# Initiating Coverage

# JTL Industries Ltd.

January 11, 2024


RETAILRESEARCH

# JTL Industries Ltd.

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| Iron & Steel Products | Rs. 256.7 | Buy in the band of Rs. 252.85-260.55 and add more on dips in Rs. 228.7-235.7 band | Rs. 278.75 | Rs. 300.5 | 2-3 quarters |

| | |
|---|---|
| HDFC Scrip Code | JTLINDEQNR |
| BSE Code | 534600 |
| NSE Code | JTLIND |
| Bloomberg | JTLIND:IN |
| CMP Jan , 2024 | 256.7 |
| Equity Capital (Rs cr) | 34 |
| Face Value (Rs) | 2 |
| Equity Share O/S (cr) | 17.1 |
| Market Cap (Rs cr) | 4,392 |
| Book Value (Rs) | 28 |
| Avg. 52 Wk Volumes | 68683 |
| 52 Week High (Rs) | 261 |
| 52 Week Low (Rs) | 142 |

| Share holding Pattern % (Dec, 2023) | |
|---|---|
| Promoters | 56 |
| Institutions | 2.45 |
| Non Institutions | 41.55 |
| Total | 100.0 |


* Refer at the end for explanation on Risk Ratings

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## Our Take:

JTL Industries Limited (JTL), erstwhile known as JTL Infra Limited, was initially incorporated as Jagan Tube Limited in July 1991 and later its name was changed to JTL Infra Limited in April 2008. JTL has been operating in the structural steel tubes and pipes business for the last 30 years. The company is now engaged in the manufacturing and export of black and galvanised electric resistance welded (ERW) steel pipes and tubes which are value-added products (VAP) having higher premiums compared to the commercial ERW pipes. The Company has four state-of-the-art manufacturing facilities located at strategic locations across India, including two plants located in Punjab (Derabassi & Mandi Gobindgarh), one in Maharashtra (Mangaon) with aggregate installed capacity of 586,000 MTPA and one recently added in Chhattisgarh (Raipur) through the amalgamation with its promoter-held Chetan industries which has been effective from March 31, 2023. The company's capacities can practically be run at a maximum of 70-75% due to batch processing and different specifications of tubes and pipes.

The company has given a robust performance and achieved highest ever sales of volume of 1,00,905 MT in Q3FY24. The company is currently going through the massive capex expansion which will increase company's production capacity to 1 million or 10 lakh PA, for the same company has already raised the required funds via issues of convertible warrants. Also during Q3FY23, the company has announced an another mega capex of through its wholly owned subsidiary JTL Tubes Limited in Maharashtra. To finance this mega project, the company is set to raise Rs. 1310 Crores through various routes.

## Valuation & Recommendation:

On-going growth is expected to continue in FY24 and onwards, driven by capacity expansion, strong demand from the company's product, improvement in production quality and expected traction in exports. The operating margin is expected to remain in the range of ~7-9% in FY24E and FY25E, on the back of healthy capacity utilization and operational efficiencies. The margin is in line with expectation of EBITDA/Tonne likely to sustain in the current range for time-being. Beyond FY25E, once the DFT plant is commissioned this number is likely to increase as the Value added product in the sales mix will increase.

Also, a series of capacity expansion due over the next few years will result in organic volume growth. The sectors to which JTL caters are growing base on Government push and capex demands. Encouraging Q3FY24 numbers and completion of proposed preferential allotment could bring in fresh triggers for its stock price.

**We believe investors can buy the stock in in Rs 252.85- 260.55 band (23.5x FY25E EPS, 16.7x FY25E EV/EBITDA) and add on dips to Rs 228.70-235.70 band (21.25x FY25E EPS, 15.1x FY25E EV/EBITDA) for base case target of Rs 278.75 (25.51x FY25E EPS, 18.2x FY25E EV/EBITDA) and bull case target of Rs 300.5 (27.5x FY25E EPS, 19.6x FY25E EV/EBITDA) for the next 2-3 quarters.**

