

## Performs well...

**About the stock:** Jindal Stainless (JSL) is 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 (MTPA).

- JSL has a 1.1 MTPA integrated facility with backward integration (ferro chrome and captive power plant)
- The company has readily leveragable infrastructure for cost efficient brownfield expansion (800+ acre of land)

**Q1FY22 Results:** JSL reported a healthy performance in Q1FY22.

- During Q1FY22, JSL reported a consolidated topline of ₹ 4033 crore, up 3% QoQ & 193% YoY. Consolidated EBITDA for the quarter was at ₹ 601 crore, up 11% QoQ, 839% YoY. Consolidated PAT for the quarter was at ₹ 306 crore, up 5% QoQ
- JSL's standalone operations EBITDA/tonne for Q1FY22 were at ₹ 24378/tonne (standalone EBITDA/tonne of ₹ 20438/tonne in Q4FY21)

**What should investors do?** Jindal Stainless' share price has grown by ~4.2x over the last 18 months (from ~₹ 39 in February 2020 to ~₹ 162 levels in August 2021).

- We maintain our BUY rating on the stock

**Target Price and Valuation:** We value JSL at ₹ 200, based on a merged entity basis

**Key triggers for future price performance:**

- JSL is augmenting its stainless steel melt capacity from 1.1 MTPA to 2.1 MTPA and also enhancing downstream capacity with 1.6x expansion of hot rolled annealed pickled (HRAP) from 0.8 MTPA to 1.25 MTPA and 1.7x expansion of cold rolled annealed pickled (CRAP) from 0.45 MTPA to 0.75 MTPA. It is also expanding backward integration with 1.4x expansion of ferro chrome from 0.25 MTPA to 0.35 MTPA
- The estimated total growth capex is ~₹ 2150 crore wherein melting capex is ₹ 530 crore (to be completed by Q3FY23), downstream enhancement capex is ₹ 1250 crore (to be completed by Q4FY23) and backward integration capex is ₹ 315 crore (to be completed by Q3FY24). Quality lab and other balancing capex is ₹ 55 crore

**Alternate Stock Idea:** Apart from JSL, we also like Ratnamani Metals and Tubes.

- Leadership position in stainless steel pipes and tubes segment, differentiates RMTL from its peer group
- BUY with a target price of ₹ 2400



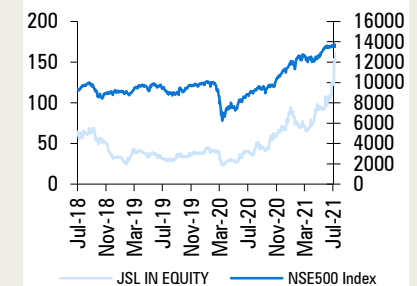
### Particulars

Particulars	₹ Crore
Market Capitalization	7,903
Total Debt (Q1FY22)	2,874
Cash and Invest. (Q1FY22)	52
Enterprise Value(EV)	10,725
52 week H/L (₹)	168 / 35
Equity capital	97.5
Face value (₹)	2.0

### Shareholding Pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	68.1	68.1	68.1	68.1	68.1
FII	12.9	13.0	13.5	13.2	14.8
DII	7.9	7.1	6.9	7.3	6.0
Public	11.2	11.8	11.5	11.4	11.1
Total	100	100	100	100	100

### Price Performance



### Key Risks & Event for JSL

- As on June, 2021 standalone net debt stood at ₹2495 crore, down ~30% since March 2020.
- Key risks:** (i) Sharp volatility in raw material cost (ii) Slowdown in demand growth.

