




Industry	Metals
Bloomberg	JDSL IN
BSE CODE	532508

## Plant shutdown and sharp depreciation in USD/INR impacted performance....

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>52</b>
<b>Price Target</b>	<b>75</b>
<b>Potential Upside</b>	<b>43%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	132/47
Mkt Capital (Rs Cr)	2514
Free float (%)	22%
Avg. Vol 1M (,000)	745
No. of Shares (Cr.)	48
Promoters Pledged %	57%

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### Key Highlights

- ❑ JSL is the largest producer of Stainless Steel (SS) in India with a capacity of 0.8mt, it produces SS of 200, 300 and 400 series and product range includes Slabs, HR coil, CR coil and Plates. It has manufacturing facility in Jajpur, Odisha with a captive power generation of 264MW.
- ❑ Company is further strengthening its position by expanding its SS capacity by 38% to 1.1mt at minimal capex of Rs.50 crore by the end of FY19 through debottlenecking.
- ❑ Debt repayment of Rs.430 crore expected in FY19 out of which company has paid Rs.135 crore and for FY20 Rs.500 crore of debt repayment is expected.
- ❑ Management expects better 2HFY19 due to higher volume. Management has maintained guidance of 15% volume growth in FY19.

### 2Q FY19 Result Update

JSL in 2QFY19 reported revenue of Rs.3081 crore (up 18% YoY, down 2% QoQ), YoY growth was due to higher realization at Rs.149117 (up 16% YoY, 3% QoQ) and 2% YoY increase in volume to 207kt. Though company's revenue registered healthy growth but its EBITDA was down by 10% YoY to Rs.231 crore and EBITDA margins declined to 7.5%. Performance got impacted by inventory loss as company had build up finished goods inventory in 1QFY19 for planned maintenance shutdown in 2QFY19. Depreciation for the quarter came in at Rs.80 crore (up 6% YoY and QoQ). Interest cost for the quarter was at around Rs.157 crore (down 3% QoQ, up 5% YoY). Company also reported MTM loss of Rs.53 crore due to sharp depreciation in USD/INR which led to loss of Rs.36 crore in the quarter.

### View and Valuation

Company's 2QFY19 performance got impacted by inventory loss as company had build up finished goods inventory in 1QFY19 for planned maintenance shutdown in 2QFY19, and nickel prices in 1QFY19 also increased to USD 14495/t (up 58% YoY, 7% QoQ). We have made marginal changes in our 2HFY19 estimate however, due to 2QFY19 result our standalone FY19 EBITDA estimate have declined by 5% to Rs.1412 crore and we have cut our FY20 EBITDA/PAT estimate by 5%/11% to Rs.1601 crore/Rs.530 crore as we factor in higher raw material cost. Furthermore, INR depreciation negatively impacts margins, as it increases raw material cost (over 50% imported) and interest cost too (company has FC loans of around Rs.750 crore at the end of 1QFY19). We are positive about future prospects of company led by its industry leadership position, high capacity utilization and plans of increasing capacity by 38% to 1.1mt by the end of FY19 with a minimal capex of Rs.50 crore and company is also focusing on increasing share of ferretic steel (nil to 0.5% of nickel) which will help in improving margins. However, due to high volatility in raw material prices and 2QFY19 result we have reduced our EV/EBITDA multiple to 3.5 (earlier 4) and arrive at a target price of **Rs.75 and recommend BUY**.

### Key Risks to our rating and target

- ❑ INR depreciation would impact margins as 50-60% of raw material is imported.
- ❑ High volatility in raw material prices (Nickel, Ferro Chrome etc.)

