

July 11, 2022

## Capex plans going on as per schedule...

**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)

### Key Highlights-

- Post the levy of export duty, for the combined entity (JSL+JSHL), the company has given EBITDA/tonne guidance of ₹ 18000-20000/tonne. (during FY22, EBITDA/tonne for the combined entity was at ₹ 27609/tonne). Before the levy of export duty, for the combined entity (JSL+JSHL) export volume run-rate was ~25000-30000 tonnes per month. Post the duty, the export volume run-rate has declined to ~15000-16000 tonnes per month
- The total capex for the combined entity for capacity expansion is ₹ 2600 crore. Of this ~₹ 1300 crore has already been incurred till March 2022. Of the balance capex, ~₹ 900-1100 crore is expected to be incurred in FY23E and the balance ₹ 200-400 crore is expected to be incurred in FY24E

**What should investors do?** JSHL's share price has given a return of ~179% over the last two years (from ~₹ 75 in July 2020 to ~₹ 209 levels in July 2022).

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

**Target Price and Valuation:** We value JSHL at ₹ 244, based on merger ratio.

### Key triggers for future price performance:

- With respect to the precision strip division, JSHL has recently commissioned the first phase of expansion wherein the precision strip capacity has been expanded from 22000 tonnes per annum (TPA) to 48000 TPA. Going forward, after the second phase, precision strip capacity would be further expanded to 60000 TPA (from 48000 TPA) which would be completed by Q4FY23. The total capex for both phases is ₹ 250 crore
- JSHL is also expanding blade steel capacity from current capacity of 14000 TPA to 24000 TPA in two phases at a total capex of ₹ 200 crore for both phases. After the first phase, the capacity would be expanded to 20000 TPA and is likely to be completed by Q2FY23 while post the second phase capacity would be expanded to 24000 TPA and be completed by Q2FY24

**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 ₹ 125



### Particulars

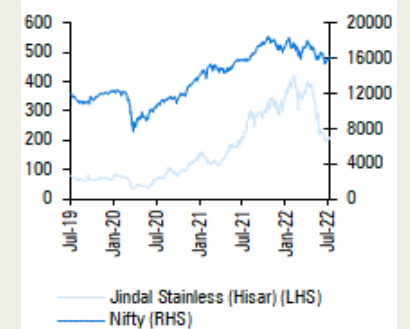
Particulars	₹ Crore
Market Capitalization	4,932
Total Debt (FY22)	1,626
Cash and Invest. (FY22)	21
Enterprise Value(EV)	6,537
52 week H/L (₹)	434/ 189
Equity capital	47.0
Face value (₹)	2.0

Debt and Cash are on a Standalone basis

### Particulars

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	58.1	58.9	58.9	58.9
Flls	21.0	20.7	20.1	20.5
Dlls	4.1	4.1	4.1	4.3
Public	16.9	16.3	16.9	16.3
<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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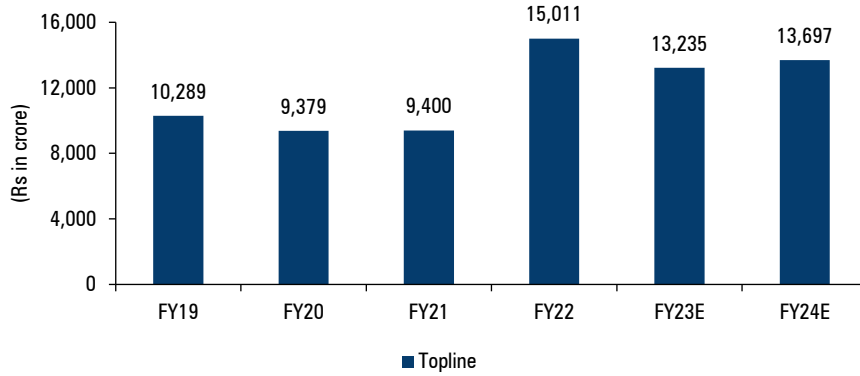
### Key Financial Summary- Jindal Stainless Hisar (Pre-merger)

₹ crore	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR in % (FY22-FY24E)
Total Operating income	10,289	9,379	9,400	15,011	14	13,235	13,697	-4
EBITDA	1,039	935	1,127	2,153	17	1,223	1,244	-24
PAT	396	401	696	1,947	46	1,045	1,039	-27
EPS (₹)	16.8	17.0	29.5	82.5		44.3	44.1	
P/E (x)	12.4	12.3	7.1	2.5		4.7	4.7	
EV/EBITDA (x)	7.0	7.6	5.7	3.1		5.2	4.9	
RoCE (%)	17.6	14.3	18.6	28.1		12.9	11.9	
RoE(%)	20.8	17.5	23.2	39.4		18.2	15.8	

