

# Jindal Stainless Hisar

Refer to important disclosures at the end of this report

## Narrative remains intact: expect more penetration in high value steel

- Q4FY18 revenue grew by 10% yoy to Rs22bn, backed by better offtake at 189kt (+9% yoy). Realization stood at Rs119,295/tonne (+1.4% yoy). Capacity utilization stood at 89%. Jindal Steelway revenue grew by 14% over FY17 while Jindal Lifestyle revenue grew by 74%.
- EBITDA/tn for Q4FY18 increased by 11% yoy to Rs15,151. Steelway EBITDA expanded by 37% in FY18 while for Lifestyle it increased by 266%. Raw Material cost/tn stood at Rs75,846 (+1.4% yoy/-11% qoq).
- Q4FY18 adjusted PAT expanded by 63% yoy to Rs986mn, supported by 19% yoy decline in interest expense. Consolidated PAT doubled in FY18 to Rs5.8bn. Consequently, ROE improved to 47% in FY18 compared to 34% in FY17.
- Focus on increasing capacity utilization in Cold Rolled segment and deepening penetration in Specialty Products would be key in FY19. We value the stock on FY20E basis with a TP of Rs 353.

### Increasing penetration in Specialty Products to be main focus in FY19

Steel demand continues to be robust, with offtake improving by 9% yoy to 1,88,922 tonne whereas realization remained subdued, growing by 1.4% yoy to Rs119,295/tn. However, RM cost per tonne rose by 3% yoy to Rs75,846 due to increase in nickel prices. Consequently, EBITDA/tn improved by 11% yoy to Rs15,151. Performance of subsidiaries continued to surprise positively, with Jindal Stainless Steelway Ltd (JSSL) reporting FY18 net sales of Rs14bn (+14%). JSSL's EBITDA rose by 37% in FY18. JSL Lifestyle Ltd (JLL) registered a 74% increase in net sales at Rs3.56bn as against Rs2.04bn in FY17. JLL's FY18 EBITDA increased significantly by 266% over FY17.

JSHL's focus will continue to be on increasing capacity utilization in the Cold Rolled segment and deepening penetration in Specialty Products. We expect the company to grow its volume gradually to 0.9mtpa through de-bottlenecking, as it is unable to grow through the brownfield expansion route due to a land-locked situation. We expect modest revenue growth to continue going forward.

### Attractive valuation: Maintain BUY

We have built in higher cost assumption in our forecast considering higher nickel prices. Accordingly, we are assuming standalone EBITDA margin of ~12% each in FY19 and FY20. We are valuing the company on SOTP basis, valuing standalone business at 6.5x FY20E EV/EBITDA while the subsidiaries (Steelway and Lifestyle) have been valued at 5x and 15x FY20E EV/EBITDA, respectively. Also, we are assuming 40% holding company discount for a 36.6% stake in JDSL. We continue to maintain BUY with a revised TP of Rs353 (70% upside).

### Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	72,346	77,745	103,571	108,553	115,541
EBITDA	8,633	9,809	12,306	13,685	14,166
EBITDA Margin (%)	11.9	12.6	11.9	12.6	12.3
APAT	806	2,586	5,585	5,294	5,892
EPS (Rs)	3.5	11.0	23.7	22.4	25.0
EPS (% chg)	0.0	214.3	116.0	(5.2)	11.3
ROE (%)	14.0	34.4	47.2	30.4	25.6
P/E (x)	53.3	17.0	7.9	8.3	7.4
EV/EBITDA (x)	7.3	8.0	5.9	4.9	4.4
P/BV (x)	7.1	4.9	3.0	2.2	1.7

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 186</b> as of (April 26, 2018)	<b>Rs 353 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>89.9 %</b>

### Change in Estimates

EPS Chg FY19E/FY20E (%)	(1.3)/(11.3)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	22.4	25.0
Consensus	24.5	28.2
Mean Consensus TP (12M)	Rs 368	

### Stock Details

Bloomberg Code	JSHL IN
Face Value (Rs)	2
Shares outstanding (mn)	236
52 Week H/L	252 / 118
M Cap (Rs bn/USD bn)	44 / 0.66
Daily Avg Volume (nos.)	868,307
Daily Avg Turnover (US\$ mn)	2.4

### Shareholding Pattern Mar '18

Promoters	57.7%
FIIIs	19.1%
DIIIs	3.3%
Public and Others	20.0%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	22	(9)	(16)	37
<b>Rel. to Nifty</b>	16	(5)	(19)	21

