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Company update and  
reco change

## Metals

Target price Rs200

### Earnings revision

(%)	FY23E	FY24E
Sales	↓ 12.7	↓ 9.1
EBITDA	↓ 27.1	↓ 12.1
EPS	↓ 37.8	↓ 16.0

### Target price revision

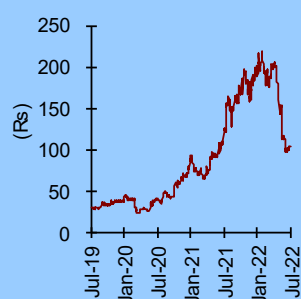
Rs200 from Rs120

### Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	68.6	69.9	69.9
Institutional investors	21.0	21.3	21.4
MFs and others	2.6	2.7	2.7
Insurance Cos.	0.3	0.3	0.3
FII	18.1	18.3	18.4
Others	10.4	8.8	8.7

Source: BSE

### Price chart



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INDIA

**ICICI Securities**

## Jindal Stainless

**BUY**

Upgrade from HOLD

Value unlocking can happen through prudent capital allocation

**Rs104**

Jindal Stainless (JSL) management meeting takeaways include: i) Exports can be maintained at 16,000tpm (down from peak run-rate of 30,000tpm) despite the export duty of 15%, mainly on account of higher margins in the US. ii) Blast furnace capex in JUSL is being reconsidered; leverage, holding on to the environmental benefits of running a secondary steel operation and investor feedback has played its part in our view. iii) Merger of JUSL into JSL is also being considered in order to avoid the recurring need for approvals in AGMs, as well as the scrutiny on related-party transactions. As the decisions are being finalised, we expect further disclosure on the same. Given the current export run-rate, and post the imposition of export duty, management expects 5-10% YoY reduction in volumes, which we have factored in our estimates. Upgrade to BUY with a target price of Rs200 (earlier: Rs120).

- **Trying to optimise on capital allocation.** Options are being reconsidered for the blast furnace capex, which was earlier considered in JUSL (associated entity). Management was clear on the cost competitiveness of the pig iron route for 400 series production along with liquid ferrochrome. However, management was also cognisant of balance sheet stress the investment would create, and the associated related-party investments/transactions and roadblocks to potential future merger. Management wants to minimise related-party transactions, hence is also looking at likely options for JSL to acquire JUSL (26% is currently held by JSL) and thereby maintain the favourable tenure of term loans present in JSL books.
- **Removal of export duty (whenever it comes) will boost the business model.** It would be disappointing to see partial rollback of the export duty on steel products and not in stainless steel. Imposition of the duty itself was difficult to put in a framework given the larger demand market, i.e. aluminium was exempted, but stainless steel was included. However, JSL is most leveraged to the export market among Indian metal peers (with ~25% of combined JSL+JSHL volumes being exported), hence is the most impacted by the export duty. We are surprised at the management guidance of maintaining 50% of peak export run-rate despite the duty, while trying to push the rest of the volumes in the domestic market. These measures expose volumes and margins to downside risks in our view.
- **Upgrade to BUY.** We reduce volumes and profitability for FY23E/FY24E and maintain our through-cycle EBITDA for FY24E. With 50% of JSL+JSHL volumes from the 300 series, there is a clear risk of increased Indonesian imports (anti-dumping duty was revoked in Feb'22), thereby taking away JSL's share of Indian volumes. It is absolutely clear that JSL cannot compete with the Indonesian cost structure given its captive/merchant lateritic nickel ore. (continued on next page...)

Market Cap	Rs54.8bn/US\$691mn
Reuters/Bloomberg	JIST.BO/JDSL IN
Shares Outstanding (mn)	525.5
52-week Range (Rs)	218/98
Free Float (%)	30.1
FII (%)	18.4
Daily Volume (US\$'000)	3,031
Absolute Return 3m (%)	(48.7)
Absolute Return 12m (%)	(13.6)
Sensex Return 3m (%)	(7.2)
Sensex Return 12m (%)	5.0

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)	19.6	2.6	7.3	4.3
CEPS (Rs)	10.0	45.9	21.6	31.5
EV/E (x)	8.0	2.3	3.9	2.4
Dividend Yield	-	-	-	-
RoCE (%)	7.1	15.8	7.7	10.6
RoE (%)	13.1	36.0	11.4	16.2

Please refer to important disclosures at the end of this report

(...continued from previous page)

- **Upgrade to BUY.** The foregoing explains the company's efforts to expand capacity, increase volumes in the *400 series* (chromium-heavy, no-nickel) and move away from the *200/300 series* as quickly as possible. In its journey, the export duty imposition came perhaps at a bad time with import trade barriers already removed and imports constituting 40% of the Indian market. JSL has worked carefully to stay out of these import-heavy segments, but will *have to* enter the same if the export duty remains in place.

