

## Jindal Steel & Power Ltd

### Estimates for power realisations lowered on declining tariffs

We have lowered our FY11E/FY12E consolidated earnings estimate for Jindal Steel & Power (JSP) by 21%/20% on account of (1) lower power tariffs as we take a more conservative view on merchant power tariffs and (2) higher coking/non-coking coal costs for JSP's steel business, partially offset by an increase in average steel realisations. However, we have upgraded our FY13E estimates for the steel business to factor in the increase in capacity, in line with management guidance of commissioning phase 1 of the Angul expansion by FY12-end or FY13E beginning. We maintain our HOLD rating with a target price of Rs 700.

**Power tariff assumptions lowered:** We have cut our power tariff assumptions for FY11–FY13E to Rs 4.75–Rs 3.5/unit. JPL's realisations have been consistently lower than the industry average, primarily due to its higher PLF that has resulted in power sales during non-peak hours as well. However, power tariffs may spike-up in near term (Feb-Jun'11) due to a seasonal pick-up in demand. We have lowered our earnings estimates for FY11/FY12E by 16%/20% to factor in lower tariffs.

**Steel shines in Q3:** JSP's steel business saw a sharp improvement in its EBITDA/ton that increased to US\$ 329/ton from US\$307/ US\$220 per ton in Q2FY11/Q3FY10. Performance improvement was largely driven by (1) higher steel deliveries that increased 27%YoY /9% QoQ led by greater capacity utilisation and higher conversion of sponge iron into finished steel, (2) higher realisations on account of buoyancy in steel prices and (3) an improved product mix as JSP converted more of sponge iron into value-added finished products.

We have upgraded our steel business earnings to factor in (1) higher coking coal costs in FY12/FY13 as we expect contracts to be negotiated at higher levels, (2) commissioning of phase 1 of the Angul project by Q1FY13 and (3) marginally higher steel realisations. We now estimate lower contribution from Angul and existing captive power units on account of reduced power tariffs. This has led to -25%/-19%/+11% revision in JSP's standalone EBITDA estimates for FY11/FY12/FY13E. The upward revision in JSP's standalone EBITDA for FY13 is largely on account of the expected benefits flowing in from capacity expansion.

**Valuation:** We maintain our HOLD rating on JSP with a SOTP-based target price of Rs 700. We value its steel business at Rs 310 based on 6x FY13E EBITDA and the two captive power plants for steel at Rs 87. Our value for Jindal Power (JPL) is Rs 312 and is based on the FCFE of individual projects. We have rolled-forward our valuations for power projects to FY13E and now factor in lower merchant power tariffs. We believe that earlier-than-expected iron ore shipments out of Bolivia and commissioning of steel expansion projects could provide upside to our valuations.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	110,915	126,081	149,610	202,262
Growth (%)	2.0	13.7	18.7	35.2
Adj net income	36,346	40,440	52,264	76,006
Growth (%)	20.9	11.3	29.2	45.4
FDEPS (Rs)	39.0	43.4	56.1	81.6
Growth (%)	20.9	11.3	29.2	45.4

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	52.7	49.4	50.3	52.8
EBIT margin	44.3	44.3	47.0	50.5
Adj PAT margin	32.8	32.1	34.9	37.6
ROE	41.7	32.7	31.0	33.0
ROIC	0.2	0.2	0.2	0.2
ROCE	23.5	22.6	20.7	21.1

#### What's New?

Target

Rating

Estimates

CMP	TARGET	RATING	RISK
Rs 689	Rs 700	HOLD	HIGH

BSE

NSE

BLOOMBERG

532286

JINDALSTEL

JSPL IN

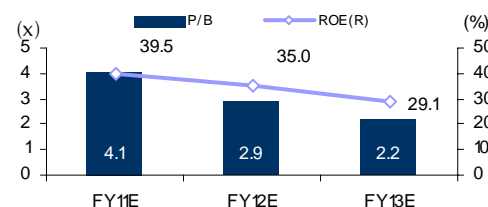
#### Company data

Market cap (Rs mn / US\$ mn)	641,178/14,028
Outstanding equity shares (mn)	931
Free float (%)	41.2
Dividend yield (%)	-
52-week high/low (Rs)	796 / 573
2-month average daily volume	1,465,380

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
JSP	689	(1.4)	(2.5)	7.5
BSEPOWR	2,813	(4.1)	(12.5)	(10.8)
Sensex	18,969	(5.5)	(6.2)	5.3

#### P/B vs. ROE comparison



#### Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	17.6	15.9	12.3	8.4
P/E @ Target	17.9	16.1	12.5	8.6
EV/EBITDA @ CMP	12.4	11.6	9.6	6.8

