ICICI direct Research

December 18, 2020

Initiating Coverage

ICICI Securities – Retail Equity Research

Stainless steel: All set to shine ahead…

Over the last few decades, stainless steel has emerged as a metal of choice due to its diverse applications. Stainless steel (SS) is used in architecture, building and construction (ABC segment), automobiles, railways, transport (ART segment), process industries, etc. SS, due to its distinct characteristics, has an edge over carbon steel. SS provides a good combination of strength, pliability, has a longer average product lifecycle and a relatively low/nil maintenance cost compared to carbon steel. The edge of stainless steel over carbon steel is clearly visible in terms of difference in demand growth rate of both metals. During FY13-19, domestic stainless steel demand grew at 7.2% CAGR, outpacing carbon steel CAGR growth rate of 5.0%.

India's overall SS demand in FY19 was ~3.7 million tonnes (MT). JSL group (Jindal Stainless + Jindal Stainless Hisar) has a leadership position in the Indian SS sector cumulatively accounting for ~50% share in overall SS demand. Considering healthy demand prospects from key user industries coupled with support from government (recently levied provisional CVD against subsidised imports from Indonesia), we expect good times ahead for the domestic SS sector. Hence, we initiate coverage with a **BUY** rating on two leading players, viz. Jindal Stainless and Jindal Stainless Hisar.

Ticking all the right boxes….

Over the last few years, the Jindal Stainless group had focused on reduce its debt and improve its balance-sheet position. During FY18–20, JSL had reduced its consolidated net debt by ₹ 1118 crore, while JSHL had reduced its consolidated debt by ₹773 crore during the above-mentioned period. Continuing with its debt reduction drive over the next three years, we expect JSL to reduce its consolidated debt by ₹950 crore, while we expect JSHL to reduce its consolidated debt by ₹656 crore. Furthermore, both players are focused on reorganising their product basket. JSL is planning to focus on increasing its share in low nickel-content 400 series in its overall product basket. By increasing the share of 400 series, JSL plans to relatively reduce the risk of adverse fluctuation in nickel prices and achieve a more stable operating margins. On the other hand, JSHL plans to increase the share of value added products in the overall product-mix. This is likely to aid in improvement of JSHL's overall operating margins, going forward.

Government support likely to aid domestic players…

On account of injury caused to Indian stainless steel producers by Indonesian imports (through FTA routes and various subsidies offered by the Indonesian government), the Government of India has imposed provisional trade remedial measures on Indonesian imports. The Government of India has levied provisional countervailing duty (CVD) in the range of 22.31% to 24.83% on certain types of flat SS products from Indonesia for four months from October, 2020. While this step has provided interim relief to domestic SS producers, the industry awaits long-term imposition of this duty structure. Hence, going forward, conversion of provisional CVD into final CVD would be a key monitorable. If long term duty is levied, it can provide a further fillip to domestic SS majors.

Initiate Jindal Stainless – BUY – TP ₹ 90

- *On the back of demand recovery, we expect a smart recovery in sales volumes going forward*
- *We expect the share of 400 series (which contains negligible nickel content) to increase gradually from 22% currently to ~32% over the next few years. This would relatively reduce raw material volatility and lend stability to overall operating margins*
- *We expect JSL's consolidated net debt to decline from ₹3834 crore in FY20 to ₹2884 crore in FY23E thereby improving its balance-sheet position*

Initiate Jindal Stainless Hisar – BUY – TP ₹170

- *We expect JSHL's share of value added products to increase gradually from 7% currently (in volume terms) to ~10% over the next few years*
- *We expect JSHL's consolidated net debt to decline from ₹2147 crore in FY20 to ₹1491 crore in FY23E, thereby improving its balance-sheet position.*

Consolidation / Reorganisation likely…

Recently, the board of JSL as well as JHSL have both approved constituting a Committee of Board of Directors to explore and evaluate various options of reorganisation/consolidation of stainless steel businesses with other group entities by way of scheme of arrangement or otherwise. This is to realise greater synergies and with the objective of maximising value of all stakeholders. If the potential reorganisation/consolidation of both companies materialises, it is expected to result in economies of scale and better bargaining power for the combined entity

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Valuation Summary

Company	CMP	Target	Upside %	Rating	P/E				EV/EBITDA			
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Jindal Stainless	72	90	25%	BUY	48.3	25.6	10.1	7.8	6.4	6.5	5.0	4.4
Jindal Stainless Hisar	139	170	22%	BUY	8.2	11.0	7.7	6.7	5.8	6.4	5.2	4.7

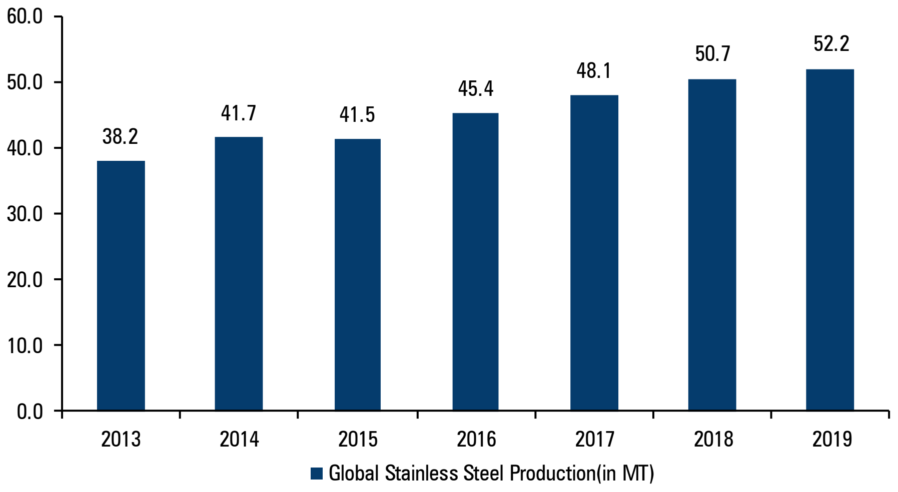
Source: ICICI Direct Research; Company

Stainless steel industry

Over the last few years, the global stainless steel sector has witnessed healthy traction in demand, primarily driven by a strong spurt in demand from the Asia Pacific region, especially from China and India. As per International Stainless-Steel Forum (ISSF), total stainless steel melt shop production increased from 38.5 million tonnes (MT) in CY13 to 52.2 MT in CY19, registering a CAGR of 5.2% over the period.

China is the world's largest producer of stainless steel accounting for ~58% of world steel production in CY19. In CY19, China's stainless production was at ~30 MT

Exhibit 1: Trend in global stainless steel (SS) production (in million tonnes)



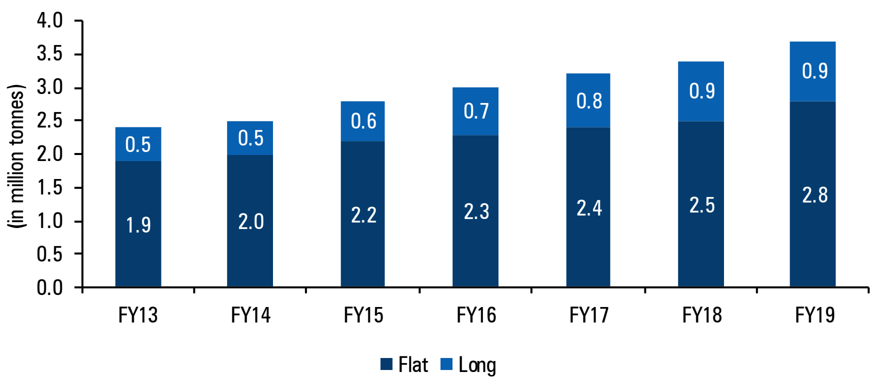
Source: Company, ICICI Direct Research

Indian stainless-steel demand grows at 7.2% CAGR in FY13-19

India is the world's second largest consumer of stainless steel after China. Stainless steel products can be divided into long and flat. Domestic stainless steel flat demand has grown from 1.9 MT in FY13 to 2.8 MT in FY19, registering a CAGR of 6.1%. Domestic stainless steel long demand has grown from 0.5 MT in FY13 to 0.9 MT in FY19, registering a CAGR of 10.7%. Overall domestic stainless steel demand has grown from 2.4 MT in FY13 to 3.7 MT in FY19, registering 7.2% CAGR. Backed by healthy demand in architecture, building and construction (ABC) and automobile, railway and transport (ART) segment, domestic stainless steel demand is expected to continue to grow at a steady rate over the next few years.

Overall stainless steel demand in India has grown from 2.4 MT in FY13 to 3.7 MT in FY19, registering a CAGR of 7.2%

Exhibit 2: India's domestic stainless steel demand (in MT)



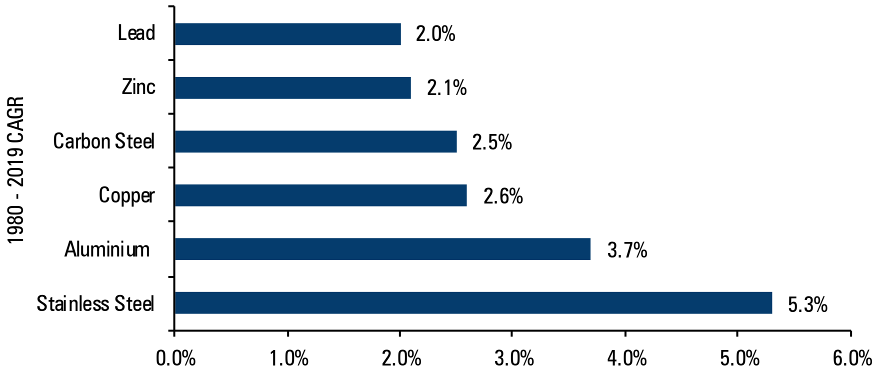
Source: Company, ICICI Direct Research

In last four decades, stainless steel demand witnesses highest growth among peers

Among all major metals, both ferrous, non-ferrous, stainless steel demand growth has been the highest among its peers. Over a long time-horizon (i.e. CY1980-2019), stainless steel demand growth has outperformed the growth of other metals such as carbon steel, aluminium, copper, zinc and lead. During the above-mentioned long-term period (i.e. CY1980-2019), stainless steel demand has grown at a healthy CAGR of 5.3% compared to demand growth at 3.7% CAGR in aluminium, 2.6% CAGR demand growth in copper, 2.5% CAGR demand growth in carbon steel, 2.1% CAGR demand growth in zinc and 2.0% CAGR demand growth in lead.

Between CY1980 and CY2019, stainless steel demand growth has outperformed the growth of other metals such as carbon steel, aluminium, copper, zinc and lead

Exhibit 3: Major metals growth during CY1980-2019 (in %)



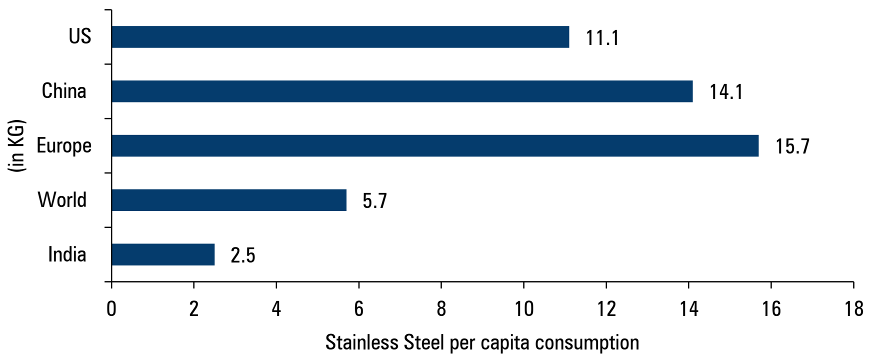
Source: Company, ICICI Direct Research

India per capita stainless steel consumption has room to move northwards

While India is world's second largest consumer of stainless steel in the world, its per-capita stainless steel consumption is notably lower than the world's average. India's per capita stainless steel consumption is 2.5 kg compared to the world's per capita average of 5.7 kg. India's per capita consumption is also notably lower than that of EU, China and US. EU's per capita stainless steel consumption is 15.7 kg while that of China and the US is 14.1 kg and 11.1 kg, respectively. Hence, considering India is currently at a developing stage, India's per capita stainless steel consumption has considerable room to move northwards.

