

Jindal Stainless

Refer to important disclosures at the end of this report

Equity infusion via QIP at discount caps upside; downgrade to Hold

CMP: Rs 51
as of (August 27, 2020)

TP: Rs 52 (▲)
12 months

Rating: HOLD (▼)

Upside: 1.7 %

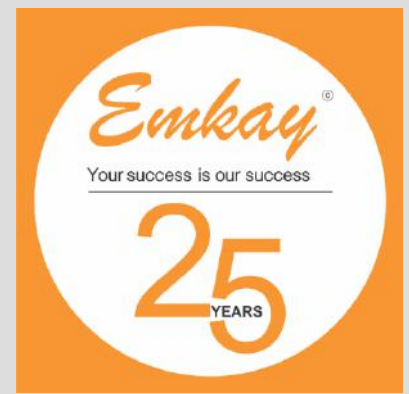
- JSL announced the issuance of equity convertible warrants to tide over working capital shortfall as it is under moratorium and does not expect banks to extend additional loan in near term. The company needs cash immediately as it ramps up plant utilization.
 - The warrants are priced at Rs42.55/share, a discount of 16.8% to yesterday's closing price. The warrants will be subscribed to by the promoters (89%) and Kotak Special Situations Fund (11%). 33% of the issue is payable upfront and balance will be due in 18 months.
 - The equity infusion by promoters is generally a sign of confidence in the company, but the pricing has caught us by surprise. The discount to the CMP should cap near-term upside. The QIP results in 7.9% EPS dilution; promoters' stake will rise from 68.12% to 69.87%.
 - We are constructive on SS demand in India due to increasing urbanization and government support to the domestic industry. We increase our target multiple from 4x to 4.5x Mar-22E and raise our TP from Rs42 to Rs52. But at the CMP, the near-term upside looks capped. Downgrade to Hold. Key risk is a slide in SS prices.
- QIP:** Total 38.2mn shares will be issued, resulting in an equity dilution of 7.87%. Kotak Special Situations Fund has also participated in the QIP, albeit with a small amount of Rs12.8mn. It will increase its stake marginally from 5.82% to 5.97%. We note that while the company has cited the requirement of funds to augment working capital, it has only called for 33% of the total issue size upon application, with balance being due anytime in next 18 months. The EGM is scheduled for 17th Sep 2020.
- Debt repayment:** JSL has applied for moratorium, availing the relief given by the govt, but plans to repay Rs4.5bn term debt in current year, which we believe is quite stretched, given the likely cash flow from operations post capex and interest payouts. We believe a large part of the repayment will depend upon plant utilization and EBITDA generation.
- Outlook and valuation:** We are positive on the long-term prospects of the company and expect the demand for SS to be driven by 1) implementation of BS-6 in automobile industry which will drive consumption of SS in the automotive industry, 2) increase in the usage of SS in various applications in Railways and 3) increasing urbanization, driving up demand for SS products. The stock trades at close to our target multiple of 4.5x FY22E EV/EBITDA. We have raised our target multiple reflecting 1) improving demand for SS in India and 2) govt support to the domestic SS industry. However, we believe that further re-rating of the stock will depend on how soon the company starts deleveraging. The equity infusion is a step in right direction, but the pricing should cap the near-term upside. We downgrade the stock to Hold with a TP of Rs52 (Rs42 earlier). Key risk is a drop in SS prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(Page 6\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,35,573	1,29,509	1,06,323	1,39,924	1,46,803
EBITDA	11,646	11,395	8,534	11,837	12,724
EBITDA Margin (%)	8.6	8.8	8.0	8.5	8.7
APAT	1,322	841	(639)	1,241	2,317
EPS (Rs)	2.8	1.7	(1.3)	2.5	4.8
EPS (% chg)	(61.2)	(37.4)	(176.0)	0.0	86.7
ROE (%)	5.2	3.2	(2.4)	4.6	8.0
P/E (x)	18.5	29.6	(39.0)	20.1	10.8
EV/EBITDA (x)	5.4	5.2	6.5	4.5	3.9
P/BV (x)	0.9	0.9	0.9	0.9	0.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/
Target Price change (%)	30.0
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(1.3)	2.5
Consensus	(1.8)	3.4
Mean Consensus TP (12M)	Rs 46	

