

# SHAH ALLOYS LTD

“stain-less growth”



**EQUITY STRATEGISTS**  
techno-funda approach to “equity analysis”

A-1 Sector 53

Noida - 201 301

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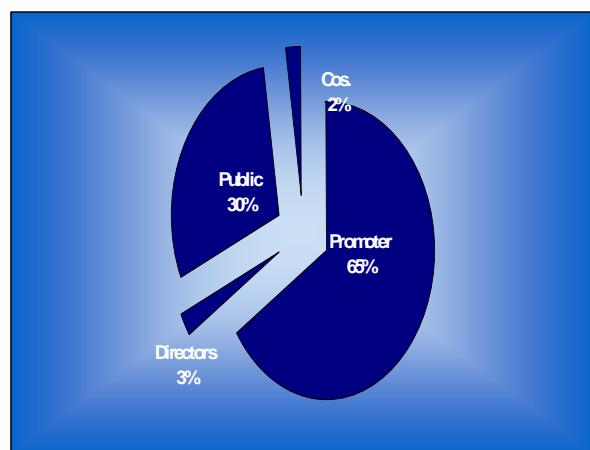
Industry : Stainless Steel  
Category : Strong Growth  
BSE Code : 513436

Present Price : Rs 116  
Projected Price : Rs. 310  
Holding Period : 18 Months

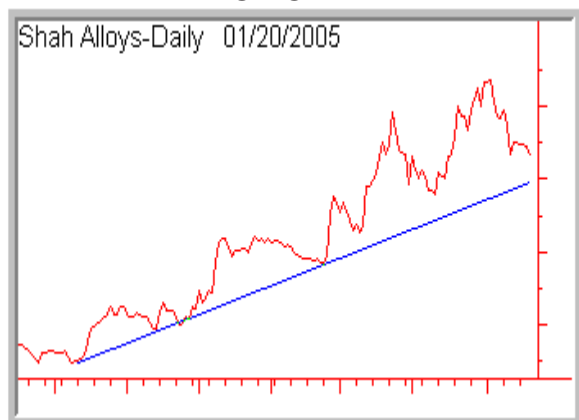
## MARKET DATA

Current Equity : Rs. 8.91 cr.  
Face Value : Rs 10  
Book Value : Rs. 125.63 as on 31/03/04  
Market Cap. : Rs. 103 cr.  
Free Float : 32 %  
52 WeeksH/L : Rs 145/55  
Listing : BSE  
BSE Code : 513436