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	7144	9279	11638	14095	15286
EBITDA	573	1166	1340	1465	1659
EBIT	257	840	1020	1138	1315
PAT	-557	82	346	333	544
EPS (Rs)	-29	2	7	7	11
EPS growth (%)	0%	0%	253%	-4%	64%
ROE (%)	-32%	4%	14%	12%	16%
ROCE (%)	3%	16%	17%	19%	22%
BV	91	46	52	59	70
P/B (X)	0.2	1.6	1.5	0.9	0.8
P/E (x)	-0.6	34.8	10.9	7.6	4.6

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**2QFY19 Results (standalone)      contraction in margins due to high input cost....**

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	2608	2989	3173	3147	3081	<b>18.2%</b>	<b>-2.1%</b>	9,279	11,638	<b>25.4%</b>
Other Income	14	11	11	6	7	<b>-50.3%</b>	<b>23.4%</b>	26	45	<b>75%</b>
Total Income	2622	3000	3183	3153	3089	<b>17.8%</b>	<b>-2.0%</b>	9,304	11,683	<b>25.6%</b>
COGS	1744	1854	2050	2027	2121	<b>21.6%</b>	<b>4.6%</b>	5,734	7,502	<b>30.8%</b>
Staff cost	35	38	36	35	35	<b>0.9%</b>	<b>-1.0%</b>	154	196	<b>27.4%</b>
Power & Fuel	116	194	184	177	169	<b>46.0%</b>	<b>-4.2%</b>	565	690	<b>22.2%</b>
Stores & spares	173	148	154	195	187	<b>8.1%</b>	<b>-4.3%</b>	458	595	<b>29.7%</b>
Other Expen.	283	370	360	337	338	<b>19.3%</b>	<b>0.3%</b>	1,202	1,314	<b>9.4%</b>
Expenditure	2351	2603	2784	2772	2850	<b>21.2%</b>	<b>2.8%</b>	8,113	10,297	<b>26.9%</b>
EBITDA	256	386	388	375	231	<b>-9.9%</b>	<b>-38.3%</b>	1,166	1,340	<b>15.0%</b>
Depreciation	76	77	75	76	80	<b>5.7%</b>	<b>5.5%</b>	325	320	<b>-1.6%</b>
EBIT	181	309	313	299	151	<b>-16.4%</b>	<b>-49.5%</b>	840	1,020	<b>21.4%</b>
Interest	161	154	124	150	157	-	-	788	566	<b>-28.2%</b>
PBT	34	166	200	155	1	<b>-95.7%</b>	<b>-99.1%</b>	78	499	<b>538.6%</b>
Excpt. Item	-15	-38	33	15	53	-	<b>252.3%</b>	26	4	<b>-82.8%</b>
Tax	21	70	52	49	-15	-	-	32	174	<b>436.0%</b>
PAT	27	135	115	91	-36	-	-	82	346	<b>323.6%</b>

**Operating Matrix**

<i>Volume/Realization</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>
Sales Volume (tons)	154280	152258	143000	202447	213334	220152	216880	206644	<b>2.1%</b>
Realization(Rs/t)	135657	151151	140922	128816	140102	144112	145092	149117	<b>15.8%</b>

**Realiation significantly up YoY, stable QoQ**

JSL registered revenue growth of 18% YoY to Rs.3081 crore in 2QFY19 primarily on account of higher realization at Rs.149117/t (up 16% YoY, 3% QoQ). Though realization increased significantly on YoY basis but realization over last three quarters are hovering around Rs.146000/t reflecting flattish stainless steel (SS) prices for last 2 quarters and current prices have declined by 3-4% as compare to 2QFY19 average prices due to global trade war worries. JSL's realization currently in Oct'18 has also moderated in line with decline SS prices.

**Plant shutdown and inventory loss impacted performance**

Company's 2QFY19 performance was impacted by inventory loss due to high nickel prices in 1QFY19, as company had built up finished goods inventory in 1QFY19 for the planned annual maintenance shutdown in 2QFY19. SS sales volume performance of 207kt (up 2% YoY, down 5% QoQ) in 2QFY19 was good considering company took a maintenance shutdown in the quarter. Performance in the 2QFY19 is expected to be better led by volume growth.

