VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

Jindal Stainless Ltd.

BUY

STOCK POINTER

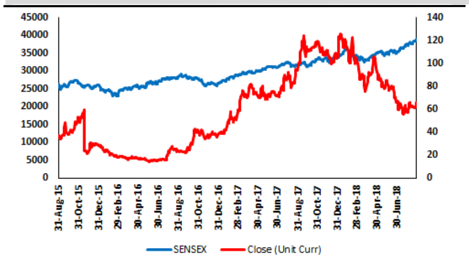
Target Price ₹ 127	CMP ₹ 64	FY21E EV/EBITDA 5X

Index Details	
Sensex	38,311
Nifty	11,558
Industry	Steel

Scrip Details	
Mkt Cap (₹ cr)	3,041
BVPS (₹)	51.4
O/s Shares (Cr)	47.92
Av Vol (Lacs)	
52 Week H/L	132.40/53.75
Div Yield (%)	0
FVPS (₹)	2

Shareholding Pattern	
Shareholders	%
Promoters	67
Public	33
Total	100

JSL vs. Sensex



The outlook for the stainless steel sector is robust as it is expected to grow at a CAGR of ~8-9% from FY18 onwards, driven by demand from sectors such as automotives, construction, metros and railways, and process industries. Jindal Stainless is the largest player in the domestic market and controls ~50% of the market in India with Jindal Stainless (Hisar) Limited.

JSL undertook a CDR exercise following the delay in the ramp-up of the Jajpur facilties in Odisha and then, an influx of imports. JSL has emerged stronger after the CDR exercise and has undertaken internal corrective measures. Protectionary measures taken by the government have also helped the domestic stainless steel industry against the influx of cheap imports. JSL operated at ~100% capacity utilisation during FY18 against a 56% utilisation in FY15. By end FY19, it is expected to have a capacity of 1.1 mtpa through debottlenecking and operational efficincies at a capex of ~ Rs. 40 crores. JSL is likely to strengthen its leadership in the market as it is the only player to expand its capacity in fast-growing market.

We believe that JSL's volumes will grow at a 9% CAGR to 1.0 mtpa in FY21 against 0.78 mtpa in FY18. With its pass through structure, it is likely to maintain its EBITDA margin of ~12% and grow its EBITDA to Rs. 1,821 crores in FY21E. We expect the cash flows to be utilised for timely repayment of debt and redemption of OCRPS, thereby reducing the interest cost.

At the CMP of Rs. 64, JSL is trading at an EV/EBITDA of 5.2x FY19E. We initiate with a BUY on JSL with a target price of Rs. 127 (FY21 EV/EBITDA of 5x), which represents an upside of 98.4% over 18 months.

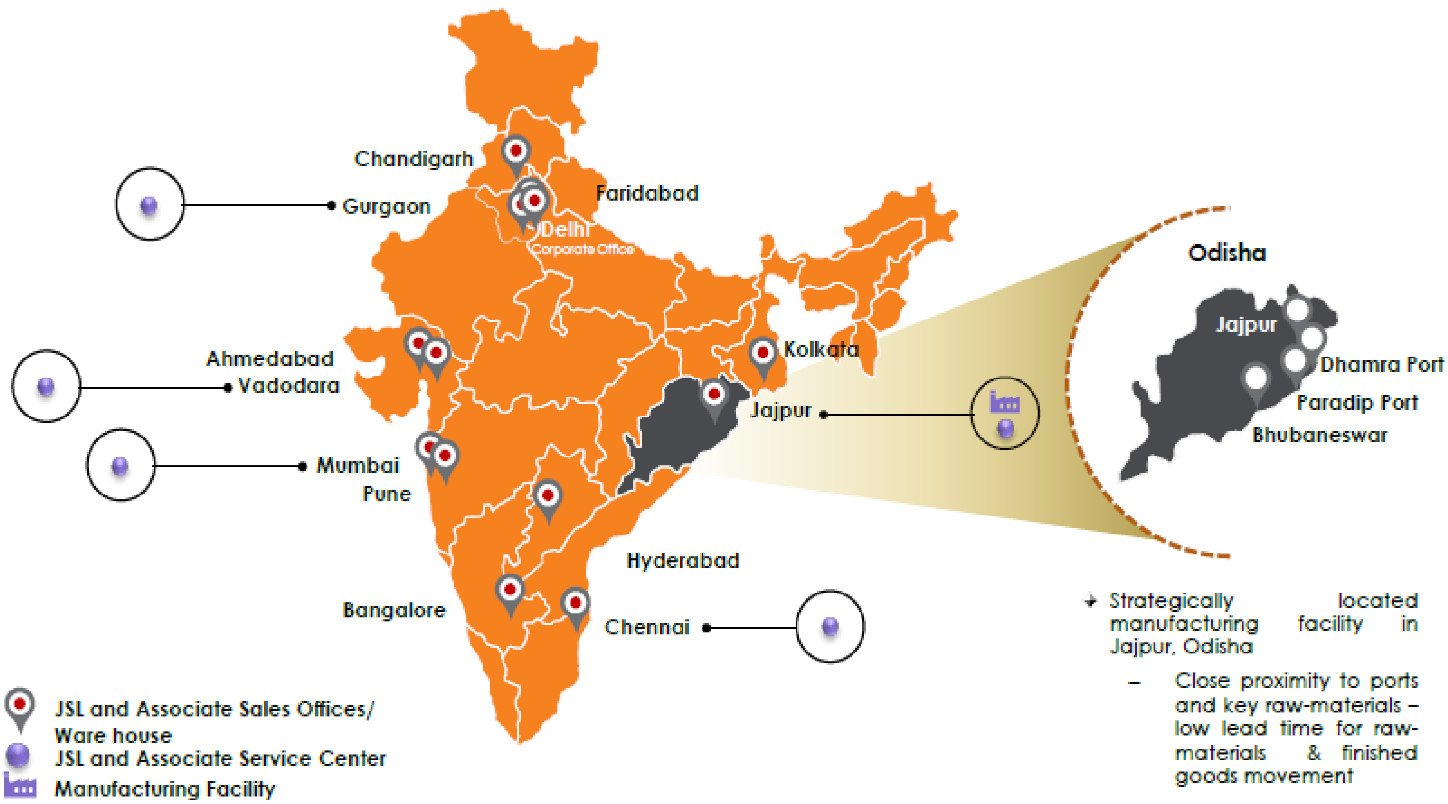
Key Financials (₹ in Cr)

Y/E Mar	Net Sales	EBITDA	PAT	EPS	EPS Growth (%)	ROE (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
2018	11,638	1,340	343	7.5	260	16.8	14.0	8.6	6.0
2019E	13,478	1,529	466	9.7	30	17.3	16.2	6.6	5.1
2020E	14,232	1,667	589	12.3	26	18.3	17.8	5.2	4.2
2021E	15,161	1,821	750	15.7	27	19.3	20.3	4.1	3.4

❖ Company Background:

Jindal Stainless Ltd., part of the larger O.P. Jindal group, was founded in 1970 and is one of the largest manufacturers of stainless steel (SS) in India with a 0.8 mtpa capacity. Located in Jajpur, Orissa, Jindal Stainless Ltd. is a pioneer in the stainless steel industry with state-of-the-art machinery and engineering from the best of European suppliers, capable of producing globally competitive stainless steel products. The plant comprises 250,000 tpa of ferro alloy facilities with world-class technology and equipment sourced from Germany. The production facilities, well equipped with a power generation facility of 264 MwH, can be scaled up if required to 3.2 mtpa of stainless steel.

JSL domestic facilities



Source: Company

Apart from the above, the company has two material subsidiaries - PT Jindal Stainless Indonesia and Iber Jindal - having operations in Indonesia and Spain. PT Jindal Stainless Indonesia has a cold rolled facility whereas Iber Jindal – Spain provides services to customers in the European market. The Indonesian subsidiary reported an EBITDA of Rs. 55 crores against a revenue of Rs.1108 crore in FY18 whereas the European subsidiary reported an EBITDA of Rs. 12 crores in CY17 against a revenue of Rs. 386 crores.

❖ Key Investment Highlights

➢ What went wrong?

Jindal Stainless Ltd. was founded in 1970 with its mother plant in Hisar, Haryana (now part of Jindal Stainless Hisar Ltd.). The company planned to double its capacity by setting up a Greenfield plant in Jajpur, Odisha, in 2004 to strengthen its market share. The expansion was undertaken in two phases with auxiliary facilities like ferro alloys, coke oven and captive power plant being set up in the first phase and a 0.8 mtpa steel melting shop along with Hot-rolled (HR) and Cold-rolled (CR) facilities in the 2nd phase.

The company could not successfully complete phase 2 due to the financial slowdown in 2008, which impacted cash flows. This led JSL to enter into Corporate Debt Restructuring (CDR) in 2009. Even after operationalisation of phase-2, the ramp up was slower than expected. In addition to rising imports, the company continued to face issues related to logistics, adverse raw material pricing, etc., leading to lower utilization, even as it grappled with high debt and interest cost. The financial health of the company deteriorated even further. The CDR had to be reworked in 2012 to help the ailing entity.

