

December 31, 2020

## Both boards approve merger of JSHL into JSL...

### Key highlights of proposed scheme

The board of directors of Jindal Stainless (JSL) and Jindal Stainless (Hisar) (JSHL) have accepted the recommendations of the respective board committees and approved the merger of JSHL into JSL. The transaction between Jindal Stainless (Hisar) and Jindal Stainless Ltd is an all-equity merger. As per the approved share swap ratio, 195 equity shares of JSL will be issued for every 100 equity shares of JSHL. Furthermore, as per the proposed structure, the mobility business of JSL Lifestyle Ltd, a domestic subsidiary of JSHL, would be merged into JSL. Non-mobility businesses would be carved out as a separate new entity, called Jindal Lifestyle Ltd. Post restructuring, Jindal Stainless Steelway Ltd (JSSL) and Jindal Lifestyle Ltd will operate as Indian subsidiaries while overseas operational subsidiaries of JSL in Spain and Indonesia will continue to operate as business units of merged JSL. The proposed merger would be completed once all requisite approvals are received. Post completion of the merger, the new combined entity (i.e. JSL) will be the single listed entity on the stock exchanges. The promoter holding of the new entity will be ~57% while the remaining ~43% will be held by the public. The appointed date is April 1, 2020, while the merger process is expected to be completed by H2FY22.

### Post approvals, JSL to enter league of top 10 global SS producers

Merger of JSHL into JSL (as and when approved) will create a stainless-steel entity that will be among the top 10 stainless steel (SS) companies in the world and the largest stainless-steel company in India. The merged entity will have a stainless steel melt production capacity of 1.9 million tonnes per annum (MTPA). The proposed merger will also create an integrated entity with enhanced downstream capabilities. In terms of product basket, the merged entity will have a diversified end-to-end product portfolio including 120+ stainless steel grades.

### Valuation & Outlook

If the potential consolidation of both companies materialises, it is expected to result in economies of scale and better bargaining power for the combined entity. The potential consolidation would also enable harnessing of the complementing strengths of individual companies. Furthermore, a seamless integration of infrastructure, processes and operational synergies, along with a strengthened balance sheet, would improve financial flexibility. We await requisite regulatory and shareholder approvals. We value JSL at 5x FY23E EV/EBITDA and maintain our target price of ₹ 90. We value JSHL on an SoTP basis and maintain our target price of ₹ 170. We maintain **BUY** rating on both stocks.

### Key Financial Summary

Company	CMP	Target	Upside %	Rating	P/E				EV/EBITDA			
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Jindal Stainless	75	90	20%	BUY	50.3	26.6	10.5	8.1	6.6	6.7	5.1	4.5
Jindal Stainless Hisar	137	170	24%	BUY	8.1	10.9	7.6	6.6	5.8	6.3	5.2	4.6

Source: Company, ICICI Direct Research



### Recommendation

Company	CMP	Rating	TP	Upside
JSL	75	Buy	90	20%
JSHL	137	Buy	170	24%

\*Time frame 12-15 months

### Particulars : Jindal Stainless(JSL)

	₹ Crore
Market Capitalization	3,646
Total Debt (FY20)	3,903
Cash and Invest. (FY20)	69
Enterprise Value(EV)	7,480
52 week H/L (₹)	85/ 22
Equity capital	97.5
Face value (₹)	2.0

### Particulars : Jindal Stainless Hisar(JSHL)

	₹ Crore
Market Capitalization	3,255
Total Debt (FY20)	2,181
Cash and Invest. (FY20)	34
Enterprise Value(EV)	5,402
52 week H/L (₹)	158/ 30
Equity capital	47
Face value (₹)	2

### Key risks to our call



- Rising threat of imports
- Slowdown in demand growth
- Sharp volatility in raw material costs

