AXIS SECURITIES

Site Visit
26th Mar 2024

Jai Balaji Industries Ltd
Steel

Unrated

Jai Balaji Industries Ltd - A Turnaround Story

We visited Jai Balaji Industries (JBG) at Durgapur, West Bengal, and witnessed its fully integrated operations for manufacturing DI Pipes, TMT bars and Ferro Alloys. JBG promoted by the Jajodia family is located at a strategic East Indian market with 4 manufacturing units across West Bengal and Chhattisgarh.

- **Fully integrated operations:** JBG has both Pig iron and sponge iron production capability of 0.5 MT and 0.345 MT respectively which uses in-house Sinters (0.6 MT capacity), Coke (0.35 MT coke oven facility), and captive power from waste heat of 101.1 MW. It sources iron ore primarily from Orissa with its own Railway sidings. It has the flexibility to source low-grade iron ore fines which it uses to produce sinters for Pig iron production. It has a coke oven facility (0.35MT) to produce coke from Imported Coking coal.
- **Focus on Value-added finished products:** The finished products include Steel billets (0.394 MT), TMT bars (0.26 MT) and value-added Ductile iron pipes (0.24 MT). The pig iron produced by JBG is of high quality as it contains low levels of sulphur and phosphorous, which is suitable for the manufacture of ductile grades of casting. JBG also produces specialised Ferro Alloys (exported to 40+ countries) which have High chrome content, lower carbon content, and lower trace elements. Its Ferro alloys are sold at a significant premium to benchmark Ferro Alloy prices.
- **JBG – A turnaround story:** JBG went into a debt trap in the past due to i) Increase in iron ore prices post the mining ban in Goa and Karnataka ii) Cancellation of its coal blocks for the 5 mtpa steel plant at Purulia (WB) which led to a forced closure of the project, leading to loss of capital on that investment. Covid lockdowns further led to the accumulation of debt due to rising borrowing costs. The company, however, managed to turn around the business by i) Increasing operational efficiencies, and a higher share of VAP products, ii) Undertaking debt restructuring, iii) Conducting a distress sale and using share warrants and pledged shares. It reduced its Net debt from Rs 3,407 Cr in FY21 to Rs 566 Cr as of Dec'23 (Net debt as of today stands at ~Rs 350 Cr) and aims to become net debt-free in 18 months. PAT improved from a loss of Rs 75 Cr in FY21 to Rs 606 Cr in 9MFY24.
- **Capacity expansion and future outlook:** The company will enhance its DI Pipes capacity from 0.24 mtpa to 0.66 mtpa and Ferroalloys capacity from 0.13 mtpa to 0.19 mtpa by FY25. The Capex will be funded internally and as the project is to be a brownfield project, the Capex intensity will be lower. The total Capex plan is of Rs 1,000 Cr, out of which Rs 500 Cr is already spent and the balance will be spent in the next 12-15 months. Beyond the existing Rs 1,000 Cr Capex, the company does not have any plans to announce further expansion. Its focus is to stabilise the new expansion and get the ROI on it. The company's strategy is to get net debt-free in the next 18 months. It has a target of achieving a topline of Rs 10,000 Cr by FY26 (Rs 4,568 Cr in 9MFY24) and EBITDA margin of 18-20% by FY26 (15% margin achieved in 9MFY24).
- **Ductile iron pipe Industry: The** DI Pipes Industry is expected to grow at 13%-15% CAGR in the near future. It is used for water transportation and drainage systems. Jal Jeevan Mission and Mission Amrut Sarovar have led to demand for DI pipes. The company has a 10% DI pipes market share in India and aims to reach 18-20% of the Market Share, post-capacity expansion. 30% of the revenues come from DI pipes and is expected to grow to 45%-50% in future. DI pipes' sales focus is on the domestic market, and the company has also started exploring exports.
- **Financial Performance:** Jai Balaji managed to turn around its business from loss-making to profit from FY22. In FY22/23, the company managed to earn profit but only at a 1% profit margin. Its EBITDA margin stood at 4% for FY22/23. However, in 9MFY24, the EBITDA margin and PAT margin both improved further to 15% and 13% respectively. It achieved this by improving operational efficiencies and capacity utilisation, focusing on value-added products and reducing debt.
- **Valuation:** On a trailing 12M basis, the company is trading at a P/E of 27x and EV/EBITDA of 21x.

