Equity Research

September 5, 2021

BSE Sensex: 58130

ICICI Securities Limited is the author and distributor of this report

Initiating coverage

Metals

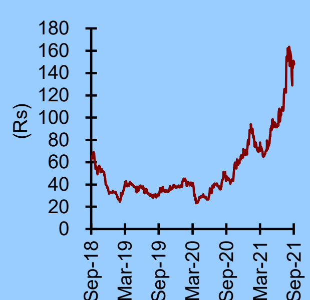
Target price Rs230

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	68.1	68.1	68.1
Institutional investors	20.4	20.5	20.8
MFs and others	0.6	1.0	1.7
Insurance Cos.	0.1	0.1	0.1
FIIs	19.7	19.4	19.0
Others	11.5	11.4	11.1

Source: BSE

Price chart



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INDIA

Jindal Stainless

BUY

On road to value creation; initiating with a BUY **Rs152**

JSL group (Jindal Stainless + Jindal Stainless Hisar) has leadership position in the domestic SS sector accounting for >50% share (even more in the high value-add segment, excl. utensils). Considering healthy demand prospects from key user industries, we expect good times ahead for the SS sector. We initiate coverage on Jindal Stainless (JSL) with a BUY rating. We also introduce merged financials of Jindal Stainless and Jindal Stainless (Hisar). With appointed date of Apr'20 and expected closure of the merger by Q4FY22 (according to the company), we value the combined entity at Rs230/share on 2.3x FY24E P/B given our assessment of >20% throughcycle RoE and 40% YoY profit growth in FY24E as expansion starts to kick in. This implies 5x FY24E EV/EBITDA. Globally, 5-10 year average of 1Y forward EV/EBITDA for SS players is at 8.5x (a meaningful premium over the multiples of carbon steel players). Delay in execution of capex, commodity prices are key risks to our call.

- **Stainless steel (SS) demand is handsomely outpacing steel demand growth**. The edge stainless steel enjoys over carbon steel is clearly visible in the differential demand growth rate of both the categories. In FY13-FY20, domestic SS demand grew at 7.2% CAGR, outpacing carbon steel growth at 5% CAGR. Similar dynamics are being witnessed globally. (Charts 3-6 show major drivers of SS demand)
- **JSL is increasing capacity from 1.9mtpa to 2.8mtpa; progressive utilisation is likely from FY23E. We expect** the increasing earnings stream to have a significantly positive impact on leverage ratios and lead to rerating. The capacity expansion comes at an opportune time with substantial increase expected in SS consumption by Indian Railways and automotive sector over next 3-4 years; e.g. Railways' SS bill is expected to increase from ~Rs30bn in FY21 to Rs60bn by FY23E (I-Sec estimate). Add to that the increase in demand from process industries (including power) and we expect the expanded capacity to achieve optimal utilisation by FY24E/FY25E.
- **Our target price implies ~50% upside**. Over the past few years, the JSL group focused on reducing debt and improving its balance sheet position. In FY18-FY20, it reduced its consolidated net debt by Rs12bn, while JSL (Hisar) had reduced the same by Rs7.7bn. Continuing with its debt reduction drive over the next three years, we expect net debt of the merged entity to fall to ~Rs9bn by FY24E from ~Rs36bn by FY21-end. In a similar timeframe, 'Net Debt to EBITDA' ratio is expected to decline from 1.4x in FY21 to 0.2x in FY24E.
- **Clarification on promoter pledge according to management.** There is no loan raised against the promoters' shares (LAS), hence there is no linkage between the pledged shares and their market value. Accordingly, there is no requirement of maintaining any margins, since: 1) the shares are offered only as an additional collateral / secondary security, and 2) the operating companies' assets remain the primary security. Therefore, any change in the share price does not trigger any margin requirements / calls.

Market Cap	Rs74bn/US$1bn
Reuters/Bloomberg	JIST.BO/JDSL IN
Shares Outstanding (mn)	487.2
52-week Range (Rs)	164/41
Free Float (%)	31.9
FII (%)	19.1
Daily Volume (US$'000)	5,768
Absolute Return 3m (%)	61.2
Absolute Return 12m (%)	222.1
Sensex Return 3m (%)	11.7
Sensex Return 12m (%)	50.6

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	129,509	121,885	248,550	263,722
EBITDA(Rs mn)	11,395	14,242	32,542	30,109
Net Income (Rs mn)	713	4,192	16,335	14,932
EPS (Rs)	0.9	5.1	19.8	18.1
P/E (x)	168.5	28.7	7.4	8.1
CEPS (Rs)	6.0	10.0	28.0	26.9
EV/E (x)	13.9	10.6	4.6	4.8
Dividend Yield	-	-	-	-
RoCE (%)	5.9	7.1	11.6	9.5
RoE (%)	2.6	13.1	23.2	17.5

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Stainless steel is exhibiting much faster growth rate vis-à-vis carbon steel and other bulk metals

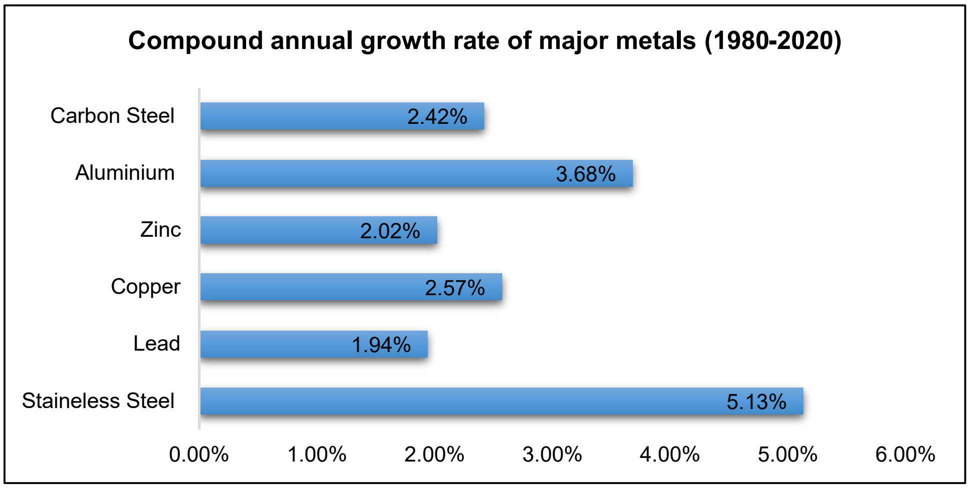
Global **stainless steel (SS) production** is expected to grow to 54mnte in CY21 from ~48.5mnte in CY20 according to ISSF.

Table 1: Stainless steel is showing much faster growth rate across regions compared to carbon steel

	Production CAGR	
CY14-19	**Steel**	**Stainless Steel**
China	3.9%	6.3%
World ex China	0.6%	2.7%
India	**5.0%**	**6.6%**
World	2.3%	4.6%

Source: ISSF, I-Sec research

Chart 1: SS demand is growing fastest across major ferrous and non-ferrous metals over the past 30 years



Source: ISSF, I-Sec research

Indian stainless steel production and demand CAGR is outpacing that of steel

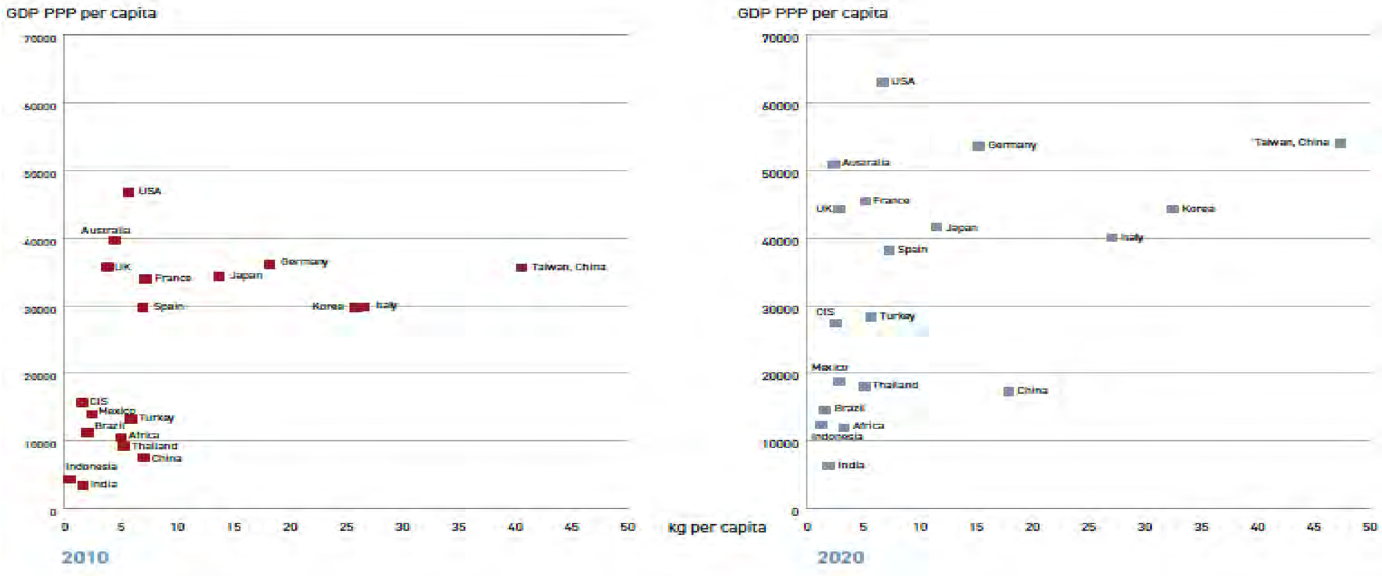
India is the second largest consumer of stainless steel in the world. However, its per capita stainless steel consumption is much lower at 2.0-2.5kg. While we would have loved to make a stronger case of superior stainless steel demand growth in India, consumption is commensurate to per capita income (like steel and other commodities) {*chart 2*}.

Demand fell by ~14-16% in FY21 primarily due to fall in construction and infrastructure activities amid the covid crisis. Stainless steel demand is expected to sharply pick up in FY22. *(Crisil research)*.

Domestic stainless steel (flats) consumption over FY17-20 has grown at a healthy rate of 6.3% p.a., to reach ~3.0mnte in FY20. Such momentum was achieved by strong growth in key end consuming sectors like ABC (Architecture, Building and Construction), consumer durables, industrial equipments, etc. Consumption grew by

>6% in FY20 on the back of healthy demand from infrastructure and housing segments as well as in the ART (Automobile, Railway and Transport) segment.

Chart 2: While we would have loved to make a stronger case of superior SS demand growth in India, consumption is commensurate to per capita income (like steel and other commodities)



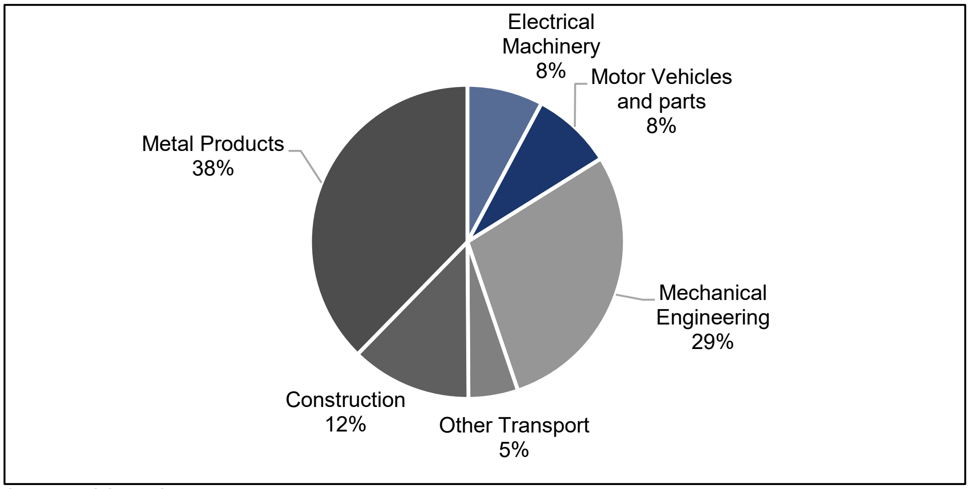
Source: ISSF, I-Sec research

Global, Indian stainless steel demand segmentation

Global stainless steel usage

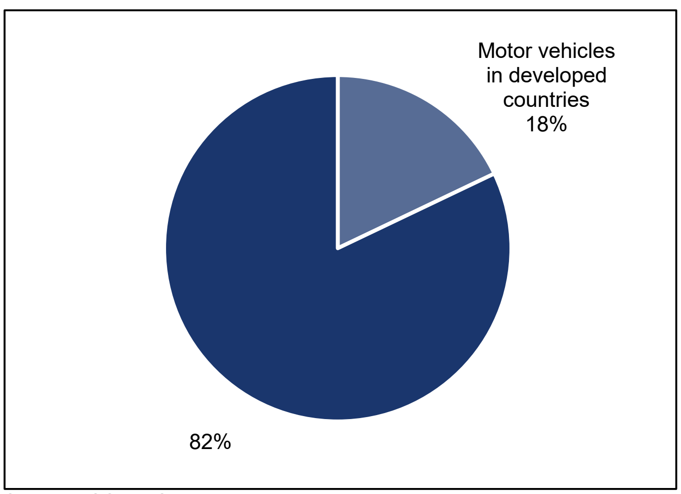
Globally, in terms of user-industry classification, the **consumer goods industry** is the major end-user (39% share of global demand). It is followed by process industry (33% share of global demand), ART segment (14%) and ABC segment (13%) while the balance 1% is 'others' category. In terms of series-wise classification, the share of 300-series is the highest at 55%. It is then followed by 200-series (25%) and 400-series (20%) *(Source: ISSF + Jindal Stainless Annual report FY20)*.

