JSW Steel – BUY

CMP Rs1,123, Target Rs1,293

Sector: Metals & Mining	
Sensex:	17,951
CMP (Rs):	1,123
Target price (Rs):	1,293
Upside (%):	15.1
52 Week h/l (Rs):	1350 / 588
Market cap (Rscr) :	21,447
6m Avg vol ('000Nos):	2,117
No of o/s shares (mn):	187
FV (Rs):	10
Bloomberg code:	JSTL IB
Reuters code:	JSTL.BO
BSE code:	500028
NSE code:	JSWSTEEL

Closing price as on 20 Jul, 2010

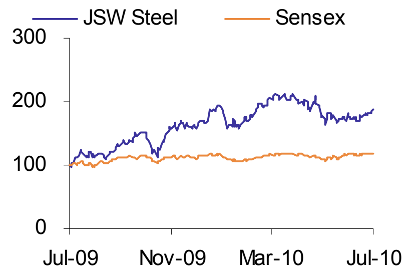
Shareholding pattern

June '10	(%)
Promoters	45.0
Institutions	35.5
Non promoter corp hold	5.1
Public & others	14.4

Performance rel. to sensex

(%)	1m	3m	1yr
JSW Steel	4.1	(9.1)	69.9
Tata Steel	3.5	(25.1)	6.6
SAIL	(0.4)	(11.7)	(1.8)
JSPL	(9.4)	(16.7)	13.2

Share price trend



Research Analyst

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JSW Steel is best placed among Indian steel producers due to its strong volume growth, easing input pressures and low conversion costs. We see domestic steel demand remaining strong and expect JSW to witness 25% volume CAGR over FY10-12. Combined with a better product-mix and improving cost structure, will drive 33% operating profit and 43.3% PAT CAGR over FY10-12, even after factoring in a decline in steel prices in FY12. Any clarification on iron ore production from Chile and Hadimpadde mine will be a major trigger for the stock.

The balance sheet, which has strengthened following warrants issued to the promoter group, is set to improve further with strong cash flows expected over the next two years. Despite a decline in steel and raw-material prices, we are confident JSW will maintain margins led by strong volume-growth and a host of margin-improvement triggers. We recommend a BUY with a six-month price target of Rs1,293, based on 5.5x FY12E EV/EBIDTA.

Domestic demand to drive volumes 56% over FY10-12E

Domestic steel demand in Q1FY11 jumped 12.2% yoy to 14.9mn tons led by a steady demand from automobile and consumer durables sectors. We expect double digit growth in domestic demand to continue over the next three years led by strong infrastructure spending. We expect JSW to report volume growth of 13.5% yoy to 6.5mn tons in FY11 and 37.5% yoy in FY12 to 8.9mn. It must be noted that our volume growth forecasts are more conservative than management guidance of 6.75mn tons and 9.5mn tons respectively.

Various cost efficiency initiatives to lead to EBIDTA/ton expansion over FY10-12E

With the commencement of the HSM, coke oven batteries and beneficiation plant, JSW's EBIDTA/ton would be benefited by ~US$35-40/ton of steel in FY11 compared to FY10. In a scenario where iron ore prices have jumped 85% yoy and coking coal prices 75% yoy, the company's operating margin will also benefit due to economies of scale. We expect EBIDTA/ton to remain flat at Rs7,549 in FY11 from Rs7,535 in FY10 and to rise to Rs8,096 in FY12 with a rise in output from its US coking coal mine and a decline in raw material costs globally.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	161,971	190,315	247,627	314,623
yoy growth (%)	30.0	17.5	30.1	27.1
OPM (%)	20.0	21.8	20.0	23.3
Pre-exceptional PAT	13,264	16,277	17,555	34,356
yoy growth (%)	(20.0)	22.7	7.9	95.7
EPS (Rs)	70.9	87.0	81.2	159.0
P/E (x)	15.8	12.9	13.8	7.1
Price/Book (x)	2.8	2.3	1.8	1.4
EV/EBITDA (x)	11.5	9.0	8.2	5.0
Debt/Equity (x)	2.24	1.83	1.22	0.79
RoE (%)	17.2	19.4	15.2	22.3
RoCE (%)	10.6	12.7	11.8	17.8

