

Jindal Stainless (JDSL) reported marginally below estimates consol EBITDA of Rs5.48bn (CentrumE: Rs5.82bn) owing to lower overseas subsidiaries operational performance. The standalone numbers stood in line with EBITDA of Rs5.2bn (CentrumE: Rs5.0bn) down 31% QoQ. The decline is despite increase in gross margin from 28% in Q4 to 32% in Q1FY23. Lower volume (down 12% QoQ impacted by export duty imposition in May2022), higher power and other expenses dented profitability. EBITDA/t stood at Rs22,216, though higher than our estimates (CentrumE: Rs21,180/t) but down 21% QoQ. JDSL is set to acquire remaining 74% stake in its associate company, Jindal United Steel Limited (JUSL) for cash consideration of Rs9.6bn (expected by June 2023), which is positive for JDSL. We reduce FY23E EBITDA by 6% to factor in lower volumes but increase FY24E EBITDA by 10% to factor in saving of conversion cost in JUSL. On account of higher earnings in FY24E, we increase our TP to Rs229 (earlier Rs200), based on 5.0x FY24E EV/EBITDA. Reiterate BUY.

**India EBITDA/t at Rs22,216, down 21% QoQ; overseas subsidiaries' EBITDA lower QOQ**  
During Q1, JDSL sold 236kt of stainless steel (SS), down 12.5% QoQ. JDSL exports stood lower at 25% (vs 32% in Q4FY22) of volume, affected by imposition of 15% export duty on 21<sup>st</sup> May 2022. The share of SS imports from China and Indonesia stood at 49% as on Q1FY23. Domestic volume was down 3% QoQ at 177kt, while export volume was down ~32% QoQ to 59kt. Despite increase in gross margin from 28% in Q4 to 32% in Q1FY23, lower volume, higher power and other expenses dented profitability thereby JDSL recording EBITDA/t of Rs22,216, down 21% QoQ but still healthy compared to historical margins (FY17-22 average EBITDA/t was Rs17,295). Overseas subsidiaries reported EBITDA of Rs254mn v/s Rs805mn in Q4FY22. Consequently, it reported consol EBITDA of Rs5.5bn, down 35% QoQ.

**Net debt increased; to acquire 74% stake in its Associate company, Jindal United Steel**  
JDSL's external net debt increased by ~Rs5.6bn QoQ to ~Rs24.3bn due to higher working capital. Interest cost was flat at Rs721mn. We expect easing of working capital in H2FY23 which will lead to debt reduction. The Board decided to buy remaining 74% stake in its Associate company, JUSL, at cash consideration of Rs9.6bn which is expected to be completed by June 2023 (effective from April 2022). JUSL has net debt of Rs21bn at FY22-end. This along with other liabilities makes the JUSL's EV at ~Rs38bn. JUSL recorded EBITDA of Rs5.9bn in FY22 and has a potential to make EBITDA of ~Rs10bn/year from FY25 onwards, once it commissions its HSM to 3.6mtpa.

**Margins remain high; removal of export tax essential for earnings; reiterate BUY**  
Management continues to guide sustainable EBITDA/t of Rs18-20,000/t which is encouraging. The 1mtpa expansion is expected to be commissioned by FY23-end and export market is essential for incremental volume. JDSL's merger with JSL (Hisar) will now file the second motion petition with NCLT and is expected to be concluded by CY22-end. The buying out of remaining 74% stake in its Associate company, JUSL is a long term positive. The major trigger for the stock is the removal of 15% export duty which Government has imposed on 21st May'22. We recommend BUY with TP of Rs229

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY23A	1QFY22A	YoY (%)	4QFY22A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	54,741	40,327	35.7	65,635	(16.6)	2,09,362	2,02,923	2,53,882
EBITDA	5,487	6,010	(8.7)	8,416	(34.8)	29,871	17,990	29,611
EBITDA margin (%)	10.0	14.9	-	12.8	-	14.1	8.7	11.5
Adj. Net profit	3,294	3,058	7.7	7,499	(56.1)	18,813	8,956	14,601
Adj. EPS (Rs)	6.8	6.3	7.7	15.4	(56.1)	35.8	17.0	27.8
EPS growth (%)						450.6	(52.4)	63.0
PE (x)						3.4	7.2	4.4
EV/EBITDA (x)						3.1	5.0	3.9
PBV (x)						1.2	1.0	0.8
RoE (%)						44.8	15.7	20.7
RoCE (%)						27.9	11.7	15.5

