December 7, 2017

TOP INVESTMENT IDEAS

DECEMBER 2017

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Top Investment Ideas - Dec. 2017

Company Name	Sector	Market Cap (INR Cr.)	CMP (INR)*	Target (INR)	Upside (%)
The Indian Hotels Company Ltd	Hospitality	14,625.43	121.85	169	40%
Bharat Forge	Capital Goods	32425.92	703.40	859	22%
Jindal Saw Ltd	Iron & Steel	3697.00	114.70	160	33%

* Price as on 7th Dec.2017

The Indian Hotels Company Ltd.

Sector : Hospitality

7 December 2017

CMP (INR)	120.85
Target (INR)	169.00
Upside(%)	40%
Recommendation	Strong Buy

BSE Code	500850
NSE Code	INDHOTEL
Reuters Ticker	IHTL.NS
Bloomberg Ticker	IH IN

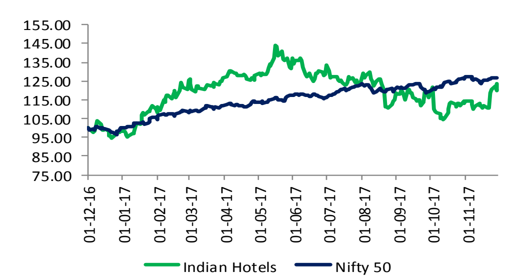
Stock Scan

Market cap (INR Cr.)	14,625.43
Outstanding Shares (Cr.)	118.72
Face Value (INR)	1.00
Dividend Yield(%)	0.28
P/E (x)	N/A
Industry P/E (x)	80.00
Debt/Equity	1.34
Beta vs. Sensex	0.84
52 Week High/ Low (INR)	145.65 / 94.00
Avg. Daily Vol (NSE)/1 Yr	707486

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	38.65	38.65	38.65
Institutions	40.79	40.85	39.94
Non-Institution	20.56	20.50	21.40

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst:
Aditya Jaiswal
aditya.jaiswal@smifs.com

Company Overview

The Indian Hotels Company Ltd (IHCL) is one of the Asia's largest hotel chain groups. Over the years, with the changing dynamics of the industry, the company has geared itself to broad-base its business model in order to take advantage of the growth prospects with-in various class of the travel and tourism industry. It operates under the brand of Taj & Vivanta - catering to the luxury segment, Gateway (mid category) and Ginger (budget category). As at September 30, 2017, the Taj Group has 137 hotels with 16,848 rooms. The company has added nearly 3000 rooms over the past five years at a CAGR of 4.2%. The group has 11 upcoming hotels with 916 rooms, which will further aid growth to the company.

Investment Rationale

Undisputed Leadership: Over the past couple of years, multiple international hotel brands have entered the Indian hospitality industry, yet Indian Hotels still remains the undisputed leader in terms of geographical presence and room inventory. Over the years, the company has built a vibrant portfolio catering to different hotel categories including premium hotels, mid-market hotels and budget hotels. Its share from contract management continues to increase, raising possibilities for better margins.

Beginning of an up-cycle: The five-year period marked by oversupply in the Indian hospitality sector is coming to an end and the market is witnessing an up-cycle with expectations of a robust revival in demand. The company's revenue per available rooms is expected to witness impressive improvements over the next two years. The company in its latest presentation has clearly depicted improved occupancy and ARR's which are the signals of better days are ahead for the hospitality industry and for IHCL in particular.

...(Rationale cont'd)

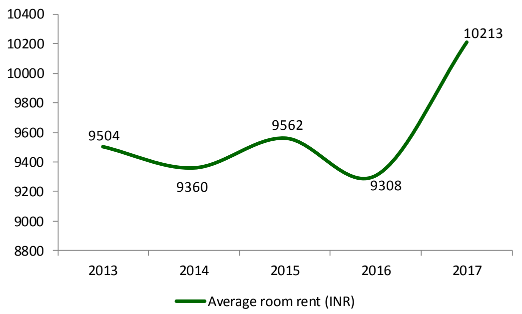
Valuation: Several macro and micro factors compel us to believe a good visibility of growth in the hospitality sector. Indian Hotels is likely to reward investors. We value the Company at an EV/EBITDA of 22x for FY19E driven mainly by increase in their top line and arrive at a target price of INR169.

Financial Performance at a glance (Consolidated)

