



Jindal Steel & Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,786	JSP IN
	REUTERS CODE
S&P CNX: 5,869	JNSP.BO

30 October 2007

Buy

Previous Recommendation: Buy

Rs9,459

Equity Shares (m)	30.8
52-Week Range	9,600/1,741
1,6,12 Rel. Perf. (%)	68/184/374
M.Cap. (Rs b)	291.3
M.Cap. (US\$ b)	7.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	35,198	7,028	228.2	22.6	41.4	11.8	28.4	16.6	9.3	23.2
3/08E	55,635	11,196	363.6	59.3	26.0	8.2	31.6	24.4	5.7	14.6
3/09E	63,602	12,652	410.9	13.0	23.0	6.1	26.6	24.9	4.9	13.0

Standalone

- JSPL reported 76.5% YoY growth in PAT to Rs2.8b, which is higher than our estimate of Rs2.3b.
- Net sales grew 61% YoY to Rs12.7b driven by 87% YoY volume growth in steel products though the production of sponge iron and power declined 4% YoY and 11% YoY, respectively. Net sales realization was ~Rs12,000/ton for sponge iron and Rs27,000-28,000/ton for steel products.
- EBITDA increased 75% YoY to Rs5.4b and margins improved 350bp to 42.6% due to better pricing of steel products while costs remained under control due to captive raw material and captive coke ovens.
- The plate mill is gradually ramping up and has achieved monthly production of ~30,000 ton. The plate mill includes a steckle mill to produce HRC, providing flexibility of product mix. Crude steel production is likely to increase in 2HFY08 due to availability of power after commissioning of the first phase of JPL's 250MW (expected in a few weeks). JPL (100% subsidiary of JSPL) will initially supply power to JSPL and is expected to tie-up for sale of power in the meantime.
- JSPL is planning to undertake another 1,300MW of power projects in JPL, which will take ~3 years to complete. Further, it is also undertaking projects in Orissa and Jharkhand, which will increase its resource base of iron ore & coal mines, and fuel further growth in steel production. The stock has been substantially re-rated due to delivery of strong profit growth year after year. We believe that the stock re-rating will continue due to pipeline of projects. The stock trades at 15.7x FY09E and 12.2x FY10E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

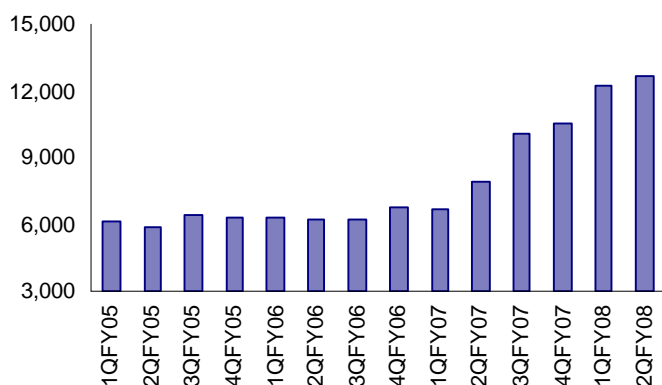
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	6,662	7,896	10,101	10,539	12,231	12,690	15,049	15,664	35,198	55,635
Change (YoY %)	5.8	27.1	61.6	56.5	83.6	60.7	49.0	48.6	35.9	58.1
Total Expenditure	3,413	4,812	6,327	6,622	7,440	7,284	9,361	9,743	21,174	33,827
EBITDA	3,249	3,085	3,773	3,917	4,792	5,407	5,689	5,921	14,024	21,808
Change (YoY %)	21.7	18.5	64.5	45.8	47.5	75.3	50.8	51.2	39.3	55.5
As % of Net Sales	48.8	39.1	37.4	37.2	39.2	42.6	37.8	37.8	39.8	39.2
Interest	558	330	363	250	621	791	486	506	1,503	2,404
Depreciation	621	642	919	1,183	1,115	1,178	1,101	1,101	3,365	4,494
Other Income	32	33	24	201	96	29	56	58	290	239
PBT (before EO item)	2,103	2,145	2,516	2,685	3,152	3,467	4,158	4,372	9,446	15,149
Extra-ordinary Income					250				2	250
PBT (after EO item)	2,103	2,145	2,516	2,685	3,402	3,467	4,158	4,372	9,448	15,399
Total Tax	572	573	617	657	901	692	1,182	1,243	2,419	4,019
% Tax	27.2	26.7	24.5	24.5	26.5	20.0	28.4	28.4	25.6	26.1
Reported PAT	1,531	1,572	1,899	2,028	2,501	2,775	2,976	3,129	7,030	11,380
Adjusted PAT	1,531	1,572	1,899	2,028	2,317	2,775	2,976	3,129	7,028	11,196
Change (YoY %)	1.9	8.0	50.1	34.6	51.4	76.5	56.7	54.3	22.6	59.3

