

Healthy uptick in sales volumes both QoQ, YoY...

About the stock: Jindal Stainless (JSL) is among the leading stainless steel manufacturing companies in the world & 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

Q2FY23 Results: JSL reported a healthy uptick in sales volumes in Q2FY23. For the quarter, standalone sales volume was up 5% YoY, 15% QoQ. EBITDA of standalone operations came in higher than our estimate, aided by healthy sales volume.

- For the quarter, JSL's standalone operations reported sales volume of 270360 tonnes, higher than our estimate of 257500 tonnes. EBITDA/tonne of standalone operations came in at ₹ 15208/tonne, broadly in line with our estimate of ₹ 15000/tonne. Hence, ensuing standalone EBITDA for the quarter was at ₹ 411 crore, higher than our estimate of ₹ 386 crore
- Consolidated topline for the quarter was at ₹ 5605 crore, up 11%, 2% QoQ, (our estimate of ₹ 5214 crore). For Q2FY23, JSL reported consolidated EBITDA of ₹ 358 crore, down 52% YoY, 35% QoQ, (our estimate: ₹ 411 crore). Consolidated EBITDA came in lower than our estimate on the back of EBITDA losses from subsidiaries. Ensuing consolidated PAT for the quarter was at ₹ 152 crore

What should investors do? JSL's share price has given a return of ~166% in the last two years (from ~₹ 58 in November 2020 to ~₹ 154 in November 2022).

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

Target Price & Valuation: We value JSL at ₹ 180, based on a merged entity basis.

Key triggers for future price performance:

- Going forward, for JSL standalone operations, we model EBITDA/tonne of ₹ 18000/tonne each for both FY23E and FY24E
- For FY23E, the company has now guided that sales volumes for the combined entity (JSL+JSHL) are expected to be flattish YoY compared to ~5-10% sales volume decline expected earlier
- Merger Update:** The next date of hearing is November 11, 2022. The merger process is expected to be completed within the current financial year

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 ₹ 351



Particulars

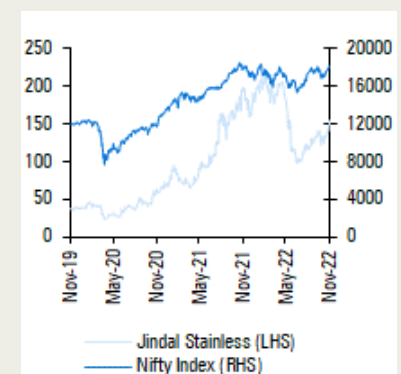
Particulars	₹ Crore
Market Capitalization	8,080
Total Debt (Q2FY23)	3,277
Cash and Invest (Q2FY23)	448
Enterprise Value(EV)	10,909
52 week H/L (₹)	225 / 95
Equity capital	105
Face value (₹)	2.0

* Debt and Cash are for the Standalone entity

Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	68.6	69.9	70.1	70.1
FIs	15.0	15.1	13.8	12.7
DIs	7.2	6.3	5.9	6.5
Public	9.2	8.7	10.3	10.7
Total	100	100	100	100

Price Performance



Key Risks

- Sharp uptick in raw material cost
- Slowdown in demand growth

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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	22,311	24,806	8
EBITDA	1,165	1,139	1,424	2,987	21	1,994	2,248	-13
PAT	145	73	419	1,909	93	1,126	1,329	-17
EPS (₹)	3.0	1.5	8.6	36.3		21.4	25.3	
P/E (x)	50.9	103.3	17.9	4.2		7.2	6.1	
EV/EBITDA (x)	10.1	10.0	7.4	3.7		5.7	4.8	
RoCE (%)	11.6	10.8	16.0	31.3		16.7	18.3	
ROE (%)	5.6	2.7	13.0	36.5		18.5	18.6	

