

Strong Tailwinds present in the sector

CMP: INR 187

Rating: ACCUMULATE

Target Price: INR 213

Stock Info

BSE	500378
NSE	JINDALSAW
Bloomberg	JINDALSAW IN
Sector	Iron & Steel
Face Value (INR)	2
Mkt Cap (INR Mn)	59730
52w H/L (INR)	198/75
Avg Daily Volume (in 000')	1081

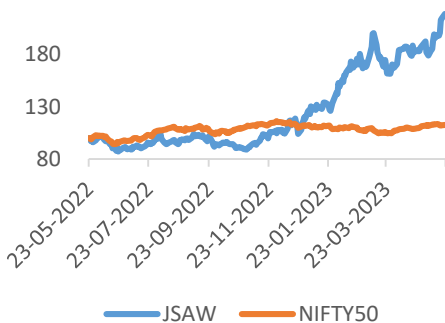
Shareholding Pattern %

(As on Sep, 2022)

Promoters	63.25
Public & Others	36.75

Stock Performance (%)	1m	6m	12m
JINDALSAW	17	115	114
NIFTY	2.6	-0.2	12.3

Jindal Saw Vs Nifty



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Jindal Saw delivered an all round strong set of results. Other developments also in positive footings.

Operating Metrics (Consol)

- **Revenues** came in at INR 51,880.4 Mn (+0.58% QoQ) (+30.68% YoY)
- **EBITDA** came in at INR 6,003.2 Mn (+21.2% QoQ) (+49.9% YoY)
- **EBITDA Margins** came in at 11.57% (Vs 9.6% QoQ) (Vs 10.09% YoY)
- **Adj. PAT** came in at INR 2,941.9 Mn (+105.3% QoQ) (+141.5% YoY)
- **PAT Margins** came in at 5.59% (Vs 2.75% QoQ) (Vs 3.04% YoY)

Volumes for the quarter (tonnes):

- **LSAW:** 47,300 Vs 28,300 YoY
- **HSAW:** 1,21,800 Vs 95,100 YoY
- **DI Pipes:** 1,57,500 Vs 1,24,100 YoY
- **SS Tubes:** 60,100 Vs 52,800 YoY

Other Highlights:

- **Jindal Saw & Hunting Pte. JV** to start production of OCTG threading facility from FY24. Company is not able to give any outlook/guidance on the same but will dish out more details in the next quarter. Has huge potential in Domestic as well as abroad markets.
- The **Current order book** for Line pipe stands at ~6.70 lakh Mt. DI pipe order book at ~5.11 Lakh Mt. SS Pipes segment order book stood at ~0.93 Lakh Mt. **Order book in value terms** stood at \$ 1.45 Bn (\$744 Mn from large diameter pipes, \$494 Mn from DI Pipes, \$195 Mn from SS Pipes, \$13 Mn from Pellets)
- **JITF case** is currently sub-judice (INR 8.56 Bn received out of 18.91 Bn consideration). Company is confident on receiving the remainder money hence no adjustment/impairment taken in carrying value of loans and investments to JITF. Court hearing on 23rd May 2023
- **Dividend of INR 3 declared**
- **Sathavahana ISPAT** merged into the company on 26th April 2023
- The consolidated financial results include the financials information of the step-down subsidiary, Derwent Sand SARM which is under liquidation.

Outlook:

In the short-term, company is expected to benefit from strong demand and expansion in margins due to softening in raw materials, stronger sales of VAP and better WC efficiency. Additionally, JSAW is expected to benefit from government policies like Aatmanirbhar Bharat and Jal Jeevan mission scheme.

Company is confident of improving EBITDA margins from here on too. They had earlier given guidance of 14% EBITDA margins and are on track to achieve it by Q2FY24. For the full year, company has guided for a similar topline growth as that of FY23 (~40%). We are positive on the company and its ability to deliver the guidance. OCTG pipes is a good opportunity for the company to grow as per guidance. **For the above positives we believe the company can deliver decent upside from here. We value the stock 8x FY24 EPS of 26.7 and assign ACCUMULATE rating.**

We believe any proceeds from JITF-NTPC case will be used to reduce debt and will help profitability.

Quick KTAs from the call

Orderbook:

The **Current order book** for:

- **Line pipe** stands at ~6.70 lakh Mt.
- **DI pipe** order book at ~5.11 Lakh Mt.
- **SS Pipes** segment order book stood at ~0.93 Lakh Mt.

