

Jai Balaji Industries

BSE SENSEX
16,883S&P CNX
5,069

CMP: INR79

TP: INR151

Buy

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Bloomberg	JBIL IN	3/10A	19,212	354	5.6	1248.9	-	-	4.6	8.0	-	-
Equity Shares (m)	63.8	3/11A	21,951	775	12.2	119.0	6.5	0.5	8.0	9.8	1.1	7.0
52-Week Range (INR)	300/78	3/12E	23,674	-634	-9.9	-181.8	-7.9	0.5	-6.6	4.5	1.2	11.6
1,6,12 Rel. Perf. (%)	-18/-51/-56	3/13E	27,312	673	10.6	-206.1	7.5	0.5	7.1	8.7	1.2	7.4
M.Cap. (INR b)	5.0											
M.Cap. (USD b)	0.1											

Consolidated

- Jai Balaji industries' (JBIL) posted 2QFY12 adjusted loss of INR530m against our expectation of profit of INR130m due to high input and interest costs.
- Net sales increased 10% QoQ to INR6.7b on higher steel and Ductile Iron (DI) pipe volumes.
- Revenue from the steel division increased 19% QoQ to INR3.2b. Saleable steel tonnage increased 16% QoQ to 99kt and realization increased 2% QoQ to INR32,774/ton.
- DI pipe production increased 50% QoQ to 21kt and sales volumes increased 51%QoQ to 21kt. Average realization declined to INR37,906/t down 1% QoQ. Tonnage is expected to improve over the next few months as JBIL will dispatch pipes with larger diameters.
- EBITDA declined 61% YoY to INR261m due to rising iron ore and coking coal costs. Raw material cost as a percentage of sales shot up significantly to 75% in 2QFY12 from 62% in 1QFY12.
- Iron ore cost increased 15% QoQ to INR6,771/t and coking coal cost increased 19% QoQ to INR16,029/t.
- Earnings in subsequent quarters will also be under pressure due to weakening of product prices, high input and interest costs.
- JBIL's large coal reserves and significant capex plans to monetize the reserves will enable it to post strong earnings growth over the next five years. The stock trades at an EV/EBITDA of 7.4x FY13E and PE of 7.5x FY13E. Maintain **Buy**.

Quarterly Performance (Standalone)

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
DRI Sales ('000 tons)	18	16	14	18	28	22	11	11	66	72
Pig + DI Sales ('000 tons)	32	59	63	71	62	63	78	82	225	285
Steel Sales ('000 tons)	82	91	111	110	85	99	73	61	394	318
Pig iron (Rs/ton)	21,798	20,855	21,415	22,850	23,965	24,600	24,600	24,600	21,774	24,461
Steel (Rs/tss)	27,789	25,873	26,868	29,867	32,133	32,774	32,774	32,774	27,665	32,603
Net Sales	4,144	4,954	5,905	6,732	5,918	6,531	5,648	5,577	21,735	23,674
Change (%)	-9.4	8.2	24.3	42.4	42.8	31.8	-4.4	-17.2	12.8	8.9
EBITDA	619	662	895	1,201	874	261	553	837	3,377	2,525
Change (YoY %)	40.6	16.1	26.5	77.0	41.1	-60.6	-38.2	-30.3	40.9	-25.2
As % of Net Sales	14.9	13.4	15.2	17.8	14.8	4.0	9.8	15.0	15.5	10.7
EBITDA/tssp	4,707	3,975	4,757	6,032	4,985	1,421	3,421	5,421	4,928	3,741
Interest	299	341	379	436	497	570	576	581	1,455	2,223
Depreciation	178	187	223	240	280	270	272	275	828	1,097
Other Income	15	3	4	41	2	3	5	47	63	57
PBT (before EO Inc.)	156	137	298	566	99	-576	-289	28	1,157	-738
PBT (after EO Inc.)	156	137	298	566	99	-576	-289	28	1,157	-738
Total Tax	52	21	99	246	28	-46	-95	9	417	-103
% Tax	33.4	15.0	33.3	43.4	28.8	7.9	33.0	33.0	36.1	14.0
Adjusted PAT	104	116	199	321	71	-530	-194	19	740	-634
Change (YoY %)	-na-	506.7	13.4	110.0	-32.2	-555.6	-197.7	-94.1	132.5	-185.8

E: MOSL Estimates; tssp=tons of steel, sponge, DI and pig iron sales; tss = tons of saleable steel

