

CMP: ₹ 223

Target: ₹ 263 (18%)

Target Period: 12 months

BUY

August 3, 2022

## Mixed bag performance...

**About the stock:** Jindal Stainless (Hisar) (JSHL) is one of the leading players in the Indian stainless steel market.

- JSHL is the largest specialty stainless steel producer in India with a diversified value-added product portfolio
- JSHL operates an integrated stainless steel plant at Hisar, Haryana. JSHL has a total melting capacity of 0.8 million tonnes per annum (MTPA)

**Q1FY23 Results:** JSHL reported a mixed bag performance for the quarter wherein while standalone sales volume came in lower than our estimate, standalone EBITDA/tonne came in higher than our estimate.

- For the quarter, JSHL's standalone operations reported sales volume of 132172 tonnes, lower than our estimate of 155000 tonnes. Standalone operations EBITDA/tonne came in at ₹ 23898/tonne, higher than our estimate of ₹ 21500/tonne
- Standalone operations reported topline of ₹ 3071 crore (up 22% YoY) while standalone EBITDA for the quarter was at ₹ 316 crore (down 17% YoY). PAT of standalone operations was at ₹ 195 crore, down 19% YoY
- Consolidated topline for the quarter was at ₹ 3454 crore, up 24% YoY, (our estimate of ₹ 3333 crore). For Q1FY23, consolidated EBITDA was ₹ 337 crore, down 18% YoY (our estimate: ₹ 378 crore). Consolidated PAT for Q1FY23 was at ₹ 308 crore, down 14% YoY (our estimate of ₹ 326 crore)

**What should investors do?** JSHL's share price has given a return of ~210% over the last two years (from ~₹ 72 in August 2020 to ~₹ 223 levels in August 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value JSHL at ₹ 263, based on merger ratio.

### Key triggers for future price performance:

- Going forward, for the JSHL standalone operations, we model EBITDA/tonne of ₹ 16500/tonne each for both FY23E and FY24E
- Merger Update:** NCLT, while hearing the second motion application on July 13, 2022, has directed to issue notice(s) to the sectoral regulator(s). The next date of hearing is October 18, 2022. The merger process is expected to be completed within the due time in the next four to five months

**Alternate Stock Idea:** Apart from JSHL, we also like Jindal Stainless.

- JSL operates an integrated stainless steel plant at Jajpur, Odisha. The complex has a total stainless steel capacity of 1.1 MTPA
- BUY with a target price of ₹ 135

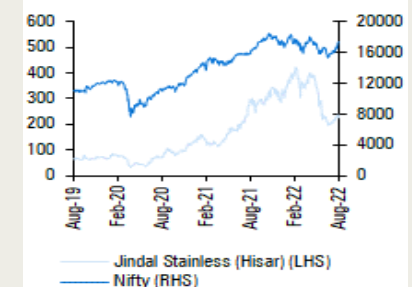


Particulars	
Particulars	₹ Crore
Market Capitalization	5,332
Total Debt (FY22)	1,626
Cash and Invest. (FY22)	21
Enterprise Value(EV)	6,937
52 week H/L (₹)	434/ 189
Equity capital	47.0
Face value (₹)	2.0

Debt and Cash are on a Standalone basis

Particulars				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	58.9	58.9	58.9	58.9
Flls	20.7	20.1	20.5	20.7
Dlls	4.1	4.1	4.3	4.6
Public	16.3	16.9	16.3	15.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Price Performance Graph



### Key Risks

- Sharp rise in raw material cost
- Slowdown in demand growth.

### Research Analyst

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Key Financial Summary- Jindal Stainless Hisar (Pre-merger)					FY23E	FY24E	CAGR in % (FY22-FY24E)	
Total Operating income	10,289	9,379	9,400	15,011	14	12,753	13,383	-6
EBITDA	1,039	935	1,127	2,153	17	1,162	1,266	-23
PAT	396	401	696	1,947	46	998	1,057	-26
EPS (₹)	16.8	17.0	29.5	82.5		42.3	44.8	
P/E (x)	13.5	13.4	7.7	2.8		5.4	5.1	
EV/EBITDA (x)	7.4	8.0	6.1	3.3		5.8	5.1	
RoCE (%)	17.6	14.3	18.6	28.1		12.1	12.2	
RoE(%)	20.8	17.5	23.2	39.4		17.5	16.2	

