

A Structural Growth Story

We initiate coverage on JTL Industries Ltd (JTL) with a BUY recommendation and a Target Price of Rs 470/share, implying a 36% upside from the current levels. JTL has been operating in the structural steel tubes and pipes business for the last 30 years, led by an experienced management team with over 30 years of experience in the steel and pipes industry. The company manufactures ERW black and hollow steel tubes and pipes. It also sells solar module mounting structures/panels and Hot dipped galvanised steel tubes and pipes which are value-added products (VAP) having higher premiums compared to the commercial ERW pipes. JTL continues to expand its capacity and has increased it to 0.586MT in FY23 from 0.4MT in FY22. It has been successful in expanding its footprints globally with over 1,000 client-centric SKUs. The company currently exports its products to 5 continents in over 20 countries and has a strong domestic distribution network of 800+ distributors.

Wide distribution reach through strategically located plants

JTL has four state-of-the-art manufacturing facilities dispersed geographically across India. This allows the company to source raw materials at competitive prices as well as enable it to expand its sales and footprint in domestic and international markets. It has two plants in Punjab i) Gholu Mazra (Near Chandigarh), with a capacity of 0.1MTPA, ii) Mandi Gobindgarh (Punjab), with a capacity of ~0.2MTPA. One plant in Mangaon (Maharashtra) with a capacity of 0.2MTPA, which gives it access to the port for exports. It also has one plant in Raipur which it recently got through amalgamation with its promoter-held Chetan industries. The Raipur plant has a capacity of 0.1 MTPA and it gives the company access to the East Indian market. Raipur plant is also situated in proximity to cheaper raw materials. This coupled with a 150ktpa hot mill makes the plant backward integrated which provides cost synergies to the company.

Aggressive capacity expansion and value growth plans

The Indian structural tubes market has the potential to grow from ~13MT in CY23 to 22MT by CY30, led by the government's thrust on developing infrastructure, which will result in a shift towards robust demand for structural steel. JTL is planning to expand its capacity from the current 0.586MT to 1MT by FY25 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 and 14kt at Mandi (by Q1FY24) which will take its total capacity to 1MT by FY25. 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 to the company's portfolio. In the long term, JTL plans to add another 1MT capacity post FY25 which will bring its total capacity to 2MT by FY28.

Stable operating profits and returns during the expansion phase

JTL's Revenue/EBITDA/PAT grew by 14%/45%/48% YoY in FY23 on the back of capacity expansion. While its ROE/ROCE moderated to 29.6%/22.1% in FY23 from 40.7%/31% in FY22, they were still at a healthy level given its expansion phase. The EBITDA/t improved by 30% to Rs 5,383/t in FY23. We forecast Revenue/EBITDA/PAT CAGR of 50%/45%/51% over FY23-25E, which will be led by higher sales volumes and VAP share on the increased capacity ahead. The company is funding the growth Capex by raising share warrants and targets a debt-free status by FY25. It raised Rs 384 Cr in Mar'23 via allotment of up to 1.28 Cr fully convertible warrants of FV of Rs 2 each, meant for the purpose of expansion of the current manufacturing capacity.

Valuation & Recommendation

With the volume expansion Capex going on, the company's ROE and ROCE are expected to moderate but would remain decent near 20% over FY24-26E (APL Apollo's ROE/ROCE stood at 23.5%/29.2%). We initiate coverage on JTL with a BUY rating and value it at 22x its FY25 EPS to arrive at our 1-year forward target price of Rs 470/share, implying an upside potential of 36% from the CMP. We see 22x as a reasonable valuation for JTL given its healthy return ratios despite being in an aggressive growth Capex stage.

Key Financials (Consolidated)

(Rs Cr)	FY23A	FY24E	FY25E	FY26E
Net Sales	1,550	2,339	3,468	4,250
EBITDA	129	186	273	340
Net Profit	90	134	206	260
EPS Diluted (Rs)	9	14	21	27
PER (x)	30	22	14	11
P/BV (x)	8	6	3	3
EV/EBITDA (x)	21	15	10	8
ROE (%)	30%	23%	20%	20%

Source: company, Axis Research

CMP as of 27th Jun, 2023

CMP (Rs)	345
Upside /Downside (%)	36%
High/Low (Rs)	373/186
Market cap (Cr)	2,933
Avg. daily vol. (6m) Shrs.	2,74,308
No. of shares (Cr)	8.4

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	49.91	43.71	56.26
FII's	0.21	1.21	0.52
MFs / UTI	-	0.87	0.71
Banks / FIIs	-	-	-
Others	49.88	54.21	42.51

Financial & Valuations

Y/E Mar (Rs Cr)	FY 24E	FY 25E	FY 26E
Net Sales	2,339	3,468	4,250
EBITDA	186	273	340
Net Profit	134	206	260
EPS (Rs)	14	21	27
PER (x)	22	14	11
P/BV (x)	6	3	3
EV/EBITDA (x)	15	10	8
ROE (%)	23%	20%	20%

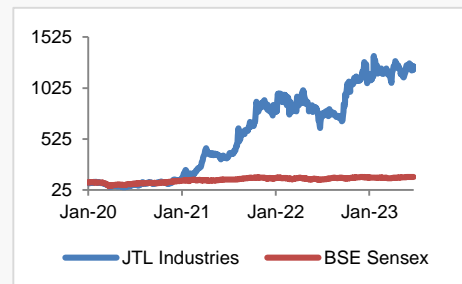
Key Drivers (%) (Growth in %)

Y/E Dec	FY 24E	FY 25E	FY 26E
Net Sales	51%	48%	23%
EBITDA	43%	47%	25%
Net Profit	48%	54%	26%

Axis vs. Consensus

EPS Estimate	FY 24E	FY 25E	FY 26E
Axis	13.76	21.20	26.79
Consensus	n/a	n/a	n/a
Mean Consensus TP (12M)			n/a

Relative performance



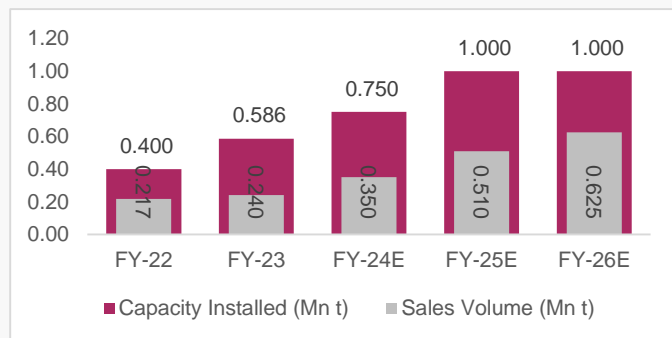
Source: Bloomberg, Axis Securities

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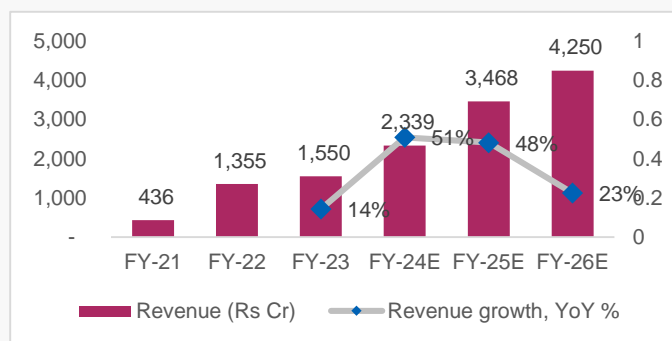
Financial Story in Charts

Exhibit 1: Capacity expansion from 0.586MT to 1MT by FY25 to drive higher sales volume ahead



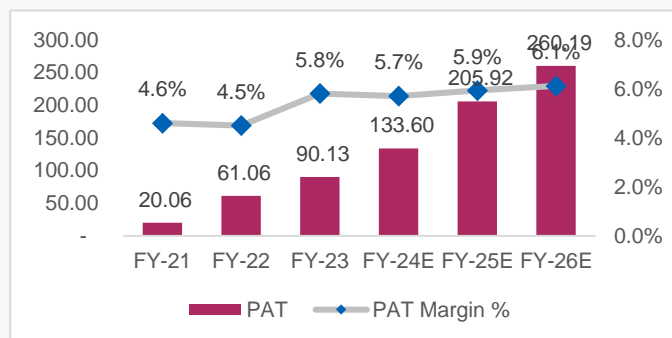
Source: Company, Axis Securities

Exhibit 3: Robust revenue growth ahead driven by higher sales volume and improving share of VAP



