

24 March 2011

MF Global Company Update

JSW Steel

METALS

JSTL IN: Downgrade to NEUTRAL

RS 902

Company update

- » JSW Steel has hiked the open offer price for 20% stake in Ispat Industries from Rs 20.54 per share to Rs 22.25 per share, a jump of 8.3%. This will lead to an additional outlay of Rs 1107mn. We have not built in the open offer into our estimates and would do so after it concludes.
- » We have also revised upward the coking coal prices assumption for FY12 by 6% on account of the higher-than-expected coking coal prices settlement for Q1FY12.
- » JSW Steel is still awaiting the regulatory clearances for its coking coal mines in the US. We have reduced our coking coal supply assumptions for FY12 accordingly.
- » The company is expected to commence its Vijaynagar expansion in April 2011, in line with our assumption. We maintain our FY12 steel sales volume estimate of 8.9mn tonnes.

Valuations: We downgrade our FY12E EPS from Rs 104 to Rs 84.5 on account of the cost pressures, thereby impacting the margins. At the CMP of Rs 902, the stock trades at a P/E of 10.7x FY12 EPS of Rs 84.5 and Ev/Ebitda of 6.4x. We lower our target price to Rs 926 from Rs 1122. We also downgrade our rating on the stock to Neutral from Buy.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
NET SALES	124,567	159,348	189,572	229,885	353,010
GROWTH, %	45.6	27.9	19.0	21.3	53.6
EBIDTA	34,780	29,818	40,707	43,297	58,776
EBIDTA MARGINS, %	27.9	18.7	21.5	18.8	16.7
NET PROFIT	15,326	10,697	15,976	13,426	21,615
NET PROFIT MARGIN, %	12.3	6.7	8.4	5.8	6.1
NET PROFIT (ADJUSTED)	15,326	10,697	15,976	13,426	21,615
EPS, RS	81.9	57.2	85.4	60.2	84.5
EPS GROWTH, %	3.0	(30.2)	49.3	(29.5)	40.3
PER, X	11.0	15.8	10.6	15.0	10.7
EV/EBIDTA, X	8.3	11.1	8.1	7.8	6.4
EV/NET SALES, X	2.3	2.1	1.7	1.5	1.1
PRICE/BOOK VALUE, X	2.2	2.2	1.8	1.3	1.1
ROIC, %	12.0	6.7	7.6	6.4	8.1
ROE, %	23.7	13.7	18.8	10.8	11.7
DIVIDEND YIELD, %	1.6	0.1	1.1	1.1	1.1

Source: Company, MF Global India Research Estimates

TARGET RS 926 (+2.6%)

STOCK RATING		
BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	223MN
MARKET CAP (RS) :	201BN
MARKET CAP (USD) :	4.5BN
52 - WK HI/LO (RS) :	1400 / 752
LIQUIDITY 3M (USD) :	46.2MN
FACE VALUE (RS) :	10

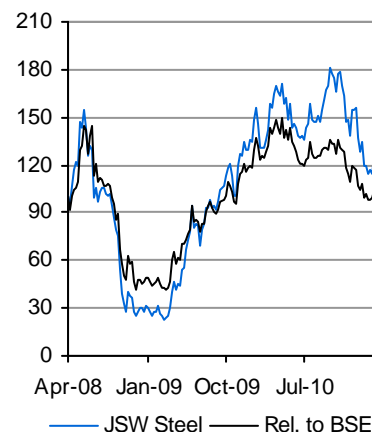
SHARE HOLDING PATTERN, %

PROMOTERS :	37.7
FII / NRI :	47.3
FI / MF :	4.6
NON-PROMOTER CORP. HOLDINGS :	3.3
PUBLIC & OTHERS :	6.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	1.1	-22.1	-28.8
REL TO BSE	1.0	-13.3	-33.1