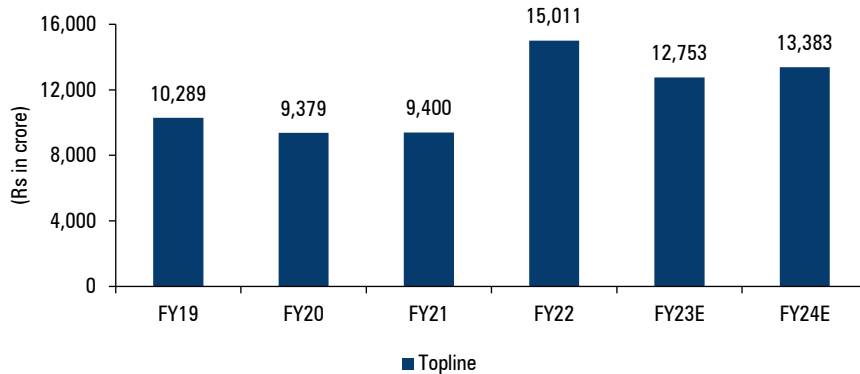
**Exhibit 1: Variance Analysis- Jindal Stainless (Hisar) – Consolidated (Sales volume, EBITDA/tonne standalone)**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>3454</b>	<b>3333</b>	<b>2776</b>	<b>24%</b>	<b>4318</b>	<b>-20%</b>	Consolidated topline came in broadly in line with our estimate
Other Income	28	25	28	0%	32	-13%	
Total Operating expense	3117	2955	2364	32%	3714	-16%	
<b>EBITDA</b>	<b>337</b>	<b>378</b>	<b>412</b>	<b>-18%</b>	<b>605</b>	<b>-44%</b>	Consolidated EBITDA came in lower than estimate
EBITDA Margin (%)	9.8	11.3	14.9	-508 bps	14.0	-424 bps	
Depreciation	55	63	64	-14%	61	-9%	
Interest	33	30	33	-1%	39	-15%	
Exceptional item	0	0	0	NA	0	NA	
Share of Net Profit/Loss	103	125	105	-2%	174	-40%	
<b>PBT</b>	<b>380</b>	<b>435</b>	<b>448</b>	<b>-15%</b>	<b>711</b>	<b>-46%</b>	
Tax Outgo	72	109	89	-19%	136	-47%	
<b>PAT</b>	<b>308</b>	<b>326</b>	<b>359</b>	<b>-14%</b>	<b>575</b>	<b>-46%</b>	Consolidated PAT came in lower than estimate
<b>Key Metrics</b>							
Sales Volume(Standalone)	132,172	155,000	151,121	-13%	178,784	-26%	Standalone sales volume came in lower than our estimate
EBITDA/Tonne(Standalone)	23,898	21,500	19,952	20%	30,011	-20%	Standalone EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts- JSHL (Pre-Merger)

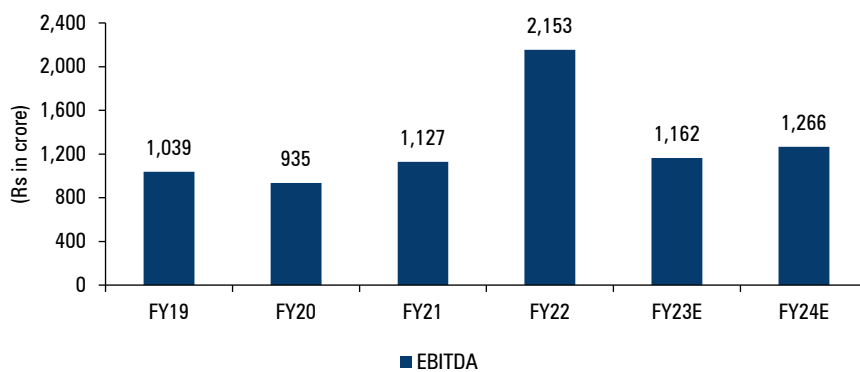
Exhibit 2: Trend in consolidated topline (in ₹ crore)



We expect JSHL to report consolidated topline of ₹ 12753 crore for FY23E and ₹ 13383 crore for FY24E

