

16 June, 2008

| Key Data | INR |
|--------------|--------|
| CMP | 574.05 |
| Target Price | 737.20 |

| Key Data | |
|------------------------|-----------|
| Bloomberg Code | JSAW IN |
| Reuters Code | JIND.BO |
| BSE Code | 500378 |
| NSE Code | JINDALSAW |
| Face Value (INR) | 10 |
| Market Cap. (INR mn.) | 27925.9 |
| 52 Week High (INR) | 1,224.9 |
| 52 Week Low (INR) | 516.0 |
| Avg. Daily Volume (6m) | 54231 |
| Beta (Sensex) | 1.02 |

| F&O | |
|-------------------|-------|
| Market Lot | 250 |
| Turnover (INR mn) | 139.3 |

| Shareholding | % |
|---|-------|
| Promoters | 43.76 |
| Mutual Funds / Bank/ FI | 17.21 |
| Foreign Institutional Investors | 17.09 |
| Bodies Corporate/Individuals/ Others | 21.94 |
| Total | 100.0 |

| Particulars | FY 06 | CY07 (15M) | CY08E | CY09E |
|------------------------|----------|---------------|----------|----------|
| Revenues (Rs. mn) | 38,731.0 | 70,157.0 | 39,396.6 | 56,249.4 |
| Op. Profit (Rs. mn) | 4,065.0 | 8,007.5 | 5,811.0 | 8,578.0 |
| OPM % | 10.5 | 11.4 | 14.8 | 15.3 |
| PAT (Rs. mn) | 1,649.0 | 13,293.7 | 2,923.3 | 5,031.0 |
| EPS (Rs.) | 34.1 | 259.9 | 52.1 | 81.9 |

FY06: September Ending

Analyst

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Jindal Saw Ltd

Introduction

Jindal Saw Ltd (JSL), promoted by Mr. O P Jindal started its operations in 1984. JSL is the largest pipe manufacturer in India offering total pipe solutions. It manufactures SAW Pipes, Ductile Iron Pipe and Seamless Tubes, which find application in exploration and transportation of oil, gas and water infrastructure projects. Major focus is on international market especially Middle east, with over 60% of its revenues coming from exports. JSL is accredited by major international Oil & Gas players.

Investment Rationale

- **Global & domestic demand for pipe:** Total world demand for pipes is estimated at USD 74 bn (235,171 km) for next five years from 2007-2011 (Source: Simdex). The major portion of world demand for pipes is expected to come from Middle East and Asian countries constituting over 45% of the world demand followed by North America (33%) and Europe (15%).

There also exists a strong domestic demand for pipes. Domestic demand for pipes is approximately USD 5.5 bn. Indian player due to their locational advantage carry potential to cater to entire domestic demand of USD 5.5 bn.

- **Capacity Addition:** In order to tap growing global as well as domestic demand for pipes, JSL is undertaking significant capacity addition. Installed capacity will increase from 1,250,000 Mtpa to 1,950,000 Mtpa by CY08 and will be major volume driver. Capacity build up will mainly address growing demand from Middle East and India.
- **Margin Improvement:** JSL sold off its US operations in November 2007. US operations earned lower EBIDTA margins of 7% to 8% and created a drag on JSL's margins. Divestment of US operations has also infused cash of over USD 200 mn and strengthened JSL's balance sheet. Sale of US operations along with de-bottlenecking exercises at JSL's DI and seamless plant are expected to improve its operating margins from 11.4% in CY07 to 15.3% in CY09E
- **Strong Order book:** JSL has a strong order book of USD 1 bn, executable by January 2009. Current order book is equivalent to 1.2x times of JSL's 2007 sales (annualized) from Indian operations.

Export Duty Issue

Government of India had earlier issued a notification (dated 10th May, 2008), which levied export duty of 10% on export of pipes and tubes.

According to new notification (dated 13th June, 2008) of Government of India, export duties of 10% on pipes and tubes have been removed.

"Flat-rolled products of iron and steel, including galvanized products, and pipes and tubes that attracted export duty ranging from 5% to 15% ad valorem, have been fully exempted from export duty"

Valuation and Recommendation

We estimated levy of export duty would definitely have a negative impact on company's earnings till date it remained enforced. Hence, we had recommended (dated 15th May 2008) clients to reduce exposure and avoid fresh investment.

However, with the removal of export duty on pipes and tubes, we are revising our recommendation on Jindal Saw Ltd.

