

Jindal Stainless

NOT RATED

Business consolidation in focus

Summary

We interacted with Anurag Mantri, CFO at Jindal Stainless (JSL) to discuss the company's business outlook. JSL is India's largest stainless steel manufacturer with a capacity of 1.1 mtpa.

In the near-term, the company aims to focus on deleveraging while it will announce expansion-related capex in March 2021. The company's Board has scheduled a meeting on December 29, 2020 to consider a merger/ scheme of arrangement with its group company, Jindal Stainless (Hisar).

Key Highlights

- **JSL mulls consolidating its stainless steel business:** JSL's Board had appointed a committee to explore and evaluate various options of consolidating of the stainless steel business of JSL and Jindal Stainless (Hisar) by the way of a scheme of arrangement. Hisar has a capacity of 0.8 mtpa. The merger/ scheme of arrangement, if it happens, will have synergies in sourcing of raw materials, improvement in supply chain and a stronger balance sheet.
- **Volumes to recover in H2FY21:** In FY21, the sales volumes are likely to be lower by 10% (960 kt in FY20) due to sharp fall in volumes in Q1FY21 (-60% YoY to 89 kt). Nevertheless, the company expects strong recovery in volumes during FY22.
- **EBITDA/tonne guidance:** JSL reported EBITDA/tonne of Rs14,126 in H1FY21. However, it expects EBITDA/tonne for FY21 to remain in the range of Rs12,500-14,700 as input costs are likely to rise.
- **Import duty on Indonesian imports:** During October 2020, Indian government had imposed provisional countervailing duty on Indonesian imports in the range of 22-25% on certain types of flat stainless products for four months. It is likely that this duty may get extended for a period of 5 years.
- **Expansion through internal cash flows:** JSL is considering expanding capacity by 0.5 mtpa. This will take its total capacity to 1.6 mtpa with a capex of only Rs5-6 bn (significantly lower than a greenfield expansion). The company will announce detailed capex plans and timelines in March 2021. Until then, the focus of JSL would remain on deleveraging.
- **Debt reduction to continue:** As on September 30th, 2020, JSL's net debt stood at Rs32 bn (fallen by Rs15 bn over last 2.5 years). JSL aims to repay debt further and bring debt down by Rs4 bn in FY21.

Company Update

Key Stock Data

Bloomberg / Reuters	JDSL IN / JIST.BO
Sector	Metal
Shares o/s (mn)	487
Market cap. (Rsmn)	34,764
Market cap. (US\$ mn)	502
3-m daily avg Trd value (Rs mn)	33.4
52-week high / low	Rs74 / 22
Sensex / Nifty	46,444 / 13,601

TP -
CMP Rs71

Potential upside / downside	-
Previous Rating	-

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	-	-	-
Consensus	3.8	8.3	10.5
% difference	-	-	-

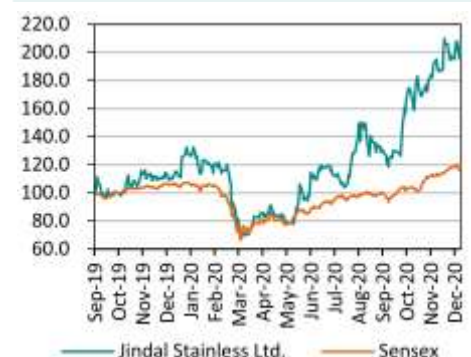
Shareholding Pattern (%)

Promoters	68.1
FII	13.0
DII	0.8
Public	18.1

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.0	72.8	85.1
Rel to Sensex	1.6	49.5	73.6

Relative to Sensex (%)



Financial snapshot

(Rs mn)

