

CMP: ₹ 257

Target: ₹ 300 (17%)

Target Period: 12 months

BUY

January 25, 2023

## Healthy uptick in sales volumes both QoQ, YoY...

**About the stock:** Jindal Stainless (JSL) is among 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 available infrastructure for cost efficient brownfield expansion

**Q3FY23 Results:** JSL reported a healthy uptick in sales volumes in Q3FY23. For the quarter, standalone sales volume was up 33% YoY, 22% QoQ. EBITDA of standalone operations came in higher than our estimate, aided by healthy sales volume.

- For the quarter, JSL's standalone operations reported sales volume of 330427 tonnes, higher than our estimate of 28500 tonnes. EBITDA/tonne of standalone operations came in at ₹ 18834/tonne, higher than our estimate of ₹ 18000/tonne. Hence, ensuing standalone EBITDA for the quarter was at ₹ 622 crore (up 51% QoQ), higher than our estimate of ₹ 513 crore
- Consolidated topline was at ₹ 6350 crore, up 12% YoY, 13% QoQ, (our estimate: ₹ 5914 crore). Consolidated EBITDA was at ₹ 525 crore, up 46% QoQ, down 34% YoY (our estimate: ₹ 503 crore). Consolidated EBITDA was adversely impacted by losses at EBITDA level from subsidiaries
- Ensuing consolidated PAT for Q3FY23 was at ₹ 299 crore (up 97% QoQ, but down 32% YoY), higher than our estimate of ₹ 268 crore

**What should investors do?** JSL's share price has given a return of ~31% in the last one year (from ~₹ 196 in January 2022 to ~₹ 257 in January 2023).

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

**Target Price & Valuation:** We value JSL at ₹ 300, based on a merged entity basis.

### Key triggers for future price performance:

- Going forward, for JSL standalone operations, we assume EBITDA/tonne of ₹ 19000/tonne for FY23E and ₹ 20500/tonne for FY24E. For the combined entity, the company has guided 20% volume growth in FY24E
- Update on JSL-JSHL merger and JUSL acquisition:** The JSL-JSHL merger process is expected to be completed within the current financial year. Acquisition of 74% holding of JUSL by JSL is progressing as planned and will be completed within committed timelines

**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 ₹ 585



### Particulars

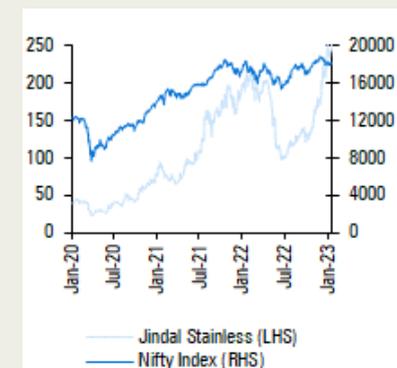
Particulars	₹ Crore
Market Capitalization	13,518
Total Debt (Q3FY23)	3,081
Cash and Invest (Q3FY23)	317
Enterprise Value(EV)	16,282
52 week H/L (₹)	263 / 95
Equity capital	105
Face value (₹)	2.0

\* Debt and Cash are for the Standalone entity

### Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	69.9	70.1	70.1	70.1
FIs	15.1	13.8	12.7	13.1
DIs	6.3	5.9	6.5	7.2
Public	8.7	10.3	10.7	9.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Performance



### 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 % (FY22-FY24E)
Total Operating income	13,557	12,951	12,188	21,223	18	23,773	31,411	22
EBITDA	1,165	1,139	1,424	2,987	21	2,067	3,024	1
PAT	145	73	419	1,909	93	1,167	1,941	1
EPS (₹)	3.0	1.5	8.6	36.3		22.2	36.9	
P/E (x)	84.9	172.4	29.9	7.1		11.6	7.0	
EV/EBITDA (x)	14.3	14.4	10.9	5.5		8.2	5.5	
RoCE (%)	11.6	10.8	16.0	31.3		17.1	23.1	
ROE (%)	5.6	2.7	13.0	36.5		18.7	24.5	

