



SUJANA METAL PRODUCTS LIMITED

Current Market Price	: Rs 79 (as on May 26, 2006)
52 BSE Week High/ Low	: Rs 122/29
Market Capitalization	: Rs 281 crore
Promoter Stake (%)	: 29.48
P/E Ratio	: 9.68
Recommendation	: Buy

Investment Positives

To demerge into tower manufacturing and TMT steel companies Sujana plans to demerge its tower manufacturing division and thermo mechanically treated (TMT) steel bar manufacturing division into two separate companies. The tower company, expected to report a turnover of Rs 500 crore, will be operating at 80% increased capacity with a net profit of Rs 67 crore. The TMT steel bar company will report a turnover of Rs 450 crore and net profit of Rs 6 crore.

Power & telecom sector client In tower business, Sujana's clients are from power and telecom sector. In the FY 2004-05, the company generated 65% of the division turnover from telecom companies and 35% from power companies. This is expected to shift towards power which will rise to 60% in the FY 2006-07 and 40% from telecom.

The demand for power transmission towers in the country is estimated at 1.80-2.00 million tonnes per annum and for telecom towers the demand is estimated at 1.20-1.50 million tonnes per annum.

To meet 80% raw material requirement internally In tower business, Sujana's has undertaken expansion of towers and raw material – structural steel so as to meet 80% of requirement internally of the expanded tower capacity. This is expected to improve tower business margin by 8 percentage point.

Construction sector client In TMT business, Sujana's clients are from construction sector mostly from Andhra Pradesh and Karnataka. The demand for construction steel in these market is around 6-8 million tonnes per annum.

Debt restructuring In the FY 2005-06, the company plans to restructure its existing secured loans by way of converting into equity and cumulative redeemable preference shares. This is expected to result into secured loans declining to Rs 85.90 crore from Rs 174.50 crore as on March 31, 2006 with an interest rate of 8.73% per annum.

Investment Negatives

Defaulted loan payment earlier In the past, Sujana had defaulted in the payment of its secured loans (principal and interest) to financial institutions like IDBI and IFCI who have recently restructured the secured loan into equity component. This will lead to equity dilution.

Competition from unorganized sector Sujana has competition from unorganized sector in TMT steel bars as the key success factor in qualifying the financial bid is cost competitiveness in tender business after technical competency.

Recommendation

Buy Sujana plans to demerge into tower manufacturing and TMT steel bars into two separate companies. The demerger is expected to enhance the value of tower manufacturing division as the company has increased the capacity by 100000 tonnes taking the total capacity to 128000 tonnes per annum. In addition, Sujana has increased raw material capacity (structural steel) of the towers division which is expected to meet 80% requirement of the expanded capacity against 40 % in the Fy 2004-05. Sujana looks attractive compared to Ramsarup Industries Ltd which is in manufacturing of structural steel for towers and TMT Steel. Recommendation is prescribe with one year outlook.



