Prakash Industries Ltd.

A 'structural' growth story...

BUY **CMP: INR119** **Target Price: INR432**

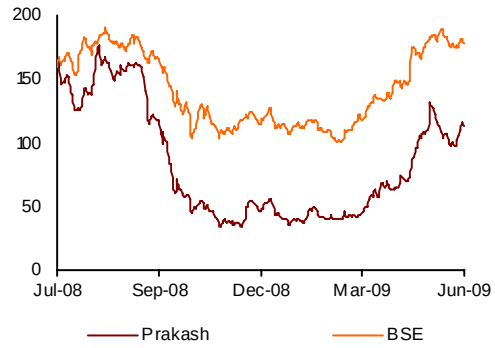
ANTIQUE

August 13, 2009 Strictly confidential

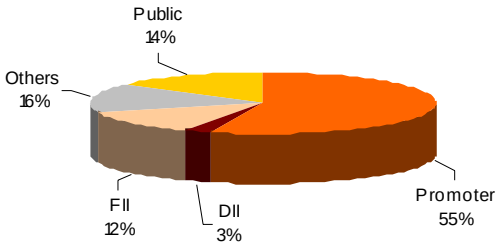
Market Data		
Sector	:	Metals
Market Cap (INRbn)	:	13.7
Market Cap (USDm)	:	289.3
O/S shares (m)	:	115.5
Free Float (m)	:	52.0
52-wk HI/LO (INR)	:	187/32
Avg 12m Vol ('000)	:	284
Face Value (INR)	:	10
Bloomberg	:	PKI IN
Reuters	:	PRKI.BO

Price Performance	1m	3m	6m	12m
Absolute	16.3	69.6	226.2	(17.1)
Relative	9.1	25.0	84.0	(20.3)

Price Performance vs NIFTY



Shareholding Pattern



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Investment Rationale

Prakash Industries Ltd. (Prakash) is a New Delhi based company with majority of revenues accruing from steel and ferro alloys. Its steel capacity of 0.55m tpa, located at Champa (Chhattisgarh) is backed by a sponge iron capacity (0.4m tpa) and complemented by a finishing capacity of wire rods (0.45m tpa) and structurals/ TMT (0.3m tpa). It also operates a ferro alloy plant (48k tpa) and a power facility of 100MW (25MW waste heat power plant, 75MW coal based CPP).

Prakash is in the midst of a INR 8bn capex which would enhance its sponge iron capacity to 1.2m tpa, Steel smelting to 1m tpa and power to 150MW. To monetise its coal mines, it is also foraying into power generation and plans to set up a 625MW merchant power plant at an outlay of INR 25bn.

At the CMP of INR119, the company is trading at a P/E of 3.6x and EV/Sales 0.8x, discounting its FY11e numbers.

Valuation

Stable steel pricing environment, strong control over key raw material (coal and iron ore) and predictability of revenues from its proposed merchant power plant places Prakash in an enviable position. Moreover, scaling up in operations and captive linkages for both iron ore (FY10 onwards) and coal would result in substantial topline and net profits growth. Thus at the CMP, there is a huge scope for re-rating due to asset mis-pricing, as well as growth prospects. Hence, we initiate coverage with a BUY recommendation, and an 24-month price target of INR 432 (based on SOTP valuation), which represents a 263% upside from current levels.

Key financials

INRm	2009a	2010e	2011e	2012e
Revenues	15,256	17,053	19,965	26,070
EBITDA	3,004	3,681	6,534	8,850
EBITDA Margin	19.7	21.6	32.7	33.9
EBITDA growth	1.3	22.5	77.5	35.4
PAT	1,980	1,955	4,139	5,134
PAT growth	2.7	(4.3)	111.8	24.0
EPS (INR)	17.2	15.6	33.0	40.9
EPS growth	2.7	(11.9)	111.8	24.0
P/E	7.3	7.6	3.6	2.9
P/BV	1.6	1.3	1.0	0.8
EV/EBITDA	5.3	4.0	2.3	2.1
RoE	19.4	14.7	23.8	22.8

Source: Antique

Introduction

Prakash Industries Ltd. (Prakash), promoted by Mr. B. D. Agarwal in 1982, has interests in steel, ferro alloys, power and PVC pipes. While steel accounts for a lion's share of its revenues, around 15% of its revenues for FY09 were accounted for by its PVC pipes (capacity - 15k tpa) and ferro alloys (~ 48k tpa capacity) divisions.

It was one of the earliest entrants into sponge iron manufacturing and in 1991 set up a 500 tpd kiln at Champa (Chhattisgarh) based on Lurgi Technology. Since then, it has focussed on scaling up its steel business and its capacities currently are as following:

While its sponge iron, steel melting shop (SMS) and ferro alloy facilities are located at Champa, the finishing facilities i.e. structurals / TMT and Wire rod mills are located at Raipur (Chhattisgarh).

