

CMP: ₹ 103

Target: ₹ 125 (21%)

Target Period: 12 months

BUY

July 11, 2022

EBITDA/tonne guidance of ~₹ 18000-20000/tonne...

About the stock: Jindal Stainless (JSL) is among the leading stainless steel manufacturing companies in the world and India's largest stainless steel manufacturer.

- JSL operates an integrated stainless steel plant at Jajpur, Odisha. The complex has a total stainless steel capacity of 1.1 million tonnes per annum
- The company has readily leveragable infrastructure for cost efficient brownfield expansion

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 the EBITDA/tonne of 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? Jindal Stainless' share price has given a return of ~151% in the last two years (from ~₹ 41 in July 2020 to ~₹ 103 in July 2022).

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

Target Price and Valuation: We value JSL at ₹ 125, based on a merged entity basis

Key triggers for future price performance:

- JSL is augmenting its stainless steel melt capacity from 1.1 million tonnes per annum (MTPA) to 2.1 MTPA and also enhancing downstream capacity with 1.6x expansion of hot rolled annealed pickled (HRAP) from 0.8 MTPA to 1.25 MTPA and 1.7x expansion of cold rolled annealed pickled (CRAP) from 0.45 MTPA to 0.75 MTPA. The SMS – Upstream expansion and combi-line downstream expansion is expected to be completed by H2FY23
- It is also expanding backward integration with 1.4x expansion of ferro chrome from 0.25 MTPA to 0.35 MTPA, likely to be completed by Q3FY24. The estimated total overall growth capex cost is ~₹ 2150 crore

Alternate Stock Idea: Apart from JSL, we also like Jindal Stainless (Hisar) (JSHL).

- JSHL operates an integrated stainless steel plant at Hisar, Haryana. JSHL has a total melting capacity of 0.8 Million tonnes per annum (MTPA)
- BUY with a target price of ₹ 244



Particulars

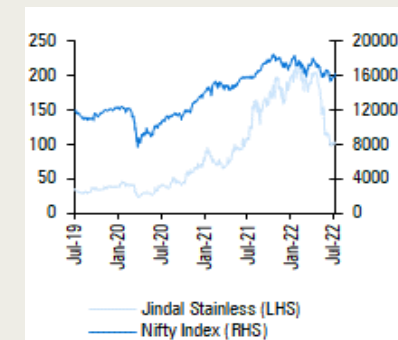
| Particulars | ₹ Crore |
|-------------------------|----------|
| Market Capitalization | 5,431 |
| Total Debt (FY22) | 2,794 |
| Cash and Invest. (FY22) | 199 |
| Enterprise Value(EV) | 8,026 |
| 52 week H/L (₹) | 225 / 95 |
| Equity capital | 105 |
| Face value (₹) | 2.0 |

* Debt and Cash are for the Standalone entity

Shareholding Pattern

| (in %) | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|--------------|--------------|--------------|--------------|--------------|
| Promoter | 68.1 | 68.6 | 68.6 | 69.9 |
| FIs | 14.8 | 14.3 | 15.0 | 15.1 |
| DIs | 6.0 | 6.6 | 7.2 | 6.3 |
| Public | 11.1 | 10.4 | 9.2 | 8.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Price Performance



Key Risks

- (i) Sharp uptick in raw material cost
- (ii) Slowdown in demand growth

Research Analyst

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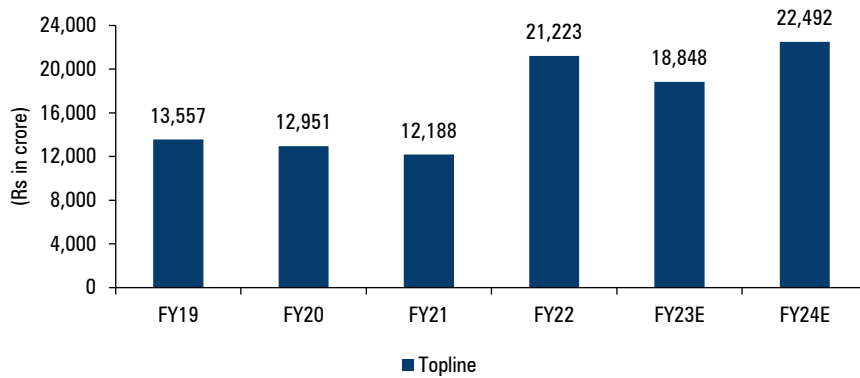
Key Financial Summary- Jindal Stainless (Pre-merger)