JSL Financial performance trend over the years

(in INR cr.)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profitability statement									
Revenue	11,305	12,869	6,948	7,144	9,279	11,638	13,478	14,232	15,161
EBITDA	709	1,010	368	573	1,166	1,340	1,529	1,667	1,821
Other Income	35	45	54	26	26	45	26	26	26
Exceptional items	(184)	(419)	1,184	(40)	26	4	-	-	-
Depreciation	740	728	411	316	325	320	323	325	327
Interest	1,043	1,295	942	1,030	788	566	538	487	394
Tax	(382)	(21)	0	(232)	32	174	243	307	392
PAT	(841)	(1,368)	253	(557)	82	343	466	589	750
Key metrics/t									
Realisation/t (in INR)	124,888	121,103	136,501	122,247	129,661	138,441	141,000	139,000	139,000
EBITDA/t (in INR)	7,467	8,916	6,903	9,755	17,265	16,443	16,637	16,974	17,421
Volumes									
Sales (in mt)	0.82	0.99	0.44	0.53	0.64	0.78	0.88	0.95	1.01
Key financials									
Equity	1,340	62	199	1,712	1,814	2,465	2,932	3,521	4,271
Total Debt	11,601	11,924	11,288	10,347	5,888	5,032	4,798	4,099	3,090
Key Ratios									
D/E	9	208	(66)	8	3	2	2	1	1
RoE	(49)	(197)	-	(101)	3	17	17	18	19
ROCE	(1)	(1)	10	2	9	14	16	18	20

Source: Company, Ventura Research

Note: Financials prior to FY15 are including JSHL and other entities formed as a result of AMP.

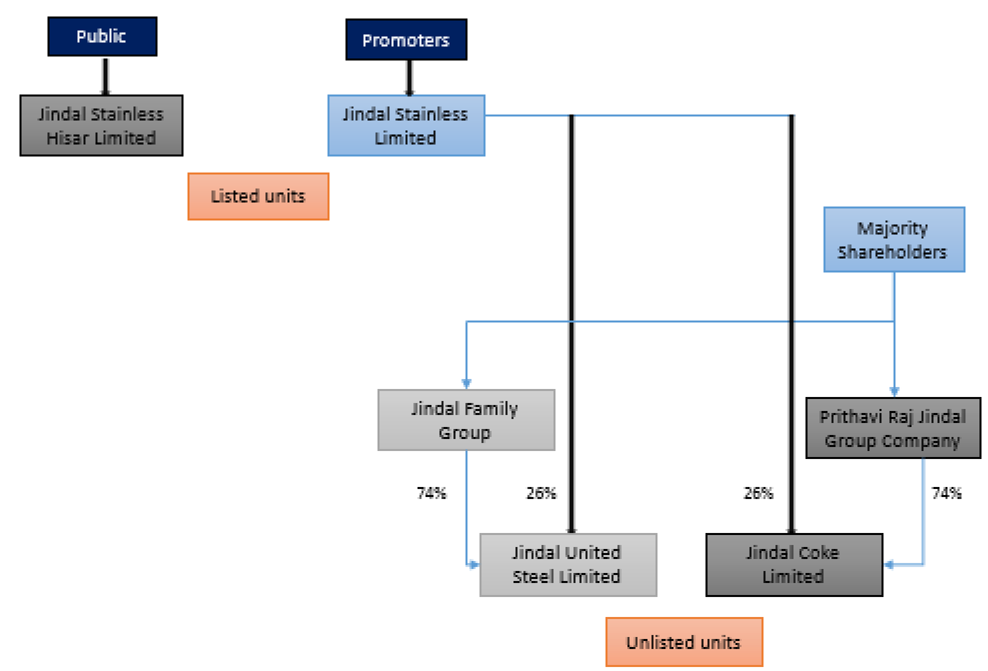
➢ Corrective measures taken – Assets Monetization Plan

Then, JSL finalized a comprehensive asset monetization-cum-business reorganization plan (AMP). This entailed monetization of identified business undertakings of the company through demerger/slump sale and utilization of the proceeds of the slump sale towards reduction of debt.

As a part of the AMP, a Composite Scheme of Arrangement (CSA) amongst JSL and its three wholly owned subsidiaries, viz., Jindal Stainless (Hisar, JSHL), Jindal United Steel (JUSL) and Jindal Coke Limited (JCL) and their respective creditors and shareholders was undertaken, which was sanctioned by the High Court of Punjab and Haryana in FY16.

As a part of AMP, JSL received a cash consideration from the sale of assets, which it used to repay the debt of Rs 5500 crore. On May 26, 2017, the company allotted 60.5 mn equity shares and 142.8 mn Optionally Convertible Redeemable Preference Shares to lenders upon conversion of the funded interest term loans at a price of Rs. 39.1/share.

Restructured facilities of JSL



Source: Company, Ventura Research

How JSL benefitted from the AMP

1. Reduction in term loan by ~ Rs. 5500 crores resulting in saving in interest cost.
2. Reduction in working capital requirement and consequent saving in working capital interest cost.
3. Strengthening of balance sheet & debt serviceability

Restructured facilities of JSL

After the AMP, the existing entity (JSL) has a 0.8 mtpa Electric Arc Furnace (EAF) based steel melt shop (SMS) along with a 0.25 mtpa ferro alloy plant, and a 264 MW captive power plant. The hot strip mill (HSM) in JUSL has double the capacity (1.6 mtpa) of SMS, which can be leased out for a tolling agreement till the time that the expansion gets completed. The slabs from HSM are further rolled at 0.95 mtpa HRAP (Hot rolled annealing and pickling) and 0.45mtpa CRAP (Cold rolled annealing and pickling) mills.

Restructured facilities of JSL

Jindal United Steel Ltd- JUSL

Promoted by Jindal Family

Jindal Stainless Limited

Location	Facility	Unit	Capacity
Jajpur, Odisha	Jot Strip Mill	MTPA	1,600,000
Jajpur, Odisha	Coke Oven	MTPA	430,000
Jajpur, Odisha	Steel Melting	MTPA	800,000
	Cold Rolling Mill	MTPA	
	A. HRAP	MTPA	950,000
	B. CRAP	MTPA	450,000
	Ferro Alloys	MTPA	250,000
	Power Plant	MWH	264
Hisar, Haryana	Integrated SS Facility	MTPA	800,000
Vizag, Andhra Pradesh	Ferro Chrome	MTPA	40,000

JCL

JSHL

Source: Company, Ventura Research

The company has undertaken the following initiatives to aid profitability:

1. **Own railway siding network to reduce freight costs:** The company has set up its own railway siding network in Nov'15, which has reduced the freight cost and lead time for movement of raw materials and finished goods.

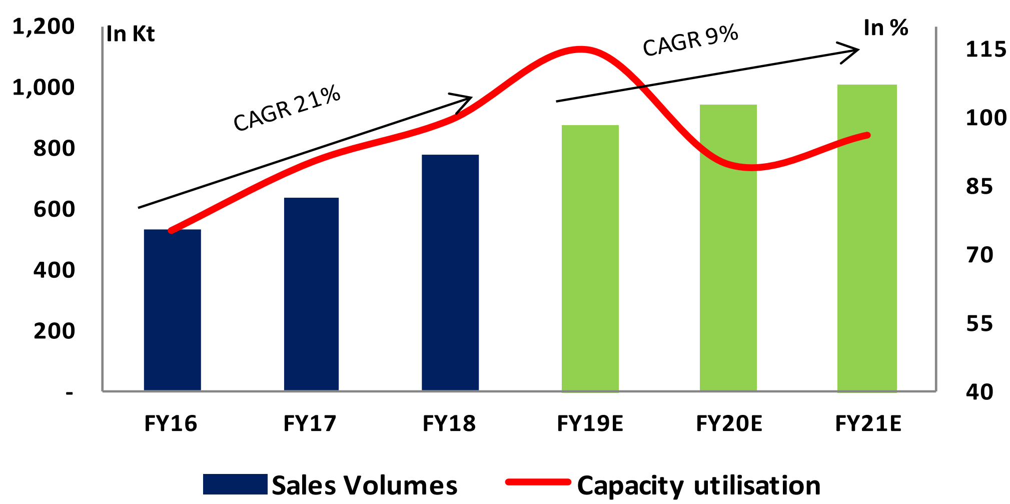
2. **Diversifying sourcing of chrome ore:** The company has diversified its sourcing of chrome ore from the Orissa Mining Corporation (OMC), Tata steel and from the captive mines. This initiative has led to optimum utilization of the ferro chrome plant.

3. **Operational efficiency through the use of Liquid Chrome and coke oven gas:** Through direct charging of the liquid ferro chrome, the cycle time per heat has reduced significantly in the steel melt shop along with reduction in power cost. Also, the company has partially substituted expensive propane gas with coke oven gas leading to savings in operational costs.

➢ Capacity expansion through debottlenecking to lead volume growth

Post implementation of AMP, JSL has ramped up its production with sales volumes growing at a CAGR of 21% over FY16-FY18 to 779 kt with capacity utilization of SMS reaching ~100% (797 mtpa) in FY18. The company is undertaking a debottlenecking and process improvement exercise that will increase the capacity of the steel melting shop to 1.1 mtpa from the current 0.8 mtpa at a cost of ~ Rs. 40 crores. The exit capacity as on FY19 is expected to touch 1.1 mtpa. From this, we expect volumes to grow at a CAGR of ~9% to 1012 ktpa by FY21.

