



Research



RESEARCH:: COMPANY:: Mukand LIMITED

12th January, 2009

LONG TERM BUY

| | |
|-------------------|-------------|
| Approx price | = Rs67 |
| Target price | = Rs107 |
| Estimated EPS | = 10 |
| Projected PE | = 11.25 |
| Investment period | = 12 months |
| Potential Upside | = 60% |

STOCK INFO (TTM Basis)

| | |
|---------------------|---------------|
| Sector | Steel- Alloys |
| Market cap (Rs.Cr) | 489.86cr |
| Face value | Rs10 |
| Book value | Rs 61.98 |
| EPS | - |
| Dividend | 0.00 |
| Sales Growth | (19.9%) |
| RONW | (29.4) |
| Debt to equity | 2.43 |
| 52 week H/L | 71.25/17.1 |
| Avg Daily Vol (2wk) | 2, 60,000 |
| Chairman | Niraj Bajaj |
| Incorporation | 1937 |
| Listed At | NSE / BSE |
| Equity | 73.11cr |
| Promoter Holding | 53.44% |
| FII's/ MF Holding | 7.71% |

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Mukand Ltd is part of the Bajaj Group, one of the most dynamic business groups in India. The Company is a leading supplier of alloy steel catering to the automobile and auto component industry and a leader in the manufacturing of high grade stainless steel in India.

COMPANY PROFILE

Mukand Limited, a multi-product company was incorporated on 29th November 1937 at Mumbai. The company's principal activity is to manufacture and market iron and steel products. It operates in three segments: Steel, Industrial machinery and Road construction. The group plants are located at Maharashtra & Karnataka.

Future Valuations:

At current price of Rs 67 the stock is trading at 9.15x of FY10E earnings and at 5.86x of its FY11E earning, with plans to repay its Debt, margins are likely to improve further as compared to its peers.

| Particulars | FY09 | FY10E* | FY11E |
|--------------|----------|---------|---------|
| Sales | 1,948.39 | 2205.89 | 2320.60 |
| PBIDT | -11.21 | 273.53 | 301.68 |
| Interest | 135.23 | 138.52 | 107.82 |
| Depreciation | 57.85 | 61.15 | 77.83 |
| PBT | -245.77 | 73.86 | 116.03 |
| Tax | -58.42 | 20.68 | 32.49 |
| PAT | -187.35 | 53.18 | 83.54 |
| EPS | - | 7.27 | 11.43 |

*expected

Key Highlights:

Leader in Steel Technology:

Mukand Ltd was the first Indian steelmaker to successfully adopt the 'continuous billet casting' technology using 'F' type continuous casting machine.

Company was the first in India to successfully adopt the vacuum oxygen decarburization technology for the manufacturing of stainless steel and first to install an oxygen top and bottom blown converter for the manufacture of stainless steel, there being only three other plants in the world that used this technology.

Leader in Machine Building:

Mukand is equipped with comprehensive and modern manufacturing facilities and computerized design, planning, procurement and monitoring capabilities.

Quarterly Analysis:

| | 30-Sep-09 | 30-Sep-08 | Var% YOY | 30-Jun-09 | Var% QOQ |
|---------------------|-----------|-----------|----------|-----------|----------|
| Total Income | 523.47 | 597.54 | -12.4 | 441.54 | 18.56 |
| Expenditure | 453.12 | 545.58 | -16.9 | 377.29 | 20.10 |
| PBIDT | 70.35 | 51.96 | 35.4 | 64.25 | 9.49 |
| Interest | 38.87 | 37.38 | 4 | 35.95 | 8.12 |
| PBDT | 31.48 | 14.58 | 116 | 28.3 | 11.24 |
| Depreciation | 15.17 | 14.81 | 2.4 | 14.04 | 8.05 |
| PBT | 16.31 | -0.23 | 7191.30 | 14.26 | 14.38 |
| Tax | 0 | -1.67 | 0 | -0.06 | 0.00 |
| Net Profit | 16.31 | 1.44 | 1032.64 | 14.32 | 13.90 |

During the quarter ended Q2FY10 the total income of the company fell by 12.4% on Y-o-Y basis to Rs 523.47cr against Rs 597.54cr in the corresponding quarter last year. However, on Q-o-Q basis, company registered an increase of 18.56%. Operating profit of the company increased by 35.4% to Rs 70.35cr as against Rs 51.96cr in Q2FY09, as the Raw material cost fell by 38% to Rs 212.82cr and Power & fuel cost fell by 14% to Rs 40.15cr. On Q-o-Q basis operating profit increased by 9.5% largely on account of increase in net sales of the company. Operating profit margin increased by 570bps on y-o-y basis at 13.44% against 8.70% in corresponding quarter last year.

The sale of steel products in terms of quantity during the quarter is higher by 24% at 80,250 MT as compared to 64,752 MT on YOY basis. However, on YOY basis the turnover of steel division in terms of value for the quarter is lower by 19% on account of reduced selling prices of steel products.

Net profit of the company during Q2 FY10 increased a whopping 1032.64% to Rs 16.31cr against Rs 1.44cr during the same quarter last year. This is on account of high operating profit.

