

Q1 & FY19 - Results Update

CMP (INR) (As on 25th May 2018)	85.05
Target (INR)	210
Upside(%)	146%
Recommendation	Strong Buy

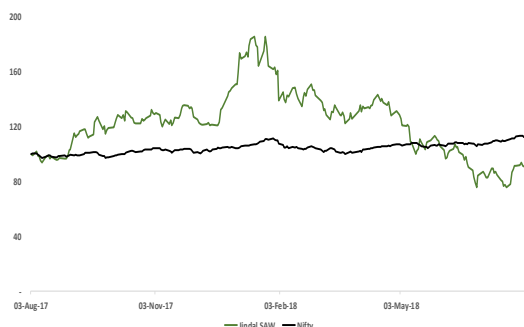
BSE Code	500378
NSE Code	JINDALSAW
Reuters Ticker	JIND.BO
Bloomberg Ticker	JSAW IN

Stock Scan

Market cap (INR Cr.)	2767
Outstanding Shares (Cr.)	31.97
Face Value (INR)	2.00
Dividend Yield(%)	1.20
TTM P/E (x)	6.76
Industry P/E (x)	6.40
Debt/Equity	1.16
Beta vs. Sensex	2.07
52 Week High/ Low (INR)	182.25/70.00
Avg. Daily Vol. (NSE)/1 yr.	1618123

Shareholding Pattern (%)

	Jun-2018	Mar-2018	Jun-2017
Promoters	53.59	53.59	53.59
Institutions	14.88	17.06	21.06
Non-institutions	31.53	29.35	25.35

Stock vs. Nifty (Relative Returns)


Research Analyst

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Source: NSE

Company Overview

Jindal Saw Ltd is engaged in the business of manufacturing SAW pipes (submerged arc welded pipes), spiral pipes for energy transportation sector, carbon alloy and seamless pipes for industrial effluents, and Ductile Iron pipes for water supply and sewage/waste/water transportation. The Company supplies to a number of customers spreading all over the globe, specially from the Oil & Gas sector clients from MENA, North America and Scandinavian region.

Result Highlights

- JSAW reported standalone revenue of INR2346 Cr, EBITDA of INR288 Cr and PAT of INR95 Cr, rising by 55%, 69% and 50% YoY respectively.
- The Net Standalone Debt stood at INR4300 Cr (INR 4412 Cr at March 2018) including long term and short term facilities.
- The Maintenance Capex for the current year is INR150 Cr for FY19 and small operations boosting systems and conversion sinters are put in place. The Co. is expecting the EBITDA per tonne to improve further as the year progresses.
- The current orderbook stands at 1.10 million MT for \$ 915 million, with exports to the tune of 35% mainly for Middle East, rising from last quarter's 32%. This is beneficial for them as the L Saw pipes for Oil & Gas industry has the highest margins and the Q1 sales of L Saw pipes has also increased from 66,500 MT in Q4 FY18 to 98,900 MT in Q1 FY19.

Exhibit 1: Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY16	FY17	FY18A	FY19E	FY20E
Net Sales	7,971	7,368	8,536	10,451	11,579
Growth %	-7.7%	-7.6%	15.9%	22.4%	10.8%
EBITDA	772	756	1,016	786	906
EBITDA Margin (%)	9.7%	10.3%	11.9%	7.5%	7.8%
Adj. Net Profit	(80)	39	(11)	49	238
Net Profit Margin	(1.01)	0.52	(0.13)	0.47	2.06
EPS	(1.32)	3.56	5.55	1.46	7.08
BVPS	168.20	168.44	171.89	160.95	163.03
P / E (x)	-	15.9	12.9	48.9	10.1
P / BV (x)	0.4	0.3	0.4	0.4	0.4
EV / EBITDA (x)	11.2	9.4	7.8	10.7	6.2
ROE (%)	-1.6%	0.7%	-0.2%	0.9%	4.3%
ROCE (%)	4.6%	5.3%	6.3%	5.0%	7.0%

Source: Company Data, SMIFS Research, Bloomberg Estimates

Exhibit 2: Financial Performance (Q4 & FY18) (Standalone)

