

Bihar Tubes Ltd



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Recommendation: BUY

Target Price: Rs 160

CMP: Rs 116.40

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NAMAN RATIONALE

Bihar Tubes (BTL) is an attractive bet on India's Capex story. The traction in real economy has been spectacular and we strongly believe that the value chain that feeds on the capital expenditure is likely to do well.

BTL has just commissioned its Hosur plant, which would double its capacity to 400,000 tons from the existing 200,000 tons per annum in few months. It's a respected player with numerous certifications and prestigious customers. It has supplied pipes to high profile projects such as Bangalore Airport and Delhi Metro.

BTL's new capacity is coming at a time when the capex cycle is gaining momentum and we reckon that its new plant in south will reduce Freight rates for customers based in south and help in shoring the margins.

We estimate that the company would clock an EPS of about Rs.26.60 in FY11. Applying a conservative PE of 6 to our estimated FY11E earnings we arrive at our target price of Rs.160.

We have assumed volumes at about 280,000 tons for FY11, which is lower than the company projection of 300,000 tons.

The valuation coupled with our conviction in the economic traction and BTL's ability to scale up makes this a conviction buy.

TICKER

Bloomberg Code	BTUB IN
Reuters Code	BIHR.BO
BSE Code	590059

Trading Data

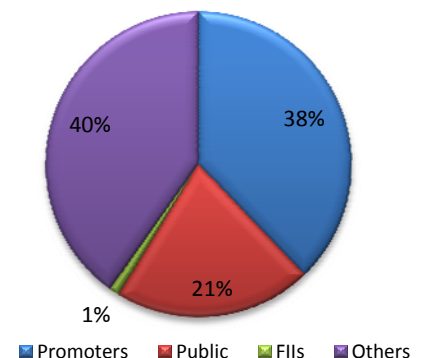
Volume Avg (1M)	Rs.2.83cr
52 Week Range (Rs)	121.60 / 31.50
M.Cap (Rs in Crore)	236.25

Valuation Metrics

P / E	10.1
P / E(3 year High/Low)	52.15 / 3.51
P / BV	1.42
EV / EBITDA	11.28
M.Cap/Sales	0.45

Return %	BTL	NSE
YTD	29.80%	2.75%
1 Month	24.89%	4.75%
1 Year	168.09%	59.90%

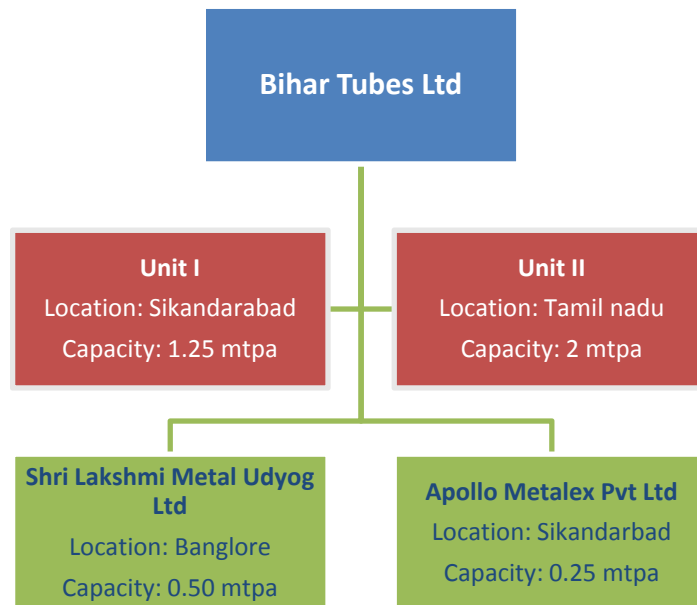
Shareholding Pattern



COMPANY DESCRIPTION:

Bihar Tubes Ltd (BTL), incorporated in 1986: manufacturers and exporters of premium quality of steel pipes and tubes. BTL sources its technology from, Kusakabe that enables the company to produce better yield. Company has received ISO 9001:2000 certification and is approved as certified export house by Government of India. BTL has an established customer base both in India and international markets, with exports to over 35 countries like the US, Colombia, Nigeria, Ireland, Germany, etc.

