LSE Securities

PSL - Buy

PSL Ltd.,incorporated in 1987 is India's largest producer of HSAW pipes.It is one of the largest pipe manufacturers in Asia with 13 Pipe Mills at strategically coast based locations in Chennai, Kandla Vishakapatnam, Ahmedabad, Jaipur, Daman and Sharjah with an annual capacity exceeding 1,175,000 MT.

PSL manufactures and supplies SPIRAL WELD PIPES conforming to API (American Petroleum Institute) standards for Oil, Gas and Water Transmission as well as Structural and Piling Applications for both Onshore and Offshore sector.

Management

The management of the company is led by Ashok Punj, Managing Director while other directors of the company include Y P Punj, Alok Punj, M M Mathur, G S Sauhta, R K Bahri, D N Sehgal, Prakesh V Apte, N C Sharma, Ashok Sharma, Harry H Shourie, S P Bhatia , C K Goel, Pareesh J Shah and Haresh Pateria.

Business Overview

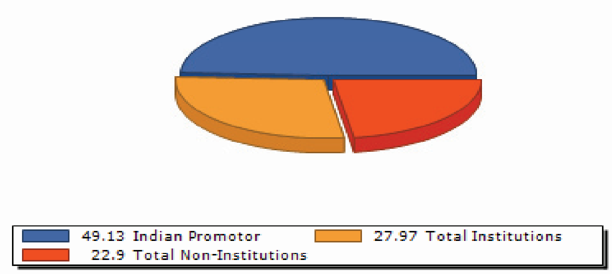
PSL Ltd., a 1700 crores company, has carved a niche for itself in the Indian pipe manufacturing and pipe coating business. It is the only Indian company with a state-of-the-art two-step pipe mill, and is the 3rd company in the world with such a facility. PSL now has the ability to manufacture more than 1,100,000 MT HSAW pipes per year, making the company the largest capacity pipe manufacturer in the country.

The plant set up at Daman is engaged in fusion bonded epoxy coating of reinforcing steel bars. This product under the brand name of Corrogard can help to ensure the life of an RCC construction to its maximum designed life. Fusion Bonded Epoxy Coatings are used for buildings bridges flyovers roads highways nuclear and chemical plants piers and wharves sea walls back waters water trnatment plants RCC pipes railway sleepers and electricity and telephone poles.

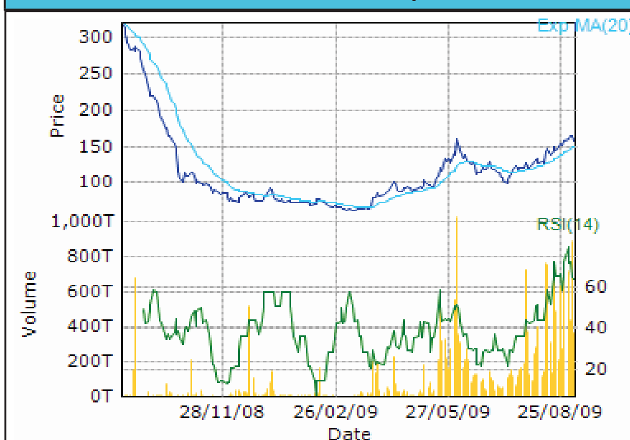
PSL's anode-manufacturing unit in Kandla is approved by Engineers India Ltd (EIL) and has type approval certificate. This state-of-the-art plant has mechanized foundry with induction furnace and spectrometer and has a manufacturing capacity of 6000 tons per year of sacrificial anodes for cathodic protection system.