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
NET SALES	124,567	159,348	189,572	229,885	353,010
GROWTH, %	46	28	19	21	54
OTHER INCOME	0	0	0	0	0
TOTAL INCOME	124,567	159,348	189,572	229,885	353,010
OPERATING EXPENSES	-89,786	-129,530	-148,865	-186,588	-294,234
EBITDA (CORE)	34,780	29,818	40,707	43,297	58,776
GROWTH, %	30.4	(14.3)	36.5	6.4	35.8
MARGIN, %	27.9	18.7	21.5	18.8	16.7
DEPRECIATION	-7,419	-9,878	-12,987	-15,202	-19,024
EBIT	27,361	19,941	27,720	28,095	39,752
GROWTH, %	26.1	(27.1)	39.0	1.4	41.5
MARGIN, %	22.0	12.5	14.6	12.2	11.3
INTEREST PAID	-5,730	-11,556	-11,080	-9,020	-9,285
OTHER NON-OPERATING INCOME	1,537	2,717	5,360	831	872
NON-RECURRING ITEMS	1,075	-7,948	0	0	0
PRE-TAX PROFIT	24,100	3,270	22,111	20,022	31,461
TAX PROVIDED	-7,658	-726	-6,467	-6,945	-10,177
PROFIT AFTER TAX	16,442	2,544	15,643	13,078	21,284
NET PROFIT	16,400	2,749	15,976	13,426	21,615
MF NET PROFIT	15,326	10,697	15,976	13,426	21,615
GROWTH, %	17.5	(30.2)	49.3	(16.0)	61.0
NET PROFIT (ADJUSTED)	15,326	10,697	15,976	13,426	21,615
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	1,075	-7,948	0	0	0
UNADJ. SHARES (M)	187	187	187	223	256
WTD AVG SHARES (M)	187	187	187	223	256

CASH FLOW

Y/E MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
PRE-TAX PROFIT	24,100	3,270	22,111	20,022	31,461
DEPRECIATION	7,419	9,878	12,987	15,202	19,024
CHG IN WORKING CAPITAL	9,163	26,220	-7,734	-1,145	1,122
TOTAL TAX PAID	-5,265	-476	-2,388	-3,575	-8,155
OTHER OPERATING ACTIVITIES	2,505	-3,626	-1,358	-100	-122
CASH FLOW FROM OPERATING ACTIVITIES	37,922	35,265	23,618	30,404	43,330
CAPITAL EXPENDITURE	-114,264	-80,623	-17,271	-57,281	-60,500
CHG IN INVESTMENTS	-2,246	730	-2,316	37	-22,969
CASH FLOW FROM INVESTING ACTIVITIES	-116,653	-79,777	-19,476	-57,128	-83,347
FREE CASH FLOW	-78,731	-44,512	4,141	-26,724	-40,016
EQUITY RAISED/(REPAID)	1,774	0	0	54,007	36,597
DEBT RAISED/(REPAID)	79,513	44,140	-3,871	7,930	-34,033
DIVIDEND (INCL. TAX)	-3,114	-268	-2,120	-2,610	-2,994
CASH FLOW FROM FINANCING ACTIVITIES	80,051	44,890	-6,204	59,676	-100
NET CHG IN CASH	1,320	378	-2,063	32,952	-40,116

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2008	FY2009	FY2010	FY2011E	FY2012E
CASH & BANK	4,715	5,093	3,030	35,983	-4,133
DEBTORS	5,391	3,991	6,964	9,447	14,507
INVENTORY	21,817	29,246	28,667	37,789	58,029
LOANS & ADVANCES	9,086	12,428	16,038	16,840	23,576
OTHER CURRENT ASSETS	198	172	0	0	0
TOTAL CURRENT ASSETS	41,207	50,929	54,700	100,059	91,979
INVESTMENTS	4,696	3,966	6,282	6,245	29,214
GROSS FIXED ASSETS	188,883	231,720	276,912	296,912	421,755
LESS: DEPRECIATION	-30,743	-40,798	-53,393	-68,594	-87,619
ADD: CAPITAL WIP	57,708	95,852	69,562	106,843	42,500
NET FIXED ASSETS	215,848	286,775	293,082	335,161	376,636
TOTAL ASSETS	261,751	341,670	354,063	441,465	497,829
CURRENT LIABILITIES	43,402	81,799	78,078	89,215	122,234
PROVISIONS	3,662	829	2,649	2,774	2,913
TOTAL CURRENT LIABILITIES	47,064	82,628	80,727	91,989	125,147
NON-CURRENT LIABILITIES	136,770	181,160	181,369	192,668	160,657
TOTAL LIABILITIES	183,834	263,788	262,096	284,657	285,804
PAID-UP CAPITAL	1,871	1,871	1,871	2,231	2,559
RESERVES & SURPLUS	74,129	73,280	87,911	152,391	207,280
SHAREHOLDERS' EQUITY	77,917	77,882	91,968	156,808	212,025
TOTAL EQUITY & LIABILITIES	261,751	341,670	354,063	441,465	497,829