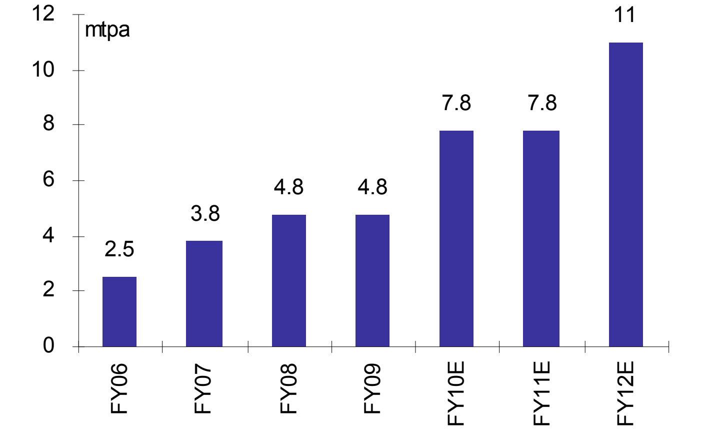
Source: Company, India Infoline Research

Expansion plan on track; volumes to jump 56% over FY10-12E

JSW has been one of the fastest growing companies among the major steel manufacturers in India. The company has increased its crude steel manufacturing capacity 3x times to 7.8mtpa over the last four years and is further adding 3.2mtpa by the end of FY11 to raise its total capacity to 11mtpa. The company's expansion program is progressing as per schedule and the integrated commissioning of the 3.2mtpa capacity is expected by March '11. The total outlay envisaged for expansion is Rs74bn and would include 1.9mtpa of coke over battery and 300MW thermal coal-based power plant. The coke oven batteries and the 300MW power plant associated with the 3.2mtpa blast furnace are expected to be commissioned by October '10, ahead to its schedule.

Steel making capacity to increase by 3.2mtpa by March '11

Capacity to grow 4x in 6 years



Source: Company, India Infoline Research

Coke oven batteries and power plants are expected to be commissioned by October '10, ahead of schedule

Expansion plans

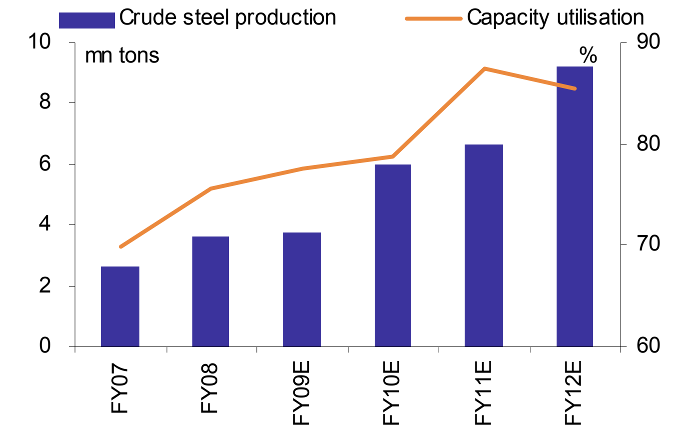
Expansion	Capacity	Capacity after expansion	Completion
Beneficiation plant	3mtpa	6mtpa	July '10
Coke oven batteries	1.9mtpa	5.1mtpa	October '10
Power plant	300MW	620MW	October '10
Beneficiation plant – I	4mtpa	10mtpa	December '10
Pellet plant	4.2mtpa	7.2mtpa	March '11
Crude steel capacity	3.2mtpa	11mtpa	March '11
Power plant	300MW	920MW	June '11
Beneficiation plant – II	10mtpa	20mtpa	March '12

Source: Company, India Infoline Research

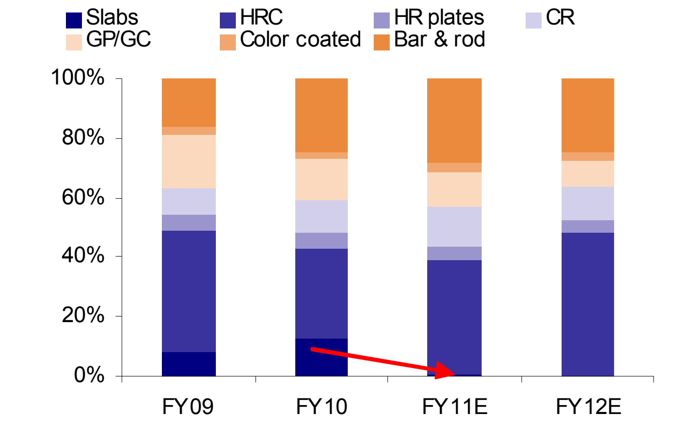
The HSM mill at Vijaynagar commenced commercial production on 10th April' 10 and the Blooming mill at Salem was commissioned in July '10. To meet the requirements following the increase in steel making capacity, the company will add 1.5mtpa of HSM capacity by March '11, taking the total HRC capacity to 8.2mtpa and 4.2mtpa of pellet making capacity by March '11. It is adding one more 300MW thermal-based power plant by June '11 to meet it's compete power requirement. JSW commissioned 3mtpa of the first phase of 10mtpa beneficiation plant in July '10 and expects the next 4mtpa to be complete by December '10.