JSL standalone volumes to grow at a 9% CAGR to 1012 ktpa by FY21E

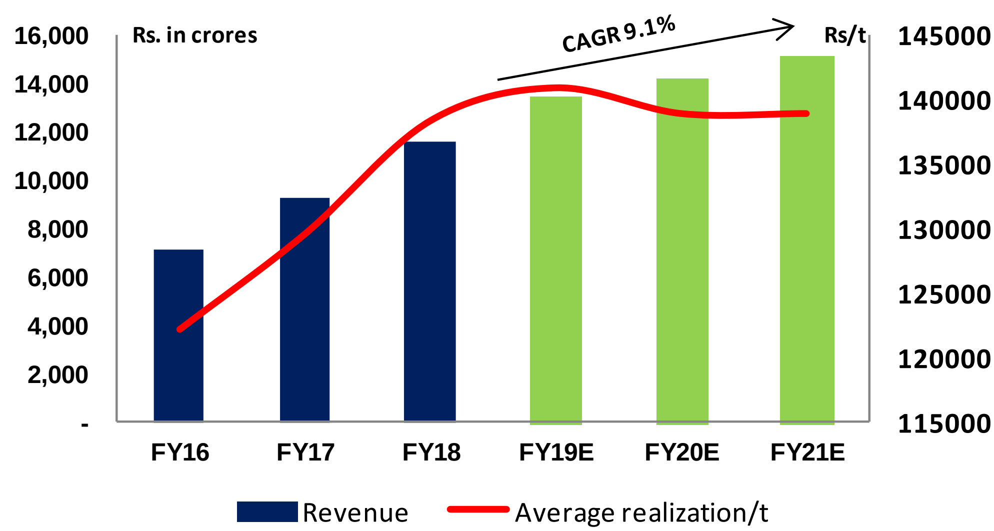


Source: Company, Ventura Research

➢ Robust growth in saleable steel volumes to lead revenue growth

JSL's consolidated revenues have grown at a CAGR of ~ 27% over FY16-FY18 to Rs. 11,638 crores from Rs. 7,144 crores. The growth was on the back of ~45% increase in sales volumes to 779 kt in FY18 from 534 kt in FY16 and over ~13% increase in realization/t to ~ Rs. 138k/t from Rs. 122k/t over the same period. While the growth in realization was largely on account of an increase in raw material prices, we have considered realizations to remain in the levels of ~138k –141k/t over the period FY18-FY21. We expect the increase in volumes to aid the growth in consolidated revenues to Rs. 15,161 crores in FY21E.

Consolidated Revenues to increase at a CAGR of 9.1% to Rs. 15,161 crores

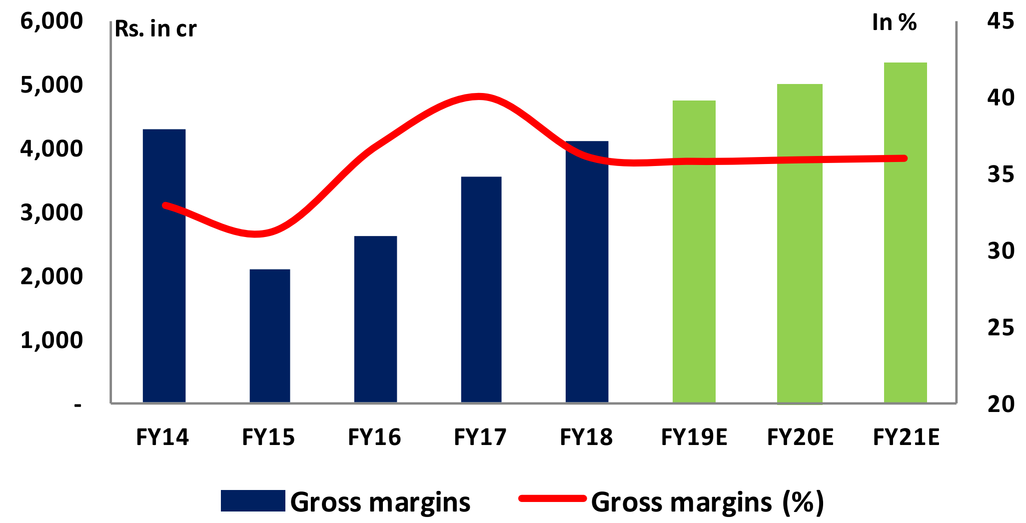


Source: Company, Ventura Research

➢ Gross margins in a band of 35-40 %, likely to remain largely stable

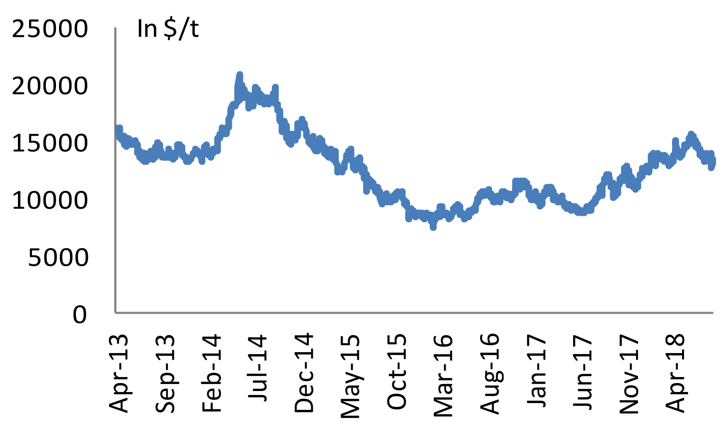
JSL's pass through structure has helped the company to maintain gross margins in a band of 35-40% over the last 3 years. The basic raw materials for producing stainless steel are stainless steel scrap, nickel and chromium. The company procures these materials from merchants, converts these materials into finished steel products & manufactures value added stainless steel products. Nickel, which is a key driver of SS prices, has largely remained volatile over the past years. Being a pure converter, the company usually manages to pass through the increase in raw material costs through its weekly pricing mechanism. Hence, despite having volatility in prices and a mismatch in the order book and raw material cycle, the gross margins are largely stable. We expect the company to maintain gross margins at a level of ~36%.

Gross margins to largely remain stable

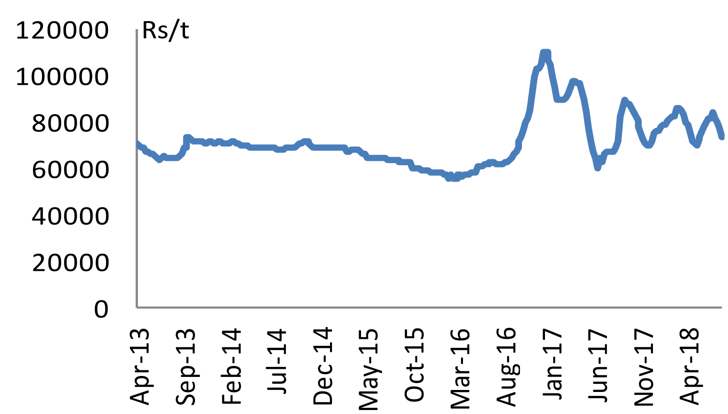


Source: Company, Ventura Research
Note: Financials prior to FY15 include JSHL nos. also.

Nickel Prices trend



Ferro-Chrome Prices trend

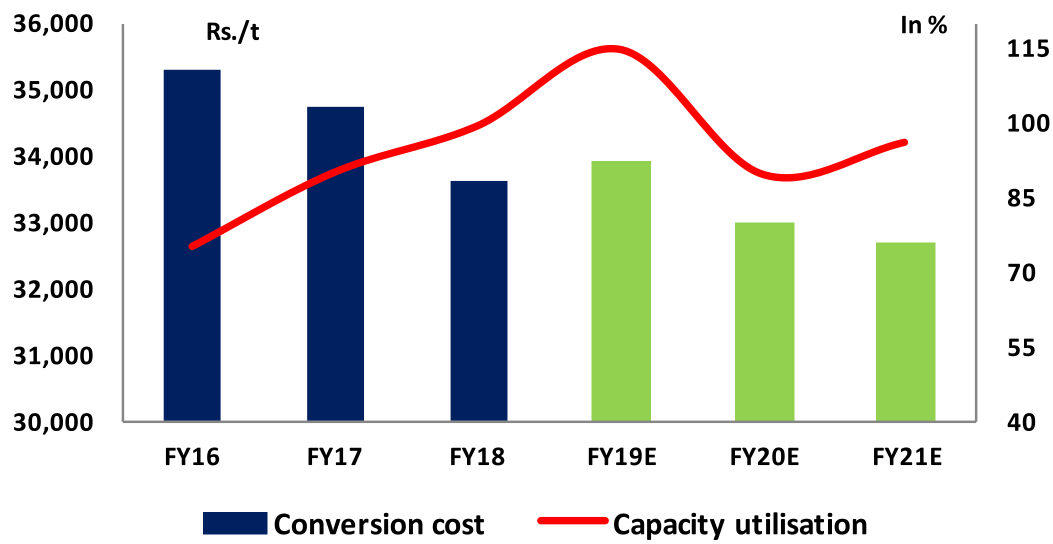


Source: Company, Ventura Research
Note: Financials prior to FY15 include JSHL nos. also.

➢ Increased capacity utilizations to lower the conversion cost

Increased capacity utilizations over the period has lowered the conversion cost through higher absorption of fixed costs and economies of scale. The company is operating at ~100% utilization in FY18 and is expected to exit the year FY19E at a capacity of 1.1 mtpa through debottlenecking. We expect the utilization to remain high over the forecast period and expect the conversion cost to remain stable over the period.