India's per capita stainless steel consumption is merely 2.5 kg compared to world average of 5.7 kg. There is considerable room for India's per capita stainless steel consumption to move upwards

Exhibit 4: Stainless steel per capita consumption



Source: Company, ICICI Direct Research

Stainless steel product classification depending on grades

Depending on the alloying element used, stainless steel can be broadly classified into different categories viz. 200 series, 300 series, 400 series, duplex and PH grades. Nickel is one of the key raw material used in stainless steel process. Within the 200 series, nickel composition is generally in the range of 1-4%, while in-case of 300 series, nickel content is generally in the range of 6-28%. In the 400 series, nickel content is maximum 0.5%. The follow chart depicts the composition of various grades of stainless steel.

Nickel content is generally higher in 300-series (between 6-28%), while lowest is 400 – series (0.5% max.)

Exhibit 5: Composition of various types of stainless steel grades

Source: Company, ICICI Direct Research, - Note – This are broad and general composition. For certain grades composition may vary

Stainless steel is a versatile product and has a wide range of applications. The following table depicts the key application areas of stainless steel classified based on various series.

Stainless steel has diverse applications and as a result has emerged as a metal of choice

Exhibit 6: Application of various grades of stainless steel

Applications	Series 200	Series 300	Series 400
Utensils, Household goods and Kitchen Applications	✓	✓	✓
Tubes & Pipes	✓	✓	✓
Architecture/Decorative	✓	✓	✓
Automobiles/Railways/Transportation	—	✓	✓
Oil & Gas Sector	—	✓	✓
Nuclear Applications	—	✓	—
Pharmaceuticals	—	✓	—
Dairy	✓	✓	—
Power Plants	—	✓	—
Consumer Durables	✓	—	✓
Blades	—	—	✓

Source: Company, ICICI Direct Research

In addition to grade-wise classification, stainless steel usage can also be classified in terms of user industries. The same can be depicted as follows –

Exhibit 7: Applications in segments

Segment		Application
Consumer Goods	Kitchenware	Cooking Utensils, high quality cutlery and Kitchen Sinks, etc.
	Consumer Durables	Washing machine drums, casing and panels for microwave ovens, refrigerators, toasters and washing machines, etc.
ART	Automobiles	Wheel rims of Motor-cycle, Seat belt springs, fasteners and handles, footrest, bumper, windscreen wiper arms, etc.
	Railways	LHB Coaches, Foot over Bridges, Wagon Body, water tank ceiling, bio-digester tanks, modular lavatory, water tank ceilings, etc.
	Others	Fabrication of exhaust collectors, stacks and manifolds, structural and machined parts, springs, casting, control cables, etc.
ABC	Architecture Building Construction	Trims and decorative furnishing, Interior usages, false ceiling, interior and exterior aesthetics, railings, etc.
Process Industry		Containers, pipework, food contact equipment, etc.
		Medicine making machinery and equipment, pipelines and tubes, heat exchangers, processing and reaction vessels, storage vessels, etc.
		Parts of Boilers, turbines , tubing material for both high grade and low grade pressure feed water heaters, etc.

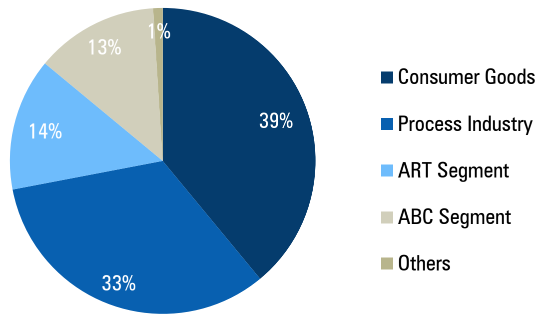
Source: Company, ICICI Direct Research

Global, Indian stainless steel demand segmentation

Global

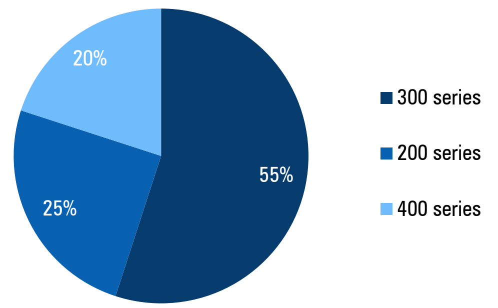
Globally, in terms of user-industry-wise classification, the consumer goods industry is the major end-user (39% share of global demand). It is then followed by process industry (33% share of global demand), ART segment (14% share of global demand), ABC segment (13% share of global demand) while balance 1% is others. In terms of series-wise classification, the share of 300-series is the highest at 55%. It is then followed by 200-series (25%) and 400-series (20%).

Exhibit 8: Classification of user industry – Globally (CY18)



Source: Company, ICICI Direct Research

Exhibit 9:Classification of terms of series – Globally (CY18)

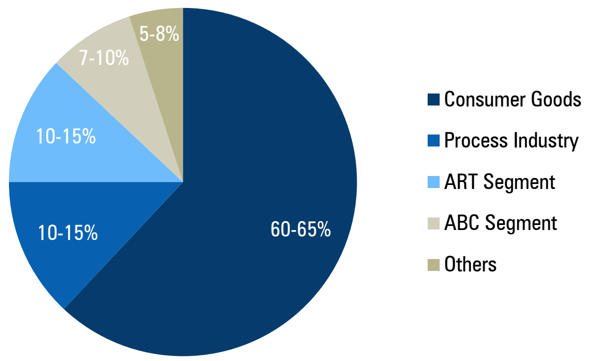


Source: Company, ICICI Direct Research

India

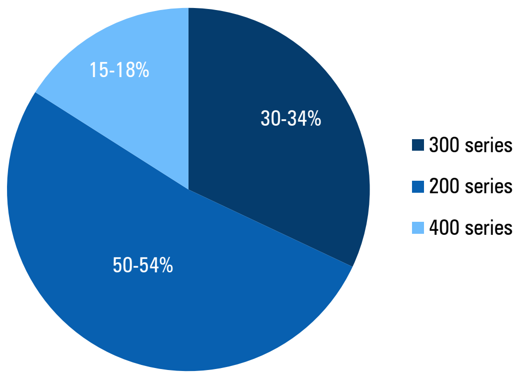
In India, in terms of user-industry-wise classification, the consumer goods industry is the major end-user (~60-65% share of Indian demand). It is then followed by the process industry (~10-15% share of Indian demand), ART segment (~10-15% share of Indian demand), ABC segment (~7-10% share of Indian demand) while balance 5-8% is others. In terms of series-wise classification, the share of 200-series is the highest at ~50-54%. It is then followed by 300-series (~30-34%) and 400-series (~15-18%). Duplex grade has a negligible share of less than 1%.

Exhibit 10 : Classification of user industries (FY19) in India



Source: Company, ICICI Direct Research

Exhibit 11 : Classification of user series (FY19) in India



Source: Company, ICICI Direct Research

Jindal Stainless (JINSTA)

ICICI direct Research

CMP: ₹ 72 | Target: ₹ 90 (25%) | Target Period: 12–18 months | BUY

December 18, 2020

Initiating Coverage

ICICI Securities – Retail Equity Research

In a sweet spot…..

Jindal Stainless Steel (JSL), having an installed capacity of 1.1 million tonnes per annum (MTPA), is India's largest stainless steel producer. JSL has state-of-the art machinery & engineering from the best European suppliers, thereby aiding the company to produce globally competitive stainless steel products. After a muted Q1FY21 on account of Covid-19 related shutdowns, in Q2FY21, volumes swiftly returned to pre-Covid levels. During Q2FY21, volumes were at 230350 tonnes, up 159% QoQ. JSL witnessed a smart recovery in its volumes on the back of healthy traction in demand from key user industries. Going forward, we expect the trend of healthy demand recovery to continue. We also expect JSL to reduce its consolidated debt thereby improving its balance sheet position. The healthy trend witnessed in volume recovery coupled with debt reduction drive, puts JSL in a sweet spot. Hence, we initiate coverage on JSL with a **BUY** recommendation.

Demand improvement augurs well for company…

Post the Q1FY21 blip, a recovery was seen in stainless steel demand. During Q2FY21, there was a healthy improvement in demand from two-wheeler, decorative pipes & tubes and railway segment. Furthermore, conventional sectors like construction, process industry, etc, are also witnessing gradual traction in demand. Going forward also, over the medium to longer term horizon, demand from key sectors such as ART and ABC segment are expected to remain healthy, thereby auguring well for JSL.

Debt repayment to improve balance sheet position…

Over the last few years, Jindal Stainless had focused on reducing its debt and improving its balance-sheet position. Jindal Stainless' consolidated net debt level has reduced from ₹ 4952 crore at the end of FY18, to ₹ 4343 crore at the end of FY19 and further to ₹ 3834 crore at the end of FY20. The cash flows earned over the last few years have been channelled towards reducing debt levels. Going forward also, with no major growth capex plans, we expect JSL to continue its focus on deleveraging.

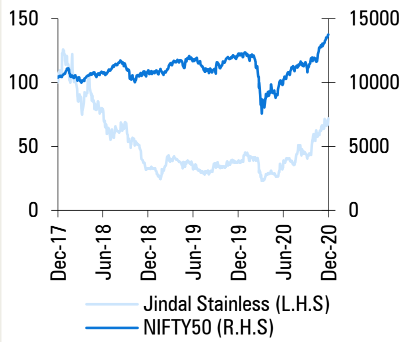
Valuation & Outlook…

On the back of a demand recovery, we model sales volume of 780000 tonnes for FY21E, 950000 tonnes for FY22E and 1025000 tonnes for FY23E. We also assume an EBITDA/tonne of ₹ 13582/tonne for FY21E, ₹ 14064/tonne for FY22E and ₹ 14233/tonne for FY23E. Furthermore, we expect JSL to reduce its consolidated net debt by ₹950 crore in the next three years, thereby having a consolidated net debt position of ₹ 2884 crore at the end of FY23E (consolidated net debt of ₹ 3834 crore at the end of FY20). We value the stock at 5x FY23E EV/EBITDA and arrive at a target price of ₹ 90. We initiate coverage on the stock with a **BUY** recommendation.

Particulars

Particulars	₹ Crore
Market Capitalization	3,459
Total Debt (FY20)	3,903
Cash and Invest. (FY20)	69
EV	7,294
52 week H/L (₹)	73/ 22
Equity capital	97.5
Face value (₹)	2.0

Price Performance



Key Highlights

- We model sales volume of 780 KT for FY21E, 950 KT for FY22E and 1025 KT for FY23E
- We expect JSL's consolidated net debt to reduce by ₹ 950 crore over next three years (in FY21E-23E)
- We value JSL at 5x FY23E EV/EBITDA and arrive at target price of ₹ 90. We initiate coverage with BUY rating

Research Analyst

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Operating income	11,638	13,557	12,951	11,549	14,060	15,280
EBITDA	1,340	1,165	1,139	1,110	1,392	1,519
PAT	346	145	73	148	374	485
EPS (₹)	7.2	3.0	1.5	2.8	7.1	9.2
P/E (x)	10.0	23.8	48.3	25.6	10.1	7.8
EV/EBITDA (x)	6.3	6.7	6.4	6.5	5.0	4.4
RoCE (%)	13.6	11.6	10.8	10.7	14.9	16.4
ROE (%)	14.0	5.6	2.7	4.8	10.9	12.4

Source: Company, ICICI Direct Research

Company Background….