Source: Company, ICICI Direct Research

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

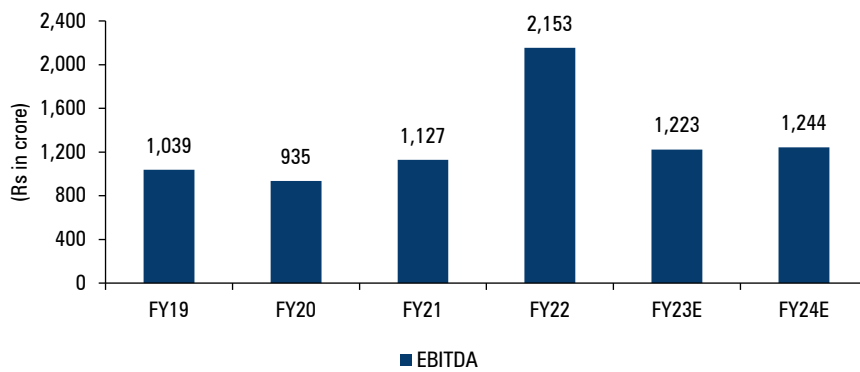
Exhibit 1: Trend in consolidated topline (in ₹ crore)



We expect JSHL to report consolidated topline of ₹ 13235 crore for FY23E and ₹ 13697 crore for FY24E

Source: Company, ICICI Direct Research

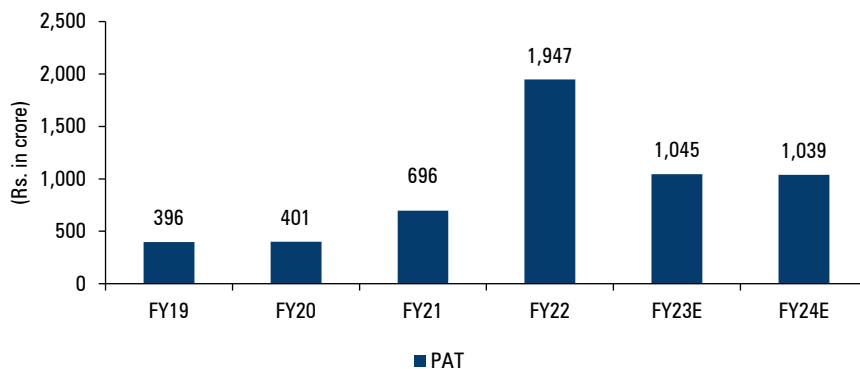
Exhibit 2: Trend in consolidated EBITDA (in ₹ crore)



We expect JSHL to report consolidated EBITDA of ₹ 1223 crore for FY23E and ₹ 1244 crore for FY24E

Source: Company, ICICI Direct Research

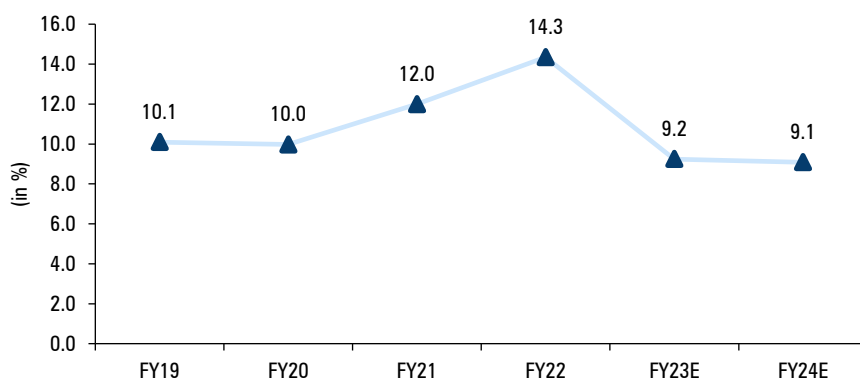
Exhibit 3: Trend in consolidated PAT (in ₹ crore)



We expect JSHL to report consolidated PAT of ₹ 1045 crore for FY23E and ₹ 1039 crore for FY24E