### Research Analyst

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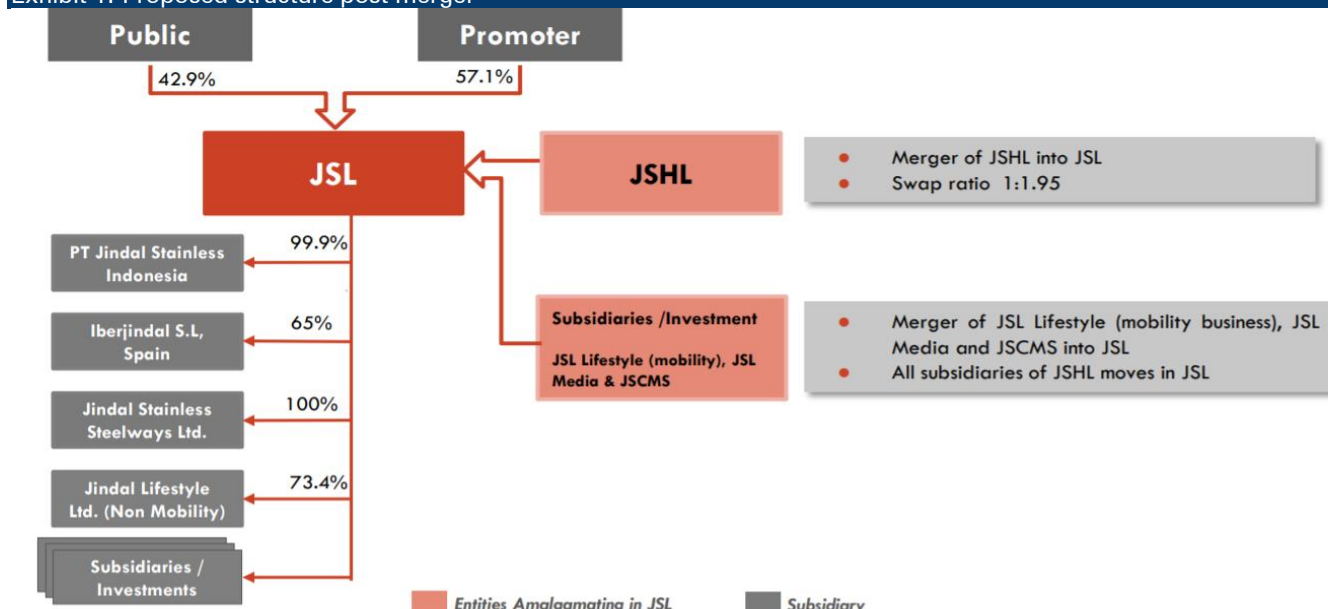
### Key Financial Summary- Jindal Stainless (Pre-merger)

₹ crore	FY18	FY19	FY20	FY21	CAGR (in FY16-FY21%)	FY22E	FY23E	CAGR (in FY21-FY23E%)
Total Operating income	11,638	13,557	12,951	12,188	11	14,995	16,011	15
EBITDA	1,340	1,165	1,139	1,424	9	1,937	1,841	14
PAT	346	145	73	419	NA	823	794	38
EPS (₹)	7.2	3.0	1.5	8.6		16.9	16.3	
P/E (x)	22.5	53.5	108.7	18.8		9.6	9.9	
EV/EBITDA (x)	9.5	10.4	10.3	7.7		5.9	6.0	
RoCE (%)	13.6	11.6	10.8	16.0		20.0	17.5	
ROE (%)	14.0	5.6	2.7	13.0		20.4	16.4	

Source: Company, ICICI Direct Research,

## Key highlights -

### Exhibit 1: Proposed structure post merger



Source: Company, ICICI Direct Research,

### Exhibit 2: JSL, JSHL Merger: Progressing Well

#### APPOINTED DATE

- April 1, 2020

#### MAJOR EVENTS EXPECTED COMPLETION IN H2 FY22

- Board approval of the scheme of arrangement
- Stock Exchanges/SEBI approval
- Shareholders and Creditors approvals
- NCLT approval
- Implementation of Scheme

- Received Stock Exchanges/SEBI approval in 1<sup>st</sup> week of March'21, ahead of the expected time
- First motion application filed before the NCLT on March 17, 2021
- The petition is expected to come up for hearing soon