Order book in value terms stood at \$ 1.45 Bn (\$744 Mn from large diameter pipes, \$494 Mn from DI Pipes, \$195 Mn from SS Pipes, \$13 Mn from Pellets)

Orderbook giving **enough visibility for next 12-18 months**

The order flow for large diameter (HSAW and LSAW) pipes has **increased including orders from Gulf and Latin America. 37% of orders are exports**

Orders are tender based so no pattern but are timed. Company doesn't feel the will have any issue in booking more revenues.

Debt has been reduced by INR 10 Bn. Will go down by ~ 3 Bn next year. Don't plan on making any prepayments. **WACC is below 10%.**

Capacity utilization: Pellet and DI at almost optimum, SS at 75-80%

Sathvahana has ~400,000 tonnes of coke oven which is more than required at the location but company doesn't plan to sell the product outside, instead use for captive consumption at others plants.

Enough orders for Sathvahana DI plant. Can't give guidance on how much company can utilize this year but the **capacity is already running.**

JITF Vs NTPC: Court hearing on 23rd May and cannot be delayed/adjourned. Company is very confident of winning the case

Jindal Hunting JV: Jindal Saw & Hunting Pte. JV to start production of OCTG threading facility from FY24

Has huge potential in Domestic as well as abroad markets. Cant give guidance just yet.

Other KTAs:

Long term loans reduced by INR 10 Bn. No major acquisitions lined up.

Maintenance capex is expected to be ~INR 3-4 Bn

Water segment is robust in India, O&G demand is good. The company has bagged some prestigious exports contracts.

The company expects strong demand from defence sector (which is a big market for seamless stainless segment). The company has made inroads into nuclear, defence and space technology and also getting into instrumentation tubes (higher grade value-added products).

Outlook: Company is confident of improving EBITDA margins from here on too. They had earlier given guidance of 14% EBITDA margins and are on track to achieve it by Q2FY24. For the full year, company has guided for a similar topline growth as that of FY23 (40%). We are positive on the company and its ability to deliver the guidance. OCTG pipes is a good opportunity for the company to grow as per guidance. **For the above positives we believe the company can deliver decent upside from here. We value the stock 8x FY24 EPS of 26.7 and assign ACCUMULATE rating.**

Our Investment Rationale stands the same:

1. Strong Demand Across Regions:

- The company has registered a strong order-book of USD 1.45 Bn across segments and across regions (executable in next 12-18 months). This mainly comprises of **Large Diameter pipes (LSAW and HSAW)**. Company is seeing healthy order inflows and inquiries from GCC region pertaining to the construction of Smart City in Saudi Arabia where it had already received an order worth US\$ 335 Mn in Q3FY23.

Also, the demand from US has been improving as the US is now focused on boosting its oil and gas supply to cater to their domestic energy needs as well as for exports to cater the energy needs in Europe. This is reflecting in the order book as all players in US have their supplies booked for 12 months.

- **DI pipe business** is focused on **Nal Se Jal** mission where the order book has almost doubled QoQ. This is executable in coming 6-9 months. Moreover, the RM pricing is stabilizing and softening which will deliver better profitability for the company now as they were facing high inventory cost till last quarter.

- **Seamless pipes business** are high value, high realization orders with margins better than the Large Diameter pipes. Here the company is seeing more export orders than before, mainly to Europe region as well as orders for Defense sector. The orders are mainly for Nuclear, defense and space tech segment where the outlook is very healthy.

The Company has also entered in a JV with Hunting Energy Pte. Ltd, Singapore to set up OCTG pipes. The JV is expected to start operations in FY24.

Satvahana Plant benefit:

SIL (Sathavahana Ispat Ltd) was merged in JSAW on 26th April. SIL has a capacity of 210,000 MTPA for producing DI Pipes, ~400,000 tonnes for coke oven and ~210,000 blast furnace, which is strategically located in South India. It will be used to cater to the South Indian water pipe requirements. The delivery locations are nearby which means the lead time for the company is short.

5. Icing on Cake with NTPC Case

Jindal Saw won the arbitration case against NTPC and been awarded compensation of ~INR 19bn (including interest and other charges), out of which it had received ~INR 8.5bn in three tranches. Court hearing is on 23rd May and cannot be delayed/adjourned. Company is very confident of winning the case. Company may then take a decision where to allocate the cash, working capital or paying off debt.

