

Jindal Stainless Hisar

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Subdued demand, high operating costs drag results

- JSHL reported a weak set of numbers, driven by lower production/sales volumes
 - EBITDA was impacted by inventory loss on account of falling nickel prices during the quarter.
 - Management highlighted continued weakness in demand which was further exacerbated by dumping from FTA countries.
 - We are revising our FY19/20 estimates; downgrade the stock to Hold.
- The company and the stainless steel industry continues to suffer from low pricing power, continued threat of dumping from FTA countries and import duty on key raw material like Ferro Nickel and Stainless Steel scrap, while the imports from FTA countries continue at nil import duty.
 - Further, volatility in FX movement as well as in raw material prices, especially nickel also impacted the results. As nickel prices continued to decline through the quarter, the company reported MTM loss on its raw material carried during the quarter, the same being adjusted in raw material costs.
 - EBITDA at Rs2bn was sharply down 12.4% qoq and down 38% yoy as other expenses have shot up by Rs600mn on a yoy basis and the company also continued to book inventory loss (adjusted in raw material costs).
 - JSHL also reported exceptionally high Effective Tax Rate (ETR) of 48.6% in the quarter, resulting in a slump in PAT. However, the bottom-line was shored up through exceptional MTM FX gain of Rs218mn as rupee appreciated 3.5% through the quarter as compared with loss of Rs58mn sequentially.

Revise estimates; downgrade to Hold: Though the domestic demand should structurally remain strong given the low per capita consumption of Stainless Steel, the threat of dumping from FTA country largely caps significant upside. The utilization level declined in the quarter to 82.5% vs. 87.5% sequentially, reflecting pressure from imports which is a cause of concern.

We downgrade the stock to Hold, with a revised target price of Rs85 on an SOTP basis.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	63,697	68,898	92,587	88,368	95,200
EBITDA	8,042	9,212	11,395	8,871	8,632
EBITDA Margin (%)	12.6	13.4	12.3	10.0	9.1
APAT	694	2,180	3,793	2,433	2,305
EPS (Rs)	3.0	9.2	16.1	10.3	9.8
EPS (% chg)	0.0	207.9	74.0	(35.8)	(5.3)
ROE (%)	21.5	28.9	35.8	17.7	14.3
P/E (x)	26.6	8.6	5.0	7.7	8.2
EV/EBITDA (x)	4.6	5.7	4.1	5.8	5.5
P/BV (x)	2.9	2.2	1.5	1.3	1.1

Source: Company, Emkay Research

CMP	Target Price
Rs 80 as of (January 30, 2019)	Rs 85 (▼) 12 months
Rating	Upside
HOLD (▼)	6.3 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	55/66.1
Target Price change (%)	(60)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	10.3	9.8
Consensus	25.2	31.3
Mean Consensus TP (12M)	Rs 195	

Stock Details

Bloomberg Code	JSHL IN
Face Value (Rs)	2
Shares outstanding (mn)	236
52 Week H/L	225 / 76
M Cap (Rs bn/USD bn)	19 / 0.26
Daily Avg Volume (nos.)	447,378
Daily Avg Turnover (US\$ mn)	0.6

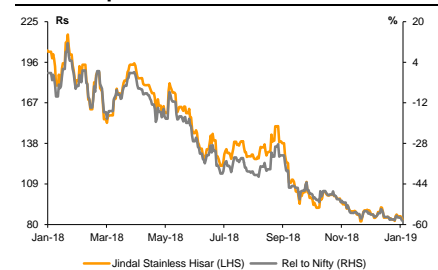
Shareholding Pattern Dec '18

Promoters	55.2%
FIIIs	22.6%
DIIIs	3.3%
Public and Others	19.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	(20)	(38)	(60)
Rel. to Nifty	(8)	(24)	(35)	(59)

Relative price chart



Source: Bloomberg

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Exhibit 1: Quarterly Financial Performance