Chart 3: Global stainless steel usage pattern



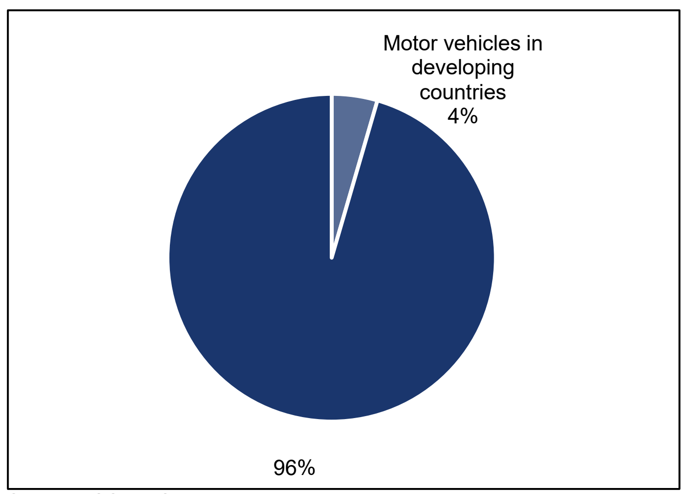
Source: ISSF, I-Sec research

Chart 4: Demand coming from automotive (developed economies)



Source: ISSF, I-Sec research

Chart 5: Demand coming from automotive (developing economies)



Source: ISSF, I-Sec research

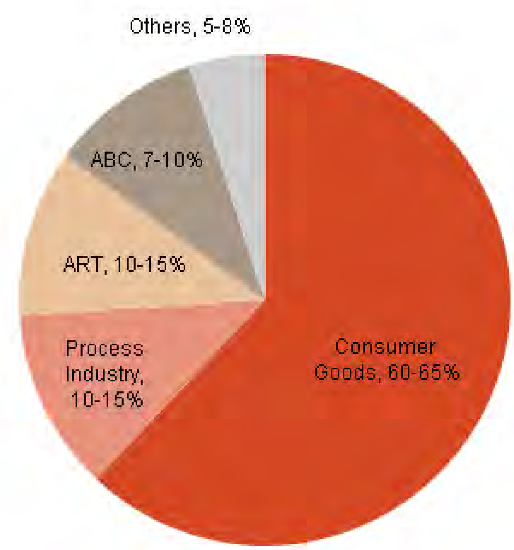
Indian stainless steel usage

In India, by user-industry classification, the consumer goods industry is the major end-user of stainless steel (~60-65% share of Indian demand). It is then followed by the process industry (~10-15% share of Indian demand), ART segment (~10-15%) and ABC segment (~7-10%) while the balance 5-8% is others. By 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 <1%.

Going forward, we expect demand growth in the largest end-segment, viz. consumer goods, to marginally lag the average industry growth because **of already high penetration of stainless steel in the segment. However, with emerging trends in building and construction, increasing penetration of stainless steel in Railways and strong growth in automobile production will provide an impetus for overall stainless steel consumption.**

Stainless steel is categorised into flat and long products, of which flat products account for ~75% of the market by volume.

Chart 6: Indian stainless steel usage pattern (flat products)



Source: I-Sec research, Crisil research;

Outlook on stainless steel prices (factors are not much different to carbon steel prices)

The factors that have contributed to the rally in global stainless steel prices so far are:

- **Low inventories**. Inventories remain low and there is no sign of stock-build across the supply chain. It is therefore not a surprise that base prices in Europe and the US have continued to increase steeply as mills have the ability to maintain their negotiating power.
- **Concerns over security of supply**. Extreme weather conditions, pandemic-related limitations, one instance of force majeure, as well as logistical challenges are weighing on stainless production, worsening the mismatch between supply and demand. Global trade constraints, a result of protective policy, high freight costs and long lead times are adding to the pressures.
- Higher raw material prices.
- **Possibility of Chinese production cuts in H2CY21**. Expectations that Chinese production will decline in H2CY21, as part of the government's decarbonisation efforts, contributed to price strength (speculative). That, along with rising raw material costs, led to a sharp rebound in Chinese domestic stainless steel prices and contributed to the rally in prices elsewhere. While Chinese production has fallen slightly from record highs in Mar'21, volumes have been stable in recent months, showing no indication of cutbacks.

Key risk to prices is: weakening of the underlying demand in some key markets. We continue to work with normalised EBITDA margins for JSL.

China demand is seasonally slow; no production cutbacks seen so far

Apparent consumption of stainless steel in China has fallen partly due to softer underlying demand. The China government has intensified its efforts to cap steel output, with the aim to limit this year's production to CY20 levels. In line with our expectations, no stainless steel production cutbacks have thus far materialised and we expect this situation to continue. Nevertheless, Jul'21 output was lower than planned, in part due to shortages of raw materials.

China's exports surged in Jun'21

China's exports of stainless steel in all forms surged by 35% MoM to 455kte in Jun'21, with nearly all destinations registering strong increases. That was also supported by supply tightness elsewhere. Meanwhile, stainless steel imports into China fell to 241kte in Jun'21, down from 299kte in May'21. The decline is mainly attributable to smaller volumes from Indonesia.

Prices reach multi-year highs; caution in spread assumption is warranted

Rising raw material costs and expectations of stainless production cutbacks have led to strong price increases. CRU's price assessment for CR-304 in China was in a range of RMB19,900-21,100/te with a final price of RMB20,300/te at end-July. CR-430 was assessed in a range of RMB11,100-11,600/te. Both price indices stand at a 10-year high and have generated concerns among consumers due to their elevated levels compared with historical averages.

Supply-side issues persist in the US, while demand is leveling off

Stainless steel supplies in the US continue to be constrained. Domestic production has been sluggish in the past few months. Cold-rolled orderbooks for Oct'21 are expected to open soon, while lead times for plate are 9-10 weeks. Lead times for imported materials remain longer, stretching well into Nov, 21 at the earliest without considering potential freight disruptions. **At the same time, offers for imported stainless steel are often substantially higher than domestic prices, whilst in some cases import offers have been hiked multiple times within the same month**. As a result, overseas buying activity has been low and has restricted stainless steel availability.

Unlike carbon steel, there is no upcoming new capacity for stainless steel in the US. **Demand is leveling off, especially on account of tightening credit limits as prices continue to soar.** Likewise, auto output has been undermined by raw material scarcity, with Jun'21 output reaching its lowest level since the beginning of the covid pandemic.

Supply tightness has further exacerbated in Europe

While demand in Europe is exceptionally strong, production is lagging and, in our understanding, overall capacity utilisation has not exceeded the ~80% mark yet. Given robust demand, these factors mean lead times remain long, stretching to Q1CY22 in the case of **CR-304 (CRU data)**. In the meantime, service centre inventories are below historical averages.

"The European import and Taiwanese export quota systems together have greatly complicated the purchasing process and pose more risks to buyers. After a month of a new quota period, EU cold rolled quota utilisation is at 37%, hot rolled quota utilisation is at 34%" (*Outokumpu Q2CY21 results presentation*).

Anti-dumping and anti-subsidy investigations in Europe

- Provisional anti-dumping duties on cold rolled steel from Indonesia at ~20% and **India at ~14-35%** were imposed in May. This will be in place for a maximum of six months after which they can be renewed for five years.
- **Anti-subsidy investigation on cold-rolled steel from India and Indonesia was initiated in Feb'21.**
- Expiry reviews of anti-dumping duty on cold-rolled steel from China and Taiwan are ongoing.

Carbon Border Adjustment Mechanism (CBAM) in Europe

- Included in the EU's 'fit for 55' proposal, which will be negotiated with member states.
- **Stainless steel included; ferrochrome excluded.**
- Currently includes only scope-1, inclusion of scopes 2 and 3 would be critical.
- Linked to ETS 2025 onwards.

Company overview

Jindal Stainless Limited (JSL) is the largest stainless-steel manufacturer in India. Over the years, the company has successfully established itself amongst the world's leading stainless steel manufacturers.

Spread across ~800 acres, JSL operates a stainless-steel plant at Jajpur, Odisha. Recently, the company enhanced its existing melting capacity of 0.8mtpa to 1.1mtpa. This expansion was undertaken through equipment and process de-bottlenecking for which the company incurred a nominal capex. The facility is conveniently located in close proximity to raw material sources and ports, which enables JSL to maintain low logistics and transportation costs.

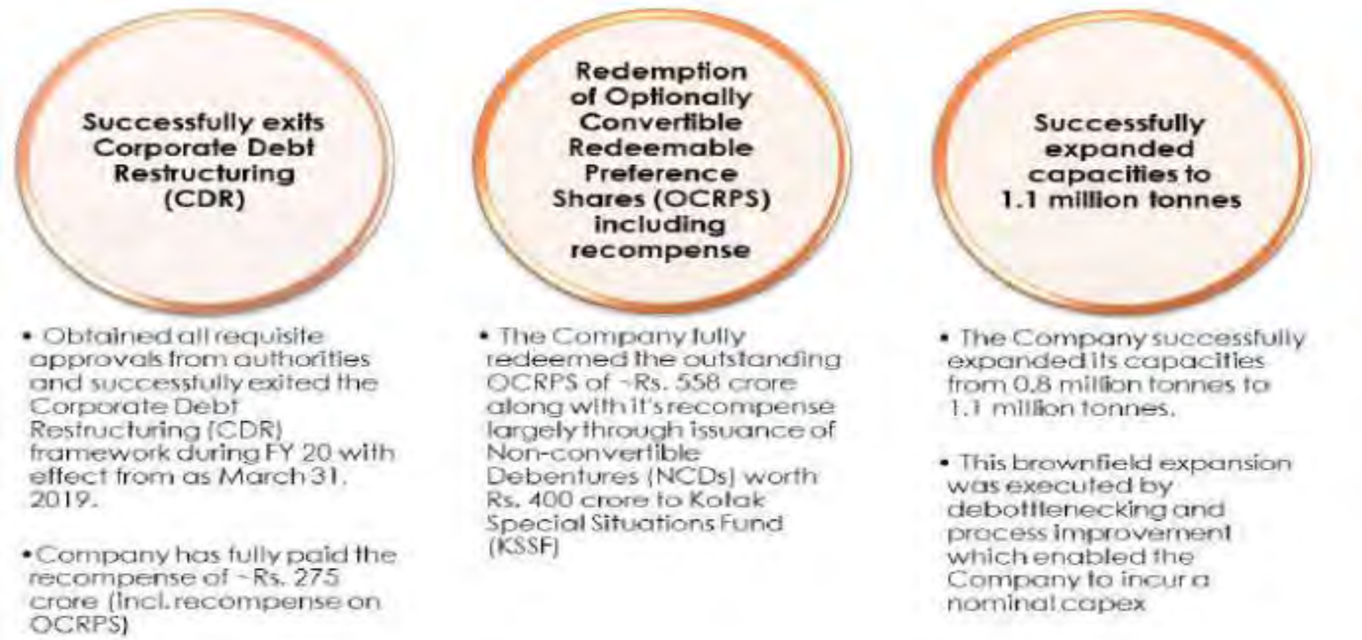
Company history

Jindal Stainless (JSL) set up its first plant in Hisar, Haryana [now part of Jindal Stainless Hisar (JSHL)] in CY70. In CY04, it planned to double its 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 0.8mtpa steel melting shop along with HR and CR facilities were to be set up in phase-2. However, the commissioning of phase-2 was stalled on account of lack in infrastructure, delay in getting essential approvals and global financial crisis witnessed in CY08. This adversely impacted the company's cashflow, thereby resulting in it going into a corporate debt restructuring (CDR) process.

Even after commissioning of phase-2, the company had to face challenging times on account slower ramp-up of the new capacity due to delay in getting clearance for the Railways siding, etc. **As the company's financial situation continued on its downward slide, the CDR scheme was again reworked in CY12**. In CY15, it successfully implemented the asset monetisation plan (AMP), which has helped 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).**

Over the past 2-3 years, JSL has ramped up its operations considerably. Hence, it has successfully exited the CDR. JSL is the only steel company in more than a decade to have exited CDR and is back on growth path with the ramp-up of its stainless steel capacity. The exit was with effect from 31st Mar'19, 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 Rs2.75bn in cash. Additionally, JSL has fully redeemed the outstanding optionally convertible redeemable preference shares (OCRPS), which were issued to the lenders in Jun'17 and has paid around Rs5.58bn, taking the aggregate realisation of lenders to around Rs8.33bn. This was largely done with the issuance of non-convertible debentures **worth Rs4bn through Kotak Special Situation Fund**. *(Source: FY20 annual report of JSL, I-Sec research)*

Chart 7: Key milestones in FY20



Source: Company data, I-Sec research

JSHL's stainless steel plant is located at Hisar, Haryana. The complex has a total stainless steel melt capacity of 800,000tpa. It creates exclusive stainless steel lifestyle products with a wide distribution channel and strong retail presence.

