

Jindal Stainless

Refer to important disclosures at the end of this report

Repayments accelerate; maintain Buy

- Consolidated EBITDA/PAT were 19%/68% higher than our estimates, driven by a 7% COGS beat. On a sequential basis, revenue/EBITDA/PAT rose 8%/37%/109%, aided by resurgence in demand and turnaround in subsidiary performance.
- The company repaid Rs5.8bn in Q3 amid strong operational performance. In 9MFY21, JSL repaid Rs9.8bn. Accordingly, the company only has Rs350mn in scheduled repayments in FY22, with enough headroom for new growth capex.
- JSL is set to embark on raising Jajpur plant capacity from 1.1mt to 1.9mt in 24months from the date of formal announcement at capex of Rs20-30bn. We believe that the expansion comes at the right time when demand for SS in India is poised to grow due to urbanization.
- We raise our FY21E EBITDA by 10% but keep FY22 estimates relatively unchanged despite a near-term uptick as the government revoked CVD on imports from Indonesia and China in the recent budget, capping potential ASP hikes. Retain Buy with an unchanged TP of Rs95. Dumping from Indonesia and china remains the key risk.

Next leg of growth at Jajpur: We believe that the company is poised to embark on the next leg of growth to take the capacity from 1.1mt to 1.9mt over the next 24 months and should be, in our view, planning for reaching the designed capacity of 3.2mt at Jajpur. The location was initially designed for 3.2mt integrated steel complex, which we believe can fructify over the next 6-7 years provided there is no dumping from China and Indonesia.

Merger with JSHL to drive the expansion: While we have built in capex of Rs15bn over the next 2 years from the internal cash flows of JSL, we note that the balance capex can be funded internally after the merger of JSL and JSHL, which the company has guide to be consummated in H2FY22. Hence, we do not build in additional debt/higher capex for JSL.

Outlook and valuation: We remain positive on the demand outlook for India as we believe that urbanization will boost demand for stainless steel and that there are limited domestic suppliers for high-end, value-added products in SS applications like auto, white goods, railways, etc., which are driven on contractual basis and not entirely dependent on spot markets. However, we are cognizant of the fact that the revocation of the CVD on imports from Indonesia and China will result in dumping of SS, especially in the lower spectrum of quality/price which can impact the overall profitability of JSL. Our assumptions already factor in a lower EBITDA/t and valuation multiple consequently. We value JSL at 5.5x compared to >7x at which global SS companies are currently trading. We still find the stock attractive due to its 1) deleveraged balance sheet, 2) improvement in overall metrics post-merger with JSHL, 3) increase in share of value-added products like automotive, medical and white goods, and away from lower end of the market. The stock currently trades at 4.6x our FY22E EV/EBITDA. Maintain Buy.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,35,573	1,29,509	1,16,783	1,26,419	1,40,784
EBITDA	11,646	11,395	12,933	13,140	12,883
EBITDA Margin (%)	8.6	8.8	11.1	10.4	9.2
APAT	1,200	682	2,068	2,883	2,272
EPS (Rs)	2.5	1.4	4.2	5.9	4.7
EPS (% chg)	(64.8)	(44.1)	203.3	39.4	(21.2)
ROE (%)	4.7	2.6	7.3	9.4	6.8
P/E (x)	30.5	54.6	18.0	12.9	16.4
EV/EBITDA (x)	6.5	6.2	4.8	4.6	4.8
P/BV (x)	1.4	1.4	1.3	1.2	1.1

Source: Company, Emkay Research

CMP	Target Price
Rs 76 as of (February 5, 2021)	Rs 95 (■) 12 months
Rating	Upside
BUY (■)	24.3 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	160/40
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	4.2	5.9
Consensus	2.0	10.1
Mean Consensus TP (12M)	Rs 99	

Stock Details

Bloomberg Code	JDSL IN
Face Value (Rs)	2
Shares outstanding (mn)	487
52 Week H/L	96 / 21
M Cap (Rs bn/USD bn)	37 / 0.51
Daily Avg Volume (nos.)	1,721,000
Daily Avg Turnover (US\$ mn)	1.8

