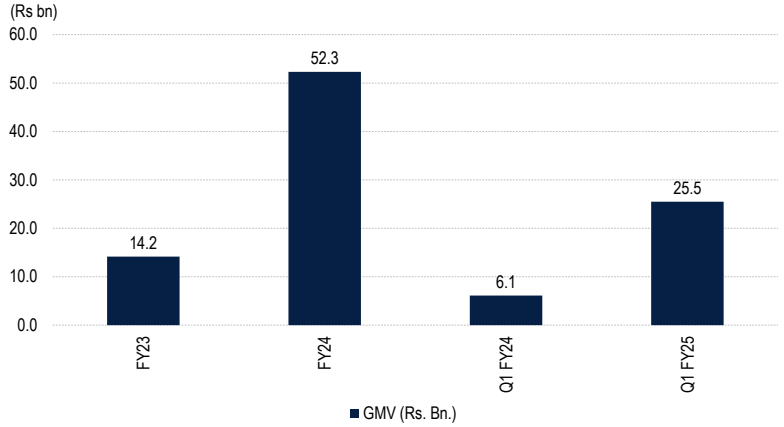


Source: Company, Anand Rathi Research

Fig 16 – JSW One: One-stop-shop marketplace for MSME and home solutions

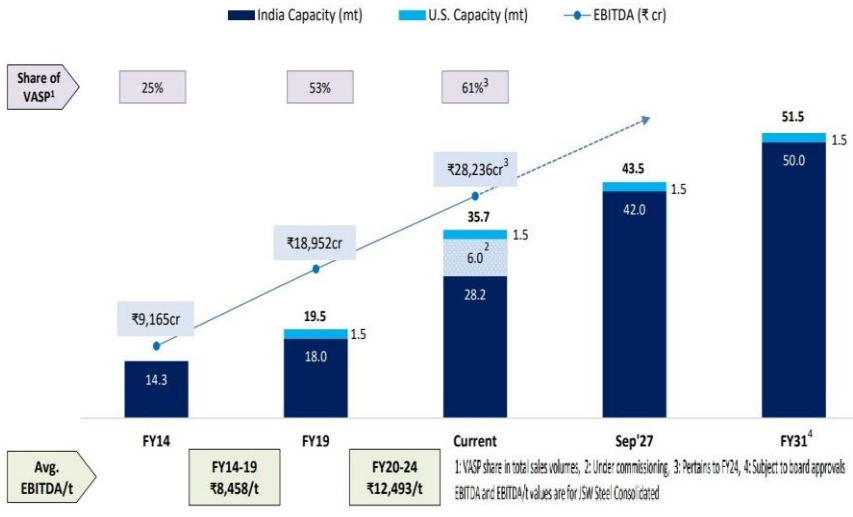
Source: Company

Fig 17 – JSW One: GMV has been consistently improving



Source: Company, Anand Rathi Research

Fig 18 – Transforming performance



Source: Company

3) Cost optimisation

The company undertook numerous steps to optimise cost, which helped cement its position as one of the most efficient steel producers globally. It plans to set up an 8m-tonne pellet plant in Odisha, expected to be complete by FY27, and is now obtaining the necessary approvals and licenses. Once operational, this project would provide it cost competency.

The company has undertaken many projects in the past such as a 24km state-of-the-art pipe conveyor system connecting its mines and the Vijayanagar plant in Karnataka, a 1.5m-tonne coke oven in Vijayanagar, an advanced oxygen production and line calcination plant at BPSL, etc. All these led to cost optimisation.

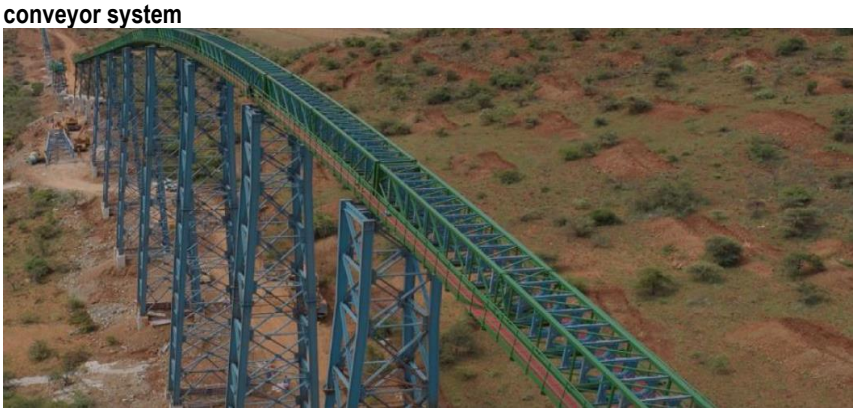
The conveyor system connecting its captive mines and the Vijayanagar plant in Karnataka is the largest pipe conveyor in the world. This helps reduce its carbon footprint by 3.86kg/tonne, and logistics cost, ~85% compared to other modes of land transport.

From its mines in Odisha (Nuagaon mines) to the Jatadhar port (incl. a grinding and filtration plant), the company is setting up a 30m-tonne, 302km slurry pipeline, a cleaner and environmentally friendly mode to transport ore from mines to ports and plant locations. 175km of welding and 138km of lowering is complete (Rs12bn incurred till May'24) and the project is expected to be ready by FY27. Once this pipeline is operational, it will free up rakes, substantially reducing transport costs. This would further enhance cost competency among global peers.

However, the company has approved the transfer of this slurry pipeline to JSW Infrastructure (subject to requisite approvals) on a slump-sale basis at a fair value of Rs17bn. It will enter a 20-year take-or-pay agreement for 18m tonnes, which would help it focus on core capex (raw material securitisation, capacity expansion). Proceeds of this sale will be used for the Dolvi capacity expansion.

Under the agreement, the company has indicated for an annual outgo of Rs13.2bn, which is ~40% of the planned capex. Though the company would save Rs900-1,000/tonne and the IRR from Dolvi expansion is expected to be higher than that of the slurry pipeline, we believe, the annuity paid to JSW Infrastructure is on the higher side.

Fig 19 – ~3,500 tonnes of ore can be transported per hour, world's largest pipe conveyor system



Source: Company

4) Raw material security: Robust backward integration safeguards from volatile international prices

The company is strengthening key raw-material integration, which significantly helps manage margins through extreme raw material and steel cycles. It has 23 iron ore mines in India (recently surrendered the Jajang iron ore block, Odisha; R&R of 39.4m tonnes) and three of coking coal, with reserves and resources (R&R) of respectively ~1,600m and ~380m tonnes.

Of the 23 iron ore mines, nine in Karnataka, three in Odisha, are operational with cumulative annual capacity of ~25m tonnes. In FY24, the company won seven iron ore leases in Karnataka, Goa and Maharashtra. Of these, three mining leases (one in Karnataka, two in Goa) are expected to be operational by end-FY25 and would supply a further ~3m-4m tonnes of ore p.a. The company has received letters of recommendation for two of these mines. The other four (won in FY24) are composite licenses and would first have to be explored.

Besides, the company is enhancing capacities at its Karnataka mines, which would supply an additional ~4m tonnes of ore p.a. It has already received part permission for these mines, which feed ore to the Vijayanagar plant. ~38% of iron ore consumed comes from captive mines and is expected to gradually increase to 50%. Currently, ~41% of the iron ore is sourced from Karnataka, ~30% from Odisha and the rest from Chhattisgarh, Maharashtra and Madhya Pradesh.

In the last few years, iron ore sourcing has become pivotal for ferrous manufacturers. Quite a few mining leases of steel manufacturers are expiring by 2030. While public-sector companies have a provision to extend these leases by 20 years (subject to approval), such provisions are unavailable to private manufacturers. Since Nov'23, SAIL has started work on renewing its leases of nine mines and is awaiting clearances for its Jharkhand mines.

Similarly, four of Tata's low-cost legacy mining leases in Joda East, Noamundi, Katamati, and Khondbond are expiring in 2030 and the company has already started bidding at auctions. However, the mines won in recent auctions command a much higher premium than past mines (the Gandhalpada block at >141%), which could crimp performance.

Since 2016, the company has been relentlessly bidding for mines at an average premium of 95-105% for its operational mines and ~125% for the newly acquired mines. We believe it has prime iron ore assets in the vicinity of its manufacturing plants, which help lower transport costs and overall time. This safeguards it from erratic raw material swings.

The company also has a long-term contract with the NMDC (and other merchant miners and importers); depending on merchant iron ore prices, it can easily switch between merchant ore and captive ore, which further helps it maintain a continuous and seamless flow of materials. If merchant iron ore prices are rising (as in the past), the share of iron ore supply from its captive mines would increase, and vice-versa.

This is not the first time the company has surrendered the iron ore mine. In Sep'23, the company had announced to surrender Jajang iron ore block but then later withdrew the notice in Nov'23. Similarly, in Aug'21, the company had planned to surrender Ganua block but later retained it.

Fig 20 – Existing iron ore mines (pre-FY24)

Mine	State	Mineral	Reserves (m tonnes)
Tunga	Karnataka	Iron ore	6.9
Nandi	Karnataka	Iron ore	10.0
Devadri	Karnataka	Iron ore	28.6
Bhadra	Karnataka	Iron ore	33.9
Rama	Karnataka	Iron ore	31.5
Ubulgundi	Karnataka	Iron ore	9.8
Narayanpura	Karnataka	Manganese + iron ore	21.8
Dharmapura	Karnataka	Iron ore	12.2
BBH	Karnataka	Iron ore	61.2
Nuagaon	Odisha	Iron ore	789.0
Narayanposhi	Odisha	Manganese + iron ore	187.6
Ganua	Odisha	Iron ore	119.2

Recently surrendered Jajang iron ore block, Odisha (R&R 39.4m tonnes) acquired at a premium of 110%

Source: Company, Anand Rathi Research

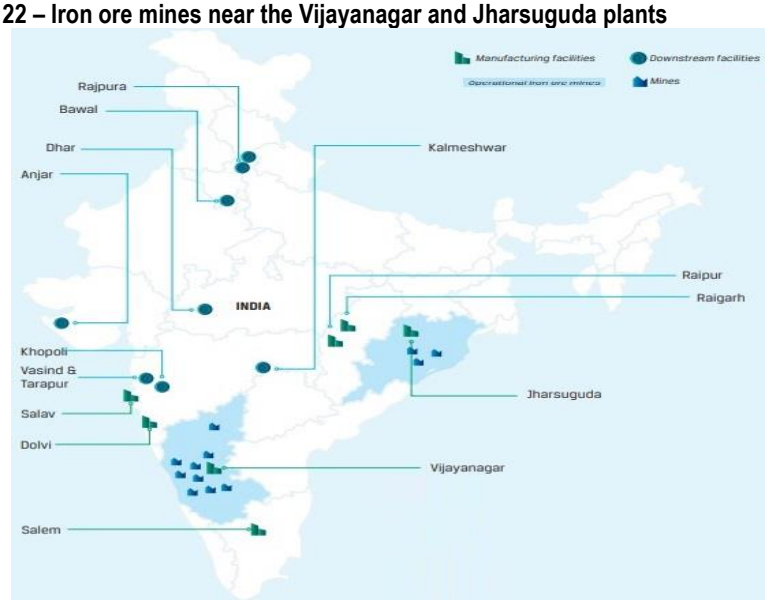
Fig 21 – Newly acquired iron ore mines in FY24

Mine	State	Reserves (m tonnes)	Premium (%)
Jaisinghpura South	Karnataka	32.1	145.8
Jaisinghpura North	Karnataka	17.7	150.3
Vyasanakere *	Karnataka	27.2	114.3
Ajgaon	Maharashtra	NA	25
Gadchiroli (4 blocks)	Maharashtra	NA	118-139
Surla-Sonshi Block IX	Goa	65.7	109.8
Cudnem-Cormolem Block VI	Goa	9.7	96.65

** 21.1m tonnes of reserves of high-grade 65.42%. Besides this, the company won two composite lease mines in AP: Lakshmakapalle (North) and the Addankivaripalem iron ore block.*

Source: Company, Ministry of Mines, Industry, Anand Rathi Research

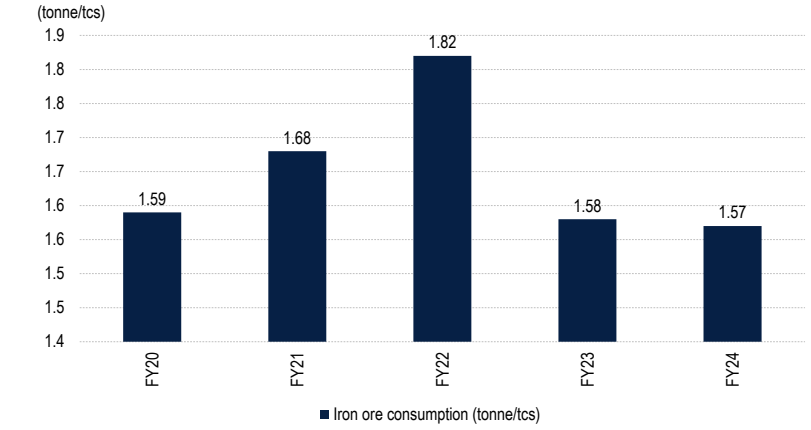
Fig 22 – Iron ore mines near the Vijayanagar and Jharsuguda plants



Source: Company

Since the advent of industrial revolution 4.0, demand for natural resources has been unprecedented, further signifying the importance of conscious and sustainable use of natural resources. Since FY21, the company has consistently tried to improve its iron ore consumption rate (per tonne of crude steel produced (tcs)), now 1.57tonnes/tcs.