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

#### Market Data

Bloomberg:	JDSL IN
52 week H/L:	225/95
Market cap:	Rs64.1bn
Shares Outstanding:	525.5mn
Free float:	29.9%
Avg. daily vol. 3mth:	14,05,594

Source: Bloomberg

#### Changes in the report

Rating:	BUY; no change
Target price:	Rs229; up 14.7%
EPS:	FY23E: Rs17; down 5.3% FY24E: Rs27.8; down 2.3%

Source: Centrum Broking

#### Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	70.1	69.9	68.6	68.6
FIIs	13.8	15.0	15.0	14.3
DIIIs	2.4	3.1	3.6	2.9
Public/other	13.7	12.1	12.8	14.1

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY23	Actual Q1FY23	Variance (%)
Revenue	52,765	54,741	3.7
EBITDA	5,827	5,487	-5.8
EBITDA margin %	11.0	10.0	
Adj. PAT	3,566	3,294	-7.6

Source: Bloomberg, Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	2,05,766	2,10,978	(2.5)	2,57,237	2,66,031	(3.3)
EBITDA	17,990	19,208	(6.3)	29,611	26,812	10.4
EBITDA margin %	8.7	9.1		11.5	10.1	
Adj. PAT	8,956	9,454	(5.3)	14,601	14,938	(2.3)
Diluted EPS (Rs)	17.0	18.0	(5.3)	27.8	29.4	(2.3)

Source: Centrum Broking

### Jindal Stainless versus NIFTY Midcap 100

	1m	6m	1 year
JDSL IN	23.5	(39.4)	(21.1)
NIFTY Midcap 100	9.7	(2.2)	5.2

Source: Bloomberg, NSE

### Key assumptions

Key Assumptions	FY21	FY22	FY23E	FY24E
Volumes (kt)	825	1,011	984	1,428
Gross Margin/t (Rs)	43,370	55,818	48,500	46,600
EBITDA/t (Rs)	16,923	27,596	17,665	20,314
Net debt/EBITDA (x)	2.2	1.0	1.4	1.7

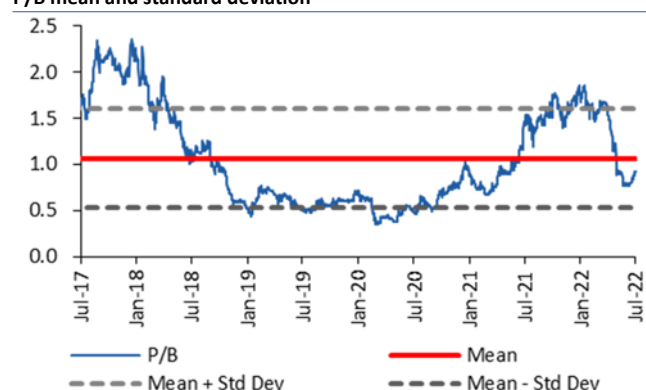
Source: Centrum Broking

### Valuations

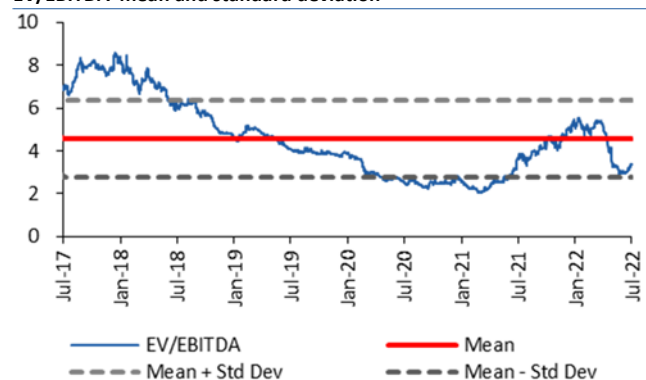
On account of higher earnings in FY24E, we increase our TP to Rs229 (earlier Rs200), based on 5.0x FY24E EV/EBITDA. Reiterate BUY.

