

CMP: ₹ 115

Target: ₹ 135 (17%)

Target Period: 12 months

BUY

August 3, 2022

Steady operational performance...

About the stock: Jindal Stainless (JSL) is among the leading stainless steel manufacturing companies in the world & 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

Q1FY23 Results: JSL reported a steady operational performance for the quarter wherein consolidated EBITDA came in broadly in line with our estimate

- For the quarter, JSL's standalone operations reported sales volume of 235530 tonnes (our estimate of 240000 tonnes). Standalone operations EBITDA/tonne came in at ₹ 22216/tonne, marginally higher than our estimate of ₹ 21000/tonne
- Consolidated topline for the quarter was at ₹ 5474 crore, up 36% YoY but down 17% QoQ (our estimate ₹ 5220 crore). For Q1FY23, JSL reported consolidated EBITDA of ₹ 549 crore, down 9% YoY, 35% QoQ (our estimate of ₹ 554 crore)
- During the quarter, on a consolidated basis, JSL reported effective tax rate of 23% compared to 33% in Q1FY23. Hence, due to lower-than-expected effective tax rate, JSL's consolidated PAT came in higher than our estimate. JSL's consolidated PAT for Q1FY23 was at ₹ 329 crore, up 8% YoY but down 56% QoQ, higher than our estimate of ₹ 275 crore

What should investors do? Jindal Stainless' share price has given a return of ~211% in the last two years (from ~₹ 37 in August 2020 to ~₹ 115 in August 2022).

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

Target Price and Valuation: We value JSL at ₹ 135, based on merged entity basis.

Key triggers for future price performance:

- Going forward, for the JSL standalone operations, we model EBITDA/tonne of ₹ 16500/tonne each for both FY23E and FY24E
- Merger Update:** NCLT, while hearing the second motion application on July 13, 2022, has directed to issue notice(s) to the sectoral regulator(s). The next date of hearing is October 18, 2022. The merger process is expected to be completed in due time in the next four to five months

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

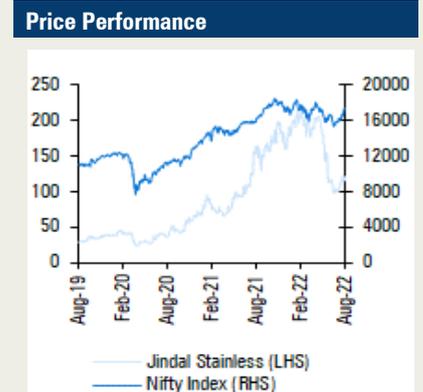
- JSHL operates an integrated stainless steel plant at Hisar, Haryana. JSHL has a total melting capacity of 0.8 million tonnes per annum (MTPA)
- BUY with a target price of ₹ 263



Particulars	
Particulars	₹ Crore
Market Capitalization	6,051
Total Debt (FY22)	2,794
Cash and Invest. (FY22)	199
Enterprise Value(EV)	8,646
52 week H/L (₹)	225 / 95
Equity capital	105
Face value (₹)	2.0

* Debt and Cash are for the Standalone entity

Shareholding Pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	68.6	68.6	69.9	70.1
FIs	14.3	15.0	15.1	13.8
DIs	6.6	7.2	6.3	5.9
Public	10.4	9.2	8.7	10.3
Total	100.0	100.0	100.0	100.0



Key Risks	
(i)	Sharp uptick in raw material cost
(ii)	Slowdown in demand growth

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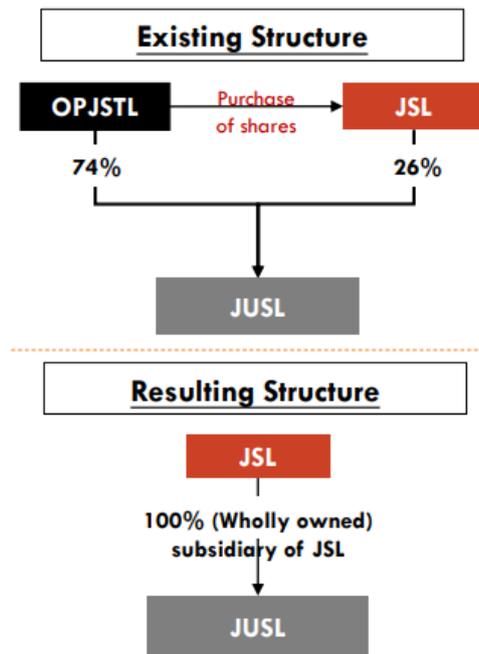
Key Financial Summary- Jindal Stainless (Pre-merger)

