Mukand

Rs 86

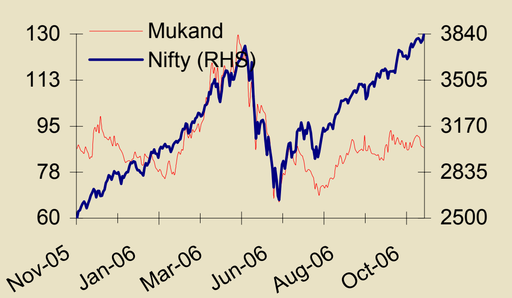
Accumulate

13th Nov 2006

SCRIP DETAILS	
Market Cap (Rs crores)	634.1
P/E (x) FY07E	6.2
Market Cap/Sales (x) FY07E	0.3
EV/EBIDTA (x) FY07E	4.5
Dividend (Rs)/ Yield (%)	-/-
Equity Capital (Rs crores)	73.1
Face Value (Rs)	10.0
52 Week High/Low (Rs)	135.0/65.0
Website: www.mukand.com	
NSE Code	MUKANDLTD
Sensex	13,282.9
Nifty	3,834.8

SHARE HOLDING PATTERN (As on 30th Sept 2006)	
Promoter	46.8
Mutual Funds/ Banks/ FIs	17.2
FIIs	3.5
Public	24.9
Others	7.6

COMPARATIVE PRICE MOVEMENT



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Mukand, a diversified company involved in the manufacturing of specialty steels, heavy machinery and the construction of highways, has reported excellent results for Q2FY07, where its sales have gone up by 24% and profits by 62%.

Excellent sales growth by 24%: For Q2, the Company has reported 24% increase in sales, to Rs 457.2 crores. Alloy steel revenues increased by 26%, to Rs 285 crores, while stainless steel reported 38% growth, to Rs 153 crores. Even on a QoQ basis, the Company has reported 8.9% growth in sales, with alloy steel revenues increasing by 8.8% and stainless steel by 13.3%. The Company benefited from increased production in both its facilities; While the Kalwe plant registered a 30% YoY-increase in the production of bars & rods, to 80,057 tonnes, the production at the Ginigera plant increased by 28%, to 59,711 tonnes (Mukand's share). Also, the Company has hiked the prices twice, first in Apr06 and then in Sept06. The demand for special and alloy steel from the auto & auto component sector continues to remain robust. Even, the demand for low nickel bearing stainless steel went up on account of higher nickel prices.

Operational efficiencies stabilise the margin: The cost of raw material consumption went up by 15%, to Rs 192.3 crores. However, as a percentage of sales, it dipped by 330 bps, to 42.1%, primarily on account of the fall in prices of metallurgical coke (a major raw material), from a high of US$ 275 per tonne in Apr05 to the current ~US$ 170 per tonne. This led to huge savings in raw material cost. Even though the stores & spares cost increased by 26.7%, to Rs 71.4 crores, control over other expenses stabilised the operating margin. Staff cost declined as a percentage of sales by 20 bps, to 4%, resulting in operating profit growing in tandem with sales by 23.8%, to Rs 62.9 crores. Margin remained at 13.8%.

The Company continued its thrust on value-added products. During the quarter, the turnover of bright bars went up by 25%, while that of wires went up by 74%. This augurs well for the Company, since value-added products give it higher margins than do regular steel.

Decline in interest cost resulted in expansion of net profit margin: With a continued thrust on reducing the debt, the Company saw its interest cost decline by 8.1%, to Rs 24.9 crores. For H1, it declined by 8.1%, to Rs 49.6 crores. The decline in interest cost is primarily due to the repayment of the Rs 100 crore-debt to HDFC, during the quarter. With this, the Company has repaid the entire debt of Rs 165 crores, which it availed in FY05. The total outstanding debt stands at Rs 954 crores, as against Rs 1,054 crores in Q1FY07. Debt-equity ratio has improved to 1.48:1, from 1.63:1 in Q1FY07.

Depreciation cost increased marginally to Rs 15.4 crores, from Rs 14 crores in Q2FY06. In the absence of any extraordinary item, PBT surged by 64.9%, to Rs 28.5 crores. After providing for tax of Rs 3.4 crores against Rs 1.7 crores in Q2FY06, PAT increased by a stunning 62%, to Rs 25.2 crores, with the margin improving by 130 bps, to 5.5%.

