

## Jindal Stainless Hisar Ltd.: Q3FY18 Result Update

CMP INR: 169  
 Rating: BUY  
 Target Price INR: 319  
 Upside: 89%

## Stronger volumes &amp; profitability improvement continues

Jindal stainless (Hisar)(JSHL) reported healthy growth of 35.2% in net revenues to reach INR 2439cr as company's volumes grew at 8.3% on yoy basis while sales per ton increased by 24.8% over Q3FY17. Volume growth of 8.3% has come in line with the growth in the industry. For 9MFY18, volumes have grown by 14.6% against industry growth of 8%. During Q3FY18, EBIDTA grew by 43% to INR 325cr while EBIDTA/ton grew by 32% to INR 17,196/ton. Net profits grew by 122% to INR 114 cr as higher EBIDTA along with marginal decrease in interest expenses boosted net profits. JSHL realised net forex gains of INR 20cr during the quarter. We are revising our estimates for both FY18E and FY19E due to higher than expectation performance by the company in this quarter. We are revising net sales by 6%/6%, EBIDTA by 13.3%/7.4%, and net profits by 22.8%/9.9% respectively for FY18E/FY19E. We are revising volume numbers for FY18E and FY19E by only 1% to 753,346 tons and to 828,681 tons respectively. During FY17-19E, RoCE is expected to improve from 20% to 23.1%. We are maintaining our 'BUY' recommendation on the stock with a price target of INR 319 per share, valuing consolidated business at INR 288/share (6.5x EV/EBIDTA on FY19E basis) and valuing equity stake in JSL at INR 31/share.

#### Volume growth in Q3FY18 in line with the market –9MFY18 growth remains above industry due to aggressive expansion

JSHL reported volume growth of 8.3% in line with market growth of ~8% while on 9MFY18 basis volumes have grown at 14.6%, capturing market share from Chinese and unorganised players. JSHL continued to witness strong traction in the Architecture, Building, Construction (ABC) and Automotive, Railways, & Transport (ART) segments due to pick up in capex related to railways, metros, and strong momentum in auto sector volumes. JSHL is also gearing up capacities for new demand segments like defence and nuclear along which is expected to be healthy in the future as import substitution picks up.

#### Profitability improves on yoy and qoq basis, Balance sheet strengthens

JSHL has been able to pass on the increase in prices of both Nickel and FeCr. During Q3FY18, EBIDTA/ton improved from INR 13,023/ton in Q3FY17 to INR 17,196/ton. JSHL's EBIDTA grew by 43% on yoy basis to INR 325cr while EBIDTA margins improved to 13.3% from 12.6% in Q3FY17. Interest expenses have dropped to INR 97cr in Q3FY18 from INR 100cr in Q3FY17 and INR 102cr in Q2FY18. Adjusting for extraordinary income of INR 20cr from forex movement, net profits grew by 122% to INR 114cr.

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#### Bloomberg: JSHL:IN

52-week range (INR):	252.40 / 115.00
Share in issue (cr):	23.6
M cap (INR cr):	3,991
Avg. Daily Vol. BSE/NSE :('000):	643
Promoter Holding (%)	57.67

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY18E	FY19E
Net Revenues (incl Op. Inc.)	2,439	1,804	35.1	2,348	3.9	9,576	10,962
EBITDA	325	227	43.1	277	17.3	1,281	1,486
EBITDA Margin	13.3%	12.6%		11.8%		13.4%	13.5%
PAT	133	55	143.3	91	46.1	501	682
PAT Margin	5.4%	3.0%		3.9%		5.2%	6.2%
Adjusted Diluted EPS						21.2	28.9
Diluted P/E (x)						8.0	5.8
EV/EBITDA (x)						5.4	4.6
RoACE (%)						22	23

Date: 8<sup>th</sup> March 2018

## Q3FY18 Result Highlights

Year to March (INR Cr)	Q3FY18	Q3FY17	%Change	Q2FY18	%Change	9MFY18	9MFY17	%Change
Net Revenues (incl Op. Inc.)	2,439	1,804	35%	2,348	4%	7,005	4,847	45%
Raw Materials Cost	1,609	1,145	41%	1,620	-1%	4,707	3,007	57%
Employee expenses	42	35	19%	44	-4%	128	104	23%
Other Expenses	463	397	17%	407	14%	1,317	1,049	26%
Total Operating Expense	2,113	1,577	34%	2,071	2%	6,152	4,160	48%
EBITDA	325	227	43%	277	17%	853	686	24%
Depreciation and amortization	68	67	1%	67	1%	200	199	0%
EBIT	258	161	60%	210	23%	654	488	34%
Interest expenses	97	100	-3%	102	-5%	302	298	2%
Other Income	28	20	38%	28	1%	86	36	137%
PBT	189	81	134%	136	39%	437	226	93%
Provision for tax	75	29	155%	43	72%	157	82	90%
Core profit	114	51	122%	92	24%	281	144	95%
Extraordinary Items	20	4		(1)		19	14	
Other Comprehensive Income	-0.4	-0.4	-9%	-0.4	0%	-1	-1	-12%
Adjusted net profit	133	55	143%	91	46%	298	156	91%
No. Of shares (Cr)	24	24	0%	24	0%	24	24	0%
Diluted EPS (INR)	6	2	143%	4	46%	13	7	91%
<b>Common Size Metrics- As a % of Net Revenue</b>								
Raw Materials Cost	66.0	63.5		69.0		67.2	62.0	
Employee expenses	1.7	2.0		1.9		1.8	2.2	
Other Expenses	19.0	22.0		17.3		18.8	21.6	
EBITDA	13.3	12.6		11.8		12.2	14.2	
Adjusted net profit	5.5	3.0		3.9		4.3	3.2	

