November 10, 2010

Key Data	₹
CMP	220
Target Price	229
Bloomberg Code	JSAW IN
Reuters Code	JIND.BO
BSE Code	500378
NSE Code	JINDALSAW
Face Value (₹)	2
Market Cap (₹ Bn)	60.7
52 Week High (₹)	234
52 Week Low (₹)	137
Avg. Daily Volume (6m)	817,324

Shareholding	%
Promoters Group	46.0
FII	21.4
DII	11.6
Others	21.0
Total	100

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Jindal Saw Ltd

Jindal Saw Ltd's (JSL) revenue declined 41.6% to ₹8,022.7 million on account of decline in volumes, while net profits declined by 30.3%. The company registered healthy operating profits of USD 305 per ton as HSAW constituted smaller portion of sales mix. The company's order book stood at USD780 million as of Q2FY11, as against USD705 million in Q2 FY10.

Key Highlights

- JSL's revenue fell 41.6% to ₹8,022.7 million in Q2 FY11 vs ₹13,728.5 million in Q2 FY10. The drop in revenues was primarily on account of lower volumes and moderate realizations. JSL sold 43,000 MT of Saw pipes in the current quarter vs 75,0000MT in Q2 FY10, as dispatches of ~20,000 MT of large diameter pipes were withheld on account of heavy rains in north India. Realizations in saw and seamless pipes moderated on YoY basis to ~ USD 1500 –1600 which further contributed to decline in revenues.

Particulars	Quantity sold (MT)	Sales (₹ Mn)	Realizations (₹)
Saw Pipes & Coatings	43,000	2,972	69,116
DI Pipes	63,000	3,020	47,937
Seamless Tubes	29,000	2,017	69,552
Source: Company			

Quantity Sold MT	Q2 FY11	Q2 FY10	Q1 FY11
Saw Pipes & Coatings	43,000	75,000	120,000
DI Pipes	63,000	67,600	61,000
Seamless Tubes	29,000	25,400	26,000
Total Pipe Sold	135,000	168,000	207,000
Source: Company			

- The company's operating profit margin improved to 23.2% in Q2 FY11 vs, 18.6% in Q2FY10. The company sold 3,000 MT of HSAW and 40,000 MT of LSAW as a result in absolute terms the company registered healthy blended operating profits of ~USD 305 per ton.

- For Q2FY11, the company's net profits declined by 30.3% to ₹ 1,021.4 million. However, NPM improved to 12.7% in Q2 FY11 from 10.7% in Q2 FY10, driven by higher operating profit margins.

Quarterly Financials

₹ Mn

Particulars	Q2 FY11	Q2 FY10	%YoY Change	Q1 FY11	%QoQ Change
Net Sales	8,022.7	13,728.5	-41.6	11,392.6	-29.6
Total	6,162.3	11,177.4	-44.9	8,833.6	-30.2
Operating profits	1,860.4	2,551.1	-27.1	2,559.0	-27.3
OPM %	*23.2*	*18.6*	*4.6*	*22.5*	*0.7*
Other Income	89.7	10.7	738.3	57.1	57.1
EBIDTA	1,950.1	2,561.8	-23.9	2,616.1	-25.5
EBIDTA %	*24.3*	*18.7*	*5.6*	*23.0*	*1.3*
Dep	339.9	264.6	28.5	337.1	0.8
Interest	271.1	365.7	-25.9	275.6	-1.6
PBT	1,339.1	1,931.5	-30.7	2,003.4	-33.2
PBT %	*16.7*	*14.1*	*2.6*	*17.6*	*-0.9*
Tax	317.7	466.9	-32.0	492.3	-35.5
PAT	1,021.4	1,464.6	-30.3	1,511.1	-32.4
PAT %	*12.7*	*10.7*	*2.1*	*13.3*	*-0.5*

