



Prabhudas  
Lilladher

**INDIA**

# THE 'POWER' OF 'STEEL'



**September 2007**

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# Steel & Power

September 24, 2007

Sensex: 16,846

## Jindal Steel & Power

### Key Figures

(Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	25,903	35,198	67,195	95,307
EBITDA	10,276	14,023	19,399	33,335
EBITDA Mar.	39.7	39.8	28.9	35.0
PAT	5,729	7,028	9,891	18,282
PAT Gr. (%)	-	22.7	40.7	84.8
EPS (Rs)	186.0	228.2	321.2	593.6

## Monnet Ispat

### Key Figures

(Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	5,324	6,378	10,711	13,703
EBITDA	1,382	1,742	3,399	4,837
EBITDA Mar.	26.0	27.3	31.7	35.3
PAT	1,059	1,348	1,987	3,005
PAT Gr. (%)	-	27.3	47.3	51.4
EPS (Rs)	32.6	39.3	38.1	57.6

## Raipur Alloys

### Key Figures

(Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	3,214	4,137	4,852	8,317
EBITDA	378	699	1,577	3,740
EBITDA Mar.	11.8	16.9	32.5	45.0
PAT	203	475	1,063	2,269
PAT Gr. (%)	-	134.6	123.7	113.4
EPS (Rs)	6.8	16.1	31.2	66.6

## Relative upside potential

	Current Price	Target Price	% upside
J SPL	5,658	6,414	13.4
Monnet Ispat	364	533	46.4
Raipur Alloys	303	462	52.5

## Investment Case

This report covers the steel-n-power business model being pursued by companies in India. We are positive on this model as we see increasing risk from input-resources and end-product price volatility to steel companies going forward. We see companies following the steel-n-power theme providing strong long-term returns with relatively low risk.

### On solid growth Path

The three companies covered in this reports - Jindal Steel and Power, Raipur Alloys and Monnet are all on a solid growth path with expected revenue CAGR of 50- 100% and earnings growth of 60-100% over FY07-09. Further, we also expect operating margins to improve considerably by 500-700bps due to increasing contribution of captive resources (power, coal and iron ore) as well as contribution from the power business.

### Power lends Stability

Power will lend stability in two ways. Captive power plant will shield the business against rise in energy costs. On the other hand, earnings from merchant power will significantly offset the volatility of earnings inherent in the steel business.

### Incremental Growth

The companies under coverage are in the process of getting coal blocks and iron ore mines and setting up of power plants. There is huge rush for securing key raw materials like iron ore and coal in the light of increasing demand from steel and power sector. Incremental growth from the new mines and new power projects would come in the future which is not yet factored in the current valuation of the companies. Announcement on this front and commencement of new projects would be the potential future triggers for the stocks.

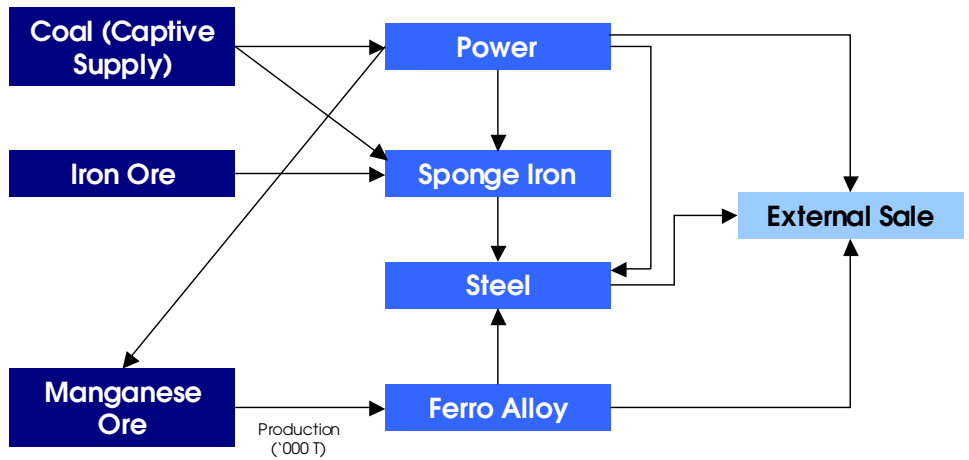
## Valuation

We believe that steady earnings from power would change the perception of the business as a whole. This would ultimately change the valuation parameters. Since a pure steel business traditionally get lower valuation multiples compared to power business; Change in business profile of target companies would also get reflected in higher valuation multiples.

We initiate coverage on Jindal Steel & Power Ltd. with an Outperformer rating with 12-month price target of Rs.6,414, implying 13.4% potential upside. Monnet Ispat with a BUY rating with 12-month price target of Rs.533, implying 46.4% potential upside. Raipur Alloys and Steel with a BUY rating with 12-month price target of Rs.462, implying 52.5% potential upside.

## Synergy between steel and power

Business Model



Source: PL Research

**Steady earnings from power business providing stability to the volatile steel business**

### Power giving stability to steel business

Steel is a highly energy intensive industry. We believe that because of the power intensive nature of the industry coupled with input price volatility, it makes perfect sense to look at steel companies with captive as well as commercial power plants and captive raw material sources. On an average making 1 ton of steel consumes about 15 million BTU of energy. This approximates to 5 million kcal which in turn translates approximately to 0.9 ton of coal. Hence making a ton of steel requires about 0.9 tons of coal, which is the combination of direct and indirect consumption of coal to produce electricity from power generating units. We are discussing energy in the form of coal in this report since we are covering the companies having coal based sponge iron and coal based power plants.

Steel making is a volatile industry in the sense that steel being a global commodity has prices being influenced by global supply-demand equations. Further, given the fragmented nature of the global production, the prices influence the profitability producers that can be fairly volatile and cyclical. Power on the other hand is a low-risk stable business giving a steady stream of revenues and profits over decades.

**Steel and Ferro alloys - power intensive**

### Power - Crucial to the steel industry

Steel industry on an average requires about 2,000 units of power per ton of steel starting from sponge iron to finished saleable steel product.

Ferro-alloys, which are crucial additives for steel and which constitute anything from 1-3 % by weight of steel, is also a very power intensive industry. Power consumption for Ferro-alloys manufacturing approximate 3,000-4,000 units per ton.

Generally power cost constitutes about 7-9% of the total steel making cost depending on whether steel is made using blast furnace or Electric Arc Furnace (EAF). Captive power plants reduce the power cost by more than half hence materially improving the margins for companies having the same.

## Unique business model

**Lower business risk profile  
enhancing the valuation of  
the business**

### Low risk, good value

We like the fully captive business model because it stabilizes the volatility of the steel business with steady returns from the power business and to a large extent removes input price uncertainty. The overall risk profile of the business is significantly lower than if it were not fully captive.

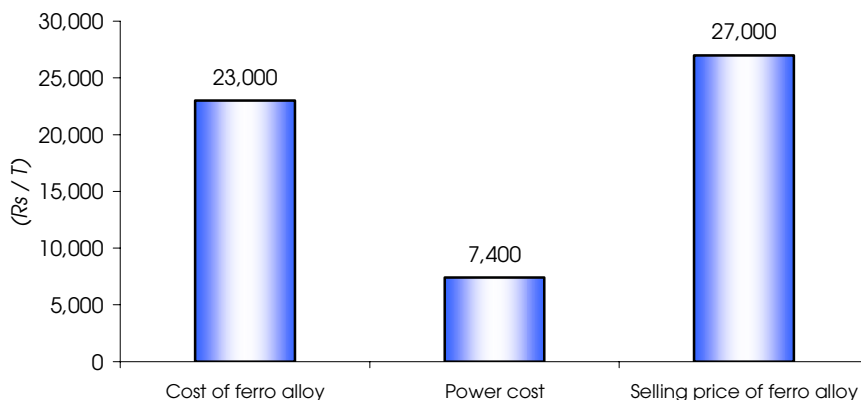
Other interesting feature of this model is the different valuations being assigned to steel and power business. A purely integrated steel company would get valuation of single-digit discounting while a power company would get higher valuation multiples. Together, we believe the overall value is much higher than that assigned to a stand-alone steel player, a stand-alone power company and the input resource (in the form of mining stocks) due to the various synergies and value addition.

