



BSE SENSEX 18,396
S&P CNX 5,512

Rs898

Buy

Bloomberg JSTL IN
Equity Shares (m) 254.3
52-Week Range 1,400/883
1,6,12 Rel. Perf. (%) -13/-24/-22
M.Cap. (Rs b) 228.2
M.Cap. (US\$ b) 5.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EY/	EY/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	189,572	11,117	59.4	9.3	15.1	1.9	12.4	10.1	1.9	8.7
3/11E	240,255	14,423	65.8	10.8	13.6	1.3	9.2	9.0	1.5	8.3
3/12E	370,738	28,171	110.8	68.3	8.1	1.0	12.9	14.2	1.0	5.1
3/13E	412,900	39,737	156.3	41.1	5.7	0.9	15.5	17.0	0.8	3.7

Consolidated

- JSW Steel's standalone adjusted PAT for 3QFY11 increased 14% QoQ to Rs3.8b (v/s our estimate of Rs4.3b) due to lower interest costs and higher sales volumes.
- Average realization, however, remained flat QoQ at Rs36,457/tonne (up 13% YoY), lower than our estimate of Rs37,070/tonne. The company sold 1.59m tonnes (up 1% QoQ and 12% YoY), reducing inventory by 62,000 tonnes at the end of 3QFY11 to 374,000 tonnes. JSW achieved favorable product mix by reducing the sale of semis. Sale of semis declined 72% YoY to 77,000 tonnes while the sale of rolled long products increased 13% YoY to 276,000 tonnes. Flat rolled product sales grew 37% YoY to 1.24m tonnes.
- EBITDA increased 1% QoQ to Rs10b (down 11% YoY) on flat realization. EBITDA per tonne increased 4% QoQ to US\$140 mainly due to rupee appreciation.
- Consolidated PAT was Rs2.9b, impacted by subsidiaries reporting a loss of Rs906m (at PAT level) due to lower utilization and higher interest costs.
- We remain positive on the company due to strong volume growth and expected start of raw material production in US and Chile. We expect cost benefits due to recent start-up of 300MW CPP, higher integration of coke-oven capacity, and iron ore beneficiation plant in subsequent quarters.
- Margins are expected to expand in 4QFY11 due to recovery in steel prices, but are expected to remain modest at US\$161/tonne in FY12 because the Indian steel market is likely to witness temporary oversupply due to commissioning of nearly 20mtpa of crude steel capacity over 12-15 months.
- We have cut our FY11 EPS estimate by 6.2% to Rs65.8 to factor lower than expected 3QFY11 performance. Our FY12E EPS, however, remains unchanged. The stock trades at 8.1x FY12E EPS and an EV of 5.1x FY12E EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE (STAND-ALONE)

(RS MILLION)

