

CMP: ₹ 293

Target: ₹ 390 (33%)

Target Period: 12 months

BUY

August 2, 2021

Performs well...

About the stock: Jindal Stainless (Hisar) (JSHL) is one of the leading players in the Indian stainless steel market with its manufacturing facility located in Hisar, Haryana with an installed capacity of 0.8 million tonnes per annum (MTPA).

- JSHL is the largest specialty stainless steel producer in India with a diversified value-added product portfolio
- JSHL is the world's largest producer of SS strips for razor blades and India's largest producer of coin blanks

Q1FY22 Results: JSHL reported a healthy performance in Q1FY22.

- On a consolidated basis, JSHL reported a topline of ₹ 2776 crore, up 226% YoY but down 11% QoQ. Consolidated EBITDA was at ₹ 412 crore, up 864% YoY, 2% QoQ. Consolidated PAT in Q1FY22 was at ₹ 359 crore, up 2%QoQ
- During Q1FY22, JSHL's standalone operation's EBITDA/tonne was at ₹ 25278/tonne (standalone EBITDA/tonne of ₹ 19952/tonne in Q4FY21)

What should investors do? JSHL's share price has grown by ~4x over the last 18 months (from ~₹ 73 in February 2020 to ~₹ 293 levels in July 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value JSHL at ₹ 390, based on merger ratio.

Key triggers for future price performance:

- JSHL has planned expansion of precision strip capacity from 22000 tonnes per annum (TPA) to 60000 TPA in two phases at a total capex of ₹ 250 crore for both phases (includes earlier announced capex of ₹ 190 crore). After the first phase of expansion the capacity would be expanded to 48000 TPA and is likely to be completed by Q2FY22. Post the second phase, capacity would be expanded to 60000 TPA and would be completed by Q4FY23
- JSHL is also expanding blade steel capacity from current capacity of 14000 TPA to 24000 TPA in two phases at a total capex of ₹ 200 crore for both phases. After the first phase, capacity would be expanded to 20000 TPA and is likely to be completed by Q2FY23 while post the second phase capacity would be expanded to 24000 TPA and be completed by Q2FY24

Alternate Stock Idea: Apart from JSHL, we also like Ratnamani Metals and Tubes.

- Leadership position in stainless steel pipes and tubes segment, differentiates RMTL from its peer group
- BUY with a target price of ₹ 2400



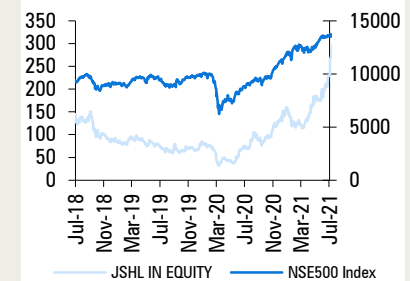
Particulars

Particulars	₹ Crore
Market Capitalization	6,973
Total Debt (Q1FY22)	1,447
Cash and Invest. (Q1FY22)	7
Enterprise Value(EV)	8,413
52 week H/L (₹)	304/ 67
Equity capital	47.0
Face value (₹)	2.0

Particulars

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	57.7	57.7	57.7	57.7	58.1
FII's	20.6	20.4	21.1	20.7	21.0
DII's	5.1	4.0	3.9	4.0	4.1
Public	16.7	17.9	17.3	17.6	16.9
Total	100	100	100	100	100

Price Performance Graph



Key Risks & Event for JSHL

- As on June, 2021 standalone net debt was at ₹ 1292 crore, down ~35% since March 2020
- Key risks:** (i) Sharp volatility in raw material cost (ii) Slowdown in demand growth.