Product	Existing
Sponge Iron	0.4m tpa
SMS (Steel melting)	0.55m tpa
Structurals/TMT	0.3m tpa
Wire Rods	0.45m tpa
Ferro Alloy	0.048m tpa
Mining	Coal 1m tpa
Power	2 X 12 MW Whrs
	75 MW coal based CPP

Source: Company

Business Model

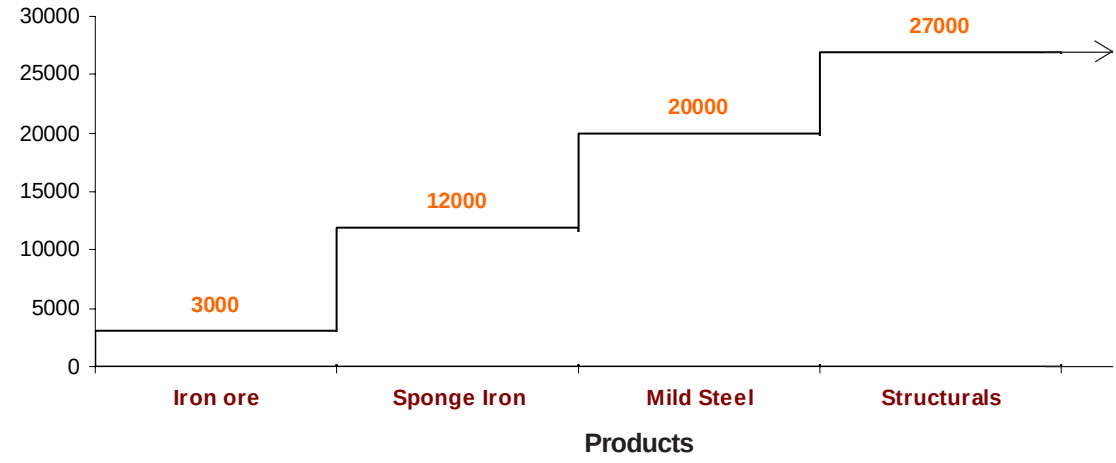
Prakash manufactures sponge iron and operates a capacity of 0.4m tpa. Recently it commissioned another kiln, which has enhanced its metallics capacity to 0.6m tpa. Prakash has a WHRS power capacity of ~25MW, which will be scaled up towards end of CY09.

Its steel making (SMS) capacity stands at 0.55m tpa and the company uses the induction furnace route. In this method of steel production, sponge iron constitutes ~80-90% of chargeable material (balance being scrap/pig iron). Thus, for its current steel capacity, the captive sponge iron suffices ~70-80% of its requirements, necessitating open market purchases of metallics.

Presently, a majority of its steel production is captively consumed to manufacture higher value added products like structurals / TMT and wire rods, where its capacity stands at 0.3m tpa and 0.45m tpa respectively. Wire rods and structural command a realisation of INR 27,500/tn and INR 29,000/tn, as opposed to sponge iron and billet realisation of ~INR 12,000/tn and ~INR 22,000/tn respectively enabling the company to not only improve its sales realisation per tonne, but also improve margins.

A brief illustration of the value chain is elaborated below:

Realisation Scale up Chart (INR / tn)



Source: Antique

Prakash also has Ferro alloy capacity of 48k tpa, a crucial raw material for steel manufacturing. While a portion of the production (~30%) is captively consumed for steel making, the balance is sold in the open market to other steel players on long term or spot basis.

The company's current power generation capacity is 100MW, split into 25MW of waste heat recovery system (WHRS), 75MW of coal based. Peak power requirement of ferro alloy production would be ~ 25MW, with the balance being consumed by the steel melting shop and finishing mills.

At the current scale of operations, the power consumption would be marginally more than captive generation. Prakash has grid dependence for ~12-15MW. While the scale up in sponge iron will ensure a commensurate rise in WHRS based power plant, there will also be a matching scale up in steel melting capacity. Thus the company will have to have some grid dependence till the first phase of its 625MW CPP become operational.

As the company presently has a mismatch in metallics, it is susceptible to volatility in sponge iron and scrap prices. To alleviate this mismatch, reduce volatility in raw material and derive benefits of scale, Prakash has outlined capital expansion of INR 8bn to scale up its metallics and melting shop capacities.

Operational Costing

The key raw materials for sponge iron manufacturing are iron ore and coal, with the standard consumption norm being ~1.6tn of iron ore and ~1.2-1.3tn of coal for every ton of sponge iron. Prakash is self sufficient in coal as a result of which its landed cost of coal is INR 800-900/tn (v/s market price of INR1,800/tn).

The company's captive coal mine is located at Chotia (Chhattisgarh), and has reserves of ~50m tn. The extraction capability at this mine (1mn tpa) can cater not only to the requirements of its sponge iron division, but also its 75MW captive power plant.

However, in case of iron ore the company does not have captive mines and incurs a landed cost of ~ INR 4,000-4,200/ tn, for procuring the same from Orissa and Chhattisgarh. Thus, it is exposed to market forces.

It has been allotted the Kawardha iron ore mine in Chhattisgarh, with estimated reserves of ~75m tn containing high grade iron ore (+66% Fe) and this is expected to be operationalised by Q4FY10-Q1FY11. Upon commencement of mining, the mine head cost of CLO (Calibrated ore) is expected to be INR 1,000/tn while the landed cost would work out to INR 1,200/tn. On a normative basis, this would entail a raw material saving of INR 4,000/tn of sponge iron manufactured, affording huge costing advantage to Prakash and buoy its profits significantly.

The costing matrices of a sponge iron manufacturer who has to procure all the raw material externally, vis-à-vis a player who has a degree of control over the same is elaborated in the table below. It can be seen that the costing advantage of a player with captive coal and iron ore mines along with WHRS system is almost INR 5,000-5,500/tn of sponge iron manufactured. At the current realisations of INR 12,500/tn, the advantage accruing from control over resources would prove to be a key Operating Profit/ tn differentiator.