Stock Details

Bloomberg Code	JDSL IN
Face Value (Rs)	2
Shares outstanding (mn)	487
52 Week H/L	53 / 21
M Cap (Rs bn/USD bn)	25 / 0.34
Daily Avg Volume (nos.)	9,20,112
Daily Avg Turnover (US\$ mn)	0.5

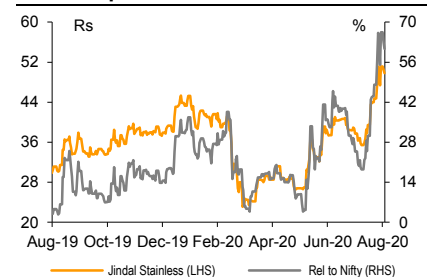
Shareholding Pattern Jun '20

Promoters	68.1%
FIIs	12.9%
DIIIs	7.9%
Public and Others	11.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	35	91	27	70
Rel. to Nifty	31	49	29	63

Relative price chart



Source: Bloomberg

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Vishal Chandak

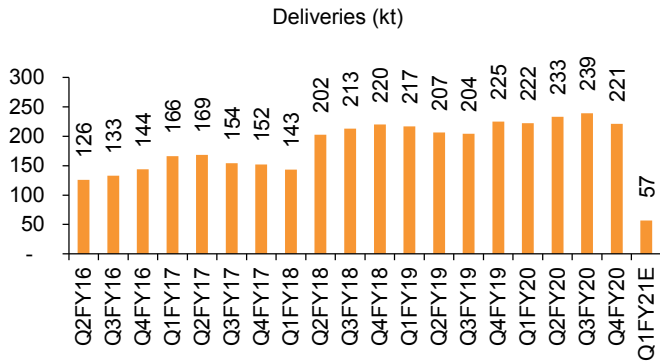
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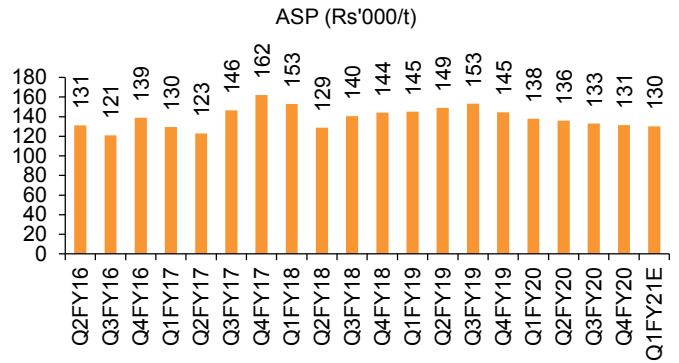
Story in Charts