Particulars	Q1 FY19 (Standalone)					
	Q1 FY19	Q1 FY18	YoY (%)	Q4 FY18	QoQ (%)	FY18
Net Income from Operations	2,284.3	1,450.4	57.5%	2,448.6	-6.7%	7,334.9
Cost of Materials consumed	1,389.9	765.0	81.7%	1,427.0	-2.6%	4,505.3
Purchase of Stock-in-trade	-	-	NA	-	NA	
Change in Inventories	91.3	61.9	47.6%	57.9	57.7%	(225.5)
Excise Duty	-	53.4	NA	-	NA	53.4
Employees Benefits Expense	143.8	122.9	17.0%	135.1	6.5%	513.4
Other Expenses	370.6	277.4	33.6%	432.8	-14.4%	1,449.7
EBITDA	288.6	169.9	69.9%	395.8	-27.1%	1,038.7
EBITDA Margin (%)	12.64	11.71	92bps	16.17	-353bps	14.16
Finance Costs	147.9	87.3	69.3%	125.3	18.0%	415.1
Depreciation	65.3	60.8	7.3%	65.9	-0.9%	256.2
Other Income	61.7	62.2	-0.8%	40.2	53.6%	221.0
Exceptional Gain	-	-	NA	-	NA	-
PBT	137.2	83.9	63.5%	244.8	-44%	588.4
Tax Expenses	42.1	20.3	107.2%	86.4	-51%	194.1
PAT	95.4	64.0	49.0%	165.4	-42%	385.8
PAT Margin (%)	4.18	4.42	-24bps	6.76	-258bps	5.26

Key Concall Highlights

- The Co.'s Management confirmed on demerger of most subsidiaries except the Abu Dhabi, US and Italian subsidiary, and said that all the three are doing good business and will add positively to the EBITDA of the consolidated and there will be no negative impact on the bottomline for FY19.
- The Management also stated that the arbitration of Jindal ITF with NTPC for INR1000 Cr is in the final phases, of which the company has received about INR352 Cr in 2 earlier awards.
- The Co. said that the proposed steel plant in Bhilwada has not substantiated yet to any decision. The Maintenance capex for the year is of FY150 Cr.
- The Management stated that there are no other Ductile Iron Pipes plant in the Middle East apart from the Abu Dhabi plant of theirs, but it is competing well with Chinese exports to middle east of the same.
- Operationally, the increased price of steel has impacted the margins for the company to some extent along with the debt repayments to reduce the debt levels have increased the finance costs compressing the bottom line. The Co. also said that the PNB scam has caused a stir among export clients with non-financed export orders being revoked by most banks.
- Overall, the Co.'s Management were very positive on the water business orders domestically while current crude prices are encouraging for them with investment in Oil & Gas sector is expected to pick up gradually as production increases.
- The Management also stated that the marginal dip in revenues on a sequential basis is due to the fact that the first quarter is generally weak for them every year as the order from Government of India start increasing as the year progresses due to budget allocation. The last quarter is which remains the strongest phase in their annual business cycle.

Outlook and Valuation

We see the Company's business doing very well on standalone basis. Having got rid of most of their loss making subsidiaries in the last fiscal, the Management is concentrating on the core business.

The increased prices of Crude Oil is expected to start new projects and investments in the Middle East region which contributes the chunk of their Oil & Gas revenue. The L Saw pipes used in Oil & Gas transportation, has the highest margin and is rising volume-wise as well as is evident with Q-o-Q increase in sales of L Saw pipes from 63,500 MT to 98,900 MT.

The increased thrust by Indian Govt. towards investment in infrastructure and housing under various schemes, remains the bright-spot in long term as well as the largest contributor to its revenue. The Ductile Iron pipes business, despite fluctuations, has maintained good margins and helps diversifying the product portfolio of the company.

The remaining subsidiaries of the Company includes, The DI pipes plants in Abu Dhabi, another coating & conversion plant in the US and an Italian subsidiary, are as per the Management expected to contribute positively to the EBITDA on consolidation.

With the above scenarios taking shape in favour of the Company's core business, we maintain our revised rating of **Strong Buy** for the Company with a Target Price of **INR210** (earlier INR160) with a P/B (x) multiple of 1.3 for **FY20**.

Please find below the link of our earlier report:

Date: 7 Dec 2017

CMP: 114

Target Price: 160

https://www.smifs.com/files/reports/636495589947825681_SMIFS%20Research-Top%20Investment%20Ideas_December%202017.pdf

Date: 30 Jan 2018

CMP: 154

Target Price: 210

https://www.smifs.com/files/reports/636529322971739458_Jindal%20Saw%20Q3FY18%20Results%20Analysis,%20Revised%20Target%20Price%20and%20Concall%20Highlights.pdf

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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