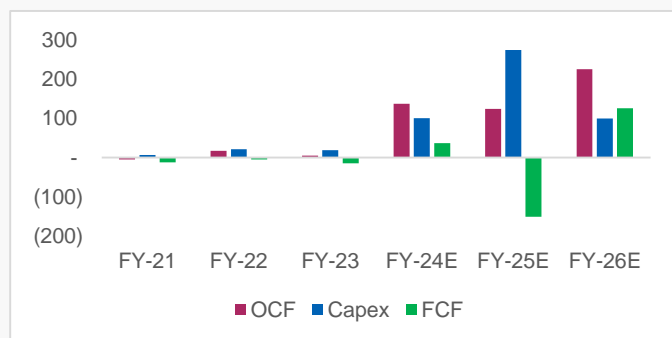
Source: Company, Axis Securities

Exhibit 5: PAT to grow driven by higher EBITDA



Source: Company, Axis Securities

Exhibit 7: OCF to remain strong on higher sales volumes



Source: Company, Axis Securities

Exhibit 2: VAP share target is to reach 50% of total sales by FY25

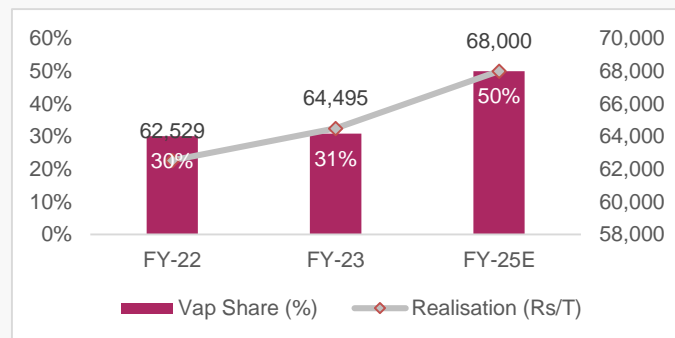


Exhibit 4: EBITDA to rise led by higher sales volume while EBITDA/t to marginally improve YoY led by higher efficiency

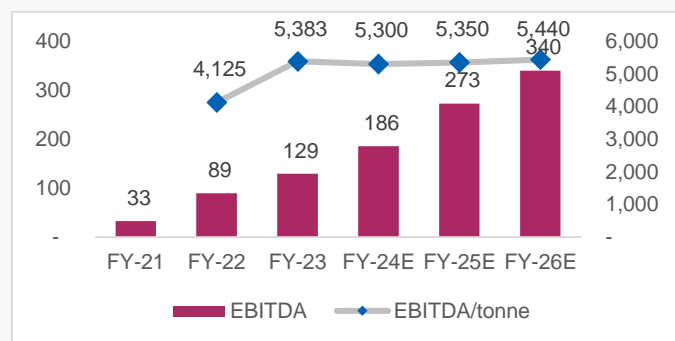


Exhibit 6: ROE and ROCE to moderate but still decent near 20%

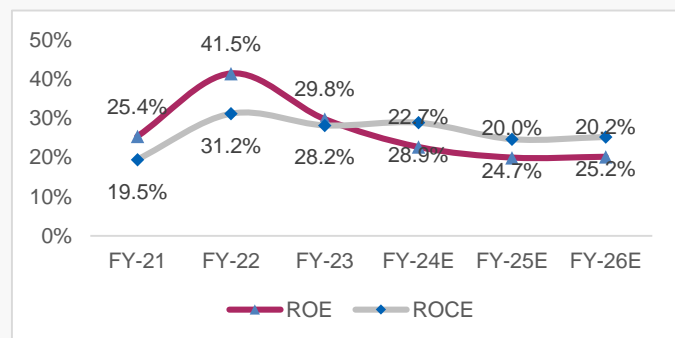
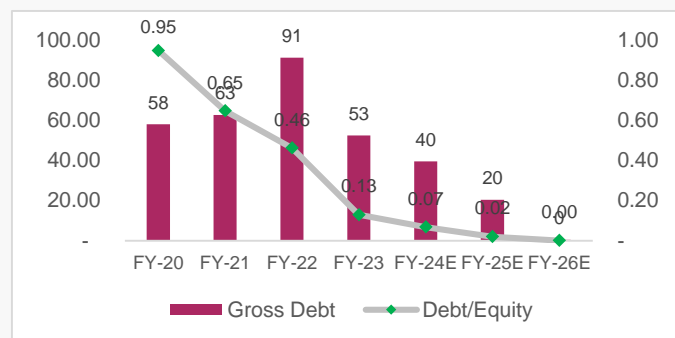


Exhibit 8: Gross Debt to reduce to almost zero by the end of FY25



Company Overview

JTL Industries Ltd (JTL) (formerly known as JTL Infra Limited) – incorporated in 1991 as Jagan Tubes Pvt Ltd (a flagship company of Jagan Group), is a leading ERW steel tube pipes manufacturer. Promoted by the Chandigarh-based Singla family, JTL manufactures ERW black pipes and has also ventured into value-added products such as Galvanized Steel pipes, solar module mounting structures, and large-diameter steel tubes & pipes – produced in its 4 state-of-the-art facilities having a total manufacturing capacity of 5,86,000 TPA.

Pan India presence: JTL's existing manufacturing facilities are located at strategic locations across India, Which enables the company to source raw materials at competitive prices and expand its sales and footprint in domestic and international markets. All its plants are capable of producing value-added products. The company has 2 plants in Punjab – Gholu Mazra (Near Chandigarh) and Mandi Gobindgarh, 1 in Mangaon (Maharashtra) and 1 recently merged plant in Raipur from promoter entity Chetan Industries (Chhattisgarh). JTL has a total land bank area of 100+ acres.

Exports: JTL exports its products to over 20 nations on 5 continents and its export mix consists of value-added products (VAP) and commercial-grade products. The VAP contributes ~90% of its export sales volume which assists the company in earning high revenue and margins. The company does not have any off-shore offices and maintains exports directly from the India office. In FY22, JTL's export revenue share stood at 12% while its export volume share stood at 10%. **In FY23, the export volume share was at 8%. By FY25, the company's target is to grow its exports to 15% of its total sales volume.**

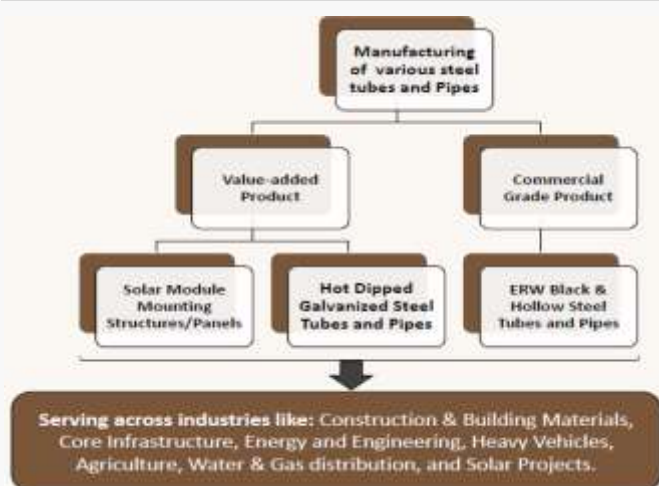
Good distribution and sales Network: JTL currently has 1000+ SKUs, 600+ employees, and over 800 dealers and distributors with a good geographical footprint.

Expanding client base: JTL serves a pool of diversified clientele serving B2B, B2G, OEMs, and international markets, not concentrating and exposing itself to any one sector. Tata Power, Avaada, NTPC, BHEL, Ashok Leyland, HP, Indian oil, Mahanagar gas, L&T, Suzlon, EIL, Essar, Siemens, Powergrid, IGL are some of its marquee clients.

Diverse Industrial application: JTL's ERW black and hollow steel tubes and pipes, solar module panels and hot dipped galvanized steel tubes and pipes have diverse applications making them less cyclical products. These products are used across Agriculture, Water Distribution. Solar Projects, Energy and Engineering, Heavy Vehicles, Construction & building material and other Core Infrastructure applications.

Experienced management: JTL is promoted by Mithan Lal Singla who has over 40 years of extensive experience in the steel business and Madan Mohan Singla who is the MD of the company with a relevant experience of more than 35 years in the steel pipe industry.