**Built in flexibility for  
switching between ferro  
alloy production and power  
generation**

### Flexibility of switching between power & Ferro alloys

Power is about 40% of the total cost of making Ferro-alloys. On an average a ton of Ferro-alloy production consumes about 3,500 units of electricity. In times of weakness in steel demand and resulting weakness in Ferro-alloys prices companies can reduce Ferro alloys production and divert the additional power for merchant selling. This would help in stabilizing the revenues and in fact improve the average sustainable margins. Till recently, most Ferro alloys manufacturers were in poor health due of the mounting losses as a result of higher power costs and lower product prices. But with the advent of captive power plant and Power Purchase Agreement (PPA) with SEBs many such companies have turned around sustainable. Balasore alloys and Facor alloys are prime examples.

#### Breakeven price of Ferro Alloys



Source: PL Research

If the price realization of ferro alloys falls below Rs.27,000/T then it is no longer optimal for companies to produce Ferro-alloys. In stead they should rather sell equivalent power directly and can make contribution margin of about Rs.5,000/T which is about a thousand more than what they would have made by selling Ferro-alloys

## Coal - link between power & steel

### **Coal required for sponge iron and power**

### **Coal based sponge iron plant & power plant**

Coal is the main raw material apart from iron ore for sponge iron and steel. It is also the crucial common link between Steel and Power (at least in this part of the world at any rate). Coal-based power plants are very competitive in India due the abundance of coal resources in the country.

#### **Coal consumption per ton**

<b>Production</b>	<b>Coal required per ton (T)</b>
Sponge iron	1.3
Power Plant	0.9T/KW
Ferro alloys	0.15

*Source: PL Research*

Captive companies actually enjoy dual benefits. Washed coal from the washeries is used for sponge iron and steel production while middles and fines would be used for power plants resulting in significant cost savings.

### **Captive iron ore and coal mines giving significant cost advantage**

### **Captive iron ore & coal mines**

Companies having captive iron ore and coal mines are at a significant advantage over others. We see a very robust demand for raw materials as the demand for steel remains strong in-line with the continuing growth in GDP. The control over raw material gives control over cost and this helps during softening of steel prices. This also helps in smoothing out the volatility in steel business to a great extent.

### **India - Largest producer of coal based sponge iron**

### **Trends in domestic sponge iron production**

Sponge iron is produced either in a coal-based horizontal rotary kiln or a gas based vertical kiln wherein the key raw materials are iron ore and coal/gas. India is the largest producer of sponge iron in the world producing about 25% of the world production. Globally gas based sponge iron production is the norm.

#### **Breakup of Sponge Iron capacity in India**

	<b>(mt)</b>	
	<b>Capacity</b>	<b>Production</b>
Gas based	6.1	5.35
Coal based	11.28	10.18

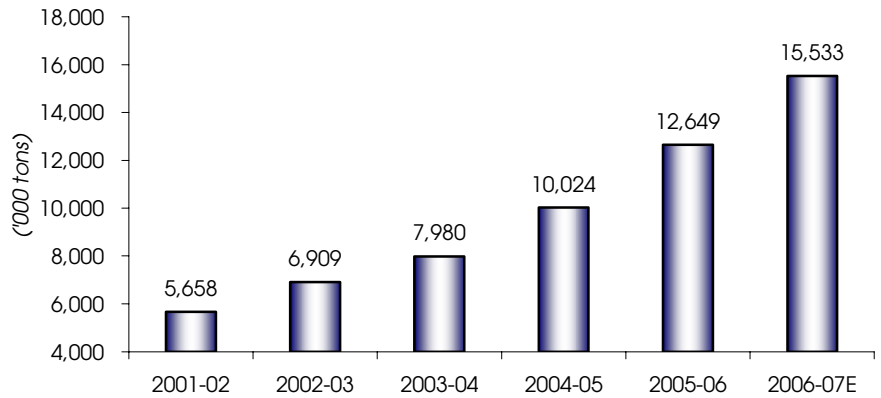
*Source: PL Research*

### **Coal based sponge iron**

Production of coal based sponge iron is increasing in India. Coal based sponge iron production capacity is expected to increase from 11.28 mt in FY07 to 13 mt in FY08E and finally to 20.2 mt by FY09E. Gas based sponge iron production is remaining at the same level because of unavailability of gas and the fact that it is relatively uncompetitive versus coal.

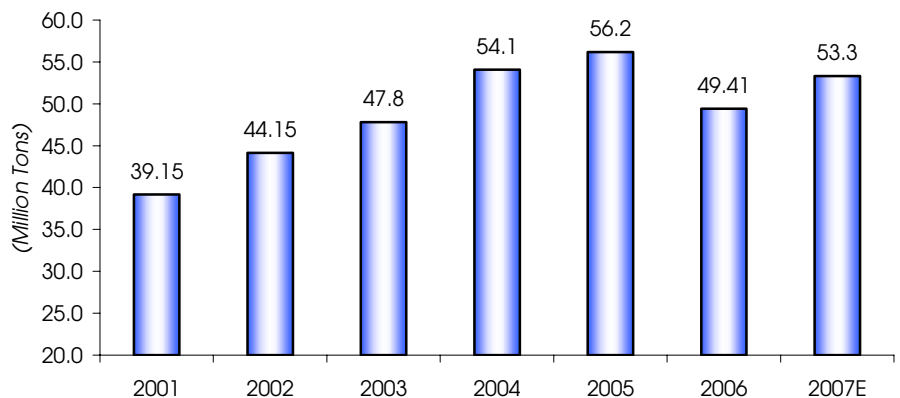
**Scrap shortage & growing steel production fuels sponge iron demand**

**Production of Sponge iron in India**



Source: SIMA, PL Research

**Global sponge iron production**



Source: IISI, PL Research

Globally, majority of sponge iron units are gas-based while in India it is coal-based.

Natural Gas prices have been continuously rising for the past three years. The spot prices of gas have increased from US\$ 3.5/mmbtu to US\$ 6.5/mmbtu. Procurement Prices of gas for steel industry is market based while it is subsidized for sectors like power and fertilizer. Besides, availability of gas in India is a major problem.

**Electricity Act 2003  
allowing private companies  
to setup power plants**

### **What makes this business attractive now?**

Prior to passing of Electricity Act 2003, most steel companies were dependent on state grid or own generation through DG sets for their power requirement and this worked out to be a high cost affair. With the prices of Ferro-alloys and steel reigning very low and cost of power being high, the whole business was rendered unremunerative.

Iron-ore and Coal mines have and are being allocated to the private sector giving them access to the main raw materials and placing them in a significantly stronger financial position. Many companies are in the process of building up their own power plants, from which part of generation can be used for captive purpose and balance can be sold as merchant power. The Electricity Act 2003 has essentially removed revenue uncertainty for the power producer completely by improving the health of the power utilities and guaranteeing their PPAs. On the other hand, allocation of mines by state governments and the new mining policy has removed uncertainty on input prices. These two developments together have essentially made fully integrated power production a very low risk and high return business.

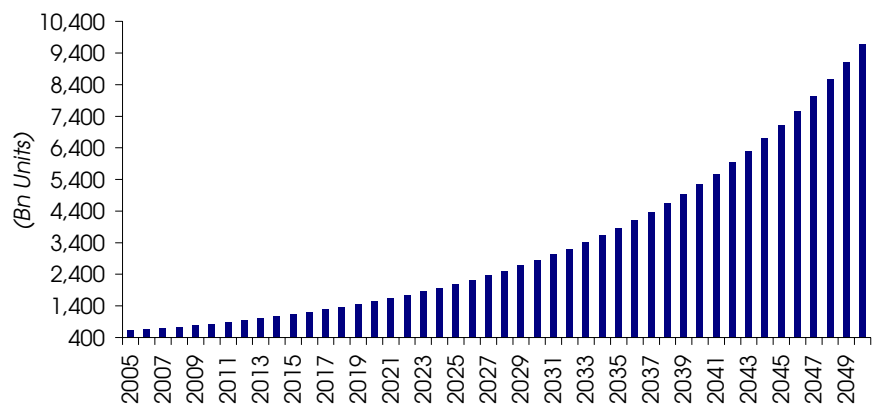
**Desperate power situation  
in India**

### **Power situation in India**

About 75% of total power generated in India comes from thermal power plants and 16% from hydel sources.

India will need to double its generation capacity by 2012 from the present 1,32,000 MW to meet the increasing demand and sustain 8+% GDP growth. In terms of units also India's requirement would be about 1284 billion units by 2016-17 and given India's abundant coal reserves, coal based thermal power plant remains the best bet.