Conversion cost to remain largely stable



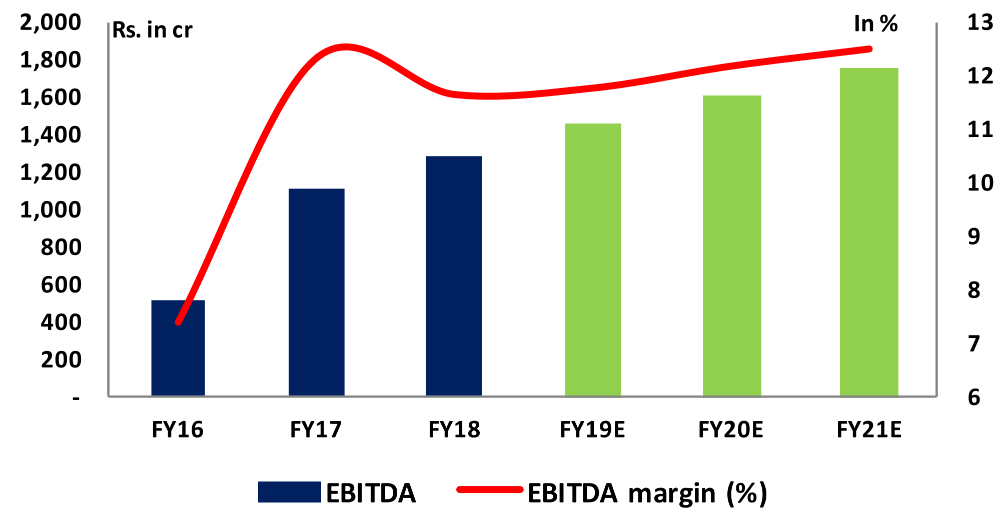
Source: Company, Industry estimates, Ventura Research

➢ Standalone EBITDA to grow at a CAGR of ~11% on the back of robust cost-structure

JSL reported a standalone EBITDA of Rs. 1281 crores in FY18. The EBITDA per tonne during the year was at Rs. 16,443. The EBITDA margins witnessed a sharp jump in FY17 to 12.3% from 7.4% in FY16 and have remained stable in FY18 at 11.7%. We expect the EBITDA to grow to Rs. 1,764 crores and the EBITDA margins to improve to 12.5%. We expect the EBITDA/t to remain largely stable and to grow to ~Rs. 17,400/t in FY21E.

In case of overseas subsidiaries, we have considered a revenue of Rs. 1069.2 crores in FY19E and EBITDA of Rs. 39.6 crores for PT Jindal Indonesia whereas a revenue of Rs. 439.2 crores for FY19E and an EBITDA of Rs. 12 crores for Iber Jindal Spain.

Standalone EBITDA to grow at a CAGR of ~11%

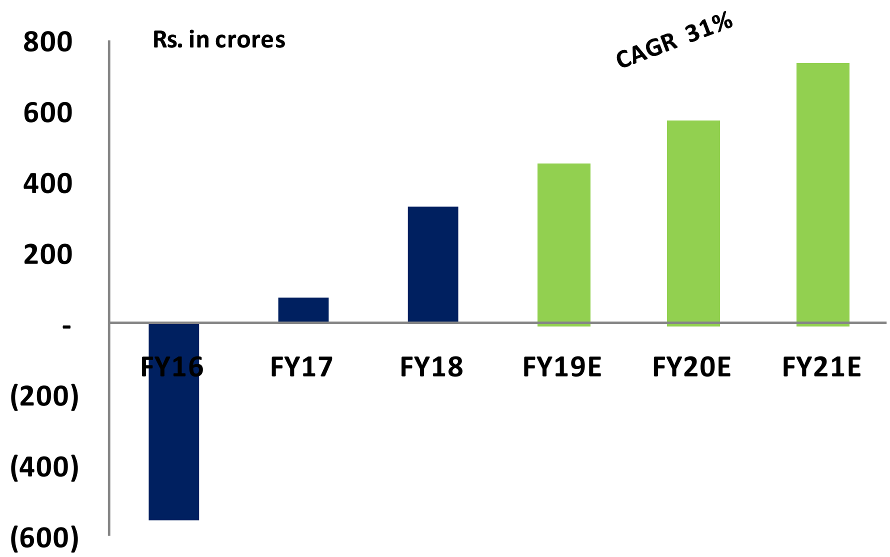


Source: Company, Ventura Research

➢ Interest cost to go down as debt to reduce significantly

JSL's inability to service the debt and interest led to JSL opting for CDR. Post – AMP the situation eased a lot for JSL. The interest cost of Rs. 1030 crores at the end of FY16 has come down to Rs. 566 crores during FY18 due to reduction in the consolidated debt from Rs. 10,347 crores in FY16 to Rs. 5,032 crores in FY18. We expect the debt to go down to Rs. 3,090 crores in FY21E assuming the redemption of Optionally Convertible Redeemable Preference Shares (OCRPS) of Rs. 623 crores before Oct' 2020. We expect the interest cost to reduce to Rs. 394 crores in FY21E.

Interest cost to reduce with reduction in debt

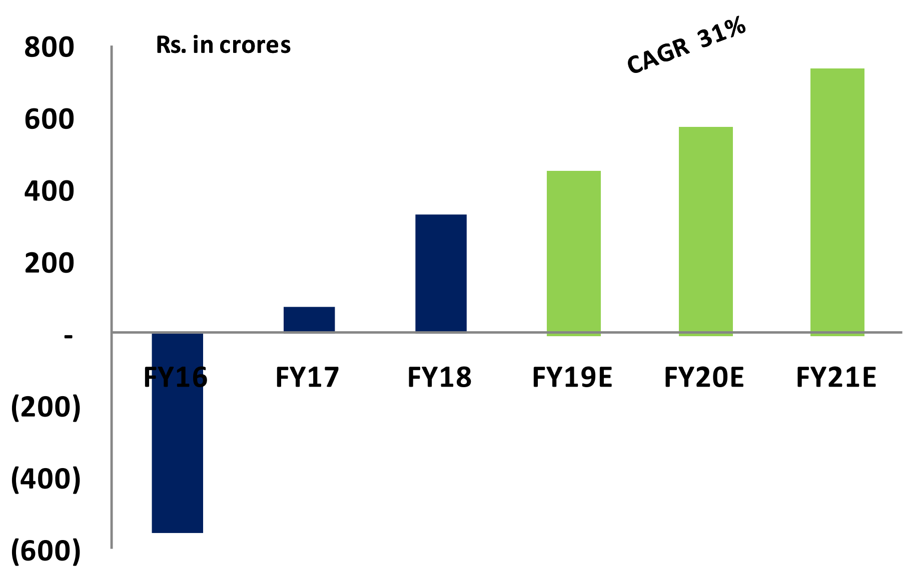


Source: Company, Ventura Research

➢ Net profit set to rise as interest cost burden eases

JSL's standalone profits rose to Rs. 318 crores in FY18 from a loss of Rs. 559 crores in FY16, largely due to a reduction in the interest cost and operational efficiencies. With increasing volumes, stable margins and reducing interest, we expect the PAT to grow to Rs. 723 crores in FY21E.

Profits to grow at a CAGR of 31% till FY21

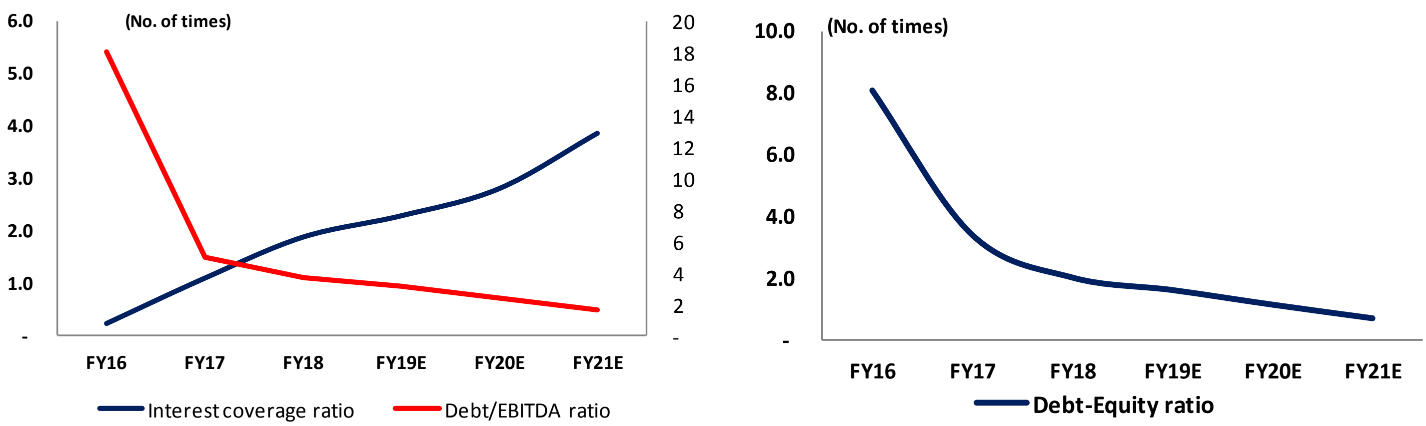


Source: Company, Ventura Research

➢ Debt deleveraging on the anvil

Post AMP the debt has reduced significantly. Improved PAT is likely to strengthen the balance sheet and the company's ability to service interest and debt. We expect the Interest coverage ratio to improve to 3.86 times in FY21E and the Debt/EBITDA ratio to improve to 1.70 times in FY21E. We expect the debt-equity ratio to improve significantly to 0.72 times in FY21E.

Improving Interest Coverage and Debt-Equity ratio

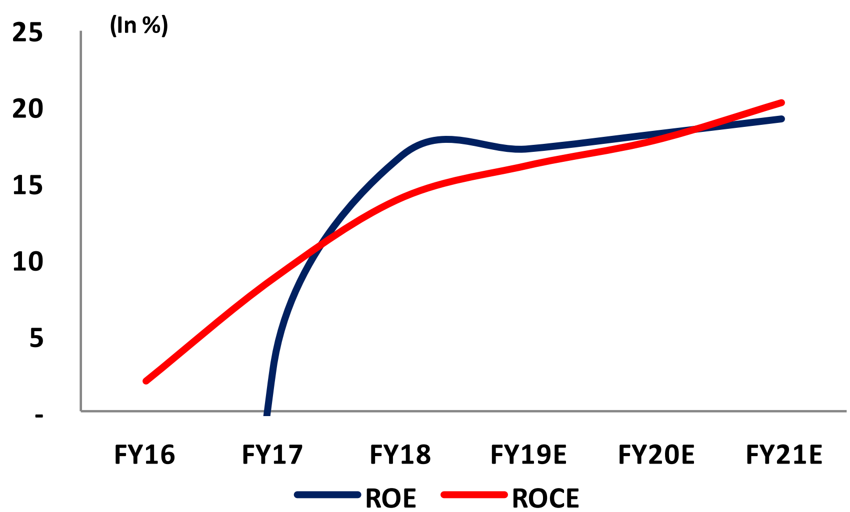


Source: Company, Ventura Research

➢ JSL's return ratios to expand over FY21E

We expect JSL's return on equity (ROE) and return on capital employed (ROCE) to improve significantly to 19.3% and 20.3%, respectively, in FY21E.