Source: Company, ICICI Direct Research,

### Exhibit 3: Leveraging World Class Jaipur Infra & Hisar Speciality Product Leadership

#### JSL - Doubling Stainless Steel Capacity

- ✓ Augmenting Stainless Steel Melt capacity from 1.1MTPA to 2.1MTPA
- ✓ Incremental downstream capacity HRAP & CRAP
- ✓ Enhanced backward integration & quality lab
- ✓ Brownfield expansion; relevant approvals in place
- ✓ World class European equipments
- ✓ Est. cost of INR 2,150 crore at <1/3<sup>rd</sup> of the greenfield capex cost

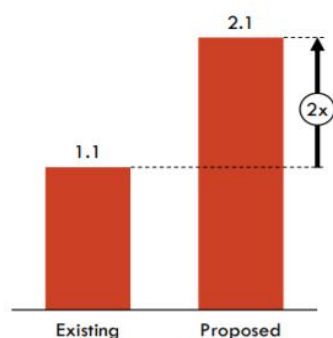
#### JSHL - Multiplying Speciality Products

- ✓ Strengthening product mix with expansion in value added product segment
- ✓ Expanding the Precision Strip by 3x
- ✓ Expanding Blade Steel by 1.7x
- ✓ Leveraging leadership position in speciality products (SPD)
- ✓ Est. cost of INR 450 crore

Source: Company, ICICI Direct Research,

**Exhibit 4: JSL: Doubling Stainless Steel melt capacity**

**SMS - Upstream**



Steel Melting Capacity  
Expansion (MTPA)

Est. Capex

~INR 530 Cr

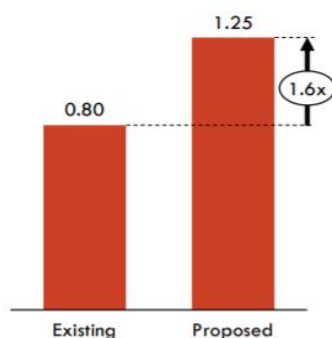
Est. Completion

Q3 FY23

Equipment Supplier

Primetal - Europe

**Combo Line - Downstream**



HRAP Capacity  
Expansion (MTPA)

Est. Capex

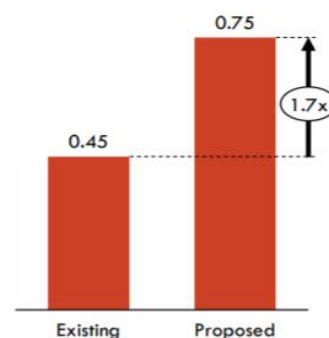
~INR 1,250 Cr

Est. Completion

Q4 FY23

Equipment Supplier

Andritz - Austria/  
Germany

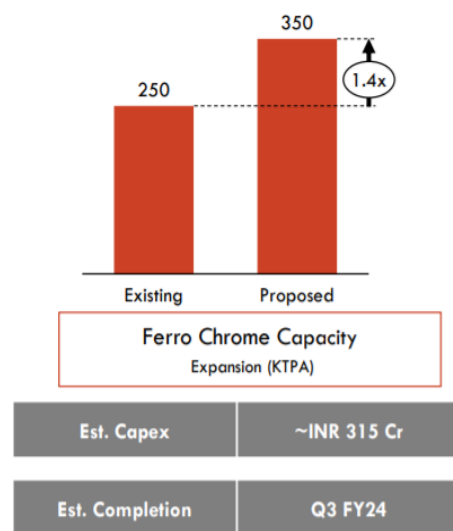


CRAP Capacity  
Expansion (MTPA)

Source: Company, ICICI Direct Research,

**Exhibit 5: JSL: Scaling-Up Integrated Play**

**Ferro Chrome – Backward Integration**



Ferro Chrome Capacity  
Expansion (KTPA)

Est. Capex

~INR 315 Cr

Est. Completion

Q3 FY24

**Quality Lab & Other Balancing**

Est. Capex

~INR 55 Cr

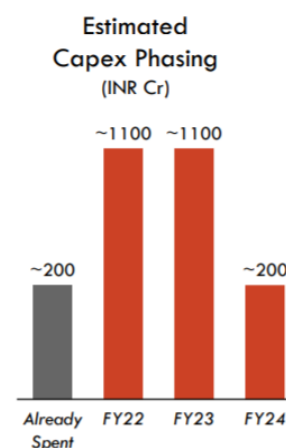
- ✓ Enhancing the quality assurance for new generation grades in high-end segments
- ✓ Improve serviceability for better customer experience