Stock Data	7/09/09
Current Mkt Price (Rs)	162.60
52 Week High	329.95
52 Week Low	59.50
Mkt Cap (Rs. in Million)	8714.13
Return in last one Month (%)	0.00

Share Holding



Performance in last one year



Y-o-Y Performance

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	31617.74	20439.08	54.69
Other Income	619.93	429.24	44.42
Total Expenditure	28885.06	18228.71	58.46
Operating Profit	3352.61	2639.61	27.01
Interest	1514.65	886.05	70.94
Profits After Tax	859.29	847.70	1.37
Reserve & Surplus	0.06	0.05	12.04
Reported EPS(Rs)	20.12	19.91	1.07
Core EBITDA Margin (%)	9.61	11.90	-19.20

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PSL has entered into a joint venture with the US- based A & L Group to set up PSL - NA (North America), a subsidiary of PSL Ltd. The facility manufactures, coat, and line large diameter API pipe with a diameter range of 24' to 60', a wall thickness range of ?' to 1', lengths up to 80', and grade up to and including X80. Annual plant capacity will ultimately be 300,000 short tons depending on order mix.

PSL SEZ, admeasuring more than 100 hectares of prime land, is only half a kilometer from Pipavav port in the Indian state of Gujarat where PSL has 8 pipe mills in Bhuj district that offers world-class facilities to In/Out Zone users, providing a vital link to the domestic and global markets in the alternative energy & ancillaries sector.

PSL Ltd. has forayed into the business of manufacture and supply of structural steel buildings designed for comfort, quality and style using high grade steel conforming to International standards. The structural elements required for the building are manufactured entirely in the plant under controlled condition to meet the quality. We work together with our clients, architects and the structural designers to provide cost effective solutions to fast construction and early occupancy. The structural steel buildings are environmentally friendly and the material quality affords greater structural safety with enhanced seismic advantages

Result analysis for the fiscal 2008-09

- Net sales of the company for the quarter ended June 30, 2009 declined marginally by 2.91% to Rs 633.28, compared to Rs 652.27 crore in the corresponding previous quarter.
- Profit before tax of the company for the June quarter was down by 14.59% to Rs 33.25 crore compared to Rs 38.84 crore.
- The Profit after tax witnessed a decline of 13.40% to Rs 22.55 crore as compared to Rs 26.04 crore in the same quarter last year.
- The sales volume increased from 75,240 tonnes to 82,207 tonnes while the realisations declined by 12% from Rs 87868 per tonne in Q1FY09 to Rs 77,035 in Q1FY10.
- The earning per share stood at Rs 5.21against Rs 6.02 in June 08 quarter.
- Operating Profit Margin of the company stood at 11.73 while the Net Profit Margin was 3.56 for

Q-o-Q Performance

(Rs. in Million)

Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	6332.80	6522.70	-2.91
Expenditure	5589.70	5928.50	-5.71
Other Income		65.90	0.00
EBITDA	743.10	660.10	12.57
Interest	230.30	126.50	82.06
Net Profit	225.50	260.40	-13.40
EBITDA Margin (%)	0.12	0.10	15.95
NPM (%)	0.04	0.04	-10.81
EPS	5.28	6.10	-13.44

Profit & Loss

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	31617.74	20439.08	54.69
Total Income	32237.67	20868.32	54.48
Total Expenditure	28885.06	18228.71	58.46
Operating Profit	3352.61	2639.61	27.01
Profits After Tax	859.29	847.70	1.37

Balance Sheet

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	425.82	425.81	0.00
Reserve & Surplus	5859.35	5229.80	12.04
Total Liabilities	12608.92	11854.82	6.36
Investments	1942.69	1765.83	10.02
Current Liabilities	24243.66	7375.25	228.72
Net Current Assets	3826.51	5520.99	-30.69
Total Assests	12608.92	11854.82	6.36

Key Ratios

Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	20.12	19.91
Core EBITDA Margin (%)	9.61	11.90
EBIT Margin (%)	7.98	9.59
ROA (%)	6.81	7.15
ROE (%)	13.67	14.99
ROCE (%)	22.06	17.95
Price/Book (x)	0.59	2.21
Net Sales Growth (%)	54.69	43.11
EBIT Growth (%)	30.75	49.32
PAT Growth (%)	1.37	36.39
Total Debt/Mcap (%)	1.71	0.50

the quarter ended June 2009.

