Jindal Stainless Hisar Ltd.: Q4FY18 Result Update

Consistent performance continues.

CMP INR: 186
Rating: BUY
Target Price INR: 319
Upside: 72%

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Jindal stainless (Hisar) Ltd (JSHL) reported growth of 10% in net revenues to reach INR 2254cr as company's volumes grew at 9% on yoy basis while sales per ton increased by 1% over Q4FY17. EBITDA was lower than our expectation by INR 28 crs due to lower than expected volume. During Q4FY18, EBIDTA grew by 20% to INR 286cr while EBIDTA/ton grew by 11% to INR 15,150/ton. Net profits had a very healthy growth of 59% to INR 96 cr as higher EBIDTA along with decrease in interest expenses (lower by 18% YoY) boosted net profits. For Q4FY18, company reported volume of 188,942 MT as against 173,739 in Q4FY17, posting a growth of 9% yoy. The company ended FY18 with healthy volume of 742,704 MT as against 656,880 MT in FY17, which is a growth of 13%. Even the average realisation grew by 19% on YoY basis. We expect 10% volume growth for FY19 and FY20 and EBITDA/tonne of INR 16,500 for FY19 and FY20. During FY17-20E, RoCE is expected to improve from 20% to 23%. 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.

Bloomberg:	JSHL:IN
52-week range (INR):	252.40 / 117.95
Share in issue (cr):	23.6
M cap (INR cr):	4,385
Avg. Daily Vol. BSE/NSE :('000):	870
Promoter Holding (%)	57.66

Enhanced production in cold rolled product and operational efficiencies led to significant boost in revenue and margins.

JSHL reported revenue of 9,259 crs in FY18, a healthy growth of 34% on YoY basis. Volume growth was 13% and average realisation growth was 19% during the year. With volume of 742,704 MT, company achieved capacity utilisation of 93% which is its highest utilisation rate in the recent past. Better production was on account of better capacity utilisation in cold rolled segment and higher share of specialty products, which is also a reason for its growth in average realisation. Company suggested that it will now focus on increased return from specialty products by expanding capacities and generating better realisation in the coming years. JSHL has been able to pass on the increase in prices of both Nickel and FeCr. During Q4FY18, EBIDTA/ton improved from INR 13,695/ton in Q4FY17 to INR 15,150/ton. JSHL's EBIDTA grew by 20% on YoY basis to INR 286cr while EBIDTA margins improved to 12.7% from 11.7% in Q4FY17. Interest expenses have dropped to INR 93cr in Q4FY18 from INR 114 cr in Q4FY17 and INR 97cr in Q3FY18. Adjusting for extraordinary loss of INR 2cr from forex movement, net profits grew by 60% to INR 96cr.

Revenue and profitability boost from the subsidiaries and associates.

JSHL's subsidiaries remain persistent in their FY18 financial performance with Jindal Stainless Steelway Limited (JSSL) reporting revenue of INR 1,392 cr in FY18, growth of 14% YoY. JSSL's JSL Lifestyle Limited, which provides customised and value-added products for infrastructure, railway, modular kitchens and prefabricated structures, registered a healthy 74% growth in revenue as its revenue increased from INR 204 crs in FY17 to INR 356 crs in FY18. Overall the subsidiaries reported EBITDA of INR 91 crs vis-a-vis INR 56 cr in FY17. Due to stellar performance by Jindal Stainless ltd (associate company of JSHL), company reported share of profit from associate company of INR 147 cr in FY18 as against INR 50 cr in FY17.

(INR cr)	Q4FY18	Q4FY17	% Change	Q3FY18	% Change	FY18E	FY19E	FY20E
Net Sales	2,254	2,043	10%	2,439	-8%	10,357	10,962	12,559
% Growth						33%	14%	15%
EBITDA	286	238	20%	325	-12%	1,231	1,486	1,631
PAT	96	60	59%	134	-28%	592	682	834
% Growth						106%	15%	22%
Diluted EPS (INR)						17.9	24.7	29.6
Diluted P/E (x)						7.4	3.2	2.6
ROACE (%)						20.4	24.1	27.7