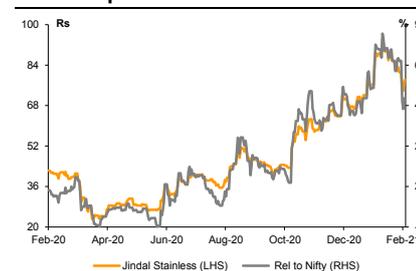
Shareholding Pattern Dec '20

Promoters	68.1%
FIIIs	13.5%
DIIIs	6.9%
Public and Others	11.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	32	98	83
Rel. to Nifty (18)		7	48	48

Relative price chart



Source: Bloomberg

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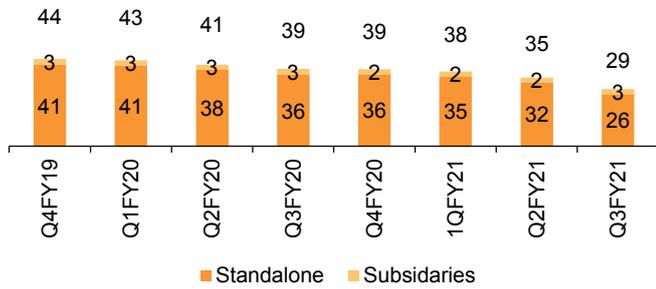
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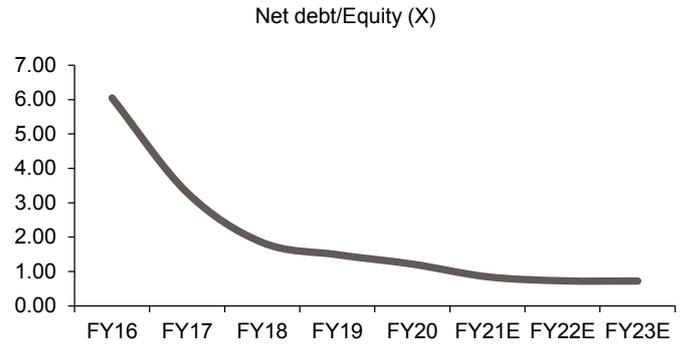
Story in Charts

