

Good performance; merger process progressing well

Jindal Stainless' (JSL) Q4FY21 performance was better than our estimates on all fronts. Topline of consolidated operations for Q4FY21 was at ₹ 3914 crore (up 26% YoY, 9% QoQ), higher than our estimate of ₹ 3606 crore. For Q4FY21, JSL reported consolidated EBITDA of ₹ 542 crore, up 145% YoY, higher than our estimate of ₹ 478 crore. Ensuing consolidated PAT of JSL for Q4FY21 was at ₹ 293 crore (higher than our estimate of ₹ 181 crore). In terms of key development, the merger process of Jindal Stainless Hisar (JSHL) into JSL is progressing well and is expected to be completed in H2FY22. For Q4FY21, JSHL reported an operationally steady set of numbers wherein its consolidated EBITDA and PAT came in higher than our estimates. JSHL's consolidated topline for Q4FY21 was at ₹ 3103 crore, up 38% YoY (our estimate: ₹ 3202 crore). JSHL reported consolidated EBITDA of ₹ 406 crore, up 123% YoY, higher than our estimate of ₹ 392 crore. Ensuing consolidated PAT of JSHL for Q4FY21 was at ₹ 350 crore, up 233% YoY (higher than our estimate of ₹ 276 crore).

Healthy domestic demand augurs well....

Strong recovery in domestic stainless steel demand aided JSL's Q4FY21 performance. Quarterly performance was buoyed by segments like auto and a healthy revival in demand from the pipe and tube segment, along with Railways and allied infrastructure, including the metro segment. With further push on indigenous production and expected economic recovery, healthy demand is likely to be generated in future as well. Demand from segments like elevators, lifts and hollowware also remained strong and is likely to continue. With respect to JSHL, sales volume of specialty products division (SPD), a key differentiator and focus area for the company, grew 8% YoY. JSHL is in the process of commissioning new facilities to further enhance SPD production that is expected to further consolidate its position in the high-end special products market.

Upward revise EBITDA/tonne guidance to ₹ 15000-17000/t range

For combined entity (JSL + JSHL), FY22 volume guidance is 1.7 million tonne (MT) (1.4 MT in FY21) with EBITDA/tonne guidance range of ₹ 15000-17000/tonne (upward revised from ₹ 14000-16000/tonne range earlier).

Valuation & Outlook

The merger process of JSHL into JSL is progressing well and is expected to be completed in H2FY22. Hence, we value JSL on a merged entity basis and arrive at a target price for JSHL based on the announced swap ratio. We arrive at a target price of ₹ 125 for JSL (earlier ₹ 90), maintaining our **BUY** recommendation on the stock. Subsequently, as per the announced swap ratio, we arrive at a target price of ₹ 244 for JSHL (earlier target price ₹ 170), maintaining our **BUY** recommendation on the stock.

Key Financial Summary: Jindal Stainless Steel – Pre-merger

₹ crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (in %)
Total Operating income	13,557	12,951	12,188	14,323	15,293	5.7
EBITDA	1,165	1,139	1,424	1,462	1,541	10.6
PAT	145	73	419	459	498	90.0
EPS (₹)	3.0	1.5	8.6	9.4	10.2	
P/E (x)	31.4	63.7	11.0	10.1	9.3	
EV/EBITDA (x)	7.6	7.4	5.4	5.4	5.5	
RoCE (%)	11.6	10.8	16.0	14.2	12.7	
ROE (%)	5.6	2.7	13.0	12.5	11.9	

Source: Company, ICICI Direct Research



Recommendation

Company	CMP	Target	Upside %	Rating
Jindal Stainless	95	125	32%	BUY
Jindal Stainless Hisar	183	244	33%	BUY

*Time frame 12-18 months

Particulars : Jindal Stainless(JSL)

	₹ Crore
Market Capitalization	4,609
Total Debt (FY21)	3,181
Cash and Invest. (FY21)	116
Enterprise Value(EV)	7,673
52 week H/L (₹)	103 / 26
Equity capital	97.5
Face value (₹)	2.0

Particulars : Jindal Stainless Hisar(JSHL)

Particulars	₹ Crore
Market Capitalization	4,309
Total Debt (FY21)	1,501
Cash and Invest. (FY21)	21
Enterprise Value(EV)	5,790
52 week H/L (₹)	193/ 37
Equity capital	47.0
Face value (₹)	2.0

