

**Key data**

Sector	Steel Pipes
Market Cap	Rs16bn / US\$0.4bn
52 Wk H/L (Rs)	409/182
Avg. daily vol. (6 month)	120,432

BSE Code	526801
NSE Code	PSL
Bloomberg	PSLL IN
Reuters	PSLH.BO

Sensex	18,493
Nifty	5,474

**Shareholding pattern (%)**

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	21.6	23.7
MFs and institutions	2.6	9.9
Promoters	60.2	48.9
Others	15.7	17.6

**Absolute returns (%)**

	1mth	3mth	12mth
PSL	5.7	5.1	89.2
Sensex	11.6	17.5	46.5
BSE Metals	20.1	25.1	72.5

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# PSL

**Accumulate**
**Current Price: Rs390**
**Target price: Rs490**
**Results are below our estimates.**
**Figure 1: Actual Vs Religare Estimates**

	Q2FY08A	Q2FY08E	Difference (%)
Net sales	4,965	5,000	(0.7)
EBITDA	499	525	(4.9)
EBITDA margins (%)	10.1	10.5	-44bps
PAT	191	242	(21.0)
PAT margins (%)	3.9	4.8	-99bps

Source: Religare Institutional Research

**Financial highlights**

- **Net sales** have risen by 60.9% YoY to Rs5.0bn, driven by 50% YoY growth in pipes volume which increased to 66,646 MT as against 44,443 MT in Q2FY07. Growth during the quarter has been higher because of an increase in average realization.
- **EBITDA** grew by 43.8% YoY to Rs499mn. EBITDA margins have declined by 119bps to 10.1%. Production in H1FY08 was 160,532 MT, whereas sale was at 123,288 MT. Few cost elements on the excess production have been booked in H1FY08 which has resulted in lower EBITDA margins.
- **Adjusted PAT** has risen by 41.5% YoY to Rs191mn. Adj PAT margins declined by 49bps YoY to 3.8%. Interest costs for the quarter increased by 58% YoY to Rs162mn because of higher working capital requirement to fund the inventory buildup.

**Valuations and Recommendation**

PSL currently trades at 11.2x and 8.0x 12-month and 24-month forward diluted earnings respectively. We revise our target upward from Rs456 to Rs490 to factor in rolling forward of our earnings. Its robust order book provides strong sales visibility, and margins will rise due to higher capacity utilization. We maintain our **Accumulate**.