## SHAREHOLDING PATTERN (%)



## PRICE CHART

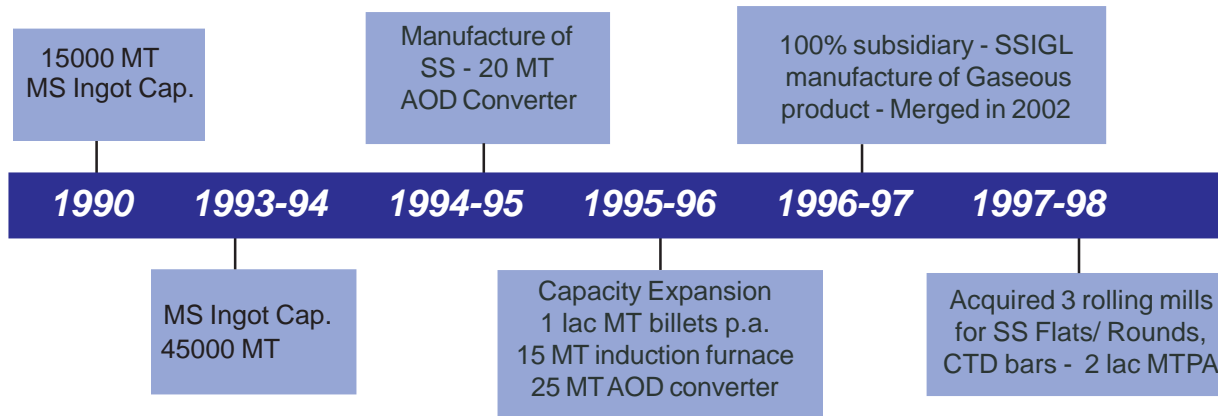


## EXECUTIVE SUMMARY

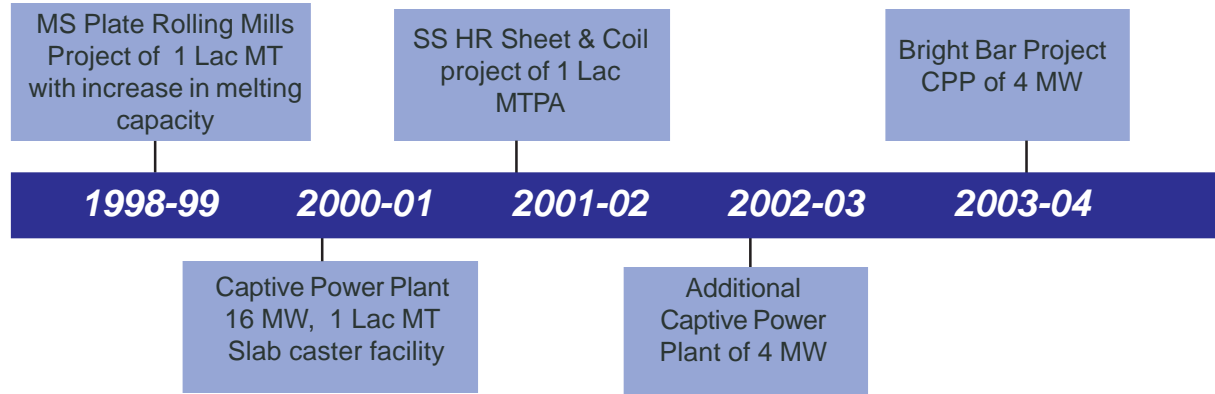
- ✓ Shah Alloys Ltd (SAL), promoted by Mr. Rajendra V. Shah, an entrepreneur with 20 years experience of steel industry was set up in 1990 to manufacture 15000 MTPA MS ingots.
- ✓ SAL is now the second largest manufacturer of stainless steel having capacities of 2,60,000 MT SS Melting & Casting, 1,00,000 MT MS/SS Plate Rolling Mills & HR SS Sheet/ Coil Rolling Mills each, 2,00,000 MT other Rolling Mills, 28 MW Captive Power Plant, 1200 Cum/hr Captive Gas Plant.
- ✓ SAL has shown consistent growth in sales and net profits since inception with consistent addition of capacity financed thru internal accruals and loans without any dilution of equity.
- ✓ Shah Alloys has crossed the turnover of Rs 1000 cr. on a small equity base of 8.91 crore. Equity to turnover ratio of more than 110 will provide tremendous growth in EPS with small increase in margins. Current market capatilisation of Rs 103 cr. is only 0.1 times of its turnover, a rare figure at bourses.
- ✓ There is sustained growth in demand of stainless steel both in global and domestic markets. SAL exports have grown to Rs 471 cr. in FY04, a rise of more than 80 % over previous year.
- ✓ The backward integration through SAL Steel Limited will assure regular and low cost supplies of sponge iron and ferro alloys key raw materials of SAL, which will bring down costs and improve margins from April, 05.
- ✓ The forward integration project will commence from April 05 with production of value added SS CR sheets which would further improve operating margins.
- ✓ It enjoys the distinction of being the only producer of 1800 mm width HR coils in the country. It also enjoys leading position in manufacture of 200 series SS in India.
- ✓ SAL has posted steady growth in H1FY05. With a mere 11 % growth in sales, operating margins grew by 35 %. Net profit has also increased by 22 % to Rs. 15.3 cr.
- ✓ SAL is expected to list on NSE by March, 05 which would increase liquidity in a big way.
- ✓ Shah alloy, an integrated stainless steel producer with second largest capacity in India, low market cap. to sales ratio, is available at a low P/E of 2.5 & 1.2 on earnings of FY05E & FY06E on CMP of Rs 116 respectively. We expect SAL to be a multi bagger stock for long term investors.

## BUSINESS PROFILE

Shah Alloys was incorporated in 1990 for manufacture of Alloy Steel casting, ingots, billets etc. with initial installed capacity of 15000 MTPA. Its IPO in 1992 was oversubscribed and the capacity was expanded to 45000 MTPA. In 1994, it diversified into Stainless Steel from MS.