Research Analyst

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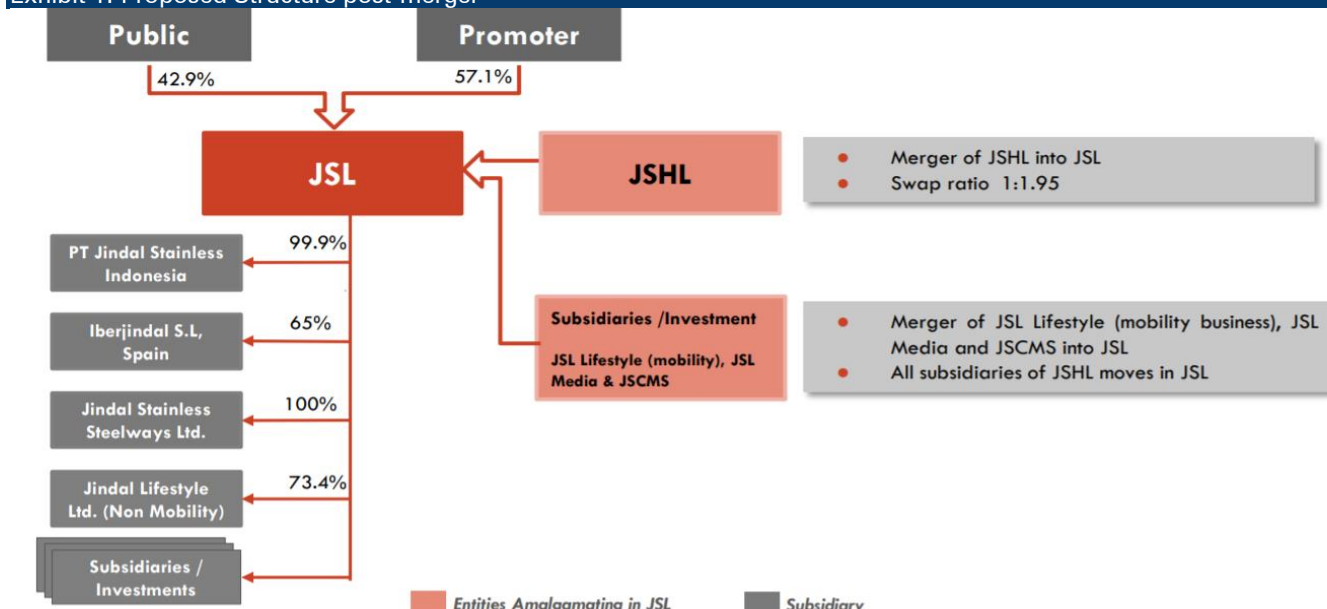
Key Financial Summary- Jindal Stainless Hisar (Pre-merger)

₹ crore	FY18	FY19	FY20	FY21	CAGR (FY16-FY21 in %)	FY22E	FY23E	CAGR (FY21-FY23E in %)
Total Operating income	10,357	10,289	9,379	9,400	9	10,674	11,305	10
EBITDA	1,231	1,039	935	1,127	30	1,363	1,342	9
PAT	588	396	401	696	26	996	1,051	23
EPS (₹)	24.9	16.8	17.0	29.5		42.2	44.5	
P/E (x)	11.8	17.6	17.4	10.0		7.0	6.6	
EV/EBITDA (x)	8.0	9.0	9.7	7.5		5.5	4.8	
RoCE (%)	21.3	17.6	14.3	18.6		20.6	18.1	
RoE(%)	39.0	20.8	17.5	23.2		24.2	19.8	

Source: Company, ICICI Direct Research

Key highlights-

Exhibit 1: Proposed Structure post-merger



Source: Company, ICICI Direct Research,

Exhibit 2: JSL, JSHL Merger: Progressing well

APPOINTED DATE

- April 1, 2020

MAJOR EVENTS EXPECTED COMPLETION IN H2 FY22

- Board approval of the scheme of arrangement
- Stock Exchanges/SEBI approval
- Shareholders and Creditors approvals
- NCLT approval
- Implementation of Scheme

- Received Stock Exchanges/SEBI approval in 1st week of March'21, ahead of the expected time
- First motion application filed before the NCLT on March 17, 2021
- The petition is expected to come up for hearing soon