Key Financials (Consolidated)

(Rs Cr)	FY19	FY20	FY21	FY22	FY23	9MFY24
Net Sales	3,077	2,912	2,785	4,693	6,125	4,568
EBITDA	20	36	95	208	256	665
EBITDA %	1%	1%	3%	4%	4%	15%
Underlying Net Profit	-154	-114	-76	48	58	607
EPS (Rs) Underlying	-15.94	-11.07	-6.86	4.35	4.49	39

Source: Company, Axis Research

(CMP as of 22nd Mar 2024)

CMP (Rs)	913
High/Low (Rs)	1,307/42
Market cap (Cr)	14,942
Avg. daily vol. (6m) Shrs.	2,67,186
No. of shares (Cr)	16

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	58.74	60.02	60.02
FII	0.09	0.67	2.57
Mutual Funds / UTI	0.00	0.00	0.00
Financial Institutions	0.00	0.00	0.00
Others	41.17	39.31	37.41

Relative performance

Source: ACE Equity, Axis Securities

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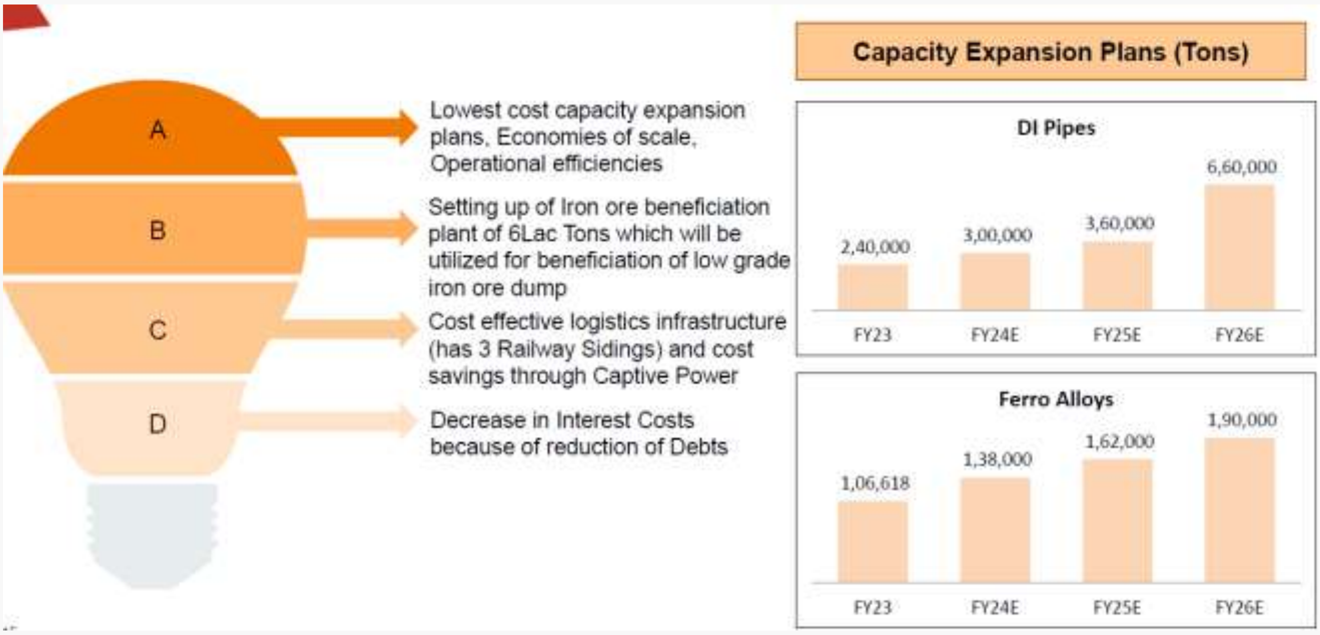
Key Charts