Exhibit 9: JTL Products Split and its end-industry



Source: Company

JTL manufactures ERW black pipes, Galvanized Steel pipes, solar module mounting structures, and large diameter steel tubes & pipes—produced in its 4 state-of-the-art facilities having a total manufacturing capacity of 5,86,000 TPA

Exhibit 10: Industry-wise Revenue Break up as of FY22

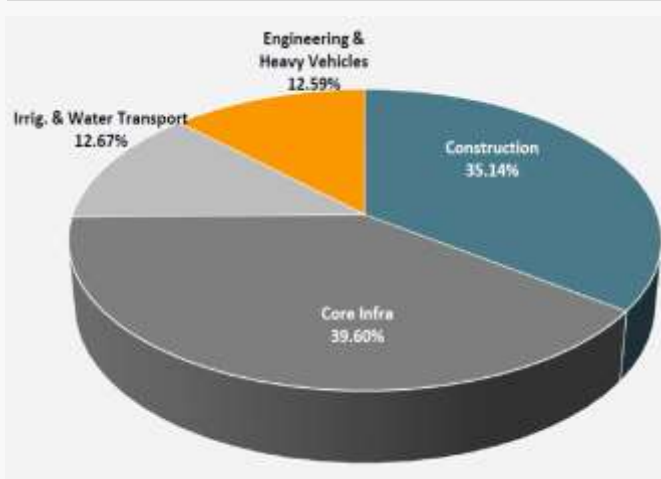
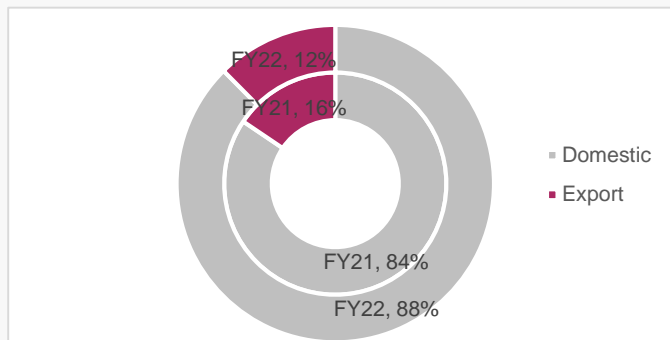
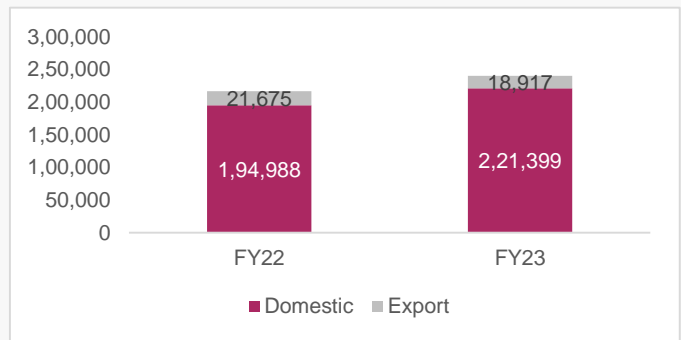


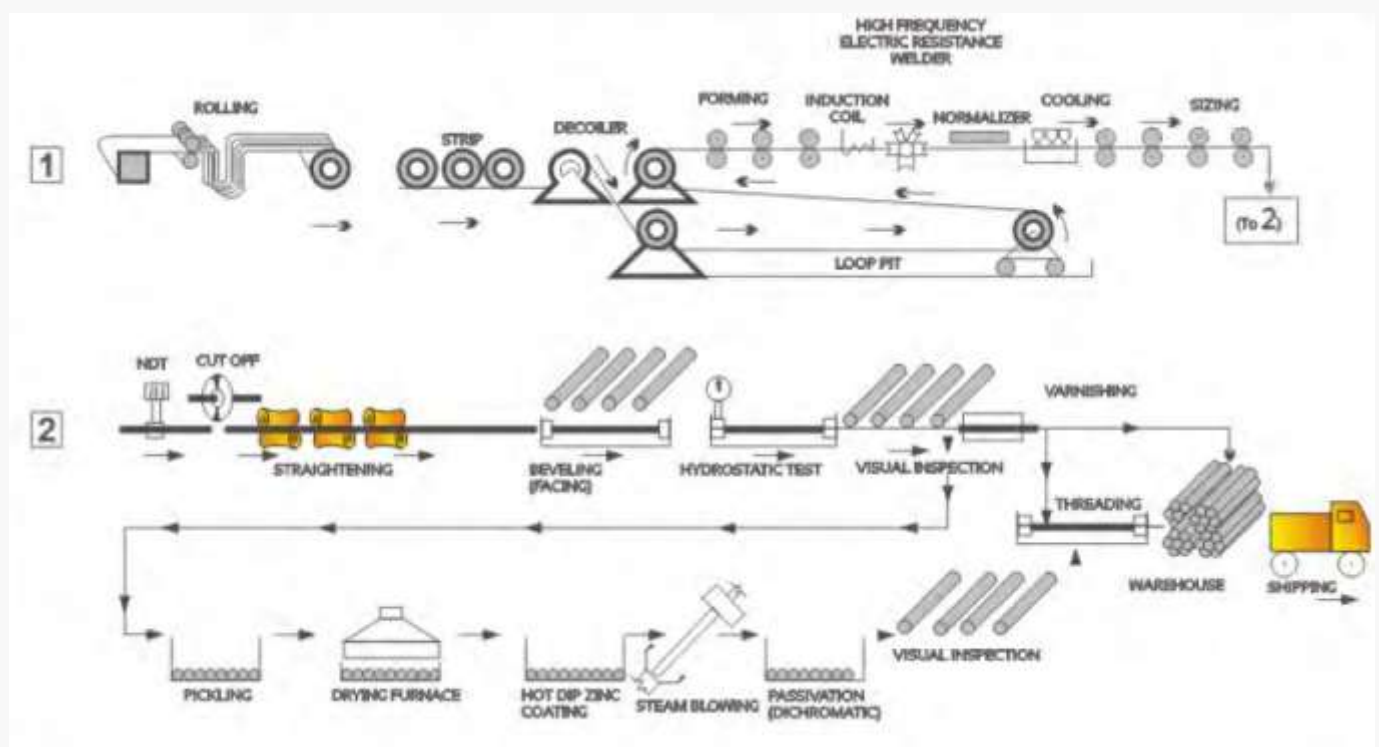
Exhibit 11: Domestic and Exports revenue split %


Source: Company

Exhibit 12: Domestic and Exports Volume (Tonnes)

Exhibit 13: Existing Capacity of JTL and capacity expansion plans

Plant	Existing Capacity (T)	Additional plant Capacity expansion (T)	Target Capacity (T) by FY25
Raipur (CG)	1,00,000	2,00,000	3,00,000
Derabassi (Punjab)	1,00,000	-	1,00,000
Mangaon (Maharashtra)	2,00,000	2,00,000	4,00,000
Mandi (Punjab)	1,86,000	14,000	2,00,000
Total	5,86,000	4,14,000	10,00,000

Source: Company

Exhibit 14: ERW pipes production Process flow


Source: Company

Capacity expansion & increasing VAP share to drive growth

- **JTL has expanded its capacity in the past from 4 Lc tonnes to the current 5.86 Lc tonnes.** The company completed the amalgamation of JTL and Chetan Industries Limited (its promoter group company) in Mar'23, adding 1 Lc tonnes of additional capacity by the end of FY23. Chetan Ind. with its plant in Raipur of 1Lc tonne also provides an advantage of backward integration (150 ktpa hot roll mill), proximity to the source of raw material, and cost synergies for JTL along with opening a market for its products in East India.
- **JTL has an aggressive plan to further expand the capacity to 10 Lc tonnes from the existing 5.86 Lc tonnes by FY25.** The company will add an additional 14 ktpa at the Mandi facility by the end of Q1FY24 and will add 4 Lc tonnes (2 Lc each at Raipur and Mangaon) by the end of FY25, which will take its capacity to 1MT (Mn tonnes) by the end of FY25.
- **JTL plans to expand its capacity by another 1MT which will bring its total capacity 2MT by FY28.** The company will communicate further updates on the funding for the incremental expansion project in the upcoming quarters. The management also highlighted that it is ready for inorganic acquisitions in future.
- **JTL's strategic initiative from FY15 to FY20 (Phase I)** was to establish a 1) Strong market network, 2) Prepare the ground for exports, 3) Expand product offerings by adding Galvanise Section and Solar Section and 4) Expand capacity by putting up new green-field project in Mangaon (Maharashtra).
- **JTL's Phase II of its strategic initiative from FY21 to FY25** is to 1) Improve capacity utilisation at the recently expanded capacities, 2) Expand its product range and increase the share of VAP, 3) Enhance its product penetration and brand value, 4) Expand into new export regions and increase business with existing partners, 5) Increase capacity to 10 Lc tonnes by FY25.

