

Strong Tailwinds present in the sector

CMP: INR 91

Rating: NA | Outlook: Positive

Target Price: INR NA

Stock Info

BSE	500378
NSE	JINDALSAW
Bloomberg	JINDALSAW IN
Sector	Iron & Steel
Face Value (INR)	2
Mkt Cap (INR Cr)	3130
52w H/L (INR)	119/75
Avg Daily Volume (in 000')	1081

Shareholding Pattern %

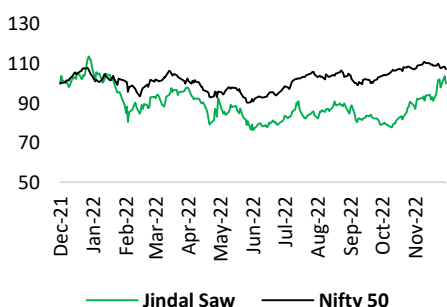
(As on Sep, 2022)

Promoters	63.03
Public & Others	36.97

Stock Performance (%) 1m 6m 12m

JINDALSAW	11.87	26.28	(2.45)
NIFTY	(0.72)	16.43	6.82

Jindal Saw Vs Nifty



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About the Company: Jindal Saw Limited, the flagship company of PR Jindal group, is a leading global manufacturer and supplier of Iron & Steel pipe products, fittings and accessories with manufacturing facilities in India and Abu Dhabi. Their businesses operate through four strategic business divisions including SAW Pipes, DI Pipes & Fittings, Seamless Pipes & Tubes and Mining & Pellets.

Investment Rationale:

1. Strong Demand Across Regions:

- The company has registered a strong order-book of USD 1.3 Bn (~INR 107,000 Mn) 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 has already received an order worth US\$ 335 Mn.

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 9-12 months. Moreover, the RM pricing is stabilizing which will be 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. The orders are mainly for Oil and Gas segment where the medium term outlook is very healthy. To strengthen its position, the Company has entered in a JV with Hunting Energy Pte. Ltd, Singapore to set up precision machine shop for premium connections. The JV is expected to start operations by end of FY23.

Outlook:

For H1FY23 the company did revenues of INR 62,842.1 Mn (on standalone basis). **We believe the company can finish the year with ~INR 1,40,000 Mn in revenues (FY23) and deliver ~1,60,000 Mn of revenues and EBITDA of ~INR 11,000 Mn in FY24.**

We are positive on the company with the current developments and believe that the sector itself will outperform going forward. At INR 91, JSAW trades 6.2x EV/EBITDA FY22 and 7.1x FY22 EPS.

This is our preliminary understanding, we are working on detailed numbers and will release a note soon.

We also have a coverage on Welspun Corp which is a close peer of Jindal Saw.

Link to the Report: <https://bit.ly/3Gfq6Lc>

2. Stable RM Prices and Geopolitical issues to benefit:

The company is focusing on orders, where they purchase Raw Materials only on back of confirmed orders. This will help avoid any inventory loss and improve working capital cycle. All RM except coal (which has no hedge universally).

Moreover, as the geopolitical issues continue, it will keep the prices of crude elevated which will be beneficial for Oil companies and they will be able to continue their capex plans. This will in turn be beneficial for Jindal Saw (and counterparts).

Currently a lot of replacement demand is being observed in Oil lines.

3. Beneficiary of Jal Jeevan Mission:

The government is focused on planning, coordinating, and executing the Jal Jeevan mission of providing piped water access. The development of irrigation facilities has seen increased engagement amongst many states to meet their targets. The total budget for Jal Jeevan Mission is INR 3.6 tn of which only 0.6 tn have been spent till now.

4. Satvahana Plant benefit:

Jindal Saw emerged as the highest bidder for Sathavahana Ispat Ltd (SIL) and received LOI. The final approval from NCLT is pending. SIL has a capacity of ~200,000 MTPA for producing DI Pipes, 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 will reduce the lead time for the company.

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 has received ~INR 8.5bn in three tranches. The matter is sub-judice. The operations of the company are unhindered and any inflow from the arbitration case will be an additional benefit for Jindal. Company may then take a decision where to allocate the cash, working capital or paying off debt.