₹ crore	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR in % (FY22-FY24E)
Total Operating income	13,557	12,951	12,188	21,223	18	19,583	21,898	2
EBITDA	1,165	1,139	1,424	2,987	21	1,754	1,985	-18
PAT	145	73	419	1,909	93	947	1,132	-23
EPS (₹)	3.0	1.5	8.6	36.3		18.0	21.6	
P/E (x)	38.3	77.8	13.5	3.2		6.4	5.4	
EV/EBITDA (x)	8.5	8.3	6.1	3.0		5.3	4.4	
RoCE (%)	11.6	10.8	16.0	31.3		14.4	15.8	
ROE (%)	5.6	2.7	13.0	36.5		16.0	16.7	

Key Highlights of Jindal United Steel (JUSL) Acquisition

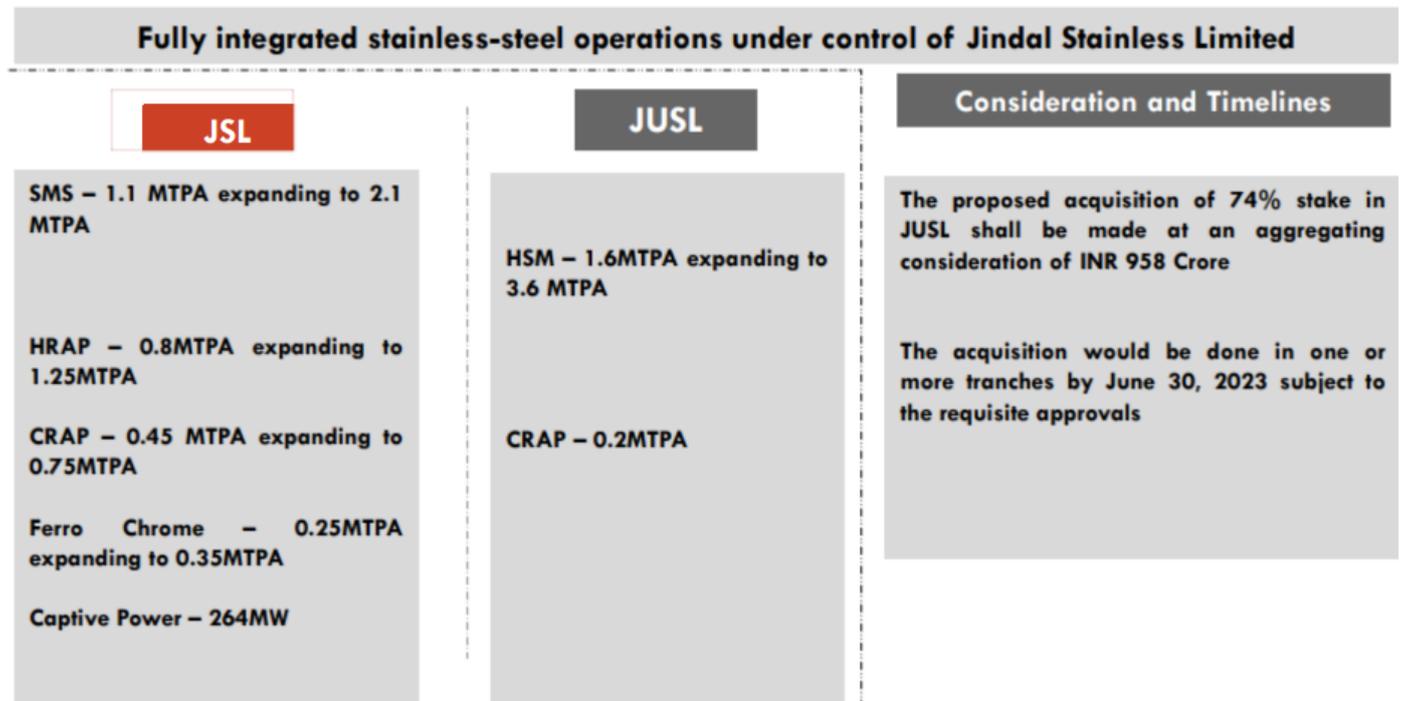
Exhibit 1: Key highlights of JUSL acquisition.....