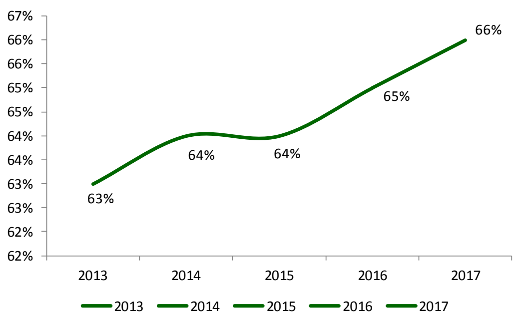
Particulars (INR Cr.)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4188.64	4023.02	4010.26	4411.29	5028.87
Growth(%)	3.01%	-3.95%	-0.32%	10.00%	14.00%
EBITDA	587.29	651.92	664.56	755.05	962.45
EBITDA Margin (%)	14.02	16.20	16.57	17.12	19.14
Adjusted PAT	-378.1	-231.08	-63.2	98.84	306.06
Net Profit Margin (%)	-9.03	-5.74	-1.58	2.24	6.09
EPS	-4.68	-2.34	-0.64	0.83	2.58
BVPS	27.58	26.08	25.45	34.67	37.25
P / E (x)	N/A	N/A	N/A	141.74	45.77
P / BV (x)	4.28	4.52	4.64	3.40	3.17
ROE (%)	-16.98	-8.96	-2.51	2.40	6.92
EV / EBITDA (x)	23.20	22.87	21.39	19.96	15.66

Source: Company Data, Ace Equity, Bloomberg

ARR has increased by 10% in 2017



Occupancy has increased by 200 bps since 2015



Investment Rationale Continued

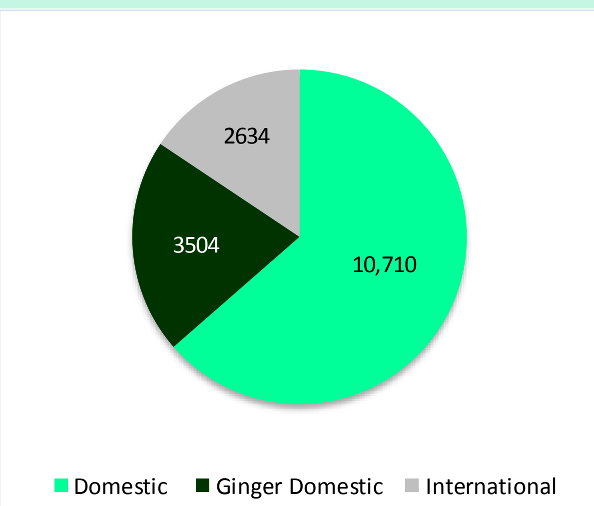
Presence in premium and mid-market a boon: Historically, an increase in demand is followed by increase in supply by the industry players but setting up premium and mid category hotels require considerable time (funding, permissions, land acquisition etc.). IHCL's dominant presence in premium and mid-market hotel categories (where setting up supply takes time) will be a boon for the company.

Aviation industries PLFs at lifetime high: The Indian hospitality industry's occupancy levels are directly co-related with the domestic airline passenger growth. The Indian aviation sector is in an up cycle, the sector is operating at lifetime high passenger load factors coupled with a passenger growth rate which is increasing at the rate of over 17-18% over the past 18 months. This bodes well for the hospitality sector.

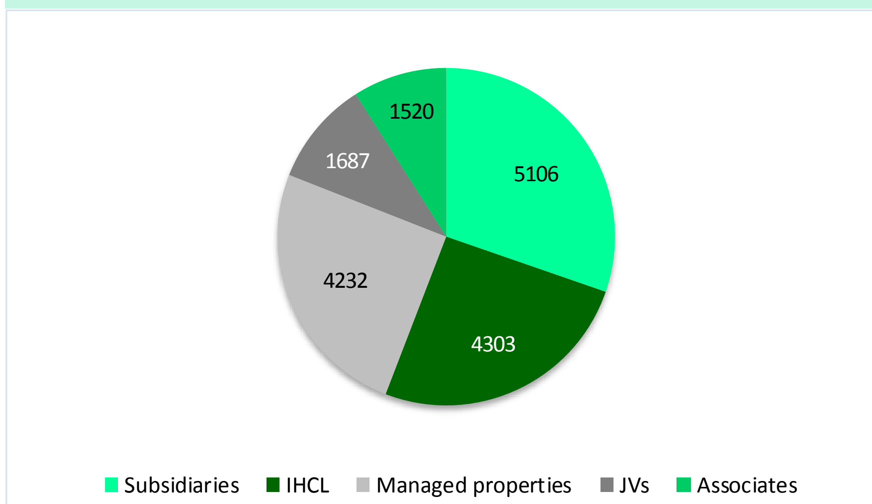
Turnaround inevitable: Stock valuation lies in the ability of a company to generate positive cash flows on a consistent basis. The company has lagged on this parameter, besides some other factors, which has led the company to underperform the benchmarks and some peers for several years. Never-the-less, the tide is expected to turn favorable for the company led by sector trends which are turning positive across several parameters and the company's initiatives in recent years which is likely help generate positive free cash flows on a sustainable and incremental basis, an attraction for long term investors.

The consolidated debt at around INR3400 crores has been significantly reduced and it is expected to be further pruned down through selling of some assets. The company's recently closed rights issue is also to be used partly to bring down debts. The Debt/Equity which once stood around 2 has declined to 1.36 according to latest filings by the company and is projected to come down to around 1.00 by end of FY19.

Geography wise inventory break-up



Entity wise inventory break-up



Source: Company Data, SMIFS Research

Industry Outlook

the Indian hospitality industry, for the first half of FY18 has seen a demand growth of 5.70% whereas the supply growth has been around 3%.