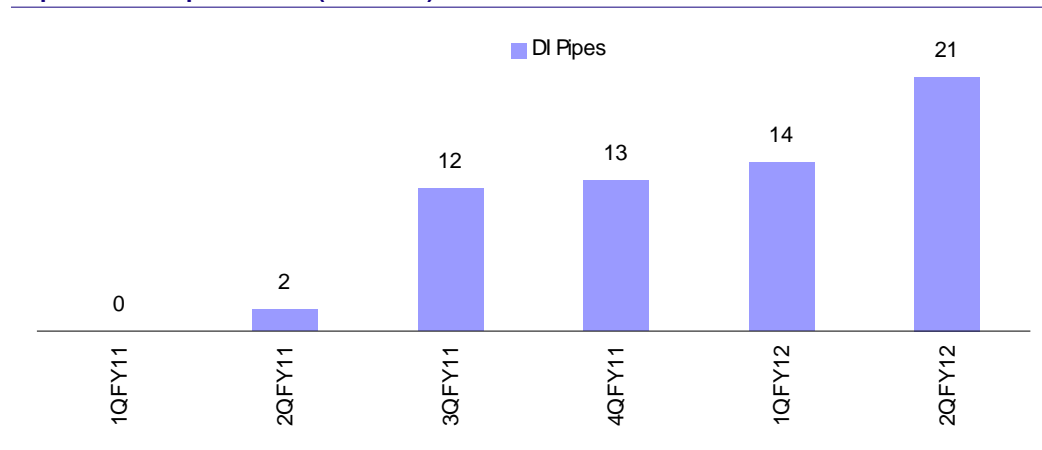
Net sales up 10% QoQ at INR6.7b on higher steel, Ductile Iron pipe volumes

- Revenue from the steel division increased 19% QoQ to INR3.2b. Saleable steel tonnage increased 16% QoQ to 99kt and realization increased 2% QoQ to INR32,774/ton.
- Revenue from pig iron decreased 11% QoQ to INR1.03b. Pig iron sales declined 14% QoQ to 42kt as JBIL produced more DI pipes and billets. Pig iron realization increased 3% QoQ to INR24,600/ton. Sponge-iron sales volumes decreased 22% QoQ to 22kt and realization improved 6% QoQ to INR21,218/ton.
- DI pipe production increased 50% QoQ to 21kt and sales volumes increased 51% QoQ to 21kt. Average realization declined to INR37,906/t, down 1% QoQ. Tonnage is expected to improve over the next few months as JBIL will dispatch pipes with larger diameters.
- Revenue from the ferro alloy division increased 7% QoQ to INR613m due to a similar increase in volumes. Average realization improved by 1% QoQ to INR53,729/t.
- EBITDA declined 61% YoY to INR261m due to rising iron-ore and coking coal costs. Raw material costs as a percentage of sales shot up significantly to 75% in 2QFY12 from 62% in 1QFY12. Iron ore cost increased 15% QoQ to INR6,771/t and coking coal cost increased 19% QoQ to INR16,029/t.

3QFY12 margins expected to be under pressure; Coke oven expansion on track

- Two batteries of a 0.35mtpa coke oven plant are expected to be commissioned in the current quarter. This will partially offset the high cost of hot metal. Additional waste heat will generate ~20MW of power.
- We expect JBIL to produce 120kt of DI pipe in FY12, which will provide some cushion to margins due to the use of captive pig iron and sinter. We expect JBIL to post a DI pipe production run rate of 200ktpa by the end of FY12.
- Earnings in the subsequent quarters will also be under pressure due to weak product prices, high input and interest costs.
- JBIL's large coal reserves coupled with significant capex plans to monetize the reserves will enable JBIL to drive strong earnings growth over the next five years. The stock trades at an EV/EBITDA of 7.4x FY13E and PE of 7.5x FY13E. Maintain **Buy**.

DI production up 50% QoQ ('000 tons)



Source: Company/MOSL

Jai Balaji Industries: an investment profile

Company description

Jai Balaji industries (JBIL) has emerged as the largest mini mill after merging Sri Ramrupai Balaji and Jai Balaji Sponge and has touched capacity of 1mt by building a fully integrated steel plant and ferro alloy plant along with a captive power unit and a private railway siding. JBIL's metallic capacity posted 48% CAGR to 954,000tpa over FY03-09. JBIL is investing INR18.7b in Phase I of a 5mt a year integrated steel project at Purulia to set up a 2mt a year beneficiation, 1.2mt a year pellet plant, 0.66mt a year sponge iron capacity, a 70MW WHRB-based CPP and a 450ktpa steel making facility, through the EAF route.

