

BUZZING

STOCK

Welspun Gujarat Stahl Rohren Ltd.

CMP – Rs.89

Analyst

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Key Stock Data

Sensex	13845
Nifty	3998
Sector	Steel - Large
Bloomberg	WGS@IN
Reuters	WSGR.BO
No. of shares (m)	133
Market Cap (Rs m)	1,1357
Market Cap (US\$ m)	254.24
52-week H/L	Rs.104/47

Shareholding Pattern (%)

Promoters	41.25
Mutual Funds	12.01
FIs	31.75
Corporate Bodies	4.99
Pubic & Others	10.01

Company Background:

Incorporated in 1995 Welspun Gujarat Stahl Rohren Ltd. (WGSRL) is a part of Welspun Group. The manufacturing facilities are located near Dahej in Gujarat (Western India). The location is in proximity of National Highway and Seaports. The company caters to the global requirement of Welded Tubes and Pipes and offers the widest range starting from ½ inch to 100 inch in outer diameter. Welspun is approved by more than 40 Oil & Gas companies across the globe and accredited with ISO 9001, and ISO 140041 certification.

Product Mix:

WGSRL offers the wide range of products and hence caters to the diverse application of Transportation and distribution. The company is India's largest Submerged Arc Welding (SAW) pipe manufacturer. It provides complete range of SAW pipes (LSAW, HSAW and ERW). The company has an installed capacity of 1.4 million MT per annum. Besides, it also provides the coating for large onshore and offshore projects. The company uses the latest "JCO" technology to manufacture pipes.

Clientele:

Global buyers in the international market are BG, Exxon Mobile, Shell, Saudi Aramco, and Gazprom etc. On the domestic front it is the key supplier to India's largest fuel companies like GAIL, IOCL, ONGC and BPC.

Backward Integration:

The company is setting up a HR coils and HR plates in house at Anjar. The unit is expected to be operational by March 07. The entire capacity will be utilized for internal consumption. At present Welspun imports majority of its raw material from Europe and carry high cost of transportation. With the commissioning of this plant, the company can insulate itself from the fluctuations in raw material prices and supply side. Besides, it will also lead the margin expansion due to decline in the costs associated with the imported pipes.


Recent Developments:

- Welspun had recently secured an onshore pipeline order worth Rs.4,600m from Exxon Mobil. The order is for the supply of 42 – inch and 120 KM pipeline for the distribution of the of critical LNG. The order is likely to be executed by 2007. With this order the current pending order book position is around Rs.25,000m. This is the first order ever received by any Indian Company by Exxon Mobil, World's largest Corporation.
- Welspun has signed a memorandum of understanding (MoU) with Volzhsky Pipe Plant VTZ, (member of Russian Pipe Metallurgical Company TMK) to set up a joint venture. 60% stake in the JV will belong to VTZ and the rest 40% to Welspun. The new capacities are intended for the production of the double SAW pipes with 508 millimeters to 1,420 millimeters in diameter. On completion the JV capacity in the production of the large – diameter welded pipes is expected to be more than 1.2 million Tonnes Per annum.

Valuation:

The company has reported good numbers for Q2FY07. Net sales at Rs.6,744m up by 70 % YoY. EBIDTA margins expanded by 118 basis points at 11.86% and EBIDTA grew by 89% YoY at Rs.800m. PAT at Rs. 335m is up by 85 % YoY. The stock is trading at 8.8x its Q2FY07 annualised EPS of Rs.10.

Financial Snapshot

Welspun Gujarat Stahl Rohren Ltd.						Rs.m	Ratios (%)			
Financial Year End: June	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Net Sales	6744	3962	70	18298	10385	76.2	Debt -Equity	1.5	1.1	40
Other Income	5	83	(94)	19	262	(93)	PBIDTM	9.6	10.1	(6)
Total Income	6749	4045	67	18317	10647	72	PBDTM	6.7	7.1	(5)
Total Expenditure	5949	3622	64	16643	9702	72	RoCE	14.5	15.5	(6)
PBIDT	800	423	89	1674	945	77	RoNW	16	14	17
Interest	176	74	138	419	203	106				
PBDT	624	349	79	1255	742	69				
Depreciation	116	72	61	352	241	46				
Tax	173	92	88	290	163	78				
Reported Profit After Tax	335	181	85	613	338	81				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	335	181	85	613	338	81				
No. of shares (m)	133	112	-	128	141	-				
EPS (annualised.) (Rs.)	10.1	6.5	-	4.8	3.2	-				
P/E	8.8	13.7	-	18.5	27.8	-				

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