### **Estimated electricity requirement**



Source: PL Research



***Removing hurdles for private sector for setting up power plants and merchant selling of power***

### **Electricity Act 2003**

Electricity Act 2003 has been one of the most revolutionary step taken by GOI to liberate power sector from the clutches of SEBs and improve the efficiency. This act ensures that existing vertical monopolies are dismantled, efficiency is improved and quality and quantity of supply are enhanced. This act allows the setting up of generating plants without licenses, provides for licenses for transmission, distribution and trading, allows access to transmission infrastructure and a phased open access for the distribution systems. It also allows for the parallel distribution network to be set up in a given licensed area. This has given fillip to the private sector power generation and allowed such companies to set up power plants for merchant selling.

Besides, Power purchase agreement (PPA) with State electricity Board (SEB) backed by Central Electricity Regulatory commission (CERC) removes the uncertainty for power producer completely as the full amount of power generated would be purchased by SEBs at fixed rate for the life of the plant. The power companies would also be freed from the worries of recovery of dues from SEBs as SEBs would be required to deposit money in an Escrow account.

***Granting licences to private and foreign players boosting investments in mining***

### **Mining Policy**

The new mining policy is aimed at accelerating the prospecting and development of vast natural resources of India. It is aiming to ease the rules regarding surveying, prospecting and leasing of mines to private players including foreign firms.

As per the estimates only 10% of the vast mineral wealth has been explored due to the bureaucratic delays and lack of clear guidelines. In the past state would have been able to sit on a proposal for indefinite time without having to give any reason for the same. But now centre can intervene and expedite and clear the process depending on the merit of the case. This has given boost to the mining as private players have been given the licenses for prospecting and development of mines. This has made it possible for the private steel companies to acquire iron ore and coal mines for the captive requirement as well as for commercial exploitation.

The allocation of mines by the state governments and the new mining policy will remove uncertainty relating to key input prices completely. This allows steel and power producers nearly complete long-term control on their cost structure.

## Investment risks

### Delay in development of mines

Getting license for prospecting is one thing and developing and starting actual mining is another thing as it takes some time ranging from 1 -3 years depending on whether it is iron ore or coal mines respectively. This can result in lower than our expected earnings and margins as the benefits of captive mines do not start trickling in.

**Tightness in supply of power equipments leading to delay**

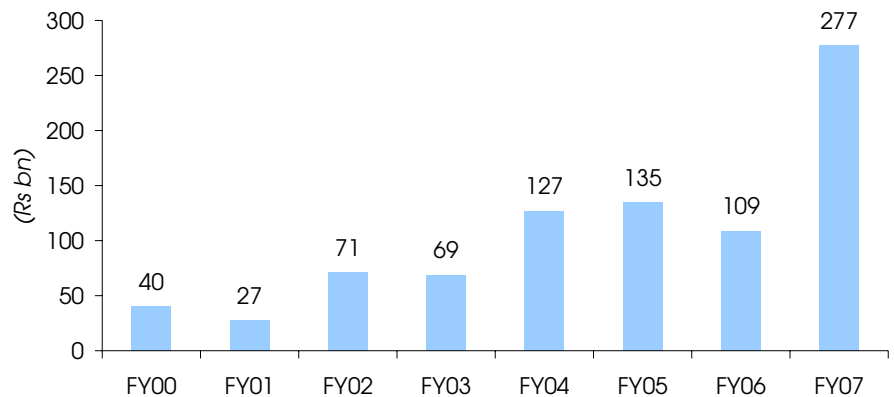
### Delay in power plant

Power equipment manufacturers like BHEL, etc. are so overbooked that timely supply of equipments can be real problem resulting in the delay in commissioning of power plants. There is tightness in supply of equipments due to the fact that so many power projects are coming up in India. This can best be explained by BHEL's bulging order book. All the equipment manufacturers are facing the same situation with order book which is almost double their capacity.

Besides, power plant cannot be started without getting the fitness certificate for boiler which involves testing by a government appointed test engineer. This faces bureaucratic hurdle.

This may affect our projections from power business which may result in lower than expected earnings.

### BHEL's Power Equipment Order book



Source: Company Data, PL Research

## Valuation & Recommendations

### SOTP of power & steel business-our preferred valuation methodology

We believe that steady earnings from power would offset the cyclicality and volatility of steel business. Such companies would command higher & better valuations compared to pure steel companies. Most of these companies would have about 40% of operating income accruing from power business in next 2 years. So 40% of income would be steady irrespective of the cycle. Besides, price volatility of steel business would also be to a great extent controlled due to captive raw material resources. So overall volatility in earnings can be brought down to say 20-30% as compared to the 100% in pure steel business. We believe that such companies should command higher valuations compared to pure steel companies.

Power business will give steady earnings and would be valued at higher multiples compared to steel business. We have valued the power business at 10x FY09E EV/EBIDTA and steel companies at 5x FY09E EV/EBIDTA.

All these companies manufacture sponge iron and long products which are freight sensitive and above all difficult to import and transport over long distance. Sponge iron can easily get oxidized if exposed to moisture and loses its strength if not used within 1-2 months which makes it difficult to be imported. Besides, these companies have access to the raw materials like iron ore and coal due to captive mines for which the premium valuation should be given to these companies.

Moreover, the price volatility in long products and structural is much less compared to flat products as it is domestically consumed and related to the construction and infrastructure sector. This also makes the steel business of these companies less volatile compared to others. This is the case for valuing these companies at higher valuation multiples compared to big integrated flat product steel manufacturers.

We initiate coverage on Jindal Steel & Power Ltd. with an Outperformer rating with 12-month price target of Rs.6,414, implying 13.4% potential upside. Monnet Ispat with a BUY rating with 12-month price target of Rs.533, implying 46.4% potential upside. Raipur Alloys and Steel with a BUY rating with 12-month price target of Rs.462, implying 52.5% potential upside.

### Valuation Comparable

	Rating	CMP (Rs)	M/Cap (Rs m)	PE (x)		P/BV (x)		EV/EBITDA (x)	
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Jindal Steel & Power	OP	5,658	174,266	17.6	9.5	5.1	3.3	11.6	7.2
Monnet Ispat	BUY	364	18,975	9.6	6.3	1.6	1.3	7.6	5.6
Raipur Alloys	BUY	303	10,302	9.7	4.5	2.3	1.5	7.9	3.8

# COMPANIES



## Outperformer

Bloomberg Code : JSP@IN

Market Cap: 174,266m

No. of Shares Outstanding : 31m

Price, relative to the Sensex (%)

1 month: 34.2

3 months: 38.3

12 months: 188.7

### Key Figures

(Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	25,903	35,198	67,195	95,307
EBITDA	10,276	14,023	19,399	33,335
PAT	5,729	7,028	9,891	18,282
PAT Gr. (%)	-	22.7	40.7	84.8
EPS (Rs)	186.0	228.2	321.2	593.6

### Key Ratios

(%)

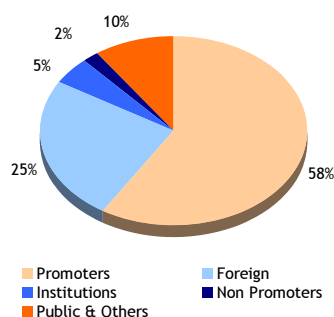
Y/e March	'06	'07	'08E	'09E
EBITDA Mar.	39.7	39.8	28.9	35.0
RoCE	16.2	16.6	16.9	23.2
RoE	31.1	28.2	28.8	35.1

### Valuations

(x)

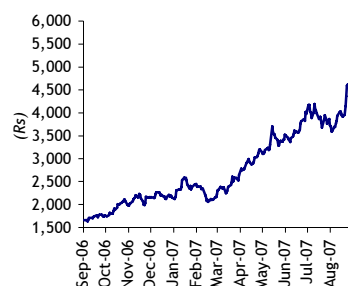
Y/e March	'06	'07E	'08E	'09E
PER	30.4	24.8	17.6	9.5
EV/Sales	7.8	5.9	3.3	2.5
EV/EBITDA	20.0	14.9	11.6	7.2
MCap/Sales	6.7	5.0	2.6	1.8

### Share Holding Pattern



Source: Capital Line, PL Research

### Price Chart



Source: Bloomberg, PL Research

(Price as on September 24, 2007)

Jindal Steel and Power (JSPL) is a pioneer of the fully integrated merchant power & steel business model. Volume growth is going to come from increase in capacity of sponge iron by 1mtpa, new plate mill of 1mtpa and higher utilization of rail and universal beam mill. Besides, 1000 MW coal based thermal power plant is expected to be commissioned in FY09E. We expect the revenues and earnings to grow at CAGR of 63%. We put an Outperformer rating on the stock with 12-month price target of Rs.6,414.

