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JAI BALAJI INDUSTRIES | Metals & Mining | 27 March 2024

Management meet takeaways: Jai Balaji's new avatar

- **JBIL turned around operations improving plant utilisation and efficiency, and restored its balance sheet by restructuring debt**
- **Targets growing DI pipe capacity by 175% and ferro alloy by 46% through brownfield expansions at a capex outlay of Rs10bn**
- **To grow EBITDA from Rs 7bn (TTM Dec'23) to Rs 18bn-20bn with stabilised operations following brownfield expansion**

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JBIL's new innings: JBIL (Not Rated) has turned around with a ~30% CAGR in turnover and 97% CAGR in EBITDA between FY21 and 9MFY24. It restructured debt and lowered net debt to EBITDA to 0.6 as of FY24E (management guidance).

Focus on high-margin products: After the stabilisation of its expansion, JBIL aims to grow revenue to Rs 100bn (from Rs 63bn TTM). The company plans to grow revenue of ductile iron (DI) pipe and ferro alloys to 80% (from 55% now) by growing DI pipes to 45-50% (from 30%) and ferro alloys to 35% (from 20-25%). JBIL aims to grow EBITDA to Rs 18bn-20bn (from Rs 7bn TTM) upon completing its expansion.

Gaining presence in DI pipe market: With 18% CAGR in sales over the past three years, JBIL has improved utilisation to ~80%. Further, with expansion to 660ktpa by FY26, the company aims to improve its market share from ~10% now to 18-20%.

India's largest specialised ferro alloy manufacturer: With 30% sales CAGR over the past three years, JBIL's plant utilisation improved to 83% in Q3FY24. Focusing on specialised ferro alloys for the export market (55-60% of sales realising Rs 260k/t currently), blended realisation rose to Rs 172k/t in 9MFY24 from Rs 74k/t in FY21.

Integrated operations lower production costs: JBIL benefits from lower iron ore cost due to its beneficiation plant and captive railway sliding. It has lowered coke cost with the captive production of prime and nut coke and the use of PCI coal in the blast furnace. Also, lowered power cost by utilising waste-heat for captive power.

Key monitorables: (a) Timely completion and stabilisation of expansion plan, (b) rebuild working capital to at least Rs 5bn-7bn for better flexibility of operations.

Scope for improved disclosures: JBIL needs to disclose segmental costs and profitability of all three segments due to significant differences in profit drivers.

Current valuation: JBIL trades at a TTM EV/EBITDA of 20.7x and TTM P/E of 27.3x. Based on management guidance of Rs 18bn-20bn EBITDA after expansion, implied forward EV/ EBITDA works out to 7.6x-8.4x.

Ticker/Price	JBIL IN/Rs 904
Market cap	US$ 1.8bn
Free float	35%
3M ADV	US$ 2.2mn
52wk high/low	Rs 1,314/Rs 42
Promoter/FPI/DII	65%/3%/0%

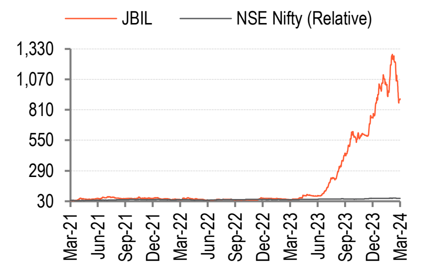
Source: NSE | Price as of 26 Mar 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	27,852	46,925	61,251
EBITDA (Rs mn)	954	2,083	2,562
Adj. net profit (Rs mn)	(758)	481	578
Adj. EPS (Rs)	(6.9)	4.4	4.5
Adj. ROAE (%)	4.5	(2.8)	(10.5)
Adj. P/E (x)	(131.8)	207.9	201.4
EV/EBITDA (x)	192.2	87.5	70.5
Adj. EPS growth (%)	(38.0)	(163.4)	3.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Key takeaways from site visit and management meet

