



FY07 RESULT UPDATE

May 21, 2007

JBF INDUSTRIES LTD. (Rs.119)

Buy

Mkt. Cap. : Rs. 6.5bn

Free Float: 61%

Sensex: 14303

Sector: Textiles

JBF Industries has reported good Q4FY07 numbers with topline being 15% higher than our expectations at Rs.14796mn. For the full year, the company has reported an EPS of Rs.14.9, as against our estimate of Rs.12.5 which was based on a fully diluted equity capital of RS.700mn. However due to non-conversion of any additional FCCBs upto 31st March 2007, the equity capital remains at RS.544mn. We maintain our EPS estimates (consolidated, incl. 60% in JBF RAK LLC) of Rs.27.7 for FY08P and RS.47.1 for FY09 on fully diluted capital.

FINANCIAL METRICS

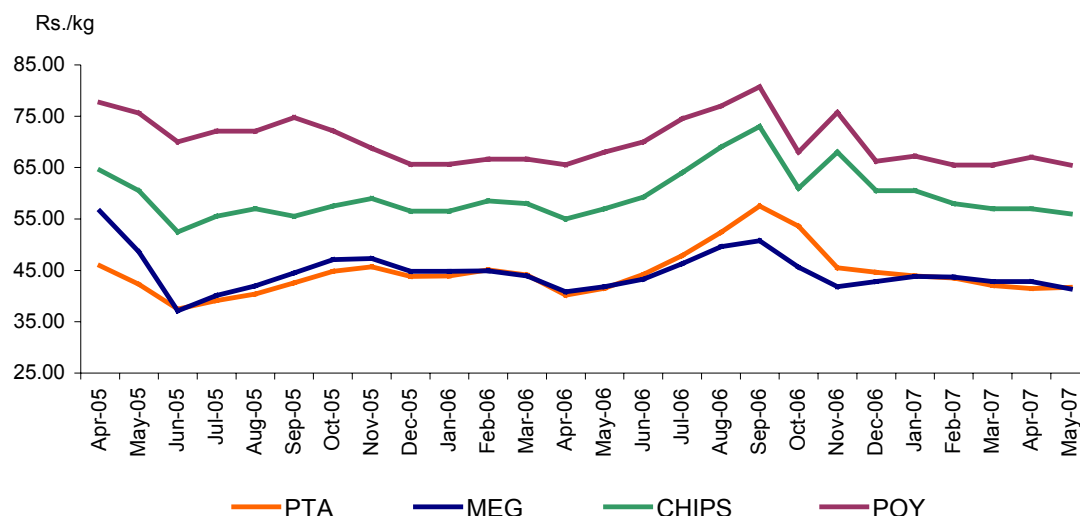
Q4FY07 topline grows 171% but margins suffer due to higher interest cost & tax provision

- JBF reported a topline of Rs. 4774 mn higher than our estimate of Rs.4150 mn backed by higher volumes in both POY and chips. This represents a growth of nearly 171% over the previous year.
- With most costs being under control, the operating margin remained largely constant at 10.5%.
- Growth in Profit After Tax was limited to 34% YoY primarily due to higher interest cost at Rs.94mn against RS.30 mn in the previous year. Interest cost was higher due to the higher loans taken by the company. The company does not enjoy the TUFs benefit, as the same is applicable only from the texturising stage onwards. The company also made a tax provision during the quarter as against a write-back in the previous year. Both these combined led to the lower growth in PAT.

FY07 sales and EPS exceed our estimated numbers

- For FY07 JBF posted net sales of Rs. 14796 mn as against our estimate of Rs.14186mn. The company's new chips plant based on continuous polymerization has ramped up well and has been the primary revenue driver.
- Raw material as a percentage of sales went up from 77.9% last year to 79.5% primarily due to higher prices of PTA and MEG during the first half of the year. We expect this ratio to come down in FY08. Due to this, operating margin fell by 40 bps to 11.8% from 12.2%.
- The reasons for lower growth in 4QFY07 have been the reasons for the 150 bps decrease in net margin for FY07. Interest cost increased by 138% to Rs.269 mn and increase in tax rate 33% has led to the 59% growth in PAT.
- JBF reported an EPS of Rs.14.9 against our estimate of Rs.12.5.
- The company has announced a dividend of RS.22.5% per share (Rs. 2.25)

Exhibit 1: Price movement of raw materials and finished goods



Source: Company/UTISEC Research

Prices of key raw materials PTA and MEG cooled off during the second half of the year. Both raw materials as well as finished goods have remained largely stable during 2007.

JBF RAK LLC:- JBF RAK LLC, JBF Industries' 60:40 JV with the RAK Investment Authority is progressing as per schedule and nearing completion. The plant will have a capacity of 99 TPD of chips and 300 TPD of POY. Whilst the chips unit is slated to start production by June 2007, the films unit would go on stream by September 2007.

VALUATION

In view of the largely in-line expectations posted by the company, we maintain our EPS estimates for FY08 and FY09. The company's JV in the Emirates is expected to be largely profit accretive due to its cost savings and tax-free nature. The raw material scenario also appears to be stable and we expect prices to fall further from current levels to reflect the demand-supply mismatch. The stock is trading at 4.7x and 2.7x our estimated earnings for FY08 and FY09 respectively. We continue to find the stock attractive at current levels and maintain our BUY rating on the stock with a target price of Rs.196.

Exhibit 2: Q4FY07 Result Snapshot

Year to March (Rs mn)	4QFY07	4QFY06	YoY%	FY07	YoY%	FY08P	YoY%	FY09P	YoY%
Net Sales	4774	1761	171	14796	105	22152	50	36238	64
Consumption of materials	3803	1390	174	11765	109	16412	39	26593	62
as % sales	79.6	78.9		79.5		74.1		73.4	
Staff Cost	41	22	84	127	50	320	152	540	69
as % sales	0.9	1.3		0.9		1.4		1.5	
Other Expense	430	165	161	1151	83	2055	78	3640	77
as % sales	9.0	9.4		7.8		9.3		10.0	
Total Expenses	4273	1577	171	13044	105	18787	44	30773	64
Operating Profit	501	184	173	1752	99	3365	92	5464	62
OPM %	10.5	10.4		11.8		15.2		15.1	
Other income	21	29	-27	88	52	120	37	140	17
EBDITA	522	213	145	1840	96	3485	89	5604	61
EBDITA %	10.1	10.4		11.4		21.5		34.5	
Depreciation	107	57	87	366	61	610	67	661	8
EBIT	416	156	166	1474	108	2875	95	4943	72
Interest	94	30	217	269	138	261	-3	319	22
PBT	322	127	155	1205	102	2614	117	4624	77
Total Taxes	138	(7)		398	333	542	36	842	55
Tax as % of PBT	42.8	(5.1)		33.0		20.7		18.2	
PAT	185	133	39	807	60	2072	157	3782	83
PAT %	3.9	7.6		5.5		9.4		10.4	
Minority Interest	0	0		0		288		731	
PAT After Minority Int	185	133		807		1784	121	3051	71
Equity capital (Rs mn)	544	490		544		700		700	
EPS (Rs)	3.4	2.7		14.8		25.5		43.6	
P/E (x)				8.0		4.7		2.7	

Source: Company/UTISEC Research

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