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Q1FY23 result review

Metals

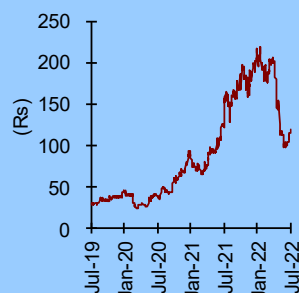
Target price Rs200

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	69.9	69.9	70.1
Institutional investors	21.3	21.4	19.6
MFs and others	2.7	2.7	2.3
Insurance Cos.	0.3	0.3	0.1
FII	18.3	18.4	17.2
Others	8.8	8.7	10.3

Source: BSE

Price chart



INDIA

Jindal Stainless

BUY
Maintain

Gross margins/te expanded QoQ; export duty imposition drives EBITDA weakness

Rs122

Jindal Stainless (JSL) reported better than expected EBITDA of Rs23,294/te, down 25.5% QoQ. Decline in EBITDA (QoQ) was mainly due to higher other expenses – presumably due to export duty paid. Q1FY23 consolidated EBITDA (JSL) at ~Rs5,486.5mn, with volumes of 0.236mnte (down ~1% YoY), was lower by ~8.7% YoY. Net external debt increased to Rs20.98bn in Q1FY23 as against Rs15.46bn in Q4FY22. Company's petition for merger with JSHL is pending before NCLT, Chandigarh, for approval. All brownfield expansion projects announced in Q1FY22 are on track. The imposition of export duty on stainless steel has impacted ~70-80% of JSL's export portfolio, thus reducing the export share to 20% in Q1FY23 as against 32% in Q4FY22. Company announced its intention to acquire JUSL'S 26% stake and make it a wholly-owned subsidiary. Maintain BUY with an unchanged target price of Rs200/share (1.4x FY24E P/B).

- **Decreased proportion of export mix (20% in Q1FY23 from 32% in Q2FY22) compensated for the higher domestic sales in certain sectors.** The imposition of export duty on stainless steel has impacted ~70-80% of JSL's exports, thus reducing the export share to 20% in Q1FY23 as against 32% in Q4FY22. Dumping of imported and subsidised material from China and Indonesia led to muted domestic demand and reduced price levels. This also resulted in the share of imports rising to 49% of demand in Q1FY23 vs 35% in Q1FY22. The decline in export volumes was partly offset by higher domestic sales.
- **Merger update – timeline gets extended.** Majority of shareholders and creditors of JSL and JSHL approved the 'scheme of arrangement' for the merger between the two companies (JSL and JSHL) on 24th Apr'22. The companies have filed the second motion petition with NCLT on 13th Jul'22. *Management now expects other relevant processes to be completed in due time (next 4-5 months).*
- **Integrated stainless steel operations through JUSL acquisition.** JSL will acquire Jindal United Steel Limited (JUSL) as a wholly-owned subsidiary. This would improve synergies between the two entities. JUSL has been operating the hot strip mill (HSM) for rolling stainless steel and carbon steel slabs with its total capacity being enhanced to 3.6mtpa. JUSL is also operating a cold rolling mill (CRM) with capacity of 0.2mtpa for stainless steel applications.
- **Sector-wise offtake.** Auto offtake increased by ~40% QoQ (much higher traction as compared to conventional steel majors). JSL is undertaking joint development of new stainless steel grades with auto OEMs. It is also developing special stainless steel finishes for lift and elevator segments. Demand from metro sector continues to be steady. Pipes and tubes segment witnessed a low market demand and negative price sentiment due to a major price drop during the period. Offtake for railway coaches and wagons also remain strong.

Market Cap	Rs64.1bn/US\$803mn
Reuters/Bloomberg	JIST.BO/JDSL IN
Shares Outstanding (mn)	525.5
52-week Range (Rs)	218/98
Free Float (%)	29.9
FII (%)	17.2
Daily Volume (US\$'000)	2,658
Absolute Return 3m (%)	(36.0)
Absolute Return 12m (%)	(21.1)
Sensex Return 3m (%)	(0.7)
Sensex Return 12m (%)	6.6

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	121,885	362,348	244,513	300,924
EBITDA (Rs mn)	14,242	51,404	24,607	34,893
Net Income (Rs mn)	4,192	31,550	11,288	19,069
EPS (Rs)	5.1	38.3	13.7	23.2
P/E (x)	23.0	3.1	8.5	5.1
CEPS (Rs)	10.0	45.9	21.6	31.5
EV/E (x)	8.9	2.6	4.4	2.8
Dividend Yield	-	-	-	-
RoCE (%)	7.1	15.8	7.7	10.6
RoE (%)	13.1	36.0	11.4	16.2