Jindal Stainless Steel (JSL), part of the OP Jindal group, is India's largest stainless steel producer. The company has an installed capacity of 1.1 million tonnes (MT) while its plant is located in Jajpur, Odisha. JSL also has a 250000 tonnes per annum (TPA) ferro alloy plant and a 264 MW captive power plant. The company procures chrome ore from Odisha Mining Corporation along with other miners in Odisha and converts it (chrome ore) into ferro chrome at its in-house facility. JSL is engaged in the business of procuring stainless steel scrap, chrome ore, nickel and other alloy elements from the market and converting them into varied stainless steel products. The company's business operations are primarily involved in manufacturing flat stainless steel products.

Jindal Stainless Steel (JSL), part of the OP Jindal group, is India's largest stainless steel producer. The company has an installed capacity of 1.1 million tonnes (MT) while its plant is located in Jajpur, Odisha.

JSL has more than 25% market share in the overall domestic stainless steel market and its product basket includes slab, hot rolled annealed pickle coil, cold rolled annealed pickle coil and plates. Around 20% of JSL's total volume is exported (mainly to Europe, South East Asia) while the balance 80% of overall volumes caters to domestic requirements. The company has a healthy logistics infrastructure, which includes in-house railway sliding, inland container depot (ICD) along with close proximity to ports providing strong support to overall operations.

JSL also has a well-established distribution network with service centres in both domestic as well as overseas markets to serve its customers

During FY16-20, the topline has grown at 16% CAGR while EBITDA has posted CAGR of 19%. During the aforesaid period, sales volumes have grown from 543000 tonnes in FY16 to 916000 in FY20, registering a CAGR of 14%. Over the last 2-3 years, JSL has ramped up its operations considerably. Hence because of the same, JSL has successfully exited the CDR. JSL is the only steel company to have exited CDR in more than a decade and is back on growth path with the ramp up of its stainless steel capacity.

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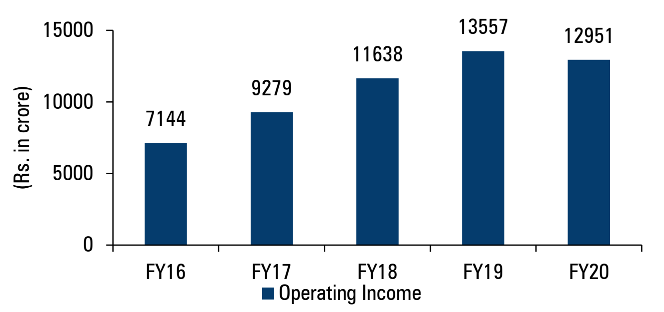
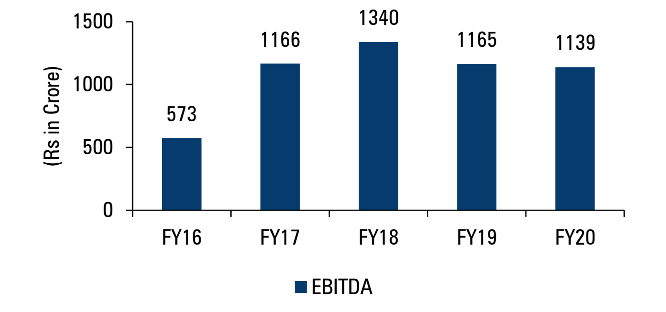
Exhibit 12: Total operating Income (in ₹ crore)



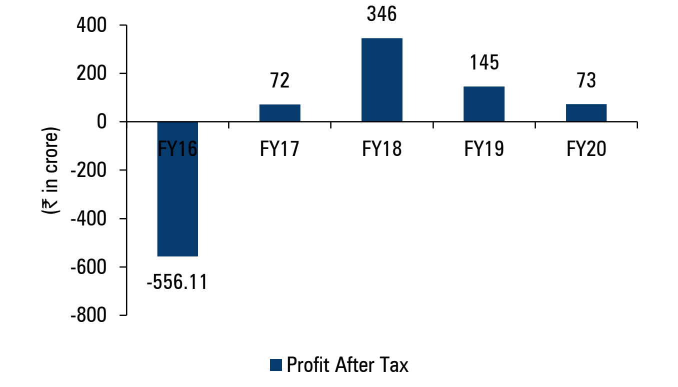
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA (in ₹ crore)



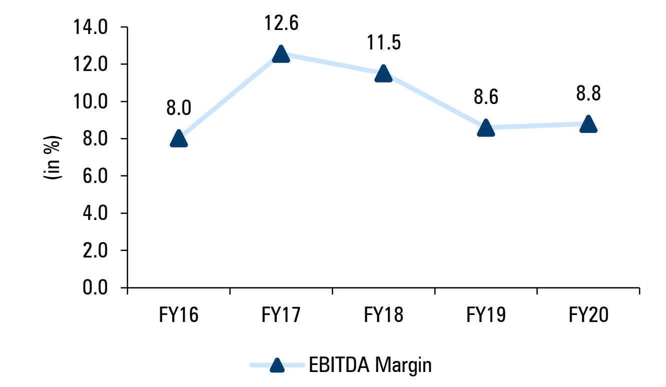
Source: Company, ICICI Direct Research

Exhibit 14: PAT (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 15: EBITDA margin (in %)



Source: Company, ICICI Direct Research

Investment Rationale

Railway segment to be key growth diver…

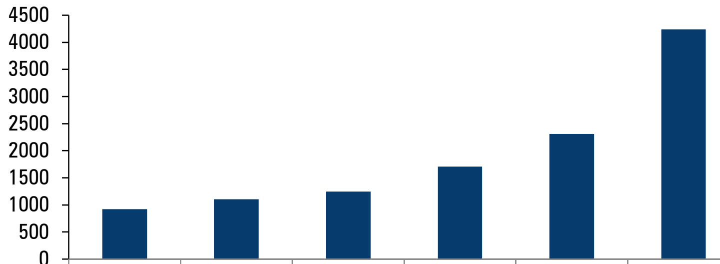
Indian Railways is a prominent customer for JSL with the company holding a share of ~70% in the railway wagon segment and 60% in the coach segment.

The railway segment is one of the key focus areas of JSL. Part of the automobile, railway and transport (ART) segment, Railways is expected to be one of the key growth drivers of the company. In FY13-19, the ART segment grew at 3% CAGR, wherein majority of growth was witnessed in FY19. During FY13-18 in tonnage terms, the overall domestic stainless steel demand from the ART segment had remained flattish (273000 tonnes in FY13 and 260000 tonnes in FY18). FY19 was a turnaround year wherein primarily on the back of healthy traction in demand from Railways and automobile, stainless steel demand from ART segment grew to 319000 tonnes, registering healthy growth rate of 23% (in FY19 over FY18).

A change has already been witnessed wherein Indian Railways have been gradually shifting from Corten steel coaches to stainless steel coaches. The shift is on account of stainless steel's higher strength to weight ratio and energy absorption capacity, thereby enhancing crash effectiveness of the coach. Over the last few years, German Linke Hofmann Busch (LHB) have been preferred as they have ~10-12% higher carrying capacity, high speed potential, aesthetic interiors and lower maintenance cost, in addition to longer service life and enhanced safety standards. Linke-Hofmann-Busch (LHB) design, uses austenitic stainless steel for the rough and trough floor where occurrence of corrosion is high. The volume of LHB coaches has increased sharply from 922 units in FY14 to 2310 units in FY18 and further to 4238 units in FY19. Furthermore, over the next four to five years, railways plans to produce 10000 units of stainless steel coaches annually, thereby auguring well for stainless steel demand.

Over the last few years, German Linke Hofmann Busch (LHB) has been preferred as they have ~10-12% higher carrying capacity, high speed potential, aesthetic interiors and lower maintenance cost, in addition to longer service life and enhanced safety standards

Exhibit 16: Volume of LHB coaches (in units)



	FY14	FY15	FY16	FY17	FY18	FY19
LHB Coaches Units	922	1103	1248	1708	2310	4238

LHB Coaches Units

The volume of LHB coaches has increased sharply from 922 units in FY14 to 2310 units in FY18 and further to 4238 units in FY19, thereby registering a CAGR of 36% during the abovementioned period.

Source: Company, ICICI Direct Research

Railways is expected to increase the usage of stainless steel in manufacturing coaches to ensure safety of passengers and improve the reliability of coaches. Stainless steel is currently used in premium trains such as Rajdhani, Shatabdi, etc. Additionally, Vande Bharat express, made of stainless steel coaches has commenced operations and is promoting usage of stainless steel. Going forward, other trains (like mails and express trains) are also likely to witness higher usage of stainless steel in manufacturing wagons and coaches, which will aid in augmenting the overall stainless steel demand. The utilisation of stainless steel coaches in manufacturing rail coaches offers higher fire and corrosion resistance, reduces the overall weight and increases fuel efficiency along with load carrying capacity of the coach.

Railways is expected to increase the usage of stainless steel in manufacturing of coaches so as to ensure safety of passengers and improve the reliability of the coaches.

Furthermore, with the aim to enter structural infrastructure applications, JSL has signed a memorandum of understanding (MoU) with Braithwaite & Co (BCL), a Government of India undertaking under the Ministry of Railways, to develop stainless steel foot-over-bridges (FOBs), road-over-bridges (ROBs) etc.

This MoU intends to fulfill Railways' vision of world-class railway infrastructure in the country by synergising the expertise of India's largest stainless steel producer, JSL and Indian Railways' trusted fabrication expert, BCL. JSL will be supplying stainless steel to BCL for developing FOBs on railway platforms, ROBs on municipal roads, smart city skywalks, road bridges and rail bridges. One such bridge is being built at Bhayandar station while more such stainless steel bridges are expected to come up in future thereby driving demand for stainless steel. The government has sanctioned around 1100 FOB projects, with nearly 300 in the pipeline. Fabrication of FOBs and ROBs requires specialised stainless steel grades. Moreover, grades pertaining to railway applications need approvals from Research Design and Standards Organization (RDSO) and Railway Board as well. As the industry pioneer and a regular supplier to the Indian Railways, JSL is one of the key stainless steel producers for such projects and will be expected to supply nearly 80% of the requirement to BCL.

Growth in stainless steel demand within the Railway segment is likely to be largely driven by rising penetration of stainless steel in railway rolling stock (increased production of LHB coaches) and conversion of majority of long distance passenger cars into stainless steel in a phased manner. Investments in Railway infrastructure is also likely to enhance the overall demand of Stainless Steel. Hence going forward, over the next few years, we expect ART demand to continue to grow at a healthy growth rate primarily driven by push from the railway segment.

ABC segment also likely to witness steady demand growth

The traditional architecture, building and construction (ABC) segment accounts for ~8-10% of overall domestic stainless steel demand. During FY13-19, the ABC segment grew at a healthy 14% CAGR. Within the ABC segment, stainless steel is specifically used where long life, low maintenance costs and aesthetic appeal are important aspects of overall design. ABC segment is an important vertical on account of its evolving and fast growing application areas.

Within the ABC segment, stainless steel is specifically used where long life, low maintenance costs and aesthetic appeal are important aspects of overall design. ABC segment is an important vertical on account of its evolving and fast growing application areas

Infrastructure creation in the form of building new airports, metros, railway station, etc, is likely to increase overall stainless steel demand. The government is planning to/in the process of setting up metro rail systems in 50 cities. Hence, it would require construction of staircases, escalators, lifts, handrails, etc, which would result in incremental stainless steel demand over a medium to longer term horizon. While the initial cost is higher, on account of low maintenance and longer life, it is preferred. On the back of infrastructure spending, we expect ABC demand to continue to grow at a steady growth rate thereby aiding overall growth in stainless steel demand.