| ₹ crore | FY19 | FY20 | FY21 | FY22 | CAGR in % (FY17-FY22) | FY23E | FY24E | CAGR in % (FY22-FY24E) |
|------------------------|--------|--------|--------|--------|-----------------------|--------|--------|------------------------|
| Total Operating income | 13,557 | 12,951 | 12,188 | 21,223 | 18 | 18,848 | 22,492 | 3 |
| EBITDA | 1,165 | 1,139 | 1,424 | 2,987 | 21 | 1,642 | 1,888 | -21 |
| PAT | 145 | 73 | 419 | 1,909 | 93 | 862 | 1,060 | -26 |
| EPS (₹) | 3.0 | 1.5 | 8.6 | 36.3 | | 16.4 | 20.2 | |
| P/E (x) | 34.0 | 69.1 | 12.0 | 2.8 | | 6.3 | 5.1 | |
| EV/EBITDA (x) | 8.0 | 7.8 | 5.7 | 2.8 | | 5.2 | 4.4 | |
| RoCE (%) | 11.6 | 10.8 | 16.0 | 31.3 | | 13.4 | 15.0 | |
| ROE (%) | 5.6 | 2.7 | 13.0 | 36.5 | | 14.8 | 16.0 | |

Source: Company, ICICI Direct

Financial story in Charts- Jindal Stainless

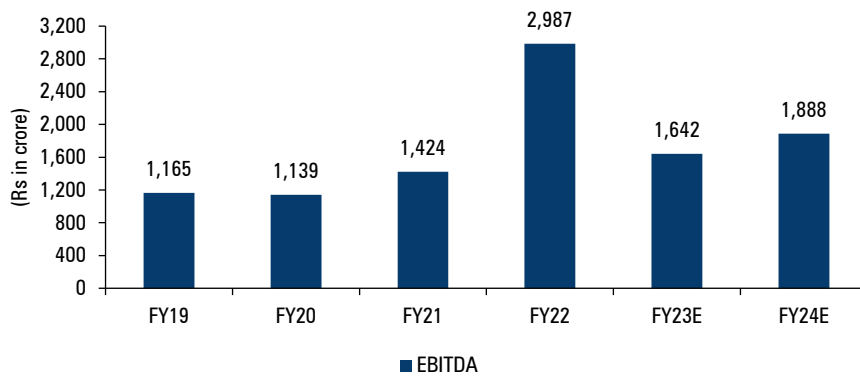
Exhibit 1: Trend in consolidated topline (in ₹ crore)



JSL's consolidated topline is expected to grow at a CAGR of 3% during FY22-24E

Source: Company, ICICI Direct Research

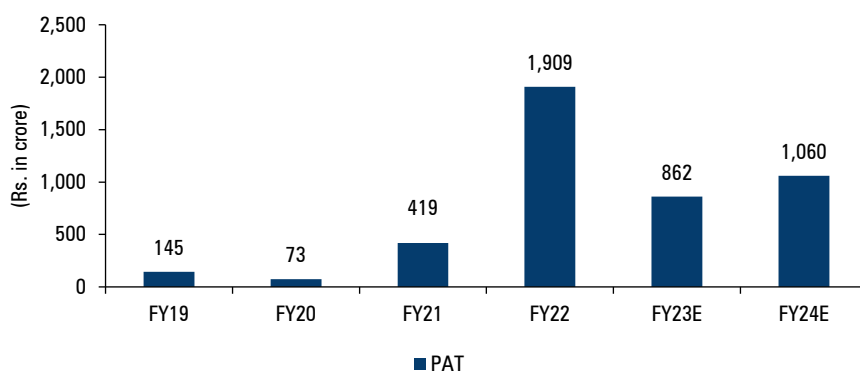
Exhibit 2: Trend in consolidated EBITDA (in ₹ crore)



We expect JSL to report consolidated EBITDA of ₹ 1,642 crore in FY23E and ₹ 1,888 crore in FY24E