Financials

YE March 31 (Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Net Sales	**457.2**	**368.6**	**24.0**	**877.0**	**741.5**	**18.3**	**1,565.1**
Raw Mat. Cost	188.7	150.5	25.4	336.1	312.8	7.4	620.7
Personnel	18.3	15.5	18.3	35.9	31.7	13.0	66.6
Stores & spares consumed	71.4	56.3	26.7	141.5	104.9	34.9	227.4
Other expenses	116.0	95.5	21.4	246.8	190.8	29.3	428.3
Total expenditure	**394.3**	**317.8**	**24.1**	**760.2**	**640.2**	**18.7**	**1,343.0**
Operating Profit	**62.9**	**50.8**	**23.8**	**116.8**	**101.3**	**15.3**	**222.1**
Other Income	6.0	6.2	(2.7)	11.8	9.2	28.9	27.3
Interest	24.9	27.1	(8.1)	49.6	54.0	(8.1)	105.4
Gross Profit	**44.0**	**29.9**	**47.3**	**79.0**	**56.4**	**39.9**	**144.0**
Depreciation	15.4	14.0	10.6	29.8	28.1	6.0	57.9
PBT before extraord.	**28.5**	**15.9**	**79.5**	**49.2**	**28.4**	**73.3**	**86.0**
Extraordinary income	-	1.4		-	4.1		35.9
PBT	**28.5**	**17.3**	**64.9**	**49.2**	**32.5**	**51.4**	**122.0**
Prov. for Tax	3.4	1.7	100.0	5.9	3.3	78.8	18.5
PAT	**25.2**	**15.6**	**62.0**	**43.3**	**29.2**	**48.3**	**103.4**
PAT (adj. For extraord.)	**25.2**	**15.1**	**67.3**	**43.3**	**27.7**	**56.0**	**90.8**
Equity Share capital	73.1	73.1		73.1	73.1		73.1
EPS (Rs)	**3.4**	**2.1**	**62.0**	**5.9**	**4.0**	**48.3**	**14.1**
EPS (adj. for extraord.)	3.4	2.1	67.3	5.9	3.8	56.0	12.4
CEPS (Rs)	5.6	4.0	37.6	10.0	7.8	27.6	22.1
OPM (%)	13.8	13.8		13.3	13.7		14.2
*PBT (%)	6.2	4.3		5.6	3.8		5.5
Adj. PAT (%)	5.5	4.1		4.9	3.7		5.8

**before extra-ordinary*

Segmental Performance

(Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Revenue							
Iron & steel products	453.4	370.4	22.4	850.4	746.2	14.0	1,531.0
Industrial Machinery	57.9	36.2	60.1	106.7	56.6	88.6	147.1
Road construction	17.2	20.5	(15.8)	49.6	55.1	(10.0)	119.6
***Total**	**528.3**	**427.6**	**23.6**	**1,008.4**	**858.3**	**17.5**	**1,801.5**
PBIT							
Iron & steel products	49.5	35.8	38.3	87.2	74.5	17.1	162.4
Industrial Machinery	10.3	7.9	30.4	21.5	10.5	104.4	31.8
Road construction	(5.0)	0.0		(6.9)	0.2		(2.4)
***Total**	**55.7**	**44.3**	**25.7**	**102.9**	**86.0**	**19.6**	**193.5**
Margin (%)							
Iron & steel products	10.9	9.7		10.3	10.0		10.6
Industrial Machinery	17.8	21.9		20.2	18.6		21.6
Road construction	(29.0)	0.0		(14.0)	0.3		(2.0)
***Total**	**10.5**	**10.4**		**10.2**	**10.0**		**10.7**

** includes others*

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Valuation and Conclusion

Mukand is a speciality steel producer and its product portfolio caters substantially to the auto sector. Additionally, its industrial machinery division is on a high growth trajectory, with an order backlog of Rs 200 crores. The Company is currently implementing massive capex plans totalling Rs 270 crores, with a focus on further value-addition in products. The Company is de-gearing rapidly, aided by business turnaround and sale of land. We expect the Company to deliver equally outstanding results for H2FY07. At the current market price of Rs 86, the stock trades at 6.2x its FY07e EPS of Rs 14.5, MCap/ sales of 0.4x and EV/ EBITDA of 4.6x. We recommend investors to stay invested in the stock, with a long-term perspective.

WAY2WEALTH Research

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