

### INITIATING COVERAGE

#### Share Data

Market Cap	Rs. 110.96 bn
Price	Rs. 3,603.7
BSE Sensex	14964.12
Reuters	JNSP.BO
Bloomberg	JSP IN
Avg. Volume (52 Week)	0.01 mn
52-Week High/Low	Rs. 3750/1395
Shares Outstanding	30.79 mn

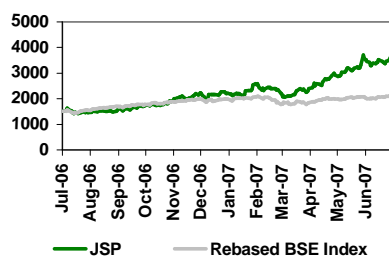
#### Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	317.1	373.0
+/- (%)	38.3%	17.6%
PER (x)	11.4x	9.7x
EV/ Sales (x)	2.8x	2.4x
EV/ EBITDA (x)	7.4x	6.3x

#### Shareholding Pattern (%)

Promoters	59
FII's	23
Institutions	5
Public & Others	13

#### Relative Performance



### Jindal Steel & Power Limited

Hold

#### Enhancing value

Jindal Steel and Power Limited (JSP), a part of the Rs. 200 bn Jindal Organisation, is India's third largest manufacturer of steel and a large power project developer with rich experience in coal mining. The company's steel plate mill of 1 mn TPA capacity has recently become operational. This mill is estimated to yield revenues of approx. Rs. 13 bn in FY08E. In addition, JSP's subsidiary, Jindal Power Limited, is installing power plants (4x250MW) which will help in further revenue growth. JSP is also making significant capital expenditures, such as in Jharkhand, where it is setting up a 6 mn ton capacity steel plant for sustainability of growth. However, all the positives have already been factored into the stock price and thus we believe that currently the stock is fairly valued.

#### Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	22,536	25,901	35,198	50,685	59,555	30.1%
EBITDA	8,786	10,275	13,989	19,229	22,654	27.3%
<b>Net Profit</b>	5,157	5,829	7,060	9,765	11,486	27.6%
<b>Margins(%)</b>						
EBITDA	39.0%	39.7%	39.7%	37.9%	38.0%	
NPM	22.9%	22.5%	20.1%	19.3%	19.3%	
<b>Per Share Data (Rs.)</b>						
EPS	167.5	189.3	229.3	317.1	373.0	27.6%
PER (x)	21.5x	19.0x	15.7x	11.4x	9.7x	

- With a significant rise in capacity in the steel and power segments, we expect revenues to grow from Rs. 35.2 bn to Rs. 59.5 bn over FY07-09E, reflecting a CAGR of 30.1%.
- EBITDA and net profit margins are expected to fall by 170bps and 80bps respectively over FY07-09E due to inflationary pressures on input costs.
- At the current market price of Rs. 3,603.7, the stock is trading at 7.4x FY08E and 6.3x FY09E EV/EBITDA. Based on SOTP valuation, we believe that the stock has limited upside potential from the current levels. Therefore, we initiate coverage with a Hold.

### Rationale

*Plate mill to increase revenues by Rs. 13 bn*

#### *Significant capacity additions would boost revenues*

JSP's steel plate mill with an installed capacity of 1 mn ton was commissioned in April, 2007. This mill is estimated to manufacture 0.4 mn ton of steel plates in FY08E. On the basis of estimated average price of Rs. 32,000/ton for the year, the revenues are expected to rise by nearly Rs. 13 bn.

*1000 MW power project to provide revenue growth*

#### *Power subsidiary to grow revenues and provide control over margins*

JSP's subsidiary, Jindal Power Limited, is setting up a 1000 MW (4x250 MW) thermal power project to provide 250 MW power to JSP and 750 MW power would be sold in the market at a pre-determined price of Rs. 2/unit. Due to robust subsidiary performance, we expect revenues of JSP to grow by nearly Rs. 1,000 mn in FY08E. Moreover, inter-segment supply of power is likely to bring cost efficiency in production of JSP, thereby improving margins.

