EQUITY RESEARCH April 02, 2008

RESULTS REVIEW

Jindal Steel & Power Limited — Buy

Share Data

Market Cap	Rs. 303.9 bn
Price	Rs. 1,973.70
BSE Sensex	15,750.40
Reuters	JNSP.BO
Bloomberg	JSP IN
Avg. Volume (52 Week)	0.18 mn
52-Week High/Low	Rs. 3,356/445
Shares Outstanding	154.0 mn

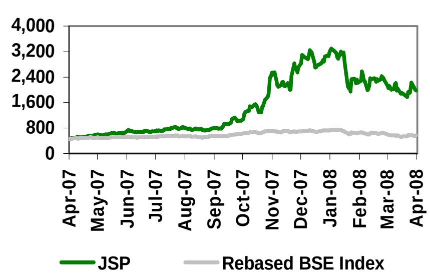
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	71.9	99.0
EPS Growth (%)	58.9%	37.7%
PER (x)	27.5x	19.9x
EV/ Sales (x)	6.7x	5.0x
EV/ EBITDA (x)	17.0x	12.3x

Shareholding Pattern (%)

Promoters	59
FIIs	24
Institutions	4
Public & Others	14

Relative Performance



Focusing on backward integration

For Q3'08, Jindal Steel & Power Limited (JSPL) reported an impressive set of numbers with adj. net profit increasing by a whopping 68% yoy to Rs. 3.2 bn. Net sales increased 38.2% yoy to Rs. 14 bn on account of higher steel prices and increased sales volumes. EBITDA margin also improved 79 bps yoy to 38.1% on the back of higher realisations and lower other expenses as a percentage of net sales. Net profit margin was higher by 406 bps yoy to 22.9% on account of a lower effective tax rate during the quarter.

Going forward, we expect the strong demand for steel to continue on the back of the infrastructure development boom being witnessed in the emerging economies. Hence, we expect the world steel consumption to grow at 6-7% in CY08. The strong steel demand scenario, coupled with rising raw material prices, is expected to further push steel prices in CY08. The increase in steel prices due to rise in iron ore and coal prices would improve JSPL's margins, as it is insulated from fluctuations in raw material prices due to its captive reserves. Further, the clarity on the Bolivian project as well as the increase in production capacity augurs well for the Company. JSPL's Power segment is also expected to grow at a considerable pace on account of commissioning of the 250 MW power generation capacity. Another 750 MW is expected to be commissioned by June'08.

To factor in the steep rise in steel prices and the commissioning of the new power generation capacity, we have increased our FY08 revenue estimates by 2.4% to Rs. 53.4 bn. At the current market price of Rs. 1,973.7, the stock is trading at 17x FY08E and 12.3x FY09E EV/EBITDA. Looking at the sharp correction in the stock price and our valuation, we upgrade our rating to Buy, with a target price of Rs. 2,501 for FY09E.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	10,101	12,690	13,956	38.2%	10.0%	24,659	38,878	57.7%
EBITDA	3,773	5,407	5,324	41.1%	(1.5)%	10,107	15,522	53.6%
Adj. Net Profit	1,899	2,775	3,191	68.0%	15.0%	5,002	8,466	69.3%
Margins(%)								
EBITDA	37.4%	42.6%	38.1%			41.0%	39.9%	
NPM	18.8%	21.9%	22.9%			20.3%	21.8%	
Per Share Data (Rs.)								
Adjusted EPS	12.2	17.8	20.5	68.0%	15.0%	32.1	54.3	69.3%

Margins improved as the Company was largely unaffected from the rise in raw material prices

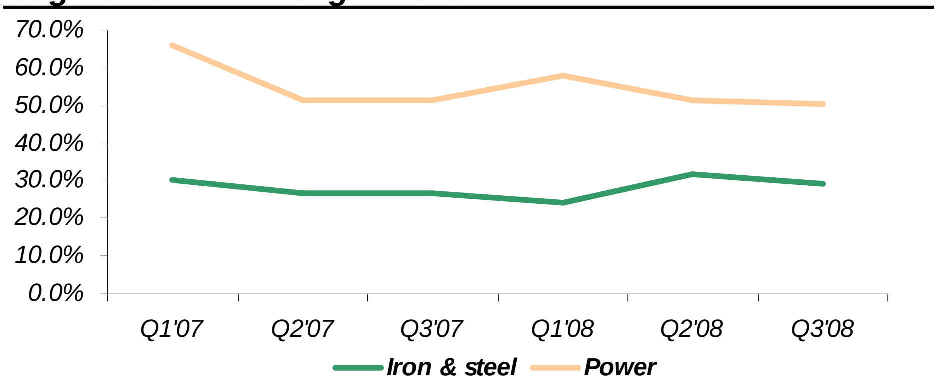
Result Highlights

For the quarter ended Dec'07, JSPL's net sales increased 38.2% yoy to Rs. 14 bn. This increase was on the back of a 42.9% yoy increase in revenues from the Iron & Steel segment and a 9.8% yoy increase in the Power segment. The jump is revenues from the Iron & Steel segment was on account of the steep rise in steel prices witnessed during the quarter.

EBITDA increased 41.1% yoy to Rs. 5.3 bn, and EBITDA margin improved 79 bps yoy to 38.1%. The increase was due to higher steel prices and a 222 bps decline in other expenses (as a percentage of net sales).

EBIT for the Iron & Steel segment increased by an impressive 57.2% to Rs. 3.9 bn, and margin improved 270 bps yoy on account of higher steel prices. The Power segment's EBIT stood at Rs. 765 mn, up 7.1% yoy, while EBIT margin fell by a moderate 105 bps yoy.

