

CMP: ₹ 285

Target: ₹ 350 (23%)

Target Period: 12 months

BUY

May 19, 2023

## Healthy show; sales volumes surprise positively...

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

- JSL has manufacturing facilities at Jajpur, Odisha and Hisar, Haryana and an overseas unit in Indonesia
- Post the recent capacity expansion at Jajpur from 1.1 million tonnes per annum (MTPA), the total melting capacity of the merged entity (including 0.8 MTPA) is nearly 3 MTPA

**Q4FY23 Results:** Jindal Stainless (JSL) reports healthy Q4FY23 performance wherein sales volumes surprises positively...

- JSL's standalone operations reported sales volume of 507632 tonnes, up 8% QoQ, higher than our estimate of 485000 tonnes. Standalone operations' EBITDA/tonne was at ₹ 21610/tonne compared to ₹ 20246/tonne in Q3FY23, higher than our estimate of ₹ 19750/tonne
- Consolidated topline for the quarter was at ₹ 9765 crore, up 8% QoQ, higher than our estimate of ₹ 9336 crore. For Q4FY23, JSL reported a consolidated EBITDA of ₹ 1144 crore, up 32% QoQ, higher than our estimate of ₹ 958 crore. Ensuing consolidated PAT for the quarter was at ₹ 716 crore (up 40% QoQ), higher than our estimate of ₹ 601 crore
- The merger of Jindal Stainless (Hisar) with Jindal Stainless was completed in FY23. Also, the acquisition of 74% holding of JUSL by JSL is also progressing as planned. This will be completed within the committed timelines, post which, JUSL will become a 100% owned subsidiary of JSL

**What should investors do?** JSL's share price has given a return of ~94% in the last one year (from ~₹ 147 in May 2022 to ~₹ 285 in May 2023).

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

**Target Price & Valuation:** We value JSL at ₹ 350, 6x FY25E EV/EBITDA.

### Key triggers for future price performance:

- Going forward, for JSL's standalone operations, we assume EBITDA/tonne of ₹ 19000/tonne for both FY24E as well as FY25E. Going forward, we assume sales volumes of 2.1 MT for FY24E and 2.4 MT for FY25E
- Over FY23-25E, we expect the topline to grow at a CAGR of 14% while EBITDA, PAT are expected to register CAGR of 13%, 16%, respectively

**Alternate Stock Idea:** In our metal sector coverage, we also like Coal India (CIL).

- Coal India is one of the largest coal producers in the world. In FY23, CIL produced 703 million tonnes (MT) while offtake for FY23 was at 695 MT
- BUY with a target price of ₹ 275



### Particulars

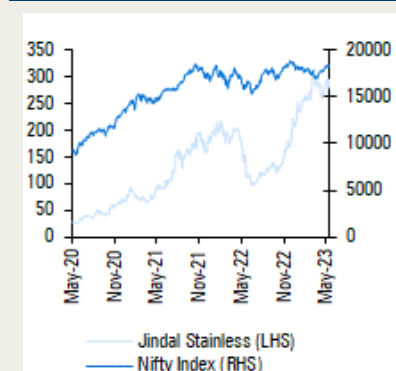
| Particulars              | ₹ Crore  |
|--------------------------|----------|
| Market Capitalization    | 23,350   |
| Total Debt (Q4FY23)      | 3,489    |
| Cash and Invest (Q4FY23) | 898      |
| Enterprise Value(EV)     | 25,941   |
| 52 week H/L (₹)          | 329 / 95 |
| Equity capital           | 165      |
| Face value (₹)           | 2.0      |

\* Debt and Cash are for the Standalone entity

### Shareholding Pattern

| (in %)       | Jun-22     | Sep-22     | Dec-22     | Mar-23     |
|--------------|------------|------------|------------|------------|
| Promoter     | 70.1       | 70.1       | 70.1       | 58.0       |
| FIs          | 13.8       | 12.7       | 13.1       | 21.9       |
| DIs          | 5.9        | 6.5        | 7.2        | 6.2        |
| Public       | 10.3       | 10.7       | 9.6        | 14.0       |
| <b>Total</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