E: MOST Estimates for standalone entity

Higher volumes boost topline

Net sales grew 61% YoY to Rs12.7b driven by 87% YoY volume growth in steel products though the production of sponge iron and power declined 4% YoY and 11% YoY, respectively. Net sales realization was ~Rs12,000/ton for sponge iron and Rs27,000-28,000/ton for steel products.

TREND IN NET SALES (RS M)

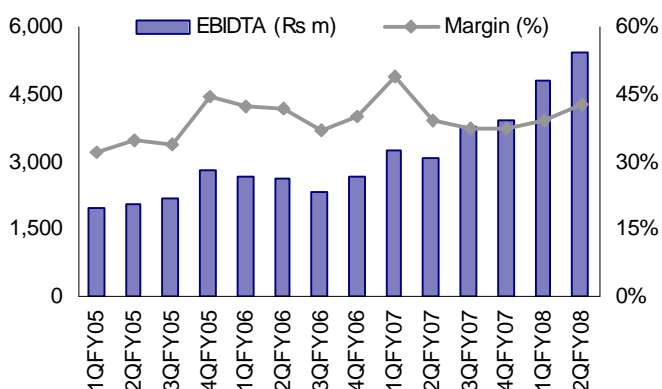


Source: Motilal Oswal Securities

EBITDA margins continue to improve

EBITDA increased 75% YoY to Rs5.4b and margins expanded 350bp to 42.6% due to better pricing of steel products, while costs remained under control due to captive raw material and captive coke ovens.

EBITDA MARGINS



Source: Motilal Oswal Securities

Ramping capacities; first 250MW started

The plate mill is gradually ramping up and has achieved monthly production of ~30,000 ton. The plate mill includes a Steckle mill to produce HRC, providing flexibility of product mix. Crude steel production is likely to increase in 2HFY08 due to availability of power after commissioning of the first phase of JPL's 250MW (expected in a few weeks). JPL (100% subsidiary of JSPL) will initially supply power to JSPL and is expected to tie-up for sale of power in the meantime. 500MW is expected to start by March 2008 and the last 250MW by June 2008.

Total power capacity of 3,885MW by 2010

- ✎ **Raigarh plant:** JSPL's captive power capacity will increase from 340MW to 565MW by 2010. The incremental capacity will utilize surplus coal middlings generated during coal washing process at its existing mines.
- ✎ **Jindal Power Limited (JPL):** JPL is initiating another 1,320MW brownfield power project at its existing site, which is likely to be completed by 2010.
- ✎ **Orissa Power:** The company has placed an order for a 1,000MW power project, which will be completed by 2010, and will feed its steel plant. Coal blocks for the project are already secured.

Pellet plant will add to the earnings in FY10

- ✎ **Orissa:** Its 5m-ton pellet plant is expected to start production by March 2009. Its 2m-ton DRI plant based on gasified coal and 3m-ton steel plant are expected by 2012.

Valuation and view

We are introducing FY10 estimates to factor the visibility of Pelletization project in Orissa and full ramp up of existing steel capacity in Raigarh to 2.3m ton. We are also upgrading our assumption of power realization from Rs2.6 to Rs3 for

the JPL project. FY09 standalone EPS is upgraded to Rs411 (earlier Rs357) and consolidated EPS to Rs602 (earlier Rs483). The stock trades at 15.7x FY09E and 12.2x FY10E consolidated earnings. The stock has been substantially re-

rated due to delivery of strong profit growth year after year. We believe that the stock re-rating will continue due to pipeline of projects. We arrive at an SOTP-based fair value of Rs8,830. **Maintain Buy.**

EQUITY VALUATION	BUSINESS SEGMENT	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Iron & Steel Business	Steel, Power	FY9E PER (x)	10	126,524	4,095	At parity with industry average
Jindal Power	Power	DCF		146,336	4,736	3300MW valued at Power tariff of Rs3/kwh
Fair Valuation				272,860	8,830	

Source: Motilal Oswal Securities

Jindal Steel & Power: an investment profile

Company description

Jindal Steel and Power (JSPL) is the largest coal-based sponge iron producer in India and is fully vertically integrated from iron ore and non-coking coal mines to steel production. The company has recently completed expansion of steel capacity to 2.3m ton. JSPL produces steel through electric arc furnace (EAF) route and uses captive production of sponge iron and hot metal as raw material rather than expensive steel scrap. Half of 340MW captive power is generated from recovery of waste gases and the remaining from burning of coal middling that gets generated at the time of washing of non-coking coal used in sponge iron production.