The management continues to remain upbeat on the domestic steel demand. It expects the company's production to increase by 17% yoy to 7mn tons in FY11 and a further 43% yoy to 10mn tons in FY12, translating into an increase of 18% yoy in sales to 6.75mn tons in FY11 and 41% yoy to 9.5mn tons in FY12. In Q1 FY11, the company managed to register 14% yoy growth in production to 1.57mn tons. However, we expect steel volumes to remain subdued in Q2 FY11 as the domestic market remains impacted by cheaper imports and demand from the infrastructure space will be low on account of monsoon. As a result, we believe that the company will miss its volume guidance over the next two years due to the rising threat from cheap imports into India. We expect the company to register a volume growth of 13.5% yoy to 6.5mn tons in FY11 and 37.5% yoy in FY12 to 8.9mn tons.

Crude steel production to jump 56% over FY10-12E

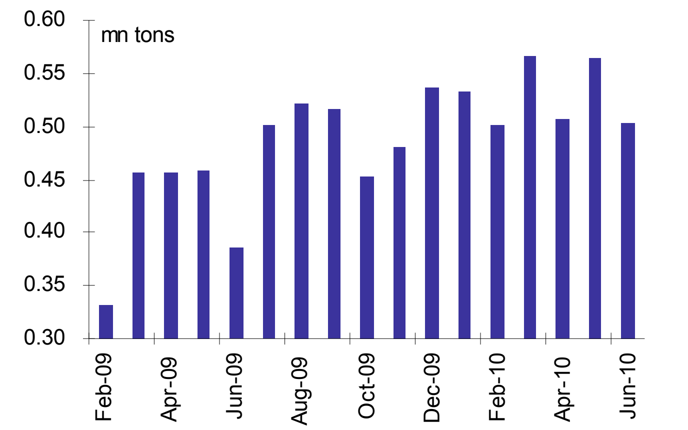


Share of semis to be minimal in FY11E



Source: Company, India Infoline Research

Production increased 14% yoy in Q1 FY11



Source: Company, India Infoline Research

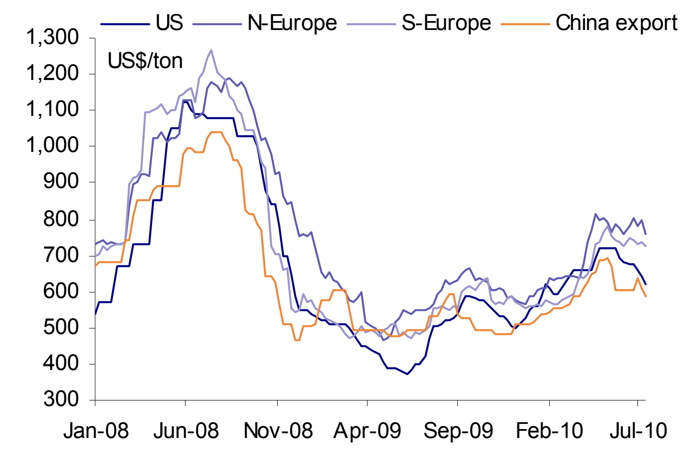
The volume growth for the company over the next two years would be mainly led by flat products, wherein the company is setting up a new 3.2mtpa capacity by March '11. We expect the share of flats of total sales, which is expected to decline to 72% in FY11 to increase to 77% in FY12. Also, the share of semis, which was 22% in FY10 is expected to decline to 4% in FY11 and to nil in FY12 with the commissioning of the new HSM mill in April '10. The commissioning of the rolling mill at Salem will lead to a 100% yoy jump in sales of long rolled products.

Steel prices to stabilize post changes in Chinese regulations

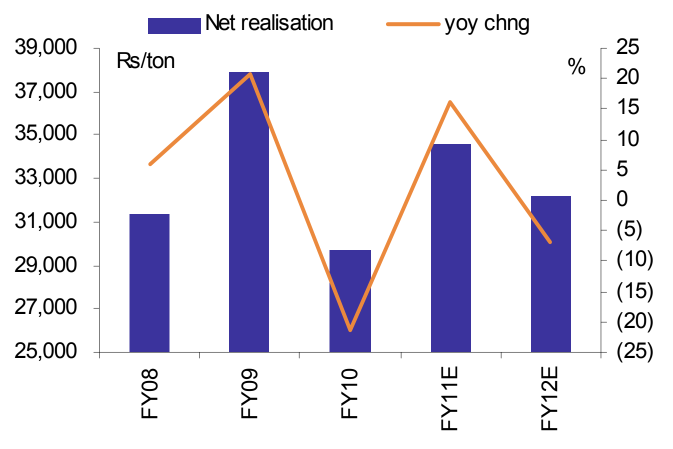
Chinese steel export prices, which corrected from a high of US$750/ton to US$550/ton in a span of two months, have stabilized around the US$575-600 levels. The slide in prices over the last two months has been largely due to concerns over curbs on lending in China and weak demand outlook from Europe. The decline in prices was further accelerated by dumping of Chinese steel into the global market before the Chinese export rebates were removed. The scenario was further weakened as consumers stayed away from the market and were keen on liquidating their inventories.