**Sharp rupee depreciation led to forex loss**

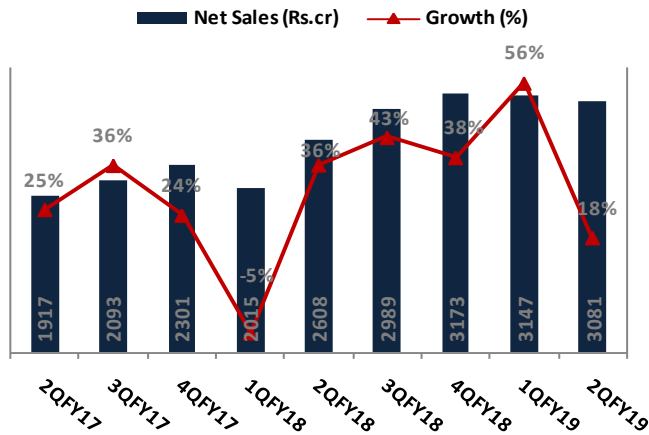
Company in the quarter reported exceptional loss of Rs.53 crore due sharp depreciation of USD/INR. Out of the Rs.53 crore, 75% was related to raw material creditors.

**Conference call highlights:**

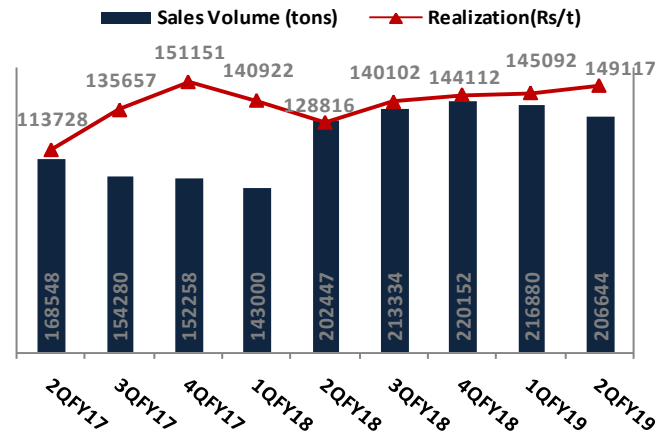
- ❑ Annual market of SS is around 3.4mt (1mt is for long and 2.4mt for flat and wide products).
- ❑ Stainless steel (SS) industry may face short term challenges as due to volatility in prices both in stainless steel and raw material due to global trade war worries.
- ❑ Imports of SS have increased from ASEAN countries and are to the tune of 50000 MT/months (Direct – 35000MT and indirect like pipes close to 15000/t). Imports from Indonesian are highest and continuously rising.
- ❑ Company is putting more focus on producing more of ferritic steel (400 series) as a strategy to reduce the volatility of nickel prices, as ferritic contains nil to 0.5% of nickel.
- ❑ Capacity expansion to 1.1mt from current 0.8mt through debottlenecking is on track and is expected to be completed by end of FY19.
- ❑ Company had built up inventory in 1QFY19 to support a planned maintenance shutdown in 2QFY19. This along with an increase in nickel price in 1QFY19 led to inventory loss.
- ❑ Debt repayment of Rs.430 crore expected in FY19 out of which company has paid Rs.135 crore and for FY20 Rs.500 crore of debt repayment expected.
- ❑ Finance cost expected to be around Rs.575-600cr for FY19.

**Exhibit: Net sales and growth trend**

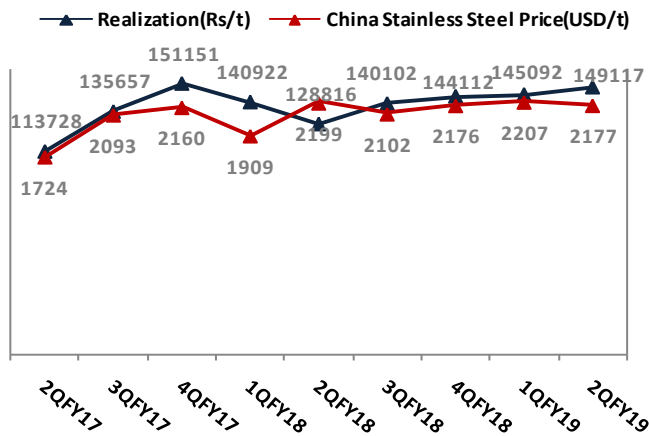
YoY growth softens to 18% in 2QFY19, lowest in last 5 quarters....

