

Key data **2 May 2008**

Sector	Steel Pipes
Market Cap	Rs34bn/US\$0.8bn
52 Wk H/L (Rs)	1224.9/507.9
Avg. daily vol. (6 month)	242,778

BSE Code	500378
NSE Code	JINDALSAW
Bloomberg	JS AW IN
Reuters	JIND.BO

Sensex	17,287
Nifty	5,166

Shareholding pattern (%)		
	31-Dec-07	31-Mar-08
FII's	13.0	17.4
MFs and institutions	16.9	17.2
Promoters	44.6	43.8
Others	25.6	21.6

Absolute returns (%)			
	1mth	3mth	12mth
Jindal Saw	0.8	(25.2)	21.0
Sensex	10.5	(2.0)	24.6
BSE Metals	14.9	5.2	63.8

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Jindal Saw

Buy
Current Price: Rs 654
Target Price: Rs 1,177
Figure 1: Actual Vs Religare Estimates

	Q1CY08	Q1CY08E	Difference (%)
Net sales	9,521	11,016	(13.6)
EBITDA	1,466	1,597	(8.3)
EBITDA margins (%)	15.4	14.5	89bps
Adj PAT	854	917	(6.9)
Adj PAT margins (%)	9.0	8.3	64bps

Source: Religare Institutional Research

Financial highlights

- **Net revenues** decreased by 25% Y-o-Y. Excluding the US operations that were hived off in the last quarter, the revenues from the Indian operations showed a healthy growth of 38% Y-o-Y.
- **EBITDA** increased by 0.4% to Rs 1.47 bn. EBITDA margins expanded to 15.4% from 11.5% in Q2'07 and 12.4% in Q5'07, after the divestment of the lower margins US operations in the last quarter.
- **Interest expense** decreased by 30% Y-o-Y. **Tax rate** declined from 33.9% in Q2'07 to 25% in the current quarter due to the divestment of US operations which was taxed at 34%, resulting in a 21% Y-o-Y decline in tax expense.
- **Adj. PAT** increased by 21.6% Y-o-Y to Rs 854 mn. Adj. PAT margin increased to 9.0% from 5.5% in Q2'07 and 6.8% in Q5'07 because of a strong operating performance, decline in effective tax rates and a decrease in the interest cost.

Valuations and Recommendation

Jindal Saw currently trades at 11.3x and 7.7x CY09 and CY10 diluted earnings respectively. We have valued Jindal Saw on a sum-of-the parts (SOTP) basis. We value the core business at 11.0x CY10 earnings which gives a value of Rs 930/share. Its investment in group companies are valued at Rs 248/share. We upgrade our rating to **Buy** with a one year forward target price of Rs 1,177 / share.

Figure 2: Quarterly Performance

	CY07					(Rs mn)	
	1Q	2Q	3Q	4Q	5Q	CY07	CY08E
Net Sales	11,928	12,691	12,855	14,286	16,117	9,521	67,878
Change %	45.5	33.1	34.0	27.2	35.1	(25.0)	60.8
EBITDA	1,366	1,460	1,606	1,699	1,998	1,466	8,128
EBITDA margin (%)	11.4	11.5	12.5	11.9	12.4	15.4	12.0
Change (%)	49.3	35.2	45.0	70.3	46.3	0.4	78.6
Depreciation	139	139	153	150	141	152	722
Other Income	8	32	15	19	18	29	91
Interest exp/(inc)	331	291	254	282	569	204	1,727
PBT	903	1,063	1,214	1,287	1,305	1,139	5,771
PBT margin (%)	7.6	8.4	9.4	9.0	8.1	12.0	8.5
PBT growth (%)	72.8	47.8	91.8	90.5	44.4	7.2	101.1
Extraordinary exp/(Inc)	0	0	0	0	(4,637.8)	0.0	(4,638)
Tax	302	360	393	386	204	285	1,645
Effective tax rate (%)	33.4	33.9	32.4	30.0	15.6	25.0	28.5
PAT reported	601	703	820	901	5,739	854	8,764
Adjusted PAT *	601	703	720	901	1,101	854	4,026
Adj PAT margin (%)	5.0	5.5	5.6	6.3	6.8	9.0	5.9
Change (%)	74.0	49.1	74.5	89.1	83.1	21.6	108.8
Equity Capital (Rs mn)	484	484	484	511	511	521	511
Adj EPS	12.4	14.5	14.9	17.6	21.5	16.4	78.7

