INVasset Corporate Insights

JSW Steel

3rd January, 2024

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JSW Steel, a leading player in the Indian steel industry, stands at the forefront of manufacturing and selling iron and steel products. With a vision to redefine the steel landscape, JSW Steel aspires to expand its crude steel capacity from 18 MnTPA to an ambitious 45 MnTPA within the next decade. The company recently solidified its position as the largest steel producer in India through the strategic acquisition of Bhushan Power and Steel Ltd. (BPSL), a move that reinforces JSW Steel's commitment to growth and market leadership. JSW Steel is not merely a player in the steel industry; it is a visionary force shaping the future of steel manufacturing. With a focus on innovation, strategic acquisitions, and global partnerships, JSW Steel is poised for sustained growth and profitability, making it an attractive proposition for investors seeking a stake in the future of steel.

Diversified Product Portfolio and Revenue Breakup: JSW Steel boasts a diversified product portfolio, encompassing a wide range of products, including hot-rolled, cold-rolled, galvanized/galvalume, pre-painted, tinplate, electrical steel, TMT bar, wire rod, special steel bar, round, and bloom categories. This diverse product mix positions the company for resilience and adaptability in dynamic market conditions.
The revenue breakdown reflects the company's strong domestic foothold, with 79% of revenue generated domestically and 21% through exports. The product mix is strategically balanced, with flats contributing 72%, longs 24%, and semis 4% to the overall revenue. This balanced approach mitigates risks and enhances stability in revenue streams.

Driving Growth Through Value Addition and Capacity Utilization: JSW Steel is strategically focused on increasing the share of revenue from Value Added Steel Products (VASP) to enhance margins and overall profitability. The company's commitment is evident as the revenue share from VASP has climbed from 35% to an impressive 50%. Capacity utilization rates have consistently been robust, ranging from 79% in FY16 to 89% in FY20, showcasing the company's efficiency in utilizing its production capabilities.

Global Presence and Distribution Network: JSW Steel has a global footprint, exporting its products to over 100 countries across five continents. The company's distribution network includes an extensive chain of 11,000+ exclusive and non-exclusive retail outlets, solidifying its market presence. The strong foothold in South and West India further enhances the company's reach and accessibility.

Robust Manufacturing Capabilities and Raw Material Security: With a journey that began with a modest crude steel capacity of 2.5 MnTPA in FY06, JSW Steel has significantly expanded its manufacturing capabilities. Currently operating from three facilities, Vijaynagar Works (12 MnTPA), Dolvi Works (5 MnTPA), and Salem Works (1 MnTPA), the company's plants have a combined captive power capacity of approximately 1,000 MW.

Strategic Investments and Expansion Initiatives: JSW Steel's dedicated pursuit of growth and technological advancement is evident in its robust expansion strategy, involving a substantial capex of Rs. 49,000 crores. This commitment materializes through key projects and endeavors which strategically position JSW Steel for increased production, operational efficiency, and sustainable practices, showcasing a forward-thinking approach to secure a strong foothold in the competitive steel industry.

Challenges and Mitigation Strategies: While the company faces challenges in its foreign operations, particularly in the US and Italy, due to market dynamics, it has proactively undertaken a modernization program to improve the operating profile and address the issues. The strategic collaboration with JFE Steel Corporation since 2010 and their 15% stake acquisition underscores the company's commitment to technological excellence and global partnerships.

Stock Data	
CMP (03-01-2024)	837.65
52 Week High/Low	895.75/649.05
Face Value	1
Market Cap (In Crs)	2,04,770
Enterprise Value (In Crs)	2,76,599
NSE	JSWSTEEL
BSE	500228
Bloomberg	JSTL:IN
Sector	Iron & Steel

Shareholding Pattern (in %)		
	SEP 23	JUN 23
Promoter	44.79	45.41
FII	26.13	25.98
DII	9.50	9.59
Government	0.51	0.51
Public	18.64	17.99
Others	0.43	0.51

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	6.16	12.13	18.24
JSWSTEEL	3.31	6.73	8.04