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

#### Goutam Chakraborty

goutam.chakraborty@emkayglobal.com  
+91 22 66121275

#### Varun Singh

varun.singh@emkayglobal.com  
91 22 66121244

## Exhibit 1: Actual V/s estimates

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	% variation		Comment
				Emkay	Consensus	
Sales	22,537	24,300	25,562	-7.3%	-11.8%	Less than expected realization leads to miss
EBITDA	2,862	3,300	3,300	-13.3%	-13.3%	
EBITDA margin %	12.7	13.6	12.9	-88 bps	-20.9 bps	
PAT	986	1,341	1,406	-26.5%	-29.9%	

Source: Company, Emkay Research

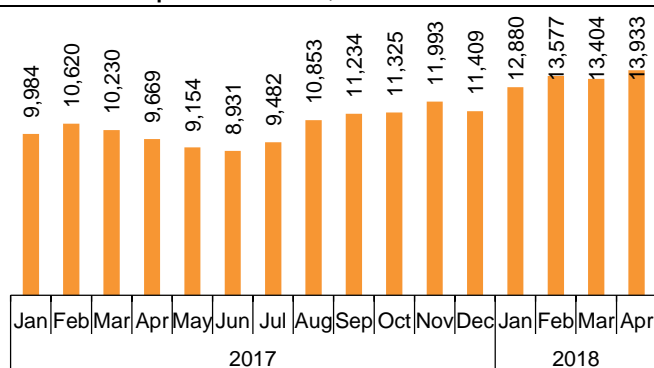
## Exhibit 2: Quarterly Financial Performance

Rs mn	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
<b>Revenue</b>	<b>20,432</b>	<b>24,386</b>	<b>22,537</b>	<b>10.3</b>	<b>(7.6)</b>	<b>92,586.7</b>	<b>68,898</b>	<b>34.4</b>
<b>Expenditure</b>	<b>(18,052)</b>	<b>(21,135)</b>	<b>(19,675)</b>	<b>9.0</b>	<b>(6.9)</b>	<b>(81,191.8)</b>	<b>(59,686)</b>	<b>36.0</b>
as % of sales	88.4	86.7	87.3			87.7	86.6	
Mining & mfg expenses	(12,834)	(16,091)	(14,329)	11.7	(10.9)	(61,401.6)	(42,906)	43.1
as % of sales	62.8	66.0	63.6			66.3	62.3	
Employee Cost	(403)	(419)	(421)	4.3	0.4	(1,699.3)	(1,446)	17.5
as % of sales	2.0	1.7	1.9			1.8	2.1	
SGA & others	(4,815)	(4,625)	(4,925)	2.3	6.5	(18,090.9)	(15,334)	18.0
as % of sales	23.6	19.0	21.9			19.5	22.3	
<b>EBITDA</b>	<b>2,379</b>	<b>3,251</b>	<b>2,862</b>	<b>20.3</b>	<b>(12.0)</b>	<b>11,394.9</b>	<b>9,212</b>	<b>23.7</b>
Depreciation	(665)	(675)	(670)	0.7	(0.7)	(2,666.0)	(2,652)	0.5
<b>EBIT</b>	<b>1,714</b>	<b>2,576</b>	<b>2,192</b>	<b>27.9</b>	<b>(14.9)</b>	<b>8,728.9</b>	<b>6,560</b>	<b>33.1</b>
Other Income	288	278	285	(1.2)	2.5	1,142.1	818	39.6
Interest	(1,144)	(968)	(933)	(18.5)	(3.6)	(3,954.5)	(4,119)	(4.0)
<b>PBT</b>	<b>858</b>	<b>1,886</b>	<b>1,544</b>	<b>79.9</b>	<b>(18.1)</b>	<b>5,916.5</b>	<b>3,259</b>	<b>81.6</b>
Total Tax	(254)	(746)	(558)	119.9	(25.2)	(2,123.8)	(1,078)	96.9
<b>Adjusted PAT</b>	<b>604</b>	<b>1,140</b>	<b>986</b>	<b>63</b>	<b>(14)</b>	<b>3,793</b>	<b>2,180</b>	<b>74</b>
(Profit)/loss from JV's/Ass/MI	-	-	-			-	-	
<b>Adj. PAT after MI</b>	<b>604</b>	<b>1,140</b>	<b>986</b>	<b>63</b>	<b>(14)</b>	<b>3,793</b>	<b>2,180</b>	<b>74</b>
Extra ordinary items	-	196	(25)			164.5	-	
<b>Reported PAT</b>	<b>604</b>	<b>1,336</b>	<b>961</b>	<b>59.0</b>	<b>(28.1)</b>	<b>3,957.2</b>	<b>2,180</b>	<b>81.5</b>
<b>Reported EPS</b>	<b>2.56</b>	<b>5.66</b>	<b>4.07</b>			<b>16.8</b>	<b>9.24</b>	<b>81.5</b>