### Price Performance



### Key Risks

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

### Research Analyst

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### Key Financial Summary- Jindal Stainless (Consolidated)

| ₹ crore                | FY20   | FY21   | FY22   | FY23   | CAGR in % (FY18-FY23) | FY24E  | FY25E  | CAGR in % (FY23-FY25E) |
|------------------------|--------|--------|--------|--------|-----------------------|--------|--------|------------------------|
| Total Operating income | 12,951 | 12,188 | 32,733 | 35,697 | NA                    | 40,602 | 46,566 | 14                     |
| EBITDA                 | 1,139  | 1,424  | 5,090  | 3,586  | NA                    | 4,046  | 4,619  | 13                     |
| PAT                    | 73     | 419    | 3,109  | 2,084  | NA                    | 2,408  | 2,825  | 16                     |
| EPS (₹)                | 1.5    | 8.6    | 59.2   | 25.3   |                       | 29.2   | 34.3   |                        |
| P/E (x)                | 191.2  | 33.1   | 4.8    | 11.3   |                       | 9.7    | 8.3    |                        |
| EV/EBITDA (x)          | 15.6   | 11.9   | 3.7    | 7.4    |                       | 6.6    | 5.5    |                        |
| RoCE (%)               | 10.8   | 16.0   | 34.5   | 20.6   |                       | 20.2   | 22.1   |                        |
| ROE (%)                | 2.7    | 13.0   | 31.7   | 17.5   |                       | 17.1   | 17.0   |                        |

Source: Company, ICICI Direct, JSL's FY20 and FY21 financial numbers are on a pre-merger basis

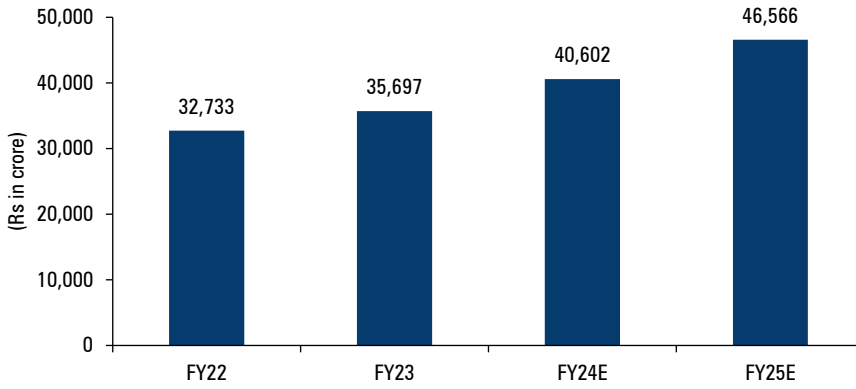
**Exhibit 1: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)**

|                               | Q4FY23      | Q4FY23E     | Q4FY22      | YoY (%)     | Q3FY23      | QoQ (%)    | Comments  |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|------------|---|
| <b>Total Operating Income</b> | <b>9765</b> | <b>9336</b> | <b>9726</b> | <b>0%</b>   | <b>9063</b> | <b>8%</b>  | Consolidated topline came in higher than our estimate       |
| Other Income                  | 38          | 20          | 26          | 45%         | 39          | -2%        |   |
| Total Operating expense       | 8621        | 8378        | 8314        | 4%          | 8194        | 5%         |   |
| <b>EBITDA</b>                 | <b>1144</b> | <b>958</b>  | <b>1412</b> | <b>-19%</b> | <b>868</b>  | <b>32%</b> | Consolidated EBITDA came in higher than our estimate        |
| EBITDA Margin (%)             | 11.7        | 10.3        | 14.5        | (280) bps   | 9.6         | 210 bps    | Consolidated EBITDA margin came in higher than our estimate |
| Depreciation                  | 181         | 180         | 184         | -1%         | 181         | 0%         |   |
| Interest                      | 83          | 82          | 82          | 2%          | 76          | 10%        |   |
| Exceptional item              | 0           | 0           | 0           | NA          | 0           | NA         |   |
| Share of Net Profit/Loss      | 40          | 35          | 20          | 94%         | 35          | 13%        |   |
| <b>PBT</b>                    | <b>957</b>  | <b>751</b>  | <b>1193</b> | <b>-20%</b> | <b>685</b>  | <b>40%</b> |   |
| Tax Outgo                     | 241         | 150         | 299         | -19%        | 172         | 40%        |   |
| <b>PAT</b>                    | <b>716</b>  | <b>601</b>  | <b>895</b>  | <b>-20%</b> | <b>513</b>  | <b>40%</b> | Consolidated PAT came in higher than our estimate           |
| <b>Key Metrics</b>            |             |             |             |             |             |            |   |
| Sales Volume(Standalone)      | 507,632     | 485,000     | 444,000     | 14%         | 467,879     | 8%         | Standalone sales volumes came in higher than our estimate   |
| EBITDA/Tonne(Standalone)      | 21,610      | 19,750      | 28,896      | -25%        | 20,246      | 7%         | Standalone EBITDA/tonne came in higher than our estimate    |