Key Ratios	
P/E	23.1
P/S	1.18
P/B	2.77
Debt To Equity	1.11
ROE	5.64%
ROCE	8.33%
Dividend Yield	0.41%

Q2 FY 24 Result Update

Q2 FY24 Result Comparison (In Rs Cr)					
	Q2 FY24	Q1 FY24	Q2 FY23	QOQ	YOY
Sales	44584	42213	41778	5.62%	6.72%
EBITDA	8688	7343	2475	18.32%	251.03%
EBIT	6669	5443	670	22.52%	895.37%
Net Profit	2773	2428	-915	14.21%	403.06%
EPS	11.29	9.67	-3.51	16.75%	421.65%

Result Highlights

The financial results for JSW Steel for Q2 FY24 show a robust performance compared to the previous quarter (Q1 FY24) and the same quarter in the previous fiscal year (Q2 FY23). Sales have increased by 5.62% on a quarter-on-quarter (QOQ) basis and by 6.72% year-on-year (YOY). EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) saw a significant rise of 18.32% QOQ and an impressive 251.03% YOY, indicating substantial operational efficiency improvements.

EBIT (Earnings Before Interest and Taxes) has also increased remarkably by 22.52% QOQ and 895.37% YOY, which suggests that the company's core operations have become much more profitable. Net Profit has seen a turnaround from a loss in Q2 FY23 to a profit in Q2 FY24, with growth of 14.21% QOQ and a dramatic YOY increase of 403.06%, indicating strong profitability. Lastly, the Earnings Per Share (EPS) have improved from negative in the previous year to 11.29 in Q2 FY24, with growth rates of 16.75% QOQ and 421.65% YOY, reflecting the increased value generated for shareholders.

Strategic Capacity Expansion and Investment Plans: JSW Steel's strategic focus on expanding its steel production capacity is a key qualitative aspect. With plans to add 8.5 million tonnes by 2025 and targeting 50 million tonnes by the end of the decade through brownfield expansions, the company exhibits a forward-looking approach. This expansion aligns with the anticipated growth in domestic demand and underscores JSW Steel's commitment to being a major player in the steel industry.

Robust Performance Amid Global Challenges: The company's strong performance in H1 FY24, marked by a 14.1% YoY growth in India's crude steel production and a significant increase in steel consumption, showcases its resilience in the face of global economic uncertainties. JSW Steel's ability to navigate challenging macro conditions, driven by domestic demand and government initiatives, positions it as a reliable and adaptive industry leader.

Focus on Value-Added and Special Products: JSW Steel's strategic emphasis on value-added and special products, comprising 62% of consolidated sales in Q2 FY24, underscores the company's proactive approach to innovation and diversification. By dedicating a substantial portion of its portfolio to higher-value products, JSW Steel not only strengthens its revenue streams but also positions itself as a technology-driven steel manufacturer ready to meet the dynamic demands of the market. This focus on value-added offerings allows the company to navigate challenges in the steel industry by differentiating itself through technological advancements and meeting the evolving preferences of its diverse customer base.

Financial Metrics and Debt Management: Beyond quantitative financials, the company's financial metrics indicate a strong position. With an EBITDA margin of 19.49% and disciplined management of net debt to equity, JSW Steel showcases financial prudence. This highlights the company's commitment to maintaining a healthy balance between growth and financial stability.

Comprehensive Outlook and Future Commitments: JSW Steel's outlook and future plans underscore its confidence in sustained domestic demand. The company's commitment to completing the 50 million tonnes capacity expansion by 2030, coupled with a focus on brownfield expansions for efficiency, demonstrates a strategic and disciplined approach to growth. Additionally, the commitment to capex efficiency and raw material security further solidifies its long-term vision and resilience in the steel industry.

Concall Highlights

Global Economic Overview: The global economic landscape exhibits a nuanced pattern, with the US demonstrating resilience, Europe experiencing a slowdown, and Asia (excluding China) showing positive signs. Inflation, while gradually declining, persists above central bank targets in several countries. The International Monetary Fund (IMF) forecasts global growth at 3% in 2023 and 2.9% in 2024. While risks have balanced, geopolitical concerns, especially related to energy prices and inflation, continue to pose potential challenges.

