Equity Research
September 23, 2021
BSE Sensex: 58927

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Company Update

Metals

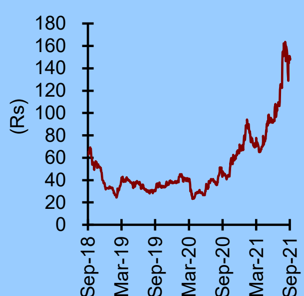
Target price Rs230

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	68.1	68.1	68.1
Institutional investors	20.4	20.5	20.8
MFs and others	0.6	1.0	1.7
Insurance Cos.	0.1	0.1	0.1
FIIs	19.7	19.4	19.0
Others	11.5	11.4	11.1

Source: BSE

Price chart



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INDIA

Jindal Stainless

BUY
Maintain

On steady track

Rs161

We hosted the management of Jindal Stainless (JSL). Management clarified the company's product level strategy underlining the resurgence in demand that the *400 series* sees in India. Expansion from 1.9mtpa to 2.9mtpa stays on track. Existing capacity will lead to 15-20% volume growth in FY22. Management pointed at its continued focus on deleveraging and guided for start of dividend payout as merger between JSL and Jindal Stainless (Hissar) (JSHL) concludes, likely in the near term. Maintain BUY with a target price of Rs230/share.

- **Flexibility in production plan.** JSL highlighted the potential flexibility it enjoys in production planning. It can change the product profile in 30-45 days based on demand. JSL currently has >120 products in its portfolio. Management highlighted the *400 series* as the one where cost advantage lies. There is hardly any import seen in *400 series* in India while it enjoys strongest incremental demand (vis-à-vis *200/300 series*). JSL remains among the very few companies globally to use liquid ferrochrome, which adds to cost advantage in manufacturing the *400 series*.
- **On-time and in-budget completion of brownfield expansion.** Equipment ordering has been made to two large suppliers from Europe with similar design configurations. The suppliers have committed to the timeline and no large civil or structural work is required at their end.
- **Post the ongoing expansion (1.9mtpa to 2.9mtpa), scope of further brownfield expansion seems limited.** Focus on Hissar stays on value-addition. Blade steel has 80% market share and JSL is the largest supplier for Gillette worldwide. Coin blanks are being supplied to mints in India as well as globally. Hissar plant covers an area of 300 acres with 0.8mtpa while Jajpur plant is spread across 800 acres and had similar capacity till Nov'19. JSL invested Rs400mn in Jajpur to debottleneck it to 1.1mtpa.
- **Competition scenario and status of Chromeni steels.** JSL management did not sound concerned about it as 35-40% of domestic stainless steel demand is currently being met by imports. Initial plan for an integrated stainless steel plant (by Chromeni) has not come to fruition as yet, and may take some more time if it tries to pursue it. Large mines of nickel initially allowed Chromeni to source the metal at competitive prices, which now seems to have stopped.
- **JSL looking towards a prudent margin-driven product mix; expects higher *400 series* demand in India.** 200/300 series previously contributed > 50% of Indian stainless steel demand**.** The *400 series* caters to mostly newer applications as in railway and auto sectors. JSL looks to expand the Indian market for *400 series* given the new consumption pattern (railway coaches' outer bodies, auto exhaust systems, road over bridges in railways). But the company remains on lookout for better margins – in the *300 series* it is eyeing export opportunities while trying to push the *400 series* in domestic industry.

Market Cap	Rs78bn/US$1bn
Reuters/Bloomberg	JIST.BO/JDSL IN
Shares Outstanding (mn)	487.2
52-week Range (Rs)	174/39
Free Float (%)	31.9
FII (%)	19.0
Daily Volume (US$'000)	6333.7
Absolute Return 3m (%)	52.5
Absolute Return 12m (%)	286.5
Sensex Return 3m (%)	12.4
Sensex Return 12m (%)	57.8

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	129,509	121,885	138,000	143,722
EBITDA(Rs mn)	11,395	14,242	19,522	16,707
Net Income (Rs mn)	713	4,192	9,354	6,814
EPS (Rs)	1.5	8.6	19.2	14.0
P/E (x)	99.7	17.0	7.6	10.4
CEPS (Rs)	10.2	16.9	27.2	23.1
EV/E (x)	3.4	2.2	1.6	1.9
Dividend Yield	-	-	-	-
RoCE (%)	5.9	7.1	11.0	8.0
RoE (%)	2.6	13.1	22.6	14.1

- **JSL looking towards a prudent margin-driven product mix; expects higher *400 series* demand in India (cont'd).** Also, lower prices in the *400 series* (compared to *300*) is also encouraging the current shift from steel to stainless steel – lifecycle of *400 series* being ~5x that of steel. Also, higher production of *400 series* does not change the EBITDA/te for JSL given the converter nature of operations. *400 series* also does not face imports from China/Indonesia. Majority of the current usage of 400 series is in to the approval-based applications, i.e. auto, where supplies come from Japan, Korea, Europe, etc.
- **Capacity utilisation will increase in FY22E, before incremental volumes start flowing in from the expansion a year later.** Hisar is running at 85-90% utilisation. Jajpur utilisation was >100% in FY19, prior to the debottlenecking capex. Management has guided for 15-20% higher volumes for FY22. Once the Jajpur plant (JSL) is stabilised (post ongoing expansion), utilisation can be >90%.