- Jindal United Steel Limited ('JUSL') is a subsidiary of OPJ Steel Trading Private Limited ("OPJSTL"), a promoter group entity of the Company. JUSL is held by OPJ to the extent of 74% with the remainder 26% shares held by JSL. JUSL has been operating the HSM for rolling stainless steel and carbon steel sabs with the total capacity being enhanced to 3.6MTPA. JUSL is also operating cold rolling mill (CRM) with a capacity of 0.2 MTPA for Stainless steel applications
- Considering the interlinkage of business operations of JUSL and JSL, JSL's management is contemplating to make JUSL its wholly owned subsidiary by acquiring the 74% stake held outside
- Pursuant to the acquisition, JSL will become an integrated stainless steel manufacturer which would result in improved synergies between both the companies and preferred governance structure, thereby enhancing value for all the stakeholders



Source: Company, ICICI Direct Research,

Exhibit 2: JUSL acquisition – Full integration...



Source: Company, ICICI Direct Research,

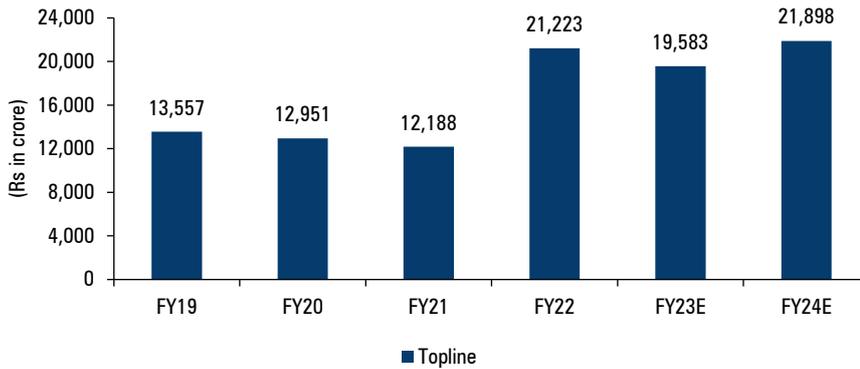
Exhibit 3: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	5474	5220	4033	36%	6564	-17%	For Q1FY23, Jindal Stainless' consolidated topline came in broadly in line with our estimate
Other Income	17	15	10	75%	19	-13%	
Total Operating expense	4925	4666	3432	44%	5722	-14%	
EBITDA	549	554	601	-9%	842	-35%	For the quarter, consolidated EBITDA came in broadly in line with our estimate
EBITDA Margin (%)	10.0	10.6	14.9	-488 bps	12.8	-280 bps	
Depreciation	92	92	94	-2%	92	0%	
Interest	72	75	85	-15%	72	1%	
Exceptional item	0	0	0	NA	0	NA	
Share of Net Profit/Loss	27	15	24	11%	21	27%	
PBT	428	417	456	-6%	719	-40%	
Tax Outgo	99	142	150	-34%	(31)	PL	
PAT	329	275	306	8%	750	-56%	On the back of lower than effective tax rate, consolidated PAT came in higher than our estimate
Key Metrics							
Sales Volume(Standalone)	235,530	240,000	237,852	-1%	269,168	-12%	Standalone operations sales volume came in broadly in line with our estimate
EBITDA/Tonne(Standalone)	22,216	21,000	24,378	-9%	28,278	-21%	Standalone operations EBITDA/tonne came in marginally higher than our estimate

Source: Company, ICICI Direct Research

Financial story in Charts- Jindal Stainless (Pre-Merger)