Table 2: Detail of JSL and JSHL's facilities

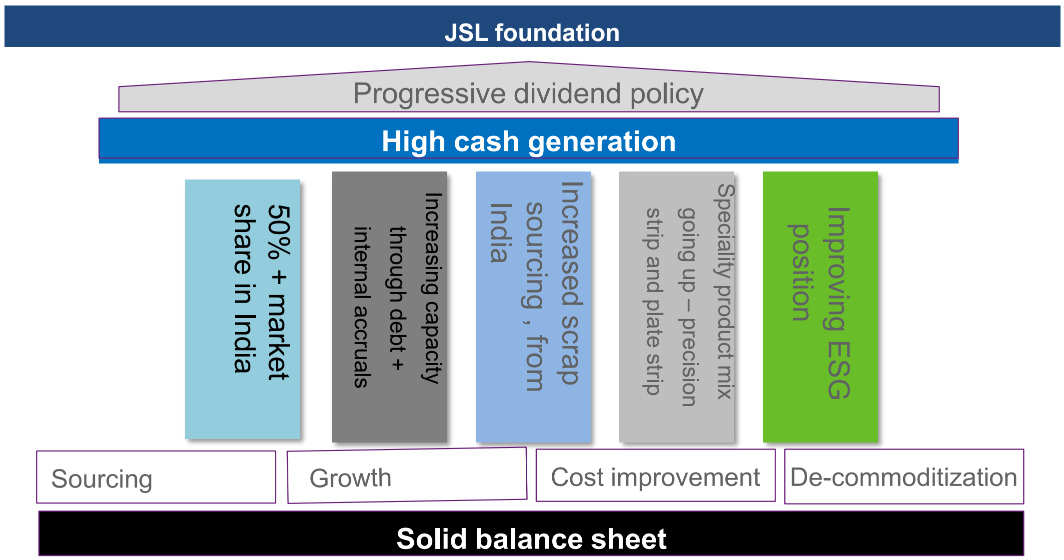
Plant	Capacity
JSL	
Steel Melting Shop (SMS) (tpa)	1,100,000
Cold Rolled Annealed Pickle (CRAP) (tpa)	450,000
Ferro Alloys (tpa)	250,000
Captive Power Plant (MW)	264
JSHL	
SMS Melting (tpa)	800,000
Hot Rolling – Steckel (tpa)	720,000
HR – Tandem Strip Mill (tpa)	250,000
HRAP& Plates Finishing (tpa)	175,000
Cold Rolling (tpa)	375,000
Specialty Products Division (tpa)	30,000
Blade Steel Division (tpa)	10,000
Vizag Ferro Alloys (Closed since last year)	40,000

Source: Company data, I-Sec research

Investment case and value strategy

Guiding principle: Combining growth, mix and cost improvements to improve profitability

Chart 8: Strong foundations to JSL's investment case

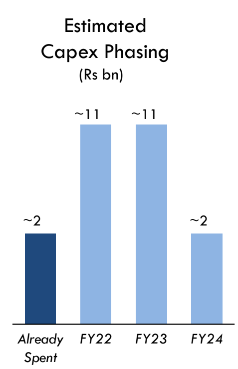


Source: I-Sec research

Chart 9: Embarked on Rs26bn capex program to consolidate its position as India's leading stainless steel producer

JSL Projects	Existing Capacity mtpa	Incremental Capacity mtpa	Total JSL mtpa	Est. Capex Rs bn	Est. Completion
SMS	1.10	1.00	2.10	**5.3**	Q3 FY23
Combo Line				**12.5**	Q4 FY23
HRAP	0.80	0.45	1.25		
CRAP	0.45	0.30	0.75		
Ferro Chrome	0.25	0.10	0.35	**3.15**	Q3 FY24
Quality Lab Expenses and Other balancing				**0.55**	
Sub Total JSL				**21.5**	

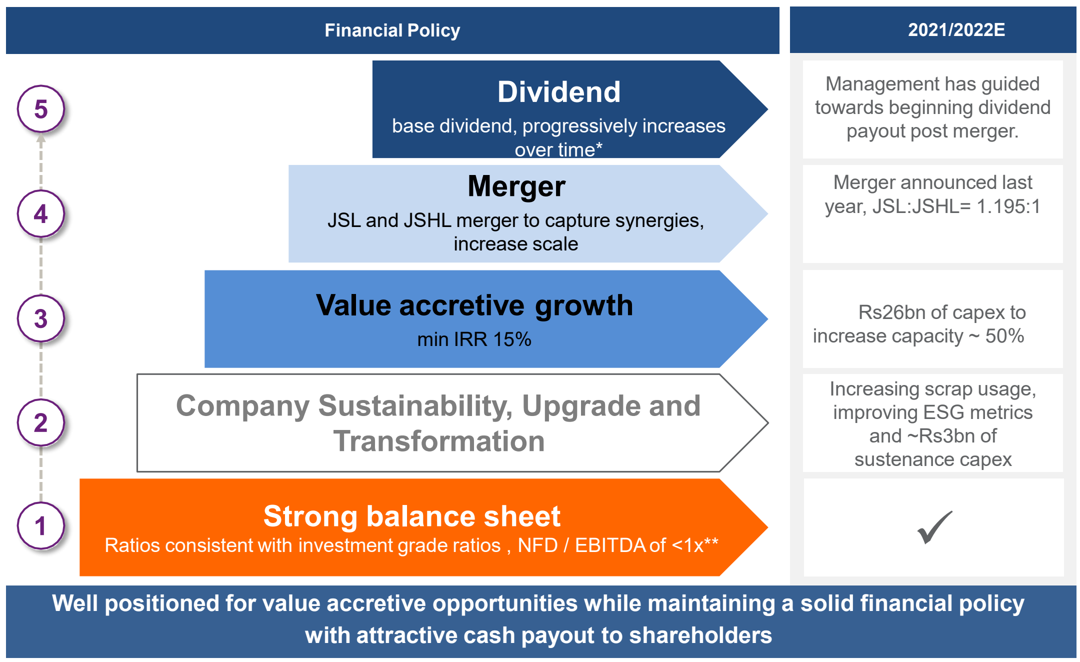
JSHL Projects	Existing Capacity ktpa	Incremental Capacity ktpa	Total SPD ktpa	Est. Capex Rs bn	Est. Completion
Precision Strip	22	38	60	**2.5**	
PS Phase -1		*26*			*Q2 FY22*
PS Phase-2		*12*			*Q4 FY23*
Blade Steel	14	10	24	**2.0**	
BS Phase -1		*6*			*Q2 FY23*
BS Phase-2		*4*			*Q2FY24*
Sub Total JSHL				**4.5**	
Total Project Cost				**26.0**	



Source: Company data, I-Sec research

Financial policy: Strong balance sheet, investment in long-term earnings growth, and solid cash returns to shareholders

Chart 10: JSL is well positioned for value-accretive opportunities while maintaining a solid financial policy with attractive cash payout to shareholders



Source: Company data, I-Sec research

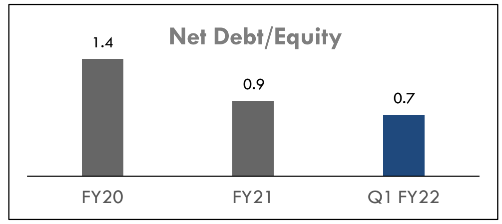
Debt repayment to improve balance sheet position

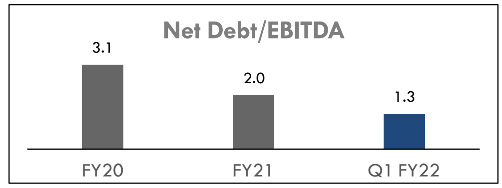
Over the past few years, JSL focused on repaying its debt and improving its balance-sheet position. Its consolidated net debt level has reduced from Rs50bn at FY18-end, to Rs43bn at FY19-end and further to Rs38bn FY20-end. Cashflows over the past few years have been channeled to reducing debt levels. Going forward too, we expect JSL to continue its debt repayment drive. We expect the merged entity to reduce its consolidated net debt by Rs22bn over FY20-23E, thereby having a consolidated net debt position of Rs23.6bn at the end of FY23E

Chart 11: JSL debt position and key ratios

Borrowings (Standalone) (Rs bn)	As on June.2021	As on Mar.2021	As on Mar.2020
Long term debt	13.2	15.3	23.6
Inter corporate loan from related party	10.5	10.5	9.0
Total Long term debt	**23.7**	**25.8**	**32.6**
Short term borrowing	1.8	3.2	4.0
Total Debt	**25.5**	**29.0**	**36.6**
Cash & Investments	0.5	0.9	0.4
Net Debt	**25.0**	**28.1**	**36.1**
Long Term Debt Breakup:			
-INR Debt	23.7	25.8	29.8
-Foreign Currency Debt			2.8

Borrowings (Subsidiaries) (INR crore)	As on June.2021	As on Mar.2021	As on Mar.2020
Long-Term Debt	**0.6**	**0.6**	
Short-Term Debt	**2.7**	**2.0**	**2.5**
Total	**3.3**	**2.6**	**2.5**





***Note:** Q1 FY22 calculations based on TTM figure*

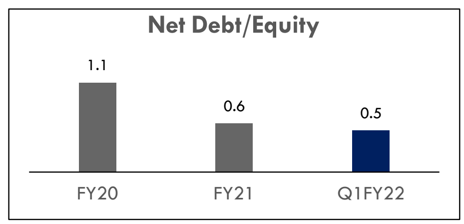
CRISIL rated long term credit facilities to A+
IND-RA upgraded long term credit facilities to A+
(Three level up from BBB+ to A+)

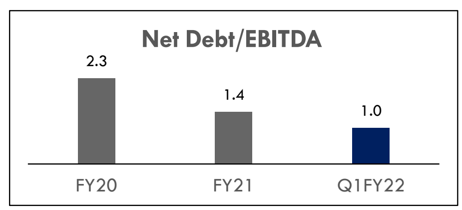
Source: Company data, I-Sec research

Chart 12: JSHL debt position and key ratios

Borrowings (Standalone) (Rs bn)	As on June 2021	As on March 2020	As on March 2019
Long term debt	**10.6**	**12.5**	**19.3**
Short term borrowing (less than 12 months)	2.4	1.3	0.9
Total Debt	**13.0**	**13.8**	**20.2**
Cash & Investments	0.1	0.1	0.2
Net Debt	**12.9**	**13.7**	**20.0**
Long Term Debt Breakup:			
-INR Debt	10.6	19.3	21.1
-Foreign Currency Debt	**10.6**	**12.5**	**19.3**

Borrowings (Subsidiaries) (INR crore)	As on June 2021	As on March 2020	As on March 2019
Long-Term Debt	0.6	0.4	0.3
Short-Term Debt	0.9	0.6	1.3
Total	**1.5**	**1.0**	**1.6**





***Note:** Q1 FY22 calculations based on TTM figure*

CARE upgraded long term credit facilities to A+
IND-RA upgraded long term credit facilities to A+

Source: Company data, I-Sec research

JSL is doubling its stainless steel capacity while JSHL is multiplying on speciality products

JSL plans to double the melting capacity in Jajpur through brownfield expansion. Jajpur already has the ready infrastructure to support this expansion at less than one-third of the greenfield project cost. Along with the melting capacity, the company also plans to increase its downstream capacity [hot rolled annealed pickled (HRAP) and cold rolled annealed pickled (CRAP steels) proportionately].

