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Jindal Saw Limited

Industry	Metal
Bloomberg	JSAW IN
BSE CODE	500378

Subsidiary losses to reduce, mini steel plant would lead to real value unlocking of iron ore resources....

RATING	NOT RATED
CMP	82

Stock Info

52wk Range H/L	137/68
Mkt Capital (Rs Cr)	2622
Free float (%)	42%
Avg. Vol 1M (,000)	857
No. of Shares (Cr.)	32
Promoters Pledged %	3.82%

We met the management of Jindal Saw on 12th Apr'19; following are the key takeaways from the meet:

US is the market for Oil & Gas pipe line

US is going to be the market for oil & gas projects, as earlier US was saving its oil reserves , however, Trump administration is very pro to use of fossil fuel and have reasoned that considering the growth in renewable energy it is better to utilize these resources now. They also came out of the Paris protocol for the same reason. However, US is not Jindal Saw's target market, it had a subsidiary there of 350000 MT (acquired in 2014 and demerged in 2017) but it was demerged due to continuous losses. It now holds only 19% in that subsidiary. However, company still has a pipe coating and bending plant there.

Update on NTPC case

NTPC had signed a contract with Jindal ITF (JITF) for transportation of imported coal for its power plant in Farakka, West Bengal through inland waterways, contract was to supply minimum of 3mt of coal per year for 7 years. For the same Jindal ITF spent Rs.650cr (according to media reports) to purchase transhipper, 30 barges and also created necessary infra. However, the contract faced problem due to environment ministry's ban of coal transport of only up to 1.5mt and afterwards ban on imported coal. Though, govt later increase the transportation ceiling to 3mt but the ban on imported coal was active through 2014 to 2018 (in 2018 severe shortage led to of uplifting the ban). NTPC is suppose to pay Rs.2000 (close to Rs.300cr has already paid by NTPC), NTPC has said it would take up legally the arbitration tribunal's order against payment of Rs.2000cr to JITF in interest payments. Furthermore, NTPC's assets are still alive with JITF.

Considering setting up a mini steel plant, but plan is on hold as of now

- Jindal Saw's management is considering setting up steel plant which will act as a backward and forward integration (from iron ore pellet to steel billets). The steel produce would be for captive use for seamless pipe manufacturing. However, at the same time management also stated that currently the plan is on hold. If installed steel plant would have a payback period of 5-6 years in worst case (steel prices at 2014 level) or 2-3 years in best case.

- In north there is no steel plant, and whatever TMT bars are supplied by small players is through induction furnace process using scrap (Cupola method). In north there is premium of Rs.3/kg if the product is good.

- Company is currently doing margins of Rs.2000-Rs.2500/t in iron ore pellet and at max Rs.3000/t. If it starts manufacturing steel billets than the margins would be at least at Rs.4000/t-Rs.4500/t. Furthermore, Pellet biz gets hits if the steel prices fall.

About orders in Domestic market

- In domestic market water order will be driving revenue for next 2-3 years, States like Gujarat , MP, Rajasthan, A.P, Karnataka, Maharashtra , West Bengal , Jharkhand , Orissa have good prospects for water projects.

- Company may set up 100000MT of HSAW incremental capacity in M.P. considering robust demand for water pipeline. If done capex required would be around Rs.50-70cr. Company currently has 740000 MT HSAW capacities in India.

- Company' DI pipe capacity in India of 450000MT is already operating at 100% and Abu Dhabi's performance has improved to 40-45% capacity utilization in FY19, Abu Dhabi biz is expected to breakeven at PBT level in FY19. Indian capacity is producing around 470000MT and it can be expanded to 500000-550000MT by debottlenecking.

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How HSAW, DI and PVC pipes are used in water transportation

In water transportation, there are different uses of HSAW, DI and PVC pipes. First HSAW pipes are used for transporting water from reservoir to treatment plants, as it doesn't make a difference whether the water is clean or not as it has to be transferred to treatment plant, so the HSAW pipes are used. And then DI pipes are used for transporting the treated water from treatment plants to storage areas. And then finally, small GI pipes are used to transport the water from the storage place to the houses and PVC is used in houses.

