

BIHAR TUBES

CMP

Rs.133

TARGET PRICE

Rs.230

Result Review

POTENTIAL UPSIDE

70.29%

TIME FRAME

6 Months

OUT PERFORMER

Pre-galvanized Sales aid Margin Expansion

Bihar Tubes (BTL) has clocked 21% YoY revenue growth in Q2FY08 at Rs 628.3mn with a six-fold increase in PAT at Rs 41.6mn. Rising realizations and a shift towards the high-margin pre-galvanized pipe segment has resulted in a significant improvement in the EBITDA margin to 11.7% in Q2FY08 as against 3.9% in Q2FY07.

Higher Margin due to robust growth in Pre-Galvanized tubes

The company is increasingly placing an emphasis on pre galvanized pipes which offer better margins. The revenue share of other segment, namely galvanized, hollow section and electric resistance welded (ERW) pipes stood at 26%, 38% and 14% respectively during the quarter. BTL is witnessing huge demand for pipes catering to infrastructure and agriculture sector. We expect this to drive 76% revenue CAGR over FY07-FY09.

Plans Steel Strip mill

The Uttar Pradesh-based Bihar Tubes plans to set up a steel strip mill to expand its tubes business with an investment proposal of Rs 100 crore. The proposed mill is to come up in its existing tubes complex with an annual capacity of four lakh tonnes. The unit was likely to be finalised by early next year when Bihar Tubes also expects its current capacity expansion and products diversification programme to be in place.

Spike in sale realization across segments

We expect BTL to post a strong set of numbers in the second half of the years as considering initiatives towards backward and forward integration, entry into high-diameter pipes, and a greater thrust on sales to the fast growing infrastructure pipes and agricultural sectors. We also see plenty of room for further margin improvement as pre galvanized sales to the fastest growing infrastructure and agricultural sector.

FII play in Bihar Tubes

An FII arm of a foreign bank with a strong presence in Hong Kong and Shanghai is said to be amassing shares of Bihar Tubes in good numbers. If rumors are to be believed, the FII has already purchased two lakh shares from the market. The target of the FII is to pocket a sizeable portion of the company from the secondary market. According to market sources, the FII feels that Bihar Tubes is "on the path of high profitability" and is close to acquiring a domestic pipe and tubes company. Shares of Bihar Tubes closed 6% higher at Rs 143 on BSE on Friday. The stock has appreciated 12% over the past one week.

Valuation

We believe Bihar Tubes would continue to give robust performance by leveraging the growth in infrastructure sector and agriculture sector. We strongly recommend stock as out performer in Pipes and tubes sector.

Key financials

(Rs mn)	Q2FY08	Q2FY07	Q-o-Q growth	Q1FY07	%Chg YOY
Sales	628.3	519.2	21	554.4	13.3
Other income	-	-	-	-	-
PBDIT	73.5	20.1	265.8	73.7	(0.2)
EBDITA margin (%)	11.7	3.9	-	13.3	-
Interest	13.0	9.5	37.7	12.8	1.7
PBDT	60.5	10.6	468.4	60.9	(0.6)
Depreciation	3.5	1.9	83.1	2.2	60.2
PBT	57.0	8.7	553.5	58.7	(2.9)
Tax	15.4	2.0	668.1	18.0	(14.7)
PAT	41.6	6.7	519.4	40.7	2.3

Out performer	Large cap	10% or more
	Mid Cap	20% or more
	Small cap	30% or more
Performer	Large cap	Between 5 to 10%
	Mid Cap	Between 10 to 15%
	Small cap	Between 15 to 20%
Under performer	Large cap	-10 %or more
	Mid Cap	-15 %or more
	Small cap	-20% or more

Disclaimer

This report is for informational purposes only and contains information, opinion, material obtained from reliable sources and efforts have been made to avoid errors and omissions and is not to be construed as an advice or an offer to act on views expressed therein or an offer to buy and/or sell any securities or related financial instruments and the authors shall not be responsible and/or liable to anyone for any direct or consequential use of the contents thereof. Its reproduction of the contents of this report in any form or by any means without prior written permission of the publisher is prohibited. All disputes shall be subject to the exclusive jurisdiction of Delhi courts only . [Website - www.rfinance.com/research.aspx](http://www.rfinance.com/research.aspx), research@rrfcl.com