* Excluding extraordinary

Future Outlook

- The company's capacity expansion is progressing as planned and will be completed by Oct'08. Post expansion, the company will have a total capacity of 1.95 mn tonnes.

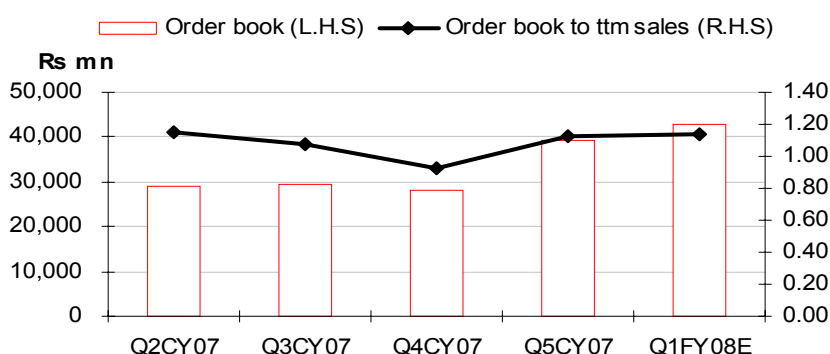
Figure 3: Capacity Expansion Details

	Seamless	LSAW	HSAW	DI	Total
Existing	100,000	800,000	150,000	200,000	1,250,000
Addition	150,000	200,000	350,000		700,000
Total	250,000	1,000,000	500,000	200,000	1,950,000

Source: Religare Institutional Research

- The company has an order book of USD 1.09 bn, which is 1.14x its trailing 12 month revenue from Indian operations, an all time high. This will be executed by Feb'09.

Figure 4: Order Book



Source: Religare Institutional Research

- The company has an order book of USD 165 mn for DI pipes. The recent rise in coking coal prices will hit the company's margins negatively in the DI segment.

Figure 5: Table for earnings revision

(Rs mn)	Earlier Estimates		Revised Estimates		Upgrade/(downgrade) (%)	
	CY08E	CY09E	CY08E	CY09E	CY08E	CY09E
Net Sales	40,988	56,417	43,304	57,697	5.6	2.3
EBITDA	6,369	9,048	6,353	8,927	(0.2)	(1.3)
EBITDA margin (%)	15.5	16.0	14.7	15.5	-87bps	-57bps
PBT	4,969	7,390	4,330	6,667	(12.9)	(9.8)
Adj PAT	3,288	4,836	3,206	4,767	(2.5)	(1.4)
Adj PAT margin (%)	8.0	8.6	7.4	8.3	-62bps	-31bps
Adj EPS	62.8	90.3	62.1	91.5	(1.1)	1.3

Source: Religare Institutional Research

We have revised our CY08 and CY09 net revenue estimates upwards by 5.6% and 2.3% respectively to factor in the higher net realization.

We have revised our EBITDA estimates downwards for CY08 and CY09 to factor in the high coking coal prices which will impact the margins negatively in the DI segment and also our revision for our revenue estimates.

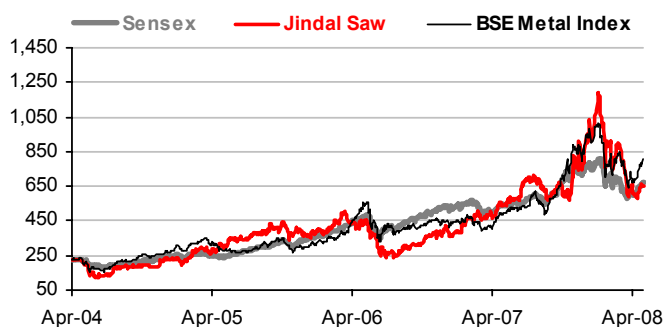
Post the divestment of the US operations, we have reduced our tax rate to 26% and 28.5% in CY08 and CY09 from our earlier estimate of 34% and 34.5% respectively.

