March 25, 2024

COMPANY UPDATE | Sector: Metals and Mining

Jai Balaji Industries

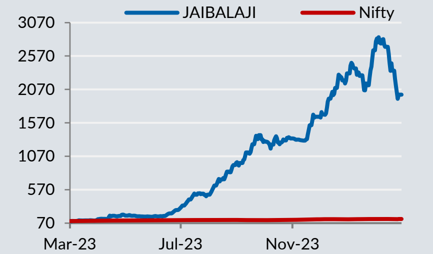
Duct Iron Pipes and Specialized Ferro Alloys to be key products moving forward

Reco	:	**NOT RATED**
CMP	:	**Rs 912**
Target Price	:	NA
Potential Upside	:	NA

Stock data (as on March 22, 2024)

Nifty	22,097
52 Week h/l (Rs)	1314 / 42
Market cap (Rs/USD mn)	146631 / 1756
Outstanding Shares (mn)	164
6m Avg t/o (Rs mn):	168
Div yield (%):	-
Bloomberg code:	JBIL IN
NSE code:	JAIBALAJI

Stock performance



	1M	3M	1Y
Absolute return	-25.0%	19.9%	1891.1%

Shareholding pattern (As of Dec'23 end)

Promoter	60.0%
FII+DII	2.6%
Others	37.4%

Financial Summary

(Rs mn)	FY21	FY22	FY23
Revenue	27,852	46,925	61,251
YoY Growth	-4%	68%	31%
EBIDTA	954	2,083	2,562
EBITDA (%)	3%	4%	4%
EBIT	14	1,170	1,583
EBIT (%)	0%	2%	3%
PAT	(758)	481	578
EPS	-6.86	4.35	4.11

We went for Jai Balaji Industries' plant visit at Durgapur, West Bengal where the company has its TMT bars producing DRI manufacturing capacity and DI Pipes producing Blast Furnace facilities cupped with backward integrated operations. Post the plant visit, we got to interact with the management as well. The key takeaways from our visit are provided below-

Capacity expansion plans to focus on capturing the DI Pipes and Ferro Alloy markets

Currently, JBIL's capacity for Specialized Ferro Alloys and DI Pipes stands at 130,000 tpa and 240,000 tpa. With brownfield expansions happening at the West Bengal unit, the company is undergoing an expansion plan to reach 190,000 tpa for Ferro Alloys and 660,000 tpa for DI Pipes. The commissioning of the plants will take place by FY25. Additionally, this capex will be incurred through internal accruals. The primary focus reason for a foray towards these products is that the management believes this move to provide sustainable margins in the range of 18-20% in the long run.

VAP to be the focus point to improve margins

JBIL will be focusing on three main value-added products – TMT Bars, DI Pipes and Specialized Ferro Alloys. Currently, the share of VAP in total revenue stands at 55% and the management aims to bring these up to 75-80% as the VAP attracts higher pricing as well as EBITDA margins. Through TMT Bars and DI Pipes, JBIL wants to be placed on capturing the domestic market. Whereas the Specialized Ferro Alloys is a key product catering to the export markets completely. Currently JBIL is exporting to ~40 countries and meeting the requirements of each in terms of carbon content and increased chromium value in the alloys. We see the ferro alloys division to be a key driver for JBIL's future as it's an industry with very few competitors and requires higher technical expertise to produce the low carbon ferro alloys.

The brownfield expansion also aims at cost reduction and carbon control

Apart from the above-mentioned capex plans, JBIL is also taking initiatives on improvising its backward integration operations. At the heart of it lies, the doubling of the sinter plant capacity from the current 608,000 tpa to 1,208,000 tpa. The sinter plant will not only help in improving the current blast furnace efficiencies, but also add security on the cost savings front for the new blast furnace expansion. The company is also undertaking its blast furnace expansion by ~241,000 tpa to have a total BF capacity of 750,000 tpa. The sinters help in improving BF operations and efficiency as well as reduces coke consumption in the BF plant and JBIL wants to bank on the same for achieving cost efficiencies.

Management has a strong stand to not raise debt and grow through internal accruals

The company has taken significant debt reduction initiatives over the recent years. Net Debt stood at Rs 34,079mn in FY21, which is now at Rs 5,665mn levels. The company aims to be a net cash company over the next 12-15 months. Currently, the debt outstanding has been refinanced from Tata Capital Financial Services with a pledge of the shareholder's stake. The management guidance is to maintain the Net Debt/EBITDA at 0.6x as of March 2024.

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KEY HIGHLIGHTS FROM THE MANAGEMENT MEET

Industry Overview and Outlook

- JBIL's focus is on capturing the growth in DI Pipes industry in India in the upcoming years.
- River Linking and Irrigation is expected to be a key demand driver for the DI Pipes sector.
- Management believes that the government shall be introducing new policies to inculcate growth aspects like the Jal Jeevan Yojana.
- Water consumption in the country is expected to increase. Especially, in cities where the scarcity issue needs to be tackled (e.g., Chennai, Bangalore etc.)
- A change in trend is also seen in the pipes sector from the usage of PVC and cement pipes to DI Pipes.

Capex Plans

- Brownfield expansion taking place has a total cost estimation of Rs 1,000 crores, out of which the company has already spent Rs 550 crores.
- The management was more focused on the current expansion plans and proposed that the plans post FY2026 are still under discussion and shall be addressed in a timely manner.
- A similar project on a greenfield front would cost the company about Rs 3,000 crores, hence financial sense dictated to utilize the current land and infrastructure to have one of the lowest cost capex in the sector.