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					Rs in crore				
Balance Sheet	FY04	FY05\	FY06*	FY06*	P&L Account	FY04	FY05	FY06*	FY06*
SOURCES OF FUNDS :									
Share Capital	27.74	27.74	39.00	39.00	Net Sales	753.93	700.37	731.24	950.00
Shares Premium	1.82	1.82	0.00	0.00	Less Expend.	711.58	656.21	673.80	825.90
Reserves & Surplus less revaluation reserves	78.95	109.16	183.69	243.69	EBITDA	42.35	44.16	57.44	124.10
Miscellaneous Expenses not w/o Networth	0.00	0.00	0.00	0.00	Add Other Income	2.08	2.71	0.99	1.00
Secured Loans	108.51	138.72	222.69	282.69	Interest	31.55	14.39	12.78	11.70
Unsecured Loans	204.25	141.69	145.93	134.03	Depreciation	8.00	9.99	13.05	16.05
Total Debt	13.81	2.02	2.50	3.00	PBT Before Excep. Items	4.88	22.49	32.60	97.35
Deferred Tax Liability	218.06	143.71	148.43	137.03	Provi . for Tax	3.28	7.27	10.77	32.13
Capital Employed	26.77	32.16	38.38	59.71	PAT	1.60	15.22	21.83	65.22
	353.33	314.58	409.50	479.43					
APPLICATION OF FUNDS :					Financial Ratios				
Gross Block	203.37	204.10	275.00	282.00	Profitability Ratio (%)				
Less: Accum. Dep.	39.26	49.25	63.00	79.00	PBT Ratio	0.65	3.20	4.45	10.24
Net Block	164.11	154.85	212.00	203.00	PAT Ratio	0.21	2.16	2.98	6.86
Capital Work in Progress	3.62	5.17	7.00	4.00	Cash Profit Ratio	1.27	3.59	4.76	8.55
Investments	21.45	21.45	21.45	21.45	Return on Capital Employed	10.15	10.48	9.33	18.33
Deferred Tax Asset	0.00	0.00	0.00	0.00	Return on Networth	1.47	10.97	9.80	23.07
Current Assets, Loans & Advances					Activity Ratio				
Inventories	38.96	38.41	40.00	44.00	Debtor turnover	5.50	4.51	4.17	4.20
Sundry Debtors	137.07	155.23	175.34	226.00	Average collection period days	66.36	80.90	87.52	86.83
Cash and Bank Bal.	2.22	1.39	5.00	2.00	Inventory Turnover	19.35	18.24	18.28	21.59
Loan & Advances	34.36	32.86	33.00	34.00	Inventory Holding period days	18.86	20.02	19.97	16.91
	212.60	227.88	253.34	306.00	Valuation Ratio				
Less: Current Liab. & Prov.					EPS (Rs)	0.58	5.49	5.60	16.72
Current Liabilities	48.07	92.87	84.92	50.02	Book Value (Rs)	39.12	50.01	57.10	72.48
Provisions	0.38	1.90	0.37	5.00	Leverage and Coverage Ratio				
	48.45	94.77	85.29	55.02	Debt Equity Ratio	2.01	1.04	0.67	0.48
Net Current Assets	164.15	133.11	168.05	250.98	Interest Coverage Ratio	1.34	3.07	4.49	10.61
Total Assets	353.33	314.58	408.50	479.43	Current Ratio	4.39	2.40	2.97	5.56
					Quick Ratio	3.58	2.00	2.50	4.76
					Performance Ratio				
					Fixed Asset Turnover	4.49	4.38	3.34	4.59
					Total Asset Turnover Ratio	2.13	2.23	1.79	1.98
					Growth Ratio (%)				
					Growth in Turnover	N.A.	-7.1	4.4	29.9
					Growth in PBT before exceptional Item	N.A.	360.9	45.0	198.6
					Growth in PAT	N.A.	851.3	43.4	198.8



BACKGROUND

Incorporated in 1992

Sujana Metal Products Limited (SMPL), formerly Sujana Steels incorporated in 2000, was engaged in manufacturing of cold twisted deformed steel bars. Presently, it comprises of thermo mechanically treated (TMT) steel bars, structural steels and towers manufacturing. Structural steels division manufactures flat, round squares, channels, beams, equal angles, unequal angles and alloy steel. Structural steel is used to manufacture steel tower catering to the product requirements of the telecom and power companies. Towers division's clients are Bharti Tele-Ventures Limited, Reliance Telecom Limited, Global Tele Systems Ltd, AP Transco, Deepak Cables Ltd, Power Grid Corporation and Tata Telecom Ltd. TMT division's client are Larsen & Toubro Ltd, Shapoorji Pallonji & Co Ltd, IVRCL Infrastructures & Projects Ltd, IRCON International, etc.

Process for TMT

Billets/blooms form the raw material in the manufacturing of TMT bars. The TMT bars at Sujana are rolled out of world's proven German technology process. The process involves three sequential stages as presented below.

Quenching: Reheated billet goes through rolling process and is passed through the quenching process, where the surface of the bar is cooled to marten-site, while the core is still austenitic.

Self Tempering: Heat from the core of the bar dissipates to the surface allowing to form tempered marten-site, while the core remains austenitic, this process is called self tempering.

Atmospheric Cooling: The atmospheric cooling, wherein the bar is cooled on the cooling bed, in this process the austenitic core is converted into ductile ferrite-pearlite core.

The TMT bars manufactured at Sujana demonstrate high standards of strength and ductility to match the requirements of the clients.

Process for structural steel

The manufacturing process of structural steel is similar to the process explained in TMT bars. Billets are fed into pre-heating furnace with the help of pusher. The temperature is maintained in furnace between 1150°C to 1180°C. The material passes through furnace and attains 1130° C temperature at discharge door level. Meanwhile rolling mills are equipped with rollers to achieve finished goods required size and shape. Guide boxes are also machined as per passes requirement. Machined rollers and Guide boxes are fitted on the rolling mill stands and adjust the distance between the rollers as per thickness of the material to be passed. The process is carried out in different stages in which material will take shape gradually after passing through each stage. After passing through finishing stand material will take desired shape and size.

Tower manufacturing

In order to impart strength and resistance against atmospheric damage and peeling, the structural steel products are subjected to the process of galvanization.

