

# **METALS & MINING**

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# Jindal Stainless: Management meet takeaways

- Guiding for 20% annual growth in both FY24 and FY25 and planning investments to further extend growth runway
- Attempting to limit cost volatility and guiding for EBITDA margin of Rs 19-20k/t over near-term
- Countering intensified competition from imports by evolving new highend applications and solutions

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We hosted Anurag Mantri, CFO, and Shreya Sharma, Head of IR, of Jindal Stainless (JDSL IN, Not Rated). Key takeaways:

**Structural growth:** JDSL operates in the stainless steel sector, which is seeing structural growth in demand due to rising product applications. Management indicated that it is geared to deliver 20% annual growth in FY24 and FY25 to reach 2.6-2.7mt of sale volumes from a current melt capacity of 2.9mt and rolling capacity of 3.2mt.

**Next wave of growth on the anvil:** The company aims to announce its next phase of capacity additions soon to support growth. It needs to expand cold rolling mill capacity to widen the product range and enhance margins, besides adding melt capacity. As its Jhajpur plant in Rajasthan has space constraints for brownfield expansion, the company is working on options to enable both additions.

Margins resilient despite export weakness: At its Q3FY24 earnings call, management narrowed its near-term margin guidance to Rs 19-20k/t from Rs 19-21k/t citing export weakness. The company is seeing initial signs of improvement in the US but a slowdown in its main export market of Europe. It is able to switch between markets to preserve volumes and margins.

**Increasing import competition...:** Imports have spiked in FY24, particularly in the 300 series pipes & tubes segment and largely from China and Vietnam, gaining ~30% market share in India.

...being countered by product mix shift: JDSL has been tackling the rise in imports by focusing on segments with less competition, particularly the higher end segments in 300 and 400 series stainless steel. Management feels it can comfortably deliver on its Rs 19-20k/t margin guidance in FY25 too despite imports.

**Valuation:** The stock is trading at FY25E/FY26E EV/EBITDA multiples of 8.1x/7.1x and P/E multiples of 11.7x/9.7x on Refinitiv consensus. We do not have a rating on JDSL.





# Additional takeaways

# Domestic demand strong, exports weak

- Resilient domestic demand: India's stainless steel market is estimated at 4mn tonnes by volumes in FY23, comprising 3mt of flat and 1mt of long products, and JDSL expects high-single-digit industry growth in FY24. India's economic growth and infrastructure push are driving up demand. Further, government directives mandating the use of stainless steel in some infrastructure applications, particularly for its corrosion-resistant properties, could act as demand tailwinds. The company is also seeing traction in process and pharmaceutical applications.
- Make-in-India edge: Given its quality of materials and integrated value chain,
   JDSL enjoys preferred supplier status in segments such as railways and infrastructure, where the Make-in-India policy is being implemented.
- High market share in higher-end segments: While the company has a significant 50% share of the domestic stainless steel market, it commands an even larger share of 70-75% in the high-end segment. Imports are its main competition in this industry.
- Focused approach to exports: JDSL operates in select segments and markets, particularly where it can earn higher margins on the same products than in India.
- Healthy series mix: JDSL has increased the share of 400 series products to ~25% of its volume mix, the 300 series continues to account for 45-50% and the 200 series has come down to ~25-30%.

# Reducing margin volatility

- Stainless steel price drivers: Stainless steel prices follow trends in nickel
  (accounts for ~50% of raw material costs although the quantum of usage is just
  4.5%) and ferrochrome. Nickel prices generally have a 30-45-day lag to feed
  through to the cost base.
- Cheaper nickel procurement route: The company procures 75-80% of nickel through the stainless steel scrap route as this is generally cheaper than direct purchase of the metal. It meets the balance 15-20% of its requirements through the usage of nickel pig iron (NPI).
- Managing raw material price volatility: To avoid high exposure to commodity volatility, JDSL attempts to keep its domestic order book at 30-45 days and export order book at ~60 days. It has also shifted to near-sourcing, even for imported scrap, to reduce the sourcing time to 7-10 days.



# Challenging competitive landscape

- Competition in lower-end applications through price disruption: Chinese imports have a price advantage under the current modest duty structure. The advantage is specifically in 200 series products, which are used for commodity applications, but has spread of late to some applications in the 300 series, such as pipes and tubes.
- Competition in high-end applications not a price disruptor: Competition in the higher-end segment comes from Japan and Korea, who do not disrupt prices or margins for Indian players. This competition is driven by multinational customers operating in India but having a base in those countries.
- Competition from direct ore to metal route: China produces stainless steel through the direct ore to metal route and is competitive due to its direct access to nickel. However, this route is not feasible for Indian players who do not have access to nickel on competitive terms, at least for 300 series products.

# Inorganic growth: Focus on value chain extension

### Downstream extension

- Rathi Super Steel: This acquisition has helped widen JDSL's product offerings to long products wire rods and rebars. The company is spending Rs 1bn-1.5bn on start-up and stabilisation of the acquired plant and is guiding for 70% utilisation, a production run-rate of 9-10kt/month or 110-120kt/annum, and EBITDA margin of Rs 4-6k/t in FY25.
- Rabirun Vinimay: This acquisition has given JDSL an entry into pipes and tubes with a current capacity of 4-5kt/month. It aims to initially cater to the decorative segment and then expand to the industrial segment. Management is looking to start production of decorative tubes at the facility in FY25 with an initial run-rate of 1-1.5kt/month and capex of Rs 750mn deployed toward startup.
- Iber Jindal (Service Centre in Spain): This was an opportunistic acquisition from a joint venture service centre with a customer. The customer desired to move out of the JV as it was a non-core process but remains a customer of the service centre.

## **Upstream integration**

51% stake buy in RKEF: This is an NPI facility in Indonesia which marks JDSL's backward integration to enhance raw material security in NPI (15-20% of total nickel input requirements). This is only a partial hedge, covering one step of the manufacturing chain for NPI and does not cover nickel itself.

In its Q3 earnings call, management indicated that the Indonesian NPI plant is slated for commissioning in H1FY25 and will ramp-up to full capacity within three quarters, with an aim to operate at full utilisation in FY26. Production could touch 7-10kt in the first year and reach 25kt in FY26. Management expects investment payback in four years and confirmed that the investment is viable even at the current reduced nickel price of US\$ 16,000/t/.



# **Capital allocation policy**

- Capex guidance: During the Q3 earnings call, management revised FY24 capex guidance to Rs 36bn (from Rs 33bn), accounting for Rs 1bn toward the acquisition of Rabirun Vinimay and Rs 2.3bn toward accelerated tranche payment on the Indonesian NPI investment. For FY25, the company will have sustenance capex of Rs 5bn-6bn and project capex of Rs 5bn-6bn toward current projects under execution. It will announce the next wave of expansion by next quarter, which may further add to the FY25 capex plan.
- Leverage: Management has guided for closing net debt of Rs 48bn as at Mar'24
  and aims to maintain net debt/EBITDA below 1.5x. JDSL has considerably
  increased the average tenure of debt and has a long-term blended interest rate of
  8-8.5%.
- Dividend policy: The company aims to progressively take dividends to 20% of net profits.



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