



May 06, 2008

Current Price : Rs170
Target Price : Rs242
52 Week H/L :Rs327/Rs144
Avg Volumes : 39,299
Market Cap. : Rs13.9bn
BSE Code : 513250
NSE Code : JYOTISTRUC

Shareholding pattern

Share holder	March2008
Promoters	26.94%
Corporate bodies	10.98%
FII's	30.41%
FIs/MFs	19.25%
Public	12.42%

JSL's numbers were inline with our estimates however PAT was below expectation due to higher interest expense and higher taxation rate. We are revising FY09 PAT forecasts downwards by -18.9% and incorporating FY10 forecast in our numbers. We maintain Buy with a revised target price of Rs242.

Summary:

- JSL's FY08 sales & operating margin were in line with expectation, Sales at Rs13.70bn up 41% yoy (expected Rs13.74bn) and EBITDA margin @12.5% (12.5%). However PAT was below expectation at Rs724.1mn up 33% yoy (Rs861mn) due to higher interest expense (on account of higher borrowing & higher interest rate) and higher tax rate (due to higher FBT). Interest expense stood at Rs464.3mn up 41% yoy (Rs316mn) and tax rate at 39.8% (36%) dragged the PAT down.
- Order book stood at Rs32.1bn up 61% yoy. 85% of the order book consists of domestic orders and remaining 15% orders include exports and deemed exports orders. Domestic & deemed export orders have price escalation clause and hence only 8% orders that is exports have the raw material price volatility risk.
- JSL had plans to raise Rs4.2bn through 18% equity dilution for capex and working capital requirement. JSL has cancelled the plan as of now due to sharp decline in the JSL stock price. It intends to borrow Rs600mn for capex during FY09.
- We revise downwards our EBITDA and PAT forecast for FY09 by -0.9% and -18.9% respectively. We conservatively reduce our EBITDA margin forecast by -20bps to 12.5% to take account of any negative by way of raw material price volatility in the export order. Our PAT forecast is significantly lower by -18.9% on back of higher interest cost (incorporating higher borrowing and higher interest rate), and higher depreciation expenses (due to higher capex). We also incorporate FY10 numbers in our forecast. We retain our positive outlook on the company and maintain Buy with a revised target price of Rs242, JSL would trade at 19.2x FY09F EPS of Rs12.6 and 15x FY10E EPS of Rs16.1. Higher order winning could likely see a re-rating in the stock. The key risk for the stock would be any visible margin pressure due to higher raw material price volatility.

Financial Highlights

	FY06A	FY07A	FY08A	FY09F	FY10F
Net Revenues (<i>Rs mn</i>)	6,956	9,708	13,704	18,265	22,359
Operating EBIDTA (<i>Rs mn</i>)	748	1,254	1,719	2,291	2,787
EBIDTA Margins (%) (<i>Rs mn</i>)	10.8	12.9	12.5	12.5	12.5
Reported Net profit (<i>Rs mn</i>)	276	545	724	1,024	1,315
Normalized Net Profit (<i>Rs mn</i>)	277	550	724	1,024	1,315
Normalized EPS (Rs)	4.0	6.8	8.9	12.6	16.1
P/E (x)	42.5	24.9	19.1	13.5	10.5
DPS	0.4	0.6	0.7	0.9	1.1
Dividend Yield (%)	0.2	0.3	0.4	0.5	0.7
Book NAV (Rs)	17.6	34.2	42.4	53.9	68.7
Price/Book Value	9.7	5.0	4.0	3.2	2.5
RONW (%)	22.8	19.9	21.0	23.3	23.5
ROCE (%)	24.8	27.2	29.0	30.1	31.4

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This report is for Retail Clients only

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Exhibit 1 : 4th Quarter results summary