Key investment arguments

- Strong growth in earnings, backed by aggressive capacity addition in metallics and crude steel, is expected over the next few years.
- Development of allotted coal blocks will result in lower cost of production and secured availability in future.
- JBIL has proximity to raw material sources and well built logistics infrastructure.

Key investment risks

- High financial leverage and aggressive capex ahead would need equity infusion.

Comparative valuations

		Jai Balaji	SAIL	Monnet Ispat
P/E (x)	FY12E	-7.9	9.8	8.7
	FY13E	7.5	9.7	6.7
P/BV (x)	FY12E	0.5	1.0	1.1
	FY13E	0.5	0.9	1.0
EV/Sales (x)	FY12E	1.2	1.0	2.9
	FY13E	1.2	1.1	2.0
EV/EBITDA (x)	FY12E	11.6	7.0	10.9
	FY13E	7.4	6.9	8.3

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	51.2	51.2	50.8
Domestic Inst	2.8	2.9	2.7
Foreign	26.4	26.3	22.8
Others	19.7	19.7	23.8

Recent developments

- First two batteries of 0.35mtpa coke oven plant will be commissioned in the current quarter.

Valuation and view

- The stock trades at an EV/EBITDA of 7.4x FY13E and PE of 7.5x FY13E. Maintain **Buy**.

Sector view

- The steel pricing environment has weakened across regions due to an expected demand slowdown, led by continued uncertainty in developed nations, high inflation and resultant softening in economic growth in developing countries. Chinese steel prices started falling as steel demand growth slowed due to reduction in new projects. As a result, steel and its raw material prices are also expected to fall over the next few months. Apparent world steel use is expected to increase 6.5% to 1,398mt in 2011 as per WSA. Indian steel demand growth is expected to slow to 4.3% in 2011 and 7.9% in 2012.

EPS: MOSL forecast v/s consensus (INR)

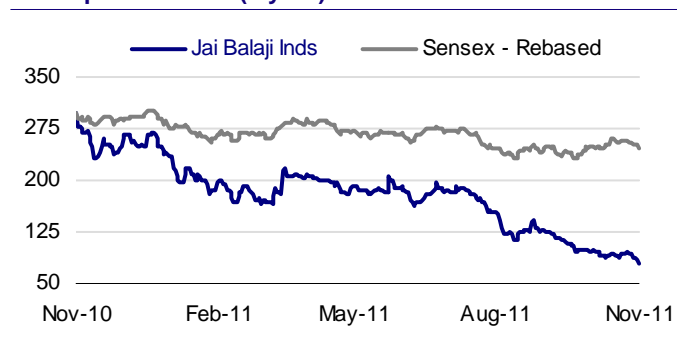
	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	-9.9	22.6	-143.8
FY13	10.6	26.9	-60.6

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
79	151	91.1	Buy

Basis: 1x P/B FY13E

Stock performance (1 year)