Exhibit 1: Lockdown expected to result in a plunge in sales



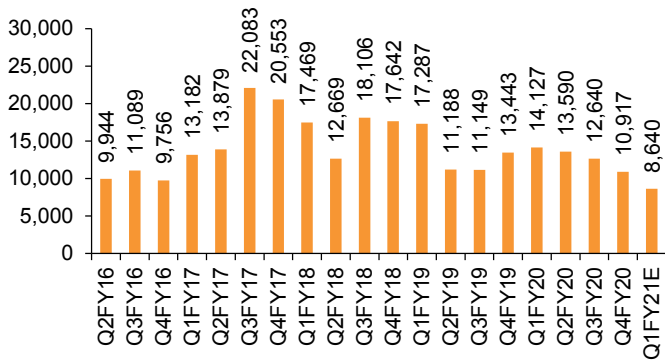
Source: Company, Emkay Research

Exhibit 2: ASP is expected to remain weak



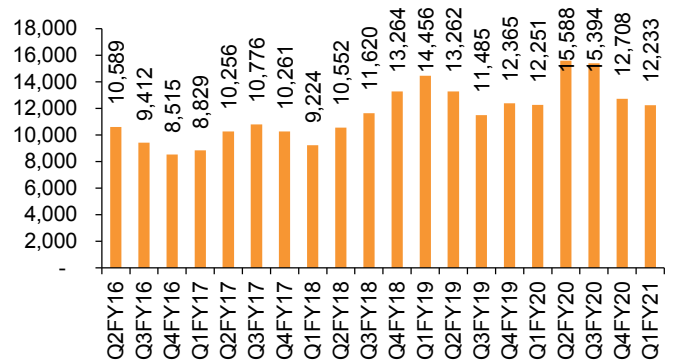
Source: Company, Emkay Research

Exhibit 3: EBITDA/t is expected to remain below Rs9,000/t



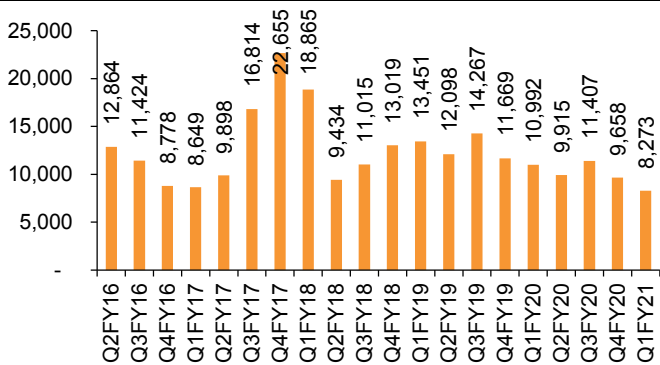
Source: Company, Emkay Research

Exhibit 4: Nickel LME (\$/t) has remained weak



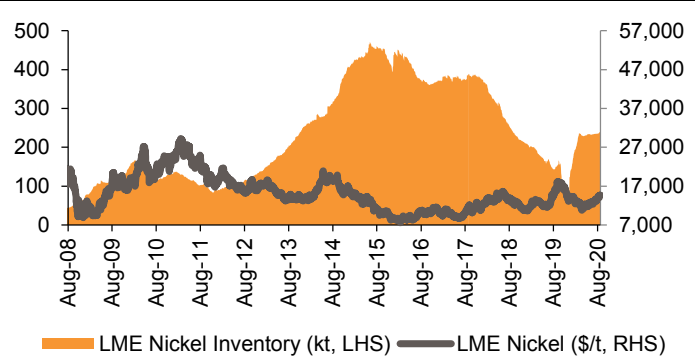
Source: Bloomberg, Emkay Research

Exhibit 5: Domestic Chrome ore prices (Rs/t) have fallen in Q1FY21



Source: Steel mint, Emkay Research

Exhibit 6: Nickel inventory has risen in recent months



Source: Bloomberg, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,35,573	1,29,509	1,06,323	1,39,924	1,46,803
Expenditure	1,23,928	1,18,114	97,789	1,28,087	1,34,079
EBITDA	11,646	11,395	8,534	11,837	12,724
Depreciation	3,515	4,252	4,101	4,438	4,663
EBIT	8,131	7,143	4,433	7,399	8,061
Other Income	326	399	250	250	250
Interest expenses	6,369	5,853	5,637	5,796	4,853
PBT	2,088	1,689	(953)	1,852	3,458
Tax	766	926	(315)	611	1,141
Extraordinary Items	105	118	0	0	0
Minority Int./Income from Assoc.	0	79	0	0	0
Reported Net Income	1,427	959	(639)	1,241	2,317
Adjusted PAT	1,322	841	(639)	1,241	2,317

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	958	975	975	975	975
Reserves & surplus	24,950	26,198	25,559	26,800	29,117
Net worth	25,908	27,172	26,534	27,775	30,091
Minority Interest	117	130	130	130	130
Loan Funds	38,957	34,635	32,135	29,135	26,135
Net deferred tax liability	(1,323)	(1,905)	(1,905)	(1,905)	(1,905)
Total Liabilities	66,305	63,843	60,704	58,945	58,262
Net block	63,447	61,830	58,729	55,791	52,877
Investment	5,662	6,557	6,557	6,557	6,557
Current Assets	37,802	38,263	35,086	47,239	44,455
Cash & bank balance	452	687	1,557	1,271	1,557
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	40,842	42,933	40,544	53,018	49,003
Net current assets	(3,040)	(4,670)	(5,458)	(5,778)	(4,548)
Misc. exp	0	0	0	0	0
Total Assets	66,305	63,843	60,704	58,945	58,262