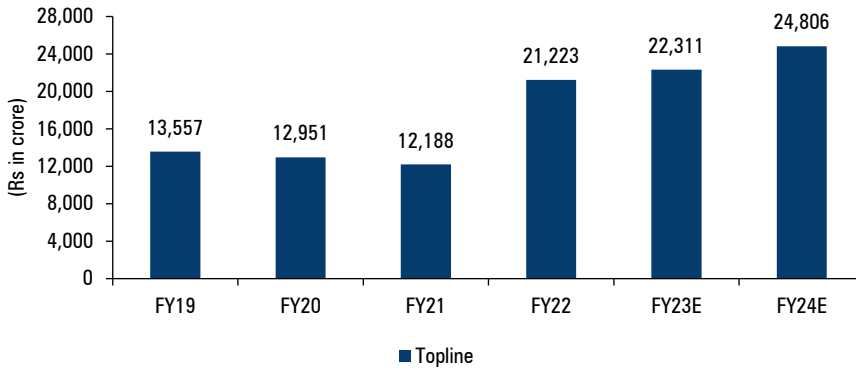
Exhibit 1: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	5605	5214	5027	11%	5474	2%	On the back of higher than expected standalone sales volume, consolidated topline came in higher than our estimate
Other Income	17	18	15	20%	17	4%	
Total Operating expense	5246	4803	4279	23%	4925	7%	
EBITDA	358	411	748	-52%	549	-35%	As Spanish subsidiary reported EBITDA losses. Consolidated EBITDA came in lower than our estimate
EBITDA Margin (%)	6.4	7.9	14.9	-848 bps	10.0	-363 bps	Consolidated EBITDA margin came in lower than our estimate
Depreciation	93	93	93	1%	92	2%	
Interest	84	75	82	2%	72	16%	
Exceptional item	0	0	0	NA	0	NA	
Share of Net Profit/Loss	10	25	26	-63%	27	-64%	
PBT	209	286	614	-66%	428	-51%	
Tax Outgo	57	86	202	-72%	99	-43%	
PAT	152	200	412	-63%	329	-54%	Consolidated PAT came in lower than our estimate
Key Metrics							
Sales Volume(Standalone)	270,360	257,500	256,664	5%	235,530	15%	Standalone sales volume came in higher than our estimate
EBITDA/Tonne(Standalone)	15,208	15,000	27,685	-45%	22,216	-32%	Standalone EBITDA/tonne came in broadly in line with our estimate

Source: Company, ICICI Direct Research

Financial story in Charts- Jindal Stainless (pre-merger)

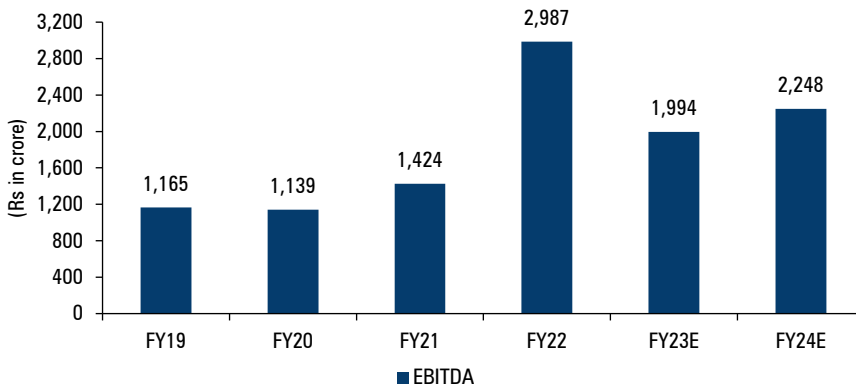
Exhibit 4: Trend in consolidated topline (in ₹ crore)



