



RESEARCH:: COMPANY:: JINDAL SAW LIMITED

4th January 2010

BUY

Approx price	= Rs 190
Target price	= Rs 244
Estimated EPS	= Rs 21
Projected PE	= 12-15
Investment period	= 12 mnths

STOCK INFO (TTM Basis)

Sector	Steel
Market cap (Rs.Cr)	5099.9
Face value	Rs 2
Book value	Rs 88.96
EPS	17.07
Cash EPS	20.36
Dividend	50%
Sales Growth	14.8%
RONW	20.82%
Debt to equity	0.65
52 week H/L	198.7/27
Avg Daily Vol (2wk)	2,18,000
Sensex	17,444
BSE code	500378
Management	Savitri Jindal
Incorporation	1984
Listed	NSE / BSE
Equity sh. cap	54.72cr
Promoter Holding	46.44%
M.F Holding	10.09%

Jindal Saw Limited is the flagship company of O.P. Jindal Group, one of the leading groups in India. The company is a leader in Submerged Arc Welded (SAW) pipes that are used for transportation of Oil & Gas and now increased its focus on Ductile pipes which is used for water and waste transportation.

COMPANY PROFILE

The company has diversified from a single product company to a multi-product company, manufacturing large diameter submerged arc pipes and spiral pipes; carbon, alloy and stainless steel seamless pipes and tubes; and Ductile iron (DI) pipes.

The company operates through three structured Strategic Business Units: Large Diameter Pipes, Seamless Tubes and Ductile Iron Pipes.

Large Diameter Pipes	Seamless Tubes	Ductile Iron Pipes
Manufacturing of large diameter Submerged Arc Welded Pipes.	This division manufactures Tubes & Pipes.	Backward integration with own Blast Furnace & coke oven adds value.
Used for transportation of energy in the Oil & Gas Sector.	Used in Boilers, Heat Exchangers and in General Engineering.	Ductile pipes are used in water and waste transportation segment.
Manufacturing capacity of 16,50,000 MT p.a.	Installed Capacity of 220,000 MT p.a for Carbon & Alloy steel Pipes.	Installed capacity of 300,000 MT with linings and coating facilities.

Sales break-up (in MT)

Business Units	Q3CY09*	Q3CY08	Var%	% in Q3 Sales
Large Diameter Pipes	75000	143000	-47.55	53.28
Ductile Iron Pipes	67600	62000	9.03	24.67
Seamless Tubes	25400	16000	58.75	22.08
Total	168000	221000	-23.98	100

*CY: - calendar year

In Q3CY09 Large Diameter Pipes contributes about 53% of sales at 75000 units, which was 47% less over the same period last year, mainly due to slowdown in demand for large diameter pipes. However, there is an increase in total number of units sold in quarter for both: Ductile iron Pipes and Seamless Tubes by 9% and 58.75% respectively, as the urbanization of the country is going on demand for Ductile Iron Pipes and Seamless Tubes is expected to rise further.

Quarterly Analysis:

	30-Sep-09	30-Sep-08	Var% YOY	30-Jun-09	Var% QOQ
Total Income	1373.92	1488.68	-7.7	1501.66	-8.51
Expenditure	1117.77	1286.87	-13.1	1262.1	-11.44
PBIDT	256.15	201.81	26.9	239.56	7.00
PBT	193.12	129.32	49.3	180.31	7.10
Tax	46.69	29.24	59.7	44.32	5.35
Net Profit	146.43	100.08	46.3	135.99	7.68

During the quarter ended 30th, Sep 2009, total income of the company reported a decline of 7.7% on YoY basis at Rs 1373.92cr against Rs1488.68cr in the same quarter last year, decline was due to the low realization this quarter and delay in shipment of seamless pipe order of 15000 tones. On QoQ basis, the total income of the company falls by 8.5% against Rs 1501.66cr in Q2CY09.

Operating profit of the company increased by 27% in Q3 CY09 at Rs 255.08 against the Rs 199.54 in Q3 CY08, as raw material fell by massive 41.5% at Rs 662.52cr against Rs 1133.21cr resulting in profitability in all segments. The Operating Profit Margin (OPM) increased sharply by 520 basis points to 18.6%. Blended EBITDA /MT for Sep 2009 quarter is app. Rs 15,040 of total pipes sold which is higher as against blended EBITDA/MT of Rs 12517 for the quarter ended June 2009 and Rs 8934 for the Quarter ended 30th, Sep, 2008.