PER-SHARE DATA

	FY2008	FY2009	FY2010	FY2011E	FY2012E
MF EPS (INR)	81.9	57.2	85.4	60.2	84.5
GROWTH, %	3.0	(30.2)	49.3	(29.5)	40.3
BOOK NAV/SHARE (INR)	416.6	416.4	491.7	703.0	828.4
FDEPS (INR)	81.9	57.2	85.4	60.2	84.5
CEPS (INR)	115.9	152.5	154.8	128.3	158.8
CFPS (INR)	181.9	192.8	104.3	132.5	165.9
DPS (INR)	14.0	1.0	9.5	10.0	10.0

FINANCIAL STRUCTURE

	FY2008	FY2009	FY2010	FY2011E	FY2012E
TOTAL DEBT/EQUITY (%)	159.5	216.2	178.9	110.0	65.3
NET DEBT/EQUITY (%)	153.4	209.7	175.6	87.0	67.2

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2008	FY2009	FY2010	FY2011E	FY2012E
RETURN ON ASSETS (%)	10.3	3.3	6.5	4.7	5.8
RETURN ON EQUITY (%)	23.7	13.7	18.8	10.8	11.7
RETURN ON INVESTED CAPITAL (%)	12.0	6.7	7.6	6.4	8.1
ROIC/COST OF CAPITAL (X)	1.3	0.7	0.8	0.7	0.9
ROIC - COST OF CAPITAL (%)	2.5	(2.9)	(2.0)	(2.9)	(0.8)
RETURN ON CAPITAL EMPLOYED (%)	12.4	4.2	8.5	6.0	7.5
COST OF CAPITAL (%)	9.5	9.7	9.6	9.3	8.9
ROCE - COST OF CAPITAL (%)	2.9	(5.5)	(1.1)	(3.3)	(1.5)
ASSET TURNOVER (X)	0.8	0.7	0.7	0.8	1.1
SALES/TOTAL ASSETS (X)	0.6	0.5	0.5	0.6	0.8
SALES/NET FA (X)	0.8	0.6	0.7	0.7	1.0
WORKING CAPITAL/SALES (X)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	15.8	9.1	13.4	15.0	15.0
INVENTORY DAYS	63.9	67.0	55.2	60.0	60.0
PAYABLE DAYS	176.4	230.5	191.4	174.5	151.6
CURRENT RATIO (X)	0.9	0.6	0.7	1.1	0.8
QUICK RATIO (X)	0.4	0.3	0.3	0.7	0.3
INTEREST COVER (X)	4.8	1.7	2.5	3.1	4.3
DIVIDEND COVER (X)	5.9	57.2	9.0	6.0	8.4
PER (X)	11.0	15.8	10.6	15.0	10.7
PEG (X) - Y-O-Y GROWTH	3.6	(0.5)	0.2	(0.5)	0.3
PRICE/BOOK (X)	2.2	2.2	1.8	1.3	1.1
YIELD (%)	1.6	0.1	1.1	1.1	1.1
EV/NET SALES (X)	2.3	2.1	1.7	1.5	1.1
EV/EBITDA (X)	8.3	11.1	8.1	7.8	6.4
EV/EBIT (X)	10.5	16.7	11.9	12.0	9.4
EV/NOPLAT (X)	10.6	11.4	9.6	9.3	7.7
EV/CE	1.3	1.3	1.2	1.0	1.0
EV/IC (X)	1.9	1.4	1.3	1.2	1.1

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	926	902	24-MAR-2011
BUY	1122	966	28-JAN-2011
BUY	1398	1130	1-DEC- 2010
NEUTRAL	1398	1318	18-OCT-2010

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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