Source: Company, ICICI Direct

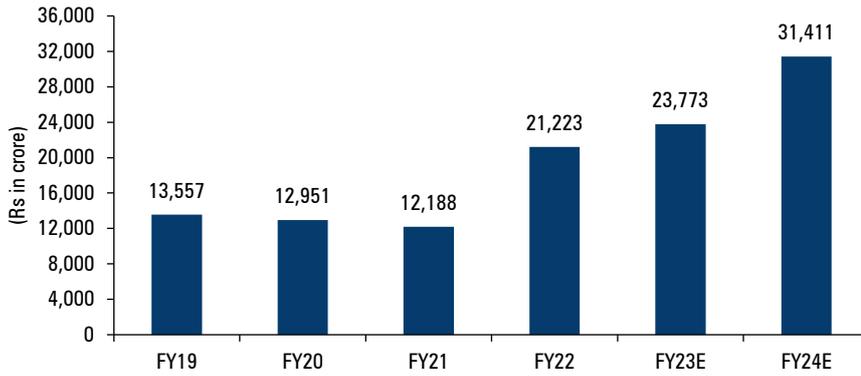
**Exhibit 1: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>6350</b>	<b>5914</b>	<b>5670</b>	<b>12%</b>	<b>5605</b>	<b>13%</b>	Consolidated topline came in higher than our estimate
Other Income	22	15	12	84%	17	26%	
Total Operating expense	5825	5411	4873	20%	5246	11%	
<b>EBITDA</b>	<b>525</b>	<b>503</b>	<b>797</b>	<b>-34%</b>	<b>358</b>	<b>46%</b>	Consolidated EBITDA came in higher than our estimate
EBITDA Margin (%)	8.3	8.5	14.1	(580) bps	6.4	190 bps	
Depreciation	94	95	93	1%	93	1%	
Interest	80	85	93	-14%	84	-4%	
Exceptional item	0	0	0	#DIV/0!	0	#DIV/0!	
Share of Net Profit/Loss	36	20	31	15%	10	263%	
<b>PBT</b>	<b>408</b>	<b>358</b>	<b>654</b>	<b>-38%</b>	<b>209</b>	<b>95%</b>	
Tax Outgo	109	90	212	-49%	57	92%	
<b>PAT</b>	<b>299</b>	<b>268</b>	<b>442</b>	<b>-32%</b>	<b>152</b>	<b>97%</b>	Consolidated PAT came in higher than our estimate
<b>Key Metrics</b>							
Sales Volume(Standalone)	3,30,427	2,85,000	2,47,607	33%	2,70,360	22%	Standalone sales volume came in higher than our estimate
EBITDA/Tonne(Standalone)	18,834	18,000	29,855	-37%	15,208	24%	Standalone EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in Charts- Jindal Stainless (pre-merger)

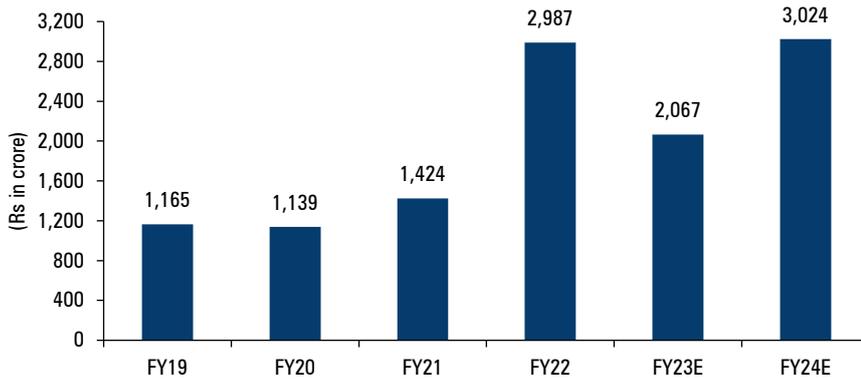
Exhibit 4: Trend in consolidated topline (in ₹ crore)



JSL's consolidated topline is expected to grow at a CAGR of 22% during FY22-24E.

Source: Company, ICICI Direct Research

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

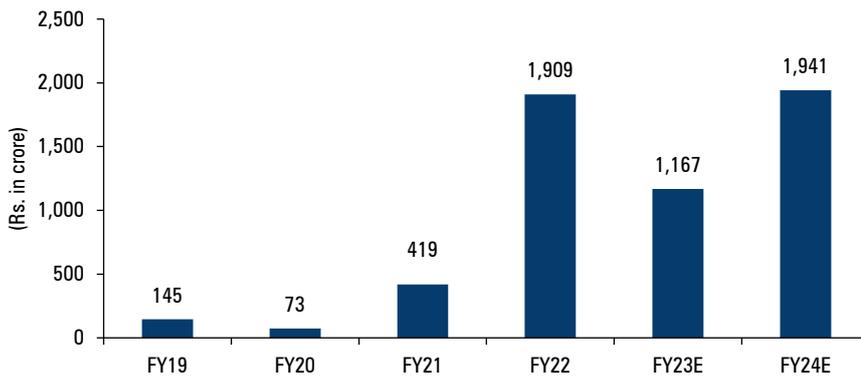


We expect JSL to report consolidated EBITDA of ₹ 2067 crore in FY23E and ₹ 3024 crore in FY24E.