Key risks to our call for JSL

- Sharp volatility in raw material cost
- Slowdown in demand growth

Key risks to our call for JSHL

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Exhibit 1: Variance Analysis – Jindal Stainless Steel (JSL) (Consolidated)

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	3914	3606	3094	26%	3,585	9%	Topline came in higher than our estimates
Other Income	13	13	13	-4%	7	71%	
Total Operating expense	3371	3128	2873	17%	3,111	8%	
EBITDA	542	478	222	145%	473	15%	EBITDA came in higher than our estimates
EBITDA Margin (%)	13.9	13.3	7.2	670 bps	13.2	66 bps	
Depreciation	97	103	104	-7%	101	-4%	
Interest	97	101	148	-35%	121	-20%	
Exceptional item	53	0	(51)	-205%	8	561%	
Share of Net Profit/Loss	19	12	(5)	-486%	6	190%	
PBT	434	299	(73)	-696%	274	58%	
Tax Outgo	141	118	(7)	-	103	36%	
PAT	293	181	(66)	LP	170	72%	PAT came in higher than our estimates

Key Metrics

Sales Volume(Standalone)	2,55,099	2,50,000	221000	15%	2,51,000.0	2%	Sales Volume came in higher than our estimates
EBIDTA/Tonne(Standalone)	20,438	18,000	10917	87%	17,745.0	15%	

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis – Jindal Stainless Steel Hisar (JSHL) (Consolidated)

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	3102.8	3202.0	2246.1	38%	3,146.7	-1%	
Other Income	26.0	24.0	51.9	-50%	25.8	1%	
Total Operating expense	2697.2	2810.0	2063.6	31%	2,759.2	-2%	
EBITDA	405.6	392.0	182.4	122%	387.4	5%	EBITDA came in higher than our estimates
EBITDA Margin (%)	13.1	12.2	8.1	495 bps	12.3	76 bps	
Depreciation	71.0	78.0	76.4	-7%	73.1	-3%	
Interest	44.6	50.0	70.6	-37%	64.9	-31%	
Exceptional item	17.3	0.0	(4.1)	-521%	8.2	110%	
Share of Net Profit/Loss	99.1	50.0	(15.2)	-754%	60.0	65%	
PBT	432.4	338.0	68.1	535%	343.5	26%	
Tax Outgo	81.8	62.0	(40.3)	LP	73.3	12%	
PAT	350.7	276.0	108.4	224%	270.2	30%	PAT came in higher than our estimates

Key Metrics

Sales Volume(Standalone)	1,82,474	1,90,000	1,74,000	5%	1,91,000	-4%	Sales Volume came in lower than our estimates
EBIDTA/Tonne(Standalone)	20,255	18,500	11668	74%	18,335.0	10%	



Source: Company, ICICI Direct Research

Conference Call Highlights

- For combined entity (JSL + JSHL), FY22 volume guidance (on a pro-forma basis) is 1.7 MT (1.4 MT in FY21) with EBITDA/tonne guidance range of ₹ 15000-17000/tonne (upward revised from ₹ 14000-16000/tonne range earlier)
- The net debt/EBITDA (on pro-forma basis) for the merged entity is 1.3x while the net debt/equity (on pro-forma basis) for the merged entity is at 0.5x
- The company has chalked out capex plans of ₹ 3000 crore for the next couple of years to increase the capacity of JSL to 1.9 MT from 1.1 MT currently (for the merged entity the capacity would increase to 2.8 MT from 1.9 MT currently). Of the ₹ 3000 crore growth capex, ~₹ 1100-1200 crore would be spent in FY22
- The new capacity is likely to get commissioned by September 2022 with volumes from the next capacity likely to come in from March 2023. The capex would be funded through internal accruals
- In addition to growth capex, maintenance capex for the merged entity would be to the tune of ₹ 250-300 crore per year
- The merger process of Jindal Stainless Hisar (JSHL) into JSL is progressing well and is expected to be completed in H2FY22
- Supply of liquid oxygen for Covid-19 relief measures is unlikely to have any major impact on operations