Exhibit 1: Net debt (Rs bn) has declined in Q3FY21



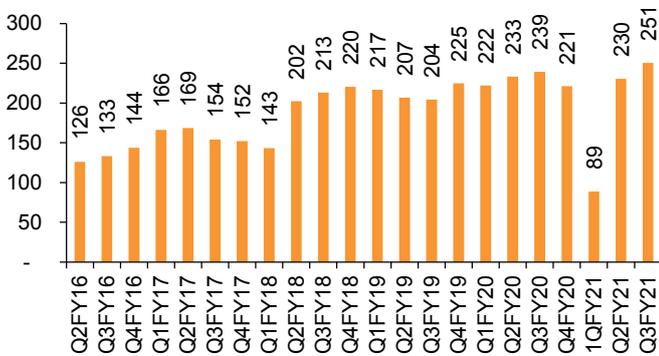
Source: Company, Emkay Research

Exhibit 2: Net debt/Equity is expected to decline beyond FY21



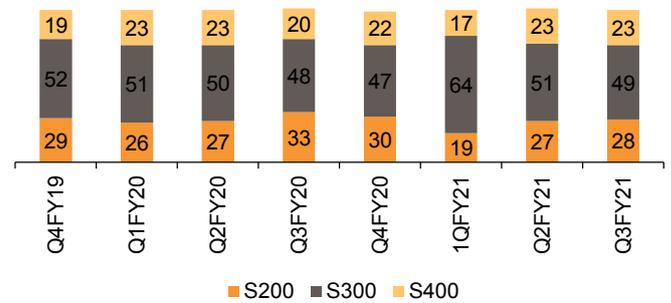
Source: Company, Emkay Research

Exhibit 3: Deliveries (kt) highest in the last 22 quarters



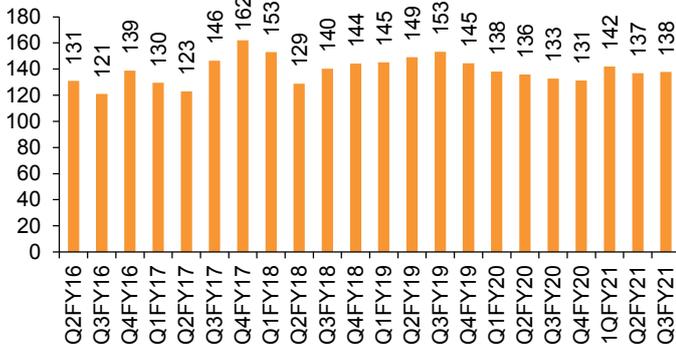
Source: Company, Emkay Research

Exhibit 4: Share of S300 back to 50% from highs reached in Q1FY21



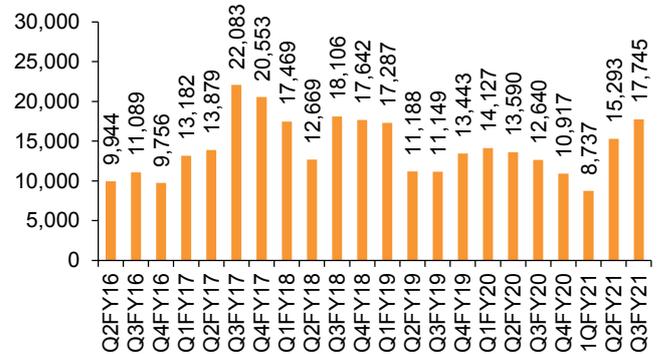
Source: Company, Emkay Research

Exhibit 5: ASP (Rs'000/t) has remained stable



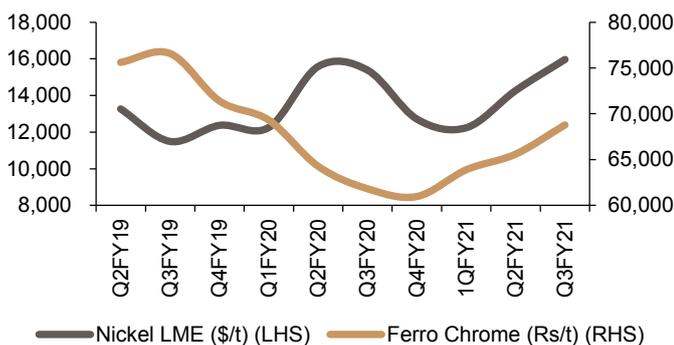
Source: Company, Emkay Research

Exhibit 6: EBITDA/t highest in the last 12 quarters



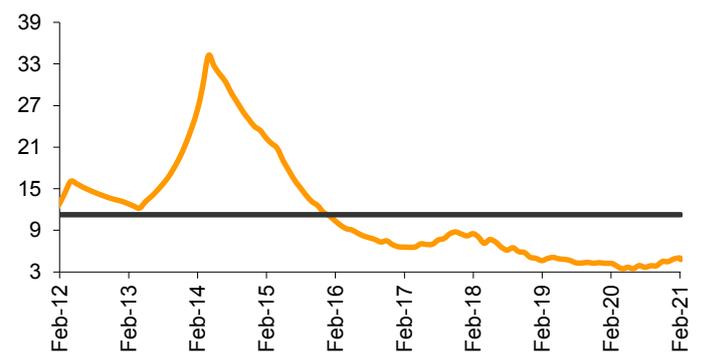
Source: Company, Emkay Research

Exhibit 7: Nickel and Ferro Chrome prices have risen in Q3FY21



Source: Bloomberg, SteelMint, Emkay Research

Exhibit 8: Jindal Stainless 1 year forward EV/EBITDA



Source: Emkay Research

Exhibit 9: Actual vs. Estimates

Rs mn	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total revenue	35,846	36,736	36,420	-2%	-2%	in line
EBITDA	4,732	3,978	3,912	19%	21%	beat due to lower RM costs
EBITDA margin%	13%	11%	11%	237 bps	246 bps	
Adj. net profit	1,710	1,020	1,041	68%	64%	beat due to EBITDA beat and lower interest costs

