

Jindal SAW (SAWPIP)

Rs. 201

Rating matrix	
Rating	: Buy
Target	: Rs. 228
Target Period	: 12 months
Potential Upside	: 13 %

Key Financials				
(Rs Crore)	CY08	FY10*	FY11E	FY12E
Net Sales	5009.1	6791.6	4920.0	5772.7
EBITDA	706.5	1255.4	970.8	1156.0
EBITDA margin (%)	14.1	18.5	19.7	20.0
Net Profit	342.3	730.6	536.2	592.5
EPS	13.1	26.7	19.6	21.7

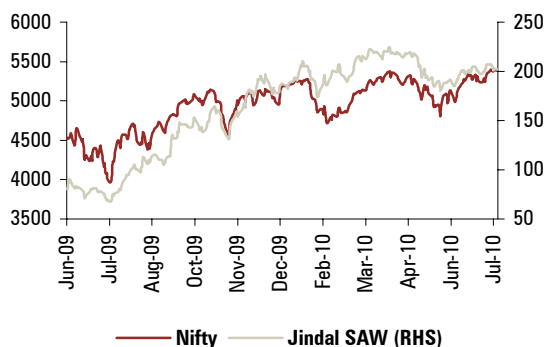
*15months

Valuation summary				
	CY08	FY10*	FY11E	FY12E
PE (x)	15.3	7.5	10.2	9.3
Target PE (x)	17.4	8.6	11.7	10.6
EV to EBITDA (x)	9.3	4.4	4.8	3.9
Price to book (x)	2.3	1.4	1.3	1.2
RoNW (%)	15.4	19.1	12.6	12.4
RoCE (%)	15.6	21.6	15.2	16.5

*15 months

Stock data	
Market Cap.	Rs 5493.9.0 Crore
Debt (FY10)	Rs 825 Crore
Cash (FY10)	Rs 700 Crore
EV	Rs 5618.9 Crore
52 week H/L	227/76
Equity capital	Rs 54.7 Crore
Face value	Rs 2
MF Holding (%)	12.39
FII Holding (%)	19.68

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Changed from Rs 19.3 to Rs 19.6
EPS (FY12E)	Introducing at Rs 21.7
RATING.....	From Add to Buy

Good show despite concerns...

Jindal SAW reported a satisfactory Q1FY11 performance. The topline came at Rs 1135 crore slightly lower than our expectation of Rs 1162 crore. Despite a subdued topline, it managed a better show at the EBITDA level. The EBITDA margin saw a jump of 630 bps YoY in Q1FY11 to 22.2% backed by a comparatively sharper fall in raw material prices and also due to execution of better margin orders during the quarter. Higher margins also remained visible at the bottomline, which grew 11% YoY to Rs 151 crore. However, QoQ it fell by 16%. Sales volumes though fell by ~7% QoQ to 2,07,000 MT. However, they rose ~9% YoY. The blended realisation, on the other hand, fell ~31% YoY to Rs 54831/tonne but managed to grow by ~12% QoQ. We maintain our target price at Rs 228 with a BUY rating on the stock.

Operating performance remains better than expectations

Despite a lower sales volume QoQ resulting into a 430 bps fall in margin the company managed a decent growth in margin YoY (630 bps). We believe this cannot be sustained, going forward, and full year margins will stabilise at ~20% in FY11E and FY12E.

Order book remains subdued

The order book of the company at the end of Q1FY11 remained at US\$700 million, lower than the Q5FY10 figure due to a lack of new tenders in the domestic market. The current order book consists of 55% export orders.

Valuation

At the current market price of Rs 201, the stock is trading at 4.8x and 3.9x its FY11E and FY12E EV/EBITDA, respectively. We have maintained our target price on the stock at Rs 228, valuing the company at 6x FY11E EV/EBITDA and have changed our rating on the stock to **BUY**.