Industry Scenario

HSAW pipes are made from HR coil, where in the coil is welded spirally to give a shape of pipe. In HSAW pipes the length of welding is larger as compared to that in LSAW. Depending on the length of welding, the HSAW pipes are perceived to be weaker as compared to the LSAW pipes. But now, due to substantial advancement in the welding technology, there is almost negligible difference in the pressure-bearing strength of the two types of pipes.

The building & construction industries along with the oil & gas sector are the major marketplaces for pipe. With the construction market booming and further development of new markets for steel pipes ranging from commercial framing to water pipes, the future of steel tubing industry certainly looks bright.

Growing oil and gas demand across the world and the zeal with which oil companies are investing on adding pipeline infrastructure promise higher revenues for Indian steel pipes makers. A huge pent-up demand for pipes has cropped up over the last few months. For the refining industry, pipes are the most economical way to transport oil and gas.

Indian pipe sector is set to capitalize on the booming global demand for pipes. Around $118 billion global opportunity is likely to unfold in next five years. The US, South Asia and the Middle East are considered to be key volume drivers for Indian companies in the pipe-making segment.

The pipeline network in India for oil & gas transportation is approximately 13,517 kms with a penetration level of 32% which is much below the global standards (global average at 79%). With large investments by both public and private players, the share of transportation of oil & gas through pipelines is expected to increase in future. Further replacement market in North America is likely to be an additional demand driver especially for those companies who have set up facilities there viz Welspun Gujarat & PSL Industries.

Latest developments

PSL Ltd has bagged an order worth Rs 210 crore from Gail (India) Ltd for external coating of pipes. The company will be applying sophisticated external three layer polyethylene coating on entire Dahej-Vijaipur pipeline project.

PSL has bagged an order worth around Rs 500 crore ($94 million) from GAIL India for supply of steel linepipe for the Dahej-Vijaipur Pipeline Upgradation Project (DVPL-II). It was the sixth successive order secured by PSL from GAIL in the last two years, taking the cumulative billing to over Rs 3,200 crore.

PSL Ltd has allotted 10,750,000 Equity Shares of Rs. 10 each at a price of Rs 138.90 per share including a premium of Rs 128.90 per share to 20 QIB's by way of Qualified Institutional Placement.

Recommendation Factors

The company's order book stands at about Rs 4,700 crore, 1.25x of its FY09 revenues. The company has recently bagged orders worth more than Rs 700 crore from GAIL and is also expecting to bag a large share of orders for the proposed gas pipeline network to be built by GAIL, GSPL, and other domestic players.

PSL Ltd had recently set up its new pipe manufacturing facility in US. With an investment of $100 million, in October last year it set up a new pipe manufacturing facility in Mississippi, USA and has an order book till June next year. Also Production ramp up at US facility to drive growth Both the overseas facilities viz the North American facility (having a capacity of 300,000 MTPA) & the Sharjah facility (having a capacity of 75,000 MTPA) have begun commercial operations. The demand from the replacement market is going to surge considerably in the US markets, and having a facility in Us is sure to give the company an edge over its peers in the segment.

It is the largest manufacturer of HSAW Pipes in India having 40% share in the total HSAW pipe capacity. In the domestic markets its 13 strategically located manufacturing facility are an added advantage for the company, helping to operate in cost effective manner.

At CMP of Rs 163, the stock is trading at an EV/EBITDA of 5.4x FY11e and at 5x of its F10e earnings of Rs 33.23. The new tenders from the domestic oil and gas players coupled with the foreign orders and the capability of the company to fulfill the demand depicts the strength of the company also keeping in view the strong order book & positive industry outlook, we recommend a BUY on the stock at current levels with a price target of Rs 210 for a medium term outlook.

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