- The Indian hospitality industry has been instrumental in contributing to the nation's economic growth. This trend is expected to continue especially with the introduction of e-visa for foreign tourists and with the domestic economy improving, there are clear signs of increased domestic travel. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country.
- According to the latest presentation by the Indian Hotels, the Indian hospitality industry, for the first half of FY18 has seen a demand growth of 5.70% whereas the supply growth has been around 3%. Whereas the overall occupancy has seen a growth of 2.6% at 62% and average room rent has seen a growth of 2% at INR5253, whereas RevPAR is at INR3268 up by 4.7%. All the major cities and towns has seen a growth in occupancy with NIL showing negative trend.

India is projected to be the fastest growing nation in the wellness tourism sector in the next five years.

- India is projected to be the fastest growing nation in the wellness tourism sector in the next five years, clocking over 20% gains annually through 2017, according to some studies.
- As per the ministry of Tourism, Foreign tourist arrivals in India have shown growth in each quarter for past 6 years. Foreign tourist arrivals during the period H1 (2017-18) were 42.75 lakh with a growth of 16%, as compared to the FTAs of H1 (2016-17) 36.99 lakh which had a growth of 11% compared to H1 (2015-16).

Foreign tourist arrivals in India have shown growth in each quarter for past 6 years.

- Foreign tourist arrivals in India were 92.25 lakhs, a growth of 12% over the previous year. Tourist arrivals has been seeing a robust growth due to introduction of e-visas. The drive to promote India as a tourist destination and increase in global growth has also led to larger travel to India by global tourists.
- India has moved up 13 positions from 65 to 52 in the Tourism & Travel Competitive Index. The ease of doing business in India according to World Bank has moved from 130 in 2017 to 100 in 2018 levels, the recent upgrade of India's Sovereign rating by Moody's is likely to attract more business travel to the country, benefitting Indian Hotels.

Branded room supply in major cities of India like Mumbai, Delhi and Bangalore is much lesser than in other Asian cities like Hong Kong, Shanghai and Tokyo.

- Branded room supply in major cities of India like Mumbai, Delhi and Bangalore is much lesser than in other Asian cities like Hong Kong, Shanghai and Tokyo. We believe the huge gap is likely to be filled going forward, raising occupancy and room rates of leading branded hotels, including Indian Hotels Ltd.

Key Risks

The New Delhi Municipal Council (NDMC) has decided to e-auction the Taj Mansingh hotel. Indian Hotels had been granted the license for the Taj Mansingh in 1976 for 33 years. The license had expired in 2011, but the company was given many extensions. Although Indian Hotels is also bidding to retain the property. But there is a probability that the Company may lose the property. The 294-room property accounts for less than 2% of Indian Hotel's total revenues.

Outlook & Valuation

Several macro and micro factors compel us to believe a good visibility of growth in the hospitality sector. Indian Hotels is likely to reward investors. We value the Company at an EV/EBITDA of 22x for FY19E driven mainly by increase in their top line and arrive at a target price of INR169.

Bharat Forge Ltd

Sector : Capital goods

7 December 2017

CMP (INR)	703.40
Target (INR)	859
Upside(%)	22%
Recommendation	Strong Buy

BSE Code	500493
NSE Code	BHARATFORG
Reuters Ticker	BFRG.NS
Bloomberg Ticker	BHFC:IN

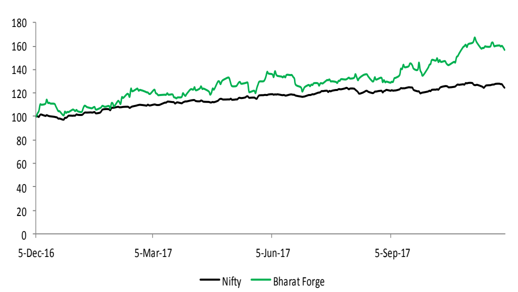
Stock Scan

Market cap (INR Cr.)	32425.92
Outstanding Shares (Cr.)	46.56
Face Value (INR)	2.00
Dividend Yield(%)	1.11
P/E (x)	45.79
Industry P/E (x)	49.25
Debt/Equity	0.76
Beta vs. Sensex	1.57
52 Week High/ Low (INR)	749.95/430.20
Avg. Daily Vol (NSE)/1 Yr	865853

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	45.75	45.75	45.75
Institutions	33.19	35.46	34.94
Non-Institution	21.06	18.79	19.31

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

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Company Overview

Bharat Forge Limited, the Pune based Indian multinational is a technology driven global leader in metal forming, having a transcontinental presence across nine manufacturing locations globally, serving several sectors including automotive, power, oil and gas, construction & mining, rail, marine, aerospace and defence. Part of Kalyani Group - a USD2.5 billion conglomerate. The Company is India's largest exporter of auto components. With manufacturing facilities spread across India, Germany, Sweden, France and USA, Bharat Forge manufactures a wide range of components for automotive and industrial applications.