Exhibit 1: Sales Break up

Sales Break Up									
Products (Qty. in Metric Tonnes)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23		FY21	FY22
LSAW	44,200	35,600	20,300	28,300	29,900	30,400		157,500	128,400
HSAW	51,300	43,500	71,500	95,100	45,500	66,200		348,300	261,400
DI Pipes	102,900	110,600	114,400	124,100	89,700	104,700		433,400	452,000
Pig Iron	12,600	4,600	2,100	2,700	6,400	2,900		14,400	22,000
SS Tubes and Pipes	46,800	51,700	53,700	52,800	61,700	59,600		158,300	205,000
Total - Pipes and Pig Iron	257,800	246,000	262,000	303,000	233,200	263,800		1,111,900	1,068,800
Pellets	366,200	370,000	397,500	383,700	295,200	394,000		1,264,500	1,517,400

Exhibit 2: Capacity (Metric Tonnes)

Capacity (Metric Tonnes)	
LSAW & HSAW	1,500,000.00
DI Pipes	800,000.00
DI Fittings	18,000.00
SS Tubes and Pipes (incl. Carbon steel and alloy)	425,000.00
Total - Pipes and Pig Iron	2,743,000.00
Pellet	1,500,000.00

Exhibit 3: Order Book (Metric Tonnes)

Order Book (Metric Tonnes)	
LSAW	97,000.00
HSAW	502,000.00
DI Pipes & Fitting	405,000.00
SS Tubes and Pipes	97,000.00
Total - Pipes and Pig Iron	1,101,000.00

Exhibit 4: Peer Comparison Pt. 1

Particular	CMP (INR)	M. Cap (INR Mn.)	Revenue (INR Mn.)		EBITDA (INR Mn.)		EBITDA Margin (%)		PAT (INR Mn.)		PAT Margin (%)	
			as on 22.12.2022	as on 22.12.2022	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Jindal Saw	97	31,096.00	8,631.81	11,022.27	12570.73	13851.29	14.6%	12.6%	3290.54	4054.99	3.81%	3.68%
Welspun Corp	217	56,712	71,530	65,050	7,840	4,730	10.96%	7.27%	8,270	4,440	11.56%	6.83%
Ratnamani Metals	1,960	136,265	22,980	31,390	4,000	4,950	17.41%	15.77%	2,760	3,220	12.01%	10.26%
Shyam Metalics	293	74,713	62,970	103,940	13,940	26,010	22.14%	25.02%	8,440	17,240	13.40%	16.59%
Maharashtra Seamless	306	41,001	23,080	42,000	4,410	5,830	19.11%	13.88%	1,210	4,040	5.24%	9.62%

Exhibit 5: Peer Comparison Pt. 2

Particular	ROE(%)		ROCE(%)		P/BV(x)		EV/EBITDA (x)		PE(x)		D/E(x)	
	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Jindal Saw	4.77	5.24	8.19	8.58	0.34	0.39	4.64	5.14	7.44	6.99	0.49	0.56
Welspun Corp	20.45	12.46	18.91	9.36	1.07	1.26	4.92	11.42	4.48	10.07	0.24	0.46
Ratnamani Metals	14.93	15.2	18.78	19.75	4.47	5.4	20.35	22.99	32.17	37.6	0.1	0.07
Shyam Metalics	26.11	36.42	26.73	44.24	-	1.58	0.49	3.55	-	5.35	0.22	0.09
Maharashtra Seamless	4.55	12.4	5.94	13.58	0.56	1	4.89	6.02	18.84	9.72	0.28	0.19

