Jindal Stainless

Quick Notes by Devesh

Market:

India's stainless steel consumption has clocked 6.2% CAGR in the last 10 years, expected to grow at 7-7.5% in the next 10 years. Per capita consumption is still at <50% of the global avg., implying a long runway for growth.

MOAT

JSL is a market leader (>50%), and with expansions, it is best placed to tap into the profitable growth opportunity. JSL's focus on quality, technology, distribution, and niche applications, along with govt.'s thrust on modernization of railways/ metros and increasing focus on safety/ total cost of ownership (FOB/bridges) positions JSL in a sweet spot.

Government started life cycle costing of every raw material being used for government projects – here, stainless steel is always a clear winner

Lower variance in EBITDA per tonne as compared to competition

Working on cost reduction in the following ways:

- **Less grinding -** Most stainless steel slabs need to be ground to get the right quality and surface finish. But JSL is working on a concept wherein without grinding, the cast slabs will be rolled – this will lead to a huge amount of saving
- **Energy Conservation –** Using liquid ferro chrome which requires much lesser power for smelting it later on
- **Raw Material –** 70%+ sourcing is done domestically and nearby sources at much better rates and efficiency. Also, looking to source smaller quantities from multiple suppliers as against bulk orders from big suppliers earlier – reduces cost and lead time
- **Scrapping is domestic now**
- **MS Crap** used to be completely imported – moving to domestic again, collaborating with car scrap companies

Business Model:

Jindal Stainless Ltd is one of the largest manufacturers of Stainless Steel flat products, in Austenitic, Ferritic, Martensitic and Duplex grades in India used in a variety of industries like automobile, railways, construction, consumer goods etc.

Characteristics of Stainless Steel as a value added and sustainable metal – Low maintenance, weldability, recyclability, longevity / durability, low life cycle cost, formability, corrosion resistance

JSL is a 'convertor' (rather than a commodity play), due to a structural improvement in its operational parameters.

The product range includes Ferro Alloys, Steel Slabs, Hot Rolled Coils, Cold Rolled Coils, Steel Plates etc

Applications:

- ✓ **Architecture, Building & Construction -** Roofing, Cladding, Panelling
- ✓ **Automobile and Transport -** Exhaust, Brakes, Fuel Tanks
- ✓ **Railway -** Coaches, Wagons, Metros, Bridging, etc.
- ✓ **Consumer Durables -** Kitchen applications, Bathroom Accessories, Plumbing and Piping
- ✓ **Process industry -** Boilers, Water tanks, Pumps for the food and chemical industry

Location wise - Business is 89% is domestic and 11% ROW

Manufacturing Capacity:

JSL operates a 2.1 mn tpa stainless-steel plant at Jaipur, Odisha, and a backward integrated ferro-chrome and captive-power plant spread across c.800 acres at the same place. The company merged with its sister concern Jindal Stainless (Hisar) Ltd which operates 800Kt capacity and therefore the combined capacity at present has 2.9mn tpa production capability.

Takeaways from Fireside Chat with B&K Securities

Link: https://www.youtube.com/watch?v=_YyMNGQS_DA

- Catering to various industries such auto, railways, pharma, defence, piping and tubing, etc.
- Adding capacities in value added products and high alloy, high nickel and copper alloy segments
- Enough demand that they foresee as India inches closer to the global average of steel consumption per capita
- To set up Orissa, 1mn tn capacity cost them 9,000-10,000Cr – Then, to expand it to 2.1mn from 1mn, it only going cost them 2500-3000Cr – At 1/3rd the cost, they doubled their capacity
- 90% of the new stainless steel applications and markets are being taken up by JSL
- Difficult for new competition to come in as greenfield capex in India can be difficult and for the project to be viable, it has to be at least 1mn tn – which is a huge investment risk for a new company
- Taking up multiple measures to reduce raw material price volatility
- What determines the pricing? – Ferrochrome and Nickel govern the stainless steel industry
- Will remain majorly dependent on thermal power from Coal India for now, even for expansions
- Every group company is run separately and collaboratively
- It is a growth phase for the company after a long phase of hard work behind the scenes