The net profit of the company was higher by 46.3% at Rs 146.43cr against Rs 100.08cr in corresponding quarter last year, as the PBIT saw an increase of 27% and the interest and finance cost falls by 33% at Rs 36.57cr in Q3 CY09 against Rs 54.73cr in Q3 CY08. The employee cost and other expenditure increased (as a % of Total Income net of stock adjustment) from 2.3% to 3.2% and from 14.0% to 19.1% respectively.

ANNUAL FINANCIAL: Jindal Saw Limited (Rs cr)*

	Dec' 08	Dec' 07*	Sep' 06	Sep' 05	Sep' 04
Gross Revenue	5210.22	5183.41	4240.61	2549.83	1165.18
Profit Before Interest , Tax And Depreciation	710.81	620.41	460.11	286.61	144.86
Less: Interest/ Finance Charges	175.84	115.73	145.01	99.72	45.5
Profit Before Tax And Depreciation	534.97	504.68	315.1	186.89	99.36
Less: Tax	122.06	144.14	69.27	37	18.75
Profit After Tax Before Depreciation	412.91	360.54	223.33	135.08	78.73
Add: Deferred Revenue Expenditure	0	0	0	0	0.02
Cash Accruals	412.91	360.54	223.33	135.08	78.75

* Adjusted & Approximated for 12 months (CY 2007)

BALANCE SHEET: Jindal Steel Limited (Rs Crores)

	2008	2007	2006	2005	2004
Net Worth	2350.7	1985.01	1020.16	847.46	399.86
Loans- Term	134.62	174.4	217.85	127.98	162.58
Loans - Working Capital	1501.94	984.98	1162.11	869.71	401.64
Deferred Tax Liability	110.62	93.67	76.62	59.88	46.58
Total	4097.88	3238.06	2476.74	1905.03	1010.66
Net Block Including WIP	1885.72	1225.01	881.75	728.47	574.37
Investments	215.31	226.97	96.47	96.22	56.01
Net Working Capital	1996.85	1786.08	1498.52	1080.34	380.28
Deferred Revenue Expenses	0	0	0	0	0
Total	4097.88	3238.06	2476.74	1905.03	1010.66

Peer Comparison:

	Jindal saw	Welspun Guj	Mah seamless	PSL	Man Ind.
Market Cap	5089.25	4933.76	2472.2	869.81	270.42
Sales	5882.43	6981.44	1958.74	3408.33	1810.36
PBIDT	878.6	914.93	422.74	295.06	128.3
Net Profit	466.92	375.55	265.1	82.41	28.07
PBIDTM (%)	14.94	13.11	21.58	8.66	7.09
PATM (%)	7.94	5.38	13.53	2.42	1.55
EPS	17.07	18.42	37.58	15.42	5.27
P/E	10.71	14.23	9.27	10.42	9.18
EV/PBIDT	7.4	7.33	6.3	5.33	3.37

Figures on TTM Basis

However order book of Jindal saw at Rs 3500cr is a concern as compared to other players in the market. Oil & Gas pipeline order book of Welspun Gujarat stands at Rs 9000cr; PSL another pipeline company has a strong order book of Rs 5500cr, and Man Industries order book stands above Rs 1800cr.

Future Outlook

Rs cr	FY09*	FY10E*	FY11E
Sales	5,516.55	6245.67	6682.87
PBIDT	748.07	1062	1136.09
Interest	192.56	140.73	121.8
Depreciation	75.89	100.47	128.87
PBT	479.62	820.8	885.42
Tax	124.84	246.24	265.63
PAT	354.78	574.56	619.79
EPS	13.61	21.00	22.65

*Adjusted and approximated for Financial Year

We expect an annual growth of 5-7% in sales of the company, however, EBIDTA should increase by 500bps around 16-18% largely on account of backward integration of the company that is expected to result in significant savings in raw material cost, as the raw material cost in the industry is intensive and approximately 65% of operating expenses is raw material cost.

The company is very keen to reduce its debt, which is currently at Rs 1000cr as against Rs 1636cr in Dec 2008.

ANALYSIS & REPORT

Why to invest in shares of Jindal Saw Limited?