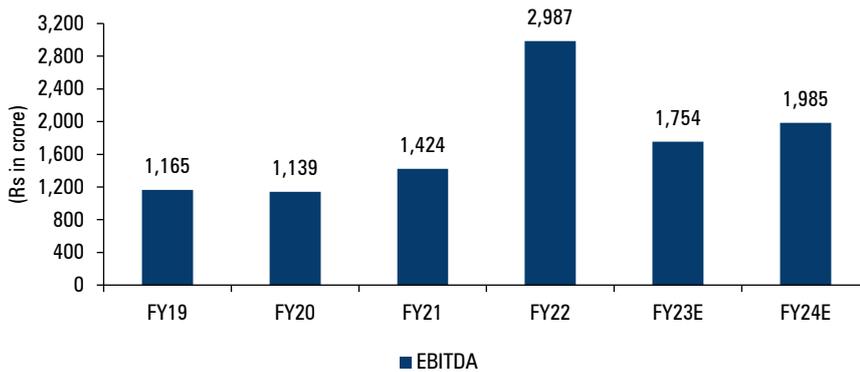
Exhibit 4: Trend in consolidated topline (in ₹ crore)



JSL's consolidated topline is expected to grow at a CAGR of 2% during FY22-24E

Source: Company, ICICI Direct Research

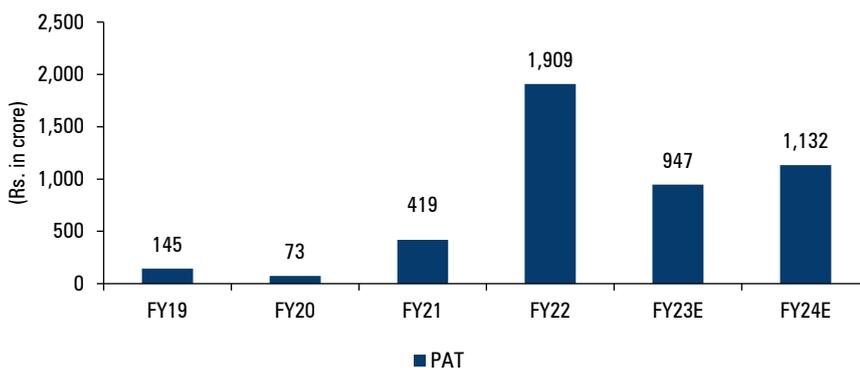
Exhibit 5: Trend in consolidated EBITDA (in ₹ crore)



We expect JSL to report consolidated EBITDA of ₹ 1,754 crore in FY23E and ₹ 1,985 crore in FY24E

Source: Company, ICICI Direct Research

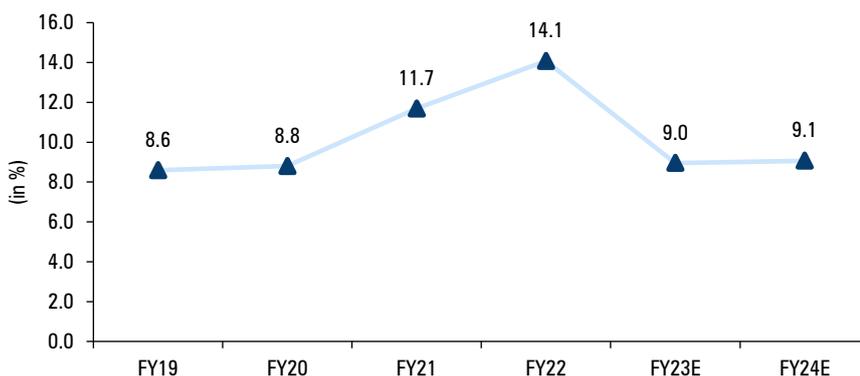
Exhibit 6: Trend in consolidated PAT (in ₹ crore)



We expect JSL to report consolidated PAT of ₹ 947 crore in FY23E and ₹ 1,132 crore in FY24E

Source: Company, ICICI Direct Research

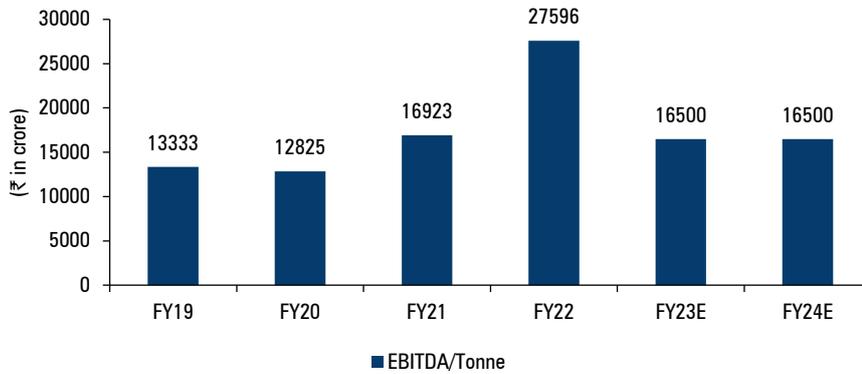
Exhibit 7: Trend in consolidated EBITDA margin (in %)