**Figure 2: Quarterly Performance**

	FY07				FY08E		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QA	FY07	FY08E
<b>Net Sales</b>	<b>3,745</b>	<b>3,086</b>	<b>4,988</b>	<b>4,013</b>	<b>4,101</b>	<b>4,965</b>	<b>15,832</b>	<b>22,954</b>
<i>Change %</i>	<i>(13.7)</i>	<i>35.2</i>	<i>22.2</i>	<i>(14.4)</i>	<i>9.5</i>	<i>60.9</i>	<i>2.9</i>	<i>45.0</i>
<b>EBITDA</b>	<b>3,380</b>	<b>2,739</b>	<b>4,509</b>	<b>3,676</b>	<b>3,695</b>	<b>4,465</b>	<b>14,304</b>	<b>20,428</b>
<i>EBITDA margin (%)</i>	<i>365</i>	<i>347</i>	<i>479</i>	<i>337</i>	<i>406</i>	<i>499</i>	<i>1,528</i>	<i>2,526</i>
<i>Change (%)</i>	<i>9.7</i>	<i>11.2</i>	<i>9.6</i>	<i>8.4</i>	<i>9.9</i>	<i>10.1</i>	<i>9.7</i>	<i>11.0</i>
Depreciation	12.6	5.4	9.6	32.7	11.3	43.8	13.6	65.3
Other Income	106	106	117	111	130	130	439	542
Interest exp/(inc)	22	66	60	103	44	67	251	263
<b>PBT</b>	<b>92</b>	<b>102</b>	<b>134</b>	<b>106</b>	<b>94</b>	<b>162</b>	<b>435</b>	<b>594</b>
<i>PBT margin (%)</i>	<i>189</i>	<i>205</i>	<i>289</i>	<i>222</i>	<i>226</i>	<i>275</i>	<i>904</i>	<i>1,653</i>
<i>PBT growth (%)</i>	<i>5.0</i>	<i>6.5</i>	<i>5.7</i>	<i>5.4</i>	<i>5.5</i>	<i>5.5</i>	<i>5.6</i>	<i>7.1</i>
Extraordinary exp/(Inc)	6.5	74.6	80.5	(8.4)	19.9	34.1	29.8	82.8
Tax	0	0	0	42	0	0	42	0
<i>Effective tax rate (%)</i>	<i>40</i>	<i>70</i>	<i>81</i>	<i>50</i>	<i>55</i>	<i>84</i>	<i>240</i>	<i>476</i>
<b>PAT reported</b>	<b>21.2</b>	<b>34.0</b>	<b>27.9</b>	<b>22.6</b>	<b>24.3</b>	<b>30.4</b>	<b>26.6</b>	<b>28.8</b>
<b>Adjusted PAT *</b>	<b>149</b>	<b>135</b>	<b>208</b>	<b>158</b>	<b>171</b>	<b>191</b>	<b>650</b>	<b>1,177</b>
<i>Adj PAT margin (%)</i>	<i>4.0</i>	<i>4.4</i>	<i>4.2</i>	<i>3.9</i>	<i>4.2</i>	<i>3.9</i>	<i>4.1</i>	<i>5.1</i>
<i>Change (%)</i>	<i>23.8</i>	<i>69.8</i>	<i>54.5</i>	<i>(10.3)</i>	<i>15.2</i>	<i>41.5</i>	<i>27.3</i>	<i>81.1</i>
Equity Capital (Rs mn)	320	320	320	341	342	421	341	431
Adj EPS	4.7	4.2	6.5	4.6	5.0	4.5	19.1	27.3

\* Excluding extraordinary

### Other business highlights

- The current order book at Rs23.5bn is 1.6x FY07 gross sales and will be executed over the next 12-15 months.
- Company's 300,000 MT US plant is expected to be commissioned by Q1FY09.

**Figure 3: Table for earnings revision**

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Net Sales	22,954	34,122	43,405	22,954	34,122	43,405	0.0	(0.0)	(0.0)
EBITDA	2,526	3,857.00	4,906.00	2,526	3,857	4,906	(0.0)	0.0	0.0
EBITDA margin (%)	11.0	11.3	11.3	11.0	11.3	11.3	0bps	0bps	0bps
PBT	1,753	2,668	3,435	1,653	2,568	3,383	(5.7)	(3.8)	(1.5)
Adj PAT	1,197	1,838	2,375	1,177	1,819	2,398	(1.7)	(1.0)	0.9
Adj PAT margin (%)	5.2	5.4	5.5	5.1	5.3	5.5	-9bps	-6bps	5bps
Adj EPS (Rs)	32.2	45.5	58.8	30.5	42.2	55.6	-168bps	-338bps	-322bps

Source: Religare Institutional Research

**Figure 4: Valuation summary – Steel Pipes**

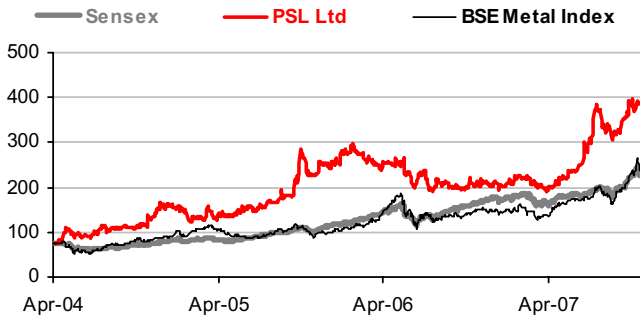
Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs mn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Man Ind	126	Buy	192	6,716	3,804	30.0	457	38.6	188	26.8	7.1	26.8	16.1	7.8	20.0	6.3
Jindal Saw	591	Accumulate	808	28,604	12,993	15.7	1,632	63.5	793	66.6	16.4	67.3	59.9	9.9	89.8	6.6
Maharashtra Seamless	500	Buy	800	35,270	4,745	37.0	1,160	26.1	830	33.6	11.8	17.0	48.3	10.4	60.5	8.3
PSL	390	Accumulate	456	16,419	4,965	60.9	499	43.8	191	41.5	4.5	7.4	30.5	12.8	42.2	9.2
Welspun	320	Buy	445	54,848	9,276	37.5	1,533	92.8	825	146.3	4.8	92.0	19.0	16.9	31.0	10.3