Considering strong global demand for pipes coupled with JSL's capacity addition plans, potential for improvement in margins and strong order book, we expect JSL's EPS to grow from Rs 60.6 (annualized and excluding income from divestment) in CY07 to Rs 81.9 in CY09E. At the CMP of Rs. 574 the stock is trading at P/E of 11.02x for CY08E EPS and 7.01x for CY09E EPS. We recommend a **BUY** for Jindal Saw with a price-target of Rs. 737.2 (implying a forward P/E multiple of 9x to CY09E EPS)

Financials statements

| Profit & Loss Account (Normalized and annualized: CY07) | | | | | | (Rs. in mn) |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Particulars | FY04 * | FY05 * | FY06 * | CY07 | CY08E | CY09E |
| Net Sales | 10,856.4 | 23,138.5 | 38,731.4 | 56,125.6 | 39,396.6 | 56,249.4 |
| Total Expenditure | 9,509.1 | 20,467.4 | 34,666.0 | 49,719.6 | 33,585.6 | 47,671.3 |
| Operating Profits | 1,347.3 | 2,671.1 | 4,065.4 | 6,406.0 | 5,811.0 | 8,578.0 |
| Other Income | 73.5 | 179.8 | 281.3 | 90.2 | 275.8 | 281.2 |
| EBDIT | 1,420.8 | 2,850.9 | 4,346.7 | 6,496.2 | 6,086.8 | 8,859.3 |
| Depreciation | 229.7 | 365.0 | 537.1 | 618.4 | 977.8 | 1,002.8 |
| EBIT | 1,191.2 | 2,485.8 | 3,809.6 | 5,877.8 | 5,109.0 | 7,856.5 |
| Interest | 408.5 | 984.6 | 1,290.2 | 1,547.0 | 991.7 | 770.5 |
| PBT | 782.7 | 1,501.2 | 2,519.4 | 4,330.8 | 4,117.3 | 7,086.0 |
| Taxes | 214.7 | 506.9 | 868.6 | 1,230.4 | 1,194.0 | 2,054.9 |
| Profit After Tax | 568.0 | 994.3 | 1,649.1 | 3,100.4 | 2,923.3 | 5,031.0 |
| Growth in sales (%) | | 113.1 | 67.4 | 44.9 | -29.8 | 42.8 |
| Operating Profits Growth (%) | | 98.3 | 52.2 | 57.6 | -9.3 | 47.6 |
| PAT Growth (%) | | 75.0 | 65.9 | 88.0 | -5.7 | 72.1 |
| Operating Profit Margin (%) | 12.4 | 11.5 | 10.5 | 11.4 | 14.8 | 15.3 |
| Net Profit Margin (%) | 5.2 | 4.3 | 4.3 | 5.5 | 7.4 | 8.9 |

(Note: * September Ending, # CY07: Normalized (Excludes profit on Sale of US operations) and annualized)
(Source: ACMIL Research, Company)

| Profit and Loss Account (As Reported) | | | | | | (Rs. in mn) |
|---------------------------------------|----------------|----------------|----------------|-----------------|----------------|----------------|
| Particulars | FY04 * | FY05 * | FY06 * | CY07 (15m) | CY08E | CY09E |
| Net Sales | 10,856.4 | 23,138.5 | 38,731.4 | 70,157.0 | 39,396.6 | 56,249.4 |
| Total Expenditure | 9,509.1 | 20,467.4 | 34,666.0 | 62,149.6 | 33,585.6 | 47,671.3 |
| Operating Profits | 1,347.3 | 2,671.1 | 4,065.4 | 8,007.5 | 5,811.0 | 8,578.0 |
| Other Income | 73.5 | 179.8 | 281.3 | 4,516.8 | 275.8 | 281.2 |
| EBDIT | 1,420.8 | 2,850.9 | 4,346.7 | 12,524.3 | 6,086.8 | 8,859.3 |
| Depreciation | 229.7 | 365.0 | 537.1 | 773.0 | 977.8 | 1,002.8 |
| EBIT | 1,191.2 | 2,485.8 | 3,809.6 | 11,751.2 | 5,109.0 | 7,856.5 |
| Interest | 408.5 | 984.6 | 1,290.2 | 1,933.7 | 991.7 | 770.5 |
| PBT | 782.7 | 1,501.2 | 2,519.4 | 9,816.9 | 4,117.3 | 7,086.0 |
| Taxes | 214.7 | 506.9 | 868.6 | 1,538.0 | 1,194.0 | 2,054.9 |
| PAT | 568.0 | 994.3 | 1,649.1 | 8,278.9 | 2,923.3 | 5,031.0 |
| Extraordinary items | 0.0 | 0.0 | 0.0 | 5,014.8 | 0.0 | 0.0 |
| Profit After Tax | 568.0 | 994.3 | 1,649.1 | 13,293.7 | 2,923.3 | 5,031.0 |
| Growth in sales (%) | | 113.1 | 67.4 | | | 42.8 |
| Operating Profits Growth (%) | | 98.3 | 52.2 | | | 47.6 |
| PAT Growth (%) | | 75.0 | 65.9 | | | 72.1 |
| Operating Profit Margin (%) | 12.4 | 11.5 | 10.5 | 11.4 | 14.8 | 15.3 |
| Net Profit Margin (%) | 5.2 | 4.3 | 4.3 | 18.9 | 7.4 | 8.9 |