Return ratios expanding significantly



Source: Company, Ventura Research

❖ About the Industry:

Stainless steel is a generic term for a family of corrosion resistant alloy steels containing 10.5% or more chromium, generally produced in an induction furnace with a few other metals such as nickel and molybdenum. These are added to achieve desirable properties of hardness, corrosion resistance, strength machinability, etc. Depending on the alloying agent used, stainless steel is classified into different categories, viz., 200, 300 and 400 series.

Stainless steel grades and composition

Series	Nickel	Chromium	Manganese	Copper	Iron
200	1-6%	10.5-20%	5.5-12%	1.5-2.5%	Remaining
300	6-22%	15-25%	<2%	None	Remaining
400	<0.5%	>10.5%	<1%	None	Remaining

Source: Company, Industry, Ventura Research

Due to its low production cost, the 200 series is commonly used. However, India's consumption mix is gradually shifting towards grades such as 300 series and 400 series in line with global trends. The share of the 200 series stood at 40-50% of India's total production and consumption, whereas that of the 300 series stood at 35-40%.

➢ Wide usage of stainless steel:

Stainless steel is widely used in our daily lives in a number of items ranging from blades and coins to household goods and utensils. Due to its varied strength, corrosion resistance and other superior properties over carbon steel, Stainless steel is finding its application in power plants, the oil and gas sector and nuclear plant assets as well.

Series wise application of Stainless steel

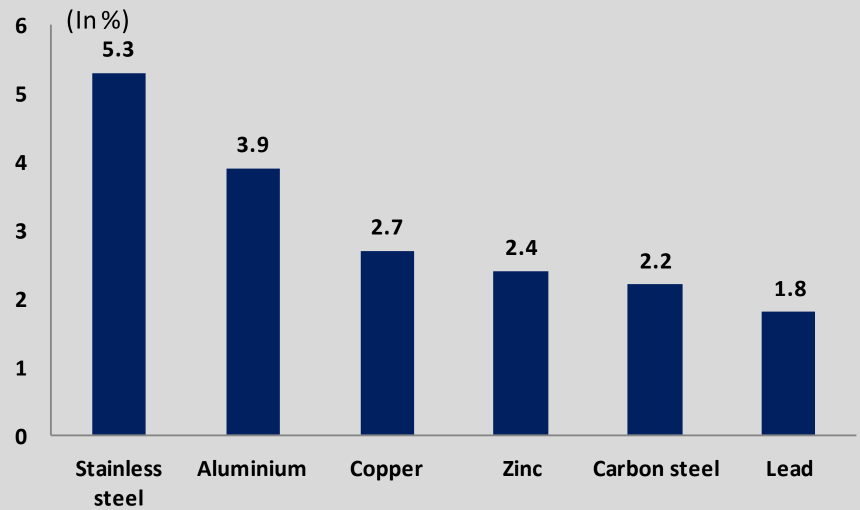
Applications	200 Series	300 Series	400 Series
Household goods, Utensils and Kitchen Appliances	√	√	√
Tubes & Pipes	√	√	√
Architecture/Decorative	√	√	√
Automobiles/Railways/Transportation		√	√
Oil and Gas Sector		√	√
Nuclear Applications		√	
Pharmaceutical and Dairy		√	
Coinage			√
Power Plants		√	
Consumer Durables			√
Blades			√

Source: Company, Industry, Ventura Research

➢ Stainless steel : Highest growing metal in past 25 years

The demand for stainless steel has grown at a rapid pace of 5.3% CAGR over the past 25 years whereas the demand for carbon steel has just grown at a rate of 2.2% only over the same period. The shift from carbon steel to stainless steel and urbanization steel in emerging economies will keep demand for SS higher than that for other materials.

Global stainless steel volume growth over the past 25 years



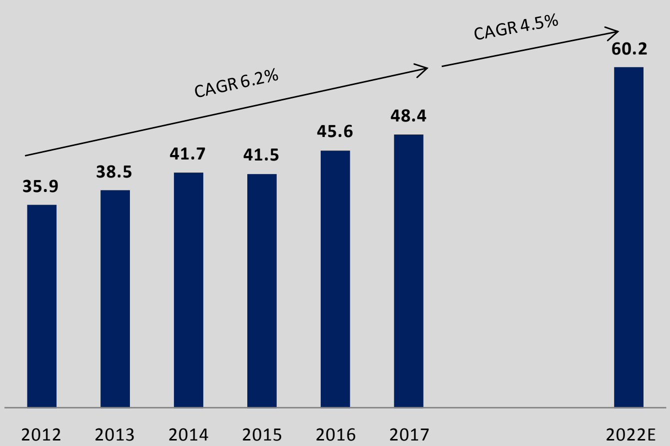
Source: CRISIL, ISSF, Ventura Research

➢ Emerging economies propel robust growth of SS demand

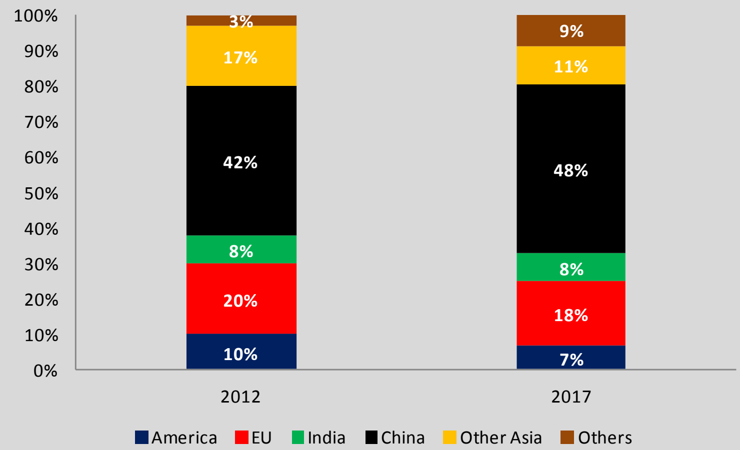
Global stainless steel demand rose at a healthy 6.2% over CY12-CY17 to 48.4 mt. The Asia-Pacific region (specifically China and India) was the driver of growth, as demand growth moderated in developed economies. China is the largest producer and consumer of stainless steel and accounted for ~48% of demand in CY16 (from 42% in CY11). China's demand grew at ~9% CAGR in CY12-CY17. During the same period, India's demand grew by ~7% CAGR and India maintained its share in global demand at ~8%, whereas the share of the US and the EU fell to 7% and 18%, respectively, in CY17 from 10% and 20% in CY12.

CRISIL research expects demand from China to grow at 5% CAGR over the period of the next 5 years. The growth of ~9% in the preceding 5 years was led by the credit stimulus offered by the Chinese government to the automobile and real estate sectors. As China tries to make the economy more consumption-driven, demand will moderate over the medium to long term. Overall, the world demand is expected to grow at a CAGR of 4.5% to 60.2 mt in CY22.

Global SS demand grew by 6.2% over CY12-CY17



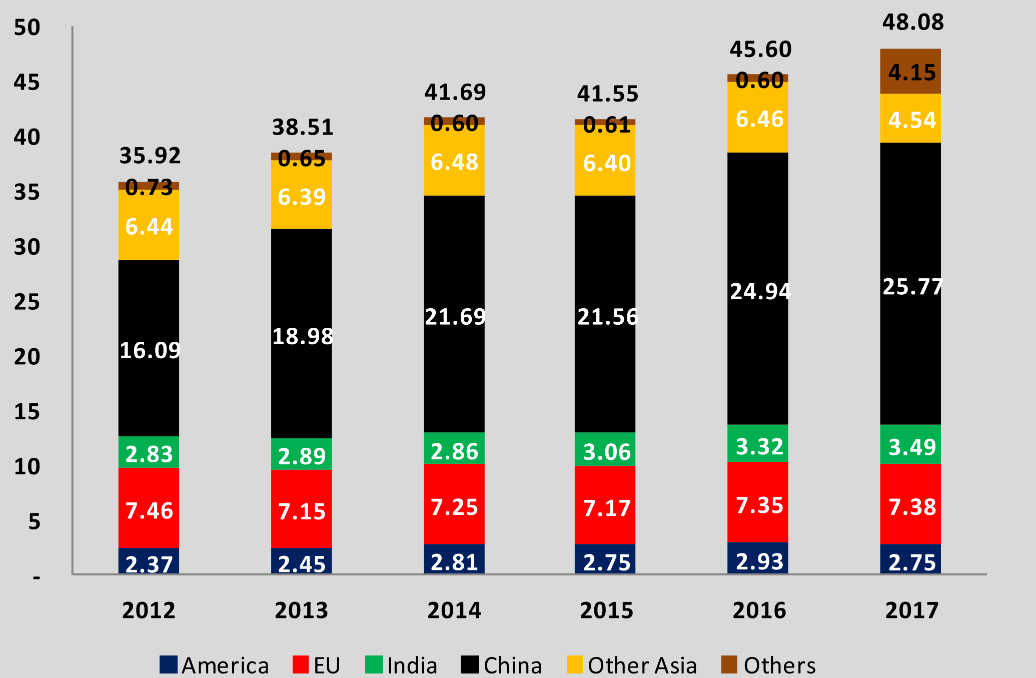
China dominates the Global SS demand with 48% share



Source: ISSF, CRISIL Research

- **India ranks 2nd in Stainless Steel Production behind China**
  India stands 2nd in the world, behind China, in overall stainless steel production. China continues to dominate the world's stainless steel production landscape with over 50% of total production.

