

1QFY08 Results – in line with consensus

25th Jul 2007

Not Rated

Price	Target Price
Rs164	N.A.

Sensex – 15,372

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	7	36	81
Rel. to Sensex	1	(4)	24	29

Source: Bloomberg

Stock Details

Sector	Metals
Reuters	JIST.BO
Bloomberg	JDSL@IN
Equity Capital (Rs mn)	281
Face Value (Rs)	2
52 Week H/L (Rs)	170/90
Market Cap (Rs bn)	23.03
Daily Avg Vol (No of shares)	640826
Daily Avg Turnover (USD mn)	2.1

Shareholding Pattern (%)

(30th Jun.'07)

Promoters	42.6
FII/NRI	29.2
Institutions	8.4
Private Corp.	6.2
Public	13.6

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Jindal Stainless Ltd (JSL) reported 1QFY08 results, which is in line with consensus. The net sales were Rs11.9bn (yoy up 40%, qoq down 16%), EBITDA stood at Rs2.04bn (yoy up 48%, qoq down 12%), PAT stood at Rs0.8bn (yoy up 63%, qoq down 10%). JSL reported FDEPS of Rs4.83 (yoy up 63%, qoq down 10%). JSL has been allocated a thermal coal block in Utkal coalfield in consortium with 3 other partners. The coal block has reserves of 900mt, out of which JSL's share is 9%. JSL expects to commence the phase-I expansion by Dec 07.

Allocation of coal block-to reduce raw material cost

A thermal coal block in Utkal coalfield has been allocated to JSL in consortium with three other partners. The block has reserves of 900mt. Mahanadi Coalfields Ltd has the mining rights with a share of 60% of the reserves. Balance 40% will be distributed among other three partners. JSL has a share of 9% of the total reserves. The coal block has calorific value of 3,200k/cal (D or E) grade coal. JSL expects mine to be operational within three years.

Expansion plans

JSL expects to complete the phase-I expansion by Dec 07. 125MW CPP is expected to be operational by Aug 07. Ferro manganese and ferro silicon plants, having capacity of 50,000t each are expected to be operational by Oct 07. Ferro chrome plant has been commissioned in Mar 06. Steel melting shop, cold rolling mill and special steel plant at Hissar are expected to commence operations by Sep 07. HR mill at Hissar is expected to come on stream by Dec 07.

Capex fully tied up

JSL has a total capex of Rs56bn. The capex will be funded in a debt-equity ratio of 78:22. Rs12bn will be funded through internal accruals and balance through debt of Rs44bn. Out of the total debt requirement, the cost of Rs39bn, which is senior debt, is 12.25% fixed and cost of Rs5bn, which is sub-debt, is 14% fixed. The company is looking for further options including ECB to reduce the overall cost of debt to 9% to 10%.

Outlook

Although we are positive on the capex program and expected capacity ramp up of JSL at its Hissar and Orissa locations, volatility in nickel price remains a cause of concern. JSL's margins are correlated to nickel price movement and hence, any volatility in nickel prices will impact its earnings.

We do not have any rating on the stock but remain positive on its growth story.

Quarterly results summary

	1QFY08	1QFY07	(%) yoy	4QFY07	(%) qoq
Net Sales	11,968	8,548	40%	14,324	-16%
Expenditure					
Raw Material Cost	9,264	6,054	53%	9,091	2%
Change in stock	-2292	-877	161%	-171	1242%
Net Raw material cost	6972	5177	35%	8920	-22%
Gross profit	4996	3371	48%	5404	-8%
<i>Gross margin</i>	41.7%	39.4%	231bps	37.7%	402bps
Stores & spares	448	375	19%	610	-26%
Power Cost	1,399	813		1,353	
Employee Cost	237	138	72%	203	17%
Other selling & administrative Exp	870	662	31%	925	-6%
Total operating exp	2,954	1,989	49%	3,091	-4%
EBITDA	2042	1382	48%	2,313	-12%
<i>EBITDA margin</i>	17.1%	16.2%	89bps	16.1%	92bps
Depreciation & amortization	640	378	69%	621	3%
EBIT	1402	1004	40%	1,692	-17%
<i>EBIT margin</i>	11.7%	11.7%	-3bps	11.8%	-9bps
Interest	188	256	-26%	127	49%
Other income	47	50	-6%	28	68%
PBT	1261	798	58%	1,593	-21%
Provision for tax	435	291	50%	672	-35%
ETR (%)	34%	36%	-194bps	42%	-768bps
Current tax	143	90		405	
Deferred tax liability	290	200		210	
Fringe benefit tax	2	1		4	
Prior period Adjustment				53	
PAT	826	507	63%	921	-10%
<i>Net margin</i>	6.9%	5.9%	97bps	6.4%	47bps
Equity capital	281	261		276	
Reported EPS					
- Basic	5.95	3.89	53%	6.84	-13.0%
- Diluted	4.83	2.97	63%	5.39	-10.3%

All fig in Rs mn except for % and per share data

Common size ratios

	1QFY08	1QFY07	% yoy	4QFY07	% qoq
Net Sales	100.0%	100.0%	-	100.0%	-
Raw material cost	77.4%	70.8%	658bps	63.5%	1394bps
Change in stock	-19.1%	-10.3%	-889bps	-1.2%	-1795bps
Net raw material cost	58.3%	60.6%	-231bps	62.3%	-402bps
Personal expenses	2.0%	1.6%	36bps	1.4%	56bps
Power cost	11.7%	9.5%	218bps	9.4%	224bps
Other expenses	7.3%	7.7%	-48bps	6.5%	81bps
EBITDA	17.1%	16.2%	89bps	16.1%	92bps
Depreciation	5.3%	4.4%	92bps	4.3%	101bps
Interest expense	1.6%	3.0%	-142bps	0.9%	69bps
Other income	0.4%	0.6%	-19bps	0.2%	20bps
PAT	6.9%	5.9%	97bps	6.4%	47bps

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