

April 29, 2008

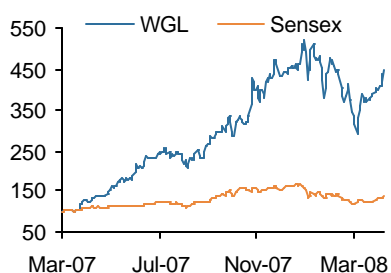
Stock data

Sensex:	17,016
CMP (Rs):	436
Target price (Rs):	548
Upside (%):	25.7
52 Week h/l (Rs):	539/95
Market cap (Rs cr)	7,468
6m Avg vol BSE&NSE ('000 nos):	1,612
No of o/s shares (mn):	171
FV (Re):	5
Bloomberg code:	WGS IN
Reuters code:	WGSR.BO
BSE code:	532144
NSE code	WELGUJ

Shareholding pattern

December 2007	(%)
Promoters	37.6
FII & institutions	36.2
Non promoter corp hold	6.8
Public & others	19.4

Share price trend



- Revenue surged 68.6% yoy in Q4 FY08 and 49.7% for FY08
- OPM for Q4 FY08 expanded 350 bps yoy, but down 80 bps qoq
- Successfully commissioned its plate mill facility at Anjar
- Net profit soars by 146.3% yoy to Rs1,022mn

Result table

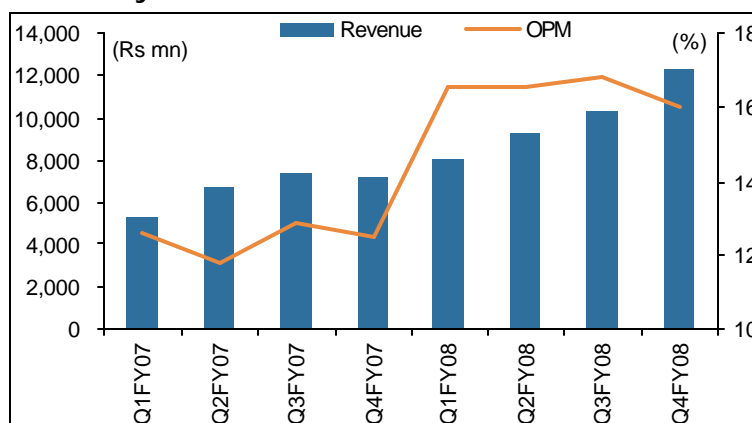
Period to	03/08	03/07	Growth	12/08	12/07	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Net sales	12,275	7,281	68.6	40,104	26,785	49.7
Expenditure	(10,312)	(6,373)	61.8	(33,575)	(23,453)	43.2
Operating profit	1,963	908	116.2	6,529	3,332	95.9
Other income	108	30	260.0	186	43	332.6
Interest	(346)	(178)	94.4	(801)	(708)	13.1
Depreciation	(180)	(122)	47.5	(572)	(476)	20.2
PBT	1,545	638	142.2	5,342	2,191	143.8
Tax	(523)	(223)	134.5	(1,828)	(765)	139.0
PAT	1,022	415	146.3	3,514	1,426	146.4
OPM (%)	16.0	12.5	-	16.3	12.4	-
Equity capital	889	699	-	889	699	-
EPS (Rs) Annualized	23.0	11.9	-	19.8	10.2	-

Source: Company, India Infoline Research

Revenue surged 68.6% yoy in Q4 FY08 and 49.7% yoy for FY08

Welspun Gujarat Stahl Rohren Ltd (WGL) reported a 68.6% yoy growth in revenues at Rs12,275mn on account of an increase in volumes (17.2% qoq) and realization (1.1% qoq). In FY08, it registered a 49.7% growth on the back of increased volumes from 525,017tpa to 635,203tpa and 24% growth in average realization.

Quarterly revenue and OPM



Source: Company, India Infoline Research

Healthy order book of Rs46,700mn

WGL has a healthy order book of Rs46,700mn to be executed over the next 9-12 months. Nearly, 98% of this order book is from exports, which cater to oil and gas sector. Recently, the company has bagged order worth Rs10,750mn for the supply of HSAW pipes in North America. Moreover, the company has participated in bids worth US\$2bn, which would assure the continuous flow of orders in future.

