

CMP: ₹ 329

Target: ₹ 439 (33%)

Target Period: 12 months

BUY

May 9, 2022

Healthy 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)

Q4FY22 Results: JSHL reported a healthy performance in Q4FY22.

- During Q4FY22, JSHL reported a consolidated topline of ₹ 4318 crore, up 39% YoY and 3% QoQ, higher than our estimate of ₹ 4032 crore
- Consolidated EBITDA was at ₹ 605 crore, up 49% YoY, 6% QoQ, higher than our estimate of ₹ 572 crore. Consolidated PAT was at ₹ 575 crore, up 64% YoY and 12% QoQ, higher than our estimate of ₹ 518 crore

What should investors do? JSHL's share price has given a return of ~101% over the last 12 months (from ~₹ 164 in May 2021 to ~₹ 329 levels in May 2022)

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

Target Price and Valuation: We value JSHL at ₹ 439, 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
- Merger Update** - Shareholders and creditors of JSL and JSHL approved the "Scheme of Arrangement" for the merger between two companies on April 24, 2022. The companies will now file the second motion petition with NCLT. The companies now expect other relevant processes to be completed in due time, in the next six to seven 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 ₹ 225



Particulars

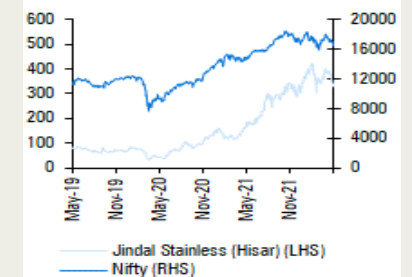
Particulars	₹ Crore
Market Capitalization	7,763
Total Debt (FY22)	1,626
Cash and Invest. (FY22)	21
Enterprise Value(EV)	9,368
52 week H/L (₹)	434/ 162
Equity capital	47.0
Face value (₹)	2.0

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
FII	21.0	20.7	20.1	20.5
DII	4.1	4.1	4.1	4.3
Public	16.9	16.3	16.9	16.3
Total	100.0	100.0	100.0	100.0

Price Performance Graph



Key Risks & Event for JSHL

- For Q4FY22, standalone EBITDA/tonne of JSHL was at ₹30011/tonne (our estimate of ₹29000/tonne)
- Key risks:** (i) Sharp rise in raw material cost (ii) 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	14,586	14,094	-3
EBITDA	1,039	935	1,127	2,153	17	1,573	1,419	-19
PAT	396	401	696	1,947	46	1,317	1,175	-22
EPS (₹)	16.8	17.0	29.5	82.5		55.8	49.8	
P/E (x)	19.6	19.4	11.2	4.0		5.9	6.6	
EV/EBITDA (x)	9.7	10.6	8.2	4.4		5.5	5.8	
RoCE (%)	17.6	14.3	18.6	28.1		17.7	14.3	
RoE(%)	20.8	17.5	23.2	39.4		21.8	16.9	

Source: Company, ICICI Direct Research

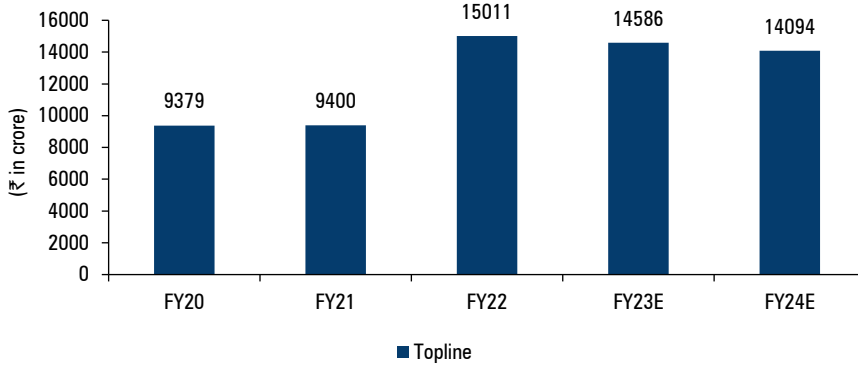
Exhibit 1: Variance Analysis- JSHL – Consolidated (Sales volume and EBITDA/tonne is standalone)