Fig 23 – Iron ore consumption rate consistently better in the last four years



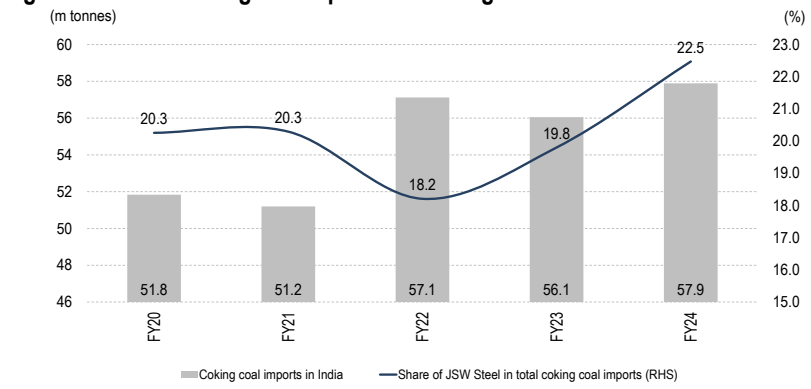
Source: Company, Anand Rathi Research

In Apr'15, the company acquired the Moitra coking coal block in Jharkhand, which has extractable R&R of ~30m tonnes and is in advanced stages of development, capable of adding ~1m tonnes of coking coal.

To further strengthen its coal integration, under the 16th tranche of The Coal Mine (Special Provisions) Act, 2015, the company signed a Coal Mine Development and Production Agreement (CMDPA) for three coal mines at the Sitanala and Parbatpur central coking coal block in Jharkhand, and the Banai & Bhalumuda coal block in Chhattisgarh. In the next two years, it plans to operationalise the former two, which are expected to supply ~2m tonnes of coking coal at a lower cost than imports. Once operational, these mines would meet ~5% of the company's coking coal requirements. The company is also looking at domestic coal linkages, where it will set up washeries and blend soft coking coal with imported coking coal.

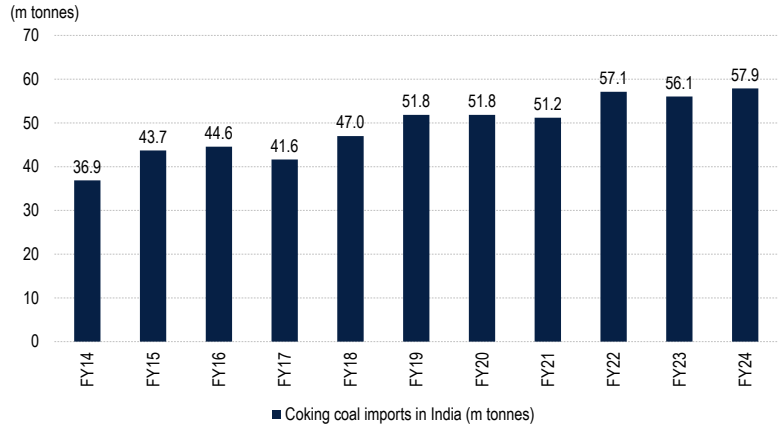
In May'24, it acquired a 92.19% stake in the Minas de Revuboe mine (Mozambique), which has reserves of >800m tonnes of premium hard coking coal (expected to fetch ~280m tonnes of clean coal from it). It will work on operationalising this mine, which is now at the pre-development stage. When developed and operationalised, this ~$73.8m acquisition would aid in raw material security.

Fig 24 – The second highest importer of coking coal in FY24



Source: Company, BigMint, Anand Rathi Research

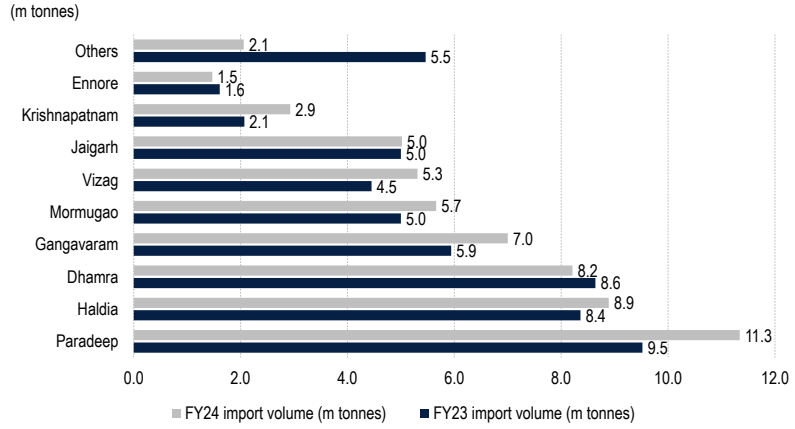
Fig 25 – Record coking coal imports in FY24



Source: BigMint, Ministry of Coal, Anand Rathi Research

Most of the company's plants are either port-based (Dolvi, Maharashtra) or close (the Jharsuguda facility is <400km from Paradeep; Vijayanagar is equidistant to major ports in the west and east). Being advantageously near ports, the company imports most of its coal (from Canada, the US, Australia, Indonesia, Mozambique). Paradeep received the most coking coal in FY24 (~11.3m tonnes, up 19% y/y). The company was the second highest coking coal importer in FY24 (>13m tonnes, ~22.5% of imports).

Fig 26 – Paradeep port has the highest volume of coking coal imports



Source: BigMint, Anand Rathi Research

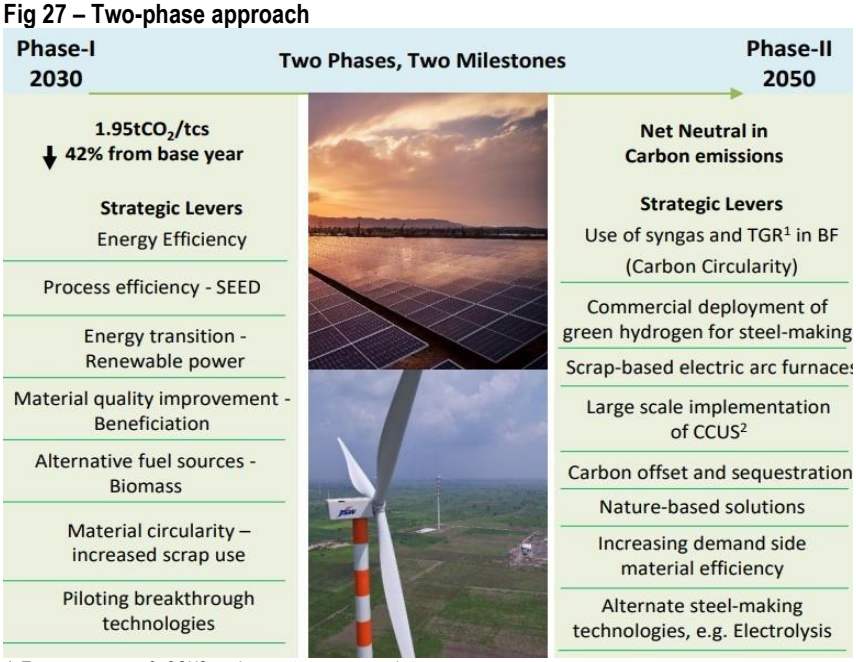
By 8:1 votes, the Supreme Court of India, led by Chief Justice D.Y. Chandrachud, affirmed that 'royalty is not a tax' and bestowed states with the power to levy cess. A uniform national mineral policy is essential to develop mines and render them competitive per international standards. Passing on the power to states is expected to hurt the sector as each state would work in silo, which could hamper systematic development. We believe this verdict would increase cost of mining and thereby the cost of end-user products and services; this judgement covers all resources (excl. oil fields, mineral oil, petroleum and petroleum products). Domestic miners and metal manufacturers, who acquired mines at a higher premium might be impacted as they would have to shell out more money owing to higher prices, resulting in more cost pressure. Since it imports coal and a small portion of iron ore (only ~4.9m tonnes of iron ore in FY24), we believe, JSTL would be relatively less impacted among other domestic ferrous manufacturers.

5) Sustainability and green steel: On its way to becoming net-neutral by 2050

The company's short- and long-term measures would help it achieve net-neutrality by 2050, two decades ahead of India's 2070 net-zero goal.

It has laid down a roadmap and is targeting net-neutrality in two phases. In phase I, it expects to reduce emissions 42% (from the base year) by 2030; in phase II, to be net-neutral by 2050.

Fig 27 – Two-phase approach



1: Top gas recovery; 2: CCUS: carbon capture, usage and storage

Source: Company

To be self-sufficient, the company has planned another 600MW of solar and wind energy (respectively 200MW and 400MW), along with 320MWh of battery storage by FY27 and a further 600MW of hybrid (solar + wind) in Dolvi, taking RE procurement to ~2.2GW.

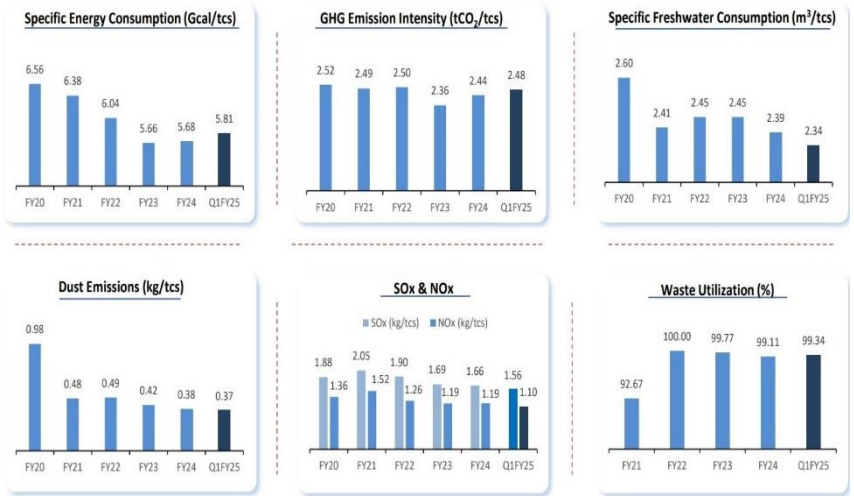
To strengthen its energy transition, it plans to increase RE procurement to ~10GW by FY31, which would further help to reduce energy consumption ~19%. It made a power-purchase agreement (PPA) to procure 958MW of RE in FY22 (of which, 733MW wind power is expected to be commissioned in FY25). Additionally, contracts for 79MW (solar and wind) of capacities have been secured for commissioning by FY26.

The focus on preventing pollution, optimising resources and improving product sustainability help develop low-carbon steel grades. This not only helps it attain its long-term sustainability target, but also in transitioning to a green-steel manufacturer and adhering to the EU's Carbon Border Adjustment Mechanism (CBAM).

CBAM levies a charge on carbon emitted in producing certain carbon-intensive goods that enter the EU. Global manufacturers are in a transitional phase up to Dec'25 and the actual tax implications will only be evident in the definitive phase beginning Jan'26. As CBAM is only applicable on carbon-intensive goods entering the EU and not on an entity level, the company has already accelerated its de-carbonisation steps to address the situation and minimise CBAM tariffs.