- ✓ Strengthening backward integration through Ferro Chrome augmentation and cost efficiency

Source: Company, ICICI Direct Research,

**Exhibit 6: Integrated Expansion**

JSL Projects	Existing Capacity MTPA	Incremental Capacity MTPA	Total JSL MTPA	Est. Capex INR Cr	Est. Completion
SMS	1.10	1.00	2.10	530	Q3 FY23
Combo Line				1,250	Q4 FY23
HRAP	0.80	0.45	1.25		
CRAP	0.45	0.30	0.75		
Ferro Chrome	0.25	0.10	0.35	315	Q3 FY24
Quality Lab Expenses and Other balancing				55	
<b>Sub Total JSL</b>				<b>2,150</b>	



JSHL Projects	Existing Capacity KTPA	Incremental Capacity KTPA	Total SPD KTPA	Est. Capex INR Cr	Est. Completion
Precision Strip	22	38	60	250	
PS Phase -1		26			Q2 FY22
PS Phase-2		12			Q4 FY23
Blade Steel	14	10	24	200	
BS Phase -1		6			Q2 FY23
BS Phase-2		4			Q2FY24
<b>Sub Total JSHL</b>				<b>450</b>	
<b>Total Project Cost</b>				<b>2,600</b>	

Source: Company, ICICI Direct Research,

**Peer comparison**
**Exhibit 7: Peer Comparison**

Company	CMP	Target	Rating	Mcap	Topline(in ₹ crore)			EBITDA(in ₹ crore)			Adj PAT(in ₹ crore)			P/E(x)			EV/EBITDA(X)		
					FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E	FY21	FY22E	F23E
Jindal Stainless	162	200	BUY	7902	12188	14995	16011	1424	1937	1841	419	823	794	18.8	9.6	9.9	7.7	5.9	6.0
Jindal Stainless Hisar	293	390	BUY	6973	9400	10674	11305	1127	1363	1342	696	996	1051	9.9	6.9	6.6	7.4	5.5	4.8
Ratnamani	2000	2400	BUY	9990	2298	3068	3571	400	537	643	276	356	449	33.9	26.2	20.8	22.1	16.1	13.0

Source: Company, ICICI Direct Research

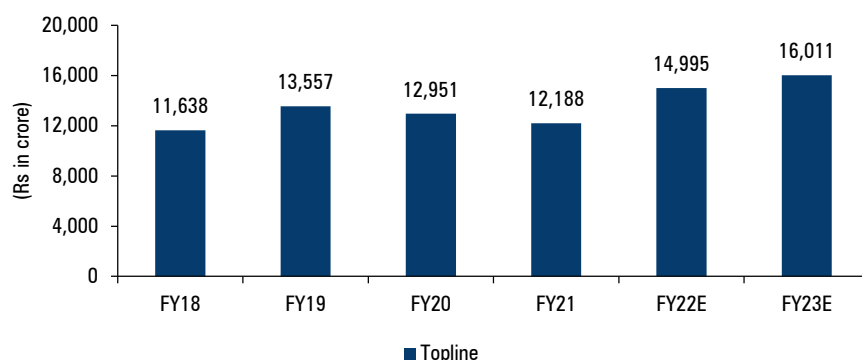
**Exhibit 8: Variance Analysis- Jindal Stainless Steel – Consolidated (Sales volume, EBITDA/tonne standalone)**