**Table 1: Net debt bridge JSL**

<i>(Rs mn)</i>	<b>FY22</b>	<b>FY21</b>
Long term Debt	14550	15300
Short term debt	2900	3190
Total Lender's debt	17450	<b>18,490</b>
Inter corporate loan	10,500	10500
Total Debt	27,950	28,990
Cash and bank balance	1990	890
Net Debt	25,960	28,100
Borrowing (Subsidiaries)		
Long Term debt	590	600
Short term debt	2720	1,950
<b>Total</b>	<b>3,310</b>	<b>2,550</b>

Source: Company data, I-Sec research

**Table 2: Net debt bridge JSHL**

<i>(Rs mn)</i>	<b>FY22</b>	<b>FY21</b>
Long term debt	12050	12500
Short term borrowings	4210	1270
Total Debt	16260	16040
Cash and Bank	210	80
Net Debt	16050	15960
Borrowing ( Subs)		
Long term debt	310	140
Short term debt	1700	410
<b>Total</b>	<b>2010</b>	<b>550</b>

Source: Company data, I-Sec research

## Valuations and key risks

We upgrade JSL to **BUY** with a target price of Rs200/share. We value it at 1.4x FY24E P/B, with an implied EV/EBITDA multiple of 5x (earlier: 0.8x FY24E P/B). We expect a through-cycle RoE of 15-16% notwithstanding risk of imports.

**Table 3: Profit and loss statement**

	FY23E			FY24E		
	New	Old	% Chg	New	Old	% Chg
Sales (Rs mn)	244,513	279,970	(12.7)	300,924	331,200	(9.1)
EBITDA (Rs mn)	24,607	33,752	(27.1)	34,893	39,674	(12.1)
PAT(Rs mn)	11,288	18,138	(37.8)	19,069	22,713	(16.0)
Volumes (JSL + JSHL) (mn te)	1.59	1.82	(12.5)	2.00	2.20	(9.0)
EBITDA/te	15,452	18,545	(16.7)	17,429	18,034	(3.4)

Source: Company data, I-Sec research

## Key downside risks to the 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 (Indonesia is an FTT partner, and does not draw any import duty on stainless steel imports). 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 4: Profit and Loss statement**

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22	FY23E	FY24E
<b>Operating Income (Sales)</b>	<b>129,509</b>	<b>121,885</b>	<b>362,348</b>	<b>244,513</b>	<b>300,924</b>
<b>Operating Expenses</b>	<b>118,114</b>	<b>107,643</b>	<b>310,944</b>	<b>219,906</b>	<b>266,031</b>
<b>EBITDA</b>	<b>11,395</b>	<b>14,242</b>	<b>51,404</b>	<b>24,607</b>	<b>34,893</b>
% 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
<b>Recurring PBT</b>	<b>1,731</b>	<b>6,845</b>	<b>42,056</b>	<b>15,005</b>	<b>25,392</b>
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
<b>Net Income (Reported)</b>	<b>713</b>	<b>4,192</b>	<b>31,550</b>	<b>11,288</b>	<b>19,069</b>
<b>Recurring Net Income</b>	<b>713</b>	<b>4,192</b>	<b>31,550</b>	<b>11,288</b>	<b>19,069</b>

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

**Table 5: Balance sheet**

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22	FY23E	FY24E
<b>Assets</b>					
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
<b>Net Current Assets</b>	<b>4,137</b>	<b>6,762</b>	<b>42,043</b>	<b>43,577</b>	<b>55,979</b>
<b>Investments</b>	<b>1,384</b>	<b>1,126</b>	<b>1,783</b>	<b>1,783</b>	<b>1,783</b>
Strategic/Group	1,359	1,120	1,076	1,076	1,076
Other Marketable	25	6	707	707	707
<b>Net Fixed Assets</b>	<b>61,484</b>	<b>58,281</b>	<b>74,388</b>	<b>78,631</b>	<b>84,454</b>
Capital Work-in-Progress	126	527	5,179	5,941	1,734
Goodwill	1	1	754	754	754
<b>Total Assets</b>	<b>72,675</b>	<b>72,928</b>	<b>137,787</b>	<b>144,377</b>	<b>158,448</b>
<b>Liabilities</b>					
<b>Borrowings</b>	<b>39,029</b>	<b>32,067</b>	<b>39,203</b>	<b>34,503</b>	<b>29,503</b>
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
<b>Net Worth</b>	<b>27,172</b>	<b>32,051</b>	<b>87,696</b>	<b>98,984</b>	<b>118,053</b>
<b>Total Liabilities</b>	<b>72,675</b>	<b>72,928</b>	<b>137,787</b>	<b>144,377</b>	<b>158,448</b>

Source: Company data, I-Sec research

**Table 6: Cashflow statement**

(Rs mn, year ending Mar 31)

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

Source: Company data, I-Sec research

**Table 7: Key ratios**

(Year ending Mar 31)

	FY20	FY21	FY22	FY23E	FY24E
<b>Per Share Data (in Rs)</b>					
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
<b>Growth Ratios (%)</b>					
Operating Income	(4.5)	(5.9)	197.3	(32.5)	23.1
EBITDA	(2.2)	25.0	260.9	(52.1)	41.8
<b>Recurring Net Income</b>	<b>(49.9)</b>	<b>487.8</b>	<b>652.6</b>	<b>(64.2)</b>	<b>68.9</b>
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
<b>Valuation Ratios (x)</b>					
P/E	115.4	19.6	2.6	7.3	4.3
P/CEPS	16.6	10.0	2.2	4.6	3.2
P/BV	3.0	2.6	0.9	0.8	0.7
EV / EBITDA	10.6	8.0	2.3	3.9	2.4
EV / Operating Income	0.9	0.9	0.3	0.4	0.3
EV / Operating FCF	12.3	9.9	NM	3.5	6.0
<b>Operating Ratios (%)</b>					
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
<b>Return/Profitability Ratios (%)</b>					
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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