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	4318	4032	3103	39%	4173	3%	Consolidated topline came in higher than our estimate
Other Income	32	40	26	23%	30	6%	
Total Operating expense	3714	3460	2697	38%	3604	3%	
EBITDA	605	572	406	49%	569	6%	Consolidated EBITDA came in higher than our estimate
EBITDA Margin (%)	14.0	14.2	13.1	93 bps	13.6	37 bps	
Depreciation	61	63	71	-14%	63	-3%	
Interest	39	32	45	-13%	36	9%	
Exceptional item	0	0	17	NA	0	NA	
Share of Net Profit/Loss	174	160	99	75%	146	19%	
PBT	711	677	432	64%	647	10%	
Tax Outgo	136	159	82	66%	132	3%	
PAT	575	518	351	64%	515	12%	Consolidated PAT came in higher than our estimate
Key Metrics							
Sales Volume(Standalone)	1,78,784	1,80,000	1,82,474	-2%	1,84,084	-3%	Standalone sales volume came in line with our estimate
EBITDA/Tonne(Standalone)	30,011	29,000	19,952	50%	28,259	6%	Standalone EBITDA/tonne came in higher our estimate

Source: Company, ICICI Direct Research

Financial story in charts- Jindal Stainless Steel Hisar

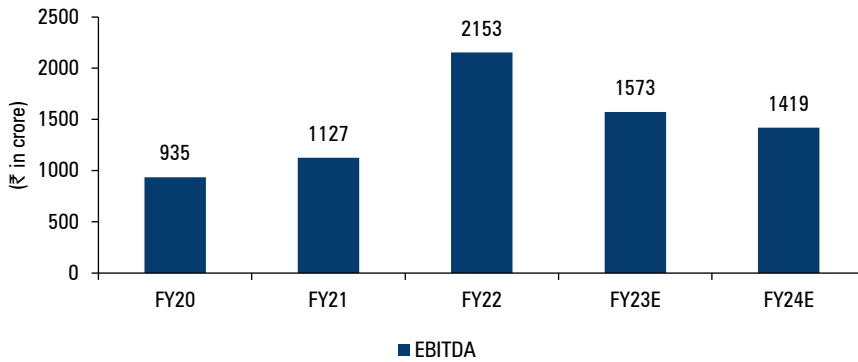
Exhibit 6: Trend in consolidated topline (in ₹ crore)



We expect JSHL to report consolidated topline of ₹ 14586 crore for FY23E and ₹ 14094 crore for FY24E

Source: Company, ICICI Direct Research

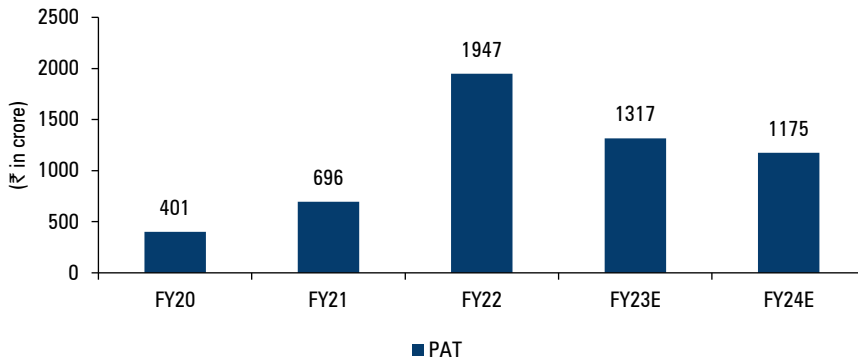
Exhibit 7: Trend in consolidated EBITDA (in ₹ crore)



We expect JSHL to report consolidated EBITDA of ₹ 1573 crore for FY23E and ₹ 1419 crore for FY24E