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>4033</b>	<b>1376</b>	<b>193%</b>	<b>3,914</b>	<b>3%</b>	For the quarter, topline increased 3% QoQ
Other Income	10	10	2%	13	-23%	
Total Operating expense	3432	1312	162%	3,371	2%	
<b>EBITDA</b>	<b>601</b>	<b>64</b>	<b>839%</b>	<b>542</b>	<b>11%</b>	For the quarter, EBITDA increased 11% QoQ
EBITDA Margin (%)	14.9	4.7	1025 bps	13.9	105 bps	
Depreciation	94	103	-9%	97	-3%	
Interest	85	134	-37%	97	-12%	
Exceptional item	0	15	-100%	53	-100%	
Share of Net Profit/Loss	24	(18)	-233%	19	26%	
<b>PBT</b>	<b>456</b>	<b>(167)</b>	<b>-374%</b>	<b>434</b>	<b>5%</b>	
Tax Outgo	150	(43)	-	141	6%	
<b>PAT</b>	<b>306</b>	<b>(124)</b>	<b>LP</b>	<b>293</b>	<b>5%</b>	For the quarter, PAT increased 4% QoQ
<b>Key Metrics</b>						
Sales Volume(Standalone)	2,37,852	89000	167%	2,55,099	-7%	
EBIDTA/Tonne(Standalone)	24,378	8719	180%	20,438	19%	

Source: Company, ICICI Direct Research

## Financial story in Charts- Jindal Stainless Ltd.

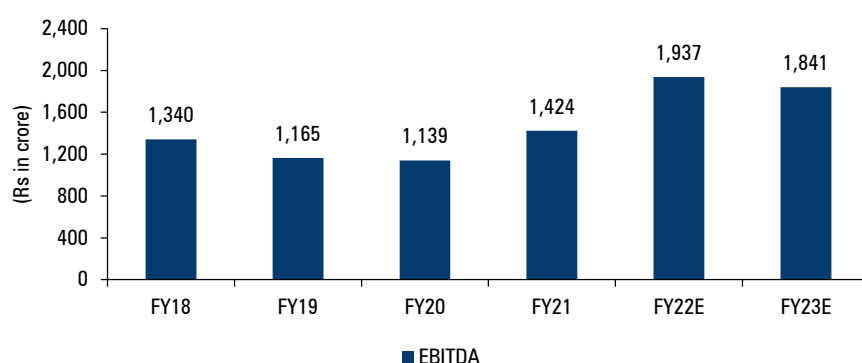
Exhibit 9: Trend in Consolidated Topline (in ₹ crore)



JSL 's consolidated topline is expected to grow at a CAGR of 14.6% during FY21-23E

Source: Company, ICICI Direct Research

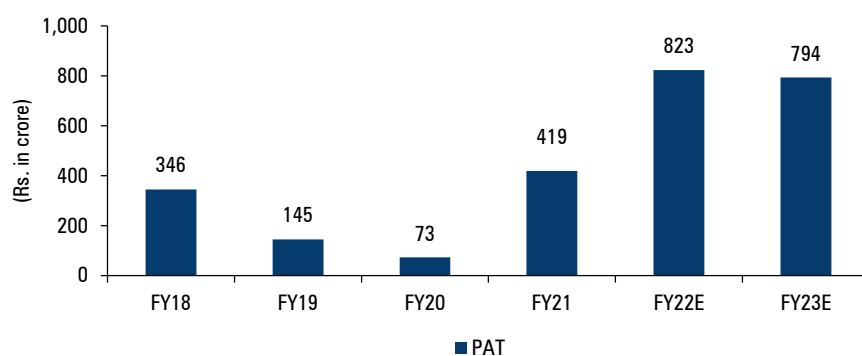
Exhibit 10: Trend in Consolidated EBITDA (in ₹ crore)



JSL 's Consolidated EBITDA is expected to grow at a CAGR of 13.7% during FY21-23E

Source: Company, ICICI Direct Research

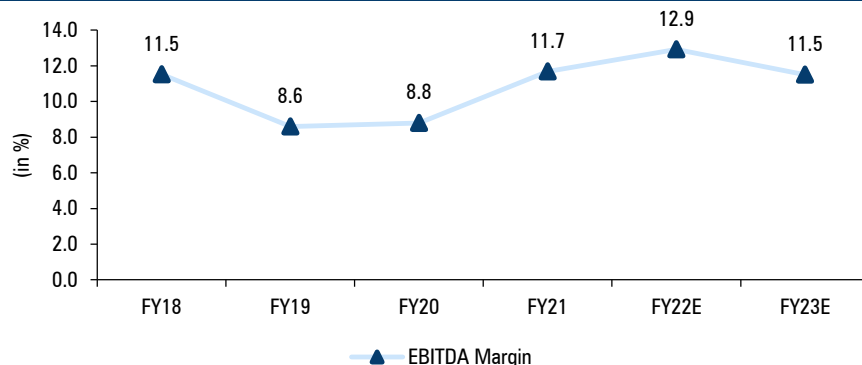
Exhibit 11: Trend in Consolidated PAT (in ₹ crore)