Source: Religare Institutional Research

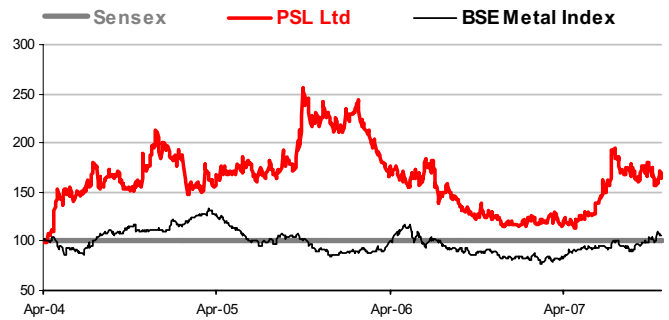
# Stock performance

## PSL

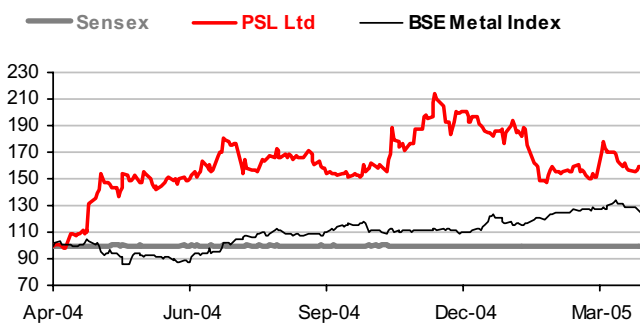
**Absolute Perf. From Apr 04**



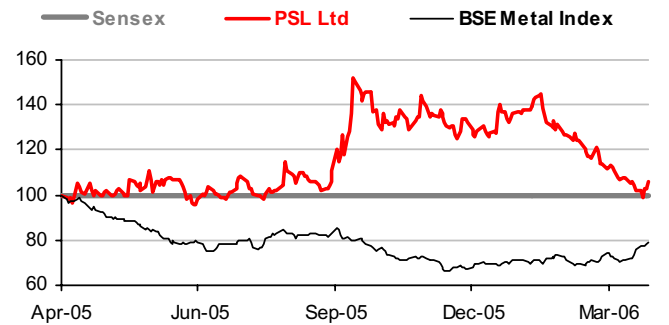
**Relative Perf. From Apr 04**



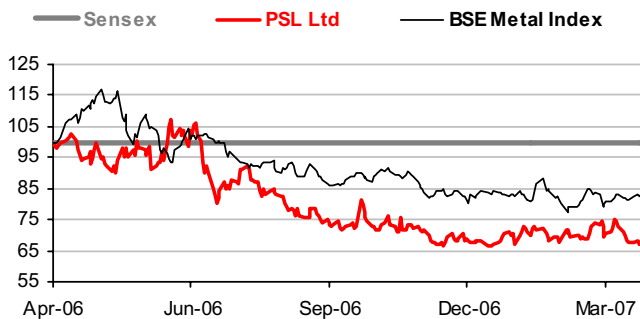
**Relative Perf. From Apr 04 to Mar 05**



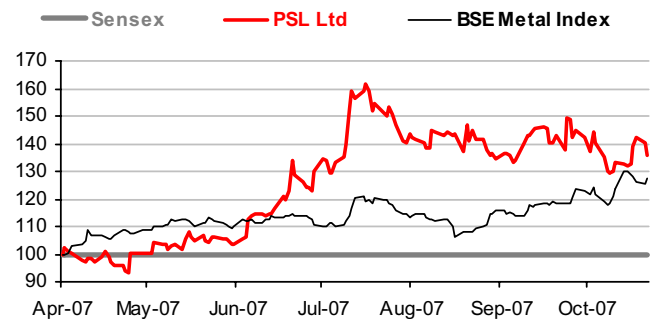
**Relative Perf. From Apr 05 to Mar 06**