*Per capita consumption of steel is estimated to grow at a CAGR of 11% over 2006-20*

#### *Domestic demand to remain firm*

Domestic demand for steel is expected to grow at 10.2% for the year 2007. Besides this, per capita consumption of steel in India is less than 50 kg whereas it is 150 kg in the world and 350 kg in the developed world. This per capita consumption is estimated to reach levels of 165 kg by 2019-20. Keeping in view the aforesaid factors, potential for growth in demand is good for long-term. JSP, being a front runner in the steel industry is poised to benefit from this growth.

*Full integration business model to improve margins*

#### *Full vertical integration*

JSP has full vertical integration (forward and backward) with its own captive raw material resources producing iron ore, sponge and power generation. These resources being important inputs for steel production provides a full integrated business model to the company. JSP is expected to leverage this business model of backward and forward integration resulting in control over margins.

*Rights for one of the world's largest iron-ore reserves*

### *Future expansionary plans*

JSP has significant expansionary plans: the company has entered into a MoU with the Jharkhand government to set up a 6 mn ton steel plant with an investment of Rs. 150 bn. Moreover, in June 2006, Bolivia granted development rights for its largest iron ore reserves to JSP, for which the company is setting up integrated steel plant with a capex of USD 2.3 bn. These future actions would result in sustainable growth in the long-run.

### *Economies of scale*

JSP's total capacity has been increasing and the company presently has a capacity of producing more than 5 mn TPA of steel and related products. The company has plans to further increase the total capacity to approx 18 mn TPA over the next eight years. This increase would result in economies of scale such as reduction in interest and other fixed costs as a percentage of total revenues, thus resulting in improvement of margins.

### **Key Risks**

#### *Rising raw material costs*

Although JSP has full integration in steel products, it nevertheless purchases raw material from the open market. Raw material prices in the market are increasing and any further increase in raw material prices due to increased demand can hurt the margins of the company thereby affecting the bottom line.

*Rising costs: a concern*

#### *Infrastructure development*

A major portion of the demand for steel in India is derived from the infrastructure sector which mainly depends on government expenditure. Any unexpected cut or increase in government expenditure on infrastructure would lead to change in demand for steel thereby affecting the top line of the company.

*Infrastructure expenditure by government: the demand driver*

#### *Increasing competition could hit revenues*

JSP operates in a highly competitive industry and its major competitors include big firms such as TISCO, Monnet Ispat and SAIL. Besides that many

international steel companies like POSCO are planning to enter the Indian markets. The increased competition will put more pressure on JSP's revenues.

### *Expansionary plans of JSP*

The expansionary plans of JSP are for the long-term ranging from two to eight years, so they haven't been considered in the revenue projections for FY08 and FY09. Early starts in the expansion project pipeline would lead to an earlier start in increased revenue streams, thereby impacting the rating.

### Outlook

In India, keeping in view the infrastructural development and the low per capita steel consumption, demand for steel is expected to grow in the short as well as the long-run.

With the commencement of the plate mill of JSP and the power projects of its subsidiary, Jindal Power Limited, revenues are expected to rise at a CAGR of 30.1% for the period FY07-FY09E. Moreover, EBITDA and net profit margins are expected to fall by 170bps and 80bps respectively due to rising input costs. At the current market price of Rs. 3,603.7, the stock trades at a forward P/E of 11.4x and 9.7x for FY08E and FY09E respectively. With limited downside and not much room for upside we initiate coverage with Hold.

### Company Background

Jindal Steel & Power Ltd. (JSP), a part of the Rs. 200 bn Jindal Organization, was founded in 1998. JSP is the largest coal-based sponge iron producer in India and also India's third largest steel maker. The company is based in Raigarh district of Chhattisgarh state.

JSP has business interests in steel production, power generation, mining iron ore, coal and diamond exploration. Products include steel billets, blooms, rounds and slabs, parallel flange beams and columns, sponge iron, 120 m long rails, ferro chrome and heavy machinery. JSP has full vertical integration

*India's 3<sup>rd</sup> largest steel maker*

(forward and backward) and is the only sponge iron manufacturer with its own captive raw material resources and power generation.

JSP recently obtained rights for the mining of iron ore in Bolivia (one of the largest iron ore reserves in the world). The company has expansionary plans and has signed an MoU with Jharkhand government to set up a 6 mn ton steel plant. Jindal Power Limited, JSP's subsidiary, engaged in thermal power generation is setting up 1000 MW (4x250 MW) for future growth.

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