

June 1, 2010

JBF Industries (JBFIND)

Rs 134

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 98 to Rs 145
 EPS (FY11E) Unchanged
 RATING.....Changed from Performer to Add

Margins to improve in FY11...

JBF Industries (JBF) reported strong YoY revenue growth on the back of significantly higher sales realisation. Revenues for Q4FY10 were higher by 28% at Rs 730.7 crore. Though revenue growth was impressive, a higher raw material cost to sales ratio, which has increased from 75.9% in Q4FY09 to 79.4% in Q4FY10, has led to the EBITDA margin declining by 210 bps YoY. Profit before extraordinary forex gain increased by 18% to Rs 34.5 crore. Lower exchange gain of Rs 7.2 crore in Q4FY10 as against Rs 10.5 crore in Q4FY09 has led to the PAT increasing by only 5.4% to Rs 27.2 crore.

- **Significantly higher realisation**

In Q4FY10, polyester chips volume declined by 19% YoY to 61,034 tonnes while the POY volume increased by 8.5% YoY to 38,500 tonnes. The average realisation of the polyester chips segment improved by 29.8% to Rs 61.4 per kg while that of the POY segment was higher by 17.9% at Rs 66.2.

- **EBITDA margin to rebound in FY11**

EBITDA margin in Q4FY10 has declined. This was due to a rise in prices of major raw materials and short supply of raw material from one of its suppliers that could not meet its commitment that was 35-40% lower than normal volumes committed. To bridge the gap, JBF had to resort to costlier imports that have, to an extent, dented its EBITDA margin for Q4FY10. With the likelihood of raw material supplies being normal, going ahead, and the company's strategy of focusing on higher margin POY and bottle grade chips, EBITDA margin would see an improvement in FY11E.

Valuation

At the CMP of Rs 134, the stock is trading at 4.6x and 3.7x its FY10E and FY11E earnings of Rs 28.9 and Rs 36.3 per share. The expansion plan provides the much required growth visibility to the company while introduction of value-added segments would improve the profitability going forward. We are upgrading its valuation multiple to 4x FY11E earnings with a revised price target of Rs 145.

Exhibit 1: Financial performance

(Rs Crore)	Q4FY10	Q4FY09	Q3FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	730.7	570.8	690.1	5.9	28.0
EBITDA Margin (%)	9.1	11.2	10.2	(110bps)	(210bps)
Depreciation	15.5	14.7	15.2	1.6	5.2
Interest	18.0	22.9	15.0	19.4	(21.5)
Other Income	1.6	2.7	0.8	105.1	(39.6)
Reported PAT	27.2	25.8	24.8	9.4	5.4
EPS (Rs)	4.4	4.1	4.0	9.4	5.4

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	:	Add
Target	:	Rs 145
Target Period	:	12-15 months
Potential Upside	:	8%

Key Financials

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	2791.6	4309.9	4944.4	5470.0
EBITDA	266.8	511.6	474.7	604.0
Net Profit	133.8	188.9	190.4	239.1

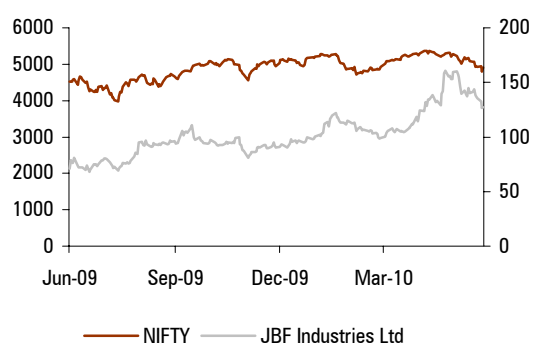
Valuation summary

	FY08	FY09	FY10E	FY11E
PE (x)	6.6	4.7	4.6	3.7
Target PE (x)	7.1	5.1	5.0	4.0
EV to EBITDA(x)	5.0	3.9	4.4	3.1
Price to book (x)	1.4	1.1	1.0	0.8
RoNW (%)	22.5	25.8	21.8	21.4
RoCE (%)	15.6	22.8	16.9	23.1

Stock data

Market Capitalisation	Rs 822.8 crore
Debt (FY09)	Rs 1364.4 crore
Cash (FY09)	Rs 99.9 crore
EV (FY09)	Rs 2087.3 crore
52 week H/L (Rs)	168/62
Equity capital	Rs 62.2 crore
Face value	Rs. 10
MF Holding (%)	0.1
FII Holding (%)	1.2

Price movement (Stock vs. Nifty)