Share of 400 series in overall volume-mix to rise, going forward

To reduce volatility in its earnings profile, JSL has chalked out plans to increase the share of 400 series in its overall product-mix. Nickel is one of the key raw materials required in the stainless steel making process. However, nickel prices are also very volatile in nature thereby increasing the fluctuations in the raw material costs. Hence, JSL plans to increase the share of 400 series in its overall product-mix, where the nickel content is only 0.5% maximum. Historically, it has been observed that the 400 series EBITDA margin profile has remained relatively stable over the years, as the aggregate raw material costs of this grade has remained less volatile vis-à-vis other grades. Therefore, over the next few years we expect JSL to gradually increase the share of 400 series in its overall product-mix to ~32% (from 22% currently), which will reduce the risk of adverse fluctuation in nickel prices, thereby providing stability to its overall earnings profile. Furthermore, 400 series also find relatively higher usage in Autos and Railways segment, which are JSL's focus areas in medium to longer term horizon. Hence going forward, this is also likely to lead in higher share of 400 series in JSL's overall product mix.

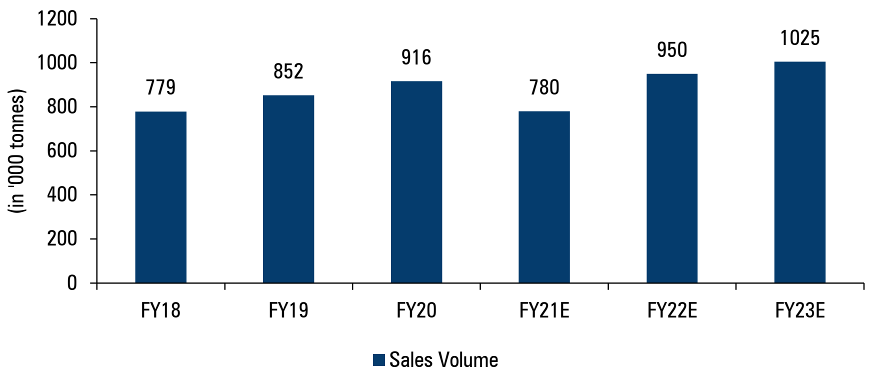
Over the next few years we expect JSL to gradually increase the share of 400 series in its overall product-mix to ~32% (from 22% currently), which will reduce the risk of adverse fluctuation in nickel prices, thereby providing a stability in its overall earnings profile

Sales volume make smart recovery in Q2FY21….

After a muted Q1FY21 on account of Covid-19 related shutdowns, in Q2FY21 JSL's volumes swiftly returned to pre-Covid levels. During Q2FY21, volumes were at 230350 tonnes, up 159% QoQ. Streamlining production, inventory, and supply chain management according to the emerging customer needs helped JSL post strong operational performance in Q2FY21. The total stainless steel melt production during Q2FY21 stood at 244469 tonnes, nearly equivalent to pre-covid levels. Post the Q1FY21 blip, a recovery was seen in stainless steel demand. During Q2FY21, there was a healthy improvement in demand from two-wheeler, decorative pipes & tubes and railway segment. Furthermore, conventional sectors like construction, process industry, etc, are also witnessing a gradual traction in demand. Going forward also, over the medium to longer term horizon, demand from key segments, such as ART and ABC, are expected to remain healthy, thereby auguring well for JSL.

For FY21E, the company is aiming to achieve at least 85% of the volume it achieved in FY20 despite Covid induced challenges. After almost a washout Q1FY21, the above-mentioned guidance indicates a recovery was seen in stainless steel demand (post Q1FY21) and JSL is witnessing healthy traction in its volume on the back of this demand recovery. Earlier, in H2FY20 through the de-bottlenecking route, JSL expanded its capacity to 1.1 MT (from 0.8 MT earlier) at a nominal capex of ~₹40 crore. With improving demand from the ART and ABC segment, we believe JSL is well placed to register a smart uptick in its volumes. We model sales volume of 780000 tonnes in FY21E, 950000 tonnes in FY22E and 1025000 tonnes in FY23E.

Exhibit 17: Trend in sales volume (in '000 tonnes)



Source: Company, ICICI Direct Research

Over longer run, JSL well placed to scale up capacity

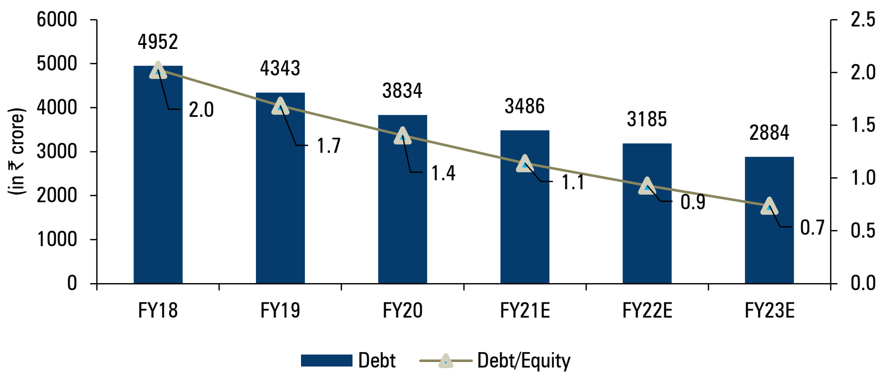
JSL has ~800-acre of total land area in Jajpur, Odisha that is only partially used for current operations. Going forward, in the longer term horizon, whenever JSL chalks out capacity expansion plans, this surplus area can accommodate an aggregate of 3.2 million tonne (MT) capacity at the current location. The company already has infrastructure and other facilities in place to cater to requirement of any brownfield expansion, at a minimal capital expenditure, which bodes well for the company. JSL, also by virtue of having a plant in Odisha has close proximity to both raw material hub as well as ports, which helps in keeping overall costs under control.

Debt repayment to improve balance sheet position…

Over the last few years, Jindal Stainless had focused on repaying its debt and improving its balance-sheet position. Jindal Stainless' consolidated net debt level has reduced from ₹ 4952 crore at the end of FY18, to ₹ 4343 crore at the end of FY19 and further to ₹ 3834 crore at the end of FY20. The cash flows earned over the last few years have been channelled to reducing debt levels. Going forward also, with no major growth capex plans, we expect JSL to continue its debt repayment drive. We expect JSL to reduce its consolidated net debt by ₹950 crore in the next three years, thereby having a consolidated net debt position of ₹ 2884 crore at the end of FY23E (consolidated net debt of ₹ 3834 crore at the end of FY20).

We expect JSL's consolidated net debt to decline to from ₹ 3834 crore at the end of FY20 to ₹ 3486 crore at the end of FY21E, to ₹ 3185 crore at the end of FY22E and further to ₹ 2884 crore at the end of FY23E

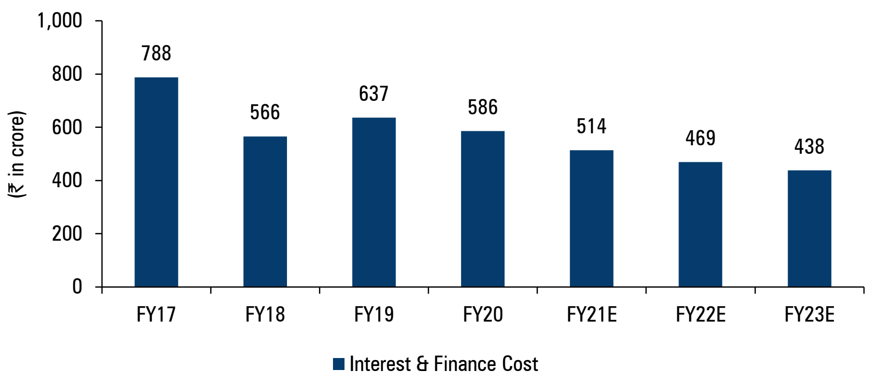
Exhibit 18: Trend in debt, debt/equity



Source: Company, ICICI Direct Research

Exhibit 19: Trend in consolidated interest & finance cost

JSL's consolidated interest and finance cost is expected to decline from ₹ 586 crore in FY20 to ₹ 514 crore in FY21E, to ₹ 469 crore in FY22E and further to ₹ 438 crore in FY23E



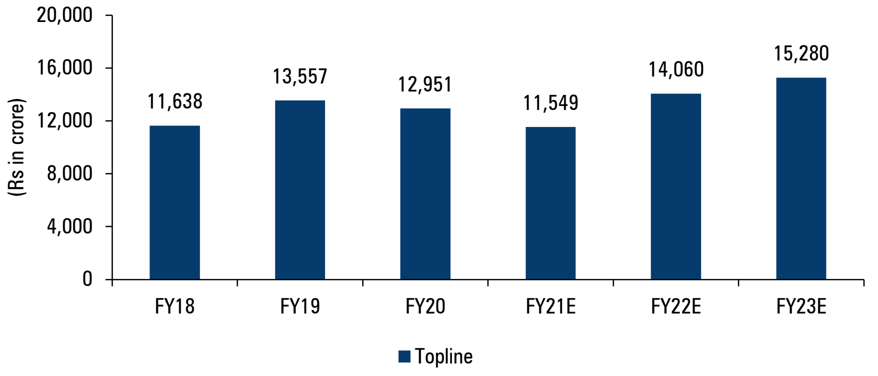
Source: Company, ICICI Direct Research

Valuation and Outlook

Post a subdued performance in Q1FY21 (on account of Covid-19 related shutdowns), during Q2FY21 JSL witnessed a smart recovery in its volumes on the back of healthy recovery in demand from key user industries. Going forward, we model sales volume of 780000 tonnes for FY21E, 950000 tonnes for FY22E and 1025000 tonnes for FY23E. We also assume an EBITDA/tonne of ₹ 13582/tonne for FY21E, ₹ 14064/tonne for FY22E and ₹ 14233/tonne for FY23E. Additionally, with no major growth capex plans in near term, we expect JSL to reduce its consolidated net debt by ₹950 crore in the next three years. A healthy trend witnessed in volume recovery coupled with debt repayment drive, puts JSL in a sweet spot. We value the stock at 5x FY23E EV/EBITDA and arrive at a target price of ₹ 90. We initiate coverage on the stock with a **BUY** recommendation.

Financial story in charts (JSL consolidated performance)

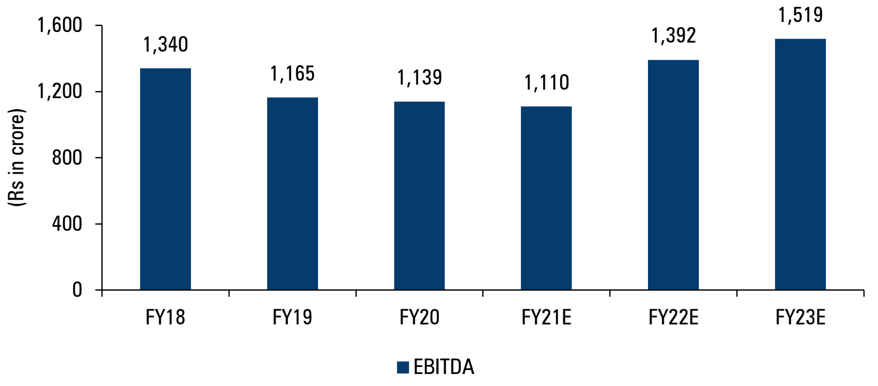
Exhibit 20: Trend in topline (in ₹ crore)



Source: Company, ICICI Direct Research

Topline expected to grow at 5.7% CAGR in FY20-23E

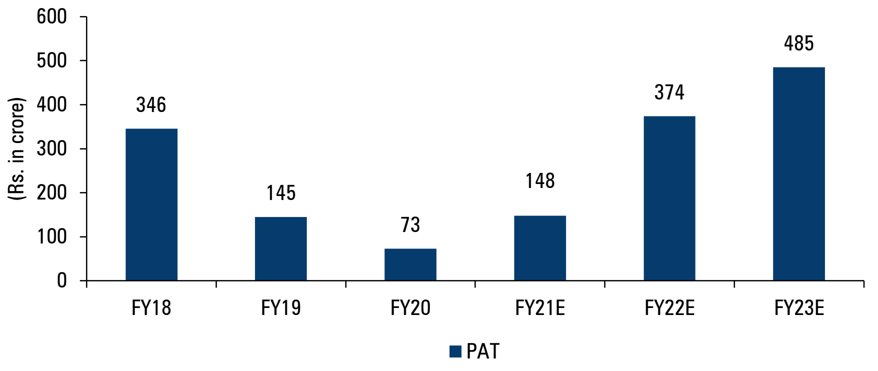
Exhibit 21: Trend in EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