In the next phase of capacity expansion, the company plans to set up a 1-m tonne greenfield electric arc furnace (EAF) in Andhra Pradesh and 4m tonnes of green steel manufacturing at its plants, in two phases. It has identified key products (across all plants) exported to the EU; enhancing its plants and setting up new ones would cater to global customers seeking greener steel. The plant in the US is a 1.5m-tonne electric arc furnace (EAF), expected to supply low-carbon steel to North America and other regions.

Fig 28 – Environmental performance



Source: Company

"Today, India is in a 'nation-building' phase, driven by the government's push to develop physical, digital and social infrastructure, with the ambitious vision of a 'Viksit Bharat' (developed economy) by 2047. At JSW Steel, we are in a 'mission mode' to play a key role in realising the full potential of the India growth story. I remain very confident about the future prospects of the steel industry in India."

~ Sajjan Jindal, Chairman and Managing Director

Strategic partners to steer growth

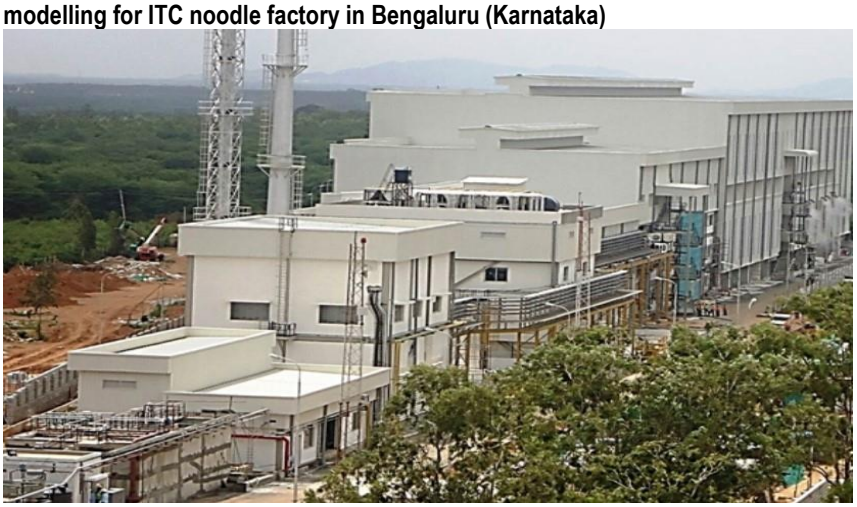
Track record of strategic partnerships with renowned organisations (JFE, Severfield, Marubeni-Itochu)

JFE Steel Corp., Japan. In 2010, the company entered a technical collaboration agreement with JFE (acquiring a 15% stake), helping enhance product development, establish quality control systems, improve energy efficiency, etc. This partnership has helped it find a strong footing in high-value segments such as automotives and electrical steel. In FY24, the partners formed a JV to establish India's first end-to-end cold-rolled grain-oriented (CRGO) electrical steel sheet manufacturing plant in Karnataka.

Severfield UK Plc. The company entered a 50:50 JV with Severfield by setting up one of India's leading steel fabrication plants, in Vijayanagar, with 0.1m tonnes capacity (0.165m incl. associate sub-contractor facilities). The plant addresses engineering-fabrication-erection of structural steel, along with providing cutting-edge flooring technology with composite metal decking through Structural Metal Decks, UK. The Reliance Jio headquarters (Navi Mumbai), multi-speciality hospital buildings in south India, the Altair residential complex (tallest mixed-use residential complex in Colombo), Bharat Forge (Pune) and Unimark Asian (Kolkatta) are some structural works of the JV.

Marubeni-Itochu Steel. In 2011, the company entered a 50:50 technical collaborative JV with Marubeni-Itochu Steel, to set up steel service centres in north, south and west India, to provide solutions and services to automotives, pipe and tubes, infrastructure, white goods and construction sector consumers.

Fig 29 – JSSL undertook designing, metal decking, roofing/cladding and Tekla modelling for ITC noodle factory in Bengaluru (Karnataka)

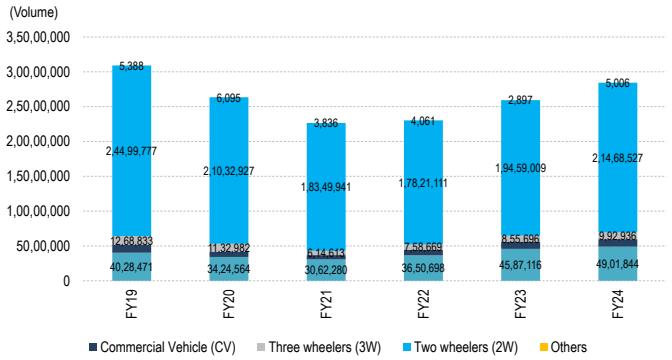


Source: JSSL: JSW Severfield Structures Ltd.

Preferred supplier to auto sector

Just like metals, the automobile sector is a good indicator of overall development in the economy. Technological advances, better road infrastructure, demographic changes, higher rural incomes, greater urbanisation and a better standard of living of the middle class are key reasons for rising automobile penetration. In recent years, growing anticipation on vehicle electrification has led to more sales of two- and three-wheelers.

Fig 30 – Volumes revived in FY24, but lower than in FY19

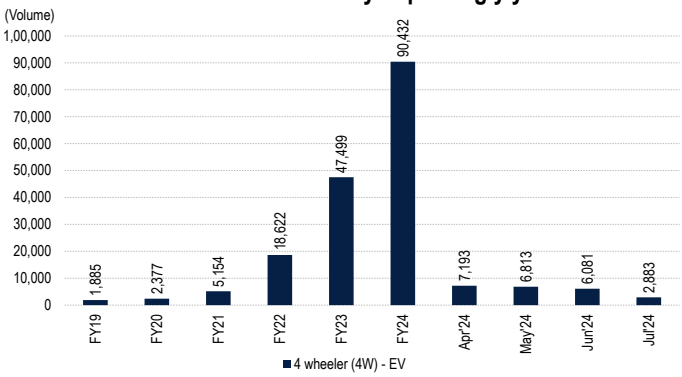


Source: Siam, Anand Rathi Research

As demand for fuel-efficient, light-weight vehicles increases, demand for advanced high-strength steel (AHSS) would rise. AHSS developed over the last decade helps automotive manufacturers meet light-weight requirements without compromising on safety requirements. AHSS steel has an excellent combination of high strength and ductility and requires special welding in automotive construction.

Similarly, EVs, dominant in a few advanced automobile regions, have similar goals as those of fuel-driven vehicles: reducing weight and increasing range of cars without compromising safety. By 2040, ~50% of global PVs are expected to be EVs; by 2030, ~40% of Indian PVs. The metal of choice for EVs has been aluminium. However, its higher cost than steel, restricts its overall acceptability to high-end Audi, Jaguar, Tesla, etc. Alternatively, therefore, AHSS is used for its stiffness, durability, strength and ability to absorb energy in a crash. As AHSS is high-strength, thickness can be reduced 25-39% (of the kerb weight of vehicles). Per Hitachi High-Tech analysis, this saves ~170-270kg a car. Similarly, AISI says, ~50% of EV body parts will be manufactured with steel.

Fig 31 – Domestic EV volumes continuously improving y/y



Source: Smev, Anand Rathi Research (as on Week 1 of Jul'24)

The company is strong in the automobile AHSS category. It is integral to safety in the automobile sector and has been closely associated with auto OEMs to manufacture products which increase vehicle safety, reduce weight and improve fuel efficiency. AHSS developed by the company is used in key crash and safety components such as A&B pillars, crossbeams, suspension parts and door-impact beams.

The JFE partnership has helped the company find a strong footing in high-value sub-segments such as automotives and electrical steel. Similarly, the JV with Marubeni-Itochu Steel has helped the company set up just-in-time (JIT) service centres near automobile hubs in north, south and west India.

Salem's 1m-tonne special steel plant caters to the automobile sector in India and internationally by supplying a wide array of long-steel products used in suspensions, transmissions, engines, chasses, etc. The company's key clients are Kia, Hyundai, Toyota, Maruti, Ford, Honda, Tata, VW, Mahindra.

In FY24, it developed 51 grades of steel, incl. 21 import-substitution grades and 15 AHSS grades. Its notable achievement: supplying HR steel for Dolvi-Kalyani Maxion Wheels/Urja Metallics, providing specialised coated steel for Hyundai and Kia Motors. The Vijayanagar plant had filed a patent for medium manganese third-generation AHSS in FY24.

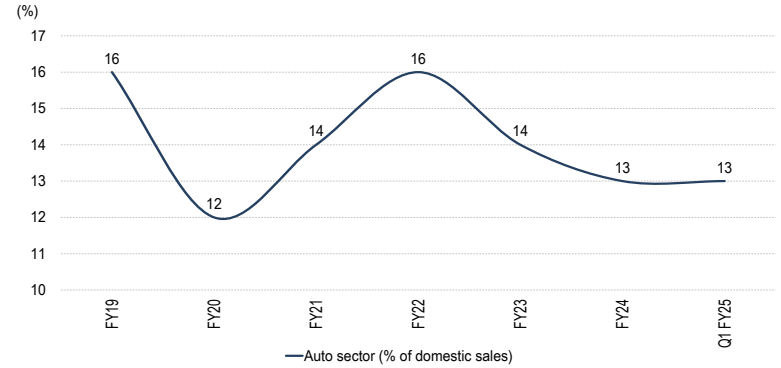
Some key domestic automobile customers have moved to using higher-volume AHSS, which provide better tensile strength and offer robust vehicle structure. 74.3% of Hyundai's Creta body and structure are made of AHSS. Similarly, AHSS for Maruti Suzuki's Swift increased to 17% in FY24, from 6%.

"We have improved the usage of AHSS and UHSS in structural parts as they have significantly higher minimum tensile strengths. While we have enhanced the share of UHSS and AHSS from 6 percent to 17 percent and 2 percent to 4 percent, respectively, in the current [Swift], the share of HSS has been reduced to 23 percent from 42 percent."

~ CV Raman, Maruti Suzuki

Strong in the value chain, the company has become a preferred supplier to auto majors. The share of automobiles in domestic sales is ~13% now, expected to rise on the adoption of AHSS by automobile manufacturers. Auto major approvals are stringent and time-consuming, an entry barrier to other steel manufacturers, providing a competitive edge to JSTL.

Fig 32 – As automobile sales pick up, the share of auto grade steel expected to rise



Source: Company, Anand Rathi Research

Venturing into high-speed rail

The company supplies material for high-speed rail

The company has started supplies to the 'Mumbai–Ahmedabad High-Speed Rail' (MAHSR) project. It has been supplying high-strength TMT bars, HR plates, and LRPC for the first high-speed project (MAHSR), spanning >500km. It supplies high-margin non-rail products. JSPL and SAIL are two of the largest manufacturers of rails: hence, the company, by entering ancillary products, has circumvented competition and created a niche in the high-margin category. In FY24, at its Salem plant it developed the lowest cobble in BRM, a benchmark for Indian high-speed rail mill.

The MAHSR train is expected to operate at 320km/hr and the journey would take about two hours, seven minutes (with limited stops). With a ~50% share, the company has become the preferred steel supplier for this project, expected to be the highest steel consuming infra project in India, an estimated ~2.5m tonnes.

The company is also considering supplying critical material for the coming Varanasi-Delhi bullet train project, expected to be longer than the MAHSR project, at 865km.

Domestic steel sector at a glance

Steel sector to grow at 1x - 1.2x real GDP

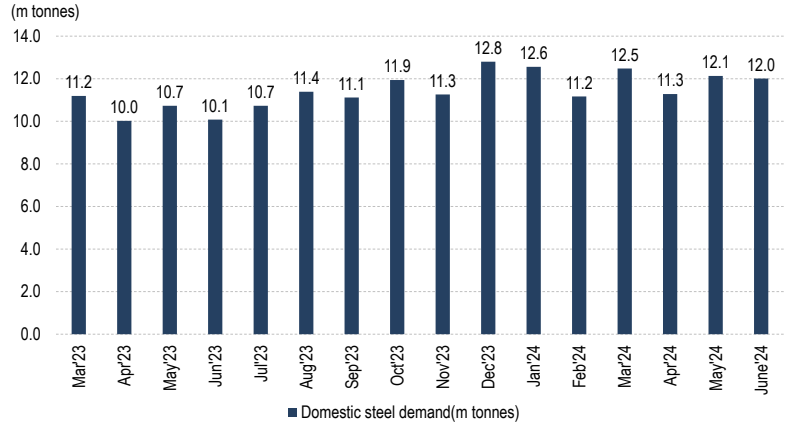
India is one of the fastest growing emerging economies and is striving to become a developed economy by 2047. Growth would be driven by better manufacturing, construction and services. Domestic capacity utilisation at ~75% is expected to keep the private sector investment cycle high. As India continues with its multi-year nation-building phase, demand for steel is expected to grow in tandem.