The indirect advantages in later stages for an integrated or a value added player like Prakash could be inferred from the fact that its cost of power generation is around INR 0.7/unit and the production cost/consumption parameters are ~3,800-4,000 units/tn of ferro alloys and ~800-1,000 units/tn for steel melting and 120-200 units/tn for rolling and drawing. Thus the benefits of a CPP would be significantly evident in the steel making and finishing.

Operational Costing for manufacturing 1 tn of sponge iron

Component		W/o Raw material Linkages		With captive coal		With captive coal and iron ore	
	Qty	Rate	Total	Rate	Total	Rate	Total
Iron ore	1.6tn	4,000	6,400	4,000	6,400	1,200	1,920
Coal	1.3tn	1,800	2,340	800	1,040	800	1,040
Flux		800	800	800	800	800	800
Manpower		750	750	750	750	750	750
Power	90units	3	270	1	90	1	90
Total			**10,560**		**9,080**		**4,600**

Source: Industry, Antique

Existing Capacities

Sponge Iron/Steel

In 1991, PIL set up a 1 x 500 tpd sponge iron kiln at Champa (Chhattisgarh) in technical collaboration with Lurgi. The same was doubled in 1995 and the performance of the kilns has been satisfactory with utilisation levels ~90%. To move up the value chain, Prakash set up a steel melting shop of 0.55m tpa. However, as its current sponge iron capacity is not capable of catering to its metallics requirements, it has to procure sponge iron/ scrap from the spot market. The output of the steel melting shop i.e. billets/blooms is further processed at its finishing plant at Raipur, to make value added products such as structurals and wire rods.

Structurals

To move up the value chain, Prakash commissioned a 0.15m tpa structural mill (in FY01), which was enhanced to 0.3m tpa in FY08. This facility, at Raipur, manufactures a wide range of products like channels, beams and angles which are largely utilised in the infrastructure and construction sectors.

Wire Rods

With capacities of 0.55m tpa for steel and 0.3m tpa for structurals, Prakash had to sell billets. In order to utilise this excess billet production and improve realisations and evolve a stronger product mix, the company set up a wire rod mill of 0.45m tpa in FY08 at Raipur.

Power

Prakash was one of the first companies to tap the waste gases from sponge iron kilns for power generation. The company currently operates 25MW captive power plant based on this technology.

Over and above this, in order to have strong control over its costing in SMS, Prakash set up a 75MW captive power plant (each tonne of steel entails power consumption of 800-1,000 units). This generated significant cost savings for Prakash as it was generating power at ~INR 0.7/unit instead of purchasing from the grid at INR 3.75/unit.

Ferro Alloys

The company operates 4 furnaces to manufacture ferro alloys and their combined capacity is 48,000 tpa. Its product portfolio consists of Silico Manganese, Ferro Manganese and Ferro Chrome and over 30% of its production is consumed captively, while the rest is sold outside.

Expansion Plans

Prakash is expanding capacities in both, steel and power. While steel capacity will not be increased by a large extent, majority of the capex entails enhancing the power capacities. All the capacities in power and steel will be implemented in a phased manner till FY15. The outlay for steel capacity expansion is ~INR 6.5bn, while the proposed power capacity of 625MW will entail a capex of INR 25bn. Additionally, an expenditure of INR 1.5bn is envisaged for development of iron ore and coal mines and normal capital expenditure.

Outlays

Sponge Iron Division

The company has expanded its current sponge iron capacity from 0.4m tpa to 0.6m tpa. It plans to further augment this capacity 1m tpa by the end of FY12 and 1.2m tpa by the end FY13. The outlay for the entire exercise of capital expansion is estimated at INR 5.3bn.

Steel Division

Plans are afoot to expand the capacity of the SMS from the current levels of 0.55m tpa to 0.7m tpa by Q3FY10 and take the same to 1m tpa by Q3FY11. The company envisages an outlay of INR 1bn for this expansion.

Mining Division

Prakash also plans to expand its existing mining capacities in order to ensure that coal extraction reaches levels of 1.5m tpa in FY10, 2.0m tpa in FY11 and 3.0m tpa in FY12. This would fulfill its captive demand for steel and power operations.

Product	Existing	Expansion	Timeline	Cost
Sponge Iron	0.4m tpa	1 X 500 tpd (0.2m tpa) 2 X 500 tpd (0.4m tpa) 1 X 500 tpd (0.2m tpa)	FY10 FY12 FY13	INR 5.3bn
SMS Steel melting	0.55m tpa	0.15m tpa 0.30m tpa	FY10 FY11	INR 1bn
Structural	0.3m tpa	Modernisation	FY10	INR 0.2bn
Wire Rods	0.45m tpa			
Ferro Alloy	0.048m tpa			
Mining				INR 1.5bn
Power	2 X 12 MW Whrs 75 MW coal based CPP	675 MW (50 MW Whrs and 625 MW Coal based)	FY15	INR 25bn
		Total Capex		**INR 33bn**

Source: Company

In the iron ore mines, the scale up will be in the Kawardha mines initially, so that captive ore production would cater to at least 60-70% of the demand of the sponge iron units. The ramp up in Sirkaguttu mine would be in tandem with the scale up in sponge iron capacities. The total outlay for the ramp up in all mines is estimated to be ~INR 1.5bn.