Margins (%)			(bps)	(bps)			(bps)	
EBITDA	11.6	13.3	12.7	+106 bps	-63 bps	12.3	13.4	-106 bps
EBIT	8.4	10.6	9.7	+134 bps	-84 bps	9.4	9.5	-9 bps
EBT	4.2	7.7	6.8	+265 bps	-88 bps	6.4	4.7	+166 bps
PAT	3.0	4.7	4.4	+142 bps	-30 bps	4.1	3.2	+93 bps
Effective tax rate	29.6	39.5	36.1	+658 bps	-340 bps	35.9	33.1	+280 bps

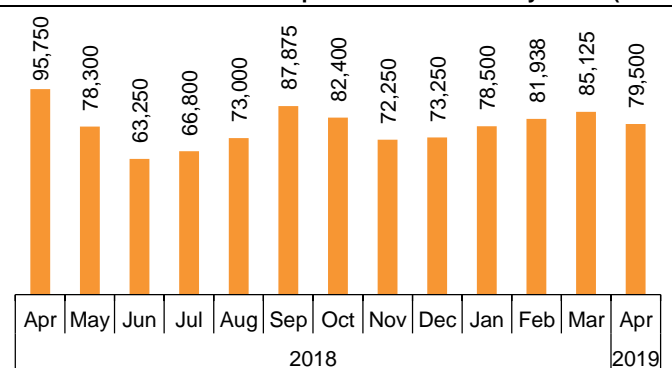
Source: Company, Emkay Research

## Exhibit 3: Nickel price rises to US\$14k/tn



Source: Bloomberg, Industry, Company

## Exhibit 4: While Ferro Chrome prices remain relatively stable (Rs/tn)



Source: Bloomberg, Industry, Company

## Revision in estimates and valuation

We have built in higher cost assumption in our forecast considering the higher nickel prices. Accordingly, we are assuming standalone EBITDA margin of ~12% each in FY19 and FY20. We expect margins to remain fairly stable, as JSHL has the ability to pass on the RM cost to its customers.

### Exhibit 5: Key assumptions

Particulars	FY17	FY18	FY19	FY20
Sales volume (tonne)	656,880	742,704	760,000	780,000
EBITDA/tonne	14,024	15,342	16,594	16,717
Realization/tonne	104,887	124,662	130,000	135,000

Source: Company, Emkay Research

### Exhibit 6: Changes in earnings estimates

All fig in Rs mn (except % and EPS)	FY19E			FY20E		
	Old	New	% chg.	Old	New	% chg.
Revenues	108,553	108,553	0.00%	115,541	115,541	0.00%
EBITDA	13,792	13,685	-0.78%	15,310	14,166	-7.47%
EBITDA margin %	12.7	12.6	-10 bps	13.3	12.3	-100 bps
Net profit	5,366	5,294	-1.34%	6,658	5,892	-11.50%
EPS	22.7	22.4	-1.32%	28.2	25.0	-11.35%

Source: Emkay Research

We are valuing JSHL on SOTP basis, valuing its standalone business at 6.5x FY20E EV/EBITDA while the subsidiaries (Steelway and Lifestyle) have been valued at 5x and 15x FY20E EV/EBITDA, respectively. Also, we are assuming a 40% holding company discount for a 36.6% stake in JD SL. We continue to maintain BUY with a revised TP of Rs353 (70% upside). More clarity on debt restructuring in JSL will benefit JSHL since the latter holds a 36.5% stake in JSL. At the CMP of Rs186, the stock trades at 7x FY20E EPS and 4x FY20E EV/EBITDA.