- **Exporting residual volumes.** Germany is the top export market for JSL. Its pricing in Germany is similar to that of European peers. The subsidiary based out of Spain caters to European geographies (Europe, US and Russia are its three large export markets). Management highlighted that 15-20% of production will be exported depending on the margins.

- **Capital allocation as JSL journeys towards becoming a net debt-free entity.** Capex for JSL and JSHL put together is Rs26bn. FY22/FY23 combined capex is Rs11bn each year. Most spending is expected from internal accruals. Scheduled repayments FY22 and FY23 are Rs700mn and Rs1,500mn respectively. JSL is also thinking of dividend payout post the merger. Existing share pledges are collateral for existing loans (terms and working capital debt) as a result of CDR, which the company exited in FY18.

- **Future of JUSL and Jindal Coke.** Of the four entities created out of asset monetisation plan, JSL and JSHL are being merged while JUSL and Jindal Coke will remain independent with JSL holding 26% stake in each. There are no specific synergies to be captured via the merger as both JSL and JSHL have been largely self-sustaining.

Valuations and key risks

We maintain **BUY** on Jindal Stainless (JSL) with a target price of Rs230/share. We value it at 1.8x FY24E P/B, with an implied EV/EBITDA of 5x. The P/B multiple is reflective of long-term through cycle RoE of 20%. Corresponding FY22E multiples are 2.2x P/B and 7.1x /EBITDA.

Key risks to business model

Political, legal and regulatory risks

We see a possibility of a change in the overall duty structure on key raw materials / finished goods by Government of India. Further, Jindal Stainless (JSL) has been exporting its products to many countries that have varying degrees of political and commercial instability. Any instability in such countries could impact the company and pose challenges to its overall performance.

Disruption risks

JSL operates in a global environment and can be affected by general unprecedented crises such as the recent outbreak of covid pandemic. This crisis has severely impacted economic activity across the globe. The manufacturing industry globally has been under stress as the supply chain was disrupted with restrictions on movement of goods and growing market uncertainty. Unprecedented situations like lockdown may also JSL's impact business. The pandemic also resulted disrupting the domestic and international demand for stainless steel.

Rising stainless steel imports from FTA countries

Change in the demand-supply scenario can cause disruptions in the global market, which could have an adverse effect on the company's overall performance. Higher production in Asean countries, as well as China, could pose a threat to the outlook of the Indian stainless steel industry. Indian stainless steel manufacturers are exposed to a threat **of increased dumping of irrationally priced imports**. This scenario of rising imports under FTAs into the country could force Indian manufacturers including JSL to underutilise its capacities.

Increased dumping could lead to a steep rise in channel inventories, which would severely impact the overall pricing in the Indian market and have an adverse effect on JSL's performance.

Volatility in key raw materials

JSL is exposed to price changes in some of its key raw materials. This aspect could lead to a scenario of demand deterioration when prices fluctuate. Volatility in these materials could lead to an increase in inventories leading to some impact on the company's performance.

Financial risks

JSL's debt servicing capabilities could get affected due to any volatility in financial markets. It could face incremental challenges in a changing interest rate scenario. Further, JSL is also exposed to currency risks due to its considerable imports and exports of goods.

Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Operating Income (Sales)	**129,509**	**121,885**	**248,550**	**263,722**	**328,000**
Operating Expenses	**118,114**	**107,643**	**216,008**	**233,614**	**289,764**
EBITDA	**11,395**	**14,242**	**32,542**	**30,109**	**38,236**
% margins	*8.8*	*11.7*	*13.1*	*11.4*	*11.7*
Depreciation & Amortisation	4,252	4,030	6,743	7,221	7,959
Gross Interest	5,855	4,801	4,557	3,519	2,989
Other Income	399	409	500	500	500
Recurring PBT	**1,731**	**6,845**	**21,742**	**19,869**	**27,788**
Add: Extraordinaries	44	1,024	-	-	-
Less: Taxes	926	2,702	5,457	4,987	6,975
Less: Minority Interest/Share in profit loss of Equity accounted Investments	13	2	2	2	2
Net Income (Reported)	**713**	**4,192**	**16,335**	**14,932**	**20,863**
Recurring Net Income	**713**	**4,192**	**16,335**	**14,932**	**20,863**