Exhibit 1: Performance highlights

(Rs Crore)	Q1FY11A	Q1FY11E	Q2CY09	Q5FY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	1135.0	1161.7	1500.2	1086.3	-24.3	4.5
EBITDA	251.7	231.3	238.1	288.0	5.7	-12.6
EBITDA Margin (%)	22.2%	19.9%	15.9%	26.5%	+630 bps	-430 bps
Depreciation	33.7	33.0	21.1	33.9	59.7	-0.6
Interest	27.6	24.0	38.1	21.8	-27.6	26.7
Reported PAT	151.1	123.4	136.0	180.3	11.1	-16.2
EPS (Rs)	5.52	4.51	4.97	6.59	11.1	-16.2

Source: Company, ICICIdirect.com Research

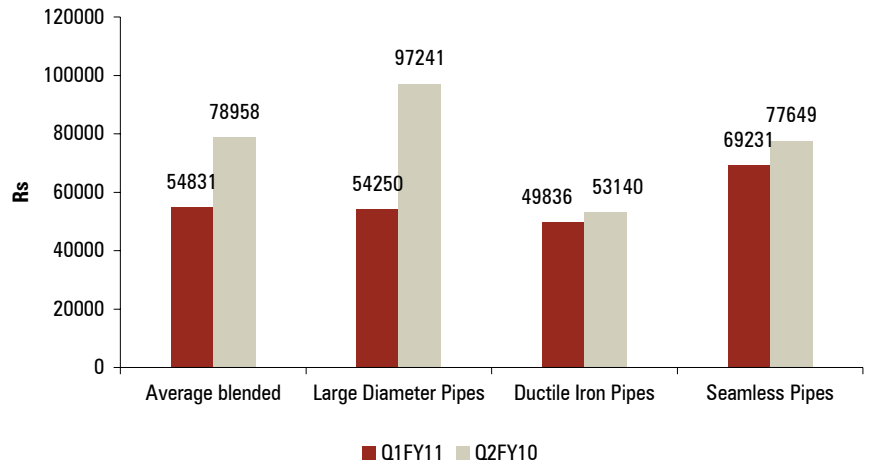
Result Analysis

■ **Realisation continues to remain lower YoY**

The topline of the company in Q1FY11 fell 24% YoY and 17% QoQ due to a sharp fall in realisation YoY and a modest drop in volume on QoQ. While the large diameter pipes segment remained the worst hit in terms of prices YoY, the DI and seamless segments saw a decline in sales volume QoQ. Blended realisations slipped to ~Rs 54831/tonne in Q1FY11 from ~Rs 78958/tonne in Q2FY10. However, it remained higher compared to Rs 49000/tonne in Q5FY10.

Blended realisations though fell across all products. However, the intensity was less in the DI and seamless segments...

Exhibit 2: Average blended realisation (per MT) sees a downfall



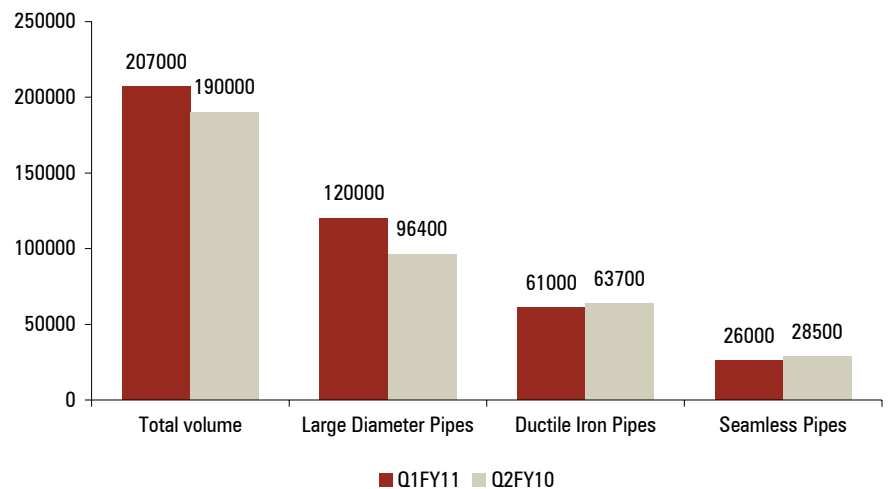
Source: Company, ICICIdirect.com Research