Source: Company, Bloomberg, Emkay Research

Exhibit 10: Consolidated Quarterly Financials (Rs mn)

Financials (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	abs YoY	YoY%	abs Qoq	QoQ%	9MFY21	9MFY20	% Change
Sales	33,024	30,941	13,761	33,141	35,846	2,822	9%	2,705	8%	82,748	98,568	-16%
Expenses												
RM	20,250	19,263	8,925	19,242	22,343	2,093	10%	3,101	16%	50,510	62,916	-20%
Stock Adj.	228	985	-330	1,727	30	-198	-87%	-1,697	-98%	1,427	-603	NA
FG	1,248	916	653	970	364	-884	-71%	-607	-63%	1,987	2,308	-14%
Total RM	21,726	21,164	9,248	21,939	22,737	1,011	5%	798	4%	53,924	64,621	-17%
Staff Exp	507	522	318	412	534	27	5%	122	30%	1,263	1,523	-17%
Power	2,026	1,874	899	1,700	1,836	-190	-9%	136	8%	4,434	6,053	-27%
Other exp	5,769	5,166	2,656	5,643	6,008	240	4%	366	6%	14,307	17,192	-17%
Total Expenses	30,028	28,726	13,120	29,693	31,115	1,087	4%	1,422	5%	73,929	89,388	-17%
EBITDA	2,996	2,215	640	3,448	4,732	1,735	58%	1,284	37%	8,820	9,180	-4%
Dep.	1,086	1,036	1,027	1,031	1,006	-80	-7%	-25	-2%	3,063	3,216	-5%
EBIT	1,911	1,179	-386	2,417	3,726	1,815	95%	1,309	54%	5,756	5,964	-3%
Other Inc.	101	132	98	110	74	-26	-26%	-36	-33%	282	267	6%
Interest	1,440	1,479	1,344	1,280	1,209	-231	-16%	-71	-6%	3,833	4,376	-12%
PBT before exp.	571	-168	-1,632	1,247	2,591	2,020	354%	1,343	108%	2,206	1,855	19%
Exceptional	-243	511	-150	-260	-81	162	NA	179	NA	-490	-555	NA
PBT	814	-679	-1,482	1,507	2,671	1,858	228%	1,165	77%	2,696	2,410	12%
Tax	273	-65	-426	684	1,034	761	279%	350	51%	1,292	992	30%
PAT	541	-613	-1,056	823	1,637	1,096	203%	815	99%	1,404	1,418	-1%
Minority Int.	-24	-49	-184	-16	65	89	NA	81	NA	-136	-30	NA
OCI	1	35	5	13	8	7	850%	-5	-40%	25	39	-35%
PAT post OCI	518	-627	-1,235	819	1,710	1,192	230%	891	109%	1,294	1,427	-9%

Source: Company, Emkay Research

Exhibit 11: Margins Consolidated

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (abs)	QoQ (abs)	9MFY21	9MFY20	Change (bps)
EBITDA	9.1%	7.2%	4.7%	10.4%	13.2%	413 bps	280 bps	10.7%	9.3%	135 bps
EBIT	5.8%	3.8%	-2.8%	7.3%	10.4%	461 bps	310 bps	7.0%	6.1%	91 bps
PBT	2.5%	-2.2%	-10.8%	4.5%	7.5%	499 bps	291 bps	3.3%	2.4%	81 bps
PAT	1.6%	-2.0%	-7.7%	2.5%	4.6%	293 bps	208 bps	1.7%	1.4%	26 bps