Financial performance of overseas subsidiaries is likely to improve over the next 2-3 quarters.

Source: Company, ICICI Direct Research

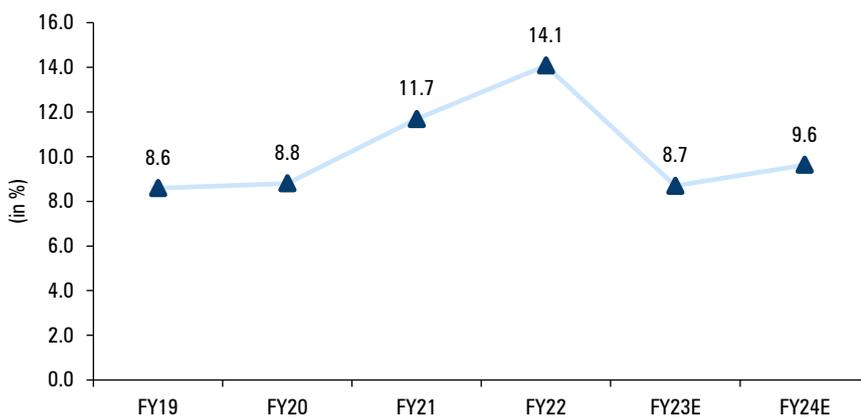
Exhibit 6: Trend in consolidated PAT (in ₹ crore)



We expect JSL to report consolidated PAT of ₹ 1167 crore in FY23E and ₹ 1941 crore in FY24E

Source: Company, ICICI Direct Research

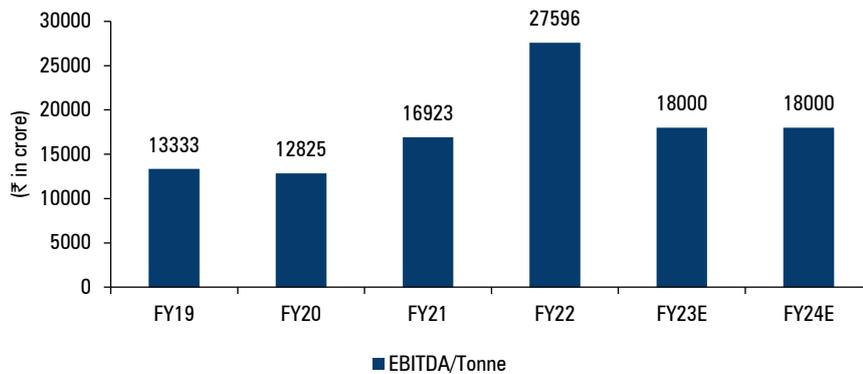
Exhibit 7: Trend in consolidated EBITDA margin (in %)



We expect JSL's consolidated EBITDA margin to be ~8.7% in FY23E and ~9.6% in FY24E

Source: Company, ICICI Direct Research

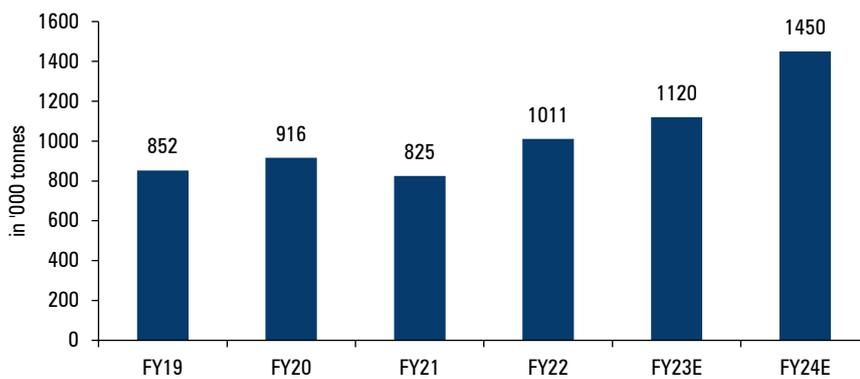
Exhibit 8: Trend in EBITDA/tonne (Standalone) (in ₹/tonne)...