■ **Sales volume trend remains intact**

As was the case in Q5FY10, the sales volume followed the same trend in Q1FY11 i.e. improved YoY but fell QoQ. The YoY growth in sales volume can be attributed to the large diameter segment, as DI and seamless pipes both fell marginally even YoY. On a QoQ basis, the sales volume of the large diameter segment remained unchanged, while the DI and seamless segments saw a downfall by ~17% and 8%, respectively, QoQ.

While the large diameter and DI segments are likely to see some stabilisation in sales volume, the seamless segment remains a concern...

Exhibit 3: Sales break-up (in MT)



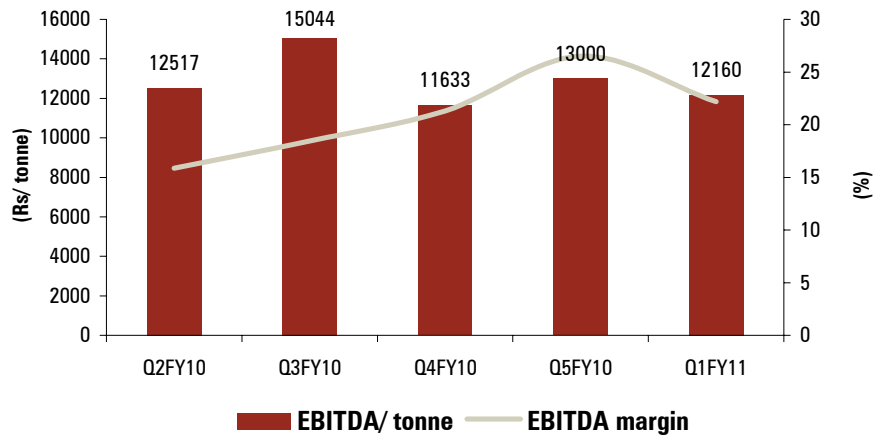
Source: Company, ICICIdirect.com Research

The EBITDA margin remained higher than our estimates. We believe the current margins are not sustainable and for the next two years the average margin should stabilise at ~20%...

■ **Margin remains strong despite falling QoQ**

The fall in topline due to lower volumes and realisations pulled down the EBITDA of the company in Q1FY11 to Rs 251 crore from Rs 288 crore in the preceding quarter. On a QoQ basis, the fall in margin was also due to a lack of high margin orders during Q1FY11. On a YoY basis, however, despite a fall in the blended EBITDA/tonne from Rs 12517 to Rs 12160, the company managed to show a 630 bps jump in the EBITDA margin level. At the PAT levels also, the company managed to showcase a better performance on account of lower interest outgo (fell ~28% YoY) and higher other income.

Exhibit 4: EBITDA margin remains strong despite some QoQ moderation



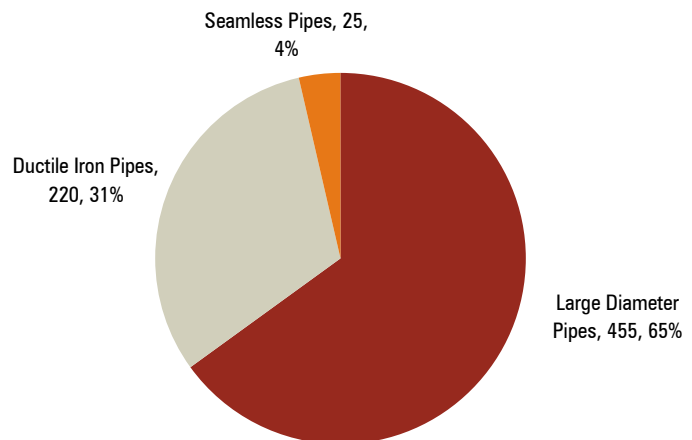
Source: Company, ICICIdirect.com

In tonnage terms, the large diameter pipes order size remained at 3,00,000 tonnes, followed by 2,20,000 tonnes in DI and 18,000 tonnes of seamless pipes...