We expect JSL's consolidated EBITDA margin to be ~9.0% in FY23E and ~9.1% in FY24E

Source: Company, ICICI Direct Research

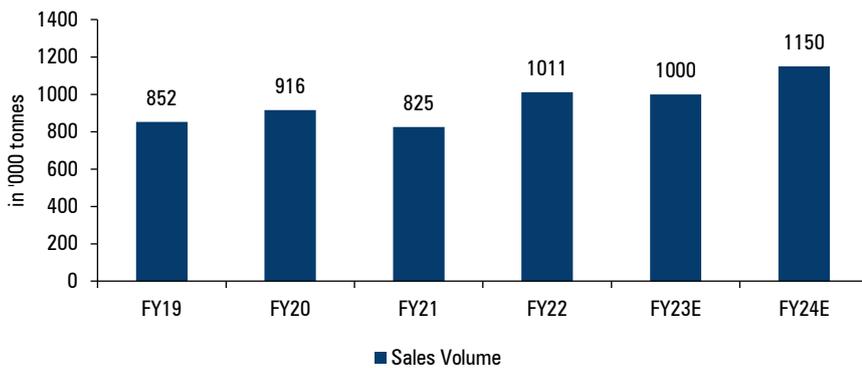
Exhibit 8: Trend in EBITDA/tonne (Standalone)



For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 16500/tonne each for FY23E and FY24E

Source: Company, ICICI Direct Research

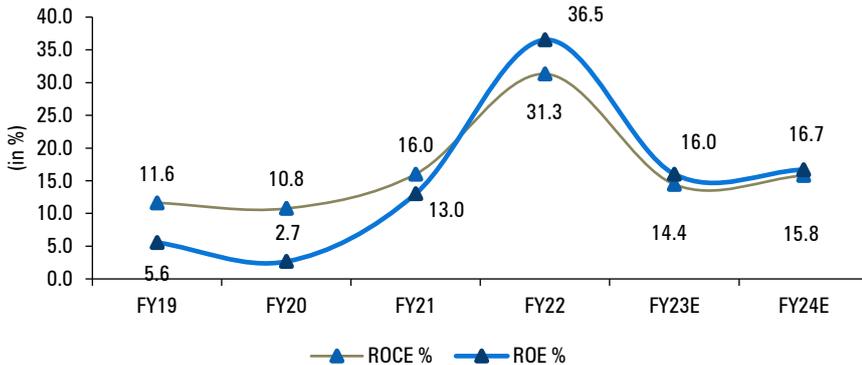
Exhibit 9: Trend in sales volume (standalone)... (in KT)



For the standalone entity Jindal Stainless, we model sales volume 1.0 million tonnes (MT) for FY23E and 1.15 MT for FY24E

Source: Company, ICICI Direct Research

Exhibit 10: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation Matrix

Years	Total Op Income	Growth	EPS	Growth	PE	EV/EBITDA	RoCE	ROE
	(₹ cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY20	12,951	-4.5	1.5	-50.8	77.8	8.3	10.8	2.7
FY21	12,188	-5.9	8.6	477.6	13.5	6.1	16.0	13.0
FY22	21,223	74.1	36.3	322.0	3.2	3.0	31.3	36.5
FY23E	19,583	-7.7	18.0	-50.4	6.4	5.3	14.4	16.0
FY24E	21,898	11.8	21.6	19.6	5.4	4.4	15.8	16.7

Source: Company, ICICI Direct Research

Exhibit 12: Valuation (Based on merged entity basis)

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	2,970
Subsidiaries EBITDA in FY24E	₹ crore	101
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3071
Multiple	x	4.5
EV	₹ crore	13820
Net Debt FY24E (After adjusting inter company loan)	₹ crore	2696
Mcap	₹ crore	11,124
No. of shares	in crore	82.3
Target price of Jindal Stainless	in ₹/share	135
CMP of Jindal Stainless	in ₹/share	115
Upside (%)	in %	17%
Target price of Jindal Stainless Hisar (derived as per swap ratio)	in ₹/share	263
CMP of Jindal Stainless Hisar	in ₹/share	223
Upside (%)	in %	18%

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 ₹2696 crore as on March 2024E (after adjusting inter-company loan).