Source: Company, ICICI Direct Research,

Exhibit 3: Leveraging Jajpur Infra & Hisar Speciality Product Leadership

JSL - Doubling Stainless Steel Capacity

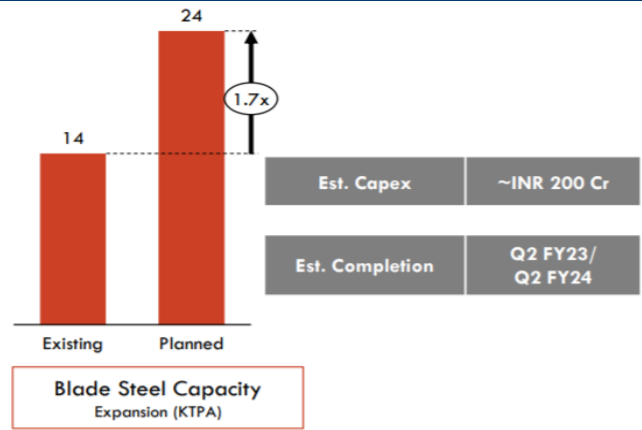
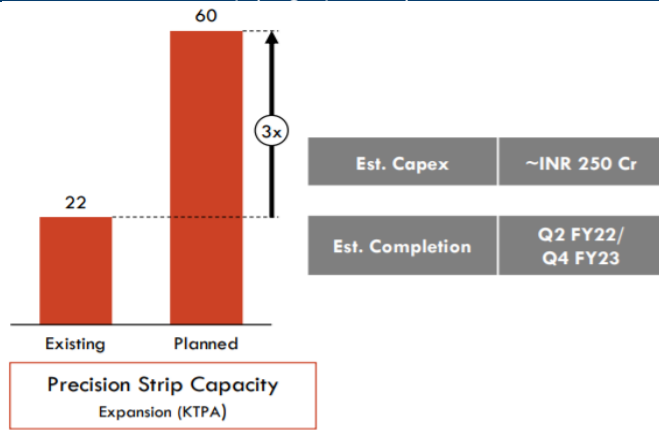
- ✓ Augmenting Stainless Steel Melt capacity from 1.1MTPA to 2.1MTPA
- ✓ Incremental downstream capacity HRAP & CRAP
- ✓ Enhanced backward integration & quality lab
- ✓ Brownfield expansion; relevant approvals in place
- ✓ World class European equipments
- ✓ Est. cost of INR 2,150 crore at <1/3rd of the greenfield capex cost

JSHL - Multiplying Speciality Products

- ✓ Strengthening product mix with expansion in value added product segment
- ✓ Expanding the Precision Strip by 3x
- ✓ Expanding Blade Steel by 1.7x
- ✓ Leveraging leadership position in speciality products (SPD)
- ✓ Est. cost of INR 450 crore

Source: Company, ICICI Direct Research,

Exhibit 4: JSHL Multiplying Speciality Product Mix



Precision Strip Capacity Expansion:

- ✓ Expect increased global market share from <3% to >8%
- ✓ Strengthening current segments Auto, Process Industry incl. Oil & Gas
- ✓ Expansion would lead to serve niche segments viz Aerospace, Electric Vehicle etc.

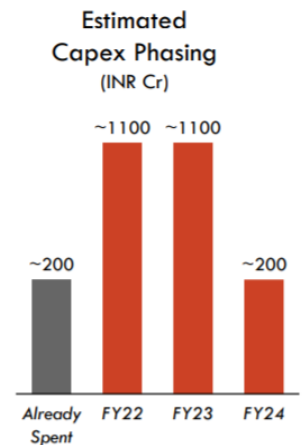
Blade Steel Capacity Expansion:

- ✓ #1 Producer of Blade Steel Globally
- ✓ Supplies to all top global Blade Steel Mfr.

Source: Company, ICICI Direct Research,

Exhibit 5: Integrated Expansion

JSL Projects	Existing Capacity MTPA	Incremental Capacity MTPA	Total JSL MTPA	Est. Capex INR Cr	Est. Completion
SMS	1.10	1.00	2.10	530	Q3 FY23
Combo Line				1,250	Q4 FY23
HRAP	0.80	0.45	1.25		
CRAP	0.45	0.30	0.75		
Ferro Chrome	0.25	0.10	0.35	315	Q3 FY24
Quality Lab Expenses and Other balancing				55	
Sub Total JSL				2,150	



