

**Jai Balaji Industries Ltd.    CMP Rs 197    P/E 4.5x    FY2012E     STRONG BUY**

Jai Balaji Industries Limited (JBIL) is gradually transforming itself from an intermediary steel manufacturer into an upstream-to-downstream steelmaker. Its recently commissioned ductile iron (DI) pipe capacity of 0.24 mtpa would drive revenue CAGR of 26.9% over FY10-12 and generate additional EBIDTA of ~US\$ 300/tonne. Furthermore, commencement of captive mining operations during FY12-14 would result in structural improvement in margins on a y-o-y basis. Successful execution of Purulia Phase-I expansion of 2mtpa metallica and 400 MW of power by FY13 could drive growth further over FY13-15. We estimate JBIL delivering a strong 165% EPS CAGR over FY10-12 and initiate coverage with a BUY on the stock with a target price of Rs 250.

**PRICE TARGET Rs 250/- (12 Months)**

**Index Details**

Sensex	17,834
Nifty	5,352
BSE 200	2,269
Industry	Metals – Steel

**Scrip Details**

Mkt Cap (Rs in crore)	1,224
Book Value (Rs)	146.6
Eq Shares O/s (Cr)	6.4
Avg Vol	11,000
52 Week H/L	300/156
Dividend Yield (%)	0.2
Face Value (Rs)	10.0

BSE Code	532976
NSE Code	JAIBALAJI

*Shareholding Pattern (31<sup>st</sup> March, 2010)*

Shareholders	% holding
Promoters	50.8
Indian Institutions	2.9
FII's	11.6
Non Promoter Corporate	25.1
Public	9.6
Total	100.0

*Jai Balaji vs. Sensex*



**Key Investment Highlights**

**Access to captive resources to expand operating margins**

JBIL has undertaken a series of backward integration initiatives which would help it lower raw material costs by a substantial margin. The company has set up a sinter plant, coal washery, captive power plants and is also in the process of setting up a Coke oven. Moreover the company has been allocated mining lease for iron ore, coking as well as non coking coal. While the coal mines would help the company save ~Rs 300 crore annually from FY12 onwards, the iron ore mines would be operational in about 2-3 years and help JBIL save an additional Rs 350-400 crore per annum.

**Newly commissioned ductile iron pipe capacity to drive near term growth**

Commissioning of 0.24 mtpa DI pipe facility would significantly improve value add as average realizations of DI pipes (US\$ ~900-950) is almost twice that of pig iron while manufacturing costs would go up by just \$150 per ton. Further demand supply and pricing environment are expected to remain favourable over the medium term and we expect JBIL to achieve 85% capacity utilization within two years.

**Purulia project – Long term visibility of earnings**

JBIL has signed MoA with Govt. of WB to set up an Integrated Steel Plant of 5 MT, Cement Plant of 3 Mt and a Captive Power Plant of 1215 MW at Purulia which is expected to be completed in phases over next 7-8 years. The first phase of implementation includes a 2 mtpa DRI plant, 1.5-2 mtpa pelletization plant and 400 MW thermal power plant and is expected to be completed in 18-24 months. The work is expected to begin from Sept'10 for which the company is seeking financial closure. Though the first phase of expansion would lead to 8-10% equity dilution, JBIL would benefit from it during the next super cycle of steel consumption.

**Attractive valuations**

Going forward we expect continuous expansion in the EBIDTA margins on the back of cheap captive raw material and better product mix. At CMP of Rs 197, the stock is trading at 2.7x its EV/EBIDTA and 4.5x its estimated earnings for FY2012E.. Given JBIL's strong execution capabilities, we value the stock at 5.2x EV/EBIDTA (20% discount to Indian steel majors) and expect the stock to re rate as the roll out of its expansion plan materializes.