Investment Rationale

Setting up new Greenfield Project: Bharat Forge to set up state of the art large mega site called Centre for "Light Weight Technology "(LWT) in Andhra Pradesh. In phase-I they are going to invest around INR200 crores and aims to start its operation within 2 years. This site is going to develop components, subsystems of aluminum and future carbon fiber which are light weighted and which finds application in automobiles, industrial, marines, aerospace etc. and looking forward especially in BS VI norms vehicles and upcoming arena of EV's.

Positive Outlook for M&HCV and PV: Domestic commercial vehicle (CV) sale is back on track since July 2017, driven by the demand post GST. As per the Industry Domestic M&HCV segment is expected to register an increasing growth of 15-18% over next one and half years on the back of government's focus on infrastructure coupled with stricter implementation of overloading ban, implementing BS VI norms by skipping BS V and pick-up in the overall economy.

...(Rationale cont'd)

Valuation: Considering the positive opportunities for the company coupled with greenfield expansion and US truck sales picking up, we expect the EPS of the company to grow at CAGR of 25.6% for the next 2 years. Also, due to improving ROCE, we assign a PE multiple of 36 to FY19E EPS , to arrive at a price target of INR859.

Financial Performance at a glance (Consolidated)

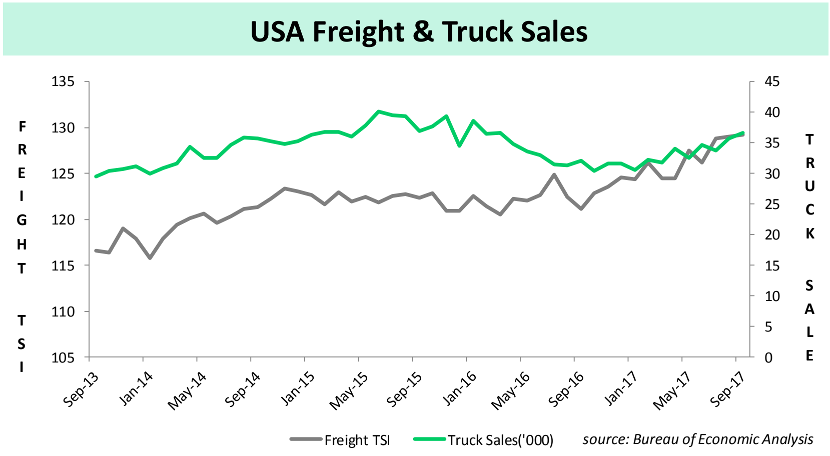
Particulars (INR Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7482.10	7001.56	6598.16	7689.60	8906.70
Growth(%)	12.99%	-6.42%	-5.76%	16.54%	15.83%
EBITDA	1440.74	1408.09	1251.06	1667.80	2030.50
EBITDA Margin (%)	19.26	20.11	18.96	21.69	22.80
Net Profit	763.56	649.32	697.59	855.30	1110.40
Net Profit Margin (%)	10.21	9.27	10.57	11.12	12.47
EPS Adj*	16.38	14.57	15.12	18.37	23.85
BVPS Adj*	73.97	73.31	88.41	102.39	121.86
P / E (x)*	42.53	47.80	46.07	37.92	29.21
P / BV (x)*	9.42	9.50	7.88	6.80	5.72
ROE (%)*	22.17	19.02	16.95	17.94	19.57
EV / EBITDA (x)*	23.68	24.80	27.51	20.68	17.06

** figures adjusted with Bonus*

Source: Company Data, Ace Equity, Bloomberg

Investment Rationale Continued

On the global front, there is a significant pickup in Class 8 trucks demand compared to last year's on the back of stronger freight growth in the US. Export to US contributed around 37% of total revenue in 1st Half FY18.The management believes that the outlook of US market is very positive this year and the demand is expected to grow at 10-12 percent. Additionally, the management believes that the continued renewal and expansion of fleet along with a strong freight environment is supporting demand for trucks in US and Europe.

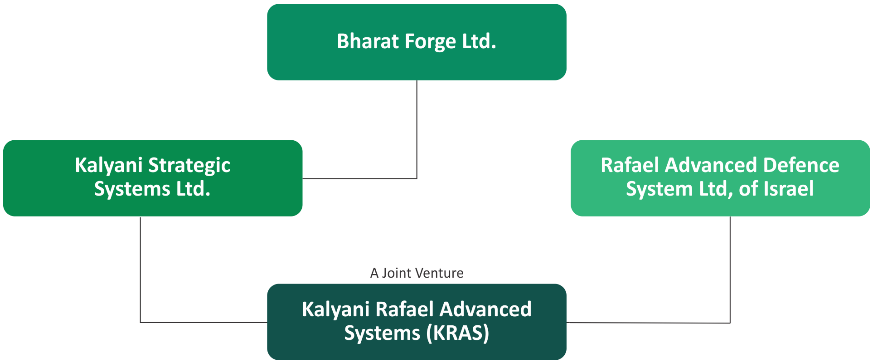


Source: Company Data, SMIFS Research

USA acquisition: The Company has acquired Walker Forge Tennessee LLC, USA and PMT Holding Inc., USA through its wholly owned subsidiary - Bharat Forge America Inc. in Nov 16. The acquisition of Walker Forge Tennessee creates a strategic manufacturing footprint of the Group in North America to leverage the existing customer relationships while simultaneously enabling the Group to address new end market segments in Canada and South America and hence widen the scope of their product portfolio and reach just when the Passenger and Commercial vehicles markets are gaining momentum. The acquired company had a revenue of USD26-27m and now it has expected to report over USD36m (33% growth) and is further expected to reach USD50m within 2 years and USD100m later on.