Exhibit 6: Revenue Vs Revenue Growth

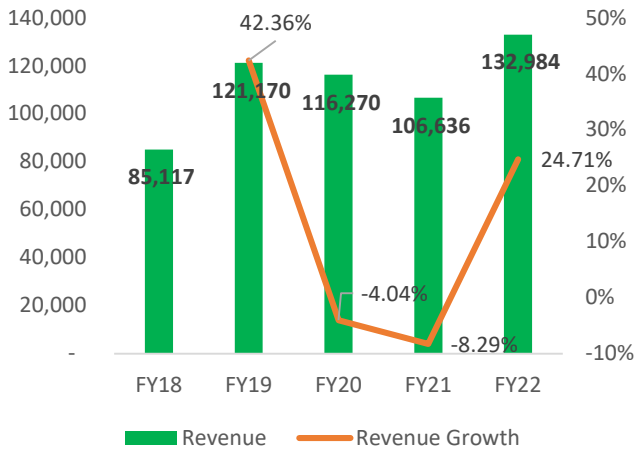


Exhibit 7: EBITDA Vs EBITDA Margins

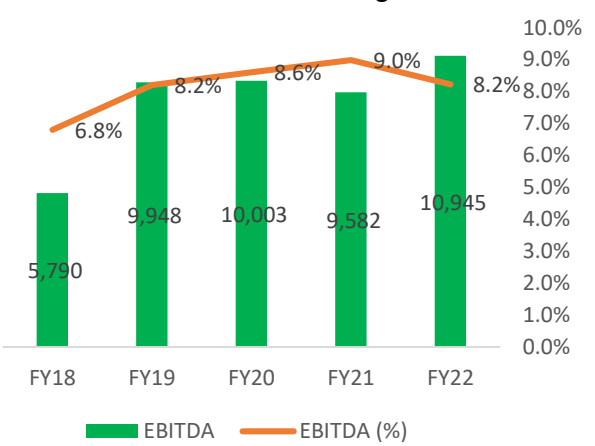


Exhibit 8: PAT Vs PAT Margins

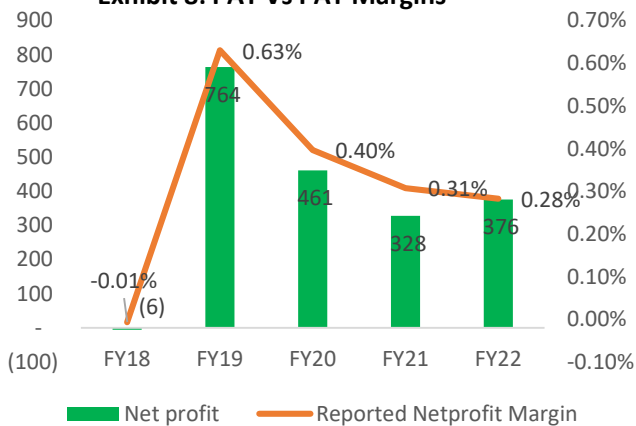


Exhibit 9: Working Capital Cycle

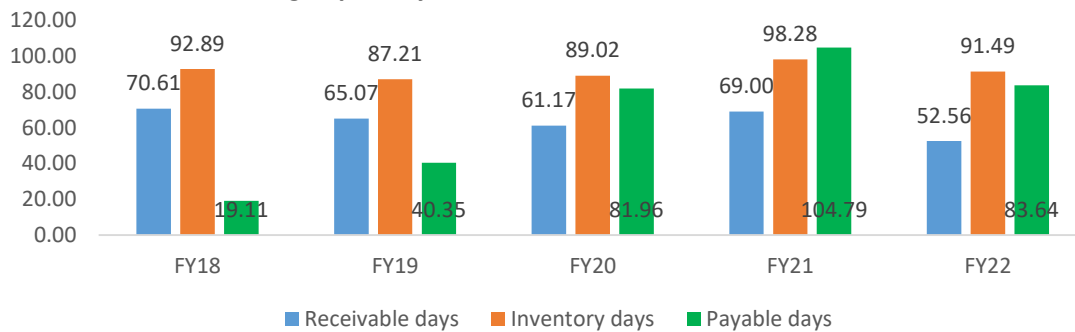


Exhibit 10: Return Ratios

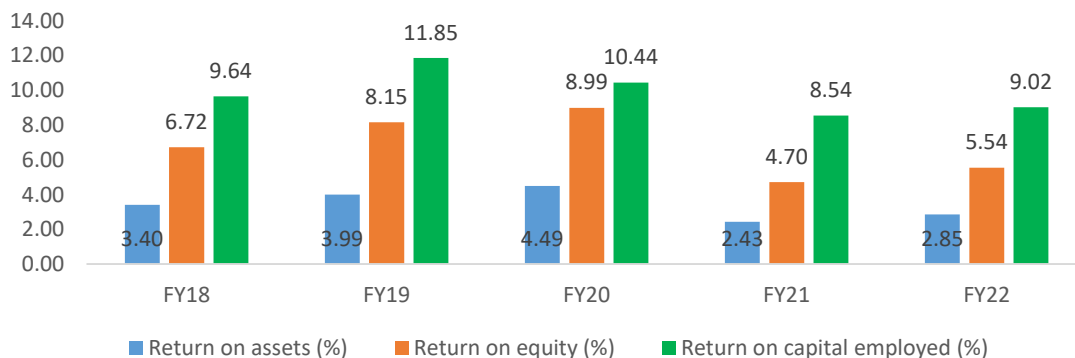


Exhibit 11: Income Statement (standalone)

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22
Revenue	85,117	121,170	116,270	106,636	132,984
Net Raw Materials	51,581	75,741	67,284	60,236	81,928
Employee Cost	7,573	9,142	9,659	8,966	10,149
Other Expenses	5,119	5,910	5,470	7,773	9,932
EBITDA	5,790	9,948	10,003	9,582	10,945
EBITDA (%)	6.8%	8.2%	8.6%	9.0%	8.2%
Depreciation	363	396	422	459	473
Interest expense	581	615	620	493	460
Other income	185	192	156	266	199
Profit before tax	96	976	467	499	621
Taxes	101	213	5	172	246
Net profit	(6)	764	461	328	376
Reported Netprofit Margin	-0.01%	0.63%	0.40%	0.31%	0.28%

