

WS Industries

Market Cap (Rs. Cr) **88.33**

52 Week-H/L(Rs)

66 / 39.15

CMP Rs. 49.10

Target Price **Rs. 65/90**

Bloomberg

Reuters

WSIN.BO

BSE 504220

NSE

WSIND

Investment Arguments

WS Industries manufactures **Porcelain insulators [Capacity 16,000 MTs]** used for transmission & Distribution of power. It is further **expanding the capacity by 8,000 MTs at Rs 110 Crs, which is expected to go on stream by April'08.** Company is second big player in Indian market, after market leader Birla NGK Insulators. It had a technical and marketing agreement with the US-based **PPC Insulators**, the second-largest insulator manufacturer in the world, under which the latter will provide **necessary technical inputs for the new plant and make high capacity insulators, disc insulators and direct current insulators.** On the marketing side, **the American company will source substation insulators of up to 171 kv for its overseas markets from W S Industries.** In return, **WS Industries will market a higher voltage range of products (400kv) made by PPC Insulators in India and neighbouring countries.**

The domestic insulator industry is worth around Rs666 crore, and is growing at 20 per cent. **Official projections say that by 2012, the length of transmission lines will go up to 3.5-lakh circuit km.** Around \$65 billion is going to be invested in the power transmission sector. **Thus there is a huge growth potential in inter-regional power transmission business.** The Power Grid Corporation (PGC) is one of its largest customers. It also supplies to ABB, Areva, Siemens, National Thermal Power Corporation (NTPC) and state electricity boards (SEBs). **The upcoming expansion was funded by offering a 14.9 per cent stake (31.50 lakh shares at Rs. 67.30 per share) to Schroeder Credit Renaissance Fund, a global investment fund. This led to rise in equity during 06-07, no further dilution is pending. This expansion will add 50% additional capacity [8,000 MTs] with high value added new range of insulators, leading to higher margins from this new capacity.**

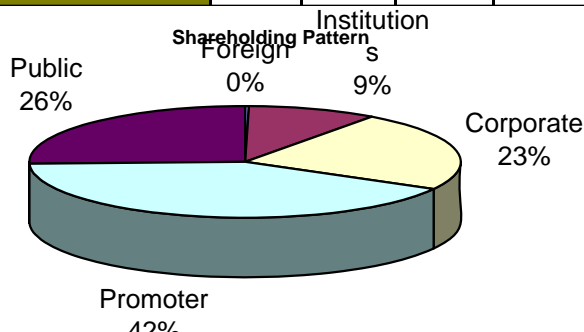
Company also has a Subsidiary - **WS Electric**, which is owning real estate in Chennai. This is being developed in partnership with TCG, and over next couple of years rental income from this project[Co will not sell the property] will be about Rs 10 Crs per annum, when completed. Mkt value of this property alone is more than present Mkt Cap of Company, i.e. Rs 100 Crs. So whole business of company is available to investors, virtually free. The core Insulator business has a strong long term potential for growth and is likely to add significant to bottomline in coming years.

We expect, earnings to grow significantly in 08-09 when expanded capacity will come in to operations. The stock is available at just 5.3X of '08-09 earnings and looks quite attractive. BUY with one year target of Rs 90.

Financials for the year ended (in Rs. Crores)

Latest result update (in Rs. Crores)

PARTICULARS	FY 06	FY 07	FY 08 E	Mar 09 E	PARTICULARS	Q4 2006-07	Q4 2005-06	% change
Net Sales	147.06	165.41	205.00	310.00	Total Income	44.90	38.65	16.17
PBIDT	15.08	20.12	25.50	43.00	PBIDT	5.44	3.91	39.13
Interest	6.36	7.09	7.50	14.00	Net Profit	2.23	1.03	116.50
Depreciation	3.32	3.69	3.80	7.00	Equity	21.14	17.99	17.51
PAT	4.32	7.86	10.70	19.50	EPS	1.00	0.56	78.57
EPS (in Rs)	2.40	3.72	5.06	9.22				
CEPS (in Rs)	4.25	5.46	6.86	12.54				
Book Value (in Rs)	22.62	22.71	26.02	32.64				
Face Value (in Rs)	10.00	10.00	10.00	10.00				
Dividend (in%)	0.00	0.00	15.00	20.00				
Deividend Yeild (%)	0.00	0.00	3.05	4.07				
Net Worth	40.69	48.00	55.00	69.00				
Debt	49.43	45.00	48.00	90.00				
Equity Capital	17.99	21.14	21.14	21.14				
P.E. (x)	20.45	13.21	9.70	5.32				
NPM %	2.94	4.75	5.22	6.29				
EBIDTA Margin %	10.25	12.16	12.44	13.87				
RoCE %	16.73	21.63	24.76	27.04				



After making a high of Rs 85 in May'06, the stock entered a long corrective cum consolidation phase. During May'06 to June'07, it formed a flag pattern in weekly chart, indicating a long consolidation phase.

Now the stock is looking to breakout from this range and once it moves above Rs 54-55, it will touch Rs 65 soon. Then next target in 12 months is Rs 90. Buy with stop loss of Rs 44.