

January 21, 2010

Rating	Reduce
Price	Rs1,153
Target Price	Rs1,009
Implied Upside	(-) 12.5%
Sensex	17,474

(Prices as on January 20, 2010)
Trading Data

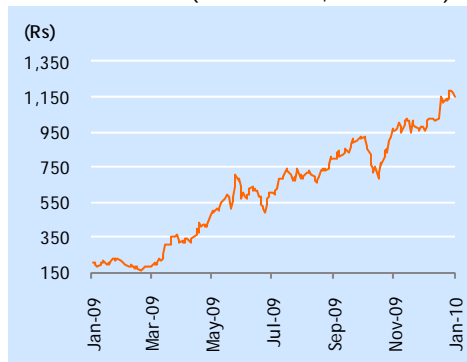
Market Cap. (Rs bn)	215.9
Shares o/s (m)	187.0
Free Float	55.0%
3M Avg. Daily Vol ('000)	3,822.5
3M Avg. Daily Value (Rs m)	3,662.7

Major Shareholders

Promoters	45.0%
Foreign	31.2%
Domestic Inst.	6.1%
Public & Others	17.7%

Stock Performance

(%)	1M	6M	12M
Absolute	18.1	91.2	460.7
Relative	13.6	76.2	368.7

Price Performance (RIC: JSTL.BO, BB: JSTL IN)


Source: Bloomberg

■ **Results better-than-expected:** JSW Steel reported pre-exceptional profit of Rs3.56bn, ahead of our expectation of Rs3.04bn. The performance was primarily driven by lower-than-expected interest cost and lower tax rate. Net revenue grew by 2.7% QoQ on the back of 4% rise in realisation (Rs32,194 v/s Rs30,906) which was partially negated by a fall of 2% in volumes. EBITDA grew by 4.1% QoQ on the back of higher domestic realisations and better show at the US operations. EBITDA for domestic operations declined marginally by 1% QoQ to Rs10.9bn (EBITDA per tonne of Rs7,668 as against Rs7,589 in the previous quarter). Performance at the US operations witnessed strong improvement due to a rise in demand for pipes and substantial reduction in costs (H1Y10 was impacted severely due to huge inventory write-downs). Accordingly, its loss on EBITDA level reduced from US\$21m to US\$8m. Consolidated adjusted PAT grew by 5.3% QoQ, primarily on the back of 14% fall in interest cost (lower outgo on foreign currency loans due to appreciation of domestic currency) and lower tax rate.

■ **Update on capex:** JSW Steel's 3.2mtpa expansion at Vijaynagar is progressing as per schedule and would get commissioned by March 2011. Commissioning of blooming mill of 0.5mtpa at Salem plant got delayed by two months from the earlier schedule of March 2011 to May 2011. Company expects to spend Rs70bn on these projects during FY11.

■ **Joint venture (JV) with JSW Energy:** JSW Steel entered into a JV with JSW Energy to set up captive power plant of 1600MW (800x2) in West Bengal for a total capital outlay of Rs96.8bn (D/E of 3:1). Company would hold 26% stake in the JV's equity and its complete power requirement for the proposed 3mtpa greenfield steel plant in West Bengal would be met through the JV at rates based on CERC norms. Coal for the project would come from the captive coal mines allotted to the company by state government for its steel project.

■ **Valuation:** At CMP, the stock trades at P/E of 10.1x and 6.3x FY11E and FY12E, respectively and on EV/EBITDA, it trades at 7.5x and 4.7x FY11E and FY12E, respectively. We maintain our 'Reduce' rating on the stock, given its expensive valuation, highly leveraged balance sheet and pressure on the earnings with hardening input prices.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	158,863	178,709	256,258	330,498
Growth (%)	28.7	12.5	43.4	29.0
EBITDA (Rs m)	29,333	41,034	57,814	86,114
PAT (Rs m)	8,079	13,178	21,658	34,435
EPS (Rs)	43.2	70.5	115.8	184.1
Growth (%)	(46.8)	63.1	64.3	59.0
EPS net of preference divid. (Rs)	41.4	68.6	114.0	182.3
Growth (%)	(47.9)	65.9	66.0	59.9
Net DPS (Rs)	1.0	2.4	11.9	22.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	18.5	23.0	22.6	26.1
RoE (%)	3.2	15.9	22.3	28.7
RoCE (%)	7.1	7.7	9.8	13.2
EV / sales (x)	2.4	2.2	1.7	1.2
EV / EBITDA (x)	13.0	9.6	7.5	4.7
PE (x)	27.9	16.8	10.1	6.3
P / BV (x)	3.2	2.7	2.2	1.6
Net dividend yield (%)	0.1	0.2	1.0	1.9

