27 February 2017

Update | Sector: Metals

Jindal Steel & Power

BSE SENSEX	S&P CNX
28,893	8,940

CMP: INR117 **TP: INR180(+54%)** **Buy**

New furnace to drive sharp turnaround

Global Ventures' debt servicing improving; upgrade to Buy

Steel business to drive turnaround

- Jindal Steel & Power (JSP) is in advanced stages of commissioning a new 3mtpa furnace, which would increase its total steelmaking capacity in India to 8mpta.
- The new blast furnace would correct hot metal mix, reduce operating costs, and leverage existing infrastructure to drive turnaround of its Angul plant.

Global Ventures – USD2b debt now serviceable

- Global Ventures (GV) comprises coking coal mines in Australia and Mozambique, thermal coal mine in South Africa, and a profitable 2mtpa DRI-EAF route steel plant in Oman.
- Rising coking coal prices have led to a turnaround of the mines. With EBITDA run-rate of ~USD130m, USD2b debt in GV is now serviceable.

Attractive 750MW PPAs and EUP1 sale to boost cash flows

- 3,400MW power capacity is now fully commissioned and capex is behind. We expect EUP1 (1,000MW) to generate INR40b cash flow on asset sale in FY19.
- EUP2 is highly valuable, as it secured 750MW long-term PPAs from Tamil Nadu and Kerala at attractive gross margin when the market was tight.
- The future of EUP3 (1,200MW) and merchant market remains uncertain due to oversupply. Hence, we are not factoring material cash flows from these.

Sharp turnaround in cash profit, though asset revaluation impacting PAT

- We expect standalone sales volume to grow at a CAGR of 31% to 5.8mt and EBITDA to grow at a CAGR of 35% to INR52b over FY17-19. Our estimate of 4.5mt for FY18 is conservative relative to JSP's guidance of 6mt; we have factored in teething problems during startup of the new furnace. Consolidated EBITDA would grow at a CAGR of 35% to INR52b over FY17-19.
- There is a sharp turnaround in cash profits. Yet, adjusted PAT would be negative due to bloated depreciation on massive asset revaluation in 1HFY17.

Upgrading to Buy, with a target price of INR180

- The Angul site can accommodate much larger 12mtpa capacity, which implies that new capacity addition would require low specific capex, shorter execution cycle, and deliver superior IRR. The site is strategically located in an over-supplied iron ore region and is close to ports.
- While there are some risks (steel and coking coal prices, slower production ramp-up) to our estimates, there could be upside if any of several anticipated events (access to iron ore inventories at Sarda mines, captive iron ore mines in auction, PPA for idle 1,500MW capacity, etc) play out.

We are raising our target price to INR180 (based on SOTP; earlier INR88 based on replacement cost) and are upgrading our recommendation to **Buy**.

Stock Info

Bloomberg	JSP IN
Equity Shares (m)	915
52-Week Range (INR)	118/52
1, 6, 12 Rel. Per (%)	41/33/84
M.Cap. (INR b)	106.8
M.Cap. (USD b)	1.6
Avg Val, INRm	902.9
Free float (%)	38.1

Financials Snapshot (INR b)

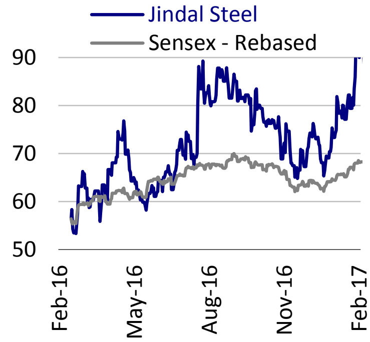
Y/E Mar	2017E	2018E	2019E
Net Sales	209.1	254.2	313.4
EBITDA	44.8	60.9	78.3
PAT	-21.8	-16.0	-2.0
EPS (INR)	-23.9	-17.5	-2.2
Gr. (%)	31.1	-26.7	-87.4
BV/Sh (INR)	395.8	377.9	375.2
RoE (%)	-8.0	-4.5	-0.6
RoCE (%)	0.6	1.8	3.7
P/E (x)	-4.9	-6.7	-52.9
P/BV (x)	0.3	0.3	0.3

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	61.9	61.9	61.9
DII	1.8	1.8	3.6
FII	17.6	18.2	18.7
Others	18.7	18.1	15.8

FII Includes depository receipts

Stock Performance (1-year)



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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Steel business to drive turnaround

New 3mtpa furnace to drive cost reduction and strong volume growth

- JSP is in advanced stages of commissioning its new 3mtpa furnace, which would increase its total steelmaking capacity in India to 8mpta.
- Sales volume would grow at a CAGR of 31% over FY17-19.
- Cost of production would decline on more favorable share of hot metal in mix.
- We expect standalone EBITDA to grow at a CAGR of 35% over FY17-19.

New 3mtpa capacity in advanced stages of commissioning

Jindal Steel and Power (JSP) is in advanced stages of commissioning its new 3mtpa BoF route steel plant expansion (1-A) at Angul at low additional capex of INR50b-70b. It plans to commission various facilities in FY18 as per the following schedule:

- **1.9mtpa coke oven:** Light-up has already started. Full commissioning is planned by the end of March 2017.
- **5mtpa sinter plant:** April 2017.
- **3.85mtpa (4,554m^3) blast furnace:** April 2017.
- **Steel melt shop:** BoF is likely to be commissioned in August 2017. The existing EAF would also be converted into BoF.
- **Caster:** 2.3mtpa billet caster has already been commissioned on December 10, 2014. Another billet caster is planned to match capacities.
- **Rebar mill:** 1.4mtpa capacity was commissioned during 1QFY17.