### Research Analyst

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## Overview of JSL & JSHL

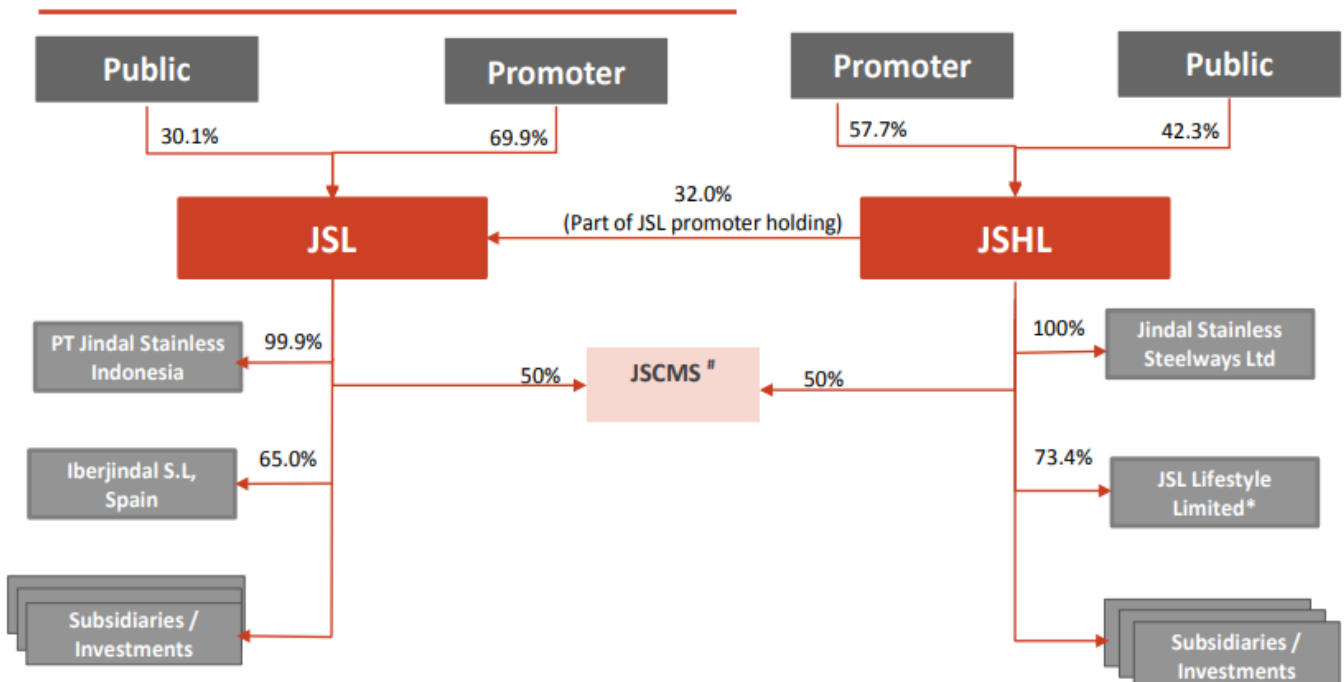
Exhibit 1: Jindal Stainless, Jindal Stainless Hisar Overview

	JSL 	JSHL 
Key Plant Location	Jajpur, Odisha Raw Material Hub, Port Proximity	Hisar, Haryana Key Consumption Hub Proximity
Stainless Steel (SS) capacities	1.1 MTPA Integrated facility along with backward integration (Ferro Chrome and captive power plant)	0.8 MTPA with Specialized Product Division (SPD) including Blade Steel, Precision Strips and Coin Blank
Infrastructure, Technology and R&D	Latest European 'State-of-the-art' technology. India's largest SS manufacturer. Producing globally competitive SS products  Readily leveragable infrastructure for cost efficient brownfield expansion (800+ acre land)	Pioneer SS manufacturing in India. World's largest producer of SS strips for razor blades and India's largest producer of coin blanks  Cutting edge R&D; New product development
Service Center/Finishing Lines	International	Domestic
Offerings	High volume, wider width offerings. Actively catering to volume oriented sectors like Railways, Auto and Infrastructure	Actively catering to SPD and Niche SS products