Corporate Structure

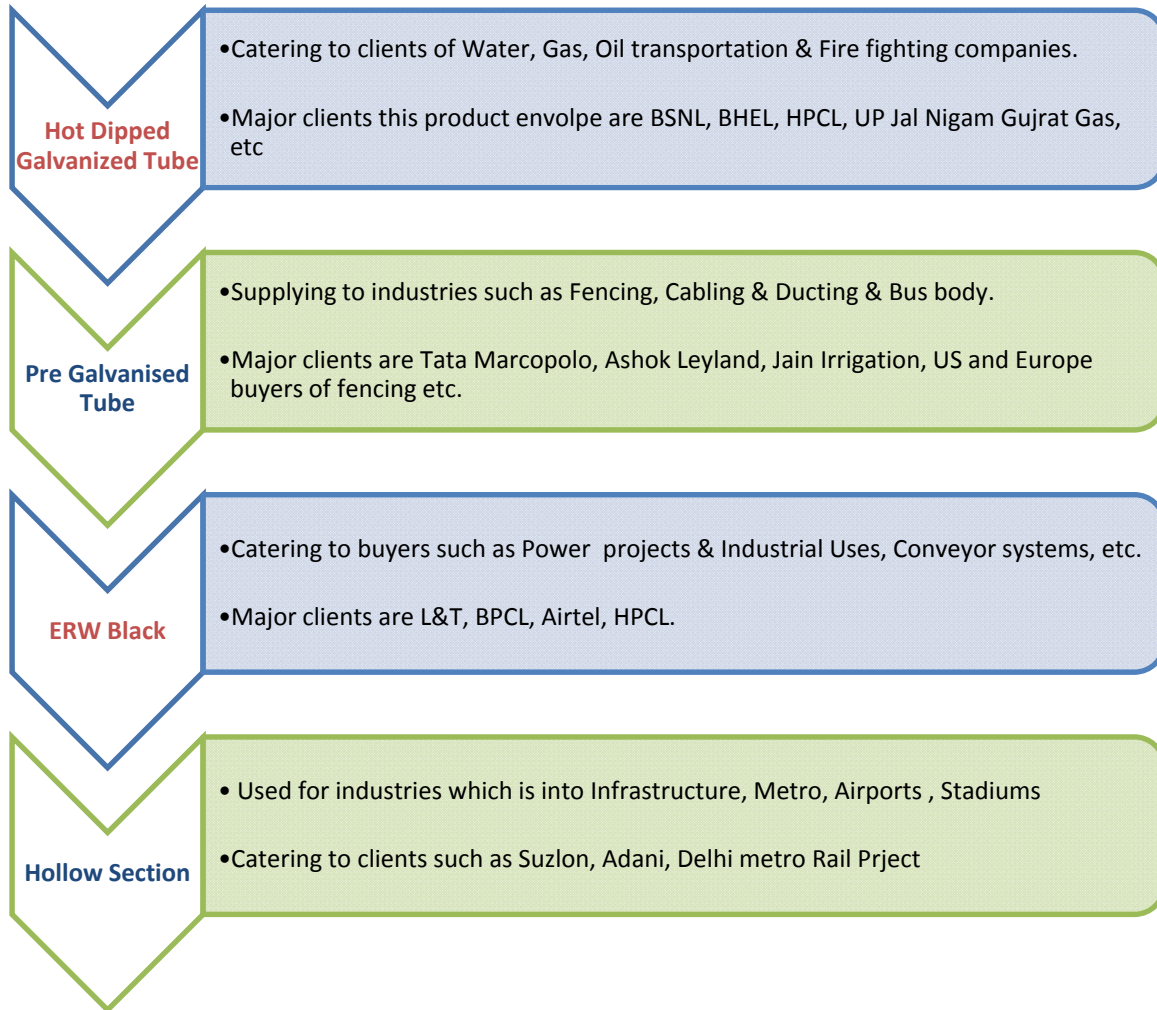


■ Indicates Manufacturing Units of BTL

■ Indicates 100% subsidiary of BTL

— Capacity in lakh tonnes

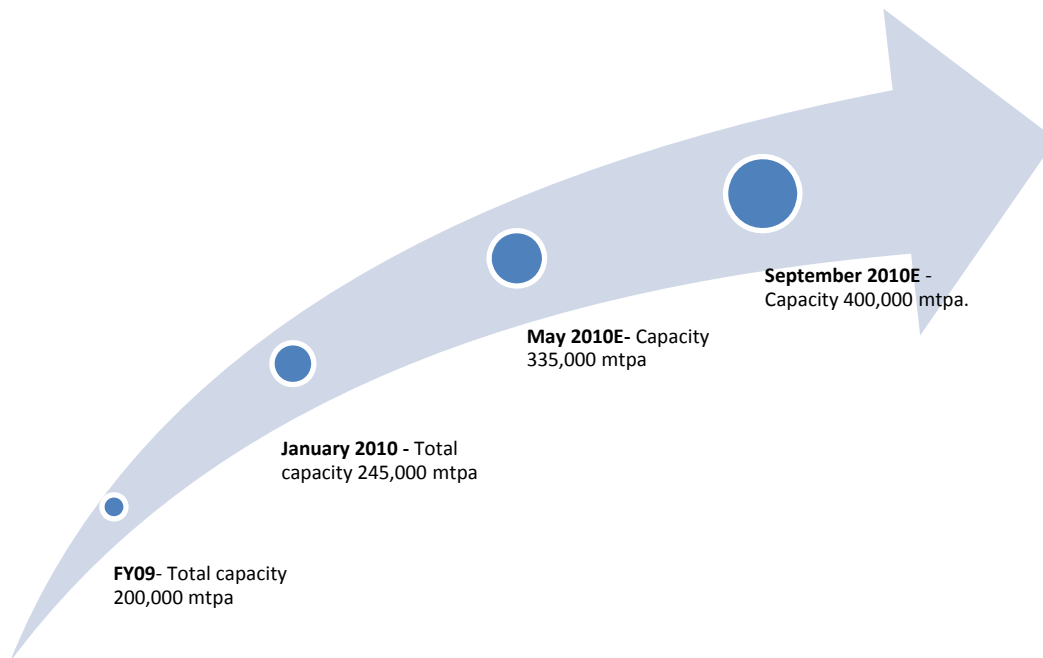
Vertical and clientele



GROWTH DRIVER

Expansion Plans:

BTL has commissioned a plant in Hosur (Tamil Nadu) with capacity of 200000 TPA in the 3rd quarter of FY10, taking their annual production capacity to 400000 