However with China, the world's biggest steel producer, deciding to remove export tax rebates on some products, the move to reduce tariffs, the first in almost three years, is a major step in stabilizing global steel prices. This would also avoid dumping by Chinese producers in the global market. Rebates on HRC, CRC and galvanized products have been removed from 15^{th} July '10. Earlier, there was a rebate of 9% for HRC and 13% for CRC. This move will likely result in fewer exports, greater domestic supply and potentially lower domestic steel prices. We expect the global economy ex-Europe to remain strong and to lead to a rise in demand for steel products over the next two years. However, in FY12, we expect steel prices to decline led by a decline in raw material prices. We expect Chinese export HRC steel price to increase 15% yoy to US$585/ton in FY11 and decline 6% yoy to US$550/ton in FY12.

Chinese export prices have stabilized over the last one month



Realisation to jump 17.2% yoy in FY11E and decline 6% yoy in FY12E



Source: Company, India Infoline Research

In the domestic market, we expect steel prices to remain at a premium in FY11 on account of the strong domestic demand. Steady demand from automobile and consumer durables sectors saw steel consumption rising 12.2% yoy to 14.9mn tons during the April-June quarter. However, domestic production rose only by 4% yoy to 15.1mn tons. The mismatch in domestic demand and supply was fulfilled by a jump in imports. The April-June period saw imports rise by a whopping 74.9% yoy to 2.6mn tons, increasing domestic availability and putting pressure on local prices. Steel exports continued to decline and fell by 15.1% yoy to 0.63mn tons. For JSW, we expect average realisations to increase higher than the increase in steel prices due to the change in product mix. We expect JSW's net realisation to increase 17% yoy to Rs34,885/ton in FY11 after registering a 21.5% yoy decline in FY10.

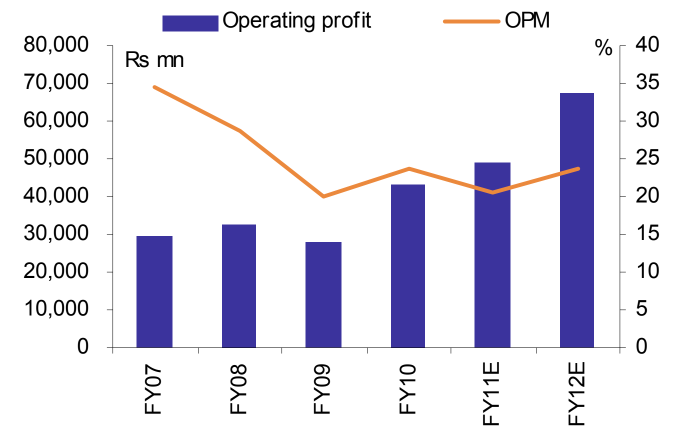
Better product mix and various cost saving measures to lessen the impact of high raw material prices

JSW, over the last two years, has initiated several measures to reduce the impact of low raw material integration on the company's margins. The company has initiated steps like improving product mix, lowering coke consumption, setting up beneficiation plant and waste gas recovery systems. We expect that with the implementation of all the above measures in FY11, JSW would be able to maintain its EBIDTA per ton on a yoy basis.

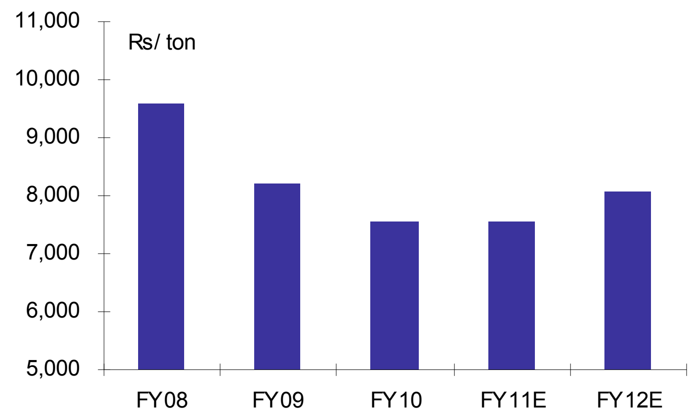
We expect the share of semis, which was 22% in FY10 to decline to 4% in FY11 and to nil in FY12 with the commissioning of the new HSM mill in April '10. The decline in sale of semis would lead to a Rs1,000-1,200/ton (US$20-25/ton) increase in EBIDTA/ton in FY11. Further the company is setting up its 1.9mtpa coke oven batteries, which would meet JSW's complete coke requirement. The company had to procure 20% of its total coke requirement from the market, leading to an additional cost of US$100-150/ton of coke. The increase in coke oven capacity will also aid the company in adding semi-hard coking coal instead of hard coking coal. As a result, the company would be saving US$7-10/ton per ton of steel. Cost of coking coal would also decline due to the consumption of captive coking coal from its recently acquired mine in US.

