Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

Jindal Saw Ltd.

EQUITY REPORT

December 19th, 2014

BSE Code:	500378	NSE Code:	JINDALSAW	Reuters Code:	JIND.NS	Bloomberg Code:	JSAW:IN

Jindal Saw Ltd (JSL), established in 1984, is the flagship company of the USD 18 bn O.P Jindal Group. JSL is the first company in India to manufacture Submerged Arc Welded (SAW) Pipes using internationally acclaimed U-O-E technology. The company is in a commanding position in India's tubular market, being the undisputed leader with a turnover of more than ₹65 bn. Presently, JSL is one of the largest pipe manufacturers with business interests catering to varied industries spanning across the globe.

Investment Rationale

Diversified product mix to provide higher earnings visibility - We expect the company's revenue to grow by ~9% YoY in FY15E and by ~11.8% in FY16E backed by healthy growth across its business verticals. A diversified product range with a global reach, balanced focus on key industries like steel commodities, oil & gas, water would help the company to enhance profitability above ~₹2.0 bn in FY16E. We expect the EBITDA margin to remain in the current range of ~11-12% as higher raw material cost limits any improvement in the EBITDA margins.

Healthy order book to enhance the revenue visibility - At the end of Q2FY15, JSL has orders worth ~USD 1 bn, of which ~65% are for large diameter pipes. The company has maintained strong order book for its large diameter pipe segment (L Saw and H Saw), which currently stands ~5.50 lakh mn tonnes (MT). The orders for large diameter pipes are slated to be executed by June 2015 and in case of ductile iron pipes, the same are slated to be executed in the next 12-18 months or more.

Rupee depreciation to benefit the company - JSL derives a major share of its revenue from international markets; therefore the declining rupee value is accruing benefits in Forex gains. After hitting a record low of ₹68.8 in 2013, Indian rupee appreciated to ₹59.88 level against the US dollar at the end of March 2014. But since March 2014 onward, the rupee depreciated to ~₹61.80 level currently against the US Dollar. Thus, we believe that weakening rupee value would help JSL to realize exchange gains, thereby improving its operating margin in the coming quarters.

New acquisitions & strategic partnership to strengthen its asset base - As a part of its expansion strategy, JSL is expanding its foothold in the global arena, which will further strengthen its asset base and production capacity. During Q2FY15, Jindal Tubular US LLC, an (special purchase vehicle) SPV of JSL, acquired the assets of PSL North America LLC, a US-based steel pipe making firm for USD 105 mn. The plant is capable of producing ~300,000 tonnes of pipe every year. This acquisition further strengthens JSL's asset base and production capacity. On the back of new acquisitions and strategic partnership, the company focuses towards extending the client base, which in turn will help the company to grow globally.

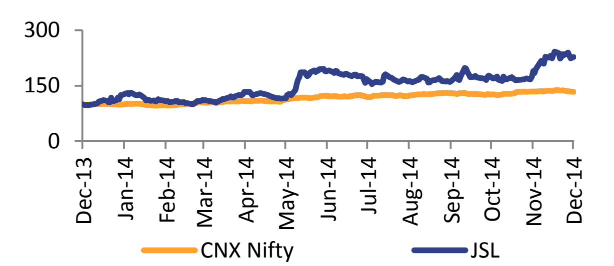
Market Data

Rating	BUY
CMP (₹)	98.0
Target (₹)	114.0
Potential Upside	~16.3%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	115.7/45.6
Adj. all time High (₹)	245.0
Decline from 52WH (%)	15.3
Rise from 52WL (%)	114.9
Beta	2.2
Mkt. Cap (₹bn)	27.1
Enterprise Value (₹bn)	85.0