Source: Company, ICICI Direct Research

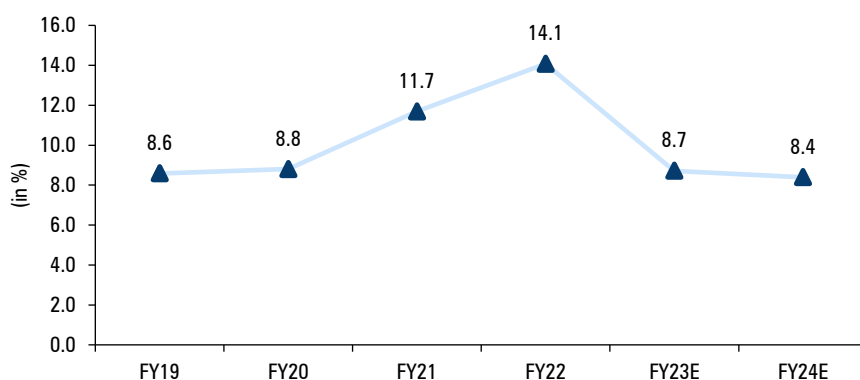
Exhibit 3: Trend in consolidated PAT (in ₹ crore)



We expect JSL to report consolidated PAT of ₹ 862 crore in FY23E and ₹ 1,060 crore in FY24E

Source: Company, ICICI Direct Research

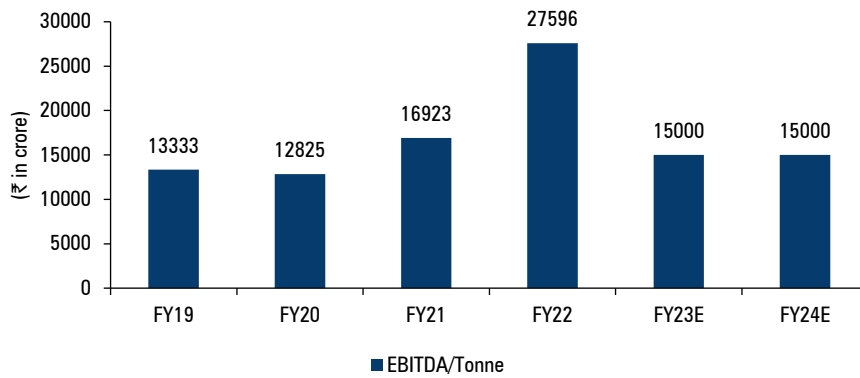
Exhibit 4: Trend in consolidated EBITDA margin (in %)



We expect JSL's consolidated EBITDA margin to be ~8.7% in FY23E and 8.4% in FY24E

Source: Company, ICICI Direct Research

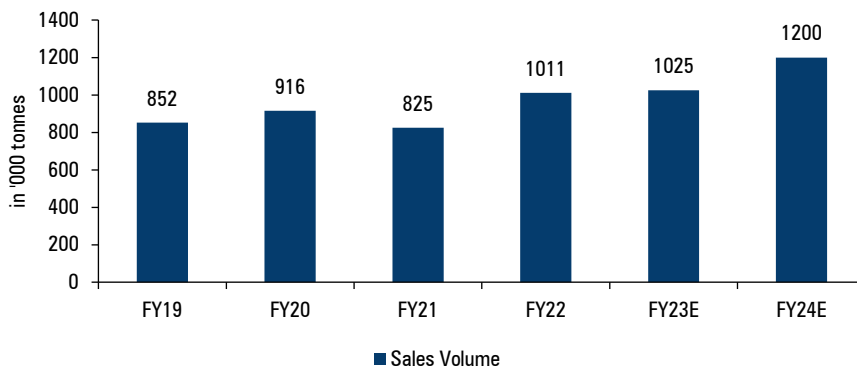
Exhibit 5: Trend in EBITDA/tonne (Standalone)



For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 15000/tonne each for FY23E and FY24E