Particulars (Rs mn)	FY24E
EBITDA	29,611
Multiple (x)	5.0
Enterprise Value	1,48,057
Average Net debt	27,565
Implied Market-cap	1,20,492
No. of shares (mn)	526
<b>Target price (per share)</b>	<b>229</b>

#### P/B mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

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### Peer comparison

Company	Mkt Cap	CAGR (FY22-24E)			P/E (x)			EV/EBITDA (x)			FY24E		
	(Rs mn)	Sales	EBITDA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	RoE (%)	ROCE (%)	Div. Yield
Tata Steel	11,73,583	-13.9	-22.6	-31.7	2.9	5.1	6.2	2.8	3.8	4.1	13.4	10.4	3.6
JSW Steel	14,30,400	1.8	-9.0	-20.3	6.7	15.7	10.5	5.0	7.7	5.8	16.1	12.0	1.4
JSPL	3,73,959	-6.2	-15.4	-9.4	5.2	7.0	6.4	3.0	4.0	3.5	13.6	12.5	0.8
SAIL	3,13,714	-8.7	-20.8	-29.1	2.5	9.3	5.0	2.2	5.1	3.5	10.6	9.4	5.9
<b>Jindal Stainless</b>	<b>64,111</b>	<b>10.1</b>	<b>-0.4</b>	<b>-11.9</b>	<b>3.4</b>	<b>7.2</b>	<b>4.4</b>	<b>3.1</b>	<b>5.0</b>	<b>3.9</b>	<b>20.7</b>	<b>15.5</b>	<b>3.4</b>

Source: Company, Centrum Broking

## Details on Jindal United Steel (JUSL)

- JUSL has 1.6mtpa hot strip mill (HSM) which is being expanded to 3.6mtpa by FY23-end. It also has 0.2mtpa CR mill. Currently, JSL provides slabs to JUSL and JUSL converts slabs into HRC and send back to JSL, in turn charges conversion margins.
- JUSL has ~Rs21bn net debt at FY22-end and ongoing capex of ~Rs3.5bn for HSM expansion.
- On an average, acquiring remaining stake will help in increasing EBITDA/t by Rs3-3,500 for JSL. At JSL's full SS capacity of 2.1mtpa at Jajpur, JUSL will have surplus capacity of ~1.3mtpa which will be used to convert carbon steel slabs into HRC as job work. This will have stable margins for JUSL and will not depend on fluctuating commodity prices. At peak capacity, JUSL can generate ~Rs10bn (3.3mt\*Rs3,000/t) EBITDA/year

### Exhibit 1: Standalone quarterly financials

Y/E Mar (Rs mn)	Q1FY23	Q4FY22	Q1FY22	% ch QoQ	% ch YoY
Net Sales	53,364	62,872	38,413	(15.1)	38.9
EBITDA	5,233	7,611	5,798	(31.3)	(9.8)
EBITDA Margins (%)	9.8	12.1	15.1		
Other Income	164	172	96	(4.6)	70.4
Interest	674	684	811	(1.5)	(17.0)
Depreciation	891	881	907	1.2	(1.8)
PBT after exceptional	3,832	6,218	4,176	(38.4)	(8.2)
Adjustment	0	0	0		
Adjusted PAT	2,867	6,686	2,714	(57.1)	5.6
Reported PAT	2,867	6,686	2,714	(57.1)	
NPM (%)	5.4	10.6	7.1		

Source: Centrum Broking, Company Data

### Exhibit 2: Key statistics

Standalone key monetarables	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	% ch qoq	% ch yoY
Sales volumes ('000t)	238	257	248	269	236	-12.5	-1.0
Blended realisation/t (Rs)	1,61,498	1,87,599	2,16,814	2,33,579	2,26,570	-3.0	40.3
EBITDA/t (Rs)	24,378	27,685	29,855	28,278	22,216	-21.4	-8.9