## Volume and financial analysis:

	Q3FY18	Q3FY17	% change	Q2FY18	% change	9MFY18	9MFY17	% change
Volumes (tons)	189,000	174,483	14.4%	199,649	-5.3%	553,762	483,141	14.6%
Average Realisations (INR/ton)	129,048	103,415	13.7%	117,606	9.7%	126,506	100,315	26.1%
Sales (INR cr)	2439	1,804	30.1%	2348	3.9%	7,005	4,847	44.5%
EBIDTA/ton (INR/ton)	17,196	13,023	6.6%	13,877	23.9%	15,406	14,142	8.9%
EBIDTA (INR cr)	325	227	21.9%	277	17.3%	853	683	24.9%

## Change in estimates:

	FY18E			FY19E		
	Previous	Revised	% change	Previous	Revised	% change
Volumes (in tons)	746,679	753346.1	0.9%	821,347	828,681	0.9%
Net Sales (INR Cr)	9,036	9576	6.0%	10,339	10,962	6.0%
EBIDTA (INR Cr)	1131	1281	13.3%	1383	1486	7.4%
PAT (INR Cr)	408	501	22.8%	621	682	9.9%

# Jindal Stainless Hisar Ltd.

## Valuation: Revising the target to INR 319/share

Company	Multiple	FY19e basis	Consol EBIDTA FY19E	EV	Net Debt	Market Cap	Value per share of JSHL (INR)	% upside
<b>Jindal Stainless (HISAR)</b>	EV/EBIDTA	6.5	1486	9658	2869	6789	288	70%
<b>Investment in associates</b>	Holding company discount to market capital	Stake	Market Capital	Value of JSHL's stake	Holding company discount	Attributable Value		
<b>Jindal Stainless Ltd</b>		37%	4066	1487	50%	744	31	
<b>Target price of Jindal Stainless (Hisar)</b>							<b>319</b>	<b>89%</b>

## Financials

Income statement (Consolidated)						(INR cr)					Balance sheet					(INR Cr)				
Year to March	FY15	FY16	FY17	FY18E	FY19E	As on 31st March					FY15	FY16	FY17	FY18E	FY19E					
Income from operations	8196	7235	7774	9576	10962	Equity share capital	46.2	46.2	47.2	47.2	47.2	Reserves & surplus	501	563	846	1,347	2,029			
Direct costs	6396	5426	5635	6941	7968	Shareholders funds	547	609	893	1,394	2,076	Long term borrowings	48	1,212	2,435	2,245	2,050			
Employee costs	181	176	176	222	232	Short term borrowings	988	781	932	1,045	1,207	Total Borrowings	1,036	1,993	3,367	3,290	3,257			
Other expenses	1059	947	1159	1353	1509	Deferred Tax Liabilities	23	23	67	67	67	<b>Sources of funds</b>	<b>1,607</b>	<b>2,625</b>	<b>4,327</b>	<b>4,751</b>	<b>5,400</b>			
Total operating expenses	7455	6373	6794	8294	9477	Gross block	3,085	3,118	3,268	3,410	3,510	Gross block	3,085	3,118	3,268	3,410	3,510			
EBITDA	741	862	980	1281	1486	Depreciation	385	669	929	1,230	1,541	Depreciation	385	669	929	1,230	1,541			
Depreciation and amortisation	313	305	285	300	311	Net block	2,700	2,449	2,339	2,180	1,969	Net block	2,700	2,449	2,339	2,180	1,969			
EBIT	428	557	695	981	1174	Capital work in progress	29	61	42	0	0	Capital work in progress	29	61	42	0	0			
Interest expenses	475	493	431	362	358	Total fixed assets	2,730	2,509	2,381	2,180	1,969	Total fixed assets	2,730	2,509	2,381	2,180	1,969			
Profit before tax	-1	89	328	671	898	Other non current assets	65	227	544	544	544	Other non current assets	65	227	544	544	544			
Provision for tax	5	7	117	235	314	Investments	370	369	418	418	418	Investments	370	369	418	418	418			
Core profit	-6	82	211	436	584	Inventories	1,449	1,221	1,716	1,831	2,165	Inventories	1,449	1,221	1,716	1,831	2,165			
Extraordinary items	17	-44	28	0	0	Sundry debtors	954	837	1,050	1,188	1,407	Sundry debtors	954	837	1,050	1,188	1,407			
Profit after tax	-23	127	240	436	584	Cash and equivalents	14	23	14	196	532	Cash and equivalents	14	23	14	196	532			
Share from associates	0	-1	50	65	98	Loans and advances	90	103	81	95	113	Loans and advances	90	103	81	95	113			
Net profits (incl share of associates)	-23	125	290	501	682	Other current assets	529	248	485	485	485	Other current assets	529	248	485	485	485			
Equity shares outstanding (mn)	23.1	23.1	23.6	23.6	23.6	Total current assets	3,406	2,801	3,763	4,214	5,120	Total current assets	3,406	2,801	3,763	4,214	5,120			
EPS (INR) basic	0.5	1.6	12.3	21.2	28.9	Sundry creditors and others	4,580	2,897	2,307	2,127	2,165	Sundry creditors and others	4,580	2,897	2,307	2,127	2,165			
Diluted shares (Cr)	23.1	23.1	23.6	23.6	23.6	Provisions	14	15	54	60	67	Provisions	14	15	54	60	67			
EPS (INR) fully diluted	0.5	1.6	12.3	21.2	28.9	Total CL & provisions	4,594	2,913	2,361	2,186	2,232	Total CL & provisions	4,594	2,913	2,361	2,186	2,232			
Dividend per share	0.0	0.0	0.0	0.0	0.0	Net current assets	-1,188	-112	1,403	2,027	2,888	Net current assets	-1,188	-112	1,403	2,027	2,888			
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0	<b>Uses of funds</b>	<b>1,607</b>	<b>2,625</b>	<b>4,327</b>	<b>4,751</b>	<b>5,400</b>	<b>Uses of funds</b>	<b>1,607</b>	<b>2,625</b>	<b>4,327</b>	<b>4,751</b>	<b>5,400</b>			
						Book value per share (INR)	24	26	38	59	88	Book value per share (INR)	24	26	38	59	88			

