

CMP: ₹ 298

Target: ₹ 351 (18%)

Target Period: 12 months

BUY

November 5, 2022

## Steady operational performance...

**About the stock:** Jindal Stainless (Hisar) (JSHL) is one of the leading players in the Indian stainless steel market.

- JSHL is the largest specialty stainless steel producer in India with a diversified value-added product portfolio
- JSHL operates an integrated stainless steel plant at Hisar, Haryana. JSHL has a total melting capacity of 0.8 million tonnes per annum (MTPA)

**Q2FY23 Results:** Jindal Stainless (Hisar) reported a steady performance for Q2FY23 wherein standalone sales volume, standalone EBITDA and consolidated EBITDA came in higher than our estimate.

- For the quarter, Jindal Stainless (Hisar) standalone operations reported sales volume of 183421 tonnes, higher than our estimate of 172500 tonnes. Standalone operations EBITDA/tonne was at ₹ 16085/tonne, higher than our estimate of ₹ 15500/tonne. Hence, ensuing standalone EBITDA for the quarter was at ₹ 295 crore, higher than our estimate of ₹ 267 crore
- Consolidated topline for the quarter was at ₹ 3926 crore, up 5%, 14% QoQ, in line with our estimate of ₹ 3924 crore. For Q2FY23, JSHL reported consolidated EBITDA of ₹ 323 crore, higher than our estimate of ₹ 287 crore. During the quarter, share of net profit from associates (equity method) was at ₹ 52 crore (down 57% YoY, 50% QoQ), lower than our estimate of ₹ 100 crore. Hence, ensuing consolidated PAT for the quarter was at ₹ 253 crore (our estimate of ₹ 262 crore)

**What should investors do?** JSHL's share price has given a return of ~204% over the last two years (from ~₹ 98 in November 2020 to ~₹ 298 in November 2022).

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

**Target Price and Valuation:** We value JSHL at ₹ 351, based on merger ratio.

### Key triggers for future price performance:

- Going forward, for JSHL standalone operations, we model EBITDA/tonne of ₹ 18000/tonne each for both FY23E and FY24E
- For FY23E, the company has now guided that sales volumes for the combined entity (JSL+JSHL) are expected to be flattish YoY compared to ~5-10% sales volume decline expected earlier
- Merger Update:** The next date of hearing is November 11, 2022. The merger process is expected to be completed within the current financial year

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

- JSL operates an integrated stainless steel plant at Jajpur, Odisha. The complex has a total stainless steel capacity of 1.1 MTPA
- BUY with a target price of ₹ 180

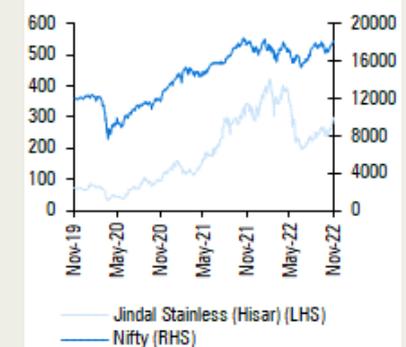


Particulars	
Particulars	₹ Crore
Market Capitalization	7,036
Total Debt (Q2FY23)	1,446
Cash and Invest (Q2FY23)	493
Enterprise Value(EV)	7,989
52 week H/L (₹)	434 / 189
Equity capital	47
Face value (₹)	2

Debt and Cash are on a Standalone basis

Particulars				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	58.9	58.9	58.9	58.9
Fils	20.1	20.5	20.7	20.6
Dils	4.1	4.3	4.6	4.6
Public	16.9	16.3	15.8	15.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Performance Graph



### Key Risks

- Sharp rise in raw material cost
- Slowdown in demand growth.

### Research Analyst

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

₹ crore	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR in % (FY22-FY24E)
Total Operating income	10,289	9,379	9,400	15,011	14	14,404	14,456	-2
EBITDA	1,039	935	1,127	2,153	17	1,306	1,364	-20
PAT	396	401	696	1,947	46	1,110	1,132	-24
EPS (₹)	16.8	17.0	29.5	82.5		47.0	48.0	
P/E (x)	17.7	17.5	10.1	3.6		6.3	6.2	
EV/EBITDA (x)	9.0	9.8	7.6	4.1		6.2	5.7	
RoCE (%)	17.6	14.3	18.6	28.1		14.5	13.7	
RoE(%)	20.8	17.5	23.2	39.4		19.1	16.8	