TPA from the current 200000 TPA. Commissioning of this plant would enable BTL to tap the southern market and help them contain their cost thus, helping the margins.

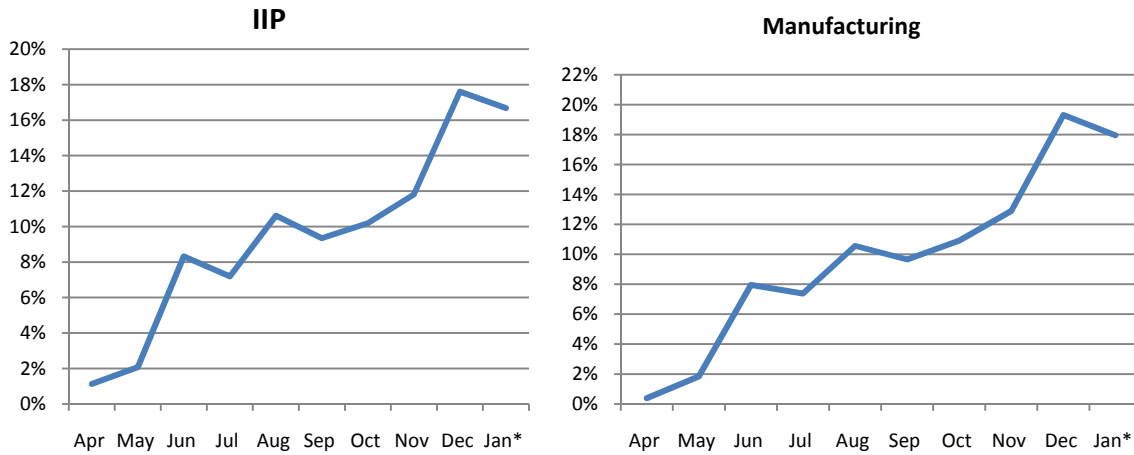


Robust Demand Environment

The economy is showing traction and we believe that the capex cycle is on the upswing. Industrial Production in general and manufacturing in particular are on robust growth trajectory.