Date: 27th April 2018

Q4FY18 Result Highlights

Year to March (INR in crs)	Q4FY18	Q4FY17	% Change	Q3FY18	% Change	FY18	FY17	% Change
Income from operations	2,254	2,043	10%	2,439	-8%	9,259	6,890	34%
Direct costs	1,433	1,283	12%	1,609	-11%	6,140	4,291	43%
Employee costs	42	40	4%	42	0%	170	145	18%
Other expenses	493	482	2%	463	6%	1,809	1,530	18%
Total operating expenses	1,968	1,805	9%	2,113	-7%	8,119	5,966	36%
EBITDA	286	238	20%	325	-12%	1,139	924	23%
Depreciation and amortisation	67	67	1%	68	-1%	267	265	1%
EBIT	219	171	28%	258	-15%	873	659	32%
Interest expenses	93	114	-18%	97	-4%	395	412	-4%
Other income	28	25	16%	28	2%	114	61	88%
Profit before tax	154	82	89%	189	-18%	592	308	92%
Provision for tax	56	25	120%	75	-25%	212	108	97%
Core profit	99	56	76%	114	-14%	379	200	90%
Extraordinary items	(2)	4		20	-113%	16	18	-9%
Profit after tax	96	60	59%	134	-28%	396	218	82%
Minority Interest	-	-		-		-	-	
Share from associates	-	-		-		-	-	
Adjusted net profit (incl share of asso.)	96	60	59%	134	-28%	396	218	82%
No. Of Shares (Cr)	23.6	23.6	0%	23.6	0%	23.6	23.6	0%
Diluted EPS (INR)	4.1	2.6	59%	5.7	-28%	16.8	9.2	82%

Volume and financial analysis:

	Q4FY18	Q4FY17	% Change	Q3FY18	% Change	FY18	FY17	% Change
Volumes (tons)	1,88,942	1,73,739	9%	1,89,000	0%	7,42,704	6,56,880	13%
Average Realizations (INR/ton)	1,19,282	1,17,600	1%	1,29,025	-8%	1,24,662	1,04,887	19%
Sales (INR cr)	2,254	2,043	10%	2,439	-8%	9,259	6,890	34%
EBIDTA/ton (INR/ton)	15,150	13,695	11%	17,202	-12%	15,342	14,071	9%
EBIDTA (INR cr)	286	238	20%	325	-12%	1139	924	23%

Valuation: Maintaining the target at INR 319/share

Company	Multiple	FY19e basis	Consol EBIDTA FY19E	EV	Net Debt	Market Cap	Value per share of JSHL (INR)	% upside
Jindal Stainless (HISAR)	EV/EBIDTA	6.5	1486	9658	2869	6789	288	55%
Investment in associates	Holding company discount to market capital	Stake	Market Capital	Value of JSHL's stake	Holding company discount	Attributable Value		
- Jindal Stainless Ltd		37%	4066	1487	50%	744	32	
Target price of Jindal Stainless (Hisar)							**319**	**72%**

Assumptions Table

	FY16	FY17	FY18	FY19E	FY20E
Volume (In Tons)	6,53,176	6,66,678	7,42,704	8,16,974	8,98,672
Net Revenue (INR crs)- Standalone	6,370	6,890	9,259	9,846	11,372
Average Realisation (INR)- Standalone	97,520	1,03,345	1,24,662	1,20,518	1,26,544
EBITDA (INR crs)	664	924	1,139	1,348	1,483
EBITDA/Tonne (INR)- Standalone	10,159	13,865	15,342	16,500	16,500

Financials

Income statement (Consolidated) (INR cr)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	7235	7774	10357	10962	12559
Direct costs	5426	5635	7789	7968	9222
Employee costs	176	176	209	232	263
Other expenses	947	1159	1337	1509	1706
Total operating expenses	6373	6794	9127	9477	10928
EBITDA	862	980	1231	1486	1631
Depreciation and amortisation	305	285	284	311	320
EBIT	557	695	946	1174	1311
Interest expenses	493	431	408	358	353
Profit before tax	89	328	654	898	1076
Provision for tax	7	117	233	314	377
Core profit	82	211	421	584	699
Extraordinary items	-44	26	24	682	834
Profit after tax	127	237	445	1266	1533
Share from associates	-1	50	147	98	135
Net profits (incl share of associates)	125	287	592	1365	1668
Equity shares outstanding (mn)	23.1	23.6	23.6	23.6	23.6
EPS (INR) basic	1.6	12.2	25.1	57.8	70.7
Diluted shares (Cr)	23.1	23.6	23.6	23.6	23.6
EPS (INR) fully diluted	1.6	12.2	25.1	57.8	70.7
Dividend per share	0.0	0.0	0.0	0.0	10.4
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	88.1	87.4	88.1	86.4	87.0
Depreciation	4.2	3.7	2.7	2.8	2.6
Interest expenditure	6.8	5.5	3.9	3.3	2.8
EBITDA margins	11.9	12.6	11.9	13.6	13.0
Net profit margins	1.7	3.7	5.7	12.4	13.3

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	(11.7)	7.5	33.2	5.8	14.6
EBITDA	16.3	13.7	25.6	20.7	9.8
PBT	(6,268.3)	267.2	99.2	37.3	19.8
Net profit	57.3	156.6	99.3	38.6	19.8
EPS	(1,484.2)	660.5	106.0	130.5	22.3

Balance sheet (INR Cr)