"India has been building physical infrastructure over the past decade at a scale and pace never seen before. From roads and highways to airports, dedicated freight corridors to ports and airports, high-speed Railways to metro networks, this thrust on infrastructure is driving growth in the construction sector, leading to demand for steel."

~FY24 Annual Report

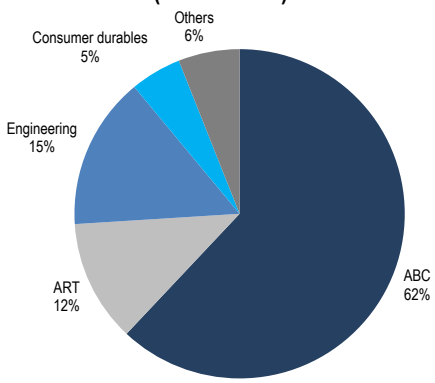
India is the only major economy, where production in Jan-Jun'24 rose 7.4% y/y to 74.2m tonnes. As the country emerges as a steel hub, demand would be robust, driven by the construction, infrastructure, consumer durables and automobile sectors. Besides, the strong government push via Aatma Nirbhar Bharat, PM Gati Shakti, Bharatmala, Sagarmala, UDAN, etc. has laid the robust foundation for infrastructure development in India, driving demand for steel.

Fig 33 – Domestic monthly steel demand



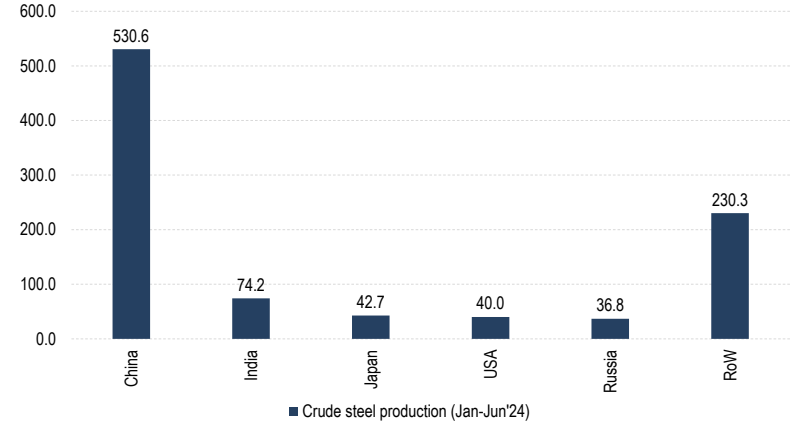
Source: Company, Anand Rathi Research

Fig 34 – Domestic steel demand (sector-wise)



ART: Automobile, railway & transport ABC: Architecture, building & construction
Source: Jindal Stainless Ltd., Anand Rathi Research

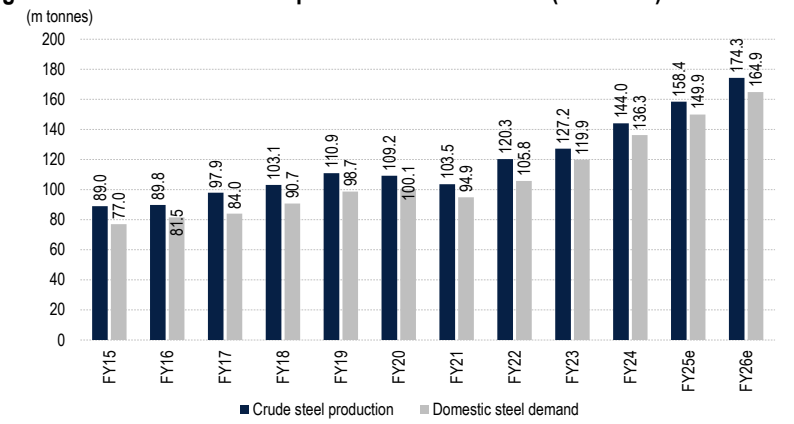
Fig 35 – Global crude steel production (m tonnes)



Source: World steel org, Anand Rathi Research

Supported by strong GDP, higher standards of living and greater public/ private capex, steel demand is expected to outpace global growth. Domestic demand for steel is likely grow 1x-1.2x real GDP, and at an ~8-10% CAGR over FY24-26 to ~148m-150m tonnes in FY25 and ~165m by FY26. As the momentum in China slows, India is expected to pick up a portion of China's commodities over the next decade, making it a preferred destination for metals and mining.

Fig 36 – Domestic crude steel production and demand (m tonnes)

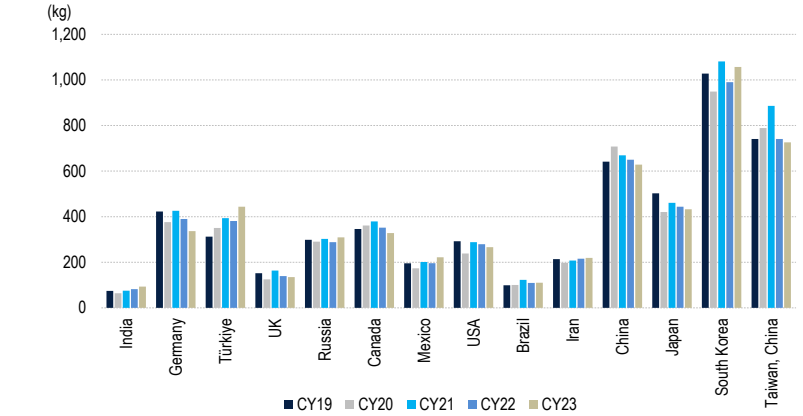


Source: JPC, Ministry of Steel, Industry, Anand Rathi Research

As seen in the past, whenever a nation gradually inches toward a $5trn-economy, demand for metal multiplies in a short span. India is now at an inflection point, like Japan in the 1950s and China in the 1980s. Further, the record Rs11.1trn outlay on capex announced in the latest Union Budget augurs well for the infrastructure sector, driving steel demand.

To meet the swelling domestic demand for steel, all tier-I steel manufacturers are adding capacity. This would help India achieve crude steel production capacity of 300m tonnes by FY30-31 under The National Steel Policy (NSP). Over the next 2/3 years from the company adding ~8m tonnes capacity, other steel majors (Tata Steel adding ~5.75m tonnes, SAIL expected to add ~2m-3m, Vedanta ~1.5m and AM/NS ~6m) are expected to increase capacities. To capitalise on domestic growth opportunities, after the present phase of capacity expansion, most tier-I mills are expected to increase domestic operations, with the company reaching 50m tonnes, Tata Steel 40m tonnes, SAIL 33m-35m tonnes and JSP 22m tonnes.

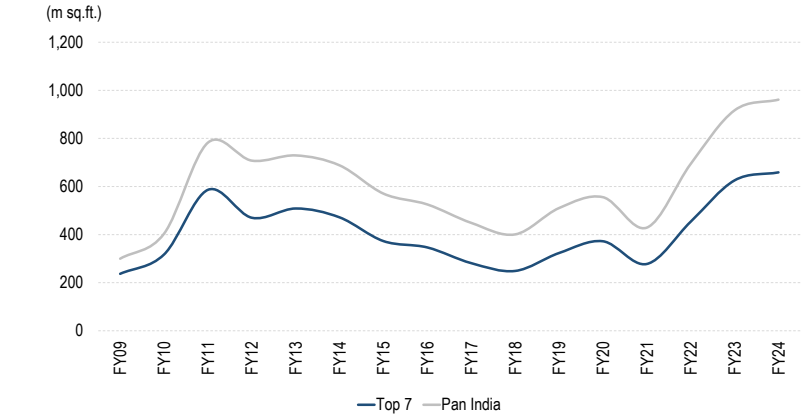
Fig 37 – Per-capita steel consumption (kg)



Source: JPC, Ministry of Steel, Industry, Anand Rathi Research

India's steel consumption, now at over 93kg/pp, still lags developed and developing nations. The country's per capita consumption is expected to rise to ~160kg by FY30-31. Steel demand at core consuming sectors would be high. In line with the positive outlook and increase in per capita steel consumption, steel demand would hit 190m tonnes by FY30, driven by growth in the infrastructure, consumer durables, renewable energy and automobile sectors. Another key steel consuming sector, construction/real estate, is seeing a multi-year cycle with a bright growth outlook, including in tier II and II cities.

Fig 38 – Domestic real-estate launches (m sq.ft.)



Source: Industry, Anand Rathi Research

Adding the maximum capacity, domestically

The top-five tier-I mills comprise ~50% of domestic capacity. The company is adding the maximum capacity, taking its domestic capacity to ~50m tonnes by FY31 and >62m by FY35 (subject to its greenfield Odisha plant coming on stream). The company is expected to beat Tata Steel and enter the top-10 ferrous manufacturers globally by FY27-28.

Fig 39 – Domestic capacities (m tonnes)

Company	As in FY24	By FY27-28e	By FY30-31e
JSTL	28.2	42	50
TATA	21	26.9	40
SAIL	21.4	31	35
JSP	9.6	15.9	22
VEDL	1.5	3	3
SHYAMMET	2.1	2.1	2.1
NSLNISP	3	3	3
GPIL	0.5	2.5	2.5
AM/NS	9	15	15

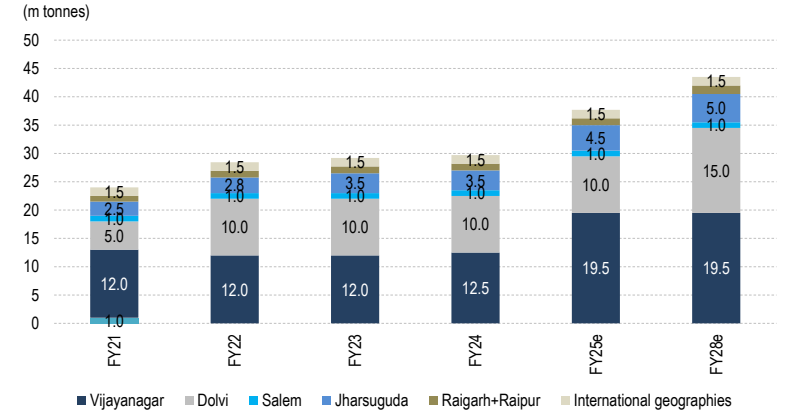
Source: Company, Industry, Bloomberg, Anand Rathi Research

Mega capex progamme

95% of mega Rs644bn capex for domestic operations

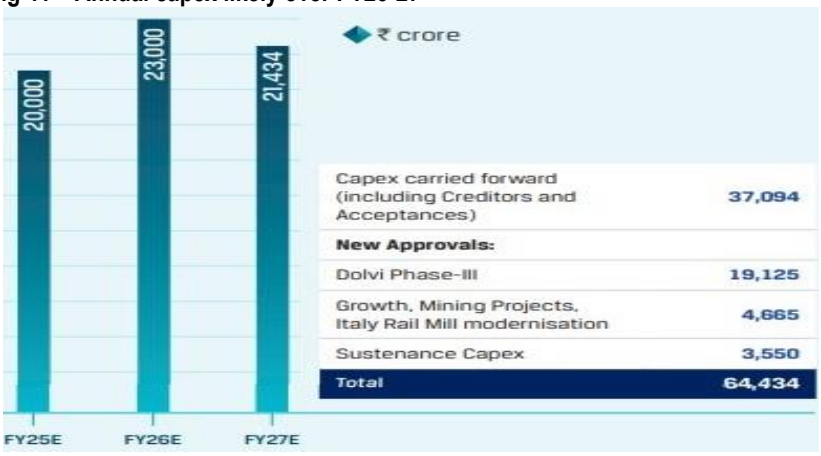
The company has in place a mega Rs.644bn capex project, spread over the next three years; this will help raise capacity to 43.5m tonnes by Sep'27. The capex includes Rs379bn of carried-forward commitments and Rs270bn of newly approved projects. 95% of the capex is dedicated to augmenting domestic operations. The relentless capex plan is designed to support its growth target, only ensuring leadership in the home market but also help catapult it to the top-10 ferrous manufacturers globally. The company incurred Rs44.6bn capex in Q1 FY25; it expects ~Rs200bn spend in FY25.