The industries which execute the capex are likely to benefit from this upswing. Bihar Tubes fit the bill in this regard. While inflationary fear exists, especially in commodity complex, we believe that the demand dynamics are so strong in the key demand verticals that BTL can ride over the commodity prices.

IIP & Manufacturing data



* Advance estimates

LCV & passenger cars -

We expect the sales growth in the commercial vehicle to continue in the coming months on back intensification of industrial activity in the country. After a 22% slump in demand in 2008-09, apparently the CV producing companies have put up a growth of 26.30%. They have sold close 4.4 lakh vehicles during April 2009-January 2010 as compared 3.5 lakh vehicle for same period a year back. We expect demand for Commercial vehicle (especially the LCV segment) to boost the demand for tubes since, LCV's typically require around 2-2.5 MT of pre-galvanized tubes for production. The key clients BTL caters to in this segment are Tata MarcoPolo and Ashok Leyland.

Collateral benefit from road projects:

National Highways Authority of India (NHAI); is targeting to built 20 km of roads in a day. It has built an average of around 13.6 km/day in February as compared to an average of 7.2 km per day during April 2009-February 2010. (6 km/day in 2008-09). CMIE's survey revealed that the outstanding investments in road and related infrastructure projects escalated to Rs.5,15,089 crore as of March 2010. In 2010-11, a total of 6,047 km (16.6 km per day) of roads are scheduled to be built by NHAI and other road development authorities. However, we believe that the actual addition is likely to be higher than this.

The prospect of infra road project progress is evident in NHAI's highway development statistics for April 2009-February 2010. We feel the demand for steel tubes would increase due to the upcoming projects and turn out to be key positive for BTL.

Infra Projects:

The government of India has started emphasizing on infrastructure development throughout the country; it has awarded various road, rail, airport and railway projects in public-private partnership model. The persistent focus of government on infra sector & infra spending augurs well for the companies operating in steel tubes and pipes segment, since the infra projects typically require steel tubes and pipes for their projects. The company caters to big list of clientele in this segment to name a few - DMRC, L&T, Adani group, Gammon India, B.L.Kashyap, etc.

Oil & Gas:

The order book of steel pipes and tubes is set to pick-up on the back infra development for the transportation of Oil & Gas through pipeline in 2010-11. We also expect the overseas demand to rise with a recovery in global economic growth.