Exhibit 13: Ratios

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22
Per Share data					
EPS (INR)	12.07	15.64	18.59	10.29	12.68
Growth, %	25%	30%	19%	-45%	23%
Book NAV/share (INR)	185	199	215	223	234
CEPS (INR)	20.08	24.44	28.30	21.11	24.31
DPS (INR)	1.20	2.00	2.00	2.00	2.00
Return ratios					
Return on assets (%)	3.40	3.99	4.49	2.43	2.85
Return on equity (%)	6.72	8.15	8.99	4.70	5.54
Return on capital employed (%)	9.64	11.85	10.44	8.54	9.02
Turnover ratios					
Asset turnover (x)	0.65	0.78	0.77	0.64	0.77
Sales/Total assets (x)	0.64	0.82	0.77	0.67	0.81
Sales/Working Capital (x)	4.29	5.79	5.70	4.05	5.70
Receivable days	70.61	65.07	61.17	69.00	52.56
Inventory days	92.89	87.21	89.02	98.28	91.49
Payable days	19.11	40.35	81.96	104.79	83.64
Liquidity ratios					
Current ratio (x)	1.51	1.37	1.44	1.47	1.38
Quick ratio (x)	0.93	0.77	0.90	0.93	0.78
Interest cover (x)	2.31	2.50	2.15	2.25	2.73
Valuation					
Price/Book (x)	0.64	0.43	0.21	0.33	0.38
Yield (%)	1.01	2.31	4.37	2.70	2.22
EV/Net sales (x)	1.18	0.68	0.56	0.63	0.60
EV/EBITDA (x)	8.63	5.13	4.02	4.64	5.14
EV/EBIT (x)	14.79	5.19	6.00	6.78	7.39

Exhibit 12: Balance Sheet (standalone)

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22
Cash & bank	1439.00	2316.47	3432.00	7235.81	6725.04
Debtors/Trade receivables/sundry debtors	19,458	22,179	18,654	21,252	18,058
Inventory	24631.11	31874.96	26872.49	29185.82	37555.08
Loans & advances	10483.694	12739.712	18621.364	18,452	20,630
Other current assets	787.75	978.15	1111.31	991.77	718.20
Total current assets	53369.34	64295.43	58179.10	67170.75	73236.83
Investments	1,102	1,904	1,288	1,981	2,235
Gross fixed assets	84526.62	88582.34	96430.28	98363.05	103049.45
Less: Depreciation	13,307	16,954	21,518	25,207	29,482
Add: Capital WIP	1263.84	2597.872	4226.272	4,037	2,931
Net fixed assets	71219.99	71627.95	74912.38	73155.76	73567.59
Non-current assets	78,596	83,519	92,637	90,981	91,195
Total assets	131,965	147,815	150,816	158,152	164,432
Provisions	1,442	1,653	1,810	1,862	1,738
Total current liabilities	42,194	57,844	58,407	64,245	71,388
Non-current liabilities	37,771	30,970	29,520	28,513	24,552
Total liabilities	131,965	147,815	150,816	158,152	164,432
Paid-up capital	640	640	640	640	640
Reserves & surplus	54,324	62,184	66,995	69,191	73,002
Shareholders' equity	54,964	62,824	67,635	69,830	73,642
Total equity & liabilities	131,965	147,815	150,816	158,152	164,432

Exhibit 14: Cash Flow Statement (standalone)

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22
Pre-tax profit	5,479	7,420	5,916	5,068	6,371
Depreciation	2,585	2,814	3,104	3,460	3,718
Chg in working capital	-4533	1,770	2,229	4,103	-8,936
Total tax paid	-601	-1,434	-1,546	-780	-1,384
Other operating activities	-	-	-	-	-
Cash flow from operating activities	5,734	12,702	14,654	13,439	1,911
Chg in investments	0	0	0	0	0
Chg in marketable securities	-	-	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from investing activities	-4,536	-4,873	-3,930	-3,549	-2,876
Free cash flow	275,556	309,684	465,663	130,927	181,954
Other financing activities	-	-	-	-	-
Cash flow from financing activities	-1,368	-7,310	-10,009	-7,479	1,614
Net chg in cash	-1,710	5,201	7,153	24,108	6,484
Opening cash balance	264	93	613	1,328	3,739
Closing cash balance	93	613	1,328	3,739	4,387

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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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