

CMP: ₹ 166

Target: ₹ 225 (36%)

Target Period: 12 months

BUY

May 9, 2022

Performs well...

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

- JSL operates an integrated stainless steel plant at Jajpur, Odisha. The complex has a total stainless steel capacity of 1.1 million tonnes per annum
- The company has readily leveragable infrastructure for cost efficient brownfield expansion

Q4FY22 Results: Jindal Stainless (JSL) reported a healthy Q4FY22 performance.

- During Q4FY22, JSL reported a consolidated topline of ₹ 6564 crore, up 68% YoY and 16% QoQ, higher than our estimate of ₹ 6056 crore
- Consolidated EBITDA for the quarter was at ₹ 842 crore, up 55% YoY and 6% QoQ, higher than our estimate of ₹ 804 crore
- During the quarter, on a consolidated basis, JSL reported a net tax credit of ~₹ 31 crore compared to our estimate of tax expense of ~₹ 219 crore. Hence, ensuing consolidated PAT for Q4FY22 was at ₹ 750 crore, up 156% YoY and 70% QoQ, higher than our estimate of ₹ 453 crore

What should investors do? Jindal Stainless' share price has given a return of ~84% in last 12 months (from ~₹ 90 in May 2021 to ~₹ 166 in May 2022).

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

Target Price and Valuation: We value JSL at ₹ 225, based on a merged entity basis

Key triggers for future price performance:

- JSL is augmenting its stainless steel melt capacity from 1.1 million tonnes per annum (MTPA) to 2.1 MTPA and also enhancing downstream capacity with 1.6x expansion of hot rolled annealed pickled (HRAP) from 0.8 MTPA to 1.25 MTPA and 1.7x expansion of cold rolled annealed pickled (CRAP) from 0.45 MTPA to 0.75 MTPA. It is also expanding backward integration with 1.4x expansion of ferro chrome from 0.25 MTPA to 0.35 MTPA. The estimated total growth capex cost is ~₹ 2150 crore
- Merger Update** - Shareholders and creditors of JSL and JSHL approved the "Scheme of Arrangement" for the merger between two companies on April 24, 2022. The companies will now file the second motion petition with NCLT. The companies now expect other relevant processes to be completed in due time, in the next six to seven months

Alternate Stock Idea: Apart from JSL, we also like Jindal Stainless (Hisar) (JSHL).

- JSHL operates an integrated stainless steel plant at Hisar, Haryana. JSHL has a total melting capacity of 0.8 Million tonnes per annum (MTPA)
- BUY with a target price of ₹ 439



Particulars

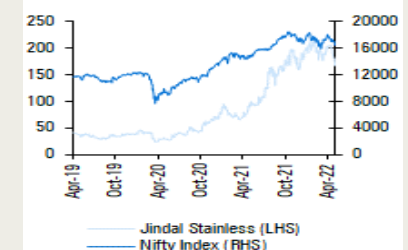
Particulars	₹ Crore
Market Capitalization	8,404
Total Debt (FY22)	2,794
Cash and Invest. (FY22)	199
Enterprise Value(EV)	10,999
52 week H/L (₹)	225 / 90
Equity capital	105
Face value (₹)	2.0

* Debt and Cash are for the Standalone entity

Shareholding Pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	68.1	68.6	68.6	69.9
FIs	14.8	14.3	15.0	15.1
DIs	6.0	6.6	7.2	6.3
Public	11.1	10.4	9.2	8.7
Total	100.0	100.0	100.0	100.0

Price Performance



Key Event & Risks for JSL

- For Q4FY22, standalone EBITDA/tonne of JSL was at ₹ 28278/tonne, broadly in line with our estimate of ₹28000/tonne
- Key risks:** (i) Sharp uptick in raw material cost (ii) Slowdown in demand growth

Research Analyst

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Key Financial Summary- Jindal Stainless (Pre-merger)

₹ crore	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR in % (FY21-FY23E)
Total Operating income	13,557	12,951	12,188	21,223	18	21,936	25,498	10
EBITDA	1,165	1,139	1,424	2,987	21	2,154	2,363	-11
PAT	145	73	419	1,909	93	1,246	1,415	-14
EPS (₹)	3.0	1.5	8.6	36.3		23.7	26.9	
P/E (x)	54.8	111.4	19.3	4.6		7.0	6.2	
EV/EBITDA (x)	10.6	10.5	7.8	3.9		5.3	4.6	
RoCE (%)	11.6	10.8	16.0	31.3		19.0	20.1	
ROE (%)	5.6	2.7	13.0	36.5		20.1	19.2	