**Exhibit: Sales volume and realization trend**

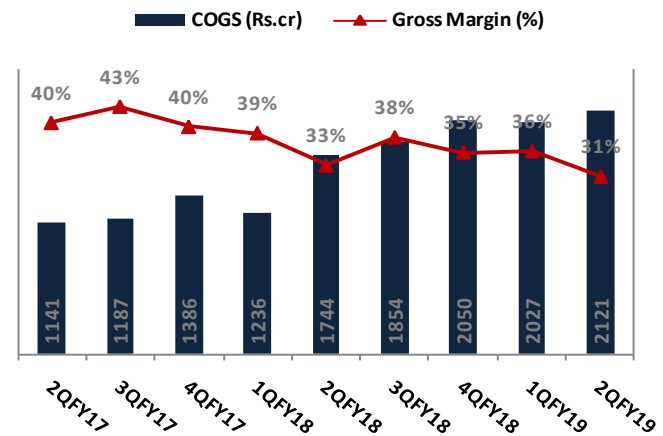
realization flattish around Rs.145kt for last few quarters and volume slightly decline due to plant shutdown....

**Exhibit: Realization and SS prices**

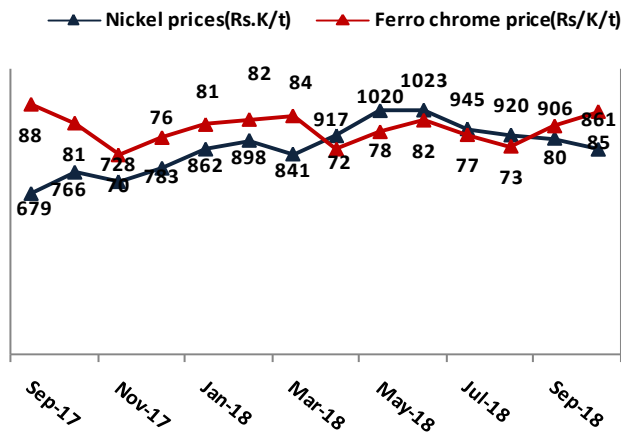
company's SS realization in line with SS price movement....

**Exhibit: COGS and gross margin trend**

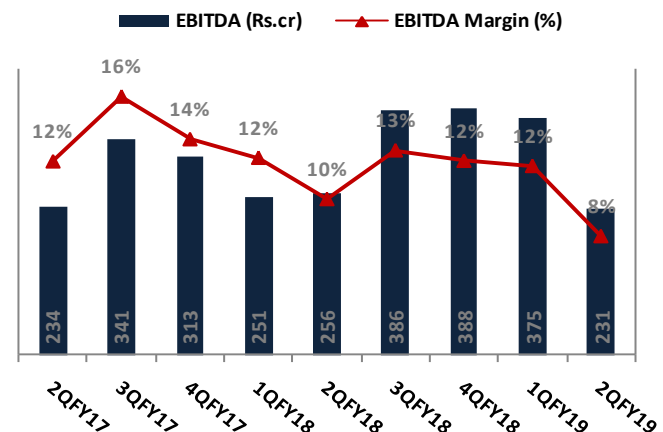
input cost increases due to high cost inventory of nickel in 1QFY19....

**Exhibit: Movement in raw material prices**

high volatility in raw material prices persist ,nickel prices have moderated in Oct, but ferro ch prices have went up....

**Exhibit: EBITDA and EBITDA margin trend**

EBITDA margin decline in line with decline in gross margin due to high COGS....