JSL 's consolidated PAT is expected to grow at a CAGR of 37.5% during FY21-23E

Source: Company, ICICI Direct Research

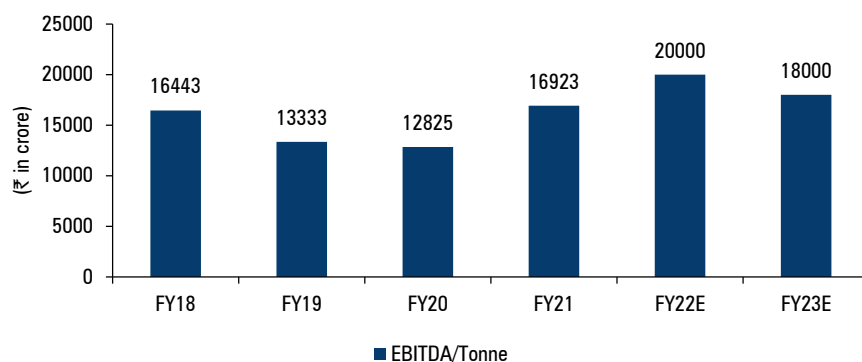
Exhibit 12: Trend in Consolidated EBITDA Margin (in %)



We expect JSL 's consolidated EBITDA Margin to be ~12.9% in FY22E and 11.5% in FY23E

Source: Company, ICICI Direct Research

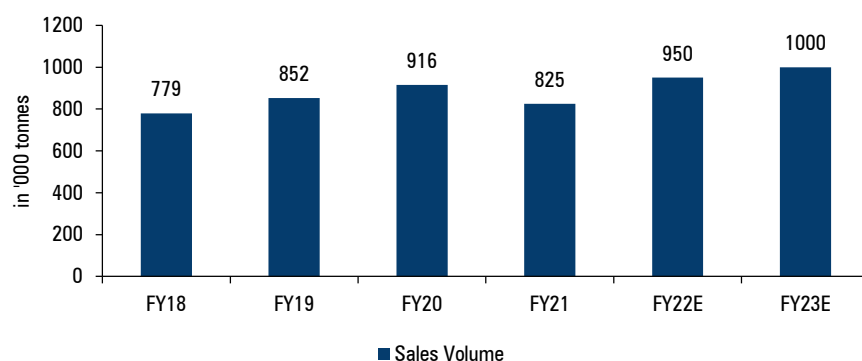
**Exhibit 13: Trend in EBITDA/tonne (Standalone)**



*We have modelled EBITDA/tonne of /20000/tonne for FY22E and /18000/tonne for FY23E.*