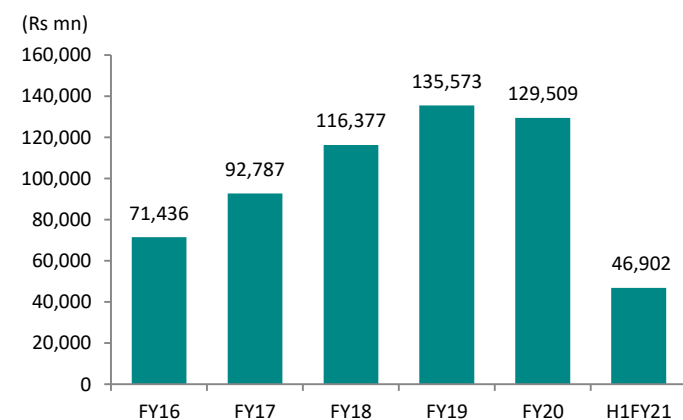
Year	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue	71,436	92,787	1,16,377	1,35,573	1,29,509
EBITDA	5,727	11,656	13,403	11,642	11,395
EBITDA (%)	7.5	11.7	11.5	8.6	8.8
Adj. PAT	(5,164)	1,074	3,385	1,413	680
EPS (Rs)	(24.3)	2.3	7.6	3.0	1.5
EPS Growth (%)	-	-	2.3	(0.6)	(0.5)
PE (x)	(3.0)	31.9	9.6	24.6	49.3
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	22.9	7.6	6.0	6.3	5.8
RoE (%)	(32.5)	4.5	13.9	5.5	2.7
RoCE (%)	4.6	11.0	16.2	12.9	9.9

Source: Company; IDBI Capital Research

Company overview

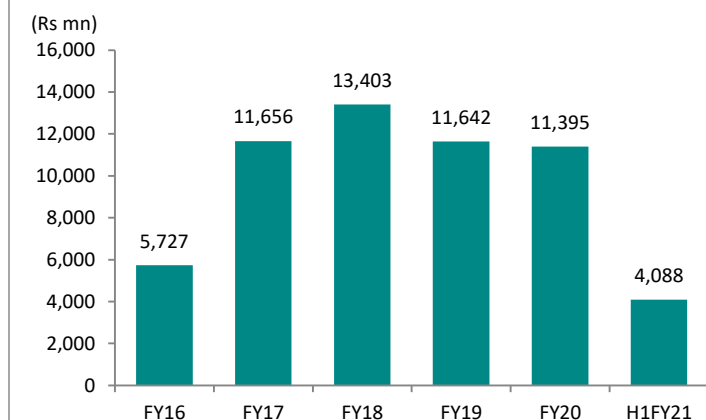
JSL was originally incorporated in 1970 as Jindal Strips Ltd. JSL is India's largest stainless steel manufacturer with installed capacity of 1.1 mn tonnes with manufacturing units located in Jajpur and Odisha. JSL's stainless steel products include Slabs, Hot Rolled Coil, Hot Rolled Annealed and Pickled (HRAP) Coil/2E Coil, Cold Rolled Annealed and Pickled (CRAP) coil and Plates. The company exports nearly 25% of its products.