## Investment rationale

### Volume growth in metals and merchant power

JSPL has increased the steel making and rolling capacity to 2.5 mtpa and it is further expected to increase the capacity to 3 mtpa in FY09E. Besides, it is commissioning 250 MW power plant in Oct 2007 and would commission 250 MW every quarter for next 4 quarters taking the total merchant power capacity to 1000 MW which would be fully reflected in the financials of FY09E.

### Commissioning of 1 mtpa plate mill

JSPL successfully commissioned 1 mtpa plate mill in June 07. This is India's first plate mill to cater to the pipe manufacturing and shipbuilding industry. The buoyancy in demand for pipes and shipbuilding has driven plates EBIDTA to US\$ 400/ton. Pipe manufacturers have the visibility of demand going beyond 3 years and hence we expect the EBITDA's to broadly sustain. We believe that even with the commissioning of new plate mills by Welspun Gujarat & Essar Steel, there would be enough demand to absorb additional capacities.

### Rail mill and universal beams

JSPL is India's first private steel plant to set up 120 m long rail manufacturing plant. Currently the capacity utilization is low. However the company is expecting to get some necessary approvals, subsequent to which order flow from Indian railways will increase. We expect the capacity utilization to rise to 70% in FY09 from 45% in FY07.

## Valuation

We have valued JSPL using the SoTP method which gives us the valuation of Rs.6,414, an upside potential of 13.4% from the current level. Steel business is valued at 6x FY09E EV/EBIDTA. Power business is valued at 10x FY09E EV/EBIDTA.

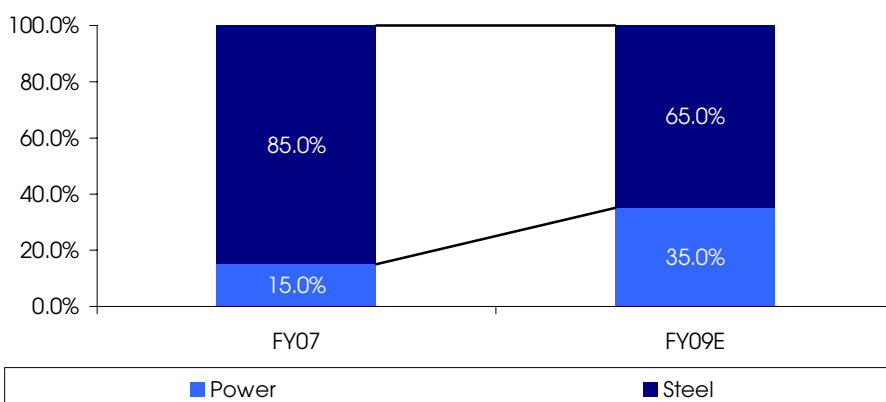
## Key Highlights

***JSPL's changing business profile with increasing profits from power business***

### Changing business profile

Currently about 85% of JSPL's operating profit comes from steel business and only 15% comes from power. By FY09E business is expected to undergo significant transformation with about 37% of operating profit coming from power and rest from steel business. This will significantly bring down the volatility in business and earnings as the percentage of operating profit vulnerable to cyclicity of steel business would come down from 85% to about 63%.

### Revenue from each business



Source: PL Research

### Higher utilization of rail and universal beam mill

JSPL has commissioned the 120 m long rail mill. This is the longest rail manufacturing plant in India. Bhilai steel plant of SAIL is the only rail manufacturing plant in India but that plant manufactures 56 m long rails only. The advantages of long rails would be less number of joints making it stronger with higher tensile strength, which would increase the safety. Besides, this would allow the use of high speed trains resulting in increase in frequency and better utilization due to higher turnover. The company has supplied rails to Konkan railway and other private freight operators. It is in the process of getting necessary approval from Indian Railways which will make it eligible to get orders from Indian Railways.

### Steel plant in Orissa

JSPL has signed a MOU for setting up 6 mntpa integrated steel plant at Angul in Orissa over a period of 6-7 years entailing an investment of Rs. 165 bn.

**El-Mutun Iron ore Mine, Bolivia**

JSPL has won the development rights of iron ore mines in Bolivia having reserves of about 20 bn tonnes. It proposes to invest about US\$ 2.1 bn over 7-8 years for setting up 2 million tpa steel plant. Currently Bolivia imports its steel products from Brazil as it does not have a steel plant and it exports low value iron ore. JSPL will get the iron ore resources and natural gas required for steel plant, which in turn will help Bolivia in infrastructure development. This is in line with the company's strategy of securing and ensuring availability of key raw materials in India and abroad to support its future growth plans.

**270 MW Power plant at Raigarh**

The company is setting up a pit head 270 MW power plant at its coal mine in Raigarh at an estimated cost of Rs.12 bn. Currently it is facing deficit of 120 MW for its internal consumption. After the commissioning of this power plant, which can take about 40 months from now, it will have about 150 MW of power available for merchant sale.

## Concerns

*Power project getting delayed due to tightness in equipment supply*

### **Execution Risk**

Delay in execution and commissioning of power project because of the tightness in equipments supply is a key concern. Besides, delay in getting the boiler test certificate due to lack of manpower and high levels of bureaucracy is another concern.

*Bolivian project may face political and geographical risk*

### **Political and execution risk in Bolivia**

The project in Bolivia can potentially face some political risks as there is socialist government and Latin America in general (including Bolivia) has suffered from political turmoil in the past. However, the company claims to have incorporated some clauses in the agreement, which protects it from such risks. Besides, the company is investing only about US\$100-200 mn in next 3 years and future expansion there would be sourced from the cash flow of 1st phase and also this would give the company time to gauge the actual business environment and political risk.



## Valuation and Recommendation

JSPL is derisking its business model by pursuing power business vigorously. It is also increasing the production of value added products like structurals, rails and plates. The company will be the major player in private sector power generation with installed capacity of 1340 MW by Jun 2008.

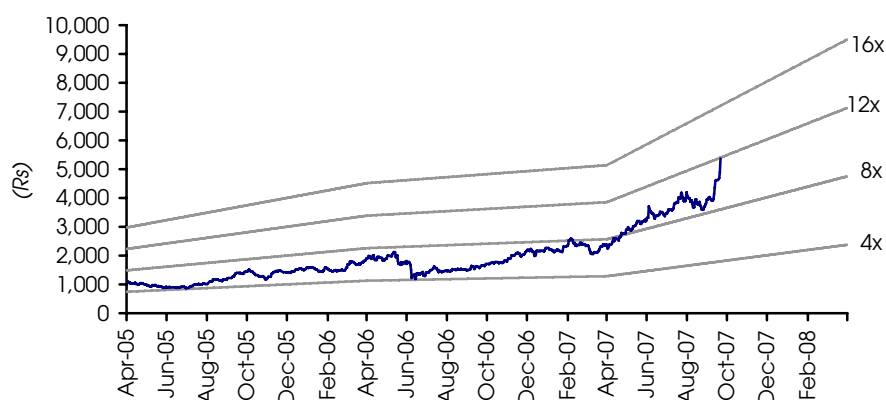
### Valuation of JSPL

	EBITDA (Rs m)	Multiple (x)	EV (Rs m)	Value (Rs/Share)	Remark
Steel business	20,918	6	125,505		Based on FY09E EBITDA
Power business	12,338	10	123,379		
Total			248,884		
Less: Net Debt			(51,333)		Based on FY09E net debt
Market capitalization			197,551	6,414	

We have valued the company on SoTP basis which gives us a price target of Rs.6,414 per share, which implies an upside potential of 13.4% from the current price. The company is fully integrated with captive access to key raw materials like iron ore, coal, etc. and as such would be getting premium over global steel companies.

Going forward with the successful completion of 1000 MW power plant, company would be in position to bid for future power projects. Besides, this being merchant power project the upside potential in tariff is possible, which can bring in higher than projected earnings from power business in future. We put an Outperformer rating on the stock.