Segmental EBIT margin trend



Sources: Company Data, Indiabulls research

Adj. net profit witnessed a jump of 68% yoy to Rs. 3.2 bn on account of a sharp increase in other income, which stood at Rs. 118 mn against Rs. 24 mn in Q3'07. Adj. net profit margin also improved 4.1 pts due to a steep decline in the effective tax rate during the quarter.

Key Events

Power plant commissioned

The first phase (250 MW) of the 1,000 MW power plant under Jindal Power Limited (wholly-owned subsidiary of JSPL) commenced its operations during the quarter.

Stock split

On January 28, 2008, the Company's shares were split into five equity shares of Re. 1 each from the earlier Rs. 5 per share. Hence, January 28, 2008, was recorded as the record date for the share split.

Approval from the Bolivian government

The government of Bolivia approved the development of the El Mutun iron ore mine and setting up of a 1.7 mtpa steel plant in Bolivia. The contracted mine contains around 20 bn tons of iron ore reserves and will fulfill the raw material requirements of the Company. The Company is likely to begin shipping iron ore from the mine in October 2008.

Key Risks

Key risks to our rating include:

- A significant delay in the implementation of the capacity addition programme
- A delay in commissioning the power plant
- Any change in government policy on the construction of UMPP
- An unexpected decrease in the government expenditure on infrastructure
- Significant decline in steel prices

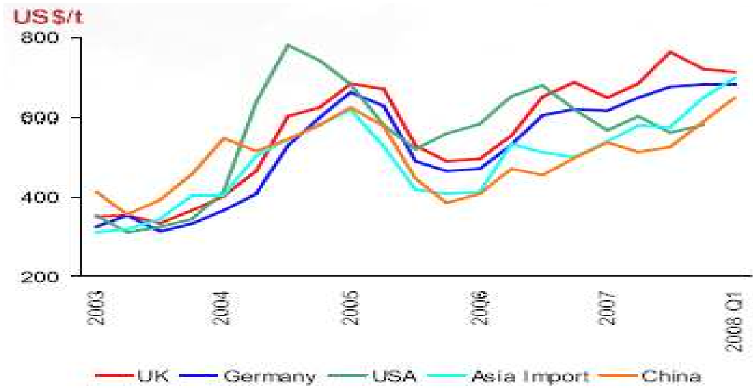
Outlook

Despite the recent slowdown in the developed economies, steel consumption is expected to grow at a healthy rate of 6-7% in 2008 (though lower than the 2007 growth rate of 7.5%), driven by demand from the BRIC countries. We expect steel consumption growth to maintain its momentum on the back of the infrastructure development boom being witnessed in the emerging economies.

Domestic steel prices have increased by 30% in the first three months of CY08

The buoyancy in steel demand, coupled with the rising raw material prices, is expected to push steel prices higher. Further, the elimination of the uneconomic capacity in China and the recent slowdown in steel exports due to the imposition of export duties by the Chinese government would also support higher global steel prices.

Global Steel Prices

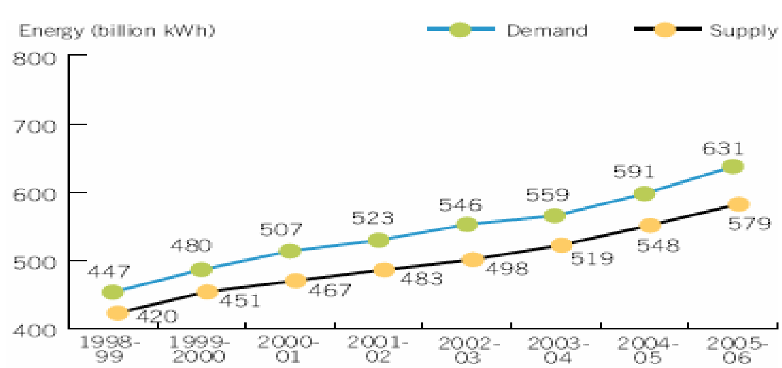


Sources: Tata Steel investor presentation, Dated Feb 08, 2008

JSPL's captive raw material availability will improve significantly as it has received sanction from the Bolivian government to mine iron ore from the El Mutun mines. Therefore, any cost-push rise in steel prices will work in the Company's favour and will lead to improved margins. In addition, JSPL's focus on value-added products would also lead to higher margins. Further, to take advantage of the strong steel demand scenario, the Company is rapidly expanding its capacities and has set itself an aggressive target of 15 mtpa of capacity in the next 5-7 years.

JSPL is also expanding its commercial power generation capacity to exploit opportunities provided by huge power demand-supply gap in the country. The Company has commenced operations of the first phase (250 MW) of its 1,000 MW power plant project during the quarter. The remaining capacity is expected to be commissioned by June 2008, which would boost FY09 revenues. Moreover, the Company plans to set up another power plant with a capacity of 1,320 MW.

Power Demand Supply defecit



Sources: Sterlite Industry, Annual report 2006-07

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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	22,536	25,901	35,198	53,372	72,053	43.1%
EBITDA	8,923	10,193	13,859	21,038	29,001	44.7%
Adj. Net Profit	5,292	5,775	7,053	11,212	15,440	48.0%
Margins(%)						
EBITDA	39.6%	39.4%	39.4%	39.4%	40.3%	
NPM	23.5%	22.3%	20.0%	21.0%	21.4%	
Per Share Data (Rs.)						
Adjusted EPS	34.4	37.2	45.2	71.9	99.0	47.9%
PER (x)	6.1x	10.2x	10.5x	27.5x	19.9x	

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