Source: Company, ICICI Direct Research

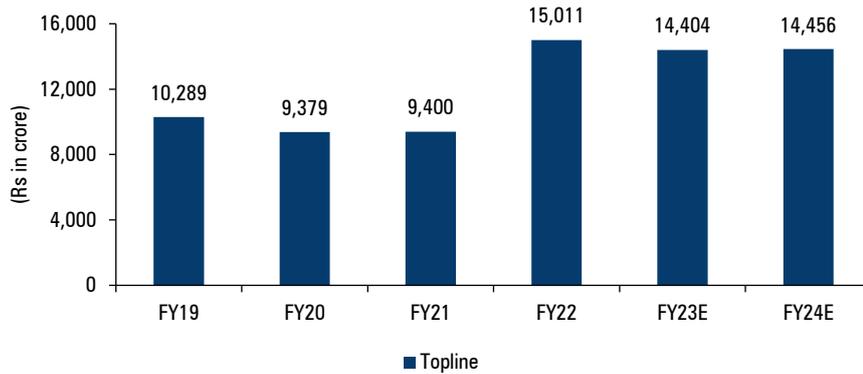
**Exhibit 1: Variance Analysis- Jindal Stainless (Hisar) – Consolidated (Sales volume, EBITDA/tonne standalone)**

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>3926</b>	<b>3924</b>	<b>3743</b>	<b>5%</b>	<b>3454</b>	<b>14%</b>	Consolidated topline came in broadly in line with our estimate
Other Income	31	30	29	7%	28	10%	
Total Operating expense	3603	3637	3176	13%	3117	16%	
<b>EBITDA</b>	<b>323</b>	<b>287</b>	<b>567</b>	<b>-43%</b>	<b>337</b>	<b>-4%</b>	Consolidated EBITDA came in higher than our estimate
EBITDA Margin (%)	8.2	7.3	15.1	-693 bps	9.8	-155 bps	Consolidated EBITDA margin came in higher than our estimate
Depreciation	57	55	62	-9%	55	2%	
Interest	31	35	24	33%	33	-5%	
Exceptional item	0	0	0	NA	0	NA	
Share of Net Profit/Loss	52	100	120	-57%	103	-50%	During the quarter, share of net profit from associates (equity method) was at ₹ 52 crore (down 57% YoY, 50% QoQ), lower than our estimate of ₹ 100 crore
<b>PBT</b>	<b>317</b>	<b>327</b>	<b>630</b>	<b>-50%</b>	<b>380</b>	<b>-17%</b>	
Tax Outgo	64	65	131	-51%	72	-11%	
<b>PAT</b>	<b>253</b>	<b>262</b>	<b>499</b>	<b>-49%</b>	<b>308</b>	<b>-18%</b>	Consolidated PAT came in broadly in line with our estimate
<b>Key Metrics</b>							
Sales Volume(Standalone)	183,421	172,500	188,178	-3%	132,172	39%	Standalone sales volume came in higher than our estimate
EBITDA/Tonne(Standalone)	16,085	15,500	26,636	-40%	23,908	-33%	Standalone EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts- JSHL (Pre-Merger)

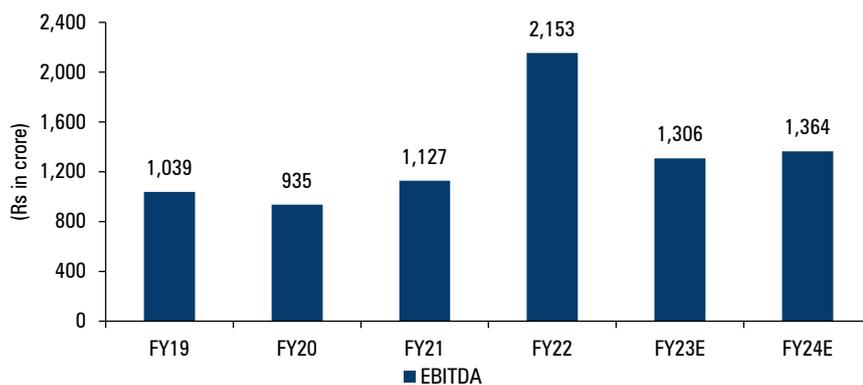
Exhibit 1: Trend in consolidated topline (in ₹ crore)



We expect JSHL to report consolidated topline of ₹ 14404 crore for FY23E and ₹ 14456 crore for FY24E