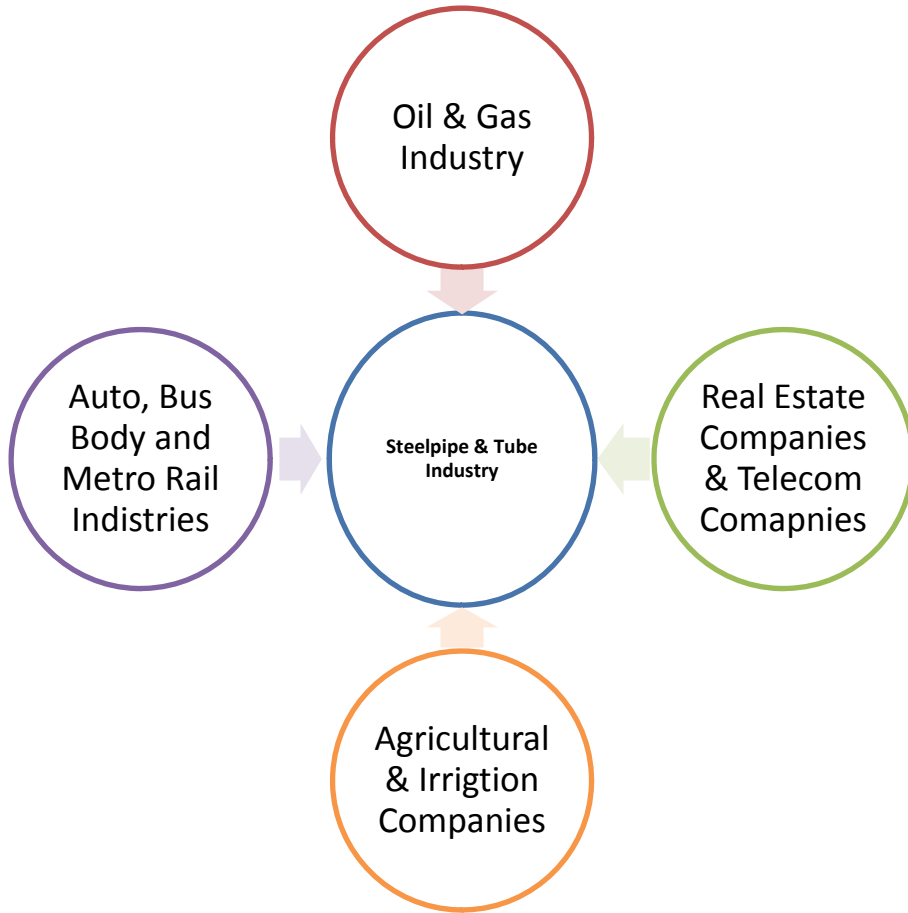
Finance minister announced Rs 35,000 crore national gas grid projects in the budget which will greatly benefit the pipe industry.

India has a total gas pipe length of just 10,800 km, which compares grimly with 56,400 km in Pakistan and 18.3 lac km in US. India also has one of the lowest pipelines spread per sq. km of land at 0.003 km/sq. km of land compared to 1.08 for UK and 0.19 for US. Thus enhanced capacity will help Bihar tubes to cater to increase demand since it is accredited suppliers of pipes to Oil & gas industries all over world.

Diversified End user industry

BTL is catering to companies in different sectors like Infra, Oil & Gas, Irrigation and Automotives. BTL has a de-risked business model, since the end user industry it caters to are sort of diversified in operations. We feel that end user industries that BTL services to have immense growth prospects. While the infra sector has always been a priority sector for Indian Government, with increase in planned spending since the past few years. On the other hand, the steel tubes and pipe segment is likely to find demand after continued interest by government along with corporate bodies showing interest in Agriculture as well as Oil & gas sector which plans for extend the gas pipeline for wider reach among residential and commercial use. Finally BTL would also benefit from automotive industry which is showing great traction in the past 6-8 months.

Steel Pipe User Industry



KEY RISK

Inflationary pressure

Commodity prices have been on an upswing. Indian Steel producers have hiked prices more than once in last 3 quarters. Iron ore and Coke contracts are re-negotiated at substantial higher rates. Although the company has escalation clause to safeguard its margin, any spike in commodity complex are likely to hurt company's fortunes

Delay in timely execution of capacity:

The key to our thesis is completion of Hosur plant and its commercialization in an timely fashion. While we remain confident that company to commercialize the entire operation in next few months. However, if there are slippages then the performance of the company is likely to suffer.

FINANCIALS

Income Statement

Income Statement (Rs. in Millions)					
Particulars	FY07	FY08	FY09	FY10E	FY11E
Revenues	2027	2737	5194	6600	11144
<i>Growth</i>		35%	90%	27%	69%
EBITDA	140	316	243	485	1031
<i>Growth</i>		126%	-23%	99%	113%
Net Profit	67	161	25	245	540
<i>Growth</i>		138%	-84%	864%	121%