Value Addition Division

Prakash does not sell any intermediary products since its entire production of mild steel is converted to value added products like structurals and wire rods. Its structurals / TMT capacity currently stands at 0.3m tpa and its wire rod capacity stands at 0.45m tpa and this would suffice a large part of its enhanced steel capacity.

Power Division

In addition to the capex plans outlined in the steel division, the company plans to place strong emphasis in monetising its coal reserves by enhancing its power capacity substantially.

Despite its current power generation capacity of 100MW, Prakash has to procure ~12-15MW of power from the grid. With a view to bridge the power deficit (even on an enhanced capacity) and generate a predictable revenues stream, Prakash plans to set up a 625MW power plant at an estimated outlay of ~INR 25bn.

Other than the above, ~50MW would be through the WHRS route as each of the proposed 500 tpd kilns is capable of supporting a 12MW power plant. The balance 625MW would be set up in a modular format of 5 X 125MW. Prakash has adequate land for the proposed power plant and will not incur expenses for land acquisition. There would also be substantial savings as the proposed power project is located close to the CSEB distribution station and Prakash would not have to incur much expenditure to set up an evacuation facility. The project is likely to be commissioned in phases by end-FY15 as outlined in capacity expansion table below. The company has not signed a PPA and plans to resort to merchant sales under the appropriate licensing norm.

Captive Linkages

PIL has been allocated three Coal mines and two iron ore mines for captive consumption. Of the two iron ore mines, one is located in Orissa while the other is in Chhattisgarh and all three coal mines allocated are in Chhattisgarh.

State	Location	Ore	Reserves	Remarks
Chattisgarh	Kawardha	Iron ore (66-67gr Fe)	75m tns	Est operational date December 09
	Chotia	Coal	50m tns	Operational since July 06 Extraction rate 1m tpa
	Madanpur	Coal (C/D grade)	50m tns	Est operational date December 09 (consortium allocation)
	Fatehpur	Coal (E/F grade)	45m tns	Earmarked for power project Est operational date March 12
Orissa	Sirkaguttu	Iron ore (63-65gr Fe)	10m tns	Est operational date March 10

Source: Company

One of the coal mines, viz. Chotia coal mine, has been operational since July 2006 and has reserves of ~50m tns. The current extraction of ~1m tpa suffices both its steel and power requirement (65MW). The mines are located at a distance ~50kms from its manufacturing facilities.

The Madanpur mine has ~50m tns of coal reserves (C & D grade) and is a consortium allocation along with 7 other companies. Operations at this mine is expected to commence by the end of FY09. The recently allotted Fatehpur coal mine has reserves of ~45m tns but its reserves are of inferior grade (E & F) grade. These mines have been allocated for captive consumption and company intends to utilise the superior grade coal to manufacture sponge iron manufacturing while using the inferior grade for power generation.

On the iron ore front, PIL has been granted the Kawardha mines in Chhattisgarh, which is ~140kms from the plant. The same has high quality grade of iron ore with +66% Fe content with total reserves of ~75m tns. This mine is scheduled for commissioning by the end-FY10 as environmental and forest clearances are awaited. Upon commissioning, this mine should result in savings of ~INR 0.5bn in FY10 and ~INR 1bn FY11 onwards (considering an estimated sponge iron production of ~0.35m tpa and 0.46m tpa for those years respectively) as opposed to sourcing from the spot market.

Apart from the above iron ore mine, the company also has been allocated the Sirkaguttu mine in Orissa (reserves of 10m tns). Its reserves are 10m tns of ~65% FE gr and are expected to be operational by the end of Q4FY10-Q1FY11, and would complement the Kawardha mine aiding a significant cost reduction and margin expansion.

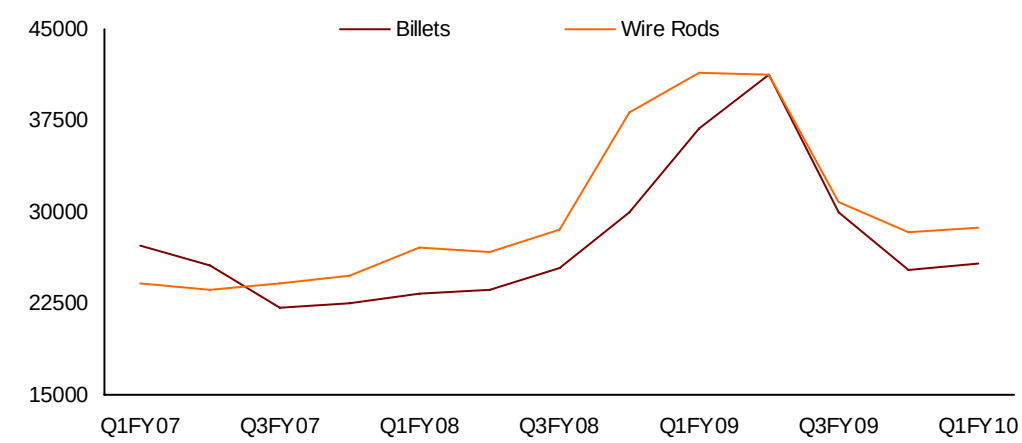
Healthy steel industry scenario...

The outlook for the steel sector is buoyant backed by both demand pull and cost push pressures. With the Indian GDP set to grow at ~7%, steel consumption which currently stands at ~54m tpa, is set to follow track.