Capacity has since been increased to 2,60,000 MT Stainless Steel Melting & Casting, 1,00,000 MT MS/SS Plate Rolling Mills & HR SS Sheet/ Coil Rolling Mills each, 2,00,000 MT other Rolling Mills, 28 MW Captive Power Plant, 1200 Cum/hr Captive Gas Plant. It has shown consistent growth through diversification and forward integration i.e. diversification in value added products for stainless steel. SAL is the only manufacturer of SS HR Plate of 1800 mm width in India. It also enjoys leadership position in manufacture of 200 series SS in India. SAL has achieved this growth primarily from internal accruals and debt without any dilution of equity.



## BUSINESS REORIENTATION : BACKWARD & FORWARD INTEGRATION



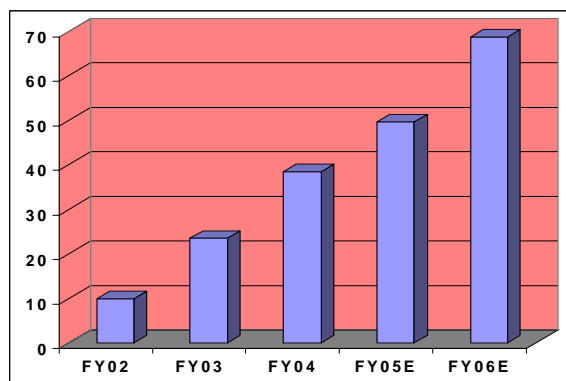
# FINANCIAL HIGHLIGHTS

## FINANCIAL ESTIMATES (Rs in Cr.)

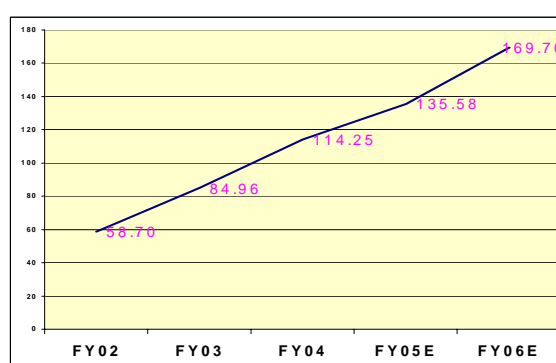
Particulars	FY03	FY04	H1FY04	H1FY05	% Change	FY05P	FY06P
Sales	757.5	1018.4	463.5	516.0	11.3	1208.0	1512.0
Other income	5.5	4.6	0.1	0.7	1240.0	1.2	1.5
Total Income	762.9	1023.0	463.6	516.7	11.5	1209.2	1513.5
Total Expenditure	702.5	949.3	433.0	475.4	9.8	1117.3	1388.7
Operating Profit	60.5	73.7	30.6	41.3	35.0	91.9	124.8
Interest	22.4	21.2	9.5	16.8	76.8	31.2	30.5
Gross Profit	38.1	52.6	21.1	24.5	16.1	60.7	94.3
Depreciation	11.5	13.2	6.5	6.5	0.0	15.2	18.5
PBT	26.6	39.4	14.6	18.0	23.3	45.5	75.8
Tax	5.6	5.1	2.1	2.7	28.6	3.5	14.5
Net Profit	20.9	34.3	12.5	15.3	22.4	42.0	61.3
Equity	8.9	8.9	8.9	8.9	0.0	8.9	8.9
EPS	23.5	38.5	14.0	17.2	22.4	47.1	68.8
CPS	36.4	53.3	21.3	24.5	14.7	64.2	89.6
Dividend	6.0	10.0				25.0	40.0
OPM %	8.0	7.2	6.6	8.0		7.6	8.3
NPM %	2.8	3.4	2.7	3.0		3.5	4.1
Equity/Sales	85.01	114.30				135.58	169.70

The projections for FY05 are primarily driven by sustained demand from China and stable prices in domestic and global markets. In FY06, SAL will benefit from backward integration i.e. assured supplies from SAL Steel and start of CR strip mill from April 05. We believe the buoyancy in Stainless steel demand is sustainable due to strong demand in user industry. We expect these factors will propel CPS to Rs. 64 in FY05 and further to Rs 90 in FY06.

### GROWTH IN EPS (Rs.)



### EQUITY TO TURNOVER RATIO



1% increase in margins will drive EPS by Rs 15 due to High equity to turn over ratio.