JTL has an aggressive plan to expand the capacity to 1MT from the existing 0.586MT by FY25. Post FY25, it plans to expand its capacity by another 1MT which will bring its total capacity to 2MT by FY28

Exhibit 15: JTLs Strategic Outlook FY21 to FY25

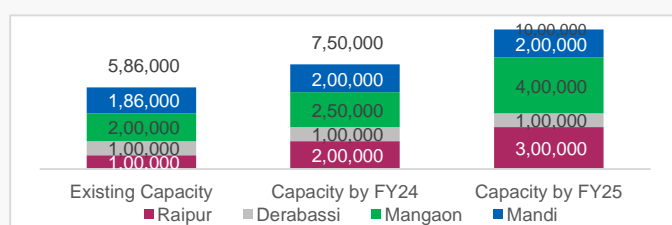


Source: Company

- **JTL's VAP share stood at 31% in FY23 and it plans to increase the share to 50% by FY25.** All the plants of the company are now capable of producing value-added products.
- **Out of JTL's incremental 4Lc tonne capacity in the next two years at Mangaon and Raipur, ~50% will be equipped with DFT (Direct Forming Technology)** which will facilitate the company to produce various sizes of hollow section without roll change, increasing efficiency and capacity utilization and also add additional SKU's. Each Raipur and Mangaon will have 1 Lc tonne of DFT capacity.
- Post the installation of the DFT (by the end of FY24), the company would have the ability to manufacture larger diameter pipes up to 20" diameter pipes as against the current capacity of 10" diameter pipes. These pipes could command higher premiums and hence improve its margins further.

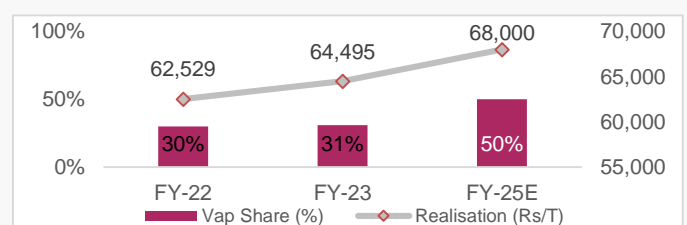
JTL's VAP share stood at 31% in FY23 and it plans to increase the share to 50% by FY25

Exhibit 16: Capacity expansion over the next two years



Source: Company, Axis Securities

Exhibit 17: VAP share likely to improve



Growing scale of operations with stable operating margins

- JTL has been funding its expansion mainly through issuing share warrants rather than raising debt.**

The company issued ~1.28 Cr of fully convertible warrants amounting to ~Rs 384 Cr to non-promoter/Public Category on Mar'23 for its phase II 4 Lc tonne expansion. Even for previous expansion at its plants, the company has issued 5 Lc fully convertible warrants of FV of Rs 10 each in Dec'20 to non-promoter/Public Category. The issuance to the non-promoter category has led to a dilution in the promoter holding from 67.8% in FY21 to 55.3% in FY22. The merger of Chetan Industries (a promoter group company) however, has led to a reversal in the dilution trend and the promoters' share now as of FY23 stands at 56.3%.

Despite the aggressive Capex, the return ratios are decent and the company has also managed to maintain its EBITDA margin at ~8% in the past couple of years

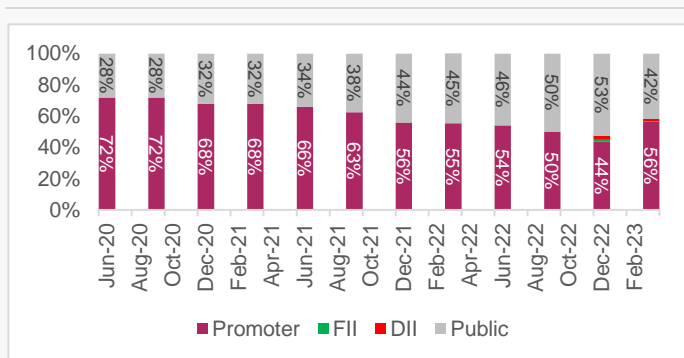
Exhibit 18: Promoter shareholding

	Number in Cr	Promoter holding %	Public/ Other holding %	Remarks
Weighted Avg. No of Shares (Diluted) in Cr by the end of FY21	5,30,37,150	67.80%	32.200%	
+Share warrants issued (Cr) to <u>Non-Promoter</u>	61,50,000			
+Share warrants issued (Cr) to <u>Non-Promoter</u>	63,50,000			
Total Share warrants issued (Cr) to <u>Non-Promoter</u>	1,25,00,000			Issuance of fully convertible 5,00,000 warrants of FV of Rs 10 each on a preferential basis on Dec'20 to be convertible within 18 months. The share warrants were split from FV of Rs 10/share to Rs 2/share resulting in 1,25,00,000 warrants in FY22.
Weighted Avg. No of Shares (Diluted) in Cr by the end of FY22	6,55,37,150	55.30%	44.700%	
+Shares from Chetan Merger issued to <u>Promoter holding</u>	1,88,04,492			Merger of Chetan Industries (Promoter group company) with JTL
+Share warrants issued (Cr) to <u>Non-Promoter</u>	1,28,08,350			Allotment of 1,28,08,350 fully convertible warrants of Rs 2 each on March'2023
Weighted Avg No of Shares (Diluted) in Cr by the end of FY23	9,71,49,992	56.30%	43.700%	

Source: Company, Axis Securities

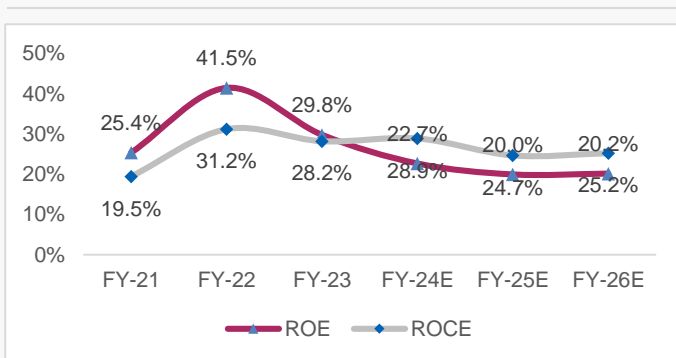
- In the non-promoter list, JTL has mainly public shareholding.** However, recently from Sept'23, FIIs and DIIs have also held the company's shares. As of Mar'23, FII and DII held 0.5% and 1.4% shares in the company.

Exhibit 19: Promoter Shareholding Pattern



Source: Company, Axis Securities

Exhibit 20: ROE & ROCE to moderate but still decent near 20%

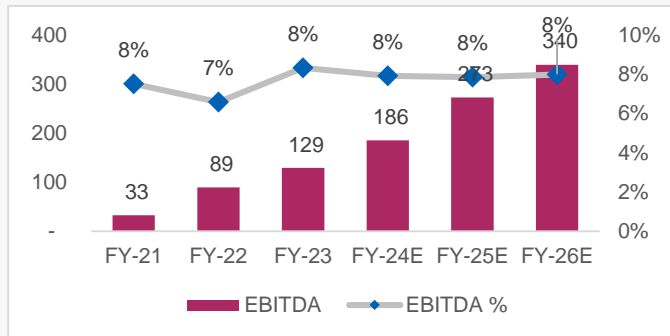


- With the expansion phase going on, the company's ROE and ROCE have moderated to 29.8% and 28.2% in FY23 from 41.5% and 31.2% in FY22 respectively. The return ratios are expected to remain at a moderate level in the range of 20-23% for ROE and 25-29% for ROCE for the next two to three years as the expansion progresses.
- Despite the aggressive Capex, the return ratios are decent and the company has also managed to maintain its EBITDA margin at ~8% in the past couple of years.** In FY23, EBITDA grew by 45% YoY to Rs 129 Cr, led by an 11% increase in sales volumes as the capacity expansion continued, which was supported by robust demand for steel tubes in both domestic and exports market. The relatively diverse end-applications of the company's ERW black pipes, GI pipes in construction, core infra, irrigation and water transport, and heavy vehicles & engineering (35.14%, 39.6%, 12.67%, 12.59% revenue share mix in FY22

respectively), partially shields the company from steel demand cyclicalities.

