

Bihar Tubes

BSE code: 590059

CMP: Rs 133

Target: Rs 172

BUY ↑

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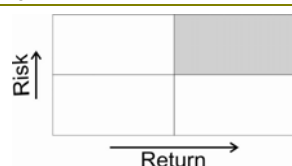
Company data

Particulars	
Market cap (Rs mn / US\$ mn)	851.2/21.2
Outstanding equity shares (mn)	6.4
52-week high/low (Rs)	162/23
2-month average daily volume	53,335

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	2,065.1	3,592.8	7,626.3
Growth (%)	41.1	74.0	112.3
Adj net profit (Rs mn)	70.1	148.8	354.1
Growth (%)	401.4	112.2	138.1
FDEPS (Rs)	5.5	11.6	27.7
Growth (%)	-	112.3	138.0
P/E (x)	24.3	11.4	4.8
RoE (%)	44.9	50.6	33.0

Risk-return profile



Shareholding pattern

(%)	Jun-07	Mar-07
Promoters	58.4	58.4
FIs	-	-
Banks & FIs	21.3	13.5
Public	20.3	28.1

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bihar Tubes	133	(7.6)	6.4	60.9
Sensex	16,900	17.2	16.5	28.8

 Company website www.bihartubes.net

Steady growth in orders; new branches to expand reach

Bihar Tubes' (BTL) order book currently stands at Rs 375mn, with production capacity fully booked for the next 1-½ month. The management has indicated that it is close to bagging orders from large clients like BHEL and the Irrigation Public Service of Himachal Pradesh. In a bid to ramp up its capacity and expand its geographical reach, BTL is making an acquisition in western India and is in the final stages of negotiations for the same. It is also working to raise product visibility and create stronger branding by more than doubling its branch network to ten over the next six months. Further, an FCCB issue is likely this fiscal in order to fund a backward integration HR skelp plant.

We expect BTL to perform well in future as it undertakes backward and forward integration, enters into the high-diameter pipe segment, and focuses on sales to the fast-growing infrastructure and agricultural sectors. We maintain our target price of Rs 172 for the scrip, and upgrade the company from a Hold to a Buy.

Strong order book

BTL has an order book of Rs 375mn and is completely booked for the next 1-½ month, with orders flowing from its dealer network as well as from government and export contracts. The company is already notified with BHEL and expects an order from the infrastructure major very soon. BTL further expects to win an order from Irrigation Public Service (Himachal Pradesh). The company has sold a total of 33,000 tonnes of tubes and pipes during the first five months of this fiscal. We expect an even stronger performance in the second half of FY08.

Order book

Category	Qty (tonnes)	Amount (Rs mn)*
Dealer network	8,000	300
Exports	1,000	40
Projects	500	15
Government	500	20
Total	10,000	375

Source: Company, Religare Research *Net of excise

Acquisition to boost market share in western India

The company is in the final stages of securing an acquisition in western India which will provide a rapid boost to its production capacity. BTL has already placed orders for plant & machinery worth Rs 100mn with Gallium industries and estimates that it will take another three to four months to get the acquired plant on stream. We believe that this acquisition will aid an expansion in BTL's topline and boost its market share in western India, besides reducing freight costs.

Branches opened in several states to deepen reach

The company is taking steps to strengthen its marketing reach in various states. In addition to two branches in Ludhiana and Ghaziabad, it recently opened two more branches in Jaipur and Gurgaon. BTL has plans to set up six new branches over the next six months in Bangalore, Hyderabad, Chennai, Ahmedabad, Pune and Indore. The objective is to have two distributors per state under whom the retailers and sub-retailers would be placed. This is expected to strengthen BTL's product visibility and create a strong brand, which will ultimately shore up margins in the long run.

Stronger realisations and higher pre-galvanised sales aided sharp margin growth in Q1FY08

Sharp improvement in EBITDA margin

The company's EBITDA margin has expanded 1,020bps to 13.3% in Q1FY08 against 3.1% in Q1FY07 on the strength of better realisations, higher pre-galvanised sales, and a product mix favouring value-added pipes. Further, greater operating efficiency through inventory control, freight cost savings, and cost-effective raw material procurement from its subsidiary, Apollo Metalx, has also enhanced margins.

Expect margins to remain stable with upward bias

BTL is currently the only organised player in the high-margin pre-galvanised segment, pointing to sustained demand. Going ahead, we expect margins to remain stable with a positive bias as pre-galvanised sales move up and the company forays into the high-end auto tube segment. More importantly, it plans to put up an HR skelp mill which will supply captive raw material. Cost reduction through production efficiency as well as regional divergence into western India and an enhanced branch network will sustain margins.