Exhibit 1: Expansion of capacity at Angul 1-A (revised configuration v/s original plan 1B)

Source: MOSL

1-A capex is lower because some of the downstream facilities (for example, 2.3mtpa billet caster, 1.4mtpa rebar mill, etc) have already been commissioned and capitalized in the books. Investment in BoF too has been reduced because only one of the two BoF is being implemented initially. Modification of existing EAF into NEOF (New Electric Oxygen Furnace - BoF equivalent) would partly compensate for the postponed BoF. Though nameplate capacity would expand to 5mtpa, practical saleable steel production might be capped at 3-3.5mtpa until further investment in balancing facilities is done.

By-product gases to partially improve DRI's viability

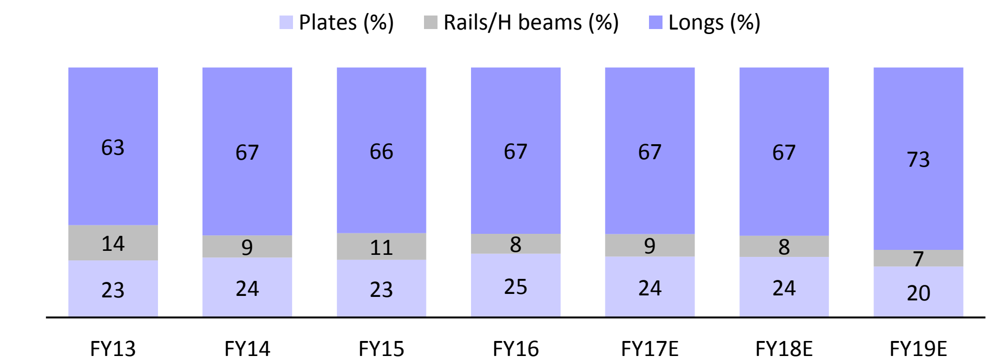
Steel making through DRI-Syn gas (coal gasification) route is unviable in the absence of captive coal mines. Therefore, we expect that DRI production at Angul to remain subdued, though coke oven gases would substitute synthetic gas to the extent of 25% and help reduce cost of production. The actual DRI production would hinge on market conditions and cost of production.

Product mix challenges in achieving capacity utilization

Product mix is another challenge in ramping up volumes. Though the cost of production of plates would be lower than Indian competition, JSP's production facilities are away from the demand center in western India. Strong export market conditions are necessary for it to achieve targeted production. In the long product segment, the competition is high from secondary steel producers. Yet, JSP would have an edge because of economies of scale. We expect domestic demand to start accelerating with time. In terms of pricing, long products have underperformed due to economic slowdown in investment cycle. The presence of primary producers (such as Tata, JSW, Essar, Bhushan) in long products is low. We believe JSP would have a clear competitive advantage, as its new BoF gets commissioned.

High exposure to long products and plates

Exhibit 2: Product Mix



Source: MOSL, Company

33% CAGR in steel production over two years

Tight liquidity and break-downs impacted FY17 volumes

At 2.5mt, JSP's production during 9MFY17 was below our estimate. Yet, it could finish the year with total production of 3.5mt against capacity of 5mtpa in India (Angul and Raigarh). There are primarily two reasons for the underperformance. First, the DRI-syn gas plant is still not getting stabilized – suffered a major breakdown during 1QFY17 – which would be rectified only after the new BoF is commissioned in 2HFY18. Second, tight liquidity forced the management to move away from low margin products to reduce working capital.

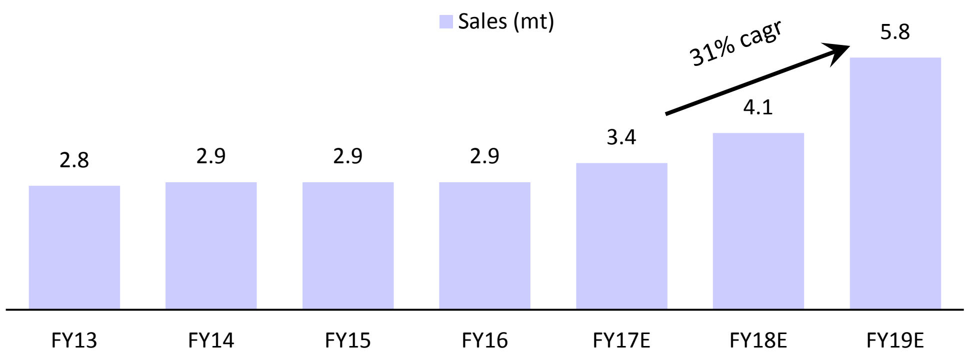
Factor in volume of 4.5mt against guidance of 6mt for FY18

FY18 is likely to be similar to FY17, as liquidity remains tight and there would be many operational challenges during the commissioning phase. We estimate 4.5mt steel production against management guidance of 6mt for FY18. There might be additional sale of pig iron, if the new blast furnace is commissioned on time.

Expect ~6mt production in FY19

We expect steel production to ramp up to 6mt in FY19, though nameplate capacity would have increased to 8mtpa. Margins in the DRI process would remain volatile. We are basing our estimates on hot metal and BoF availability. Steel sales volumes are likely to grow at a CAGR of 31% to 5.8mt over FY17-FY19.