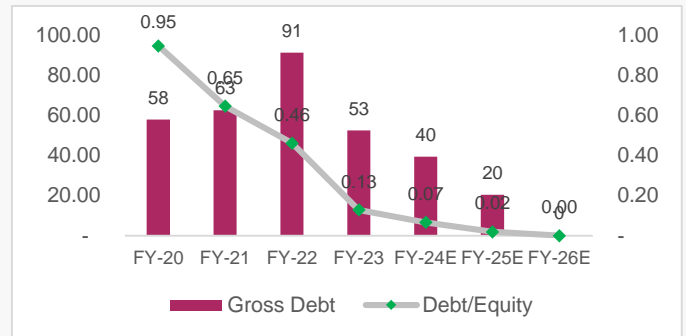
- **With the expansion projects being funded by share warrants, we foresee the company's gross debt to come down to almost zero by FY26** as we model Operating cash flow to grow from Rs 5 Cr in FY23 to Rs 226 Cr in FY26.
- **Dividend payout:** The board's endeavour is to maintain a dividend payout (interim and final put together) of ~50% of PAT for every financial year on standalone financials. However, given its ongoing expansion phase, the total dividend payout is expected to remain muted (in FY23, the company declared a dividend per share of Rs 0.2/share, leading to a payout ratio of 2.2%).

Exhibit 21: EBITDA to grow YoY; EBITDA Margins to remain stable



Source: Company, Axis Securities

Exhibit 22: Gross Debt to reduce to almost zero by the end of FY25

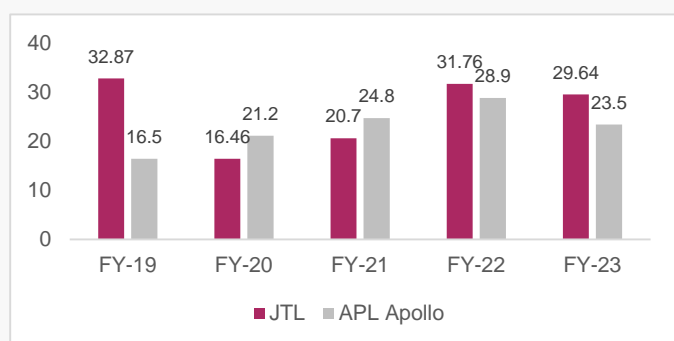


Outlook & Valuation

- JTL's ROE and ROCE from FY19-23 were resilient and were largely close to APL Apollo tubes which is the market leader in the ERW and structural tubes market.
- With the aggressive Capex ahead, the company's ROE and ROCE are expected to moderate from the FY23 level. However, We expect the company to report return ratios at 20%+ for FY24-26E. Refer to Exhibit 31 for the comparison of the return ratios for the pipe manufacturers.
- APL Apollo is currently trading at 37.4x 12MF consensus P/E ratio, while JTL is trading at 21.8x our FY24 EPS estimate on the current CMP. APL Apollo although has similar return ratios, its working capital management is superior to JTL. And, being a leader with a higher operating scale, it commands a premium P/E ratio.
- We value JTL at 22x its FY25 EPS to arrive at our 1-year forward target price of Rs 470/share, which implies an upside of 36% from the CMP. We see 22x as a reasonable valuation for JTL given its healthy return ratios despite being in an aggressive growth Capex stage.

Despite the aggressive Capex ahead, the company's ROE and ROCE are expected to remain resilient at 20%+ for FY24-26E which screens better than peers (next only to APL Apollo tubes).

Exhibit 23: JTL and APL Apollo ROE trajectory



Source: Company, Axis Securities

Exhibit 24: JTL and APL Apollo ROCE trajectory

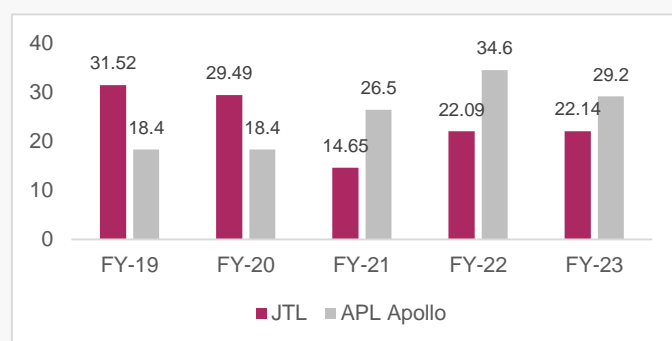
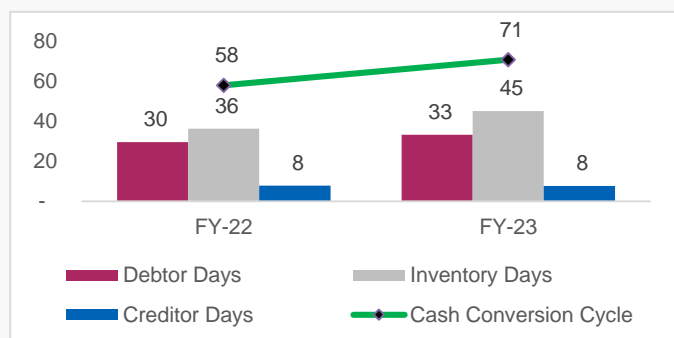


Exhibit 25: JTL has higher net WC days



Source: Company, Axis Securities

Exhibit 26: APL Apollo has a single-digit net WC days

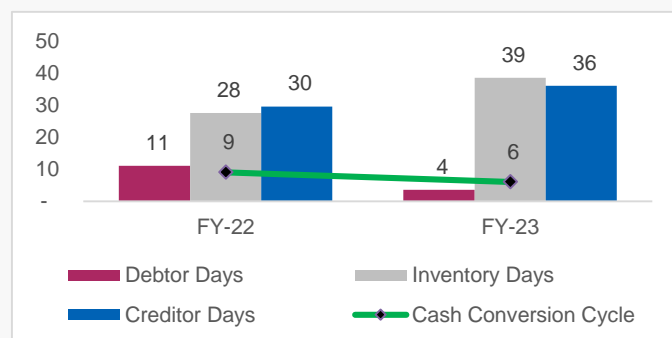
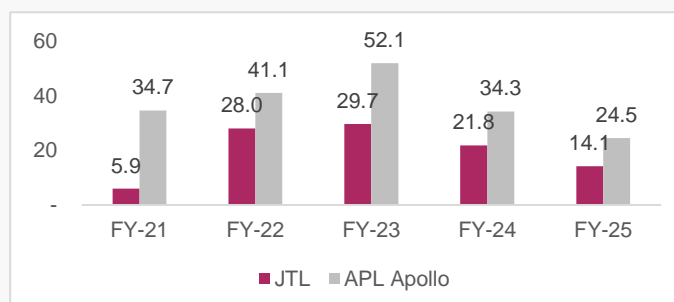


Exhibit 27: JTL & APL Apollo PE Ratio



Source: Company, Axis Securities

Exhibit 28: JTL & APL Apollo EBITDA/tonne

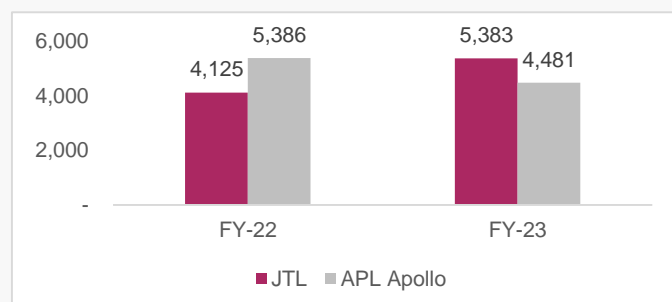
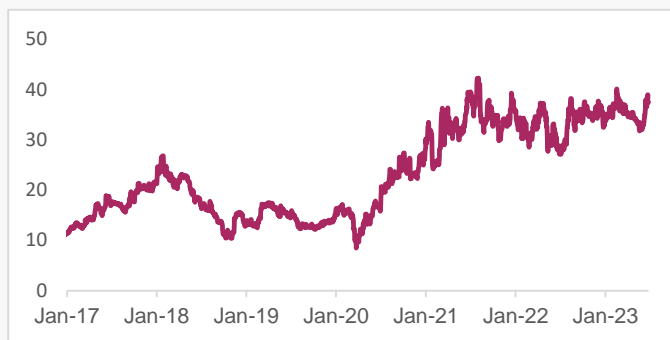