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Assets					
Total Current Assets	38,238	41,180	85,282	93,019	123,297
of which cash & cash eqv.	*687*	*1,163*	*6,374*	*7,518*	*16,746*
Total Current Liabilities & Provisions	34,100	34,417	64,598	69,432	84,438
Net Current Assets	**4,137**	**6,762**	**20,684**	**23,586**	**38,859**
Investments	**1,384**	**1,126**	**1,126**	**1,126**	**1,126**
Strategic/Group	*1,359*	*1,120*	*1,120*	*1,120*	*1,120*
Other Marketable	*25*	*6*	*6*	*6*	*6*
Net Fixed Assets	**61,484**	**58,281**	**74,679**	**81,958**	**92,971**
Capital Work-in-Progress	126	527	12,431	12,431	1,959
Goodwill	1	1	754	754	754
Total Assets	**72,675**	**72,928**	**116,637**	**126,871**	**142,736**
Liabilities					
Borrowings	**39,029**	**32,067**	**35,806**	**31,106**	**26,106**
Deferred Tax Liability	1,903	4,610	4,780	4,780	4,780
Minority Interest	130	133	135	137	139
Equity Share Capital	975	975	1,647	1,647	1,647
Face Value per share (Rs)	*2*	*2*	*2*	*2*	*2*
Reserves & Surplus	26,198	31,077	61,023	75,954	96,817
Net Worth	**27,172**	**32,051**	**70,388**	**85,320**	**106,182**
Total Liabilities	**72,675**	**72,928**	**116,637**	**126,871**	**142,736**

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending Mar 31)

	FY20	FY21E	FY22E	FY23E	FY24E
Operating Cashflow	**11,804**	**13,078**	**25,059**	**23,363**	**25,217**
Working Capital Changes	(59)	(1,806)	(2,026)	(1,758)	(6,045)
Capital Commitments	(1,968)	(1,678)	(14,500)	(14,500)	(8,500)
Free Cashflow	**9,835**	**11,400**	**10,559**	**8,863**	**16,717**
Cashflow from Investing Activities	**(1,878)**	**(1,520)**	**(14,000)**	**(14,000)**	**(8,000)**
Issue of Share Capital	-	537	-	-	-
Buyback of shares					
Inc (Dec) in Borrowings	(5,178)	(8,281)	(1,500)	(4,700)	(5,000)
Dividend paid					
Extraordinary /Exchange impact					
Chg. in Cash & Bank balance	**18**	**372**	**5,002**	**1,144**	**9,227**

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Per Share Data (in Rs)					
EPS(Basic Recurring)	0.9	5.1	19.8	18.1	25.3
Diluted Recurring EPS	0.9	5.1	19.8	18.1	25.3
Recurring Cash EPS	6.0	10.0	28.0	26.9	35.0
Dividend per share (DPS)					
Book Value per share (BV)	33.0	38.9	85.5	103.6	129.0
Growth Ratios (%)					
Operating Income	(4.5)	(5.9)	103.9	6.1	24.4
EBITDA	(2.2)	25.0	128.5	(7.5)	27.0
Recurring Net Income	(49.9)	487.8	289.6	(8.6)	39.7
Diluted Recurring EPS	(49.9)	487.8	289.6	(8.6)	39.7
Diluted Recurring CEPS	0.5	65.6	180.7	(4.0)	30.1
Valuation Ratios (x)					
P/E	99.7	17.0	7.6	10.4	5.7
P/CEPS	14.3	8.7	5.4	6.3	4.0
P/BV	2.6	2.2	1.7	1.5	1.2
EV / EBITDA	3.4	2.2	1.6	1.9	1.1
EV / Operating Income	0.3	0.3	0.2	0.2	0.1
EV / Operating FCF	3.9	2.7	8.3	15.5	2.7
Operating Ratios (%)					
Raw Material/Sales	63.5	61.2	64.1	66.4	67.0
SG&A/Sales	23.4	22.8	21.1	20.5	19.9
Other Income / PBT	23.0	6.0	2.3	2.5	1.8
Effective Tax Rate	53.5	39.5	25.1	25.1	25.1
NWC / Total Assets	7.5	5.7	9.3	17.0	17.9
Inventory Turnover (days)	116.5	130.3	113.9	113.6	116.1
Receivables (days)	19.9	28.0	31.4	31.4	30.9
Payables (days)	83.6	90.7	85.1	85.1	85.9
D/E Ratio (x)	1.41	0.96	0.42	0.28	0.09
Return/Profitability Ratios (%)					
Recurring Net Income Margins	0.6	3.4	6.6	5.7	6.4
RoCE	5.9	7.1	11.6	9.5	11.1
RoNW	2.6	13.1	23.2	17.5	19.6
Dividend Payout Ratio	-	-	-	-	-
Dividend Yield	-	-	-	-	-
EBITDA Margins	8.8	11.7	13.1	11.4	11.7

Source: Company data, I-Sec research

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