As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	46.2	47.2	47.2	47.2	47.2
Reserves & surplus	563	846	1,427	2,110	2,944
Shareholders funds	609	893	1,475	2,157	2,991
Long term borrowings	1,212	2,435	2,258	2,063	1,829
Short term borrowings	781	932	517	1,207	1,394
Total Borrowings	1,993	3,367	2,775	3,270	3,223
Deferred Tax Liabilities	23	67	116	116	116
Sources of funds	**2,625**	**4,327**	**4,366**	**5,543**	**6,330**
Gross block	3,118	3,268	3,413	3,510	3,610
Depreciation	669	929	1,213	1,525	1,845
Net block	2,449	2,339	2,199	1,985	1,765
Capital work in progress	61	42	66	0	0
Total fixed assets	2,509	2,381	2,265	1,985	1,765
Other non current assets	227	544	956	956	956
Investments	369	418	571	571	571
Inventories	1,221	1,716	1,674	2,305	2,496
Sundry debtors	837	1,050	847	1,460	1,611
Cash and equivalents	23	14	15	13	764
Loans and advances	103	81	42	117	129
Other current assets	248	485	395	479	479
Total current assets	2,801	3,763	3,544	4,945	6,050
Sundry creditors and others	2,897	2,307	2,378	2,270	2,359
Provisions	15	54	21	74	82
Total CL & provisions	2,913	2,361	2,399	2,343	2,441
Net current assets	-112	1,403	1,144	2,602	3,609
Uses of funds	**2,625**	**4,327**	**4,366**	**5,543**	**6,330**
Book value per share (INR)	26	38	62	91	127

Cash flow statement (INR crs)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net profit	125	287	592	1,365	1,668
Add: Depreciation	305	285	284	311	320
Add: Misc expenses written off	6	8	6	0	0
Add: Deferred tax	-0	44	50	0	0
Gross cash flow	436	624	932	1,676	1,989
Less: Changes in W.C.	-111	67	-407	1,459	257
Operating cash flow	547	557	1,338	217	1,732
Less: Capex	84	157	582	31	100
Free cash flow	**463**	**400**	**757**	**186**	**1,632**

Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	6.4	38.3	50.0	75.2	64.8
ROACE (%)	26.3	20.0	21.8	23.7	22.1
ROACE (%) (ex-cash)	38.5	24.8	27.1	29.2	28.6
Debtors (days)	40	51	34	50	50
Current ratio	0.8	1.4	1.2	1.8	2.2
Debt/Equity	3.3	3.8	1.9	1.5	1.1
Inventory (days)	86	128	102	120	120
Payable (days)	76	122	99	90	90
Cash conversion cycle (days)	49	57	37	80	80
Debt/EBITDA	2.3	3.4	2.3	2.2	2.0
Adjusted debt/Equity	3.2	3.8	1.9	1.5	0.8

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	1.6	12.2	25.1	57.8	70.7
Y-o-Y growth (%)	*244.7*	*660.5*	*106.0*	*130.5*	*22.3*
CEPS (INR)	17	23	36	42	49
Diluted P/E (x)	116.2	15.3	7.4	3.2	2.6
Price/BV (x)	7.1	4.9	3.0	2.0	1.5
EV/Sales (x)	1.0	0.9	0.7	0.7	0.6
EV/EBITDA (x)	7.1	7.4	5.9	4.9	4.4
Diluted shares O/S	23.1	23.6	23.6	23.6	23.6
Basic EPS	1.6	12.2	25.1	57.8	70.7
Dividend yield (%)	0.0	0.0	0.0	0.0	4.8

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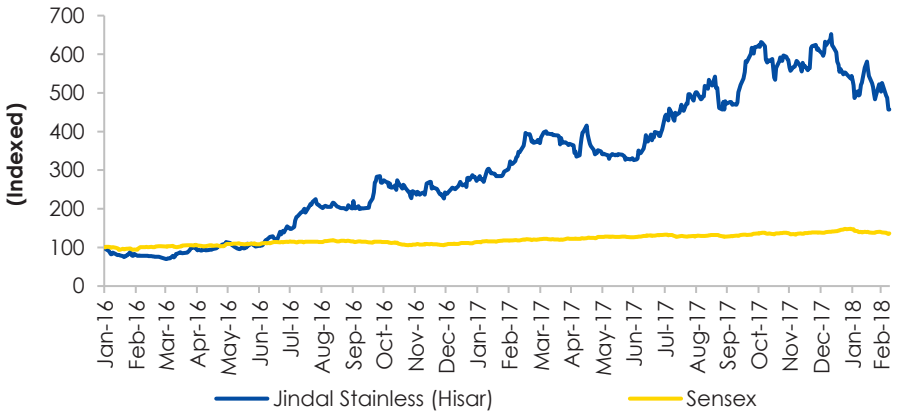
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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