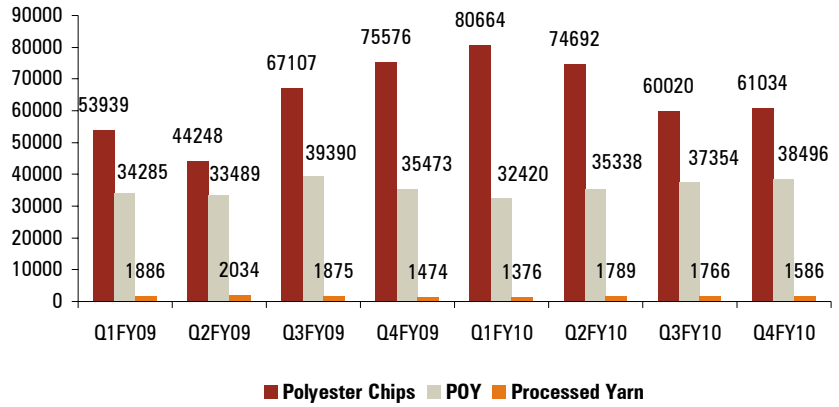
Analyst's name

Bharat Chhoda
 bharat.chhoda@icicisecurities.com

Jehangir Master
 jehangir.master@icicisecurities.com

Exhibit 2: Volumes decline by 10% YoY

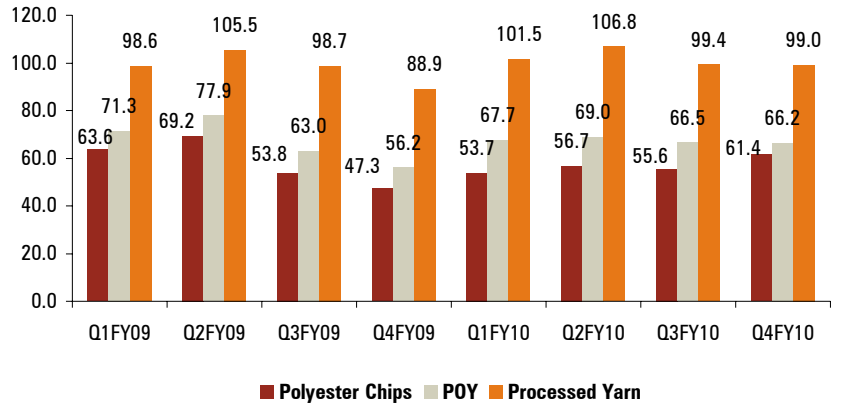
Polyester chips volumes declined by 19.2% YoY to 61,034 tonnes while QoQ the volumes increased by 1.7%. The POY volume increased by 8.5% YoY to 38,496 tonnes while QoQ it increased by 3.1%



Source: Company, ICICIdirect.com Research

The average realisation of polyester chips increased 29.8% YoY to Rs 61.4 per kg as compared to Rs 47.3 per kg. The average realisation of POY improved by 17.9% YoY to Rs 66.2 per kg against Rs 56.2 per kg

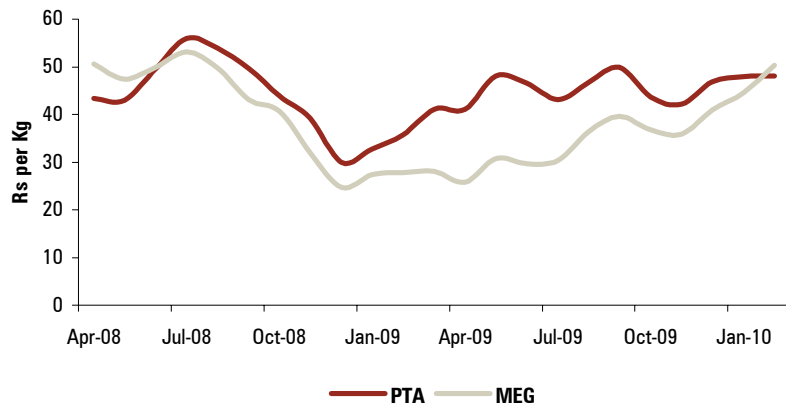
Exhibit 3: Realisation improves



Source: Company, ICICIdirect.com Research

Raw material prices have seen a YoY increase

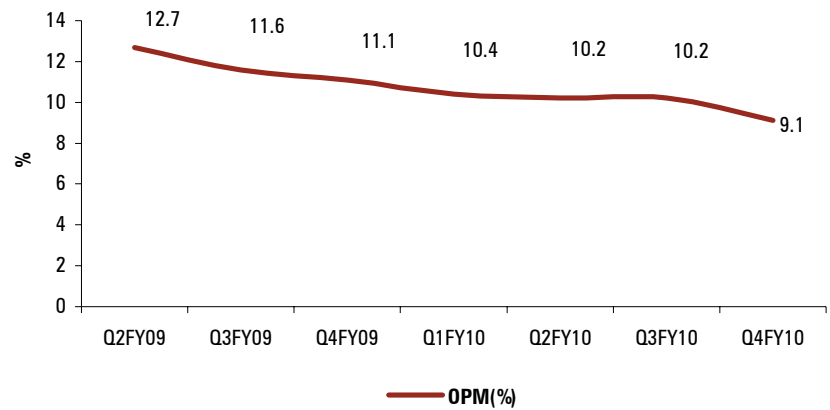
Exhibit 4: Raw material prices increase YoY