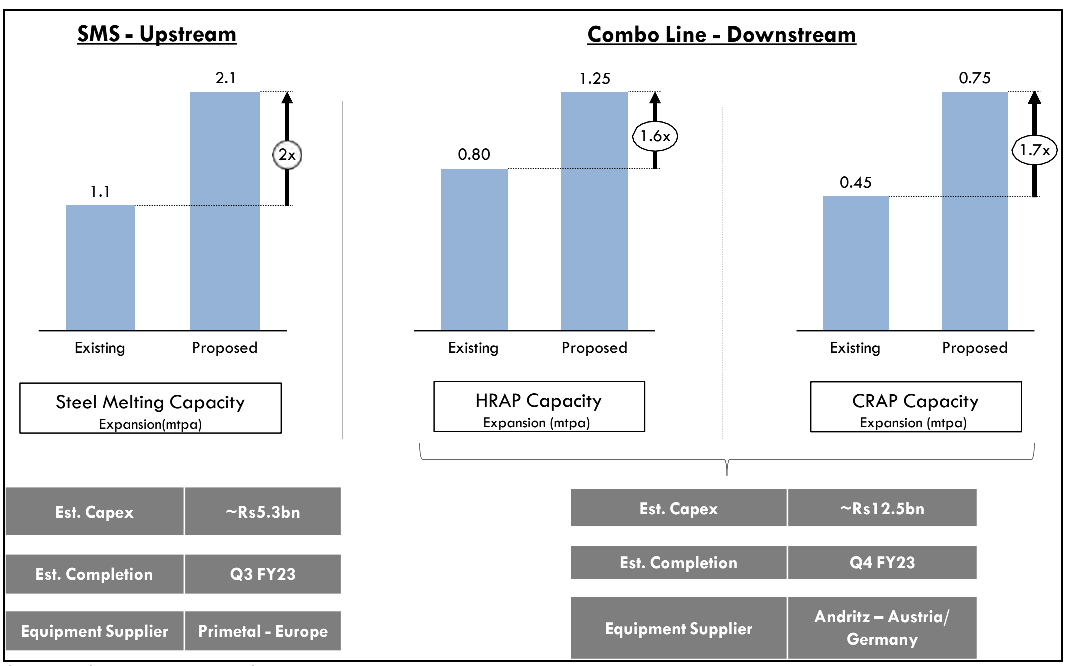
Table 3: JSL: Doubling capacity at less than one-third the capital cost of greenfield expansion

JSL – Doubling Stainless Steel Capacity	JSHL – Multiplying Speciality Products
Augmenting stainless steel melt capacity from1.1mtpa to 2.1mtpa	Strengthening product mix with expansion in value-added product segment
Incremental downstream capacity HRAP and CRAP	Expanding precision strip capacity by 3x
Enhanced backward integration and quality lab	Expanding blade steel capacity by 1.7x
Brownfield expansion; relevant approvals in place;	Leveraging leadership position in speciality products (SPD)
world-class European equipments	
Est. cost of Rs21.5bn at <1/3rd of the greenfield capex cost	**Est. cost of Rs4.5bn**

Source: Company data, I-Sec research

JSL is doubling capacity at <1/3rd cost of greenfield capex…

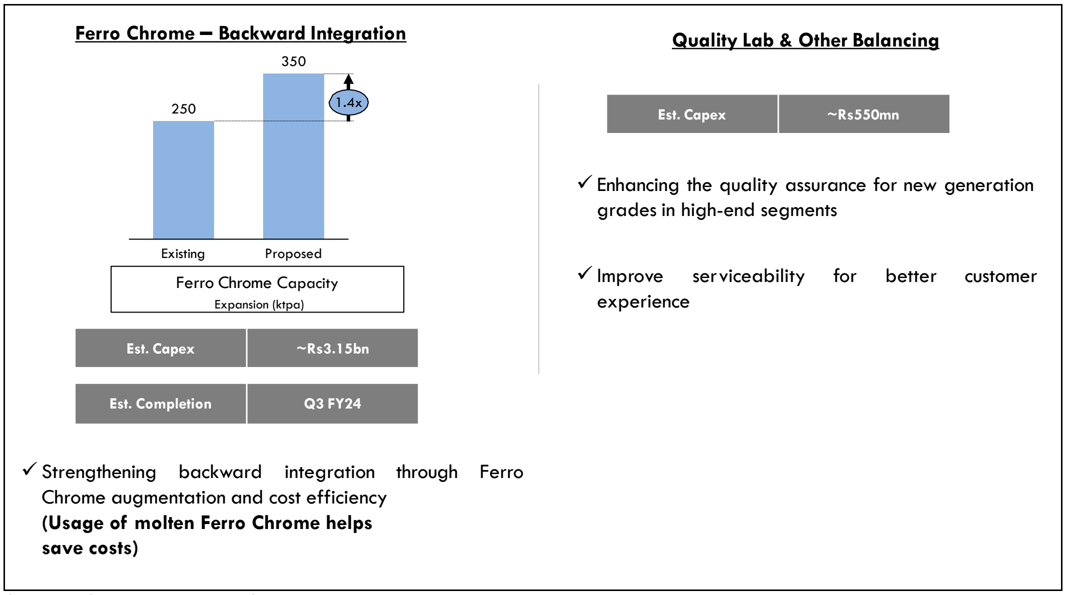
Chart 13: Upstream and downstream capacity expansion by JSL



Source: Company data, I-Sec research

… and scaling-up its integrated play…

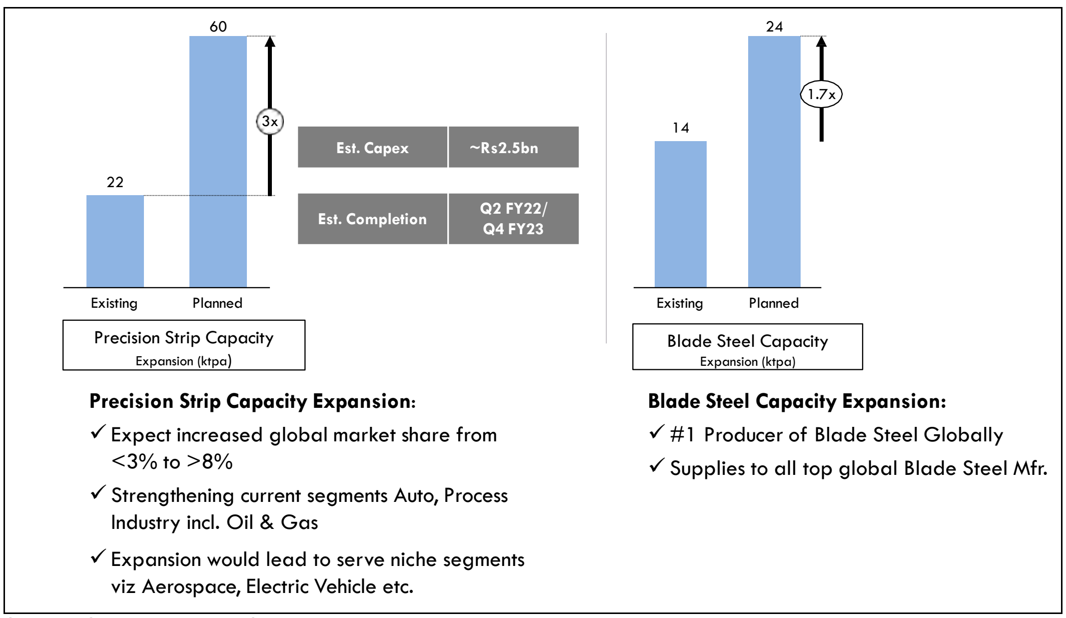
Chart 14: FeCr capacity expansion to meet captive requirement



Source: Company data, I-Sec research

… while JSHL continues to improve on high value-add product mix

Chart 15: Precision strip and blade capacity expansion planned in JSHL

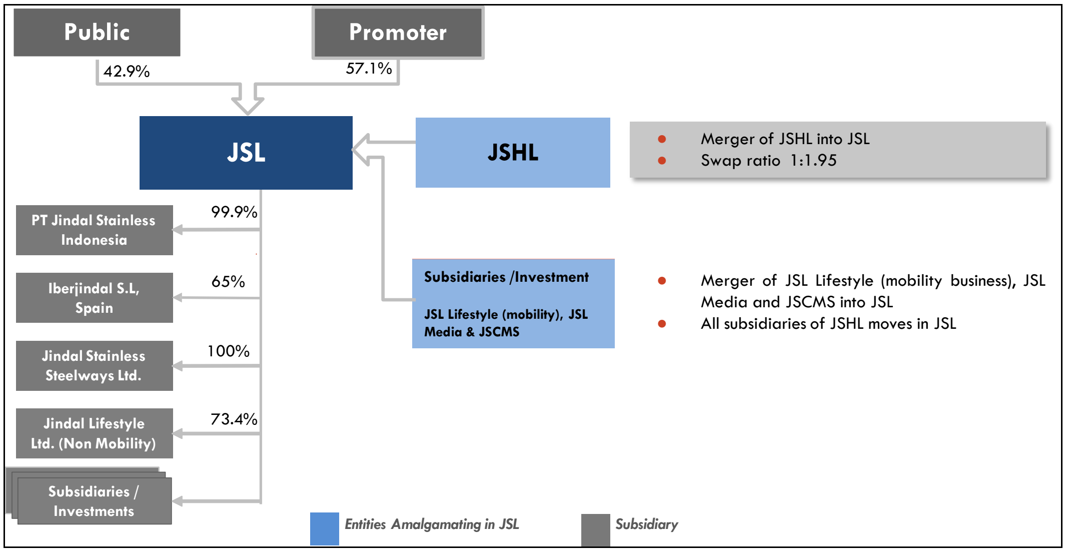


Source: Company data, I-Sec research

Merger overview

Transaction between Jindal Stainless (Hisar) Limited (JSHL) and Jindal Stainless Limited (JSL) is an all-equity merger. Shareholders of JSHL shall be issued equity shares of JSL in the ratio of 1:1.95. The merged entity will have stainless steel melt production capacity of 1.9mtpa.

Chart 16: Proposed structure post-merger



Source: Company data

Rationale: Consolidation of complementing strengths

We believe merger of JSHL into JSL will create a mega stainless steel entity that will be among the world's top-10 stainless steel companies and the largest in India. The merger will not only enhance the company's product portfolio, but will also offer a seamless, global network access to customers and further boost the 'Just-in-Time' approach. The merger will lead to the realisation of enhanced operational synergy, with JSL's proximity to port and raw materials, along with world-class finishing lines, and JSHL's strategic location around key domestic consumption centres. **Furthermore, the merged entity will present reinvestment opportunities for growth by leveraging ready infrastructure at Jajpur for cost-efficient Brownfield expansions.**

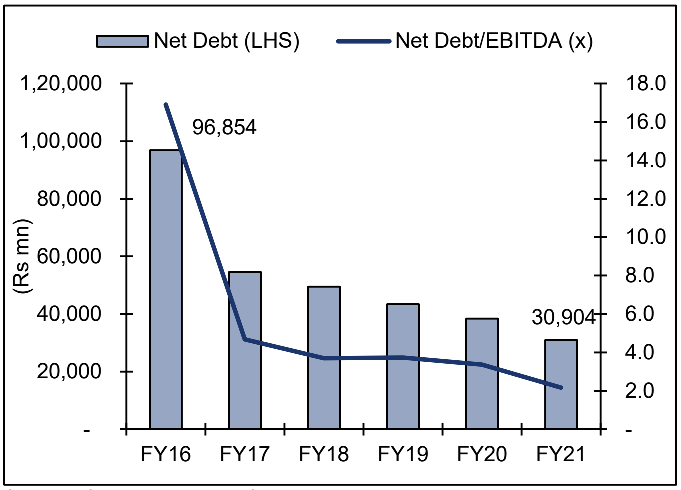
Table 4: Complementing strengths

	JSL	JSHL
Key Plant Location	Jajpur, Odisha Raw Material Hub, Port Proximity	Hisar, Haryana Key Consumption Hub Proximity
Stainless Steel (SS) capacities	**1.1mtpa** Integrated facility along with backward integration (Ferro Chrome and captive power plant)	**0.8mtpa** with Specialised Product Division (SPD) including Blade Steel, Precision Strips and Coin Blanks.
Infrastructure, Technology and R&D	Latest European 'State-of-the-art' technology. India's largest SS manufacturer. Producing globally competitive SS products. Readily leveragable infrastructure for cost-efficient brownfield expansion (>800 acre land)	Pioneer SS manufacturing in India. World's largest producer of SS strips for razor blades and India's largest producer of coin blanks.
Service Center/Finishing Lines	International	Domestic
Offerings	High volume, wider width offerings. Actively catering to volume-oriented sectors like Railways, auto and infrastructure	Actively catering to SPD and niche SS products

Source: Company data

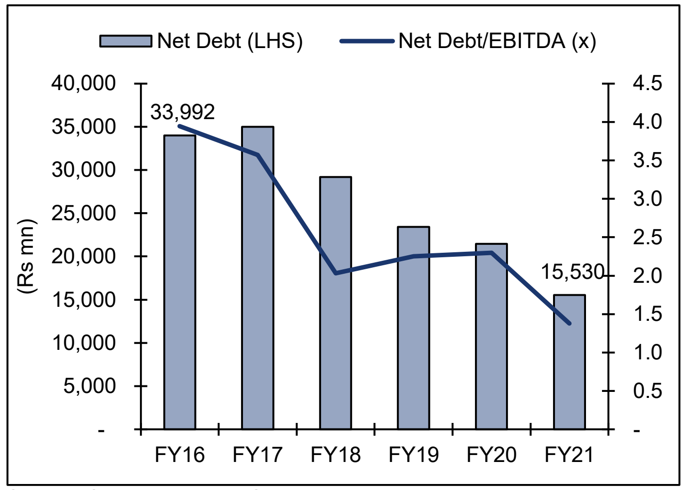
Consolidating balance sheet strength

Chart 17: JSL net debt



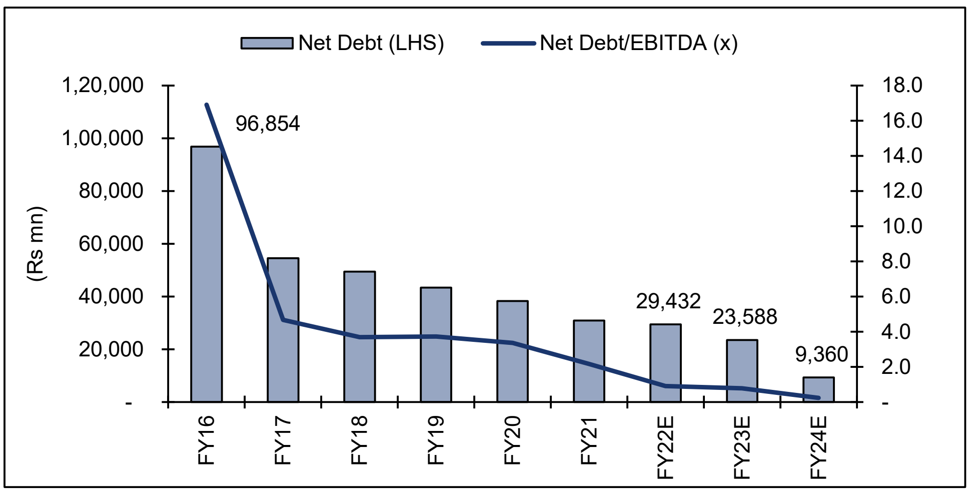
Source: Company data, I-Sec research

Chart 18: JSHL net debt



Source: Company data, I-Sec research

Chart 19: Merged entity net debt trajectory (merger shown from FY22E)