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	67.6	66.6	72.3	80.9
EBITDA (₹bn)	6.0	6.4	8.6	8.9
Net Profit (₹bn)	(0.2)	(0.9)	2.0	2.4
EPS (₹)	(0.7)	(3.1)	7.2	8.7
P/E (x)	-	-	13.5	11.2
P/BV (x)	0.7	0.8	0.7	0.7
EV/EBITDA (x)	12.5	13.3	10.1	9.9
ROCE (%)	6.8	5.5	8.4	8.3
ROE (%)	-	-	5.3	6.1

One year Price Chart



Shareholding Pattern	Sep'14	Jun'14	Diff.
Promoters	46.3	46.3	-
FII	18.1	18.7	(0.6)
DII	11.9	12.0	(0.1)
Others	23.7	23.0	0. 7

Jindal Saw Ltd. - one of the country's largest producers of Submerged Arc Welded (SAW) pipes

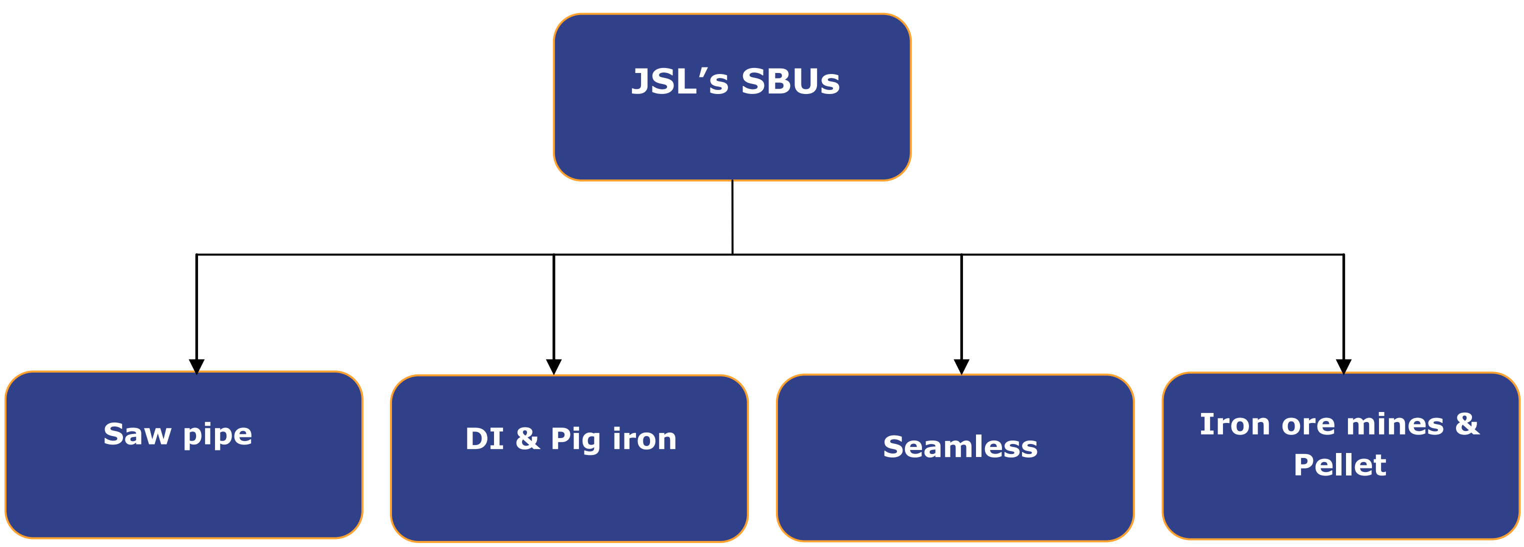
JSL is the flagship company if the USD 18 bn O.P Jindal Group.

The company is in a commanding position in India's tubular market, being the undisputed leader with a turnover of more than ₹65 bn. Presently, JSL is one of the largest pipe manufacturers with business interests catering to varied industries spanning across the globe.