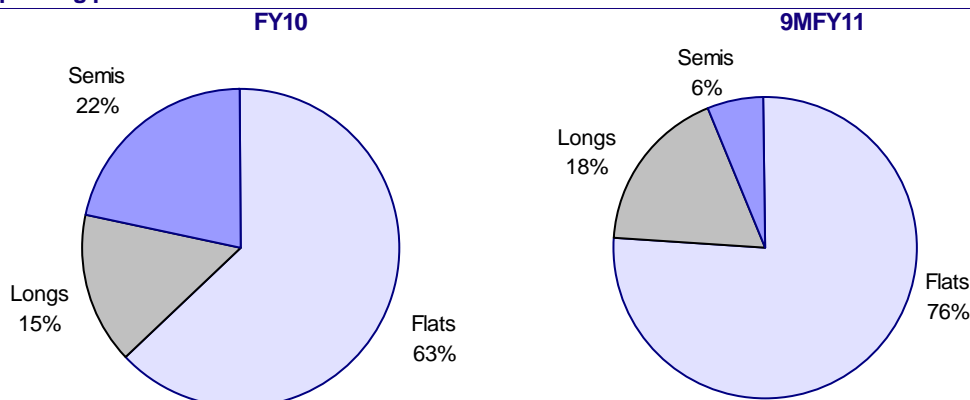
Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales ('000 tons)	1,321	1,454	1,425	1,520	1,190	1,582	1,593	1,750	5,720	6,115
Realization (Rs per ton)	29,650	31,080	32,372	34,243	39,329	36,510	36,457	37,834	31,912	37,424
Net Sales	39,168	45,190	46,130	52,050	46,802	57,759	58,076	66,209	182,538	228,846
Change (YoY %)	6.7	5.9	65.6	56.4	19.5	27.8	25.9	27.2	29.9	25.4
EBITDA	7,467	11,070	11,180	13,308	10,345	9,922	10,002	12,967	43,024	43,235
As % of Net Sales	19.1	24.5	24.2	25.6	22.1	17.2	17.2	19.6	23.6	18.9
EBITDA (US\$ per ton)	116	157	168	191	191	135	140	167	159	156
Interest	2,206	2,298	2,178	1,944	2,142	1,993	1,320	1,683	8,627	7,138
Depreciation	2,718	2,805	2,860	2,851	3,172	3,324	3,464	3,241	11,234	13,201
Other Income	54	615	16	0	31	64	79	109	685	283
PBT (before EO Item)	2,597	6,582	6,157	8,513	5,062	4,668	5,297	8,153	23,849	23,179
EO Items	2,360	0	1,026	962	0	1,570	0	0	4,348	1,570
PBT (after EO Item)	4,957	6,582	7,183	9,475	5,062	6,238	5,297	8,153	28,197	24,749
Total Tax	1,556	2,066	2,041	2,306	1,560	1,783	1,474	2,446	7,969	7,263
% Tax	31.4	31.4	28.4	24.3	30.8	28.6	27.8	30.0	28.3	29.3
Reported PAT	3,400	4,515	5,142	7,169	3,503	4,454	3,823	5,707	20,227	17,487
Preference Dividend	72	72	72	72	72	72	72	72	290	290
Adjusted PAT	968	4,443	4,044	6,135	3,430	3,283	3,751	5,634	15,590	16,098
Change (YoY %)	-77.9	-23.2	861.0	2,443.1	254.5	-26.1	-7.3	-8.2	43.9	3.3

E: MOSL Estimates

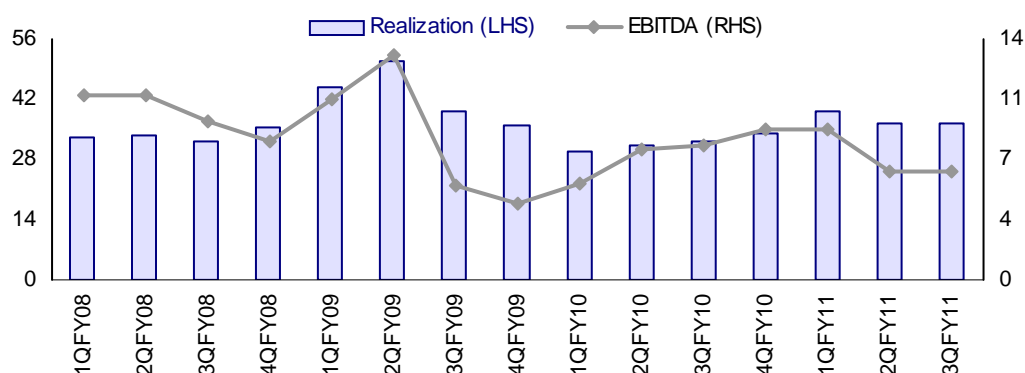
EBITDA per ton flat QoQ at US\$140

- Post commissioning of 3.5mtpa hot strip mill (HSM), the proportion of semis has declined sharply from 19% in 3QFY10 to 5%. Crude steel production increased 11% YoY to 1.64m tonnes.
- EBITDA increased 1% QoQ (down 11% YoY) to Rs10b on flat realization. EBITDA per tonne increased 4% QoQ to US\$140 mainly due to rupee appreciation.