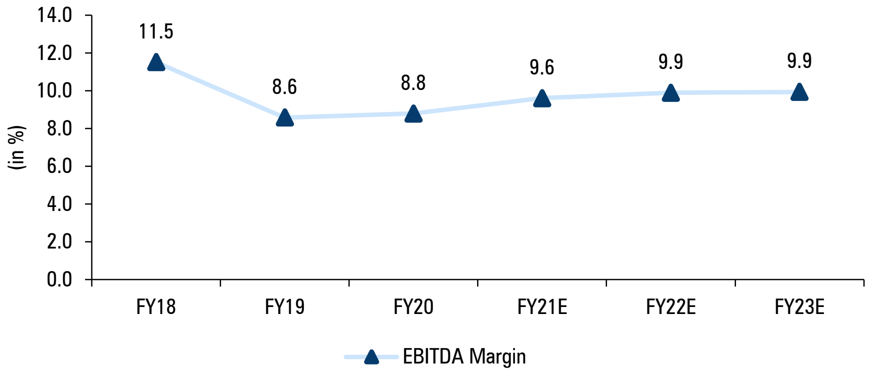
EBITDA expected to grow at 10.1% CAGR in FY20-23E

Exhibit 22: Trend in PAT (in ₹ crore)



Source: Company, ICICI Direct Research

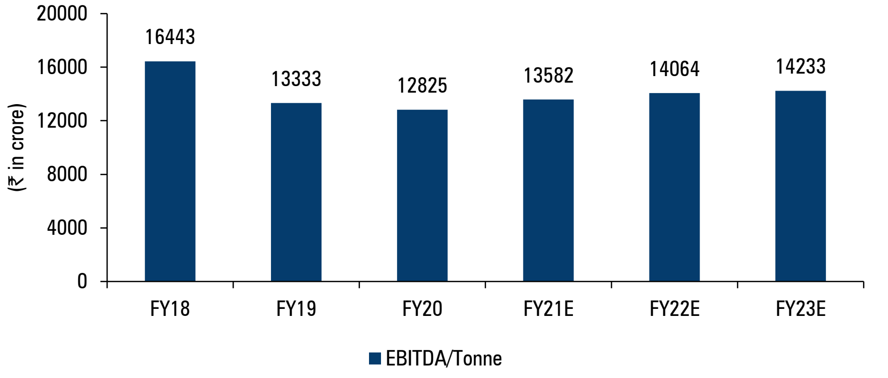
Exhibit 23: Trend in EBITDA margin (in %)



Source: Company, ICICI Direct Research

We expect consolidated EBITDA margin to improve from 8.8% in FY20 to 9.6% in FY21E, and further to 9.9% in FY22E and FY23E

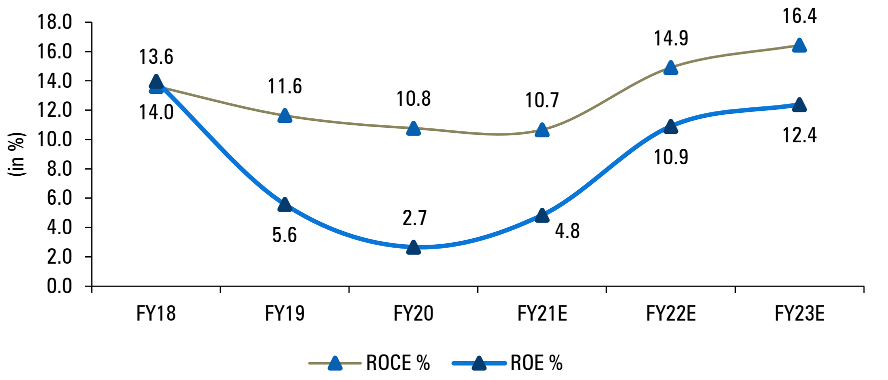
Exhibit 24: Trend in EBITDA/tonne



Source: Company, ICICI Direct Research

We model EBITDA/tonne of ₹13582/tonne for FY21E, ₹14064/tonne for FY22E and ₹ 14233/tonne for FY23E

Exhibit 25: Trend in RoE & RoCE



Source: Company, ICICI Direct Research

Exhibit 26: Valuation Matrix

Years	Total	Growth	EPS	Growth	PE	EV/EBITDA	RoCE	ROE
	(₹ cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY19	13,557	16.5	3.0	-58.0	23.8	6.7	11.6	5.6
FY20	12,951	-4.5	1.5	-50.8	48.3	6.4	10.8	2.7
FY21E	11,549	-10.8	2.8	88.9	25.6	6.5	10.7	4.8
FY22E	14,060	21.7	7.1	152.8	10.1	5.0	14.9	10.9
FY23E	15,280	8.7	9.2	29.7	7.8	4.4	16.4	12.4

Source: Company, ICICI Direct Research

Exhibit 27: Valuation

Particulars	Units	Mar-23E
Consolidated EBITDA	₹ crore	1,519
Target EBITDA multiple	x	5
Enterprise Value	₹ crore	7597
Net Debt	₹ crore	2884
Implied Equity Value of JSL	₹ crore	4713
No.of Shares in JSL(on Full Diluted basis)	in crore	52.6
Target price of JSL	in ₹/share	90
CMP of JSL	in ₹/share	72
Upside (%)	in %	25%

Source: Company, ICICI Direct Research

Exhibit 28: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	68.1	68.1	68.1
Others	31.9	31.9	31.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary (Consolidated Performance)

Exhibit 29: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	**12,951**	**11,549**	**14,060**	**15,280**
Growth (%)	-4.5%	-10.8%	21.7%	8.7%
Total Operating Expenditure	11,811	10,439	12,668	13,760
EBITDA	**1,139**	**1,110**	**1,392**	**1,519**
Growth (%)	-2.2%	-2.6%	25.4%	9.1%
Interest & Finance Cost	586	514	469	438
Depreciation	425	406	396	391
Other Income	40	37	35	33
PBT before Exceptional Item	**169**	**227**	**562**	**724**
Add/Less: Exceptional Items	4	0	0	0
Add/Less: Share of P/L of Invst us	-8	-6	-3	1
PBT	**165**	**221**	**559**	**725**
Total Tax	93	73	185	240
PAT	**73**	**148**	**374**	**485**
Growth (%)	-50.0%	103.7%	152.8%	29.7%
EPS	**1.5**	**2.8**	**7.1**	**9.2**

Source: Company, ICICI Direct Research

Exhibit 30:Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	73	148	374	485
Add: Dep. & Amortization	425	406	396	391
Net (Inc) / dec.in Current Asset	-123	344	-686	-211
Net Inc / (dec) in Current Liab.	262	-433	506	-80
CF from operating activities	**637**	**465**	**589**	**585**
(Inc)/dec in Investments	38	-42	-20	-25
(Inc)/dec in Fixed Assets	-280	-230	-239	-271
Others	0	0	0	0
CF from investing activities	**-241**	**-272**	**-260**	**-296**
Inc / (Dec) in Equity Capital	2	8	0	0
Inc / (Dec) in Loans	-485	-350	-300	-300
Dividend & Dividend Tax	0	0	0	0
Others	112	148	-29	12
CF from financing activities	**-372**	**-195**	**-329**	**-288**
Net Cash flow	23	-1	1	1
Opening Cash	45	69	67	68
Closing Cash	**69**	**67**	**68**	**69**

Source: Company, ICICI Direct Research

Exhibit 31:Balance sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	97	105	105	105
Reserve and Surplus	2633	2949	3323	3808
Total Shareholders funds	2730	3054	3428	3913
Total Debt	3903	3553	3253	2953
Deferred Tax Liability (net)	190	170	141	153
Source of Funds	**6823**	**6777**	**6822**	**7019**
Gross Block - Fixed Assets	8442	8673	8910	9176
Accumulated Depreciation	1949	2354	2750	3141
Net Block	6493	6319	6160	6035
Capital WIP	13	11	14	19
Net Fixed Assets	6506	6330	6173	6054
Investments	138	180	201	226
Inventory	2739	2468	3005	3140
Cash	69	67	68	69
Debtors	705	633	770	754
Loans & Advances & Other CA	521	520	532	625
Total Current Assets	4033	3688	4375	4587
Creditors	2660	2215	2619	2504
Provisions & Other CL	1195	1207	1308	1344
Total Current Liabilities	3854	3422	3927	3847
Net Current Assets	179	266	448	740
Application of Funds	**6823**	**6777**	**6822**	**7019**

Source: Company, ICICI Direct Research, Total Shareholders Fund inclusive of non-controlling interests.

Exhibit 32:Key ratios ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	1.5	2.8	7.1	9.2
BV	56.0	58.1	65.2	74.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	1.3	1.3	1.3
Operating Ratios (%)				
EBITDA margins	8.8	9.6	9.9	9.9
PBT margins	1.3	1.9	4.0	4.7
Net Profit margins	0.6	1.3	2.7	3.2
Inventory days	77	78	78	75
Debtor days	20	20	20	18
Creditor days	75	70	68	65
Return Ratios (%)				
RoE	2.7	4.8	10.9	12.4
RoCE	10.8	10.7	14.9	16.4
RoIC	10.9	10.8	15.1	16.6
Valuation Ratios (x)				
P/E	48.3	25.6	10.1	7.8
EV / EBITDA	6.4	6.5	5.0	4.4
EV / Revenues	0.6	0.6	0.5	0.4
Market Cap / Revenues	0.3	0.3	0.3	0.2
Price to Book Value	1.3	1.2	1.1	1.0
Solvency Ratios				
Debt / Equity	1.4	1.1	0.9	0.7
Debt/EBITDA	3.4	3.1	2.3	1.9
Current Ratio	1.0	1.1	1.1	1.2
Quick Ratio	0.3	0.4	0.3	0.4

Source: Company, ICICI Direct Research

Jindal Stainless Hisar (JINST)

ICICI direct Research

CMP: ₹ 139 | Target: ₹ 170 (22 %) | Target Period: 12 - 18 months | BUY

December 18, 2020

Initiating Coverage

Focused on value addition...

Jindal Stainless (Hisar) (JSHL) is one of the leading players in the Indian stainless steel market. JSHL's manufacturing facility is located in Hisar, Haryana and has an installed capacity of 0.8 million tonnes per annum (MTPA). Presence of value added products in its overall product basket has aided JSHL to sustain this stability in its earnings profile. Going forward, we expect JSHL to gradually increase the share of value added products in its product basket from ~7% currently (in volume terms) to ~10% over the next few years. Additionally, we expect JSHL to reduce its consolidated net debt by ₹656 crore in next three years. On the back of stable operation, presence of value added segment and debt reduction drive, we initiate coverage on Jindal Stainless Hisar with a **BUY** rating.

Value added products lends stability to overall operations…

Despite the volatile nature of the stainless steel industry, the Hisar plant of JSHL has always remained profitable over the years. Even-though JSHL plant is land-locked in nature and does not have backward integration, it is able to earn stable operating margins on account of superior product-mix. JSHL's focus on value added segment (includes coin blanks, blade steel, precision steel) is one of the key factors that provide stability to its earnings profile.