Exhibit 1: Jai Balaji Group current facilities and expansion plan

Products (Location)	Existing Capacity	Capacity Addition	Capacity After Expansion	Capex (in Rs. Mn.) Total	Capex (in Rs. Mn.) Already incurred	Capex (in Rs. Mn.) Balance to be incurred	Current Status
Specialized Products							
DI Pipes	240,000 TPA	420,000 TPA	660,000 TPA	4,000	681	3319	Will be done in 2 phases – Phase 1 = 2Lac T expected to commission by FY24; Phase 2 = 1.5 Lac T expected to commission by FY25
Ferro Alloys	130,000 TPA	60,000 TPA	190,000 TPA	1,500	815	685	Will be done in two phases- Phase 1 around 36000 TPA to be commissioned by FY24 and Balance will be commissioned by FY25.
Others							
Revamping Existing Blast Furnaces (Unit III)	509,250 TPA	240,750 TPA	750,000 TPA	2,500	1128	1372	1 furnace is under process and is expected to be commissioned by FY24. 2nd furnace will be completed in next FY
Sinter (Unit III)	608,000 TPA	600,000 TPA	1,208,000 TPA	1,100	774	326	Will be done in 2 phases; In process of setting up 1st phase of the same during current FY and 2nd phase shall be commissioned in FY25
BFG Boiler (Unit IV)	0.00 TPH	35 TPH	35 TPH	300	25	275	This is a green energy project which aims to reduce carbon footprints. Plan is to add this in captive power plant for optimizing utilization of waste gases from BF
Misc De-Bottle Necking				600	385	215	Includes backward integration to sinter Plant, Upgradation of PCI and Oxygen plant for cost cutting of producing Hot metal from Pig iron Plant.
TOTAL				**10,000**	**3,808**	**6,192**	

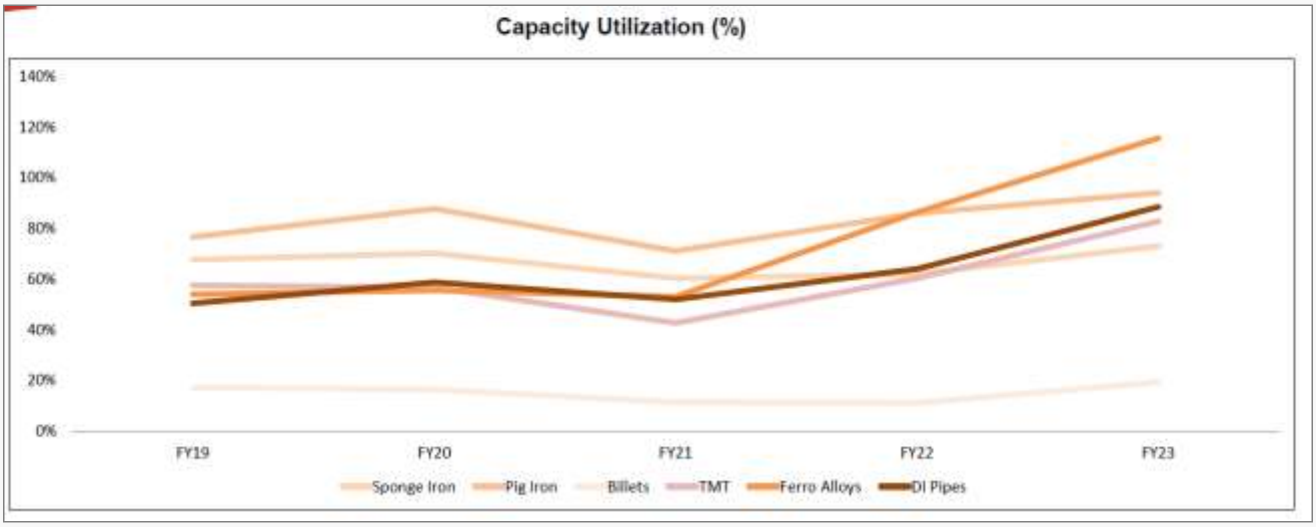
Source: The company

Exhibit 2: Cost reduction strategies



Source: The company

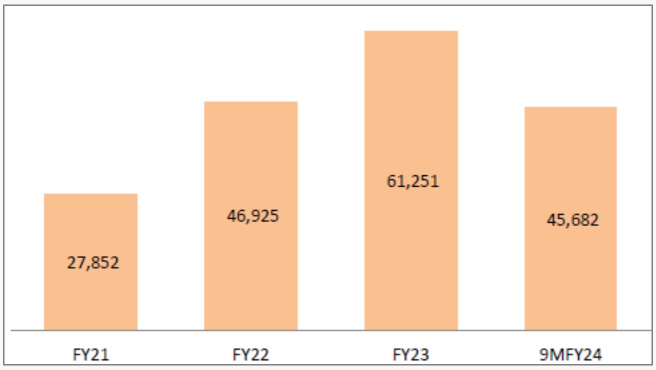
Exhibit 3: Increased focus on capacity utilization of Value-Added Products ensures margin expansion