Source: Company, ICICI Direct Research

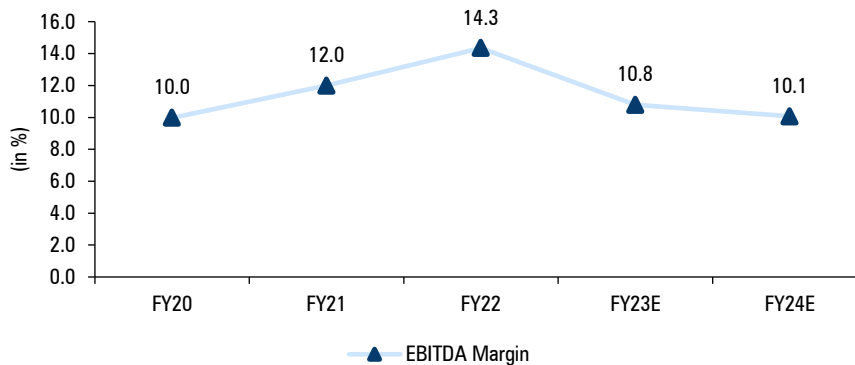
Exhibit 8: Trend in consolidated PAT (in ₹ crore)



We expect JSHL to report consolidated PAT of ₹ 1317 crore for FY23E and ₹ 1175 crore for FY24E

Source: Company, ICICI Direct Research

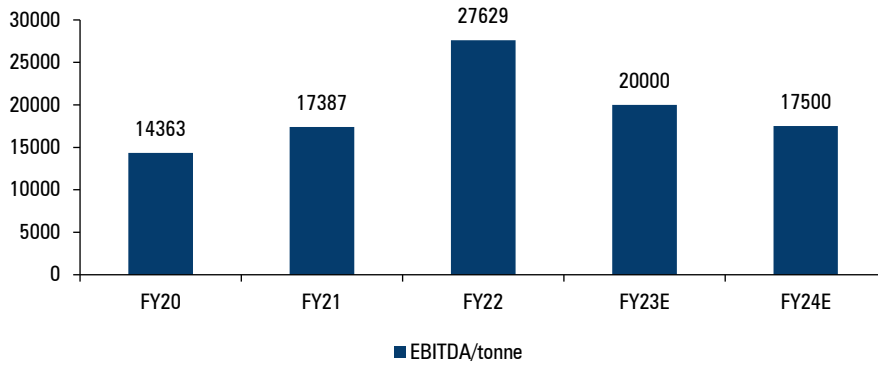
Exhibit 9: Trend in consolidated EBITDA margin (in %)



We expect JSHL to report consolidated EBITDA margin of 10.8% for FY23E and 10.1% for FY24E

Source: Company, ICICI Direct Research

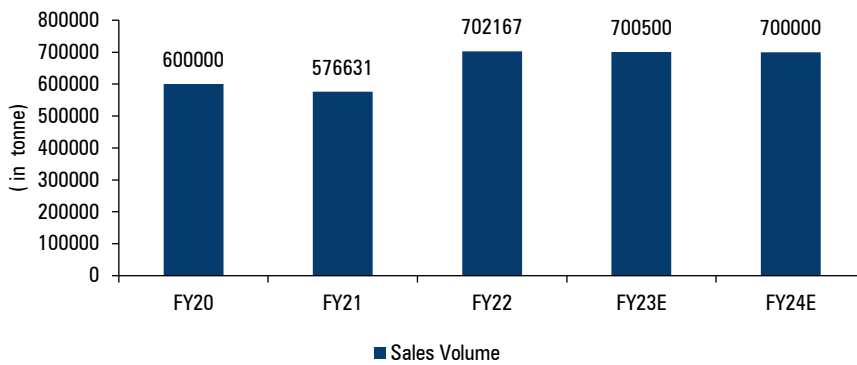
Exhibit 10: Trend in EBITDA/tonne (Standalone)



Going forward, we model EBITDA/tonne of ₹ 20000/tonne for FY23E and ₹ 17500/tonne for FY24E (JSHL Standalone operations)