Source: Company, ICICI Direct Research

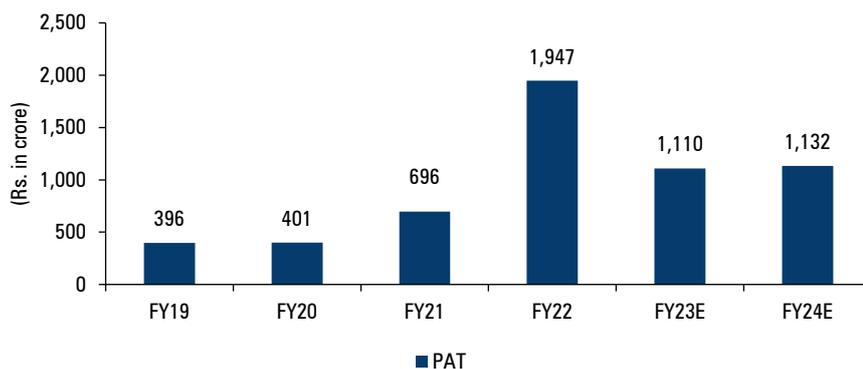
Exhibit 2: Trend in consolidated EBITDA (in ₹ crore)



We expect JSHL to report consolidated EBITDA of ₹ 1306 crore for FY23E and ₹ 1364 crore for FY24E

Source: Company, ICICI Direct Research

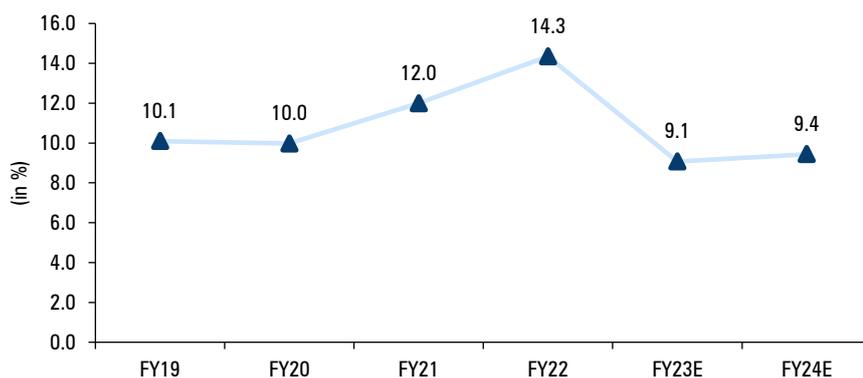
Exhibit 3: Trend in consolidated PAT (in ₹ crore)



We expect JSHL to report consolidated PAT of ₹ 1110 crore for FY23E and ₹ 1132 crore for FY24E

Source: Company, ICICI Direct Research

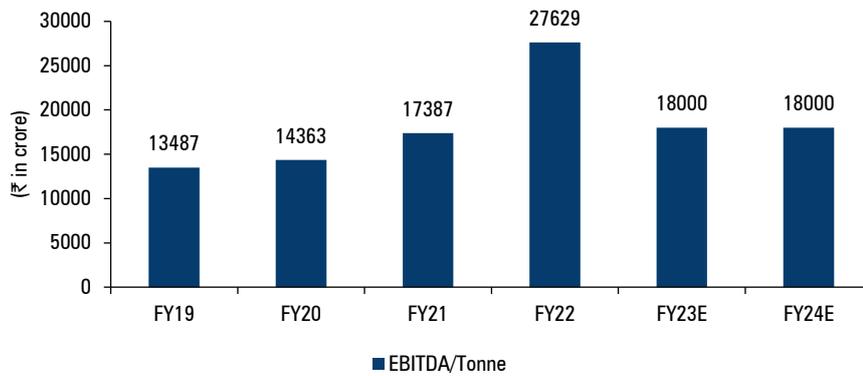
Exhibit 4: Trend in consolidated EBITDA margin (in %)



We expect JSHL to report consolidated EBITDA margin of 9.1% for FY23E and 9.4% for FY24E

Source: Company, ICICI Direct Research

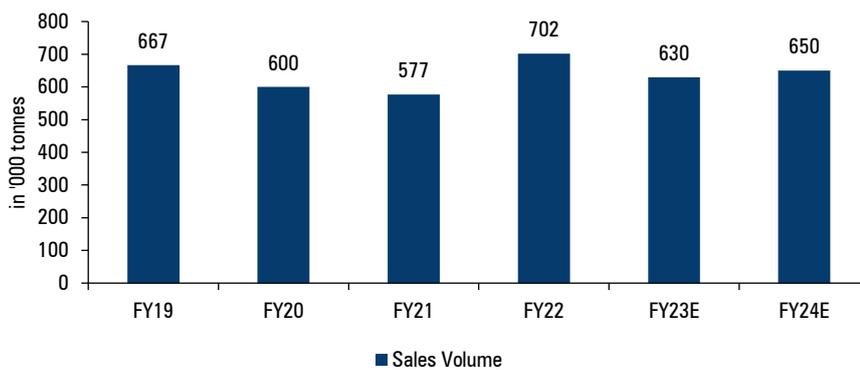
Exhibit 5: Trend in EBITDA/tonne (Standalone)