For the standalone entity Jindal Stainless, we model EBITDA/tonne of ₹ 19000/tonne for FY23E and ₹ 20500/tonne for FY24E. We have upward revised our EBITDA/tonne estimate for FY24E from ₹ 20000/tonne earlier to ₹ 20500/tonne now

Source: Company, ICICI Direct Research

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

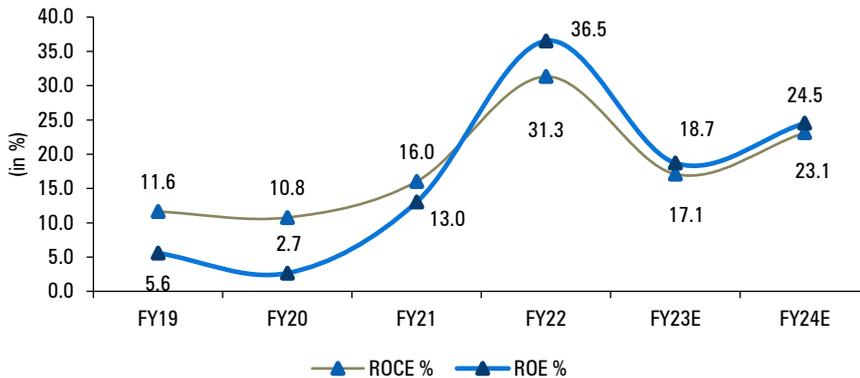


For the standalone entity Jindal Stainless, we model sales volume of 1.12 million tonnes (MT) for FY23E (upward revised from 1.05 MT earlier) and 1.45 MT for FY24E (upward revised from 1.20 MT earlier).

Going forward, for Jindal Stainless Standalone entity, the company has guided export sales volume of ~20000-25000 tonnes per month.

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 (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	ROE (%)
FY20	12,951	-4.5	1.5	-50.8	172.4	14.4	10.8	2.7
FY21	12,188	-5.9	8.6	477.6	29.9	10.9	16.0	13.0
FY22	21,223	74.1	36.3	322.0	7.1	5.5	31.3	36.5
FY23E	23,773	12.0	22.2	-38.9	11.6	8.2	17.1	18.7
FY24E	31,411	32.1	36.9	66.3	7.0	5.5	23.1	24.5

Source: Company, ICICI Direct Research

**Exhibit 12: Valuation (Based on merged entity basis)**

<b>Particulars</b>	<b>Units</b>	<b>Mar-24E</b>
EBITDA FY24E ( Standalone combined entity JSL + JSHL)	₹ crore	4,407
Subsidiaries EBITDA in FY24E	₹ crore	117
Total Consolidated EBITDA of Merged Entity in FY24E	₹ crore	4524
Multiple	x	6
Enterprise Value	₹ crore	27147
Net Debt FY24E (After adjusting inter company loan)	in crore	2484
Mcap	in ₹/share	24663
Number of Shares	in crores	82.3
<b>Target Price of Jindal Stainless</b>	<b>in ₹/share</b>	<b>300</b>
CMP of Jindal Stainless	in ₹/share	257
<b>Upside (%)</b>	<b>in %</b>	<b>17%</b>
<b>Target Price of Jindal Stainless Hisar(derived as per swap ratio)</b>	<b>in ₹/share</b>	<b>585</b>
CMP of Jindal Stainless Hisar	in ₹/share	466
<b>Upside (%)</b>	<b>in %</b>	<b>26%</b>

Source: 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 ₹2824 crore as on December 2022 (after adjusting inter-company loan) to ₹2484 crore as on March 2024E (after adjusting inter-company loan). We have valued the company on merged entity basis (JSL+JSHL) as the merger process is expected to be completed within the current financial year. We have not incorporated the pending acquisition of 74% holding of JUSL by JSL in our assumptions since it is yet to be completed.