Overview of JSL & JSHL

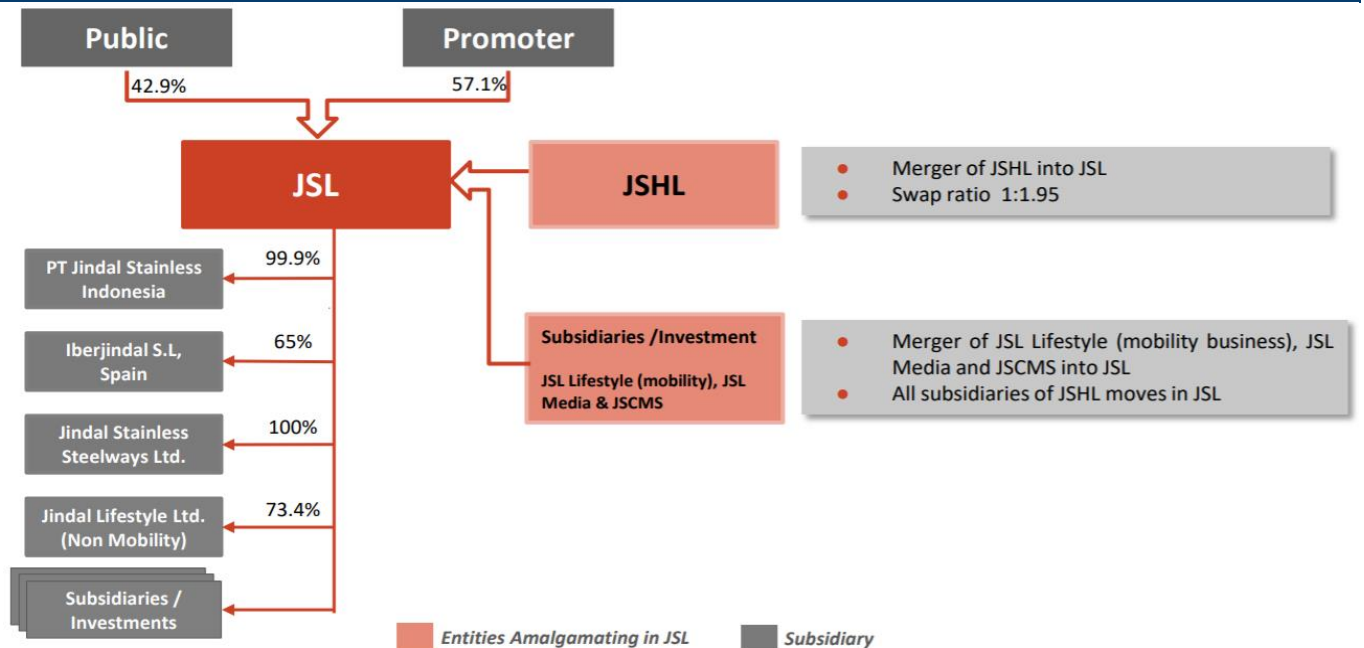
Exhibit 3: Jindal Stainless, Jindal Stainless Hisar Overview

	JSL 	JSHL 
Key Plant Location	Jajpur, Odisha Raw Material Hub, Port Proximity	Hisar, Haryana Key Consumption Hub Proximity
Stainless Steel (SS) capacities	1.1 MTPA Integrated facility along with backward integration (Ferro Chrome and captive power plant)	0.8 MTPA with Specialized Product Division (SPD) including Blade Steel, Precision Strips and Coin Blank
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, ICICI Direct Research

Proposed holding structure of combined entity

Exhibit 4: After receiving all requisite approvals, post scheme number of outstanding shares of merged entity expected to be ~82.34 crore



Source: Company, ICICI Direct Research,

Merged entity pro-forma financials....

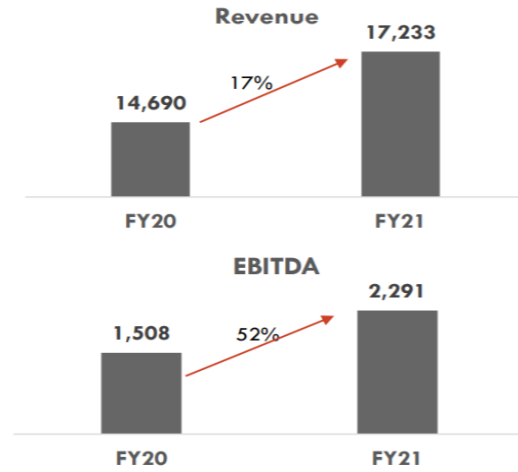
Exhibit 5: Merged entity pro-forma financials