## Financial Details (Consolidated)

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>41</b>	<b>46</b>	<b>46</b>	<b>46</b>	<b>80</b>	<b>96</b>	<b>96</b>	<b>96</b>
Reserves	1,299	16	(705)	1,671	1,740	2,378	2,711	3,255
<b>Networth</b>	<b>1,340</b>	<b>62</b>	<b>(659)</b>	<b>1,717</b>	<b>1,820</b>	<b>2,474</b>	<b>2,807</b>	<b>3,351</b>
Debt	11,474	11,597	11,839	9,688	5,380	4,602	4,152	3,700
Other Non Cur Liab	263	277	209	78	126	459	459	459
<b>Total Capital Employed</b>	<b>12,813</b>	<b>11,659</b>	<b>11,180</b>	<b>11,405</b>	<b>7,200</b>	<b>7,077</b>	<b>6,958</b>	<b>7,051</b>
Net Fixed Assets (incl CWIP)	10,311	9,930	9,483	6,933	6,638	6,486	6,259	6,065
Non Cur Investments	20	18	18	392	403	188	188	188
Other Non Cur Asst	10,475	10,096	9,731	7,195	6,850	6,873	6,646	6,452
Non Curr Assets	10,494	10,114	9,748	7,587	7,253	7,061	6,834	6,640
<b>Inventory</b>	<b>3,615</b>	<b>3,704</b>	<b>3,405</b>	<b>1,913</b>	<b>2,097</b>	<b>2,384</b>	<b>2,888</b>	<b>3,132</b>
<b>Debtors</b>	<b>1,933</b>	<b>1,695</b>	<b>1,853</b>	<b>936</b>	<b>890</b>	<b>907</b>	<b>1,098</b>	<b>1,191</b>
<b>Cash &amp; Bank</b>	<b>136</b>	<b>73</b>	<b>67</b>	<b>67</b>	<b>46</b>	<b>47</b>	<b>54</b>	<b>295</b>
Other Curr Assets	1,070	846	718	4,356	626	435	536	581
Curr Assets	6,755	6,317	6,043	7,270	3,657	3,773	4,576	5,199
Creditors	3,026	2,941	2,737	1,778	1,865	2,133	2,583	2,801
Provisions (both)	17	15	23	12	14	13	13	13
Other Curr Liab	1,113	1,521	1,626	1,587	1,706	1,154	1,397	1,515
Curr Liabilities	4,140	4,462	4,363	3,364	3,571	3,286	3,980	4,316
<b>Net Curr Assets</b>	<b>2,615</b>	<b>1,855</b>	<b>1,680</b>	<b>3,906</b>	<b>87</b>	<b>487</b>	<b>596</b>	<b>883</b>
<b>Total Assets</b>	<b>17,250</b>	<b>16,431</b>	<b>15,792</b>	<b>14,858</b>	<b>10,910</b>	<b>10,834</b>	<b>11,410</b>	<b>11,838</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>11,305</b>	<b>12,869</b>	<b>13,799</b>	<b>7,144</b>	<b>9,279</b>	<b>11,638</b>	<b>14,095</b>	<b>15,286</b>
Change (%)	29%	14%	7%	-48%	30%	25%	21%	8%
Other Income	35	45	76	26	26	45	27	29
<b>EBITDA</b>	<b>709</b>	<b>1,010</b>	<b>1,147</b>	<b>573</b>	<b>1,166</b>	<b>1,340</b>	<b>1,465</b>	<b>1,659</b>
Change (%)	-25%	43%	14%	-50%	104%	15%	9%	13%
Margin (%)	6%	8%	8%	8%	13%	12%	10%	11%
Depr & Amor.	740	728	545	316	325	320	327	344
<b>EBIT</b>	<b>(32)</b>	<b>282</b>	<b>602</b>	<b>257</b>	<b>840</b>	<b>1,020</b>	<b>1,138</b>	<b>1,315</b>
Int. & other fin. Cost	1,043	1,295	1,417	1,030	788	566	581	555
<b>EBT</b>	<b>3,833</b>	<b>3,834</b>	<b>3,835</b>	<b>3,836</b>	<b>3,837</b>	<b>3,838</b>	<b>3,839</b>	<b>3,840</b>
Exp Item	(184)	(419)	41	(40)	26	4	68	-
Tax	(382)	(21)	5	(232)	32	174	183	245
Minority Int & P/L share of Ass.	2	(2)	(2)	(1)	(1)	-	-	-
<b>Reported PAT</b>	<b>(841)</b>	<b>(1,368)</b>	<b>(705)</b>	<b>(557)</b>	<b>82</b>	<b>346</b>	<b>333</b>	<b>544</b>
<b>Adjusted PAT</b>	<b>(841)</b>	<b>(1,368)</b>	<b>(705)</b>	<b>(557)</b>	<b>82</b>	<b>346</b>	<b>333</b>	<b>544</b>
Change (%)	0%	0%	0%	0%	0%	324%	-4%	64%
Margin(%)	-7%	-11%	-5%	-8%	1%	3%	2%	4%