Improving product mix



Quarterly Performance (Rs '000/ton)



Source: Company/MOSL

Announced capex of Rs40b to set up 2.3mtpa CRM complex

- JSW has announced its plan to set up a 2.3mtpa cold rolling mill (CRM) complex at capex of Rs40b to increase the share of value-added products. The investment is proposed to be funded with 2:1 debt-equity in two phases. Phase-I includes 1.4mtpa CRCA unit at capex of Rs30b and is expected to get commissioned by 1QFY14.
- The company is currently focusing on refinancing of Ispat debt, which will be followed by financing of 4.5mtpa greenfield project at West Bengal.
- Domestic sales contributed 88% of total volumes (v/s 84% in 3QFY10) while retail sales through JSW Shoppe accounted for 26% of volumes excluding semis.
- Consolidated gross debt at the end of December 2010 was Rs143b, while cash and equivalents were at Rs21.4b. It had invested Rs5b out of total equity deal of Rs21.6b for Ispat by end-3QFY11. The balance amount has been paid in January 2011.

Capacity expansion to 11mtpa on track; iron ore (Chile) and coking coal (US) production to start in FY12

- Expansion of capacity to 11mtpa by March 2011 is on track. During the quarter, part of steel melt shop and caster has been commissioned. Blast furnace and second caster

should commission by March 2011. JSW Steel is confident of securing coal supply for incremental production. FY12 volumes will increase 48% to 9m tonnes.

- US coal mines are expected to start shipment of coking coal in March, with expected volumes of 1m tonnes in FY12. JSW Steel is awaiting second license for coal mines in US by the end of February. Average cost of coal is likely to be US\$110/tonne, which implies EBITDA of US\$115m at current coking coal prices of US\$225/tonne.
- Iron ore production at Chile mines so far has been 600,000 tonnes RoM. After beneficiation, nearly 200,000 tonnes of iron ore is expected to be shipped in April 2011. By that time, beneficiation plant and port facilities will be ready. FOB cost is expected to be US\$60/tonne at 62% Fe grade. Iron ore shipments are expected to be ~1m tonnes during FY12, which implies an EBITDA of US\$100m at current iron ore prices.
- JSW has paid Rs2.1b during the quarter for acquiring assets of Bellary Steel and Alloys, which includes freehold land (700 acres), building and plant & machinery of partially completed 0.5mtpa steel plant. However, the company has not obtained possession of these assets due to pending litigation.

US plate and pipe mills still a drag

US pipe and plate mill continue to remain highly underutilized. Capacity utilization was at 12% for plate mill and 11% for pipe mill. Interest costs have increased due to increase of interest cost on working capital. Management indicated that enquiries have increased and US economy is also expected to do better, which should turn around operations in FY12.

US pipe & plate mill (USD m)

Y/E March	FY10				FY11		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Operational performance							
Plate mill							
Production (tons)	27,727	48,895	49,210	69,444	38,408	37,699	30,323
Sales (tons)	14,376	38,689	24,252	42,297	34,986	23,040	21,283
Pipe mill							
Production (tons)	5,432	16,845	27,800	23,788	12,033	9,495	15,442
Sales (tons)	4,308	17,822	24,460	25,917	12,927	11,970	15,446
Capacity utilization (%)							
Plates	11.4	20.0	20.0	28.0	15.7	15.4	12.4
Pipes	4.0	12.0	20.0	17.0	8.6	6.8	11.0
Financials (US operations)							
Revenues	18	41	44	57	43	36	35
EBITDA (incl. oth inc)	-14	-21	-8	2	8	1	2
PAT	-21	-25	-11	-13	-7	-13	-13

Source: Company/MOSL

Cutting FY11E EPS by 6%; FY12 estimates unchanged; maintain Buy

- We remain positive on the company due to strong volume growth and expected start of raw material production in US and Chile. Margins are expected to expand in 4QFY11 due to recovery in steel prices, but are expected to remain modest at US\$161/tonne in FY12 because the Indian steel market is likely to witness temporary oversupply due to commissioning of nearly 20mtpa of crude steel capacity over 12-15 months.
- We have cut our FY11 EPS estimate by 6.2% to Rs65.8 to factor lower than expected 3QFY11 performance. Our FY12E EPS, however, remains unchanged.
- The stock trades at 8.1x FY12E EPS and an EV of 5.1x FY12E EBITDA. **Buy.**

JSW Steel: an investment profile

Company description

JSW Steel is India's second largest steel producer. Its production facilities are located in Karnataka, Tamil Nadu and Maharashtra. It has investments in iron ore mining in Karnataka and Chile. Besides, it has plate and pipe mill operations in the US.