Indian Economic Momentum: India remains a bright spot in the global economic scenario, driven by robust momentum fueled by substantial government spending on infrastructure, particularly in the development of roads and railways. A CRISIL report underscores this trajectory, projecting a significant uptick in infrastructure investments from fiscal year 2024 to 2030, positioning India as a key player in the global economic landscape.

Steel Demand and Production Scenario: Despite marginal growth in global crude steel production, China leads the increase, while global steel demand is on the ascent, primarily propelled by India's incremental contribution. Notably, the global steel sector exhibits resilience in the face of challenging macro conditions, emphasizing a positive and promising outlook.

Market Trends and Dynamics: A nuanced understanding of market trends reveals a shifting landscape, with evolving consumer preferences, technological advancements, and geopolitical factors influencing the steel industry. JSW Steel's strategic positioning aligns with these trends, ensuring adaptability and resilience in a dynamic market environment.

Capacity Expansion and Investments: JSW Steel is strategically positioning itself for substantial growth by adding 8.5 million tonnes of capacity by 2025, with plans for incremental capacities aiming at 50 million tonnes by the end of the decade through brownfield expansions. The commitment to aggressive capital expenditure, amounting to Rs. 52,000 crores until fiscal year 2026, reflects a dedicated focus on growth with an emphasis on capital efficiency.

Financial Metrics and Debt Profile: JSW Steel maintains robust financial metrics, exemplified by an EBITDA margin of 17.6%, with the net debt to EBITDA ratio at 2.52, and a net debt to equity ratio at 0.92. The increase in net debt by Rs. 2,398 crores is mainly attributed to the consolidation of net debt from the JISPL merger. Despite this increase, the overall financial health remains strong.

Innovation in Steel Production: JSW Steel's performance is not only marked by quantity but also innovation. The company is investing in research and development to introduce advanced technologies in steel production, aiming to enhance product quality, reduce production costs, and maintain a competitive edge in the global steel market.

Employee Training and Skill Development: JSW Steel recognizes that its ambitious expansion plans hinge on a workforce that is not only well-equipped with current skills but also adaptable to emerging technologies and industry trends. The company's commitment to employee training and skill development manifests in comprehensive programs aimed at upskilling and reskilling employees. This investment in human capital is a strategic move to guarantee a versatile and agile workforce capable of navigating the complexities of the steel industry. By fostering continuous learning, JSW Steel not only ensures the successful execution of expansion projects but also reinforces its competitive advantage by staying ahead in a dynamic and ever-evolving market landscape. The emphasis on skill development underscores the company's forward-looking approach, preparing its employees for the challenges and opportunities that lie ahead in the steel industry's future.

Sustainable Practices and Environmental Stewardship: JSW Steel places a strong emphasis on sustainable practices and environmental stewardship in its operations. The company is dedicated to minimizing its environmental footprint through various initiatives, including energy-efficient technologies, waste reduction, and responsible sourcing of raw materials. By prioritizing sustainability, JSW Steel not only fulfills its corporate social responsibility but also aligns itself with global efforts to address climate change and environmental concerns.

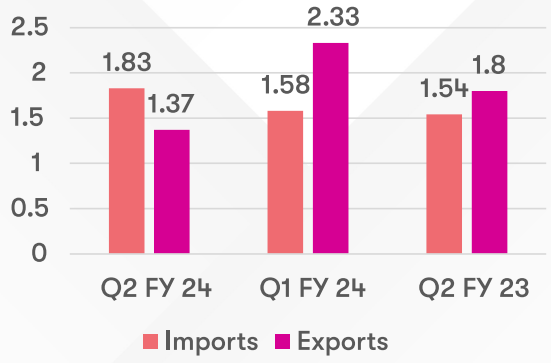
Strategic Partnerships and Alliances: JSW Steel's growth strategy involves forging strategic partnerships and alliances. Collaborations with suppliers, technology partners, and industry stakeholders contribute to the company's resilience, ensuring access to resources, knowledge, and market insights.