Financials and Valuations

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net sales	17,180	19,212	21,951	23,674	27,312	
Change (%)	29.4	11.8	14.3	7.9	15.4	
Total Expenses	15,520	16,764	18,520	21,149	22,907	
EBITDA	1,660	2,449	3,430	2,525	4,405	
% of Net Sales	9.7	12.7	15.6	10.7	16.1	
Deprn. & Amortization	541	728	864	1,097	1,482	
EBIT	1,119	1,720	2,567	1,428	2,923	
Net Interest	1,324	1,442	1,583	2,223	2,355	
Other income	316	269	227	57	273	
PBT before EO	111	548	1,211	-738	842	
EO income						
PBT after EO	111	548	1,211	-738	842	
Tax	92	194	436	-103	168	
Rate (%)	82.5	35.4	36.0	14.0	20.0	
Reported PAT	19	354	775	-634	673	
Adjusted PAT	19	354	775	-634	673	
Change (%)	-98.4	1,725.7	119.0	-181.8	-206.1	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	471	638	638	638	638	
Reserves	4,024	8,713	9,461	8,603	8,978	
Share holders funds	4,495	9,351	10,099	9,240	9,615	
Loans	18,187	16,175	19,307	24,307	27,807	
Secured	15,386	16,092	17,710	22,710	26,210	
Unsecured	2,801	83	1,596	1,596	1,596	
Deferred tax liability (net)	772	965	1,372	1,372	1,372	
Capital Employed	23,454	26,491	30,777	34,919	38,794	
Gross Block	14,119	14,703	20,080	22,830	31,630	
Less: Accum. Deprn.	1,512	2,227	3,090	4,187	5,669	
Net Fixed Assets	12,606	12,476	16,989	18,643	25,961	
Capital W/P	3,207	6,329	5,099	8,149	3,899	
Investments	37	37	36	36	36	
Curr. Assets	10,906	11,506	14,578	10,923	12,128	
Inventories	5,305	5,002	6,249	4,540	5,238	
Sundry Debtors	2,626	3,399	5,272	3,567	4,116	
Cash and Bank	225	233	415	174	133	
Loans and Advances	2,750	2,872	2,641	2,641	2,641	
Curr. Liability & Prov.	3,303	3,855	5,926	2,832	3,230	
Sundry Creditors	3,258	3,779	5,689	2,594	2,993	
Other Liabilities & prov.	45	76	237	237	237	
Net Current Assets	7,603	7,651	8,653	8,091	8,898	
Misc. Exp. (not w/off)						
Application of Funds	23,454	26,491	30,777	34,919	38,794	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
EPS	0.4	5.6	12.2	-9.9	10.6	
Cash EPS	11.9	17.0	25.7	7.3	33.8	
BV/Share	95.4	146.6	158.4	144.9	150.8	
DPS	0.5	1.0	2.0	3.0	4.0	
Payout (%)	133.9	8.4	19.2	-35.3	44.3	
Valuation (x)						
P/E				6.5	-7.9	7.5
Cash P/E				3.1	10.9	2.3
P/BV				0.5	0.5	0.5
EV/Sales				1.1	1.2	1.2
EV/EBITDA				7.0	11.6	7.4
Dividend Yield (%)				2.5	3.8	5.1
EV/ton (US\$/ton)				472	575	430
Return Ratios (%)						
EBITDA Margins	9.7	12.7	15.6	10.7	16.1	
Net Profit Margins	0.1	1.8	3.5	-2.7	2.5	
RoE	0.4	4.6	8.0	-6.6	7.1	
RoCE	6.7	8.0	9.8	4.5	8.7	
RoIC	6.2	8.6	11.4	5.5	9.5	
Working Capital Ratios						
Fixed Asset Turnover (x)	1.2	1.3	1.1	1.0	0.9	
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7	
Debtor (Days)	56	65	88	55	55	
Inventory (Days)	113	95	104	70	70	
Creditors (Days)	69	72	95	40	40	
Growth (%)						
Sales	29.4	11.8	14.3	7.9	15.4	
EBITDA	-30.2	47.5	40.1	-26.4	74.5	
PAT	-98.4	1725.7	119.0	-181.8	-206.1	
Leverage Ratio (x)						
Current Ratio	3.3	3.0	2.5	3.9	3.8	
Interest Cover Ratio	0.8	1.2	1.6	0.6	1.2	
Debt/Equity	4.0	1.7	1.9	2.6	2.9	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Pre-tax profit	111	548	1,211	-738	842	
Depreciation	545	715	863	1,097	1,482	
(Inc)/Dec in W/kg. Cap.	106	-39	-820	320	-847	
Tax paid	-29	-125	-29	103	-168	
Other operating activities	39	-63	121			
CF from Op. Activity	772	1,036	1,347	782	1,308	
(Inc)/Dec in FA + CVMP	-4,453	-3,706	-4,147	-5,800	-4,550	
(Pur)/Sale of Investments	1	0	0			
Others						
CF from Inv. Activity	-4,452	-3,705	-4,147	-5,800	-4,550	
Equity raised/(repaid)	0	4,719				
Chg in minorities						
Debt raised/(repaid)	3,717	-2,012	3,131	5,000	3,500	
Dividend (incl. tax)	-26	-30	-149	-224	-298	
Other financing activities						
CF from Fin. Activity	3,691	2,678	2,982	4,776	3,202	
(Inc)/Dec in Cash	12	9	182	-242	-40	
Add: opening Balance	213	225	233	415	174	
Closing Balance	225	233	415	174	133	

N O T E S

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Jai Balaji Industries

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