JSL, incorporated in 1984, is the flagship company of the USD18 bn O.P. Jindal Group. The company is India’s first company to manufacture Submerged Arc Welded (SAW) Pipes using internationally acclaimed U-O-E technology. With integrated facilities at multiple locations, JSL is rolling out large diameter submerged arc welded (LSAW) Pipes and helically submerged arc welded pipes (Spiral/ HSAW) for the energy transportation sector; ductile iron (DI) Pipes for water and wastewater transportation; Carbon, Alloy and Stainless Steel Seamless Pipes and Tubes for industrial applications. Maintaining its edge, JSL provides value added products and services in different verticals of its business. The company provides various value added products like pipe coatings, bends, and connector castings to its clients. JSL‘s manufacturing facilities are located in various parts in Western, northern and Southern part of India. The company’s domestic production facilities produce pipes to meet global specification and standards. JSL is one of the largest global producers of DI pipes with manufacturing facilities in India, UAE and Europe.

Ensuring timely transportation of oil & gas and water, JSL helps residents and organizations in numerous cities function efficiently. The pipes produced by the company are energy efficient, reduce dependence on fossil fuels, and help conserve natural resources like water.

Strategic Business units of JSL



Showcased strong numbers in Q2FY15

JSL reported a massive triple digit growth of 239% YoY in its standalone net profit in Q2FY15.

Witnessed strong growth in net profit and revenue, on the back of higher sales volumes:

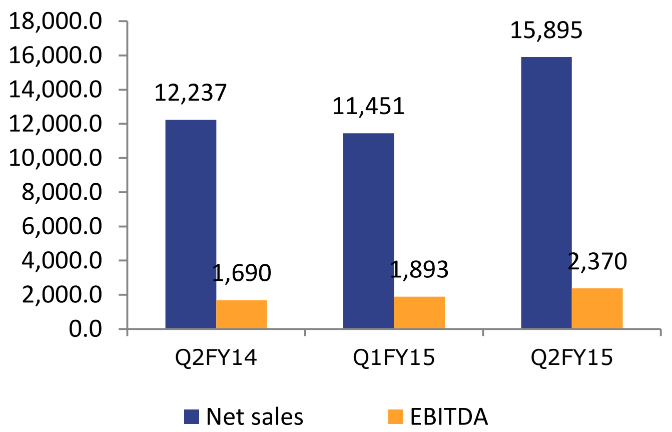
JSL reported a healthy set of numbers in Q2FY15 with 239% YoY rise in its standalone net profit at ₹746.0 mn as against a profit of ₹220 mn in the corresponding quarter a year earlier. This was primarily on account of increase in sales during the quarter. Beating the street expectations, net turnover of the company rose to ₹15,895.0 mn in Q2FY15 from ₹12,237.0 mn a year ago on the back of better-than-expected sales volume. The company sold 2.05 lakh tonnes of pipes and pig iron during the quarter. It sold 2.9 lakh tonnes of iron ore during the quarter. About 73% of its sales were within India and the rest from outside.

While EBITDA of the company grew by 40.2% YoY in Q2FY15, EBITDA margin contracted during the quarter.

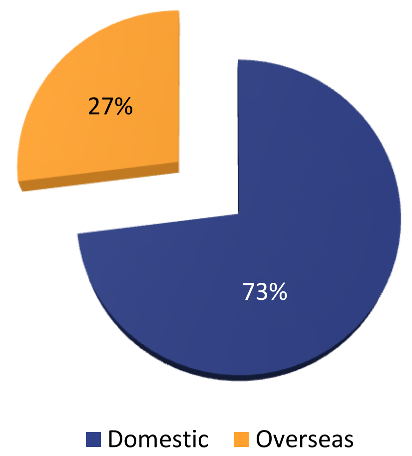
While EBITDA expanded; EBITDA margin contracted on QoQ basis:

In line with strong revenue growth, the company's EBITDA rose robustly by 40.2% YoY and 25.2% QoQ to ₹2,370 mn. As a result, the EBITDA margin surged to 14.9% from 13.8% in the corresponding period last year. However, on a sequential basis, EBITDA margin declined 160 bps due to higher raw material cost, which as a percentage to sales rose to 54.2% in Q2FY15 from 53.17% in Q1FY15.