Source: Company data, I-Sec research

Table 5: JSL, JSHL merger: Progressing well

Appointed Date	**1st Apr'20**
Major Events	• Board approval of the scheme of arrangement
Expected completion in H2FY22	• Stock exchanges / SEBI approval
	• Shareholders and creditors approvals
	• NCLT approval
	• Implementation of scheme
Updates	• Received stock exchanges / SEBI approval in 1st week of Mar' 21, ahead of the expected time
	• First motion application filed before the NCLT on 17th Mar'21
	• The petition is expected to come up for hearing soon

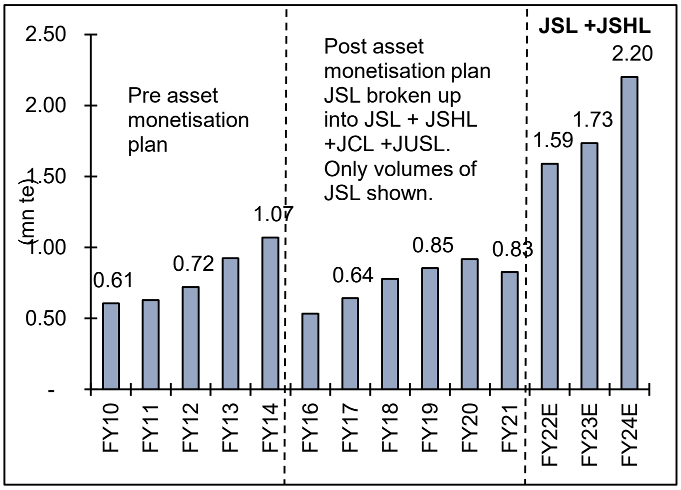
Source: Company data

Key takeaways from Q1FY22 results conference call

- JSL is augmenting is stainless steel melt capacity from 1.1mtpa to 2.1mtpa and also enhancing downstream capacity with 1.6x expansion of hot rolled annealed pickled (HRAP) from 0.8mtpa to 1.25mtpa and 1.7x expansion of cold rolled annealed pickled (CRAP) from 0.45mtpa to 0.75mtpa. It is also expanding backward integration with 1.4x expansion of ferrochrome capacity from 0.25mtpa to 0.35mtpa.
- The estimated total growth capex is Rs21.5bn wherein melting capex is Rs5.3bn (to be completed by Q3FY23), downstream enhancement capex is Rs12.5bn (to be completed by Q4FY23) and backward integration capex is Rs3.15bn (to be completed by Q3FY24). Quality lab and other balancing capex is Rs550mn.
- For FY22, the company has raised its EBITDA/te guidance to Rs18,000-20,000/te (from Rs15,000-17,000/te earlier).

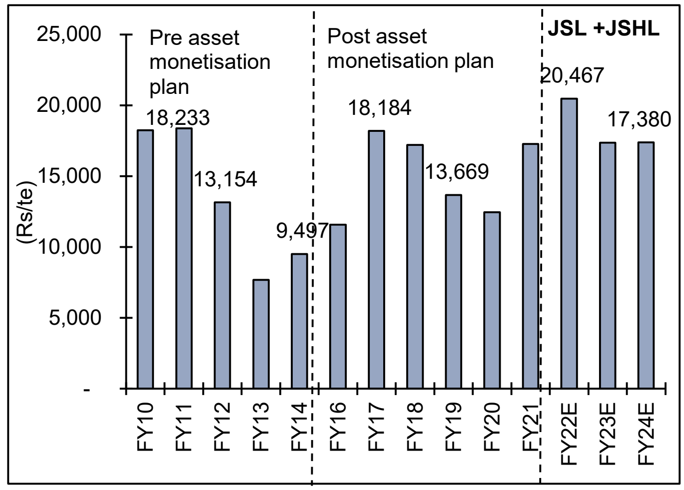
JSL story in charts

Chart 20: Substantial volume pickup expected



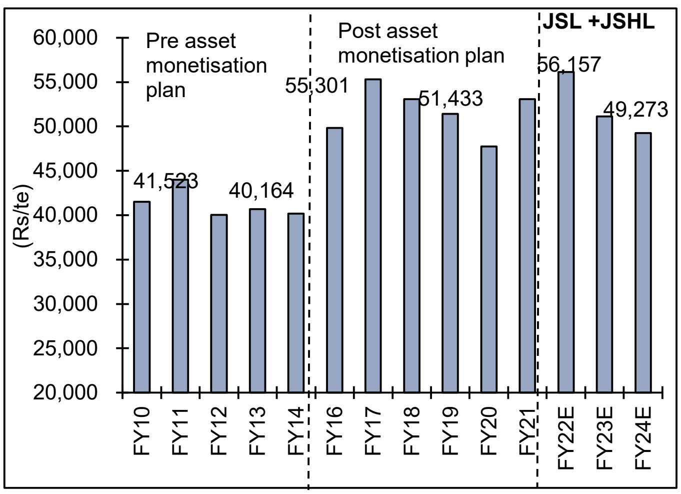
Source: Company data, I-Sec research

Chart 21: EBITDA/te (FY23E/FY24E higher than mid cycle due to operating leverage and efficiencies)



Source: Company data, I-Sec research

Chart 22: Gross margin per tonne – Significantly normalised



Source: Company data, I-Sec research

Chart 23: Other expenses per tonne

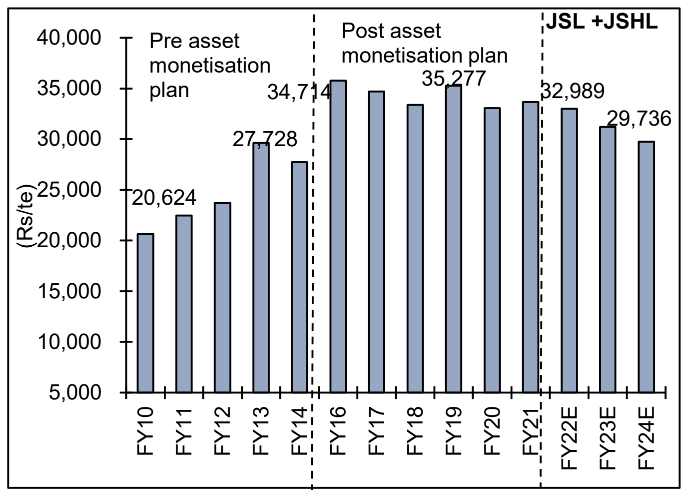
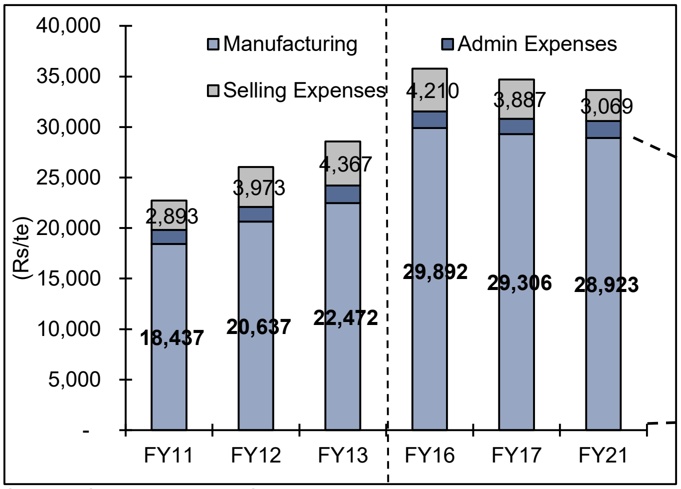
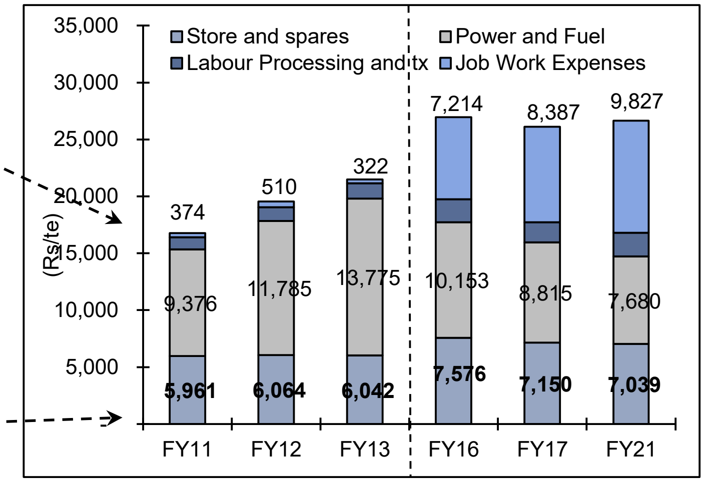


Chart 24: Other expenses per tonne increased considerably since asset monetisation plan (FY15)



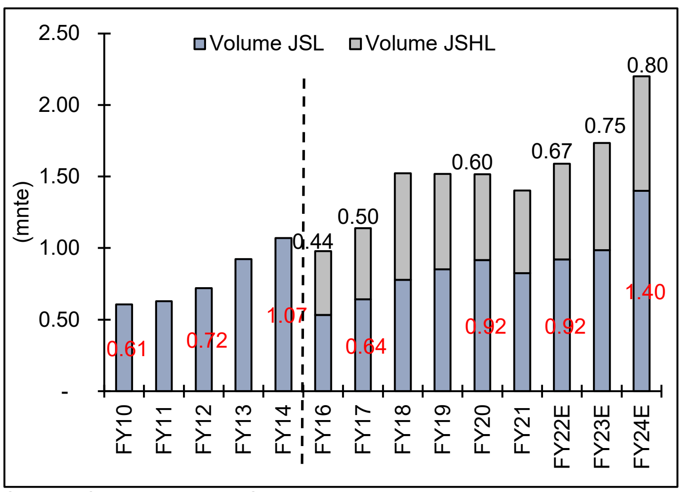
Source: Company data, I-Sec research

Chart 25: Increased job work done via JUSL reflects in higher other expenses, and may continue post merger