Operations

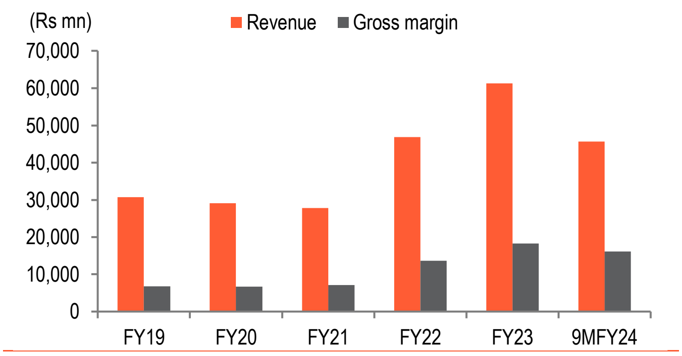
Jai Balaji Industries operates a 1.1mtpa integrated steel manufacturing and ferro alloy plant with four manufacturing units across West Bengal and Chhattisgarh. In its second avatar after restructuring, management has refocused its strategy on maximising value while maintaining the stability of its financial position from its earlier strategy of capacity expansion. JBIL is particularly focusing on value-added products like DI pipes and specialised ferro alloys to expand margin and achieve sustainability.

JBIL turned around its operations

The company saw an operational turnaround of ~30% CAGR in turnover, 45% CAGR in gross profit and 97% CAGR in EBITDA over FY21 to 9MFY24. It had a turnover of Rs 45.7bn, EBITDA of Rs 7.3bn and EBITDA margin of 14.6% in 9MFY24. The turnaround in operations saw the company record its first net profit in FY23 after consecutive losses over the past 10 years.

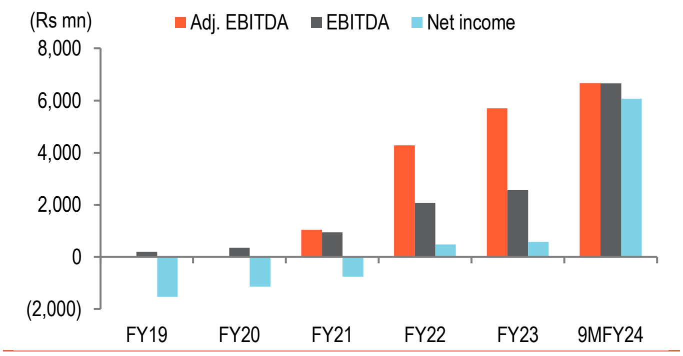
The turnaround was due to increased sales of its key products (DI pipes, ferro alloys and TMT [thermo mechanically treated] bars) improving asset utilisation and enhancing plant efficiency, and in turn profitably operationalising several backward integration projects.

Fig 1 – Turnaround in operations with improved plant utilisation…



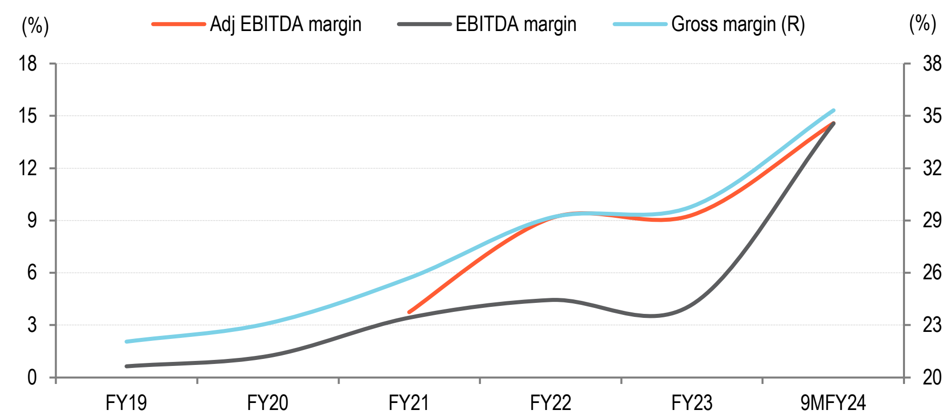
Source: Company

Fig 2 – … and plant efficiency and debt restructuring



Source: Company

Fig 3 – Improvement in profitability



Source: Company

Restructuring restored its balance sheet

After restructuring debt in FY23, JBIL's net debt reduced sharply to Rs 8.7bn in FY23, from Rs 31.5bn in FY22, and further to Rs 5.7bn for Dec'23. The company aims to become free of net debt over the next 18 months. However, it still needs to build working capital of Rs 5bn-7bn to support flexibility in its operations. As it does not have any working capital lines, we believe that the company is currently supporting its operations with arrangements with vendors to keep working capital under check.

- **Lowered net debt:** The settlement and restructuring of various credit facilities in FY23 helped lower net debt to Rs 8.7bn in FY23. The company subsequently repaid the outstandings of its asset restructuring lenders with operational cash flow and loan of Rs 5.6bn from Tata Capital in FY24.

