

RESULTS REVIEW
Share Data

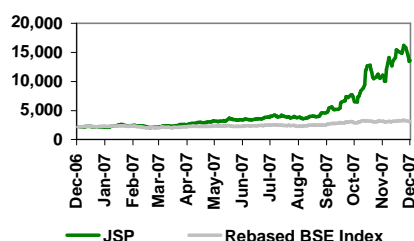
Market Cap	Rs. 419.6 bn
Price	Rs. 13,623.45
BSE Sensex	19,091.96
Reuters	JNSP.BO
Bloomberg	JSP IN
Avg. Volume (52 Week)	0.02 mn
52-Week High/Low	Rs. 16,590/2,001.5
Shares Outstanding	30.8 mn

Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	318.3	369.2
EPS Growth (%)	40.8%	16.0%
PER (x)	42.8x	36.9x
EV/ Sales (x)	9.1x	7.3x
EV/ EBITDA (x)	23.3x	19.3x

Shareholding Pattern (%)

Promoters	59
FII's	24
Institutions	4
Public & Others	13

Relative Performance

Jindal Steel & Power Limited
Hold
Capacity expansions to power growth

During the quarter ended Sep'07, Jindal Steel and Power Limited (JSPL) reported a considerable increase in its steel production volumes primarily due to the ramp up of its production capacities including the new 1 mtpa plate mill. As a result, net sales jumped 60.7% yoy to Rs. 12.7 bn. EBITDA and adj. net profit increased 75.3% and 76.5% yoy led by the rise in net sales along with increased sales of value added products and lower tax rate, respectively.

To benefit from the strong demand environment for steel in India, JSPL is rapidly expanding its production capacity and plans to increase it to 15 mtpa over the next 5-7 years. Rapid expansion of the JSPL's power capacity and its entry in the aviation business also augurs well for the Company. Moreover, the Bolivian project would considerably boost JSPL's top and bottom line in the long term. In the near term, we expect the Company's new 1 mtpa plate mill and other capacity additions to help it post revenue growth at a CAGR of 36.2% over FY07-09E.

We have revised our FY08E net profit estimates upwards by 1.4% to adjust for the decline in other operating expenses and tax rate. We have also calibrated our FY09E net profit downwards by 2.7% to take into account higher interest expense on increased debt, to be raised for funding the development of El Mutun iron ore mine.

Currently, the stock is trading at 23.3x FY08E and 19.3x FY09E EV/EBITDA. Over the last three months, JSPL's stock has witnessed an unprecedented rise, with the price increasing by more than 190%. Based on our valuations, we believe that all the growth has already been factored in the current prices. Hence, we downgrade our rating to Hold.

Key Figures (Consolidated)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	7,896	12,231	12,690	60.7%	3.8%	14,558	24,922	71.2%
EBITDA	3,085	4,792	5,407	75.3%	12.8%	6,334	10,199	61.0%
Adj. Net Profit	1,572	2,501	2,775	76.5%	10.9%	3,103	5,276	70.0%
Margins(%)								
EBITDA	39.1%	39.2%	42.6%			43.5%	40.9%	
NPM	19.9%	20.4%	21.9%			21.3%	21.2%	

Per Share Data (Rs.)

Adjusted EPS	50.5	80.2	88.9	76.0%	10.9%	99.7	169.0	69.5%
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Please see the end of the report for disclaimer and disclosures.

Result Highlights

Average realization of iron & steel went up 51.4% yoy to Rs. 21,907 per mt

Average realization of power rose 1.5% yoy to Rs. 2.02 per kWh

Increased sales of value added products, led to the improvement in the operating margins

During Q2'08, JSPL's net sales grew 60.7% yoy to Rs. 12.7 bn. Revenues from the iron & steel segment increased 75.7% yoy to Rs. 12.3 bn led by higher sales volume of steel and rise in iron and steel average realizations. However, the increase was partially offset by lower sales volume of sponge iron due to lower production coupled with higher internal consumption. Steel production increased as a result of capacity additions and the commissioning of 1 mtpa plate mill in Apr'07.

The increase in sales of iron & steel was partially offset by lower sales in the power segment (down 11.4% yoy to Rs. 1.2 bn). This was a result of lower power generation during the quarter (down 12.7% yoy to 604.2 mn kWh) which negated the marginal increase of 1.5% yoy in the power realizations.

Segmental data	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08	YoY%
Production Volume (mt)						
Sponge Iron	302,761	292,005	303,112	295,461	284,369	(6.1)%
Steel	162,235	260,322	277,354	306,740	303,120	86.8%
Power (mn kWh)	692	685	671	676	604	(12.7)%
Sales Volume (mt)						
Sponge Iron	325,478	138,382	158,207	132,610	291,028	(10.6)%
Steel	159,779	225,213	236,408	211,375	272,214	70.4%
Power (mn kwh)	692	316	281	243	604	(12.7)%
Sales (Rs. mn)						
Iron & steel	7,024	10,361	11,951	13,224	12,339	75.7%
Power	1,379	1,389	1,285	1,382	1,222	(11.4)%

EBITDA increased 75.3% yoy to Rs. 5.4 bn while EBITDA margin improved 354 bps yoy to 42.6%. The growth in EBITDA margin was driven by better realization from improved product mix and a decline in the power & fuel cost and other operating expenses. Moreover, as the Company has captive iron ore and coal mines, the surge in iron ore and coal prices did not impact its EBITDA margin considerably.