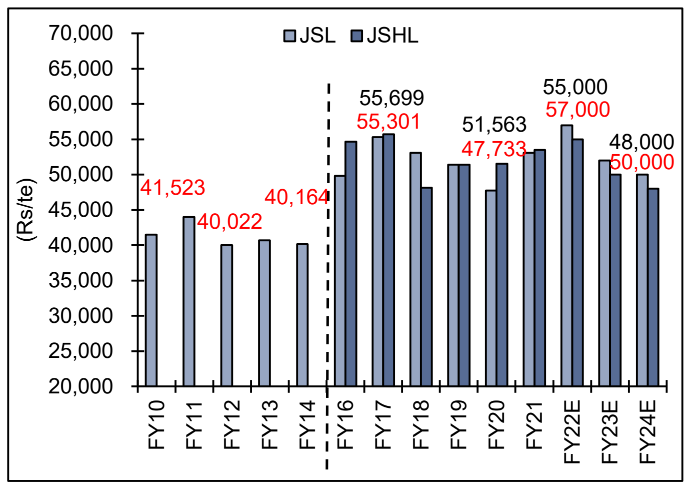
Source: Company data, I-Sec research

Chart 26: Assumed volume trajectory of JSL and JSHL



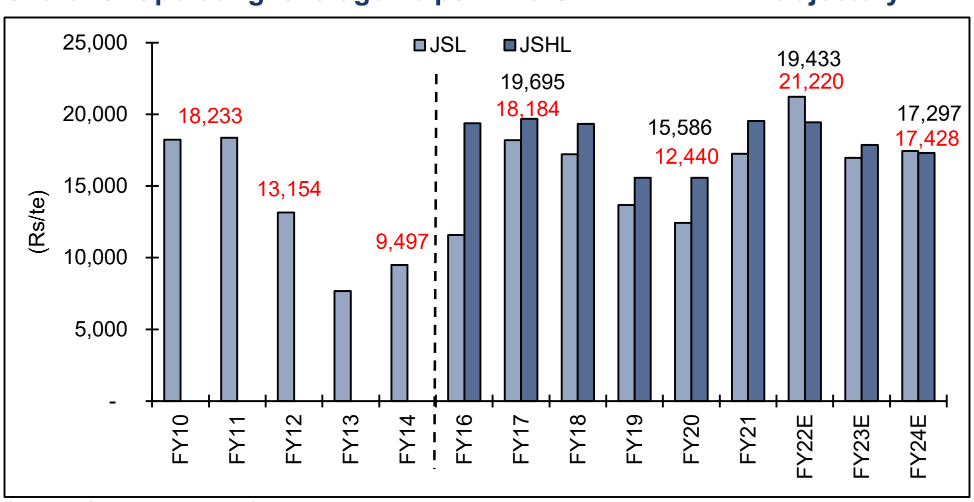
Source: Company data, I-Sec research

Chart 27: Significant compression has been assumed in gross margin per tonne



Source: Company data, I-Sec research

Chart 28: Operating leverage helps FY23E/FY24E EBITDA trajectory



Source: Company data, I-Sec research

Chart 29: Merged entity can clock through-cycle RoE of 20%

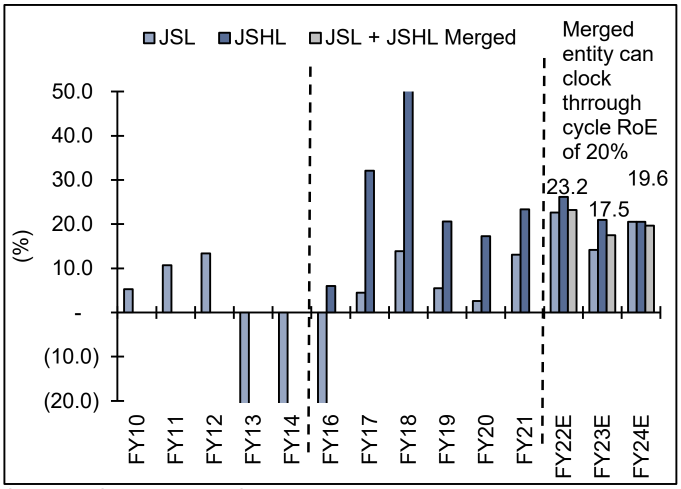
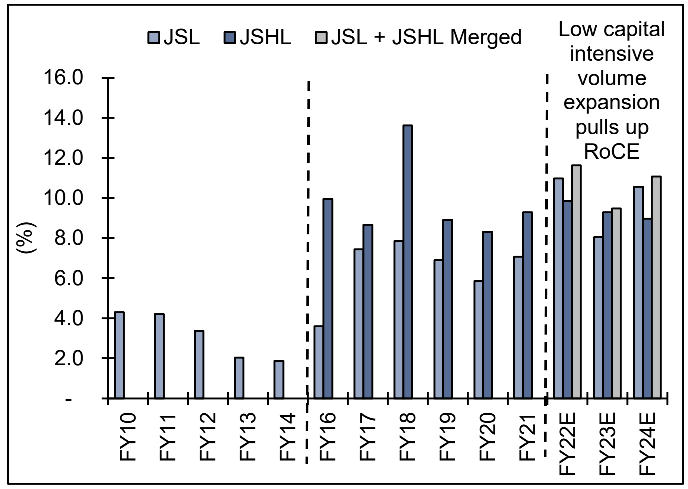


Chart 30: Despite moderating spreads, RoCE holds up; capital-efficient volume expansion the key



Source: I-Sec research, Company data

Valuations

We initiate coverage on Jindal Stainless (JSL) with a **BUY** rating and target price of Rs230/share. We value it at 1.8x FY24E P/B, with an implied EV/EBITDA of 5x. The P/B multiple is reflective of long-term through cycle RoE of 20%. Corresponding FY22E multiples are 2.2x P/B and 7.1x /EBITDA.

Global valuation comparison

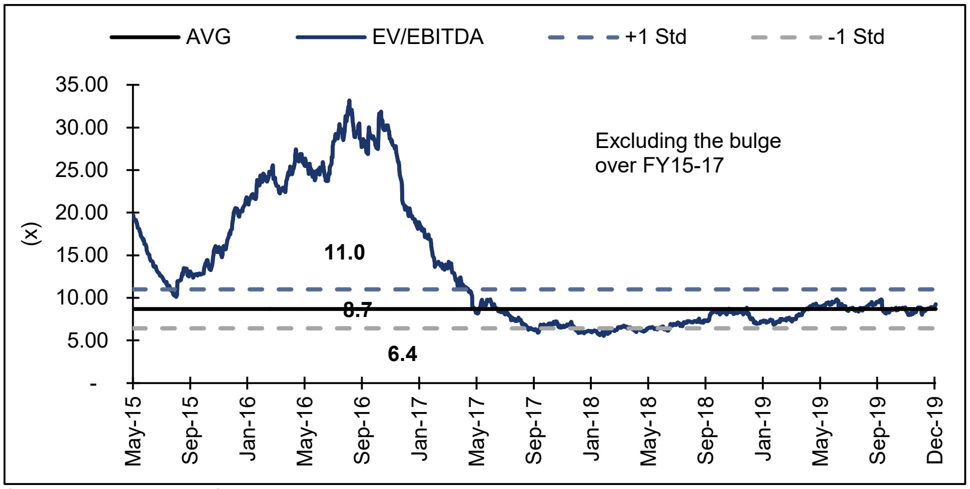
We draw an idea from the historical EV/EBITDA band of all the stainless steel majors. Over a period of 5-10 years, the average EV/EBITDA of the listed peer set for JSL comes to 8.5x (1-year forward). We attribute similar multiples to JSL as well.

Table 6: Peer valuation band for Jindal Stainless

	Average EV/EBITDA	+1 Std Dev	-1 Std Dev	Time period of Study
Outokumpu	8.7	11.0	6.4	May, '15- Jan,'20
Acerinox	10.4	13.2	7.6	Sep '09 - Jan, '20
Aperam	6.4	8.3	4.5	Jan, '11 - Jan, '20
Average	**8.5**	**10.8**	**6.2**	

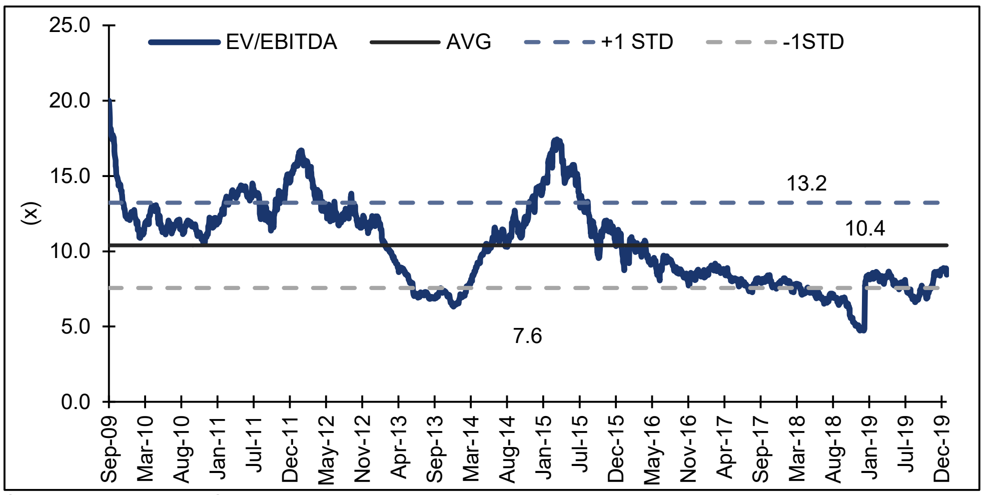
Source: I-Sec research, Bloomberg

Chart 31: Outokumpu EV/EBITDA band



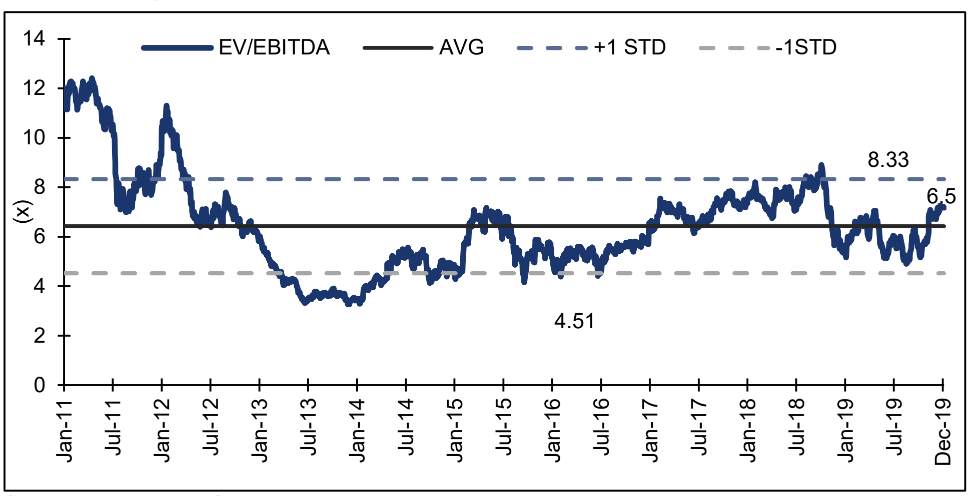
Source: Bloomberg, I-Sec research

Chart 32: Acerinox EV/EBITDA band



Source: Bloomberg, I-Sec research

Chart 33: Aperam EV/EBITDA band



Source: Bloomberg, I-Sec research

Table 7: Global peer comparison

	CY18/FY19	CY19/FY20	CY20/FY21
Volumes (mnte)			
JSL	0.85	0.92	0.83
JSHL	0.67	0.60	0.58
Outokumpu	2.43	2.20	2.12
Acerinox	2.44	2.23	2.20
Aperam	1.03	1.72	1.64
Realisation/te (Rs/te)			
JSL	159,124	141,385	147,739
JSHL	154,256	156,317	162,917
Outokumpu	240,051	247,491	226,466
Acerinox	174,564	181,125	180,601
Aperam	385,966	209,292	187,944
Gross margin/te (Rs/te)			
JSL	51,433	47,733	53,087
JSHL	51,408	51,563	53,477
Outokumpu	24,016	20,089	18,074
Acerinox	35,637	37,033	38,496
Aperam	58,262	25,865	26,397
EBITDA/te (Rs/te)			
JSL	13,669	12,440	17,263
JSHL	15,573	15,586	19,533
Outokumpu	16,454	9,328	9,418
Acerinox	17,975	14,973	16,095
Aperam	40,932	16,487	17,633
RoE (%)			
JSL	5.5	2.6	13.1
JSHL	20.6	17.3	23.4
Outokumpu	4.8	(2.8)	(4.7)
Acerinox	12.0	(3.0)	2.9
Aperam	11.3	6.0	7.6
RoCE (%)			
JSL	6.9	5.9	7.1
JSHL	8.9	8.3	9.3
Outokumpu	4.21	(0.8)	(1.6)
Acerinox	7.06	(5.0)	1.7
Aperam	10.43	6.1	6.7

Source: Bloomberg, I-Sec research

Key risks to business model

Political, legal and regulatory risks

We see a possibility of a change in the overall duty structure on key raw materials / finished goods by Government of India. Further, Jindal Stainless (JSL) has been exporting its products to many countries that have varying degrees of political and commercial instability. Any instability in such countries could impact the company and pose challenges to its overall performance.

Disruption risks

JSL operates in a global environment and can be affected by general unprecedented crises such as the recent outbreak of covid pandemic. This crisis has severely impacted economic activity across the globe. The manufacturing industry globally has been under stress as the supply chain was disrupted with restrictions on movement of goods and growing market uncertainty. Unprecedented situations like lockdown may also JSL's impact business. The pandemic also resulted disrupting the domestic and international demand for stainless steel.

Rising stainless steel imports from FTA countries

Change in the demand-supply scenario can cause disruptions in the global market, which could have an adverse effect on the company's overall performance. Higher production in Asean countries, as well as China, could pose a threat to the outlook of the Indian stainless steel industry. Indian stainless steel manufacturers are exposed to a threat **of increased dumping of irrationally priced imports**. This scenario of rising imports under FTAs into the country could force Indian manufacturers including JSL to underutilise its capacities.

Increased dumping could lead to a steep rise in channel inventories, which would severely impact the overall pricing in the Indian market and have an adverse effect on JSL's performance.

Volatility in key raw materials

JSL is exposed to price changes in some of its key raw materials. This aspect could lead to a scenario of demand deterioration when prices fluctuate. Volatility in these materials could lead to an increase in inventories leading to some impact on the company's performance.

Financial risks

JSL's debt servicing capabilities could get affected due to any volatility in financial markets. It could face incremental challenges in a changing interest rate scenario. Further, JSL is also exposed to currency risks due to its considerable imports and exports of goods.

ESG summary

Jindal Stainless (JSL) produces uses ~100% scrap in its austenitic grades. Scrap is sourced regionally in Asia.