Key investment arguments

- Crude steel production is expected to increase at a CAGR of 23% to 9.1m tonnes over FY10-12.
- JSW Steel has the lowest conversion cost due to its operational efficiencies.
- The strategic location of its furnaces in the iron ore rich Bellary-Hospet belt helps in keeping iron ore purchase costs low because miners primarily export ore due to the absence of significant steel capacities in the region.
- Earnings have high sensitivity to steel prices due to high financial and operating leverage.

Key investment risks

- High dependence on external sources for raw materials in the rising resource price scenario can put significant pressure on margins.
- US operations are highly exposed to economic condition of the US in general, and investments in oil and gas pipelines, in particular.

Comparative valuations

		JSW Steel	SAIL	Tata Steel
P/E (x)	FY11E	13.6	12.8	8.9
	FY12E	8.1	11.3	8.7
P/BV (x)	FY11E	1.3	1.7	3.2
	FY12E	1.0	1.6	2.4
EV/Sales (x)	FY11E	1.5	1.4	0.9
	FY12E	1.0	1.5	0.8
EV/EBITDA (x)	FY11E	8.3	7.9	6.3
	FY12E	5.1	7.6	6.1

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	38.3	45.6	45.7
Domestic Inst	4.6	6.5	5.5
Foreign	47.3	35.6	37.3
Others	9.8	12.3	11.6

Recent developments

- JSW has acquired assets of Bellary Steel and Alloys (includes freehold land admeasuring 700 acres, building and plant & machinery of partially completed 0.5mtpa steel plant) for Rs2.1b during the quarter.

Valuation and view

- The stock is trading at 8.1x FY12E EPS and EV of 5.1x FY12E EBITDA. Maintain **Buy**.

Sector view

- Indian steel demand is expected to grow 10-12% over FY10-12 driven by planned infrastructure investment by the government and a rebound of industrial capex. Industrial production has started growing in double digits due to the economic recovery and a boost from stimulus packages. Auto and white goods demand has started growing in double digits. Large power capacity addition will drive industrial production further. According to WSA, Indian steel demand is expected to grow 13.6% in 2011. We remain positive about domestic steel companies.

EPS: MOSL forecast v/s Consensus (Rs)

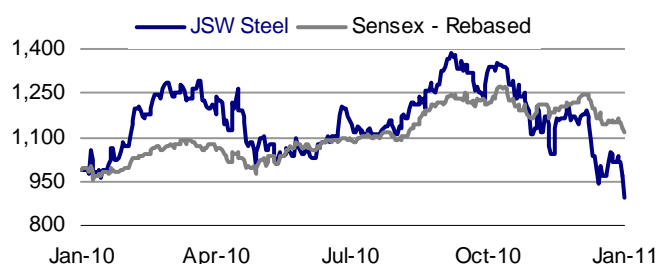
	Most Forecast	Consensus Forecast	Variation (%)
FY11	65.8	78.3	-15.9
FY12	110.8	120.9	-8.4

Target Price and Recommendation

Current Price (Rs)	Target * Price (Rs)	Upside (%)	Reco.
898	1,370	52.7	Buy

*EV/EBITDA of 6.5x FY12E

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT (CONSOLIDATED)		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
Net sales	189,572	240,255	370,738	412,900	
Change (%)	19.0	26.7	54.3	11.4	
Total Expenses	148,865	195,541	299,685	329,225	
EBITDA	40,707	44,714	71,053	83,675	
% of Net Sales	21.5	18.6	19.2	20.3	
Depn. & Amortization	12,987	14,934	19,678	19,238	
EBIT	27,720	29,780	51,375	64,437	
Net Interest	11,080	9,568	11,823	8,734	
Other income	1,012	1,813	407	415	
PBT before EO	17,652	22,024	39,958	56,118	
EO income	4,348	1,570			
PBT after EO	22,000	23,594	39,958	56,118	
Tax	6,467	7,310	11,583	16,184	
Rate (%)	29.4	31.0	29.0	28.8	
Reported PAT	15,533	16,285	28,375	39,933	
Preference dividend	289	291	279	279	
Adjusted PAT	11,117	14,423	28,171	39,737	
Change (%)	9.3	29.7	95.3	41.1	