Defence: Recently, Bharat Forge has secured its maiden order from the Ministry of Defence worth INR201.6 crore to supply 1,050 dual technology detection equipment, which will be manufactured in India and supplied over 2 years and it is expected to provide double-digit margins to the company.

Moreover, earlier this year Kalyani Rafael Advanced Systems (KRAS), a joint venture between Kalyani Strategic Systems Ltd and Rafael Advanced Defense Systems Ltd of Israel, is one of the first to be off the block and ready to manufacture anti-tank guided missiles under Prime Minister Narendra Modi's 'Make in India' initiative. The facility can manufacture and integrate Spike anti-tank guided missile systems and Spice glider bombs in India. The order, which awaits final User Test approvals (expected to result in by 15-18 months), includes supplying thousands of missiles valued at around USD1 billion over next couple of years.

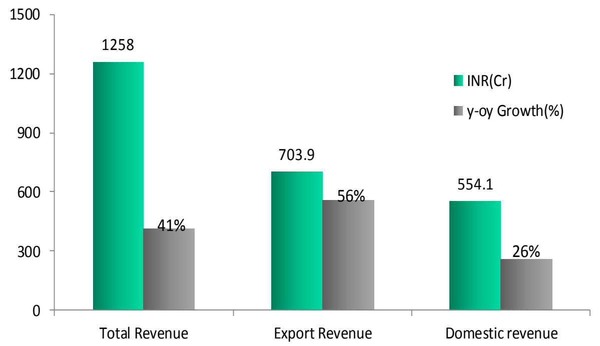


Source: Company Data, SMIFS Research

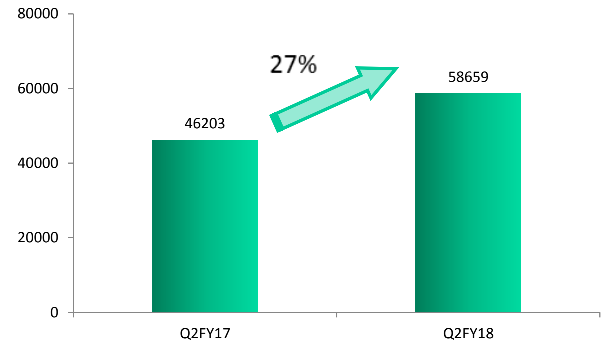
Q2 FY18: Financial Performance (Standalone)

The company has secured new orders worth more than USD40 million YTD FY18 across geographies and business applications. EBITDA (excluding Other Income) grew 40% to INR369.44 crores with margins expanding by 161bps and PAT was a whopping 60.5% growth to 203.72 crores. This impressive growth story has been factored by increase market share and product & geographical diversification. The company has managed to surpass the Bloomberg estimates in terms of Revenue, EBITDA and Net Profit by small margins. Segment wise the Commercial Vehicle has grown by 36%, Passenger vehicle by 40% and Industrials grew by 20%. Revenue from USA has almost doubled from what was last year. The Company's Overseas Subsidiary has earned INR6263 million, a growth of 25%.

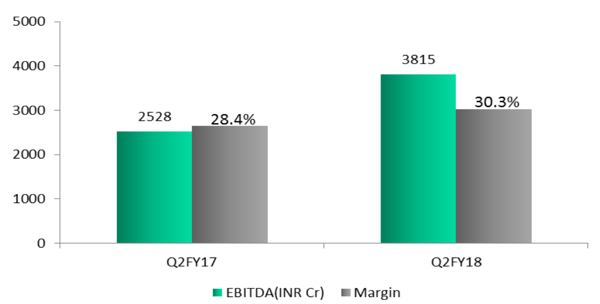
Revenue



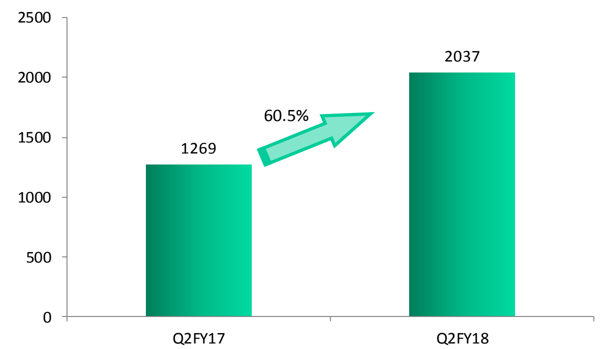
Shipment Tonnage



EBITDA



PAT (INR Cr)



Source: Company Data, SMIFS Research

Key Risks

Geo Political Risk: More than 50% of revenue comes from export to USA and Europe. Any Uncertainties in these regions can have adverse effect on the profitability of the company.