Source: Company, ICICI Direct Research

## Financial story in Charts- Jindal Stainless (Consolidated)

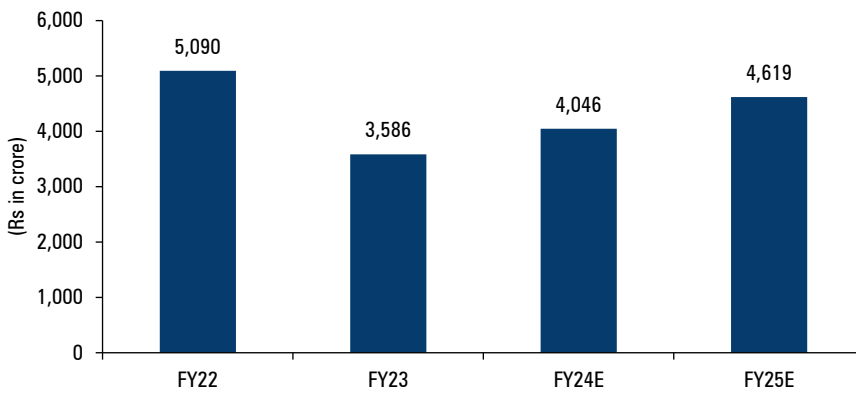
**Exhibit 2: Trend in consolidated topline (in ₹ crore)**



JSL's consolidated topline is expected to grow at a CAGR of 14% during FY23-25E

Source: Company, ICICI Direct Research

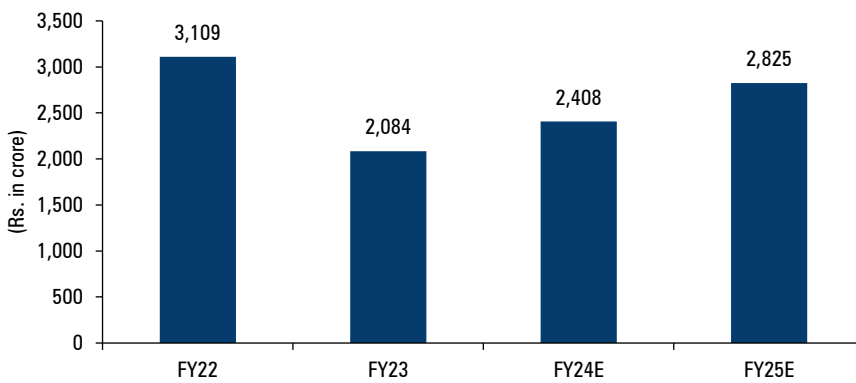
**Exhibit 3: Trend in consolidated EBITDA (in ₹ crore)**



JSL's consolidated EBITDA is expected to grow at a CAGR of 13% during FY23-25E

Source: Company, ICICI Direct Research

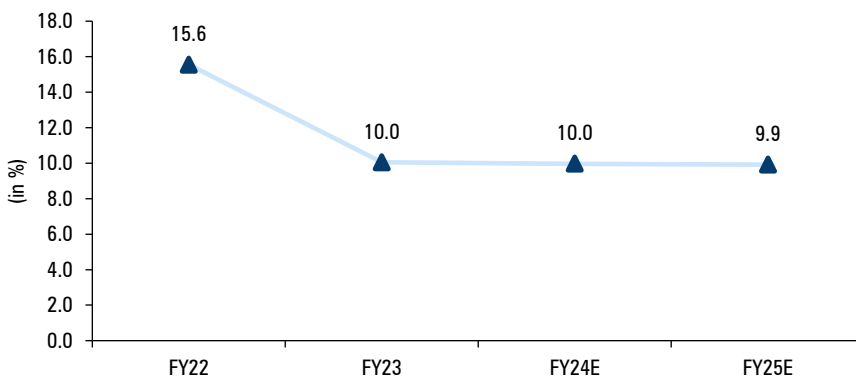
**Exhibit 4: Trend in consolidated PAT (in ₹ crore)**