We have downgraded our earnings estimate for CY08 by 1.1% to factor in the downward revision in our EBITDA. Our CY10 earnings estimate is revised upwards by 1.3%.

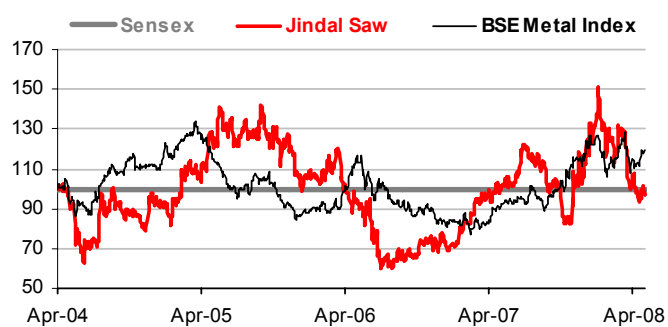
Stock performance

Jindal Saw

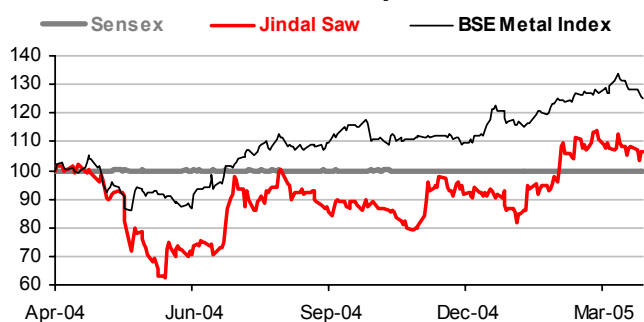
Absolute Perf. From Apr 04



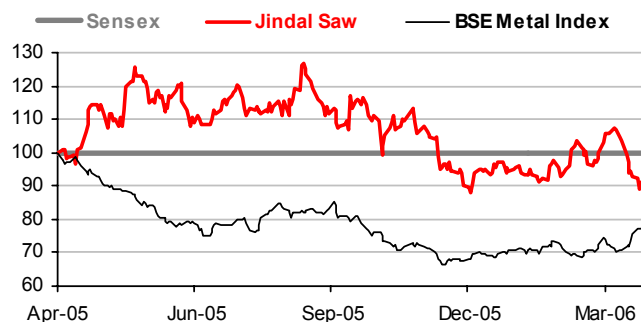
Relative Perf. From Apr 04



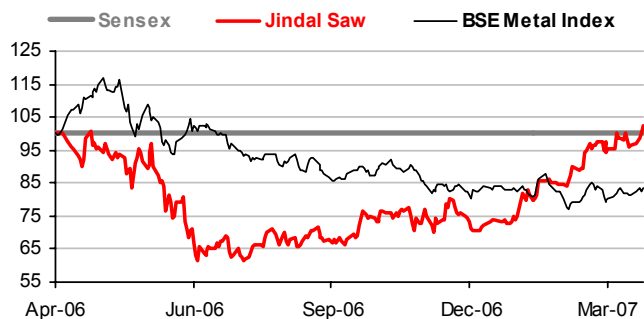
Relative Perf. From Apr 04 to Mar 05



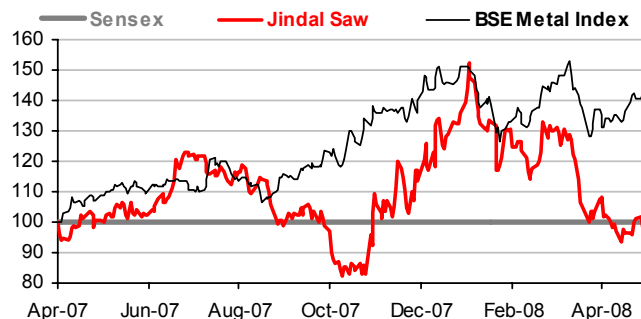
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