(Note: * September Ending)
(Source: ACMIL Research, Company)

| Balance Sheet | | | | | | (Rs. in mn) |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Particulars | FY04 * | FY05 * | FY06 * | CY07 (15m) | CY08E | CY09E |
| Sources of Funds | | | | | | |
| Share Capital | 389.8 | 471.1 | 483.6 | 511.4 | 560.9 | 614.2 |
| Redeemable Non Conv Pref Share | | 1,000.0 | 1,000.0 | 1,000.0 | 1,000.0 | 1,000.0 |
| Optionally Conv Warrants | | | 116.5 | | | |
| Reserves and Surplus | 3,034.6 | 6,451.1 | 8,031.1 | 22,238.2 | 28,131.3 | 37,121.1 |
| Total Shareholders Funds | 3,424.4 | 7,922.3 | 9,631.3 | 23,749.6 | 29,692.3 | 38,735.4 |
| Total Loan Funds | 7,630.3 | 11,979.2 | 16,217.3 | 12,455.4 | 9,178.9 | 6,043.1 |
| Minority Interest | 0.0 | 0.0 | 151.1 | 94.6 | 100.0 | 100.0 |
| Net Deferred Tax Liability | 465.8 | 598.8 | 763.1 | 825.8 | 1,264.3 | 1,289.5 |
| Total Capital Employed | 11,520.5 | 20,500.3 | 26,762.8 | 37,125.4 | 40,235.5 | 46,168.0 |
| Application of Funds | | | | | | |
| Gross Block | 5,091.4 | 8,633.4 | 11,049.1 | 12,336.6 | 19,556.3 | 20,056.3 |
| Less: Accumulated Depreciation | 1,573.1 | 1,980.4 | 2,499.1 | 3,246.2 | 4,224.0 | 5,226.9 |
| Net Block | 3,518.3 | 6,653.0 | 8,550.0 | 9,090.4 | 15,332.3 | 14,829.5 |
| Capital Work in Progress | 2,349.9 | 1,176.9 | 1,546.3 | 4,219.7 | 500.0 | 500.0 |
| Goodwill | 167.2 | 31.7 | 157.6 | 69.8 | 70.0 | 70.0 |
| Investments | 862.0 | 867.6 | 835.6 | 2,092.8 | 4,328.7 | 6,458.1 |
| Net Current Assets | 4,623.0 | 11,770.2 | 15,673.2 | 21,652.7 | 20,004.5 | 24,310.4 |
| Miscellaneous Expenses not w/off | 0.0 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Assets | 11,520.5 | 20,500.3 | 26,762.8 | 37,125.4 | 40,235.5 | 46,168.0 |

(Note: * September Ending)

(Source: ACMIL Research, Company)