For the standalone entity JSHL, we model EBITDA/tonne of ₹ 18000/tonne each for FY23E and FY24E (upward revised from earlier ₹ 16500/tonne each for both FY23E and FY24E)

Source: Company, ICICI Direct Research

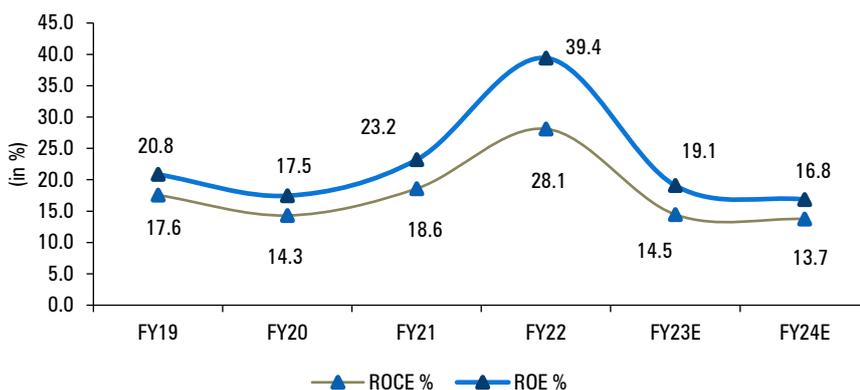
Exhibit 6: Trend in sales volume (Standalone)... (In KT)



For the standalone entity JSHL, we model sales volume 630000 tonnes for FY23E (upward revised from 600000 tonnes earlier) and 650000 tonnes for FY24E (maintained)

Source: Company, ICICI Direct Research

Exhibit 7: Trend in RoCE & RoE (in %)



Source: Company, ICICI Direct Research

Exhibit 8: Valuation Matrix

Years	Total Op Income	Growth	EPS	Growth	PE	EV/EBITDA	RoCE	RoE
	(₹ cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY19	10,289	-0.7	16.8	NA	17.7	9.0	17.6	20.8
FY20	9,379	-8.8	17.0	1.2	17.5	9.8	14.3	17.5
FY21	9,400	0.2	29.5	73.6	10.1	7.6	18.6	23.2
FY22	15,011	59.7	82.5	179.9	3.6	4.1	28.1	39.4
FY23E	14,404	-4.0	47.0	-43.0	6.3	6.2	14.5	19.1
FY24E	14,456	0.4	48.0	2.0	6.2	5.7	13.7	16.8

Source: Company, ICICI Direct Research

**Exhibit 9: Valuation (based on merged entity basis)**

Particulars	Units	Mar-24E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	3,330
Subsidiaries EBITDA in FY24E	₹ crore	87
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	3417
Multiple	x	5.0
EV	₹ crore	17085
Net Debt FY24E (After adjusting inter company loan)	₹ crore	2280
Mcap	₹ crore	14,805
No. of shares	in crore	82.3
<b>Target price of Jindal Stainless</b>	<b>in ₹/share</b>	<b>180</b>
CMP of Jindal Stainless	in ₹/share	154
Upside (%)	in %	17%
<b>Target price of Jindal Stainless Hisar (derived as per swap ratio)</b>	<b>in ₹/share</b>	<b>351</b>
CMP of Jindal Stainless Hisar	in ₹/share	298
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 ₹2757 crore as on September 2022 (after adjusting inter-company loan) to ₹2280 crore as on March 2024E (after adjusting inter-company loan).