Rs mn	4QFY08	4QFY07	Growth
Net Sales	4100.6	3043.4	35%
Change in stock	36.5	171.7	-79%
Raw Materials	2806.8	1456.4	93%
Erection & Sub Contracting Expenses	357.0	507.9	-30%
Staff Cost	93.3	86.6	8%
Other Expenditure	291.6	431.8	-32%
Total Expenditure	3585.2	2654.3	35%
EBITDA	515.5	389.1	32.5%
EBITDA margin (%)	12.6	12.8	
Other Income	6.3	1.0	537%
Depreciation	18.2	16.1	13%
Interest	157.4	100.3	57%
PBT before extr. Item	346.2	273.8	26%
Tax	153.6	114.4	34%
PAT	192.6	159.3	21%
PAT margin (%)	4.7	5.2	

Source: Company data

Exhibit 2 : Actual result vs expectation

Rs mn	Actual FY08	Expected FY08	Variation
Net Sales	13704	13739	-0.3%
EBITDA	1719	1722	-0.2%
EBITDA margin (%)	12.5	12.5	
Other Income	15	13	11.4%
Depreciation	67	73	-8.8%
Interest	464	316	46.7%
PBT	1203	1345	-10.6%
Tax	478	484	-1.1%
PAT	724	861	-15.9%
PAT margin (%)	5.3	6.3	

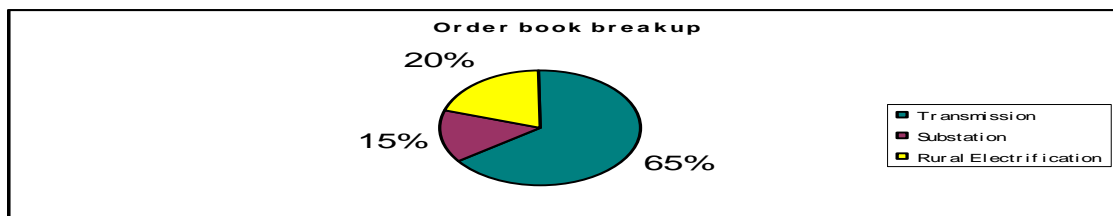
Source: Company data, ABN AMRO forecasts

Exhibit 3 : Earnings revision

Rs mn	New FY09E	Old FY09E	Change
Sales	18265	18265	0.0%
EBITDA	2291	2311	-0.9%
EBITDA margin (%)	12.5	12.7	
Depreciation	113	80	41.6%
Interest	539	305	76.9%
Tax	655	710	-7.7%
PAT	1024	1263	-18.9%
PAT margin (%)	5.6	6.9	
EPS	12.6	15.7	-19.8%

Source: ABN AMRO forecasts

Order book stood at Rs32.1bn up 61% yoy. Order book includes 65% transmission order, 15% substation order and 20% REC orders.



Source: Company data



Financial Statements

Income Statement (Rs Mn)	FY06A	FY07A	FY08A	FY09F	FY10F
Revenues	6956	9708	13704	18265	22359
Raw materials consumed	(4449)	(5441)	(8984)	(11864)	(14541)
Employee costs	(185)	(267)	(347)	(475)	(581)
Erection Charges/Sub Contracting Charges	(1094)	(1441)	(1727)	(2301)	(2817)
Operating & Other Exp	(668)	(865)	(974)	(1333)	(1632)
(Increase) / Decrease in stock	187	(441)	47	0	0
Operating expenses	(6208)	(8454)	(11986)	(15974)	(19571)
Operating EBIDTA	748	1254	1719	2291	2787
Other income	21	8	15	41	65
EBIDTA	769	1262	1734	2332	2852
Interest	(258)	(329)	(464)	(539)	(570)
Depreciation	(48)	(58)	(67)	(113)	(127)
Profit before tax	462	875	1203	1679	2155
Provision for tax	(185)	(325)	(478)	(655)	(841)
Normalized net profit	277	550	724	1024	1315
Extra ordinary items	(0)	(5)	0	0	0
Reported net profit	276	545	724	1024	1315