SS conglomerate with 1.9 mtpa capacity

Revenue	:	19,175
EBITDA	:	2,408
Interest	:	609
Net Debt	:	3,125
Net Debt/Equity	:	0.5
Net Debt/EBITDA	:	1.3

Note: Standalone Combined entity Pro forma figures as on March 31st, 2021 in Rs. crore

Improved performance in Last 9 months*



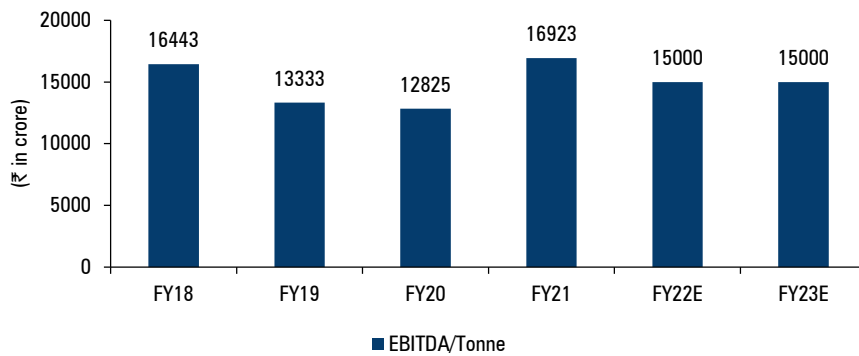
* Last 9 months includes Q2, Q3 and Q4 of FY20 and FY21

Strong global footprint & extensive pan India reach with >120 product grades and robust financial positioning

Source: Company, ICICI Direct Research

Financial story in charts:

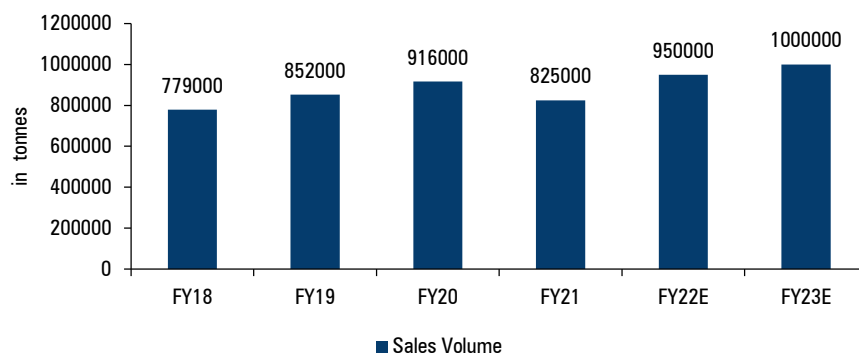
Exhibit 6: Trend in EBITDA/tonne (Jindal Stainless)



For Jindal Stainless standalone operations, we model EBITDA/tonne of ₹15000/tonne each for both FY22E and FY23E

Source: Company, ICICI Direct Research

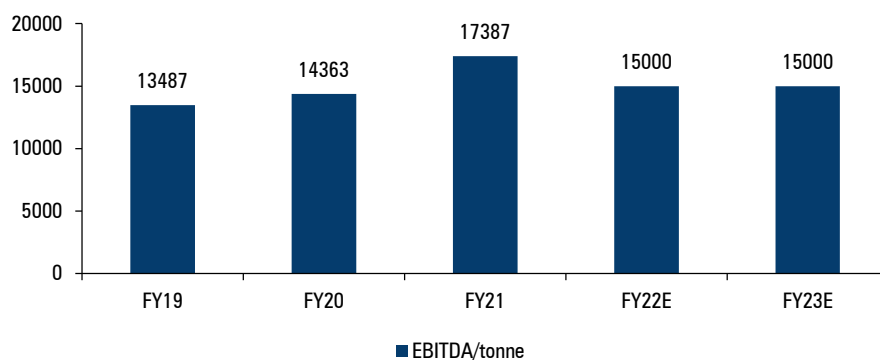
Exhibit 7 Trend in sales volume (in tonnes) – (Jindal Stainless)



For Jindal Stainless standalone operations, we expect sales volumes to come in at 950000 tonnes in FY22E & 1000000 tonnes in FY23