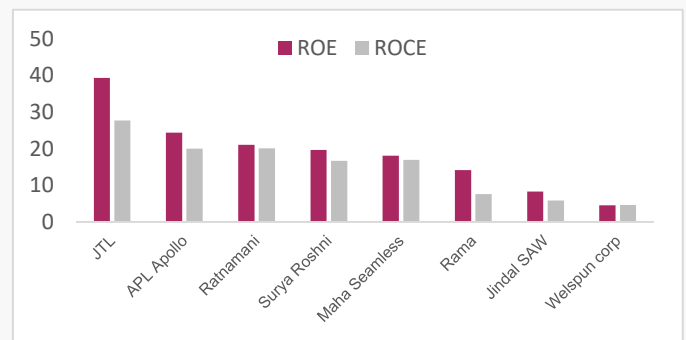
Exhibit 29: Competitive Landscape: Steel Tubes & Wires Companies

Ticker	Company	Price Rs/sh	Mkt Cap Rs Cr	EV Rs Cr	PE (x)				EV EBITDA (x)				ROE		ROCE
					2022	2023	2024	2025	2022	2023	2024	2025	2023	2023	
JTLIND IN Equity	JTL INDUSTRIES L	333.9	2,820	2,925	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	39.32	27.71	
APAT IN Equity	APL APOLLO TUBES	1337.2	37,085	37,605	57.39	51.20	32.36	23.48	36.98	30.46	20.49	0.60	24.36	19.98	
SYR IN Equity	SURYA ROSHNI LTD	837.1	4,555	4,957	16.36	11.35	10.26	N/A	N/A	7.23	6.30	N/A	19.67	16.71	
RASTL IN Equity	RAMA STEEL TUBES	37.15	1,736	1,930	62.11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14.16	7.61	
MHS IN Equity	MAHARASHTRA SEAM	476.45	6,384	5,996	10.24	8.31	8.94	N/A	N/A	N/A	N/A	N/A	18.12	16.97	
WLCO IN Equity	WELSPUN CORP LTD	262.1	6,855	8,150	27.95	11.10	8.68	9.13	N/A	N/A	N/A	N/A	4.51	4.66	
JSAW IN Equity	JINDAL SAW LTD	230.25	7,362	11,422	18.51	9.78	8.74	8.61	N/A	N/A	4.68	N/A	8.27	5.86	
RMT IN Equity	RATNAMANI METALS	2333.35	16,355	16,495	36.48	29.59	25.54	22.36	N/A	19.26	16.84	14.90	21.04	20.13	
TATA IN Equity	TATA STEEL LTD	109.6	1,33,951	2,03,949	7.23	17.59	8.54	7.26	3.47	7.00	5.20	4.79	8.05	5.54	

Source: Bloomberg, Priced as of 25th June 2023.

Exhibit 30: APL Apollo tubes 12 MF PE Ratio


Source: Bloomberg, Axis Securities

Exhibit 31: Return Ratios (from Bloomberg) of the steel pipe manufacturers FY23


Management Profile

The company's board is comprised of 8 Directors out of which 4 are Executive Directors, 3 are Non-Executive Independent Directors including one Non-Executive Non-Independent Woman Director and one Non-Independent, Non-Executive Director. The Chairman of the Board is a Non-Executive Independent Director.

Key Management Personnel	Experience
Mr. Madan Mohan Singla <i>Chairman & Managing Director</i>	<p>Mr. Madan Mohan Singla, the Chairman and Managing Director of the company. He belongs to an industrialist family in Chandigarh. With 35+ years of rich experience in the steel industry, he has accumulated a wealth of knowledge and expertise that spans various aspects of the business. He has in-depth knowledge of the steel and pipe industry such as setting up Galvanized and ERW Steel Tubes & Pipes, Scaffolding Fittings, and Systems and much more. He is also recognized for his exceptional business, finance, and strategic abilities.</p>
Mr. Mithan Lal Singla <i>Non-Executive Director</i>	<p>Mr. Mithan Lal Singla – Non-Executive Director of the company, has an impressive 40 years of experience in the steel business along with a deep understanding of the industry's dynamics. He has played a key role in the establishment of current manufacturing facilities and has been associated with various ventures in different capacities possessing a versatile skill set along with being well-versed in the latest industrial techniques.</p>
Mr. Rakesh Garg <i>Executive Director</i>	<p>Mr. Rakesh Garg, Executive Director of the company has 30 years of experience in the steel industry and a comprehensive understanding of this sector. His wide-ranging experience in industrial projects, engineering, and management profiles equips him with a holistic perspective to tackle diverse aspects of the steel business. He possesses expertise in trade and commercial operations and liaises with various agencies and business associates.</p>
Mr. Dhruv Singla <i>Executive Director & CFO</i>	<p>Mr. Dhruv Singla is the Executive Director & CFO of the company having 10 years of experience in the steel industry. His educational background includes a B.Com Honors degree from Punjab University and a Master's degree in Management from King's College, London. He played a pivotal role in the expansion, commencement, and day-to-day operations of JTL Mangaon. Additionally, his expertise in financial matters contributed to his involvement in managing finances at Prime.</p>
Mr. Pranav Singla <i>Executive Director</i>	<p>Mr. Pranav Singla is the Executive Director of the company. He has a Bachelor's in Economics and Accounting Honors from Cass Business School, London and Masters in Management from Kings College, London. He has experience of around 4 years in the fields of Accounting, Finance, Cost Management, and Strategic Planning and has inherited excellent entrepreneurship skills from his industrialist family. He is responsible for effectively managing sales and distribution operations in North India. He also handles investor relations.</p>

Source: Company

Key Risk & Mitigation

- **Delay in execution of expansion projects:** Delay in completion of the expansion projects along with lower-than-expected utilisation of the expanded projects could lead to lower revenue and profitability impacting our rating and target price.

Mitigation: The management said that the company is well funded and all the machinery for the expansion upto 1MT capacity by FY25 is ordered. The company has enough land bank available (100+ acres of land bank area at Mangaon) and the current expansion will be all brownfield where it does not see any other regulatory risk in the execution of the expansion project.

- **The fragmented nature of the ERW pipes industry results in thin operating margins for the industry:** Currently, ~55% of the ERW pipes manufacturer are from the unorganised secondary players, which puts competitive pressure on the organised players, resulting in lower EBITDA margins for the ERW manufacturers. However, with the formalisation of the economy, there would be some pressure on the unorganized players to comply with GST and other Regulators. Also, the market is moving from unorganised to organised players as the ERW pipe market becomes more and more quality-conscious. This is likely to reduce the share of unorganized players.

Mitigation: JTL with its improving presence in VAP products. Its capacity expansion drive along with its plants' geographical spread puts it in a position to partially mitigate the risk from local players.

- **Volatility in steel raw material prices:** ~90-95% of total expenses is RM cost for JTL and the major RM for JTL is steel HR coils. It procures HR coils and processes them to produce ERW pipes. As a result, the company's working capital requirement is consistent and is dependent on steel HRC prices. Volatility in the HRC prices could lead to inventory restocking/destocking cycles leading to inventory loss for the company.

Mitigation: The company is increasing its dealer network and trying to minimise the inventory days in future. Moreover, many orders for the company are now pre-booked and its selling volumes are based on order books which will decrease the supply chain inventory losses.