Source: Company, ICICI Direct

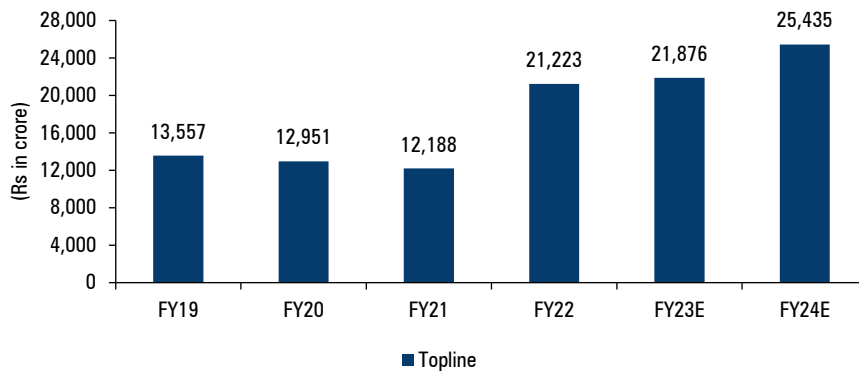
Exhibit 1: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	6564	6056	3914	68%	5670	16%	Consolidated topline came in higher than our estimates
Other Income	19	15	13	53%	12	57%	
Total Operating expense	5722	5252	3371	70%	4873	17%	
EBITDA	842	804	542	55%	797	6%	Consolidated EBITDA came in higher than our estimates
EBITDA Margin (%)	12.8	13.3	13.9	-103 bps	14.1	-123 bps	
Depreciation	92	95	97	-5%	93	-2%	
Interest	72	87	97	-26%	93	-23%	
Exceptional item	0	0	53	PL	0	NA	
Share of Net Profit/Loss	21	35	19	12%	31	-32%	
PBT	719	672	434	66%	654	10%	
Tax Outgo	(31)	219	141	LP	212	LP	During the quarter, for the consolidated entity, Jindal Stainless reported a tax credit of ~₹31 crore.
PAT	750	453	293	156%	442	70%	PAT came in notably higher than our estimates, aided by tax credit
Key Metrics							
Sales Volume(Standalone)	2,69,168	2,69,168	2,55,099	6%	2,47,607	9%	Sales Volume came in line with our estimates
EBITDA/Tonne(Standalone)	28,278	28,000	20,438	38%	29,855	-5%	EBITDA/tonne came in broadly in line with our estimate

Source: Company, ICICI Direct Research

Financial story in Charts- Jindal Stainless

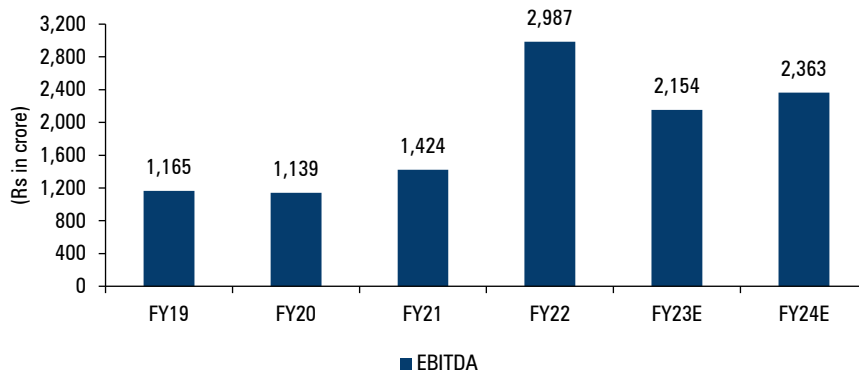
Exhibit 2: Trend in Consolidated Topline (in ₹ crore)



JSL 's consolidated topline is expected to grow at a CAGR of 9% during FY22-24E

Source: Company, ICICI Direct Research

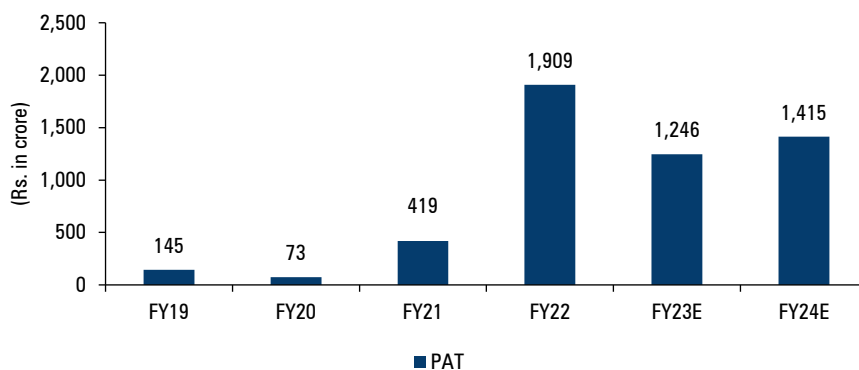
Exhibit 3: Trend in consolidated EBITDA (in ₹ crore)