Exhibit 1: JSL's sales growth trend

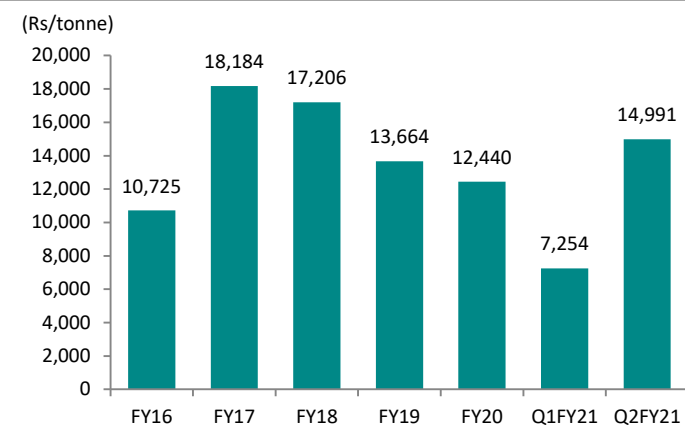


Source: Company data; IDBI Capital Research

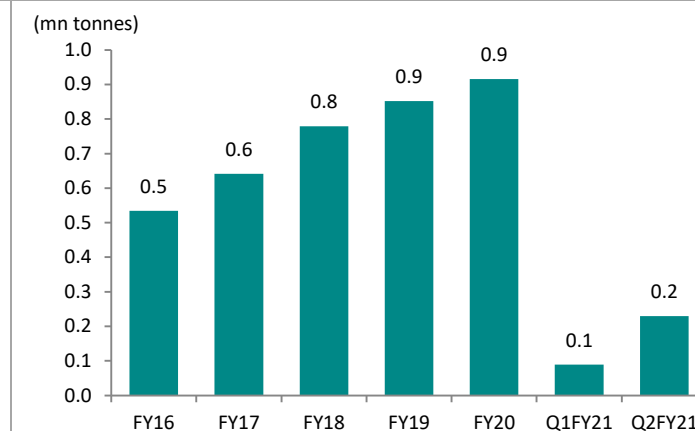
Exhibit 2: EBITDA trend



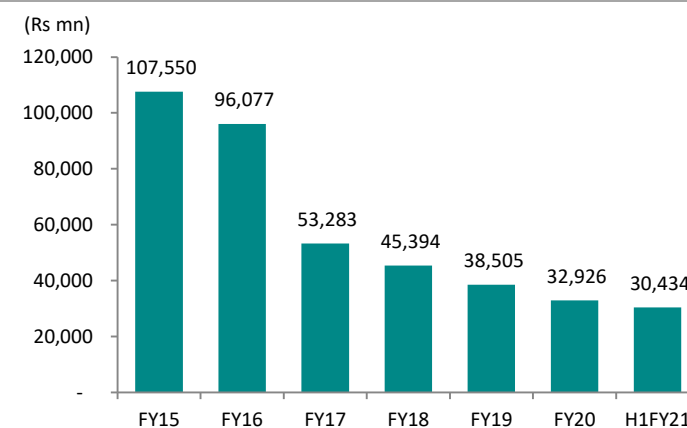
Source: Company data; IDBI Capital Research

Exhibit 3: EBIDTA/tonne trend


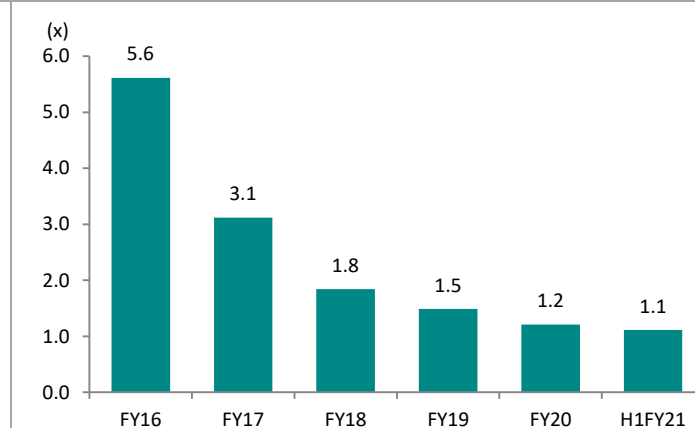
Source: Company data; IDBI Capital Research