- **Net worth back in the black:** Net worth losses were wiped out transferring the difference between the restructured liability and book balance of Rs 19.4bn as a capital reserve in FY23.

- **Infusion of equity:** The promoters infused/ committed to infuse ~Rs 3.5bn in the company against equity warrants in FY23. In the first tranche on 27 May 2022, the promoter infused Rs 2.2bn against 50mn warrants (one equity share per warrant) at Rs 52 per warrant. In the second tranche on 20 Jan 2023, the promoter committed to infuse ~Rs 1bn against 22bn warrants at Rs 45 per warrant. The promoters paid a 25% advance against the second tranche of warrants in FY23.

  Subsequently the company converted 35mn warrants into equity in FY23 and another 18.2mn in FY24, raising equity to Rs 1.64bn. There are 18.8mn warrants outstanding currently.

- **Cleaning up the balance sheet:** The company has written off ~Rs 1bn in bad debts and provided for Rs 1.1bn of doubtful debts and advances. Management confirmed it had provided for potential losses on its current assets.

Leveraging brownfield opportunities to grow

After the turnaround, the company is implementing a brownfield capex of Rs10bn which it said had the potential to increase EBITDA to Rs 18bn-20bn upon the stabilisation of expanded capacity from ~Rs 7bn TTM as of Dec'23.

- **Brownfield capex underway:** The company is currently executing a capex programme of Rs10bn, targeted for completion by FY26. It has spent Rs 3.8bn as of Dec'23. This investment has a lower capital intensity and significantly higher capital return as this brownfield expansion at the existing site is capturing upsides from existing infrastructure.

- **Capacity expansion of high-margin products:** The company aims to increase DI pipe capacity by 175% to 660ktpa by FY26 from 240ktpa currently, and ferro alloy capacity by 45% to 190ktpa by FY26 from 130ktpa currently. On an increased capacity, the company looks to increase utilisation rate to 90% after stabilisation of operations. This compares with operational utilisation of 83% at the ferro alloys plant and 81% at DI Pipe in Q3FY24.

- **Margin enhancement increasing backward integration:** To further improve margins, the company is raising its blast furnace capacity by ~50% to 750ktpa, doubling sinter unit capacity to 1,200ktpa, setting up a 600ktpa beneficiation plant and enhancing waste heat recovery capacity by a further 35MWh.
- **Growth ahead:** The company aims to increase its turnover to Rs 100bn and earn EBITDA margin of 18-20%, translating to an EBITDA of Rs 18bn-20bn upon stabilisation of expanded operations. This translates to a potential ~60% growth in revenue and 150-175% increase in EBITDA over TTM Dec'23 numbers.

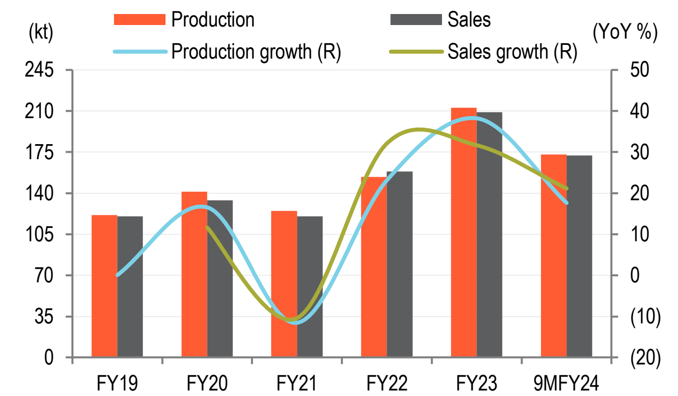
Focus on high-margin products

JBIL aims to focus on a high and sustainable margin business by focusing on high-margin products. It is enhancing their capacity at its existing site by leveraging existing infrastructure to further benefit from economies of scale and enhance operational efficiencies. The company looks to increase the revenue contribution of DI pipes and specialised ferro alloys to 80% (55% currently) upon the ramp-up of expansion.