Source: Company

H1 Financials

₹ Mn

Particulars	H1 FY11	H1 FY10	%YoY Change
Net Sales	19,415.3	28,739.6	-32.4
Total	14,995.9	23,798.4	-37.0
Operating profits	4,419.4	4,941.2	-10.6
OPM %	*22.8*	*17.2*	*5.6*
Other Income	146.8	16.2	806.2
EBIDTA	4,566.2	4,957.4	-7.9
EBIDTA %	*23.5*	*17.2*	*6.3*
Dep	677.0	475.5	42.4
Interest	546.7	747.3	-26.8
PBT	3,342.5	3,734.6	-10.5
PBT %	*17.2*	*13.0*	*4.2*
Tax	810.0	910.1	-11.0
PAT	2,532.5	2,824.5	-10.3
PAT %	*13.0*	*9.8*	*3.2*

Source: Company

Business Update

- ***Order book***

  As on Q2FY11, the order book of JSL was USD 780 millions. Export orders comprise ~40% of the company's current order book and provides revenue visibility until June 2011. The major exports of JSL are to regions like Middle East and the GCC countries.

					USD Mn
Particulars	Sept`10	June` 10	March`10	Dec`09	Sept`09
Large Diameter Pipes	535	455	530	500	490
Ductile Iron Pipes	220	220	212	230	195
Seamless Pipes	25	25	38	20	20
Total	**780**	**700**	**780**	**750**	**705**

Source: Company

- ***Capital Expenditure***

  DI pipes: Installation of additional Ductile Iron plant of 200,000 MT is likely to become operational in FY12.

  JSL is also planning to set up a DI facility of 300,000 MT in UAE for total capex of USD 60 million. The facility is likely to be operational by FY12.

- ***De-merger of Investments Undertaking of the company***

  Investments business undertaking undertakes investments in shares and other securities of group companies and granting of loans and advances to group companies.

  The company plans to de-merge the business into a wholly owned subsidiary. De-merger of the investment would result in issuance of equity shares to the shareholders. The Board of directors has approved allotment of 1 share the de-merged company for every 5 shares of JSL.

Valuation and Recommendation

For last few quarters saw segment has witness moderate order inflows, while seamless pipe order inflows have been affected by slow down in E&P expenditure. DI pipes segment order inflows have been strong and outlook for the segment remains positive. AT CMP of ₹220, JSL is trading at FY11E P/E of 11.8x and FY12E P/E of 9.6x. We expect net sales to grow to ₹65,741.1 million in FY12E, primarily driven by volume growth and EPS to grow to ₹22.9 in FY12E. We assign a P/E of 10x to FY12E of ₹22.9 to arrive at a price target of ₹229 and maintain our HOLD recommendation.

Financials

Profit & Loss Account					₹ Mn
Particulars	CY07 15M	CY08	FY10 15M	FY11E	FY12E
Net Sales	**70,157.0**	**53,558.4**	**71,102.7**	**50,672.7**	**65,741.1**
Total Expenditure	62,149.6	46,492.1	58,568.3	40,881.3	53,957.8
Operating Profits	**8,007.5**	**7,066.3**	**12,534.4**	**9,791.4**	**11,783.3**
Other Income	4,516.8	129.8	225.8	225.0	225.0
EBDIT	12,524.3	7,196.1	12,760.2	10,016.4	12,008.3
Depreciation	773.0	840.4	1,585.5	1,432.5	1,770.9
EBIT	11,751.2	6,355.7	11,174.7	8,583.9	10,237.4
Interest	1,933.7	1,979.0	2,231.4	1,382.4	1,327.7
PBT	9,816.9	4,376.7	8,943.3	7,201.4	8,909.7
Taxes	1,538.0	1,113.3	2,153.5	1,728.3	2,182.9
PAT	**8,278.9**	**3,263.4**	**6,789.9**	**5,473.1**	**6,726.8**
Extraordinary items	5,014.8	0.0	0.0	0.0	0.0
Profit After Tax	**13,293.7**	**3,263.4**	**6,789.9**	**5,473.1**	**6,726.8**
Growth in sales (%)					29.7
Operating Profits Growth (%)					20.3
PAT Growth (%)					22.9
Operating Profit Margin	11.4	13.2	17.6	19.3	17.9
Net Profit Margin	18.9	6.1	9.5	10.8	10.2