JSL's consolidated topline is expected to grow at a CAGR of 8% during FY22-24E

Source: Company, ICICI Direct Research

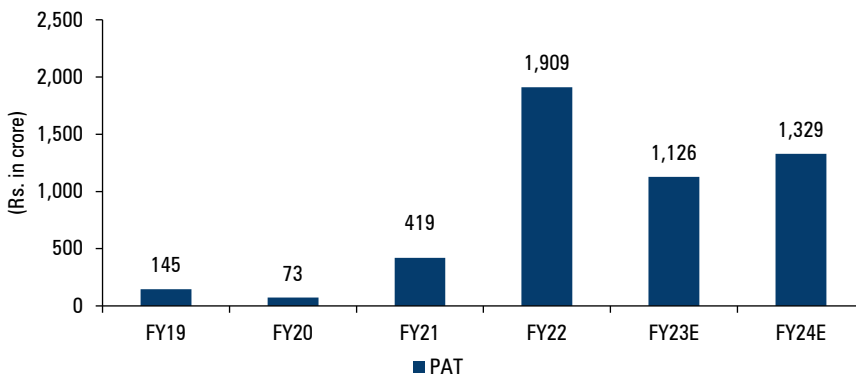
Exhibit 5: Trend in consolidated EBITDA (in ₹ crore)



We expect JSL to report consolidated EBITDA of ₹ 1994 crore in FY23E and ₹ 2248 crore in FY24E

Source: Company, ICICI Direct Research

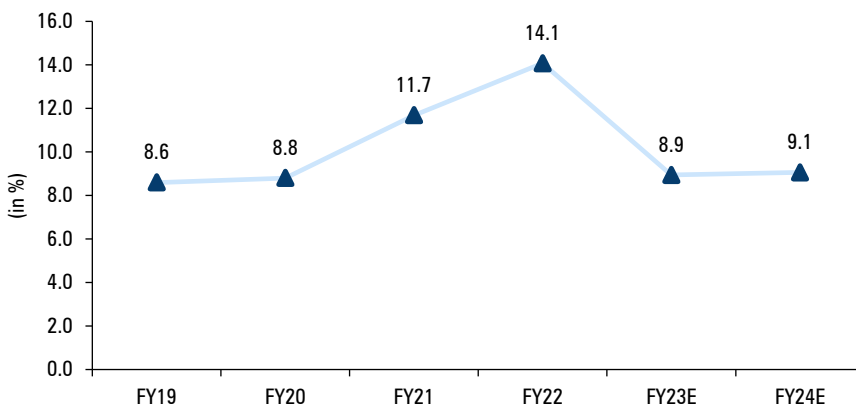
Exhibit 6: Trend in consolidated PAT (in ₹ crore)



We expect JSL to report consolidated PAT of ₹ 1126 crore in FY23E and ₹ 1329 crore in FY24E

Source: Company, ICICI Direct Research

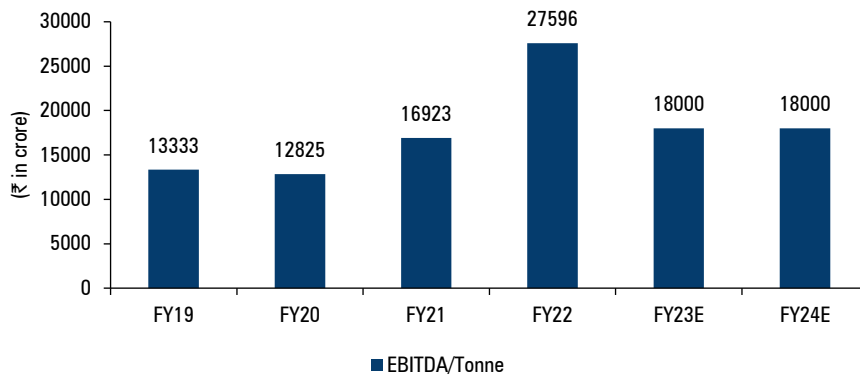
Exhibit 7: Trend in consolidated EBITDA margin (in %)



We expect JSL's consolidated EBITDA margin to be ~8.9% in FY23E and ~9.1% in FY24E