## Financial summary – Consolidated – JSL (Pre-merger)

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>12,188</b>	<b>21,223</b>	<b>23,773</b>	<b>31,411</b>
Growth (%)	-5.9%	74.1%	12.0%	32.1%
Total Operating Expenditure	10,764	18,236	21,707	28,387
<b>EBITDA</b>	<b>1,424</b>	<b>2,987</b>	<b>2,067</b>	<b>3,024</b>
Growth (%)	25.0%	109.7%	-30.8%	46.3%
Interest & Finance Cost	480	332	316	246
Depreciation	403	371	376	427
Other Income	41	56	83	87
<b>PBT before Exceptional Items</b>	<b>582</b>	<b>2,339</b>	<b>1,456</b>	<b>2,438</b>
Add/Less: Exceptional Items	102	0	0	0
Add/Less: Share of P/L of Invest us	5	103	100	112
<b>PBT</b>	<b>690</b>	<b>2,442</b>	<b>1,556</b>	<b>2,550</b>
Total Tax	270	533	389	608
<b>PAT</b>	<b>419</b>	<b>1,909</b>	<b>1,167</b>	<b>1,941</b>
Growth (%)	477.6%	355.1%	-38.9%	66.3%
<b>EPS</b>	<b>8.6</b>	<b>36.3</b>	<b>22.2</b>	<b>36.9</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	419	1909	1167	1941
Add: Dep. & Amortization	403	371	376	427
Net (Inc) / dec.in Current Asset	-284	-3792	-446	-2383
Net Inc / (dec) in Current Liab.	47	1810	36	1590
Others	339	430	20	20
<b>CF from operating activities</b>	<b>924</b>	<b>728</b>	<b>1153</b>	<b>1596</b>
(Inc)/dec in Investments	26	-66	-25	-30
(Inc)/dec in Fixed Assets	-154	-533	-1420	-949
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-128</b>	<b>-599</b>	<b>-1445</b>	<b>-979</b>
Inc / (Dec) in Equity Capital	0	8	0	0
Inc / (Dec) in Loans	-749	-29	525	-340
Dividend & Dividend Tax	0	0	-158	-263
<b>CF from financing activities</b>	<b>-749</b>	<b>-21</b>	<b>367</b>	<b>-603</b>
Net Cash flow	48	108	76	14
Opening Cash	69	116	224	301
<b>Closing Cash</b>	<b>116</b>	<b>224</b>	<b>301</b>	<b>315</b>

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	6131	7809
Total Shareholders funds	3218	5227	6236	7914
Total Debt	3154	3126	3651	3311
Deferred Tax Liability (net)	461	799	819	840
<b>Source of Funds</b>	<b>6834</b>	<b>9152</b>	<b>10706</b>	<b>12065</b>
Gross Block - Fixed Assets	8556	8785	10279	11428
Accumulated Depreciation	2352	2723	3099	3526
Net Block	6204	6062	7180	7902
Capital WIP	53	357	282	82
Net Fixed Assets	6257	6419	7462	7984
Investments	113	178	203	233
Inventory	2789	4177	4559	6196
Cash	116	224	301	315
Debtors	934	2453	2605	3442
Loans & Advances & Other CA	526	1410	1322	1231
Total Current Assets	4365	8265	8787	11184
Creditors	2632	4174	3908	5164
Provisions & Other CL	1269	1537	1838	2173
Total Current Liabilities	3901	5711	5746	7336
Net Current Assets	464	2554	3041	3848
<b>Application of Funds</b>	<b>6834</b>	<b>9152</b>	<b>10706</b>	<b>12065</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	8.6	36.3	22.2	36.9
BV	66.1	99.5	118.7	150.6
DPS	0.0	0.0	3.0	5.0
Cash Per Share	2.4	4.3	5.7	6.0
<b>Operating Ratios (%)</b>				
EBITDA margins	11.7	14.1	8.7	9.6
PBT margins	5.7	11.5	6.5	8.1
Net Profit margins	3.4	9.0	4.9	6.2
Inventory days	84	72	70	72
Debtor days	28	42	40	40
Creditor days	79	72	60	60
<b>Return Ratios (%)</b>				
RoE	13.0	36.5	18.7	24.5
RoCE	16.0	31.3	17.1	23.1
RoIC	16.3	32.2	17.6	23.8
<b>Valuation Ratios (x)</b>				
P/E	29.9	7.1	11.6	7.0
EV / EBITDA	10.9	5.5	8.2	5.5
EV / Revenues	1.3	0.8	0.7	0.5
Market Cap / Revenues	1.0	0.6	0.6	0.4
Price to Book Value	3.9	2.6	2.2	1.7
<b>Solvency Ratios</b>				
Debt / Equity	0.9	0.6	0.5	0.4
Debt/EBITDA	2.1	1.0	1.6	1.0
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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