Outlook and Future Plans: The outlook for JSW Steel remains optimistic, driven by expectations of continued strong domestic demand. The growth trajectory is supported by infrastructure development, manufacturing, and inclusive economic growth. The commitment to completing the 50 million tonnes capacity expansion by 2030, coupled with a focus on brownfield expansions for faster execution, underscores a strategic vision for sustained and substantial growth. The company maintains a steadfast commitment to capex efficiency and securing raw materials for long-term stability.

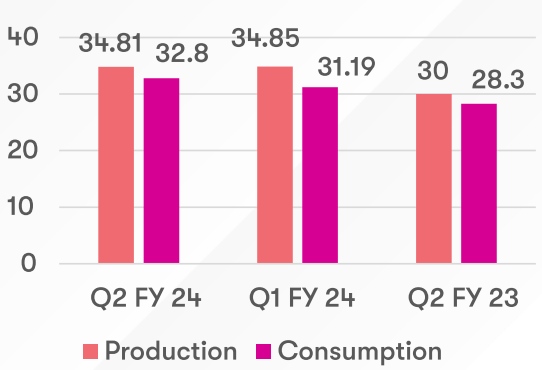


Story Through Charts

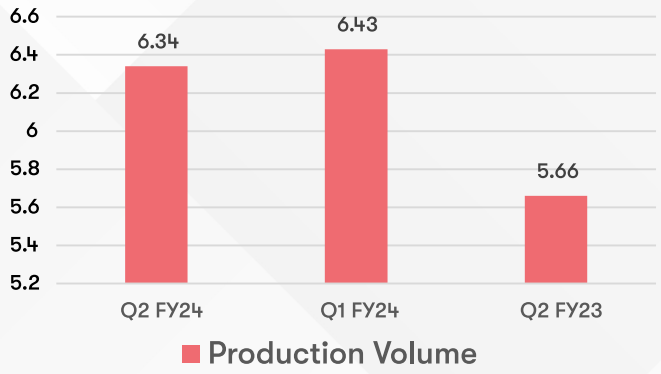
Steel Imports & Exports(MT)



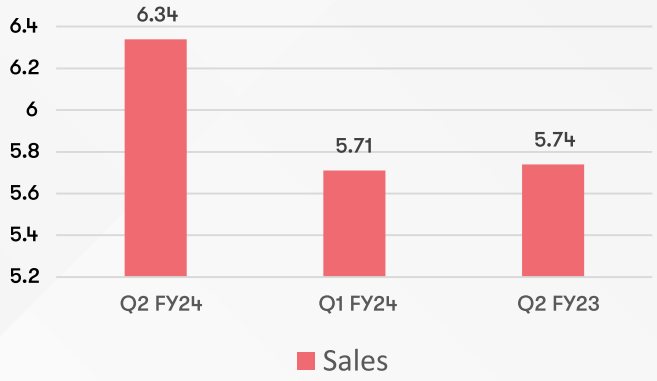
Production and Consumption (MT)



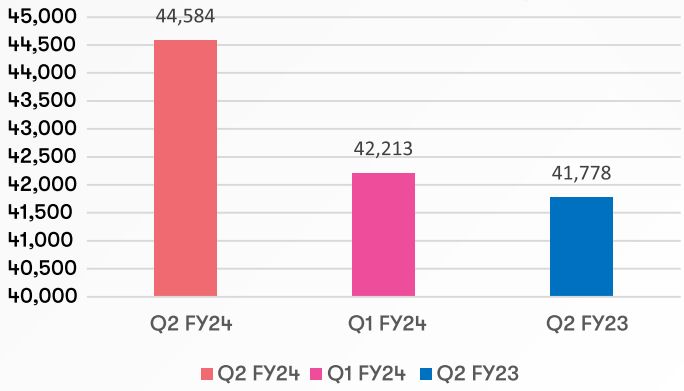
Crude Steel Production(MT)