## Financial Details (Consolidated)

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	-63%	-2208%	0%	-32%	4%	14%	12%	16%
ROCE	0%	3%	8%	3%	16%	17%	19%	22%
Asset Turnover	0.66	0.78	0.87	0.48	0.85	1.07	1.24	1.29
Debtor Days	62	48	49	48	35	28	30	30
Inv Days	117	105	90	98	82	75	80	80
Payable Days	98	83	72	91	73	67	67	67
Int Coverage	(0.0)	0.2	0.4	0.2	1.1	1.8	2.0	2.4
P/E	(1.1)	(0.5)	(0.9)	(0.6)	34.8	10.9	7.4	4.5
Price / Book Value	0.7	11.0	(1.0)	0.2	1.6	1.5	0.9	0.7
EV/EBITDA	13.6	9.1	7.6	13.2	5.3	5.4	3.8	2.9
Div Yield	0%	0%	0%	0%	0%	0%	0%	0%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>(1,040)</b>	<b>(968)</b>	<b>(931)</b>	<b>(747)</b>	<b>78</b>	<b>520</b>	<b>584</b>	<b>789</b>
<i>(inc)/Dec in Working Capital</i>	(262)	337	8	397	97	82	(118)	(46)
<i>Non Cash Op Exp</i>	2,798	2,799	2,800	2,801	2,802	2,803	2,804	2,805
<i>Int Paid (+)</i>	1,043	1,295	942	1,030	788	566	581	555
<i>Tax Paid</i>	(4)	12	43	14	(27)	15	(183)	(245)
<i>others</i>								
<b>CF from Op. Activities</b>	<b>282</b>	<b>958</b>	<b>554</b>	<b>966</b>	<b>1,230</b>	<b>1,452</b>	<b>1,123</b>	<b>1,398</b>
<i>(inc)/Dec in FA &amp; CWIP</i>	(77)	(157)	2	(168)	(58)	(195)	(100)	(150)
<i>Free Cashflow</i>	205	800	556	798	1,172	1,258	1,023	1,247
<i>(Pur)/Sale of Inv</i>	(2)	3	0	0	0	1	-	-
<i>others</i>								
<b>CF from Inv. Activities</b>	<b>(58)</b>	<b>(120)</b>	<b>24</b>	<b>1,053</b>	<b>3,854</b>	<b>(193)</b>	<b>(100)</b>	<b>(150)</b>
<i>inc/(dec) in NW</i>	100	100	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	68	200	369	(1,013)	(4,267)	(675)	(451)	(452)
<i>Int. Paid</i>	(450)	(1,191)	(948)	(958)	(864)	(633)	(581)	(555)
<i>Div Paid (inc tax)</i>	(0)	(0)	(0)	(0)	-	-	-	-
<i>others</i>								
<b>CF from Fin. Activities</b>	<b>(282)</b>	<b>(891)</b>	<b>(580)</b>	<b>(1,972)</b>	<b>(5,106)</b>	<b>(1,257)</b>	<b>(1,032)</b>	<b>(1,007)</b>
<i>Inc(Dec) in Cash</i>	(73)	(69)	(2)	47	(21)	2	(9)	241
<i>Add: Opening Balance</i>	218	145	76	20	67	46	63	54
<b>Closing Balance</b>	<b>145</b>	<b>76</b>	<b>48</b>	<b>67</b>	<b>46</b>	<b>47</b>	<b>54</b>	<b>295</b>

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