Source: Company, ICICI Direct Research

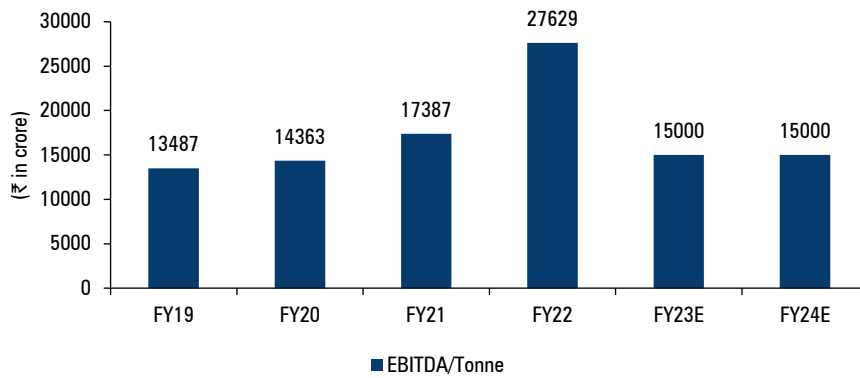
Exhibit 4: Trend in consolidated EBITDA margin (in %)



We expect JSHL to report consolidated EBITDA margin of 9.2% for FY23E and 9.1% for FY24E

Source: Company, ICICI Direct Research

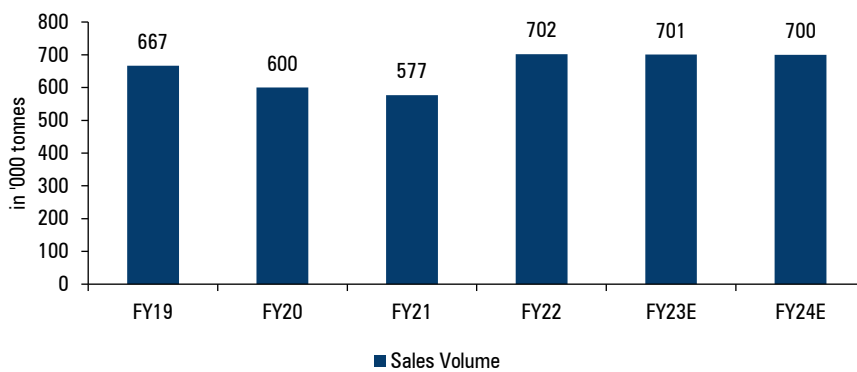
Exhibit 5: Trend in EBITDA/tonne (Standalone)



Going forward, we model EBITDA/tonne of ₹ 15000/tonne each for both FY23E and FY24E (JSHL Standalone operations)

Source: Company, ICICI Direct Research

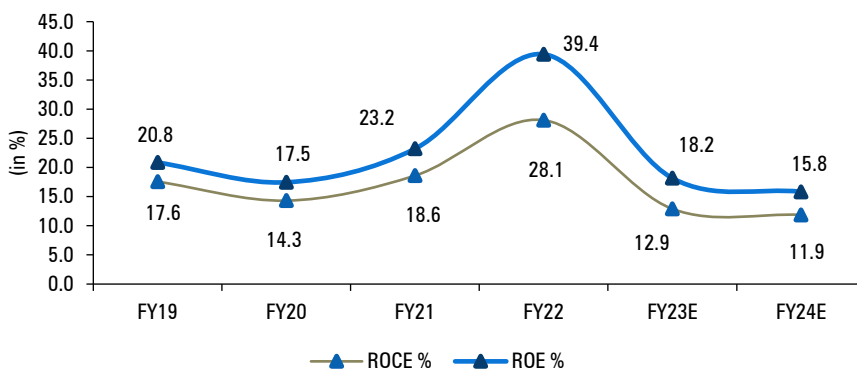
Exhibit 6: Trend in sales volume (Standalone)... (In KT)



Going forward, we model sales volume of 700500 tonnes for FY23E and 700000 tonnes for FY24E (JSHL Standalone operations)

Source: Company, ICICI Direct Research

Exhibit 7: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 8: 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	12.4	7.0	17.6	20.8
FY20	9,379	-8.8	17.0	1.2	12.3	7.6	14.3	17.5
FY21	9,400	0.2	29.5	73.6	7.1	5.7	18.6	23.2
FY22	15,011	59.7	82.5	179.9	2.5	3.1	28.1	39.4
FY23E	13,235	-11.8	44.3	-46.3	4.7	5.2	12.9	18.2
FY24E	13,697	3.5	44.1	-0.6	4.7	4.9	11.9	15.8