Source: The company

Exhibit 4: Targets Net Debt free status in next 18 months
(Rs Mn)

Exhibit 5: Revenue
(Rs Mn)



Source: The company

Exhibit 6: Adjusted EBITDA
(Rs Mn)

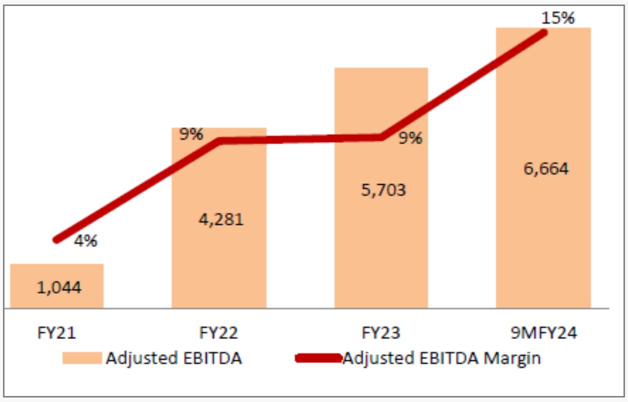
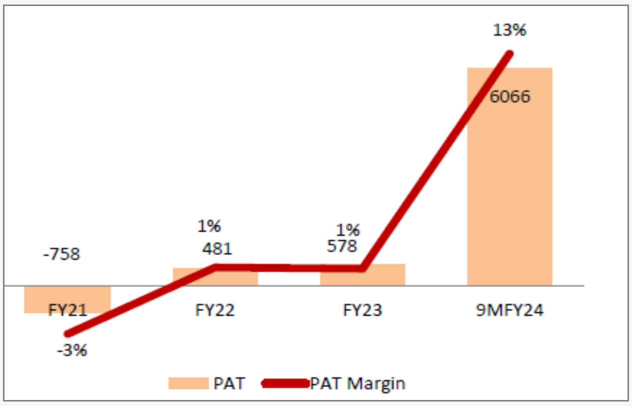
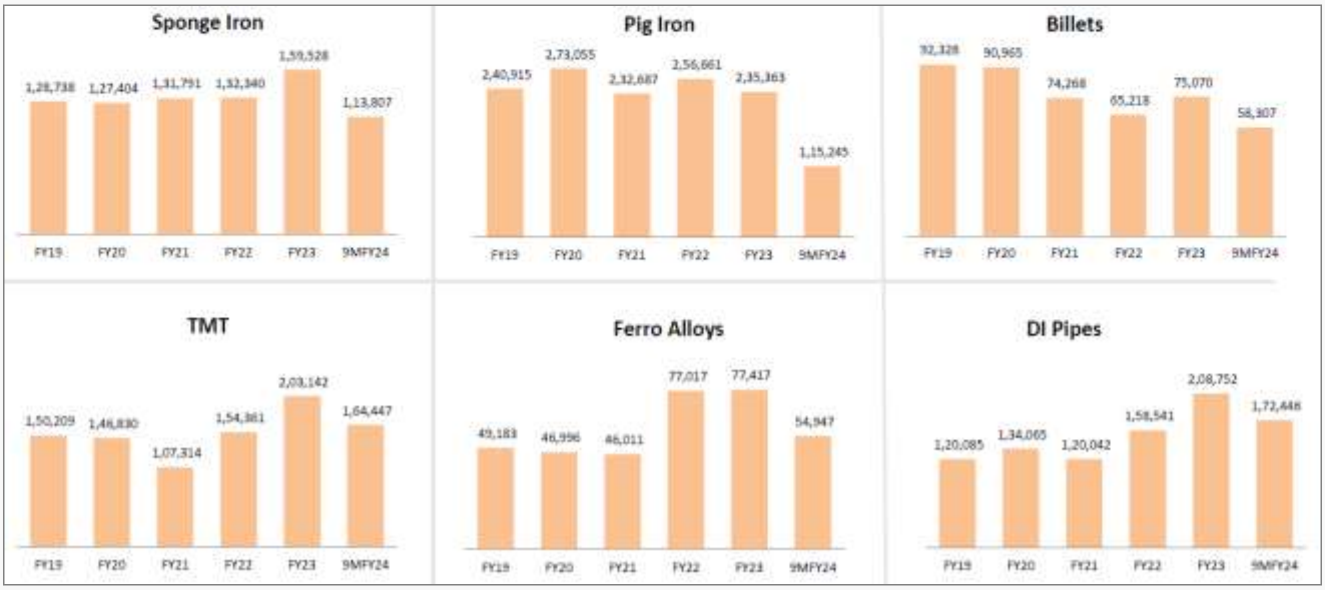


