

## Welspun Gujarat

Rs144

OUTPERFORMER

## RESULT NOTE

Mkt Cap: Rs21.5bn; US\$521m

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**Result:** Q4FY07  
**Comment:** Profits beat estimates  
**Last report:** 29 January (Price Rs116; Recommendation: Outperformer)

## Key valuation metrics

Year to March 31 (Rs m)	Net Revenues	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
FY2006	18,298	76	613	4.8	49	30.3
FY2007	29,393	61	1,352	9.0	90	16.0
FY2008E	35,493	21	1,889	12.6	40	11.4
FY2009E	34,276	(3)	2,512	16.8	33	8.6

Welspun Gujarat (WGSR) reported a strong 114% growth in net profit for 4QFY07—ahead of our estimates. The out-performance was primarily on account of strong margin expansion led by lower than expected increase in freight costs and also on account of higher margin export orders executed during the quarter. Operating margins for the quarter improved 386bps to 12.5%. Other Income was higher during the quarter on account of sale of scrap. Management guided that the plate mill project is on track and is due for commercial production by Dec'07. Order book position for the company stands at in excess of Rs40bn. On the back of strong revenue visibility and continued strength in spread between slabs and plates, we are upgrading our FY08 and FY09 estimates by 8% and 12% respectively. High leverage (~ 2 x debt-equity ratios) and execution risk however, remain key concerns. We maintain our OUTPERFORMER rating on the stock.

#### □ Net profit up 114%:

- Higher capacity utilization fuelled by strong export orders led to a strong 114% growth in 4QFY07 profitability for WGSR.
- Margin expansion continued for four quarters in a row. Operating margins expanded 386bps to 12.5% for the quarter.
- More importantly, realizations and EBITDA per tonne for FY07 were at historically high levels at US\$1200/tonne and US\$150/tonne respectively.
- Higher profitability on incremental orders, reduction in freight cost and savings on account of higher utilization of Anjar facility led to the margin expansion.
- Other Income during the quarter was higher at Rs30m on account of sale of scrap
- Interest and Depreciation costs were both significantly higher for the year on account of commissioning of its new facilities in Anjar, Gujarat.

#### □ Plate mill nearing completion – to provide margin kicker

WGSR is in the process of setting up a plate-cum-coil mill in Anjar, Gujarat (near its SAW pipe facilities). The project, at an estimated cost outlay of ~Rs18bn, is scheduled to be operational by Dec'07. The plant would have a capacity of 1.5m tonnes, which would not only meet WSGR's raw material requirement but also have third party sales. As a result of the plate mill, we expect sharp improvement in WSGR's pipe margins on the back of a reduction in cost of plates. We have assumed that the company will be able to save US \$100 per tonne of plate/coil due to its plate mill.

## □ Maintain Out performer

Our macro call - in terms of strong demand on the back of domestic infrastructure spending and increasing acceptance of domestic vendors in the international market - remains intact. Increasing vendor approvals, strong order book position and continued strength in crude oil prices further lend credence to our call. Order book position for the company stands at in excess of Rs40bn. On the back of strong revenue visibility we are upgrading our FY08 and FY09 estimates by 8% and 10% respectively. High leverage (~2x debt-equity ratios) and execution risk however, remain key concerns. We maintain our OUTPERFORMER rating on the stock.

### Quarterly results

Particulars	4QFY06	FY06	1QFY07	2QFY07	3QFY07	4QFY07	FY07
<b>Net Sales</b>	<b>6440</b>	<b>18,298</b>	<b>5,360</b>	<b>6,744</b>	<b>7,400</b>	<b>7,281</b>	<b>26,785</b>
% change	73.2	76.3	63	70	62	13	46
Other Income	3	19	3	5	5	30	43
Total Income	6,443	18,317	5,363	6,749	7,405	7,311	26,828
Total Expenditure	5888	16,643	4,686	5,949	6,447	6,373	23,453
<b>Operating Profit</b>	<b>555</b>	<b>1,674</b>	<b>677</b>	<b>800</b>	<b>953</b>	<b>908</b>	<b>3,375</b>
Operating Margins (%)	8.6	9.1	12.6	11.9	12.9	12.5	12.6
Interest	178	419	162	176	192	178	708
PBDT	377	1,255	515	624	761	730	2,667
Depreciation	122	352	116	116	122	122	476
<b>PBT</b>	<b>255</b>	<b>903</b>	<b>399</b>	<b>508</b>	<b>644</b>	<b>638</b>	<b>2,191</b>
Tax	61	290	136	173	232	223	765
<b>Reported Profit After Tax</b>	<b>194</b>	<b>613</b>	<b>263</b>	<b>335</b>	<b>412</b>	<b>415</b>	<b>1,426</b>
% change	267.4	58	66	85	415	114	133

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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