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	5,732	1,653	3,147	6,290	8,121
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,191	5,920	1,973	(576)	(2,085)
Operating Cashflow	16,575	17,678	5,120	5,714	6,036
Capital expenditure	(2,450)	(1,746)	(1,750)	(3,000)	(2,750)
Free Cash Flow	14,125	15,932	3,370	2,714	3,286
Investments	378	(132)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(2,072)	(1,878)	(1,750)	(3,000)	(2,750)
Equity Capital Raised	0	286	0	0	0
Loans Taken / (Repaid)	(7,418)	(5,178)	(2,500)	(3,000)	(3,000)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(733)	(5,015)	0	0	0
Financing Cashflow	(14,520)	(15,761)	(2,500)	(3,000)	(3,000)
Net chg in cash	(17)	39	870	(286)	286
Opening cash position	469	648	687	1,557	1,271
Closing cash position	452	687	1,557	1,271	1,557

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	8.6	8.8	8.0	8.5	8.7
EBIT Margin	6.0	5.5	4.2	5.3	5.5
Effective Tax Rate	36.7	54.9	33.0	33.0	33.0
Net Margin	1.0	0.6	(0.6)	0.9	1.6
ROCE	12.6	12.2	8.0	13.7	15.2
ROE	5.2	3.2	(2.4)	4.6	8.0
RoIC	13.2	12.3	8.2	14.7	16.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	2.8	1.7	(1.3)	2.5	4.8
CEPS	10.1	10.5	7.1	11.7	14.3
BVPS	54.1	55.8	54.5	57.0	61.8
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	18.5	29.6	(39.0)	20.1	10.8
P/CEPS	5.1	4.9	7.2	4.4	3.6
P/BV	0.9	0.9	0.9	0.9	0.8
EV / Sales	0.5	0.5	0.5	0.4	0.3
EV / EBITDA	5.4	5.2	6.5	4.5	3.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	1.5	1.2	1.2	1.0	0.8
Net Debt/EBIDTA	3.3	3.0	3.6	2.4	1.9
Working Cap Cycle (days)	(9.4)	(15.1)	(24.1)	(18.4)	(15.2)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	16.5	(4.5)	(17.9)	31.6	4.9
EBITDA	(13.1)	(2.2)	(25.1)	38.7	7.5
EBIT	(20.3)	(12.1)	(37.9)	66.9	8.9
PAT	(60.5)	(32.8)	(166.6)	0.0	86.7

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	35,475	32,633	32,911	33,024	30,941
EBITDA	3,041	2,999	3,185	2,996	2,215
EBITDA Margin (%)	8.6	9.2	9.7	9.1	7.2
PAT	342	476	437	517	(662)
EPS (Rs)	0.7	1.0	0.9	1.1	(1.4)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	67.3	68.1	68.1	68.1	68.1
FIs	10.9	10.7	10.7	12.6	12.9
DIs	8.9	8.7	8.6	7.9	7.9
Public and Others	12.9	12.5	12.6	11.4	11.2