Common size metrics- as % of net revenues					
Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	91.0	88.1	87.4	86.6	86.4
Depreciation	3.8	4.2	3.7	3.1	2.8
Interest expenditure	5.8	6.8	5.5	3.8	3.3
EBITDA margins	9.0	11.9	12.6	13.4	13.6
Net profit margins	(0.3)	1.7	3.7	5.2	6.2

Growth metrics (%)					
Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues		(11.7)	7.5	23.2	14.5
EBITDA		16.3	13.7	30.8	15.9
PBT		(6,268.3)	267.2	104.3	33.9
Net profit		57.3	156.6	106.4	33.9
EPS		(1,484.2)	667.3	72.8	36.2

Ratios					
Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	-	6.4	38.6	43.8	39.3
ROACE (%)	-	26.3	20.0	21.6	23.1
ROACE (%) (ex -cash)	-	38.5	24.8	27.0	30.1
Debtors (days)	85	40	51	50	50
Current ratio	0.6	0.8	1.4	1.7	2.1
Debt/Equity	1.9	3.3	3.8	2.4	1.6
Inventory (days)	190	86	128	120	120
Payable (days)	202	76	122	100	90
Cash conversion cycle (days)	74	49	57	70	80
Debt/EBITDA	1.4	2.3	3.4	2.6	2.2
Adjusted debt/Equity	1.9	3.2	3.8	2.2	1.3

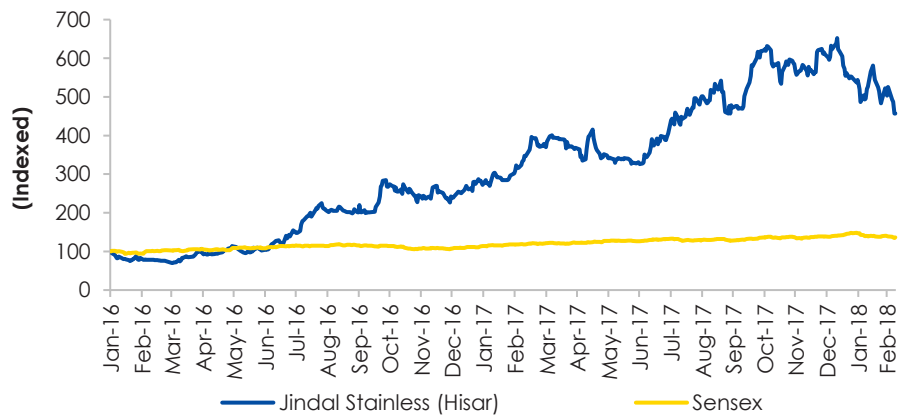
Valuation parameters					
Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	0.5	1.6	12.3	21.2	28.9
Y-o-Y growth (%)	-	244.7	667.3	72.8	36.2
CEPS (INR)	13	17	23	34	42
Diluted P/E (x)	363.8	105.5	13.8	8.0	5.8
Price/BV(x)	7.1	6.4	4.5	2.9	1.9
EV/Sales (x)	0.8	0.9	0.9	0.7	0.6
EV/EBITDA (x)	6.7	6.6	7.0	5.4	4.6
Diluted shares O/S	23.1	23.1	23.6	23.6	23.6
Basic EPS	0.5	1.6	12.3	21.2	28.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate between 5-15% over a 12-month period
<b>Reduce</b>	Return below 5% over a 12-month period



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