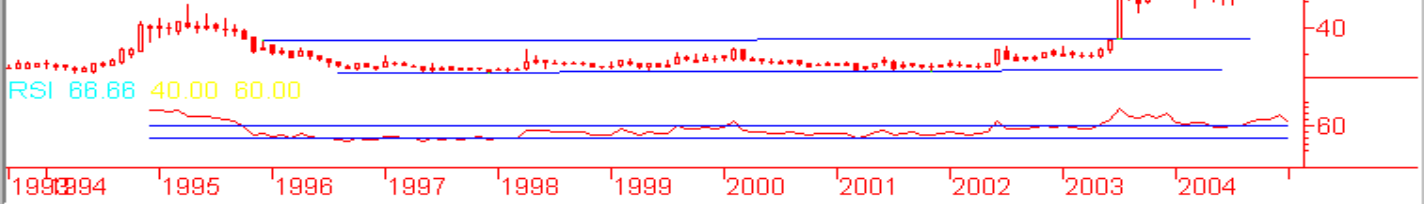
### KEY GROWTH DRIVERS FOR SHAH ALLOYS LIMITED

- ⇒ The backward and forward integration projects due to start from April 05.
- ⇒ Shift from low value added products to high value added products like SS CR sheets.
- ⇒ Sustained growth in stainless steel markets both in global i.e. US, China, European Union and domestic markets on account of newer applications and superiority of product.
- ⇒ Strong growth in exports which has grown by 82 % to Rs 471 crore in FY04.

## TECHNICAL ANALYSIS

Shah Alloys-Monthly 01/31/2005 C=116.400 -20.300 O=145.000 H=145.000 L=111.100

1. STOCK IS IN EXTREMELY STRONG UPTREND
2. THE RECENT BIG RISE IN THE STOCK HAS COME AFTER A LONG CONSOLIDATION SPREAD OVER 100 MONTHS



## INVESTMENT STRATEGY

Shah Alloys, an integrated stainless steel producer with second largest capacity in India, low market cap. to sales ratio, is available at a low P/E of 2.5 & 1.2 on earnings of FY05E & FY06E on CMP of Rs 116 respectively. We expect SAL to be a multi bagger stock for long term investors.

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## EQUITY STRATEGISTS

### Product A

TECHNO FUNDA newsletter catering to all market participants through various columns.

#### BENEFITS-

- ✓ A trader/investor can choose strategy suiting his risk profile, investment attitude and desired holding period.
- ✓ Returns are commensurate with strategy.

Occasionally we add columns like INFORMED GOSSIP - activities of market operators, FIIs, Mutual funds.

MARKET COMMENTARY COLUMN - a must read column captures index outlook, sector in flavour and strategy to be adopted.

### Product B

BUY/SELL ADVICE THROUGH SMS DURING MARKET HOURS

FEATURES - Momentum based trades with a low holding period ( 1-15 days)

**We recommend only when we have conviction in advices. Therefore we may not send even single advice in a day at times and 4-6 advices in a day. On an average one can expect 50 advices in a month.**

#### BENEFITS

- ✓ Focussed short term trading
- ✓ Optimum returns
- ✓ Logical Stop losses.

COLUMN	HOLDING PERIOD	APPRX RETURN	RISK PROFILE
INTRADAY TRADES	ONE DAY	3-5 %	HIGH RISK/LOW RETURNS
DERIVATIVE PICK	1-2 Weeks	5-10%	MEDIUM RISK/MEDIUM RETURNS
STOCK WATCH	2-5 Weeks	15-20 %	LOW RISK/ HIGH RETUEN
INVESTMENT PICK	3-6 Months	35-40%	LOW RISK/HIGH RETURNS
FUNDAMENTAL PICK	6-12 MONTHS	50-60%	LOW RISK/SUPER RETURNS

**OUR EARLIER RECOMMENDATIONS APPRECIATED BY :** Jindal Steel & Power (500%), Jindal Strips (450%), Matrix Labs (500%), Orchid Chem (150%), JPIND ( 200%), MoserBaer ( 300%), Aban Lyod (200%), Lupin(250%), Shasun Chem(200%), Polyplex(200%), Bharat Forge ( 200 %), Praj Industries (150%), Sterlite (350%), Bong Ref (400%), Nagarjun Cons (150%) etc.,

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