Source: Company, ICICI Direct Research

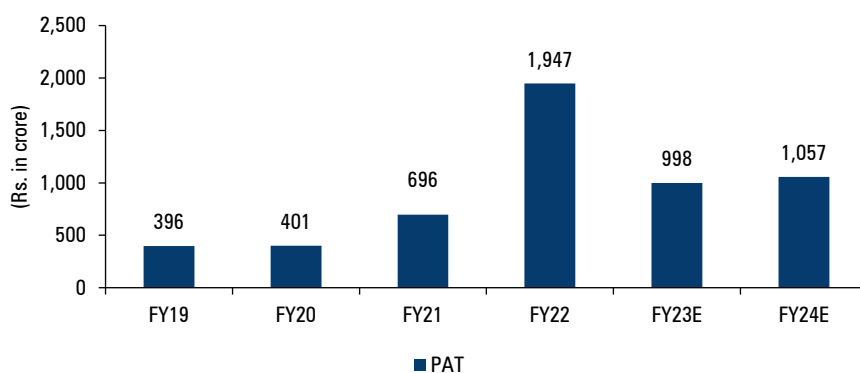
Exhibit 3: Trend in consolidated EBITDA (in ₹ crore)



We expect JSHL to report consolidated EBITDA of ₹ 1162 crore for FY23E and ₹ 1266 crore for FY24E

Source: Company, ICICI Direct Research

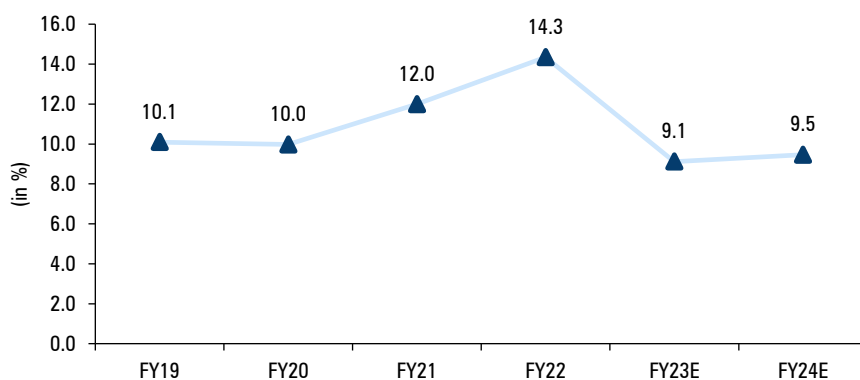
Exhibit 4: Trend in consolidated PAT (in ₹ crore)



We expect JSHL to report consolidated PAT of ₹ 998 crore for FY23E and ₹ 1057 crore for FY24E

Source: Company, ICICI Direct Research

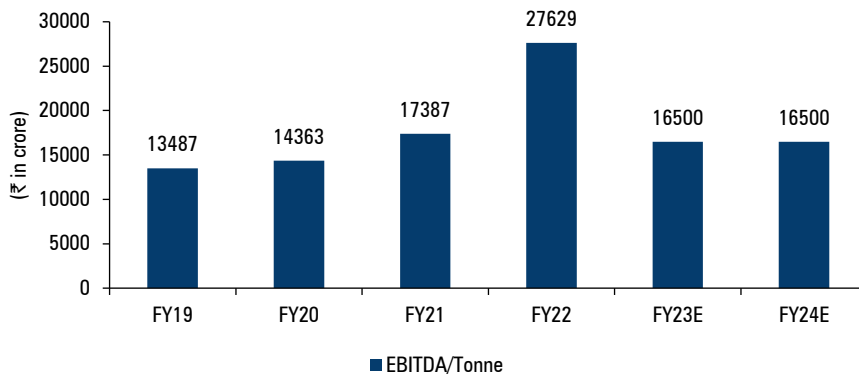
Exhibit 5: Trend in consolidated EBITDA margin (in %)



We expect JSHL to report consolidated EBITDA margin of 9.1% for FY23E and 9.5% for FY24E

Source: Company, ICICI Direct Research

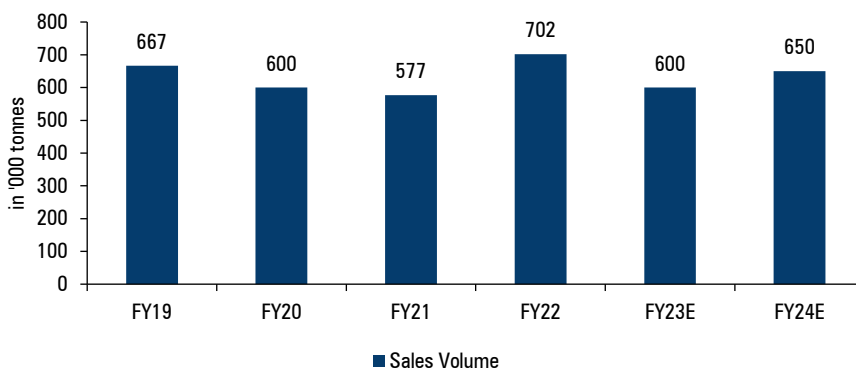
Exhibit 6: Trend in EBITDA/tonne (Standalone)