Source: Company, ICICI Direct Research

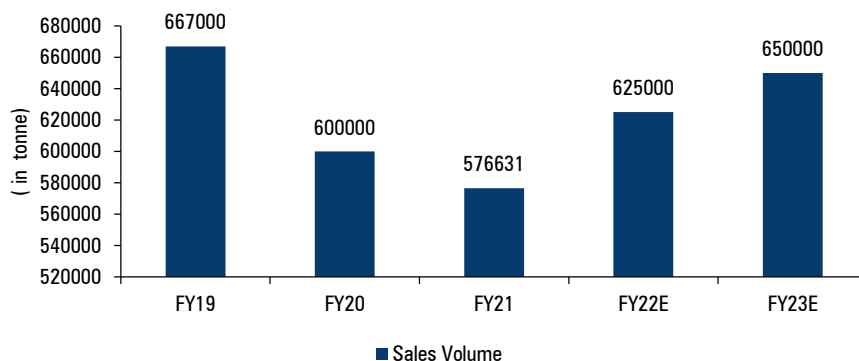
Exhibit 8: Trend in EBITDA/tonne (Jindal Stainless Hisar)



For Jindal Stainless Hisar, standalone operations, we model EBITDA/tonne of, ₹ 15000/tonne each for FY22E and for FY23E

Source: Company, ICICI Direct Research

Exhibit 9: Trend in sales volume (in tonnes) (Jindal Stainless Hisar)



For Jindal Stainless Hisar, we expect sales volumes to come in at 625000 tonnes in FY22E & 650000 tonnes in FY23

Source: Company, ICICI Direct Research

Exhibit 10: Valuation Matrix (Jindal Stainless) – Pre merger

	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	13.2	7.1	1.8	14.0	13.6
FY19	13,557	16.5	3.0	-58.0	31.4	7.6	1.7	5.6	11.6
FY20	12,951	-4.5	1.5	-50.8	63.7	7.4	1.7	2.7	10.8
FY21	12,188	-5.9	8.6	477.6	11.0	5.4	1.4	13.0	16.0
FY22E	14,323	17.5	9.4	9.5	10.1	5.4	1.3	12.5	14.2
FY23E	15,293	6.8	10.2	8.5	9.3	5.5	1.1	11.9	12.7

Source: Company, ICICI Direct Research

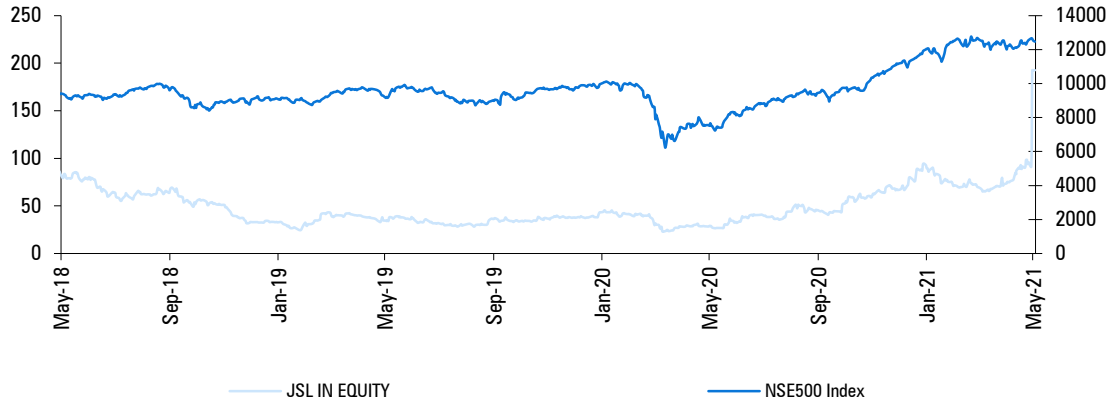
Exhibit 11: Valuation of JSL and JSHL based on post JSL-JSHL merger...

