

(Investment Idea)

Jindal Stainless (JSL)

JSL, India's largest integrated manufacturer of stainless steel flat products, has reported robust performance for Q3 FY 2007.

Net Sale doubled to Rs. 1445.6 crore (Rs. 707.4 crore) led by skyrocketing of export sales to Rs. 800.8 crore (Rs. 236 crore). Domestic sales grew @ 35.4% to Rs. 744.1 crore (Rs. 549.6 crore). OPM% enhanced to 15.6% (12.4%) because of improved product mix, cost savings led by optimized operations, efficient procurement and increased production of ferro-chrome at Orissa plant. It was despite spurt in raw material cost to 65.9% (60.7%) of sales due to volatile nickel prices. Riding on strong sales and improved profitability, PBT shot up to Rs. 173.34 crore (Rs. 33.86 crore), growth of 411.9% even after accounting for 83.2% higher depreciation of Rs. 58.53 crore owing to ongoing capacity expansion. PAT zoomed to Rs. 113.05 crore (Rs. 20.94 crore).

Going ahead, company is expected to sustain the growth momentum in view of

- Huge global pull – not much slowdown in demand from China, robust demand from India and Latin America will be driving future growth. In view of huge demand pull, prices are also expected to remain firm. Earlier company was facing capacity constraint. However, with commissioning of Orissa plant, company is well placed to meet growing demand.
- Nickel (main raw material) prices are expected to remain stable. This coupled with impetus on value added stainless steel to significantly boost profitability in future.
- Has planned massive capacity expansion
 - a. 1.6 million tonnes Greenfield project in phases at Orissa. Operations of 2x60 MVA Ferro-Chrome furnaces have already started. JSL expects to start 2x125 MW power plants by June 2007 followed up by setting up of other Ferro alloys units of Ferro-Manganese and Silico - Manganese.
 - b. Cold rolling capacity is being expanded from 150,000 tonnes to 275,000 tonnes,
 - c. Capacity of precision strip is being increased from 15000 tonnes to 30000 tonnes.
 - d. After successful operations of its subsidiary Jindal Stainless Steelway Limited (JV with Steelway, Italy) at Manesar, plans to set up 2nd plant at Mumbai (expected to be start operation by July 2007) followed up by one in Chennai and others in Gujarat & overseas.
- Maspion Stainless Indonesia (acquired in 2004) has added strength to JSL's reach in South East Asian markets. It has also helped to build in synergies as Hot rolled coils manufactured at Indian plant is being cold rolled at Indonesia and used for servicing South East Asian & global market. This subsidiary has turned around in Q3 FY 2007. JSL will be doubling capacity to 150,000 tonnes considering importance of emerging South East Asian and other global markets.

Thus, company is set on course to become more competitive with backward integration into power intensive ferro chrome at competitive cost, simultaneously moving up the chain by enhancing capacity of cold rolling mills and precision strips.

At CMP of Rs. 230/-, share is trading at 8.1 times FY 2007 expected EPS of Rs. 28.39 and 6.23 times FY 2008 expected EPS of Rs. 36.90. In view of very optimistic future outlook, we recommend to BUY the share at CMP.

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January 29, 2007