Financial summary – Consolidated – JSL (Pre-merger)

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	12,188	21,223	19,583	21,898
Growth (%)	-5.9%	74.1%	-7.7%	11.8%
Total Operating Expenditure	10,764	18,236	17,829	19,913
EBITDA	1,424	2,987	1,754	1,985
Growth (%)	25.0%	109.7%	-41.3%	13.2%
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	1,126	1,394
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	1,211	1,469
Total Tax	270	533	265	337
PAT	419	1,909	947	1,132
Growth (%)	477.6%	355.1%	-50.4%	19.6%
EPS	8.6	36.3	18.0	21.6

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	419	1909	947	1132
Add: Dep. & Amortization	403	371	416	427
Net (Inc) / dec.in Current Asset	-284	-3792	611	-621
Net Inc / (dec) in Current Liab.	47	1810	-659	708
Others	339	430	20	20
CF from operating activities	924	728	1335	1667
(Inc)/dec in Investments	26	-66	-25	-30
(Inc)/dec in Fixed Assets	-154	-533	-1318	-820
Others	0	0	0	0
CF from investing activities	-128	-599	-1343	-850
Inc / (Dec) in Equity Capital	0	8	0	0
Inc / (Dec) in Loans	-749	-29	225	-265
Dividend & Dividend Tax	0	0	-263	-263
CF from financing activities	-749	-21	-38	-528
Net Cash flow	48	108	-45	289
Opening Cash	69	116	224	179
Closing Cash	116	224	179	469

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	97	105	105	105
Reserve and Surplus	3121	5122	5806	6675
Total Shareholders funds	3218	5227	5911	6780
Total Debt	3154	3126	3351	3086
Deferred Tax Liability (net)	461	799	819	840
Source of Funds	6834	9152	10081	10706
Gross Block - Fixed Assets	8556	8785	10178	11197
Accumulated Depreciation	2352	2723	3139	3566
Net Block	6204	6062	7038	7631
Capital WIP	53	357	282	82
Net Fixed Assets	6257	6419	7321	7713
Investments	113	178	203	233
Inventory	2789	4177	3863	4320
Cash	116	224	179	469
Debtors	934	2453	2253	2520
Loans & Advances & Other CA	526	1410	1313	1211
Total Current Assets	4365	8265	7609	8519
Creditors	2632	4174	3219	3600
Provisions & Other CL	1269	1537	1832	2160
Total Current Liabilities	3901	5711	5052	5759
Net Current Assets	464	2554	2557	2760
Application of Funds	6834	9152	10081	10706

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	8.6	36.3	18.0	21.6
BV	66.1	99.5	112.5	129.0
DPS	0.0	0.0	5.0	5.0
Cash Per Share	2.4	4.3	3.4	8.9
Operating Ratios (%)				
EBITDA margins	11.7	14.1	9.0	9.1
PBT margins	5.7	11.5	6.2	6.7
Net Profit margins	3.4	9.0	4.8	5.2
Inventory days	84	72	72	72
Debtor days	28	42	42	42
Creditor days	79	72	60	60
Return Ratios (%)				
RoE	13.0	36.5	16.0	16.7
RoCE	16.0	31.3	14.4	15.8
RoIC	16.3	32.2	14.7	16.6
Valuation Ratios (x)				
P/E	13.5	3.2	6.4	5.4
EV / EBITDA	6.1	3.0	5.3	4.4
EV / Revenues	0.7	0.4	0.5	0.4
Market Cap / Revenues	0.5	0.3	0.3	0.3
Price to Book Value	1.8	1.2	1.0	0.9
Solvency Ratios				
Debt / Equity	0.9	0.6	0.5	0.4
Debt/EBITDA	2.1	1.0	1.8	1.3
Current Ratio	1.1	1.4	1.5	1.5
Quick Ratio	0.4	0.7	0.7	0.7

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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