Gaining presence in DI pipe market

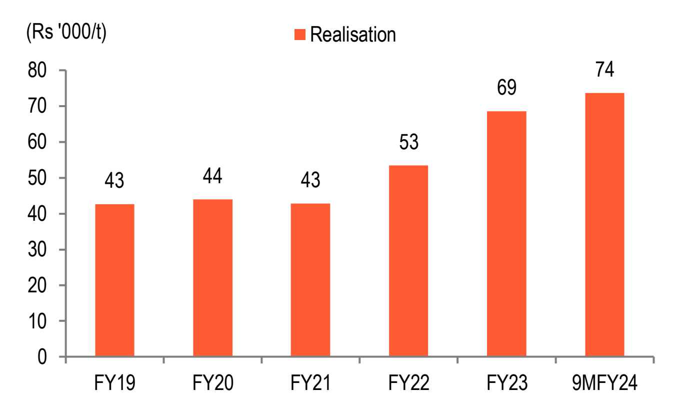
- **Improving utilisation:** With volume growth of 18% annually over the past three years, the company is now operating at an annualised run-rate of 196kt in Q3FY24. It is further expanding capacity to 660ktpa by FY26 from 240ktpa currently.
- **Improving market presence:** The company has gained ~10% market share as of Q3FY24 and is looking to increase it to 18-20% post stabilisation of expansion.
- **Increasing revenue contribution:** The company aims to increase revenue contribution of DI pipes to 45-50% after expansion from 30% currently.
- **Domestic market is the key focus:** The company primarily targets the domestic market and is benefitting from demand under the Jal Jeevan Mission and Mission Amrut Sarovar infrastructure development plan.
- **Integration benefits:** JBIL expects to benefit from backward integration into pig iron, onsite coke production and sinter production.

Fig 4 – DI Pipes: improved plant utilisation…



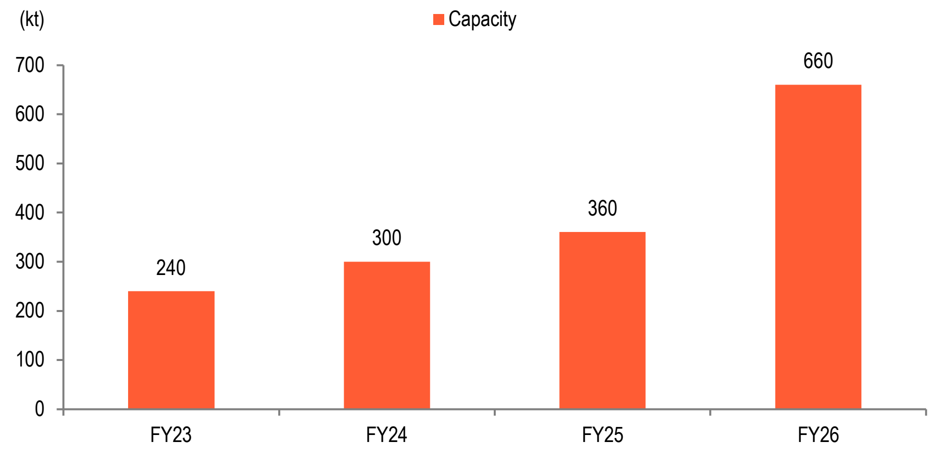
Source: Company

Fig 5 – … and realisation



Source: Company

Fig 6 – DI Pipes: JBIL plans to increase capacity by 175% to 660ktpa by FY26



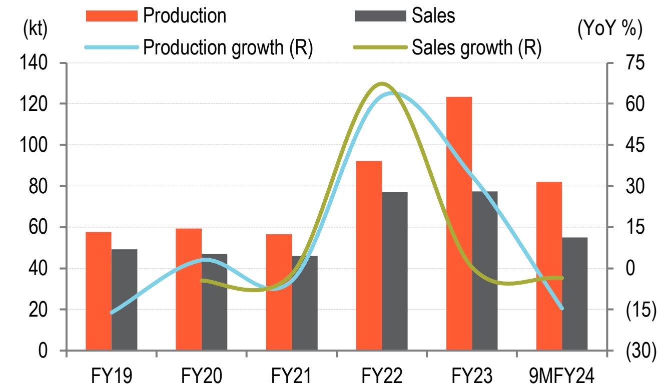
Source: Company

Largest specialised ferro alloy manufacturer in India

The company marketed 55-60% of its specialised ferro alloys production of 108ktpa (annualised) in Q3FY24, realising ~Rs 260k/t against the blended average of Rs 172k/t in 9MFY24. The company is further targeting the ramp-up of the ferro alloy capacity to 0.19mt and increase the share of specialised applications to 75-80%.