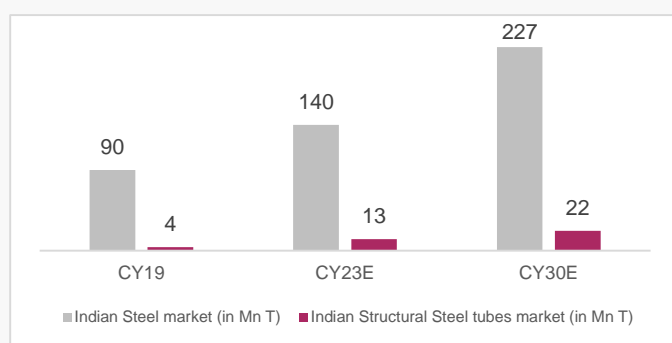
Steel RM price volatility, delay in execution of the expansion projects, lower utilization and failure of the increase in the VAP share in total sales volumes are key risks to our BUY rating and target price

ERW Steel Pipes Industry Overview

- As per the new steel policy – 2017, India's target is to achieve 300MT of steel production capacity by CY30. India produced 125MT of crude steel in CY22 as per WSA. As per the company, the structural steel tube market is expected to grow from ~13MT in CY23 to 22MT by CY30, led by government thrust on Agriculture, Rural Economy, Infrastructure schemes (incl Pradhan Mantri Awas Yojana, Jal Jeevan mission), Solar trackers, Automobile Sector
- The steel tubes and pipes industry is mainly divided into i) Welded, ii) Seamless iii) Ductile iron pipes. JTL operates under the welded ERW pipes for structural and commercial applications. The diverse end usage of these pipes makes JTL's business less sensitive to cyclicalities as compared to seamless, SAW and precision pipes which depend on Oil & gas industry and the Auto industry.

The structural steel tube market is expected to grow from ~13MT in CY23 to 22MT by CY30, led by governments thrust on Agriculture, Rural Economy, infrastructure schemes, Solar trackers, and Automobile Sector

Exhibit 32: Indian Structural tube market has the potential to grow ~5.5x Over CY19–30E



Source: Company

Exhibit 33: Current ERW Pipes Industry Structure

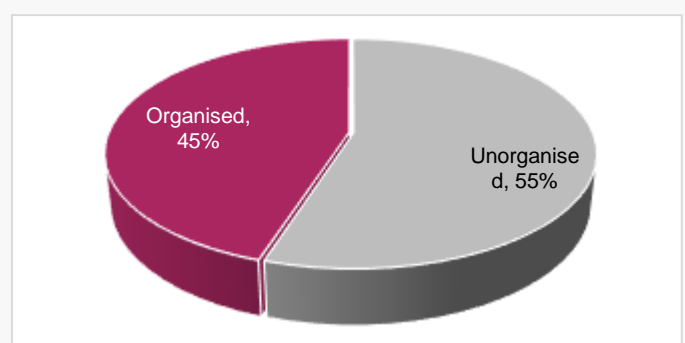
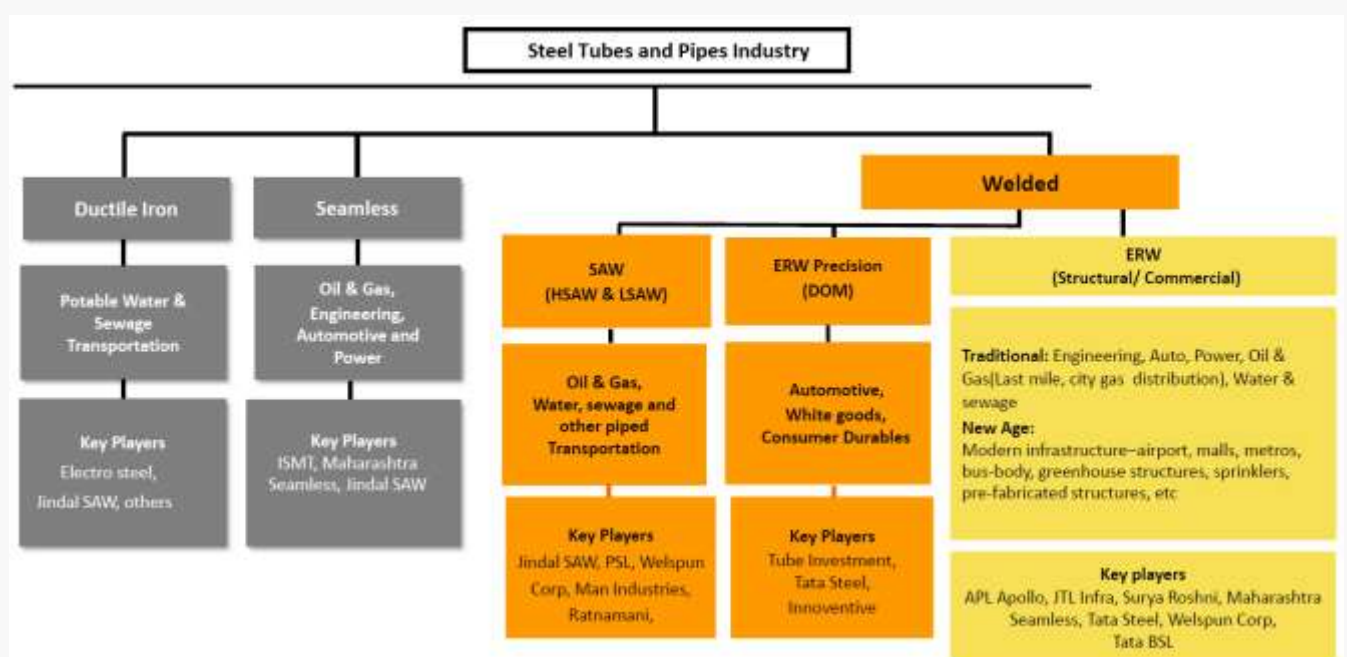


Exhibit 34: Structure of Steel Tubes & Pipes Industry



Source: Company

Opportunities and Growth Drivers of the Industry

JTL is eyeing the various developments in the industry to spot and tap growth opportunities ahead. These opportunities are mainly a result of the structural changes in the industry and evolving consumer trends. India's real GDP is ~\$3.50 Tn, making it the world's fifth-largest economy. The government's ambitious plan to further make it a \$5 Tn economy has raised emphasis on infrastructural development, resulting in a structural shift. Thus, opening up new opportunities for building material manufacturers. In addition, the implementation of favourable supportive monetary policies is fuelling economic growth, enabling disposable income for the young and progressive population

JTL has current orders of ~20kt worth Rs 200 Cr from the government of India.

Exhibit 35: Growth Drivers of the Steel Tubes & Pipes Industry

Growth Drivers	Description
Warehousing	<ul style="list-style-type: none"> In 2022, the warehousing stock in the top eight cities of India has reached ~330 mnsqft and is projected to cross 470 mn sqft by 2025. Logistics, engineering, e-commerce, FMCG and retail and telecom have remained the biggest demand drivers.
Infrastructure	<ul style="list-style-type: none"> The government plans to start 100 additional airports by 2024. Over the next three years, 19,000 Cr is to be invested in upgrading airport infrastructure in the country, especially in smaller cities.
Green Growth	<ul style="list-style-type: none"> The Ministry of New and Renewable Energy (MNRE) was allocated Rs 10,222 Cr, a 48 % hike from the previous budget of Rs 7,033 Cr.
Affordable Housing	<ul style="list-style-type: none"> Trends for affordable housing with low cost & faster completion are picking up pace in India. Modular building is expected to be the future construction methodology. Modular steel structures are being used.
Water Sanitization	<ul style="list-style-type: none"> Jal Jeevan Mission is to provide tap water to 180 Mn rural households by 2024. This will create huge demand for pipes in water systems and sanitization.
Oil Industry	<ul style="list-style-type: none"> The government has allowed 100% FDI in upstream and private sector refining projects. Diesel demand in India is expected to double to 163 MT by 2029-2030. Consumption of natural gas in India is expected to grow by 25 Bn cubic meters.
Railways	<ul style="list-style-type: none"> Railways got a boost of 2.40 Lc Cr from the government of India in the budget, nearly nine times over the FY14 allocation poses a good opportunity towards the demand for structural steel. On 2nd Jun'23, the Ministry of Railways resolved to upgrade 1,275 railway stations under Amrit Bharat Station, which will drive demand for structural steel.

