

03th May 2024

JTL Industries – BUY

CMP : Rs. 236.0
Target Price : Rs. 289.0
Upside : 22%+
Stop Loss : Rs. 199.0 (Closing basis)

Investment Thesis

- JTL Industries Limited (JTL) is actively pursuing capacity expansion and product diversification strategies. JTL is planning to incorporate additional Direct Forming Technology (DFT) lines, expand its capability to manufacture galvanized steel tubes and pipes, introduce a range of color-coated products, and implement backward integration to facilitate the production of pre-galvanized sheets. These initiatives are expected to enhance the company's share of value-added products, contributing to improved realizations and EBITDA per ton.
- JTL's expansion strategy includes diversifying its product portfolio to cater to different market segments, thereby reducing dependence on existing dealer networks. This approach aligns with market creation efforts and ensures sustained demand visibility. Furthermore, JTL anticipates strong demand for its products in the coming years, supported by increased SKUs (Stock keeping unit) and product lines.
- JTL has a pan-India presence and a diverse geographical footprint, exporting its products to over 20 countries across five continents. JTL extensive distribution network consisting of 800+ distributors and retailers, and its product portfolio of 1,000+ SKUs enable it to cater to a wide range of industries, including construction, oil & gas, water supply, and agriculture.
- JTL currently holds a market share of around 9% and aims to double its market share to more than 20% as it doubles its capacity. By FY25, the target is around 15%-16% market share, increasing to 25% by FY28.
- JTL intends to increase its capacity from the present 6,00,000 MTPA to 10,00,000 MTPA and increase its VAP share from 31% in FY23 to 50%. By the end of FY25, JTL plans to increase its capacity by 2,00,000 MT at both Mangaon and Raipur, bringing its total capacity to 10,00,000 MTPA. Approximately half of the 4,00,000MT of additional capacity that will be added over the next one years will be fitted with Direct Forming Technology (DFT). This will enable JTL to make different sized hollow sections without having to change rolls, hence improving productivity and capacity utilization. With its aggressive development ambitions, JTL hopes to reach a 20,00,000 MTPA manufacturing capacity by FY27.

Financials

- JTL's revenue from operations grew by 65.26% from Rs. 343 Cr. in Q3 FY23 to Rs. 567.39 Cr. in Q3 FY24 and by 46.13% from Rs. 1,077 Cr. in 9M FY23 to Rs. 1,574 Cr. in 9M FY24, which was supported by volume growth.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs. Crs)	1,354.73	1,547.33	2,262.11	3,053.85	3,908.93
Operating profit (Rs. Crs)	89.42	129.36	163.60	220.86	273.62
Net profit (Rs. Crs)	61.06	90.12	118.55	154.60	191.54
EPS (Rs.)	5.16	5.34	6.93	9.04	11.20
PE (x)	45.76	44.18	34.24	26.26	21.19

Stock Data

Market Cap (Rs. Crs)	4,073
Market Cap (\$ Mn)	488.31
Shares O/S (in Cr)	17.2
Avg. Volume (3 month)	24,94,380
52-Week Range (Rs.)	278/150

Shareholding Pattern

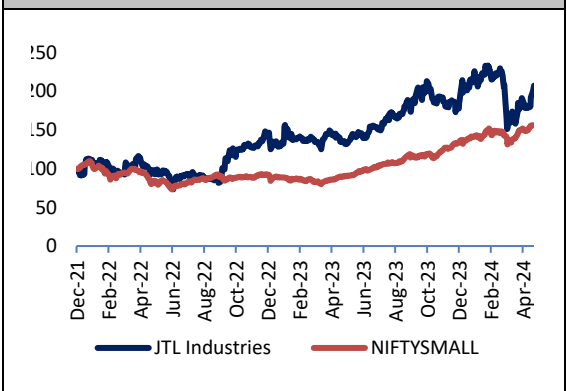
Promoter	54.30%
FII's	4.48%
Institutions	0.07%
Public	41.15%

Key Ratios

Div Yield (%)	0.040
TTM PE (x)	33.38
ROE (%)	30.10
TTM EPS (Rs.)	7.07/-

Stock Performance

Performance	1M	6M	1Yr
ABSOLUTE	15.1%	12.7%	53.1%
NIFTYSMALL	9.7%	(21.9%)	(20.4%)



- JTL has recorded its highest ever quarterly sales volume of 1,00,905 MT, exhibiting a rigorous and robust growth of 76.05% over Q3 FY23 driven by healthy demand for its structural steel tubes and pipes finding application in infrastructure and industrial sectors in both domestic and international markets.
- In terms of 9MFY24 performance, JTL has recorded highest ever 9M sales volume reaching 2,59,933 MT, surpassing entire FY23 sales volume of 2,40,316 MT and demonstrating a robust growth of 62.32% compared to 9MFY23.
- JTL witnessed a remarkable increase in sales of value-added products, with a substantial 46.79% growth, rising from 54,837 MT in 9MFY23 to 80,497 MT in 9MFY24

