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Jindal SAW Ltd.**(CMP Rs 560, CY09E EPS Rs 79.1, PEx 7.1x, BUY with Revised Target Price of Rs 941)**

Jindal SAW (JSL) has declared its Q2CY08 results which are inline with our expectations. The detail analysis of the same is given below.

Standalone Quarterly Financials

Particulars	Q2CY08	Q3FY07	Y-o-Y % Change	Q1CY08	Q-o-Q % Change	CY07
Net Sales	10175.4	12855.3	-20.9	9521.4	6.9	67877.6
Other Income	20.3	14.6	39.0	29.2	-30.5	4728.7
Total Income	10195.7	12869.9	-20.8	9550.6	6.8	72606.3
Raw Material Consumed	6531.9	7077.6	-7.7	7356.3	-11.2	42311.3
Stock Adjustment	-202.5	568.6	-135.6	-1357.3	-85.1	1550.3
Purchase of Finished Goods	219.9	0	0.0	30.4	623.4	220.7
Employee Expenses	291.2	269	8.3	302.3	-3.7	1303.6
Other Expenses	1721.5	3334.2	-48.4	1724.2	-0.2	14363.3
Total Expenditure	8562	11249.4	-23.9	8055.9	6.3	59749.2
EBITDA	1613.4	1605.9	0.5	1465.5	10.1	8128.4
Interest & financial Exp	544.5	253.5	114.8	203.6	167.4	1726.6
Depreciation	154.7	153.2	1.0	152.1	1.7	721.7
Tax	232.5	393.3	-40.9	285	-18.4	1645
Reported Profit After Tax	702	820.5	-14.4	854	-17.8	8763.8
EPS (Rs)	13.05	16.49	-20.9	16.0	-18.4	177.63
Equity (FV Rs 10)	521.2	483.6	7.78	521.2	0.0	511.4
EBITDA Margin (%)	15.86	12.49	3.37	15.39	0.47	11.98
PAT Margin (%)	6.9	6.38	0.52	8.97	-2.07	12.91

Source: Company

37.8% y-o-y growth in the net sales from Indian operation

In Q2CY08, JSL reported 34.76% growth in the net sales from Indian operations on year on year basis. In Q2CY08, it reported the net turnover of Rs 10.175 bn as against Rs 12.855 bn in Q3FY07 (the comparable quarter which includes Rs 7.55 bn from Indian operation and Rs 5.3 bn from USA operations which has been sold off last year) in the corresponding quarter of last year. Out of the total net revenue in Q2CY08, 59% was from exports and 41% was from sale in India. During the quarter 64% of the revenue is from large diameter pipes, 22% is from DI pipes, 11% from seamless pipes and rest is from scrap and others. The volume in DI pipes segment declined by 9.3% on account of closure of DI unit for 8 days of normal annual maintenance.

Q1CY08 EBITDA margins grew by 337 basis points

EBITDA margin of the company during the quarter expanded by 337 basis points on y-o-y basis and thus stood at a firm level of 15.9%. The improvement in the margin is attributed to the selling off of low margin US operation. But in the coming quarter, the margin is expected to be at a lower level of around 14.5% primarily on account of lower margin contributed by fixed price contracts on DI pipes. The substantial rise in the prices of coal is expected to impact the margins on DI pipes.

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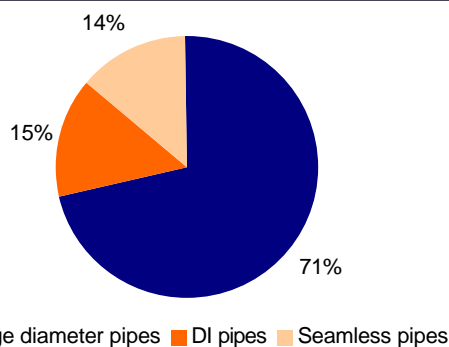
Strong bottomline despite forex and derivative losses

Net profit remained strong at Rs 702 mn with PAT margin of 6.9%. The PAT margin declined against Q1CY08 on account of higher financial expenses of Rs 550 mn. It included Rs 120 mn of translation losses on FCCB and Rs 170-180 mn of losses on options and forward contracts.

Strong order book of USD 1.12 bn

Jindal SAW has a strong order book of USD 1.12 bn which includes over 55% of exports orders. These orders are to be executed by April/May 2009. Out of the total USD 1.12 bn, USD 760 mn are of large diameter pipes, USD 170 mn are of DI Pipes and USD 160 mn are of Seamless pipes.

Order Book Breakup



Source Company

Capex plans running as per schedule

The capex plans are running as per schedule. Installation of PQF mill and other equipments in Seamless plant will be completed by September/October 2008. The commercial production in power plant has begun in phases. The additional 200,000 MTPA of LSAW and 350,000 MTPA of HSAW facilities are expected to start trail run in 2008. The company is incurring a total of USD 200 mn on these plans for which the funds are already tied up.

New businesses to strengthen future financials

The management has not given any update on the new businesses. As per previous guidance, the company expects Rs 1bn of revenue from waterways business and from Jindal Water Infrastructure, the management expects to execute orders upto Rs 3.25 bn in this year. We believe that the new ventures would strengthen the topline and bottomline and EPS of JSL. The new businesses would diversify its business model by de-risking it from the raw material price volatility and currency volatility. Currently we have not included any contribution from the new ventures in our estimates.