Source: Company, ICICI Direct Research

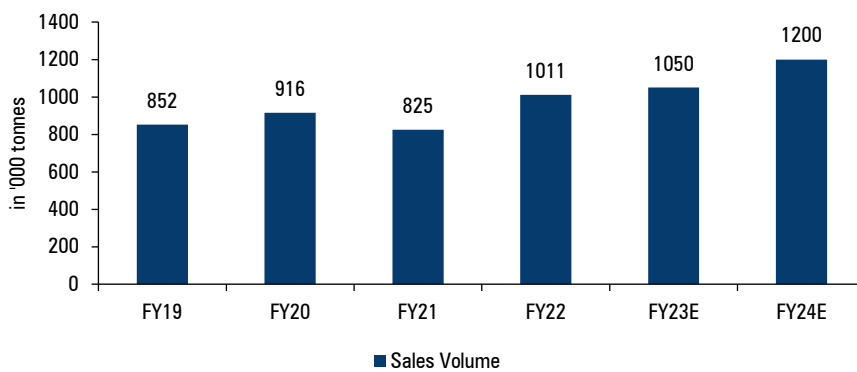
Exhibit 8: Trend in EBITDA/tonne (Standalone)



For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 18000/tonne each for FY23E and FY24E (upward revised from earlier ₹ 16500/tonne each for both FY23E and FY24E).

Source: Company, ICICI Direct Research

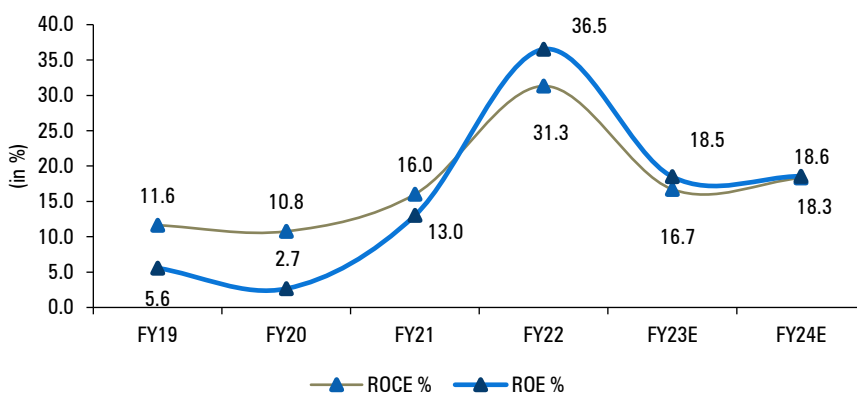
Exhibit 9: Trend in sales volume (standalone)... (in KT)



For the standalone entity Jindal Stainless, we model sales volume of 1.05 million tonnes (MT) for FY23E (upward revised from 1.0 MT earlier) and 1.2 MT for FY24E (upward revised from 1.15 MT earlier)

Source: Company, ICICI Direct Research

Exhibit 10: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 11: 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	103.3	10.0	10.8	2.7
FY21	12,188	-5.9	8.6	477.6	17.9	7.4	16.0	13.0
FY22	21,223	74.1	36.3	322.0	4.2	3.7	31.3	36.5
FY23E	22,311	5.1	21.4	-41.0	7.2	5.7	16.7	18.5
FY24E	24,806	11.2	25.3	18.0	6.1	4.8	18.3	18.6

Source: Company, ICICI Direct Research

Exhibit 12: Valuation (Based on merged entity basis)

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	3,330
Subsidiaries EBITDA in FY24E	₹ crore	87
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3417
Multiple	x	5.0
EV	₹ crore	17085
Net Debt FY24E (After adjusting inter company loan)	₹ crore	2280
Mcap	₹ crore	14,805
No. of shares	in crore	82.3
Target price of Jindal Stainless	in ₹/share	180
CMP of Jindal Stainless	in ₹/share	154
Upside (%)	in %	17%
Target price of Jindal Stainless Hisar (derived as per swap ratio)	in ₹/share	351
CMP of Jindal Stainless Hisar	in ₹/share	298
Upside (%)	in %	18%

Source: 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 ₹2757 crore as on September 2022 (after adjusting inter-company loan) to ₹2280 crore as on March 2024E (after adjusting inter-company loan).