Source: Company, ICICI Direct Research

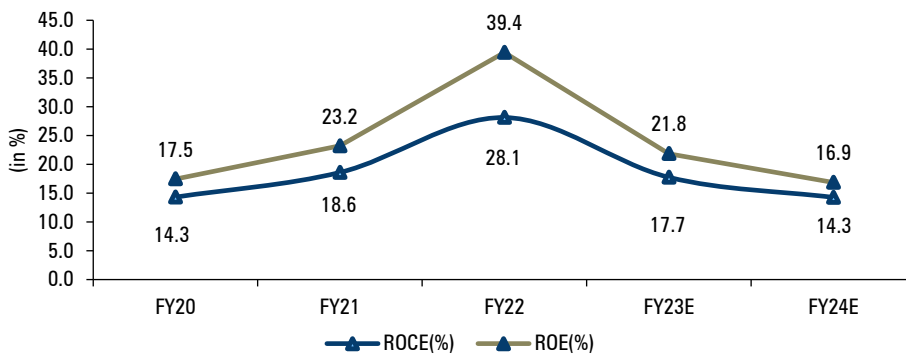
Exhibit 11: Trend in sales volume (Standalone)... (In KT)



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 12: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 13: Valuation Matrix

Years	Total Op (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	RoE (%)
FY19	10,289	-0.7	16.8	NA	19.6	9.7	17.6	20.8
FY20	9,379	-8.8	17.0	1.2	19.4	10.6	14.3	17.5
FY21	9,400	0.2	29.5	73.6	11.2	8.2	18.6	23.2
FY22	15,011	59.7	82.5	179.9	4.0	4.4	28.1	39.4
FY23E	14,586	-2.8	55.8	-32.4	5.9	5.5	17.7	21.8
FY24E	14,094	-3.4	49.8	-10.8	6.6	5.8	14.3	16.9

Source: Company, ICICI Direct Research

Exhibit 14: Valuation (based on merged entity basis)

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	3,500
Subsidiaries EBITDA in FY24E	₹ crore	129
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3629
Multiple	x	5.5
EV	₹ crore	19959
Net Debt (After adjusting inter company loan)	₹ crore	1402
Mcap	₹ crore	18,557
No. of shares	in crore	82.3
Target price of Jindal Stainless	in ₹/share	225
CMP of Jindal Stainless	in ₹/share	166
Upside (%)	in %	36%
Target price of Jindal Stainless Hisar (derived as per swap ratio)	in ₹/share	439
CMP of Jindal Stainless Hisar	in ₹/share	329
Upside (%)	in %	33%

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 ₹1402 crore as on March 2024E (after adjusting inter-company loan).

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

Exhibit 15: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	9400	15011	14586	14094	
Growth (%)	0%	60%	-3%	-3%	
Total Operating Expenditure	8273	12858	13013	12675	
EBITDA	1127	2153	1573	1419	
Growth (%)	21%	91%	-27%	-10%	
Interest & Finance Cost	251	131	93	64	
Depreciation	290	250	296	323	
Other Income	107	119	134	142	
PBT before Exceptional Items	693	1891	1318	1174	
Add/less: Exceptional Items	41	0	0	0	
Share of profit from Associates	146	545	381	342	
PBT	880	2436	1699	1516	
Total Tax	184	488	382	341	
PAT	696	1947	1317	1175	
Growth (%)	74%	180%	-32%	-11%	
EPS	29	83	56	50	

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	696	1947	1317	1175	
Add: Dep. & Amortization	290	250	296	323	
Net (Inc) / dec.in Current Asset	-416	-2265	380	87	
Net Inc / (dec) in Current Liab.	457	540	-220	-115	
CF from Operating Actv.	1027	472	1773	1470	
(Inc)/dec in Investments	-151	-541	-290	-290	
(Inc)/dec in Fixed Assets	-219	-235	-400	-425	
Others	0	0	0	0	
CF from Investing Actv.	-371	-776	-690	-715	
Inc / (Dec) in Equity Capital	0	0	0	0	
Inc / (Dec) in Loans	-679	326	-658	-458	
Dividend & Dividend Tax	0	0	-230	-230	
Others	10	-10	-3	-3	
CF from Financing Actv.	-669	315	-891	-691	
Net Cash flow	-13	12	192	64	
Opening Cash	34	21	32	225	
Closing Cash	21	32	225	288	