Going forward, we model EBITDA/tonne of ₹ 16500/tonne each for both FY23E and FY24E (JSHL Standalone operations)

Source: Company, ICICI Direct Research

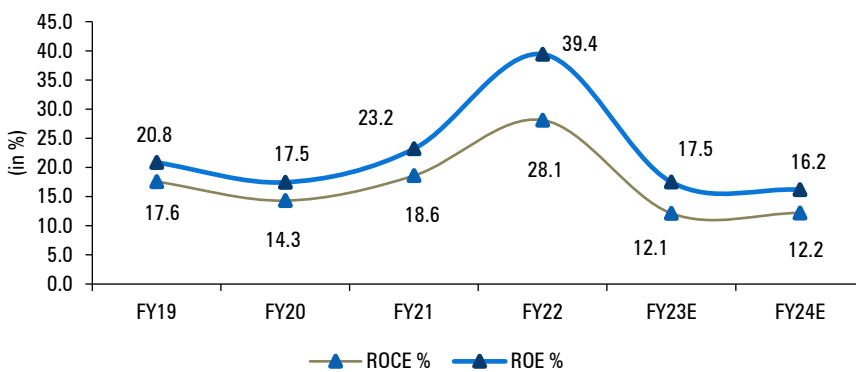
Exhibit 7: Trend in sales volume (Standalone)... (In KT)



Going forward, we model sales volume of 600000 tonnes for FY23E and 650000 tonnes for FY24E (JSHL Standalone operations)

Source: Company, ICICI Direct Research

Exhibit 8: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 9: Valuation Matrix

Years	Total Op Income (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY19	10,289	-0.7	16.8	NA	13.5	7.4	17.6	20.8
FY20	9,379	-8.8	17.0	1.2	13.4	8.0	14.3	17.5
FY21	9,400	0.2	29.5	73.6	7.7	6.1	18.6	23.2
FY22	15,011	59.7	82.5	179.9	2.8	3.3	28.1	39.4
FY23E	12,753	-15.0	42.3	-48.7	5.4	5.8	12.1	17.5
FY24E	13,383	4.9	44.8	5.9	5.1	5.1	12.2	16.2

Source: Company, ICICI Direct Research

**Exhibit 10: Valuation (based on merged entity basis)**

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	2,970
Subsidiaries EBITDA in FY24E	₹ crore	101
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3071
Multiple	x	4.5
EV	₹ crore	13820
Net Debt FY24E (After adjusting inter company loan)	₹ crore	2696
Mcap	₹ crore	11,124
No. of shares	in crore	82.3
<b>Target price of Jindal Stainless</b>	<b>in ₹/share</b>	<b>135</b>
CMP of Jindal Stainless	in ₹/share	115
Upside (%)	in %	17%
<b>Target price of Jindal Stainless Hisar (derived as per swap ratio)</b>	<b>in ₹/share</b>	<b>263</b>
CMP of Jindal Stainless Hisar	in ₹/share	223
Upside (%)	in %	18%

Source: Company, ICICI Direct Research

Note - Growth capex plan has been announced based on the post merged entity, wherein we believe the merged entity would have sufficient cash flows to meet the capex requirements from internal accruals. Furthermore, we expect the net debt of merged entity (on pro-forma basis) to decline from ₹3162 crore as on March 2022 (after adjusting inter-company loan) to ₹2696 crore as on March 2024E (after adjusting inter-company loan).