Rs mn	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)	YTD FY19	YTD FY18	YoY (%)
Revenue	24,386	22,294	22,333	(8.4)	0.2	65,958.2	70,049.3	(5.8)
Expenditure	(21,135)	(19,996)	(20,321)	(3.8)	1.6	(59,132)	(61,517)	(3.9)
as % of sales	86.7	89.7	91.0			89.7	87.8	
Consumption of RM	(16,091)	(14,493)	(14,693)	(8.7)	1.4	(42,974)	(47,073)	(8.7)
as % of sales	66.0	65.0	65.8			65.2	67.2	
Employee Cost	(419)	(413)	(408)	(2.7)	(1.3)	(1,242)	(1,278)	(2.9)
as % of sales	1.7	1.9	1.8			1.9	1.8	
Other expenditure	(4,625)	(5,090)	(5,221)	12.9	2.6	(14,916)	(13,166)	13.3
as % of sales	19.0	22.8	23.4			22.6	18.8	
EBITDA	3,251	2,298	2,012	(38.1)	(12.4)	6,826.2	8,532.5	(20.0)
Depreciation	(675)	(682)	(693)	2.6	1.6	(2,044)	(1,996)	2.4
EBIT	2,576	1,616	1,319	(48.8)	(18.4)	4,783	6,537	(26.8)
Other Income	278	238	229	(17.6)	(3.9)	710	857	(17.1)
Interest	(968)	(846)	(900)	(7.0)	6.4	(2,614)	(3,021)	(13.5)
PBT	1,886	1,008	648	(65.7)	(35.7)	2,879	4,373	(34.2)
Total Tax	(746)	(334)	(315)	(57.8)	(5.7)	(1,078)	(1,566)	(31.1)
Adjusted PAT	1,140	674	333	(71)	(51)	1,800	2,807	(35.9)
(Profit)/loss from JV's/Ass/MI	-	-	-			-	-	-
Adj.PAT after MI	1,140	674	333	(71)	(51)	1,800	2,807	(36)
Extra ordinary items	196	(58)	218			160	189	(15.3)
Reported PAT	1,336	616	551	(58.8)	(10.6)	1,961	2,996	(34.6)
Reported EPS	5.66	2.61	2.33			8	13	(34.6)

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates

Rs mn	Actual	Estimate (Emkay)	Consensus Estimate (Bloomberg)	% variation		Comment
				Emkay	Consensus	
Total Revenue	22,333	22,174	22,500	0.7%	-0.7%	Revenue in line, EBITDA and PAT lowered in due to higher operating cost and inventory loss.
EBITDA	2,012	2,216	2,833	-9.2%	-29.0%	
EBITDA Margin (%)	9.0	10.0	12.6	-98.5 bps	-358.2 bps	
Emkay Net profit	333	644	1,013	-48.3%	-67.1%	

Source: Company, Emkay Research

Exhibit 3: Margin Comparison

Margins (%)	Q3FY18	Q2FY19	Q3FY19	(bps)	(bps)	YTD FY19	YTD FY18	(bps)
EBIDTA	13.3	10.3	9.0	-432 bps	-130 bps	10.3	12.2	-183 bps
EBIT	10.6	7.2	5.9	-466 bps	-134 bps	7.3	9.3	-208 bps
EBT	7.7	4.5	2.9	-483 bps	-162 bps	4.4	6.2	-188 bps
PAT	4.7	3.0	1.5	-319 bps	-153 bps	2.7	4.0	-128 bps
Effective Tax rate	39.5	33.1	48.6	+908 bps	+1548 bps	37.5	35.8	+165 bps

Source: Company, Emkay Research

Results review

- Production at 165kt (down 2.7% qoq, down 5.8% yoy) and sales of 158kt (down 4.8% qoq, down 16.4% qoq) were both lower than our estimates of 180kt/170kt respectively, reflecting weak demand in the quarter.
- The company continues to improve volumes in the value add segments like coin blanks, blades, precision strips where volumes grew by 19% yoy. However, the commodity segment of the business continues to remain under pressure, thereby, restricting overall sales growth.
- ASP at Rs 141/kg was up 5.3% qoq and up 9.6% yoy due to improved share of the value add products. This resulted in total Revenue of Rs22.3bn, up 0.2% qoq (despite 4.8% lower volume) and down 8.4% on yoy basis. However, higher ASP has not translated into higher EBITDA.