**Key Financials**

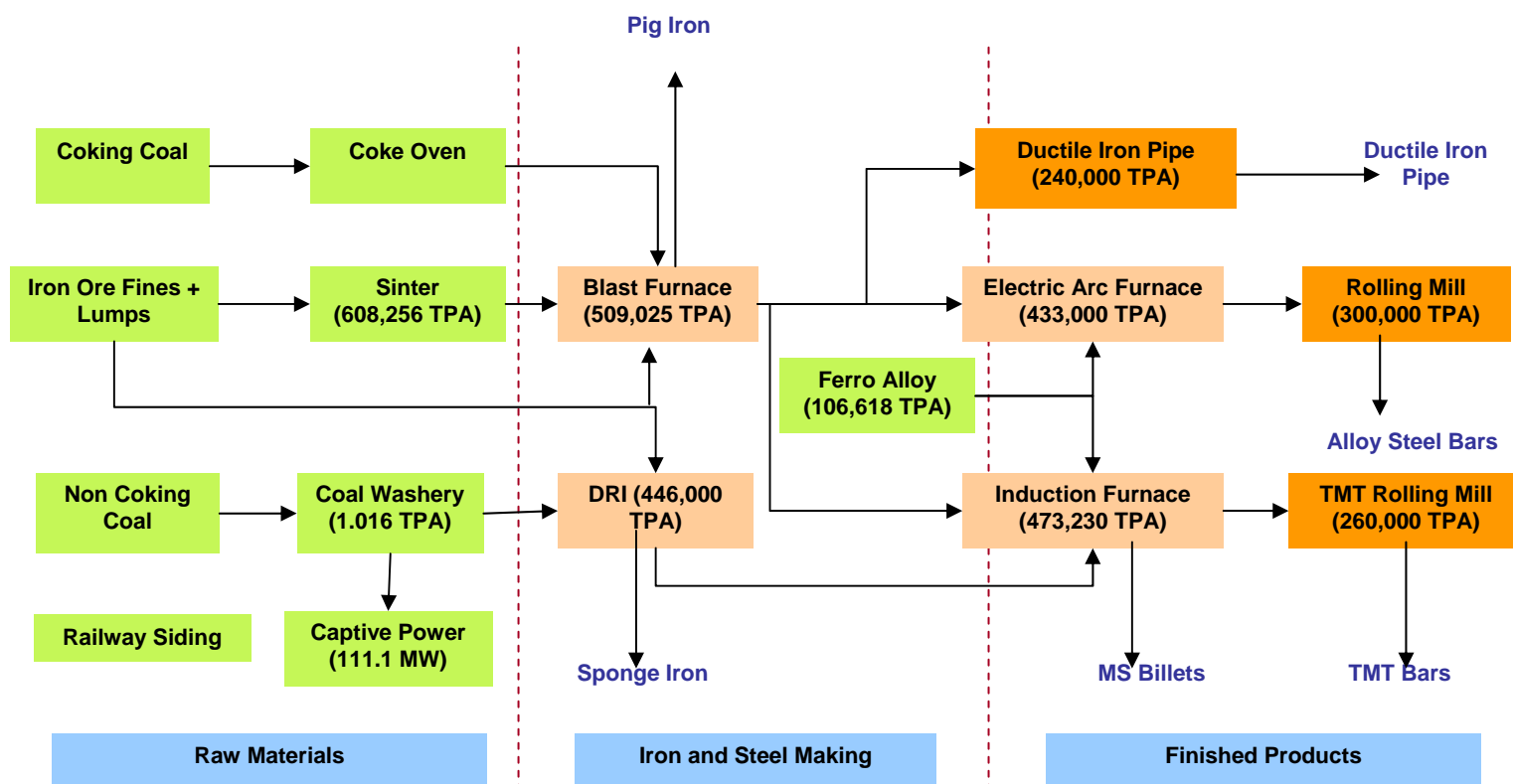
Y/E Mar (Rs Crore)	Net Revenues	EBIDTA	PAT	EPS	EPS Growth (%)	ROCE (%)	RONW (%)	P/E (x)	EV/EBIDTA (x)
FY10	1921.2	245.7	36.2	5.7	969.8	8.0	5.2	34.7	6.5
FY11E	2522.8	406.9	139.0	21.8	283.5	12.9	13.9	9.0	4.1
FY12E	3091.7	635.3	278.7	43.7	100.5	18.9	23.1	4.5	2.7

## Company Background

Incorporated in 1999, JBIL (flagship company of Jai Balaji group) set up the first Mini DRI Plant in West Bengal. Erstwhile Jai Balaji Sponge Limited, JBIL is currently one of the largest private steel producers in Eastern India with metallics' capacity of 1 million tonne per annum (mtpa). The company has a 100% subsidiary Nilachal Iron & Power Limited (NIPL) acquired during FY08.

Barring NIPL's DRI plant (105000 TPA) in Jharkhand, all other plants are located in Durgapur in West Bengal (WB). JBIL manufactures a wide range of products in carbon steel, alloy steel, TMT bars and ductile iron pipes catering to demands of construction and infrastructure industry.

## Steel Process Flow Chart



Source: Company

## Production Facilities

### Direct Reduced Iron (DRI)/ Sponge Iron

JBIL is the market leader in DRI production in the Eastern Region with total capacity of 446,000 TPA. While sponge iron capacity of 225000 TPA was developed organically, the rest was acquired.

In 2008, JBIL acquired the steel unit of HEG Limited in Durg consisting of a sponge iron plant of the capacity of 120,000 TPA, steel-melting shop of the capacity of 100000 TPA and a captive power plant (12.8 MW) and shifted to Durgapur. In October 2007, JBIL acquired Nilachal Iron & Power Limited having a sponge iron plant of 100,000 TPA capacity in Jharkhand. Sponge iron produced is primarily consumed internally only.