Fig 40 – ~10% installed capacity CAGR over FY24-28



Source: Company, Anand Rathi Research

Fig 41 – Annual capex likely over FY25-27



Source: Company

Capacity enhancement progression

- The sinter plant, blast furnace and SMS at the Vijayanagar plant are expected to be commissioned by Q2 FY25. The plant is expected to start ramping up from Q3.
- A further 1.5m-tonne coke oven at Vijayanagar is scheduled to be commissioned in Q2 (in a phased manner).
- The BPSL oxygen plant is expected to be commissioned in Q2 FY25 and gradually ramped up to 4.5m tonnes; balance 0.5m tonnes capacity expansion via de-bottlenecking by FY27.

- The 5m-tonne brownfield Dolvi expansion is expected to be completed by Sep'27. The low capex per tonne project (~$500) is expected to house a 5m-tonne blast furnace, converter utilising the SMS capacity of phase-II, a hybrid continuous caster and mill, producing plates and coils up to 2600mm wide and a 175MW plant.
- Also, the company is setting up a 0.12m-tonne colour-coating line in Jammu and Kashmir, expected to commence by Q2 FY25.

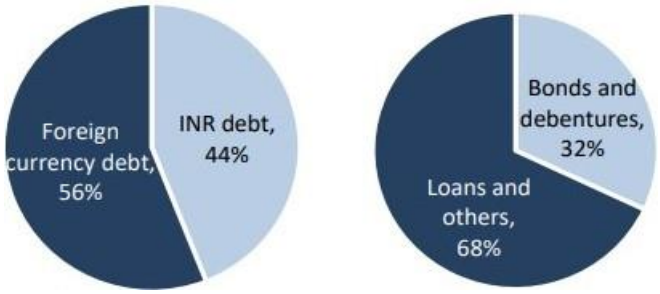
Debt profile

Net debt/EBITDA to hold below the threshold limit

Though the company is undertaking a Rs644bn capex programme, expected to increase capacity, the leverage ratio is expected to be low. Post-Covid, it has continuously endeavoured to lower its leverage ratio (3x in Q1 FY25, from 3.6x in FY20).

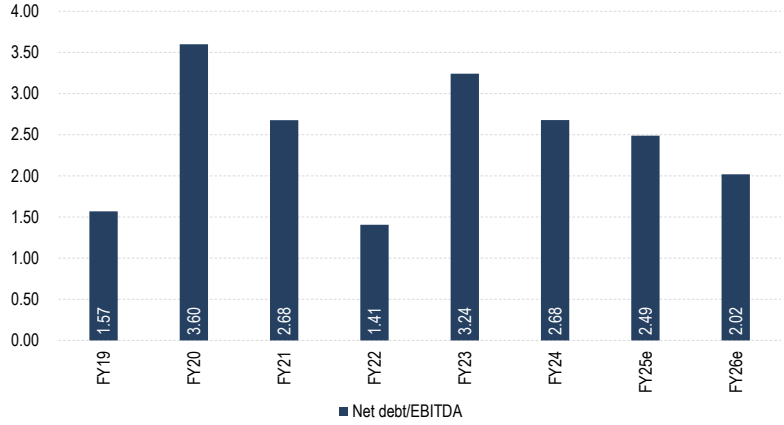
The company follows a prudent capital allocation policy, helping it undertake strategic expansions at minimum risk. It has a well-diversified debt profile, between foreign currency debt and rupee term debt. It plans to fund the expansion from internal accruals and raising external debt, while keeping the gearing ratio (net debt/equity) below 1.75x and leverage (net debt/EBITDA) below 3.75x.

Fig 42 – Diversified funding sources as of Jun'24



Source: Company

Fig 43 – Net debt/EBITDA

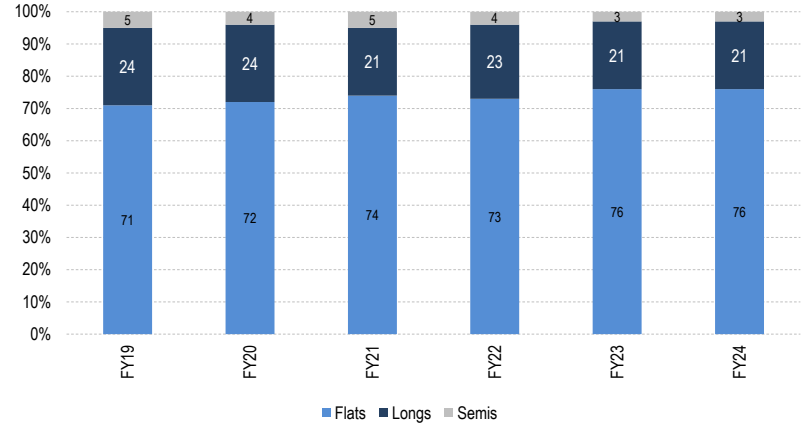


Source: Company, Anand Rathi Research

Product portfolio

The proportion of semis has shrunk over the years

Fig 44 – Product mix



Source: Company, Anand Rathi Research

Fig 45 – Key products

Key products	Share in FY24 (%)	
Flats		
Hot rolled (HR)	38	HR coils produced at HSM in Vijayanagar, BPSL and Dolvi, used in structural and general engineering, tubing, piping and LPG cylinders.
Cold rolled (CR)	16	India's widest CR mill at Vijayanagar, specialising in manufacturing closed annealed sheets and coils. These are used in the automotive, consumer durables, industrial & engineering, and electrical panel industries
Cold rolled close annealed (CRCA)		Early advantage thanks to partnering with leading auto manufacturers to pioneer innovative steel grades. AHSS and other specialised steel grades engineered for enhanced impact resistance and lightweight construction.
Electrical steel		Used in motors, pumps, fans, domestic appliances, railway traction, wind energy, white goods, power generators, 2W EVs and AC compressors
Coated		Anti-corrosive, value-added material, with galvanised steel account for more than half of demand. This is a rapidly growing segment, with uses across varied industries. Coated steel volume is projected to record a ~10% CAGR, surpassing 11m tonnes in FY25. Has multiple brands such as GI (Vishwas), GL (Silveron), OEM products (Radiance), etc.
Colour-coated	7	Corrosion-resistant used to manufacture VASP for construction, warehousing and roofing. Domestic market share of 44%. The company operates across segments, super premium to mass.
Galvanised and Galvalume	15	The company is the largest producer of galvalume products, preferred for roofing and cladding due to their superior corrosion resistance, heat reflectivity and longer lifespan. Domestic market share at 41%.
Tinplate		VASP downstream flat product. Domestic demand has been steadily improving on urbanization, changes in food habits favouring packaged food and growing retail food options.
JSW Magsure		Made with a zinc, magnesium, and aluminium alloy; has 5x the corrosion resistance of traditional galvanised iron under extreme weather conditions.
Longs	21	Major applications in infrastructure, Railways, bridges, roads, power and nuclear plants. Some products include TMT, wire rods, LRPC strands, etc.

Source: Company, Anand Rathi Research

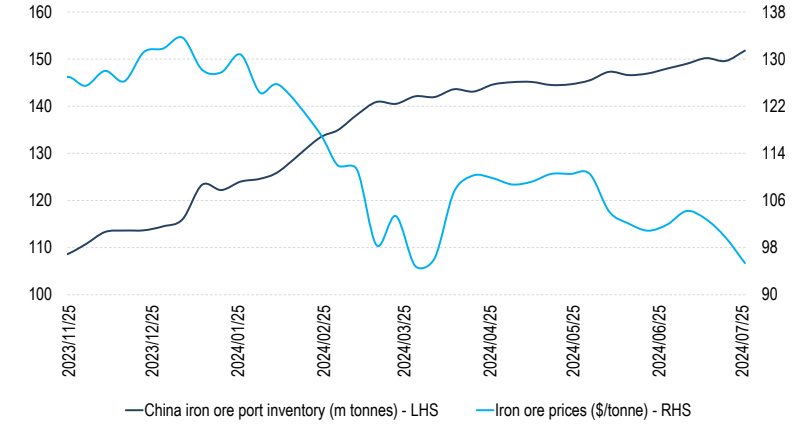
The company has been qualified for specialty steel PLI schemes across six categories at an aggregate cost of Rs.53.5bn

Lower key RM prices to aid margins

Iron ore prices ~$96/tonne; coking coal below $240/tonne

China, which enjoys the lion's share in global commodities is now bracing for slow growth. The recently concluded Plenum meeting falls short of expectation as the world's largest commodity consumer is unable to find a constructive solution to arrest the fall in the real estate sector. Also, iron ore prices have an inverse relation to changes in port inventory, which now in China is 151.8m tonnes, a record high since 2021.

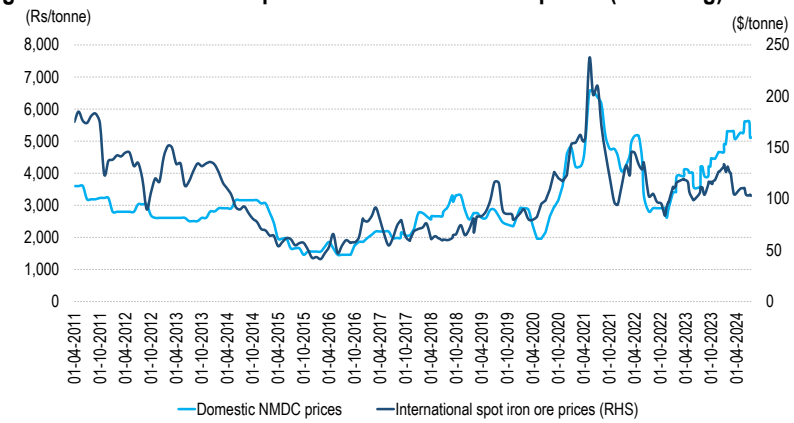
Fig 46 – Iron ore port inventory in China ~152m tonnes



Source: Bloomberg, Anand Rathi Research

Domestic iron ore prices move in tandem with international prices (with a lag of around a month). In line with the recent reduction in international iron ore prices, we expect a second price cut by the NMDC and other merchant miners. We believe the current reduction in iron ore prices would benefit steel manufacturers such as the company, which has ~38% of its iron ore links and relies on merchant miners for the balance demand.

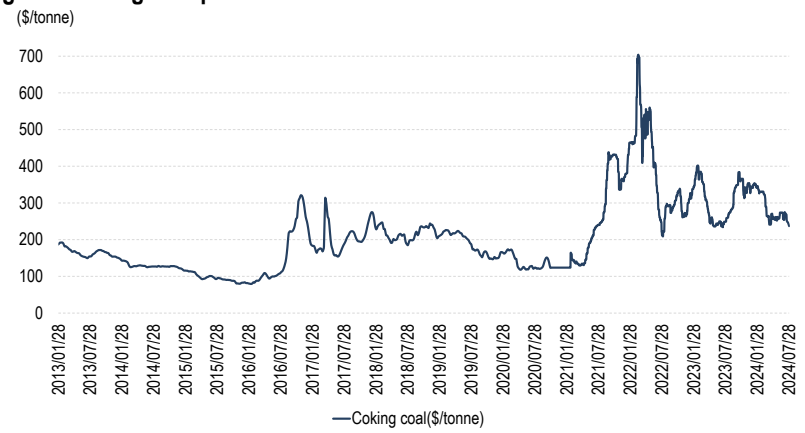
Fig 47 – Domestic iron ore prices follow international prices (with a lag)



Source: Bloomberg, Anand Rathi Research

Coking coal too has eased in the last few days and is below $240/tonne. Coking coal prices dropped ~$38/tonne since the start of Jul'24. Most mills in India import coking coal; hence, falling international coking coal prices are beneficial to domestic steel manufacturers. Since the company carries ~45-60 days of inventory, however, the complete benefit of lower coal prices (cost) would be seen in Q2 or Q3 FY25.

