

16 June, 2008

Key Data	
Bloomberg Code	WGS IN
Reuters Code	WGSR.BO
BSE Code	532144
NSE Code	WELGUJ
Face Value (INR)	5.0
Market Cap. (INR mn.)	71,681.7
52 Week High (INR)	537.7
52 Week Low (INR)	124.0
Avg. Daily Volume (6m)	555,076
Beta (Sensex)	1.13
F&O	
Market Lot	800
Turnover (INR mn)	325.04

Shareholding	%
Promoters	41.9
Mutual Funds / Bank/ FI	16.0
Foreign Institutional Investors	16.8
Bodies Corporate/Individuals/ Others	25.3
Total	100.0

	FY07	FY08E	FY09E	FY10E
Revenues (Rs. mn)	26785	36782	60584	77390
Op. Profit (Rs. mn)	3329	6244	10732	14136
OPM %	12.4	17	17.7	18.3
PAT (Rs. mn)	1425	3339	5663	8460
EPS (Rs.)	8.7	19.5	30.4	45.5

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Welspun Gujarat Stahl Rohren Ltd. (WGSRL)

Export duty called off:

On 10th May, 2008 Government of India had levied additional custom duty of 10% on export of steel pipes and tubes. As mentioned in our event note dated 14th may, 2008 such export duty levy was intended as temporary stands taken by Government to curb domestic inflation (although the rationale behind such levy were not clear).

However on 13th June 2008 such duties stand withdrawn by Government of India.

“Flat-rolled products of iron and steel, including galvanized products, and pipes and tubes that attracted export duty ranging from 5% to 15% ad valorem, have been fully exempted from export duty”

With such custom duty withdrawal the uncertainties revolving around company earnings are now reduced.

Recommendation:

On 14th May 2008 we recommended our clients to reduce their exposure in WGSRL on account of such levy, but however with such withdrawal notification the dynamics of WGSRL are reinstated. Thus we maintain our original “**BUY**” recommendation (22nd April 2008) on WGSRL with a price objective of Rs500 on account of opportunity in global pipes and tubes sector and WGSRL being a leading player in the industry.

Profit & Loss Account					Rs. in mn	
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net Sales	10,385	18,298	26,785	36,782	60,584	77,390
Total Expenditure	9,701	16,642	23,456	30,538	49,851	63,254
Operating Profits	684	1,655	3,329	6,244	10,732	14,136
Other Income	262	19	43	70	70	70
EBDITA	946	1,674	3,372	6,314	10,802	14,206
Depreciation	241	352	476	674	1,541	1,566
EBIT	705	1,322	2,896	5,639	9,261	12,640
Interest	203	419	706	750	933	553
PBT	501	904	2,190	4,889	8,327	12,086
Taxes	163	290	765	1,550	2,665	3,626
Profit After Tax	338	614	1,425	3,339	5,663	8,460
CAGR						
Growth in sales			61%			42%
Operating Profits Growth			121%			62%
PAT Growth			105%			81%
Operating Profit Margin (%)	6.6	9.0	12.4	17.0	17.7	18.3
Net Profit Margin (%)	3.3	3.4	5.3	9.1	9.3	10.9

Source: Company, ACMIL Research

BALANCE SHEET					Rs. in mn	
	FY05	FY06	FY07	FY08E	FY09E	FY10E
Sources of Funds						
Share Capital	756	865	699	857	930	930
Reserves and Surplus	2,172	4,083	5,767	13,113	18,776	27,236
Total Shareholders Funds	2,928	4,948	6,466	13,970	19,706	28,166
Total Loan Funds	3,847	8,027	15,146	24,146	19,646	11,646
Net Deferred Tax Liability	539	701	794	1,704	1,546	1,741
Total Capital Employed	7,314	13,744	22,544	39,889	40,967	41,622
Application of Funds						
Gross Block	5,033	7,893	9,112	26,980	30,830	31,330
Less: Accumulated Depreciation	1,058	1,402	1,877	2,552	4,093	5,660
Net Block	3,975	6,490	7,235	24,428	26,737	25,670
Capital Work in Progress	1,376	3,623	9,258	2,500	750	500
Investments	53	0	256	256	256	256
Net Current Assets	1,910	3,631	5,796	12,705	13,224	15,196
Total Assets	7,314	13,744	22,544	39,889	40,967	41,622

Source: Company, ACMIL Research

Cash flow Statement					Rs. in mn	
	FY05	FY06	FY07	FY08E	FY09E	FY10E
Pre tax profit	501	904	2,190	4,889	8,327	12,086
Add						
Depreciation	241	352	476	674	1,541	1,566
Interest Exp	-2	46	289	750	933	553
Others	-152	9	-252	0	0	0
Profit before working capital changes	588	1,311	2,703	6,314	10,802	14,206
Profit after working capital	1,290	235	102	2,110	7,435	11,105
Less Taxes	-57	-102	-399	-775	-2,000	-2,700
Net Cash flow from operating activities	1,233	132	-296	1,335	5,435	8,405
Net Cash flow in investment activities	-1,549	-5,160	-6,503	-11,110	-2,100	-250
Net Cash flow from financing activities	2,122	5,633	7,306	11,800	-5,500	-8,700
Net increase /(decrease) in cash	1,806	606	507	2,026	-2,164	-544
Op. balance of cash and cash equivalents	655	2,461	3,067	3,574	5,599	3,435
Cl. balance of cash and cash equivalents	2,461	3,067	3,574	5,599	3,435	2,891

Source: Company, ACMIL Research

Ratios						
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E
Profitability Ratios						
Operating Profit Margin (%)	6.6	9.0	12.4	17.0	17.7	18.3
EBDIT Margin (%)	9.1	9.2	12.6	17.2	17.8	18.4
PAT Margin (%)	3.3	3.4	5.3	9.1	9.3	10.9
RONW (%)	11.6	12.4	22.0	23.9	28.7	30.0
ROCE (%)	10.4	10.2	13.4	14.8	23.5	31.7
Per Share Ratios						
EPS (Rs.)	3.0	4.4	8.7	19.5	30.4	45.5
CEPS (Rs.)	5.1	6.9	11.5	23.4	38.7	53.9
BV Per Share (Rs.)	25.7	35.3	39.3	81.5	105.9	151.4
Valuation Ratios						
P/E (x) (@ Rs. 409)			47.0	21.0	13.5	9.0
P/CEPS (x) (@ Rs. 409)			35.6	17.5	10.6	7.6
P/BV (x) (@ Rs. 409)			10.4	5.0	3.9	2.7
Capital Structure Ratios						
Debt/Equity	1.3	1.6	2.3	1.7	1.0	0.4
Current Ratio	1.2	1.4	1.5	2.0	1.8	1.7
Turnover Ratios						
Inventory Turnover	2.7	3.3	5.0	4.5	4.5	5.0
Debtors turnover ratio	3.9	5.8	4.4	4.0	5.3	4.5
Fixed Asset Turnover	2.0	2.2	2.8	1.4	2.0	2.5

Source: ACMIL Research

Notes:

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1. Analyst ownership of the stock	NO
2. Broking Relationship with the company covered	NO
3. Investment Banking relationship with the company covered	NO
4. Discretionary Portfolio Management Services	NO

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