Financial Estimates :

Particulars Rs mn		Previous Estimates		Revised Estimates	
	15MCY07A	CY08E	CY09E	CY08E	CY09E
Net Sales	70157	40425	57025	40425	57025
EBITDA	8006.8	5708.5	8312.9	5708.5	8312.9
EBITDA margin %	11.40%	14.1%	14.6%	14.1%	14.6%
Adjusted Net Profit	3853	2931.1	4543.4	2618.4	4437.9
EPS (Rs)	75.3	52.3	81.0	48.5	79.1
P/E (x)	7.4	10.7	6.9	11.6	7.1

Source: Company, Emkay PCG Research

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Financial outlook and valuation

We have already factored in the impact of rise in important raw material prices like coal, iron ore, etc in our estimates for CY08E and CY09E. Hence, we maintain our topline and EBITDA estimates. But after factoring in the impact of higher interest cost and forex & derivatives losses in current quarter, we have downgraded our net profit and EPS estimates of the company for CY08E and CY09E. On the basis of CY08E and CY09E revised EPS of Rs 48.5 and Rs 79.1, the scrip is trading at an attractive PE multiple of 11.6x and 7.1x respectively. We have maintained BUY on the scrip with revised target price of Rs 941 based on SOTP valuation method. We have taken conservative approach in assigning the target price on the scrip. The target price includes Rs 145 per share as value of quoted investment (at 50% discount to its market value) and Rs 796 as one year forward DCF value of the pipe business. At our target price, the scrip discounts CY09E EPS of Rs 79 by 11.9x.

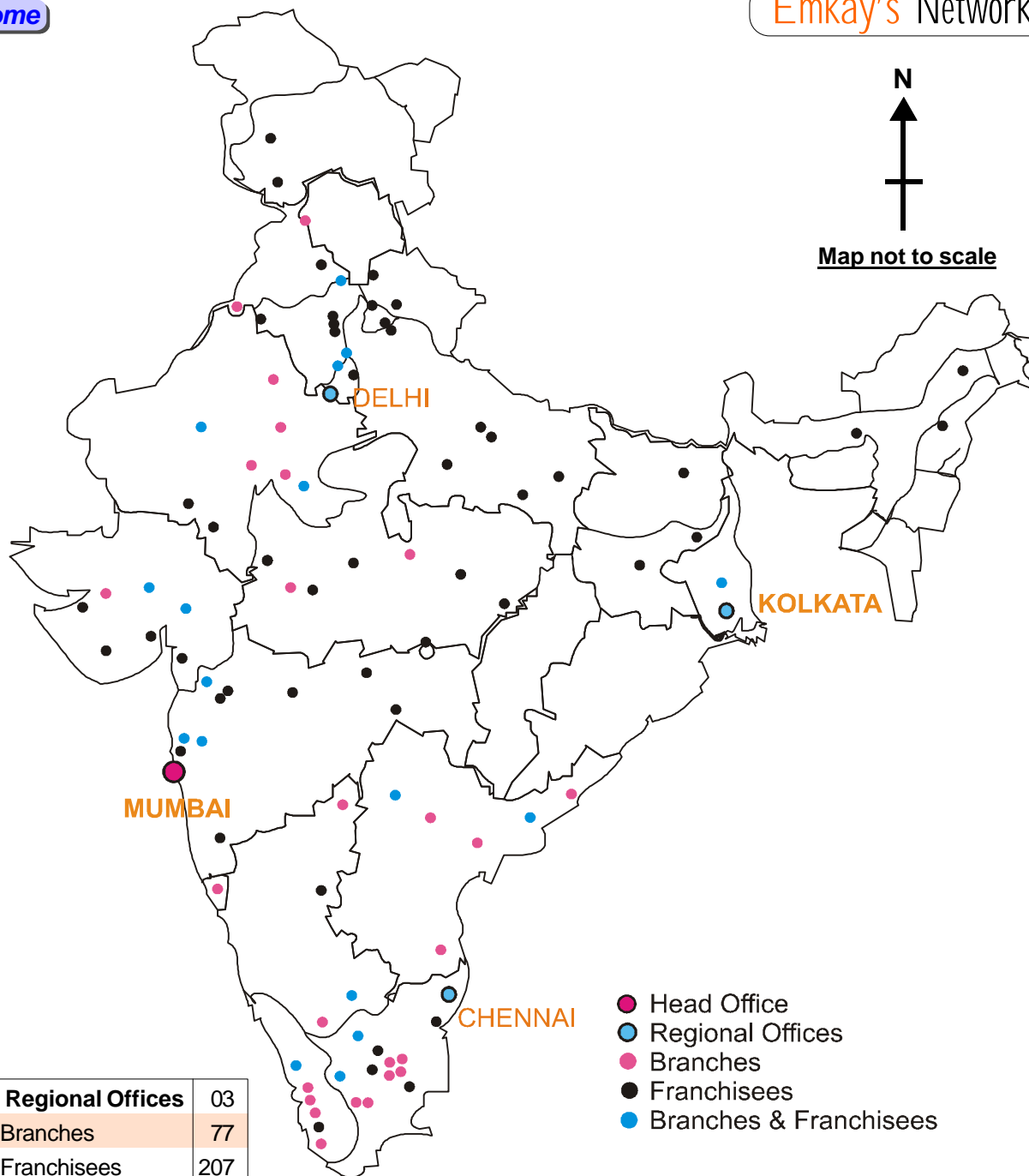
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Emkay's Network



Map not to scale



- Head Office
- Regional Offices
- Branches
- Franchisees
- Branches & Franchisees

Total Regional Offices	03
Total Branches	77
Total Franchisees	207

Regional Offices

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