The commissioning of beneficiation plant in December '09 has aided the company in consuming low quality iron ore, which is available at a lower rate and in abundant quantity in India. In FY11, we expect the company to source 16% of its total iron ore requirement from its captive mine, 42% from NMDC and 42% from the spot market. The landed cost of captive iron ore to the company's plant is at Rs700/ton, while that from NMDC stood at Rs2,600/ton. The company, in Q1 FY11, had to buy 63% Fe grade iron ore from the spot market at Rs3,200/ton and 53% Fe grade iron ore at Rs2,200/ton. With the commissioning of the beneficiation plant, the company was able to use 53% Fe grade instead of 63% Fe grade and could save up to Rs500/ton of iron ore cost. As a result of the beneficiation plant, JSW would be able to US$10-15 per ton of steel on iron ore consumption.

Operating profit to increase 50% over FY10-12E

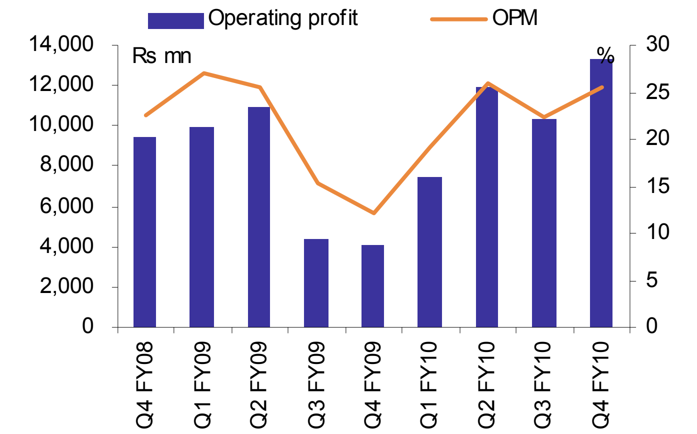


EBIDTA/ton to increase in FY12E

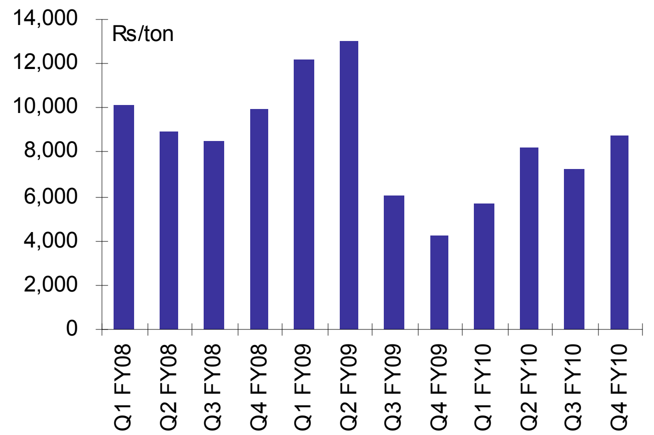


Source: Company, India Infoline Research

Operating profit in Q4 FY10 was the highest in four years



EBIDTA/ton improved sequentially in Q4 FY10



Source: Company, India Infoline Research

Thus with the commencement of the HSM, coke oven batteries and beneficiation plant, the company's EBIDTA/ton would be benefited by ~US$35-40/ton of steel in FY11 compared to FY10. This would assist the company in maintaining its EBIDTA/ton at FY10 levels in a scenario where iron ore prices have jumped 90% yoy and coking coal prices have jumped 75% yoy. The company's operating margin will also benefit due to economies of scale, as we expect a volume growth of 13.5% yoy. We expect EBIDTA/ton to remain flat at Rs7,549 in FY11 from Rs7,535 in FY10 and to rise to Rs8,096 in FY12. This would be aided by a rise in output from its US coking coal mine and a decline in raw material costs globally.