JSHL Projects	Existing Capacity KTPA	Incremental Capacity KTPA	Total SPD KTPA	Est. Capex INR Cr	Est. Completion
Precision Strip	22	38	60	250	
PS Phase -1		26			Q2 FY22
PS Phase-2		12			Q4 FY23
Blade Steel	14	10	24	200	
BS Phase -1		6			Q2 FY23
BS Phase-2		4			Q2FY24
Sub Total JSHL				450	
Total Project Cost				2,600	

Source: Company, ICICI Direct Research,

Peer comparison

Exhibit 6: Peer Comparison

Company	CMP	Target	Rating	Mcap	Topline(in ₹ crore)			EBITDA(in ₹ crore)			Adj PAT(in ₹ crore)			P/E(x)			EV/EBITDA(X)		
					FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E
Jindal Stainless	162	200	BUY	7902	12188	14995	16011	1424	1937	1841	419	823	794	18.8	9.6	9.9	7.7	5.9	6.0
Jindal Stainless Hisar	293	390	BUY	6973	9400	10674	11305	1127	1363	1342	696	996	1051	9.9	6.9	6.6	7.4	5.5	4.8
Ratnamani	2000	2400	BUY	9990	2298	3068	3571	400	537	643	276	356	449	33.9	26.2	20.8	22.1	16.1	13.0

Source: Company, ICICI Direct Research

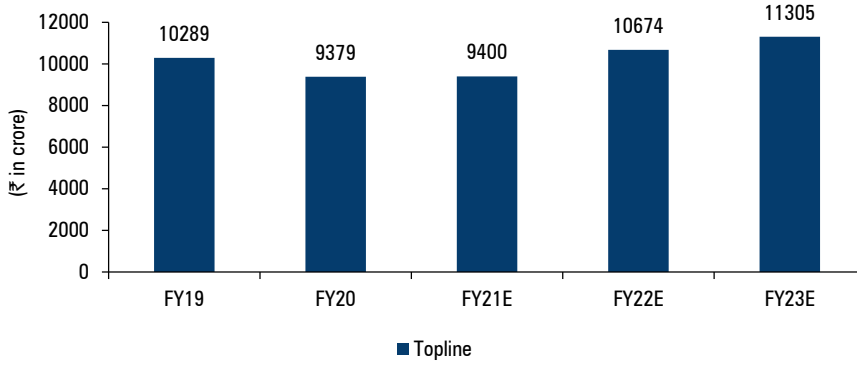
Exhibit 7: Variance Analysis- JSHL – Consolidated (Sales volume and EBITDA/tonne is standalone)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	2776	852	226%	3103	-11%	
Other Income	28	25	13%	26	8%	
Total Operating expense	2364	810	192%	2697	-12%	
EBITDA	412	43	864%	406	2%	For the quarter, EBITDA increased by 2%QoQ
EBITDA Margin (%)	14.9	5.0	983 bps	13.1	178 bps	
Depreciation	64	72	-12%	71	-10%	
Interest	33	73	-54%	45	-26%	
Exceptional item	0	6	-100%	17	-100%	
Share of Net Profit/Loss	105	(40)	NA	99	6%	
PBT	448	(112)	LP	432	4%	
Tax Outgo	89	(18)	LP	82	9%	
PAT	359	(94)	LP	351	2%	For the quarter, PAT increased by 2%QoQ
Key Metrics						
Sales Volume(Standalone)	1,51,121	47,414	219%	1,82,474	-17%	
EBIDTA/Tonne(Standalone)	25,278	8373	202%	19,952	27%	

Source: Company, ICICI Direct Research

Financial story in charts- Jindal Stainless Steel Hisar

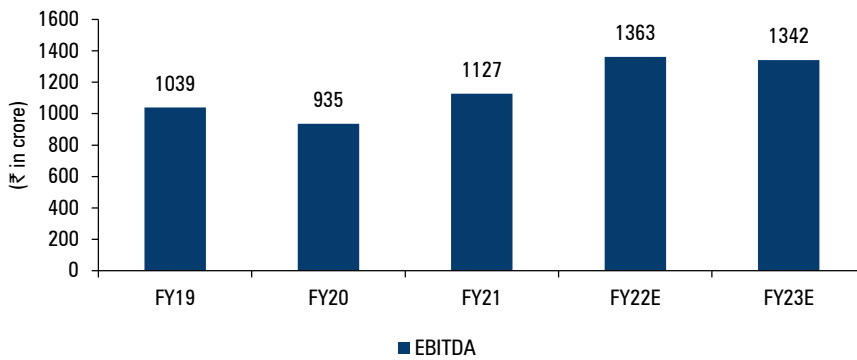
Exhibit 8: Trend in Consolidated topline (in ₹ crore)