### 1 yr. forward PE Band Chart



Source: MetaStock, PL Research

## Financials

### Income Statement

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Net Sales</b>	<b>25,903</b>	<b>35,198</b>	<b>67,195</b>	<b>95,307</b>
Expenditure	15,626	21,175	47,796	61,972
Stock Adjustment	(1,588)	(601)	-	-
Raw Materials	4,531	7,864	16,799	23,827
Stores and spares	2,703	3,420	7,391	10,484
Power and fuel	4,532	3,807	8,063	11,437
Other Mfg exp	4,719	5,748	13,863	13,841
Employee	728	937	1,680	2,383
<b>EBITDA</b>	<b>10,276</b>	<b>14,023</b>	<b>19,399</b>	<b>33,335</b>
<i>Margin (%)</i>	<i>39.7</i>	<i>39.8</i>	<i>28.9</i>	<i>35.0</i>
Other income	275	290	290	290
Depreciation	2,192	3,365	4,750	5,500
<b>EBIT</b>	<b>8,360</b>	<b>10,948</b>	<b>14,939</b>	<b>28,125</b>
Interest	1,081	1,501	1,750	3,750
<b>PBT</b>	<b>7,279</b>	<b>9,447</b>	<b>13,189</b>	<b>24,375</b>
Taxes	1,549	2,419	3,297	6,094
<b>PAT</b>	<b>5,729</b>	<b>7,028</b>	<b>9,891</b>	<b>18,282</b>

### Balance Sheet

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Sources of Fund</b>				
Share holders fund	18,446	24,967	34,333	52,090
Equity capital	164	164	164	164
Reserves & Surplus	18,282	24,803	34,169	51,926
Borrowings	27,454	35,077	50,000	65,000
Def. Tax. Liabilities	2,803	4,150	4,150	4,150
<b>Total</b>	<b>48,703</b>	<b>64,194</b>	<b>88,483</b>	<b>121,240</b>
<b>Application of Fund</b>				
Gross block	32,430	49,290	75,290	99,290
Depreciation	5,423	7,817	12,567	18,067
Net block	27,007	41,473	62,723	81,223
Capital work in Progress	11,463	9,378	10,000	9,000
Investments	4,303	7,098	10,000	14,000
Inventories	5,686	6,424	11,046	15,667
Sundry Debtors	2,995	3,203	5,523	7,833
Loans & advances	5,909	7,859	8,000	8,000
Cash & bank balances	313	529	372	14,799
Total current assets	14,903	18,015	24,940	46,299
Current Liabilities	6,259	7,948	17,023	22,072
Provisions	2,721	3,855	2,189	7,242
Total Current Liab.&Prov.	8,980	11,803	19,212	29,314
Net current assets	5,923	6,212	5,728	16,985
Others	7	33	32	32
<b>Total</b>	<b>48,703</b>	<b>64,194</b>	<b>88,483</b>	<b>121,240</b>

### Cash Flow

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
Net operating cash flow	5,464	11,571	13,820	28,477
Net cash flow from Invst.	(13,483)	(15,269)	(28,902)	(28,000)
Net cash flow from Fin.	7,999	3,916	14,923	13,950
Free Cash Flow	(20)	218	(159)	14,427
Cash balance	313	531	372	14,799

### Key Ratios

Y/e March	FY06	FY07	FY08E	FY09E
<b>Asset based ratios (%)</b>				
RoCE/RoNI	16.2	16.6	16.9	23.2
RoE/RoNW	31.1	28.2	28.8	35.1

### Gearing

Debt/Equity	1.5	1.4	1.5	1.2
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### Per Share (Rs.)

EPS	186.0	228.2	321.2	593.6
BV	598.9	810.6	1,114.7	1,691.2
DPS	15.0	15.0	15.0	15.0
CEPS	257.1	337.5	475.4	772.1
FCPS	(0.7)	7.1	(5.2)	468.4

### Margins (%)

EBIDTA	39.7	39.8	28.9	35.0
PAT	22.1	20.0	14.7	19.2
Tax rate	21.3	25.6	25.0	25.0
Div. Pay out	8.1	6.6	4.7	2.5

### Velocity (days)

Debtors	10	33	30	30
Inventories	80	67	60	60
Creditors	146	137	130	130

### Valuation (x)

P/E	30.4	24.8	17.6	9.5
P/CEPS	22.0	16.8	11.9	7.3
P/BV	9.4	7.0	5.1	3.3
M.cap/Sales	0.6	0.4	0.3	0.3
EV/EBIDTA	20.0	14.9	11.6	7.2
EV/Sales	7.8	5.9	3.3	2.5

**BUY**

**Bloomberg Code :** MISP@IN    **Market Cap:** 12,468m    **No. of Shares Outstanding :** 34m  
**Price, relative to the Sensex (%)**    1 month: (1.8)    3 months: (4.6)    12 months: 80.8

## Key Figures (Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	5,324	6,378	10,711	13,703
EBITDA	1,382	1,742	3,399	4,837
PAT	1,059	1,348	1,987	3,005
PAT Gr. (%)	-	27.3	47.3	51.4
EPS (Rs)	32.6	39.3	38.1	57.6

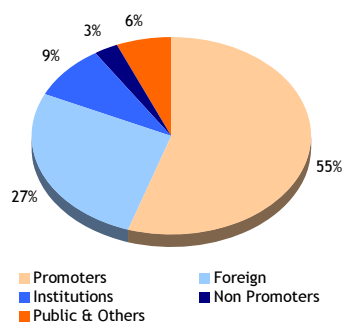
## Key Ratios (%)

Y/e March	'06	'07	'08E	'09E
EBITDA Mar.	26.0	27.3	31.7	35.3
RoCE	9.3	10.1	16.1	19.3
RoE	25.8	23.6	17.2	21.4

## Valuations (x)

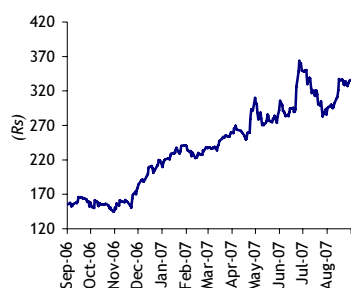
Y/e March	'06	'07E	'08E	'09E
PER	11.2	9.2	9.6	6.3
EV/Sales	3.9	3.6	2.4	2.1
EV/EBITDA	15.2	13.3	7.6	5.6
MCap/Sales	2.2	2.0	1.8	1.4

## Share Holding Pattern



Source: Capital Line, PL Research

## Price Chart



Source: Bloomberg, PL Research

(Price as on September 24, 2007)

MIEL is one of the largest coal based sponge iron producer in India. The company which is also engaged in manufacturing of Steel and Ferro alloys, is an integrated mineral, metal and power company. MIEL is also setting up 1000 MW power plant onsite its captive coal mines. Besides, it is working on forward integration as it has setting up structural and plate mill and other value added long products. This initiation coupled with the increasing proportion of captive resources and foraying into power generation would take MIEL on solid growth path. We expect its revenues and earnings to grow at about 46% and 49% CAGR respectively over FY07. We recommend BUY on the stock with 12-month price target of Rs.533.

## Investment rationale

### Power plant of 1000 MW and foraying into power business

MIEL has embarked on 1000 MW pithead coal based power plant at Angul. Besides, it is also adding 90 MW to its existing capacity of 60 MW taking the total generation capacity to 150 MW. The power plant of 90 MW is expected to start generation by Oct 2007. This will significantly change its product mix and will insulate it from the volatility inherent in the steel business.

### Increase in structural steel capacity

MIEL is setting up a million ton per annum heavy structural mill. This is expected to be commissioned by end of Dec 2008. The value added product portfolio will significantly improve margins by about 1000 bps in steel business in addition to bringing in the volume growth of 64%.

### Access to Captive coal mines

MIEL has one captive coal mine currently at Raigarh with reserves of about 120 million tons for sponge iron production. It is expecting allotment of another mine for its 1000 MW pithead based power plant proposed at Angul. It has got 1 iron ore mine at Barbil in Orissa with reserves of about 20 mt. But there is some problem in this mine and as such mining of iron ore from this captive source is negligible.

## Valuation

We have valued MIEL on SoTP basis at Rs.533, an upside potential of 46.4% from current levels. We believe that once its 1000 MW power plant is commissioned by end of CY2010, the business profile of the company will change as significant revenues would come from power business taking the share of operating profit from power business to almost 50% from the current negligible level.