Sales Break up

Sales Break Up								
Products (Qty. in Metric Tonnes)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
LSAW	44,200	35,600	20,300	28,300	29,900	30,400	60,000	47,300
HSAW	51,300	43,500	71,500	95,100	45,500	66,200	1,27,300	1,21,800
DI Pipes	1,02,900	1,10,600	1,14,400	1,24,100	89,700	1,04,700	1,31,500	1,57,500
Pig Iron	12,600	4,600	2,100	2,700	6,400	2,900	3,900	17,200
SS Tubes and Pipes	46,800	51,700	53,700	52,800	61,700	59,600	62,000	60,100
Total - Pipes and Pig Iron	2,57,800	2,46,000	2,62,000	3,03,000	2,33,200	2,63,800	3,84,700	4,03,900
Pellets	3,66,200	3,70,000	3,97,500	3,83,700	2,95,200	3,94,000	3,98,300	3,69,600

Sales Break Up			
Products (Qty. in Metric Tonnes)	FY21	FY22	FY23
LSAW	1,57,500	1,28,400	1,67,600
HSAW	3,48,300	2,61,400	3,60,800
DI Pipes	4,33,400	4,52,000	4,83,400
Pig Iron	14,400	22,000	30,400
SS Tubes and Pipes	1,58,300	2,05,000	2,43,400
Total - Pipes and Pig Iron	11,11,900	10,68,800	12,85,600
Pellets	12,64,500	15,17,400	14,57,100

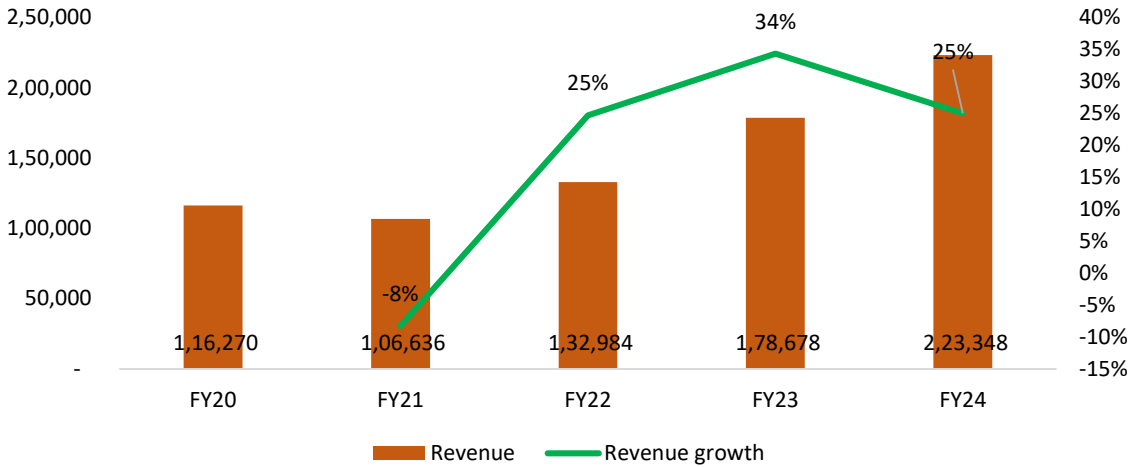
Capacity (Metric Tonnes)

Capacity (Metric Tonnes)		Sathavahana (Metric Tonnes)	
LSAW & HSAW	15,00,000.00	Mini Blast Furnace	2,50,000
DI Pipes	8,00,000.00	DI Pipe	2,10,000
DI Fittings	18,000.00	Coke Oven	4,00,000
SS Tubes and Pipes	3,50,000.00		
Total - Pipes and Pig Iron	26,68,000.00		
Pellet	15,00,000.00		