JSHL's consolidated topline is expected to grow at a CAGR of 9.7% during FY21-23E

Source: Company, ICICI Direct Research

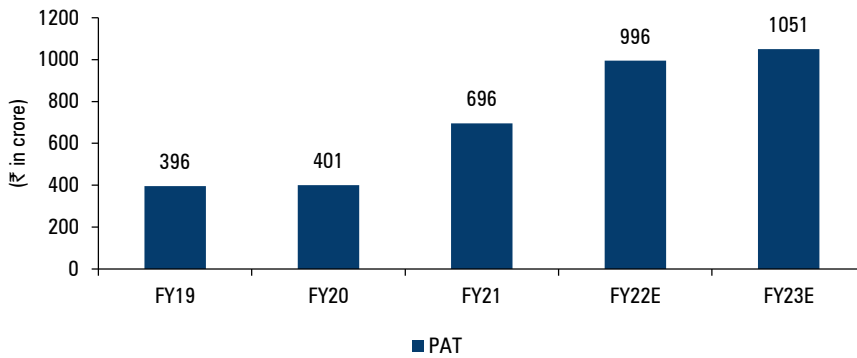
Exhibit 9: Trend in consolidated EBITDA (in ₹ crore)



JSHL's consolidated EBITDA is expected to grow at a CAGR of 9.1% during FY21-23E

Source: Company, ICICI Direct Research

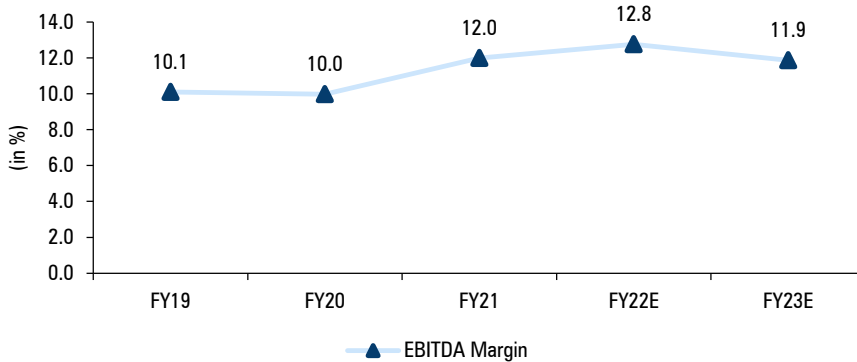
Exhibit 10: Trend in consolidated PAT (in ₹ crore)



We expect JSHL's consolidated PAT to grow at a CAGR of 22.9% during FY21-23E

Source: Company, ICICI Direct Research

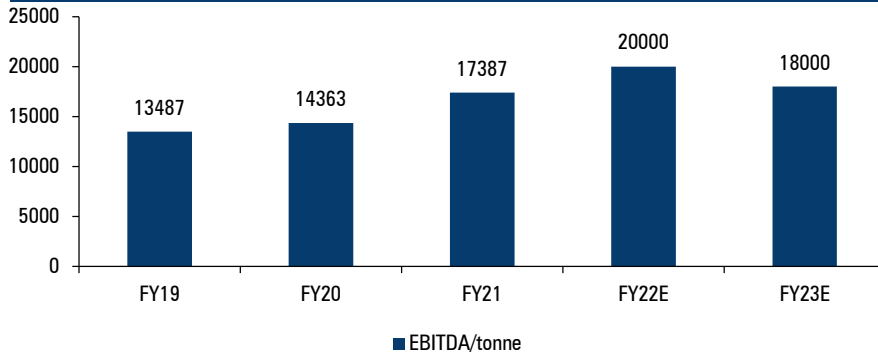
Exhibit 11: Trend in consolidated EBITDA margin (in %)