Particulars	Units	Mar-23E
EBITDA (Standalone combined entity JSL + JSHL)	₹ crore	2,475
Subsidiaries EBITDA in FY23E	₹ crore	213
Total Consolidated EBITDA of Merged Entity in FY23E	₹ crore	2688
Multiple	x	5
EV	₹ crore	13440
Net Debt (After adjusting inter company loan)	₹ crore	3109
Mcap	₹ crore	10,331
No. of shares	in crore	82.3
Target price of Jindal Stainless	in ₹/share	125
CMP of Jindal Stainless	in ₹/share	95
Upside (%)	in %	32%
Target price of Jindal Stainless Hisar (derived as per swap ratio)	in ₹/share	244
CMP of Jindal Stainless Hisar	in ₹/share	183
Upside (%)	in %	33%

Source: Company, ICICI Direct Research,

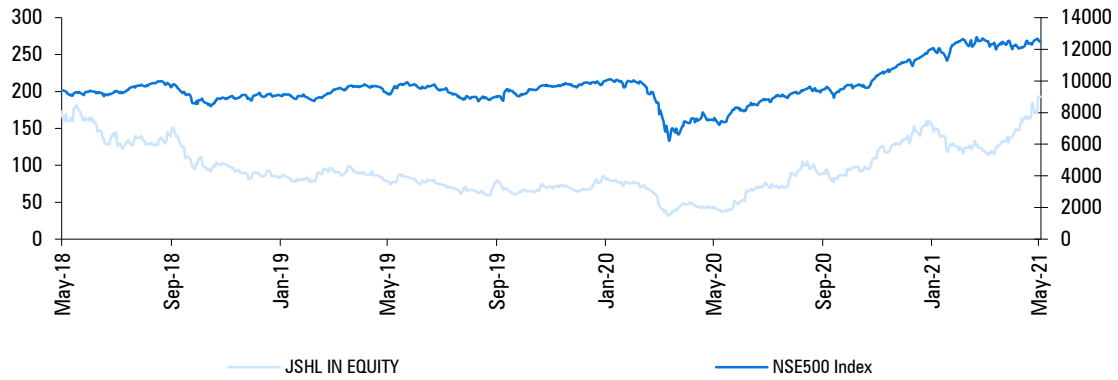
Growth capex plan has been announced based on the post merged entity, wherein we believe the merged entity would have sufficient cash flows to meet the capex requirements from internal accruals. Furthermore, we expect the net debt of merged entity including subsidiary debt (on pro-forma basis) to decline from ₹3487 crore as on March 2021 (after adjusting inter-company loan) to ₹3109 crore as on March 2023 (after adjusting inter-company loan).

Exhibit 12: Price Performance – Jindal Stainless Steel



Source: Company, ICICI Direct Research

Exhibit 13: Price Performance – Jindal Stainless Steel Hisar



Source: Company, ICICI Direct Research

Financial summary: Jindal Stainless (Pre-merger)

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	12,951	12,188	14,323	15,293
Growth (%)	-4.5%	-5.9%	17.5%	6.8%
Total Operating Expenditure	11,811	10,764	12,860	13,752
EBITDA	1,139	1,424	1,462	1,541
Growth (%)	-2.2%	25.0%	2.7%	5.4%
Interest & Finance Cost	586	480	317	283
Depreciation	425	403	460	510
Other Income	40	41	40	38
PBT before Exceptional Items	169	582	725	785
Add/Less: Exceptional Items	4	102	0	0
Add/Less: Share of P/L of Invest using	-8	5	10	10
PBT	165	690	735	795
Total Tax	93	270	275	296
PAT	73	419	459	498
Growth (%)	-50.0%	477.6%	9.5%	8.5%
EPS	1.5	8.6	9.4	10.2

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	73	419	459	498
Add: Dep. & Amortization	425	403	460	510
Net (Inc) / dec.in Current Asset	-123	-284	-408	-310
Net Inc / (dec) in Current Liab.	262	20	644	562
Others	112	339	23	12
CF from operating activities	748	898	1179	1273
(Inc)/dec in Investments	38	26	-20	70
(Inc)/dec in Fixed Assets	-280	-154	-1331	-1938
Others	0	0	0	0
CF from investing activities	-241	-128	-1351	-1868
Inc / (Dec) in Equity Capital	2	0	0	0
Inc / (Dec) in Loans	-485	-722	175	600
Dividend & Dividend Tax	0	0	0	0
CF from financing activities	-483	-722	175	600
Net Cash flow	23	48	4	5
Opening Cash	45	69	116	120
Closing Cash	69	116	120	125