## Financial Summary:

| Particulars (Rs cr) | Q2FY24 | Q2FY23 | YoY (%) | Q1FY24 | QoQ (%) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating Income | 502 | 366 | 37.2 | 505 | -0.5 | 436 | 1,355 | 1,550 | 2,133 | 3,168 |
| EBITDA | 37 | 31 | 20.4 | 36 | 5.3 | 33 | 89 | 128 | 162 | 263 |
| APAT | 28 | 22 | 28.7 | 25 | 10.1 | 20 | 61 | 90 | 117 | 187 |
| Diluted EPS (Rs) | 1.6 | 1.3 | 28.7 | 1.5 | 10.1 | 1.2 | 3.6 | 5.3 | 6.8 | 10.9 |
| RoE-% | | | | | | 42.0 | 41.5 | 29.8 | 23.4 | 23.1 |
| P/E (x) | | | | | | 215.8 | 71.9 | 48.7 | 37.6 | 23.5 |
| EV/EBITDA | | | | | | 134.6 | 50.1 | 34.3 | 27.0 | 16.7 |

*(Source: Company, HDFC sec)*

## Q2FY24 Result Review:

Revenue from operations for the quarter stood at Rs 502 crore, up by ~37.2% YoY, due to higher sales volumes. Volume for the quarter stood at 81,686 MT vs 52,101 tonnes in Q2FY23, up ~ 56.78%. EBITDA during the quarter stood at Rs 37.4 Cr, up 20.4% YoY and EBITDA margin during the quarter at ~7.5%, down 104 bps YoY. EBITDA per tonne excluding other income for Q2 stood at Rs. 4580 vs Rs.4593 in Q1FY24 and Rs. 5963.41 in Q2FY23. Fall in sales price was greater than decrease in raw material prices resulting in fall in OPM and EBITDA per ton; however higher volumes compensated to some extent this fall. Profit after tax during the quarter stood at Rs 27.9 cr, up % 28.7YoY.

## Key Developments & Triggers:

**Quarterly Business Sales Volume Update:**

The company has recorded its highest ever quarterly sales volume of 1,00,905 MT in Q3FY24, exhibiting a rigorous and robust growth of 76.05% over Q3FY23 driven by healthy demand for its structural steel tubes and pipes finding application in infrastructure and industrial sectors in both domestic and international markets.

The volumes in value-added products recorded decent growth of 35.39% YoY at 19,789 MT for Q3FY24 vs. volume of 14,616 MT recorded during Q3FY23. Due to scheduled maintenance during the Q3FY24 of Galvanization pot, the Galvanization facility was slightly impacted. This reduced overall operating capacity and in turn impacted the overall volumes for the said segment. The Company, however, has swiftly addressed the maintenance requirements, and the company aims to recover the lost volumes in upcoming quarters.

In terms of 9MFY24 performance, the Company continues to scale significant milestone and has recorded highest ever 9M sales volume reaching 2,59,933 MT, surpassing entire FY23 sales volume of 2,40,316 MT and demonstrating a robust growth of 62.32% compared to

9MFY23. JTL witnessed a remarkable increase in sales of value-added products, with a substantial 46.79% growth, rising from 54,837 MT in 9MFY23 to 80,497 MT in 9MFY24.

**Merger with Chetan Industries Limited**

Pursuant to the completion of merger of Chetan Industries Limited (promoter owned entity), with the Company on March 31, 2023, the Company owns the unit of said Company at Raipur (Chhattisgarh), which has a capacity of 1,00,000 MTPA. The merger has provided JTL with a manufacturing capacity of 1,00,000 MTPA, out of which 50% is dedicated towards producing value-added products. The strategic location of the acquired plant has offered an advantage of backward integration to JTL ensuing cost synergies, and greater proximity to raw materials facilitating JTL to procure raw materials at competitive prices.

**Pan India Geographical Presence**

JTL Industries has a pan-India presence and has a diverse geographic footprint, providing services to domestic and international markets. JTL gets locational advantage from its strategically located state of art manufacturing plants at different regions of the country i.e. in northern region it has plants at Derabassi and Mandi in Punjab, in western region it has a plant at Mangaon in Maharashtra and to cover the central and eastern regions it has plant at Raipur in Chhattisgarh. The strategic positioning enables the Company to efficiently source raw materials and effectively reach customers across different regions.