Exhibit 4: Volume and Realization metrics

Volume and Realization	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)	YTD FY19	YTD FY18	YoY (%)
SS Sales Volume	189,018	166,033	158,000	(16.4)	(4.8)	494,455	553,782	(10.7)
SS Production Volume	175,208	169,514	165,000	(5.8)	(2.7)	493,846	519,947	(5.0)
Realization/ton	129,013	134,272	134,272	4.1	-	133,396	126,493	5.5
Ebitda/ton	17,200	13,840	12,734	(26.0)	(8.0)	13,806	15,408	(10.4)
Cost/ton	85,127	87,291	92,993	9.2	6.5	86,911	85,002	2.2

Source: Company, Emkay Research

Exhibit 5: Change in Estimates

All fig in Rs mn (except % and EPS)	FY19E			FY120E		
	Old	New	% change	Old	New	% change
Sales Volume (tons)	676455	660455	-2.37%	760000	680000	-10.53%
EBITDA/ton	17286	13432	-22.29%	16724	12694	-24.09%
Revenues	95,885	88,368	-7.84%	105,241	95,200	-17.61%
EBITDA	11,693	8,871	-24.13%	12,710	8,632	-32.08%
EBITDA margins, %	12.2	10.0	-215.6 bps	12.3	9.1	-323.3 bps
Net profits	5,412	2,433	-55.04%	6,821	2,305	-66.20%
EPS	22.9	10.3	-54.98%	28.9	9.8	-66.19%

Source: Company, Emkay Research

Exhibit 6: SOTP

Rs in Million	FY20
EBITDA St. Alone	8,632
EV/EBITDA	5.0
Enterprise Value	43,160
Net Debt	28,561
JSHL Market Cap	14,599
Subsidiary	
Steelway EBITDA	558
EV/EBITDA	5.0
Steelway EV	2,286
Lifestyle EBITDA	277
EV/EBITDA	5
Lifestyle EV	1,079
Total Subsidiary EV	3,365
Total Subsidiary Net Debt	911
Subsidiary Market Cap	2,453
JSL 36.6% stake	2,982
JSHL+Subsidiary + 36.6% JSL stake	20,035
No. of shares (in mn)	236
Target	85

Source: Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	63,697	68,898	92,587	88,368	95,200
Expenditure	55,655	59,686	81,192	79,497	86,568
EBITDA	8,042	9,212	11,395	8,871	8,632
Depreciation	2,850	2,652	2,666	2,727	3,353
EBIT	5,192	6,560	8,729	6,144	5,279
Other Income	248	818	1,142	990	1,120
Interest expenses	4,694	4,119	3,955	3,498	2,953
PBT	747	3,259	5,916	3,637	3,446
Tax	53	1,078	2,124	1,204	1,141
Extraordinary Items	(450)	0	165	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	244	2,180	3,957	2,433	2,305
Adjusted PAT	694	2,180	3,793	2,433	2,305

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	462	472	472	472	472
Reserves & surplus	6,001	8,149	12,088	14,521	16,827
Net worth	6,463	8,621	12,560	14,993	17,299
Minority Interest	0	0	0	0	0
Loan Funds	18,551	33,897	27,948	29,530	23,080
Net deferred tax liability	(7)	373	815	0	0
Total Liabilities	25,007	42,891	41,324	44,523	40,379
Net block	23,418	22,338	21,020	18,945	16,592
Investment	6,803	9,838	13,776	11,326	10,726
Current Assets	20,477	30,529	26,409	37,644	38,134
Cash & bank balance	154	80	72	(2,924)	(5,480)
Other Current Assets	1,744	4,165	3,005	3,005	3,005
Current liabilities & Provision	26,220	20,219	20,512	24,022	25,704
Net current assets	(5,743)	10,310	5,898	13,622	12,431
Misc. exp	0	0	0	0	0
Total Assets	25,007	42,891	41,324	44,523	40,379