Operational Performance (₹mn)



Revenue contribution in Q2FY15



During H1FY15, the company reported a massive growth by 248.4% YoY to ₹1,295.1 mn.

Recorded robust numbers in H1FY15:

During the half year ended September 2014, the company showcased healthy numbers with 12.5% YoY increase in total income to ₹27,404.3 mn as against ₹24,364 mn in H1FY14. In line with this, the company reported a 27.8% YoY rise in EBITDA at ₹3,712.5 mn which led to a 162bps YoY growth in EBITDA margin to 13.5% in H1FY15 as against 11.9% in the corresponding period a year ago. Moving ahead, JSL's net profit posted a triple digit growth by 248.4% YoY to ₹1,295.1 mn during the period as against ₹371.7 mn in the same period previous year. Consequently, NPM grew by320 bps YoY to 4.7% in H1FY15 as against 1.5% in H1FY14.

On the back of healthy growth that the company witnessed in Q2FY15 and in H1FY15, we remain positive that the company will continue to post healthy numbers in the coming quarters as well.

Improved production to aid volume growth

JSL's production from pipes & pig iron and pellets rose sequentially to ~230,000 MT and ~308,000 MT from ~149,300 MT and ~300,000 MT, respectively, in Q2FY15.

During Q2FY15, JSL's production from pipes & pig iron and pellets rose sequentially to ~230,000 MT and ~308,000 MT from ~149,300 MT and ~300,000 MT, respectively. The company has recently developed iron ore mine complex at Bhilwara (Rajasthan), with fully integrated facilities for ore extraction, beneficiation, and pellet production. Iron ore pellets are currently in demand for the manufacture of sponge iron and other products. The company's pellet plant is running at 100% capacity. Besides, the company enhanced the capacity of its beneficiation plant in order to enrich the low quality of iron ore and to increase the production of pellet with full reliance on internal beneficiated iron ore concentrate.

Currently, the company is in the process of improving productivity, debottlenecking and introducing value added products especially in seamless segment. The demand of seamless pipes & tubes is stabilizing. JSL expects the situation to improve gradually. During Q2FY15, the company's production of seamless pipes remained firm at ~34,000 MT. Lately, the government of India (GoI) has announced the imposition of duty on seamless pipes imported from China to raise the demand for domestic supplier. Hence, we believe that this move will revive the growth trajectory for JSL for its seamless pipes.

New acquisitions & strategic partnership to strengthen its asset base

We expect JSL's focus on overseas market may bring fruitful results as the company derived ~27% revenue from export. Further, new acquisition & partnership to strengthen its client base globally.

During the quarter, Jindal Tubular US LLC, a (special purchase vehicle) SPV of JSL acquired the assets of PSL North America LLS (PSLNA), a US-based steel pipe making firm, for the consideration of USD 105 mn. The company with interests spanning across the steel, mining, power, industrial gases and ports verticals Jindal SAW is all set to service the US market. With this acquisition, the company has achieved an important milestone as this new acquisition is an expression of JSL's expansive business approach that will extend an added advantage to tap into the wide US market insistently.

PSLNA, the company acquired by JSL, is a premier manufacturer of large diameter, high pressure steel pipe utilizing state-of-the-art helical submerged arc welding ("HSAW") technology.

PSLNA, the company acquired by JSL, is a premier manufacturer of large diameter, high pressure steel pipe utilizing state-of-the-art helical submerged arc welding ("HSAW") technology. Located in Bay St. Louis, MS, the company's manufacturing and coating plant is one of the most modern and technologically advanced in the world. This acquired plant is capable of producing over 300,000 tons of pipes per year with diameters ranging from 18" to 120" and lengths up to 80'. The company's pipes are used primarily for natural gas, petroleum and water transmission lines and construction pilings. Hence, we can say that the above said acquisition will expand the company's presence in the North Americas, the Premier Global Manufacturer of Water and Natural Gas Transmission Pipe.