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Table 1: JSL consolidated result review – Gross margins/te expanded QoQ

(Rs mn)

	Q1FY23	Q1FY22	% Chg YoY	Q4FY22	% Chg QoQ
Volumes (kte)	236	238	(1.0)	269	(12.5)
Realisations (Rs/te)	232,417	169,547	37.1	243,844	(4.7)
Gross margin/te (Rs/te)	75,728	62,201	21.7	69,474	9.0
EBITDA/te - Consolidated (Rs/te)	23,294	25,269	(7.8)	31,266	(25.5)
Revenue	54,741	40,327	35.7	65,635	(16.6)
Cost of Goods Sold	36,905	25,533	44.5	46,935	(21.4)
<i>Raw Material Consumed</i>	38,298	28,508	34.3	44,219	(13.4)
<i>Purchase of Finished Goods</i>	1,205	443		695	
<i>Stock Adjustment</i>	(2,598)	(3,418)		2,021	
Employee Expenses	548	495	10.5	488	12.2
Stores and spares consumed	2,372	1,712	38.6	2,191	8.3
Power, Oil & Fuel	2,540	1,825	39.2	1,961	29.5
Other expenses	6,890	4,753	45.0	5,644	22.1
Total Expenditure	49,255	34,317	43.5	57,219	(13.9)
EBITDA	5,487	6,010	(8.7)	8,416	(34.8)
EBITDA Margin	10.0	14.9		12.8	
Other income	168	96		193	
Operating income	5,654	6,106		8,609	
Depreciation	919	941	(2.3)	916	0.4
EBIT	4,735	5,166		7,694	
Interest	721	851		717	
Profit Before Taxation & Exceptional Items	4,015	4,314		6,977	
Exceptional Income / Expenses	-	-		-	
Profit Before Tax	4,015	4,314	(6.9)	6,977	(42.5)
Tax	989	1,498		(311)	
Profit After Tax Bef Min interest and share in profit/loss of associates	3,025	2,817		7,288	
Minority interest	81	31		144	
Share in the profit/loss in associates	268	242	11.1	211	27.1
Prior period items	-	-		-	
Profit After Tax and extraordinary item	3,213	3,028	6.1	7,355	(56.3)

Source: Company data, I-Sec research

Valuations and key risks

We maintain **BUY** on JSL with a target price of Rs200/share. We value it at 1.4x FY24E P/B, with an implied EV/EBITDA multiple of 5x. We expect a through-cycle RoE of 15-16% notwithstanding the risk of imports.

Key risks to business model

Capital allocation. Blast furnace seems to be the ideal route to counter the threat of 200/300 series imports from Indonesia (China).

Absence of duty support. There is a huge risk of increase in Indonesian exports in the 200/300 series in India. Even for the industries linked to approval/accreditation, depending on the extent of interest from the Indonesian players, we see a possibility of imports increasing substantially. Government has already removed the anti-dumping duty on stainless steel imports (on which Indonesia does not draw any import duty because it is an FTT partner). Perhaps, given the size of the market, policy support may not be as easily forthcoming for stainless steel as steel.

Uncertainties about merger valuation between promoter (majority) held associate companies and JSL.

Margin risks. We have factored-in a muted through-cycle EBITDA estimate of Rs18,000/te as per management guidance. This can see further challenge if the worst-case scenario on imports from Indonesia in the 200/300 series materialises.

Financial summary (merged; proforma)

Table 2: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	129,509	121,885	362,348	244,513	300,924
Operating Expenses	118,114	107,643	310,944	219,906	266,031
EBITDA	11,395	14,242	51,404	24,607	34,893
% margins	8.8	11.7	14.2	10.1	11.6
Depreciation & Amortisation	4,252	4,030	6,213	6,496	6,884
Gross Interest	5,855	4,801	3,636	3,607	3,117
Other Income	399	409	500	500	500
Recurring PBT	1,731	6,845	42,056	15,005	25,392
Add: Extraordinaries	44	1,024	-	-	-
Less: Taxes	926	2,702	10,556	3,766	6,373
Less: Minority Interest/Share in profit loss of Equity accounted Investments	13	2	2	2	2
Net Income (Reported)	713	4,192	31,550	11,288	19,069
Recurring Net Income	713	4,192	31,550	11,288	19,069