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	49	2,225	4,939	2,647	2,326
Other Non-Cash items	0	0	0	0	0
Chg in working cap	5,890	(15,746)	4,847	(11,536)	(1,366)
Operating Cashflow	13,430	(7,828)	14,283	(3,868)	6,126
Capital expenditure	(26,797)	(1,448)	(1,574)	(652)	(1,000)
Free Cash Flow	(13,367)	(9,276)	12,709	(4,520)	5,126
Investments	(6,803)	(3,035)	(3,938)	2,450	600
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(33,352)	(3,450)	(4,369)	2,789	720
Equity Capital Raised	6,219	(23)	(18)	0	0
Loans Taken / (Repaid)	18,551	15,346	(5,949)	1,582	(6,450)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	20,076	11,204	(9,921)	(1,916)	(9,403)
Net chg in cash	154	(74)	(8)	(2,996)	(2,557)
Opening cash position	0	154	80	72	(2,924)
Closing cash position	154	80	72	(2,924)	(5,480)

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	12.6	13.4	12.3	10.0	9.1
EBIT Margin	8.2	9.5	9.4	7.0	5.5
Effective Tax Rate	7.1	33.1	35.9	33.1	33.1
Net Margin	1.1	3.2	4.1	2.8	2.4
ROCE	43.5	21.7	23.4	16.6	15.1
ROE	21.5	28.9	35.8	17.7	14.3
RoIC	59.3	26.2	29.4	19.7	15.1

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	3.0	9.2	16.1	10.3	9.8
CEPS	15.3	20.5	27.4	21.9	24.0
BVPS	28.0	36.5	53.2	63.5	73.3
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	26.6	8.6	5.0	7.7	8.2
P/CEPS	5.2	3.9	2.9	3.7	3.3
P/BV	2.9	2.2	1.5	1.3	1.1
EV / Sales	0.6	0.8	0.5	0.6	0.5
EV / EBITDA	4.6	5.7	4.1	5.8	5.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	2.8	3.9	2.2	2.2	1.7
Net Debt/EBIDTA	2.3	3.7	2.4	3.7	3.3
Working Cap Cycle (days)	(33.8)	54.2	23.0	68.3	68.7

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	0.0	8.2	34.4	(4.6)	7.7
EBITDA	0.0	14.5	23.7	(22.1)	(2.7)
EBIT	0.0	26.3	33.1	(29.6)	(14.1)
PAT	0.0	792.8	81.5	(38.5)	(5.3)

Quarterly (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue	24,386	22,537	21,332	22,294	22,333
EBITDA	3,251	2,862	2,516	2,298	2,012
EBITDA Margin (%)	13.3	12.7	11.8	-	-
PAT	1,336	961	794	616	551
EPS (Rs)	5.7	4.1	3.4	2.6	2.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	57.7	57.7	57.7	57.7	55.2
FIs	19.3	19.1	21.3	21.2	22.6
DIs	3.8	3.3	2.7	2.9	3.3
Public and Others	19.2	20.0	18.3	18.3	19.0

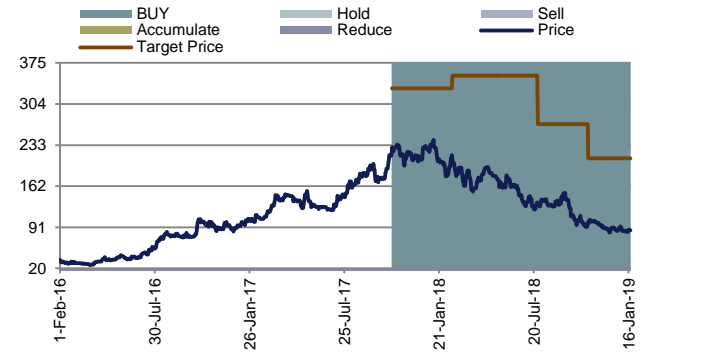
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
31-Oct-18	98	210	12m	Buy	Goutam Chakraborty
27-Jul-18	131	269	12m	Buy	Goutam Chakraborty
8-May-18	180	353	12m	Buy	Goutam Chakraborty
26-Apr-18	186	353	12m	Buy	Goutam Chakraborty
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: 31 Jan 2019 03:09:41 (SGT)

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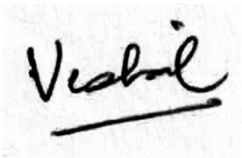
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A handwritten signature in black ink on a light-colored background. The signature is written in a cursive style and appears to be the name 'Vishal'. A horizontal line is drawn underneath the signature.

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