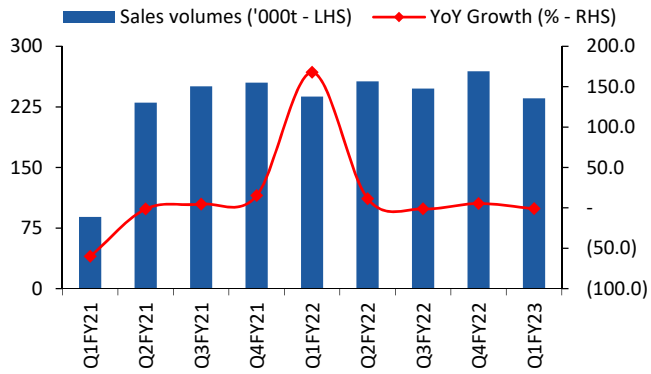
Source: Centrum Broking, Bloomberg

### Exhibit 3: Net debt increases due to higher WC requirement

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Long term debt	13,200	13,820	13,730	14,550	16,436	13.0	24.5
Inter-corporate loan	10,500	10,500	10,500	10,500	10,500	0.0	0.0
<b>Total Long term debt</b>	<b>23,700</b>	<b>24,320</b>	<b>24,230</b>	<b>25,050</b>	<b>26,936</b>	7.5	13.7
Short term borrowing	1,769	2,470	4,930	2,900	5,600	93.1	216.6
<b>Total Debt</b>	<b>25,469</b>	<b>26,790</b>	<b>29,160</b>	<b>27,950</b>	<b>32,536</b>	16.4	27.7
Cash and investments	521	650	1,040	1,990	1,060	-46.7	103.5
<b>Net debt</b>	<b>24,948</b>	<b>26,140</b>	<b>28,120</b>	<b>25,960</b>	<b>31,476</b>	21.2	26.2
Subsidiaries debt	3,270	3,360	3,430	3,310	3,380	2.1	3.4
<b>Total net debt</b>	<b>28,218</b>	<b>29,500</b>	<b>31,550</b>	<b>29,270</b>	<b>34,856</b>	19.1	23.5
Change in net-debt	(2,432)	1,282	2,050	(2,280)	5,586		