SECTOR:

- With rising Oil prices, Oil & Gas companies increase their level of exploring and drilling activities. And also, demand is expected to increase with new Oil and Gas finds, and creation and strengthening of national Gas Grid. Players like reliance, ONGC and Cairn are making investment for setting up pipe infrastructure for Oil & Gas transport.
- The country is in the midst of huge investments in Oil and Gas pipelines, this will continue for a few more years. Penetration level of pipelines in Oil & Gas transportation is low at 32% as against 59% in the USA and 79% globally, which provide a huge opportunity for companies like Jindal saw to capture the market.
- Asia to lead pipe demand with strong growth in energy consumption. Simdex data shows that 33% of the global pipeline demand will come up in asia.
- The Government has increased budget for Rajiv Gandhi Rural Water mission from at Rs 7400cr, which is a boost for the sector requiring huge amount of Ductile Iron Pipes.
- Rs 1200cr is granted for Rural Sanitation program, that will create demand for Ductile Pipes
- Indian player have the advantage of proximity to the Middle East, which makes Indian imports cheaper than Japan or European
- Replacement demand for older pipes will also contribute to the growth of the sector.

COMPANY:

The Company is the market leader in the Pipe line Industry and the most diversified Indian pipe manufacturer.

Sales Mix: The Company has operations in both domestic as well as International markets that include Middle East, Africa and USA. Exports accounted for more than 55% of total sales of the company. The U.S has largest Pipeline Network that is more than 30 years old that require replacements; this is a big growth driver for Jindal Saw.

The PQF mill in the seamless plant commenced operation in Q3CY09; also company is planning to increase H Saw- capacity from 40,000 MTPA to 1,50,000 MTPA, in Bellary is expected to be operational by March 2010. The Company had announced installation of additional Ductile Iron plant of 200,000 TPA at a cost of app. Rs 350cr. The project is likely to become operational by June 2011.

Infrastructure Business: company is planning to become a major player in Infrastructure with its subsidiaries companies into various fields: The company has already made an investment of 10,000cr into its infrastructure business. Going forward a huge value unlocking is there.

Jindal Water Infrastructure Ltd. is focused on turnkey development, ownership, and management of new water and wastewater projects as principal or sole investor.

Jindal Urban Infrastructure Ltd. is primarily focused on solving urban waste management problems and converting municipal solid waste into power

Jindal Rail Infrastructure Ltd is setting up a state-of-the art production capacity at a recently acquired 120 acre site near Bharuch to produce existing and future-design rail wagons for deployment both domestically and abroad.

Jindal Shipyards is building three high-volume shipyards that will be involved in the production of various equipments for ships, shipyards, and ports and terminals typically in association with overseas partners.

Jindal Waterways Ltd is into building and operating ports and terminals, as well as inland container freight stations.

Fundamentals:

Backward Integration: Allocation of iron ore mines in Balmer and is to the tune of around 100 million tones will result in a significant cost savings. The current cost of Iron ore is around 4400-4500 per ton, which is expected to come down. The company is expected to save Rs 70cr (app.).

Location advantage: company's manufacturing plant is located strategically in Mundra (Gujarat) which is close to Port. Thus, the company can easily cater to export markets. Transportation cost is a major cost for pipes manufacturers to ship the pipes; Jindal saw has an advantage being close to ports.

Low Cost: products of the company, as compared to others, are cheaper and of high quality. Thus add value to the company.

Investment Value: Hexa Securities & Finance Company Limited, a 100% subsidiary of Jindal Saw has an Investment in quoted equity of above Rs 1350cr, which is a hidden value for the company.

Order Book:

The company order book currently stands at 3500cr which include (Saw Pipes- Rs 2355cr, Seamless Pipes- Rs 420cr and Ductile Iron Pipes- Rs 725cr), these orders are to be executed by March 2010. The current order book includes export orders of Rs 1432cr approx. The order book of Jindal Water Infrastructure a 99% subsidiary of Jindal Saw Limited stands at Rs 850cr.

Latest Developments:

Jindal SAW Ltd has received Rs 1100cr worth orders for the supply of Large Diameter Welded Pipes (app. USD 175 million) and Ductile Iron Pipes (app. USD 65 min). Majority of SAW pipe orders are of exports to middle- eastern market and carry good margins. These orders shall be executed in next 9- 12 months time.

TECHNICALS:



*stock Split: Ratio 1:5, on 10th Dec,2009

Notes: Figures and graph sourced from www.bseindia.com and capital market.

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