Exhibit 3: Standalone steel volumes

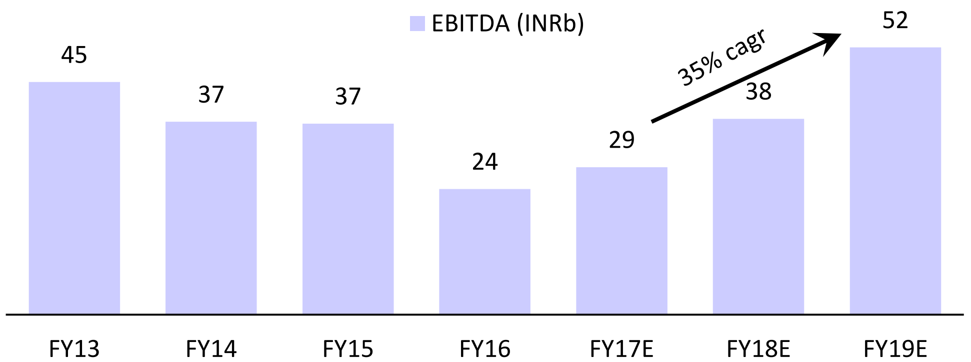


Source: MOSL

Standalone EBITDA likely to grow at a CAGR of 35% to INR52b over FY17-19

Steel segment margins are likely to expand, driven by operating leverage and new 3mtpa BoF capacity at Angul. We expect EBITDA/t of INR8,000 and additional benefits from continued sales of 2.8mt pellets. JSP reported EBITDA/t of ~INR7,800 (excluding EBITDA on pellet sales) in 3QFY17. We believe EBITDA/t of INR8,000 is achievable and expect standalone EBITDA to grow at a CAGR of 35% to INR52b over FY17-19. The key drivers of margins are: (1) higher steel prices, (2) dilution of product mix, (3) higher coking coal prices, (4) lower benefit of iron ore integration, and (5) major benefits on operating costs from new BoF.

Exhibit 4: Standalone EBITDA



Source: MOSL

Analyzing cost of production

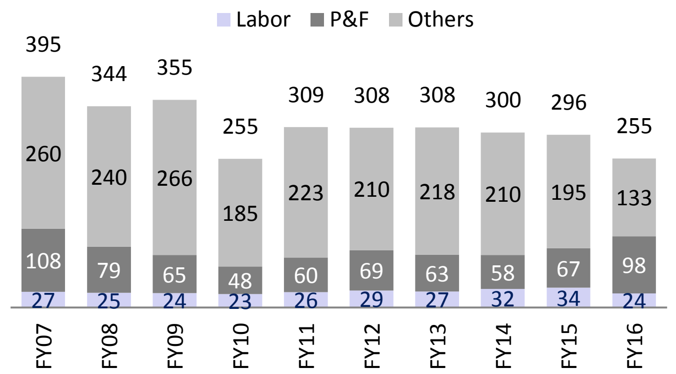
New furnace to correct hot metal mix and reduce operating costs

- High share of DRI in metallic is the key reason for high operating costs.
- New blast furnace would partially correct hot metal mix and reduce CoP.

Benchmarking highlights flaws in technology selection

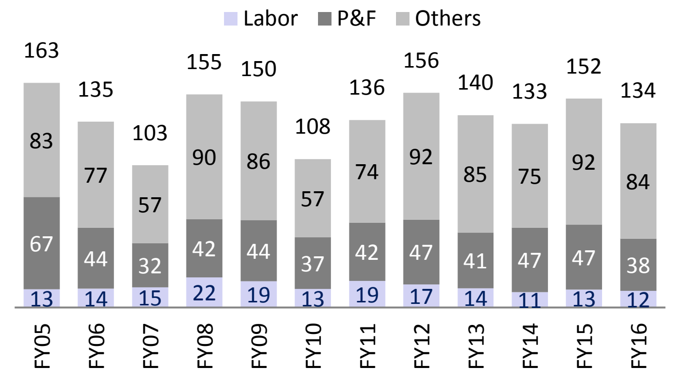
A comparison of JSP's conversion cost and net sales realization (NSR) with JSW Steel reveals that both companies have similar NSR despite complementary product mix. JSP is mainly in longs and plates, while JSW Steel is in largely in flat products. JSP's conversion cost is much higher than JSW Steel's. JSP has historically benefited from lower raw material (RM) cost due to captive iron ore, coal mines, and attractive iron ore supply arrangement with Sarda Mines. Once the supplies from Sarda iron ore mines and captive coal mines got snapped, JSP's RM cost advantage versus JSW Steel disappeared and its margins came under pressure due to high conversion cost. Therefore, it is important to understand the conversion process for JSP.

Exhibit 5: JSP's conversion cost (UD/t)



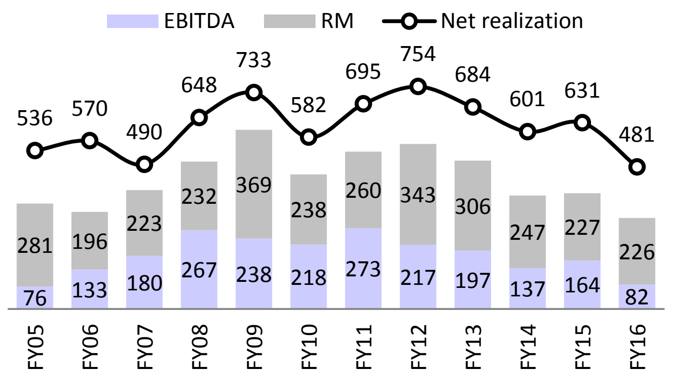
Source: MOSL

Exhibit 6: JSW Steel's conversion cost (UD/t)



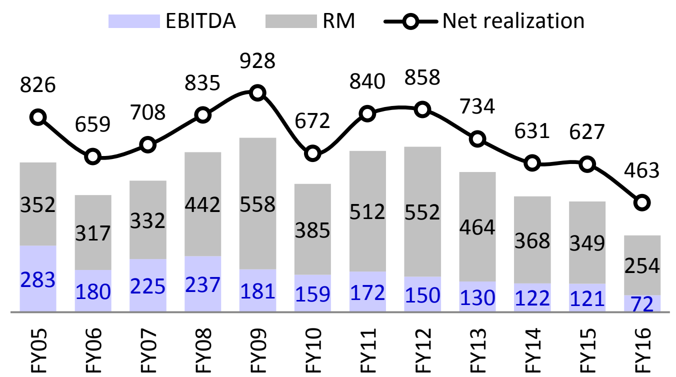
Source: MOSL

Exhibit 7: JSP (USD/t)