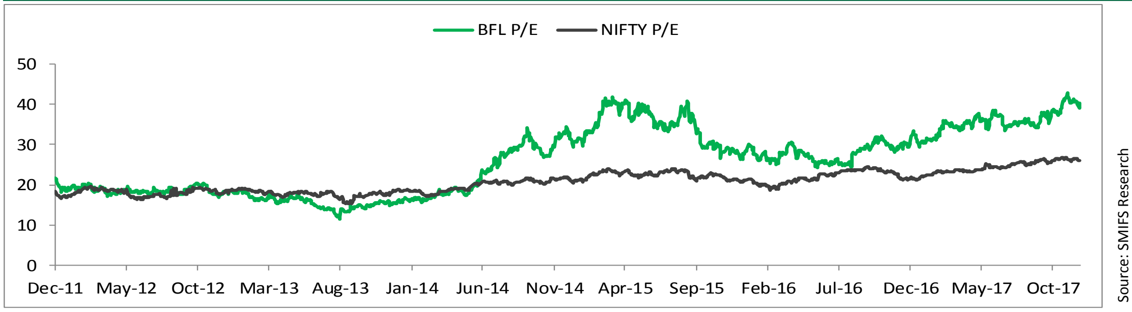
Currency Risk: With such large exposure in foreign currency, the Company is always exposed to currency risk fluctuations.

Raw Material price & Supply Risk: The Company uses (Steel, Energy, Freight) as raw material. Any adverse price movement can severely affect the profitability of the company.

Interest Rate Risk: The Company is expanding its presence globally by using borrowed funds. Any Interest rate fluctuation can cause uncertainty in company's profitability.

Technology Innovation Factor: Bharat Forge manufactures different components that need continuous technological upgradation. A good amount of investment in research & development is necessary to relevant.

Historical P/E vs. Nifty



Outlook & Valuation

Due To BS VI norms auto component OEM industry to see INR30-40 thousand crore investment in coming future.

Going forward, BS VI norms is likely to be implemented from April 2018 in Delhi and before April 2020 Pan India. As per The Society of Indian Automobile Manufacturers (SIAM), an investment of INR1 lakh crore for upgrading products to meet various upcoming regulations has been forecasted. Of this, the auto component industry is slated to spend about 30-40% which we believe to result in healthy order inflows for the Company. Meanwhile in US we believe rising freight rates should mean good years ahead for fleet owners and their equipment providers due to which sales for Bharat Forge products could be expected to continue a decent growth. US tax rate cut will further have positive effect on the company's subsidiary.

Boost from Government to procure domestically developed defence equipment as per defence Procurement Policy

Also as part of the Defence Procurement Procedure (DPP)-2016, which focuses on defence procurement procedures to give a boost to "Make in India" by promoting indigenous design and development of defence equipment, aims to reduce ammunition imports and procure all ammunition requirements from domestic source. With this push from the Government on incremental domestic supplies, the Bharat Forge could snatch a sizeable chunk from this huge upcoming potential domestic market.

On the aerospace front, the management is planning to shift from forged components to fully machined components. The company continues to retain healthy relation and supply Titanium Forging components to Boeing. From this sector the Company has set a target of USD100 million revenue by FY20.

India's oil exploration and production sector will see investments worth USD40 billion over the next four to five years

In the oil and gas space, the company's exports have increased substantially with stronger order book number than last year. The management expects the momentum to continue on the back of new product development on new platforms that are underway. According to Indian Petroleum and Natural Gas Ministry, India's oil exploration and production sector will see investments worth USD40 billion over the next four to five years. With the company's vast repository of metallurgical knowledge, and in-house innovation capabilities, a good potential can be expected to be capitalized by the company from this field.

Considering the positive opportunities for the company coupled with greenfield expansion and US truck sales picking up, we expect the EPS of the company to grow at CAGR of 25.6% for the next 2 years. Also, due to improving ROCE, we assign a PE multiple of 36 to FY19E EPS , to arrive at a price target of INR859.

Jindal Saw Ltd

Sector : Iron & Steel Products

7 December 2017

CMP (INR)	114.70
Target (INR)	160
Upside(%)	33%
Recommendation	Strong Buy

BSE Code	500378
NSE Code	JINDALSAW
Reuters Ticker	JIND.BO
Bloomberg Ticker	JSAW IN

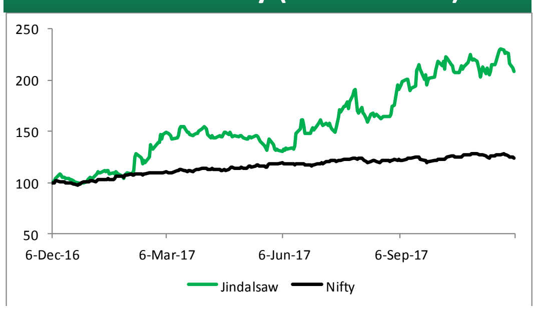
Stock Scan

Market cap (INR Cr.)	3697
Outstanding Shares (Cr.)	63.95
Face Value (INR)	31.97
Dividend Yield(%)	2.00
P/E (x)	1.20
Industry P/E (x)	36.83
Debt/Equity	25.33
Beta vs. Sensex	1.16
52 Week High/ Low (INR)	1.46
Avg. Daily Vol (NSE)/1 Yr	133/47.50

