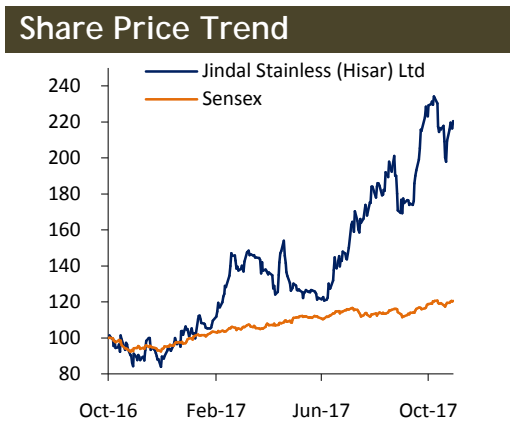


Sector	Iron and Steel
Recommendation	BUY
Upside	21%

Stock Data	
Sensex	33,679
52 Week h/l (₹):	239 / 78
Market cap (₹ Cr) :	5,235
BSE code:	539597
NSE code:	JSLHISAR
FV (₹):	2
Div yield (%):	--

Shareholding Pattern			
	Mar-17	Jun-17	Sept-17
Promoters	57.7	57.7	57.7
DII+FII	24.5	24.2	24.4
Individuals	17.8	18.1	18.0

Source: www.bseindia.com



Prices as on 24/11/2017

Analyst - Noel Vaz
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November 27, 2017

Government measures curb stainless steel imports

Imposition of stringent import duties has reduced steel imports by 36% yoy and increased domestic production by 8.5% over FY16-17. Moreover, strong demand from industries like construction, automobiles and infrastructure would accelerate domestic steel production by a CAGR of 8.9% over FY17-21E (vs. CAGR of 5.7% over FY12-17E).

Enhanced product mix to aid margins

JSHL already manufactures specialized steel like High Nitrogen Steel (HNS) for the defense industry. The company plans to add more grades of specialized stainless steel to its product mix. Hence, JSHL's operating margins are likely to expand by ~54bps over FY17-19E.

Outlook & Valuation

We estimate that consolidated revenue would register 8.4% CAGR over FY17-19E, driven by 4.5% CAGR in sales volumes. We value the standalone stainless steel business of JSHL at 7.0x FY19E EBITDA (vs. Jindal Stainless Ltd 6.5x and Kalyani Steels 4.6x). Subsidiaries of JSHL (Jindal Stainless Steelway Ltd and JSL Lifestyle Ltd) at 9.0x EBITDA, a ~29% premium to the standalone business. JSHL's holding in Jindal Stainless Ltd is valued at 7.0x FY19E EBITDA, based on consensus estimates (with a 25% discount to JSHL's 36.58% stake in Jindal Stainless Ltd). Based on SOTP approach, we arrive at a target price of ₹268 and recommend a Buy on the stock.

Financial Summary

Consolidated ₹ cr	FY16	FY17	FY18E	FY19E
Revenue	7,235	7,774	9,029	9,140
yoy Growth (%)	-11.7	7.5	16.1	1.2
EBITDA Margin (%)	11.9	12.6	12.4	13.2
PAT	36	291	315	398
P/E (x)	141.5	17.7	16.4	13.0
EV/EBITDA (x)	7.9	8.3	7.0	6.0
ROE (%)	6.3	38.7	30.0	28.3
ROCE (%)	24.4	13.1	13.0	14.0

Source: Company, IIFL Research

Company Background

Jindal Stainless (Hisar) Limited was founded by Mr. O.P. Jindal in 1970. The company produces stainless steel products for construction, automobiles, railways, consumer durables and defense industries among others.

- ✧ JSHL operates a stainless steel plant with a capacity of 800,000 tonne per annum in Hisar, Haryana.
- ✧ Jindal Lifestyle Ltd, a subsidiary (77.73% stake), that manufactures stainless steel kitchenware.
- ✧ Another subsidiary, Jindal Stainless Steelway Ltd, (81.91% stake), operates JSHL's service centre network and adds value to customers by offering Precision Slitting, Cut to Length, Blanking and Polishing services to customers.
- ✧ JHSL also holds a 36.58% stake in Jindal Stainless Ltd, which manufactures steel and stainless steel products.

Exhibit 1: Peer comparison - Steel Products

	FY 19E EBITDA (in ₹ Cr)	Enterprise Value (in ₹ Cr)	FY19 EV/EBITDA (x)
Kalyani Steels	388	1,837	4.6
Jindal Stainless Ltd	1,665	10,890	6.5
JSW Steel	14,634	106,923	7.3

Source: Company, IIFL Research, Bloomberg Consensus

Exhibit 2: SOTP for JSHL

	FY19 EBITDA (in ₹ Cr)	Target EV/EBITDA (x)	Enterprise Value (in ₹ Cr)	Net Debt (in ₹ Cr)	Equity Value (in ₹ Cr)	Equity Value (₹ / share)
Standalone	1,079	7.0	7,552	3,381	3,817	177
Subsidiaries	96	9.0	866	-27	893	38
Jindal Stainless	1,665	7.0	11,658	5,835	5,823	68
Total	2,790		19,721	9,188	10,533	267

Source: Company, IIFL Research



IIFL

Premia Research

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Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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