JSL's consolidated PAT is expected to grow at a CAGR of 16% during FY23-25E

Source: Company, ICICI Direct Research

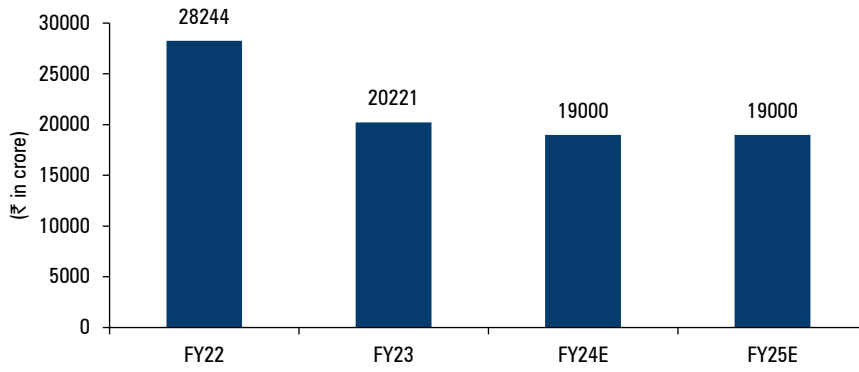
**Exhibit 5: Trend in consolidated EBITDA margin (in %)**



We expect JSL's consolidated EBITDA margin to be ~10.0% in FY24E and ~9.9% in FY25E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in EBITDA/tonne (Standalone) (in ₹/tonne) ...

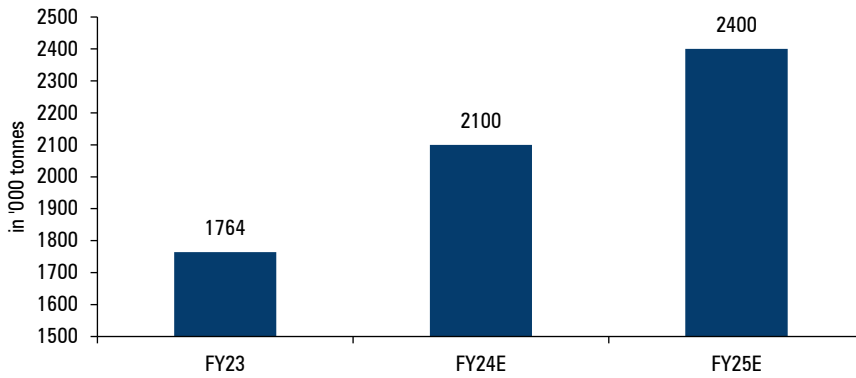


For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 19000/tonne each for both FY24E as well as FY25E

For FY24E, JSL has guided that the EBITDA/tonne for the standalone entity is likely to be in the range of ~₹ 19000/tonne - 21000/tonne

Source: Company, ICICI Direct Research

Exhibit 7: Trend in sales volume (standalone)... (in KT)



For the standalone entity Jindal Stainless, we model sales volume of 2.10 million tonnes (MT) for FY24E and 2.40 MT for FY25E.

For FY24E, for the JSL standalone entity the company has guided for a volume growth of ~20%

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Matrix

| Years | Total Op Income<br>(₹ cr) | Growth<br>(%) | EPS<br>(Rs) | Growth<br>(%) | PE<br>(x) | EV/EBITDA<br>(x) | RoCE<br>(%) | ROE<br>(%) |
|-------|---------------------------|---------------|-------------|---------------|-----------|------------------|-------------|------------|
| FY22  | 32,733                    | NA            | 59.2        | NA            | 4.8       | 3.7              | 34.5        | 31.7       |
| FY23  | 35,697                    | 9.1           | 25.3        | -57.2         | 11.3      | 7.4              | 20.6        | 17.5       |
| FY24E | 40,602                    | 13.7          | 29.2        | 15.6          | 9.7       | 6.6              | 20.2        | 17.1       |
| FY25E | 46,566                    | 14.7          | 34.3        | 17.3          | 8.3       | 5.5              | 22.1        | 17.0       |