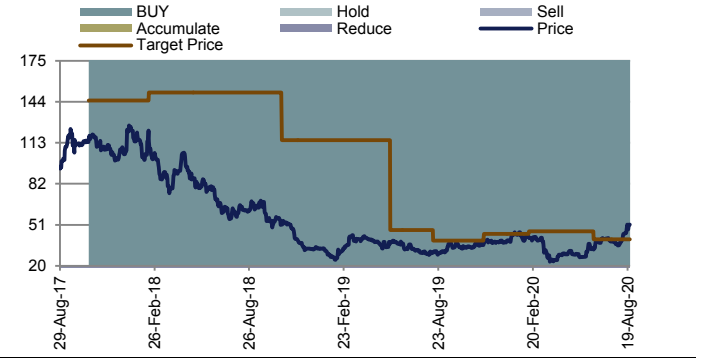
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Jun-20	32	40	12m	Buy	Vishal Chandak
12-Feb-20	42	46	12m	Buy	Vishal Chandak
18-Nov-19	37	44	12m	Buy	Vishal Chandak
13-Aug-19	30	39	12m	Buy	Vishal Chandak
23-May-19	37	47	12m	Buy	Vishal Chandak
27-Oct-18	51	115	12m	Buy	Kamal Sahoo
27-Sep-18	59	151	12m	Buy	Kamal Sahoo
18-Jul-18	57	151	12m	Buy	Goutam Chakraborty
08-May-18	85	151	12m	Buy	Goutam Chakraborty
26-Apr-18	96	151	12m	Buy	Goutam Chakraborty
01-Mar-18	100	151	12m	Buy	Goutam Chakraborty
15-Feb-18	114	151	12m	Buy	Goutam Chakraborty
14-Nov-17	114	145	12m	Buy	Goutam Chakraborty
01-Nov-17	119	145	12m	Buy	Goutam Chakraborty
23-Oct-17	115	145	12m	Buy	Goutam Chakraborty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Metals & Mining



Analyst: Vishal Chandak

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Sector

Metals and Mining

Analyst bio

Vishal Chandak is a CA and MBA (Finance). He brings in over 16 years of experience, including seven years in the corporate side, with balance being on both the buy side and sell side. Currently, his team tracks 12 stocks in the Metals and Mining space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Metals & Mining	2.52	2.52	0%	0	100.00
Coal India	0.40	0.40	0%	0	15.94
Hindalco	0.44	0.44	0%	0	17.60
Hindustan Zinc	0.08	0.08	0%	0	3.01
Jindal Stainless	0.00	0.01	NA	1	0.30
Jindal Stainless Hisar	0.00	0.00	NA	0	0.00
JSW Steel	0.46	0.48	5%	2	19.16
MOIL	0.00	0.00	NA	0	0.00
National Aluminium Co	0.05	0.00	-100%	-5	0.00
NMDC	0.13	0.12	-5%	-1	4.84
SAIL	0.07	0.07	3%	0	2.76
Tata Steel	0.51	0.53	4%	2	21.00
Vedanta	0.38	0.39	3%	1	15.39
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

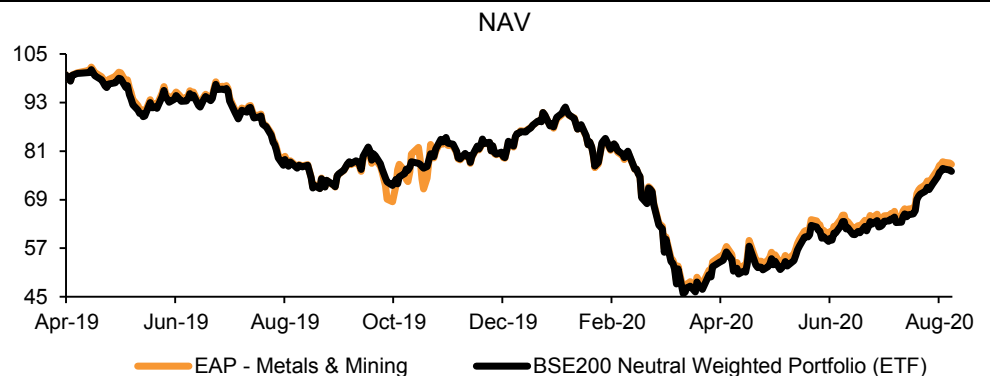
Sector portfolio NAV

	Base					Latest
	1-Apr-19	22-Nov-19	25-Feb-20	27-May-20	24-Jul-20	25-Aug-20
EAP - Metals & Mining	100.0	79.5	76.5	56.9	64.7	77.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	79.7	76.6	55.3	63.3	76.0

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 27 Aug 2020 09:38:06 (SGT)

Dissemination Date: 27 Aug 2020 09:39:06 (SGT)

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