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	53.59	53.59	53.59
Institutions	20.85	21.06	21.30
Non-Institution	25.56	25.35	25.11

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst:

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Company Overview

Jindal Saw Ltd is engaged in the business of manufacturing SAW pipes (submerged arc welded pipes) and spiral pipes for energy transportation sector, carbon alloy and seamless pipes for industrial effluents and Ductile Iron pipes for water supply and sewage/wastewater transportation. The Company supplies to a number of customers spreading all over the globe, specially from the Oil & Gas sector projects from MENA, North America and Scandinavian region. The company has its plants located in multiple locations: Kosi Kalan, Mathura, Sinar, Mundra, Bellary and Bhilwara, benefiting for the supply chain logistics. The Mundra plant location helps catering export orders from Gulf region and others. The Company's business is well balanced with 37% of its orderbook at the end of 30 Sept 2017 for exports while the domestic demands re pushing their order bids on the back of Government pushed Infrastructure and Housing projects.

Investment Rationale

Growing turnaround story of Internal Operations: The Company has been doing steady business over last few quarters and has improved their margins considerably. Improved margins will add to the earlier sunk bottom line of the company.

Global surge in Oil and Gas Prices: As the self-imposed cuts by OPEC is said to extend till end 2018, we expect a stable crude prices to stabilize around 60-65 USD/barrel, generating optimum environment for major stalled investments in the GCC and Scandinavian region to restart investment for more oil. Since, Jindal Saw has a 37% order book for exports as of Q2 FY18, the orders are expected to plummet further. ...(Rationale cont'd)

Valuation: We foresee a major turnaround story for Jindal Saw Limited over next couple of years. We estimate the topline to grow more robust in next fiscal on the back of ongoing reforms in the economy and growth revival in the global economic engine. Hence, on the back of the improving ROCE, we have assigned an EV/EBITDA (x) of 5.4 for FY19E with a Target Price of INR160.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,636.39	7,971.19	7,367.61	8,219	10,451
Growth %	24.30%	-7.70%	-7.57%	11.56%	27.16%
EBITDA	935.66	799.00	756.05	1,084.14	1,558.65
EBITDA Margin (%)	10.83	10.02	10.26	13.19	14.91
Adj. Net Profit	-27.41	-80.2	38.51	233.40	543.51
Net Profit Margin (%)	-0.32	-1.01	0.52	2.84	5.20
EPS	0.42	-1.39	3.26	7.30	17.00
BVPS	185.84	168.21	168.45	174.87	184.57
P / E (x)	285.83	N/A	36.83	16.45	7.06
P / BV (x)	0.6460	0.71	0.71	0.69	0.65
ROE (%)	-0.51%	-1.57%	0.71%	4.17%	9.21%
EV / EBITDA (x)	8.07	9.37	9.32	6.50	4.58

Source: Company Data, Ace Equity, Bloomberg

Investment Rationale Continued

Robust Growth Environment Domestically: Increased industrial activity domestically along with major housing and residential projects, are expected to push more orders for L & H Saw Pipes as well as Ductile Iron Pipes respectively.

Impact of GST absorbed: The introduction of GST did had a negative impact on sales for the company in the supply chain in domestic market, which however, by now is expected to smoothen as contractors are now ready to reap the tax benefits as well as ease of filing procedures over time is expected to boost the demand and sales back.

Healthy Order book and counting: The Company has an already packed order book of 930 Million USD against 750 Million USD (last quarter Q1 FY18) for both Indian and export clients and they state that they are bidding for more, as all their facilities are running in optimum capacity utilization.

Long Term growth of Water and Utility businesses: India had some 53 cities with over 1 million population (census 2011) and the urbanization is happening faster than expected. With urbanization, demand for better sanitation, water and gas & fuel utility will grow at an estimated 7-8% every year or even faster. The Ductile Iron Pipes (used for water supply) and Seamless Pipes (Gas supply) produced by the Company will have huge domestic demand.

Industry Outlook

India alone has 53 cities (census 2011) with more than a million population and increased development more population is expected out of below poverty line (BPL).

The Global outlook for Pipe Industry is expected to grow over the next few years on the back of growth revival globally. The demand for Pipes, which are used in supply of water, industrial effluents, utility and large scale Oil& Gas pipeline.

The rapid rate of urbanization in emerging and developing countries (the likes of China, South-east and South Asia) will push the demand for water in the urbanized centres. There are already more than 250 cities with more than a million population, only in the Asia Oceania region, and the number of those keeps on increasing at breakneck rate. India alone has 53 cities (census 2011) with more than a million population and increased development of the economy and Government push to bring more of the population out of below poverty line (BPL) is expected to generate more demands of urban housing projects. This rapid urbanization will push the demand in pipe industry on account of increasing Standard of Living, sanitation and concentration of economical activities in the cities.