We expect JSHL to report consolidated PAT EBITDA margin of 12.8% for FY22E and 11.9% for FY23E

Source: Company, ICICI Direct Research

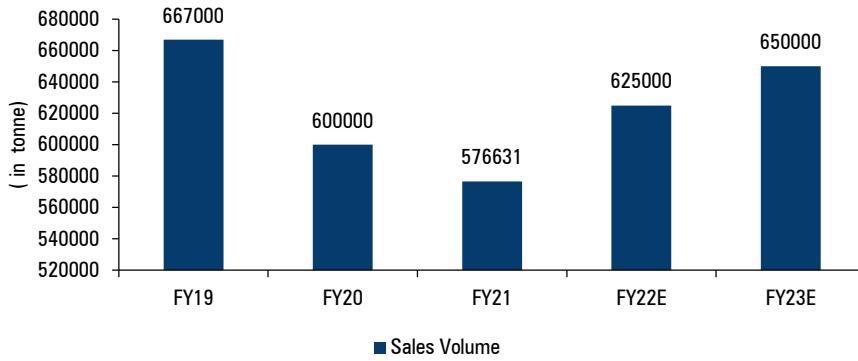
Exhibit 12: Trend in EBITDA/tonne (Standalone)



We model EBITDA/tonne of, ₹ 20000/tonne for FY22E and ₹ 18000/tonne for FY23E

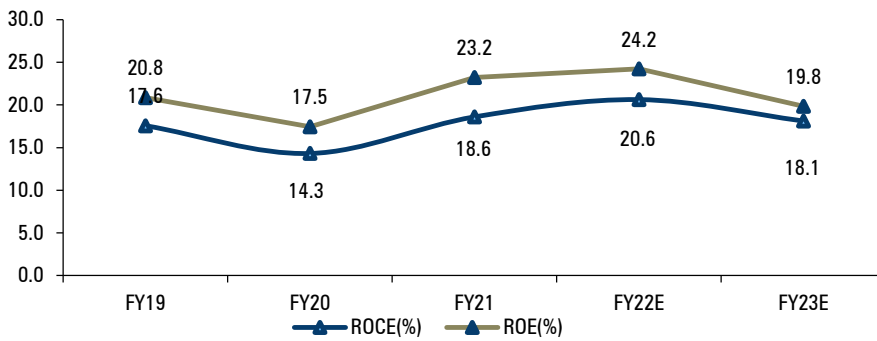
Source: Company, ICICI Direct Research

Exhibit 13: Trend in sales volume (Standalone)... (In KT)



Source: Company, ICICI Direct Research

Exhibit 14: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 15: Valuation Matrix

Years	Total Op Income	Growth	EPS	Growth	PE	EV/EBITDA	RoE	RoCE
	(₹ cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY19	10,289	-0.7	16.8	0.0	17.6	9.0	20.8	17.6
FY20	9,379	-8.8	17.0	1.2	17.4	9.7	17.5	14.3
FY21	9,400	0.2	29.5	73.6	10.0	7.5	23.2	18.6
FY22E	10,674	13.5	42.2	43.1	7.0	5.5	24.2	20.6
FY23E	11,305	5.9	44.5	5.5	6.6	4.8	19.8	18.1

Source: Company, ICICI Direct Research

Exhibit 16: Valuation (based on merged entity basis)

Particulars	Units	Mar-23E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	2,970
Subsidiaries EBITDA in FY23E	₹ crore	213
Total Consolidated EBITDA of Merged Entity in FY23E	₹ crore	3183
Multiple	x	6
Enterprise Value	₹ crore	19099
Net Debt(After adjusting inter company loan)	in crore	2624
Mcap	in ₹/share	16475
Number of Shares	in crores	82.3
Target Price of Jindal Stainless	in ₹/share	200
CMP of Jindal Stainless	in ₹/share	162
Upside (%)	in %	23%
Target Price of Jindal Stainless Hisar(derived as per swap ratio)	in ₹/share	390
CMP of Jindal Stainless Hisar	in ₹/share	293
Upside (%)	in %	33%

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 including subsidiary debt (on pro-forma basis) to decline from ₹2739 crore as on June 2021 (after adjusting inter-company loan) to ₹2624 crore as on March 2023 (after adjusting inter-company loan).