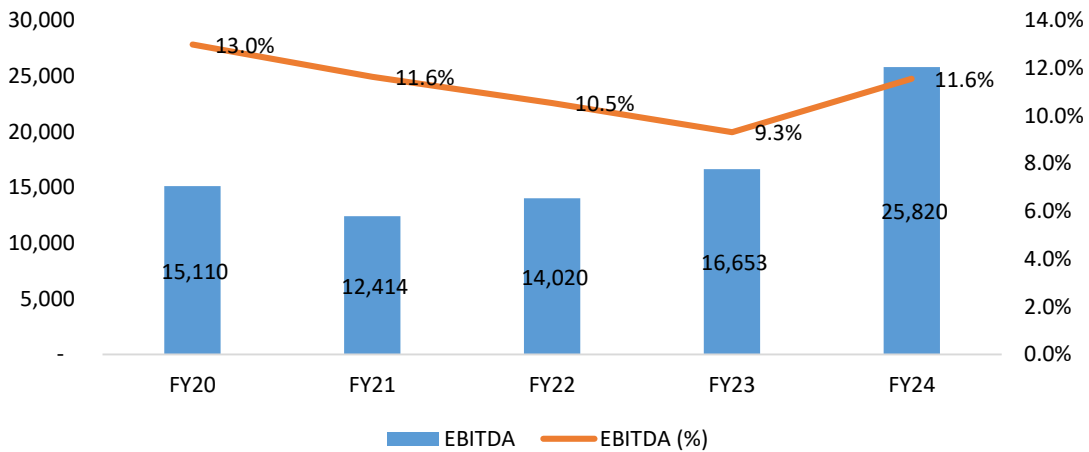
Order Book (Metric Tonnes)

Order Book (Metric Tonnes)	
LSAW	1,60,000.00
HSAW	5,10,000.00
DI Pipes & Fitting	5,11,000.00
SS Tubes and Pipes	93,000.00
Total - Pipes and Pig Iron	12,74,000.00
Pellet	90,000.00

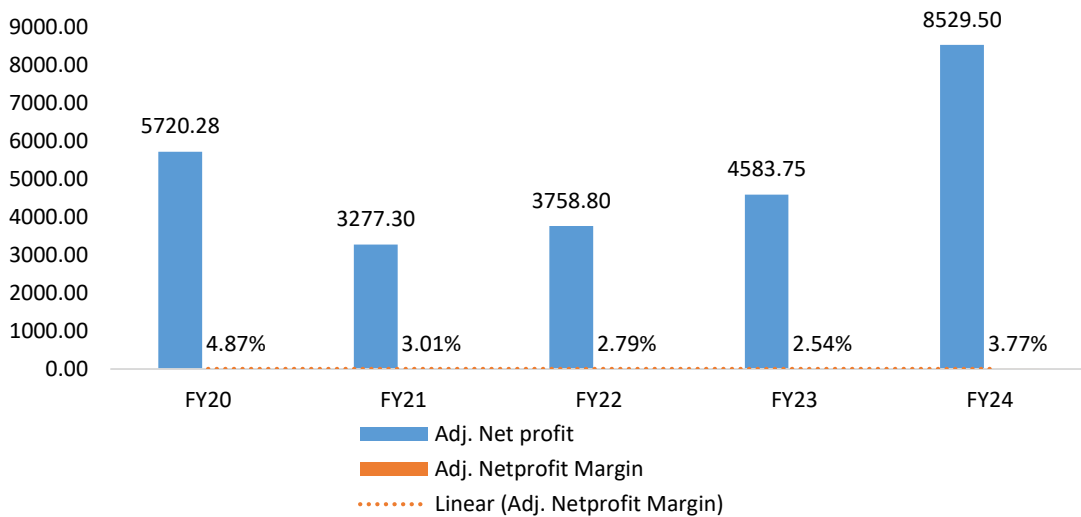
Revenue Vs Revenue Growth



EBITDA Vs EBITDA Margins



PAT Vs PAT Margins



Income Statement (Consolidated)

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E
Revenue	1,16,270	1,06,636	1,32,984	1,78,678	2,23,348
Net Raw Materials	69,347	60,275	79,023	1,11,923	1,39,904
Employee Cost	9,659	8,966	10,149	11,792	13,401
Other Expenses	22,155	24,981	29,793	38,310	44,223
EBITDA	15,110	12,414	14,020	16,653	25,820
EBITDA (%)	13.0%	11.6%	10.5%	9.3%	11.6%
Depreciation	4216.70	4588.70	4729.90	4707.80	6590.92
Interest expense	6198.50	4927.90	4601.20	6375.90	8926.26
Other income	1091.40	2095.50	1525.50	1785.60	2819.89
Profit before tax	4666.00	4992.80	6214.70	7100.00	13122.31
Taxes	53.40	1715.50	2455.90	2672.40	4592.81
Adj. Net profit	5720.28	3277.30	3758.80	4583.75	8529.50
Adj. Netprofit Margin	4.87%	3.01%	2.79%	2.54%	3.77%
EPS (INR)	17.35	9.97	12.88	19.78	26.68