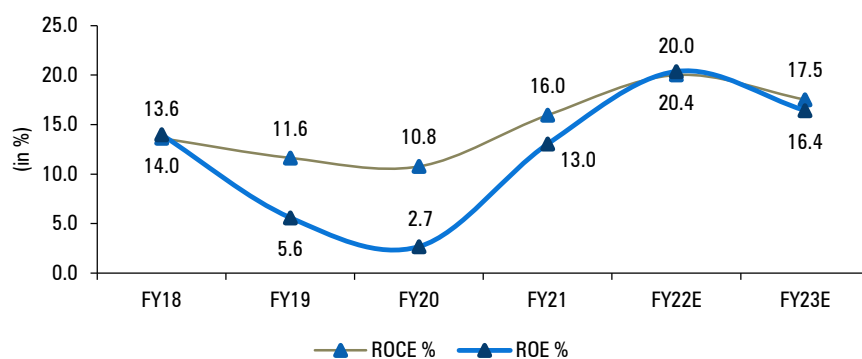
Source: Company, ICICI Direct Research

**Exhibit 14: Trend in Sales Volume (Standalone)... (in KT)**



Source: Company, ICICI Direct Research

**Exhibit 15: Trend in ROCE & ROE (in %)**



Source: Company, ICICI Direct Research

**Exhibit 16: Valuation Matrix**

	Sales (₹ Crore)	Growth (% YoY)	EPS (₹)	Growth (% YoY)	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY18	11,638	0.3	7.2	302.0	22.5	9.5	3.1	14.0	13.6
FY19	13,557	16.5	3.0	-58.0	53.5	10.4	3.0	5.6	11.6
FY20	12,951	-4.5	1.5	-50.8	108.7	10.3	2.9	2.7	10.8
FY21	12,188	-5.9	8.6	477.6	18.8	7.7	2.5	13.0	16.0
FY22E	14,995	23.0	16.9	96.2	9.6	5.9	2.0	20.4	20.0
FY23E	16,011	6.8	16.3	-3.6	9.9	6.0	1.6	16.4	17.5

Source: Company, ICICI Direct Research

**Exhibit 17: Valuation (Based on merged entity basis)**

Particulars	Units	Mar-23E
EBITDA ( Standalone combined entity JSL + JSHL)	₹ crore	2,970
Subsidiaries EBITDA in FY23E	₹ crore	213
Total Consolidated EBITDA of Merged Entity in FY23E	₹ crore	3183
Multiple	x	6
Enterprise Value	₹ crore	19099
Net Debt(After adjusting inter company loan)	in crore	2624
Mcap	in ₹/share	16475
Number of Shares	in crores	82.3
<b>Target Price of Jindal Stainless</b>	<b>in ₹/share</b>	<b>200</b>
CMP of Jindal Stainless	in ₹/share	162
<b>Upside (%)</b>	<b>in %</b>	<b>23%</b>
<b>Target Price of Jindal Stainless Hisar(derived as per swap ratio)</b>	<b>in ₹/share</b>	<b>390</b>
CMP of Jindal Stainless Hisar	in ₹/share	293
<b>Upside (%)</b>	<b>in %</b>	<b>33%</b>

Source: Company, ICICI Direct Research

Note - Growth capex plan has been announced based on the post merged entity, wherein we believe the merged entity would have sufficient cash flows to meet the capex requirements from internal accruals. Furthermore, we expect the net debt of merged entity including subsidiary debt (on pro-forma basis) to decline from ₹2739 crore as on June 2021 (after adjusting inter-company loan) to ₹2624 crore as on March 2023 (after adjusting inter-company loan).



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

### Exhibit 18: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>12,951</b>	<b>12,188</b>	<b>14,995</b>	<b>16,011</b>
Growth (%)	-4.5%	-5.9%	23.0%	6.8%
Total Operating Expenditure	11,811	10,764	13,058	14,171
<b>EBITDA</b>	<b>1,139</b>	<b>1,424</b>	<b>1,937</b>	<b>1,841</b>
Growth (%)	-2.2%	25.0%	36.0%	-5.0%
Interest & Finance Cost	586	480	317	272
Depreciation	425	403	402	410
Other Income	40	41	40	38
<b>PBT before Exceptional Items</b>	<b>169</b>	<b>582</b>	<b>1,259</b>	<b>1,197</b>
Add/Less: Exceptional Items	4	102	0	0
Add/Less: Share of P/L of Invst using	-8	5	50	48
<b>PBT</b>	<b>165</b>	<b>690</b>	<b>1,308</b>	<b>1,244</b>
Total Tax	93	270	485	451
<b>PAT</b>	<b>73</b>	<b>419</b>	<b>823</b>	<b>794</b>
Growth (%)	-50.0%	477.6%	96.2%	-3.6%
<b>EPS</b>	<b>1.5</b>	<b>8.6</b>	<b>16.9</b>	<b>16.3</b>