Amit Agarwal

 (91-22) 6766 3449  
 amit.ag@religare.in

Suhas Harinarayanan

 (91-22) 6766 3404  
 suhas.hari@religare.in

Sumit Maniyar

 (91-22) 6766 3461  
 sumit.maniyar@religare.in



## Result highlights

- ❖ JSP reported consolidated net revenues of Rs 31.7bn (+6%YoY, +18% QoQ), EBITDA of Rs 15.9bn (+2%YoY, +10%QoQ) and PAT of Rs 9.5bn (-0.6 %YoY, +9%QoQ).
- ❖ Standalone net profits, at Rs 5bn, came in lower than our estimates of Rs 5.9bn for the quarter, largely on account of higher depreciation and higher-than-expected interest costs. Standalone EBITDA grew 51%YoY/9% QoQ to Rs 9.4bn due to (1) higher metal realisations, (2) increase in steel deliveries and (3) an improved product mix.
- ❖ JPL's Q3FY11 numbers were slightly lower than our estimates mainly due to below-expected realisations. PLF for the 1,000MW Tamnar plant remained in line with our estimate (103%) and averaged 101% for Q3FY11, against 89%/ 96% for Q2FY11/ Q3FY10. Average realisations declined by 21%/10% to Rs 3.9/kwh on a YoY/QoQ basis, reflecting seasonally weaker merchant tariffs.
- ❖ JSP has commissioned two units of 135MW each at Tamnar; both units are currently under stabilisation phase. We expect a PLF of 70% in Q4FY11. The management has indicated that one of the units would be used captively while the other would be sold on merchant basis. The balance eight units are expected to come on stream in FY12–FY13E.
- ❖ JSP has indicated that its Shaded plant has commenced trial operations in Jan '11. However, it has declined to give any guidance on volumes/capacities.
- ❖ JSP expects to start exporting iron ore out of Bolivia by Q4FY11-end or FY12-beginning. However, operations at Bolivia continue to be affected by logistic issues and the management has declined to give any guidance on the quantum of mining/exports out of Bolivia.
- ❖ Work on the 2,400 MW Tamnar-II power plant is on track, with the first unit of 600MW likely to be commissioned by Dec '12. The remaining three units will be commissioned at a regular interval of four months for each of the units.

**Fig 1 - Quarterly performance ( Standalone)**

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
<b>Revenue</b>	<b>24,102</b>	<b>17,694</b>	<b>36.2</b>	<b>22,996</b>	<b>4.8</b>
Expenditure	14,743	11,505	28.1	14,436	2.1
<b>Operating profit</b>	<b>9,360</b>	<b>6,189</b>	<b>51.2</b>	<b>8,560</b>	<b>9.3</b>
Other income	83	170	(51.0)	60	38.3
Interest	967	691	39.9	781	23.9
Depreciation	1,821	1,310	39.0	1,638	11.2
<b>PBT</b>	<b>6,655</b>	<b>4,358</b>	<b>52.7</b>	<b>6,202</b>	<b>7.3</b>
Tax	1,636	1,101	48.5	1,420	1,636
<b>PAT</b>	<b>5,019</b>	<b>3,256</b>	<b>54.1</b>	<b>4,782</b>	<b>5.0</b>
EBITDA margin (%)	38.8	35.0		37.2	38.8

Source: Company, RCML Research

**Topline grew 36.2% YoY mainly on higher steel prices and deliveries**



Fig 2 - Quarterly performance (Consolidated)

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Revenue	31,740	30,010	5.8	26,871	18.1
Expenditure	15,753	14,362	9.7	12,360	27.4
<b>Operating profit</b>	<b>15,987</b>	<b>15,648</b>	<b>2.2</b>	<b>14,511</b>	<b>10.2</b>
Other income	87	89	(2.6)	203	(57.2)
Interest	813	861	(5.7)	1,075	(24.4)
Depreciation	2,926	2,509	16.6	2,539	15.2
<b>PBT</b>	<b>12,336</b>	<b>12,367</b>	<b>(0.3)</b>	<b>11,100</b>	<b>11.1</b>
Tax	2,825	2,797	1.0	2,357	19.8
<b>Net profit before minorities</b>	<b>9,511</b>	<b>9,570</b>	<b>(0.6)</b>	<b>8,744</b>	<b>8.8</b>
Share of profit from assoc.	9	37	(75.1)	68	(86.4)
Minority interest	166	189	(12.1)	185	(10.4)
<b>Net profit after tax</b>	<b>9,354</b>	<b>9,418</b>	<b>(0.7)</b>	<b>8,627</b>	<b>8.4</b>
EBITDA margin (%)	50.4	52.1		54.0	
<b>FDEPS (Rs)</b>	<b>10.2</b>	<b>10.3</b>		<b>9.4</b>	

