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Niraj Shah
91-22-6632 2242

Senior Research Analyst
NirajShah@PLIndia.com

Meeting Update

Jindal Saw

BUY

Rs 550

May 8, 2007

Margin and Volume Expansion - the journey has just begun

Company Details

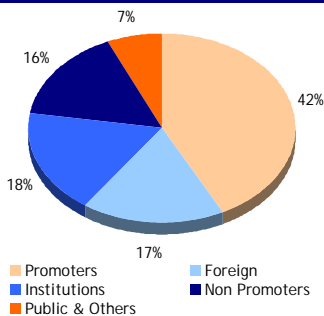
Market Cap: Rs 26,400m
52-Week High/Low: Rs 570 / 235
Bloomberg Code: JSAW@IN
Reuters Code: SAWP.BO / NS
Shares O/s: 48m
Average Volume
(3 months): 82,659 shares

We had recently organized a management meet with Jindal Saw.

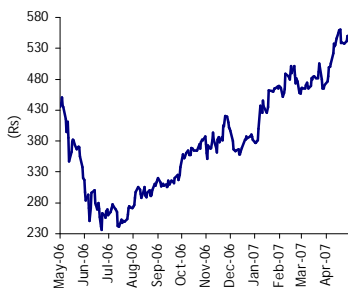
Key takeaways

- Expansion of the H Saw pipe capacity -- from 150,000 to 350,000 tons by March-April '08.
- Expansion of the seamless tubes capacity -- from 100,000 to 250,000 tons by July-August '08.
- Capex of Rs 4,500m (Rs 2,000m in FY07, Rs 2,500m in FY08). Funds already raised by way of FCCBs and preferential allotment to promoters.
- Commissioning of a 15-MW power plant, based on waste-heat recovery from the coke-oven battery, expected by August '07. The cost of power would be Rs 1 to Rs 1.5 a unit. At present, 27 MW are required; the captive capacity would result in huge savings of Rs 3 a unit (about Rs 300m a year).
- Expects 20% growth in the top line for the next three years -- and margin improvement due to economies of scale and yield-betterment.
- Order book of \$1.4bn on April 26th, '07, to be completed by April '08.

Shareholding Pattern



Price Chart



Price Performance

(%)	1m	3m	12m
Absolute	17.0	17.3	26.5
Relative to Sensex	9.1	22.5	15.1

Key Figures

Y/e Sept	FY05	FY06	FY07E	FY08E
Revenue (Rs m)	23,138	36,338	50,060	57,920
EBITDA (Rs m)	2,671	4,088	5,720	6,995
Margin (%)	11.5	11.2	11.4	12.1
PAT (Rs m)	994	1,576	2,525	3,325
EPS (Rs)	21.1	28.1	52.6	59.3
PER (x)	26.1	19.6	10.5	9.3
EV / E (x)	14.0	9.9	7.1	6.3
EV / Sales (x)	1.6	1.1	0.8	0.8
RoCE (%)	9.7	10.1	12.1	13.7
RoE (%)	13.6	11.8	16.1	17.8

(Stock price as on May 7, 2007)

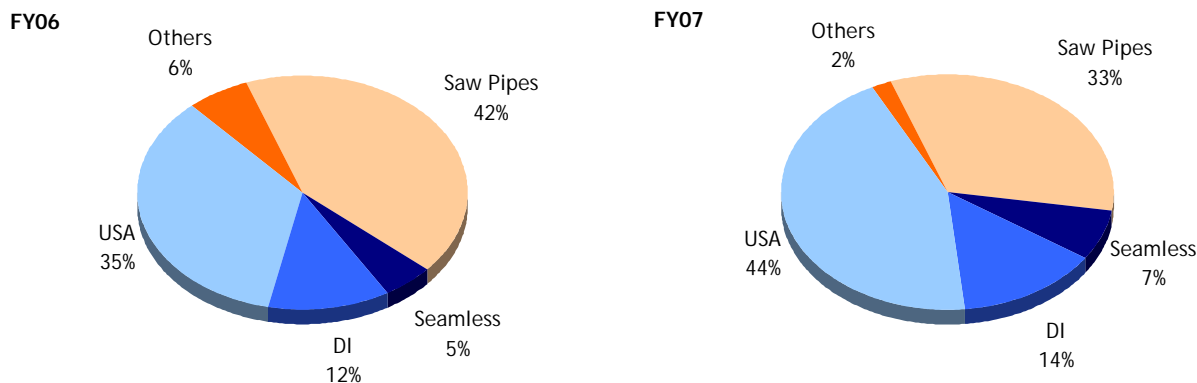


Expansion and Commissioning of Fresh Projects

	Present Capacity (t)	Expected. Commissioning Date	Total Cap. After expansion (t)
H Saw Pipe	150,000	Apr. '08	350,000
Seamless Pipes	100,000	Aug. '08	250,000
Power Plant	15 MW	Aug. '07	