**Relative Perf. From Apr 06 to Mar 07**



**Relative Perf. From Apr 07**

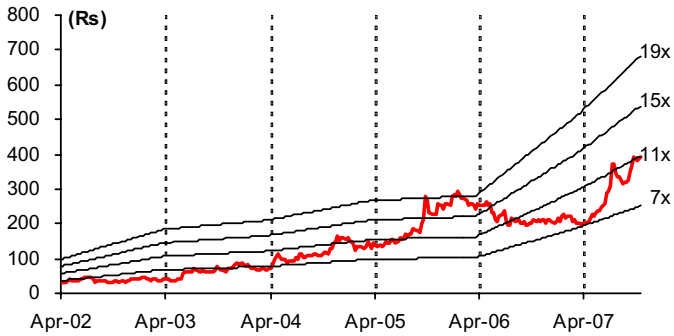


Source: Bloomberg, Religare Institutional Equity Research

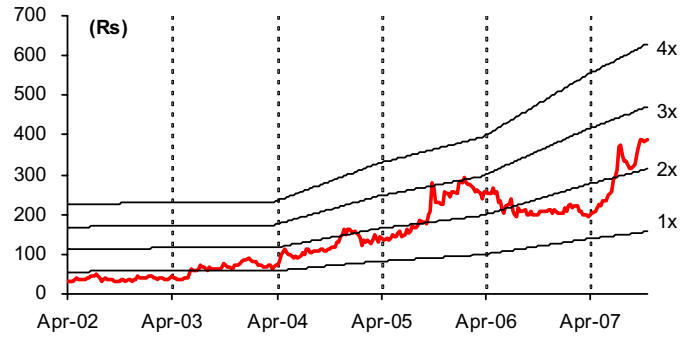
# 12 month forward rolling band charts

PSL

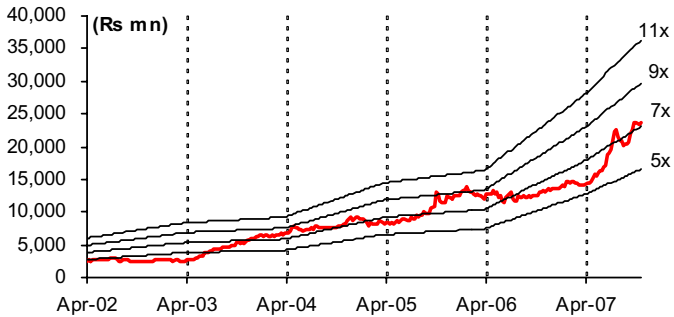
**P/E Band**



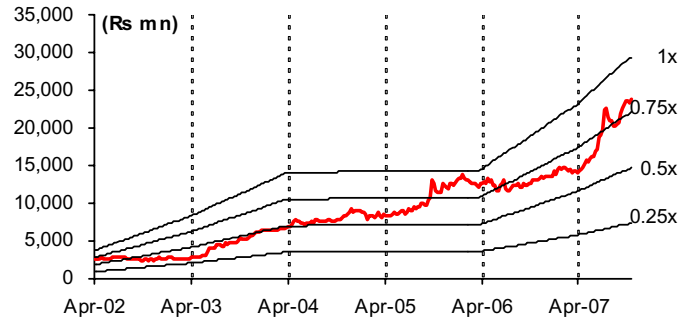
**P/BV Band**



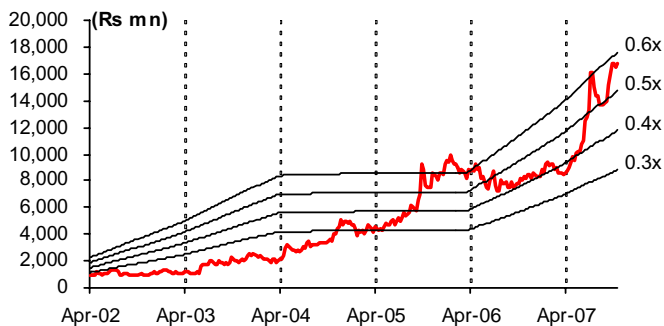
**EV/EBITDA Band**



**EV/Sales Band**



**Mkt cap/Sales Band**



## Financials

### Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	14,332	14,282	22,954	34,122	43,405
EBITDA	1,317	1,485	2,526	3,857	4,906
EBITDA margin (%)	9.2	10.4	11.0	11.3	11.3
Depreciation	339	439	542	738	886
EBIT	978	1,046	1,984	3,119	4,020
Other income	176	251	263	277	290
Interest Exp/(Inc)	485	435	594	827	927
PBT (Operating)	669	862	1,653	2,568	3,383
PBT margin (%)	4.7	6.0	7.2	7.5	7.8
Extra ord (inc)/exp	0.0	0.0	0.0	0.0	0.0
Taxes	177	240	476	749	986
PAT (Reported)	492	622	1,177	1,819	2,398
Less: Extra ordinary income / Others	0	(28)	0	0	0
Adj PAT	492	650	1,177	1,819	2,398
Adj PAT margin (%)	3.4	4.6	5.1	5.3	5.5

### Quarterly – Financials

(Rs mn)

(Rs mn)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	3,086	4,988	4,013	4,101	4,965