OPM for Q4 FY08 expanded 350 bps yoy, but down 80 bps qoq

Operating profit for the quarter was Rs1,963mn, 116.2% higher yoy and 12.8% higher qoq. But OPM fell from 16.8% in Q3 FY08 to 16% in Q4 FY08 on account of higher freight and raw material costs. Raw material costs as a percentage of sales increased from 64.2% in third quarter to 66.2% in fourth quarter.

Despite steel prices rising during the year, WGL was able to decrease its raw material cost as a percentage of net sales from 75.5% to 65.9% in FY08. This was due to increase in realization by serving niche products and booking raw materials back to back along with receipt of order. As a result operating margin expanded by 380 bps for the full year.

Cost Analysis

Period	Q4FY08	Q4FY07	Inc/(Dec)	FY08	FY07	Inc/(Dec)
As % of net sales	(3)	(3)		(12)	(12)	
Raw Material	66.2	77.1	(10.9)	65.9	75.5	(9.6)
Staff Cost	1.6	2.1	(0.5)	1.9	2.2	(0.4)
Other expenditure	16.2	8.3	7.9	15.9	9.8	6.1
Total expenditure	(84.0)	(87.5)	(3.5)	(83.7)	(87.6)	(3.8)

Source: Company

Net profit soars by 146.3% yoy to Rs1,022mn

Net profit for the quarter increased by 146.3% yoy driven by strong volume growth coupled with increase in other income. The company registered a bottomline growth of 146.4%yoy for the full year to Rs 3,514mn against 1,426mn in the corresponding period last year.

Successfully commissioned its plate mill facility at Anjar

The company has started its 1.5mtpa plate-cum coil mill trial production at Anjar in September 2007. In April 2008, it has commenced commercial production of plates. The mill has the capacity to produce plates up to 4.5meters. We expect it to drive operating margin upwards, significantly, from FY09 onwards as the company would be saving on the cost of imported plates. It will also help the company to be self-reliant and save on freight cost as the plates mill is adjacent to the pipe mills.

Capacity expansion status

WGL is increasing its capacities from 1mtpa to 1.75mtpa, making it one of the largest linepipes manufacturer in the world.

Capacity expansion details

	Current capacity ('000)	Additional capacity ('000)	Total ('000)	Estimated capex (Rs mn)	Completion by
LSAW	350	300	650	4,590	Q1 FY10
HSAW	400	150	550	1,000	Q2 FY09
ERW	250	-	250	-	-
US facility (HSAW)	-	300	300	6,000	Q3 FY09
Total	1,000	750	1,750	11,590	

Source: Company, India Infoline Research

Outlook

We expect operating margins to improve significantly on back of its backward integration. Capacity additions coupled with increasing capacity utilization will lead to robust volume growth for the company. WGL's strong volume growth coupled with higher realisations, will lead to its revenues rising by a CAGR of 48.6% over the period FY07-10E. At CMP of Rs436, the stock trades at P/E multiple of 11.4x and 8x on estimated earnings of Rs38.1 in FY09E and Rs54.8 in FY10E respectively. We recommend a BUY with a target price Rs548 an upside of 25.7%.

Projected financials

Period to	FY07	FY08E	FY09E	FY10E
(Rs Mn)	(12)	(12)	(12)	(12)
Revenues	26,785	40,104	66,854	87,832
yoy growth (%)		49.7	66.7	31.4
Operating profit	3,329	6,529	13,891	19,293
OPM (%)	12.4	16.3	20.8	22.0
PAT	1,425	3,514	7,163	10,296
yoy growth (%)		146.6	103.8	43.7
EPS (Rs)	10.2	19.8	38.1	54.8
P/E (x)	42.7	22.0	11.4	8.0
P/BV (x)	9.3	5.1	3.7	2.5
EV/EBIDTA(x)	21.2	13.4	6.9	5.0
ROCE (%)	15.7	20.7	34.8	39.7
ROE (%)	21.8	23.0	32.1	31.8

Source: Company, India Infoline Research

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