Source: Company

Changing Revenue Mix



Source: Company Data, PL Research

Volume and Price Matrix

Production (t)	FY06	FY07E	FY08E	FY09E	Realization (Rs/t)
Saw Pipes	325,000	400,000	500,000	575,000	46,000
Seamless	40,000	60,000	75,000	200,000	54,000
DI	90,000	135,000	175,000	175,000	32,000
USA					(\$/T)
Pipes	175,000	250,000	275,000	300,000	1,100
Plates	225,000	200,000	325,000	300,000	1,200

Source: PL Research

Concerns

Very long working capital cycle

The working-capital cycle of such projects is very long -- usually about five months or more. As a result, huge amounts of funds are blocked. This can escalate the interest outgo, particularly in the context of rising interest rates.

The strengthening domestic currency

About 75% of revenue arises from exports; so, the strengthening of rupee is a concern. However, since most of the raw material is imported, this acts as a natural hedge. The net effect is that only about 10% of the revenue is at risk from currency fluctuation.



Domestic opportunities - additional bonus

Opportunities thrown up by RIL, Cairn, GAIL, GSPC and others (for gas and oil transportation by pipeline) would cumulatively add up to about 4,000km a year for the next four years. At an average Rs 15m per km, this amounts to about Rs 60,000m.

The best part about the pipeline companies is that all of them are largely into exports (on average, about 75-80% of such companies' revenue arises from exports). The opportunities at home amount to a bonus.

There is also the vast opportunity in water and sewage infrastructure in India. Jindal Saw, with its offering of a complete solution for the Water sector (spiral pipes, ductile pipes and accessories), stands to gain immensely.

Margin improvement - the journey has just begun

The company expects to continuously improve its operating margin through implementing various expansion projects, through technical upgrading and through de-bottlenecking.

The company is expanding its seamless tubes unit with a PQF (perfect-quality-finish) mill designed and supplied by SMS (Germany). Expected to be completed in August '08, it would improve the plant-yield from 77% to about 87%.

Through various measures, blast-furnace productivity, too, is set to improve -- from 200,000 tpa now to 220,000 tpa.

Commissioning of a sinter plant in November '06 is expected to substantially reduce the cost of DI pipes.

Commissioning of a 15-MW power plant by August '07 is expected to lower cost considerably.

All these steps, coupled with volume expansion, are expected to improve its EBIDTA margin -- from 11.5% to 13.5% by FY09.

Peer Comparison

(x)

	P / E*	EV / EBIDTA	M Cap / Sales	P / BV
Maharashtra Seamless	17.0	9.4	1.8	4.7
Welspun Gujerat Stahl	16.0	9.0	0.6	2.4
Man Industries	11.6	8.2	0.8	2.5
PSL	11.5	8.2	0.5	3.1
Jindal Saw	12.1	5.5	0.4	1.7

Source: Capitaline, PL Research

*PE on TTM and other parameters on FY06 basis



Valuation and Recommendation

At the CMP, the stock trades at PER of 9.3x FY08E and 6.3x FY09E earnings respectively. Also, it trades at 6.3x FY08E and 4.7x FY09E EBIDTA.

The stock would be further boosted by the periodical announcement of orders obtained, as the company has bid for many projects and is expecting quite a few to result into orders. Besides, volume and margin expansion would act as a double boost for the top and bottom lines. We feel there is good potential from the present level, as the stock is reasonably priced -- with clear visibility of volume and margin growth in future. We recommend a **Buy** on it.

Q2 FY07 Result Overview

(Rs m)

Y/e Sept	Q2 FY07	Q2 FY06	YoY Gr. (%)	Q1 FY07	H1 FY07	H1 FY06	YoY Gr. (%)
Net Sales	12,691	9,532	33.1	11,928	24,619	17,730	38.9
EBITDA	1,459	1,080	35.2	1,365	2,825	1,994	41.6
<i>Margins (%)</i>	11.5	11.3		11.4	11.5	11.2	
Other Income	32	18	71.5	-	32	34	(7.7)
Depreciation	139	120	15.4	139	277	240	15.4
EBIT	1,352	978	38.3	1,227	2,579	1,788	44.2
Interest	291	259	12.0	331	622	547	13.7
PBT	1,062	719	47.7	895	1,957	1,242	57.6
Taxes	360	248	45.5	302	662	453	46.3
PAT	702	471	49.0	593	1,295	789	64.1

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