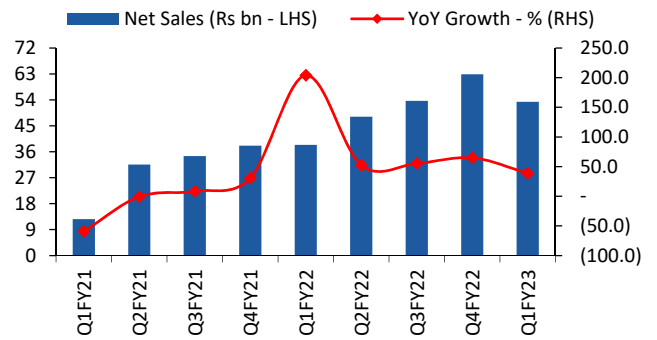
Source: Centrum Broking, Company Data

**Exhibit 4: Sales volume down 1% QoQ to 236kt**



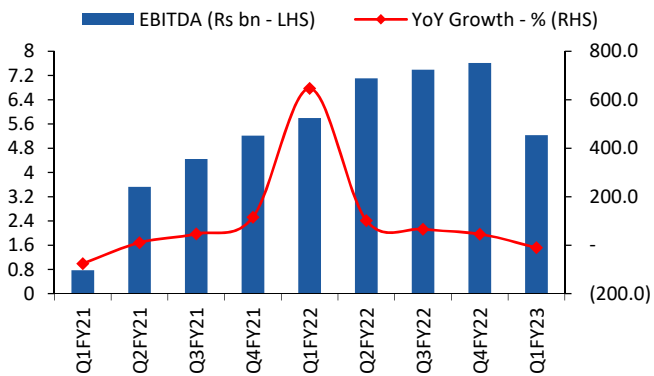
Source: Company, Centrum Broking

**Exhibit 5: Higher realisation led to 53% YoY growth in revenue**



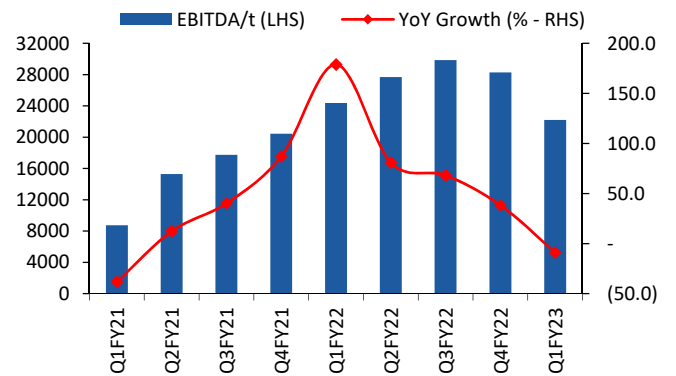
Source: Company, Centrum Broking

**Exhibit 6: Higher cost dragged EBITDA, down 10% YoY**



Source: Company, Centrum Broking

**Exhibit 7: EBITDA/t of Rs22,216, down 9% YoY**



Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenues</b>	<b>1,27,584</b>	<b>1,19,870</b>	<b>2,09,362</b>	<b>2,02,923</b>	<b>2,53,882</b>
Operating Expense	96,031	86,559	1,55,685	1,62,666	1,99,187
Employee cost	2,045	1,779	2,094	2,220	2,355
Others	20,038	19,305	24,584	22,890	26,083
<b>EBITDA</b>	<b>11,395</b>	<b>14,242</b>	<b>29,871</b>	<b>17,990</b>	<b>29,611</b>
Depreciation & Amortisation	4,252	4,030	3,712	4,185	6,444
<b>EBIT</b>	<b>7,143</b>	<b>10,212</b>	<b>26,159</b>	<b>13,805</b>	<b>23,168</b>
Interest expenses	5,855	4,801	3,323	2,765	3,511
Other income	399	409	558	621	621
<b>PBT</b>	<b>1,687</b>	<b>5,821</b>	<b>23,394</b>	<b>11,661</b>	<b>20,278</b>
Taxes	926	2,702	5,330	3,226	5,398
Effective tax rate (%)	54.9	46.4	22.8	27.7	26.6
<b>PAT</b>	<b>760</b>	<b>3,118</b>	<b>18,064</b>	<b>8,434</b>	<b>14,880</b>
Minority/Associates	(92)	50	748	521	(279)
<b>Recurring PAT</b>	<b>669</b>	<b>3,168</b>	<b>18,813</b>	<b>8,956</b>	<b>14,601</b>
Extraordinary items	44	1,024	0	0	0
<b>Reported PAT</b>	<b>713</b>	<b>4,192</b>	<b>18,813</b>	<b>8,956</b>	<b>14,601</b>

Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	(4.8)	(6.0)	74.7	(3.1)	25.1
EBITDA	(2.2)	25.0	109.7	(39.8)	64.6
Adj. EPS	(53.7)	373.7	450.6	(52.4)	63.0
<b>Margins (%)</b>					
Gross	34.3	36.5	32.0	26.6	28.8
EBITDA	8.8	11.7	14.1	8.7	11.5
EBIT	5.5	8.4	12.3	6.7	9.0
Adjusted PAT	0.5	2.6	8.9	4.4	5.7
<b>Returns (%)</b>					
ROE	2.5	10.7	44.8	15.7	20.7
ROCE	5.0	8.7	27.9	11.7	15.5
ROIC	5.1	9.2	30.3	12.8	16.5
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.6	1.5	2.5	2.1	1.8
Debtors	23	25	29	37	25
Inventory	73	83	60	69	54
Creditors	73	79	59	67	50
Net working capital	12	20	36	36	23
<b>Solvency (x)</b>					
Net debt-equity	1.4	1.0	0.5	0.4	0.6
Interest coverage ratio	1.9	3.0	9.0	6.5	8.4
Net debt/EBITDA	3.4	2.2	1.0	1.4	1.7
<b>Per share (Rs)</b>					
Adjusted EPS	1.4	6.5	35.8	17.0	27.8
BVPS	55.8	65.8	98.7	118.2	150.9
CEPS	10.1	14.8	42.9	25.0	40.0
DPS	0.0	0.0	0.0	1.7	4.2
Dividend payout (%)	0.0	0.0	0.0	10.0	15.0
<b>Valuation (x)</b>					
P/E	88.9	18.8	3.4	7.2	4.4
P/BV	2.2	1.9	1.2	1.0	0.8
EV/EBITDA	4.4	4.5	3.1	5.0	3.9
Dividend yield (%)	0.0	0.0	0.0	1.4	3.4