Key Business Highlights

- JTL Industries Limited (JTL), erstwhile known as JTL Infra Limited, was initially incorporated as Jagan Tube Limited in July 1991 and later its name was changed to JTL Infra Limited in April 2008. JTL has been operating in the structural steel tubes and pipes business for the last 30 years. JTL is now engaged in the manufacturing and export of black and galvanized electric resistance welded (ERW) steel pipes and tubes which are value-added products (VAP) having higher premiums compared to the commercial ERW pipes
- JTL has four state-of-the-art manufacturing facilities located at strategic locations across India, including two plants located in Punjab (Derabassi & Mandi Gobindgarh), one in Maharashtra (Mangaon) with aggregate installed capacity of 586,000 MTPA and one recently added in Chhattisgarh (Raipur) through the amalgamation with its promoter-held Chetan Industries, which has been effective from March 31, 2023. JTL capacities can practically be run at a maximum of 70-75% utilization due to batch processing and different specifications of tubes and pipes.

Valuation

Considering JTL Industries Limited's strong financial performance, capacity expansion plans, product diversification strategies, favorable industry outlook, and experienced management, we recommend a BUY on the stock. JTL commitment to enhancing its manufacturing capabilities, increasing the share of value-added products, and leveraging government initiatives in infrastructure development make it an attractive investment opportunity.

We recommend JTL with a BUY rating which is currently trading at reasonable P/E of 33.38x and connoting a Target Price of Rs. 289 (26x PE multiple on FY26E EPS) and a potential upside of 22%.

Risk & Concern

- Price volatility for raw commodities Steel HR coils account up the majority of JTL's RM costs, which make up about 90% of all costs. To make ERW pipes, JTL acquires HR coils and processes them. As a result, the price of steel HRC determines how much working capital the company needs. The HRC price volatility may cause cycles of inventory refilling and destocking, which could result in gains or losses in inventory for JTL.

Graphs & Charts

Figure 1: Revenue (Cr.)

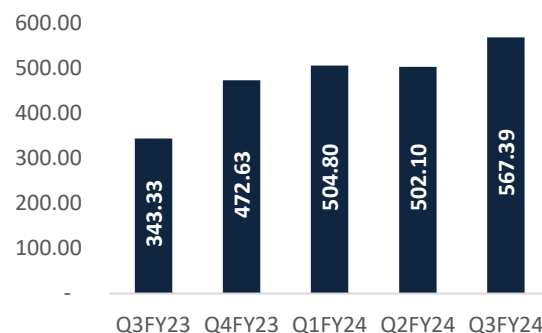


Figure 2: EBITDA & EBITDA Margin

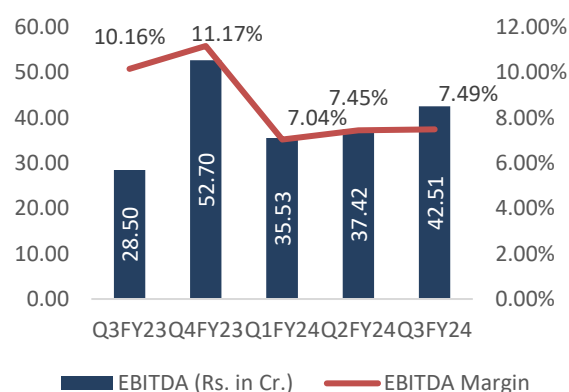


Figure 3: Sales Volume (MT)

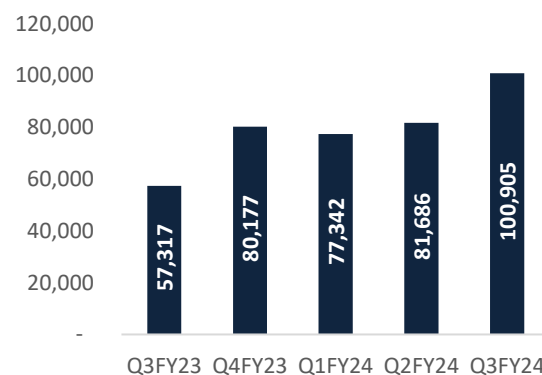
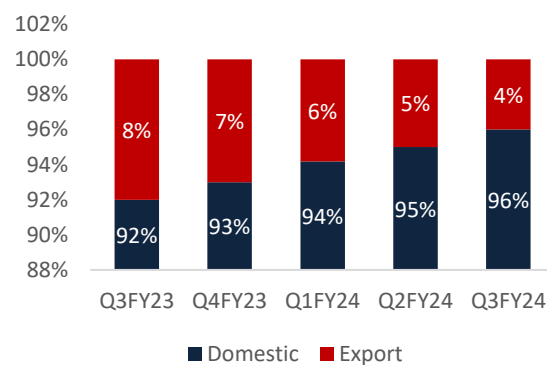


Figure 4: Geographical Classification



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