Source: Company Data; PL Research

Kamlesh Bagmar
KamleshBagmar@PLIndia.com
+91-22-6632 2237

Archit Singhal
ArchitSinghal@PLIndia.com
+91-22-6632 2256



Q3FY10 Result Overview

(Rs m)

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Net Sales	47,960	32,689	46.7	46,695	134,557	123,665	8.8
Raw Material	27,917	21,888	27.5	27,608	80,759	69,579	16.1
<i>% of Net Sales</i>	<i>58.2</i>	<i>67.0</i>		<i>59.1</i>	<i>60.0</i>	<i>56.3</i>	
Staff Costs	1,189	1,163	2.3	1,217	3,552	4,185	(15.1)
<i>% of Net Sales</i>	<i>2.5</i>	<i>3.6</i>		<i>2.6</i>	<i>2.6</i>	<i>3.4</i>	
Power & Fuel	2,608	1,976	32.0	2,569	7,571	6,102	24.1
<i>% of Net Sales</i>	<i>5.4</i>	<i>6.0</i>		<i>5.5</i>	<i>5.6</i>	<i>4.9</i>	
Other Expenses	5,726	3,119	83.6	5,200	15,407	15,837	(2.7)
<i>% of Net Sales</i>	<i>11.9</i>	<i>9.5</i>		<i>11.1</i>	<i>11.5</i>	<i>12.8</i>	
Total Expenditure	37,440	28,145	33.0	36,594	107,289	95,703	12.1
EBITDA	10,520	4,544	131.5	10,100	27,268	27,961	(2.5)
<i>Margin (%)</i>	<i>21.9</i>	<i>13.9</i>		<i>21.6</i>	<i>20.3</i>	<i>22.6</i>	
Depreciation	3,298	2,588	27.4	3,255	9,719	7,156	35.8
Other income	260	511	(49.0)	883	1,378	1,241	11.0
EBIT	7,482	2,467	203.3	7,729	18,927	22,047	(14.2)
Interest	2,583	3,302	(21.8)	3,019	8,586	8,438	1.8
PBT	4,899	(835)	(686.5)	4,709	10,341	13,609	(24.0)
Extraordinary income/(expense)	1,042	(1,810)		(218)	3223	(8,144)	
PBT (After EO)	5,941	(2,645)	(324.6)	4,491	13,564	5,465	148.2
Tax	1,723	(717)	(340.3)	1,367	4,059	2,290	77.3
<i>% PBT</i>	<i>29.0</i>	<i>27.1</i>		<i>30.4</i>	<i>29.9</i>	<i>41.9</i>	
Reported PAT	4,297	(1,870)	(329.7)	3,228	9,865	3,156	212.5
Adjusted PAT	3,557	(551)	(745.5)	3,379	7,607	7,888	(3.6)

Operating Parameters

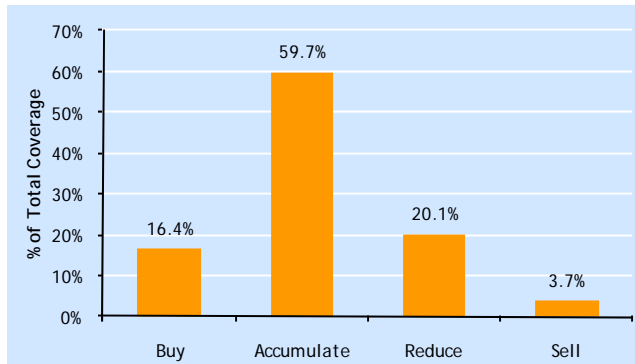
Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Production (000 Tonnes)							
Crude steel	1,469	782	87.9	1,541	4,386	2,758	59.0
Rolled products	1,178	704	67.3	923	3,370	2,181	54.5
Sales (000 Tonnes)	1,425	711	100.4	1,454	4,199	2,364	77.6
Semi-finished	272	60	353.3	405	988	432	128.7
Rolled products	1,153	651	77.1	1,049	3,211	1,932	66.2
Realisation per tonne	32,194	39,178	(17.8)	30,906	30,901	45,373	(31.9)
EBITDA per tonne	7,668	5,506	39.3	7,589	6,954	10,480	(33.6)

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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