Revenue boost on back of growth in volume

Increase in Margins due to Operating leverage

Balance Sheet

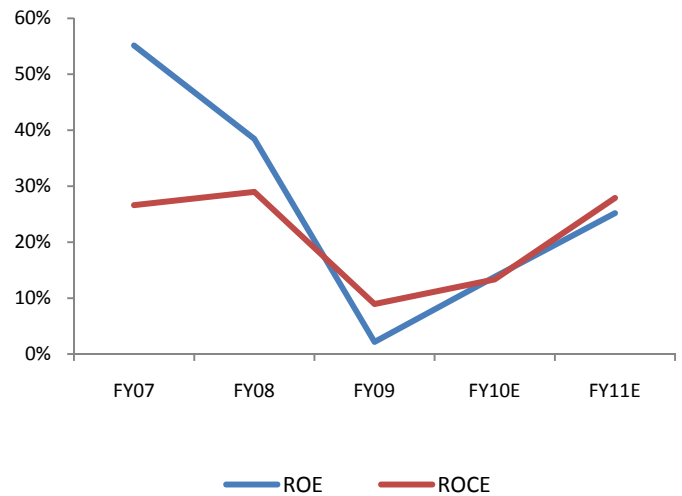
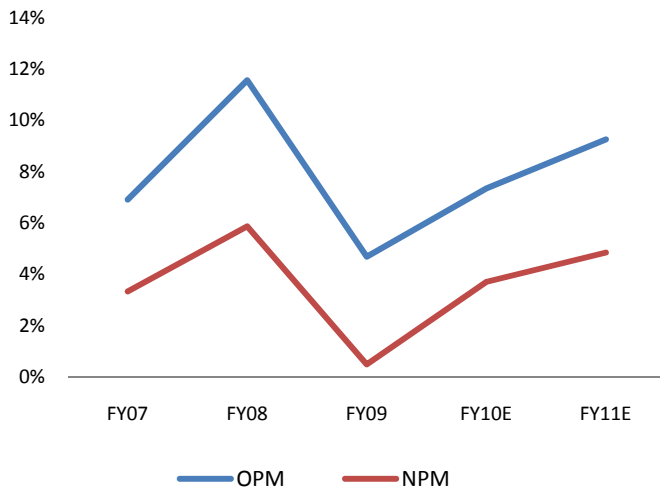
Balance Sheet (Rs. in Millions)			
Sources of Funds	FY07	FY08	FY09
Net worth	155.16	679.84	1,660.29
Total borrowing	453.75	792.38	1,789.01
Current Liabilities	178.48	305.20	202.26
Deferred Tax Liability	17.03	25.43	56.69
Total	804.42	1,802.85	3,708.26
Applications of funds	FY07	FY08	FY09
Fixed asset	171.17	307.07	649.25
Current Assets	633.25	1,478.04	3,038.54
Investments & Others	-	17.74	20.47
Total	804.42	1,802.85	3,708.26

Ratios

	FY07	FY08	FY09	FY10E	FY11E
OPM	6.91%	11.56%	4.68%	7.34%	9.25%
NPM	3.33%	5.87%	0.49%	3.71%	4.85%
ROE	55.13%	38.46%	2.17%	13.80%	25.19%
ROCE	26.61%	28.97%	8.95%	13.34%	27.90%

ROE & ROCE will be on an up-move on account of improvement in asset utilization and operating margins.

Margins and Return Ratio's



Du-Pont Analysis

	FY07	FY08	FY09	FY10E	FY11E
NPM	3.33%	5.87%	0.49%	3.71%	4.85%
Asset Turnover	4.05	2.58	2.08	1.90	3.14
Equity Multiplier	4.09	2.54	2.14	1.96	1.65
ROE	55.13%	38.46%	2.17%	13.80%	25.19%

Improvement in the Asset turnover is likely to drive ROE

Conclusion

BTL is a play on Indian capex story. At current valuations BTL is trading at less than 5 times its FY11E earnings. This we believe makes it a very attractive buy.

Under ownership and robust Q4 FY10 results are likely trigger for the short term price action. The fact the company's revenue is tied with the fortunes of the Indian growth makes the quality of revenue much better in our opinion. The elasticity of demand for the company from a global event such as sovereign crisis from Europe is relatively low.

ANALYST CERTIFICATION

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NAMAN RECOMMENDATION STRUCTURE

Buy: Stock would give over 20% returns in one year horizon

Accumulate: Stock would give 11- 20% returns in one year horizon

Hold: Stock would give 0-10% returns in one year horizon

Sell: Stock expected to fall from the current market price over one year time horizon.

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