Source: Company, Emkay Research

Highlights of Conference Call

- **Demand:** The company has seen demand revival in Q3, coming in from the auto sector, pipe and tubes, and stainless steel demand from the launch of 44 Vande Bharat express trains (which are made largely from SS), and construction of several metro projects. Strong demand is due to government budgetary support to infrastructure and capital spending.
- **FY22 Guidance:** Volumes shall rise 8-10% as the company improves capacity utilization to 90% in FY22 from the recently expanded capacity (from 0.8mt to 1.1mt). It maintains its FY21 EBITDA/t guidance of Rs14000-16000/t. Its 9M consolidated EBITDA/t stood at Rs13,213/t.
- **Debt:** Net debt on a standalone basis declined by Rs9.8bn to Rs26.2bn as of Q3FY21 from Q4FY20. There are no more scheduled repayments in Q4 and only Rs350mn. Any further repayments will only be in the form of prepayments.
- **Interest Cost:** The total interest cost is expected to be Rs2.5bn for FY22, excluding interest on ICD of Rs9bn, which will anyways be reversed as the merger effective date is 1st April 20. The interest rate on debt taken up for redemption of OCRPS has a lock-in for 2 years for both pre-payment as well as interest rate, but other than this amount, the reduction in rates is close to 1.5%. The company's credit rating improved by 2 notches reflected in a lower interest rate.
- **Merger:** The merger process of Jindal subsidiaries is expected to be completed by H2FY22.
- **Exports and domestic market share:** JSL has reduced exports to 15% and is focusing on the domestic market where the demand remains strong and the company can charge a brand premium for products that cannot be substituted by cheaper imports from Indonesia and China. In the hollowware market also, the company has launched a co-branding campaign along with the pipes and tubes manufacturers, which highlights the strength of the JSL brand. They continue to serve the export markets of the US, EU, and Russia where they are able to maintain margins. The overall market share in India is 25% but varies from segment to segment. JSL exports only 10kt to 15kt per month.
- **Subsidiaries:** Indonesian subsidiary has performed well as the stainless steel market has recovered in the last six months. Key factors that have helped the subsidiary include 1) local sourcing from the Indonesian market, 2) exports from Indonesia to the US and Russia, 3) the Indonesian government looking into the anti-dumping duty from goods coming in from China. The subsidiary in Europe is impacted due to the lockdown. However, the European subsidiary also reported a positive EBITDA in the quarter.
- **Revocation of countervailing duty (CVD):** Regarding the revocation of countervailing duty on imports from Indonesia and China, the company is cognizant of the possibility of dumping from these countries. It is actively engaged with the government in addressing these issues. It is also actively increasing market share in products that are less threatened by dumping, e.g., autos, railways.
- **Capex:** JSL plans to expand the Jajpur facility from 1.1mt to 1.9 through a brownfield expansion. It will spend close to Rs20-30bn and will commission the same in the next 24 months. Though, as per the company, the plans are still at the drawing board stage. The maintenance capex is about Rs1.25-1.5bn annually. The total planned capex for FY21 is Rs3bn.
- **Segments:** The segmental share of S200/S300/S400 was 28%/49%/23% for Q3FY21 and for the 9MFY21, it was 26%/52%/22%.

Exhibit 12: Changes in Estimates

	UoM	FY21E			FY22E			FY23E		
		Old	New	% Change	Old	New	% Change	Old	New	% Change
Sales	kt	798	817	2%	949	908	-4%	996	976	-2%
Revenues	Rs mn	1,19,819	1,16,783	-3%	1,39,669	1,26,419	-9%	1,48,391	1,40,784	-5%
EBITDA	Rs mn	11,805	12,933	10%	13,242	13,140	-1%	14,226	12,883	-9%
Net profit	Rs mn	795	2,068	160%	2,057	2,883	40%	2,729	2,272	-17%
EPS	per share	1.63	4.24	160%	4.22	5.92	40%	5.60	4.66	-17%

Source: Emkay Research

Exhibit 13: Valuation – based on post JSHL merger

JSL + JSHL combined		
Consolidated EBITDA sustainable basis	Rs bn	21
Target EV/EBITDA valuation multiple	x	5.5x
EV for Core steel business	Rs bn	116
EV of subsidiaries	"	6
EV of consolidated entity	"	122
Less: Latest net debt (adj for ICL)	"	44
Target M.Cap	"	78
FD no of shares post-merger	mn sh	823
Target Price	Rs/sh	95