Source: Company, ICICI Direct Research

## Financial summary – Jindal Stainless (Consolidated)

| Exhibit 9: Profit and loss statement |               |               |               |               |
|--------------------------------------|---------------|---------------|---------------|---------------|
|                                      | ₹ crore       |               |               |               |
| (Year-end March)                     | FY22          | FY23          | FY24E         | FY25E         |
| <b>Total Operating Income</b>        | <b>32,733</b> | <b>35,697</b> | <b>40,602</b> | <b>46,566</b> |
| Growth (%)                           |               | 9.1%          | 13.7%         | 14.7%         |
| Total Operating Expenditure          | 27,642        | 32,111        | 36,556        | 41,947        |
| <b>EBITDA</b>                        | <b>5,090</b>  | <b>3,586</b>  | <b>4,046</b>  | <b>4,619</b>  |
| Growth (%)                           |               | -29.6%        | 12.8%         | 14.2%         |
| Interest & Finance Cost              | 759           | 724           | 741           | 758           |
| Depreciation                         | 344           | 325           | 332           | 340           |
| Other Income                         | 71            | 126           | 133           | 139           |
| <b>PBT before Exceptional Items</b>  | <b>4,058</b>  | <b>2,664</b>  | <b>3,106</b>  | <b>3,661</b>  |
| Add/Less: Exceptional Items          | 0             | 0             | 0             | 0             |
| Add/Less: Share of P/L of Invest     | 101           | 110           | 112           | 114           |
| <b>PBT</b>                           | <b>4,159</b>  | <b>2,774</b>  | <b>3,218</b>  | <b>3,775</b>  |
| Total Tax                            | 1,050         | 690           | 810           | 950           |
| <b>PAT</b>                           | <b>3,109</b>  | <b>2,084</b>  | <b>2,408</b>  | <b>2,825</b>  |
| Growth (%)                           |               | -33.0%        | 15.6%         | 17.3%         |
| <b>EPS</b>                           | <b>59.2</b>   | <b>25.3</b>   | <b>29.2</b>   | <b>34.3</b>   |

Source: Company, ICICI Direct Research

| Exhibit 10: Cash flow statement     |              |              |              |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | ₹ crore      |              |              |              |
| (Year-end March)                    | FY22         | FY23         | FY24E        | FY25E        |
| Profit/(Loss) after taxation        | 3109         | 2084         | 2408         | 2825         |
| Add: Dep. & Amortization            | 344          | 325          | 332          | 340          |
| Net (Inc) / dec.in Current Asset    | -8282        | -1974        | -1747        | -2113        |
| Net Inc / (dec) in Current Liab.    | 4048         | 2528         | 1322         | 1553         |
| Others                              | 3917         | 141          | 22           | 22           |
| <b>CF from operating activities</b> | <b>3136</b>  | <b>3103</b>  | <b>2337</b>  | <b>2626</b>  |
| (Inc)/dec in Investments            | -66          | -235         | -30          | -30          |
| (Inc)/dec in Fixed Assets           | -3706        | -1997        | -2500        | -700         |
| Others                              | 0            | 0            | 0            | 0            |
| <b>CF from investing activities</b> | <b>-3771</b> | <b>-2232</b> | <b>-2530</b> | <b>-730</b>  |
| Inc / (Dec) in Equity Capital       | 8            | 60           | 0            | 0            |
| Inc / (Dec) in Loans                | 767          | -50          | 460          | -1565        |
| Dividend & Dividend Tax             | 0            | -206         | -247         | -288         |
| <b>CF from financing activities</b> | <b>775</b>   | <b>-197</b>  | <b>213</b>   | <b>-1853</b> |
| Net Cash flow                       | 140          | 675          | 21           | 43           |
| Opening Cash                        | 116          | 256          | 931          | 952          |
| <b>Closing Cash</b>                 | <b>256</b>   | <b>931</b>   | <b>952</b>   | <b>995</b>   |