Source: Company, ICICI Direct Research

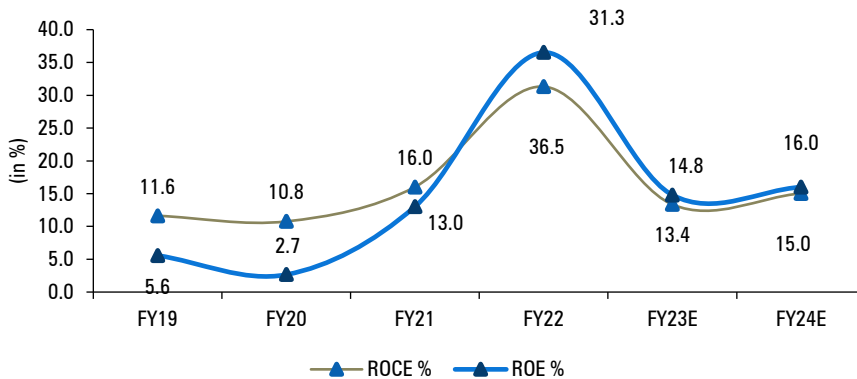
Exhibit 6: Trend in sales volume (standalone)... (in KT)



For the standalone entity Jindal Stainless, we model sales volume 1.025 million tonnes (MT) for FY23E and 1.2 MT for FY24E

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 (%) |
|-------|---------------------------|---------------|-------------|---------------|-----------|------------------|-------------|------------|
| FY20 | 12,951 | -4.5 | 1.5 | -50.8 | 69.1 | 7.8 | 10.8 | 2.7 |
| FY21 | 12,188 | -5.9 | 8.6 | 477.6 | 12.0 | 5.7 | 16.0 | 13.0 |
| FY22 | 21,223 | 74.1 | 36.3 | 322.0 | 2.8 | 2.8 | 31.3 | 36.5 |
| FY23E | 18,848 | -11.2 | 16.4 | -54.8 | 6.3 | 5.2 | 13.4 | 14.8 |
| FY24E | 22,492 | 19.3 | 20.2 | 22.8 | 5.1 | 4.4 | 15.0 | 16.0 |

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 |
| Target price of Jindal Stainless | in ₹/share | 125 |
| CMP of Jindal Stainless | in ₹/share | 103 |
| Upside (%) | in % | 21% |
| Target price of Jindal Stainless Hisar (derived as per swap ratio) | in ₹/share | 244 |
| 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 – Consolidated – JSL (Pre-merger)

| Exhibit 10: Profit and loss statement | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Total Operating Income | 12,188 | 21,223 | 18,848 | 22,492 |
| Growth (%) | -5.9% | 74.1% | -11.2% | 19.3% |
| Total Operating Expenditure | 10,764 | 18,236 | 17,206 | 20,605 |
| EBITDA | 1,424 | 2,987 | 1,642 | 1,888 |
| Growth (%) | 25.0% | 109.7% | -45.0% | 15.0% |
| Interest & Finance Cost | 480 | 332 | 271 | 226 |
| Depreciation | 403 | 371 | 416 | 427 |
| Other Income | 41 | 56 | 60 | 63 |
| PBT before Exceptional Items | 582 | 2,339 | 1,014 | 1,297 |
| Add/Less: Exceptional Items | 102 | 0 | 0 | 0 |
| Add/Less: Share of P/L of Invst us | 5 | 103 | 85 | 75 |
| PBT | 690 | 2,442 | 1,099 | 1,372 |
| Total Tax | 270 | 533 | 236 | 312 |
| PAT | 419 | 1,909 | 862 | 1,060 |
| Growth (%) | 477.6% | 355.1% | -54.8% | 22.8% |
| EPS | 8.6 | 36.3 | 16.4 | 20.2 |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash flow statement | | | | |
|-------------------------------------|-------------|-------------|--------------|-------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Profit/(Loss) after taxation | 419 | 1909 | 862 | 1060 |
| Add: Dep. & Amortization | 403 | 371 | 416 | 427 |
| Net (Inc) / dec.in Current Asset | -284 | -3792 | 843 | -1039 |
| Net Inc / (dec) in Current Liab. | 47 | 1810 | -781 | 928 |
| Others | 339 | 430 | 20 | 20 |
| CF from operating activities | 924 | 728 | 1361 | 1396 |
| (Inc)/dec in Investments | 26 | -66 | -25 | -30 |
| (Inc)/dec in Fixed Assets | -154 | -533 | -1300 | -852 |
| Others | 0 | 0 | 0 | 0 |
| CF from investing activities | -128 | -599 | -1325 | -882 |
| Inc / (Dec) in Equity Capital | 0 | 8 | 0 | 0 |
| Inc / (Dec) in Loans | -749 | -29 | 225 | -265 |
| Dividend & Dividend Tax | 0 | 0 | -263 | -263 |
| CF from financing activities | -749 | -21 | -38 | -528 |
| Net Cash flow | 48 | 108 | -2 | -13 |
| Opening Cash | 69 | 116 | 224 | 222 |
| Closing Cash | 116 | 224 | 222 | 209 |