Besides, JSL's one of the subsidiaries Jindal ITF has entered into a project partnership with Sula Shipping & Logistics, to deliver imported coal to the NTPC-Farakka waterways project through barges.

On the back of new acquisitions and strategic partnership, the company focuses towards extending the client base, which in turn will help the company to grow globally.

Strong order book augurs well for JSL

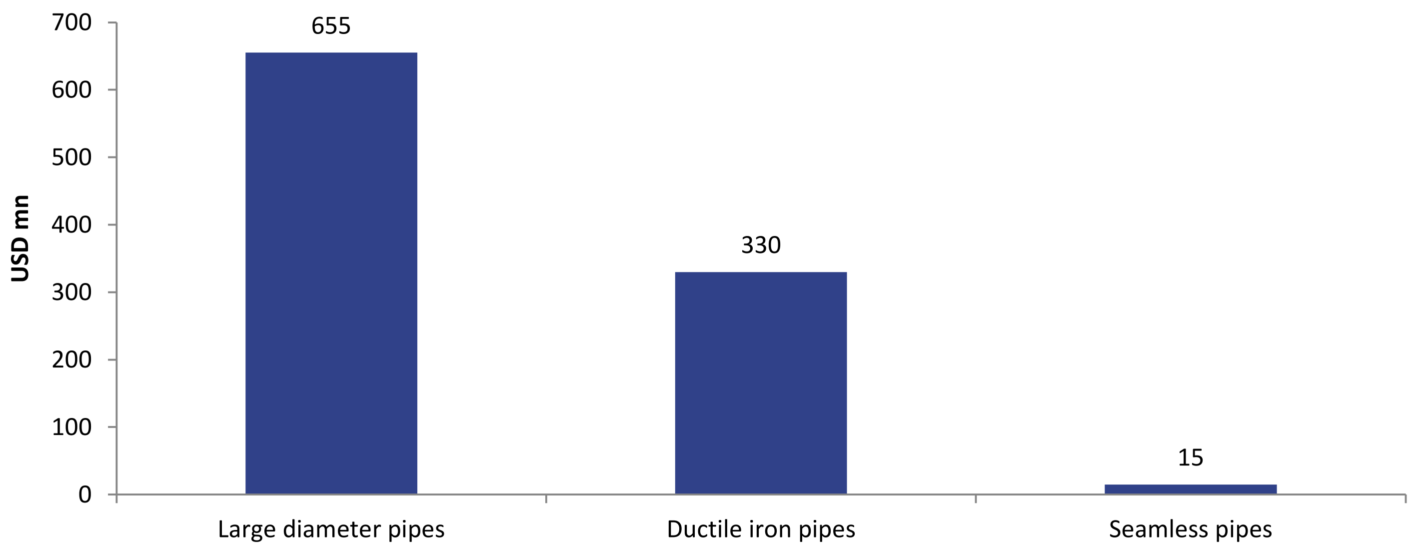
During Q2FY15, the company reported strong order book that surpassed USD 1,000 mn.

For the last couple of quarters, JSL is witnessing a notable improvement in the order book, which augurs well for the company. At the end of Q2FY15, an order book of the company increased to ~USD 1,000 mn from ~USD 560 mn in Q3FY14 and ~USD 800 mn at the end of Q4FY14. The orders bagged during Q2FY15 include:

- Large diameter pipes – USD 655 mn
- Ductile iron pipes – USD 339 mn
- Seamless pipes – USD 15 mn

Orders for large diameter pipes are slated to be executed by June 2015, while in case of ductile iron pipes the same is slated to be executed over the next 12-18 months or more. The company has participated in various bids and is likely to get orders in phases. The current order book includes export operations of ~45%. Major exports orders are from the Middle East, the Gulf region, South East Asia and the Far East.