| Cash flow Statement | | | | | | (Rs. in mn) |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Particulars | FY04 * | FY05 * | FY06 * | CY07 (15m) | CY08E | CY09E |
| Pre tax profit | 782.7 | 1,501.2 | 2,519.4 | 9,816.9 | 4,117.3 | 7,086.0 |
| Add | | | | | | |
| Depreciation | 229.7 | 365.0 | 537.1 | 773.0 | 977.8 | 1,002.8 |
| Interest Expense | 364.8 | 815.7 | 1,309.2 | 1,821.1 | 991.7 | 770.5 |
| Profit before working capital changes | 1,243.4 | 2,551.2 | 4,072.5 | 7,954.0 | 6,086.8 | 8,959.3 |
| Working capital changes | -1,060.0 | -6,134.7 | -2,230.6 | -4,635.0 | -1,766.3 | -6,125.4 |
| Less Taxes | -341.5 | -299.9 | -252.5 | -2,422.8 | -950.0 | -1,750.0 |
| Net Cash flow from operating activities | -158.1 | -3,883.5 | 1,589.3 | 7,250.5 | 3,370.4 | 1,083.9 |
| Net Cash flow in investment activities | -2,807.2 | -2,024.8 | -2,120.0 | 88.6 | -5,735.9 | -2,629.4 |
| Net Cash flow from financing activities | 3,056.5 | 7,090.0 | 2,925.7 | -4,674.3 | -1,611.5 | 105.7 |
| Net increase /(decrease) in cash | 91.2 | 1,181.8 | 2,395.1 | 2,664.8 | -3,977.0 | -1,439.8 |
| Op. balance of cash and cash equivalents | 253.5 | 344.7 | 1,526.5 | 3,921.6 | 6,586.4 | 2,609.5 |
| Cl. balance of cash and cash equivalents | 344.7 | 1,526.5 | 3,921.6 | 6,586.4 | 2,609.5 | 1,169.6 |

(Note: * September Ending)

(Source: ACMIL Research, Company)

| Ratios | | | | | | |
|--------------------------------------|--------|--------|--------|------------|-------|-------|
| Particulars | FY04 * | FY05 * | FY06 * | CY07 (15m) | CY08E | CY09E |
| Profitability Ratios | | | | | | |
| Operating Profit Margin (%) | 12.4 | 11.5 | 10.5 | 11.4 | 14.8 | 15.3 |
| EBDIT Margin (%) | 13.1 | 12.3 | 11.2 | 17.9 | 15.5 | 15.8 |
| EBDIT Margin (%) Normalized | 13.1 | 12.3 | 11.2 | 11.6 | 15.5 | 15.8 |
| PAT Margin (%) | 5.2 | 4.3 | 4.3 | 18.9 | 7.4 | 8.9 |
| PAT Margin (%) Normalized | 5.2 | 4.3 | 4.3 | 5.5 | 7.4 | 8.9 |
| RONW (%) | 16.6 | 12.6 | 17.1 | 44.8 # | 9.8 | 13.0 |
| ROCE (%) | 10.3 | 12.1 | 14.2 | 25.3 # | 12.7 | 17.0 |
| Per Share Ratios | | | | | | |
| EPS (Rs.) | 14.6 | 21.1 | 34.1 | 259.9 | 52.1 | 81.9 |
| EPS (Rs.) Normalized and annualized | 14.6 | 21.1 | 34.1 | 60.6 | 52.1 | 81.9 |
| CEPS (Rs.) | 20.5 | 28.9 | 45.2 | 177.0 | 69.5 | 98.2 |
| CEPS (Rs.) Normalized and annualized | 20.5 | 28.9 | 45.2 | 72.7 | 69.5 | 98.2 |
| BV Per Share (Rs.) | 87.9 | 168.1 | 199.1 | 464.4 | 529.3 | 630.6 |
| Valuation Ratios | | | | | | |
| P/E (x) @ Rs. 574 | | | | 9.5 | 11.0 | 7.0 |
| P/CEPS (x) @ Rs. 574 | | | | 7.9 | 8.3 | 5.8 |
| P/BV (x) @ Rs. 574 | | | | 1.2 | 1.1 | 0.9 |
| Capital Structure Ratios | | | | | | |
| Debt/Equity | 2.2 | 1.5 | 1.7 | 0.5 | 0.3 | 0.2 |
| Current Ratio | 1.7 | 3.3 | 2.3 | 3.1 | 2.6 | 2.4 |
| Turnover Ratios | | | | | | |
| Inventory Turnover (x) | 2.3 | 2.5 | 2.8 | 2.9 | 3.0 | 3.0 |
| Debtors turnover ratio (x) | 2.5 | 6.9 | 5.1 | 3.0 | 3.0 | 3.2 |
| Fixed Asset Turnover (x) | 3.1 | 3.5 | 4.5 | 6.2 | 2.6 | 3.8 |

(Note: * September Ending, # Annualized, Normalized: Excludes profit on Sale of US operations, Turnover ratios are annualized for CY07)

(Source: ACMIIL Research)

Notes:

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| Disclosure of Interest | Jindal Saw Limited |
|---|--------------------|
| 1. Analyst ownership of the stock | NO |
| 2. Broking Relationship with the company covered | NO |
| 3. Investment Banking relationship with the company covered | NO |
| 4. Discretionary Portfolio Management Services | NO |

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