Pickling : The structural steel is dipped in hydro-chloric acid to remove rust and carbon
Rinsing : The product is rinsed in water to remove the acid

Fluxing : The resultant product is then dipped in the flux (Ammonium Chloride + Zinc Chloride)

Pre-heating : The product to be sent through heating chamber to remove the moisture

Galvanizing : The demoisturised product is dipped in the zinc tank for galvanizing

Quenching & Dichromating : The galvanized steel is dipped in the water tank to allow cooling of the coated structural steel.

To fabricate the towers so clients receive ready-to-erect structures, Sujana deploy



specialised machinery for punching, notching, shearing and grinding of the structural steel.

Padmini Corporation Limited

Padmini Corporation Limited, promoted by Sujana Metal Products Limited, has set up a modern hot steel re-rolling mill of 1,40,000 TPA capacity near Chennai. The company has 35% equity stake and manufactures cold twisted deformed (CTD) bars, angles, flats, rounds, beams, channels and bright bars. It has capacity to manufacture 50% CTD bars and 50% structural steel. Padmini has started operations from April 2006 and is expected to report a turnover of Rs 400 crore and net profit of Rs 7 crore in the first year of operation. The company has equity of Rs 3.06 crore and debt of Rs 65 crore as on March 31, 2006. Padmini is expected to go to the demerged balance sheet of the TMT bars division.

Debt restructuring

Sujana plans to convert Rs 38 crore (principal) secured loans of The Industrial Development Bank of India Ltd (IDBI) into 50% equity at a price in accordance with the SEBI Guidelines and balance 50% into 1% cumulative redeemable preference shares (CRPS). Of the Rs 19 crore of the funded interest term loan was converted, an amount of Rs 4.98 crore equity was converted into 6,00,000 equity shares at a Rs 73 premium and the balance Rs14.02 loan was written off. Sujana has to allot 6,00,000 equity shares of Rs 10 each at a premium of Rs 73 per share to 'Stressed Assets Stabilisation Fund' (SASF), Chennai (a trust established by Government of India for transferring certain non performing assets of IDBI) and to issue 18,00,000 1% CRPS of the company to SASF. Further, term loan of Rs 13.95 crore from IFCI plus interest accrued stood at Rs 23.22 crore. as on March 31, 2006. Of these Rs 13.95 crore, Sujana plans to issue 2,00,000 equity shares to IFCI (around Rs 2 crore) at a price in accordance with the SEBI Guidelines and pay off balance Rs 12 crore. And in case of accrued interest of IFCI, Sujana expects IFCI to waive the interest payment. Sujana's secured loan would stand reduced to Rs 134.03 crore from Rs 174.50 crore as on March 31, 2006 with an average interest rate of 8.73% per annum.

Expansion

Sujana has increased the structural steel capacity to 70,000 metric tonne (MT) from 55,000 MT at a cost of Rs 7.13 crore and is operational from January 2006. Sujana has set up a new green field tower manufacturing capacity of 1,00,000 tonnes per annum (TPA) near the existing tower manufacturing division, which has capacity of 28400 TPA. The green field project is expected to cost of Rs 72 crore and is expected to be commissioned by July 2006.

Presently the structural mill meets 40% of the steel requirement of the towers division. After the expansion/ modification, the structural mill will be in a position to meet 80% of the steel requirement of the expanded capacity of the towers division.

Both these projects are being funded by way of private placement of 85,00,000 equity shares and 50,00,000 warrants to promoters at a premium of Rs 52 per share/warrant, aggregating Rs 83.70 crore. Out of the 50,00,000 warrants, 23,50,000 warrants has been converted into 23,50,000 equity shares as on March 31, 2006.

Demerger

Sujana is planning to demerge its tower division and TMT steel bars division into two separate companies. The tower company is expected to report a turnover of Rs 500 crore will be operating at 80% increased capacity with a net profit of Rs 67 crore. Structural steel which is raw material will be internally sourced to the extent of 80% leading to margin improvement. The tower company will have unsecured loan of Rs 30 crore. The tower company will be generating 60% of the turnover from power companies and 40% from telecom companies in the FY 2006-07. The tower division will be generating 50% of the turnover from power companies and 50% from telecom companies in the FY 2005-06 against 65:35 in the FY 2004-05.

The TMT steel bar company will report a turnover of Rs 450 crore and net profit of Rs 6



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crore. Investment in Padmini corporation will be shown on the balance of the TMT steel bar company. The TMT steel bar will have debt of Rs 50 crore..

**Nine months ended March
31,2006**

For the nine months ended March 31, 2006 Sujana turnover declined by 3.88% to Rs 516.24 crore due to expansion undertaken by the company during the year. The operating profit increased by 17.91% due to change in product mix (Sujana started manufacture of TMT steel from April 2005 compared to CTD steel bars in April 2004). The company also got its loans restructured which led to decline in interest cost to the extent of Rs 7.78 crore from Rs 20.12 crore during the period under review. Therefore, the net profit increased by 269% to Rs 22.30 crore.