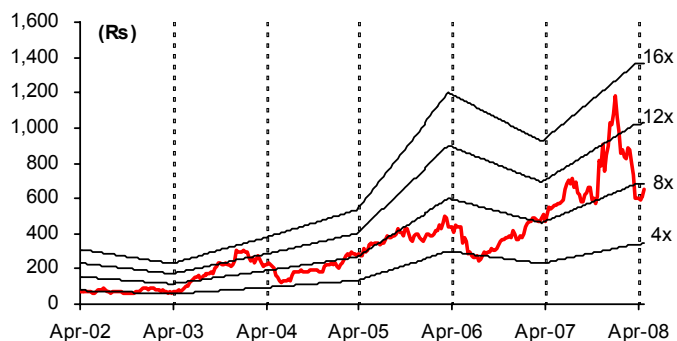


Source: Bloomberg, Religare Institutional Equity Research

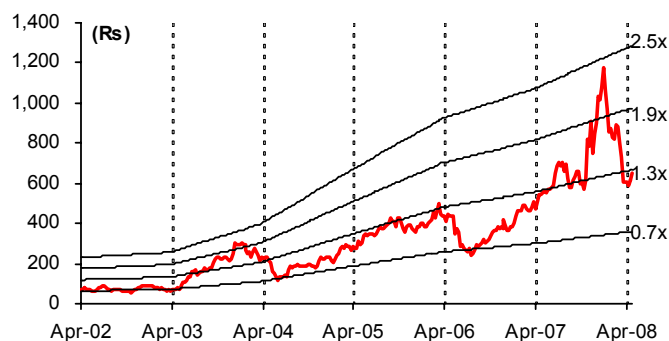
12 month forward rolling band charts

Jindal Saw

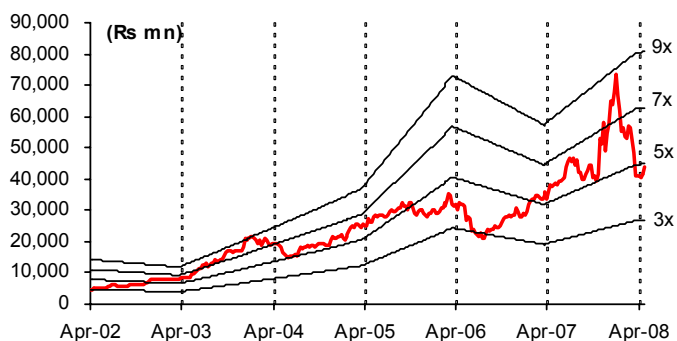
P/E Band



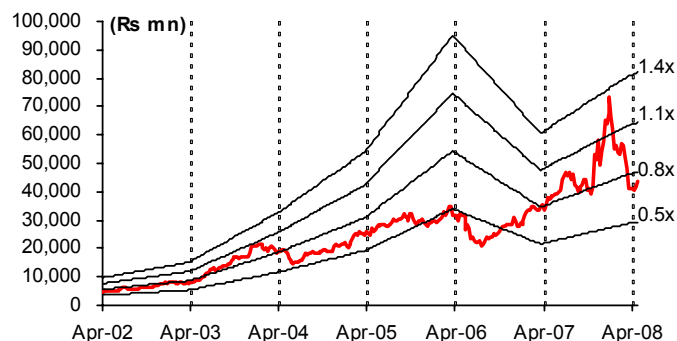
P/BV Band



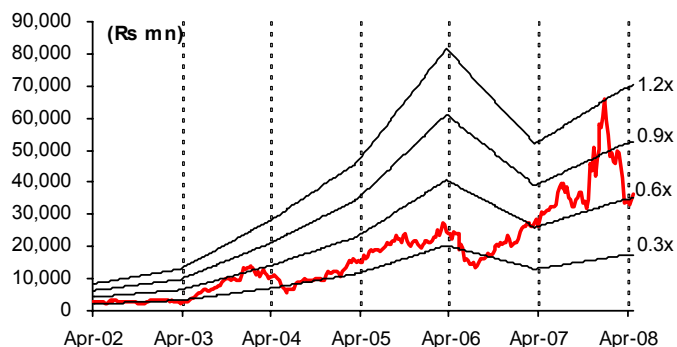
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Source: Bloomberg, Religare Institutional Equity Research

Jindal Saw

Income statement

(Rs mn)

Y/E, 30th Sept	FY05	FY06	FY07	FY08E	FY09E
Net Sales	23,136	38,557	67,878	43,304	57,697
EBITDA	2,672	4,099	8,128	6,353	8,927
EBITDA margin (%)	11.5	10.6	12.0	14.7	15.5
Depreciation	354	519	722	897	1,206
EBIT	2,317	3,580	7,407	5,456	7,721
Other income	144	315	91	125	155
Interest exp/ (inc)	947	1,262	1,727	1,251	1,209
PBT (operating)	1,515	2,633	5,771	4,330	6,667
PBT margin (%)	6.5	6.8	8.5	10.0	11.6
Extra ord exp/ (inc)	0.0	0.0	(4637.8)	0.0	0.0
Taxes	508	871	1,645	1,124	1,900
Minority interest	0	0	0	0	0
PAT(Reported)	1,007	1,762	8,764	3,206	4,767
Less: Extra ordinary income / Others	0	56	4738	0	0
Adj PAT	1,007	1,706	4,026	3,206	4,767
Adj PAT margin (%)	4.4	4.4	5.9	7.4	8.3

Quarterly – Financials

(Rs mn)

(Rs mn)	Q2CY07	Q3CY07	Q4CY07	Q5CY07	Q1FY08