With increased demand emanating from the construction and infrastructure sectors, demand for long products (constituting ~40% of the market) is expected to increase sharply at 20% CAGR. Additionally, with the recent spike in prices of crucial inputs like iron ore, coke and coal, we expect steel prices to be stable, if not harden. The current scenario places all integrated steel companies in a favorable position to capitalise upon.

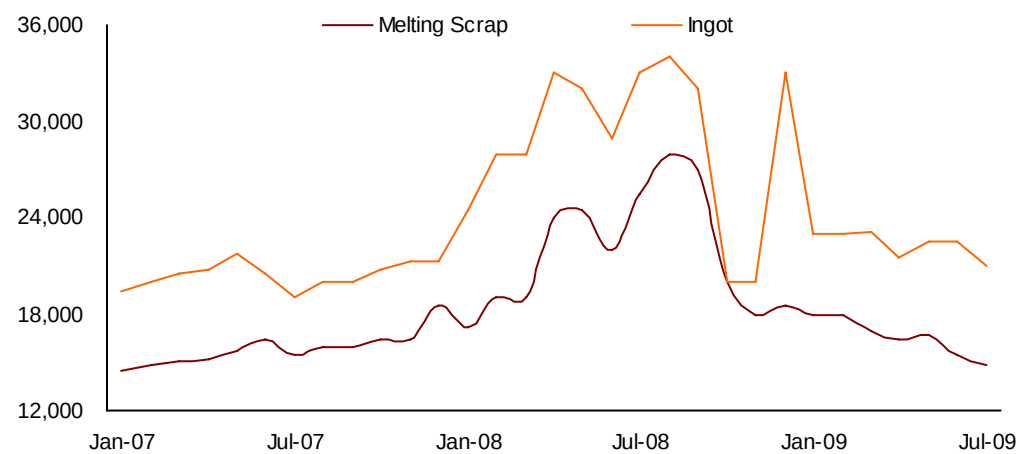
While the price trend in steel has been volatile for the last 6 quarters, of late there has been stability in valued added steel products like wire rods etc. Commodity products like pig iron, scrap and sponge iron have still to exhibit signs of stabilisation, as can be inferred from the graph below. In such a business environment, players with a high degree of operational integration and those who straddle a large part of the value chain would benefit.

PRICE TREND FOR BILLETS AND WIRE RODS (INR / tn)



Source: Industry

PRICE TREND FOR MELTING SCRAP AND INGOTS (INR / tn)



Source: Industry

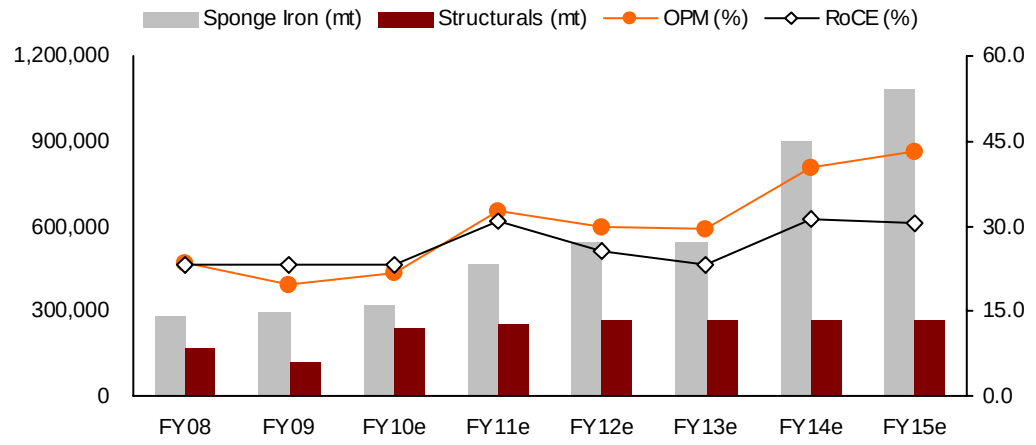
Capacity expansion to boost revenues...

With the ongoing expansion, the company will benefit from incremental volumes that are set to flow in a phased manner from FY10. Moreover, as Prakash does not intend to sell any intermediate products like billets; its entire production is set for value addition, which will result in higher and stable realisations.

Captive mineral linkages to boost steel business margins...

With ~85m tns of iron ore and ~145m tns of coal reserves, Prakash's margins are set to improve as a result of significant cost savings flowing through these captive linkages. From current levels of 20% (FY09), OPM should touch ~34% in FY12, enabling Prakash to transform into one of the lowest cost producers of steel in the country.

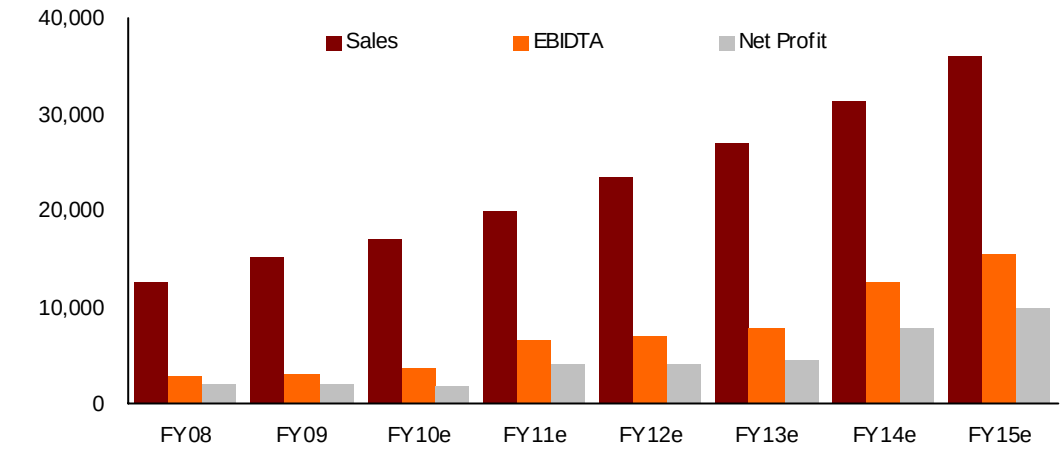
OPERATIONAL MATRIX & PROFITABILITY TREND