Order book crossed USD 1,000 mn mark



Higher demand for pipes from other sectors to provide further growth opportunity

Low penetration of pipes in the various sectors like oil and gas transportation coupled with new discoveries currently provides a huge scope for the growth of the pipe industry.

Over the last couple of years, JSL's pipe segment has been operating at muted capacity utilisation levels. We believe that with the improvement in economic scenario, the capacity utilisation level is likely to improve, going forward. Currently, JSL's order book of large diameter pipe segment (LSAW and HSAW) stands at ~550,000 tonnes. Demand for steel pipes (such as Seamless Pipes, HSAW, LSAW Pipes) is also increasing as the need for oil & gas, water and waste water transportation is growing. Infrastructure development, urbanization and the subsequent development of residential and industrial construction are facilitating the growth of the pipe industry. In addition to this, the oil and gas sector has been conferred the status of infrastructure recently, which is expected to further push oil and gas pipelines. The setting up of the Petroleum & Natural Gas Regulatory Board (PNGRB) and new gas finds on India's eastern coast, heavy investment is being lined up for laying pipelines across the country. As per plans, the length of trunk pipelines is set to triple to 33,000 kms in the next 4-5 years.

With the implementation of new pipeline projects in the coming years, resurgent growth of the US economy and increased demand from natural gas exploration operations, we believe that the demand, and demand drivers are likely to improve over medium to longer term horizon, which in turn augurs well for the company. On the domestic front, specific and renewed focus of the government on infrastructure, including the hydrocarbon pipeline as well as urbanisation, is likely to accelerate demand further.

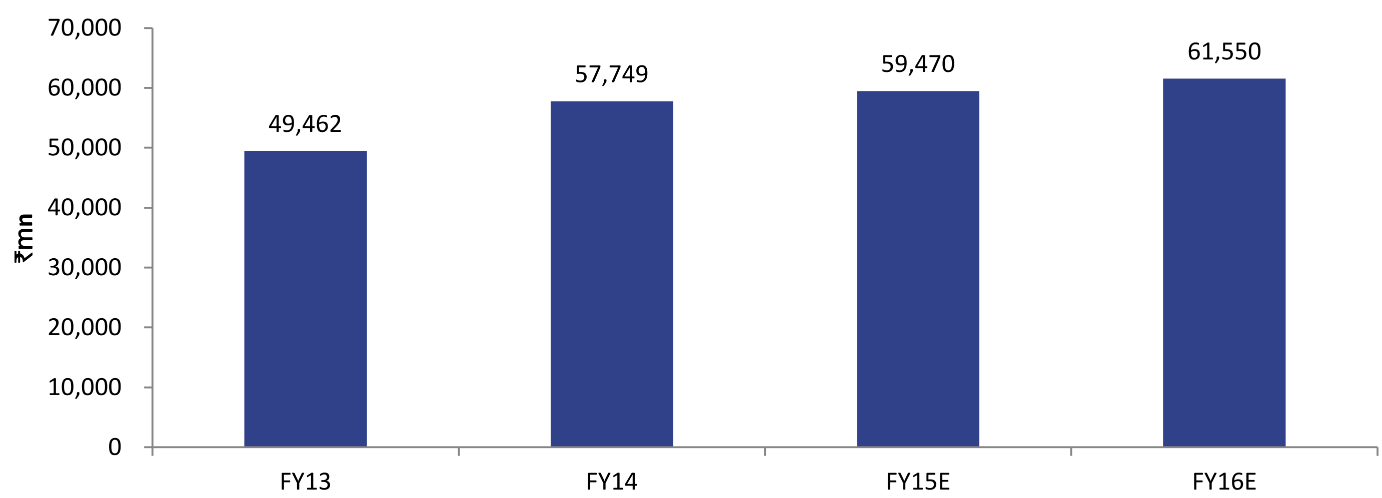
JSL is planning to incur capex to the tune of ₹15.0-20.0 billion over the next 24-30 months. Thus, on account of planned capex, we expect debt levels to stay high at ~₹59.5 billion in FY15E and ~₹61.6 billion level in FY16E.