We expect JSL to report consolidated EBITDA of ₹ 2154 crore in FY23E and ₹ 2363 crore in FY24E

Source: Company, ICICI Direct Research

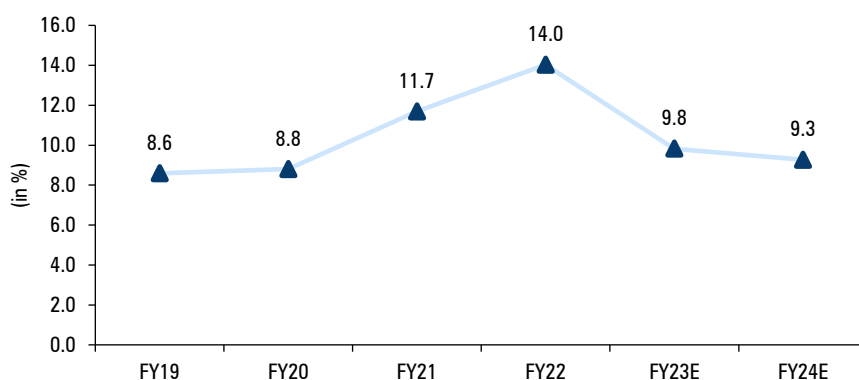
Exhibit 4: Trend in consolidated PAT (in ₹ crore)



We expect JSL to report consolidated PAT of ₹ 1246 crore in FY23E and ₹ 1415 crore in FY24E

Source: Company, ICICI Direct Research

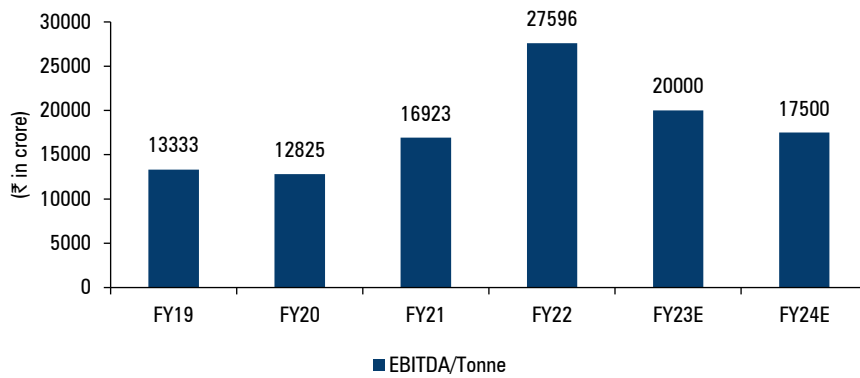
Exhibit 5: Trend in consolidated EBITDA margin (in %)



We expect JSL 's consolidated EBITDA margin to be ~9.8% in FY23E and 9.3% in FY24E

Source: Company, ICICI Direct Research

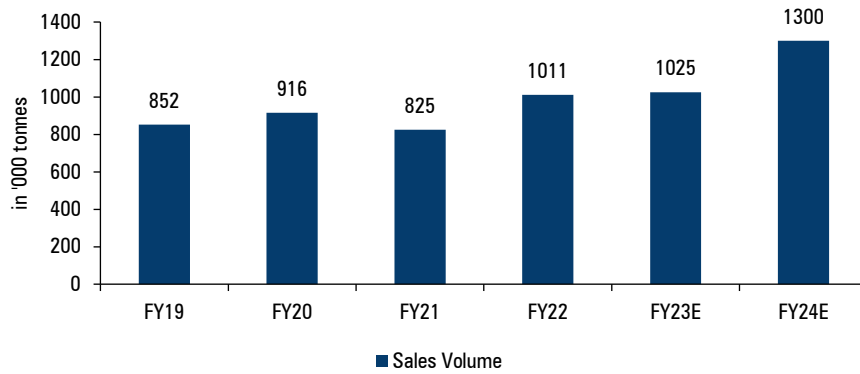
Exhibit 6: Trend in EBITDA/tonne (Standalone)