Source: Company, RCML Research

Fig 3 - Revised earnings estimates (consolidated)

Key parameters (Rs mn)	FY11E			FY12E		
	Old	New	% Chg	Old	New	% Chg
Revenues	134,186	126,081	(6.0)	162,696	149,610	(8.0)
EBITDA	77,029	62,231	(19.2)	93,861	75,303	(19.8)
Net profit	49,877	39,378	(21.0)	63,782	51,202	(19.7)
EPS (Rs)	53.6	42.3	(21.0)	68.5	55.0	(19.7)

Source: RCML Research

JSP's consolidated earnings estimates  
pared to factor in lower merchant  
tariffs, higher coking/non-coking coal  
costs



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>110,915</b>	<b>126,081</b>	<b>149,610</b>	<b>202,262</b>
Growth (%)	2.0	13.7	18.7	35.2
<b>EBITDA</b>	<b>58,477</b>	<b>62,231</b>	<b>75,303</b>	<b>106,875</b>
Growth (%)	12.6	6.4	21.0	41.9
Depreciation & amortisation	9,970	10,415	10,075	11,088
EBIT	49,110	55,819	70,386	102,111
Growth (%)	15.1	13.7	26.1	45.1
Interest	3,576	4,402	3,123	3,715
Other income	603	4,002	5,157	6,323
EBT	45,535	51,416	67,262	98,396
Income taxes	9,189	10,977	14,999	22,390
Effective tax rate (%)	20.2	21.3	22.3	22.8
Extraordinary items	-	-	-	-
Min into / inc from associates	755	1,200	1,200	1,200
Reported net income	36,346	40,440	52,264	76,006
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>36,346</b>	<b>40,440</b>	<b>52,264</b>	<b>76,006</b>
Growth (%)	20.9	11.3	29.2	45.4
Shares outstanding (mn)	931.2	931.2	931.2	931.2
<b>FDEPS (Rs) (adj)</b>	<b>39.0</b>	<b>43.4</b>	<b>56.1</b>	<b>81.6</b>
Growth (%)	20.9	11.3	29.2	45.4
DPS (Rs)	-	-	-	-

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	51,911	57,172	68,554	95,749
Non-cash adjustments	(174)	(680)	(103)	(102)
Changes in working capital	4,010	855	1,469	964
Cash flow from operations	55,747	57,347	69,920	96,611
Capital expenditure	(62,419)	(19,174)	(75,305)	(118,642)
Change in investments	2,059	514	(1,000)	(1,000)
Other investing cash flow	(1,851)	-	-	-
Cash flow from investing	(62,211)	(18,661)	(76,305)	(119,642)
Issue of equity	441	0	-	-
Issue/repay debt	6,412	4,347	38,979	63,732
Dividends paid	(956)	(931)	(931)	(931)
Other financing cash flow	(4,999)	(4,458)	(3,179)	(3,771)
Change in cash & cash eq	(5,566)	37,645	28,484	35,998
Closing cash & cash eq	1,128	38,642	67,126	103,124

### Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	11.1%	11.1%	11.1%	11.1%
ROIC (%)	22%	19%	18%	18%
Invested capital (Rs mn)	174,692	219,529	289,125	406,542
EVA (Rs mn)	19,265	16,307	18,486	28,718
EVA spread (%)	11.0%	7.4%	6.4%	7.1%

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	1,128	38,642	67,126	103,124
Accounts receivable	7,533	6,303	7,782	9,128
Inventories	14,308	11,354	14,322	18,255
Other current assets	45,541	38,659	38,659	42,548
Investments	3,185	2,671	3,671	4,671
Gross fixed assets	131,625	135,506	140,506	217,556
Net fixed assets	98,974	93,970	88,896	154,858
CWIP	79,470	94,763	165,068	206,660
Intangible assets	1,007	1,007	1,007	1,007
Deferred tax assets, net	n/a	n/a	n/a	n/a
Other assets	78	30	30	30
<b>Total assets</b>	<b>251,224</b>	<b>287,399</b>	<b>386,561</b>	<b>540,279</b>
Accounts payable	22,117	20,464	26,380	36,510
Other current liabilities	15,345	6,867	6,867	6,867
Provisions	13,437	13,358	13,358	13,358
Debt funds	86,043	90,390	129,369	193,100
Other liabilities	10,337	12,573	16,865	23,006
Equity capital	931	931	931	931
Reserves & surplus	103,013	142,816	192,790	266,506
Shareholder's funds	103,944	143,747	193,722	267,438
<b>Total liabilities</b>	<b>251,224</b>	<b>287,399</b>	<b>386,561</b>	<b>540,279</b>
BVPS (Rs)	119.8	163.7	220.7	305.1