Source: Antique

Through its upcoming 675MW power project, Prakash's power capacity would stand at 775MW. Of this ~25% would be consumed captively in the steel manufacturing process while the rest would be earmarked to be sold through the merchant route. The company has not entered into a PPA agreement and will review the same upon completion of the project. Moreover, with in-house linkage of coal and no debt on the books for the project, the cost of production would not exceed ~INR 1/unit.

Yearly Sales, EBIDTA and Net Profit trend (INR m)



Source: Antique

Our View

For FY09, Prakash reported net sales of INR 15.3bn (+22%) and exhibited an OPM of 19.7%. This was despite challenging environment where the volatility in raw material prices and soft realisations impacted margins of most players. Going forward, we estimate the company to post a net sales growth of 12%, 17% and 31% for FY10e, FY11e and FY12e respectively while the operating profit growth for the same period is estimated to be 23%, 78% and 35%. The reason for this disproportionate growth in operating profits, is scaling up of operations and higher percentage of captive sources in raw material.

We believe that Prakash is well poised to reap benefits of the increasing demand for structurals and wire rods from the construction and infrastructure sectors, which has a higher degree of insularity from the volatility in commodity grade steel.

It would be able to post strong growth in revenues and profits and also shake off the cyclicality of the steel business and volatile raw material costs. Moreover, the power business will aid in improving operational parameters in the form of reduced cost, assured revenues and higher RoCE.

Since the company has a strong presence in steel and is scaling up presence in power, we have attempted to arrive at the SOTP valuation of the company. The steel business valuation according to the benchmark valuation metrics of peer steel companies, at an EV/EBIDTA of 4x, on an estimated EBIDTA of INR 6.5bn for FY11e, works out to INR 188/share.

The power business, on a WACC of 16%, and a average unit realisation of INR 3/unit, works out to INR 326/share. Applying a 25% discount, the value accretion of the power project works out to INR 245/share. The fair value of the company thus works out to INR 432/share. At the CMP of INR 119, it leaves scope for an upside of 263%. Hence, we recommend a BUY on the stock with a 24 month price target of INR 432/share.

Sum Of The Parts Valuation

Steel business (INRm)		**Amount**
FY11e EBITDA		6,534
EV/EBITDA multiple (x)		4
Enterprise value		26,137
Net debt		2,593
Implied market cap		23,544
Value per share (INR)		**188**
Particulars (INR / Share)	**Method**	**Value**
Steel Business	EV/EBITDA	188
625 MW Power plant (25% discount to DCF)	DCF	245
Total SOTP Value	**INR**	**432**

Source: Antique

625MW Power Project Synopsis (INRm)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Asset cost	4,625	9,250	13,875	18,500	23,125	23,125	23,125	23,125	23,125	23,125
Debt	3,238	6,475	9,713	12,950	16,188	14,188	11,188	8,188	5,188	2,188
Equity	1,388	2,775	4,163	5,550	6,938	6,938	6,938	6,938	6,938	6,938
Reserves	-	2,327	5,918	10,773	16,892	23,178	29,718	36,512	43,560	50,861
RoE (%)	76.6	45.6	35.6	29.7	25.7	20.9	17.8	15.6	14.0	12.6
RoCE (%)	31.9	27.6	24.8	22.7	20.9	19.3	18.5	17.8	17.0	16.3

Revenue Statement (INRm)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net sales	**2,594**	**5,188**	**7,782**	**10,376**	**12,970**	**12,970**	**12,970**	**12,970**	**12,970**	**12,970**
Op. Exp	**777**	**1,311**	**1,846**	**2,381**	**2,916**	**2,924**	**2,933**	**2,942**	**2,951**	**2,961**
Fuel Cost	397	794	1,191	1,588	1,985	1,985	1,985	1,985	1,985	1,985
O&M	130	260	390	520	650	650	650	650	650	650
Staff	250	258	265	273	281	290	299	307	317	326
Op Profit	**1,817**	**3,877**	**5,936**	**7,995**	**10,054**	**10,046**	**10,037**	**10,028**	**10,019**	**10,009**
Interest	340	680	1,020	1,360	1,700	1,490	1,175	860	545	230
Depreciation	197	393	590	786	983	983	983	983	983	983
PBT	**1,281**	**2,804**	**4,327**	**5,849**	**7,372**	**7,573**	**7,880**	**8,186**	**8,491**	**8,797**
Tax	218	477	736	994	1,253	1,287	1,340	1,392	1,444	1,495
PAT	**1,063**	**2,327**	**3,591**	**4,855**	**6,119**	**6,286**	**6,540**	**6,794**	**7,048**	**7,301**

Cash Flows (INRm)

