

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Metals & Mining

ISMT is one of the leading producers of seamless tubes in India and the only domestic player to be backward integrated. Though the company faces demand slowdown in the medium term, both locally and globally, as well as higher competition, the recent commissioning of the premium quality finishing (PQF) mill and the upcoming power plant are expected to improve its profitability. We initiate coverage on ISMT with a fundamental grade of **3/5**, indicating that its fundamentals are **good** relative to other listed securities in India.

Diversification provides better industry positioning

ISMT produces tubes of varying outer diameters (ODs) up to 273 mm which enables it to cater to the varied industries, securing a diversified revenue portfolio. The diversified industry mix helps it to negotiate the vagaries of end-user industries better than its peers. However, ODs above 273 mm not produced by the company have better margins though the end-user market is mainly Oil and Gas. ISMT's current capacity utilisation is low at ~40% due to significant expansion by the company in FY11 and also overcapacity in the industry. We expect utilisation to improve to 47% in FY14 supported by growth in underlying industries.

Captive power plant + process improvement ⇒ margin expansion

The commissioning of its captive power plant (CPP) coupled with the improved capacity utilisation of the PQF mill will result in margin expansion from an expected 14.1% (down from 16.3% in FY11 due to demand slowdown and increased competition) in FY12 to 15.3% in FY14. The newly added PQF mill will also expand its addressable market and enable cost savings for the company due to higher efficiency leading to improvement in margins.

Susceptible to industrial cyclicalities and Chinese dumping

ISMT is exposed to cyclicalities of the end-user industries. Also, raw material being a significant part of the cost structure, any upward price movement is bound to result in margin erosion for the company. Aggressive imports of seamless tubes from China have lowered profitability for domestic manufacturers. Countries like the US and Europe has already levied anti-dumping duty on Chinese imports; a similar move in India will benefit the industry.

Expect three-year revenue CAGR of 12.3% and margins of ~15%

We expect revenues to grow at a CAGR of 12.3% to Rs 24.7 bn in FY14 driven by 9.3% volume CAGR. We believe that-despite challenges in the industry-CPP commissioning and process improvement will result in margin expansion (though it would be lower compared to its past performance) over next two years. Adjusted PAT is estimated grow at 12% over the same period.

Valuations: Current market price has strong upside

CRISIL Research has assigned price to earnings (P/E) of 5x on FY14E EPS of Rs 8.1 to arrive at a fair value of Rs 40 per share.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Operating income	12,691	17,449	20,816	23,026	24,699
EBITDA	1,873	2,838	2,942	3,424	3,768
Adj Net income	485	845	699	884	1,187
Adj EPS-Rs	3.3	5.8	4.8	6.0	8.1
EPS growth (%)	15.2	74.2	(17.2)	26.4	34.3
Dividend Yield (%)	1.5	5.2	4.8	5.4	5.8
RoCE (%)	7.4	11.0	10.5	11.9	13.4
RoE (%)	9.1	14.6	11.7	13.8	16.0
PE (x)	19.7	4.2	5.4	4.3	3.2
P/BV (x)	1.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	10.9	5.4	5.6	4.7	3.9

NM: Not meaningful; CMP: Current market price

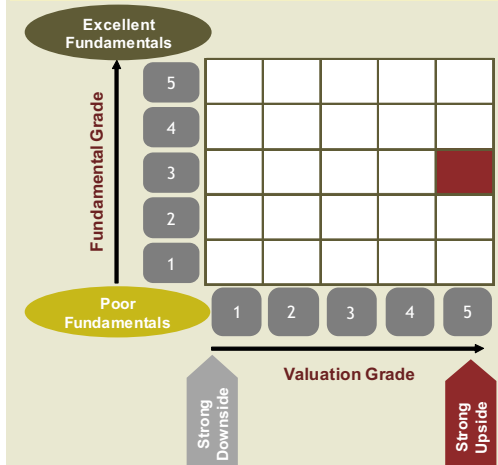
Source: Company, CRISIL Research estimates



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Fair Value Rs 40
CMP Rs 26

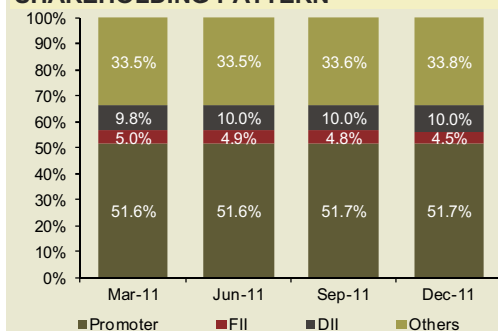
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5228/17196
NSE/BSE ticker	ISMTLTD/ISMT
Face value (Rs per share)	5
Shares outstanding (mn)	146.5
Market cap (Rs mn)/(US\$ mn)	3,809/78
Enterprise value (Rs mn)/(US\$ mn)	16,574/331
52-week range (Rs)/(H/L)	61/22
Beta	1.19
Free float (%)	48%
Avg daily volumes (30-days)	135,285
Avg daily value (30-days) (Rs mn)	4.07

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ISMT	-18%	10%	-24%	-45%
NIFTY	-5%	10%	6%	-3%

ANALYTICAL CONTACT

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