Source: Company, ICICI Direct Research

### Exhibit 19: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	73	419	823	794
Add: Dep. & Amortization	425	403	402	410
Net (Inc) / dec.in Current Asset	-123	-284	-1013	-267
Net Inc / (dec) in Current Liab.	262	20	600	609
Others	112	339	23	12
<b>CF from operating activities</b>	<b>748</b>	<b>898</b>	<b>834</b>	<b>1557</b>
(Inc)/dec in Investments	38	26	-20	70
(Inc)/dec in Fixed Assets	-280	-154	-1250	-1250
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-241</b>	<b>-128</b>	<b>-1270</b>	<b>-1180</b>
Inc / (Dec) in Equity Capital	2	0	0	0
Inc / (Dec) in Loans	-485	-722	450	-300
Dividend & Dividend Tax	0	0	0	0
<b>CF from financing activities</b>	<b>-483</b>	<b>-722</b>	<b>450</b>	<b>-300</b>
Net Cash flow	23	48	15	77
Opening Cash	45	69	116	131
<b>Closing Cash</b>	<b>69</b>	<b>116</b>	<b>131</b>	<b>208</b>

Source: Company, ICICI Direct Research

### Exhibit 20: Balance sheet ₹crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	97	97	97	97
Reserve and Surplus	2633	3121	3944	4737
Total Shareholders funds	2730	3218	4041	4835
Total Debt	3903	3181	3631	3331
Deferred Tax Liability (net)	190	461	484	496
<b>Source of Funds</b>	<b>6823</b>	<b>6860</b>	<b>8156</b>	<b>8662</b>
Net Block	6493	6204	6142	7539
Capital WIP	13	53	963	406
Net Fixed Assets	6506	6257	7105	7945
Investments	138	113	132	62
Inventory	2739	2789	3492	3729
Cash	69	116	131	208
Debtors	705	934	1232	1316
Loans & Advances & Other CA	521	526	538	485
Total Current Assets	4033	4365	5393	5738
Creditors	2660	2632	3081	3334
Provisions & Other CL	1195	1243	1394	1750
Total Current Liabilities	3854	3874	4475	5084
Net Current Assets	179	491	918	654
<b>Application of Funds</b>	<b>6823</b>	<b>6860</b>	<b>8156</b>	<b>8662</b>

Source: Company, ICICI Direct Research

### Exhibit 21: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	1.5	8.6	16.9	16.3
BV	56.0	66.1	82.9	99.2
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	2.4	2.7	4.3
<b>Operating Ratios (%)</b>				
EBITDA margins	8.8	11.7	12.9	11.5
PBT margins	1.3	5.7	8.7	7.8
Net Profit margins	0.6	3.4	5.5	5.0
Inventory days	77	84	85	85
Debtor days	20	28	30	30
Creditor days	75	79	75	76
<b>Return Ratios (%)</b>				
RoE	2.7	13.0	20.4	16.4
RoCE	10.8	16.0	20.0	17.5
RoIC	10.9	16.3	20.4	18.0
<b>Valuation Ratios (x)</b>				
P/E	108.7	18.8	9.6	9.9
EV / EBITDA	10.3	7.7	5.9	6.0
EV / Revenues	0.9	0.9	0.8	0.7
Market Cap / Revenues	0.6	0.6	0.5	0.5
Price to Book Value	2.9	2.5	2.0	1.6
<b>Solvency Ratios</b>				
Debt / Equity	1.4	1.0	0.9	0.6
Debt/EBITDA	3.4	2.2	1.8	1.7
Current Ratio	1.0	1.1	1.2	1.1
Quick Ratio	0.3	0.4	0.4	0.4

Source: Company, ICICI Direct Research

**Exhibit 22: ICICI Direct coverage universe (Metals and Mining)**

	<b>CMP</b>	<b>TP</b>		<b>M Cap</b>	<b>EPS (₹)</b>			<b>P/E (x)</b>			<b>EV/EBITDA (x)</b>			<b>ROCE(%)</b>			<b>ROE(%)</b>		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	143	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	444	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	320	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	737	850	Buy	173411	32.9	87.7	71.6	21.8	8.2	10.0	11.2	6.0	6.6	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	181	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2137	2400	Buy	9652	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	708	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1433	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	142	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

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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