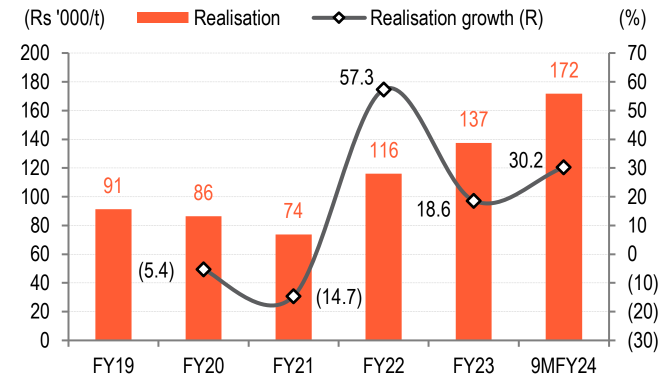
- **Improving utilisation:** Ferro alloy sales grew at a CAGR of ~30% over the past three years from 46kt in FY21 to an annualised run-rate of 108kt in Q3FY24, raising plant utilisation to 83%.
- **Higher realisation:** On a blended basis, realisation improved sharply to Rs 172k/t in 9MFY24, from Rs 74k/t in FY21, as the company gained traction targeting specialised applications of its products.
- **Increasing revenue contribution:** The company aims to increase revenue contribution of ferro alloys to 35% after stabilisation of expansion from the current 20-25%.
- **Export is the key focus:** The company primarily targets the export market and has ramped up exports to 40 countries and secured a three-star export house status. (Three-star and above export houses are permitted to earn benefits from the Accredited Clients Programme, as per the Central Board of Excise and Customs guidelines. Status holders would be entitled to preferential and priority treatment while handling consignments by concerned agencies.) JBIL's key markets include Japan, Korea, the US, the EU, Canada, etc.
- **Integration benefit:** The company benefits from backward integration into waste heat recovery-based captive power plant and onsite production of nut coke.

Fig 7 – Ferro alloys: improved plant utilisation…



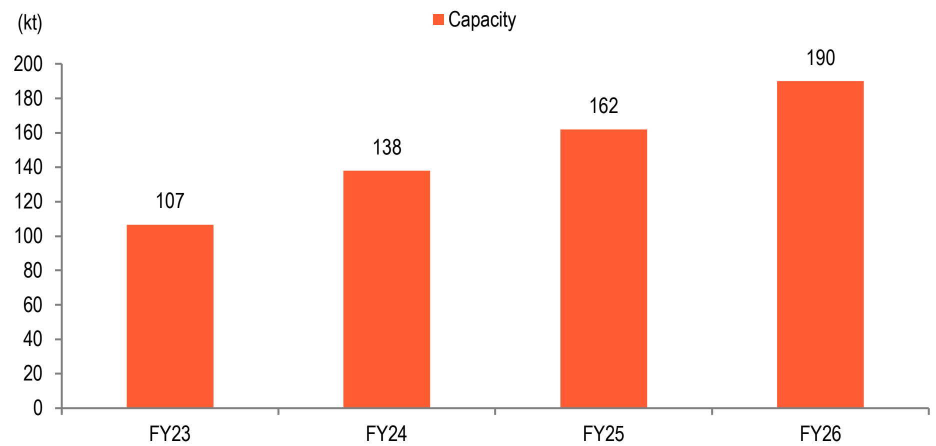
Source: Company

Fig 8 – … and realisation with traction in specialised ferro alloys



Source: Company

Fig 9 – Ferro alloys: Plan to increase capacity by 46% to 190ktpa by FY26



Source: Company

Integrated operations lead to lower production costs

- **Backward integration for all three products.** As highlighted above, both DI pipe plant and ferro alloys benefit from cost savings due to backward integration into key raw materials/ inputs. The third product TMT rebar / wire rod benefits from backward integration into DRI sponge iron and waste heat recovery-based captive power plant.
- **Lower cost of iron ore:** Both DI pipe and rebar products benefit from lower iron ore cost with (a) use of lower-priced lower grade fines (57-58%) with onsite beneficiation plant and (b) lower logistics cost with rail transport between Barbil (source of iron ore) and the plant. The company owns captive railway sliding at both ends. The availability of an onsite screener plant further helps to customise the use of larger diameter (>18mm) for blast furnace, medium diameter (5-13mm) for sponge iron and remaining fines for sintering, further optimising cost.
- **Lowered cost of power:** The company meets 70% of its power requirements through a ~100MW captive power plant (CPP). Waste heat from the blast furnace and direct reduced iron (DRI) operations feed 70% of the CPP's fuel requirements. The company indicated that the cost of captive power is less than half that of purchased power.