Exhibit 7: PAT
(Rs Mn)



Source: The company

Exhibit 8: Sales Volume (Tonnes)

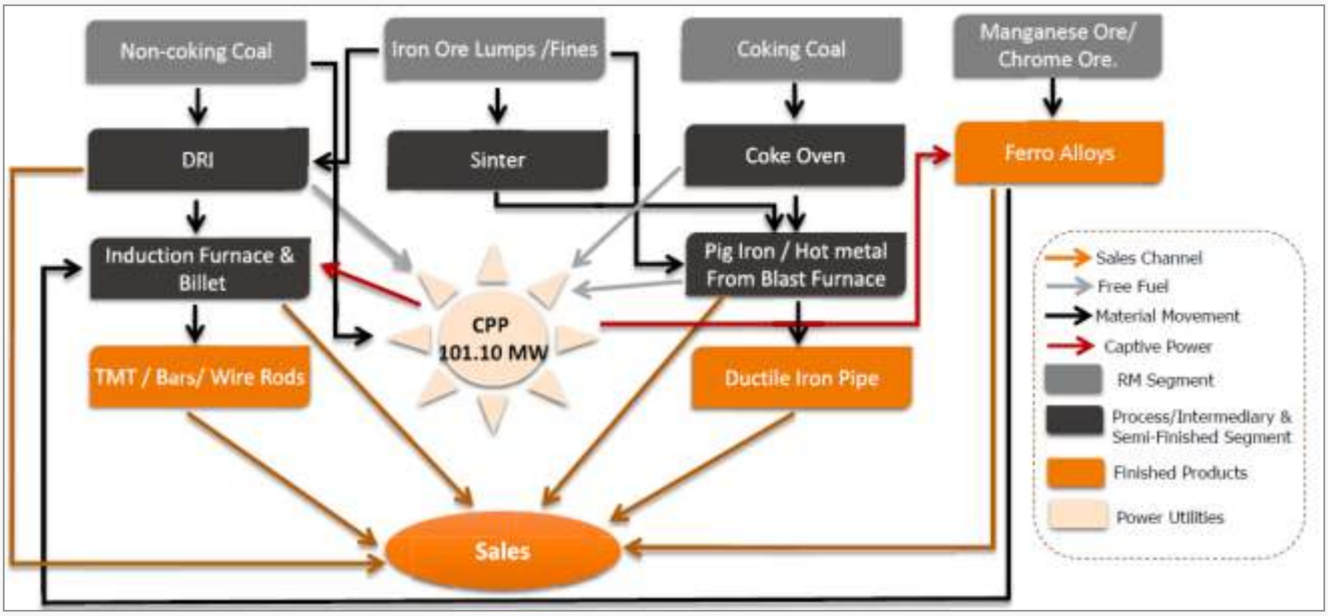


Source: The company

Exhibit 9: Realizations (Rs/t)

Source: The company

Exhibit 10: Integrated process flow



Source: The company

Exhibit 11: DI Pipes

Exhibit 12: Ferro Alloys

Source: The company

Financials (Consolidated)

Profit & Loss (Rs Mn)