Source: ACMIIL Research, Company

Balance Sheet					₹ Mn
Particulars	CY07 15M	CY08	FY10 15M	FY11E	FY12E
Sources of Funds					
Share Capital	511.4	521.2	547.2	586.9	586.9
Redeemable Non Conv Pref Share	1,000.0	1,000.0	1,000.0	0.0	0.0
Reserves and Surplus	22,238.2	26,767.1	35,323.3	43,545.6	49,772.0
Total Shareholders Funds	23,749.6	28,288.3	36,870.5	44,132.6	50,359.0
Total Loan Funds	12,455.4	18,240.9	10,806.6	6,706.6	5,706.6
Minority Interest	94.6	95.8	66.8	66.8	66.8
Net Deferred Tax Liability	825.8	840.6	1,271.6	1,271.6	1,271.6
Total Capital Employed	**37,125.4**	**47,465.6**	**49,015.4**	**52,177.5**	**57,403.9**
Application of Funds					
Gross Block	12,336.6	18,662.7	29,479.2	30,479.2	37,679.2
Less: Accumulated Depreciation	3,246.2	4,121.2	5,714.6	7,147.1	8,918.0
Net Block	9,090.4	14,541.5	23,764.6	23,332.1	28,761.2
Capital Work in Progress	4,219.7	8,191.8	3,668.2	6,000.0	1,500.0
Total Fixed Assets	13,379.9	22,733.3	27,674.9	29,574.2	30,503.3
Investments	2,092.8	791.0	3,256.8	3,256.8	3,256.8
Net Current Assets	21,652.7	23,941.3	18,083.6	19,346.5	23,643.8
Total Assets	**37,125.4**	**47,465.6**	**49,015.4**	**52,177.5**	**57,403.9**

Source: ACMIIL Research, Company

Cash Flow					₹ Mn
Particulars	CY07 15M	CY08	FY10 15M	FY11E	FY12E
Pre tax profit	9,816.9	4,376.7	8,943.4	7,201.4	8,909.7
Add					
Depreciation	773.0	840.4	1,585.5	1,432.5	1,770.9
Interest Exp	1,821.1	853.2	1,033.4	1,382.4	1,327.7
Working capital changes	-4,635.0	-3,123.5	7,444.4	-2,731.8	-4,109.3
Less Taxes	-2,422.8	-1,780.2	-1,709.1	-1,728.3	-2,182.9
Net Cash flow from operating activities	**7,250.5**	**3,178.4**	**16,947.7**	**5,556.4**	**5,716.1**
Net Cash flow in investment activities	**88.6**	**-5,681.5**	**-10,489.3**	**-3,331.8**	**-2,700.0**
Net Cash flow from financing activities	**-4,674.3**	**1,531.4**	**-6,044.9**	**-3,693.5**	**-2,828.1**
Net increase /(decrease) in cash	2,664.8	-971.7	413.5	-1,468.9	188.0
Op. balance of cash and cash equivalents	3,921.6	6,586.4	5,663.8	5,991.5	4,522.7
Cl. balance of cash and cash equivalents	**6,586.4**	**5,663.8**	**5,991.5**	**4,522.7**	**4,710.7**

Source: ACMIIL Research, Company

Ratios					
Particulars	CY07 15M	CY08	FY10 15M	FY11E	FY12E
Operating Profit Margin (%)	11.4	13.2	17.6	19.3	17.9
PAT Margin (%)	18.9	6.1	9.5	10.8	10.2
RONW (%) #	44.8	11.5	14.7	12.4	13.4
ROCE (%) #	25.3	13.4	18.2	16.5	17.8
Per Share Ratios					
EPS (Rs.)	52.0	12.5	24.8	18.6	22.9
CEPS (Rs.)	35.4	15.7	30.6	23.5	29.0
BV Per Share (Rs.)	92.9	108.5	134.8	150.4	171.6
Valuation Ratios					
P/E (x)				11.8	9.6
P/CEPS (x)				9.3	7.6
P/BV (x)				1.5	1.3
Capital Structure Ratios					
Debt/Equity	0.5	0.6	0.3	0.2	0.1
Current Ratio	3.1	2.6	2.8	3.2	3.0
Turnover Ratios					
Inventory Turnover #	4.7	3.2	7.0	4.9	4.9
Debtors turnover ratio #	5.0	4.2	6.7	5.2	5.2
Fixed Asset Turnover #	6.2	3.7	2.4	2.2	2.3

Source: ACMIIL Research
Note: Ratios are annualized for 15 months period (#)

Notes

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