**Sales Distribution and Dealers Network**

The company currently exports its products to 5 continents in over 20 countries and has a strong domestic distribution network of 800+ distributors spread all across pan- India in such a way that they are majorly covering all the dealers present in India right now. Out of 1,000 or 1,100 dealers currently present in India right now the company has already tapped 80% dealers with them and the orders are being repeated by dealers well. So, the company is growing the dealers network as well and the to cater the additional capacity generated by them.

**Capacity expansion plan**

JTL is planning to expand its capacity from the current 0.6 MTPA to 1 MTPA by FY25 (at a total cost of Rs.340 cr) and it will be enhancing its VAP share from the current 31% in FY23 to 50% by FY25. JTL will add an additional 0.2MT capacity each at Mangaon and Raipur by the end of FY25 which will take its total capacity to 1MT by FY25. The company is trying to get incentives for the Raipur facility, but no conclusive announcement made yet. Out of the incremental 0.4MT capacity in the next two years, ~50% of the capacity will be equipped with DFT (Direct Forming Technology) which will facilitate the company to produce various sizes of hollow sections without roll change, increasing efficiency and capacity utilization. This will also add additional SKUs. In the long term, JTL plans to add another 1MT capacity post FY25 which will bring its total capacity to 2MT by FY28.

In Q3FY24, JTL has announced that through its wholly owned subsidiary JTL Tubes Limited, that it is planning to the establish a mega capacity augmentation project in Maharashtra. This mega project will facilitate the expansion and diversification of company's product portfolio. Through this capex, JTL aims to incorporate additional production lines, enhance its capability to manufacture galvanized, pre galvanized, colour coated products, and strengthen its competitiveness through both forward and backward integration, and become a leading provider of one stop solutions for all structural steel requirements.

To finance this mega project, JTL is set to raise Rs. 1310 Crores through various routes, including but not limited to Qualified Institutional Placement (QIP). As explained by the management in press release, within the total fundraise, the promoter and promoter group will be contributing Rs. 540 crores, while the public, non-promoter group will be contributing Rs. 270 cr. The remaining Rs. 500 cr will be garnered through the QIP route.

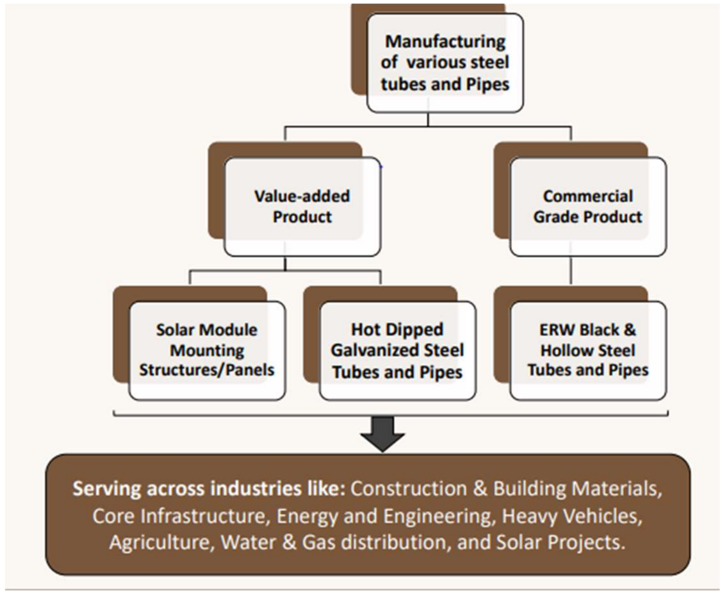
It had earlier raised Rs.340 crores through fully convertible warrants to fund its expansion to reach 750 ktpa by FY24 end and 1 mtpa by FY25. Management is targeting 30% YoY sales volume growth in FY24 and product mix improvement, to eventually reach 50% contribution from higher-margin Value Added Products (VAPs) by FY25. With most of its aggressive expansions being funded through internal accruals and the issuance of convertible warrants, leverage levels would remain low, translating to good financial prudence.