About LSAW and seamless pipes and their dependence on oil prices

In LSAW pipe volume are rather stable, as when oil prices were at USD130 or were at USD30 Company was doing close to same level of volume. Management stated this is because it is more about transportation of oil rather than finding new oil. However, Seamless pipe demand is more linked to new oil findings and oil prices as then new wells would be dig and new pipe would be required.
Company's export order is dominated by LSAW orders (95% of orders).

General range of margin in different segment

In general margins for different pipe are as follows: HSAW – Rs.5000/t-Rs.6000/t , LSAW- Rs.7000/t-Rs.8000/t , DI pipe- Rs.8000/t-Rs.10000/t , Seamless – Rs.14000/t-Rs.16000/t , Stainless- 15% EBITDA margin.

Company is looking at value addition products, entering into Stainless Steel (SS) pipe is part of that strategy

- In stainless steel space company did close to 8000MT (seamless portion was almost zero) in FY19 (capacity of 25000MT, including 5000MT for seamless SS and 20000MT for welded SS). Seamless commands even higher margins than welded.
- Getting approval in SS division is slow process.
- In reply to the question that there are well established players like Ratnamani with all the required approvals in place what would be jindal saw's target market, management replied it is exploring all options in SS division. However, SS division would take time to pick up.
- Management is focusing on doing close to 12000MT in FY20.

Other update:

- Jindal ITF losses would be in range of Rs.70-80cr in FY19 (vs. close to Rs.300cr in FY18).
- The recurring portion of other income would be around Rs.70cr.
- Volume growth across all the segments is expected to be around 10-12% in FY20. EBITDA margin is expected to be in the same range as of FY19.

Financial Details (Consolidated)

Balance Sheet

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	**55**	**55**	**55**	**58**	**61**	**64**	**64**
Reserves	3,641	3,612	5,094	5,332	5,061	5,322	5,432
Networth	**3,696**	**3,667**	**5,149**	**5,390**	**5,122**	**5,386**	**5,496**
Debt	3,527	4,946	5,663	7,605	6,979	5,500	6,037
Other Non Cur Liab	155	201	749	833	663	740	793
Total Capital Employed	**7,223**	**8,614**	**10,812**	**12,995**	**12,102**	**10,886**	**11,533**
Net Fixed Assets (incl CWIP)	4,149	5,503	7,786	8,756	8,225	7,557	7,247
Non Cur Investments	12	10	10	19	26	117	109
Other Non Cur Asst	378	367	573	665	605	772	829
Non Curr Assets	4,539	5,881	8,369	9,440	8,856	8,446	8,185
Inventory	**2145**	**1786**	**1899**	**2988**	**2466**	**2310**	**2463**
Debtors	**1,532**	**1,679**	**1,729**	**2,042**	**1,746**	**1,370**	**1,930**
Cash & Bank	**295**	**290**	**117**	**333**	**208**	**132**	**144**
Other Curr Assets	814	1,078	1,032	1,470	1,292	867	802
Curr Assets	4,786	4,832	4,776	6,833	5,712	4,680	5,339
Creditors	760	793	660	893	500	411	566
Provisons (both)	72	74	41	61	70	99	115
Other Curr Liab	1,130	907	874	1,506	1,309	1,215	928
Curr Liabilities	1,890	1,700	1,534	2,399	1,809	1,626	1,494
Net Curr Assets	**2,896**	**3,132**	**3,242**	**4,434**	**3,903**	**3,054**	**3,845**
Total Assets	**9,325**	**10,713**	**13,146**	**16,273**	**14,568**	**13,126**	**13,524**

