

Jindal SAW Limited**Pankaj Kumar**

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(CMP Rs 615, CY09E EPS Rs 81, PEx 7.6x, BUY with Revised Target Price of Rs 1045)

Jindal SAW (JSL) has declared its Q1CY08 results which are inline with our expectations. The detail analysis of the same is given below.

Standalone Quarterly Financials

Particulars (Rs mn)	Q1CY08 (Mar-08)	Q2FY07 (Mar-07)	YoY % Change	15M FY07
Net Sales	9521.4	12691	-24.98	67,878
Other Income	29.2	31.7	-7.89	91
Total Expenditure	8055.9	11231	-28.27	59,749
EBITDA	1465.5	1460	0.38	8,129
EBITDAMargin%	15.4	11.5	3.9	11.98
Interest & Finance Charges (net)	203.6	290.5	-29.91	1,727
Depreciation	152.1	138.7	9.66	722
PBT	1139	1062.5	7.20	5,680
Extra-ordinary Income	0	0	-	5941
PBT including Extra-ordinary Income	1139	1062.5	7.20	11,621
Tax on operational Income	285	360	-20.83	1,645
Adjusted PAT	854	702.5	21.57	4,126
Reported PAT	854	702.5	21.57	8,764
APAT Margins%	8.97	5.54	62.03	6.08
Equity (FV Rs 10)	521.2	483.6	7.78	511

Source: Company

37.8% y-o-y growth in the net sales from Indian operation

In Q1CY08, JSL reported 37.8% growth in the net sales from Indian operations. In Q1CY08, it reported the net turnover of Rs 9.521 bn as against Rs 1.123 bn (which includes Rs 6.911 bn from Indian operation and Rs 5.78 bn from USA operations which has been sold off last year) in the corresponding quarter of last year. Out of the total net revenue in Q1CY08, 53% was from exports and 47% was from India. During the quarter 60% of the revenue is from large diameter pipes, 30% is from DI pipes and rest is from seamless pipes.

Q1CY08 EBITDA margins grew by 390 basis points

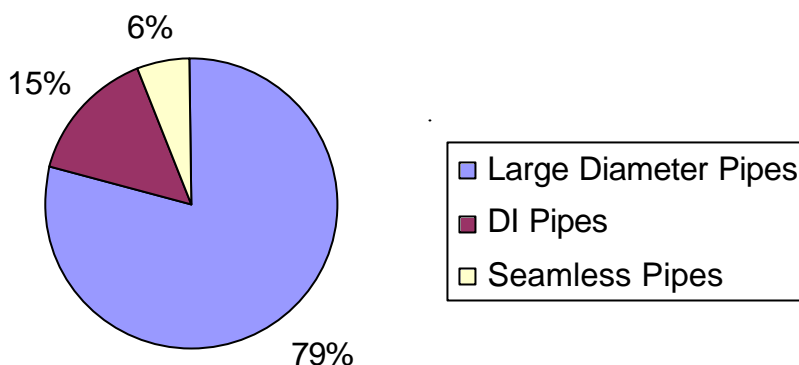
EBITDA margin of the company during the quarter expanded by 390 basis points on y-o-y basis and thus stood at a firm level of 15.4%. The improvement in the margin is attributed to the selling off of low margin US operation.

Strong order book of USD 1.09 bn

Jindal SAW has a strong order book of USD 1.09 bn which includes 65% of exports orders. These orders are to be executed by January/February 2009. Out of the total USD 1.09 bn, USD 860 mn are of large diameter pipes, USD 165 mn are of DI Pipes and USD 65 mn are of Seamless pipes.

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Order Book Breakup



Source: Company,

Capex plans as per schedule

The capex plans are running as per schedule. Installation of PQF mill and other equipments in Seamless plant will be completed by September 2008. The trial runs in power plant have begun. The additional 200,000 MTPA of LSAW and 350,000 MTPA of HSAW facilities are expected to be completed by September/ October 2008. The company is incurring a total of USD 200 mn on these plans for which the funds are already tied up.

Increase in coal prices to impact the margins on DI pipes

DI pipes comprise 15% of the current order book. Three fold rise in coal prices in the recent times is expected to impact the EBITDA margins of DI pipes. Besides, the concern over the implementation of 10% export duty on steel prices may further affect the margins of the company. We have factored in the impact of sudden rise in coal and other raw material prices in our financial estimates and expect this to impact margins for the next two years.

New businesses to strengthen future financials

The company has completed financial closure on waterways business. By the year end the company intends to achieve a total of 10 ships. The company expects Rs 1bn of revenue from this business. From Jindal Water Infrastructure, the management expects to execute orders upto Rs 3.25 bn in this year. We believe that the new ventures would strengthen the topline and bottomline and EPS of JSL. The new businesses would diversify its business model by de-risking it from the raw material price volatility and currency volatility. Currently we have not included any contribution from the new ventures in our estimates. Once we get more clarity on the new business we will incorporate the contribution from the same.