Financial Summary – Jindal Stainless Steel Hisar (Pre-merger)

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	9379	9400	10674	11305
Growth (%)	-9%	0%	14%	6%
Total Operating Expenditure	8444	8273	9311	9963
EBITDA	935	1127	1363	1342
Growth (%)	-10%	21%	21%	-1%
Interest & Finance Cost	323	251	178	144
Depreciation	295	290	298	311
Other Income	133	107	113	119
PBT before Exceptional Items	451	693	1000	1007
Add/less: Exceptional Items	20	41	0	0
Share of profit from Associates	26	146	331	397
PBT	497	880	1331	1404
Total Tax	96	184	335	353
PAT	401	696	996	1051
Growth (%)	1%	74%	43%	6%
EPS	17	29	42	45

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	401	696	996	1051
Add: Dep. & Amortization	295	290	298	311
Net (Inc) / dec.in Current Asset	-105	-416	-400	-211
Net Inc / (dec) in Current Liab.	-94	457	138	77
CF from Operating Actv.	497	1027	1032	1228
(Inc)/dec in Investments	-25	-151	-2	-40
(Inc)/dec in Fixed Assets	-225	-219	-250	-250
Others	0	0	0	0
CF from Investing Actv.	-250	-371	-252	-290
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-186	-679	-448	-658
Dividend & Dividend Tax	0	0	0	0
Others	-53	10	113	136
CF from Financing Actv.	-240	-669	-335	-522
Net Cash flow	8	-13	445	416
Opening Cash	26	34	21	465
Closing Cash	34	21	465	881

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	47	47	47	47
Reserve and Surplus	2249	2951	4062	5252
Total Shareholders funds	2296	2998	4109	5299
Total Debt	2181	1501	1053	395
Other Non-Current Liabilities	18	21	21	21
Deferred Tax Liability (net)	38	17	16	15
Source of Funds	4532	4538	5200	5731
Net Block	2022	1886	1763	1852
Capital WIP	193	259	334	184
Net Fixed Assets	2215	2144	2096	2035
Investments	647	798	800	840
Inventory	1554	1639	1901	2013
Cash	34	21	465	881
Debtors	747	917	1024	1084
Loans & Advances & Other CA	1322	1483	1514	1552
Total Current Assets	3657	4059	4904	5531
Creditors	1434	1725	1901	2013
Provisions & Other CL	617	783	746	710
Total Current Liabilities	2052	2509	2646	2723
Net Current Assets	1605	1551	2258	2807
Other Non-current assets	66	45	47	49
Application of Funds	4532	4538	5200	5731

Source: Company, ICICI Direct Research, Total Shareholders Fund inclusive of non-controlling interests.

Exhibit 20: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	17.0	29.5	42.2	44.5
BV	97	127	174	225
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	0.9	19.7	37.3
Operating Ratios (%)				
EBITDA margins	10.0	12.0	12.8	11.9
PBT margins	5.3	9.4	12.5	12.4
Net Profit margins	4.3	7.4	9.3	9.3
Inventory days	60	64	65	65
Debtor days	29	36	35	35
Creditor days	56	67	65	65
Return Ratios (%)				
RoE	17.5	23.2	24.2	19.8
RoCE	14.3	18.6	20.6	18.1
RoIC	14.4	18.7	22.7	21.4
Valuation Ratios (x)				
P/E	17.2	9.9	6.9	6.6
EV / EBITDA	9.7	7.4	5.5	4.8
EV / Revenues	1.0	0.9	0.7	0.6
Market Cap / Revenues	0.7	0.7	0.6	0.6
Price to Book Value	3.0	2.3	1.7	1.3
Solvency Ratios				
Debt / Equity	0.9	0.5	0.3	0.1
Debt/EBITDA	2.3	1.3	0.8	0.3
Current Ratio	1.8	1.6	1.9	2.0
Quick Ratio	1.0	1.0	1.1	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	143	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	444	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	320	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	737	850	Buy	173411	32.9	87.7	71.6	21.8	8.2	10.0	11.2	6.0	6.6	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	181	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2137	2400	Buy	9652	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	708	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1433	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	142	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

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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