FYE March,	FY20	FY21	FY22	FY23
Net Revenue from Operations	**29,123**	**27,852**	**46,925**	**61,251**
% Growth	*-5.4%*	*-4.4%*	*68.5%*	*30.5%*
Cost of material consumed	22,676	21,027	33,401	43,500
Changes in inventories	-278	-333	-156	-505
COGS	22,398	20,693	33,245	42,996
Gross Profit	**6,725**	**7,158**	**13,680**	**18,255**
Gross Margin	*23.1%*	*25.7%*	*29.2%*	*29.8%*
Employee Benefits Expense	900	887	1,089	1,316
Other Expenses	5,468	5,318	10,508	14,376
Total Expenses	**28,767**	**26,898**	**44,842**	**58,688**
EBITDA	**357**	**954**	**2,083**	**2,562**
EBITDA Margin	*1.2%*	*3.4%*	*4.4%*	*4.2%*
Depreciation	968	940	913	979
EBIT	**-611**	**14**	**1,170**	**1,583**
EBIT Margin	*-2.1%*	*0.0%*	*2.5%*	*2.6%*
Finance Cost	1,028	880	988	889
Exceptional Items	-58	-	-	-
Other Income	553	108	299	355
PBT	**-1,143**	**-758**	**481**	**1,049**
PBT Margin	*-3.9%*	*-2.7%*	*1.0%*	*1.7%*
Tax Expense	-	-	-	471
Tax Rate	*0%*	*0%*	*0%*	*45%*
PAT	**-1,143**	**-758**	**481**	**578**
PAT Margin	*-3.9%*	*-2.7%*	*1.0%*	*0.9%*
Share of Associates	-	-	-	-
Consolidated Net Profit	**-1,143**	**-758**	**481**	**578**
EPS attributable to owners of parent				
Basic EPS (in Rs.)	-11.07	-6.86	4.35	4.49
Diluted EPS (in Rs.)	-11.07	-6.86	4.35	4.49

Source: Company, Axis Securities

Balance Sheet

(Rs Mn)

FYE March,	FY20	FY21	FY22	FY23
Equity and Liabilities				
Shareholders' funds				
Share Capital	1,105	1,105	1,105	1,455
Share Warrants & Outstanding				
Reserves and Surplus	-17,684	-18,435	-17,733	4,106
Net Worth	**-16,579**	**-17,331**	**-16,628**	**5,561**
Non-Current Liabilities				
Long term Borrowings	6,617	5,787	5,861	6,260
Lease Liabilities			6	6
Deferred Tax Liabilities				
Other Long Term Liabilities	-	-		292
Long Term Provisions	-	-	-	-
Total Non-Current Liabilities	**6,617**	**5,787**	**5,867**	**6,558**
Current Liabilities				
Short Term Borrowings	28,021	28,548	25,825	2,337
Lease Liabilities			1	1
Trade Payables	6,904	7,503	8,187	8,990
Micro and small enterprises	92	67	92	122
Other than micro and small enterprises	6,812	7,436	8,095	8,867
Other Current Liabilities	2,866	3,272	4,499	4,104
Other Financial Liabilities	1,868	2,189	1,852	1,931
Short Term Provisions	95	94	89	118
Current Tax Liabilities (Net)				
Derivative instruments				
Total Current Liabilities	**39,754**	**41,606**	**40,453**	**17,480**
Total Liabilities	**46,372**	**47,393**	**46,320**	**24,038**
Total Equity and Liabilities	**29,793**	**30,062**	**29,691**	**29,599**
Assets				
Non-Current Assets				
Fixed Assets	12,332	11,766	11,601	11,268
Goodwill				
Non-Current Investment	11	11	11	11
Capital Work-In-Progress	977	1,020	523	688
Loans	153	264		
Other Intangible Assets	47	46	46	45
Intangible Assets under development	3	2	4	3
Other Financial Investments	44	156	424	689
Other Non-Current Assets	879	881	786	271
Current/Income Tax Assets	2,909	2,909	2,909	2,909
Total Non-Current Assets	**17,354**	**17,054**	**16,302**	**15,884**
Current Assets				
Cash and Cash Equivalents	111	256	132	245
Bank Balances	117	2	89	270
Derivate Instruments				
Inventories	5,786	6,992	7,580	8,214
Trade Receivables	2,844	2,440	1,561	2,293
Investments				
Short Term Loans and Advances	441	290	30	31
Other Financial Assets	0	2	282	275
Other Current Assets	3,140	3,027	3,715	2,387
Total Current Assets	**12,438**	**13,009**	**13,389**	**13,715**
Total Assets	**29,793**	**30,062**	**29,691**	**29,599**

Source: Company, Axis Securities

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