**Export Composition**

The company has its global presence into over 20 nations on 5 continents and the export mix of the company comprises of value-added products (VAP) and commercial-grade products. VAP accounts for approximately 90% of the Company's export sales volume, contributing significantly to its high revenue and margins. In FY23, JTL's export revenue share was 13%, while its export volume share was 8%. Looking ahead, JTL aims to increase its exports to 15% of its total sales volume by FY25.

**Diversified Business segments**

The company's ERW Balck and Hollow steel tubes and pipes, solar module and hot dipped galvanized steel tubes and pipes have diverse application making them less cyclical products. These products are used across agriculture, water distribution, Solar projects, Energy and Engineering, Heavy Vehicles, construction of building & building material and other core infrastructure applications.




**Attractive financial ratios**

The company has a strong EBITDA margin (operating profit margin) of 8% and PAT margins of 6% as compared to its peers having 7% and 4% respectively. As of end of FY23 the return of equity and the return on capital employed of the company is 30% and 34.4% respectively. Also, the company has been continuously maintaining the D/E ratio of below 1x and as of September 2023 the D/E ratio was at 0.12x vs. 0.36x of its peers.

**Peer comparison:**

| Particulars(TTM) | Sales | OPM | PAT Margins | D/E | EPS | P/E | P/BV | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|
| JTL Industries | 1,821 | 8% | 6% | 0.12 | 6.47 | 39.7 | 9.15 | 27.4 |
| APL Aollo Tubes Ltd | 17,933 | 7% | 4% | 0.36 | 27.68 | 56.7 | 13.2 | 33.9 |

*(Source: Company, HDFC Sec)*

**Creeping acquisition by promoters:**

Promoters have raised their stake in the company in the December quarter from 55.78% to 56% by creeping acquisition from the market.

**Key Risks & Concerns:**

**Volatility in prices of raw materials**

The company's ~90% of total expenses is RM cost and the major RM for it is steel HR coils. The Company procures HR coils and processes them to produce ERW pipes. As a result, the Company's working capital requirement is dependent on steel HRC prices. Volatility in the HRC prices could lead to inventory restocking/destocking cycles leading to inventory loss/gains for JTL. To mitigate the risk, the Company is increasing its dealer network and striving to minimise the inventory days in future.

**Delay in capacity expansion**

With the ambition to achieve a higher export target of 15% of revenue amid steady demand prospects domestically, any delay in completion of the expansion projects or lower-than-expected utilisation of the expanded projects could lead to lower revenue and profitability impacting JTL's stock price.

**Unorganized Secondary Player**

Currently, ~55% of the ERW pipes manufacturers comprises unorganised secondary players, thereby exerting competitive pressure on organised players and leading to lower EBITDA margins for ERW manufacturers. However, with the formalisation of the economy, unorganized players are likely to face compliance requirements related to GST and other regulations. This may likely to reduce the share of unorganised players.

**Less bargaining power with customers**

JTL is in semi-engineering industry which supplies material to further engineering industries for further processes and is a relatively smaller company supplying various steel products to the various big engineering companies in the market. It has limited negotiating/ bargaining power with the large customers. It is a generally a price taker and also the company's realization heavily depends on the steel prices which are very volatile.

## Company Background:

JTL Industries Limited (JTL), erstwhile known as JTL Infra Limited, was initially incorporated as Jagan Tube Limited in July 1991 and later its name was changed to JTL Infra Limited in April 2008. JTL specialises in the production of ERW black pipe and has expanded its offering by including valueadded products such as hot dipped galvanised steel tubes and pipes, solar module mounting structures, and large diameter steel tubes & pipes. These products are used across agriculture, water distribution, solar projects, energy and engineering, heavy vehicles, construction & building material and other core infrastructure applications.