Source: Company, ICICI Direct Research

## Current holding structure of JSL, JSHL

Exhibit 2: Current Structure



Share holding on fully diluted basis

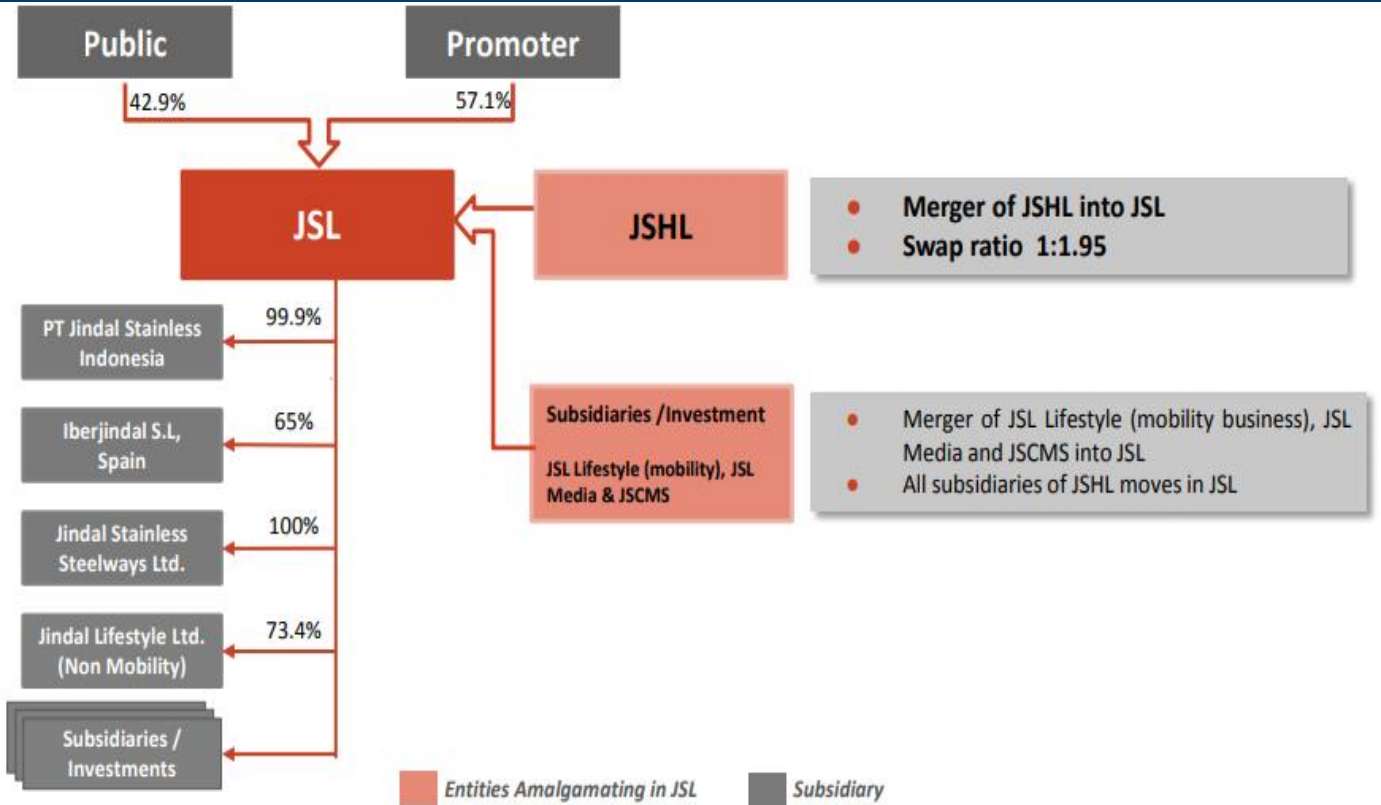
\* Includes both Mobility and Non Mobility business