Global stainless steel production trend

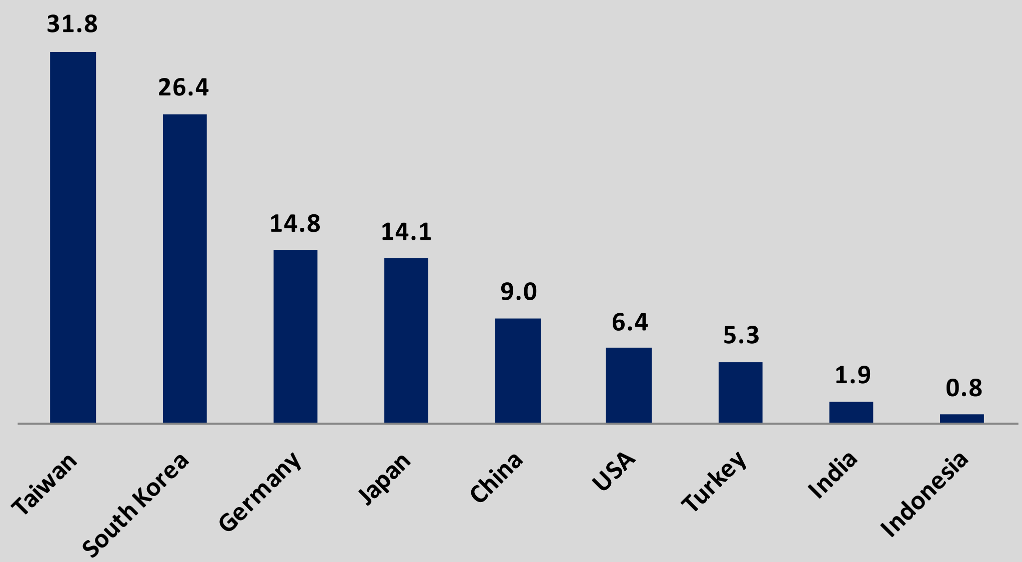


Source: ISSF, CRISIL Research, Ventura Research

- **Per capital stainless steel consumption of India is abysmally low**

As with carbon steel, India lags behind in the consumption of Stainless steel too. Per capita consumption of stainless steel in India is only 1.9 kgs compared to 31.8 kgs in Taiwan, 26.4 kgs in South Korea and 9.0 kgs in China. If the per capita consumption increases by 1kg, demand for stainless steel in India would grow by ~1.8 million tonnes.

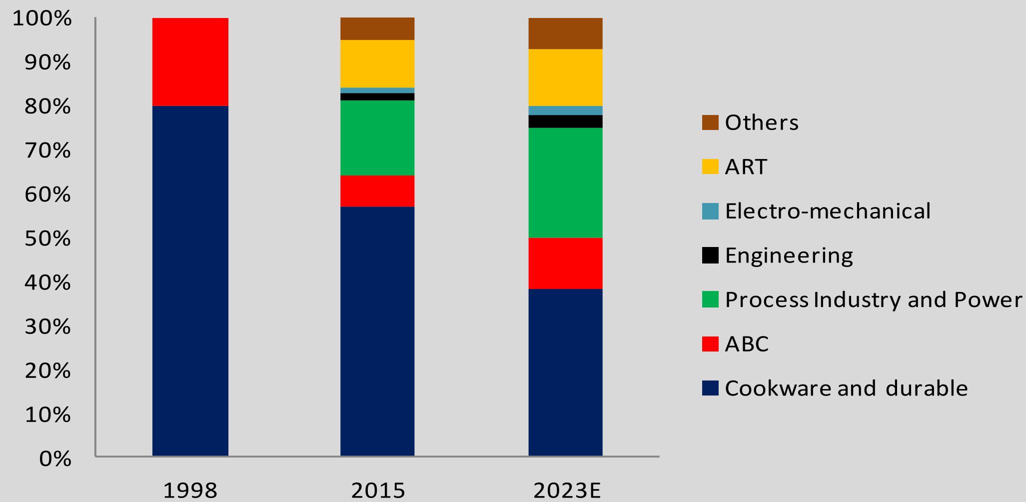
Per Capita consumption of SS in India is very low



Source: Company, Ventura Research

The domestic flat stainless steel consumption over the past five years has grown at a modest ~6%. Domestic flat stainless steel demand growth has been supported by key end-consuming sectors such as consumer durables and Architecture, Building & Construction (ABC) among others. Consumption grew over 9% in FY 18, fuelled by the government's initiatives in the infrastructure and housing segments and healthy growth in the ART (Automobile, Railway and Transport) segment. The consumption of stainless steel has been on an upward trend due to strong demand from end-user segments. User application of steel has undergone a transformation in India. Initially, stainless steel was primarily used for kitchenware with some exception for industrial goods. Over the years, there has been increased usage in various applications in automobile, railways, process industries, and building and construction.

Growing usages of stainless steel across sectors



Source: ISSF, Ventura Research

Emerging trends of usage of Stainless steel across sectors

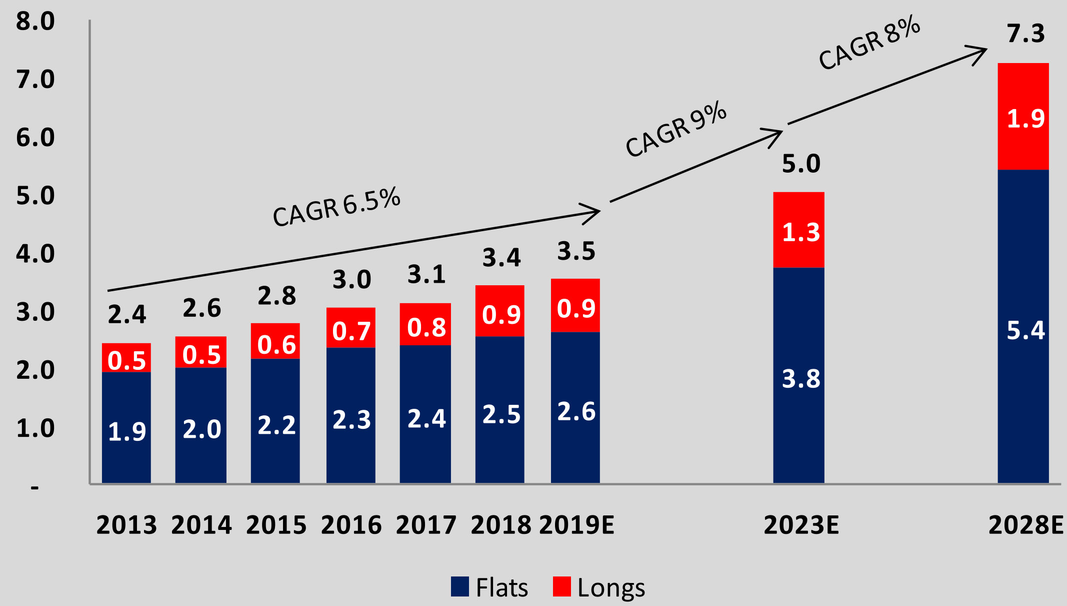
Sectors	Energing usage trends
ABC	Interior usages, false ceilings, trims and decorative furnsihings, inetriors, exteriors, railings, lifts, escalators
ART	Increased consumption of SS in railway wagons and coaches, fuel tanks, BS-VI compliant exhaust systems, bus body etc.
Consumer goods	Growth in demand from kitchenware, utensils, and durables like refrigerators, washing machines, micro-wave ovens etc.
Process Industry	Medicine-making machinery and equipment, , processing and reaction vessels, storage tanks/vessels, pumps, tubes, pipes, taps, valves etc.
	Different parts of boilers, turbine, heat exchanger, condenser, high-pressure feedwater heaters

Source: Industry, Ventura Research

- **India's stainless steel demand is expected to grow to 7.3 mnt by FY28E**

India's domestic steel consumption has grown at a robust ~6.5% in the past five 5 years, supported by a similar growth in end-user sectors, such consumer durables and industrial equipment. In FY17, consumption grew 10% YoY to 2.4 mt. As per CRISIL research, demand for stainless steel in India is expected to grow at a CAGR of 9% to 5.0 mt in FY23E and 7.3 mt in FY28E at a CAGR of 8%.

India's SS demand set to grow at a CAGR of 7% from FY18 onwards



Source: CRISIL Research

- **JSL along with JSHL is India's largest producer of Stainless Steel in India**

India's Stainless steel making capacity in India stands at 5.2 mtpa in FY18. JSL and JSHL together hold a capacity of 1.6 mtpa and are India's largest stainless-steel players. Jindal Stainless Limited was the single largest stainless steel producer in India in FY18.