..gradually plans to increase value added segment share to 10%

JSHL which holds a significant portion of the specialty products market in India, aspires to further increase the revenue share of its specialty and value-added products. While the value added segment currently accounts for ~7% of the overall product portfolio (in volume terms), we expect JSHL to take it gradually to ~10% of the overall product portfolio over the next few years. As a part of the value addition initiative, JSHL has chalked out a growth capex plan wherein it is expanding precision strip capacity from 14000 tonnes currently to 28000 tonnes. The capex for the same is ₹ 190 crore and is likely to get operational by Q4FY22. The increase in proportion of value added products in its overall product mix would aid JSHL to improve its operating margins.

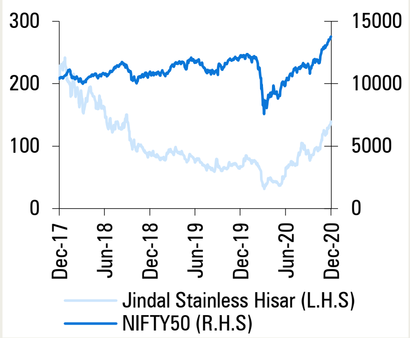
Valuation & Outlook…

Going forward, we model sales volume of 550000 tonnes for FY21E, 605000 tonnes for FY22E and 620125 tonnes for FY23E. We model EBITDA/tonne of ₹ 13969/tonne for FY21E, ₹ 14285/tonne for FY22E and ₹ 14428/tonne for FY23E. Furthermore, we expect JSHL to repay debt to the tune of ₹ 656 crore in the next three years, thereby having consolidated net debt of ₹ 1491 crore at the end of FY23E (consolidated net debt of ₹ 2147 crore at the end of FY20). We value the stock on a SoTP basis and arrive at a target price of ₹ 170. We initiate coverage on the stock with a **BUY** recommendation.

Particulars

Particulars	₹ Crore
Market Capitalization	3,289
Total Debt (FY20)	2,181
Cash and Invest. (FY20)	34
EV	5,436
52 week H/L (₹)	141/ 30
Equity capital	47.0
Face value (₹)	2.0

Price Performance



Key Highlights

- We model sales volume of 550000 tonnes for FY21E, 605000 tonnes for FY22E and 620125 tonnes for FY23E
- Modelled debt repayment of ₹656 crore over next three years
- Value JSHL on SoTP basis and arrive at target price ₹ 170, assigning BUY rating to

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary (Consolidated)

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Operating income	10,357	10,289	9,379	8,592	9,672	10,094
EBITDA	1,231	1,039	935	836	967	1,023
PAT	588	396	401	297	426	489
EPS (₹)	24.9	16.8	17.0	12.6	18.0	20.7
P/E (x)	5.6	8.3	8.2	11.0	7.7	6.7
EV/EBITDA (x)	5.0	5.4	5.8	6.4	5.2	4.7
RoCE (%)	21.3	17.6	14.3	11.6	13.7	14.0
RoE(%)	39.0	20.8	17.5	11.4	14.0	13.8

Source: Company, ICICI Direct Research

Company Background….

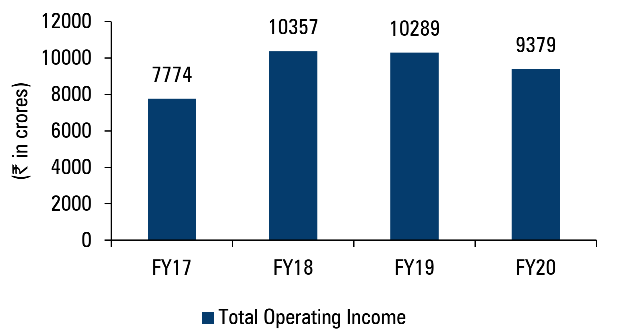
Jindal Stainless Hisar (JSHL), an entity carved out of the erstwhile Jindal Stainless, is one of the foremost players in the domestic stainless steel market. Spread over ~350 acres of land, JSHL's plant has an installed capacity of 0.8 million tonnes (MT) at Hisar, Haryana. Over the last four decades, the company has been a market leader in domestic stainless steel production, catering to various applications from kitchenware and lifestyles to industrial & process engineering sectors. The presence of value added products in its overall product basket has aided JSHL to sustain this stability. Following are the three key products in JSHL's basket that are specialised and value-add in nature–

a. **Precision steel** – Precision steel is a value add product that are rolled up to 0.05 mm in thickness. These strips are multipurpose applications, wherein it is generally used as a starting material for various industries such as automotive, electronics and telecommunications, health & hygiene, consumer durables and petrochemical industry

b. **Blade Steel** – The razor blade cold rolled strips of up to 0.076 mm thickness are produced in specialty products division (SPD) at JSHL and supplied to leading international razor blade manufacturers

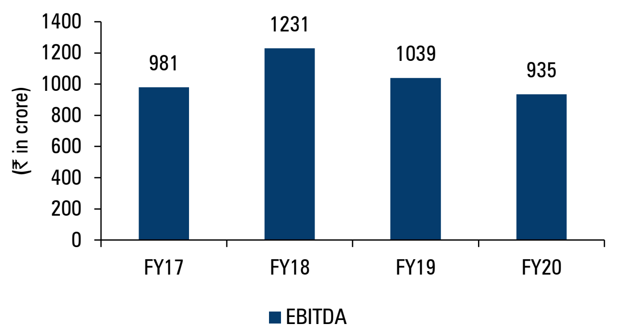
c. **Coin blanks -** JSHL has been supplying stainless steel coin blanks to the Government of India mint and foreign mints for making coins. The company is capable of producing high quality stainless steel and nonferrous coin blanks

Exhibit 33: Consolidated total operating income (in ₹ crore)



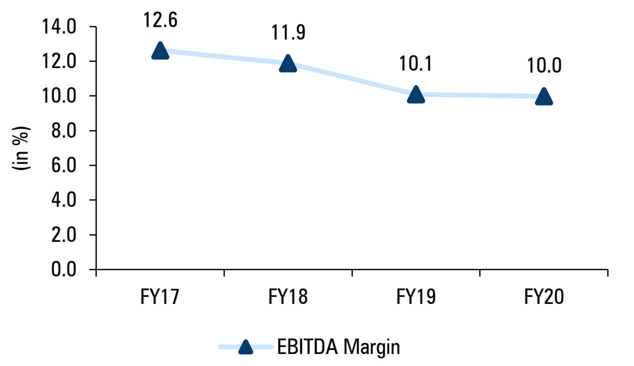
Source: Company, ICICI Direct Research

Exhibit 34: Consolidated EBITDA (in ₹ crore)



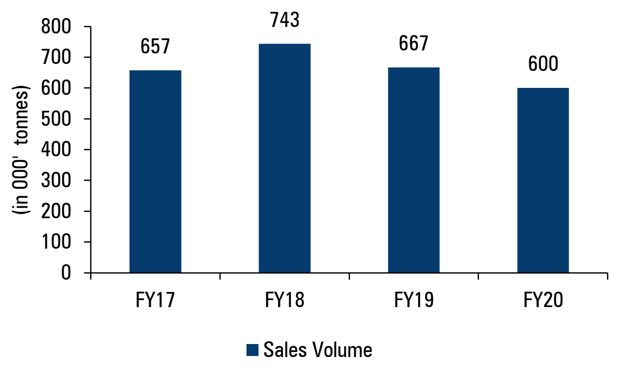
Source: Company, ICICI Direct Research

Exhibit 35: Consolidated EBITDA margin



Source: Company, ICICI Direct Research

Exhibit 36:Standalone sales volume (in KT)



Source: Company, ICICI Direct Research

Investment Rationale

Value added products lend stability to overall operations…

Despite the volatile nature of the stainless steel industry, the Hisar plant of JSHL has always remained profitable over the years. Even though the plant is land-locked in nature and does not have backward integration, it is able to earn stable operating margins on account of its superior product-mix. JSHL's focus on value added segment, which includes coin blanks, blade steel, precision steel is one of the key factors that has given stability to JSHL's overall earnings profile. Hence, due to the value added segment, even during turbulence, JSHL's plant has stayed profitable. In addition to the value added products, another key advantage of JSHL's operations is presence of a healthy proportion of cold rolling facility in overall capacity. JSHL has a 375000 tonnes cold rolling facility, which is ~47% of the overall SMS melting capacity of 800000 tonnes. Downstream cold-rolling capacity aids in improving JHL's product offerings and also in yielding higher realisations.

JSHL's focus on value added segment, which includes coin blanks, blade steel, precision steel, is one of the key factors that has given stability to JSHL's overall earnings profile

…plans to increase value added segment share to 10%

JSHL is the world's largest producer of stainless-steel strips for razor blades. It is also India's largest producer of coin blanks. The company is supplier to major mints of various countries including Finland, Netherlands and Brazil. In India, JSHL is currently catering to the requirements of ₹ 5, ₹ 10 and ₹ 20 coins. Going forward, JSHL aspires to further expand its presence in the coin blanking segment. It is also the first company in India to commercially manufacture high nitrogen steel (HNS) for application in the defence sector. JSHL, which holds a significant portion of the specialty products market in India, has aspirations to further increase its specialty and value-added products revenue share. While the value added segment currently accounts for ~7% of the overall product portfolio (in volume terms), we expect JSHL to take it gradually to ~10% of the overall product portfolio over the next few years. The company has chalked out a capex plan, where it is planning to expand the capacity of the precision strip segment (downstream value added segment) from 14000 tonnes currently to 28000 tonnes at a capex of ₹ 190 crore. This capacity is likely to get commissioned by Q4FY22. Going forward, the increase in value added products volumes would also aid in improving operating margins.

JSHL is also the first company in India to commercially manufacture high nitrogen steel (HNS) for application in the defence sector

Subsidiary businesses support core operations…

JSHL is present in the B2C segment through its subsidiary company JSL Lifestyle that is present in various products from modular kitchen, kitchenware, cooking utensils, etc

JSHL has two key subsidiaries viz. JSL Lifestyle and Jindal Stainless Steelway. JSHL is present in the B2C segment through its subsidiary company JSL Lifestyle which is present in various products from modular kitchen, kitchenware, cooking utensils, etc. JSL Lifestyle works as a catalyst among designers, architects, fabricators and other professionals to provide a range of technical support services and produces a wide range of stainless steel products available worldwide. JSL Lifestyle has well-known brands like 'Arttdinox' and 'ARC'. These brands were founded with the primary objective of creating exclusive lifestyle stainless steel products. These brands help the company to cater to the last mile requirements of consumers. Arttdinox produces over six categories of designer SS products, viz. home décor, bar range, dining range, beverage range and office accessories. Apart from home applications, JSHL offers solutions for airports, railways and other public places and has also designed an SS toilet under the Swachh Bharat drive.

JSL Lifestyle has well-known brands like 'Arttdinox', and 'ARC'. These brands were created with primary objective of creating exclusive lifestyle stainless steel products

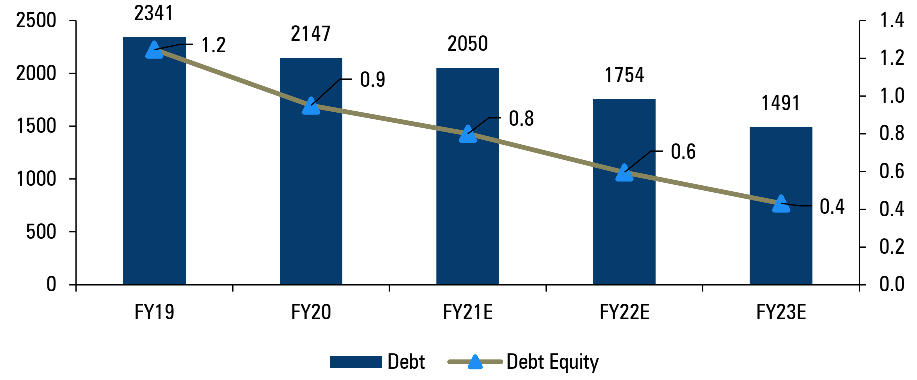
JSHL's second subsidiary, Jindal Stainless Steelway is engaged in offering customised just in time services like slitting, cut to length, polishing, etc. It is the domestic service arm of JSHL. It offers convenient, customised just-in-time services at the doorsteps of its customers. The company is in the business of processing and distribution of stainless steel, to serve its valued customers with exact slit, cut-to-size, polished stainless steel sheets, coils and blanks conforming to highest standards of processing tolerances. Its service centre facilities in Gurgaon, Mumbai, Vadodara and Chennai are installed with state-of-the-art, high-end precision slitting, cut-to-length, blanking, and polishing lines supplied by global leading equipment manufacturers. The overall capacity of the processing lines i.e. slitting, cut-to-length and polishing lines across the domestic network are 290,000, 160,000 & 10,000 tons per annum, respectively.