Financial summary – Consolidated – JSL (Pre-merger)

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	12,188	21,223	22,311	24,806
Growth (%)	-5.9%	74.1%	5.1%	11.2%
Total Operating Expenditure	10,764	18,236	20,317	22,559
EBITDA	1,424	2,987	1,994	2,248
Growth (%)	25.0%	109.7%	-33.2%	12.7%
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	1,366	1,657
Add/Less: Exceptional Items	102	0	0	0
Add/Less: Share of P/L of Invest us	5	103	85	75
PBT	690	2,442	1,451	1,732
Total Tax	270	533	325	403
PAT	419	1,909	1,126	1,329
Growth (%)	477.6%	355.1%	-41.0%	18.0%
EPS	8.6	36.3	21.4	25.3

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	419	1909	1126	1329
Add: Dep. & Amortization	403	371	416	427
Net (Inc) / dec.in Current Asset	-284	-3792	-2	-786
Net Inc / (dec) in Current Liab.	47	1810	-207	737
Others	339	430	20	20
CF from operating activities	924	728	1354	1728
(Inc)/dec in Investments	26	-66	-25	-30
(Inc)/dec in Fixed Assets	-154	-533	-1384	-824
Others	0	0	0	0
CF from investing activities	-128	-599	-1409	-854
Inc / (Dec) in Equity Capital	0	8	0	0
Inc / (Dec) in Loans	-749	-29	225	-565
Dividend & Dividend Tax	0	0	-263	-263
CF from financing activities	-749	-21	-38	-828
Net Cash flow	48	108	-93	46
Opening Cash	69	116	224	132
Closing Cash	116	224	132	178

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	97	105	105	105
Reserve and Surplus	3121	5122	5985	7051
Total Shareholders funds	3218	5227	6090	7156
Total Debt	3154	3126	3351	2786
Deferred Tax Liability (net)	461	799	819	840
Source of Funds	6834	9152	10260	10782
Gross Block - Fixed Assets	8556	8785	10244	11268
Accumulated Depreciation	2352	2723	3139	3566
Net Block	6204	6062	7105	7702
Capital WIP	53	357	282	82
Net Fixed Assets	6257	6419	7387	7784
Investments	113	178	203	233
Inventory	2789	4177	4279	4893
Cash	116	224	132	178
Debtors	934	2453	2445	2719
Loans & Advances & Other CA	526	1410	1319	1217
Total Current Assets	4365	8265	8174	9006
Creditors	2632	4174	3668	4078
Provisions & Other CL	1269	1537	1836	2164
Total Current Liabilities	3901	5711	5504	6241
Net Current Assets	464	2554	2670	2765
Application of Funds	6834	9152	10260	10782

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	8.6	36.3	21.4	25.3
BV	66.1	99.5	115.9	136.2
DPS	0.0	0.0	5.0	5.0
Cash Per Share	2.4	4.3	2.5	3.4
Operating Ratios (%)				
EBITDA margins	11.7	14.1	8.9	9.1
PBT margins	5.7	11.5	6.5	7.0
Net Profit margins	3.4	9.0	5.0	5.4
Inventory days	84	72	70	72
Debtor days	28	42	40	40
Creditor days	79	72	60	60
Return Ratios (%)				
RoE	13.0	36.5	18.5	18.6
RoCE	16.0	31.3	16.7	18.3
RoIC	16.3	32.2	16.9	18.6
Valuation Ratios (x)				
P/E	17.9	4.2	7.2	6.1
EV / EBITDA	7.4	3.7	5.7	4.8
EV / Revenues	0.9	0.5	0.5	0.4
Market Cap / Revenues	0.6	0.4	0.4	0.3
Price to Book Value	2.3	1.5	1.3	1.1
Solvency Ratios				
Debt / Equity	0.9	0.6	0.5	0.4
Debt/EBITDA	2.1	1.0	1.6	1.2
Current Ratio	1.1	1.4	1.5	1.4
Quick Ratio	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Sell: < -15%



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