JSL is India's largest stainless steel producer

Company	Capacity in Ktpa
Jindal Stainless Ltd	800
Jindal Stainless (Hisar) Ltd.	800
Viraj Group	528
Shah Alloys Ltd.	300
Shyam Ferro	200
SAIL	180
Panchamahal Steel	150
Adhunik Group	120
Ambica Steels Ltd.	80
BRG Group	80
Facor Group	60
Others	1926
Total	5224

Source: Industry

Protectionist measures taken by Government

Over the past few years, the Indian government has taken a number of measures to support the domestic stainless steel industry. Imports reached nearly ~530 kt in 2015-16 (~20% of annual consumption in FY16) lead to major hardships for the industry. The government has undertaken the following measures to alleviate the hardships:

a. **Anti-dumping duty:** In June 2015, the government imposed an ADD of US$ 180-316/tn on imports of 304 grade flat products from China, Malaysia and South Korea for the next 5 years (till June 2020). However, importers circumvented the existing ADD by importing products of widths different from those mentioned in the duty order at lower prices. Later, in Aug’17, the government extended the same duties on imports of all widths, which increased the effectiveness of this duty.

b. **Imposition of stainless steel quality order 2016:** The government imposed a stainless steel quality order in 2016, effective from Feb 2017, which mandates BIS certification on the supply of stainless steel (including imports) used especially for utensils and kitchen appliances. This will help control the import of sub-standard quality materials, especially from China.

c. **Imposition of countervailing duty (CVD) against imports from China:** In Sept’17, the government imposed a CVD of 18.95% on imports of stainless steel flat products from China for the next 5 years (till Sept’22). This has helped reduce the threat of Chinese imports.

Cumulatively, these three remedial measures have helped curb imports. The decline in imports will serve the domestic industry well.

❖ Financial Performance

JSL’s top line grew by 56% YoY in Q1FY19 to Rs. 3,147 crores from Rs. 2,095 crores in Q1FY18 on account of a 51% increase in volumes. The EBITDA increased to Rs. 375 crores in Q1FY19 from an EBITDA of Rs. 251 crores, however, the EBITDA margin declined by 50bps to 11.9% from 12.4%.

In FY18, JSL’s standalone net sales stood at Rs. 10,785 crores, registering a growth of 30% YoY. Sales volumes increased by 22% from 641 kt in FY17 to 779 kt in FY18 leading to a revenue growth of 30% to Rs.10,785 crores. The EBITDA margins declined by 140 bps to 11.9% in FY18 primarily due to an increase in raw material costs.

Standalone Financial Performance (Rs. In crores)

Particulars	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Net Sales	2,093	2,301	2,015	2,608	2,989	3,173	3,147	(1)	56	8,311	10,785	30
Growth QoQ (%)	*9.2*	*10.0*	*(12.4)*	*29.4*	*14.6*	*6.1*	*(0.8)*				*29.8*	
Total Expenditure	1,752	1,988	1,765	2,351	2,603	2,784	2,772	(0)	57	7,205	9,504	32
EBITDA	341	313	251	256	386	388	375	(3)	50	1,107	1,281	16
Margin (%)	*16.3*	*13.6*	*12.4*	*9.8*	*12.9*	*12.2*	*11.9*			*13.3*	*11.9*	
Depreciation	78	79	76	76	77	75	76	1	0	308	304	(1)
EBIT (Ex OI)	263	234	175	181	309	313	299	(5)	71	799	977	22
Non Operating Income	2	14	10	14	11	11	6	(46)	(39)	26	45	78
EBIT	266	248	184	195	319	324	305	(6)	65	824	1,023	24
Margin (%)	*12.7*	*10.8*	*9.1*	*7.5*	*10.7*	*10.2*	*9.7*			*9.9*	*9.5*	
Finance cost	206	34	102	161	154	124	150	20	47	762	541	(29)
Exceptional items	2	32	(19)	15	38	(33)	(15)	(54)	(20)	26	1	(95)
PBT	62	246	63	48	204	167	140	(16)	120	89	483	445
Margin (%)	*3.0*	*10.7*	*3.1*	*1.9*	*6.8*	*5.3*	*4.4*			*1.1*	*4.5*	
Provision for Tax	(21)	(85)	(22)	(21)	(70)	(52)	(49)	(6)	123	30	165	443
Profit after tax	40	161	42	27	135	115	91	(21)	119	58	318	446
Margin (%)	*1.9*	*7.0*	*2.1*	*1.0*	*4.5*	*3.6*	*2.9*			*0.7*	*3.0*	

Source: Company, Ventura Research

❖ Financial Outlook

We expect consolidated net sales to grow at a 3-year CAGR of 9.22% from Rs. 11,638 crores in FY18 to Rs. 15,161 crores in FY21 on the back of increased volumes on account of debottlenecking activities led by robust demand from emerging trends in automobile, transport and consumer goods sector. The EBITDA margin is set to improve to ~12.5% (+70 bps) by FY21 due to higher volumes and stable gross margins. Further, the PAT margins are expected to improve to ~4.8% by FY21 from current levels on account of an increase in operating profits. As a consequence, the return ratios, ROE and ROCE are set to improve significantly from 17% and 14% in FY18 to 19% and 20% respectively by FY21 on the back of debt reduction.

Forecasted Financial Performance (Rs. In crores)

Y/E March, Fig in ` Cr	FY17	FY18	FY19E	FY20E	FY21E
Profit & Loss Statement					
Net Sales	**9279**	**11638**	**13478**	**14232**	**15161**
Growth (%)		*25.4*	*15.8*	*5.6*	*6.5*
Total Expenditure	8113	10297	11949	12564	13339
EBDITA	1166	1340	1529	1667	1821
Growth (%)		15	14	9	9
EBDITA Margin %	*12.6*	*11.5*	*11.3*	*11.7*	*12.0*
Other Income	26	45	26	26	26
PBDIT	**1191**	**1385**	**1554**	**1693**	**1847**
Depreciation	325	320	323	325	327
Interest	788	566	538	487	394
Exceptional items	26	4	0	0	0
PBT	**104**	**504**	**694**	**881**	**1127**
Tax Provisions	32	174	243	307	392
Reported PAT	**72**	**330**	**451**	**573**	**735**
PAT Margin (%)	*0.9*	*2.9*	*3.5*	*4.1*	*4.9*
Minority Interest	-1	-3	0	0	0
Share of associates	11	16	16	16	16
PAT	**82**	**343**	**466**	**589**	**750**

Source: Company, Ventura Research

❖ Valuation

We initiate coverage on Jindal Stainless Limited as a **BUY** with a price objective of Rs. 127 (5.0X EV/EBIDTA FY21E) representing a potential upside of 98.4% from the CMP of Rs. 64. At present, the stock is trading at 4.3x and 3.4x its estimated EV/EBIDTA for FY20E and FY21E, respectively.

Valuation Methodology

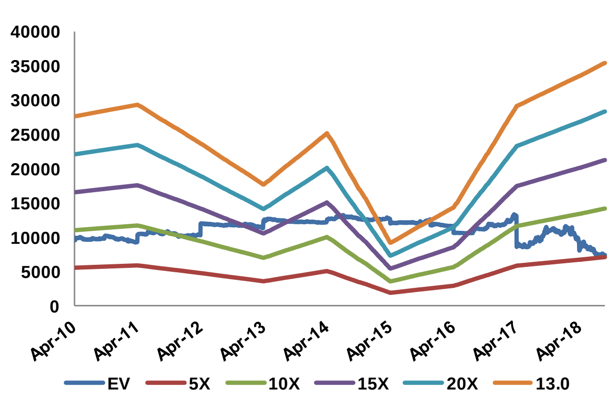
Rs. In Crore	FY21E
EBITDA	1,821
EV/EBITDA Multiple	5.0
Enterprise Value	9,107
Less: Net debt	3,037
Market Capital	6,070
No. of shares (Cr.)	47.9
Value per share(Rs.)	**127**
CMP	64
Potential upside	98%

Source: Ventura Research

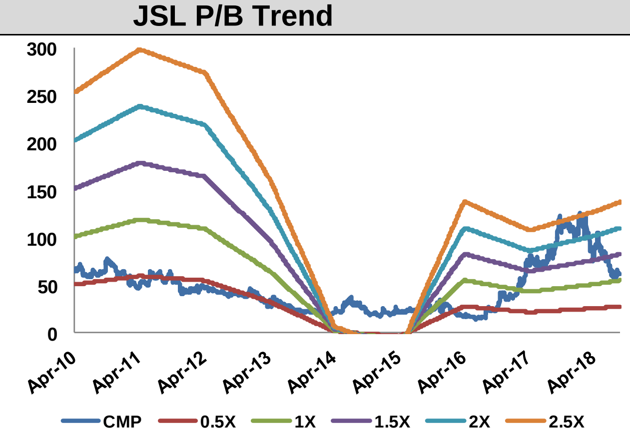
We believe that the valuation multiple should expand given the:

1. Robust demand from new segments augurs well for JSL.
2. Enhancement of capacity to 1.1 mtpa from 0.8 mtpa through de-bottlenecking and without incurring any significant capex, the company is likely to maximize the volumes by FY21E. JSL is India's largest stainless-steel maker.
3. With volumes increasing at no significant cost, additional earnings would be used for steady repayment of debt.

JSL EV/EBIDTA trend



JSL P/B Trend



Source: Ventura Research

❖ Key investment Risks

➢ Slower demand growth

We believe that the overall long-term prospects of stainless steel demand remain positive. Key global mega trends such as urbanization are expected to further support the future growth of stainless steel demand. There are, however, risks that such mega trends may play out slower than expected and reduce growth prospects in stainless steel demand.

➢ Volatile raw material prices

The company has a raw material cycle of 60 days and an order book cycle of 30-45 days. In case of sharp swings in raw material prices, the company could face inventory losses due to the above-mentioned gap in raw material inventory and the order book cycle.

➢ Import duties by Europe to impact JSL volumes and margin:

Recently, the European Union has imposed import tariff quotas of 25% on the import of a number of steel products, including stainless steel, to protect the European Union from the effects of the U.S. tariffs on steel and aluminum. For each of the categories, tariffs of 25% will be levied only after imports exceed the average of the last three years. JSL exports 25-30% of volumes to developed regions, such as Europe. This poses a great risk to JSL's export volumes and margin. Further, rising protectionist policies by other countries could alter the global trade flow and impact JSL's market share.