Source: MOSL

Exhibit 8: JSW Steel (USD/t)



Source: MOSL

Analyzing reason behind high conversion cost

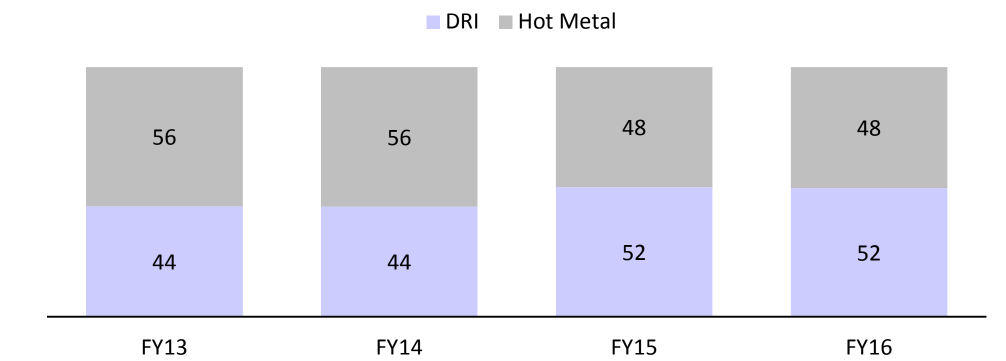
JSP had adopted the sponge iron process to capitalize on captive coal mines. Its sponge iron (or DRI) capacity is 3.4mt, while its hot metal capacity is only 2.1mt. This implies ~62% share of capacity of solid metallic. The operating cost through sponge iron route is always much higher. The process in not competitive unless subsidized by cheaper iron ore and thermal coal. The DRI-syngas route is even more expensive because of addition of one more process (coal gasification). Coal gasification requires heavy consumption of oxygen. Oxygen production is energy-intensive. After commissioning of coal gasification plant at Angul, the power and fuel cost per ton of steel production shot up in FY15 and FY16. Post loosing captive coal and iron ore supply from Sarda mines, JSP has tried to maximize production of hot metal and reduce sponge iron production in the mix. This has led to loss of capacity utilization and increase in conversion cost.

New blast furnace to partially correct hot metal mix and reduce CoP

With the commissioning of new blast furnace, JSP would partly correct its hot metal mix and possibly reduce conversion cost. At steel production of 6mt, the hot metal mix can increase to 75-80% (from 48% in FY16). Therefore, we expect significant reduction in operating costs, which would drive margins.

Share of hot metal in metallic would increase sharply from 48% in FY16 to 75-80% in FY19 on commissioning of new blast furnace

Exhibit 9: Actual share of DRI/Hot metal in production of metallic



Source: MOSL, Company

Global Ventures – USD2b debt is now serviceable

Coking coal prices are key driver of turn around

- Global Ventures (GV) comprises coking coal mines in Australia and Mozambique, thermal coal mine in South Africa, and a profitable steel plant in Oman.
- Rising coking coal prices have led to a turnaround of mines. With EBITDA run-rate of ~USD130m, USD2b debt in GV is now serviceable.

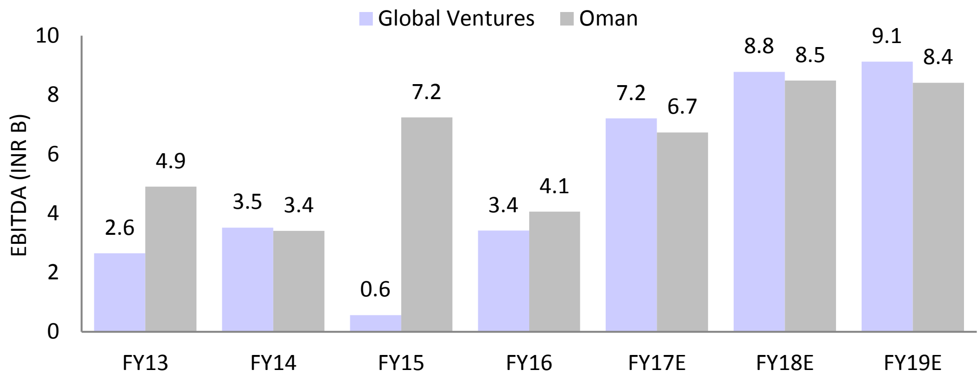
Coking coal mines in Australia are producing 100ktpm. Cost of production has reduced to USD60/t on FOB-Australia basis after cost-cutting measures. Permanent staff count has been reduced from 460 to 60, and a lot of work has been outsourced. It plans to restart Russel Vale mines using bord-and-pillar method of mining (abandoning long wall) due to geographical challenges. Coal production is expected to increase to 200-250kt. The coking coal has high ash content and is priced at 40% discount to the benchmark index. Therefore, it is important that the index remains above USD110/t for economic sustainability of the mines. Coal from these mines is exported to the Angul steel plant for washing and use in blast furnace. Coal washing machines would be relocated from Raigarh to Angul, as the latter is closer to ports. We do not factor material profit from these mines.

Production is expected to ramp up at mines in Mozambique, as well. The quality of coal is better than Australian mines; yet, it is priced at 20% discount to the benchmark. The cost of production (including transportation and loading on ships) is high at USD90/t. Therefore, the benchmark coking coal index needs to trade above USD120/t for economic sustainability.

Oman steel plant is highly profitable because it has very attractive long-term gas supply contracts. This steel plant too benefits from high coking coal prices, because coking prices drive steel prices higher, while cost of gas remains unchanged for this steel plant. It has recently forward integrated into rebar mill.