Income Statement

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Revenue from Operation	**6,036**	**6,765**	**6,649**	**8,208**	**7,732**	**7,070**	**8,478**
Change (%)	32%	12%	-2%	23%	-6%	-9%	20%
Other Income	101	83	95	136	145	198	156
EBITDA	**668**	**604**	**640**	**879**	**799**	**814**	**1,016**
Change (%)	-18%	-10%	6%	37%	-9%	2%	25%
Margin (%)	11%	9%	10%	11%	10%	12%	12%
Depr & Amor.	182	219	321	335	328	337	363
EBIT	**487**	**385**	**319**	**543**	**471**	**477**	**653**
Int. & other fin. Cost	165	236	392	606	679	569	579
EBT	**423**	**232**	**22**	**73**	**(63)**	**106**	**230**
Exp Item	(141)	(200)	(68)	(30)	(21)	96	(91)
Tax	93	51	55	116	(68)	63	133
P/L share of Ass. & P/L disconti. op.	-	-	-	46	(63)	(100)	(17)
Reported PAT	**188**	**(20)**	**(100)**	**(27)**	**(80)**	**39**	**(11)**
PAT after minority	**189**	**(19)**	**(86)**	**(13)**	**(40)**	**114**	**178**
Change (%)in reported PAT	-72%	-110%	408%	-73%	193%	-148%	-129%
Margin(%) in reported PAT	3%	0%	-2%	0%	-1%	1%	0%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
ROE	5%	-1%	-2%	(0.01)	-2%	1%	0%
ROCE	9%	6%	4%	6%	5%	5%	7%
Asset Turnover	0.65	0.63	0.51	0.50	0.53	0.54	0.63
Debtor Days	93	91	95	91	82	71	83
Inv Days	130	96	104	133	116	119	106
Payable Days	46	43	36	40	24	21	24
Int Coverage	2.94	1.63	0.81	0.90	0.69	0.84	1.13
P/E	25.5	(115.0)	(15.6)	(66.2)	(14.6)	69.2	(347)
Price / Book Value	1.3	0.6	0.3	0.3	0.2	0.5	0.7
EV/EBITDA	9.6	8.0	7.8	6.7	6.3	7.2	6.9
FCF per Share	(51.5)	(43.9)	(15.6)	(32.2)	15.4	28.2	9.3
Div Yield	0.57%	1.22%	1.77%	1.52%	2.59%	1.20%	0.84%

Cash Flow Statement

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18
PBT	**282**	**232**	**22**	**122**	**(147)**	**60**	**90**
(inc)/Dec in Working Capital	(773)	(117)	(404)	(1,053)	325	387	(430)
Non Cash Op Exp	223	395	643	923	813	823	974
Int Paid (+)	129	205	358	485	508	534	555
Tax Paid	-27	-106	-38	-97	-73	-107	-70
others							
CF from Op. Activities	**(296)**	**222**	**109**	**(93)**	**917**	**1,163**	**565**
(inc)/Dec in FA & CWIP	(1,064)	(1,401)	(706)	(667)	(483)	(286)	(188)
Free Cashflow	(1,360)	(1,179)	(597)	(760)	434	877	377
(Pur)/Sale of Inv	206	(106)	83	(231)	124	28	(41)
others							
CF from Inv. Activities	**(601)**	**(1,482)**	**(615)**	**(856)**	**(498)**	**(426)**	**(122)**
inc/(dec) in NW							
inc/(dec) in Debt	1,248	1,575	807	1,832	67	(369)	92
Int. Paid	-243	-274	-409	-465	-542	-536	-545
Div Paid (inc tax)	-32	-32	-32	-32	-36	-38	-35
others	7	(14)	(7)	(185)	(1)	127	21
CF from Fin. Activities	**979**	**1,255**	**359**	**1,149**	**(512)**	**(816)**	**(468)**
Inc(Dec) in Cash	82	(5)	(148)	200	(93)	(79)	(25)
Add: Opening Balance	213	295	290	149	271	176	97
Others	1	0	(0)	7	(19)	(2)	(0)
Closing Balance	**295**	**290**	**142**	**349**	**178**	**97**	**72**

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