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue</b>	<b>72,346</b>	<b>77,745</b>	<b>103,571</b>	<b>108,553</b>	<b>115,541</b>
<b>Expenditure</b>	<b>63,713</b>	<b>67,936</b>	<b>91,265</b>	<b>94,869</b>	<b>101,375</b>
<b>EBITDA</b>	<b>8,633</b>	<b>9,809</b>	<b>12,306</b>	<b>13,685</b>	<b>14,166</b>
Depreciation	3,048	2,852	2,843	3,049	3,181
<b>EBIT</b>	<b>5,585</b>	<b>6,956</b>	<b>9,464</b>	<b>10,635</b>	<b>10,984</b>
Other Income	257	650	1,161	1,120	1,120
Interest expenses	4,954	4,314	4,082	3,842	3,297
<b>PBT</b>	<b>889</b>	<b>3,292</b>	<b>6,542</b>	<b>7,913</b>	<b>8,807</b>
Tax	71	1,171	2,335	2,619	2,915
Extraordinary Items	(442)	283	196	0	0
Minority Int./Income from Assoc.	(12)	541	1,569	0	0
<b>Reported Net Income</b>	<b>365</b>	<b>2,869</b>	<b>5,780</b>	<b>5,294</b>	<b>5,892</b>
<b>Adjusted PAT</b>	<b>806</b>	<b>2,586</b>	<b>5,585</b>	<b>5,294</b>	<b>5,892</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	462	472	472	472	472
Reserves & surplus	5,626	8,459	14,274	19,568	25,460
<b>Net worth</b>	<b>6,089</b>	<b>8,931</b>	<b>14,746</b>	<b>20,040</b>	<b>25,932</b>
<b>Minority Interest</b>	<b>185</b>	<b>218</b>	<b>315</b>	<b>315</b>	<b>315</b>
<b>Loan Funds</b>	<b>20,073</b>	<b>35,142</b>	<b>29,219</b>	<b>28,794</b>	<b>22,344</b>
Net deferred tax liability	(26)	393	761	0	0
<b>Total Liabilities</b>	<b>26,321</b>	<b>44,683</b>	<b>45,039</b>	<b>49,148</b>	<b>48,590</b>
<b>Net block</b>	<b>25,457</b>	<b>24,298</b>	<b>22,901</b>	<b>20,881</b>	<b>19,179</b>
<b>Investment</b>	<b>5,909</b>	<b>9,530</b>	<b>14,999</b>	<b>7,499</b>	<b>7,499</b>
<b>Current Assets</b>	<b>23,331</b>	<b>32,572</b>	<b>29,004</b>	<b>48,976</b>	<b>50,690</b>
Cash & bank balance	232	136	152	5,076	4,226
Other Current Assets	1,595	4,777	3,650	3,650	3,650
<b>Current liabilities &amp; Provision</b>	<b>28,981</b>	<b>22,137</b>	<b>22,526</b>	<b>28,870</b>	<b>29,439</b>
<b>Net current assets</b>	<b>(5,650)</b>	<b>10,435</b>	<b>6,479</b>	<b>20,106</b>	<b>21,251</b>
Misc. exp	0	0	(1)	0	0
<b>Total Assets</b>	<b>26,321</b>	<b>44,683</b>	<b>45,039</b>	<b>49,148</b>	<b>48,590</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>435</b>	<b>4,078</b>	<b>5,577</b>	<b>6,793</b>	<b>7,687</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	988	(2,874)	4,340	(9,464)	(1,995)
<b>Operating Cashflow</b>	<b>9,188</b>	<b>6,901</b>	<b>14,412</b>	<b>1,601</b>	<b>9,256</b>
Capital expenditure	(911)	(1,392)	(1,687)	(1,030)	(1,479)
<b>Free Cash Flow</b>	<b>8,277</b>	<b>5,509</b>	<b>12,725</b>	<b>571</b>	<b>7,777</b>
Investments	(12,994)	(16,351)	(3,996)	7,500	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(13,904)</b>	<b>(17,744)</b>	<b>(4,522)</b>	<b>7,590</b>	<b>(359)</b>
Equity Capital Raised	250	0	35	0	0
Loans Taken / (Repaid)	9,554	15,108	(5,923)	(425)	(6,450)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	0	0	96	0	0
<b>Financing Cashflow</b>	<b>4,848</b>	<b>10,811</b>	<b>(9,874)</b>	<b>(4,267)</b>	<b>(9,747)</b>
<b>Net chg in cash</b>	<b>132</b>	<b>(31)</b>	<b>15</b>	<b>4,924</b>	<b>(850)</b>
Opening cash position	100	168	136	152	5,076
<b>Closing cash position</b>	<b>232</b>	<b>136</b>	<b>152</b>	<b>5,076</b>	<b>4,226</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
EBITDA Margin	11.9	12.6	11.9	12.6	12.3
EBIT Margin	7.7	8.9	9.1	9.8	9.5
Effective Tax Rate	8.0	35.6	35.7	33.1	33.1
Net Margin	1.1	2.7	4.1	4.9	5.1
ROCE	27.5	21.4	23.7	25.0	24.8
ROE	14.0	34.4	47.2	30.4	25.6
RoIC	36.0	25.7	29.7	32.7	30.5