INDUSTRY

TMT steel

Thermo-mechanically treated (TMT) bars are replacing cold twisted bars, as they have better yield strength, which reduces their consumption in concrete structures and thus reduces weight. In thermo-mechanical treatment, finish rolling is done at a low temperature as compared to normal bars and this is followed by controlled cooling treatment, which determines properties of the bars.

TMT bars are used in construction industry. Construction industry is one of the integral and important segments of infrastructure industry. Infrastructure industry covers services of transportation (highways, roads, ports, railways, airports); urban infrastructure (water supply, sewerage, drainage); power systems; irrigation and agriculture systems; telecommunication; etc. With the increase in constructional activities in various sectors like irrigation, dam, power plants, housing etc. the demand for rolled deformed bar in the form of TMT bar is increasingly rapidly.

The outlook for the Indian infrastructure sector has improved significantly over the past few years. The assessment of projects underway and proposed indicates that infrastructure investments would total at least Rs. 3919 billion during the period 2004-2007—a sharp rise over the previous three-year period. These projects would translate to orders worth Rs. 2587 billion for construction companies. Long steel products, comprising bars, rods, structural and rails, are primarily used in sectors such as construction, housing, infrastructure and railways. Longs constitute 45% of steel production in India. Considering past and present trend of consumption of steel and country's future industrial and economic planning, the demand of finished steel as projected by working Group of Iron & Steel for 8th five year plan and the task force constituted by Government of India is 42 million tons for 2006-07 and 57 million tons for 2011-12. Out of this, the demand for bars and rods for 2011-12 is 15.23 million tons and 21.13 million tons respectively.

Tata Tiscon brand has 10% market share and other major players are Rashtriya Ispat Nigam Limited, Steel Authority of India Limited (SAIL) and Southern Iron and Steel Company Limited (SISCOL) in the TMT bars. The TMT bar capacity in the country was around 10 million tonnes in 2004-05.

Telecom Industry

India's telecom network with more than 100 million telephones is one of the largest in the world and second largest among the emerging economies of Asia. Indian telecom industry has been able to provide 24 million connections in 2004-05, an increase of over 29% over 2003-04. The number of villages uncovered by telecom network have been reduced to about 55,000. After the announcement of Broadband Policy in October 2004, more than 4,00,000 connections have been provided in more than 100 towns of the country.

While monopoly has given place to competitive regime with multiple players, tariffs have been reduced drastically (from Rs.30 per minute for long distance service to Rs. 2-3 per minute). The share of private sector has increased to more than 48% and the contribution of mobile telephony has gone upto 55% .

Therefore, Indian government has set up an ambitious target of 250 million telephones (teledensity of about 22%) and broadband connectivity to 10 million subscribers by end 2007.

Power Industry

The Government of India has an ambitious mission of 'Power for all by 2012'. This mission would require that India's installed generation capacity should be at least 2, 00,000 MW by 2012 from the present level of 1,14,000 MW. To be able to reach this power to the entire country, an expansion of the regional transmission network and inter regional capacity to transmit power would be essential.

While the predominant technology for electricity transmission and distribution has been alternating current (AC) technology, high voltage direct current (HVDC) technology has also been used for interconnection of all regional grids across the country and for bulk transmission of power over long distances.



The country's transmission perspective plan for tenth and eleventh plans focuses on the creation of a National Grid in a phased manner by adding over 60,000 CKM of Transmission Network by 2012.

Power Grid Corporation of India Limited (POWERGRID) is the Central transmission utility of India, which possess one of the largest transmission network in the world. It owns and operates over 40,000 CKM. of EHV transmission lines along with 66 sub-stations having over 33,230 MVA transformation capacity. About one third (30,000 MW) of the total generating capacity in India is transmitted through POWERGRID system.

Out of the Rs. 8,00,000 Crores required for doubling the power capacity to 2,00,000 MW by the year 2012, about Rs. 2,00,000 Crores would be required for the associated transmission system including creation of a National Grid. Out of this, an investment of about Rs.70,000 Crores would be required in Central Sector Transmission Systems alone.

Considering the scale of investment and the volume of expansion required, attracting large private investment in transmission is essential. The Government of India amended Indian Electricity Act and Electricity Supply Act in 1998, to enable private sector participation in transmission sector. In January 2000, the Ministry of Power has issued detailed guidelines for private sector participation in transmission. The Guidelines envisage two routes for inviting private sector participation. One route is through Joint Venture of POWERGRID and private investor. The other route called IPTC (Independent Power Transmission Corporation) shall facilitate private investor including investors coming through FDI to invest 100% by themselves.

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