Debt reduction drive to improve balance sheet…

We expect JSHL to reduce consolidated net debt by ₹ 656 crore in next three years

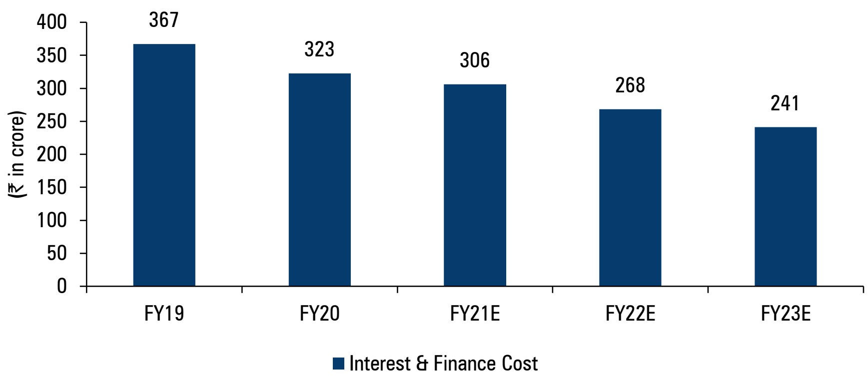
Over the last few years, JSHL had focused on reducing its debt and improving its balance-sheet position. JSHL has repaid loan to the tune of ₹ 773 crore between FY18 and FY20. JSHL's consolidated net debt level has reduced from ₹ 2919 crore at the end of FY18 to ₹ 2341 crore at the end of FY19 and further to ₹ 2147 crore at the end of FY20. The cash flows earned over the last few years have been channelled to reducing debt levels. Going forward also, we expect JSHL to continue with its debt reduction drive. We expect JSHL to repay ₹ 656 crore of debt in the next three years (Debt reduction of ₹ 97 crore in FY21E, ~ ₹ 296 crore in FY22E and ₹ 263 crore in FY23E). We expect consolidated net debt to decline to ₹ 2147 crore at the end of FY20, to ₹ 2050 crore at the end of FY21E, to ₹ 1754 crore at the end of FY22E and further to ₹ 1491 crore at the end of FY23E. Hence, we expect JSHL's interest and finance cost to decline from ₹ 323 crore in FY20, to ₹ 306 crore in FY21E, to ₹ 268 crore in FY22E and further to ₹ 241 crore in FY23E.

Exhibit 37: Trend in consolidated net debt



Source: Company, ICICI Direct Research

Exhibit 38: Trend in interest & finance cost



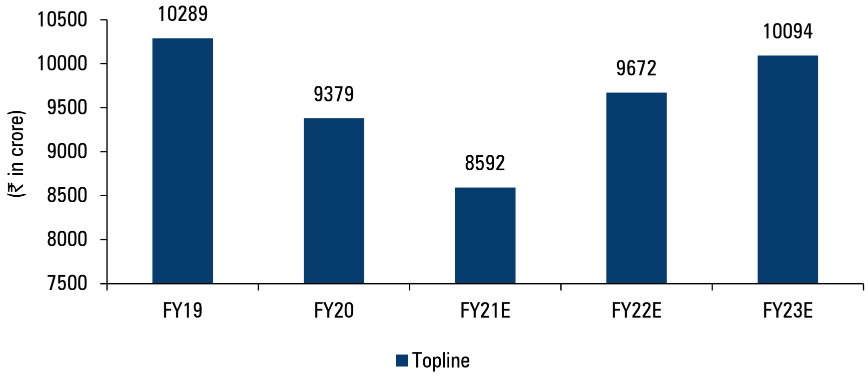
Source: Company, ICICI Direct Research

Valuation and Outlook

Going forward, we model sales volume of 550000 tonnes for FY21E, 605000 tonnes for FY22E and 620125 tonnes for FY23E. We model EBITDA/tonne of ₹ 13969/tonne for FY21E, ₹ 14285/tonne for FY22E and ₹ 14428/tonne for FY23E. Furthermore, we expect JSHL to repay debt to the tune of ₹ 656 crore in the next three years, thereby having a consolidated net debt position of ₹ 1491 crore at the end of FY23E (consolidated net debt of ₹ 2147 crore at the end of FY20). We value the stock on SoTP basis and arrive at target price of ₹ 170. We initiate coverage on the stock with a **BUY** recommendation.

Financial story in charts (JSHL consolidated performance)

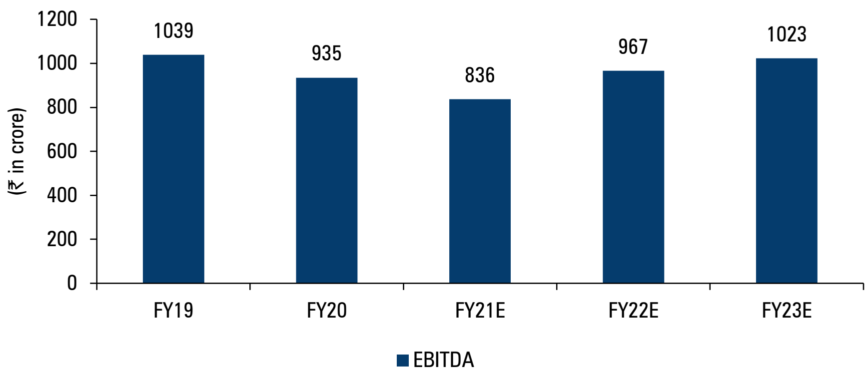
Exhibit 39: Trend in consolidated topline (in ₹ crore)



Source: Company, ICICI Direct Research

Topline expected to grow at CAGR of 2.5% during FY20-23E

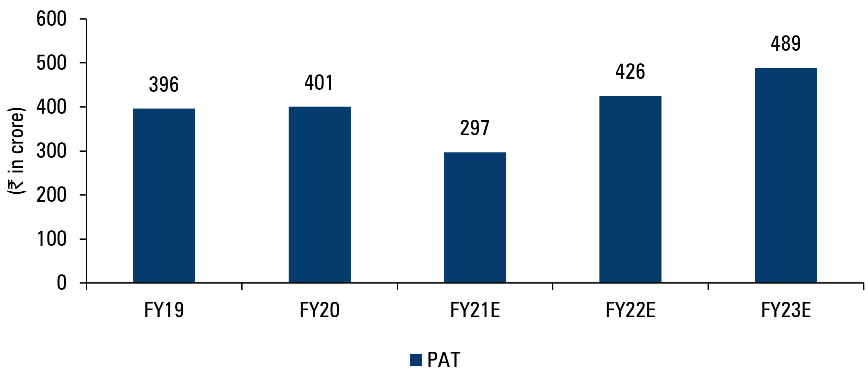
Exhibit 40: Trend in Consolidated EBITDA (in ₹ crore)



Source: Company, Bloomberg, ICICI Direct Research

EBITDA expected to grow at a CAGR of 3.0% during FY20-23E

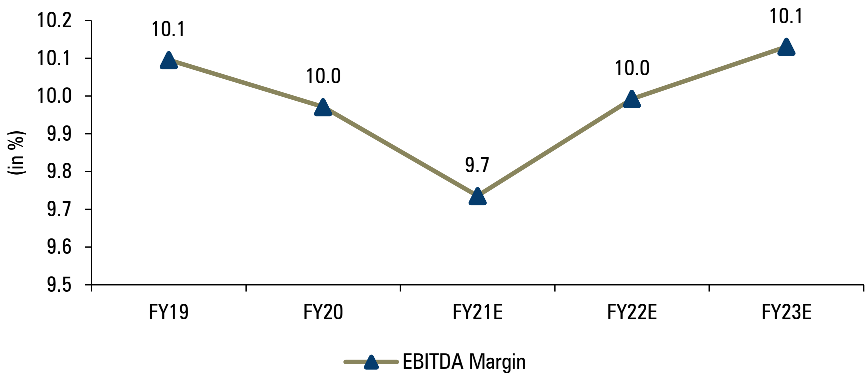
Exhibit 41: Consolidated PAT (in ₹ crore)



Source: Company, ICICI Direct Research

PAT expected to grow at a CAGR of 6.8% during FY20-23E

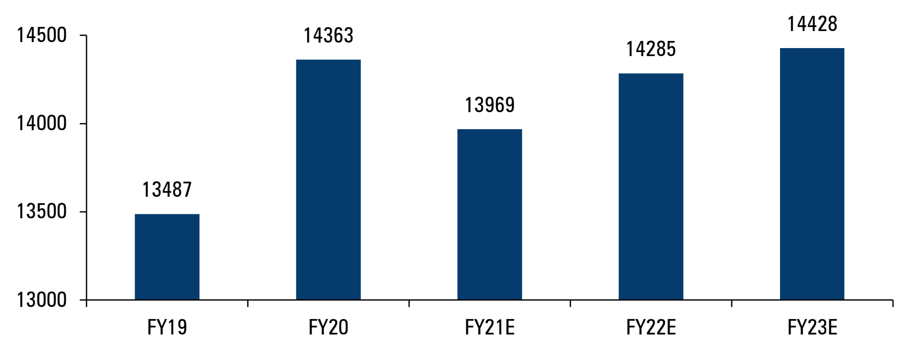
Exhibit 42: Consolidated EBITDA margin



Source: Company, ICICI Direct Research

We expect EBITDA margins to improve from 9.7% in FY21E, to 10.0% in FY22E and further to 10.1% in FY23E

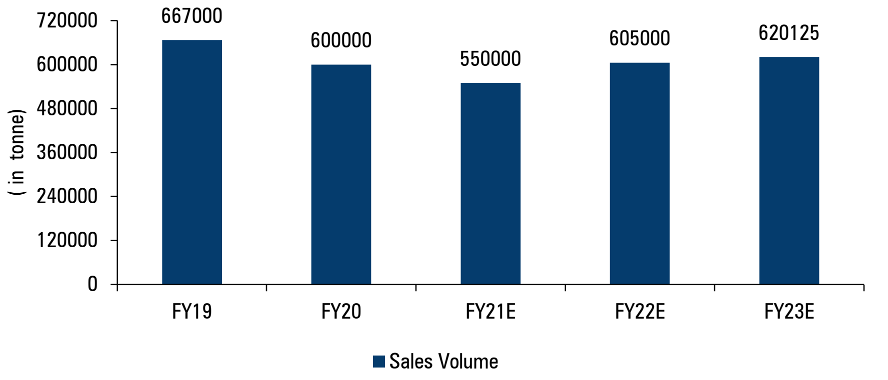
Exhibit 43: Trend in standalone EBITDA/tonne



