



(Investment Idea)

Tayo Rolls Limited (TRL)

Tayo Rolls, a Tata Enterprise and India's leading roll producer, has reported decent performance for Q4 FY 2007. Net Sales rose by 27.5% to Rs. 56.42 crore (Rs. 44.24 crore) led by 53% increase in Pig iron sales of Rs. 15.74 crore (Rs. 10.28 crore) and 16.4% increase in sales of roll segment to Rs. 41.09 crore (Rs. 35.30 crore). OPM% enhanced to 9% (7.6%) mainly due to reduction in Power & Fuel cost to 8% (10.7%) of sales with stabilization of Mini Blast Furnace operations. This saving was negated to some extent by increase in raw material cost to 65.2% (63.7%) of sales. Consequently, PBT (before extra ordinary items) surged by 38.2% to Rs. 3.87 crore (Rs. 2.8 crore). During the quarter under review, there was net extra ordinary charge of Rs. 33 lakh as against income of Rs. 1.60 crore in Q4 FY 2006. This fact coupled with higher average tax rate of 29.9% (20.2%) reversed the picture and Net profit declined by 29.3% to Rs. 2.48 crore (Rs. 3.5 crore).

For FY 2007 as a whole, net sales were up by 18.7% to Rs. 187.51 crore (Rs. 157.91 crore). OPM% enhanced significantly to 8% (5.2%). Consequently, PBT (before extra ordinary items) more than doubled to Rs. 11.25 crore (Rs. 5.11 crore). After accounting for 65.9% higher net extra ordinary income of Rs. 4.08 crore (Rs. 2.46 crore) and higher tax rate of 30.7% (18.8%), PAT zoomed to Rs. 10.63 crore (Rs. 6.15 crore), growth of 72.8%.

Company makes rolls as per customer requirement for HRCs, SS mills and even Rail mills. In view of rising steel production across globe and very significant growth potential in Indian steel capacity, demand for rolls is very strong. To meet growing demand, company is increasing roll making capacity to 17,000 tpa by 2008 (13,500 tpa). As backward integration, TRL set up 40,000 tpa Pig Iron facility, mainly used for captive consumption and rest is sold to foundries.

Already an established player in Roll industry, Tayo now plans to put up integrated Forging & Induction Hardening facilities to produce Quality Forged Rolls, Engineering Forgings and Forging Quality Ingots. Company hopes to fulfill the growing demand for Forged Rolls and Engineering Forgings in a big way in coming years. Tayo will, thus not only strengthen its eminent position of quality supplier of Cast and Forged Rolls in the World, but also diversify into Engineering Forgings which would address fast growing demand in Energy, Infrastructure, Chemicals and Petrochemical industries. The completion of this project would give company a unique distinction of totally integrated one stop shop in Cast and Forged Rolls, Engineering Castings and Forgings.

TRL exports ~ 30% of Rolls to developed markets like Europe and USA, where due to high cost, quite a few such facilities are being closed down and company is exploiting the opportunity being a high quality roll maker. Acquisition of Corus by Tata group would further enhance the export opportunities. Accordingly, company has set ambitious target of "Five fold growth in five years in roll business".

At CMP of Rs. 150/-, the share (Rs. 10/- paid up) is trading at 10.5 times FY 2007 actual EPS of Rs. 14.26 and 8.1 times FY 2008 expected EPS of Rs. 18.54. Considering excellent future prospects, we recommend to "BUY" the stock at CMP.

Disclosures:

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