ESG: JSL from an ESG perspective

Table 8: Key ESG observations for JSL

Products	Nontoxic, long lifespan and 100 infinitely recyclable without loss of quality.
Climate change	Stainless steel has one of the lowest CO_2 footprints in the steel industry globally (Scope-1 and Scope-2). *(Source: Aperam, Acerinox)*
Governance	Details of the Board and the committees discussed subsequently. *Table* 8
Related party transactions	We see possibility of reduction in related party transactions. With merger of JSL and JSHL, many such transactions along with ICDs will cease to exist. Details discussed in *Table* 9
Fees to the auditor	Company has made payment of Rs7.2mn to the statutory auditors for all the services (including Rs0.5mn for GST audit fees) availed by JSL during FY20.

Source: Company data, I-Sec research

Governance: Structure of the Board and the committees

Table 9: Board and committee composition

Board election subject to shareholder approval. Directors are elected for 3-year terms		
Board has 4 independent directors out of 8 directors		
Some key committees	**Chairman**	**Description**
Audit Committee	Suman Jyoti Khaitan	3 independent directors out of 4 directors
Risk Management Committee (looks at risk management and ESG)	Abhyuday Jindal	5 members with 1 independent director
Nomination and Remuneration Committee	Suman Jyoti Khaitan	3 independent directors out of 4 directors
Zero Board committees composed of 100% of independent directors and reporting to the Board of directors (we see scope for improvement)		
Key Committees with Independent Chair		
Audit Committee – **Chair**: Suman Jyoti Khaitan		
Remuneration, Nomination and Corporate Governance Committee – **Chair**: Suman Jyoti Khaitan		

Source: Company data, I-Sec research

Related-party disclosures

As an ordinary resolution, the Board was allowed to enter into one or more contracts / arrangements / transactions with related parties as shown in *Table* 9.

Table 10: Approved transactions with related parties for FY21

	(Up to Rs mn)
Jindal Stainless (Hisar) Limited	23,000
Jindal Stainless Steelway Limited	17,000
Jindal United Steel	20,000
JSL Global Commodities	15,000

Source: Company data, I-Sec research

JSL management profile

Name	Profile
Savitri Devi Jindal Chairperson Emeritus	Education: Diploma Experience: • Haryana Vidhan Sabha Member (CY05-09) • Cabinet Minister Haryana Government • Legislative Member • Office of Ministry of Power (CY10) • President, Maharaja Agrasen Medical College, Agroha
Ratan Jindal Chairman and Managing Director	Education: Commerce Graduate, Wharton School of Management Experience: • JSL Europe – Board Member • JSL Ventures – Board Member • JSL Group Holdings – Board Member • Sonabheel Tea – Board Member • Nalwa Financial Services – Board Member • OPJ Investments & Holdings – Board Member • Jindal Steel & Power LTD – Board Member • Jindal Industries – Board Member
Abhyuday Jindal Managing Director	Education: Economics and Business Mangement Graduate, Boston University Experience: • Co-Chair, FICCI's Steel Committee • Vice Chairman – Jindal Stainless LTD • Worked with BCG
Tarun Kumar Khulbe Whole Time Director	Education: • BE in Mech. Eng. From MITS Gwalior • MBA from JBIMS, Mumbai Experience: • Worked with Raymond Steel • Worked with EBG India • Worked with ThyssenKrupp Elec Steel • Worked with Bushan Steel LTD
Bhaswati Mukherjee Independent Director	Education: • Graduate from Delhi University • Degree in Frenche History from Sorbonne University, Paris Experience: • Indian Diplomat (rtd)
Jayaram Eswaran Independent Director	Education: MBA from IIM Bangalore Experience: • Corporate Marketing at Eicher Group • HR at Sutherland Global Services • HR at Tality India • Corporate Planning & Communication at Aricent INC. • Joint MD & CEO Maadhyam marketing
Suman Jyoti Khaitan Independent Director	Education: Graduate in Economics and Law Experience: • Founder and Partner at Khaitan & Co. LLP • Member of Indian Chambers of Commerce
Praveen Kumar Malhotra Nominee Director - SBI	Education: • Science Graduate from Punjab University • MBA from JBIMS, Mumbai Experience: • Probationary Officer – Dy. Managing Director, SBI
Anurag Mantri Chief Financial Officer	Education: • B.Com. from University of Rajasthan • CA from ICAI, Mumbai Experience: • Manager – Corporate Finance, L&T LTD • Head – Treasury, Investor Relations, M&A – SRF LTD

Name	Profile
	• Group Treasury & Investor Relations – Cairn Energy • CFO, ACME Group • CFO, SEIL
Navneet Raghuvanshi Company Secretary & Legal Head	Education: • CS from ICSI • LLB from Delhi University • MBA – Finance from Dayalal Educational Institute Experience: • NDTV – CS & Legal Head • Ranbaxy Lab – GM & Deputy CS • Aricent – Asst. CS • Eicher – Asst. Manager & Secretary • Unitech – Asst. CS

Source: Company data, I-Sec research

JSHL management profile

Name	Profile
Ratan Jindal Chairman	Education: Commerce Graduate, Wharton School of Management Experience: • JSL Europe – Board Member • JSL Ventures – Board Member • JSL Group Holdings – Board Member • Sonabheel Tea – Board Member • Nalwa Financial Services – Board Member • OPJ Investments & Holdings – Board Member • Jindal Steel & Power – Board Member • Jindal Industries – Board Member
Abhyuday Jindal Managing Director	Education: Economics and business management graduate, Boston University Experience: • Co-Chair, FICCI's Steel Committee • Vice Chairman – Jindal Stainless LTD • Worked with BCG
Deepika Jindal Chairperson & Non-Executive Director	Education: Art Graduate Experience: • JSL Lifestyle – Managing Director • Jindal Stainless Steelway – Director • Synergy Enviromics – Director • Viday Devi Jindal School – Chairperson • OP Jindal Modern School – Chairperson • Jindal Stainless Foundation – Chairperson • NC Jindal institute of Medical care & Research – Chairperson • OP Jindal Institute of Cancer & Research – Chairperson
Jagmohan Sood Whole Time Director	Education: • Graduation in Metallurgical Engineering • Masters in Material Technology – IIT-B Experience: • Worked with SAIL
Nirmal Chandra Mathur Independent Director	Education: B.Tech from BITS-Pilani Experience: • Jindal Stainless Steelway – Director • JSS Steelitalia LTD – Director • Green Delhi BQS LTD – Director • SFAI – Chairman • ISSD - President
Girish Sharma Independent Director	Education: • Commerce Graduate from Delhi University • Masters in Marketing and Business Management Experience: • Jindal Fittings - Director • Arya Iron & Steel Co. – Director

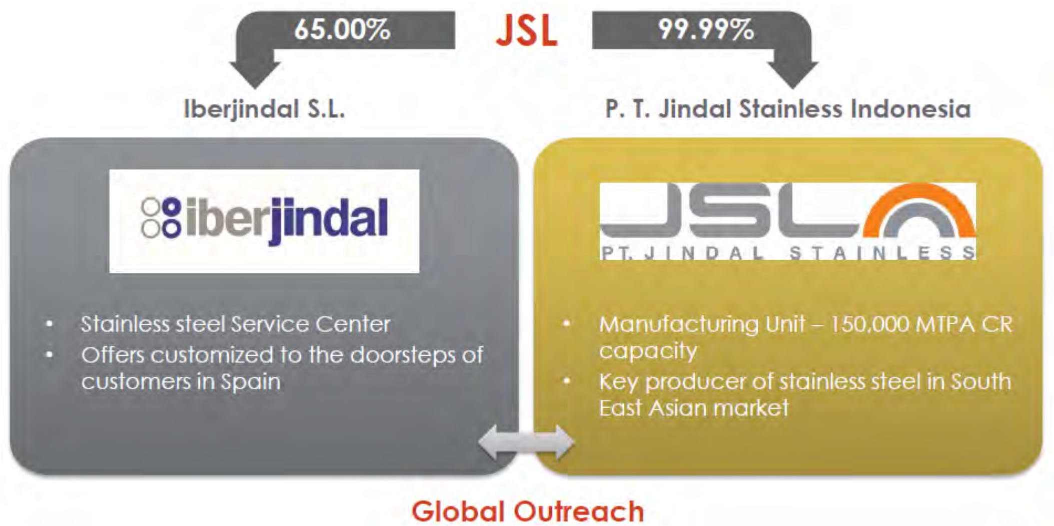
Name	Profile
	• Delhi Gymkhana club – Director • Jindal ITF LTD – Director • Hexa Securities & Finance – Director • JITF Infralogistics – Independent Director • HEXA Tradex – Independent Director
Dr. Rajeev Uberoi Independent Director	Education: • Graduate from University of Barkatullah • Masters from McMaster University • MBA from Management Development Institute • PhD in Economics from University of Barkatullah Experience: • NICDC Haryana Global City Project LTD – Director • Yes Trustee LTD – Director • IDFC Properties LTD – Director • IDFC Trustee Co LTD – Director • IFCI Infrastructure LTD – Director • MPCON LTD – Director • IDFC Financial Holdings LTD – CFO • Yes Bank LTD – Senior group President • Shalimar Piants LTD – Independent Director
Arti Luniya Independent Director	Education: • BA. (Hons) in Economics from LSR, Delhi University • MA. (Politics) fro, JNU, Delhi Experience: • Advisor to CEO – SAIL • Deputy GM – SAIL • Director - SAIL
Ramnik Gupta Chief Financial Officer	Education: • B.Com from SP Jain College, Ambala • CA from ICAI Experience: • ACC LTD – Asst. Manager (Finance) to VP Strategy (!5yrs)
Bhartendu Harit Company Secretary	Education: • B. Com from Kurukshetra University • LLB from Kurukshetra University • CS from ICSI Experience: • Nalwa Sons Investments - Secretary & Compliance Officer

Source: Company data, I-Sec research

Annexure

Global outreach

Chart 34: Overseas subsidiaries



Source: Company data

Asset monetisation plan: Creation of separate subsidiaries

A composite scheme of arrangement amongst JSL (*company*) and its three wholly-owned subsidiaries – namely JSHL, Jindal United Steel Limited (JUSL) and Jindal Coke Limited (JCL) – under the provision of Sec 391-394, with 100-103 of the Companies Act, 1956 and other relevant provision of Companies Act, 1956 and / or Companies Act, 2013 was sanctioned by High Court of Punjab & Haryana, Chandigarh, vide its order dated 21st Sep'15, modified by order dated 12th Oct'15.

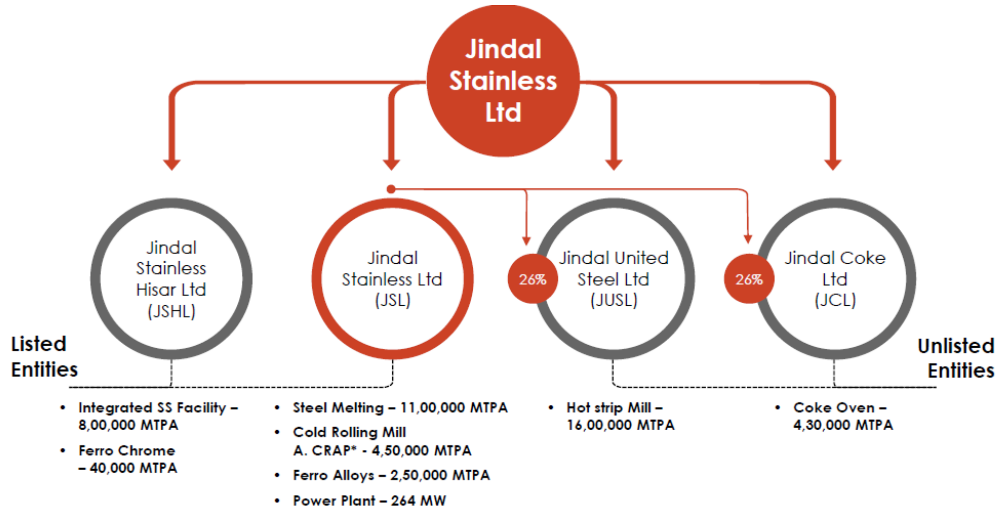
The schemes included:

- Demerger of the company comprising of the ferro alloys division located at Jindal Nagar, Kothavalasa (AP) and the mining division of the company and vesting of the same in JSHL w.e.f. appointed date, i.e. close of business hours before midnight of 31st Mar'14. **(Section I of the Scheme)**
- Transfer of the business undertaking 1 (as defined in the Scheme) of the company comprising of the stainless steel manufacturing facilities of the company located at Hisar, Haryana and vesting of the same with resultant company (JSHL) on going-concern basis by way of slump sale along with investments in the domestic subsidiaries (listed in Part B of schedule 2 of the Scheme) of the company w.e.f. from appointed date, i.e. close of business hours before midnight of 31st Mar'14. **(Section II of the Scheme)**
- Transfer of the business undertaking 2 (as defined in the scheme) of the company comprising, inter alia, of the Hot Strip plant of the company located at Odisha and vesting of the same in JUSL on going-concern basis by way of slump sale w.e.f. appointed date, i.e. close of business hours before midnight of 31st Mar'15. **(Section III of the Scheme)**

- Transfer of the business undertaking 3 (as defined in the Scheme) of the company comprising of the coke oven plant of the company located at Odisha and vesting of the same with JCL on going-concern basis by way of slump sale w.e.f. appointed date, i.e. close of business hours before midnight of 31st Mar'15. **(Section IV of the Scheme)**

Section I and Section II of the Scheme became effective on 1st Nov'15, operative from the said appointed date; Section III and Section IV became effective on receipt of necessary approvals from the OIIDCO and concerned authorities for transfer/grant of the right to use the land on which hot strip and coke oven plants are located.