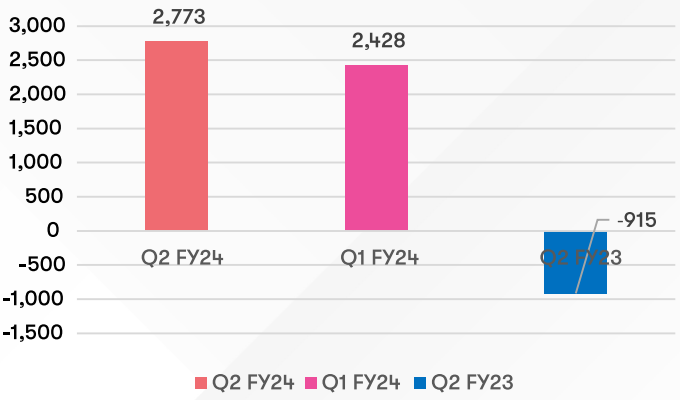
Steel Sales(MT)



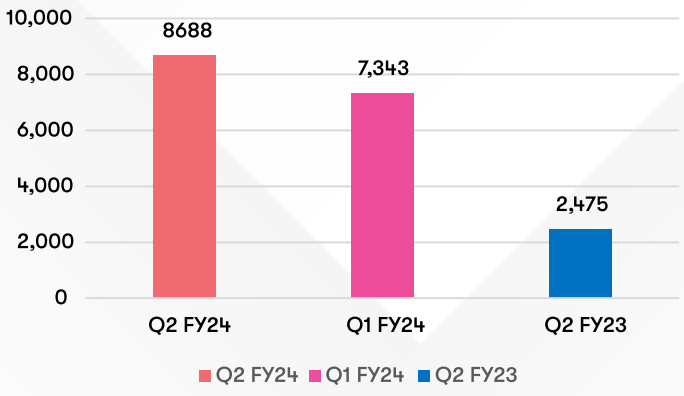
Revenue (In Cr)



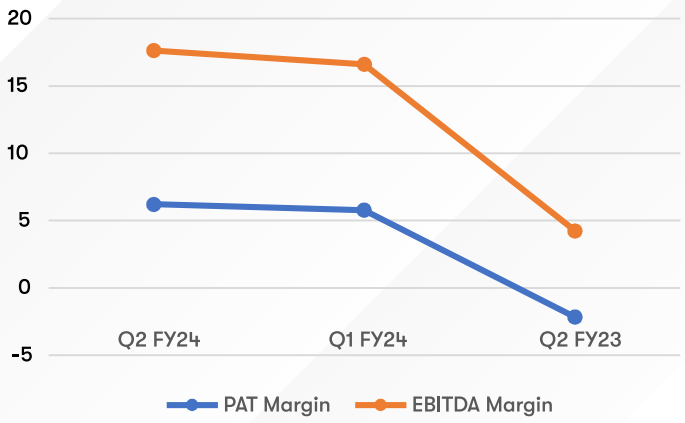
PAT (In Cr)



EBITDA (In Cr)



Margin (%)



Technical Outlook



The technical analysis for JSW Steel Ltd. suggests a positive trend in its weekly timeframe. The chart indicates a multi-year breakout and a subsequent retest of the breakout level, which is a bullish sign. The stock has been making higher lows, as indicated by the ascending trendline, showing continued buying interest. The moving averages further support this bullish sentiment, with both simple and exponential moving averages on a rise across different time frames. The Relative Strength Index (RSI) readings are neutral to positive, with the daily RSI at 48.98, indicating neither overbought nor oversold conditions, and the weekly RSI at 57.85, which is mildly bullish. Overall, the technical indicators reflect a constructive outlook for JSW Steel Ltd. in the weekly chart, supported by the moving averages and RSI levels.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	869.30	860.70
10	861.42	860.50
20	853.80	848.96
50	799.89	820.12
100	795.34	799.50
200	766.65	773.63

Pivot Levels : FIBONACCI		
R1 892.81	Pivot 875.32	S1 857.82
R2 903.62		S2 847.01
R3 921.12		S3 829.52

	Daily	Weekly
Relative Strength Index (RSI)	48.98	57.85

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