The Company operates from four state-of-the-art manufacturing facilities located at strategic locations across India, including two plants located in Punjab (Derabassi & Mandi Gobindgarh), one in Maharashtra (Mangaon) and one recently added in Chhattisgarh (Raipur) through the amalgamation with its promoter-held Chetan industries. The company is currently going under a capacity expansion which will turn company's capacity to 1 MTPA.  The major client base of company involves Tata power, AVAADA, Sterling & Wilson, Thyssenkrupp group and company also serves various other big players such as IGL, NTPC, ABB, BHEL, HPCL, Suzlon, Siemens, etc. via its distribution channel

## Financials:

### Income Statement

| Particulars (Rs cr) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|
| **Net Revenues** | **436** | **1355** | **1550** | **2133** | **3168** |
| ***Growth (%)*** | | ***211.0*** | ***14.4*** | ***37.6*** | ***48.5*** |
| Operating Expenses | 403 | 1266 | 1422 | 1971 | 2905 |
| **EBITDA** | **33** | **89** | **128** | **162** | **263** |
| ***Growth (%)*** | | ***170.3*** | ***43.5*** | ***26.4*** | ***62.2*** |
| ***EBITDA Margin (%)*** | ***7.6*** | ***6.6*** | ***8.3*** | ***7.6*** | ***8.3*** |
| Depreciation | 2 | 3 | 4 | 6 | 15 |
| Other Income | 5 | 4 | 5 | 7 | 9 |
| **EBIT** | **36** | **90** | **129** | **163** | **257** |
| Interest expenses | 9 | 8 | 6 | 6 | 6 |
| **PBT** | **27** | **82** | **123** | **158** | **251** |
| Tax | 7 | 21 | 32 | 41 | 64 |
| **PAT** | **20** | **61** | **90** | **117** | **187** |
| Share of Asso./Minority Int./JV | 0 | 0 | 0 | 0 | 0 |
| **Adj. PAT** | **20** | **61** | **90** | **117** | **187** |
| ***Growth (%)*** | | ***200.1*** | ***47.6*** | ***29.8*** | ***59.8*** |
| EPS | 1.2 | 3.6 | 5.3 | 6.8 | 10.9 |

### Balance Sheet

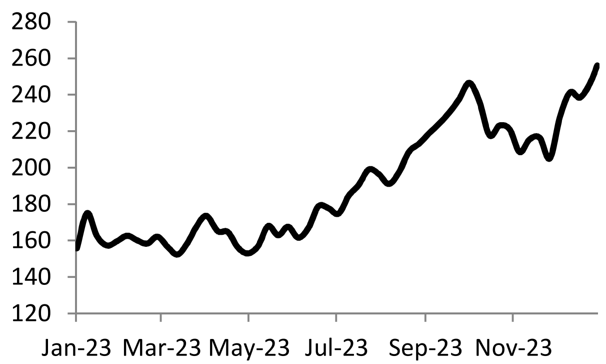
| Particulars (Rs cr)- As at March | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | |
| Share Capital | 11 | 13 | 17 | 34 | 34 |
| Reserves | 86 | 184 | 390 | 558 | 995 |
| **Shareholders' Funds** | **97** | **198** | **407** | **592** | **1029** |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 63 | 91 | 55 | 57 | 57 |
| Net Deferred Taxes | 2 | 2 | 4 | 6 | 6 |
| Other Non-curr. Liab. | 0 | 0 | 0 | 0 | 0 |
| **Total Sources of Funds** | **162** | **291** | **466** | **655** | **1092** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block & Goodwill | 28 | 49 | 65 | 93 | 239 |
| CWIP | 0 | 3 | 4 | 40 | 150 |
| Investments | 0 | 12 | 16 | 20 | 20 |
| Other Non-Curr. Assets | 1 | 17 | 4 | 26 | 41 |
| **Total Non Current Assets** | **30** | **81** | **90** | **179** | **450** |
| Inventories | 53 | 119 | 168 | 205 | 304 |
| Debtors | 95 | 110 | 141 | 175 | 260 |
| Cash & Equivalents | 4 | 2 | 53 | 61 | 48 |
| Other Current Assets | 27 | 27 | 111 | 160 | 208 |
| **Total Current Assets** | **180** | **258** | **473** | **601** | **820** |
| Creditors | 34 | 26 | 29 | 29 | 43 |
| Other Current Liab & Provisions | 14 | 22 | 69 | 96 | 135 |
| **Total Current Liabilities** | **47** | **48** | **97** | **125** | **178** |
| Net Current Assets | 132 | 210 | 376 | 476 | 642 |
| **Total Application of Funds** | **162** | **291** | **466** | **655** | **1092** |