Net Sales	12,691	12,855	14,286	16,117	9,521
Change (%)	33.1	34.0	27.2	35.1	(25.0)
EBITDA	1,460	1,606	1,699	1,998	1,466
Change (%)	35.2	45.0	70.3	46.3	0.4
Margin (%)	11.5	12.5	11.9	12.4	15.4
PAT	703	820	901	5,739	854
PAT adj	703	720	901	1,101	854
Change (%)	49.1	74.5	89.1	83.1	21.6
Margin (%)	5.5	5.6	6.3	6.8	9.0
EPS adj (Rs)	14.5	14.9	17.6	21.5	16.4
EPS dil (Rs)	12.8	13.1	16.4	20.0	15.5

Ratios

Y/E, 30th Sept	FY05	FY06	FY07	FY08E	FY09E
Growth					
Net sales (%)	113.8	66.7	40.8	(20.3)	33.2
EBITDA (%)	102.4	53.4	58.6	(2.3)	40.5
PAT adj (%)	79.1	74.9	297.9	(54.3)	48.7
EPS adj (%)	62.2	52.7	131.4	(24.9)	47.3
EPS diluted (%)	48.2	44.9	88.8	(2.2)	48.7

Valuations

P/E (x)	27.9	19.6	10.9	11.3	7.7
Price/BV (x)	4.1	2.5	2.2	1.5	1.3
EV/EBITDA (x)	14.7	10.1	6.3	6.5	4.6
EV/Sales (x)	1.7	1.1	0.8	1.0	0.7

Profitability

EBITDA margin (%)	11.5	10.6	12.0	14.7	15.5
Adj PAT margin (%)	4.4	4.4	5.9	7.4	8.3
RoE (%)	17.6	16.9	18.6	13.7	17.7
RoCE (%)	17.5	18.3	21.6	17.0	21.9
RoIC (%)	12.4	13.5	21.8	13.2	16.6

B/S ratios

Inventory days	212.6	208.8	96.5	170.0	150.0
Creditor days	76.5	141.0	54.7	55.0	55.0
Debtors days	52.6	71.2	58.8	70.0	70.0
Working Capital days	95.8	100.6	75.2	138.5	117.8
Net debt/equity	1.1	0.5	0.2	0.2	0.2

* ROIC is calculated on post tax basis. CY06* is for 18 months.