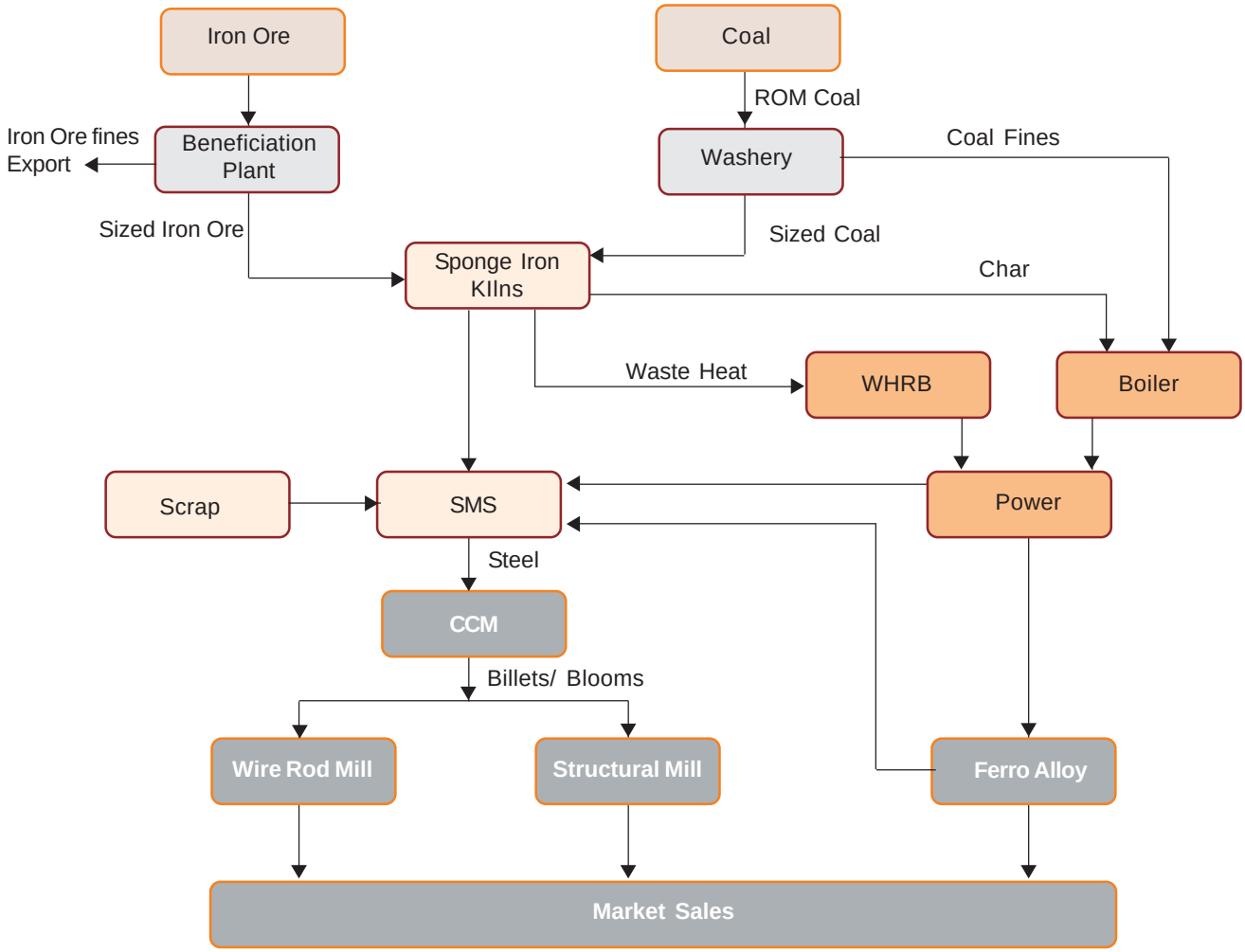
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
PBT	1,281	2,804	4,327	5,849	7,372	7,573	7,880	8,186	8,491	8,797
Add: Dep	197	393	590	786	983	983	983	983	983	983
Add: Interest	340	680	1,020	1,360	1,700	1,490	1,175	860	545	230
Less: Tax paid	218	477	736	994	1,253	1,287	1,340	1,392	1,444	1,495
Net CF from op	1,817	3,877	5,936	7,995	10,054	10,046	10,037	10,028	10,019	10,009
CF from Fin/ Inv	(340)	(680)	2,218	1,878	1,538	(3,490)	(4,175)	(3,860)	(3,545)	(3,230)
Net cash flows	1,477	3,197	8,154	9,873	11,592	6,556	5,862	6,168	6,474	6,780
WACC @ 16%	0.86	0.74	0.64	0.55	0.48	0.41	0.35	0.31	0.26	0.23
Discounted CF	1,273	2,376	5,224	5,453	5,519	2,691	2,074	1,882	1,702	1,537
Terminal value	11,197									
Total Future CF	40,928									
Value / share	326									

O/S shares post dilution - 125.5mn
WACC - 16%
Terminal Growth rate - 2%, PLF - 90%, Sales Realisations - INR3 / unit

Sensitivity Analysis - Power Business

WACC/ Term. grwth.	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
14%	367	372	377	382	388	395
15%	340	344	348	352	357	362
16%	316	319	323	**326**	330	334
17%	296	298	301	304	307	310
18%	277	279	281	284	286	289

Manufacturing Process Flowchart



Source: Company ,Antique

Financials (INR m)