Balance Sheet (Rs Mn)	FY06A	FY07A	FY08A	FY09F	FY10F
Equity capital	138	161	162	163	163
Share Warrant - Up front Price	15	0	0	0	0
Share premium	428	1454	1491	1505	1519
General reserve	370	450	450	450	450
Profit & loss	218	627	1275	2205	3407
Other Reserves	47	67	67	67	67
Net worth	1216	2758	3445	4390	5606
Total debt	1609	1595	2240	2900	3000
Deferred tax liability	78	77	72	85	85
Capital employed	2903	4430	5757	7375	8691
Gross block	853	936	1066	1666	1866
Accumulated depreciation	(322)	(375)	(442)	(555)	(682)
Net block	531	561	625	1111	1184
Capital WIP	15	2	16	13	0
Total fixed assets	546	563	641	1124	1184
Investments	166	185	226	226	226
Inventories	1213	763	785	1003	1248
Sundry debtors	2487	3635	4881	6505	7963
Cash & bank	38	92	125	150	150
Other Current Assets/Loans & advances	1150	1970	3354	3771	4427
Other liabilities	(733)	(521)	(787)	(833)	(900)
Other liabilities/Provisions	(1965)	(2282)	(3489)	(4591)	(5626)
Working capital	2190	3658	4869	6005	7263
Miscellaneous Expenditure	1	24	22	20	18
Capital deployed	2903	4430	5757	7375	8691



Cash Flow Statement (Rs Mn)	FY06A	FY07A	FY08A	FY09F	FY10F
Cash profits	330	581	793	1140	1444
Net trade working capital	(729)	(865)	(164)	(1118)	(982)
Operating activities	(400)	(285)	629	22	462
(Inc)/Dec in fixed assets	(123)	(76)	(144)	(597)	(187)
(Inc)/Dec in investments	(143)	(19)	(41)	0	0
(Inc)/Dec in loans and advs	8	(548)	(1015)	7	(276)
Inc/(Dec) in def tax liability	28	(1)	(5)	13	0
Investing activities	(229)	(644)	(1204)	(577)	(463)
Inc/(Dec) in debt	458	(14)	645	660	100
Inc/(Dec) in equity/premium	3	1034	38	15	15
Addition to reserves on amalgamation	67	19	0	0	0
Dividends	(35)	(56)	(75)	(94)	(114)
Financing activities	492	983	608	580	1
Cash generated/(utilised)	(136.5)	54.2	32.7	25.0	0.0
Cash at start of the year	174.7	38.2	92.4	125.0	150.0
Cash at end of the year	38.2	92.4	125.0	150.0	150.0

Ratios	FY06A	FY07A	FY08A	FY09F	FY10F
Profitability ratios (%)					
Operating EBIDTA margin	10.8	12.9	12.5	12.5	12.5
EBIDTA margins	11.1	13.0	12.7	12.8	12.8
PBT margin	6.6	9.0	8.8	9.2	9.6
Reported PAT margin	4.0	5.6	5.3	5.6	5.9
Normalized PAT margin	4.0	5.7	5.3	5.6	5.9
Return Ratios (%)					
Networth (post tax)	22.8	19.9	21.0	23.3	23.5
Capital employed (pre tax)	24.8	27.2	29.0	30.1	31.4
Per share (Rs)					
Reported Earnings (REPS)	4.0	6.8	8.9	12.6	16.1
Normalized Earnings (NEPS)	4.0	6.8	8.9	12.6	16.1
Cash earnings (CPS)	4.7	7.5	9.7	14.0	17.7
Dividend (DPS)	0.4	0.6	0.7	0.9	1.1
Net book value (BV)	17.6	34.2	42.4	53.9	68.7
Liquidity ratios (x)					
Current ratio	2.3	2.6	2.3	2.3	2.3
Debt equity ratio	1.3	0.6	0.7	0.7	0.5
Interest cover	2.8	3.7	3.6	4.1	4.8
Payout ratios (%)					
Tax (% of PBT)	40.1	37.1	39.8	39.0	39.0
Dividend (% of PAT)	12.7	10.3	10.4	9.2	8.6
Turnover ratios (x)					
Net sales to total assets	2.4	2.2	2.4	2.5	2.6
Net sales to fixed assets	12.7	17.2	21.4	16.2	18.9
Net sales to working capital	6.4	5.3	5.6	6.1	6.2
Inventory days	63.7	28.7	20.9	20.0	20.4
Debtor days	130.5	136.7	130.0	130.0	130.0
Creditor days	149.7	139.9	130.0	130.0	130.0



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Analyst holding in stock : Nil