BPSL restructuring to drive margin gains for JSW Steel

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JSW STEEL'S DECISION to move Bhushan Power and Steel (BPSL) into a 50:50 joint venture with JFE Steel is set to sharpen its margin profile as the company enters the next phase of its capacity cycle, analysts said. Experts see the deal as both a balance sheet clean-up and a more efficient way of capturing BPSL's earnings contribution.

With BPSL deconsolidation, JSW Steel's 50% share of JV profits will now be booked through the bottom line rather than being reported within consolidated operating numbers. Analysts said this should help lift the steelmaker's reported margins as the new structure removes earnings volatility linked to the acquired asset. "Its share of profits will flow directly to net earnings while enhancing leverage ratios," Emkay analysts said.

The slump sale of BPSL's steel business and the corresponding transfer of liabilities remove an estimated ₹37,250-crore debt from JSW Steel's consolidated books. Analysts expect this to bring net debt-to-Ebitda down from 2.97x currently to about 1.7x by FY27, improving financial flexibility as the firm targets 50 MPTA capacity by 2031.

The transaction also crystallises the value created since JSW acquired BPSL through the insolvency process and expanded capacity at the Odisha plant to the current 4.5 million tonne per annum.

"The restructuring and (creation of the) JV collectively will allow JSTL (JSW Steel) to monetise a significant portion of the value created through the turnaround of BPSL," analysts from Motilal Oswal said.

Analysts added that the combination of lower leverage, clearer earnings contribution from BPSL and a simplified holding structure strengthens JSW Steel's ability to fund its targeted expansion to 50 million tonne by FY31.