Source: Company, ICICI Direct Research

**Exhibit 9: Valuation (based on merged entity basis)**

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	2,850
Subsidiaries EBITDA in FY23E	₹ crore	102
Total Consolidated EBITDA of Merged Entity in FY23E	₹ crore	2952
Multiple	x	4.5
EV	₹ crore	13284
Net Debt (After adjusting inter company loan)	₹ crore	2978
Mcap	₹ crore	10,306
No. of shares	in crore	82.3
<b>Target price of Jindal Stainless</b>	<b>in ₹/share</b>	<b>125</b>
CMP of Jindal Stainless	in ₹/share	103
Upside (%)	in %	21%
<b>Target price of Jindal Stainless Hisar (derived as per swap ratio)</b>	<b>in ₹/share</b>	<b>244</b>
CMP of Jindal Stainless Hisar	in ₹/share	209
Upside (%)	in %	17%

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 ₹2978 crore as on March 2024E (after adjusting inter-company loan).

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

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>9400</b>	<b>15011</b>	<b>13235</b>	<b>13697</b>
Growth (%)	0%	60%	-12%	3%
Total Operating Expenditure	8273	12858	12011	12454
<b>EBITDA</b>	<b>1127</b>	<b>2153</b>	<b>1223</b>	<b>1244</b>
Growth (%)	21%	91%	-43%	2%
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>968</b>	<b>999</b>
Add/less: Exceptional Items	41	0	0	0
Share of profit from Associates	146	545	381	342
PBT	880	2436	1349	1341
Total Tax	184	488	303	302
<b>PAT</b>	<b>696</b>	<b>1947</b>	<b>1045</b>	<b>1039</b>
Growth (%)	74%	180%	-46%	-1%
<b>EPS</b>	<b>29</b>	<b>83</b>	<b>44</b>	<b>44</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	696	1947	1045	1039
Add: Dep. & Amortization	290	250	296	323
Net (Inc) / dec.in Current Asset	-416	-2265	388	-188
Net Inc / (dec) in Current Liab.	457	540	-406	16
<b>CF from Operating Actv.</b>	<b>1027</b>	<b>472</b>	<b>1324</b>	<b>1191</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	3	5
Opening Cash	34	21	32	36
<b>Closing Cash</b>	<b>21</b>	<b>32</b>	<b>36</b>	<b>40</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	47	47	47	47
Reserve and Surplus	2951	4894	5709	6518
<b>Total Shareholders funds</b>	<b>2998</b>	<b>4941</b>	<b>5756</b>	<b>6566</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>7224</b>	<b>7794</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	2357	2439
Cash	21	32	36	40
Debtors	917	1773	1632	1689
Loans & Advances & Other CA	1483	1884	1927	1976
<b>Total Current Assets</b>	<b>4059</b>	<b>6336</b>	<b>5951</b>	<b>6144</b>
Creditors	1725	2168	1813	1876
Provisions & Other CL	783	881	830	782
Total Current Liabilities	2509	3048	2643	2659
Net Current Assets	1551	3288	3309	3485
Other Non-current assets	45	52	54	56
<b>Application of Funds</b>	<b>4538</b>	<b>6808</b>	<b>7224</b>	<b>7794</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	29.5	82.5	44.3	44.1
BV	127	209	244	278
DPS	0.0	0.0	9.8	9.8
Cash Per Share	0.9	1.4	1.5	1.7
<b>Operating Ratios (%)</b>				
EBITDA margins	12.0	14.3	9.2	9.1
PBT margins	9.4	16.2	10.2	9.8
Net Profit margins	7.4	13.0	7.9	7.6
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	18.2	15.8
RoCE	18.6	28.1	12.9	11.9
RoIC	18.7	28.3	13.0	11.9
<b>Valuation Ratios (x)</b>				
P/E	7.1	2.5	4.7	4.7
EV / EBITDA	5.7	3.1	5.2	4.9
EV / Revenues	0.7	0.4	0.5	0.4
Market Cap / Revenues	0.5	0.3	0.4	0.4
Price to Book Value	1.6	1.0	0.9	0.8
<b>Solvency Ratios</b>				
Debt / Equity	0.5	0.4	0.2	0.2
Debt/EBITDA	1.3	0.8	1.2	1.0
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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