Source: Axis Securities, Company

Jal Jeevan Mission

- The Jal Jeevan Mission aims to provide water to 180 Mn rural households by 2024 and offers growth prospects as one of India's largest infrastructure investments with a planned investment of \$50 Bn. So, this is an emerging opportunity for JTL Infra to make a mark in the industry as there will be a huge demand for pipes in water systems and sanitisation.
- As per Jun'23 data, the total number of rural households reached through the Jal Jeevan Mission was 19.45 Cr out of which 12.23 Cr were rural households tap connections.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue From Operations	1,355	1,550	2,339	3,468	4,250
Other Income	4	5	6	7	8
Total Income	1,359	1,555	2,345	3,475	4,258
Cost of materials consumed	1,237	1,365	2,053	3,044	3,730
Purchases of stock-in-trade	-	-	-	-	-
Changes in inventories of finished goods, stock-in-trade.	(34)	(6)	-	-	-
Employee benefits expense	18	20	29	43	53
Other expenses	45	41	72	108	127
Total Expenditure	1,266	1,421	2,153	3,195	3,910
EBITDA	89	129	186	273	340
EBITDA per tonne (Rs/T)	4,125	5,383	5,300	5,350	5,440
Depreciation and amortization expense	3	4	9	17	19
EBIT	86	125	177	255	321
Finance costs	8	6	5	2	0
Profit Before Exceptional Items And Tax	82	124	178	261	329
Exceptional Items	-	(1)	-	-	-
Profit Before Tax	82	123	178	261	329
Total Tax Expenses	21	32	45	55	69
Profit For The Year / Period Attributable To Owners Of The Parent	61	90	134	206	260
Non-Controlling Interests	-	-	-	-	-
WtAvg No of shares outstanding (Cr) Basic (FV Rs 2/share)	7.23	8.43	8.43	8.43	8.43
WtAvg No of shares outstanding (Cr) Diluted	8.00	9.71	9.71	9.71	9.71
Earnings Per Share (Not Annualized)					
Basic (Rs)	8.45	10.69	15.85	24.42	30.86
Diluted (Rs)	7.63	9.28	13.76	21.20	26.79
DPS (Rs/share)	-	0.20	0.20	0.20	0.20
Payout Ratio	0.0%	2.2%	1.5%	0.9%	0.7%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Block	49	65	157	415	496
CWIP	3	4	4	4	4
Intangible assets					
Investments	12	16	16	16	16
Inventories	119	168	169	250	307
Trade Receivables	110	141	160	190	198
Cash / Bank balance	2	53	121	185	289
Misc. Assets	44	115	115	115	115
Total assets	339	563	743	1,177	1,426
Equity capital	13	17	17	19	19
Reserves	184	390	572	1,011	1,270
Borrowings	91	53	40	20	0
Def Tax Liabilities	2	4	4	4	4
Other Liabilities	20	68	68	68	68
Provisions	3	3	3	3	3
Trade Payables	26	29	39	50	61
Capital employed	339	563	743	1,177	1,426

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before tax	82	123	178	261	329
Depreciation	3	4	9	17	19
Interest Expenses	8	6	5	2	0
Non-operating / EO item	(1)	(0)	-	-	-
Change in W/C	(49)	(102)	(9)	(101)	(53)
Tax paid	(26)	(26)	(45)	(55)	(69)
Operating Cash Flow	17	5	138	124	226
Capital Expenditure	(22)	(19)	(101)	(275)	(100)
Free cash Flow	(5)	(14)	37	(151)	126
Other Investments	(13)	(2)	-	-	-
Investing Cash Flow	(34)	(21)	(101)	(275)	(100)
Proceeds / (Repayment) of Borrowings	14	(41)	(13)	(19)	(20)
Equity Share Capital raised	-	1	-	3	-
Securities premium received	-	22	-	-	-
Money received against share warrant	12	90	50	236	-
Finance cost paid	(8)	(6)	(5)	(2)	(0)
Dividend paid	(2)	-	(2)	(2)	(2)
Other financing activities	0	0	-	-	-
Financing Cash Flow	17	66	30	215	(22)
Change in Cash	(0.2)	49.8	67.5	64.8	103.8
Opening Cash	0.5	0.3	50.1	117.6	182.4
Closing Cash	0.3	50.1	117.6	182.4	286.2

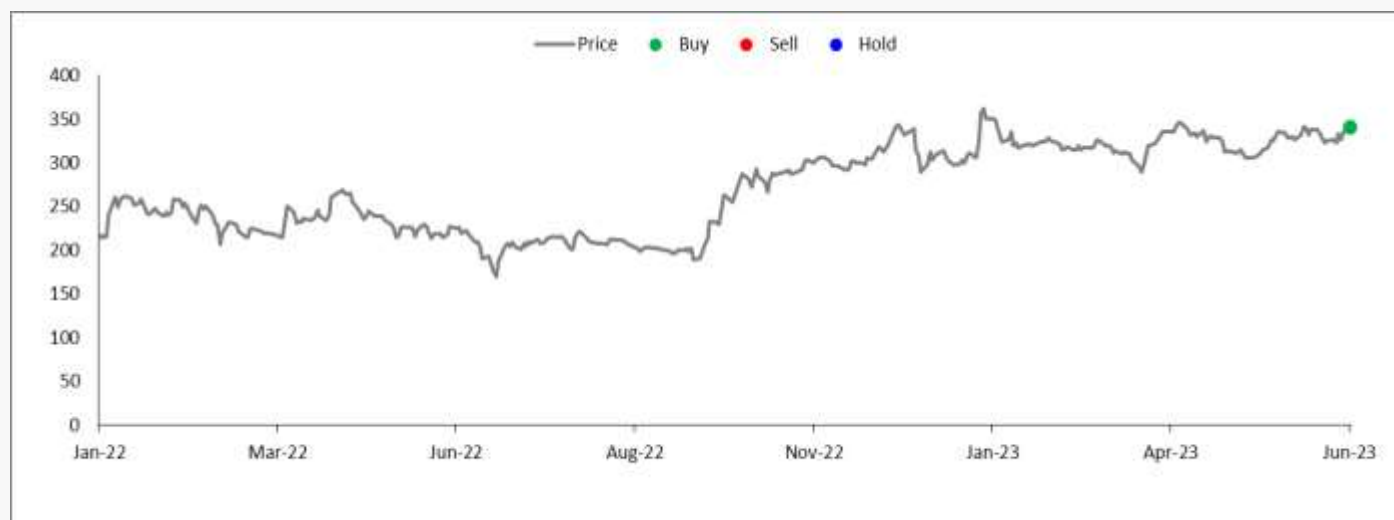
Source: Company, Axis Securities

Ratio Analysis
(x) / (%)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Operational Ratios					
Sales growth (% YoY)	211.0%	14.4%	50.9%	48.3%	22.5%
EBITDA growth (% YoY)	172.7%	44.7%	43.4%	47.1%	24.6%
Op. profit growth (% YoY)	177.6%	45.0%	41.4%	44.5%	25.8%
Net Profit growth (% YoY)	204.4%	47.6%	48.2%	54.1%	26.4%
EBITDA Margin %	6.6%	8.3%	7.9%	7.9%	8.0%
Net profit Margin %	4.5%	5.8%	5.7%	5.9%	6.1%
Tax Rate %	25.8%	26.5%	25.0%	21.0%	21.0%
Efficiency Ratios					
Total Asset Turnover (x)	4.94	3.43	3.58	3.61	3.27
Sales/Gross block (x)	23.98	19.99	13.13	7.65	7.68
Sales/Net block(x)	27.90	23.71	14.87	8.36	8.56
Working capital/Sales (x)	0.15	0.18	0.12	0.11	0.10
Valuation Ratios					
PER (x)	28.01	29.71	21.77	14.13	11.18
P/BV (x)	9.58	7.58	5.69	3.25	2.60
EV/EBITDA (x)	20.13	20.70	15.24	10.06	7.71
EV/Sales (x)	1.33	1.73	1.21	0.79	0.62
Dividend Yield (%)	-	0.00	0.00	0.00	0.00
Return Ratios					
ROE	0.41	0.30	0.23	0.20	0.20
ROCE	0.31	0.28	0.29	0.25	0.25
Leverage Ratios					
Debt / equity (x)	0.46	0.13	0.07	0.02	0.00
Net debt/ Equity (x)	0.45	(0.00)	(0.14)	(0.16)	(0.22)
Net debt/EBITDA (x)	1.00	(0.00)	(0.44)	(0.60)	(0.85)

Source: Company, Axis Securities

JTL Industries Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
27-Jun-23	BUY	470	Initiating Coverage

Source: Axis Securities

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Sector: Metals & Mining

Analyst Bio: Aditya Welekar is PGDBM in Finance with 12 years of experience in Equity Market/Research.

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