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	52.7	49.4	50.3	52.8
EBIT margin	44.3	44.3	47.0	50.5
Net profit margin	32.8	32.1	34.9	37.6
ROE	41.7	32.7	31.0	33.0
ROCE	23.5	22.6	20.7	21.1
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	17	17	21	28
Inventory (days)	88	67	58	60
Payables (days)	128	122	115	120
Current ratio (x)	1.5	1.8	2.6	2.9
Quick ratio (x)	0.2	0.6	1.4	1.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	0.9	0.9	1.1	1.1
Total asset turnover	0.5	0.5	0.4	0.4
Interest coverage ratio	13.7	12.7	22.5	27.5
Adjusted debt/equity	0.7	0.3	0.3	0.3
<b>Valuation ratios (x)</b>				
EV/Sales	6.5	5.7	4.8	3.6
EV/EBITDA	12.4	11.6	9.6	6.8
P/E	17.6	15.9	12.3	8.4
P/BV	5.7	4.2	3.1	2.3



### DuPont analysis

(%)	FY10	FY11E	FY12E	FY13E	FY10
Tax burden (Net income/PBT)	80	79	78	77	80
Interest burden (PBT/EBIT)	93	92	96	96	93
EBIT margin (EBIT/Revenues)	44	44	47	50	44
Asset turnover (Revenues/Avg TA)	50	47	44	44	50
Leverage (Avg TA/Avg equity)	256	246	209	180	256
<b>Return on equity</b>	<b>42</b>	<b>37</b>	<b>32</b>	<b>29</b>	<b>42</b>

### Company profile

Jindal Steel & Power Ltd. (JSPL) manufactures sponge iron, mild steel, and cement. The Company also produces power, conducts mining operations for iron ore and coal, and explores for natural gas and oil. JSPL, with its diverse resources, also contributes to the construction of infrastructure.

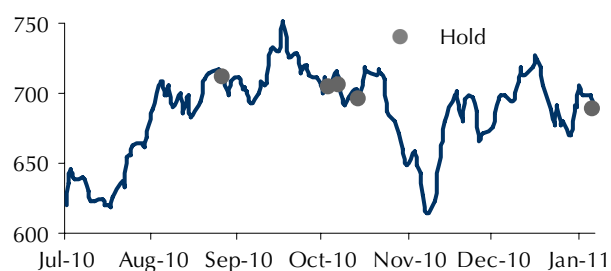
### Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	58.4	58.4	58.4
FIs	23.9	24.8	23.8
Banks & FIs	2.8	2.5	2.4
Public	15.0	14.2	15.4

### Recommendation history

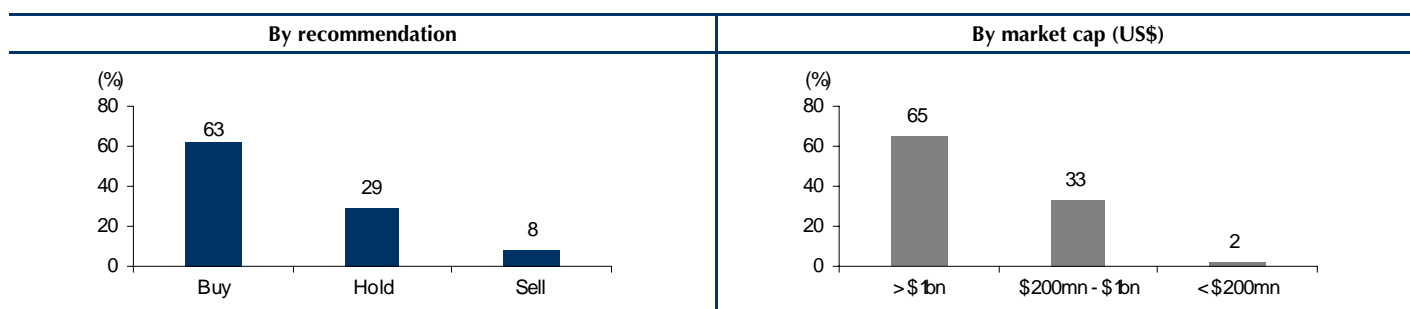
Date	Event	Reco price	Tgt price	Reco
15-Sep-10	Initiating Coverage	711	670	Hold
22-Oct-10	Company Update	714	670	Hold
27-Oct-10	Results Review	706	670	Hold
2-Nov-10	Sector Update	696	700	Hold
26-Jan-11	Results Review	689	700	Hold

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

### Religare Capital Markets Ltd

4<sup>th</sup> Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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