Fig 48 – Coking coal prices have fallen ~10% in the last one month



Source: Bloomberg, Anand Rathi Research

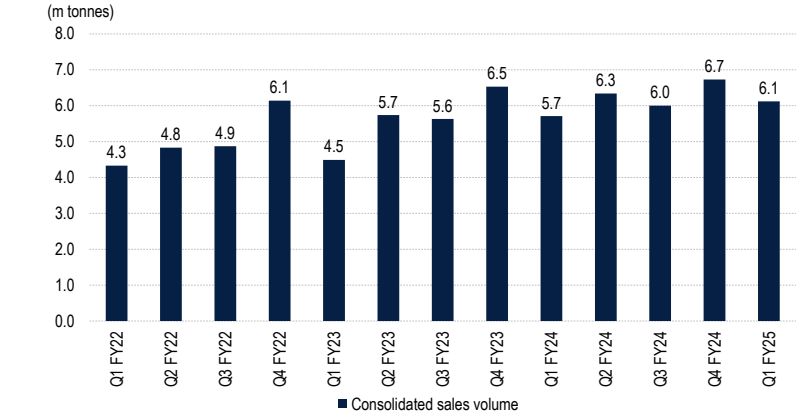
Q1 FY25 financial performance

Fig 49 – Quarterly performance at a glance

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Sales (m tonnes)	4.5	5.7	5.6	6.5	5.7	6.3	6.0	6.7	6.1
Y/Y (%)	*3.7*	*18.8*	*15.6*	*6.4*	*27.2*	*10.5*	*6.6*	*3.1*	*7.2*
Q/Q (%)	*-26.9*	*27.8*	*-1.9*	*16.0*	*-12.6*	*11.0*	*-5.4*	*12.2*	*-9.1*
ASP (Rs./ tonne)	84,824	72,784	69,510	71,917	73,928	70,322	69,900	68,750	70,168
Revenue (Rs. bn.)	381	418	391	470	422	446	419	463	429
Y/Y (%)	*31.8*	*28.5*	*2.8*	*0.1*	*10.8*	*6.7*	*7.2*	*-1.5*	*1.7*
Q/Q (%)	*-18.8*	*9.7*	*-6.3*	*20.0*	*-10.1*	*5.6*	*-5.9*	*10.3*	*-7.2*
EBITDA (Rs. bn.)	43	18	45	79	70	79	72	61	55
Y/Y (%)	*-58.1*	*-83.2*	*-50.2*	*-13.6*	*63.5*	*350.1*	*57.9*	*-22.9*	*-21.8*
Q/Q (%)	*-53.1*	*-59.3*	*159.5*	*74.6*	*-11.2*	*11.9*	*-9.0*	*-14.7*	*-10.0*
EBITDA margins (%)	11.3	4.2	11.6	16.9	16.7	17.7	17.1	13.2	12.8
EBITDA / tonne (Rs)	9,597	3,052	8,076	12,158	12,340	12,438	11,967	9,100	9,003
Adj. PAT (Rs. bn.)	8	-14	5	37	23	22	24	13	8
Adj. PAT margins (%)	*2.2*	*-3.4*	*1.3*	*7.8*	*5.5*	*4.9*	*5.8*	*2.8*	*2.0*
Exports (%)	*20*	*10*	*7*	*15*	*15*	*11*	*9*	*20*	*10*
VASP (%)	*57*	*54*	*54*	*60*	*61*	*62*	*60*	*62*	*64*

Source: Company

Fig 50 – Highest Q1 volumes



Source: Company, Anand Rathi Research

Q1 FY25: Conference call

Guidance

- Coal cost was $23/tonne lower in Q1, expected at $23-28/tonne lower in Q2.
- The company would post a better Q2 on lower iron ore and coking coal cost, coupled with higher volumes from the added capacity coming on stream at BPSL Jharsaguda and Vijayanagar.
- The share of exports would increase to 15%, from 10% in Q1 FY25.
- The company will continue to increase its focus on VASP.

Capex

- Rs44.6bn capex incurred in Q1; Rs200bn FY25 guidance unchanged.
- Most equipment and facilities at BPSL Jharsuguda are in place; the plant is gradually ramping up.
- Phase III of 0.5m-tonne expansion at BPSL through de-bottlenecking.
- Phase III of the 5m-tonne Dolvi capacity expansion has commenced, which would help increase capacity to 43.5m tonnes by Sep'27.
- On track to enhance domestic operations to 50m tonnes by FY31.

Iron ore and coal mines

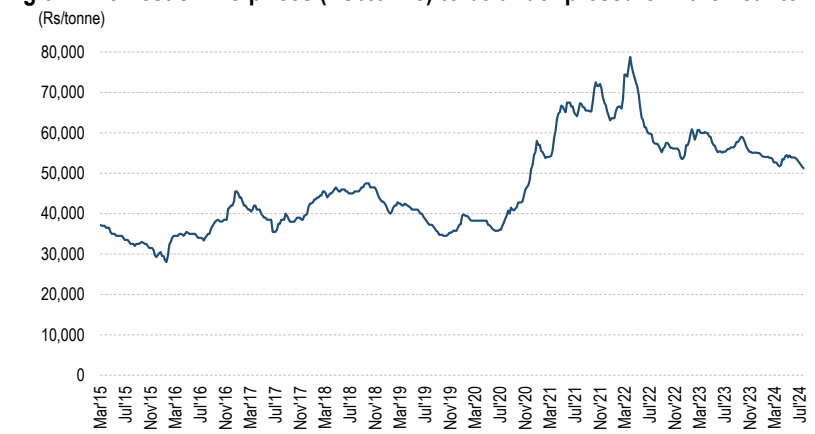
- Already received part of the enhanced permissions (part of 4m tonnes) for its Karnataka mines, which feed ore to the Vijayanagar plant.
- Of the three mines acquired in FY24, letters of recommendation for two have been received; the mines would be operational by end-FY25.
- Higher mine output from Karnataka expected to improve overall ore mix at the Vijayanagar plant.
- Mozambique coal mine: Government approval is pending, and the company awaits land clearance. Once operational (expected within 3-4 years), the company will export coal via Beira.

Transfer of the slurry pipeline business

- Transfer of a 30m-tonne slurry pipeline in Odisha to JSW Infrastructure approved on a slump-sale basis at a fair value of Rs17bn.
- ~Rs12bn incurred (up to May'24) and fair value calculated till the project transferred to JSW Infrastructure (subject to approval).
- Will enter a 20-year contract at arms-length, which would help to focus on core capex (raw material securitisation and capacity expansion).
- Proceeds of the sale will be utilised for the Dolvi capacity expansion.

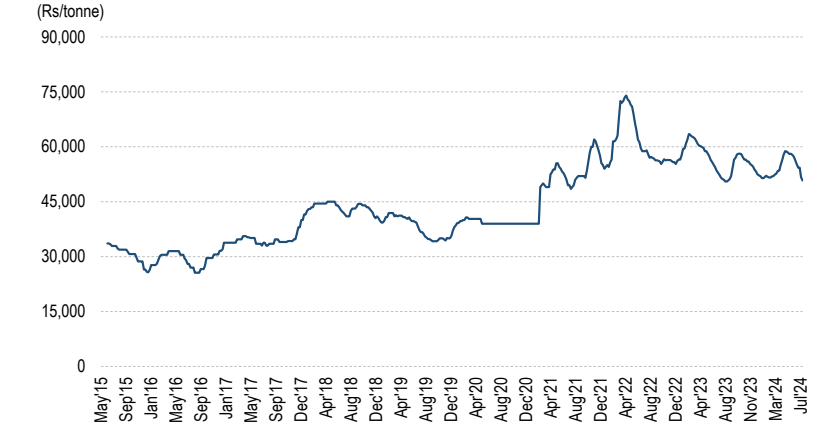
Key commodity prices

Fig 51 – Domestic HRC prices (Rs./tonne) to be under pressure in the near term



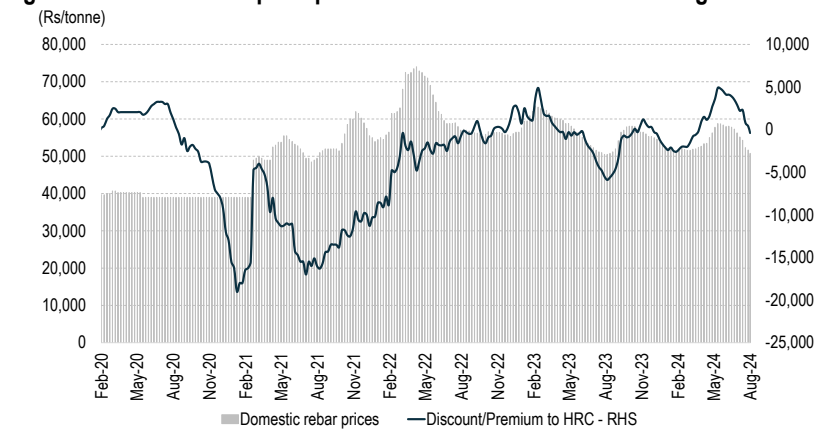
Source: BigMint, Anand Rathi Research

Fig 52 – Domestic rebar prices



Source: BigMint, Anand Rathi Research

Fig 53 – Domestic rebar price premium reduced in line with the long-term trend



Source: BigMint, Anand Rathi Research

Fig 54 – China's HRC prices ($/tonne)

Source: BigMint, Anand Rathi Research

Management profile

Principal promoter **CMD Sajjan Jindal** has a bachelor's in mechanical engineering from Bangalore University. Under his leadership, the Group has expanded into key sectors: steel, power, infrastructure cement.

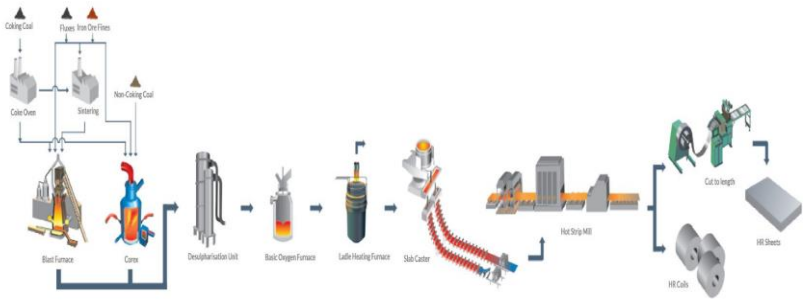
Joint MD & CEO Jayant Acharya did chemical engineering and has a master's in physics from BITS, Pilani. He has over 37 years' experience in the sector and has overseen major acquisitions and capacity additions that have contributed to the company's growth, organically and inorganically.

Hiroyuki Ogawa, Nominee Director, JFE Steel Corp, Japan has a master's in engineering from the Department of Mechanical Engineering, Graduate School of Engineering, The University of Tokyo. He also has a master's in science (Management of Technology) from MIT and a master's in science (Engineering Management) from Stanford University. Mr Ogawa is on the Board and the Executive VP in charge of the global business development division, digital transformation strategy headquarters, cyber security management department., business process innovation team, raw materials department (I&II) and materials and machinery purchasing department at JFE Steel Corp.

Chief Operating Officer Gajraj Singh Rathore has a bachelor's in Metallurgy from NIT, Tiruchirappalli, and certifications from Brown University. He has worked in the steel sector for over 35 years and is an expert in digitalisation and large-scale transformation. He led the company's sustainable business practices with its flagship program, SEED, in Vijayanagar, and its horizontal deployment in Dolvi Steel and Metallurgy has named him COO of the year for technology integration in recognition of his outstanding efforts.