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	975	975	1,051	1,051	1,051
Reserves & surplus	26,198	31,077	50,807	61,052	78,238
Shareholders fund	27,172	32,051	51,858	62,103	79,289
Minority Interest	130	133	411	411	411
Total debt	39,029	31,817	31,507	31,507	51,507
Non Current Liabilities	4,433	4,058	2,107	2,107	2,107
Def tax liab. (net)	1,903	4,610	7,993	7,993	7,993
<b>Total liabilities</b>	<b>72,668</b>	<b>72,669</b>	<b>93,876</b>	<b>1,04,121</b>	<b>1,41,307</b>
Gross block	80,548	81,374	82,486	96,486	1,44,636
Less: acc. Depreciation	(19,064)	(23,094)	(26,806)	(30,990)	(37,434)
Net block	61,484	58,281	55,681	65,496	1,07,202
Capital WIP	126	527	3,571	3,571	3,571
Net fixed assets	61,956	59,136	59,648	69,463	1,11,169
Non Current Assets	2,097	2,472	8,031	8,031	8,031
Investments	4,460	4,552	5,620	6,420	6,420
Inventories	27,390	27,886	41,771	36,146	40,049
Sundry debtors	7,052	9,339	24,535	16,676	18,477
Cash & Cash Equivalents	712	1,169	2,946	6,409	475
Loans & advances	52	32	0	0	0
Other current assets	3,058	2,759	6,071	4,255	4,621
Trade payables	26,596	26,319	41,741	33,506	37,124
Other current liab.	7,503	8,335	12,982	9,750	10,788
Provisions	9	22	22	22	22
Net current assets	4,156	6,509	20,578	20,208	15,688
<b>Total assets</b>	<b>72,668</b>	<b>72,669</b>	<b>93,876</b>	<b>1,04,121</b>	<b>1,41,307</b>

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	1,653	6,897	24,421	11,661	20,278
Depreciation & Amortisation	4,252	4,030	3,712	4,185	6,444
Net Interest	5,632	4,587	3,147	0	0
Net Change – WC	(59)	(1,806)	(16,789)	5,249	(2,086)
Direct taxes	49	115	(2,481)	(3,111)	(5,282)
<b>Net cash from operations</b>	<b>11,804</b>	<b>13,078</b>	<b>11,683</b>	<b>17,984</b>	<b>19,354</b>
Capital expenditure	(1,746)	(1,625)	(7,587)	(14,000)	(10,150)
Acquisitions, net	0	0	0	0	(38,000)
Investments	(211)	(67)	(404)	0	0
Others	79	172	163	0	0
<b>Net cash from investing</b>	<b>(1,878)</b>	<b>(1,520)</b>	<b>(7,829)</b>	<b>(14,000)</b>	<b>(48,150)</b>
<b>FCF</b>	<b>10,058</b>	<b>11,453</b>	<b>4,096</b>	<b>3,984</b>	<b>(28,796)</b>
Issue of share capital	286	537	1,091	0	0
Increase/(decrease) in debt	(5,138)	(8,320)	(358)	0	20,000
Dividend paid	0	0	0	0	0
Interest paid	(5,015)	(3,403)	(2,309)	0	0
Others	(40)	0	(55)	0	0
<b>Net cash from financing</b>	<b>(9,908)</b>	<b>(11,186)</b>	<b>(1,632)</b>	<b>0</b>	<b>20,000</b>
Net change in Cash	18	372	2,223	3,984	(8,796)

Source: Company, Centrum Broking

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#### Jindal Stainless



Source: Bloomberg



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