<b>Per Share Data (Rs)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
EPS	3.5	11.0	23.7	22.4	25.0
CEPS	16.7	23.0	35.7	35.4	38.5
BVPS	26.3	37.9	62.5	84.9	109.9
DPS	0.1	0.3	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
PER	53.3	17.0	7.9	8.3	7.4
P/CEPS	11.1	8.1	5.2	5.3	4.8
P/BV	7.1	4.9	3.0	2.2	1.7
EV / Sales	0.9	1.0	0.7	0.6	0.5
EV / EBITDA	7.3	8.0	5.9	4.9	4.4
Dividend Yield (%)	0.1	0.2	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Net Debt/ Equity	3.3	3.9	2.0	1.2	0.7
Net Debt/EBIDTA	2.3	3.6	2.4	1.7	1.3
Working Cap Cycle (days)	(29.7)	48.4	22.3	50.5	53.8

<b>Growth (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Revenue	(11.7)	7.5	33.2	4.8	6.4
EBITDA	16.5	13.6	25.5	11.2	3.5
EBIT	30.3	24.6	36.0	12.4	3.3
PAT	0.0	686.8	101.5	(8.4)	11.3

<b>Quarterly (Rs mn)</b>	<b>Q4FY17</b>	<b>Q1FY18</b>	<b>Q2FY18</b>	<b>Q3FY18</b>	<b>Q4FY18</b>
Revenue	20,432	22,184	23,480	24,386	22,537
EBITDA	2,379	2,511	2,771	3,251	2,862
<b>EBITDA Margin (%)</b>	<b>11.6</b>	<b>11.3</b>	<b>11.8</b>	<b>13.3</b>	<b>12.7</b>
PAT	604	744	916	1,336	961
<b>EPS (Rs)</b>	<b>2.6</b>	<b>3.2</b>	<b>3.9</b>	<b>5.7</b>	<b>4.1</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>	<b>Mar-18</b>
Promoters	57.7	57.7	57.7	57.7	57.7
FIs	19.2	19.0	19.3	19.3	19.1
DIs	5.3	5.2	5.1	3.8	3.3
Public and Others	17.9	18.2	18.0	19.2	20.0

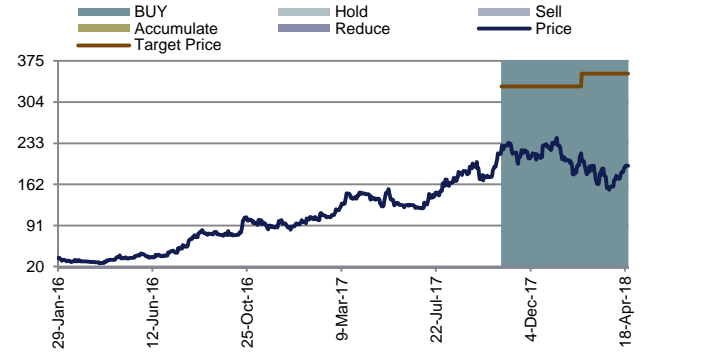
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Mar-18	194	353	12m	Buy	Goutam Chakraborty
15-Feb-18	207	353	12m	Buy	Goutam Chakraborty
9-Nov-17	217	331	12m	Buy	Goutam Chakraborty
1-Nov-17	229	331	12m	Buy	Goutam Chakraborty
23-Oct-17	223	331	12m	Buy	Goutam Chakraborty

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

Dissemination Date:

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**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

**SINGAPORE****DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard, Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel. 65-6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
Company Regn. No. 196800306E

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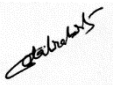
Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9<sup>th</sup>, 14<sup>th</sup>-15<sup>th</sup> Floor  
Rama 1 Road, Pathumwan,  
Nagkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
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Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel. 62 21 3003 4900  
Fax: 62 21 3003 4943  
e-mail: research@id.dbsvickers.com

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Goutam Chakraborty, MSc (Agri Eco), PGDFM

[goutam.chakraborty@emkayglobal.com](mailto:goutam.chakraborty@emkayglobal.com)

+91 22 66121275