## Financial Summary – Jindal Stainless Steel Hisar (Pre-merger)

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>9400</b>	<b>15011</b>	<b>12753</b>	<b>13383</b>
Growth (%)	0%	60%	-15%	5%
Total Operating Expenditure	8273	12858	11591	12117
<b>EBITDA</b>	<b>1127</b>	<b>2153</b>	<b>1162</b>	<b>1266</b>
Growth (%)	21%	91%	-46%	9%
Interest & Finance Cost	251	131	93	64
Depreciation	290	250	296	323
Other Income	107	119	134	142
<b>PBT before Exceptional Items</b>	<b>693</b>	<b>1891</b>	<b>907</b>	<b>1021</b>
Add/less: Exceptional Items	41	0	0	0
Share of profit from Associates	146	545	381	342
PBT	880	2436	1288	1364
Total Tax	184	488	290	307
<b>PAT</b>	<b>696</b>	<b>1947</b>	<b>998</b>	<b>1057</b>
Growth (%)	74%	180%	-49%	6%
<b>EPS</b>	<b>29</b>	<b>83</b>	<b>42</b>	<b>45</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	696	1947	998	1057
Add: Dep. & Amortization	290	250	296	323
Net (Inc) / dec.in Current Asset	-416	-2265	533	-238
Net Inc / (dec) in Current Liab.	457	540	-472	39
<b>CF from Operating Actv.</b>	<b>1027</b>	<b>472</b>	<b>1356</b>	<b>1181</b>
(Inc)/dec in Investments	-151	-541	-290	-290
(Inc)/dec in Fixed Assets	-219	-235	-400	-425
Others	0	0	0	0
<b>CF from Investing Actv.</b>	<b>-371</b>	<b>-776</b>	<b>-690</b>	<b>-715</b>
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-679	326	-398	-238
Dividend & Dividend Tax	0	0	-230	-230
Others	10	-10	-3	-3
<b>CF from Financing Actv.</b>	<b>-669</b>	<b>315</b>	<b>-631</b>	<b>-471</b>
Net Cash flow	-13	12	35	-5
Opening Cash	34	21	32	68
<b>Closing Cash</b>	<b>21</b>	<b>32</b>	<b>68</b>	<b>62</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	47	47	47	47
Reserve and Surplus	2951	4894	5662	6489
<b>Total Shareholders funds</b>	<b>2998</b>	<b>4941</b>	<b>5709</b>	<b>6536</b>
Total Debt	1501	1827	1429	1191
Other Non-Current Liabilities	21	21	21	21
Deferred Tax Liability (net)	17	18	17	16
<b>Source of Funds</b>	<b>4538</b>	<b>6808</b>	<b>7177</b>	<b>7765</b>
Gross Block - Fixed Assets	3947	4204	4640	4787
Accumulated Depreciation	2062	2312	2608	2608
<b>Net Block</b>	<b>1886</b>	<b>1893</b>	<b>2032</b>	<b>2179</b>
Goodwill	75	75	75	75
Capital WIP	183	161	125	80
<b>Net Fixed Assets</b>	<b>2144</b>	<b>2129</b>	<b>2232</b>	<b>2334</b>
Investments	798	1339	1629	1919
Inventory	1639	2647	2271	2383
Cash	21	32	68	62
Debtors	917	1773	1572	1650
Loans & Advances & Other CA	1483	1884	1927	1976
<b>Total Current Assets</b>	<b>4059</b>	<b>6336</b>	<b>5838</b>	<b>6071</b>
Creditors	1725	2168	1747	1833
Provisions & Other CL	783	881	830	782
Total Current Liabilities	2509	3048	2577	2615
Net Current Assets	1551	3288	3262	3456
Other Non-current assets	45	52	54	56
<b>Application of Funds</b>	<b>4538</b>	<b>6808</b>	<b>7177</b>	<b>7765</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	29.5	82.5	42.3	44.8
BV	127	209	242	277
DPS	0.0	0.0	9.8	9.8
Cash Per Share	0.9	1.4	2.9	2.6
<b>Operating Ratios (%)</b>				
EBITDA margins	12.0	14.3	9.1	9.5
PBT margins	9.4	16.2	10.1	10.2
Net Profit margins	7.4	13.0	7.8	7.9
Inventory days	64	64	65	65
Debtor days	36	43	45	45
Creditor days	67	53	50	50
<b>Return Ratios (%)</b>				
RoE	23.2	39.4	17.5	16.2
RoCE	18.6	28.1	12.1	12.2
RoIC	18.7	28.3	12.2	12.3
<b>Valuation Ratios (x)</b>				
P/E	7.7	2.8	5.4	5.1
EV / EBITDA	6.1	3.3	5.8	5.1
EV / Revenues	0.7	0.5	0.5	0.5
Market Cap / Revenues	0.6	0.4	0.4	0.4
Price to Book Value	1.8	1.1	0.9	0.8
<b>Solvency Ratios</b>				
Debt / Equity	0.5	0.4	0.3	0.2
Debt/EBITDA	1.3	0.8	1.2	0.9
Current Ratio	1.6	2.1	2.3	2.3
Quick Ratio	1.0	1.2	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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