Source: Emkay Research

Exhibit 14: Global Peer Comparison

Stock	M.Cap	PE (x)			EV/EBITDA (x)			PB (x)			ROE (x)		
		CY20/ FY21	CY21/ FY22	CY22/ FY23									
JSL*	511	18.0	12.9	16.4	4.8	4.6	4.8	1.3	1.2	1.1	7.3	9.4	6.8
JSLHISAR*	409	9.0	7.4	6.9	5.3	4.4	4.0	1.1	1.0	0.9	13.6	14.4	13.5
Acerinox	3,089	36.7	13.7	10.5	10.0	7.4	6.2	1.5	1.4	1.3	3.8	9.4	12.7
Outokumpu	2,030	NA	24.4	12.0	13.2	6.9	5.6	0.7	0.7	0.7	(4.7)	2.8	5.7
Aperam	3,415	23.3	13.4	11.6	11.1	6.9	6.2	1.3	1.2	1.2	4.5	8.4	10.4

Source: Bloomberg, Emkay Research Note (*) denotes Emkay Estimates

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,35,573	1,29,509	1,16,783	1,26,419	1,40,784
Expenditure	1,23,928	1,18,114	1,03,850	1,13,279	1,27,901
EBITDA	11,646	11,395	12,933	13,140	12,883
Depreciation	3,515	4,252	4,135	4,378	5,054
EBIT	8,131	7,143	8,798	8,762	7,829
Other Income	326	399	250	250	250
Interest expenses	6,369	5,855	5,031	4,610	4,610
PBT	2,088	1,687	4,018	4,401	3,468
Tax	766	926	1,950	1,519	1,197
Extraordinary Items	4	52	0	0	0
Minority Int./Income from Assoc.	(122)	(79)	0	0	0
Reported Net Income	1,204	734	2,068	2,883	2,272
Adjusted PAT	1,200	682	2,068	2,883	2,272

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	28,266	31,149	33,421
Net worth	25,908	27,172	29,240	32,123	34,395
Minority Interest	117	130	130	130	130
Loan Funds	38,957	33,613	26,613	25,613	25,613
Net deferred tax liability	(1,323)	(1,903)	(1,903)	(1,903)	(1,903)
Total Liabilities	66,305	62,819	57,887	59,770	62,041
Net block	63,447	61,806	58,671	55,793	52,489
Investment	5,606	6,582	6,582	6,582	6,582
Current Assets	37,802	38,238	34,739	38,421	40,295
Cash & bank balance	452	687	1,984	2,326	883
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	40,842	43,957	43,005	48,926	53,224
Net current assets	(3,040)	(5,719)	(8,266)	(10,505)	(12,929)
Misc. exp	0	0	0	0	0
Total Assets	66,305	62,819	57,887	59,770	62,041

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	2,217	1,653	4,018	4,401	3,468
Other Non-Cash items	(807)	203	0	0	0
Chg in working cap	3,147	(59)	1,895	1,062	(216)
Operating Cashflow	14,187	11,804	15,079	14,452	12,917
Capital expenditure	(2,061)	(1,746)	(1,750)	(8,500)	(9,750)
Free Cash Flow	12,126	10,058	13,329	5,952	3,167
Investments	59	(211)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(1,925)	(1,878)	(1,750)	(8,500)	(9,750)
Equity Capital Raised	0	286	0	0	0
Loans Taken / (Repaid)	(7,759)	(5,178)	(7,000)	(1,000)	0
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	4	21	0	0	0
Financing Cashflow	(12,368)	(9,887)	(12,031)	(5,610)	(4,610)
Net chg in cash	(106)	39	1,298	342	(1,444)
Opening cash position	558	648	687	1,984	2,326
Closing cash position	452	687	1,984	2,326	883