Financial Estimates:

Particulars Rs mn	Previous Estimates			Revised Estimates	
	15MCY07A	CY08E	CY09E	CY08E	CY09E
Net Sales	70157	40350	55900	40425	57025
EBITDA	8006.8	5855.6	8478.4	5708.5	8312.9
EBITDA margin %	11.40%	14.50%	15.20%	14.1%	14.6%
Adjusted Net Profit	3853	3028.2	4652.7	2931.1	4543.4
EPS (Rs)	75.3	54	83	52.3	81.0
PE (x) (CMP Rs 615)	8.2	11.4	7.4	11.8	7.6

Source: Company, Emkay Private Client Research

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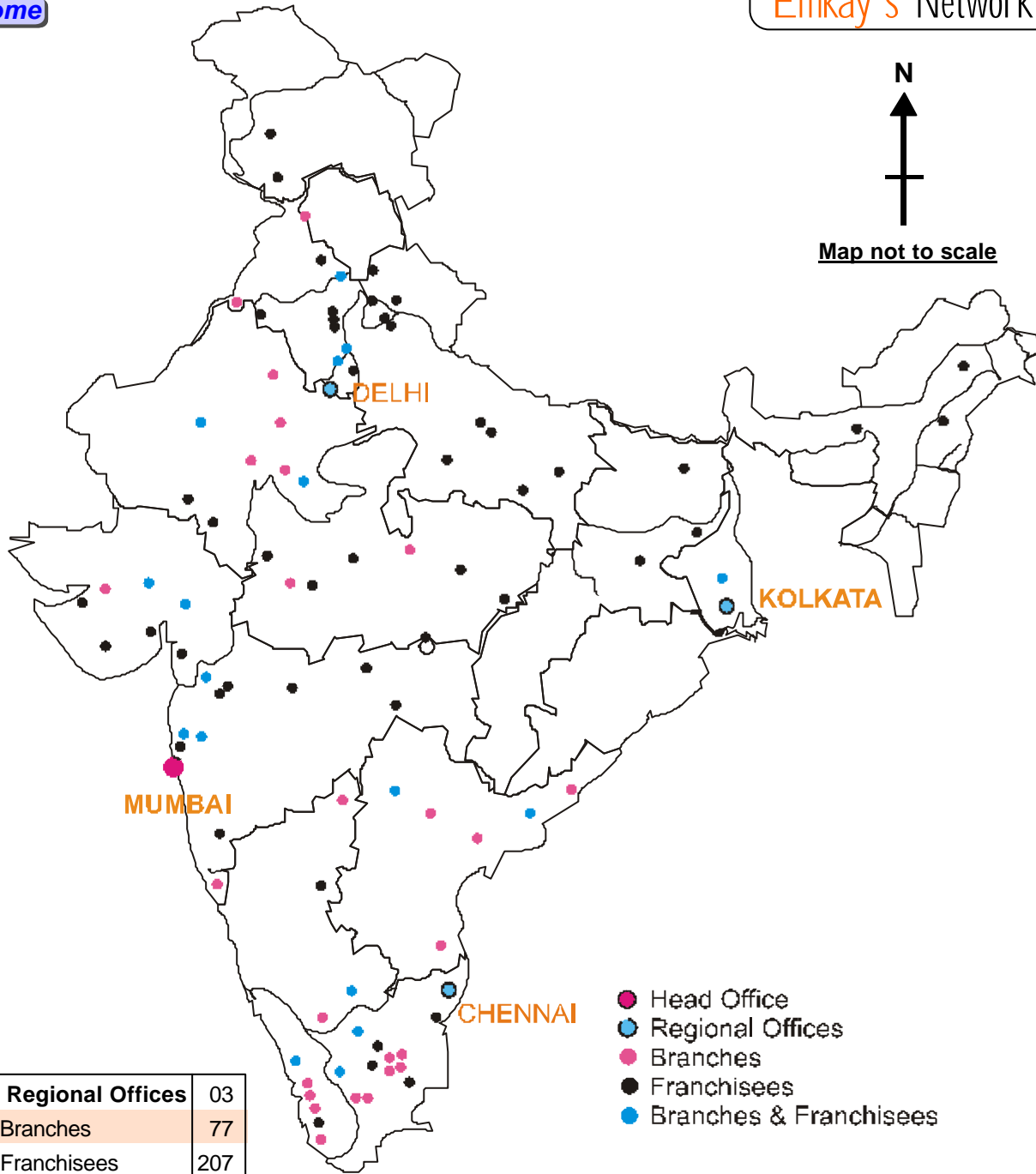
Financial outlook and valuation

We believe that the rise in important raw material prices like coal, iron ore, etc to impact the EBITDA margins of the company during CY08E and CY09E. We have marginally revised our financial estimates for CY08E and CY09E on account of higher raw material prices. We have downgraded the EBITDA margins for CY08E and CY09E by 40 basis points and 60 basis points respectively. Due to partial pass on of the impact of higher raw material prices we have upward revised our revenue estimates for CY08E and CY09E.

On the basis of CY08E and CY09E revised EPS of Rs 52.3 and Rs 81, the scrip is trading at an attractive PE multiple of 11.8x and 7.6x respectively. We have downgraded our target price from Rs 1280 to Rs 1045 based on SOTP valuation method. The target price includes Rs 226 per share of the value of quoted investment and Rs 819 as one year forward DCF value of the pipe business. At our target price the scrip discounts CY09E EPS of Rs 81 by 12.7x. We maintain our **BUY** recommendation on the scrip.

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Emkay's Network



Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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- Regional Offices
- Branches
- Franchisees
- Branches & Franchisees

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