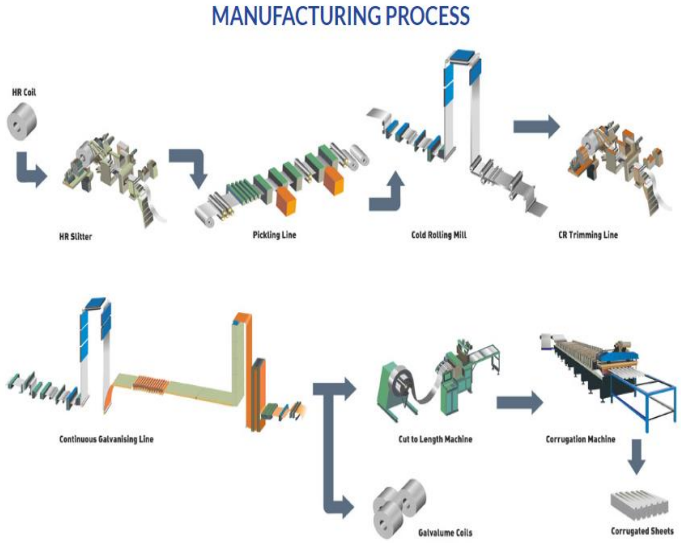
Manufacturing process

Fig 55 – Manufacturing process at Vijayanagar facility



Source: Company

Fig 56 – Downstream manufacturing process



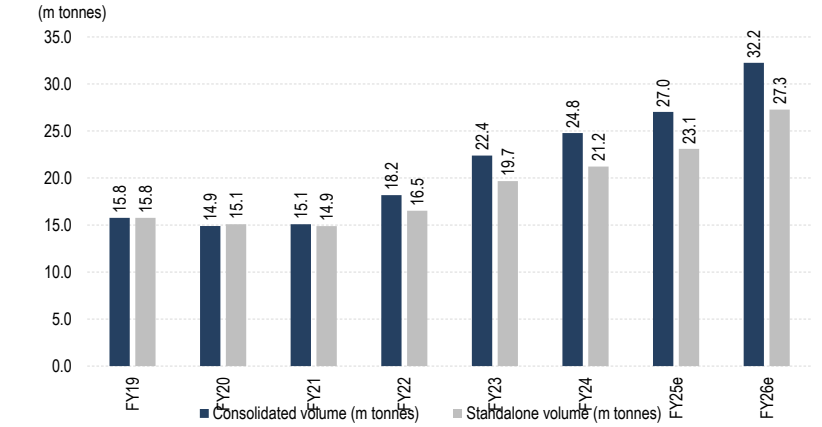
Source: Company

Financial analysis

FY24-26: 14.1/13.4% consolidated/ standalone sale volume CAGRs estimated

As the expanded Vijayanagar and Jharsuguda capacities come on stream, the company is expected to dispatch higher volumes. It has retained its FY25 guidance.

Fig 57 – Sales volume (m tonnes)



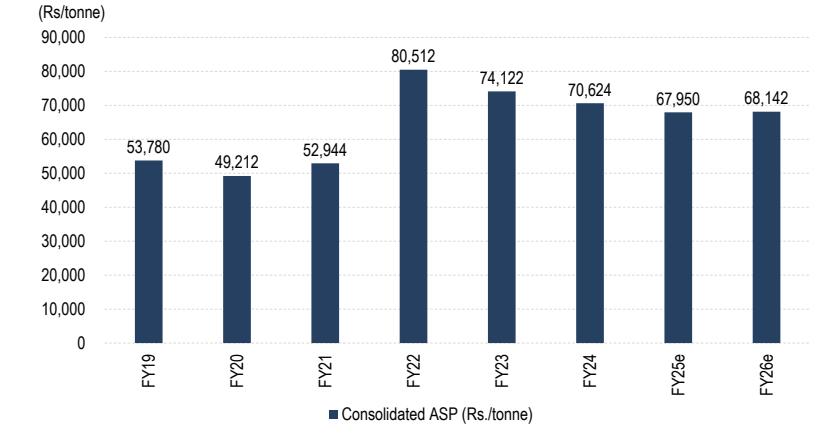
Source: Company, Anand Rathi Research

FY26 consolidated ASP (realisations) to improve

FY22 was exceptional: most tier-I mills increased their share of exports for higher premiums in international regions. Similarly, the company attained its best realisations in FY22, when export volumes were the highest (28%); however, realisations fell thereafter, in line with lower international prices and export volumes.

In line with better volumes, improved export volumes and the higher share of VASP, the ASP is likely to improve in FY26 (after touching a low in FY25).

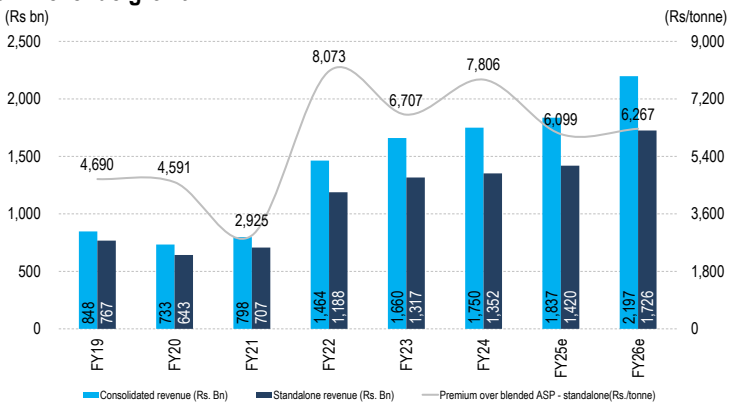
Fig 58 – Consolidated realisations (Rs/tonne)



Source: Company, Anand Rathi Research

~12% consolidated revenue CAGR estimated (FY24-26)

Fig 59 – Revenue growth

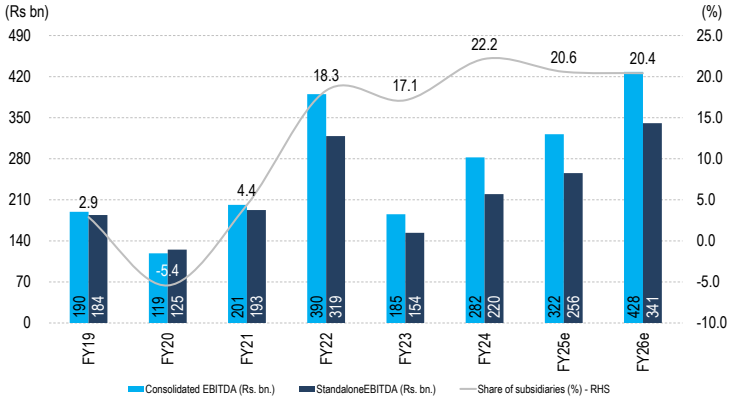


Source: Company, Anand Rathi Research

Rising share of subsidiaries in consolidated EBITDA

Strategic acquisitions via the IBC route from Aug'19 to Mar'21 led to more volumes and increase in share of subsidiaries. Post-Covid, the company acquired assets at BPSL Jharsuguda, the 0.06m-tonne colour-coating plant of Vardhaman Industries, and a 1m-tonne downstream plant of Asian Colour Coated Ispat, among others.

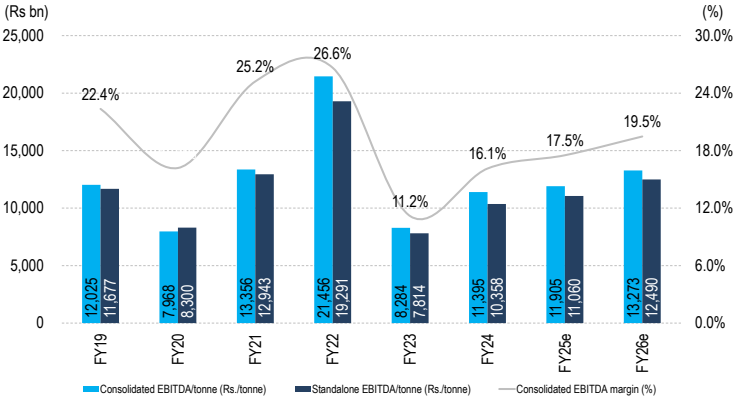
Fig 60 – Share of subsidiaries' EBITDA improved, post-FY21



Source: Company, Anand Rathi Research

EBITDA margins to improve

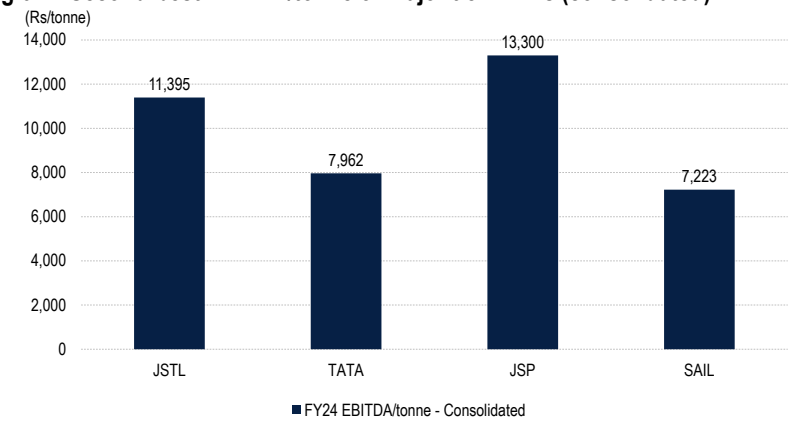
Fig 61 – EBITDA margins expected to surpass FY24 levels



Source: Company, Anand Rathi Research

One of the best EBITDA/tonne of tier-I mills (as on FY24)

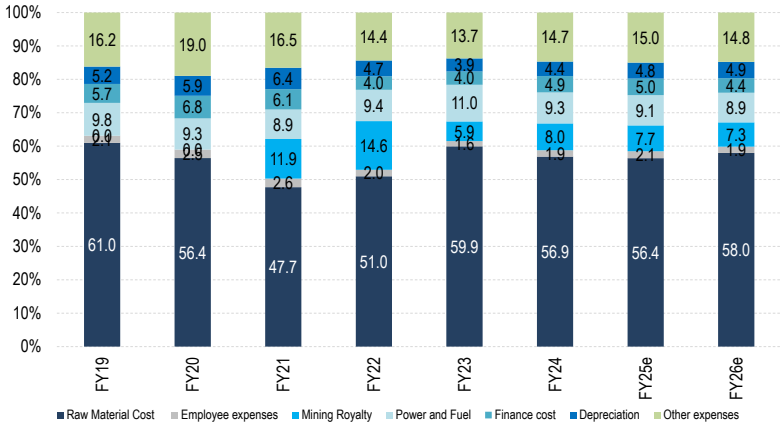
Fig 62 – Second-best EBITDA/tonne of major tier-I mills (consolidated)



Source: Company, Industry, Anand Rathi Research

Cost bifurcation

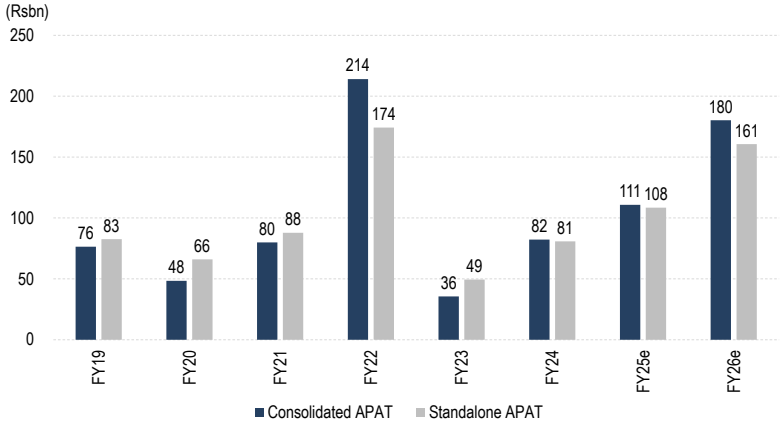
Fig 63 – Cost bifurcation



Source: Company, Anand Rathi Research

Profitability to improve, in line with capacity

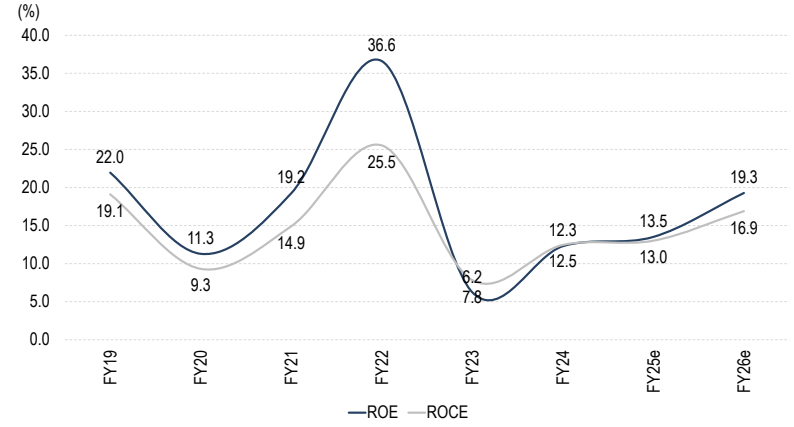
Fig 64 – Consolidated APAT margins are expected to improve to 8.2% by FY26