Oman steel plant is key driver of GV's EBITDA

Exhibit 10: Global Ventures



Source: MOSL

Jindal Power: Source of steady cash flows

Attractive 750MW PPA and EUP1 sale key drivers of cash flows

- 3,400MW capacity is now fully commissioned and capex is behind. We expect EUP1 (1,000MW) to generate INR40b cash flow on asset sale in FY19.
- EUP2 is highly valuable, as it secured 750MW long-term PPAs from Tamil Nadu and Kerala at attractive gross margin when the market was tight.
- The future of EUP3 (1,200MW) and merchant market remains uncertain due to oversupply. Hence, we are not factoring material cash flows from these.
- PV of cash flows is INR203b (EUP1=INR40b, EUP2=INR113b, EUP3=INR50b).

EUP1 (1,000MW) sale to drive home INR40b

JSP has signed an MoU with JSW Energy for the sale of its 1,000MW (4x250MW) power plant, EUP1 at a valuation of INR40b-65b. The long stop date for this transaction is June 2018. We believe JSP would be able to fetch only INR40b (by FY19E) in view of oversupply in the sector.

EUP2 (1,200MW): Highly valuable 750MW PPAs

EUP2 is likely to generate EBITDA of INR17b annually

EUP2 has been able to fetch three PPAs totaling 750MW from the states of Kerala and Tamil Nadu, as it has coal linkages from Coal India. Profitability is high due to low cost of generation and attractive rates secured during 2012-14, when the southern region had supply shortage. The total supply commitment is 870MW, which includes 120MW of concessional power to the home state of Chhattisgarh. The average tariff is INR3.97/kwh and gross margin is INR2.68/kwh. The gross margin in these PPAs is nearly double the gross margin for NTPC.

Exhibit 11: Long term PPAs

Project	Buyer	Period		PPA	Tariff (INR/kwh)						
		From	To	(MW)	Total	fuel		fixed	Transmission		Gross
						coal	logistic		charges	loss	Margin
EUP2	Tamil Nadu*	Feb-14	Sep-28	400	4.91	0.69	0.17	4.05	0.35	0.17	3.53*
EUP2	KSEB	Jun-16	May-41	200	3.60	0.69	0.17	2.74	0.35	0.13	2.26
EUP2	KSEB	Oct-17	Sep-42	150	4.29	0.69	0.17	3.43	0.35	0.15	2.93
EUP2	Chhattisgarh	Asset life		60	1.06	0.69	0.17	0.20			0.20
EUP3	Chhattisgarh			60	1.06	0.69	0.17	0.20			0.20
				870	3.97						2.68

Note: fuel and transmission costs are scalable with CERC determined inflation index *structured Source: MOSL/KSEB/TNGEDCO

According to our calculations, EUP2 should generate EBITDA of INR17b, annually. The DCF value of these cash flows is about INR113b. If it is able to secure 325MW PPA from UP where it is L2, the cash flows and DCF value would increase further. However, we are not very optimistic about additional PPAs, because UP Electricity Board is under fire from the regulator for buying expensive power in the past.

EUP3 (1,200MW): No PPA; so, no cash flows factored

We are valuing it at INR50b based on replacement cost

EUP3 was not able to secure coal linkages until the last committee meeting. Therefore, it has not been able to participate in long-term PPA bids. The future of this capacity remains uncertain. We do not factor any cash flows from this unit in our valuations. EUP3's 600MW units, being more efficient, may be used for captive supply to JSP's steel plants. Smaller, less efficient captive power units might be shut.

Sharp turnaround in cash profit

Raising TP to INR180/share and upgrading to BUY

- EBITDA to increase at cagr of 32% to INR78b over FY17-19E.
- There is sharp turnaround in cash profits. Adj. PAT will still be negative due to bloating of depreciation on massive revaluation of assets.
- Target price raised to INR180/share (earlier INR88) based on SOTP. Although there are some risks to our estimates, yet there may be upside if some the highlighted events play out. Upgrading to BUY.

EBITDA to increase at cagr of 35%

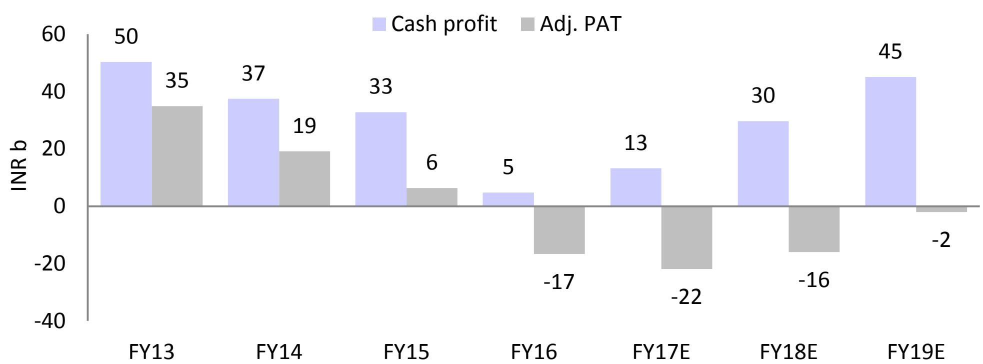
We have reworked our model to incorporate commissioning of new blast furnace and to introduce FY19E estimates. We expect consolidated EBITDA to increase at cagr of 32% to INR78b over FY17-19E.

- We expect steel sales volumes to increase at cagr of 31% to 5.8mt over FY17-19E and standalone EBITDA to increase at cagr of 35% to INR52b.
- GV is expected to contribute INR9b EBITDA in FY19E largely driven by Oman steel plant.
- Jindal Power will lose some revenue on sale of EUP1, but the EBITDA will increase at cagr of 39% to INR17.3b over FY17-19E driven by full ramp up of attractive 750MW PPAs.

Sharp turnaround in cash profit though asset revaluation impacting PAT

JSP has recently revalued its asset by INR209b to avoid fast depletion of net worth on mounting losses. Although it has boosted net worth and reduced debt to equity ratio, yet it has badly impacted the return ratios permanently. Despite sharp jump in cash profit, the PAT and RoE will still be negative.