Balance Sheet (Consolidated)

Y/e 31 Mar (INR Mn)	2018 FY	2019 FY	2020 FY	2021 FY	2022 FY	2023 FY
Current Assets						
Cash and Cash Equivalents	719	1,442	1,717	5,519	4,966	776
Bank Balances Other Than (iii) Above	718	873	1,704	1,717	1,759	1,356
Investments	13	18	28	652	104	49
Trade Receivables	19,298	22,126	18,639	21,252	18,058	35,629
Contract Asset	NA	150	161	351	1,531	1,247
Current Tax Assets, Net	734	635	751	795	887	520
Loans	1,917	1,160	588	535	649	917
Inventories	24,631	31,875	26,872	29,186	37,555	41,048
Other Current Assets	4,745	5,592	7,269	6,874	7,487	7,270
Other Financial Assets	332	259	241	290	241	244
Noncurrent Assets						
Right of Use Assets	0	0	2,751	2,455	2,342	2,426
Capital Work in Progress	1,264	2,598	4,226	4,037	2,931	2,999
Tangible Assets	71,126	71,539	72,037	70,593	71,126	71,211
Investments	1,089	1,886	1,260	1,329	2,132	2,456
Other Financial Assets	1,898	1,989	6,915	6,828	8,490	8,682
Deferred Tax Asset-net	3,274	3,896	3,931	4,103	4,071	3,948
Trade Receivables	126	80	80	114	84	57
Loans	2,749	5,076	5,084	3,412	1,982	588
Intangible Assets	76	89	124	108	100	79
Other Non-current Assets	247	261	157	2,106	2,008	480
Total Assets	1,35,239	1,51,711	1,54,747	1,62,254	1,68,503	1,82,559
Current Liabilities						
Total Outstanding Dues of Micro\ Enterprises and Small Enterprises		55	82	135	169	286
Total Outstanding Dues of Creditors Other Than MESE		17,983	13,932	19,231	15,232	29,768
Short-term Borrowings	27,255	26,839	25,500	27,851	39,546	29,503
Lease Liabilities			229	199	219	242
Current Tax Liabilities, Net	294	412	113	233	263	1,055
Other Current Liabilities	3,633	6,056	10,932	12,567	12,137	15,550
Provisions	148	182	229	953	955	956
Other Financial Liabilities	4,819	6,065	7,132	3,075	2,868	3,071
Noncurrent Liabilities						
Long-term Borrowings	33,115	26,331	23,607	22,983	18,326	17,348
Lease Liabilities	NA	NA	2,543	2,316	2,221	2,126
Deferred Tax Liabilities Net	4,960	5,834	4,469	5,328	6,293	6,674
Other Long-term Liabilities	1,177	1,204	1,071	1,020	968	2,461
Provisions	1,001	1,060	1,468	675	521	442
Other Financial Liabilities	295	295	294	294	294	294
Shareholders' Equity						
Common Stock - Par Value	640	640	640	640	640	640
Other Equity	54,324	62,184	66,995	69,191	73,002	78,588
Minority Interest	(2,964)	(3,823)	(4,746)	(4,436)	(5,150)	(6,445)
Total Shareholders Equity	54,964	62,824	67,635	69,830	73,642	72,783
Total Liabilities & Shareholders Equity	1,35,239	1,51,711	1,54,747	1,62,254	1,68,503	1,82,559

Cash Flow (Consolidated)