US coking coal mine acquisition

The company, in Q4 FY10, managed to acquire a coking coal mine in US. As per initial estimates, the coking coal mine has a resource base of 123mn tons along with Railway load out and Barge facility. JSW management has indicated that the acquisition cost would be ~US$100mn and would require a capex of US$60-100mn to ramp up the production to its target of 3mtpa. One of the mines is operational and has a monthly production of 15,000 tpm. JSW targets 1mtpa of coking coal production in the first year of operation and plans to gradually increase the output to 3mtpa by the third year. Management has indicated a production cost on a fob basis at US$100-110/ton. It expects to start mining by September '10 and the first shipment to reach the Indian shore by October '10. The management expects output from the US mine to be 0.3mn tons in FY11 and 1.5mn tons in FY12. However, we believe that the ramp up in production will take some time and have factored in only 0.1mn tons and 0.7mn tons in FY11 and FY12 respectively in our estimates.

Chilean mine to start contributing by H2 FY11

JSW, over the last two years, had postponed investment in its Chilean operation on account of the tight liquidity situation. However, with an easing in the liquidity for the company, it has planned to go through with the investment at an initial capex of US$100mn. The capex for the project is mostly for the commissioning of 3mtpa beneficiation plant. The beneficiation plant would take 20 months for completion from the start date of March '10. Initially, the company was planning to start output from Chile only after commissioning of the beneficiation plant as the Fe content in the ore is as low as 20%. However, now the company plans to beneficiate the ore from third party sources and sell this ore to outside market. The cost of mining, plus the cost of beneficiation from third party sources would be US$58/ton. The revenue from sale of iron ore would partially fund the capex for the project. The company expects the beneficiated 63% Fe grade iron ore sales of 0.5mtpa in FY11 and 1.5mtpa in FY12. However, we have not included any sales from the Chilean mine as we await further clarity on clearance from the Chilean Government and issues relating to logistics.

Raw material integration to rise post FY13E

Iron ore: The Company has been allotted iron ore mines for its captive requirement, which are at various stages of clearance. Of these, the mine at Hadimmapade in Karnataka (with 36mn tons reserves of 63% Fe grade) is likely to begin operations in FY12. JSW has received environmental clearance for the same and expects the pending forest clearance to come shortly. The estimated landed cost is Rs600/ton. With the commissioning of the mine, JSW's captive iron ore would rise from the current 16% to 40%, thereby saving Rs2,000/ton on steel cost. However, our estimates do not factor in any benefit from the same. We believe that the clearance for the mine will be a major positive trigger for the company over the next six months.

Coal: The Company has been allotted Rohne coal block in Jharkhand, which has geological reserves worth 250mn tons of mineral reserves of medium and high grade coking coal. The mine is held jointly by JSW and two other companies in the ratio of 69%, 24% and 7% respectively. The annual capacity of the mine would be ~8mn tons and JSW's share of the mine comes at 5.6mn tons per year. On JSW's expanded steel making capacity, output from this mine will be able to meet more than 50% of coking coal requirement.

Domestic mines

Mine	Supply (mtpa)	Reserves (mntons)	Status	Exp year of mining
VMPL Karnataka	2	36		Operational
Hadimpadde mine, Karnataka	2	36	Last forest clearance left	FY12
Donimalai mine, Karnataka	2	60	Recommended	FY13
Kanjamalai, Tamil Nadu	1	75	Allocated	FY14
Kavuthimalai, Tamil Nadu	1	50	Recommended	FY14
Rhone coking coal mine, Jharkhand (69% stake)	5.6	250	Allocated	FY13
Utkal thermal coal block (11% stake)	1.6		Allocated	FY12

Source: Company, India Infoline Research

Power: JSW currently has a power capacity to produce 230MW from waste heat gases at Vijay Nagar, 30MW at Tarapur and 30MW at Salem. The current power generation is not enough to meet JSW's complete power requirement. The company is now setting up a 300MW power plant at Vijaynagar other than the 300MW power plant associated with the 3.2mtpa expansion plan to meet its rising demand from the rolling mill. The first 300MW power plant associated with the 3.2mtpa expansion plan is expected to be operational by October '10 and the second 300MW power plant would be operational by June '11. With the commissioning of both the power plants, JSW would be self-sufficient for its complete power requirement on the expanded capacity of 3.2mtpa. The company has been allotted the Utkal thermal coal block (11% share in the JV) for its thermal coal requirement. JSW's share of the total output stands at 1.6mtpa and it expects supplies from this mine to start by the end of FY11. Thermal coal supplies from this mine will be able to meet ~40% of its thermal coal requirement.

US subsidiary to continue its improved performance in FY11

JSW's operations in the US managed to register improved performance in Q4 FY10. Increased focus on pipe production and absence of any carry forward of high price raw material inventory aided the company in posting an operating profit of US$2.3mn from an operating loss to US$8.4mn in Q3 FY10. Increase in capacity utilization rates also aided the turnaround. Sales of pipes increased by 74.4% qoq while that of plates decreased 34.9% qoq. We believe that the subsidiary will be able to maintain its EBIDTA neutral performance in FY11 as demand for pipes is expected to remain strong in the US.

