

PSL Limited

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Order Book intact ...

We met with the management of PSL Limited (PSL) to discuss the outlook of the business and the company, given the major changes in the macro-economic environment and falling crude prices. The key highlights of the meeting are:

Order Backlog remains intact at Rs 60bn

- The current order backlog for the company stands at Rs 60bn (even after the execution of the current quarter), of which, close to Rs 40bn worth of orders are from domestic clients. The company has seen no cancellations, delays or re-negotiations in any of the existing orders. It maintains its stand of executing orders worth close to Rs 40bn during FY09. There is also no change in the US order.

Other Highlights

- According to the company, the demand scenario in the domestic market for pipes still remains buoyant as it is core part of the infrastructure development of the country and it does not depend on the vagaries of crude oil prices. The formation of the Gas Grid is progressing according to schedule and thus demand is expected to continue at a steady pace.
- GAIL has come out with two big tenders, one of close to 100,000 tonnes and another one for close to 370,000 tonnes. These orders are expected to be finalised by March 2009. The company is looking to participate in these tenders and get the good chunk of orders.
- The company is also in negotiations for further orders with close to 6-7 buyers in the US. The projects for setting up new pipelines are progressing according to schedule in the US and it is only the replacement demand, which the management believes could get a bit delayed due to the recessionary environment.
- It has also indicated that they will be able to maintain an EBIDTA margin range of between 9-11% or between US\$ 125 to US\$ 175.
- Current total debt on the books is close to Rs 9bn and the average cost of the working capital borrowings for the company is close to 11.5%.

Valuation & Rating

- At the CMP of Rs 80, PSL trades at 2.8x and 2.2x its FY09E and FY10E EPS estimates. The robust order book gives good visibility of performance of the company in the near term, but the macro-economic environment remains challenging. We maintain our BUY rating on the stock with a price target of Rs 144.

Maintain Buy / Rs 80
Target Rs 144 (+80%)

Sector Rating

OW	N	UW

Stock Rating

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for:

- Visit update

Bloomberg code : PSL IN
Reuters code : PSLH.BO
www.psllimited.com

BSE Sensex : 9687
NSE Nifty : 2969

Company data

O/S shares :	43mn
Market cap (Rs) :	3.4bn
Market cap (USD) :	70mn
52 - wk Hi/Lo (Rs) :	588 / 72
Avg. daily vol. (3mth) :	73,816
Face Value (Rs) :	10

Share holding pattern, %

Promoters :	48.4
FII / NRI :	21.6
FI / MF :	15.9
Non Promoter Corp. Holdings :	9.4
Public & Others :	4.8

Price performance, %

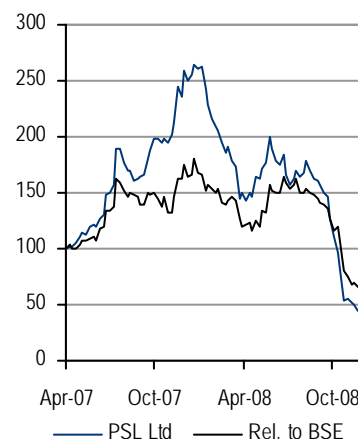
	1mth	3mth	1yr
Abs	-10.4	-70.6	-84.6
Rel to BSE	-19.1	-42.0	-35.1

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales	14,503	14,433	20,734	33,555	41,721
Growth, %	2.9	-0.5	43.7	61.8	24.3
Core EBIDTA	1,345	1,514	1,922	2,894	3,483
EBIDTA margins, %	9.3	10.5	9.3	8.6	8.3
Net profit	519	653	843	1,237	1,554
Net profit margin, %	3.6	4.5	4.1	3.7	3.7
EPS, Rs	16.2	19.2	19.8	28.7	36.0
EPS Growth, %	41.1	18.1	3.3	44.8	25.6
PER, x	4.9	4.2	4.0	2.8	2.2
EV/EBIDTA, x	6.1	5.4	4.5	4.3	3.6
EV/Net Sales, x	0.6	0.6	0.4	0.4	0.3
Price/Book Value, x	0.9	0.8	0.6	0.5	0.4
ROIC, %	9.6	8.5	8.8	10.3	10.2
ROE, %	22.6	20.8	18.3	20.0	21.1
Dividend Yield, %	6.7	6.6	6.6	6.9	8.1

Source: Company, MF Global India Research Estimates

Price vs. Sensex



Source: Bloomberg, MF Global India Research

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FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net sales	14,503	14,433	20,734	33,555	41,721
<i>Growth, %</i>	2.9	(0.5)	43.7	61.8	24.3
Other income	193	265	425	517	619
Total income	14,695	14,698	21,158	34,072	42,340
Operating expenses	-13,157	-12,919	-18,812	-30,661	-38,239
EBITDA	1,345	1,514	1,922	2,894	3,483
<i>Growth, %</i>	58.3	12.6	26.9	50.6	20.4
<i>Margin, %</i>	9.3	10.5	9.3	8.6	8.3
Depreciation	-344	-445	-539	-672	-809
EBIT	1,001	1,069	1,383	2,221	2,674
<i>Growth, %</i>	64.3	6.8	29.3	60.7	20.4
<i>Margin, %</i>	6.9	7.4	6.7	6.6	6.4
Interest paid	-485	-435	-579	-831	-937
Pre-tax profit	708	899	1,229	1,908	2,355
Tax provided	-189	-255	-409	-670	-801
Profit after tax	519	644	820	1,237	1,554
Net Profit	519	644	820	1,237	1,554
MF Global Net profit	519	653	843	1,237	1,554
<i>Growth, %</i>	55.9	25.9	29.1	46.7	25.6
Extraordinary items: Gains/(Losses)	0	-10	-24	0	0
Unadj. shares (m)	32	34	43	43	43
Wtd avg shares (m)	32	34	43	43	43

Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Pre-tax profit	708	899	1,229	1,908	2,355
Depreciation	344	445	539	672	809
Chg in working capital	-1,197	822	-975	-2,376	-1,888
Total tax paid	-100	-159	-252	-584	-690
Other operating activities	0	0	0	0	0
Cash flow from operating activities	-244	2,007	541	-381	586
Capital expenditure	-1,115	-2,012	-1,800	-1,089	-610
Chg in investments	0	77	-18	0	0
Chg in marketable securities	0	0	0	0	0
Other investing activities	0	0	0	0	0
Cash flow from investing activities	-1,115	-1,936	-1,817	-1,089	-610
Free cash flow	-1,359	71	-1,277	-1,469	-24
Equity raised/(repaid)	627	309	1,451	262	64
Debt raised/(repaid)	320	-113	2,619	-1,665	360
Dividend (incl. tax)	-185	-201	-230	-276	-252
Other financing activities	0	0	0	0	0
Cash flow from financing activities	762	-6	4,017	-1,857	172
Net chg in cash	-597	66	2,741	-3,327	148

Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Cash & bank	1,199	1,263	4,005	617	816
Marketable securities at cost	0	0	0	0	0
Debtors	4,229	2,157	3,460	5,747	7,225
Inventory	5,206	6,226	7,436	12,084	14,896
Loans & advances	1,218	1,213	2,070	2,324	2,670
Other current assets	0	0	0	0	0
Total current assets	11,853	10,859	16,971	20,773	25,607
Investments	102	25	43	43	43
Gross fixed assets	5,181	6,119	7,827	9,955	10,715
Less: Depreciation	-1,764	-2,208	-2,747	-3,398	-4,206
Add: Capital WIP	146	1,220	1,311	250	100
Net fixed assets	3,564	5,131	6,391	6,808	6,609
Non-current assets	0	0	0	0	0
Total assets	15,518	16,015	23,405	27,623	32,259
Current liabilities	5,605	5,369	7,764	12,577	15,326
Provisions	293	422	601	704	891
Total current liabilities	5,898	5,791	8,365	13,282	16,217
Non-current liabilities	6,843	6,705	9,332	7,652	8,012
Total liabilities	12,741	12,496	17,698	20,933	24,228
Paid-up capital	320	341	426	432	432
Reserves & surplus	2,458	3,178	5,271	6,376	7,666
Shareholders' equity	2,777	3,519	5,707	6,690	8,030
Total equity & liabilities	15,518	16,015	23,405	27,623	32,259

Per-share data

	FY2006	FY2007	FY2008	FY2009E	FY2010E
MF Global EPS (INR)	16.2	19.2	19.8	28.7	36.0
<i>Growth, %</i>	<i>41.1</i>	<i>18.1</i>	<i>3.3</i>	<i>44.8</i>	<i>25.6</i>
Book NAV/share (INR)	86.9	103.3	134.0	155.0	186.1
FDEPS (INR)	16.2	19.2	19.8	28.7	36.0
CEPS (INR)	27.0	32.5	33.0	44.3	54.8
CFPS (INR)	(7.6)	58.9	2.2	(55.2)	13.6
DPS (INR)	5.3	5.3	5.2	5.5	6.5

Financial structure

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Total debt/Equity (%)	245.2	190.3	163.2	144.3	124.7
Net debt/Equity (%)	202.1	154.4	93.1	135.0	114.5

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Return on assets (%)	5.8	5.8	6.0	6.9	7.2
Return on equity (%)	22.6	20.8	18.3	20.0	21.1
Return on Invested capital (%)	9.6	8.5	8.8	10.3	10.2
RoIC/Cost of capital (x)	0.9	0.7	0.8	0.9	0.9
RoIC - Cost of capital (%)	(1.6)	(3.0)	(2.8)	(1.4)	(1.6)
Return on capital employed (%)	9.2	9.3	9.4	12.0	14.2
Cost of capital (%)	11.2	11.5	11.6	11.7	11.8
RoCE - Cost of capital (%)	(2.0)	(2.2)	(2.2)	0.3	2.4
Asset turnover (x)	1.9	1.6	2.0	2.4	2.4
Sales/Total assets (x)	1.0	0.9	1.1	1.3	1.4
Sales/Net FA (x)	4.6	3.3	3.6	5.1	6.2
Working capital/Sales (x)	0.3	0.3	0.2	0.2	0.2
Receivable days	106.4	54.5	60.9	62.5	63.2
Inventory days	131.0	157.4	130.9	131.4	130.3
Payable days	72.5	120.0	116.8	100.0	100.3
Current ratio (x)	2.0	1.9	2.0	1.6	1.6
Quick ratio (x)	1.1	0.8	1.1	0.7	0.7
Interest cover (x)	3.4	6.7	2.4	7.1	8.4
Dividend cover (x)	3.0	3.6	3.8	5.2	5.5
PER (x)	4.9	4.2	4.0	2.8	2.2
PEG (x) - y-o-y growth	0.1	0.2	1.2	0.1	0.1
Price/Book (x)	0.9	0.8	0.6	0.5	0.4
Yield (%)	6.7	6.6	6.6	6.9	8.1
EV/Net sales (x)	0.6	0.6	0.4	0.4	0.3
EV/EBITDA (x)	6.1	5.4	4.5	4.3	3.6
EV/EBIT (x)	8.2	7.6	6.3	5.6	4.7
EV/NOPLAT (x)	7.1	6.5	5.8	5.6	4.7
EV/CE	0.8	0.8	0.6	0.9	0.8
EV/IC (x)	1.1	0.9	0.8	0.9	0.7

Source: Company, MF Global India Research Estimates

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