Source: Company, ICICIdirect.com Research

The operating margin declined on account of higher raw material prices and supply shortage from a major supplier, which resulted in JBF resorting to costlier imports, thereby impacting the EBITDA margin

Exhibit 5: Operating margin declines



Source: Company, ICICIdirect.com Research

Concern: Fund raising plans

JBF Industries plans to raise Rs 300 crore through qualified institutional placement (QIP)/foreign currency convertible bonds (FCCB) for the purpose of expanding in the value-added segment and/or acquisitions in such segments. Such fund raising plans would result in an equity dilution of 4-7% depending on the pricing of the issue. If the company raises money through QIP, it will be positive as the profitability will not be negatively impacted. However, if it raises money through FCCBs, then it will again enter into higher risk of foreign currency volatility. As of the end of Q4FY10, the company has mark to market loss of Rs 41.83 crore on an after tax basis, which is not provided in the books and has been qualified by the auditors. We will revise our estimates and rating on gaining more clarity on the subject.

Expansion plans

JBF has signed an MoU with Oman Oil Company to set up a 1.2 MTPA PTA plant at a cost of US\$685 million. The project envisages consuming PTA's raw material – Paraxylene produced by Oman Oil Company. The project will be co-located in the premises of Oman Aromatics to enable transportation of Paraxylene to the PTA plant by a dedicated pipeline. The company expects to complete the project by FY13. Of the US\$685 million, US\$225 million would be the equity contribution to be contributed by JBF and Oman Oil Company.

Valuations

At the CMP of Rs 134, the stock is trading at 4.6x and 3.7x its FY10E and FY11E earnings of Rs 28.9 and Rs 36.3 per share, respectively. The raising of funds through QIP/FCCB would dilute earnings by approximately 4-7%. The expansion plan provides the much required growth visibility to the company. Introduction of value-added segments would improve the profitability, going forward. At our earlier target price of Rs 98, we had valued JBF at 2.7x FY11E earnings due to concerns like sluggish demand and foreign exchange volatility risk. With a significant improvement in the global demand scenario, stability on foreign exchange front and focus on higher margin value-added products, we expect the company to be on track to achieving our estimates for FY11E. We are upgrading its valuation multiple to 4x FY11E earnings with a revised price target of Rs 145.

Exhibit 6: Valuation

	Sales	(Rs. crore)	Sales Gr (%)	EPS (Rs.)	EPS Gr (%)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
FY09	4309.9		57.2	28.7	56.1	4.6	3.9	28.5	26.4
FY10E	4944.4		14.7	28.9	0.8	4.6	4.4	23.7	18.0
FY11E	5470.0		10.6	36.3	25.6	3.6	3.1	24.0	23.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA	RoNW(%)	RoCE (%)
Bombay Rayon								
Idirect Code	BOMRAY CMP (Rs.)	207 FY10E	1614.8	15.7	13.2	10.5	9.2	7.7
	Target (Rs.)	238 FY11E	2074.7	20.0	10.4	8.0	10.6	9.4
MCap	2185.7 Upside (%)	15 FY12E	2524.8	26.4	7.8	7.2	12.5	10.8
Kewal Kiran								
Idirect Code	KEWKIR CMP (Rs.)	270 FY10E	176.1	26.4	10.2	6.5	19.3	23.6
	Target (Rs.)	292 FY11E	197.0	30.0	9.0	5.9	18.3	22.7
MCap	303.3 Upside (%)	8 FY12E	226.4	32.5	8.3	5.4	16.8	22.6
JBF Industries								
Idirect Code	JBFIND CMP (Rs.)	134 FY09	4309.9	28.7	4.7	3.9	28.5	26.4
	Target (Rs.)	145 FY10E	4944.4	28.9	4.6	4.4	23.7	18.0
MCap	834.0 Upside (%)	8 FY11E	5470.0	36.3	3.7	3.1	24.0	23.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruti Centre Point,
MIDC Main Road, Marol Naka,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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