Financials:

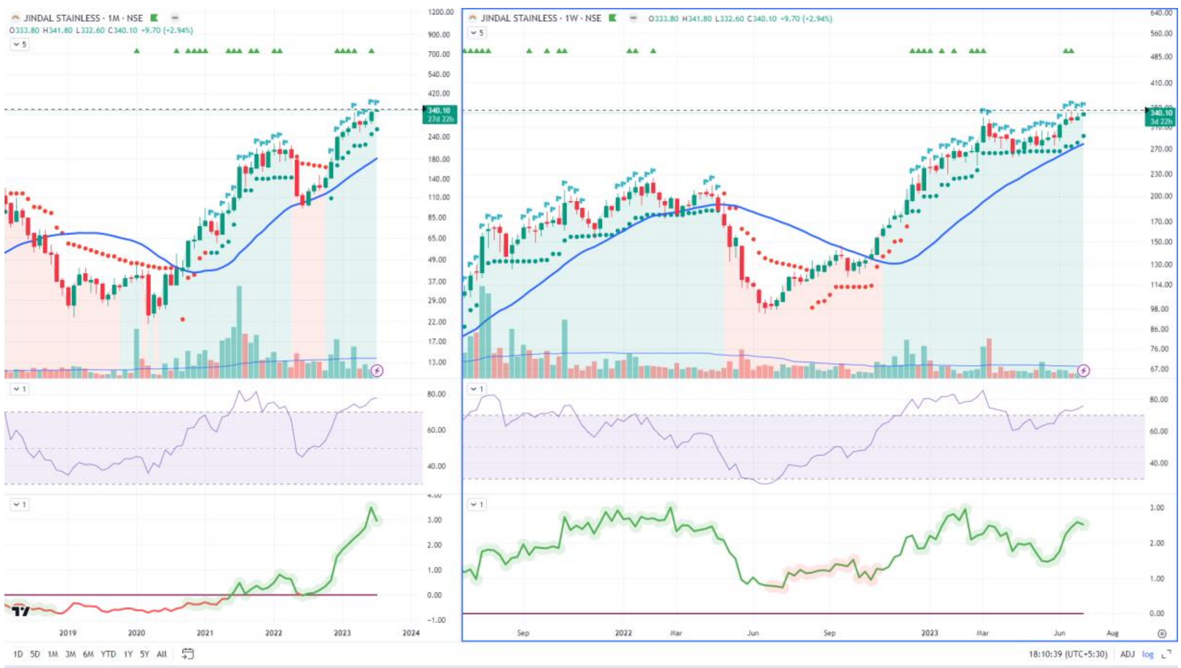
- Sales Growth of last 3 years – 40%
- Profit Growth of last 3 years – 212%
- ROCE – 25.5%, ROE – 28%, ROIC – 15.3%
- PEG – 0.31, P/S – 0.79, P/E – 13.5, P/CF – 9, EV/ EBITDA – 8x
- D/E – 0.33, Int Coverage – 9.55, PAT to CFO – 149%

Management guidance:

- Not looking for any major capex for at least the next 2-3 years
- Inorganic opportunities may be looked into

- Guidance for EBITDA/tonne of 18,000-20,000, excluding JUSL numbers – even if commodity prices go down
- Debt reduction may not be possible for now due to ongoing capex and additional debt from JUSL
- Export contribution guidance of 15-20% for FY24 – fall in export contribution may lead to lower margins
- JUSL acquisition will be completed by Q1FY24
- For FY24, JUSL will produce EBITDA of 850-900Cr
- Looking to achieve 20% volume growth in FY24 over FY23 and 25% volume growth in FY25
- The company is expecting a 20% increase in volume for FY2024, reaching 2.15 to 2.2 million tons, including tolling volume
- Q1 EBITDA/tonne will be slightly lower due to lower scrap spread
- The company acquired a 49% stake in an Indonesia-based nickel pig iron company for around $150 million to enhance value for stakeholders and create raw material security for its SS operations

Technicals:



Moving in Stage 2 in both Monthly and Weekly Charts but volumes are not that high as of now