FINANCIAL: Mukand Limited (Rs cr)

| | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 |
|----------------------------------|---------|---------|---------|---------|---------|
| Net Sales | 1918.89 | 1926.78 | 1811.09 | 1565.05 | 1511.47 |
| Other income | 29.5 | 22.27 | 21.85 | 28.47 | 12.39 |
| Total Income | 1948.39 | 1949.05 | 1832.94 | 1593.52 | 1523.86 |
| Expenditure | 1959.6 | 1691.12 | 1563.73 | 1348.27 | 1374.54 |
| Interest | 135.23 | 119.12 | 99.5 | 101.28 | 79.91 |
| PBDT | -146.44 | 138.81 | 169.71 | 143.97 | 69.41 |
| Depreciation | 57.85 | 57.95 | 56.67 | 57.94 | 55.92 |
| Exceptional Items | -41.48 | 9.02 | 1.77 | 35.93 | 172.4 |
| PBT | -245.77 | 89.88 | 114.81 | 121.96 | 185.89 |
| Tax | 58.42 | 30.49 | 21.46 | 11.23 | 1.6 |
| Net Profit | -187.35 | 59.39 | 93.35 | 110.73 | 184.29 |
| Deferred Revenue Expenses | 0.23 | 0.14 | 0.14 | 0.14 | 0.14 |
| Cash Accruals | -87.22 | 108.46 | 148.39 | 132.88 | 54.46 |

Total income of the company during the year ended, March 2009 remains same at Rs 1948.39cr. Sales were subdued for its Steel products which contributed 72% of total sales at 239355 MT in March 2009 against 295970 MT during the same period last year, as the demand was low as a result of global meltdown and steep increase in input prices. However the Net realization per unit was higher at Rs 66,611.25 as against Rs 54050.07 during March 2008.

The company also made a provision for non-recoverability of overdue interest amounting Rs 27.44cr and a Loss of forex transaction of Rs 21.57cr charged from operating income.

Exports of company also fell to Rs 162.98cr during FY09 against Rs 175.18cr during FY08.

BALANCE SHEET: Mukand Limited (Rs Crores)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|----------------------------------|----------------|----------------|----------------|----------------|---------------|
| Net worth | 1797.79 | 774.13 | 731.64 | 646.93 | 543.51 |
| Loans- term | 639.75 | 646.38 | 729.57 | 754.83 | 741.27 |
| Loans - working capital | 752.32 | 648.26 | 324.89 | 371.88 | 363.72 |
| deferred tax liability | 0 | 59.46 | 30.65 | 0 | 0 |
| TOTAL | 3189.86 | 2128.23 | 1816.75 | 1773.64 | 1648.5 |
| net block including WIP | 2160.12 | 904.99 | 708.86 | 695.66 | 823.72 |
| Investments | 104.94 | 111.6 | 96.58 | 95.3 | 108.79 |
| net working capital | 919.81 | 1106.03 | 1001.04 | 962.58 | 678.45 |
| deferred revenue expenses | 4.99 | 5.61 | 10.27 | 20.1 | 37.54 |
| TOTAL | 3189.86 | 2128.23 | 1816.75 | 1773.64 | 1648.5 |

Peer Comparison:

| | Mukand Ltd | JSL | Usha Martin Ltd | Ramsarup Ind. | Varun Ind. |
|-------------------|------------|---------|-----------------|---------------|------------|
| Market Cap | 489.86 | 1965.08 | 2159.59 | 304.48 | 371.07 |
| Sales | 1732.23 | 4882.42 | 1930.37 | 1831.62 | 1327.92 |
| PBIDT | -18.68 | 44.22 | 325.82 | -15.78 | 133.43 |
| Net Profit | -162.74 | -304.74 | 76.06 | -85.17 | 16.36 |
| PBIDTM (%) | -1.08 | 0.91 | 16.88 | -0.86 | 10.05 |
| PATM (%) | -9.39 | -6.24 | 3.94 | -4.65 | 1.23 |
| EPS | | | 3.04 | | 7.4 |
| P/E | | | 25.41 | | 20.95 |
| EV/PBIDT | -93.27 | 152.98 | 10.2 | -125.13 | 7.2 |

Figures on TTM Basis

Debt repayment will improve the fundamentals of the company. Going by the improvement in the financials and the dynamic management of the company, we expect Mukand to outperform its peers in the industry. However, order book of the company is a concern.

ANALYSIS & REPORT

Why to invest in shares of Mukand Limited?

SECTOR:

While global steel and alloy sector is still struggling, Indian steel industry has gained strength from strong Indian economy, and strong sectors like Infrastructure, construction and automobile.

With India becoming the hub of small cars and auto parts industry, demand for alloys is expected to increase further. The sector is witnessing a rise in demand with increasing orders from automobile industry.

Increased focus of government on infrastructure development would result in increased demand for steel.

Per capita steel consumption is at 46 kg as against the global average of 198 kg. Thus, there is immense potential for growth in the sector.

COMPANY:

Bajaj group being the parent company, Mukand is likely to cater to the demand of the group for their auto & electrical businesses.

Alloy steel business is a high margin business of the company contributing 73% to the revenue out of which major portion of around 84% is furnished by automotive sector. With growth in the automobile and component industry, demand for alloy steel is slated to increase.

Fundamentals:

Company is planning to sell its surplus land at Kalwa. The proceeds from the sale of the land (approx Rs 700cr) will be used to partly pay off the debt of the company. Currently the company has debt of Rs.1392.07cr. The partial payment of debt from the proceeds of land sale & internal accruals would result in the reduction of interest payments by Rs. 30-35cr.

The company invested Rs. 350cr to increase its High-quality specialty steel capacity during Q2 of FY10. This will lead to an increase in production to 500,000 tonnes from 300,000 tonnes per annum from April 2010.

Backward Integration:

The company has captive mines for Iron ore and Coal mines to the tune of 14 million tons at Jharkhand. Going forward, this will result in a significant saving in the raw material cost.

The company also has a captive power plant with an installed capacity of 22.10 MW.

Order Book

The industrial machinery division had an order book of Rs.580 crores at the end of September quarter.

Notes: Figures sourced from www.bseindia.com and Annual report (2008-09)

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