Source: Company data, I-Sec research; FY20/21E reflects JSL

Table 3: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22	FY23E	FY24E
Assets					
Total Current Assets	38,238	41,180	127,290	107,014	130,418
of which cash & cash eqv.	687	1,163	2,560	21,600	27,914
Total Current Liabilities & Provisions	34,100	34,417	85,248	63,438	74,439
Net Current Assets	4,137	6,762	42,043	43,577	55,979
Investments	1,384	1,126	1,783	1,783	1,783
Strategic/Group	1,359	1,120	1,076	1,076	1,076
Other Marketable	25	6	707	707	707
Net Fixed Assets	61,484	58,281	74,388	78,631	84,454
Capital Work-in-Progress	126	527	5,179	5,941	1,734
Goodwill	1	1	754	754	754
Total Assets	72,675	72,928	137,787	144,377	158,448
Liabilities					
Borrowings	39,029	32,067	39,203	34,503	29,503
Deferred Tax Liability	1,903	4,610	8,175	8,175	8,175
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	76,238	87,526	106,595
Net Worth	27,172	32,051	87,696	98,984	118,053
Total Liabilities	72,675	72,928	137,787	144,377	158,448

Source: Company data, I-Sec research

Table 4: Cashflow statement*(Rs mn, year ending Mar 31)*

	FY20	FY21	FY22	FY23E	FY24E
Operating Cashflow	11,804	13,078	7,999	38,347	22,431
Working Capital Changes	(59)	(1,806)	(32,849)	17,506	(6,088)
Capital Commitments	(1,968)	(1,678)	(9,695)	(11,500)	(8,500)
Free Cashflow	9,835	11,400	(1,695)	26,847	13,931
Cashflow from Investing Activities	(1,878)	(1,520)	(9,195)	(11,000)	(8,000)
Issue of Share Capital	-	537	-	-	-
Buyback of shares					
Inc (Dec) in Borrowings	(5,178)	(8,281)	2,542	(4,700)	(5,000)
Dividend paid					
Extraordinary /Exchange impact					
Chg. in Cash & Bank balance	18	372	(2,289)	19,040	6,314

Source: Company data, I-Sec research

Table 5: Key ratios*(Year ending Mar 31)*

	FY20	FY21	FY22	FY23E	FY24E
Per Share Data (in Rs)					
EPS(Basic Recurring)	0.9	5.1	38.3	13.7	23.2
Diluted Recurring EPS	0.9	5.1	38.3	13.7	23.2
Recurring Cash EPS	6.0	10.0	45.9	21.6	31.5
Dividend per share (DPS)					
Book Value per share (BV)	33.0	38.9	106.5	120.2	143.4
Growth Ratios (%)					
Operating Income	(4.5)	(5.9)	197.3	(32.5)	23.1
EBITDA	(2.2)	25.0	260.9	(52.1)	41.8
Recurring Net Income	(49.9)	487.8	652.6	(64.2)	68.9
Diluted Recurring EPS	(49.9)	487.8	652.6	(64.2)	68.9
Diluted Recurring CEPS	0.5	65.6	359.3	(52.9)	45.9
	(4.5)	(5.9)	197.3	(32.5)	23.1
Valuation Ratios (x)					
P/E	135.1	23.0	3.1	8.5	5.1
P/CEPS	19.4	11.7	2.6	5.4	3.7
P/BV	3.5	3.0	1.1	1.0	0.8
EV / EBITDA	11.8	8.9	2.6	4.4	2.8
EV / Operating Income	1.0	1.0	0.4	0.4	0.3
EV / Operating FCF	13.7	11.2	(78.4)	4.1	7.0
Operating Ratios (%)					
Raw Material/Sales	63.5	61.2	70.0	65.4	64.9
SG&A/Sales	23.4	22.8	16.7	22.8	21.9
Other Income / PBT	23.0	6.0	1.2	3.3	2.0
Effective Tax Rate	53.5	39.5	25.1	25.1	25.1
NWC / Total Assets	7.5	5.7	9.3	30.9	30.6
Inventory Turnover (days)	116.5	130.3	98.2	101.1	101.5
Receivables (days)	19.9	28.0	42.6	42.6	42.5
Payables (days)	83.6	90.7	73.7	75.2	76.3
D/E Ratio (x)	1.41	0.96	0.42	0.13	0.01
Return/Profitability Ratios (%)					
Recurring Net Income Margins	0.6	3.4	8.7	4.6	6.3
RoCE	5.9	7.1	15.8	7.7	10.6
RoNW	2.6	13.1	36.0	11.4	16.2
Dividend Payout Ratio	-	-	-	-	-
Dividend Yield	-	-	-	-	-
EBITDA Margins	8.8	11.7	14.2	10.1	11.6

Source: Company data, I-Sec research

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