Y/e 31 Mar (INR Mn)	2018 FY	2019 FY	2020 FY	2021 FY	2022 FY	2023 FY
Operating Activities						
Net Profit/loss before Tax and After Exceptional Items	-	-	4,666	4,993	6,214.72	7100
Depreciation and Amortization Expenses	-	3,963	-	4,589	4,729.88	4707.8
Loss on Sale of Property, Plant and Equipment and Intangible Assets, Net	-	-	-	7	(26.06)	79.3
Profit on Disposal of Subsidiary (exceptional Item)	-	(3,779)	-	-	-	250.4
Net Gain/loss on Sale of Current Investments	-	-	-	(7)	(7.85)	-11.2
Gain/(loss) on Fair Valuation of Current Investment	(5)	(0)	(1)	-	-	-0.2
Share of Profit/loss of Joint Ventures and Associates	(0)	0	-	-	-	4.6
Provision of Liability for Share Based Payments	-	-	-	1	61.40	69.2
Provision for Doubtful Debts Written Back	(79)	-	-	-	-	-16.9
Provision for Doubtful Debts and Advances (net)	-	-	-	216	268.25	2
Bad Debts Written Off/(recovered), Net	-	77	-	-	-	-230.9
Effect of Unrealized Foreign Exchange Gain/loss	(275)	(506)	954	(430)	70.47	3.3
Income from Government Grant	(89)	(173)	(117)	(113)	(106.81)	-144.4
Interest Incomes	(951)	(674)	(1,144)	(1,176)	(1,116.27)	-959.1
Net Gain/loss on Derivatives	(5)	-	98	(111)	(3.68)	-36.2
Finance Costs	-	-	-	4,928	4,601.17	6375.9
Operating profit before WC changes	4,931.42	8,778.37	9,863.51	12,896.14	14,685.28	17,193.60
Trade Receivables	(6,440)	(3,908)	3,805	(2,000)	3,088.60	-12344
Loans, Other Fincial Assets and Other Assets	334	(1,106)	(7,080)	(109)	(2,200.27)	-641.2
Inventories	(1,636)	(8,022)	5,371	(2,463)	(8,184.02)	-3121.3
Trade Payables	1,663	13,406	(4,192)	6,780	(4,543.82)	16841.3
Other Fincial Liabilities, Provisions and Other Liabilities	1,781	2,499	4,962	1,780	(497.17)	-141.4
Cash Flow from Operating Activities	5,651	15,673	16,646	15,697	2,272.90	17,787.00
Taxes Paid	-	(1,663)	-	-	(1,538.10)	-1612.8
Net CFO	5,651.10	14,010.55	16,646.31	15,697.15	734.80	16,174.20
Investing Activities						
Purchase of Property, Plant and Equipment and Intangible Assets	-	(5,182)	-	(4,035)	(4,534.85)	-3225
Sale Proceeds from Property, Plant, Equipment and Intangible Assets	-	218	-	65	1,009.65	867.4
Purchase of Long-term Investments	(409)	-	-	-	(757.77)	-153
Proceeds from Sale of Mutual Funds	-	-	-	638	716.11	762.1
Investments in Mutual Funds	(10)	(19)	(539)	(1,361)	(159.34)	-766.2
Purchase/sale of Government Securities	-	-	0	-	-	0.2
Loan Received Back from Related and Other Parties	725	-	-	1,723	2,243.98	1634.4
Loans Given to Related Parties and Other Parties	-	(1,171)	(291)	-	-	-405.2
Investment in Treasury Shares By Jindal Saw Employee Welfare Trust	-	-	-	(30)	(35.03)	1.4
Interest Received	578	206	652	277	246.73	582.3
Cash Flow from Investing Activities	(1,203)	(5,161)	(4,686)	(3,586)	(1,913.05)	-701.6
Financing Activities						
Proceeds from Long-terms Borrowings	3,255	884	685	3,314	-	1621.2
Repayments of Non-current Borrowings	-	(2,417)	-	(6,055)	(4,657.10)	-4645.6
Short-term Borrowings	5,415	(244)	(2,445)	(4,319)	13,252.52	-9138.1
Loan from Related Parties	1,131	410	4	423	2.00	37.2
Loans Repaid to Related Parties	-	(2,050)	(42)	(204)	(117.00)	-425.7
Payment of Lease Liabilities and Fince Lease Liabilities	-	(39)	-	-	-	-617.9
Dividend Paid (net of Unclaimed/unpaid Dividend)	-	-	-	(630)	(630.73)	-631
Interest and Bank Charges Paid	(5,451)	(5,521)	(5,716)	(4,920)	(4,328.87)	-6219.7
Cash Flow from Financing Activities	(4,696)	(9,769)	(11,681)	(8,312)	610.01	-19684.8
Other Adjustments						
Cash Flow Net Changes in Cash	(252)	723	284	3,791	(552.90)	4966.2
Exchange Differences on Translation of Foreign Currency Cash and Cash Equivalents	(5)	22	4	(9)	15.41	21.6
Upon Disposal of Subsidiaries	-	(43)	-	-	-	-

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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