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	97	97	97	97
Reserve and Surplus	2633	3121	3580	4079
Total Shareholders funds	2730	3218	3678	4176
Total Debt	3903	3181	3356	3956
Deferred Tax Liability (net)	190	461	484	496
Source of Funds	6823	6860	7517	8628
Net Block	6493	6204	6067	8499
Capital WIP	13	53	1060	56
Net Fixed Assets	6506	6257	7127	8555
Investments	138	113	132	62
Inventory	2739	2789	3139	3436
Cash	69	116	120	125
Debtors	705	934	981	1047
Loans & Advances & Other CA	521	526	536	483
Total Current Assets	4033	4365	4777	5091
Creditors	2660	2632	3139	3352
Provisions & Other CL	1195	1243	1380	1729
Total Current Liabilities	3854	3874	4519	5081
Net Current Assets	179	491	258	10
Application of Funds	6823	6860	7517	8628

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	1.5	8.6	9.4	10.2
BV	56.0	66.1	75.5	85.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	1.4	2.4	2.5	2.6
Operating Ratios (%)				
EBITDA margins	8.8	11.7	10.2	10.1
PBT margins	1.3	5.7	5.1	5.2
Net Profit margins	0.6	3.4	3.2	3.3
Inventory days	77	84	80	82
Debtor days	20	28	25	25
Creditor days	75	79	80	80
Return Ratios (%)				
RoE	2.7	13.0	12.5	11.9
RoCE	10.8	16.0	14.2	12.7
RoIC	10.9	16.3	14.5	12.9
Valuation Ratios (x)				
P/E	63.7	11.0	10.1	9.3
EV / EBITDA	7.4	5.4	5.4	5.5
EV / Revenues	0.7	0.6	0.5	0.6
Market Cap / Revenues	0.4	0.4	0.3	0.3
Price to Book Value	1.7	1.4	1.3	1.1
Solvency Ratios				
Debt / Equity	1.4	1.0	0.9	0.9
Debt/EBITDA	3.4	2.2	2.2	2.5
Current Ratio	1.0	1.1	1.1	1.0
Quick Ratio	0.3	0.4	0.4	0.3

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Metals and Mining)

	GMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	148	140	Hold	92904	20.3	21.0	22.7	6.5	6.3	5.9	3.7	4.1	4.3	39.6	35.6	33.0	33.6	30.3	28.2
Hindalco	389	390	Buy	87396	31.9	35.1	40.4	10.4	9.4	8.2	7.2	6.7	5.9	9.2	9.7	10.5	11.1	11.0	11.3
Hind Zinc	343	340	Hold	144928	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	694	675	Hold	167803	32.9	59.2	62.7	20.3	11.2	10.6	10.8	7.2	6.4	13.4	20.1	20.4	17.9	24.5	20.7
NMDC	180	125	Hold	52956	17.1	11.9	3.7	6.6	9.5	8.2	4.7	5.6	5.0	21.4	13.2	14.0	16.7	10.9	11.9
Ratnamani	1913	1900	Buy	8941	49.4	64.5	79.2	32.9	25.2	20.5	22.6	16.8	13.9	16.2	19.6	21.6	12.3	14.1	15.8
Graphite Ind.	728	825	Buy	14232	3.0	55.0	84.0	224.0	12.6	8.2	NA	9.1	4.6	-5.4	19.0	25.2	1.3	19.3	23.4
Tata Steel	1117	1500	Buy	134359	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	124	130	Buy	51233	9.0	15.0	17.0	10.7	6.6	6.0	6.0	5.2	4.6	11.2	12.2	12.3	9.3	12.7	12.5
Jindal Stainless Jindal	95	125	Buy	4718	8.6	9.4	10.2	11.0	10.1	9.3	5.4	5.4	5.5	16.0	14.2	12.7	13.0	12.5	11.9
Stainless Hisar	183	244	Buy	4360	29.0	27.0	32.0	6.3	6.8	5.7	5.2	5.1	4.1	18.6	15.8	16.9	23.2	17.4	16.8
Vedanta	279	300	Hold	105940	33.0	37.9	41.0	8.4	7.4	6.8	5.3	4.0	3.5	17.3	22.5	23.6	19.7	19.9	18.9

Source: Company, ICICI Direct Research, JSL and JSHL forward numbers are based on pre-merger

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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