- **Lowering the cost of coke:** The company is revamping blast furnace (BF) which will enable increasing the use of pulverised coal injection (PCI) coal to 160kg per tonne of hot metal (thm), lowering the need for prime coking coal. The company has currently reached a usage level of 100kg of PCI coal at the new BF. The company's aim is to stabilise the coking coal blend at 55-60% prime coking coal, 20-25% second grade coking coal and 20% of PCI and other non-coking coal.

Current valuation

- JBIL's current market cap is Rs 148bn, and Dec'23 net debt was Rs 6bn.
- **EV/EBITDA multiple:** On a TTM basis as on Dec'23, the company traded at an EV/ EBITDA of 20.7x. Management guided for Rs 18bn-20bn of EBITDA upon stabilisation of expansion, which translates to an implied forward EV/ EBITDA of 7.6x-8.4x.
- **P/E multiple:** On a TTM basis as on Dec'23, the company trades at a trailing P/E of 27.3x.
- **Valuation of peers in metal pipes:** Within the pipe segment, Electrosteel Castings (ELSC, Not Rated) is a proxy with similar integrated operations in DI pipe although it has much larger and wider operations even beyond DI pipes. ELSC trades at a TTM EV/EBITDA of 11.3x and TTM P/E of 17.1x.
- **Valuation of ferro alloy peers:** In India, Indian Metals and Ferro Alloys **(**IMFA, Not Rated) is a key listed manufacturer in India. IMFA trades at a TTM EV/EBITDA of 5.5x and TTM P/E of 9.2x.

Fig 10 – Valuation of peers

	Price	Market value	EBITDA (Rs bn)			EPS (Rs/sh)			ROE (%)			EV/EBITDA (x)	PE (x)		
	(Rs/sh)	(Rs bn)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	12M fwd	FY24E	FY25E	FY26E
Electrosteel Castings	172.7	106.8	12.4	14.0	16.6	11.8	13.9	17.2	11.8	12.3	16.9	9.2	14.6	12.4	10.0
Jindal Saw	428.8	136.3	32.7	29.2	28.7	51.1	46.8	49.3	19.3	15.3	14.1	6.1	8.4	9.2	8.7
Maharashtra Seamless	847.9	113.6	12.7	11.5	14.2	71.8	66.2	83.8	17.2	13.9	15.1	9.5	11.8	12.8	10.1
Welspun Corp	518.5	135.6	15.8	17.2	19.9	37.4	40.0	46.8	18.6	17.3	17.7	8.6	13.9	13.0	11.1
Ratnamani Metals & Tubes	2801.8	196.4	9.2	10.7	12.8	88.5	105.5	130.2	21.0	21.0	21.6	18.4	31.6	26.5	21.5
Indian Metals and Ferro Alloys	633.9	34.2	NA	-	-	-	-	-	-	-	-	-	-	-	-
Jai Balaji Industries	904.3	148.0	NA	-	-	-	-	-	-	-	-	-	-	-	-

Source: Refinitiv, BOBCAPS Research

Financials Standalone

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23A
Total revenue	**30,775**	**29,123**	**27,852**	**46,925**	**61,251**
EBITDA	196	357	954	2,083	2,562
Depreciation	(1,016)	(968)	(940)	(913)	(979)
EBIT	(821)	(611)	14	1,170	1,583
Net interest inc./(exp.)	(1,116)	(1,028)	(880)	(988)	(889)
Other inc./(exp.)	400	553	108	299	355
Exceptional items	0	(58)	0	0	0
EBT	(1,537)	(1,143)	(758)	481	1,049
Income taxes	0	0	0	0	(471)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**(1,537)**	**(1,143)**	**(758)**	**481**	**578**
Adjustments	0	0	0	0	0
Adjusted net profit	**(1,537)**	**(1,143)**	**(758)**	**481**	**578**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23A
Accounts payables	6,702	6,904	7,503	8,187	8,990
Other current liabilities	4,666	4,735	5,461	6,352	6,036
Provisions	88	95	94	89	118
Debt funds	36,383	34,638	34,335	31,686	8,597
Other liabilities	0	0	0	6	298
Equity capital	964	1,105	1,105	1,105	1,455
Reserves & surplus	(16,763)	(17,683)	(18,434)	(17,732)	4,107
Shareholders' fund	(15,799)	(16,578)	(17,330)	(16,628)	5,562
Total liab. and equities	**32,040**	**29,793**	**30,063**	**29,692**	**29,600**
Cash and cash eq.	75	227	258	221	515
Accounts receivables	3,941	2,844	2,440	1,561	2,293
Inventories	4,960	5,786	6,992	7,580	8,214
Other current assets	4,993	3,581	3,319	4,027	2,694
Investments	12	12	12	12	12
Net fixed assets	13,241	12,332	11,766	11,601	11,268
CWIP	790	977	1,020	523	688
Intangible assets	0	47	46	46	45
Deferred tax assets, net	2,909	2,909	2,909	2,909	2,909
Other assets	1,131	1,091	1,314	1,226	975
Total assets	**32,040**	**29,793**	**30,063**	**29,692**	**29,600**