Key investment arguments

- Strong volume growth due to ramp-up steel production from 0.8m ton in FY07 to 2.3m ton in FY10.
- The company is setting up a 1,000 MW merchant power plant at coal pit-head in Chhattisgarh, under JPL (a wholly-owned subsidiary).

Key investment risks

- Unexpected fall in steel prices would adversely impact earnings.

Recent developments

- Placed order for 1,000MW power project in Orissa and inviting bids for 1,320MW brownfield expansion of JPL.

Valuation and view

- The stock trades at 15.7x FY09E and 12.2x FY10E consolidated earnings. Maintain **Buy**.

Sector view

- Strongly growing global demand of steel, rising industry consolidation (ex-China) leading to greater production discipline, declining exports of steel from China due to rising costs of metallic and trade friction with the western world, and shortage of metallic is keeping steel prices high. We prefer companies that are likely to deliver strong volume growth, reduce operating costs, and have security of raw materials.

COMPARATIVE VALUATIONS

		JINDAL STEEL	SAIL	JSW STEEL
P/E (x)	FY08E	26.0	12.8	9.9
	FY09E	23.0	12.0	9.1
P/BV (x)	FY08E	8.2	4.5	2.5
	FY09E	6.1	3.4	2.0
EV/Sales (x)	FY08E	5.7	2.4	2.2
	FY09E	4.9	2.2	2.0
EV/EBITDA (x)	FY08E	14.6	7.3	7.5
	FY09E	13.0	7.0	7.1

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	59.0	59.0	59.1
Domestic Inst	4.4	4.7	6.8
Foreign	25.1	24.7	21.5
Others	11.5	11.6	12.6

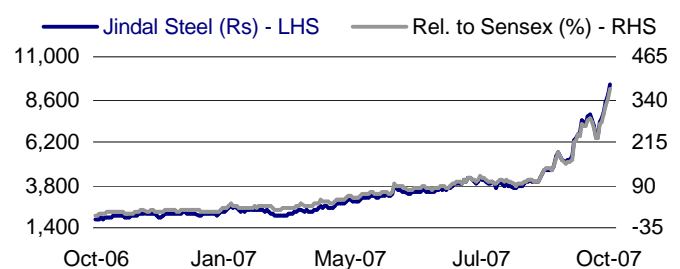
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	363.6	306.6	18.6
FY09	410.9	438.9	-6.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
9,459	8,830	-	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (STANDALONE)		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Net sales	25,903	35,198	55,635	63,602	82,078	
Change (%)	14.9	35.9	58.1	14.3	29.0	
Total Expenses	15,833	21,174	33,827	39,717	51,098	
EBITDA	10,070	14,024	21,808	23,885	30,980	
% of Net Sales	38.9	39.8	39.2	37.6	37.7	
Depn. & Amortization	2,192	3,365	4,494	4,335	4,595	
EBIT	7,878	10,659	17,314	19,550	26,385	
Net Interest	873	1,503	2,404	1,750	995	
Other income	275	290	239	275	276	
PBT before EO	7,280	9,446	15,149	18,075	25,666	
EO income	-2	2	250			
PBT after EO	7,279	9,448	15,399	18,075	25,666	
Current tax	889	1,071	2,009	2,711	3,850	
Deferred tax	660	1,348	2,009	2,711	3,850	
Tax	1,549	2,419	4,019	5,422	7,700	
Rate (%)	213	25.6	26.1	30.0	30.0	
Reported PAT	5,729	7,030	11,380	12,652	17,966	
Preference dividend						
Adjusted PAT	5,731	7,028	11,196	12,652	17,966	
Change (%)	9.2	22.6	59.3	13.0	42.0	