We upgrade to Buy in view of the expected order from BHEL and ongoing acquisition

Maintain target of Rs 172 but upgrade to Buy

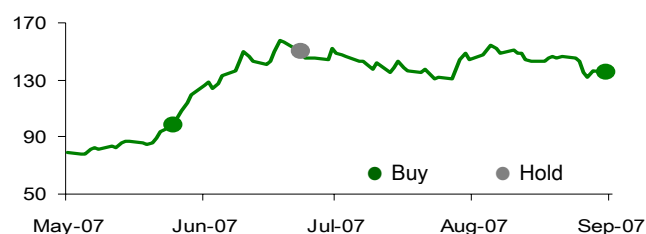
BTL currently trades at a P/E of 4.8x on FY09E fully diluted EPS. On an EV/EBITDA basis, the stock is trading at 4.1x on FY08E and 3.1x on FY09E. We believe that BTL deserves a premium to pure steel players since it is catering to sectors like infrastructure, agriculture, and oil & gas which are showing extremely robust growth. In our view, BTL will witness a positive re-rating in the coming years. We upgrade our recommendation from Hold to Buy taking into consideration the company's strong order book, the expected project from BHEL, and finalisation of the acquisition in western India.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
18-Jun-07	Initiating Coverage	94	172	Buy
17-Jul-07	Results Update	151	172	Hold
26-Sep-07	Company Update	133	172	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	1,464.0	2,065.1	3,592.8	7,626.3
Growth (%)	30.3	41.1	74.0	112.3
EBITDA	52.0	148.3	321.4	684.1
Growth (%)	51.3	185.1	116.7	112.9
Depreciation	5.5	7.5	30.0	70.0
EBIT	46.5	140.8	291.4	614.1
Growth (%)	52.2	202.9	107.0	110.8
Interest	23.9	35.9	74.2	100.0
Other income	-	-	-	-
EBT	22.6	104.9	217.2	514.1
Growth (%)	35.3	364.1	107.1	136.7
Tax	8.3	34.8	68.4	160.0
Effective tax rate	36.8	33.2	31.5	31.1
Adj net income	14.3	70.1	148.8	354.1
Growth (%)	13.1	401.4	112.3	138.0
Shares outstanding (mn)	3.1	3.1	6.2	12.5
FDEPS (Rs)	1.1	5.5	11.6	27.7
DPS (Rs)	-	1.0	1.5	2.0
CEPS (Rs)	6.3	24.9	28.7	34.0

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	22.6	104.9	217.2	514.1
Depreciation	5.5	7.5	30.0	70.0
Other adjustments	23.3	27.2	51.3	18.0
Changes in WC	(91.1)	(42.1)	(74.5)	(452.5)
Operating cash flow	(39.7)	97.5	224.0	149.6
Capital expenditure	(13.3)	(65.0)	(346.0)	(433.0)
Investments	-	-	-	-
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(13.3)	(65.0)	(346.0)	(433.0)
Free cash flow	(52.9)	32.5	(122.0)	(283.4)
Issue of equity	-	-	45.0	407.4
Issue/repay debt	62.9	37.0	145.0	15.0
Dividends paid	-	(3.6)	(10.8)	(28.7)
Others	(23.9)	(35.9)	(74.2)	(100.0)
Financing cash flow	39.0	(2.5)	105.0	293.7
Beg. cash & cash eq	20.8	6.9	37.0	20.0
Chg in cash & cash eq	13.96	(30.11)	17.00	(10.30)
Closing cash & cash eq	6.9	37.0	20.0	30.3

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	6.9	37.0	20.0	30.3
Accounts receivable	145.6	196.4	401.8	631.4
Inventories	191.7	230.0	400.0	713.0
Others current assets	64.5	75.0	20.0	30.0
Current assets	408.6	538.4	841.8	1,404.7
LT investments	-	-	-	-
Net fixed assets	95.2	152.7	467.7	829.7
CWIP	-	-	-	-
Total assets	503.8	691.1	1,309.5	2,234.4
Payables	112.7	179.5	425.4	525.5
Others	16.2	30.0	68.0	140.0
Current liabilities	128.9	209.5	493.4	665.5
LT debt	270.0	307.0	497.0	467.0
Other liabilities	15.3	18.5	25.0	30.0
Equity capital	31.2	31.2	62.4	124.7
Reserves	58.4	124.9	231.7	947.1
Net Worth	89.5	156.0	294.0	1,071.8
Total liabilities	503.8	691.1	1,309.6	2,234.4
BVPS (Rs)	28.7	50.0	47.2	85.9

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	3.6	7.2	8.9	9.0
EBIT margin (%)	3.2	6.8	8.1	8.1
Net profit margin (%)	1.0	3.4	4.1	4.6
FDEPS growth (%)	13.1	401.4	112.3	138.0
Receivables (days)	36.3	34.7	40.8	30.2
Inventory (days)	41.9	42.6	36.9	30.5
Payables (days)	30.2	31.4	37.4	27.6
Current ratio (x)	3.2	2.6	1.7	2.1
Interest coverage (x)	2.2	4.1	4.3	6.8
Debt/equity ratio (x)	3.0	2.0	1.7	0.4
ROE (%)	15.6	44.9	50.6	33.0
ROCE (%)	14.5	32.0	40.6	44.5
ROAE (%)	2.8	10.1	11.4	15.8
EV/Sales (x)	0.5	0.3	0.4	0.3
EV/EBITDA (x)	13.2	4.9	4.1	3.1
P/E (x)	121.8	24.3	11.4	4.8
P/BV (x)	4.6	2.7	2.8	1.5
P/CEPS (x)	21.3	5.3	4.6	3.9

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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