# Jindal Stainless Corporate Management Services Private Limited

Source: Company, ICICI Direct Research

### Proposed holding structure of combined entity

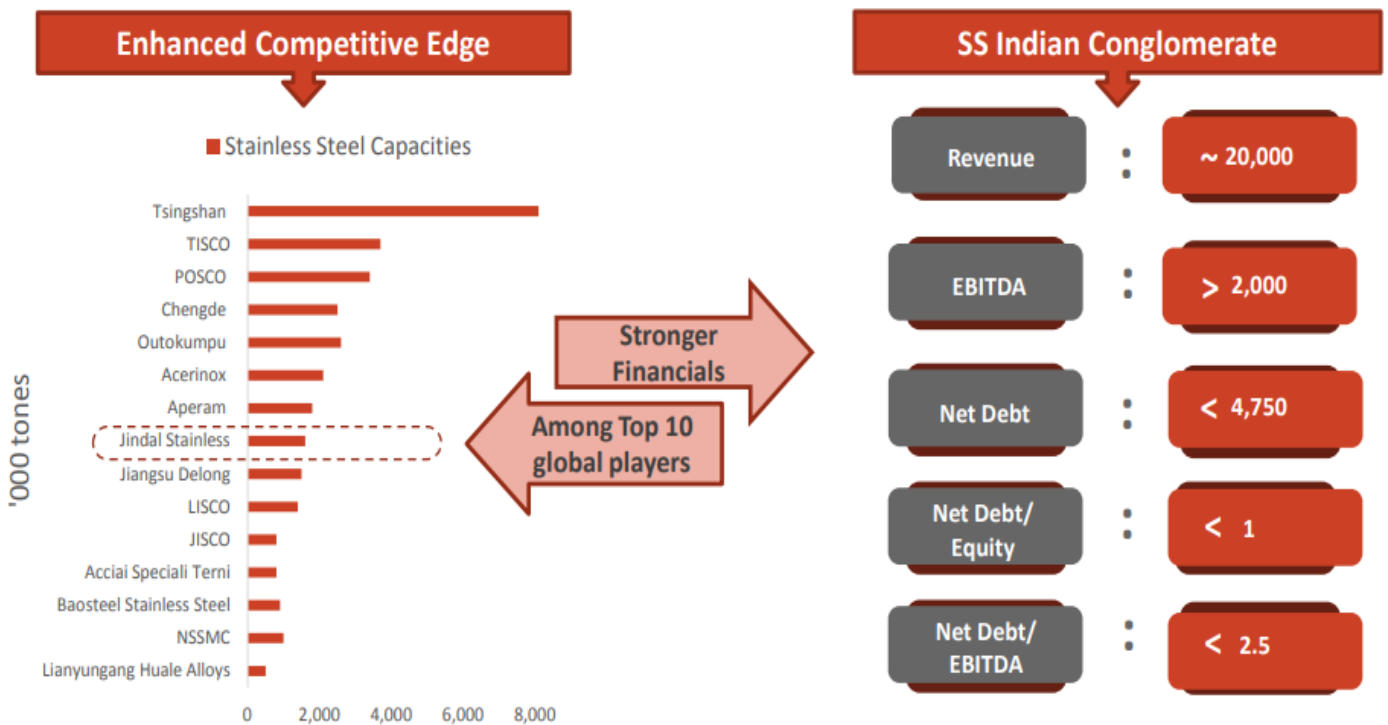
Exhibit 3: After receiving all requisite approvals, post scheme number of outstanding shares of merged entity expected to be ~82.34 crore



Source: Company, ICICI Direct Research,

### Combined entity to enter league of Top 10 Global SS producers

Exhibit 4: Joins Top 10 global stainless league



Source: Company, ICICI Direct Research,, Net Debt is excluding ₹900 crore of Intercompany deposit that JSHL has given to JSL

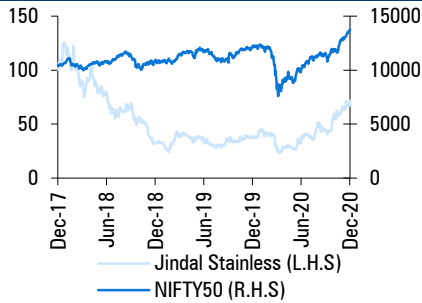
Major events ahead....