Source: Company, ICICI Direct Research

| Exhibit 12: Balance sheet | | | | |
|------------------------------|-------------|-------------|-------------|--------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Equity Capital | 97 | 105 | 105 | 105 |
| Reserve and Surplus | 3121 | 5122 | 5721 | 6518 |
| Total Shareholders funds | 3218 | 5227 | 5827 | 6623 |
| Total Debt | 3154 | 3126 | 3351 | 3086 |
| Deferred Tax Liability (net) | 461 | 799 | 819 | 840 |
| Source of Funds | 6834 | 9152 | 9997 | 10549 |
| Gross Block - Fixed Assets | 8556 | 8785 | 10160 | 11212 |
| Accumulated Depreciation | 2352 | 2723 | 3139 | 3566 |
| Net Block | 6204 | 6062 | 7021 | 7645 |
| Capital WIP | 53 | 357 | 282 | 82 |
| Net Fixed Assets | 6257 | 6419 | 7303 | 7727 |
| Investments | 113 | 178 | 203 | 233 |
| Inventory | 2789 | 4177 | 3718 | 4437 |
| Cash | 116 | 224 | 222 | 209 |
| Debtors | 934 | 2453 | 2169 | 2588 |
| Loans & Advances & Other CA | 526 | 1410 | 1311 | 1212 |
| Total Current Assets | 4365 | 8265 | 7420 | 8446 |
| Creditors | 2632 | 4174 | 3098 | 3697 |
| Provisions & Other CL | 1269 | 1537 | 1831 | 2160 |
| Total Current Liabilities | 3901 | 5711 | 4930 | 5858 |
| Net Current Assets | 464 | 2554 | 2491 | 2588 |
| Application of Funds | 6834 | 9152 | 9997 | 10549 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key ratios | | | | |
|-----------------------------|------|------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Per share data (₹) | | | | |
| EPS | 8.6 | 36.3 | 16.4 | 20.2 |
| BV | 66.1 | 99.5 | 110.9 | 126.0 |
| DPS | 0.0 | 0.0 | 5.0 | 5.0 |
| Cash Per Share | 2.4 | 4.3 | 4.2 | 4.0 |
| Operating Ratios (%) | | | | |
| EBITDA margins | 11.7 | 14.1 | 8.7 | 8.4 |
| PBT margins | 5.7 | 11.5 | 5.8 | 6.1 |
| Net Profit margins | 3.4 | 9.0 | 4.6 | 4.7 |
| Inventory days | 84 | 72 | 72 | 72 |
| Debtor days | 28 | 42 | 42 | 42 |
| Creditor days | 79 | 72 | 60 | 60 |
| Return Ratios (%) | | | | |
| RoE | 13.0 | 36.5 | 14.8 | 16.0 |
| RoCE | 16.0 | 31.3 | 13.4 | 15.0 |
| RoIC | 16.3 | 32.2 | 13.7 | 15.4 |
| Valuation Ratios (x) | | | | |
| P/E | 12.0 | 2.8 | 6.3 | 5.1 |
| EV / EBITDA | 5.7 | 2.8 | 5.2 | 4.4 |
| EV / Revenues | 0.7 | 0.4 | 0.5 | 0.4 |
| Market Cap / Revenues | 0.4 | 0.3 | 0.3 | 0.2 |
| Price to Book Value | 1.6 | 1.0 | 0.9 | 0.8 |
| Solvency Ratios | | | | |
| Debt / Equity | 0.9 | 0.6 | 0.5 | 0.4 |
| Debt/EBITDA | 2.1 | 1.0 | 1.9 | 1.5 |
| Current Ratio | 1.1 | 1.4 | 1.5 | 1.4 |
| Quick Ratio | 0.4 | 0.7 | 0.8 | 0.7 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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