Source: Company, ICICI Direct Research

| Exhibit 11: Balance sheet                                  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | ₹crore       |              |              |              |
| (Year-end March)   | FY22         | FY23         | FY24E        | FY25E        |
| Equity Capital   | 105          | 165          | 165          | 165          |
| Reserve and Surplus (including Share Cap Suspense Account) | 9718         | 11766        | 13928        | 16464        |
| Total Shareholders funds                                   | 9823         | 11931        | 14092        | 16629        |
| Total Debt   | 3922         | 3871         | 4331         | 2766         |
| Deferred Tax Liability (net)                               | 890          | 861          | 882          | 904          |
| <b>Source of Funds</b>                                     | <b>14635</b> | <b>16663</b> | <b>19306</b> | <b>20299</b> |
| Gross Block - Fixed Assets                                 | 11796        | 13550        | 16250        | 17149        |
| Accumulated Depreciation                                   | 2695         | 3020         | 3352         | 3691         |
| Net Block  | 9101         | 10530        | 12898        | 13458        |
| Capital WIP  | 518          | 761          | 561          | 361          |
| Net Fixed Assets   | 9619         | 11291        | 13459        | 13819        |
| Investments  | 178          | 413          | 443          | 473          |
| Inventory  | 6785         | 8394         | 9455         | 10844        |
| Cash   | 256          | 931          | 952          | 995          |
| Debtors  | 3860         | 3658         | 4450         | 5103         |
| Loans & Advances & Other CA                                | 1886         | 2454         | 2347         | 2418         |
| Total Current Assets                                       | 12787        | 15436        | 17204        | 19360        |
| Creditors  | 5743         | 7821         | 8899         | 10206        |
| Provisions & Other CL                                      | 2206         | 2656         | 2900         | 3146         |
| Total Current Liabilities                                  | 7949         | 10477        | 11799        | 13353        |
| Net Current Assets   | 4838         | 4959         | 5404         | 6008         |
| <b>Application of Funds</b>                                | <b>14635</b> | <b>16663</b> | <b>19306</b> | <b>20299</b> |

Source: Company, ICICI Direct Research

| Exhibit 12: Key ratios      |      |      |       |       |
|-----------------------------|------|------|-------|-------|
| (Year-end March)            | FY22 | FY23 | FY24E | FY25E |
| <b>Per share data (₹)</b>   |      |      |       |       |
| EPS                         | 59.2 | 25.3 | 29.2  | 34.3  |
| BV                          | 187  | 145  | 171   | 202   |
| DPS                         | 0.0  | 2.5  | 3.0   | 3.5   |
| Cash Per Share              | 4.9  | 11.3 | 11.6  | 12.1  |
| <b>Operating Ratios (%)</b> |      |      |       |       |
| EBITDA margins              | 15.6 | 10.0 | 10.0  | 9.9   |
| PBT margins                 | 12.7 | 7.8  | 7.9   | 8.1   |
| Net Profit margins          | 9.5  | 5.8  | 5.9   | 6.1   |
| Inventory days              | 76   | 86   | 85    | 85    |
| Debtor days                 | 43   | 37   | 40    | 40    |
| Creditor days               | 64   | 80   | 80    | 80    |
| <b>Return Ratios (%)</b>    |      |      |       |       |
| RoE                         | 31.7 | 17.5 | 17.1  | 17.0  |
| RoCE                        | 34.5 | 20.6 | 20.2  | 22.1  |
| RoIC                        | 35.2 | 21.9 | 21.3  | 23.3  |
| <b>Valuation Ratios (x)</b> |      |      |       |       |
| P/E                         | 4.8  | 11.3 | 9.7   | 8.3   |
| EV / EBITDA                 | 3.7  | 7.4  | 6.6   | 5.5   |
| EV / Revenues               | 0.6  | 0.7  | 0.7   | 0.5   |
| Market Cap / Revenues       | 0.5  | 0.7  | 0.6   | 0.5   |
| Price to Book Value         | 1.5  | 2.0  | 1.7   | 1.4   |
| <b>Solvency Ratios</b>      |      |      |       |       |
| Debt / Equity               | 0.4  | 0.2  | 0.2   | 0.1   |
| Debt/EBITDA                 | 0.7  | 0.8  | 0.8   | 0.4   |
| Current Ratio               | 1.6  | 1.5  | 1.5   | 1.4   |
| Quick Ratio                 | 0.8  | 0.7  | 0.7   | 0.6   |

Source: Company, ICICI Direct Research

### RTML - ESG Disclosure Score\*

| ESG Disclosure Score     |             |             |             |
|--------------------------|-------------|-------------|-------------|
| Score                    | FY20        | FY21        | FY22        |
| Environmental            | 6.7         | 7.0         | 7.0         |
| Social                   | 13.1        | 15.7        | 15.7        |
| Governance               | 78.6        | 78.6        | 78.6        |
| <b>Overall ESG Score</b> | <b>32.8</b> | <b>33.8</b> | <b>33.8</b> |

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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