BALANCE SHEET (STANDALONE)		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Share Capital	154	154	154	154	154	
Reserves	18,276	24,771	35,503	47,507	64,824	
Net Worth	18,430	24,925	35,657	47,661	64,978	
Total Loans	27,464	35,087	29,021	22,021	8,021	
Deferred Tax Liability	2,803	4,150	6,160	8,871	12,721	
Capital Employed	48,696	64,163	70,837	78,552	85,720	
Gross Block	32,431	49,290	52,290	61,290	68,290	
Less: Accum. Deprn.	5,423	7,818	12,312	16,647	21,242	
Net Fixed Assets	27,007	41,473	39,979	44,644	47,049	
Capital WIP	11,463	9,378	9,378	9,378	9,378	
Investments	3,948	7,093	10,593	10,593	10,593	
Curr. Assets	15,260	18,022	24,758	28,966	36,411	
Inventory	5,687	6,424	10,670	12,198	15,741	
Account Receivables	2,995	3,203	5,335	6,099	7,871	
Cash and Bank Balance	668	535	895	2,810	4,940	
Others	5,910	7,859	7,859	7,859	7,859	
Curr. Liability & Prov.	8,982	11,804	13,872	15,028	17,711	
Account Payables	5,055	5,736	7,621	8,713	11,244	
Provisions & Others	3,927	6,068	6,250	6,316	6,468	
Net Current Assets	6,278	6,218	10,887	13,937	18,700	
Appl. of Funds	48,696	64,163	70,837	78,552	85,720	

E: Most Estimates

RATIOS (STANDALONE)						
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Basic (Rs)						
EPS	186.1	228.2	363.6	410.9	583.5	
Cash EPS	257.2	337.6	515.5	551.7	732.7	
BV/Share	596.9	803.5	1,152.0	1,541.9	2,104.3	
DPS	15.0	18.0	18.0	18.0	18.0	
Payout (%)	9.2	9.1	5.8	5.1	3.6	
Valuation (x)						
P/E	50.8	41.4	26.0	23.0	16.2	
Cash P/E	36.8	28.0	18.3	17.1	12.9	
P/BV	15.8	11.8	8.2	6.1	4.5	
EV/Sales	12.3	9.3	5.7	4.9	3.6	
EV/EBITDA	31.6	23.2	14.6	13.0	9.5	
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	
EV/EBITDA (adjusted for JF)		13.8	7.9	6.9	4.8	
Return Ratios (%)						
RoE	31.2	28.4	31.6	26.6	27.7	
RoCE	16.2	16.6	24.4	24.9	30.8	
RoIC	19.0	16.8	25.6	24.5	30.4	
Working Capital Ratios						
Asset Turnover (x)	0.5	0.5	0.8	0.8	1.0	
Debtor (Days)	42.2	33.2	35.0	35.0	35.0	
Inventory (Days)	22.0	18.3	19.2	19.2	19.2	
Work.Cap.Turnover (Days)	21.7	16.1	18.0	17.5	16.8	
Leverage Ratio (x)						
Current Ratio	1.7	1.5	1.8	1.9	2.1	
Interest Cover Ratio	9.0	7.1	7.2	11.2	26.5	
Debt/Equity	1.5	1.4	0.8	0.5	0.1	

CASHFLOW STATEMENT (STANDALONE)		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Pre-tax profit	7,280	9,446	15,399	18,075	25,666	
Depreciation	1,806	2,394	4,494	4,335	4,595	
(Inc)/Dec in Wkg. Cap.	-2,012	-1,204	-4,309	-1,135	-2,632	
Tax paid	-12	-21	-2,009	-2,711	-3,850	
CF from Op. Activity	7,062	10,615	13,575	18,564	23,779	
(Inc)/Dec in FA + CWIP	-15,133	-14,776	-3,000	-9,000	-7,000	
(Pur)/Sale of Investments	-3,614	-3,145	-3,500			
CF from Inv. Activity	-18,748	-17,921	-6,500	-9,000	-7,000	
Equity raised/(repaid)	3	-25	0	0	0	
Debt raised/(repaid)	12,495	7,624	-6,067	-7,000	-14,000	
Dividend (incl. tax)	-527	-562	-648	-648	-648	
Other financing activities	49	136				
CF from Fin. Activity	12,020	7,172	-6,715	-7,648	-14,648	
(Inc)/Dec in Cash	335	-133	360	1,915	2,130	
Add: Opening Balance	333	668	535	895	2,810	
Closing Balance	668	535	895	2,810	4,940	



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Disclosure of Interest Statement	Jindal Steel & Power
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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