Exhibit 12: Sharp turnaround in cash profit



Source: MOSL

Raising target price to INR180/share; upgrading to Buy

The addition of new blast furnace is value accretive. It boosts volumes and reduces cost of production. The capex on this piece of addition is low because investment on infrastructure (land, captive power plants, RM handling plants, railway sidings, oxygen plant, residential complex, R&R and other auxiliary services) and downstream facilities (caster and rolling mills) is already incurred. The Angul site has been prepared for 12mtpa capacity. This would drive growth at much lower incremental capex. As a result, there is a turnaround in cash profit. We value the steel business at 6.5x FY19E EBITDA and power business on DCF (PV of JPL's FCFF). The SOTP value is now revised to INR180/share. Earlier, we were valuing the company at INR88/share based on replacement cost due to losses. We are upgrading the stock to **Buy**.

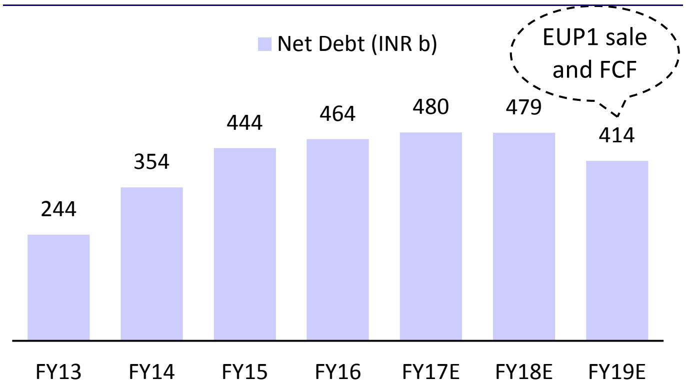
Exhibit 13: Sum-of-the-parts valuation — INR million

INR50b for EUP3 included

YEAR	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Steel Business							
A. EBITDA	47,773	40,941	37,618	27,810	35,826	46,793	60,985
B. Target EV/EBITDA(x)					6.5	6.5	6.5
C. EV (AxB)					232,871	304,153	396,405
Jindal Power (JPL)							
D. PV of JPL's FCFF					168,848	167,418	163,330
Consolidated							
EBITDA	65,685	57,764	54,598	34,410	44,810	60,948	78,281
E. Enterprise Value (C+D)					401,719	471,571	559,735
F. Net Debt	244,180	353,529	443,617	463,928	479,962	479,169	414,378
G. CWIP	192,303	178,112	90,728	118,266	89,266	59,266	19,266
Equity Value (E-F+G)						51,668	164,623
Target price (INR/share)						**56**	**180**

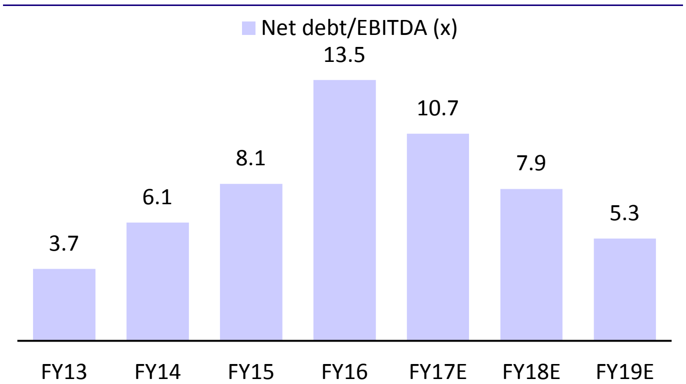
Source: MOSL

Exhibit 14: Net debt will decline in FY19E



Source: MOSL

Exhibit 15: The leverage has peaked



Source: MOSL

Estimates could see upside, if one or more of following events play out

- If the Supreme Court permits, JSP may be able to access its iron ore inventories from Sarda mines in Odisha. These are worth INR20b at market prices or INR22/share.
- Odisha and Jharkhand are likely to auction a number of iron ore mines over the next three years because the leases of a large number of mines working on deemed extension would expire at the end of FY20. JSP is likely to get some of the mines at discount, which would help reduce its RM cost.
- Of the 2,400MW power capacity, nearly 1,500MW capacity is sitting idle. Its plants are located close to coal mines, have low transportation cost and are very competitive. With the commissioning of high capacity HVDC transmission lines to NR (Northern Regioni) and SR (Southern Region), the transmission bottlenecks would disappear and allow it to sell power anywhere in the country. With its competitive position, it has high chances of securing PPAs. Though the market is oversupplied and it could take a long time for new PPAs to materialize, there could be a positive surprise.
- Coking coal mines may deliver better operating profit than our expectation.

Risks to our estimates

- **Possible collapse of steel and coking coal prices:** We believe continued liquidity infusion by the Chinese government and various trade actions against Chinese exports would keep margins in the steel business healthy. Coking coal prices too are unlikely to collapse below USD120/t, as China is trying to curb pollution and control coal prices by calibrating production.
- **Interest cost may rise on refinancing of USD2b debt in GV**
- New capacity may take longer than our expectation in view of adoption of new technology to convert EAF into NEOF (equivalent of BoF).

