

WELSPUN GUJARAT STAHL ROHREN LTD (WGSR)

CMP: Rs 500

RESULT UPDATE (Quarter ended Dec 2007)

Industry: Steel Tubes/Pipes

Target Price

Current Price	500
View	Positive
Target Price	Under Review

Market Data

BSE Code	532144
Bloomberg Code	WGS IN
M-Cap (Rs Cr)	8574
Avg. Vol. (1M)	354955
Company P/E *	32.3
P/BV #	10.8
52 Week H/L	523 / 110
Face Value (Rs)	5
Sensex / Nifty	19868 / 5936

* Based on FD TTM earnings, # FY07

Shareholding Pattern As on 31 Dec 2007

Promoters	38.43
Institutions & MF	25.74
FII's & Foreign Banks	22.89
Public & Others	12.92

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BUSINESS PROFILE

WGSR is the world class manufacturer of large diameter pipes having capacities of 3.5 lakh tones of LSAW, 4 lakh tones of HSAW and 2.5 lakh tones of ERW. It's clients list includes leading oil & gas players like Exxon Mobil, Kinder Morgan, Trans-Canada, Reliance. It's current order book stands at Rs 4400 Cr (+80% from overseas).

The Company is focusing on backward integration to secure raw materials availability on time along with increase in margins. The Company targets to achieve the annual capacity of 1.75 MTPA from 1 MTPA now.

RESULT UPDATE - Quarter ended Dec 2007 (Q3 FY08)

Q3 FY08 performance: The Company has shown sterling performance as net profit increased by 136%, yoy (Vs 18%, qoq) along with 40% jump in net sales, yoy (Vs 12%, qoq). This was possible as sales realization improved by 25% as against 6% increase in cost on yoy basis (7.4% Vs 2%, qoq). As a result, operating and net margins improved to 17% and 9.4% as against 13% and 5.6% respectively on yoy basis. EPS stood at Rs 5.2 versus Rs 2.2 on fully diluted equity of Rs 94 Cr.

Production Figure: LSAW – 51,000 tones; HSAW – 97,000 tones

9 months (Apr-Dec) FY08 performance: First nine months have been superb as net profit has grown by 147% along with net sales growth of 42%. Raw material expenses as percentage of net sales has reduced to 66% from 74% on the back higher sales realization then increase in raw material cost. This has resulted in an increase in operating and net margins to 17% and 9% from 13% and 5% resp on yoy basis. EPS has been Rs 13.3 versus Rs 5.4.

Figures in Rs Cr

	Q308	Q307	yoy (%)	Q208	qoq (%)	9M08	9M07	yoy (%)
Net Sales	1036.4	740.0	40.1	927.6	11.7	2770.7	1950.4	42.1
Other Income	2.2	0.5	340.0	2.2	0.0	5.2	1.3	300.0
Raw Material Exp.	665.1	559.6	18.9	622.3	6.9	2010.8	1444.3	39.2
% Sales	64.2	75.6	-1140bps	67.1	-290bps	66.3	74.1	-780bps
Employee Exp.	18.8	15.2	23.7	18.7	0.5	54.3	44.4	22.3
% Sales	1.8	2.1	-30bps	2.0	-20bps	2.0	2.3	-30bps
Other Expenses	178.4	69.9	155.2	133.3	33.8	419.8	219.5	91.3
% Sales	17.2	9.4	-250bps	14.4	+280bps	15.2	11.3	+390bps
Total Exp.	862.3	644.7	33.8	774.3	11.4	2310.0	1708.2	35.2
% Sales	83.2	87.1	+780bps	83.5	-30bps	83.4	83.2	+20bps
EBIDTA	176.3	95.8	84.0	155.5	13.4	465.9	243.5	91.3
Interest	14.3	19.2	-25.5	17.2	-16.9	47.0	53.0	-11.3
Depreciation	14.5	12.2	18.9	12.7	14.2	39.2	35.4	10.7
PBT	147.5	64.4	129.0	125.6	17.4	379.7	155.1	144.8
Tax	50.1	23.2	115.9	43.1	16.2	130.5	54.1	141.2
% PBT	34.0	36.0	-200bps	34.3	-30bps	34.4	34.9	-50bps
Net Profit (PAT)	97.4	41.2	136.4	82.5	18.1	249.2	101.0	146.7
EPS	5.2	2.2	136.4	4.4	18.1	13.3	5.4	146.7
EBITDA Margin(%)	17.0	13.0	+400bps	16.8	+20bps	16.8	12.5	+430bps
PAT Margin (%)	9.4	5.6	+380bps	8.9	+50bps	9.0	5.2	+380bps

EPS based on fully diluted equity

RECENT DEVELOPMENTS/ANNOUNCEMENTS/TRIGGERS

- WGSR manufacturers large diameter pipes used by companies in oil & gas sectors. The Company focuses on high margin products where there are very few players globally.
- WGSR has strong order book of Rs 4400 Cr partly executed from US facilities and partly from India to be executed in 12-18 months; 80% orders are from overseas market and of this, 90% is large diameter pipes; the order book includes the largest order from Trans-Canada at Rs 1,825 Cr.
- **Backward integration plan on schedule:** The company's backward integration project for manufacturing steel plate-cum-coil mill of 1.5 MTPA capacity has commenced trial production and is expected to be go full stream in FY09. Once started, this will increase the operating margin further by 3-4% at least.

The steel plates manufactured from this plant would take care of the company's need for LSAW pipes and excess capacity can be sold in the domestic market. The company is investing Rs 1810 crore in this project which is funded through the mix of equity warrants, FCCB, loans and internal accruals.

- **Expansion:** The Company is investing Rs 298 Cr to increase its LSAW pipe capacity by 3 lakh tones at SEZ in Gujarat. The facility, which would have a total capacity of 6.5 lakh tones per annum after expansion, would be entitled for income tax benefits on exports orders. The facility is expected to come on stream by March 2009.

The company is also investing Rs 100 Cr for strengthening its HSAW capacity through de-bottlenecking. As a result the total capacity of HSAW pipes would increase from 4 lakh tonnes to 5.5 lakh tonnes.

The Company will have 1.75 MTPA capacity post expansion from 1 MTPA now which will be funded through the mix of debt and internal accruals.

- Has put in a bid for close to \$ 2 billion of orders in the international market, of which management expects close to 40% of the orders over the next couple of months
- Revenue is expected to grow by 35% along with more than 16% operating margin for FY08; the topline growth will be driven by the execution of large size orders
- EBITDA margins to increase further by 3-4% once its steel plate-cum-coil mill starts;
- **Industry Outlook:** Increasing E&P (Exploration and Procurement) activities and accelerated rollouts of Oil and Gas transportation infrastructure locally and globally has given huge opportunity to the Indian pipe industry. Global markets are predicted to see a demand for pipes worth \$ 68 bn over the next 3 to 4 years and this figure is likely to go up viewing the various growth drivers for pipes internationally. Having secured the required accreditations, the Indian pipe manufacturers are positioned to tap at least 21% of the total global demand (excluding India). In India too, with the demand-supply situation tilting in favour of suppliers and well-timed capacity expansions, Indian pipe manufacturers are ready to move into a significantly higher growth orbit.

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