BALANCE SHEET		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	1,871	2,191	2,543	2,543	
Reserves	87,911	154,771	216,175	253,422	
Net Worth	89,781	156,961	218,717	255,965	
Minority Interest	2,187	2,066	1,884	1,684	
Total Loans	164,521	149,521	113,468	83,468	
Deferred Tax Liability	16,848	21,188	28,219	38,018	
Capital Employed	273,336	329,736	362,288	379,135	
Gross Block	276,912	328,062	401,400	429,737	
Less: Accum. Deprn.	53,393	68,327	88,005	107,243	
Net Fixed Assets	223,520	259,736	313,395	322,495	
Capital WIP	69,562	87,562	42,562	42,562	
Investments	6,282	6,282	27,852	27,852	
Curr. Assets	54,700	61,684	92,462	114,115	
Inventory	28,667	38,154	50,431	54,742	
Account Receivables	6,964	12,534	21,010	23,348	
Cash and Bank Balance	3,030	517	3,000	15,333	
Others	16,038	10,478	18,021	20,691	
Curr. Liability & Prov.	80,727	85,528	113,983	127,889	
Account Payables	78,078	80,238	106,794	118,868	
Provisions & Others	2,649	5,289	7,189	9,021	
Net Current Assets	-26,027	-23,844	-21,521	-13,774	
Appl. of Funds	273,336	329,736	362,288	379,135	

E: MOSL Estimates

RATIOS					
Y/E MARCH	2010	2011E	2012E	2013E	
Basic (Rs)					
EPS	59.4	65.8	110.8	156.3	
Cash EPS	152.5	142.5	189.0	232.7	
BV/Share	480.0	716.5	860.2	1,006.7	
DPS	9.0	9.0	9.0	9.0	
Payout (%)	14.9	16.3	10.6	7.5	
Valuation (x)					
P/E	15.1	13.6	8.1	5.7	
Cash P/E	5.9	6.3	4.7	3.9	
P/BV	1.9	1.3	1.0	0.9	
EV/Sales	1.9	1.5	1.0	0.8	
EV/EBITDA	8.7	8.3	5.1	3.7	
Dividend Yield (%)	1.0	1.0	1.0	1.0	
EV/ton	45,568	47,437	33,633	45,611	
Return Ratios (%)					
RoE	12.4	9.2	12.9	15.5	
RoCE	10.1	9.0	14.2	17.0	
Working Capital Ratios					
Fixed Asset Turnover (x)	0.7	0.7	0.9	1.0	
Asset Turnover (x)	0.7	0.7	1.0	1.1	
Debtor (Days)	13	19	21	21	
Inventory (Days)	55	58	50	48	
Creditors(Days)	150	122	105	105	
Leverage Ratio (x)					
Current Ratio	0.7	0.7	0.8	0.9	
Interest Cover Ratio	2.5	3.1	4.3	7.4	
Debt/Equity	2.1	1.1	0.6	0.3	

CASHFLOW STATEMENT (CONSOLIDATED)		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
EBITDA	40,707	44,714	71,053	83,675	
Non cash exp. (income)	2,209	454	107	117	
(Inc)/Dec in Wkg. Cap.	-4,710	-4,697	160	4,586	
Tax Paid	-4,594	-1,841	-4,552	-6,385	
XO (employee seperation)					
CF from Op. Activity	33,613	38,629	66,767	81,994	
(Inc)/Dec in FA + CVMP	-27,418	-69,150	-28,338	-28,338	
(Pur)/Sale of Investments	-2,033		-21,570		
Int. & Divident Income	128	1,813	407	415	
CF from Inv. Activity	-29,323	-67,337	-49,501	-27,923	
Equity raised/(repaid)	-99	53,301	36,096		
Debt raised/(repaid)	6,392	-15,000	-36,053	-30,000	
Dividend (incl. tax)	-570	-2,647	-3,004	-3,004	
Interest paid	-11,485	-9,568	-11,823	-8,734	
CF from Fin. Activity	-5,762	26,085	-14,784	-41,738	
(Inc)/Dec in Cash	-1,471	-2,622	2,483	12,334	
Add: opening Balance	5,093	3,030	517	3,000	
adjustment	-591				
Closing Balance	3,030	408	3,000	15,333	



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Disclosure of Interest Statement	JSW Steel
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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