Exhibit 5: Major Events, Advisors

<b>APPOINTED DATE</b>	<ul style="list-style-type: none"> <li>• April 1, 2020</li> </ul>
<b>MAJOR EVENTS EXPECTED COMPLETION IN H2 FY22</b>	<ul style="list-style-type: none"> <li>• Board approval of the scheme of arrangement</li> <li>• SEBI approval</li> <li>• Shareholders and Creditors approvals</li> <li>• NCLT approval</li> <li>• Implementation of Scheme</li> </ul>
<b>MERGER PROCESS ADVISORS</b>	<ul style="list-style-type: none"> <li>• Transaction Advisors: Transaction Square LLP</li> <li>• Independent Registered Valuer: Niranjan Kumar (Associated with Transaction Square LLP)</li> <li>• Merchant Banker’s Fairness opinion: SBI Capital Markets</li> <li>• Legal advisor: S&amp;R Associates, Sagus Legal</li> </ul>

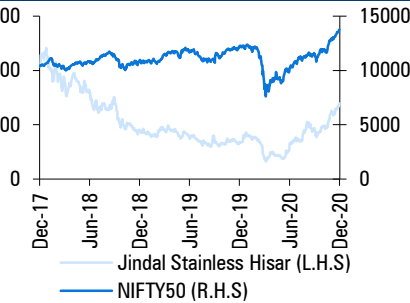
Source: Company, ICICI Direct Research

Exhibit 6: Price Performance : JSL



Source: Bloomberg

Exhibit 7: Price Performance : JSHL



Source: Bloomberg

## Financial summary: JSL (Consolidated Performance)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>12,951</b>	<b>11,549</b>	<b>14,060</b>	<b>15,280</b>
Growth (%)	-4.5%	-10.8%	21.7%	8.7%
<b>EBITDA</b>	<b>1,139</b>	<b>1,110</b>	<b>1,392</b>	<b>1,519</b>
Growth (%)	-2.2%	-2.6%	25.4%	9.1%
Interest & Finance Cost	586	514	469	438
Depreciation	425	406	396	391
Other Income	40	37	35	33
<b>PBT before Exceptional Item</b>	<b>169</b>	<b>227</b>	<b>562</b>	<b>724</b>
Add/Less: Exceptional Items	4	0	0	0
Add/Less: Share of P/L of Invst us	-8	-6	-3	1
<b>PBT</b>	<b>165</b>	<b>221</b>	<b>559</b>	<b>725</b>
Total Tax	93	73	185	240
<b>PAT</b>	<b>73</b>	<b>148</b>	<b>374</b>	<b>485</b>
Growth (%)	-50.0%	103.7%	152.8%	29.7%
<b>EPS</b>	<b>1.5</b>	<b>2.8</b>	<b>7.1</b>	<b>9.2</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	73	148	374	485
Add: Dep. & Amortization	425	406	396	391
Net (Inc) / dec.in Current Asset	-123	344	-686	-211
Net Inc / (dec) in Current Liab.	262	-433	506	-80
<b>CF from operating activities</b>	<b>637</b>	<b>465</b>	<b>589</b>	<b>585</b>
(Inc)/dec in Investments	38	-42	-20	-25
(Inc)/dec in Fixed Assets	-280	-230	-239	-271