Exhibit 4: Q1FY21 sales marred down due to lockdown


Source: Company data; IDBI Capital Research

Exhibit 5: Net debt has continued to fall since FY15


Source: Company data; IDBI Capital Research

Exhibit 6: Net debt/ equity has gradually improved


Source: Company data; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Net sales	92,787	1,16,377	1,35,573	1,29,509
<i>Growth (%)</i>	<i>29.9</i>	<i>25.4</i>	<i>16.5</i>	<i>(4.5)</i>
Operating expenses	(81,131)	(1,02,974)	(1,18,114)	(1,18,114)
EBITDA	11,656	13,403	11,642	11,395
<i>Growth (%)</i>	<i>103.5</i>	<i>15.0</i>	<i>(13.1)</i>	<i>(2.1)</i>
Depreciation	3,252	3,200	3,515	4,252
EBIT	4,034	8,194	5,599	5,938
Interest paid	7,879	5,661	6,369	5,855
Other income	257	451	326	399
Pre-tax profit	1,040	5,038	2,091	1,731
Tax	325	1,740	766	915
<i>Effective tax rate (%)</i>	<i>31.2</i>	<i>34.5</i>	<i>36.6</i>	<i>52.9</i>
Net profit	816	3,430	1,420	724
Adjusted net profit	1,074	3,385	1,413	680
<i>Growth (%)</i>	<i>-</i>	<i>215.2</i>	<i>(58.3)</i>	<i>(51.9)</i>
<i>Shares o/s (mn nos)</i>	<i>479</i>	<i>479</i>	<i>479</i>	<i>479</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Pre-tax profit	1,155	5,195	2,217	1,653
Depreciation	3,252	3,200	3,515	4,252
Tax paid	(271)	146	(27)	49
Chg in working capital	39,957	824	3,147	(59)
Other operating activities	7,058	5,159	5,335	5,910
Cash flow from operations (a)	51,151	14,525	14,187	11,804
Capital expenditure	(584)	(1,949)	(3)	222
Chg in investments	4	(101)	(1,985)	(2,180)
Other investing activities	271	117	64	79
Cash flow from investing (b)	(309)	(1,932)	(1,925)	(1,878)
Equity raised/(repaid)	250	500	-	-
Debt raised/(repaid)	(42,670)	(6,746)	(7,759)	(5,138)
Dividend (incl. tax)	-	-	-	-
Chg in minorities	-	-	-	-
Other financing activities	(8,636)	(6,326)	(4,612)	(5,055)
Cash flow from financing (c)	(51,056)	(12,573)	(12,372)	(9,908)
Net chg in cash (a+b+c)	(214)	20	(110)	18

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20
Net fixed assets	66,378	64,862	63,739	61,956
Investments	4,037	4,388	4,538	4,485
Other non-curr assets	994	1,361	1,067	2,097
Current assets	37,915	37,729	37,802	38,238
Inventories	20,965	23,845	24,146	27,390
Sundry Debtors	8,895	9,068	9,194	7,052
Cash and Bank	514	630	452	687
Marketable Securities	-	-	-	-
Loans and advances	7,541	4,186	4,010	3,109
Total assets	1,09,324	1,08,341	1,07,146	1,06,775
Shareholders' funds	18,201	24,742	26,025	27,303
Share capital	799	958	958	975
Reserves & surplus	17,402	23,784	25,067	26,328
Total Debt	53,797	46,024	38,957	33,613
Secured loans	48,947	30,959	23,008	24,613
Unsecured loans	4,850	15,065	15,949	9,000
Other liabilities	273	4,713	5,095	6,336
Curr Liab & prov	37,053	32,861	37,069	39,523
Current liabilities	35,700	32,858	37,047	39,507
Provisions	1,353	3	22	16
Total liabilities	91,123	83,599	81,121	79,473
Total equity & liabilities	1,09,324	1,08,341	1,07,146	1,06,775
Book Value (Rs)	38	51	54	57

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY17	FY18	FY19	FY20
Adj. EPS (Rs)	2.3	7.6	3.0	1.5
Adj. EPS growth (%)	-	2.3	(0.6)	(0.5)
EBITDA margin (%)	11.7	11.5	8.6	8.8
Pre-tax margin (%)	1.1	4.3	1.5	1.3
ROE (%)	4.5	13.9	5.5	2.7
ROCE (%)	11.0	16.2	12.9	9.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	1.1	1.3	1.2
Leverage factor (x)	7.3	5.1	4.3	4.0
Net margin (%)	0.9	2.9	1.0	0.6
Net Debt/Equity (x)	2.9	1.8	1.5	1.2
Working Capital & Liquidity ratio				
Inventory days	82	75	65	77
Receivable days	35	28	25	20
Payable days	84	76	73	82

Valuation

Year-end: March	FY17	FY18	FY19	FY20
PER (x)	31.9	9.6	24.6	49.3
Price / Book value (x)	1.9	1.4	1.4	1.3
PCE (x)	8.6	5.3	7.1	7.0
EV / Net sales (x)	1.0	0.7	0.5	0.5
EV / EBITDA (x)	7.6	6.0	6.3	5.8
Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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