## Key Highlights

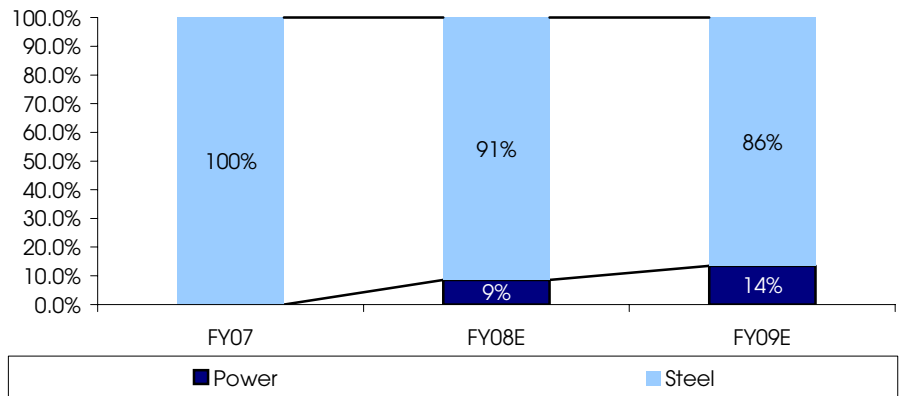
***MIEL's changing business profile with increasing profit from power segment***

### Changing business profile

MIEL has embarked on transformation in its business mix, which would be completed after the expected commissioning of its 1000 MW of power plant by CY2010. This will be a merchant power plant and revenues and operating profit from power business would be much higher than that from the steel business. This would also save MIEL from the volatility of steel business. The most important change would be the change in perception of the company being transformed from the steel company to the energy company. This would also bring about the significant change in valuation of the company.

The company's revenues of Rs.6.1 bn in FY07 came from the steel and Ferro alloys business only. This is expected to undergo change with revenues of Rs.12.3 bn from steel and ferro alloys and about Rs.1.4 bn from power business in FY09E. The contribution of power business to the operating profit is expected to be about Rs.697 mn in FY09E from nil in FY07. The projected operating profit for FY09E is Rs.5,160 mn.

### Operating Profit from each business



Source: Company Data, PL Research

***Significant growth potential in future from 1000MW power plant***

### Future potential of 1000 MW power Plant

MIEL's proposed 1000 MW pit head coal based power plant at Angul, Orissa is expected to have financial closure by the end of CY2007 and the project is expected to be commissioned after 40 months from the date of financial closure. There are some real concerns of this project getting delayed due to the tightness in equipment supply from power equipment manufacturers. Then there can be some delay if the coal mine is not allotted in time or mining gets delayed due to environmental or other rehabilitation and land related issue. So we have not factored in the probable revenues and profits from the 1000 MW power plant which in any case would start power generation in FY12E only if there are no delays. There can be substantial future upside potential from this project.

**Capex of Rs 7bn to setup  
1mtpa of structural steel**

**Capex to bring in volume growth**

MIEL has embarked on major capex at Raigarh. It would be setting up about 0.5 mtpa of greenfield capacities of sponge iron and 1 mtpa of structural steel. Besides, it is expected to commission a power plant of 90 MW capacity in October 2007. This is expected to bring in revenue growth of about 123% over FY07 to FY09.

**Changing product mix from  
sponge iron to value added  
rolled steel products**

**Forward integration into Value added products**

MIEL is forward integrating into value added products like structural and long products. This will bring better price realization and better margins for the company. MIEL's EBIDTA margin is expected to improve from 27% to 37% in next 2 years as the percentage of revenues increase from power business & long products.

**Existing facilities and future capex**

	<b>Raipur</b>	<b>Raigarh</b>	<b>Remarks</b>
Sponge iron (T)	300,000	500,000	Raigarh facility is 20% operational and full cap. Is expected by Oct-Nov'07.
Mild steel (T)	300,000	-	
Rolled Steel (T)	200,000	-	
Structural steel (T)		1,000,000	Structural mill is expected to come on stream by Dec '08
Power (MW)	60	90	90 MW power plant at Raigarh is expected. By Oct '07.

Source: Company Data, PL Research

**Concerns**

**Low grade of iron ore  
having low Fe content from  
captive mines**

**Problems in Iron Ore grade from mines**

There is some problem in the grade of ore from its captive iron ore mine. As a result the company is unable to get more than 10% of its total iron requirement from its own mines. With the rising iron ore prices the margins of company can come under pressure if the problems in their captive mine is not sorted out.

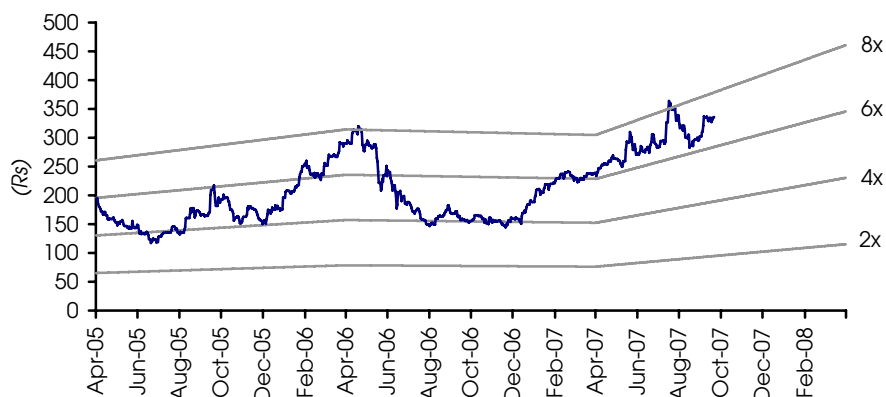
## Valuation and Recommendation

We have valued the stock on SOTP basis at Rs.533, upside potential of 46.4% from the current level. Volume growth accompanied by value added products bringing in margins improvement is yet to be captured in the financial. Because the company is currently producing only sponge iron and mild steel which are not value added products. Going forward from FY10E, the company is expecting to produce rolled steel products like structural where the margins are at least 40-50% higher than sponge iron and mild steel. We recommend BUY on the stock.

### Valuation of MIEL

	EBITDA (Rs m)	Multiple (x)	EV (Rs m)	Value (Rs/Share)	Remark
Steel business	4,141	5	20,703		Based on FY09E Financial
Power business	697	10	6,967		
Less: Net Debt			(1,088)		
Market capitalization			26,682	533	

### 1 yr. forward PE Band Chart



Source: MetaStock, PL Research

## Financials

### Income Statement

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Net Sales</b>	<b>5,324</b>	<b>6,378</b>	<b>10,711</b>	<b>13,703</b>
Total Expenditure	3,942	4,636	7,313	8,866
Stock Adjustment	(84)	(163)	-	-
Raw Materials	3,185	3,691	5,570	7,130
<i>as % of sales</i>	<i>59.8</i>	<i>57.9</i>	<i>52.0</i>	<i>52.0</i>
Power and fuel	162	247	400	480
Employee cost	163	234	350	452
Other expenses	516	627	665	804
<b>EBITDA</b>	<b>1,382</b>	<b>1,742</b>	<b>3,399</b>	<b>4,837</b>
<i>Margins (%)</i>	<i>26.0</i>	<i>27.3</i>	<i>31.7</i>	<i>35.3</i>
Other income	97	247	100	420
Depreciation	249	331	550	650
<b>EBIT</b>	<b>1,230</b>	<b>1,658</b>	<b>2,949</b>	<b>4,607</b>
Interest	3	(3)	300	600
<b>PBT</b>	<b>1,227</b>	<b>1,661</b>	<b>2,649</b>	<b>4,007</b>
Taxes	168	313	662	1,002
<b>PAT</b>	<b>1,059</b>	<b>1,348</b>	<b>1,987</b>	<b>3,005</b>

### Balance Sheet

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Sources of Fund</b>				
Share holders fund	4,100	5,709	11,574	14,059
Equity capital	325	343	522	522
Reserves & Surplus	3,776	5,366	11,052	13,537
Borrowings	8,656	10,034	6,065	9,235
Deferred Tax Liabilities	502	628	628	628
<b>Total</b>	<b>13,258</b>	<b>16,371</b>	<b>18,267</b>	<b>23,922</b>
<b>Application of Fund</b>				
Gross Block	5,984	8,303	11,000	12,000
Depreciation	975	1,303	1,853	2,503
Net block	5,009	7,000	9,147	9,497
Capital work in Progress	1,810	3,522	4,600	4,600
Investments	90	448	448	448
Inventories	800	1,220	1,761	2,062
Sundry Debtors	350	462	763	906
Loans & advances	1,500	1,827	596	597
Cash & bank balances	4,541	2,964	2,271	7,683
Total current assets	7,191	6,473	5,391	11,247
Current Liabilities	660	882	1,503	1,756
Provisions	92	225	300	598
Total current Liab. & Prov.	752	1,107	1,803	2,354
Net current assets	6,439	5,366	3,589	8,894
Others		483	483	483
<b>Total</b>	<b>13,258</b>	<b>16,371</b>	<b>18,267</b>	<b>23,922</b>

### Cash Flow

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
Net operating cash flow	653	705	2,065	3,417
Net cash flow from Invst.	(2,650)	(4,098)	(2,697)	(1,000)
Net cash flow from Fin.	3,804	1,816	(61)	2,995
Free Cash Flow	1,807	(1,577)	(693)	5,412
Cash balance	4,541	2,964	2,271	7,683

### Key Ratios

Y/e March	FY06	FY07	FY08E	FY09E
<b>Asset based ratios (%)</b>				
RoCE/RoNI	9.3	10.1	16.1	19.3
RoE/RoNW	25.8	23.6	17.2	21.4

### Gearing

Debt/Equity	2.2	1.9	0.6	0.7
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### Per Share (Rs.)