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-241</b>	<b>-272</b>	<b>-260</b>	<b>-296</b>
Inc / (Dec) in Equity Capital	2	8	0	0
Inc / (Dec) in Loans	-485	-350	-300	-300
Dividend & Dividend Tax	0	0	0	0
Others	112	148	-29	12
<b>CF from financing activities</b>	<b>-372</b>	<b>-195</b>	<b>-329</b>	<b>-288</b>
Net Cash flow	23	-1	1	1
Opening Cash	45	69	67	68
<b>Closing Cash</b>	<b>69</b>	<b>67</b>	<b>68</b>	<b>69</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	97	105	105	105
Reserve and Surplus	2633	2949	3323	3808
Total Shareholders funds	2730	3054	3428	3913
Total Debt	3903	3553	3253	2953
Deferred Tax Liability (net)	190	170	141	153
<b>Source of Funds</b>	<b>6823</b>	<b>6777</b>	<b>6822</b>	<b>7019</b>
Gross Block - Fixed Assets	8442	8673	8910	9176
Accumulated Depreciation	1949	2354	2750	3141
Net Block	6493	6319	6160	6035
Capital WIP	13	11	14	19
Net Fixed Assets	6506	6330	6173	6054
Investments	138	180	201	226
Inventory	2739	2468	3005	3140
Cash	69	67	68	69
Debtors	705	633	770	754
Loans & Advances & Other CA	521	520	532	625
Total Current Assets	4033	3688	4375	4587
Creditors	2660	2215	2619	2504
Provisions & Other CL	1195	1207	1308	1344
Total Current Liabilities	3854	3422	3927	3847
Net Current Assets	179	266	448	740
<b>Application of Funds</b>	<b>6823</b>	<b>6777</b>	<b>6822</b>	<b>7019</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	1.5	2.8	7.1	9.2
BV	56.0	58.1	65.2	74.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	1.3	1.3	1.3
<b>Operating Ratios (%)</b>				
EBITDA margins	8.8	9.6	9.9	9.9
PBT margins	1.3	1.9	4.0	4.7
Net Profit margins	0.6	1.3	2.7	3.2
Inventory days	77	78	78	75
Debtor days	20	20	20	18
Creditor days	75	70	68	65
<b>Return Ratios (%)</b>				
RoE	2.7	4.8	10.9	12.4
RoCE	10.8	10.7	14.9	16.4
RoIC	10.9	10.8	15.1	16.6
<b>Valuation Ratios (x)</b>				
P/E	50.3	26.6	10.5	8.1
EV / EBITDA	6.6	6.7	5.1	4.5
EV / Revenues	0.6	0.6	0.5	0.4
Market Cap / Revenues	0.3	0.3	0.3	0.3
Price to Book Value	1.3	1.3	1.1	1.0
<b>Solvency Ratios</b>				
Debt / Equity	1.4	1.1	0.9	0.7
Debt/EBITDA	3.4	3.1	2.3	1.9
Current Ratio	1.0	1.1	1.1	1.2
Quick Ratio	0.3	0.4	0.3	0.4

