

JBF Industries declared robust number for Q2 FY08 (as expected). On account of higher contribution from value added yarn and also as cotton prices were ruling high POY being substitute product saw price increase, thus delta between PTA, MEG (raw material) and POY & Chips (end products) has increased. Which resulted in high operating margin at 13.8%.

JBF has expanded its polyester chips capacity by 185% in Mar'06 and its POY capacity by 150% in Sept'06. On account of these, production of polyester chips increased by 89% yoy to 85,500 MT and that of POY increased by robust 119% yoy to 33,000 MT. Net sales registered growth of 77% yoy and 7.61% qoq to Rs.5,317 mn.

JBF has witnessed 3.2% and 4.0% improvement in prices of finished products i.e chips and POY to Rs.58.8 per kg and Rs.69.4 per kg respectively in the last quarter. Prices of one of the key raw material PTA accounting for 68% of the raw material cost, has softened by 0.8% in quarter while, prices of another raw material MEG have increased by 6.2% in the same duration. As a result raw material cost has increased at a lower pace by 1.2% as compared to 3.2% improvement in the end product that is POY. The Delta margin between raw material and finished goods has increased to highest level achieved in current year. This resulted in 172bps qoq increase in operating margin to 13.8%. Operating profit was up by 72.6% yoy to Rs.734 mn. It's EBIT also improved by 82.2% yoy to Rs.624 mn. Its net profit improved by 82.7% yoy and 54.4% qoq to Rs. 409 mn.

However, as per information three MEG plants (2 in Saudi and 1 in US) have been shut down due to technical reasons. It will take minimum 2-3 months for them to restart production, it would result in price increase of MEG. Which may put pressure on the margin for JBF in December quarter.

As mentioned earlier it is setting up a PET bottle grade and polyester films manufacturing facility in RAK, UAE. The chips plant with capacity of 216,000 TPA got commenced on July'07, while the polyester film plant with capacity of 108,000 TPA will commence operation by last quarter of 2007. The second phase expansion of 216,000 TPA of chips at Sarigam, Gujarat is on schedule and is expected to commence by Oct'08.

As against our net profit guidance of Rs.1,112 mn for FY08, company has already delivered Rs.673 mn in first half FY08. On account of commissioning of phase-I & its phase-II at RAK, close to commissioning date, the company should comfortably surpass our estimates. We maintain our BUY recommendation on JBF Industries with revised one-year price target of Rs.220.

Quarterly performance

Y/E, 31 st March (Rs. mn)	Q2 FY07	Q2 FY08	YoY (%)	Q1 FY08	QoQ (%)	FY07
Net sales	3,004	5,317	77	4,944	8	14,771
Total expenditure	2,578	4,583	78	4,347	5	13,043
Operating profit	425	734	73	597	23	1,728
OPM (%)	14.2	13.8	-	12.1	-	11.7
Interest	35	90	161	107	(15)	269
PBDT	391	644	65	491	31	
Depreciation	83	110	33	108	2	366
Other income	31	37	21	10	269	114
PBT	339	571	69	393	45	1,207
Tax115	162	41	128	27	398	
Profit after tax	224	409	83	265	54	809
Adjusted PAT	224	409	83	265	54	809
NPM (%)	7.4	7.7	-	5.4	-	5.5
EPS (Rs.)	3.2	5.4	69	3.5	54	11.6
Equity	704	756	7	704	7	704

Source: Company, MF Global PCG Research

Sensex	18,771
Nifty	5,569

Stock Data

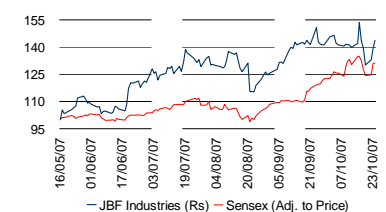
BSE Code	514034
Bloomberg	JBF@IN
Reuters	JBFI.BO

Shares Issued (mn)	59.6
Market Cap (Rs mn)	9,894
52 Wk H/L (Rs)	180/92
Face Value (Rs)	10
Avg. daily vol. (12-mths)	120,494

Absolute Returns (%)

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Absolute	1.6	8.0	57.4
Rel. to Sensex	(7.8)	(9.3)	11.6

Recommended Returns (%)