Adj. net profit increased 76.5% yoy to Rs. 2.8 bn and adj. net profit margin improved 195 bps yoy to 21.9% mainly due to lower effective tax rate. Higher depreciation and tax expense and lower other income, however, contained the increase in adj. net profit.

Key Events

Acquisition of BASL

JSPL acquired BASL for a consideration of Rs. 1,089 mn, payable in three instalments

During the quarter, JSPL acquired Bihar Alloy Steel Limited (BASL), which was closed for around a decade, at a value of Rs. 1,089 mn payable in three instalments. BASL is currently undergoing revamping and will eventually have an annual production capacity of 3 mtpa of steel. As the Company is facing problems in acquiring land in Jharkhand, this acquisition would give momentum to its plan to expand in the state.

Other Updates

Another 1,200-1,320 MW power plant under the initiation process

- The first phase (250 MW) of the 1,000 MW power plant was further delayed by 3 months owing to a delay in equipment supply and would now be commissioned by the end of Dec'07. In addition, rest of the 750 MW will be commissioned by Jun'08.
- In Sep'07, JSPL initiated the process of awarding an EPC contract for another 1,200-1,320 MW (2 X 600/660 MW) power project in Chhattisgarh. This is in line with the Company's rapid expansion in the power segment.
- The Company got approval from the Uttarakhand government to mine for iron ore in Jharkhand. However, it still awaits approval from the forest department before excavating the minerals.
- JSPL's board decided to sub-divide each equity share of Rs. 5 each into 5 equity shares of Re. 1 each. However, approval of shareholders is yet to be taken.

Prospects

Rapid expansion of production capacity

JSPL plans to expand its production capacity to 15 mtpa over the next 5-7 years

JSPL is aggressively expanding its production capacity and plans to increase it to 15 mtpa over the next 5-7 years. The Company had already commenced work on a 6 mtpa steel plant in Orissa (expected to be completed in 5 years) and doubling of its capacity at Chhattisgarh plant to 6 mtpa (expected to be completed in 3-5 years). Moreover, it plans to set up a manufacturing facility in Sirmour district of Himachal Pradesh with an investment of Rs. 30 bn and a

6 mtpa steel plant in Jharkhand. JSPL also plans to enter into the aviation business to benefit from the opportunities available in the sector. The aforementioned initiatives along with the acquisition of BASL, development of the El Mutun iron ore mine and set up a steel plant in Bolivia would ensure a strong volume led growth in the long run. Expansion in the power segment would also attribute to the growth in earnings.

Key Risks

Key risks to our rating include:

- Higher than expected increase in raw material costs
- Earlier than expected ramp up of production capacity by competitors would adversely affect the prices of steel
- Any significant delay in the implementation of the capacity addition programme
- Any change in the government policy on the construction of UMPP (Ultra Modern Power Plants)
- Slowdown in the US economy or unexpected increase/decrease in the government expenditure on infrastructure

Outlook

Strong demand environment for steel due to rapid expansions in the automobile, housing and infrastructure sectors and India's low per capita consumption of steel as compared to the developed countries provides huge opportunities for the Company. To benefit from the available opportunities, the Company is aggressively expanding its production capacity. In addition, rapid expansion of JSPL's power capacity and its entry into the aviation business augurs well for the Company. All the above initiatives along with the Bolivian project would considerably boost JSPL's top and bottom line in the long term.

In the near term, we expect the Company's new plate mill and the 1,000 MW power plants to help it post revenue growth at a CAGR of 36.2% over FY07-09E. Though, we expect the steel prices to remain stable in the near future, nonetheless, rising raw material costs can provide a push to the steel

JSPL plans to expand its production capacity to 15 mtpa over the next 5-7 years

Higher production from the new 1 mtpa plate mill along with the new power plants would ensure strong growth in the near term

prices. However, the profit margins are likely to take a hit due to the rising iron ore prices, as JSPL's captive iron ore mines only partly fulfil its requirements.

We have revised our FY08E net profit estimates upwards by 1.4% to adjust for the decline in other operating expenses and tax rate. We have also calibrated our FY09E net profit downwards by 2.7% to take into account higher interest expense on increased debt, to be raised for funding the development of El Mutun iron ore mine.

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Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	22,519	25,896	34,998	52,112	64,932	36.2%
EBITDA	8,923	10,193	13,859	20,272	24,479	32.9%
Adj. Net Profit	5,292	5,775	7,053	9,935	11,522	27.8%
Margins(%)						
EBITDA	39.6%	39.4%	39.4%	38.9%	37.7%	
NPM	23.5%	22.3%	20.0%	19.1%	17.7%	
Per Share Data (Rs.)						
Adjusted EPS	171.9	185.9	226.0	318.3	369.2	27.8%
PER (x)	6.1x	10.2x	60.3x	42.8x	36.9x	

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