For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 20000/tonne for FY23E and ₹ 17500/tonne for FY24E

Source: Company, ICICI Direct Research

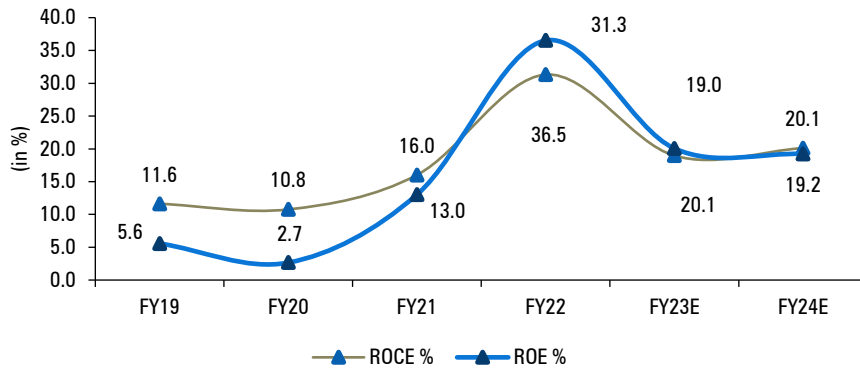
Exhibit 7: Trend in sales volume (standalone)... (in KT)



For the standalone entity Jindal Stainless, we model sales volume 1.025 million tonnes (MT) for FY23E and 1.3 MT for FY24E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 9: Valuation Matrix

Years	Total Op (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	ROE (%)
FY20	12,951	-4.5	1.5	-50.8	111.4	10.5	10.8	2.7
FY21	12,188	-5.9	8.6	477.6	19.3	7.8	16.0	13.0
FY22	21,223	74.1	36.3	322.0	4.6	3.9	31.3	36.5
FY23E	21,936	3.4	23.7	-34.7	7.0	5.3	19.0	20.1
FY24E	25,498	16.2	26.9	13.6	6.2	4.6	20.1	19.2

Source: Company, ICICI Direct Research

Exhibit 10: Valuation (Based on merged entity basis)

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	3,500
Subsidiaries EBITDA in FY24E	₹ crore	129
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3629
Multiple	x	5.5
EV	₹ crore	19959
Net Debt (After adjusting inter company loan)	₹ crore	1402
Mcap	₹ crore	18,557
No. of shares	in crore	82.3
Target price of Jindal Stainless	in ₹/share	225
CMP of Jindal Stainless	in ₹/share	166
Upside (%)	in %	36%
Target price of Jindal Stainless Hisar (derived as per swap ratio)	in ₹/share	439
CMP of Jindal Stainless Hisar	in ₹/share	329
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 (on pro-forma basis) to decline from ₹3162 crore as on March 2022 (after adjusting inter-company loan) to ₹1402 crore as on March 2024E (after adjusting inter-company loan).

Financial summary – Consolidated – JSL (Pre-merger)

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	12,188	21,223	21,936	25,498
Growth (%)	-5.9%	74.1%	3.4%	16.2%
Total Operating Expenditure	10,764	18,236	19,782	23,135
EBITDA	1,424	2,987	2,154	2,363
Growth (%)	25.0%	109.7%	-27.9%	9.7%
Interest & Finance Cost	480	332	271	226
Depreciation	403	371	416	427
Other Income	41	56	60	63
PBT before Exceptional Items	582	2,339	1,526	1,772
Add/Less: Exceptional Items	102	0	0	0
Add/Less: Share of P/L of Invest us	5	103	85	75
PBT	690	2,442	1,611	1,847
Total Tax	270	533	365	432
PAT	419	1,909	1,246	1,415
Growth (%)	477.6%	355.1%	-34.7%	13.6%
EPS	8.6	36.3	23.7	26.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	419	1909	1246	1415
Add: Dep. & Amortization	403	371	416	427
Net (Inc) / dec.in Current Asset	-284	-3792	413	-925
Net Inc / (dec) in Current Liab.	47	1810	-269	914
Others	339	430	20	20
CF from operating activities	924	728	1826	1852
(Inc)/dec in Investments	26	-66	-25	-30
(Inc)/dec in Fixed Assets	-154	-533	-1375	-850
Others	0	0	0	0
CF from investing activities	-128	-599	-1400	-880
Inc / (Dec) in Equity Capital	0	8	0	0
Inc / (Dec) in Loans	-749	-29	-175	-690
Dividend & Dividend Tax	0	0	-263	-263
CF from financing activities	-749	-21	-438	-953
Net Cash flow	48	108	-12	19
Opening Cash	69	116	224	213
Closing Cash	116	224	213	232