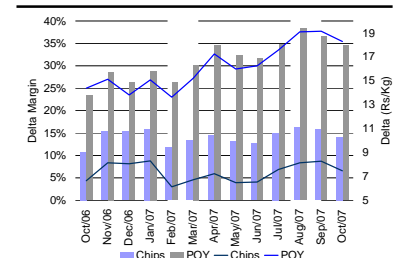


Financial Summary

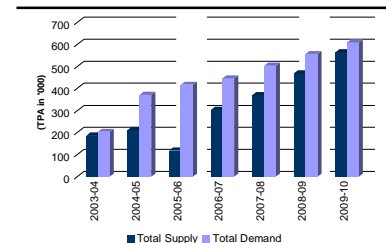
(Rs mn)	FY07	FY08E	FY09E
Net sales	14,771	22,154	35,394
Op. profit	1,728	2,558	3,932
Net profit	810	1,112	2,152
EPS (Rs)	11.6	14.7	28.5
P/E (x)	14.4	11.3	5.9

Note: 60% consolidation of RAK unit.

Delta margin



Polyester chip demand-supply



Financials

Income statement (Rs mn)	FY06	FY07	FY08E	FY09E	Balance sheet (Rs mn)	FY06	FY07	FY08E	FY09E
Net sales	7,222	14,771	22,154	35,394	Equity capital	490	704	756	756
Raw materials	5,633	11,762	17,796	28,944	Reserves	2,507	4,750	6,022	7,220
Employee expenses	63	127	218	390	Networth	2,997	5,453	6,778	7,976
Other exp	644	1,154	1,582	2,128	Total debt	4,267	3,800	6,715	6,215
Op profit	883	1,728	2,558	3,932	Deferred tax	655	398	173	302
OPM (%)	12.2	11.7	11.5	11.1	Total liabilities	7,919	9,651	13,666	14,492
Other income	54	114	74	110	Gross fixed assets	4,558	7,888	11,493	11,643
Depreciation	228	366	561	641	Less: Cum depreciation	1,905	2,372	2,466	3,107
Interest	110	269	613	647	Net fixed assets	2,652	5,516	9,027	8,536
PBT	600	1,207	1,458	2,755	Capital WIP	2,171	140	15	15
Tax	170	398	346	603	Investments	1,271	1,710	900	1,500
PAT	429	810	1,112	2,152	Net current assets	1,459	1,819	3,724	4,441
Extraordinary item	27	—	—	—	Total assets	7,919	9,651	13,666	14,492
Adj PAT	402	810	1,112	2,152					
NPM(%)	5.6	5.5	5.0	6.1					

Cash flow (Rs mn)	FY06	FY07	FY08E	FY09E	Ratios	FY06	FY07	FY08E	FY09E
PBT & extraord. items	600	1,207	1,458	2,755	Growth (%)				
Add: Int, depn. & oth. exp.	282	634	1,173	1,287	Net sales	(2.3)	104.5	50.0	59.8
Cash flow from op.	882	1,842	2,632	4,042	Adj PAT	37.6	101.2	37.4	93.5
Net chg in w/c, tax, int.	(527)	(1,135)	(2,072)	(2,827)	Adj EPS	(12.9)	40.9	27.2	93.5
Net cash flow frm op.	355	707	559	1,216	Per Share Data (Rs)				
Capital expenditure	(1,923)	(1,300)	(3,480)	(150)	Adj EPS	8.2	11.6	14.7	28.5
Sale/ purchase of inv	(1,227)	(439)	810	(600)	Book value	61.2	78.0	89.7	105.5
Net cash from inv.	(3,150)	(1,739)	(2,670)	(750)	DPS	2.0	2.3	2.9	5.7
Issue of eq/pref sh/warr.	3,330	1,107	3,552	(500)	Valuation (x)				
Dividend paid	(71)	(185)	(222)	(430)	P/E	20.3	14.4	11.3	5.9
Net cash from financing	3,259	923	3,330	(930)	P/BV	2.7	2.1	1.9	1.6
Net chg in cash	464	(109)	1,219	(464)	EV/EBIDTA	13.4	6.7	6.8	4.5
Op. cash bal	100	564	455	1674	Performance (%)				
Cl. Cash bal	564	455	1674	1209	RoCE	12.2	16.5	17.6	23.8
					RoNW	17.3	19.2	18.2	29.2

Note: We have assumed 60% consolidation of RAK unit for FY08 and FY09 figures.

BUY : > 20%

HOLD : > 5-20%

SELL : < 5%

Note: Ratings based on expected returns from current market price (on absolute basis).

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Analyst Holding in the recommended stock: NIL