EPS	32.6	39.3	38.1	57.6
BV	126.2	166.4	221.7	269.3
DPS	4.5	4.5	4.5	4.5
CEPS	40.2	48.9	48.6	70.1
FCPS	55.6	(46.0)	(13.3)	103.7

### Margins (%)

EBIDTA	26.0	27.3	31.7	35.3
PAT	19.9	21.1	18.5	21.9
Tax rate	22.0	22.0	25.0	25.0
Div. Pay out	13.8	11.4	11.8	7.8

### Velocity (days)

Debtors	24	26	26	26
Inventories	55	70	60	60
Creditors	60	70	75	75

### Valuation (x)

P/E	11.2	9.2	9.6	6.3
P/CEPS	9.0	7.4	7.5	5.2
P/BV	2.9	2.2	1.6	1.3
M.cap/Sales	2.2	2.0	1.8	1.4
EV/EBIDTA	15.2	13.3	7.6	5.6
EV/Sales	3.9	3.6	2.4	2.1

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**Bloomberg Code :** SEML@IN    **Market Cap:** 9,090m    **No. of Shares Outstanding :** 30m  
**Price, relative to the Sensex (%)**    1 month: (4.7)    3 months: 35.9    12 months: 154.5

### Key Figures (Rs m)

Y/e March	'06	'07	'08E	'09E
Net Sales	3,214	4,137	4,852	8,317
EBITDA	378	699	1,577	3,740
PAT	203	475	1,063	2,269
PAT Gr. (%)	-	134.6	123.7	113.4
EPS (Rs)	6.8	16.1	31.2	66.6

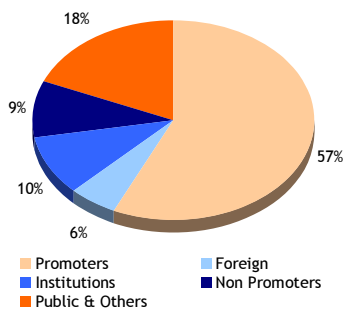
### Key Ratios (%)

Y/e March	'06	'07	'08E	'09E
EBITDA Mar.	11.8	16.9	32.5	45.0
RoCE	6.8	16.1	21.5	32.3
RoE	11.7	22.3	23.3	33.6

### Valuations (x)

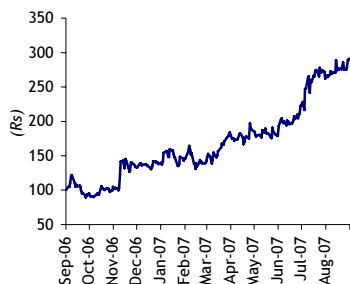
Y/e March	'06	'07E	'08E	'09E
PER	44.3	19.1	9.7	4.5
EV/Sales	3.3	2.7	2.6	1.7
EV/EBITDA	28.4	15.9	7.9	3.8
MCap/Sales	2.8	2.2	2.1	1.2

### Share Holding Pattern



Source: Capital Line, PL Research

### Price Chart



Source: Bloomberg, PL Research

(Price as on September 24, 2007)

Raipur Alloys and Steel (RASL) is set to gain from volume growth coming from capacity expansion sponge iron capacity by 150000 tons to 360000 tons by Dec 2007 and steel capacity by 100000 tons to 240000 tons by FY09. Further, its power capacity would be increased from 48 Mw to 60 MW by installation of balancing boiler.

We believe that capacity expansion along with the backward integration effects of sourcing 100% iron ore from captive iron ore mines and 30% coal from captive coal mines would help improve margins considerably and should be reflected from FY09E onwards. We recommend BUY on the stock with a 12-month price target of Rs 462.

## Investment rationale

### Volume growth in all divisions

The company has embarked on capacity expansion in Sponge iron, steel & power over next 2 years. Sponge iron capacity is increasing by 71% to 360000 tpa by April 08 from the current capacity of 210000 tpa. Steel making capacity is increasing by 71% from 140000 tpa to 240000 tpa by April 08. Power generation capacity is increasing from 48 MW to 60 MW by Dec'07 and further to 120 MW by Dec'08.

The company is also setting up a pellet plant of 600000 tpa capacity which is expected to start production from mid FY09E. Pellets fetch higher price compared to iron ore.

### Backward integration bringing down cost

At present the company gets about 50% of iron ore and 30% of coal from the captive mines. We expect that the company would be able to source 100% of iron ore by FY09E and 100% of coal by FY10E from its captive resources. With this backward integration, cost of production of sponge iron is expected to come down by almost Rs.2,000/T to Rs.5,500/T. At the same time cost of steel is expected to come down by almost Rs.1,800/T to Rs.14,100/T. As a result, operating margins are expected to improve by almost 3 times by FY09E from about 16% in FY07.

### Flexibility in production

The company will have the flexibility of switching between merchant power sale and Ferro alloys production depending on the profitability and prices of Ferro alloys and steel. If steel and Ferro alloys fetch better returns then production of steel can be increased and vice versa. If the price realization goes below Rs27,000/T then company would be better served by selling power directly and can make contribution margin of Rs.5,000/T which is about a thousand more than what would have been made by selling ferro alloys.

## Valuation

We have valued RASL on SoTP basis, which gives us a value of Rs.462 per share, implying an upside potential of about 52.5% from the current level. We recommend BUY on the stock.

## Key Highlights

### Capacity expansion to bring in volume growth

RASL is in the midst of substantial capacity expansion in sponge iron and steel.

- **Sponge iron:** The capacity is increasing from 210000 t to 360000 t by Dec 07. Further the operation is stabilizing which will ultimately improve the productivity and utilization adding to the growth.
- **Steel capacity:** The capacity is expanding from 140000 t to 240000t by FY09E.
- **Power:** Power capacity is increasing from 48 MW to 60 MW. RASL is installing 1 boiler as balancing equipment for enhancing capacity. Further they are planning to increase the capacity to 200 MW.

*Excess to 100% captive raw materials by FY09 bringing down cost*

### Substantial cost reduction

RASL is working on a business model where they want to concentrate basically on cost reduction. In a bid to keep costs under control it has adopted backward integration by acquiring iron ore and coal mines. Currently 50% of iron ore and 30% of coal consumed comes from captive mines and the proportion of captive iron ore will go to 100% by Feb 2008 while the proportion of captive coal will go to 100% only by April 2009. The combination of captive iron & coal mines will bring down the cost from Rs.8,200/T to Rs.7,400/T.

*Getting license for prospecting of 5 new iron ore mines*

### Prospecting licenses for new mines

RASL has recently got licenses for 5 new iron ore mines. The development and actual mining may take about 4-5 years. The company is expected to increase the steel making capacity and also get into forward integration to rolled products and value added products like TMT bars in order to utilize the additional iron ore capacities.

*Power capacity to increase from 48MW to 200MW by FY11*

### Power business to grow

RASL is planning to increase the power capacity to 120 MW by Dec 2008. Of this 60 MW would be used for captive consumption and 60 MW for merchant sale. Its second coal mine is expected to start from 2009 at which time RASL is planning to increase the power generation capacity to 200 MW. This would give them stability as far as earnings are concerned.

### Captive iron ore and coal mines

RASL has two coal mines with open cast reserves of 103 mn tonnes. It has one iron ore mine with reserves of about 20 mn tonnes. RASL has recently acquired rights to develop and mine five new iron ore mines. The company would be increasing the steel making capacity to utilize increased iron ore production from new mines.