Profit and Loss Account

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Revenues	12,537	15,256	17,053	19,965	26,070
Expenses	9,572	12,253	13,372	13,430	17,219
EBITDA	2,965	3,004	3,681	6,534	8,850
Depreciation	477	425	561	870	1,325
EBIT	2,488	2,579	3,120	5,664	7,525
Interest expense	440	632	467	389	651
Other income	38	40	100	100	100
Profit before tax	2,086	1,987	2,753	5,375	6,974
Taxes	4	6	798	1,236	1,840
Adj Profit after tax	2,081	1,980	1,955	4,139	5,134
Reported profit after tax	1,987	2,042	1,955	4,139	5,134
Recurring EPS (INR)	18.0	17.2	15.6	33.0	40.9

Balance Sheet

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Share Capital	1,155	1,155	1,255	1,255	1,255
Reserves & Surplus	8,284	9,350	12,015	16,154	21,288
Networth	**9,439**	**10,505**	**13,270**	**17,409**	**22,542**
Debt	3,631	2,593	2,593	2,593	5,831
Deferred Tax Liability	-	702	1,033	1,651	2,306
Capital Employed	**13,070**	**13,801**	**16,896**	**21,653**	**30,679**
Gross Fixed Assets	13,836	15,242	18,600	23,896	33,949
Accumulated Depreciation	6,067	6,370	6,931	7,801	9,126
Net Assets	7,769	8,872	11,669	16,096	24,823
Capital work in progress	1,760	2,413	530	543	688
Investments	1	22	22	22	22
Current Assets, Loans & Advances					
Inventory	986	820	895	899	1,195
Debtors	1,148	1,085	1,213	1,420	1,996
Cash & Bank balance	845	313	2,368	2,479	2,032
Loans & advances	1,658	1,935	1,935	1,935	1,986
Current Liabilities & Provisions					
Creditors	596	842	919	923	1,248
Other liabilities	708	1,008	1,008	1,008	1,008
Net Current Assets	**3,333**	**2,303**	**4,483**	**4,801**	**4,954**
Misc.Expenses	207	191	191	191	191
Application of Funds	**13,070**	**13,801**	**16,896**	**21,653**	**30,679**

Per share data

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
No. of shares (m)	115	115	125	125	125
BVPS (INR)	81.7	91.0	105.8	138.7	179.7
CEPS (INR)	22.2	20.8	20.0	39.9	51.5
DPS (INR)	-	-	-	-	-

Margins (%)

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
EBIDTA	23.7	19.7	21.6	32.7	33.9
EBIT	19.8	16.9	18.3	28.4	28.9
PAT	16.6	13.0	11.5	20.7	19.7

Source: Antique

Profit and Loss Account

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Sponge Iron Production (Tn)	284,150	296,299	320,000	460,000	540,000
Steel Production (Tn)	394,061	445,805	440,000	557,500	810,000
Wire Rods Production (Tn)	168,737	208,709	360,000	382,500	405,000
Structurals Production (Tn)	169,479	120,241	240,000	255,000	270,000
Wire Rods Sales (Tn)	168,187	209,997	360,000	382,500	405,000
Structurals Sales (Tn)	161,089	120,713	240,000	255,000	270,000

Cash Flow Statement

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
EBT	,992	2,048	2,753	5,375	6,974
Depreciation & amortisation	477	425	561	870	1,325
Interest expense	415	605	467	389	651
Interest / Dividend Recd	(33)	(33)	(100)	(100)	(101)
Other Adj	129	(20)	-	-	-
(Inc)/Dec in working capital	(107)	308	(126)	(207)	(600)
Tax paid	(248)	(9)	(468)	(618)	(1,186)
CF from operating activities	2,624	3,324	3,087	5,709	7,064
Capital expenditure	(1,706)	(2,340)	(1,475)	(5,309)	(10,198)
Inc/(Dec) in investments	1	7	-	-	(0)
Income from investments	33	32	100	100	100
CF from investing activities	(1,672)	(2,301)	(1,375)	(5,209)	(10,098)
Inc/(Dec) in share capital	1,650	-	810	-	-
Inc/(Dec) in debt	(957)	(921)	-	-	3,238
Dividends & Interest paid	(895)	(634)	(467)	(389)	(651)
CF from financing activities	(202)	(1,555)	343	(389)	2,586
Net cash flow	751	(532)	2,055	111	(448)
Opening balance	94	845	313	2,368	2,479
Closing balance	845	313	2,368	2,479	2,031

Growth Indicators (%)

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Revenue	34.5	21.7	11.8	17.1	30.6
EBITDA	48.1	1.3	22.5	77.5	35.4
PAT	49.6	2.7	(4.3)	111.8	24.0
EPS	27.4	2.7	(11.9)	111.8	24.0

Valuation (x)

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
PE	7.5	7.3	7.6	3.6	2.9
P/BV	1.9	1.6	1.3	1.0	0.8
EV/EBITDA	5.5	5.3	4.0	2.3	2.1
EV/Sales	1.3	1.1	0.9	0.8	0.7
Dividend Yield (%)	-	-	-	-	-

Financial Ratios

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
RoE (%)	21.1	19.4	14.7	23.8	22.8
RoCE (%)	19.0	18.7	18.5	26.2	24.5
Debt/Equity (x)	0.4	0.2	0.2	0.1	0.3
EBIT/Interest (x)	5.7	4.1	6.7	14.6	11.6

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Mr. Viraaj Teckchandani	91-22-4031-3327	viraaj@antiquelimited.com
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