■ **Order book remains subdued**

Order book of the company at the end of Q1FY11 stands at US\$700 million. Out of the total, large diameter pipes constitute the most i.e. 65% and stand at US\$455 million. DI pipes consist of 31% of the total order book. Seamless pipe, on the other hand, only forms 4% of the total order book. On a QoQ basis, this shows a marginal increase of orders in DI pipes and a fall in both large diameter and seamless pipes. Exports constitute ~55% of the total order book.

Exhibit 5: Order book position (US\$ million)



Source: Company, ICICIdirect.com Research

Valuation

At the current market price of Rs 201, the company is discounting its FY11E and FY12E EPS of Rs 19.6 and 21.7 by 10.2x and 9.3x respectively. Also, the stock at the CMP is trading at 4.8x and 3.9x its FY11E and FY12E EV/EBITDA, respectively. Though the scenario is looking much better for the industry when compared to the year-ago level, lack of orders in domestic markets coupled with higher raw material costs remain a concern. Thus, on the order book front, a lack of visibility remains a worry. However, we feel, going forward, the company would not see any major headwinds and should be able to maintain a margin close to ~20%. Thus, looking at the overall scenario and order book visibility, we are maintaining our target price on the stock at Rs 228, valuing the company at 6x FY11E EV/EBITDA and changing our rating to **BUY**.

Exhibit 6: Valuation Table

Year	Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY08	5009.1	-26.3	13.1	-60.9	15.3	9.3	15.4	15.6
FY10	6791.6	35.6	26.7	103.3	7.5	4.4	19.1	21.6
FY11E	4920.0	-27.6	19.6	-26.6	10.2	4.8	12.6	15.2
FY12E	5772.7	17.3	21.7	10.5	9.3	3.9	12.4	16.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Jindal SAW				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SAWPIP CMP	200.8	CY08	5009.1	13.1	15.3	9.3	15.4	15.6
	Target	228.0	FY10*	6791.6	26.7	7.5	4.4	19.1	21.6
MCap	5493.9 Upside (%)	13.5	FY11E	4920.0	19.6	10.2	4.8	12.6	15.2
			FY12E	5772.7	21.7	9.3	3.9	12.4	16.5

*FY10 represents 15 months data

Maharashtra				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MAHSEA CMP	392.7	FY09	2038.9	36.8	10.7	6.8	21.6	25.1
	Target	380.4	FY10E	1591.2	40.2	9.8	4.8	19.1	25.7
			FY11E	1673.9	41.3	9.5	4.8	16.4	21.1
MCap	1384.9 Upside (%)	-3.1	FY12E	2083.4	51.5	7.6	3.8	17.7	22.8

Man Industries				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MANIN CMP	82.2	FY09	1883.4	3.8	21.5	5.0	5.4	14.3
	Target	76.0	FY10E	1524.3	12.5	6.6	3.5	15.7	17.1
MCap	439.8 Upside (%)	-7.5	FY11E	1420.0	13.3	6.2	3.4	14.3	17.8

PSL Limited				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	PSLHOL CMP	133.4	FY09	3559.9	19.8	6.7	4.6	18.3	14.5
	Target	186.0	FY10E	3941.1	22.3	6.0	4.8	15.1	14.5
MCap	711.2 Upside (%)	39.5	FY11E	3207.1	23.0	5.8	5.4	15.1	13.4
			FY12E	3287.2	20.1	6.6	4.2	10.2	11.9

Welspun Gujarat*				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	WELGUJ CMP	249.1	FY09	5739.5	11.2	22.3	9.8	13.7	12.5
	Target	325.0	FY10	7350.2	29.9	8.3	5.2	29.4	23.7
MCap	5089.6 Upside (%)	30.5	FY11E	6702.7	27.7	9.0	5.2	20.0	19.0

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;

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