US subsidiary registered an EBIDTA neutral performance in Q4 FY10

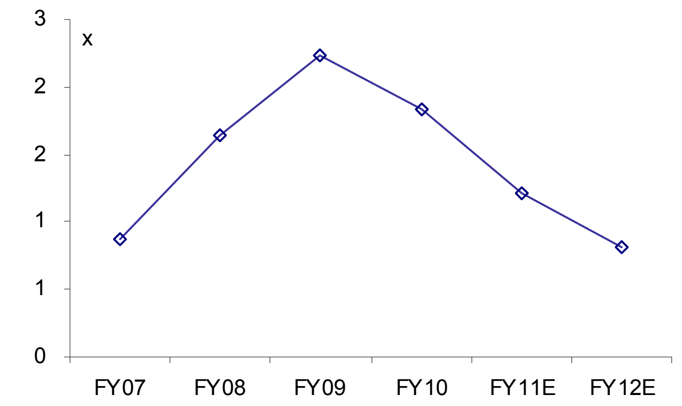
	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10
Plates sales (tons)	26,986	14,376	38,689	24,252	42,297
Pipe sales (tons)	28,550	9,942	4,308	17,822	24,460
Revenue (US$ mn)	30	18	41	44	57
Realisation (US$/ton)	821	962	734	897	976
EBIDTA (US$ mn)	(19)	(14)	(21)	(8)	2
PBT (US$ mn)	(97)	(32)	(39)	(21)	0
PAT (US$ mn)	(61)	(21)	(25)	(11)	(13)

Source: Company, India Infoline Research

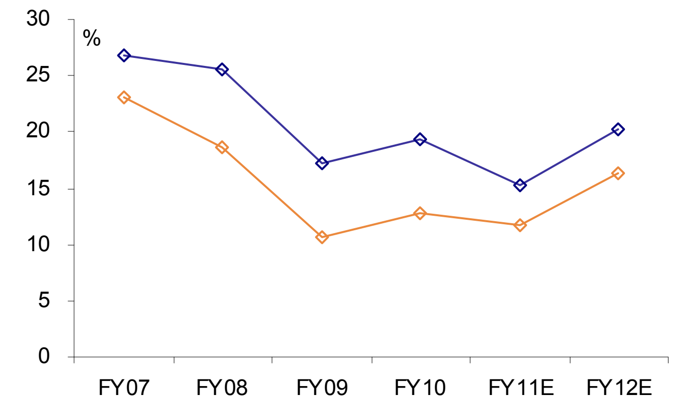
Equity issuance to reduce pressure on balance sheet

The company has issued 17.5mn warrants to Sapphire Technologies Ltd., a promoter group company, which is convertible into equity shares at a price of Rs1,210/share at any time within 18 months from the date of issue. On conversion, the share capital of the company would increase by Rs175mn, which accounts for 9.36% of the existing paid up equity share capital of the company. On complete conversion, the company would be able to raise Rs21.2bn through this issue. This has been done to strengthen the balance sheet of the company and to fund the expansions announced in West Bengal and Jharkhand. We also expect the Foreign Currency Convertible Bond (FCCB) holders to also convert by the end of FY11. Conversion of bonds will further lead to issuance of 11.6mn shares. We expect both the promoters and the bond holders to convert by the end of FY11, which would lead to a dilution of 15.6% on the existing share capital. The issuance of equity will aid the company in reducing its debt/equity ratio to 1.2 in FY11E from 1.8 in FY10 even after incurring a capex of Rs70bn for the year. We expect the ratio to decline further to 0.8x as the pace of capex slows down. Moreover, the volume growth would lead to a rise in operating cash flows.

Debt/Equity ratio to decline to 0.8 in FY12E from 1.8 in FY10



Return ratios to improve in FY12 as new capacity starts production



Source: Company, India Infoline Research

Margins to remain intact; Recommend BUY

We believe JSW Steel is best placed among Indian steel producers due to its strong volume growth, high domestic steel price sensitivity, easing input pressures and low conversion costs. We see domestic steel demand remaining strong and expect JSW to deliver 25% volume CAGR over FY10-12. This, combined with a better product-mix and improving cost structure, will drive 33% operating profit and 43.3% PAT CAGR over FY10-12 even though we expect steel prices to decline in FY12. Any clarification on iron ore production from Chile and Hadimpadde mine will be a major trigger for the stock. The balance sheet, which has strengthened following warrants issued to the promoter group, is set to improve further with strong cash flows expected over the next two years. Despite a decline in steel and raw-material prices, we are confident JSW will maintain margins led by strong volume-growth and a host of margin-improvement triggers. We recommend a BUY with a six-month price target of Rs1,293, based on 5.5x FY12E EV/EBIDTA.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenue	161,971	190,315	247,627	314,623
Operating profit	**32,385**	**41,450**	**49,587**	**73,247**
Depreciation	(9,878)	(12,987)	(15,657)	(17,759)
Interest expense	(11,556)	(11,080)	(10,719)	(9,329)
Other income	2,717	5,360	1,319	1,847
Profit before tax	**13,668**	**22,744**	**24,531**	**48,006**
Taxes	(726)	(6,467)	(6,975)	(13,650)
Minorities and other	322			
Adj. profit	**13,264**	**16,277**	**17,555**	**34,356**
Exceptional items	(7,948)	-	-	-
Net profit	**5,316**	**16,277**	**17,555**	**34,356**