Balance sheet

(Rs mn)

Y/E, 30th Sept	FY05	FY06	FY07	FY08E	FY09E
Liabilities					
Equity share capital	471	484	511	521	521
Total Res. & Surplus & others	8,004	9,835	19,339	22,737	26,895
Total Shareholders' funds	8,475	10,319	19,850	23,258	27,416
Convertible debt	0	3,545	2,979	2,659	2,659
Others	9,977	10,255	8,615	8,121	7,821
Total loans	9,977	13,800	11,594	10,779	10,479
Deferred tax lia. (net)	599	766	937	1,137	1,412
Total liabilities	19,050	24,884	32,381	35,174	39,307
Assets					
Net fixed assets	6,390	7,151	8,119	14,222	15,816
Capital WIP	895	1,666	4,131	1,250	1,250
Total non-cur. assets	7,285	8,817	12,250	15,472	17,066
Inv - non cur.	940	940	925	925	925
Current assets					
Inventories	9,262	13,741	11,656	12,666	14,701
Sundry debtors	3,335	7,526	10,937	8,305	11,065
Cash & cash equivalents	1,530	3,934	4,039	3,473	3,362
Cash	1,509	3,910	2,695	2,129	2,017
Liquid investments	22	24	1,345	1,345	1,345
Other current assets	1,646	1,828	2,553	1,828	1,828
Total current assets	15,773	27,030	29,185	26,272	30,956
Total current liabilities	4,576	11,005	8,590	6,078	7,370
Total provisions	371	899	1,390	1,417	2,270
Net current assets	10,825	15,126	19,205	18,778	21,316
Misc. expenditure	0	0	0	0	0
Total assets	19,050	24,884	32,381	35,174	39,307

Cash flow

Y/E, 30th Sept	FY05	FY06	FY07	FY08E	FY09E
Cash from op.					
PBT	1,515	2,633	5,771	4,330	6,667
Tax paid	(300)	(248)	(2,421)	(948)	(924)
Dep & Amortization exp	354	519	722	897	1,206
Net change in working capital	(6,026)	(2,135)	1,398	(142)	(3,503)
Others	(16)	(71)	(21)	0	0
Net cash from op.	(4,473)	699	5,449	4,138	3,446
Cash from inv.					
Capital expenditure	(1,812)	(1,855)	(4,187)	(4,119)	(2,800)
Cash from Sale of US Sub	17	0	0	0	0
Sale/pur. of inv	(404)	(275)	(241)	0	0
Net cash from inv.	(2,199)	(2,130)	(4,428)	(4,119)	(2,800)
Cash from fin.					
Issue of shares & sh. premium	2,853	436	1,308	660	0
Dividends paid	(109)	(308)	(363)	(407)	(457)
Debt change	4,335	3,774	(2,223)	(815)	(300)
Others	781	(70)	44	0	0
Net cash from fin.	7,860	3,833	(1,234)	(562)	(757)
Net change in cash & cash equvl	1,188	2,401	(213)	(543)	(111)

Per share data

Y/E, 30th Sept	FY05	FY06	FY07	FY08E	FY09E
EPS adjusted	23.4	35.7	82.7	62.1	91.5
EPS diluted - wtd	23.4	33.4	75.1	57.7	85.0
CEPS	28.9	47.2	185.5	78.7	114.6
Book value	158.6	266.0	368.6	427.1	506.8
Dividend	4.0	5.0	6.3	7.5	10.0
O/s shs.-actual (mn)	47.1	48.4	51.1	52.1	52.1
O/s shs.-diluted (mn)	47.1	55.1	55.1	56.1	56.1
O/s shs.wtd/diluted (mn)	43.0	51.1	53.6	55.6	56.1

Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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