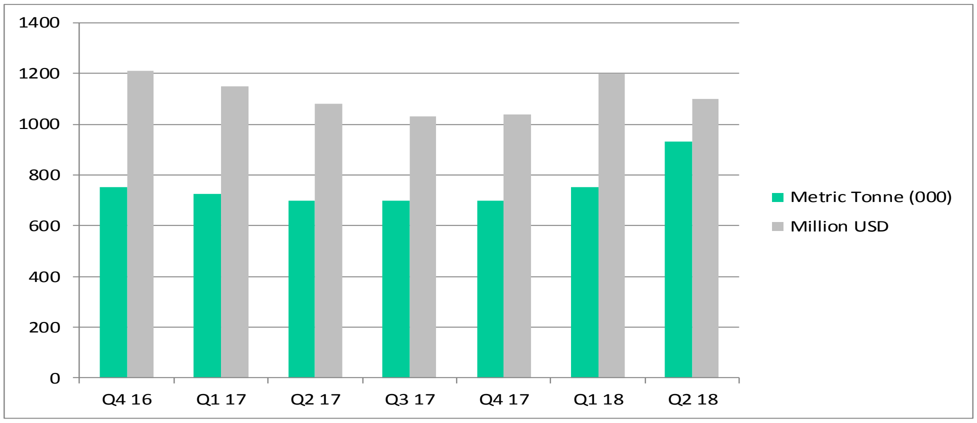
The recent appreciation of oil prices on account of production cuts by OPEC and Russia is expected to restart the stalled investments in the sector.

In the Oil and Gas industry, the recent appreciation of oil prices on account of production cuts by OPEC and Russia is expected to restart the stalled investments in the sector. We already witnessed huge capital expenditure in US during 2017 by Shell oil companies. A stable crude price around 60-65 USD is expected to spread the capital investments in other geographic regions, with the likes of Middle East, Scandinavian offshore reserves and reserves in South China Sea.

The rise in iron ore prices favours the business model of the company as the raw materials are supplied from another company.

The demand and price of Iron Ore has also increased over past few months on the back of rising stockpiles of Iron Ore (Fe62) in China. This increased demand and price of Iron Ore is strategically valuable for Jindal Saw, as the company has an Iron Ore mine in Bhilwara, Rajasthan and has installed a Smelter plant which produces 1.2 million tonne pellets of 65-67% iron content. The rise in iron ore prices favours the business model of the company as the raw materials are supplied from another company of the same group (JSW Steel).

Order Book—Quarterly



Source: Company Data, SMIFS Research

Key Risks

Foreign Exchange fluctuations: The Company's business accounts for almost 40% of exports. Hence, they are exposed to Foreign Currency rate fluctuations. Recently, in Q2 FY18, the company lost INR21 Cr on account of Foreign exchange fluctuations adding up to their finance costs.

Debt of INR4316 Cr by the end of Q2 FY18: The Company says, almost INR2106 Cr of the debt is long term of average maturity more than 6 years while another INR2210 Cr is working capital loans backed by Inventories and receivables.

Demand generation based on overall economic activity: The Company's business is pretty much dependent on orders from their clients and expansion of Industrial as well as Housing Projects. As stated by the company, about 33% of the company's topline comes from orders from Oil and Gas business clients. Hence, the company bears a downside risk of being in the derived products business.

However, the Company has recently (1 Dec 2017) been upgraded by rating agency CARE for both long term loans as well as NCDs from A+ to AA– with positive outlook. Hence, the debt of almost INR4316 Cr are well backed by its reserves, inventories and receivables.

Outlook & Valuation

We foresee a major turnaround story for Jindal Saw Limited over next couple of years. The Company has major orders in pipeline which and is expected to exceed expectations on the back of robust growth and demand.

The recent rally in Crude prices and stabilization in Prices on account of OPEC production cuts, is expected to restart the stalled investments in Oil & Gas sector, especially in the MENA region. We also see huge demand in pipe industry domestically. The Indian government's push for reforms in Industrial production is expected to see a spur in demand for industrial infrastructure. Urbanization rate is also expected to remain steady in lower double digits.

The Company has been making healthy profits for the first half of this fiscal, and we expect the growth momentum is expected to gain more pace. The Company reported standalone profits of INR60 Cr for Q2 FY18 and H1 FY18 profits of INR124 Cr. The recent spike in orders from Oil & Gas sector are to grow more in near future, while the orders in pipeline are expected to be delivered benefits realized over next 12-18 months. The topline of the company has not been growing attractively, however, the operating income is expected to grow on the back of operating efficiency.

We estimate the topline to grow more robust in next fiscal on the back of ongoing reforms in the economy and growth revival in the global economic engine. Hence, on the back of the improving ROCE, we have assigned a EV/EBITDA (x) of 5.4 for FY19E with a Target Price of INR160.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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