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

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>9400</b>	<b>15011</b>	<b>14404</b>	<b>14456</b>
Growth (%)	0%	60%	-4%	0%
Total Operating Expenditure	8273	12858	13097	13092
<b>EBITDA</b>	<b>1127</b>	<b>2153</b>	<b>1306</b>	<b>1364</b>
Growth (%)	21%	91%	-39%	4%
Interest & Finance Cost	251	131	93	64
Depreciation	290	250	296	323
Other Income	107	119	134	142
<b>PBT before Exceptional Items</b>	<b>693</b>	<b>1891</b>	<b>1051</b>	<b>1119</b>
Add/less: Exceptional Items	41	0	0	0
Share of profit from Associates	146	545	381	342
PBT	880	2436	1432	1461
Total Tax	184	488	322	329
<b>PAT</b>	<b>696</b>	<b>1947</b>	<b>1110</b>	<b>1132</b>
Growth (%)	74%	180%	-43%	2%
<b>EPS</b>	<b>29</b>	<b>83</b>	<b>47</b>	<b>48</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	696	1947	1110	1132
Add: Dep. & Amortization	290	250	296	323
Net (Inc) / dec.in Current Asset	-416	-2265	430	-63
Net Inc / (dec) in Current Liab.	457	540	-245	-41
<b>CF from Operating Actv.</b>	<b>1027</b>	<b>472</b>	<b>1591</b>	<b>1352</b>
(Inc)/dec in Investments	-151	-541	-290	-290
(Inc)/dec in Fixed Assets	-219	-235	-400	-425
Others	0	0	0	0
<b>CF from Investing Actv.</b>	<b>-371</b>	<b>-776</b>	<b>-690</b>	<b>-715</b>
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-679	326	-663	-313
Dividend & Dividend Tax	0	0	-230	-230
Others	10	-10	-3	-3
<b>CF from Financing Actv.</b>	<b>-669</b>	<b>315</b>	<b>-896</b>	<b>-546</b>
Net Cash flow	-13	12	5	91
Opening Cash	34	21	32	38
<b>Closing Cash</b>	<b>21</b>	<b>32</b>	<b>38</b>	<b>129</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	47	47	47	47
Reserve and Surplus	2951	4894	5773	6676
<b>Total Shareholders funds</b>	<b>2998</b>	<b>4941</b>	<b>5821</b>	<b>6723</b>
Total Debt	1501	1827	1164	851
Other Non-Current Liabilities	21	21	21	21
Deferred Tax Liability (net)	17	18	17	16
<b>Source of Funds</b>	<b>4538</b>	<b>6808</b>	<b>7023</b>	<b>7612</b>
Gross Block - Fixed Assets	3947	4204	4640	4787
Accumulated Depreciation	2062	2312	2608	2608
<b>Net Block</b>	<b>1886</b>	<b>1893</b>	<b>2032</b>	<b>2179</b>
Goodwill	75	75	75	75
Capital WIP	183	161	125	80
<b>Net Fixed Assets</b>	<b>2144</b>	<b>2129</b>	<b>2232</b>	<b>2334</b>
Investments	798	1339	1629	1919
Inventory	1639	2647	2368	2376
Cash	21	32	38	129
Debtors	917	1773	1579	1584
Loans & Advances & Other CA	1483	1884	1927	1976
<b>Total Current Assets</b>	<b>4059</b>	<b>6336</b>	<b>5911</b>	<b>6065</b>
Creditors	1725	2168	1973	1980
Provisions & Other CL	783	881	830	782
Total Current Liabilities	2509	3048	2803	2762
Net Current Assets	1551	3288	3108	3303
Other Non-current assets	45	52	54	56
<b>Application of Funds</b>	<b>4538</b>	<b>6808</b>	<b>7023</b>	<b>7612</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	29.5	82.5	47.0	48.0
BV	127	209	247	285
DPS	0.0	0.0	9.8	9.8
Cash Per Share	0.9	1.4	1.6	5.5
<b>Operating Ratios (%)</b>				
EBITDA margins	12.0	14.3	9.1	9.4
PBT margins	9.4	16.2	9.9	10.1
Net Profit margins	7.4	13.0	7.7	7.8
Inventory days	64	64	60	60
Debtor days	36	43	40	40
Creditor days	67	53	50	50
<b>Return Ratios (%)</b>				
RoE	23.2	39.4	19.1	16.8
RoCE	18.6	28.1	14.5	13.7
RoIC	18.7	28.3	14.5	14.0
<b>Valuation Ratios (x)</b>				
P/E	10.1	3.6	6.3	6.2
EV / EBITDA	7.6	4.1	6.2	5.7
EV / Revenues	0.9	0.6	0.6	0.5
Market Cap / Revenues	0.7	0.5	0.5	0.5
Price to Book Value	2.3	1.4	1.2	1.0
<b>Solvency Ratios</b>				
Debt / Equity	0.5	0.4	0.2	0.1
Debt/EBITDA	1.3	0.8	0.9	0.6
Current Ratio	1.6	2.1	2.1	2.2
Quick Ratio	1.0	1.2	1.3	1.3

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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