➢ Expansion not allowed under CDR

The company is currently under CDR and any expansion requires the lenders' approval. If the lenders do not approve the potential expansion, the volume growth benefit will not accrue to the company. However, the company is able to expand the SMS capacity to 1.1 mtpa through de-bottlenecking activities.

➢ Significant dilution if OCRPS are exercised

As per the terms of OCRPS, of the Rs. 558 crores issued to lenders at the offer price of INR39.1/share, the conversion to equity will take place at 1:1 post September 2020. Until then, JSL has an option of early redemption of OCRPS at the offer price plus applicable recompense. The final redemption date (if not conversion) is March 31, 2022. We believe that the company can generate enough free cash flows over FY19 and 20, which would suffice for early redemption of OCRPS. We have considered the redemption of OCRPS in our estimates.

Peer Comparison - India (Rs. In crore)

YE Mar In Rs. Cr.	Sales	EBITDA	PAT	EBITDA (%)	PAT (%)	EPS	ROE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	Debt	Debt-Equity	Book Value
JSL													
2017	9,279	1,166	82	12.6	0.9	2.1	2.8	30.8	1.5	7.6	5,910	3.4	43.1
2018	11,638	1,340	343	11.5	2.9	7.5	16.8	8.6	1.2	6.0	5,032	2.0	51.4
2019E	13,478	1,529	466	11.3	3.5	9.7	17.3	6.6	1.0	5.1	4,798	1.6	61.2
2020E	14,232	1,667	589	11.7	4.1	12.3	18.3	5.2	0.9	4.2	4,099	1.2	73.5
2021E	15,161	1,821	750	12.0	4.9	15.7	19.3	4.1	0.7	3.4	3,090	0.7	89.1
Tata Steel													
2017	111,687	17,007	(4,169)	15.2	(3.7)	33.8	7.2	13.6	1.8	6.0	83,041	2.4	327.0
2018	130,425	22,799	3,776	17.5	2.9	36.0	7.8	4.5	1.2	7.2	99,126	1.6	487.0
2019E	151,075	27,325	8,860	18.1	5.9	76.7	14.1	7.5	1.0	5.0	92,471	1.3	602.9
2020E	153,745	27,672	9,215	18.0	6.0	77.6	12.8	7.4	0.9	5.0	90,896	1.1	669.6
2021E	142,128	27,925	9,801	19.6	6.9	77.4	12.3	7.4	0.8	4.9	80,778	0.9	763.2
JSW Steel													
2017	55,605	12,173	3,454.1	21.9	6.2	14.7	16.7	12.6	0.3	7.0	41,549	1.8	94.0
2018	68,813	14,794	6,113	21.5	8.9	25.9	26.0	11.2	3.0	7.7	38,019	1.4	117.0
2019E	78,978	18,310	7,698	23.2	9.7	31.3	24.2	11.3	2.5	6.7	41,918	1.2	141.0
2020E	81,847	18,535	7,588	22.6	9.3	30.8	19.6	11.5	2.1	6.5	45,729	1.1	169.0
2021E	90,277	21,556	8,984	23.9	10.0	37.2	19.4	9.5	1.7	5.8	47,363	1.0	206.6
Global Peers													
Acerinox (Mn Euro)													
CY18E	5,199	552.0	263.0	10.6	5.1	0.9	12.4	12.9	1.6	7.0	540	0.3	1.6
CY19E	5,471	571.0	262.0	10.4	4.8	1.0	12.2	12.5	1.5	6.6	425	0.2	1.5
CY20E	5,446	592.0	268.0	10.9	4.9	1.1	12.0	11.5	1.4	6.1	337	0.1	1.4
Aperam (Mn Euro)													
CY18E	5,199	552.0	263.0	10.6	5.1	3.4	11.5	11.7	1.3	6.4	-	NA	31.3
CY19E	5,471	571.2	262.0	10.4	4.8	3.7	11.7	11.0	1.2	5.6	-	NA	33.4
CY20E	5,446	592.2	268.0	10.9	4.9	3.8	11.5	10.7	1.1	5.4	-	NA	35.3
Outokumpu (Mn Euro)													
CY18E	7,011	505.0	156.0	7.2	2.2	0.4	5.6	14.1	0.8	6.9	1173	0.4	6.8
CY19E	7,144	631.0	283.0	8.8	4.0	0.7	9.8	7.9	0.7	5.2	956	0.3	7.3
CY20E	7,190	683.0	337.0	9.5	4.7	0.8	10.7	6.7	0.7	4.5	678	0.2	7.9

Source: Company, Thomson Reuters, Ventura Research

Financials and Projections

Y/E March, Fig in ` Cr	FY17	FY18	FY19E	FY20E	FY21E
Profit & Loss Statement					
Net Sales	**9279**	**11638**	**13478**	**14232**	**15161**
% Chg.		*25.4*	*15.8*	*5.6*	*6.5*
Realisation/t	129661	138441	141000	139000	139000
Volumes (mt)	0.64	0.78	0.88	0.95	1.01
% Chg.		21.5	12.8	7.6	7.1
Total Expenditure	8113	10297	11949	12564	13339
% Chg.		*26.9*	*16.0*	*5.1*	*6.2*
EBDITA	1166	1340	1529	1667	1821
% Chg.		*15.0*	*14.0*	*9.1*	*9.2*
EBITDA/t	17265	16443	16637	16974	17421
EBDITA Margin %	*12.6*	*11.5*	*11.3*	*11.7*	*12.0*
Other Income	26	45	26	26	26
PBDIT	**1191**	**1385**	**1554**	**1693**	**1847**
Depreciation	325	320	323	325	327
Interest	788	566	538	487	394
Exceptional items	26	4	0	0	0
PBT	**104**	**504**	**694**	**881**	**1127**
Tax Provisions	32	174	243	307	392
Reported PAT	**72**	**330**	**451**	**573**	**735**
Minority Interest	-1	-3	0	0	0
Share of associates	11	16	16	16	16
PAT	**82**	**343**	**466**	**589**	**750**
% Chg.		*320.5*	*36.0*	*26.3*	*27.4*
PAT Margin (%)	*0.9*	*2.9*	*3.5*	*4.1*	*4.9*
Tax Rate (%)	*31.2*	*34.5*	*35.0*	*34.9*	*34.8*
Balance Sheet					
Share Capital	80	96	96	96	96
Reserves & Surplus	1734	2369	2836	3425	4175
Minority Interest	6	9	9	9	9
Total Borrowings	5910	5032	4798	4099	3090
Deferred Tax Liability	-112	59	59	59	59
Other Non Current Liabilities	140	412	412	412	412
Total Liabilities	**7757**	**7978**	**8210**	**8100**	**7842**
Gross Block	7455	7509	7573	7633	7643
Less: Acc. Depreciation	847	1167	1489	1815	2141
Net Block	6608	6342	6084	5818	5502
Capital Work in Progress	30	144	100	50	50
Non Current Investments	403	438	454	470	486
Net Current Assets	617	917	1436	1626	1668
Long term Loans & Advances	99	136	136	136	136
Total Assets	**7757**	**7978**	**8210**	**8100**	**7842**

Y/E March, Fig in ` Cr	FY17	FY18	FY19E	FY20E	FY21E
Per Share Data (Rs)					
Adj. EPS	2.1	7.5	9.7	12.3	15.7
Cash EPS	9.9	14.2	16.5	19.1	22.5
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	43.1	51.4	61.2	73.5	89.1
FCF Yield (%)	34.6	26.7	25.9	46.3	51.7
Capital, Liquidity, Returns Ratio					
Debt / Equity (x)	3.4	2.0	1.6	1.2	0.7
Current Ratio (x)	0.7	0.9	0.9	1.0	1.0
ROE (%)	2.8	16.8	17.3	18.3	19.3
ROCE (%)	8.8	14.0	16.2	17.8	20.3
ROIC (%)	11.9	15.2	17.0	19.5	22.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Valuation Ratio (x)					
P/E	30.8	8.6	6.6	5.2	4.1
P/BV	1.5	1.2	1.0	0.9	0.7
EV/Sales	1.0	0.7	0.6	0.5	0.4
EV/EBIDTA	7.6	6.0	5.1	4.2	3.4
Efficiency Ratio (x)					
Inventory (days)	73.7	70.3	75.0	75.0	75.0
Debtors (days)	33.6	62.7	60.0	60.0	60.0
Creditors (days)	80.1	62.7	60.0	60.0	60.0
Cash Flow Statement					
Profit Before Tax	**89**	**504**	**694**	**881**	**1,127**
Depreciation	308	323	323	325	327
Working Capital Changes	187	(378)	(553)	(93)	(115)
Others	725	935	295	180	1
Operating Cash Flow	**1,309**	**1,383**	**758**	**1,293**	**1,340**
Capital Expenditure	(31)	(168)	(20)	(10)	(10)
Other Investment Activities	3,899	(68)	-	-	-
Cash Flow from Investing	**3,868**	**(236)**	**(20)**	**(10)**	**(10)**
Changes in Share Capital	25	723	-	-	-
Changes in Borrowings	(4,394)	(1,292)	(234)	(699)	(1,009)
Dividend and Interest	(837)	(566)	(538)	(487)	(394)
Cash Flow from Financing	**(5,206)**	**(1,135)**	**(772)**	**(1,186)**	**(1,403)**
Net Change in Cash	**(29)**	**12**	**(34)**	**97**	**(72)**
Opening Cash Balance	**80**	**51**	**63**	**29**	**126**
Closing Cash Balance	**51**	**63**	**29**	**126**	**54**

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