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	47	47	47	47	
Reserve and Surplus	2951	4894	5980	6925	
Total Shareholders funds	2998	4941	6028	6973	
Total Debt	1501	1827	1169	711	
Other Non-Current Liabilities	21	21	21	21	
Deferred Tax Liability (net)	17	18	17	16	
Source of Funds	4538	6808	7235	7722	
Gross Block - Fixed Assets	3947	4204	4640	4787	
Accumulated Depreciation	2062	2312	2608	2608	
Net Block	1886	1893	2032	2179	
Goodwill	75	75	75	75	
Capital WIP	183	161	125	80	
Net Fixed Assets	2144	2129	2232	2334	
Investments	798	1339	1629	1919	
Inventory	1639	2647	2398	2317	
Cash	21	32	225	288	
Debtors	917	1773	1598	1545	
Loans & Advances & Other CA	1483	1884	1927	1976	
Total Current Assets	4059	6336	6148	6125	
Creditors	1725	2168	1998	1931	
Provisions & Other CL	783	881	830	782	
Total Current Liabilities	2509	3048	2828	2713	
Net Current Assets	1551	3288	3320	3412	
Other Non-current assets	45	52	54	56	
Application of Funds	4538	6808	7235	7722	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	29.5	82.5	55.8	49.8	
BV	127	209	255	296	
DPS	0.0	0.0	9.8	9.8	
Cash Per Share	0.9	1.4	9.5	12.2	
Operating Ratios (%)					
EBITDA margins	12.0	14.3	10.8	10.1	
PBT margins	9.4	16.2	11.6	10.8	
Net Profit margins	7.4	13.0	9.0	8.3	
Inventory days	64	64	60	60	
Debtor days	36	43	40	40	
Creditor days	67	53	50	50	
Return Ratios (%)					
RoE	23.2	39.4	21.8	16.9	
RoCE	18.6	28.1	17.7	14.3	
RoIC	18.7	28.3	18.3	14.8	
Valuation Ratios (x)					
P/E	11.2	4.0	5.9	6.6	
EV / EBITDA	8.2	4.4	5.5	5.8	
EV / Revenues	1.0	0.6	0.6	0.6	
Market Cap / Revenues	0.8	0.5	0.5	0.6	
Price to Book Value	2.6	1.6	1.3	1.1	
Solvency Ratios					
Debt / Equity	0.5	0.4	0.2	0.1	
Debt/EBITDA	1.3	0.8	0.7	0.5	
Current Ratio	1.6	2.1	2.2	2.3	
Quick Ratio	1.0	1.2	1.3	1.4	

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	Rating	M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			(₹ Cr)	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E		
Coal India	187	195	Buy	115520	20.6	25.7	28.0	9.1	7.3	6.7	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5			
Hindalco	444	725	Buy	99786	25.5	62.8	73.7	17.4	7.1	6.0	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3			
NMDC	152	190	Buy	44662	21.3	34.2	20.9	7.1	4.4	7.3	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9			
JSW Steel	691	775	Buy	166945	32.9	98.1	76.8	21.0	7.0	9.0	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0			
Ratnamani	2259	2254	Hold	10554	59.0	69.3	90.2	38.3	32.6	25.1	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3			
Graphite Ind.	480	650	Buy	9392	-1.6	29.7	62.4	NA	16.2	7.7	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7			
Tata Steel	1284	1600	Buy	156959	77.1	343.0	252.8	16.7	3.7	5.1	7.7	3.4	4.0	13.1	28.5	20.1	12.4	36.4	22.0			
Sail	90	120	Buy	37150	9.2	29.1	16.0	9.8	3.1	5.6	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5			
Jindal Stainless	166	225	Buy	9064	8.6	36.3	23.7	19.3	4.6	7.0	7.8	3.9	5.3	16.0	31.3	19.0	13.0	36.5	20.1			
Jindal Stainless Hisar	329	439	Buy	7763	29.5	82.5	55.8	11.2	4.0	5.9	8.2	4.4	5.5	18.6	28.1	17.7	23.2	39.4	21.8			
Vardhman Special Steel	237	300	Buy	961	10.9	24.8	27.6	21.7	9.5	8.6	11.1	6.7	6.6	13.2	24.5	20.1	9.6	18.2	17.2			
Tata Metaliks	766	900	Hold	2418	69.9	75.4	76.5	11.0	10.2	10.0	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9			

Source: Company, ICICI Direct Research

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Sell: < -15%



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