*(Source: Company, HDFC Sec)*

### Cash Flow Statement

| Particulars (Rs cr) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|
| Reported PBT | 27 | 82 | 123 | 158 | 251 |
| Non-operating & EO items | -1 | 0 | 0 | -21 | -16 |
| Interest Expenses | 8 | 7 | 6 | 6 | 6 |
| Depreciation | 2 | 3 | 4 | 6 | 15 |
| Working Capital Change | -37 | -49 | -102 | -92 | -180 |
| Tax Paid | -3 | -26 | -26 | -41 | -64 |
| **OPERATING CASH FLOW ( a )** | **-5** | **17** | **5** | **16** | **12** |
| Capex | -6 | -22 | -19 | -70 | -270 |
| Free Cash Flow | -11 | -5 | -14 | -54 | -258 |
| Investments | 0 | -16 | -4 | -4 | 0 |
| Non-operating income | -1 | 3 | 2 | 0 | 0 |
| **INVESTING CASH FLOW ( b )** | **-8** | **-34** | **-21** | **-74** | **-270** |
| Debt Issuance / (Repaid) | 5 | 14 | -41 | 2 | 0 |
| Interest Expenses | -8 | -8 | -6 | -6 | -6 |
| FCFE | -16 | -10 | -63 | -62 | -264 |
| Share Capital Issuance | 0 | 0 | 23 | 70 | 250 |
| Dividend | 0 | -2 | 0 | 0 | 0 |
| Others | 16 | 12 | 90 | 0 | 0 |
| **FINANCING CASH FLOW ( c )** | **-4** | **5** | **-25** | **66** | **244** |
| **NET CASH FLOW (a+b+c)** | **-16** | **-13** | **-41** | **8** | **-14** |

### One Year Price Chart




### Key Ratios

| Particulars | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| EBITDA Margin | 7.6 | 6.6 | 8.3 | 7.6 | 8.3 |
| EBIT Margin | 8.3 | 6.6 | 8.3 | 7.7 | 8.1 |
| APAT Margin | 4.7 | 4.5 | 5.8 | 5.5 | 5.9 |
| RoE | 42.0 | 41.5 | 29.8 | 23.4 | 23.1 |
| RoCE | 45.1 | 40.2 | 34.4 | 29.4 | 29.6 |
| **Solvency Ratio (x)** | | | | | |
| Net Debt/EBITDA | 1.8 | 1.0 | 0.0 | 0.0 | 0.0 |
| Net D/E | 0.6 | 0.5 | 0.0 | 0.0 | 0.0 |
| **PER SHARE DATA (Rs)** | | | | | |
| EPS | 1.2 | 3.6 | 5.3 | 6.8 | 10.9 |
| CEPS | 1.3 | 3.8 | 5.5 | 7.2 | 11.8 |
| BV | 5.7 | 11.6 | 23.8 | 34.6 | 60.2 |
| Dividend | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Turnover Ratios (days)** | | | | | |
| Debtor days | 80 | 28 | 30 | 27 | 25 |
| Inventory days | 44 | 23 | 34 | 32 | 29 |
| Creditors days | 28 | 8 | 6 | 5 | 4 |
| **VALUATION** | | | | | |
| P/E | 215.8 | 71.9 | 48.7 | 37.6 | 23.5 |
| P/BV | 45.3 | 22.2 | 10.8 | 7.4 | 4.3 |
| EV/EBITDA | 134.6 | 50.1 | 34.3 | 27.0 | 16.7 |
| EV / Revenues | 10.2 | 3.3 | 2.8 | 2.1 | 1.4 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Payout (%) | 10.4 | 0.0 | 1.9 | 0.0 | 0.0 |

*(Source: Company, HDFC Sec)*

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**HDFC Sec Retail Research Rating description**

**Green Rating stocks**

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

**Yellow Rating stocks**

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

**Red Rating stocks**

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.