Debt Profile

- JBIL has undertaken massive debt reduction over the last few years. The shutting down of plants, cancellation of coal blocks, rising iron ore costs, mining bans clubbed with rising borrowing costs had put the company in a massive debt trap.
- The management had to be resilient enough to pull the company out of the debt burden and has done phenomenally well on the debt front.
- The company has now taken debt restructuring initiatives which helped in curbing interest costs as well as the debt burden.
- As of today, the debt stood somewhere between Rs 490-500 crores and according to the management, the company has cash fixed deposits of ~Rs 150 crores.
- JBIL also got its first credit re-rating in 12 years. JBIL received a BBB- rating from CRISIL.

Day to Day Operations

- JBIL has fixed price contracts with a 3-month duration.
- PCI injection helps the company save roughly Rs 4,000/t. The company has received tax benefits of roughly Rs 1,700 crores. The tax burden for FY25E should be somewhere between 7.5-8%. From FY26E onwards, expect the same to be in the 22-25% range.
- DRI to TMT conversion costs stand at Rs 10/kg. Hot metal to DRI conversion costs ~Rs 15/kg.

PLANT VISIT IN PICTURES

Exhibit 1: Iron Ore Stockyard

Source: Plant Visit

Exhibit 2: Coking Coal Stocking

Source: Plant Visit

Exhibit 3: Coke Plant Model Outlay

Source: Plant Visit

Exhibit 4: Iron Ore Fines to Sinter – Raw Materials

Source: Plant Visit

Exhibit 5: Captive Power Plant Model Outlay

Source: Plant Visit

Exhibit 6: Hot Metal Production

Source: Plant Visit

Exhibit 7: TMT Bars Production Centre

Source: Plant Visit

Exhibit 8: DI Pipes Products in a nutshell

Source: Plant Visit

FINANCIALS

Exhibit 9: Income Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Revenue	29,123	27,852	46,925	61,251
COGS	22,398	20,693	33,245	42,996
Employee Cost	900	887	1,089	1,316
Other Expenses	5,468	5,318	10,508	14,376
EBITDA	357	954	2,083	2,562
EBITDA (%)	1.2%	3.4%	4.4%	4.2%
Depreciation	968	940	913	979
EBIT	-611	14	1,170	1,583
EBIT (%)	-2.1%	0.0%	2.5%	2.6%
Other Income	553	108	299	355
Interest	1,028	880	988	889
Exceptional Items	58	-	-	-
PBT	(1,143)	(758)	481	1,049
Tax	-	-	-	471
PAT	(1,143)	(758)	481	578
EPS	(10.35)	(6.86)	4.35	4.11

Source- Company Annual Reports, YES Sec

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Net Block	12,332	11,766	11,601	11,268
CWIP	977	1,020	523	688
Other Non-current Assets	4,045	4,268	4,179	3,927
Inventory	5,786	6,992	7,580	8,214
Receivables	2,844	2,440	1,561	2,293
Cash & Bank	228	258	221	515
Total Assets	**29,793**	**30,062**	**29,691**	**29,599**
Share Capital	1,105	1,105	1,105	1,455
Reserves	(17,684)	(18,435)	(17,733)	4,106
Non-current Liabilities	6,617	5,787	5,867	6,558
Current Liabilities	39,754	41,606	40,453	17,480
Total Equity and Liabilities	**29,793**	**30,062**	**29,691**	**29,599**

Source- Company Annual Reports, YES Sec

Jai Balaji Industries

Exhibit 11: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Profit before Tax	(1,143)	(758)	481	1,049
Profit before Working Capital changes	516	1,121	4,303	5,904
Working capital changes	2,410	423	351	(2,641)
Cash flow from Operations	2,926	1,545	4,654	3,263
Taxes Paid	(20)	(4)	(27)	(54)
Net Cash flow from Operating Activities	**2,906**	**1,541**	**4,627**	**3,209**
Capex	(370)	(422)	(1,273)	(924)
Other Investments	0	26	30	(251)
Net Cash flow from Investing Activities	**(370)**	**(395)**	**(1,244)**	**(1,176)**
Net Cash flow from Financing Activities	**(2,497)**	**(1,000)**	**(3,508)**	**(1,921)**
Opening Cash Balance	71	111	256	132
Net Change in Cash	39	146	(124)	113
FX Changes	-	-	-	-
Ending Cash Balance	**111**	**256**	**132**	**245**

Source- Company Annual Reports, YES Sec

Exhibit 12: Key Ratios

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Growth (%)				
Total Sales		-4%	68%	31%
EBITDA		167%	118%	23%
EBIT		-102%	8324%	35%
PAT		-34%	-163%	20%
Profitability (%)				
GP Margins	23%	26%	29%	30%
EBIDTA Margins	1%	3%	4%	4%
EBIT Margins	-2%	0%	2%	3%
PAT Margins	-4%	-3%	1%	1%
ROCE	11%	7%	-4%	5%
ROE	7%	4%	-3%	10%
Per Share Data (Rs)				
EPS	(10.4)	(6.9)	4.4	4.1
BVPS	(150.1)	(156.9)	(150.6)	39.5
Valuations (x)				
P/E	(1.7)	(5.3)	10.5	11.1
P/BV	(0.1)	(0.2)	(0.3)	1.2
EV/EBIDTA	102.3	40.0	17.6	5.8
Market Cap/Sales	0.1	0.1	0.1	0.1

Source- YES Sec

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