Source: Company, ICICI Direct Research

## Financial summary: JSHL (Consolidated Performance)

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>9379</b>	<b>8592</b>	<b>9672</b>	<b>10094</b>
Growth (%)	-9%	-8%	13%	4%
Total Operating Expenditure	8444	7756	8706	9071
<b>EBITDA</b>	<b>935</b>	<b>836</b>	<b>967</b>	<b>1023</b>
Growth (%)	-10%	-11%	16%	6%
Interest & Finance Cost	323	306	268	241
Depreciation	295	293	301	314
Other Income	133	139	147	156
<b>PBT before Exceptional Item</b>	<b>451</b>	<b>376</b>	<b>544</b>	<b>624</b>
Add/less: Exceptional Items	20	0	0	0
Share of profit from Associates	26	20	25	29
PBT	497	397	569	653
Total Tax	96	100	143	164
<b>PAT</b>	<b>401</b>	<b>297</b>	<b>426</b>	<b>489</b>
Growth (%)	1%	-26%	43%	15%
<b>EPS</b>	<b>17</b>	<b>13</b>	<b>18</b>	<b>21</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	401	297	426	489
Add: Dep. & Amortization	295	293	301	314
Net (Inc) / dec.in Current Asset	-105	27	-292	-144
Net Inc / (dec) in Current Liab.	-94	-259	133	-47
<b>CF from Operating Actv.</b>	<b>497</b>	<b>358</b>	<b>568</b>	<b>612</b>
(Inc)/dec in Investments	-25	-15	-2	-40
(Inc)/dec in Fixed Assets	-225	-250	-275	-300
Others	0	0	0	0
<b>CF from Investing Actv.</b>	<b>-250</b>	<b>-265</b>	<b>-277</b>	<b>-340</b>
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-186	-100	-273	-283
Dividend & Dividend Tax	0	0	0	0
Others	-53	4	5	-9
<b>CF from Financing Actv.</b>	<b>-240</b>	<b>-96</b>	<b>-268</b>	<b>-292</b>
Net Cash flow	8	-3	23	-20
Opening Cash	26	34	30	53
<b>Closing Cash</b>	<b>34</b>	<b>30</b>	<b>53</b>	<b>33</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	47	47	47	47
Reserve and Surplus	2249	2553	2987	3486
<b>Total Shareholders funds</b>	<b>2296</b>	<b>2600</b>	<b>3034</b>	<b>3533</b>
Total Debt	2181	2081	1808	1525
Other Non-Current Liabilities	18	18	18	18
Deferred Tax Liability (net)	38	36	34	17
<b>Source of Funds</b>	<b>4532</b>	<b>4735</b>	<b>4894</b>	<b>5093</b>
Gross Block - Fixed Assets	3880	4080	4305	4755
Accumulated Depreciation	1771	2064	2365	2679
<b>Net Block</b>	<b>2108</b>	<b>2016</b>	<b>1939</b>	<b>2076</b>
Capital WIP	107	157	207	57
<b>Net Fixed Assets</b>	<b>2215</b>	<b>2172</b>	<b>2146</b>	<b>2133</b>
Investments	647	662	664	704
Inventory	1554	1530	1696	1770
Cash	34	30	53	33
Debtors	747	706	795	830
Loans & Advances & Other CA	1322	1359	1397	1432
<b>Total Current Assets</b>	<b>3657</b>	<b>3626</b>	<b>3941</b>	<b>4065</b>
Creditors	1434	1295	1457	1438
Provisions & Other CL	617	498	468	441
Total Current Liabilities	2052	1792	1926	1879
Net Current Assets	1605	1833	2015	2186
Other Non-current assets	66	67	69	71
<b>Application of Funds</b>	<b>4532</b>	<b>4735</b>	<b>4894</b>	<b>5093</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	17.0	12.6	18.0	20.7
BV	97	110	129	150
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	1.3	2.3	1.4
<b>Operating Ratios (%)</b>				
EBITDA margins	10.0	9.7	10.0	10.1
PBT margins	5.3	4.6	5.9	6.5
Net Profit margins	4.3	3.5	4.4	4.8
Inventory days	60	65	64	64
Debtor days	29	30	30	30
Creditor days	56	55	55	52
<b>Return Ratios (%)</b>				
RoE	17.5	11.4	14.0	13.8
RoCE	14.3	11.6	13.7	14.0
RoIC	14.4	11.7	13.9	14.1
<b>Valuation Ratios (x)</b>				
P/E	8.1	10.9	7.6	6.6
EV / EBITDA	5.8	6.3	5.2	4.6
EV / Revenues	0.6	0.6	0.5	0.5
Market Cap / Revenues	0.3	0.4	0.3	0.3
Price to Book Value	1.4	1.2	1.1	0.9
<b>Solvency Ratios</b>				
Debt / Equity	0.9	0.8	0.6	0.4
Debt/EBITDA	2.3	2.5	1.9	1.5
Current Ratio	1.8	2.0	2.0	2.2
Quick Ratio	1.0	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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