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	8.6	8.8	11.1	10.4	9.2
EBIT Margin	6.0	5.5	7.5	6.9	5.6
Effective Tax Rate	36.7	54.9	48.5	34.5	34.5
Net Margin	1.0	0.6	1.8	2.3	1.6
ROCE	12.6	12.3	16.0	16.4	14.1
ROE	4.7	2.6	7.3	9.4	6.8
RoIC	13.2	12.4	16.9	19.2	19.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	2.5	1.4	4.2	5.9	4.7
CEPS	9.8	10.1	12.7	14.9	15.0
BVPS	54.1	55.8	60.0	65.9	70.6
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	30.5	54.6	18.0	12.9	16.4
P/CEPS	7.8	7.6	6.0	5.1	5.1
P/BV	1.4	1.4	1.3	1.2	1.1
EV / Sales	0.6	0.5	0.5	0.5	0.4
EV / EBITDA	6.5	6.2	4.8	4.6	4.8
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	0.8	0.7	0.7
Net Debt/EBIDTA	3.3	2.9	1.9	1.8	1.9
Working Cap Cycle (days)	(9.4)	(18.1)	(32.0)	(37.0)	(35.8)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	16.5	(4.5)	(9.8)	8.3	11.4
EBITDA	(13.1)	(2.2)	13.5	1.6	(2.0)
EBIT	(20.3)	(12.1)	23.2	(0.4)	(10.7)
PAT	(66.7)	(39.1)	181.9	39.4	(21.2)

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	33,024	30,941	13,761	33,141	35,846
EBITDA	2,996	2,215	640	3,448	4,732
EBITDA Margin (%)	9.1	7.2	4.7	10.4	13.2
PAT	517	(662)	(1,240)	806	1,702
EPS (Rs)	1.1	(1.4)	(2.5)	1.7	3.5

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	68.1	68.1	68.1	68.1	68.1
FIs	10.7	12.6	12.9	13.0	13.5
DIs	8.6	7.9	7.9	7.1	6.9
Public and Others	12.6	11.4	11.2	11.9	11.5

Source: Capitaline

Emkay Alpha Portfolio – Metals & Mining



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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	2.60	2.60	0%	0	100.00
Coal India	0.36	0.36	0%	0	13.95
Hindalco	0.46	0.47	2%	1	18.18
Hindustan Zinc	0.09	0.08	-10%	-1	3.12
Jindal Stainless	0.00	0.00	NA	0	0.00
Jindal Stainless Hisar	0.00	0.00	NA	0	0.00
JSW Steel	0.48	0.45	-5%	-2	17.48
MOIL	0.00	0.00	NA	0	0.00
National Aluminium Co	0.00	0.00	NA	0	0.00
NMDC	0.13	0.14	5%	1	5.21
SAIL	0.11	0.12	5%	1	4.54
Tata Steel	0.58	0.58	0%	0	22.28
Vedanta	0.39	0.40	2%	1	15.26
Cash	0.00	0.00	NA	0	0.00

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	6-Feb-20	6-Aug-20	5-Nov-20	5-Jan-21	4-Feb-21
EAP - Metals & Mining	100.0	83.3	71.4	73.6	102.9	104.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	83.6	69.9	72.3	100.6	101.9

*Performance measurement base date 1st April 2019

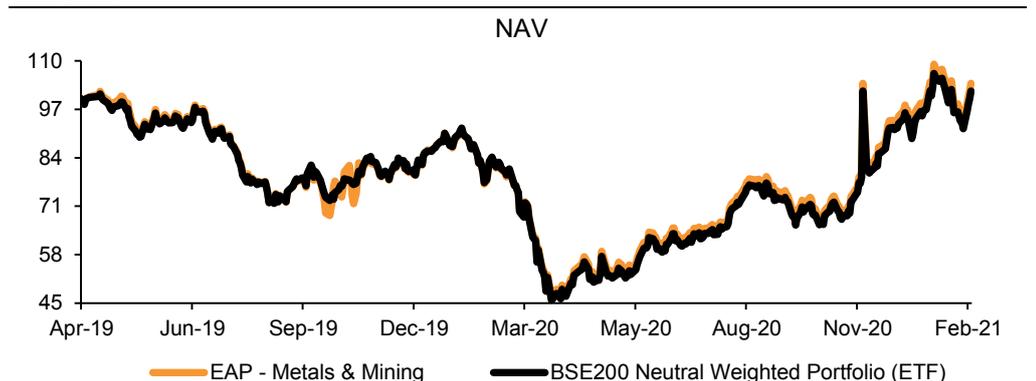
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Metals & Mining	1.0%	41.3%	45.7%	24.9%
BSE200 Neutral Weighted Portfolio (ETF)	1.3%	41.0%	45.8%	21.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

“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%

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