Changes (%)	35.2	22.2	(14.4)	9.5	60.9
EBITDA	347	479	337	406	499
Changes (%)	5.4	9.6	32.7	11.3	43.8
Margin (%)	11.2	9.6	8.4	9.9	10.1
PAT	135	208	130	171	191
PAT adj	135	208	158	171	191
Changes (%)	69.8	54.5	(10.3)	15.2	41.5
Margin (%)	4.3	4.1	3.8	4.1	3.8
EPS adj (Rs)	4.2	6.5	4.6	5.0	4.5
EPS dil (Rs)	3.1	4.8	3.7	4.0	4.4

### Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Growth</b>					
Net sales (%)	2.7	(0.4)	60.7	48.7	27.2
EBITDA (%)	56.8	12.8	70.0	52.7	27.2
PAT adjusted (%)	53.7	32.2	81.0	54.6	31.8
EPS adjusted (%)	46.0	21.9	54.8	38.3	31.8
EPS diluted (%)	27.1	9.8	76.6	54.6	31.8

### Valuations

P/E (x)	27.7	25.2	14.3	9.2	7.0
P/BV (x)	4.7	4.0	2.8	2.3	1.8
EV/EBITDA (x)	13.8	12.7	8.9	6.4	4.9
EV/Sales (x)	1.3	1.3	1.0	0.7	0.5

### Profitability

EBITDA margin (%)	9.2	10.4	11.0	11.3	11.3
Adj PAT margin (%)	3.4	4.6	5.1	5.3	5.5
RoE (%)	16.4	13.8	21.4	27.3	28.6
RoCE (%)	13.1	13.3	19.1	22.7	24.4
RoIC (%)*	9.8	8.8	13.8	16.4	18.0

### B/S ratios

Inventory days	170.2	213.0	190.0	160.0	160.0
Creditor days	118.4	127.6	120.0	120.0	120.0
Debtor days	92.9	81.4	90.0	90.0	90.0
Working Capital days	130.8	139.9	102.0	105.1	104.8
Net debt/equity	0.9	0.8	0.9	1.1	0.7

\* ROIC is calculated on post tax basis.

### Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Liabilities</b>					
Equity share capital	320	341	431	431	431
Total Res. & Surplus	2,305	3,021	5,513	6,953	8,947
<b>Total Shareholders' fund</b>	<b>2,625</b>	<b>3,362</b>	<b>5,944</b>	<b>7,385</b>	<b>9,379</b>
Convertible Debt	1,701	1,709	0	0	0
Others Debt	5,110	4,989	7,524	9,024	9,524
<b>Total Loans</b>	<b>6,810</b>	<b>6,698</b>	<b>7,524</b>	<b>9,024</b>	<b>9,524</b>
Deferred tax liability (net)	32	7	27	47	67
<b>Total liabilities</b>	<b>9,467</b>	<b>10,066</b>	<b>13,495</b>	<b>16,456</b>	<b>18,969</b>
<b>Assets</b>					
Net fixed assets & others	3,382	3,873	4,332	6,593	6,357
Capital WIP & others	146	743	200	250	251
<b>Total non-current assets</b>	<b>3,528</b>	<b>4,617</b>	<b>4,532</b>	<b>6,843</b>	<b>6,608</b>
<b>Total investments - non current</b>	<b>90</b>	<b>531</b>	<b>531</b>	<b>531</b>	<b>531</b>
<b>Current assets</b>					
Inventories	5,195	6,219	8,184	10,245	13,033
Sundry debtors	4,200	2,173	5,660	8,414	10,703
Cash & cash equivalents	1,156	1,145	1,878	1,099	2,541
Cash	1,132	1,121	1,854	1,075	2,517
Liquid investments	24	24	24	24	24
Other current assets	1,146	1,120	1,377	1,365	1,302
<b>Total current assets</b>	<b>11,698</b>	<b>10,657</b>	<b>17,100</b>	<b>21,122</b>	<b>27,578</b>
<b>Total current liabilities</b>	<b>5,512</b>	<b>5,146</b>	<b>8,038</b>	<b>11,096</b>	<b>14,549</b>
<b>Total provisions</b>	<b>337</b>	<b>594</b>	<b>630</b>	<b>946</b>	<b>1,200</b>
<b>Net current assets</b>	<b>5,849</b>	<b>4,918</b>	<b>8,432</b>	<b>9,081</b>	<b>11,829</b>
Misc. expenditure	0	0	0	0	0
<b>Total assets</b>	<b>9,467</b>	<b>10,066</b>	<b>13,495</b>	<b>16,456</b>	<b>18,969</b>

### Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Cash from operations</b>					
PBT	669	862	1,653	2,568	3,383
Tax paid	(100)	(144)	(500)	(456)	(729)
Dep & amortization	339	439	542	738	886
Working capital changes	(1,264)	663	(2,817)	(1,744)	(1,560)
Others	(9)	(0)	0	0	1
<b>Net cash from operations</b>	<b>(365)</b>	<b>1,820</b>	<b>(1,122)</b>	<b>1,106</b>	<b>1,982</b>
<b>Cash from investments</b>					
Capital expenditure	(1,106)	(1,528)	(457)	(3,050)	(650)
Sale/purchase of inv & others	2	(298)	0	0	0
<b>Net cash from investments</b>	<b>(1,105)</b>	<b>(1,826)</b>	<b>(457)</b>	<b>(3,050)</b>	<b>(650)</b>
<b>Cash from financing</b>					
Issue of shares & share premium	698	435	1,709	0	0
Dividend paid	(150)	(185)	(223)	(335)	(389)
Debt change	318	(254)	827	1,500	500
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>866</b>	<b>(5)</b>	<b>2,312</b>	<b>1,165</b>	<b>111</b>
<b>Net change in cash</b>	<b>(604)</b>	<b>(11)</b>	<b>733</b>	<b>(780)</b>	<b>1,442</b>

### Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	16.2	19.7	30.5	42.2	55.6
EPS diluted - wtd	14.1	15.5	27.3	42.2	55.6
CEPS	26.0	31.2	39.8	59.3	76.1
Book value	82.1	98.7	137.8	171.2	217.4
Dividend	5.0	5.0	6.0	7.5	8.0
O/s shs.-actual (mn)	32.0	34.1	43.1	43.1	43.1
O/s shs.-diluted (mn)	41.0	43.1	43.1	43.1	43.1
O/s shs wtd / diluted (mn)	35.0	42.1	43.1	43.1	43.1

**Religare Institutional Equity Team**

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**Rating definition**

<b>Buy</b>	: > 15% returns relative to Sensex	<b>Accumulate</b>	: +5 to +15% returns relative to Sensex
<b>Sell</b>	: > (-)15% returns relative to Sensex	<b>Reduce</b>	: (-) 5 to (-) 15% returns relative to Sensex
<b>Hold</b>	: Upto + / (-) 5% returns relative to Sensex		

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