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A	FY23A
Cash flow from operations	**(286)**	**2,796**	**1,737**	**3,798**	**2,930**
Capital expenditures	234	(296)	(415)	(252)	(811)
Change in investments	0	0	0	0	0
Other investing cash flows	(122)	61	(114)	(174)	250
Cash flow from investing	**112**	**(235)**	**(529)**	**(425)**	**(561)**
Equities issued/Others	0	141	0	0	350
Debt raised/repaid	1,280	(1,745)	(303)	(2,649)	(23,089)
Interest expenses	(1,116)	(1,028)	(880)	(988)	(889)
Dividends paid	0	0	0	0	0
Other financing cash flows	4	223	7	228	21,553
Cash flow from financing	**169**	**(2,409)**	**(1,177)**	**(3,409)**	**(2,075)**
Chg in cash & cash eq.	**(5)**	**153**	**30**	**(37)**	**294**
Closing cash & cash eq.	**80**	**75**	**227**	**258**	**221**

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21A	FY22A	FY23A
Reported EPS	(15.9)	(11.1)	(6.9)	4.4	4.5
Adjusted EPS	(15.9)	(11.1)	(6.9)	4.4	4.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	(163.9)	(160.5)	(156.8)	(150.5)	43.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21A	FY22A	FY23A
EV/Sales	5.8	6.3	6.6	3.9	3.0
EV/EBITDA	919.8	515.1	192.2	87.5	70.5
Adjusted P/E	(56.7)	(81.7)	(131.8)	207.9	201.4
P/BV	(5.5)	(5.6)	(5.8)	(6.0)	20.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21A	FY22A	FY23A
Tax burden (Net profit/PBT)	100.0	105.3	100.0	100.0	55.1
Interest burden (PBT/EBIT)	187.3	177.6	(5459.1)	41.1	66.3
EBIT margin (EBIT/Revenue)	(2.7)	(2.1)	0.0	2.5	2.6
Asset turnover (Rev./Avg TA)	95.5	94.2	93.1	157.1	206.6
Leverage (Avg TA/Avg Equity)	(2.1)	(1.9)	(1.8)	(1.8)	(5.4)
Adjusted ROAE	10.2	7.1	4.5	(2.8)	(10.5)

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21A	FY22A	FY23A
YoY growth (%)					
Revenue	28.8	(5.4)	(4.4)	68.5	30.5
EBITDA	(120.9)	82.3	167.6	118.4	23.0
Adjusted EPS	(42.0)	(30.6)	(38.0)	(163.4)	3.2
Profitability & Return ratios (%)					
EBITDA margin	0.6	1.2	3.4	4.4	4.2
EBIT margin	(2.7)	(2.1)	0.0	2.5	2.6
Adjusted profit margin	(5.0)	(3.9)	(2.7)	1.0	0.9
Adjusted ROAE	10.2	7.1	4.5	(2.8)	(10.5)
ROCE	(2.0)	(0.3)	0.7	9.2	13.1
Working capital days (days)					
Receivables	47	36	32	12	14
Inventory	59	73	92	59	49
Payables	(80)	(88)	(102)	(67)	(56)
Ratios (x)					
Gross asset turnover	1.0	0.9	0.9	1.6	2.1
Current ratio	0.4	0.3	0.3	0.3	0.8
Net interest coverage ratio	(0.7)	(0.6)	0.0	1.2	1.8
Adjusted debt/equity	(2.3)	(2.1)	(2.0)	(1.9)	1.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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