**Setting up of 600,000tpa  
pelletization plant by  
June'08**

**Pellet plant- Waste to wealth**

RASL is setting up a pelletization plant of 600,000 tpa by utilizing iron ore fines (dust). This plant is scheduled to come on stream by June 2008. Typically iron ore fines are considered worthless, as it has have Fe content less than 56% which would result in significant slag production rather than steel. As a result iron ore fines are sold cheaply at about Rs.500 per tonne. By putting up a beneficiation / pelletization plant, Fe content can be increased to 62-65% by incurring cost of about Rs.500-700 per tonne. Then this can be sold at the market price of iron ore, which is about Rs.4,000 per tonne. We are expecting revenues of Rs.840 mn and EBIDTA of Rs.588 mn.

**Development of Manganese  
ore mines bringing in  
substantial revenues in  
future**

**Developing Manganese ore mines**

RASL has got a manganese ore mine in Goa. Currently the prices of manganese ore are hovering in the range of Rs.4,500-5,000 per tonne. We have not considered anything from this in our projections as the company is saying that it will take some time before it can commercially exploit this. At current market price of manganese ore, about Rs.500 mn of additional revenues can be expected to accrue to the company in next 2-3 years. The cost of mining being negligible this can directly go to the bottomline. The development on this front can be additional revenue stream for the company.

**Ongoing capex and future projects**

(Rs m)

<b>Project</b>	<b>Capex</b>
Pellet Plant	1,250
Power plant (60 MW)	1,500
Sponge iron kiln (500 tpd)	750
Balancing equipment	250
Coal washeries	750

Source: Company Data, PL Research

## **Concerns**

### **Delay in Pelletization plant**

Delay in successful commissioning of pellet plant can result in lower than expected revenues and earnings.

### **Delay in additional sponge iron and steel making capacity**

Sponge iron and steel capacities are expected to increase by 71% bringing in that much volume growth. Delay in commissioning of new capacities due to technical or other problems can result in lower than expected earnings adversely impacting the valuation of the company.

## Valuation and recommendation

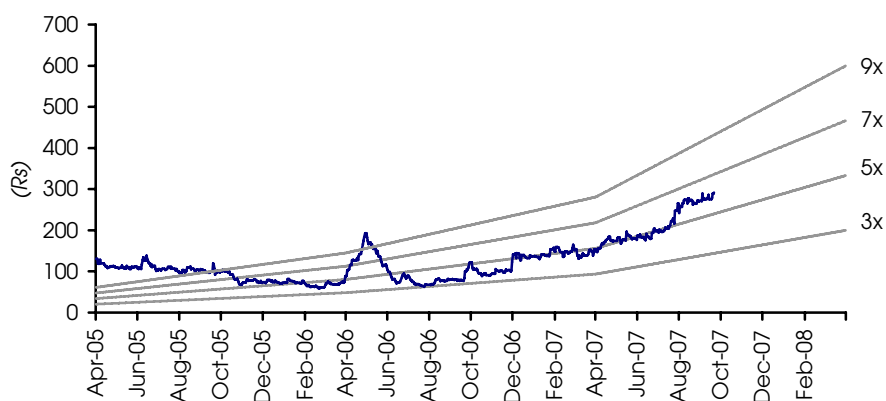
We have valued the stock on SoTP basis at Rs.462, an upside potential of about 52.5% from current levels. With captive raw materials, RASL would be one of the lowest cost steel producers in India. Growth is yet to be captured from power business as the power generation capacity is increasing to 200 MW from the current 48 MW in phases by FY11.

The stock is trading at 9.7x FY08E and 4.5x FY09E earnings. We recommend BUY on the stock.

### Valuation of Raipur Alloys

	EBITDA (Rs m)	Multiple (x)	EV (Rs m)	Value (Rs/Share)	Remark
Steel business	3,577	5	17,885		Based on FY09E EBITDA
Power business	163	10	1,630		
<b>Total</b>			<b>19,515</b>		
Less: Net Debt			(3,820)		Based on FY09E net debt
<b>Market capitalization</b>			<b>15,695</b>	<b>462</b>	

### 1 yr. forward PE Band Chart



Source: MetaStock, PL Research

## Financials

### Income Statement

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Net Revenues</b>	<b>3,214</b>	<b>4,137</b>	<b>4,852</b>	<b>8,317</b>
Operating Expenditure	2,836	3,438	3,274	4,577
Stock Adjustment	(24)	-	-	-
Raw Material	2,485	3,100	3,008	4,158
<i>as % of sales</i>	<i>76.6</i>	<i>74.9</i>	<i>62.0</i>	<i>50.0</i>
Power and fuel	27	30	33	45
Other Mfg	270	196	113	60
Employee	78	112	120	122
<b>EBITDA</b>	<b>378</b>	<b>699</b>	<b>1,577</b>	<b>3,740</b>
<i>Margins (%)</i>	<i>11.8</i>	<i>16.9</i>	<i>32.5</i>	<i>45.0</i>
Other income	66	200	200	200
Depreciation	188	210	230	455
<b>EBIT</b>	<b>257</b>	<b>689</b>	<b>1,547</b>	<b>3,485</b>
Interest	65	95	130	290
<b>PBT</b>	<b>192</b>	<b>594</b>	<b>1,417</b>	<b>3,195</b>
Ex-ord exp	(39)	-	-	-
<b>PBT</b>	<b>231</b>	<b>594</b>	<b>1,417</b>	<b>3,195</b>
Taxes	28	119	354	927
<b>PAT</b>	<b>203</b>	<b>475</b>	<b>1,063</b>	<b>2,269</b>

### Balance Sheet

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
<b>Sources of Funds</b>				
Share holders fund	1,726	2,134	4,564	6,755
Equity capital	296	296	341	341
Reserves & Surplus	1,430	1,838	4,223	6,414
Borrowings	1,874	2,004	2,500	3,900
Def. Tax. Liabilities	146	146	146	146
<b>Total</b>	<b>3,747</b>	<b>4,284</b>	<b>7,210</b>	<b>10,801</b>
<b>Applications of Fund</b>				
Gross block	2,370	3,220	4,220	7,720
Depreciation	799	1,009	1,239	1,694
Net block	1,571	2,211	2,981	6,026
Capital work in Progress	685	685	1,500	1,300
Investments	422	422	422	422
Inventories	528	671	930	1,595
Sundry Debtors	254	227	399	684
Loans & advances	344	302	800	933
Cash & bank balances	85	9	351	79
Total current assets	1,211	1,209	2,481	3,291
Current Liabilities	95	150	135	188
Provisions	47	93	39	50
Total current liab. & Prov.	142	243	174	238
Net current assets	1,069	966	2,307	3,053
<b>Total</b>	<b>3,747</b>	<b>4,284</b>	<b>7,210</b>	<b>10,801</b>

### Cash Flow

*(Rs m)*

Y/e March	FY06	FY07	FY08E	FY09E
Net operating cash flow	116	624	846	1,828
Net cash flow from Invst.	(1,200)	(850)	(1,000)	(3,500)
Net cash flow from Fin.	1130	150	496	1,400
Free Cash Flow	46	(76)	342	(272)
Cash balance	85	9	351	79

### Key Ratios

Y/e March	FY06	FY07	FY08E	FY09E
<b>Asset based ratios (%)</b>				
RoCE/RoNI	6.8	16.1	21.5	32.3
RoE/RoNW	11.7	22.3	23.3	33.6
<b>Gearing</b>				
Debt/Equity	1.1	0.9	0.5	0.6
<b>Per Share (Rs.)</b>				
EPS	6.8	15.8	31.3	66.7
BV	58.3	71.1	134.2	198.7
DPS	2.0	2.0	2.0	2.0
CEPS	13.2	22.8	38.0	80.1
FCPS	1.6	(2.5)	10.1	(8.0)

### Margins (%)

EBIDTA	11.8	16.9	32.5	45.0%
PAT	6.3	11.5	21.9	27.3
Tax rate	12.1	20.0	25.0	29.0
Div. Pay out	29.2	12.6	6.4	3.0

### Velocity (days)

Debtors	29	30	30	30
Inventories	60	60	70	70
Creditors	12	15	15	15

### Valuation (x)

P/E	44.3	19.1	9.7	4.5
P/CEPS	23.0	13.3	8.0	3.8
P/BV	5.2	4.3	2.3	1.5
M.cap/Sales	2.8	2.2	2.1	1.2
EV/EBIDTA	28.4	15.9	7.9	3.8
EV/Sales	3.3	2.7	2.6	1.7



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**PL's Recommendation Scale**

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer</b>	: -5 to 5% of Sensex Movement	<b>Underperformer</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		

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