Source: Company, ICICI Direct Research

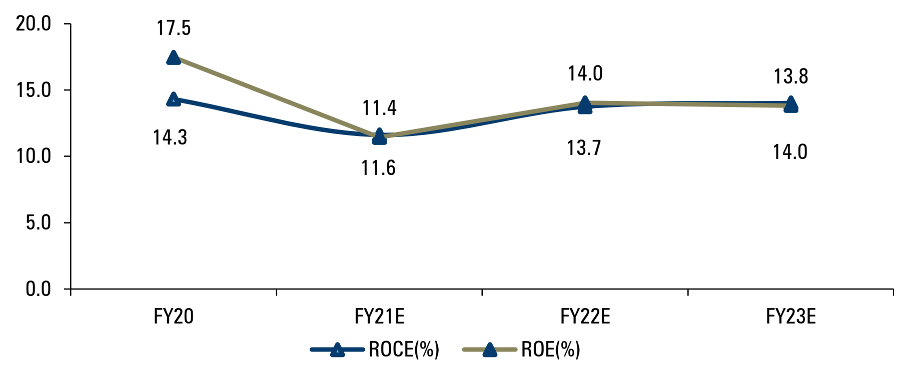
We model EBITDA/tonne of ₹ 13969/tonne in FY21E, ₹ 14285/tonne in FY22E and ₹ 14428/tonne in FY23E

Exhibit 44: Trend in sales volume



Source: Company, ICICI Direct Research

Exhibit 45: Trend in RoCE & RoE



Source: Company, ICICI Direct Research

Exhibit 46: SOTP Valuation

Particulars	Units	Mar-23E
Consolidated EBITDA	₹ crore	1,023
Target EBITDA multiple	x	4.5
Enterprise Value	₹ crore	4602
Net Debt	₹ crore	1491
Implied Equity Value of JSHL (a)	₹ crore	3110
No.of Shares in JSL (on Fully Diluted basis)	in crore	52.6
CMP (JSL)	in ₹/share	72
Market Cap of JSL (on Fully Diluted basis)	in ₹/share	3784
32.02% stake of JSHL in JSL	in %	1212
Holding Company Discount	in %	25%
Implied Value of holding in JSL (b)	₹ crore	909
SoTP value of JSHL (a+b)	₹ crore	4019
No.of Shares(in ₹ crore)	₹ crore	24
Target Price	in ₹/share	170
CMP (JSHL)	in ₹/share	139
Upside (in %)	in %	22%

Source: Company, ICICI Direct Research, Bloomberg

Exhibit 47: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	57.7	57.7	57.7
Others	42.3	42.3	42.3
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Exhibit 48: Valuation Matrix

Years	Total Op	Growth	EPS	Growth	PE	EV/EBITDA	RoCE	RoE
	(₹ cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY19	10,289	-0.7	16.8	NA	8.3	5.4	17.6	20.8
FY20	9,379	-8.8	17.0	1.2	8.2	5.8	14.3	17.5
FY21E	8,592	-8.4	12.6	-25.9	11.0	6.4	11.6	11.4
FY22E	9,672	12.6	18.0	43.3	7.7	5.2	13.7	14.0
FY23E	10,094	4.4	20.7	14.8	6.7	4.7	14.0	13.8

Source: Company, ICICI Direct Research

Financial Summary (Consolidated Performance)

Exhibit 49:Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	**9379**	**8592**	**9672**	**10094**
Growth (%)	*-9%*	*-8%*	*13%*	*4%*
Total Operating Expenditure	8444	7756	8706	9071
EBITDA	**935**	**836**	**967**	**1023**
Growth (%)	*-10%*	*-11%*	*16%*	*6%*
Interest & Finance Cost	323	306	268	241
Depreciation	295	293	301	314
Other Income	133	139	147	156
PBT before Exceptional Item	**451**	**376**	**544**	**624**
Add/less: Exceptional Items	20	0	0	0
Share of profit from Associates	26	20	25	29
PBT	497	397	569	653
Total Tax	96	100	143	164
PAT	**401**	**297**	**426**	**489**
Growth (%)	*1%*	*-26%*	*43%*	*15%*
EPS	**17**	**13**	**18**	**21**

Source: Company, ICICI Direct Research

Exhibit 50:Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	401	297	426	489
Add: Dep. & Amortization	295	293	301	314
Net (Inc) / dec.in Current Asset	-105	27	-292	-144
Net Inc / (dec) in Current Liab.	-94	-259	133	-47
CF from Operating Actv.	**497**	**358**	**568**	**612**
(Inc)/dec in Investments	-25	-15	-2	-40
(Inc)/dec in Fixed Assets	-225	-250	-275	-300
Others	0	0	0	0
CF from Investing Actv.	**-250**	**-265**	**-277**	**-340**
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-186	-100	-273	-283
Dividend & Dividend Tax	0	0	0	0
Others	-53	4	5	-9
CF from Financing Actv.	**-240**	**-96**	**-268**	**-292**
Net Cash flow	8	-3	23	-20
Opening Cash	26	34	30	53
Closing Cash	**34**	**30**	**53**	**33**

Source: Company, ICICI Direct Research

Exhibit 51:Balance sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	47	47	47	47
Reserve and Surplus	2249	2553	2987	3486
Total Shareholders funds	**2296**	**2600**	**3034**	**3533**
Total Debt	2181	2081	1808	1525
Other Non-Current Liabilities	18	18	18	18
Deferred Tax Liability (net)	38	36	34	17
Source of Funds	**4532**	**4735**	**4894**	**5093**
Gross Block - Fixed Assets	3880	4080	4305	4755
Accumulated Depreciation	1771	2064	2365	2679
Net Block	**2108**	**2016**	**1939**	**2076**
Capital WIP	107	157	207	57
Net Fixed Assets	**2215**	**2172**	**2146**	**2133**
Investments	647	662	664	704
Inventory	1554	1530	1696	1770
Cash	34	30	53	33
Debtors	747	706	795	830
Loans & Advances & Other CA	1322	1359	1397	1432
Total Current Assets	**3657**	**3626**	**3941**	**4065**
Creditors	1434	1295	1457	1438
Provisions & Other CL	617	498	468	441
Total Current Liabilities	2052	1792	1926	1879
Net Current Assets	1605	1833	2015	2186
Other Non-current assets	66	67	69	71
Application of Funds	**4532**	**4735**	**4894**	**5093**

Source: Company, ICICI Direct Research, Total Shareholders Fund inclusive of non-controlling interests.

Exhibit 52:Key ratios ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	17.0	12.6	18.0	20.7
BV	97	110	129	150
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	1.3	2.3	1.4
Operating Ratios (%)				
EBITDA margins	10.0	9.7	10.0	10.1
PBT margins	5.3	4.6	5.9	6.5
Net Profit margins	4.3	3.5	4.4	4.8
Inventory days	60	65	64	64
Debtor days	29	30	30	30
Creditor days	56	55	55	52
Return Ratios (%)				
RoE	17.5	11.4	14.0	13.8
RoCE	14.3	11.6	13.7	14.0
RoIC	14.4	11.7	13.9	14.1
Valuation Ratios (x)				
P/E	8.2	11.0	7.7	6.7
EV / EBITDA	5.8	6.4	5.2	4.7
EV / Revenues	0.6	0.6	0.5	0.5
Market Cap / Revenues	0.3	0.4	0.3	0.3
Price to Book Value	1.4	1.3	1.1	0.9
Solvency Ratios				
Debt / Equity	0.9	0.8	0.6	0.4
Debt/EBITDA	2.3	2.5	1.9	1.5
Current Ratio	1.8	2.0	2.0	2.2
Quick Ratio	1.0	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Risk & Concern….

Rising threat of imports….

Over the years, the key threat for the domestic stainless steel sector has been higher imports. In FY19, India witnessed a sharp increase primarily from countries such as Indonesia, South Korea, Japan, etc. Increase in imports adversely impacts the demand prospects for domestic players. Hence, imports of stainless steel from different countries remain a key monitorable. If there is a sharp surge in imports, going forward, it may adversely operational performance of domestic stainless steel companies.

Sharp volatility in raw material cost

Nickel is a key raw material used in stainless steel making process. JSL generally has a raw material inventory for ~45 days but the prices of finished stainless steel products are reviewed on a fortnightly basis. Generally, the prices of finished stainless steel products are priced on the basis of nickel content in it. In a scenario of stable price environment, JSL is able to recover the nickel cost from the consumer with a lag. However, in a scenario of falling and fluctuating nickel price environment, there has been an adverse impact on company's gross profit margins due to inventory related losses.

Slowdown in demand growth

We remain constructive on the longer term demand outlook for stainless steel demand in India. We especially remain positive with respect to demand from ABC and ART segment. However, the likelihood of a second wave of Covid-19 possibly leading to localised and targeted lockdowns poses risks to the outlook.

Annexure

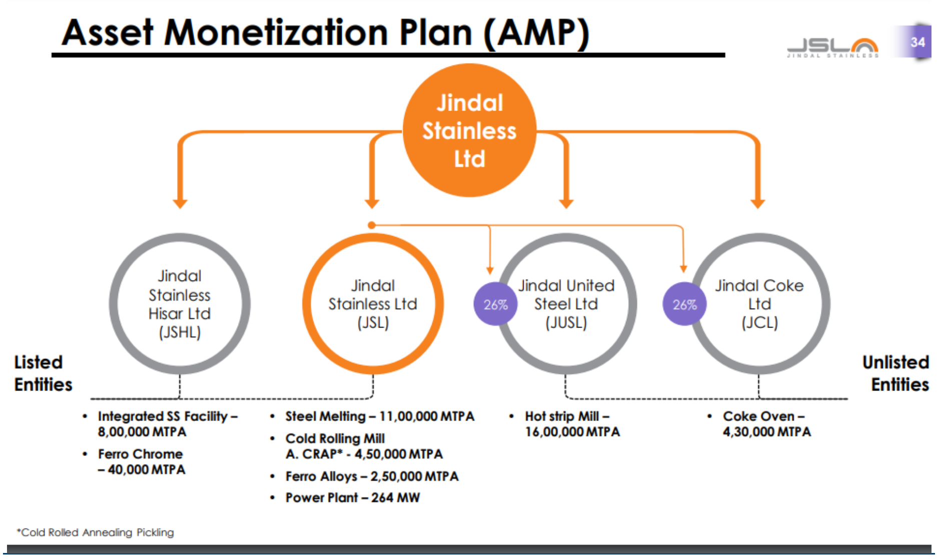
Company history

Jindal Stainless (JSL) set up its first plant in Hisar, Haryana [now part of Jindal Stainless Hisar (JSHL)] in 1970. In 2004, the company planned to double capacity through a greenfield plant in Jajpur, Odisha. The expansion took place in two phases, wherein auxiliary facilities like ferro alloys, coke oven and captive power plant were to be set up in phase 1 and while the 0.8 million tonnes per annum (MTPA) steel melting shop along with HR and CR facilities were to be set up in phase 2.

However, the commission of phase 2 was delayed on account of deferral in getting essential approvals and global financial crisis witnessed in 2008. This adversely impacted its cash flow position, thereby resulting in company going into corporate debt restructuring (CDR) process. Even after commissioning of Phase 2, the company had to face challenging on account slower ramp up of new the capacity (due to rising imports), delay in getting clearance for the Railway siding, etc.

As the company's financial situation continued the downward slide, the CDR scheme was again reworked in 2012. In 2015, the company successfully implemented the asset monetization plan (AMP), which has helped to reduce debt and improve the overall creditworthiness of the company. Under the AMP, JSL was demerged into four companies - JSHL, JSL, JUSL (Jindal United Steel Ltd) and JCL (Jindal Coke Ltd).

Exhibit 53 : Holding structure post AMP



Source: Company, ICICI Direct Research

Over the last two to three years, JSL ramped up its operations considerably. Hence, because of the same, JSL has successfully exited the CDR. JSL is the only steel company to have exited CDR in more than a decade and is back on growth path with the ramp up of its stainless steel capacity. The exit is with effect from March 31, 2019, and JSL received a letter from the consortium of CDR lenders to mark the completion of the exercise. The existing CDR lenders have realised the full recompense of about ₹ 275 crore in cash. Additionally, JSL has fully redeemed the outstanding optionally convertible redeemable preference shares (OCRPS), which were issued to the lenders in June 2017 and has paid around ₹ 558 crore, taking the aggregate realisation of lenders to around ₹ 833 crore.

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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