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	97	105	105	105
Reserve and Surplus	3121	5122	6105	7257
Total Shareholders funds	3218	5227	6210	7362
Total Debt	3154	3126	2951	2261
Deferred Tax Liability (net)	461	799	819	840
Source of Funds	6834	9152	9980	10463
Gross Block - Fixed Assets	8556	8785	10235	11285
Accumulated Depreciation	2352	2723	3139	3566
Net Block	6204	6062	7095	7718
Capital WIP	53	357	282	82
Net Fixed Assets	6257	6419	7378	7800
Investments	113	178	203	233
Inventory	2789	4177	3906	4541
Cash	116	224	213	232
Debtors	934	2453	2404	2794
Loans & Advances & Other CA	526	1410	1318	1218
Total Current Assets	4365	8265	7841	8785
Creditors	2632	4174	3606	4191
Provisions & Other CL	1269	1537	1836	2165
Total Current Liabilities	3901	5711	5442	6356
Net Current Assets	464	2554	2399	2429
Application of Funds	6834	9152	9980	10463

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	8.6	36.3	23.7	26.9
BV	66.1	99.5	118.2	140.1
DPS	0.0	0.0	5.0	5.0
Cash Per Share	2.4	4.3	4.0	4.4
Operating Ratios (%)				
EBITDA margins	11.7	14.0	9.8	9.3
PBT margins	5.7	11.5	7.3	7.2
Net Profit margins	3.4	9.0	5.7	5.5
Inventory days	84	72	65	65
Debtor days	28	42	40	40
Creditor days	79	72	60	60
Return Ratios (%)				
RoE	13.0	36.5	20.1	19.2
RoCE	16.0	31.3	19.0	20.1
RoIC	16.3	32.2	19.4	20.6
Valuation Ratios (x)				
P/E	19.3	4.6	7.0	6.2
EV / EBITDA	7.8	3.9	5.3	4.6
EV / Revenues	0.9	0.5	0.5	0.4
Market Cap / Revenues	0.7	0.4	0.4	0.3
Price to Book Value	2.5	1.7	1.4	1.2
Solvency Ratios				
Debt / Equity	0.9	0.6	0.4	0.3
Debt/EBITDA	2.1	1.0	1.3	0.9
Current Ratio	1.1	1.4	1.4	1.4
Quick Ratio	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E
Coal India	187	195	Buy	115520	20.6	25.7	28.0	9.1	7.3	6.7	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5	
Hindalco	444	725	Buy	99786	25.5	62.8	73.7	17.4	7.1	6.0	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3	
NMDC	152	190	Buy	44662	21.3	34.2	20.9	7.1	4.4	7.3	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9	
JSW Steel	691	775	Buy	166945	32.9	98.1	76.8	21.0	7.0	9.0	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0	
Ratnamani	2259	2254	Hold	10554	59.0	69.3	90.2	38.3	32.6	25.1	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3	
Graphite Ind.	480	650	Buy	9392	-1.6	29.7	62.4	NA	16.2	7.7	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7	
Tata Steel	1284	1600	Buy	156959	77.1	343.0	252.8	16.7	3.7	5.1	7.7	3.4	4.0	13.1	28.5	20.1	12.4	36.4	22.0	
Sail	90	120	Buy	37150	9.2	29.1	16.0	9.8	3.1	5.6	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5	
Jindal Stainless	166	225	Buy	9064	8.6	36.3	23.7	19.3	4.6	7.0	7.8	3.9	5.3	16.0	31.3	19.0	13.0	36.5	20.1	
Jindal Stainless Hisar	329	439	Buy	7763	29.5	82.5	55.8	11.2	4.0	5.9	8.2	4.4	5.5	18.6	28.1	17.7	23.2	39.4	21.8	
Vardhman Special Steel	237	300	Buy	961	10.9	24.8	27.6	21.7	9.5	8.6	11.1	6.7	6.6	13.2	24.5	20.1	9.6	18.2	17.2	
Tata Metaliks	766	900	Hold	2418	69.9	75.4	76.5	11.0	10.2	10.0	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9	

Source: Company, ICICI Direct Research

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Sell: < -15%



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