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Equity capital	1,871	1,871	2,161	2,161
Preference capital	2,889	2,790	2,790	2,790
Reserves	73,280	87,911	135,645	166,664
Net worth	**78,040**	**92,572**	**140,597**	**171,616**
Minority interest	2,732	2,187	2,187	2,187
Debt	165,502	161,730	164,695	130,302
Deferred tax liab (net)	12,768	16,848	16,848	16,848
Total liabilities	**259,042**	**273,336**	**324,326**	**320,952**
Fixed assets	278,943	284,090	338,521	340,413
Intangible assets	7,831	8,992	8,992	8,992
Investments	3,966	6,282	6,282	6,282
Net working capital	**(36,792)**	**(29,058)**	**(31,838)**	**(41,599)**
Inventories	29,246	28,667	37,300	47,392
Sundry debtors	3,991	6,964	9,061	11,513
Other current assets	12,600	16,038	20,563	25,821
Sundry creditors	(81,799)	(78,078)	(96,382)	(122,458)
Other current liabilities	(829)	(2,649)	(2,381)	(3,867)
Cash	5,093	3,030	2,369	6,865
Total assets	**259,042**	**273,336**	**324,326**	**320,952**

Cash flow statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Profit before tax	13,668	22,744	24,531	48,006
Depreciation	9,878	12,987	15,657	17,759
Tax paid	(726)	(6,467)	(6,975)	(13,650)
Working capital Δ	26,220	(7,734)	2,780	9,761
Operating cashflow	49,039	21,529	35,993	61,875
Capital expenditure	(80,804)	(19,294)	(70,088)	(19,650)
Free cash flow	**(31,765)**	**2,236**	**(34,096)**	**42,225**
Equity raised	(5,607)	752	32,579	-
Investments	730	(2,316)	-	-
Debt financing/ disposal	44,140	(3,871)	2,965	(34,393)
Dividends paid	(558)	(2,397)	(2,110)	(3,337)
Other items	(6,560)	3,534	-	-
Net Δ in cash	**379**	**(2,063)**	**(661)**	**4,496**

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Revenue growth	30.0	17.5	30.1	27.1
Op profit growth	(6.9)	28.0	19.6	47.7
EBIT growth	(15.8)	34.1	4.2	62.7
Net profit growth	(20.0)	22.7	7.9	95.7
Profitability ratios (%)				
OPM	20.0	21.8	20.0	23.3
EBIT margin	15.6	17.8	14.2	18.2
Net profit margin	8.2	8.6	7.1	10.9
RoCE	10.6	12.7	11.8	17.8
RoA	4.4	4.7	4.5	7.9
Per share ratios				
EPS	70.9	87.0	81.2	159.0
DPS	2.6	11.0	8.4	13.2
Cash EPS	123.7	156.4	153.7	241.1
BVPS	401.8	480.0	637.6	781.1
Valuation ratios (x)				
P/E	15.8	12.9	13.8	7.1
P/CEPS	9.1	7.2	7.3	4.7
P/B	2.8	2.3	1.8	1.4
EV/EBIDTA	11.5	9.0	8.2	5.0
Payout (%)				
Dividend payout	4.2	14.7	12.0	9.7
Tax payout	5.3	28.4	28.4	28.4
Liquidity ratios				
Debtor days	9	13	13	13
Inventory days	66	55	55	55
Creditor days	184	150	142	142
Leverage ratios				
Interest coverage	2.2	3.1	3.3	6.1
Net debt / equity	2.2	1.8	1.2	0.7
Net debt / op. profit	5.0	3.9	3.3	1.7

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Tax burden (x)	0.95	0.70	0.71	0.71
Interest burden (x)	0.54	0.67	0.70	0.84
EBIT margin (x)	0.16	0.18	0.14	0.18
Asset turnover (x)	0.54	0.55	0.64	0.72
Financial leverage (x)	3.99	4.22	3.41	2.84
RoE (%)	**17.2**	**19.4**	**15.2**	**22.3**

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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