Source: Company, Anand Rathi Research

RoE and RoCE

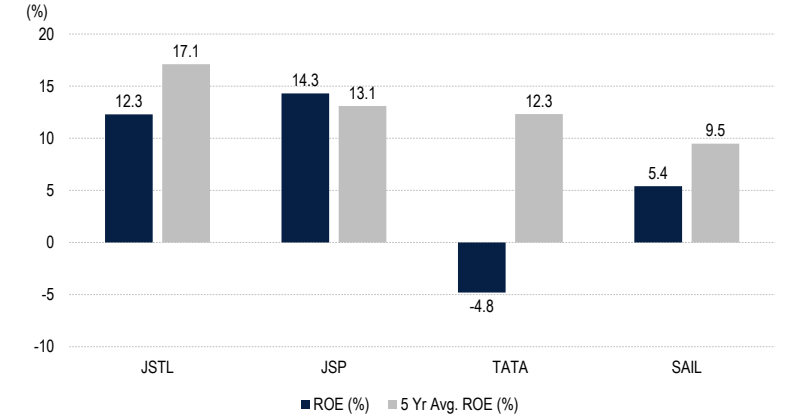
Fig 65 – RoE and RoCE (%)



Source: Company, Anand Rathi Research

The company has the best five-year average RoE of peers

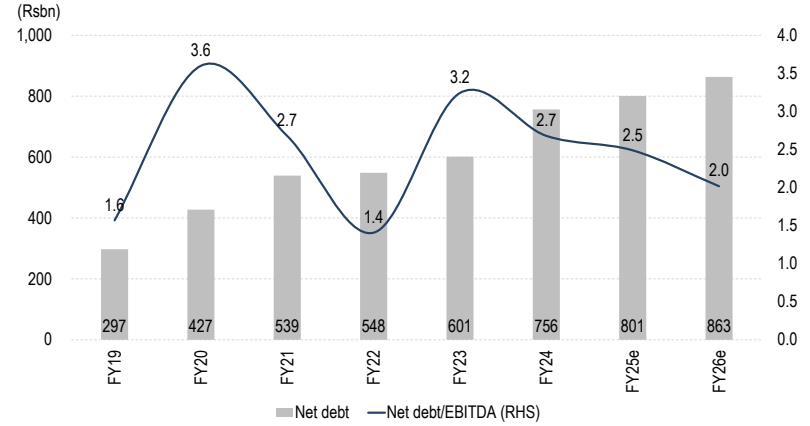
Fig 66 – FY24 peer RoE, %,



Source: Company, Industry, Anand Rathi Research

Net debt/EBITDA to hold below the 3.75x threshold

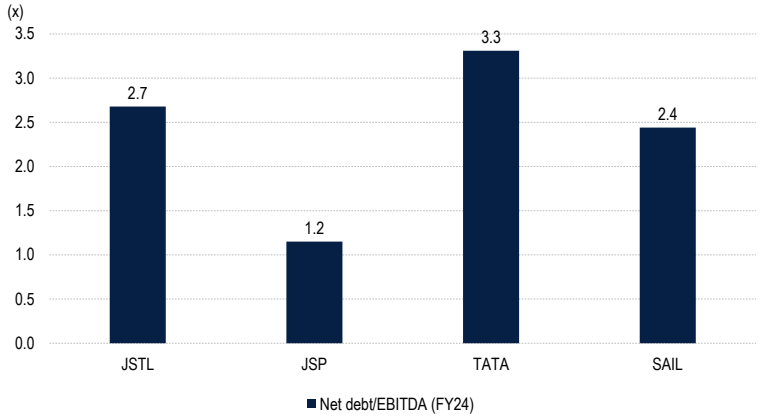
Fig 67 – Net debt / EBITDA



Source: Company, Anand Rathi Research

The company has a median net debt/EBITDA of peers

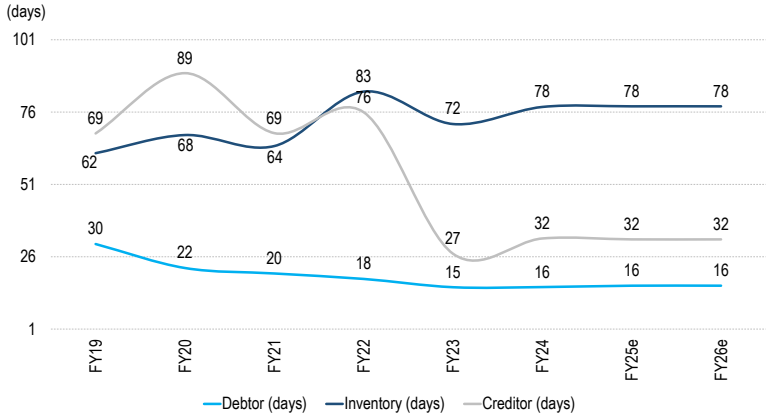
Fig 68 – Peers' net debt/EBITDA, FY24



Source: Company, Industry, Anand Rathi Research

Working capital, ~60 days

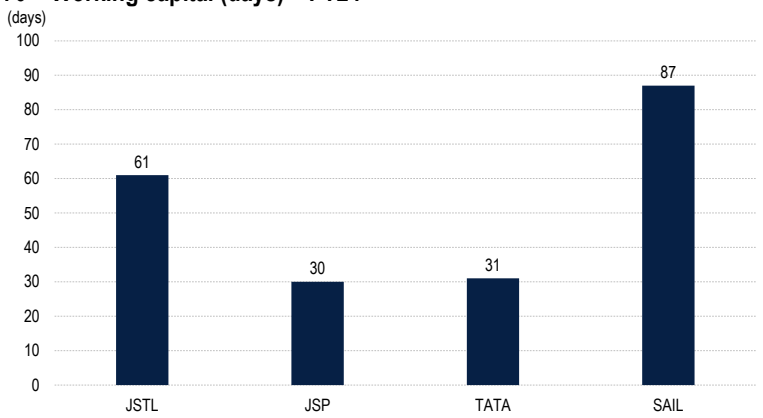
Fig 69 – Working capital (days)



Source: Company, Anand Rathi Research

Peers boast of better working capital management

Fig 70 – Working capital (days) – FY24



Source: Company, Industry, Anand Rathi Research

Valuations

Considering all the above triggers, we build in a ~12% revenue CAGR over FY24-26, driven by the strong volume momentum. Further, in line with various cost-optimisation steps and raw material links, we expect a ~23% EBITDA CAGR outstripping revenue growth. We estimate EBITDA/ tonne of Rs.13,273 by FY26.

On strong steel demand in India and considering the company is the fastest growing globally, with one of the best return ratios in the sector, we value it at 7.5x FY26e EV/EBITDA, slightly higher than its long-term average. Our TP works out to Rs.1,080.

In the past, the sector commanded valuations near its long-term average and traded within a certain band. Now, with India in the forefront of the changing commodity landscape globally, we believe the sector would command higher multiples. In the past decade, the pace of public and private capex has risen, driven by robust development in infrastructure, construction, automobiles, renewable energy, engineering, capital goods, consumer durables and other sectors. Post-Covid, metals manufacturers have considerably levered their positions and improved return ratios. Thus, we believe a premium to pasts valuations is justified.

Fig 71 – TP of Rs1,080

YE Mar	UoM	FY26e
Sales volumes	m tonnes	32.2
EBITDA / tonne	Rs / tonne	13,273
EBITDA	Rs bn	428
EV / EBITDA	X	7.5
EV	Rs bn.	3,232
Net debt	Rs bn	863
FY26e C-WIP (a 15% discount)	Rs bn	261
Equity value	Rs bn	2,630
No. of shares	Bn	2.4
TP	**Rs / sh**	**1,080**

Source: Anand Rathi Research *TP rounded to nearest 10's*

Risks:

- Delay in capex execution could impact performance.
- Delays/restrictions on coal and iron ore mining could impact RM linkages, which would hurt margins.
- Lower international prices and slowing domestic consumption.

Bull/bear cases; sensitivity analysis

Bull. We assume domestic shipments to be 1.5% higher in FY25 and 2% in FY26. Similarly, we assume a 2% higher ASP in FY25 and 3% in FY26 in our bull case. This would raise consolidated revenue/EBITDA/adj. PAT CAGRs to 15/38/79% over FY24-26. Considering the rise in production and its impact on earnings, we arrive at a TP of Rs1,470/sh.

Fig 72 – Bull case

Particulars (Rs bn)	Revenue	EBITDA	Adj. PAT
FY25 (base case)	1,837	322	111
FY25 (bull case)	1,895	386	159
Change in estimate, %	3	20	43
FY26 (base case)	2,197	428	180
FY26 (bull case)	2,300	539	264
Change in estimate, %	5	26	46
TP (base case)		1,080	
TP (bull case)		1,470	
Change in estimate, %		36	

Source: Anand Rathi Research

Bear. We assume 2% reduction in domestic shipments in FY25 and FY26. Similarly, we assume a 2.5% decline in ASP in FY25 and 3% in FY26 in our bear case scenario. We arrive at consolidated revenue/EBITDA/adj. PAT CAGRs of 10/6/10% over FY24-26. Considering the lower production and its impact on earnings, we arrive at a TP of Rs725/sh.

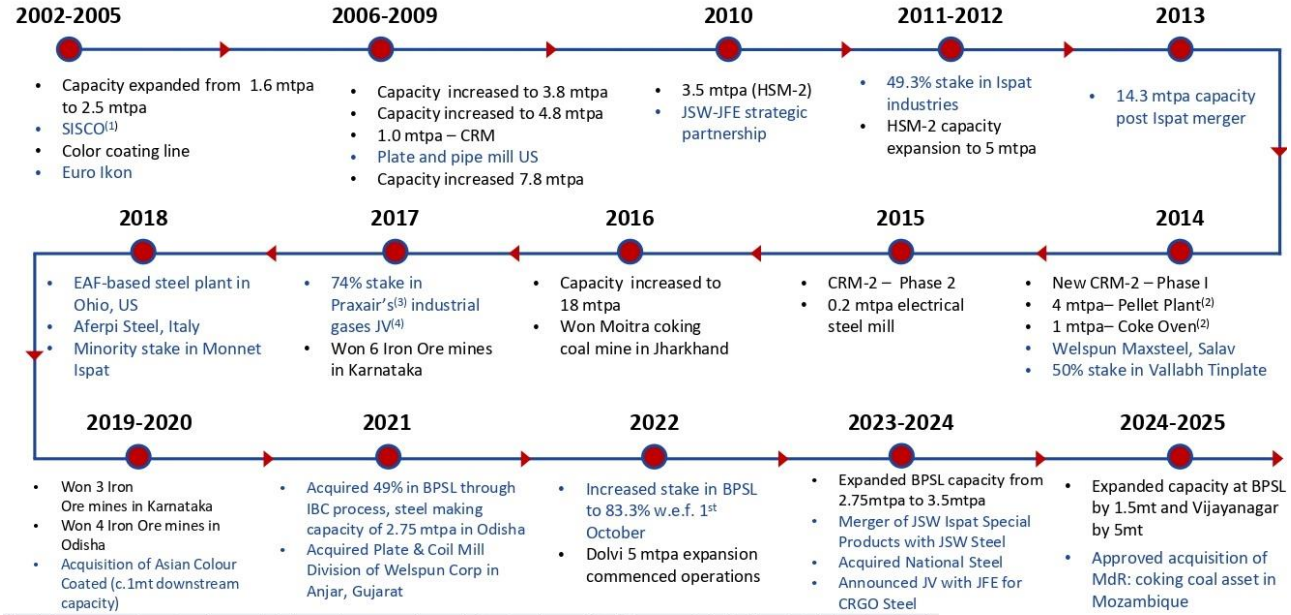
Fig 73 – Bear case

Particulars (Rs bn)	Revenue	EBITDA	Adj. PAT
FY25 (base case)	1,837	322	111
FY25 (bear case)	1,762	240	50
Change in estimate, %	-4	-25	-55
FY26 (base case)	2,197	428	180
FY26 (bear case)	2,097	319	100
Change in estimate, %	-5	-26	-45
TP (base case)		1,080	
TP (bear case)		725	
Change in estimate, %		-33	

Source: Anand Rathi Research

Appendix

Fig 74 – Timeline



* Including 6.5mtpa of capacity under commissioning at Vijayanagar and BPSL, 1: Southern Iron and Steel Company 2: Amba River Coke Ltd. 3: Praxair India Pvt. Ltd. 4: JSW Praxair Oxygen Pvt. Ltd.
Note: Blue text indicates acquisitions; Years above refer to financial years ending March

Source: Company

Fig 75 – Product portfolio at a glance

Source: Company

Appendix

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