Rising debt continues to be major concern for the company

As of September 30, 2014, the net debt of the company (standalone) was approximately ₹38 bn (approximately USD 620 mn) including ECB/long term and funds working capital & other unsecured loans. The loan includes buyer's credit of approximately ₹8.4 bn (approximately USD 137 mn). However, the consolidated debt of the company as on September 30, 2014 stands at ~₹58.0 bn.

Further, JSL is planning to incur capex to the tune of ₹15.0-20.0 bn over the next 24-30 months. Thus, on account of planned capex, we expect debt levels to stay high at ~₹59.5 bn in FY15E and ~₹61.6 bn level in FY16E.

Debt levels to stay elevated



Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	552	552	552	552
Reserves & Surplus	36,122	35,131	36,955	38,803
Net Worth	**36,675**	**35,684**	**37,507**	**39,355**
Minority interest	1,980	1,578	1,578	1,578
Long term loans	28,438	34,927	33,910	32,922
Other long term liabilities	1,020	1,880	1,934	2,081
Long term provisions	344	366	366	366
Deferred tax liability	647	1,158	1,158	1,158
Current liabilities	38,025	38,565	42,774	47,313
Total equity & liabilities	**107,128**	**114,158**	**119,228**	**124,775**
Fixed assets	55,031	60,322	61,528	62,143
Goodwill	1,536	1,536	1,536	1,536
Investment	103	103	107	112
Loans & advances	2,137	2,080	2,392	2,751
Current assets	48,321	50,117	53,665	58,232
Total assets	**107,128**	**114,158**	**119,228**	**124,775**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Revenue	67,647	66,558	72,344	80,890
Operating Expenses	61,610	60,158	63,750	71,992
EBITDA	**6,037**	**6,401**	**8,594**	**8,898**
Other Income	828	953	1,144	1,030
Depreciation	2,190	3,213	3,309	3,508
EBIT	**4,675**	**4,141**	**6,429**	**6,420**
Interest	2,356	3,920	3,332	3,265
PBT	**2,318**	**222**	**3,098**	**3,155**
Exceptional item	2,005	677	560	0
Tax	513	547	683	888
Minority interest	(11)	(147)	(147)	(147)
Net Profit	**(189)**	**(855)**	**2,001**	**2,413**

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	8.9	9.6	11.9	11
EBIT Margin (%)	6.9	6.2	8.9	7.9
NPM (%)	(0.3)	(1.3)	2.8	3
ROCE (%)	6.8	5.5	8.4	8.3
ROE (%)	-	-	5.3	6.1
EPS (₹)	(0.7)	(3.1)	7.2	8.7
P/E (x)	-	-	13.5	11.2
BVPS(₹)	132.8	129.2	135.8	142.5
P/BVPS (x)	0.7	0.8	0.7	0.7
EV/Operating Income (x)	1.1	1.3	1.2	1.1
EV/EBITDA (x)	12.5	13.3	10.1	9.9

Valuation and view

With signs of improvement in demand, the management of JSL is confident to reach a high growth phase in the coming quarters; however due to over supplied market conditions, some concerns remained on realization & EBITDA margins. But, with the correction in global prices of iron ore, coal and other products, the company is expected to have positive impact going forward. We believe that healthy sales volumes and increase in order book augurs well for the company. However, caution remained on the back of elevated debt levels, which is likely to rise further on account of planned capex. However, we believe that with the turnaround in the global economy, bottoming out of the Indian economy and pick up in the investment cycle, JSL offers attractive investment opportunity.

At the current market price (CMP) of ₹98.0, the stock trades at a EV/EBITDA of 10.1x FY15E and 9.9x FY16E. We recommend 'BUY' with a target price of ₹114, which implies a potential upside of ~16.3% to the CMP from long term perspective.

Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.