Chart 35: Details of asset monetisation plan



Source: Company data, I-Sec research

As per Composite Scheme of Arrangement (hereinafter referred to as the Scheme) amongst JSL, JSHL, JUSL and JCL and their respective creditors and shareholders, **JSHL had allotted its equity shares to the shareholders of JSL in the ratio of 1:1 on 25th Nov'15** and the shares of the company were listed on BSE Limited (BSE) and the NSE Limited (NSE) on 28th Jan'16.

Post implementation of the Scheme

- JSL on 3rd July, 2016, allotted 168.3mn equity shares of Rs2 each at a price of Rs21.76 per share to JSHL on preferential basis against Rs3,661.8mn being the amount due and payable by JSL to JSHL as of the '*Appointed Date 1*,' i.e. close of business hours before midnight of 31st Mar'14 as specified in the Scheme.
- JSL received an amount of Rs26bn as consideration for slump sale from JSHL, which was utilised to prepay the debts. JSL further received an amount of Rs23.55bn from JUSL and Rs4.9bn from JCL towards consideration of slump sale and interest-free security deposit for sharing infrastructure.
- While according its approval for transfer/right to use of the land, Government of Odisha, Department of Steel & Mines, via letter dated 16th Aug'16, put a condition **that Section I & II of the Scheme will not be carried out for the mining lease of the company**. Accordingly transfer of the mining rights to demerged undertaking (as referred in the Scheme) was not given effect. Consequently: (i) all mining activities in relation to the mining rights continue to be carried out by JSL;

(ii) all assets (excluding fixed assets) and liabilities (including contingent liabilities) in relation to the mining rights continue to be recorded in the books of JSL; and (iii) all revenue and net profit; post 1st Nov'15 on section I & II of the Scheme becoming effective are recorded in the books of JSL.

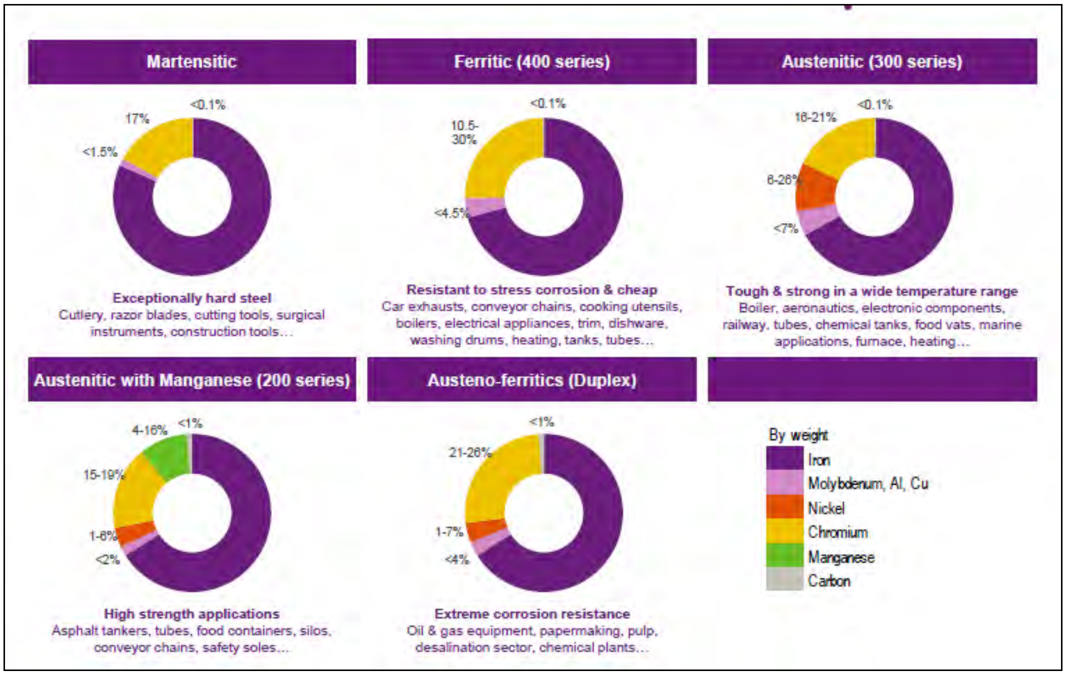
Movement of equity (FY14-FY20)

- **During FY14**, JSL had received subscription (application/allotment) money (including premium) aggregating to Rs1,015.7mn from JSL Overseas Limited in two tranches. Subsequent to the receipt of funds, JSL has allotted:
    - o 10.75mn equity shares of Rs2 each @ Rs37.65 (including premium of Rs35.65) to JSL Overseas Limited
    - o 15.81mn Cumulative Compulsory Convertible Preference Shares (CCCPS) of Rs2 each @ Rs37.65 per CCCPS (including premium of Rs35.65 per CCCPS) to JSL Overseas Limited.
    - o Amount received of Rs1,000mn was utilised for the purpose of the issue was made. The balance amount of Rs15.8mn after adjustment of consideration for allotment of aforementioned equity shares and CCCPS was refunded **during FY15**.
- **During FY15**, 11mn CCCPS has been converted into 11mn equity shares. 4.8mn CCCPS were outstanding as at FY15-end, which were later converted to equity shares **in FY16**.
- **Optionally convertible redeemable preference shares (OCRPS). During FY18**, JSL allotted 142.8mn, 0.01% OCRPS with a face value of Rs2/share to the lenders, upon conversion of the **Funded Interest Term Loan I** and the **Funded Interest term loan II** at a price of Rs39.1. This aggregated to Rs5,584.7mn.
- **During FY20, JSL redeemed the aforementioned OCRPS.**
- **During FY18**, JSL allotted 60.57mn equity shares (face value of Rs2/share) in addition to OCRPS to the company lenders upon conversion of the **Funded Interest Term Loan I** and the **Funded Interest term Loan II. This aggregated to** Rs2,368.3mn.
- JSL on 28th Mar'18 allotted 19.181mn equity shares having the face value of Rs2 each to Virtuous Tradecorp Private Limited, a promoter group entity, upon conversion of 19,181,586 Compulsorily Convertible Warrants (CCW) held by it.
- **During FY20**, JSL allotted ~8mn shares having face value of Rs2 to a promoter group entity (JSL Limited) on a preferential basis at a price of Rs35.65, aggregating to Rs285mn.

As at FY20-end, ~8.8mn, Global Depository Shares (GDSs) with ~17.6mn underlying equity shares were outstanding. Each GDS represents two underlying equity shares.

Key stainless steel categories by alloy content

Chart 36: Types of stainless steel



JSL has been strategically focusing on increasing 400 series contribution as demand is going up (Auto, Railways mainly) and in this series import is also not there. JSL is one of the lowest cost producers of 400 series. Due to very less nickel content, margin fluctuation is also less.

Financial summary (Merged)

Table 11: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Operating Income (Sales)	**129,509**	**121,885**	**248,550**	**263,722**	**328,000**
Operating Expenses	**118,114**	**107,643**	**216,008**	**233,614**	**289,764**
EBITDA	**11,395**	**14,242**	**32,542**	**30,109**	**38,236**
% margins	*8.8*	*11.7*	*13.1*	*11.4*	*11.7*
Depreciation & Amortisation	4,252	4,030	6,743	7,221	7,959
Gross Interest	5,855	4,801	4,557	3,519	2,989
Other Income	399	409	500	500	500
Recurring PBT	**1,731**	**6,845**	**21,742**	**19,869**	**27,788**
Add: Extraordinaries	44	1,024	-	-	-
Less: Taxes	926	2,702	5,457	4,987	6,975
Less: Minority Interest/Share in profit loss of Equity accounted Investments	13	2	2	2	2
Net Income (Reported)	**713**	**4,192**	**16,335**	**14,932**	**20,863**
Recurring Net Income	**713**	**4,192**	**16,335**	**14,932**	**20,863**

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Assets					
Total Current Assets	38,238	41,180	85,282	93,019	123,297
of which cash & cash eqv.	*687*	*1,163*	*6,374*	*7,518*	*16,746*
Total Current Liabilities & Provisions	34,100	34,417	64,598	69,432	84,438
Net Current Assets	**4,137**	**6,762**	**20,684**	**23,586**	**38,859**
Investments	**1,384**	**1,126**	**1,126**	**1,126**	**1,126**
Strategic/Group	*1,359*	*1,120*	*1,120*	*1,120*	*1,120*
Other Marketable	*25*	*6*	*6*	*6*	*6*
Net Fixed Assets	**61,484**	**58,281**	**74,679**	**81,958**	**92,971**
Capital Work-in-Progress	126	527	12,431	12,431	1,959
Goodwill	1	1	754	754	754
Total Assets	**72,675**	**72,928**	**116,637**	**126,871**	**142,736**
Liabilities					
Borrowings	**39,029**	**32,067**	**35,806**	**31,106**	**26,106**
Deferred Tax Liability	1,903	4,610	4,780	4,780	4,780
Minority Interest	130	133	135	137	139
Equity Share Capital	975	975	1,647	1,647	1,647
Face Value per share (Rs)	*2*	*2*	*2*	*2*	*2*
Reserves & Surplus	26,198	31,077	61,023	75,954	96,817
Net Worth	**27,172**	**32,051**	**70,388**	**85,320**	**106,182**
Total Liabilities	**72,675**	**72,928**	**116,637**	**126,871**	**142,736**

Source: Company data, I-Sec research

Table 13: Cashflow statement

(Rs mn, year ending Mar 31)

	FY20	FY21E	FY22E	FY23E	FY24E
Operating Cash flow	**11,804**	**13,078**	**25,059**	**23,363**	**25,217**
Working Capital Changes	(59)	(1,806)	(2,026)	(1,758)	(6,045)
Capital Commitments	(1,968)	(1,678)	(14,500)	(14,500)	(8,500)
Free Cash Flow	**9,835**	**11,400**	**10,559**	**8,863**	**16,717**
Cash flow from Investing Activities	**(1,878)**	**(1,520)**	**(14,000)**	**(14,000)**	**(8,000)**
Issue of Share Capital	-	537	-	-	-
Buyback of shares					
Inc (Dec) in Borrowings	(5,178)	(8,281)	(1,500)	(4,700)	(5,000)
Dividend paid					
Extraordinary /Exchange impact					
Chg. in Cash & Bank balance	**18**	**372**	**5,002**	**1,144**	**9,227**

Source: Company data, I-Sec research

Table 14: Key ratios

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Per Share Data (in Rs.)					
EPS(Basic Recurring)	0.9	5.1	19.8	18.1	25.3
Diluted Recurring EPS	0.9	5.1	19.8	18.1	25.3
Recurring Cash EPS	6.0	10.0	28.0	26.9	35.0
Dividend per share (DPS)					
Book Value per share (BV)	33.0	38.9	85.5	103.6	129.0
Growth Ratios (%)					
Operating Income	(4.5)	(5.9)	103.9	6.1	24.4
EBITDA	(2.2)	25.0	128.5	(7.5)	27.0
Recurring Net Income	(49.9)	487.8	289.6	(8.6)	39.7
Diluted Recurring EPS	(49.9)	487.8	289.6	(8.6)	39.7
Diluted Recurring CEPS	0.5	65.6	180.7	(4.0)	30.1
Valuation Ratios (x)					
P/E	265.5	45.2	11.6	12.7	9.1
P/CEPS	38.1	23.0	8.2	8.5	6.6
P/BV	7.0	5.9	2.7	2.2	1.8
EV / EBITDA	20.0	15.5	6.7	7.1	5.2
EV / Operating Income	1.8	1.8	0.9	0.8	0.6
EV / Operating FCF	23.2	19.3	20.7	24.0	11.9
Operating Ratio (%)					
Raw Material/Sales	63.5	61.2	64.1	66.4	67.0
SG&A/Sales	23.4	22.8	21.1	20.5	19.9
Other Income / PBT	23.0	6.0	2.3	2.5	1.8
Effective Tax Rate	53.5	39.5	25.1	25.1	25.1
NWC / Total Assets	7.5	5.7	9.3	17.0	17.9
Inventory Turnover (days)	116.5	130.3	113.9	113.6	116.1
Receivables (days)	19.9	28.0	31.4	31.4	30.9
Payables (days)	83.6	90.7	85.1	85.1	85.9
D/E Ratio (x)	1.41	0.96	0.42	0.28	0.09
Return/Profitability Ratio (%)					
Recurring Net Income Margins	0.6	3.4	6.6	5.7	6.4
RoCE	5.9	7.1	11.6	9.5	11.1
RoNW	2.6	13.1	23.2	17.5	19.6
Dividend Payout Ratio	-	-	-	-	-
Dividend Yield	-	-	-	-	-
EBITDA Margins	8.8	11.7	13.1	11.4	11.7

Source: Company data, I-Sec research

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