Exhibit 16: Summary of financials **INR million**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	Remarks
Net sales	**198,068**	**200,040**	**201,592**	**194,673**	**209,085**	**254,227**	**313,370**	
Steel business (incl. CPP)	**172,971**	**175,473**	**169,312**	**164,523**	**178,861**	**215,106**	**284,926**	
Standalone	149,547	145,440	140,994	137,865	142,897	176,984	246,323	
Steel sales (kt)	2,843	2,935	2,930	3,380	3,370	4,063	5,794	new 3mtpa capacity at Angul
Pellet sales (kt)	2,112	2,035	411	962	2,840	2,840	2,840	Assuming continues sales
Oman	29,012	32,621	31,243	26,439	30,369	39,375	39,375	
HBI (kt) production	1,520	1,468	1,420	1,509	1,500	1,500	1,500	
Steel (kt) sales			534	1,050	1,290	1,250	1,250	
Wollongong (GNM)			466	1,065	2,039	1,672	2,153	
Coking coal (kt)			171	304	240	400	400	Russelvale to use Bord and Pillar mining
Others	-5,588	-2,588	-3,391	-846	3,556	-2,925	-2,925	
Jindal power	**25,097**	**24,568**	**32,280**	**30,150**	**30,223**	**39,120**	**28,444**	EUP1 sold to JSW in FY19
Sales (Mkwh)	7,411	7,568	8,969	8,730	8,753	11,609	7,595	
EBITDA	**65,685**	**57,764**	**54,598**	**34,410**	**44,810**	**60,948**	**78,281**	
Steel business (incl. CPP)	**47,773**	**40,941**	**37,618**	**27,810**	**35,826**	**46,793**	**60,985**	
(a) Standalone	45,126	37,420	37,057	24,392	28,620	38,014	51,859	
EBITDA/t of steel	15,872	12,747	12,646	7,216	8,493	9,356	8,951	includes pellets' margin
(b) Global Venture	2,647	3,522	561	3,419	7,206	8,779	9,126	
1. Oman	4,903	3,404	7,235	4,057	6,735	8,480	8,410	attractive gas supply contacts
EBITDA/t of HBI	3,226	2,318	5,096	2,688	4,490	5,654	5,607	
2. Wollongong (GNM)			-2,794	-196	1,141	835	1,145	
EBITDA/t of coal				-644				
3. Others	-2,256	117	-3,879	-442	-670	-536	-429	
Jindal power	**17,912**	**16,823**	**16,980**	**6,600**	**8,983**	**14,156**	**17,295**	750MW PPAs are attractive
EBITDA (INR/kwh)	2.4	2.2	1.9	0.8	1.0	1.2	2.3	
Depn. & Amortization	15,392	18,292	27,328	28,194	40,477	45,673	47,044	Asset revaluation inflating numbers
EBIT	**50,293**	**39,472**	**27,270**	**6,216**	**4,333**	**15,275**	**31,237**	
Net Interest	7,582	15,008	25,837	32,808	34,090	31,724	33,702	
Other income	1,364	656	2,256	2,200	324	0	0	
PBT before EO	**44,076**	**25,120**	**3,689**	**-24,391**	**-29,433**	**-16,449**	**-2,465**	
Adjusted PAT	**34,842**	**19,104**	**6,335**	**-16,662**	**-21,849**	**-16,006**	**-2,022**	
Cash Profit	**50,235**	**37,396**	**32,782**	**4,769**	**13,186**	**29,667**	**45,022**	but, cash profit will rise sharply
No. of shares (m)	935	915	915	915	915	915	915	
EPS (INR)	**37.3**	**20.9**	**6.9**	**-18.2**	**-23.9**	**-17.5**	**-2.2**	Asset revaluation impacting RoE and…
RoE	17.7	8.8	2.9	-8.5	-8.0	-4.5	-0.6	
RoCE (pre-tax)	12.3	7.3	4.5	1.2	0.6	1.8	3.7	…capital return ratios
RoIC (pre-tax)	20.2	11.4	5.5	1.1	0.8	2.7	5.5	

Source: MOSL, Company

Financials and Valuations

Income Statement								(INR Million)
Y/E Mar	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Net Sales	**182,086**	**198,068**	**200,040**	**201,592**	**194,673**	**209,085**	**254,227**	**313,370**
Change (%)	38.9	8.8	1.0	0.8	-3.4	7.4	21.6	23.3
EBITDA	**68,868**	**65,685**	**57,764**	**54,598**	**34,410**	**44,810**	**60,948**	**78,281**
EBITDA Margin (%)	37.8	33.2	28.9	27.1	17.7	21.4	24.0	25.0
Depreciation	13,865	15,392	18,292	27,328	28,194	40,477	45,673	47,044
EBIT	**55,003**	**50,293**	**39,472**	**27,270**	**6,216**	**4,333**	**15,275**	**31,237**
Interest	3,600	7,582	15,008	25,837	32,808	34,090	31,724	33,702
Other Income	1,419	1,364	656	2,256	2,200	324	0	0
Extraordinary items	-936	-5,741	0	-19,116	-2,358	-6,257	0	0
PBT	**51,886**	**38,335**	**25,120**	**-15,428**	**-26,750**	**-35,690**	**-16,449**	**-2,465**
Tax	11,863	9,218	6,182	-882	-6,763	-5,441	110	110
Tax Rate (%)	22.9	24.0	24.6	5.7	25.3	15.2	-0.7	-4.5
Min. Int. & Assoc. Share	574	417	-140	-1,738	-980	-2,079	-151	-151
Reported PAT	**39,649**	**29,101**	**19,104**	**-12,781**	**-19,020**	**-28,106**	**-16,006**	**-2,022**
Adjusted PAT	**40,585**	**34,842**	**19,104**	**6,335**	**-16,662**	**-21,849**	**-16,006**	**-2,022**
Change (%)	8.1	-14.2	-45.2	-66.8	-363.0	31.1	-26.7	-87.4

Balance Sheet								(INR Million)
Y/E Mar	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Share Capital	935	935	915	915	915	915	915	915
Reserves	180,176	211,588	225,191	209,506	180,556	361,214	344,806	342,382
Net Worth	**181,111**	**212,523**	**226,105**	**210,421**	**181,471**	**362,129**	**345,720**	**343,296**
Minority Interest	3,071	5,573	10,802	8,573	8,003	5,923	5,772	5,621
Debt	170,908	246,182	363,682	455,007	470,132	495,132	495,132	495,132
Deferred Tax	11,920	13,365	14,727	20,185	13,477	13,477	13,482	13,487
Total Capital Employed	**367,010**	**477,642**	**615,316**	**694,185**	**673,082**	**876,660**	**860,106**	**857,536**
Gross Fixed Assets	223,301	267,032	466,646	612,235	627,116	681,116	736,116	751,116
Less: Acc Depreciation	58,360	74,285	122,687	151,286	178,233	218,710	252,383	287,427
Net Fixed Assets	**164,940**	**192,747**	**343,959**	**460,949**	**448,883**	**462,406**	**483,732**	**463,689**
Capital WIP	136,520	192,303	178,112	90,728	118,266	89,266	59,266	19,266
Goodwill on consolidation	918	1,543	5,930	5,485	5,485	214,312	202,312	190,312
Investments	3,776	8,089	3,418	17,852	3,577	3,577	3,577	3,577
Current Assets	**143,922**	**176,046**	**209,301**	**180,353**	**159,182**	**171,905**	**183,581**	**262,632**
Inventory	35,795	45,242	48,812	48,487	32,360	34,943	42,487	52,371
Debtors	13,068	19,541	17,724	16,907	14,292	15,467	18,806	23,181
Cash & Bank	1,492	2,001	10,153	11,391	6,204	15,169	15,962	80,754
Loans & Adv, Others	93,567	109,262	132,612	103,568	106,326	106,326	106,326	106,326
Curr Liabs & Provns	**83,066**	**93,084**	**125,405**	**61,181**	**62,310**	**64,805**	**72,362**	**81,940**
Net Current Assets	**60,856**	**82,962**	**83,896**	**119,172**	**96,872**	**107,099**	**111,219**	**180,693**
Total Assets	**367,010**	**477,642**	**615,316**	**694,185**	**673,082**	**876,660**	**860,106**	**857,536**

Financials and Valuations

Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	**43.4**	**37.2**	**20.9**	**6.9**	**-18.2**	**-23.9**	**-17.5**	**-2.2**
Cash EPS	57.6	47.6	40.7	14.0	9.0	11.2	31.8	48.6
Book Value	193.7	227.3	247.1	230.0	198.4	395.8	377.9	375.2
DPS	1.6	1.6	1.6	1.6	0.0	0.0	0.0	0.0
Payout (incl. Div. Tax.)	3.8	4.4	7.9	27.0	0.0	0.0	0.0	0.0
Valuation(x)								
P/E	2.7	3.1	5.6	16.9	-6.4	-4.9	-6.7	-52.9
Price / Book Value	0.6	0.5	0.5	0.5	0.6	0.3	0.3	0.3
EV/Sales	1.5	1.8	2.3	2.7	2.9	2.8	2.3	1.7
EV/EBITDA	4.0	5.4	8.0	10.1	16.6	13.1	9.6	6.7
Dividend Yield (%)	1.4	1.4	1.4	1.4	0.0	0.0	0.0	0.0
Profitability Ratios (%)								
RoE	25.2	17.7	8.8	2.9	-8.5	-8.0	-4.5	-0.6
RoCE	17.2	12.3	7.3	4.5	1.2	0.6	1.8	3.7
RoIC (pre-tax)	26.5	20.2	11.4	5.5	1.1	0.8	2.7	5.5
Turnover Ratios (%)								
Asset Turnover (x)	0.5	0.4	0.3	0.3	0.3	0.2	0.3	0.4
Debtors (No. of Days)	26	36	32	31	27	27	27	27
Inventory (No. of Days)	72	83	89	88	61	61	61	61
Creditors (No. of Days)	58	58	90	70	79	78	75	72
Leverage Ratios (%)								
Net Debt/Equity (x)	0.9	1.1	1.6	2.1	2.6	1.3	1.4	1.2

Cash Flow Statement **(INR Million)**

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Adjusted EBITDA	68,868	65,685	57,764	54,598	34,410	44,810	60,948	78,281
Non cash opr. exp (inc)	1,160	628	-2,456	-21,600	-4,581	-6,257	0	0
(Inc)/Dec in Wkg. Cap.	-20,385	-23,207	12,816	-18,154	11,762	-1,263	-3,326	-4,682
Tax Paid	-10,421	-7,884	-8,337	-3,393	-170	5,441	-105	-105
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	**39,221**	**35,223**	**59,786**	**11,451**	**41,422**	**42,731**	**57,517**	**73,494**
(Inc)/Dec in FA & CWIP	-60,604	-84,012	-141,525	-50,964	-39,500	-25,000	-25,000	-15,000
Free cash flows	**-21,383**	**-48,789**	**-81,739**	**-39,513**	**1,922**	**17,731**	**32,517**	**58,494**
(Pur)/Sale of Invt	19	-3,405	4,898	-13,430	15,904	0	0	0
Others	-4,138	-8,408	-3,809	-970	3,706	324	0	40,000
CF from Inv. Activity	**-64,723**	**-95,825**	**-140,437**	**-65,365**	**-19,889**	**-24,676**	**-25,000**	**25,000**
Inc/(Dec) in Net Worth	38	0	-3,986	5	0	0	0	0
Inc / (Dec) in Debt	33,044	75,274	115,838	90,704	9,230	25,000	0	0
Interest Paid	-1,925	-1,569	-1,488	-1,448	-8	0	0	0
Divd Paid (incl Tax) & Others	-8,804	-12,593	-21,563	-34,110	-35,941	-34,090	-31,724	-33,702
CF from Fin. Activity	**22,354**	**61,111**	**88,802**	**55,151**	**-26,719**	**-9,090**	**-31,724**	**-33,702**
Inc/(Dec) in Cash	**-3,148**	**509**	**8,152**	**1,238**	**-5,187**	**8,965**	**793**	**64,792**
Add: Opening Balance	4,640	1,492	2,001	10,153	11,391	6,204	15,169	15,962
Closing Balance	**1,492**	**2,001**	**10,153**	**11,391**	**6,204**	**15,169**	**15,962**	**80,754**

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