



INDIA

JSP IN Outperform
Price 14 Jun 10 Rs648.50

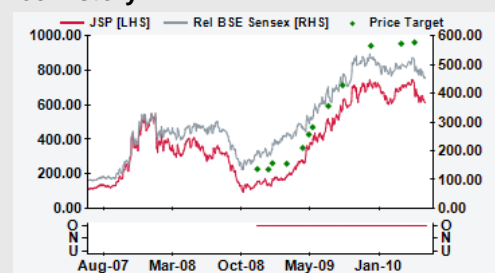
12-month target Rs **968.00**
Upside/Downside % **49.3**
Valuation Rs **968.00**
- DCF

GICS sector **Materials**
Market cap Rsm **604,078**
30-day avg turnover US\$m **64**
Market cap US\$m **12,730**
Number shares on issue m **931.5**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	109.6	140.1	166.2	204.6
EBITDA	bn	57.1	78.2	88.9	112.5
EBITDA growth	%	10.6	36.9	13.6	26.6
Reported profit	bn	35.0	50.7	56.9	72.9
EPS rep	Rs	37.69	54.59	61.28	78.59
EPS rep growth	%	14.9	44.8	12.3	28.2
PER rep	x	17.2	11.9	10.6	8.3
Total DPS	Rs	0.83	0.92	0.92	0.92
Total div yield	%	0.1	0.1	0.1	0.1
ROA	%	22.0	21.9	17.6	18.0
ROE	%	40.1	39.2	31.3	29.7
EV/EBITDA	x	12.2	8.9	7.8	6.2
Net debt/equity	%	90.3	90.7	69.8	54.2
P/BV	x	5.8	3.9	2.9	2.1

JSP IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, June 2010

(all figures in INR unless noted)

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15 June 2010

Jindal Steel and Power

Yes, further upgrades

Event

- **Adjusting metal forecasts:** Our commodities team has upgraded its forecasts for steel marginally and has increased iron ore forecasts. We have marginally raised our earnings estimates and target price (to Rs968 from Rs963) and maintain an Outperform rating.

Impact

- **Upgrading steel prices:** Our commodities team has raised its forecasts of world average steel export prices by 3% and 2% for FY3/11 and FY3/12, respectively, to US\$708/t.
- **Raw material price changes:** We are making minor changes to the coking coal price, reducing it by 1% to US\$214 for FY11. For iron ore fines we are now forecasting a price of US\$122 for FY11 and US\$117 for FY12, increases of 23% and 16%, respectively. The increases in iron ore prices helps JSPL increase its earnings, as its pellet plant's earnings should increase.
- **Further upgrades possible:** We see two possibilities for further earnings upgrades. One, we are building in merchant power rates of Rs4.50/unit, while for the first quarter we estimate the average tariff to be around Rs5.50/unit. Second, there is a possibility that the company might sell more than 1mnt of pellets than we have assumed.
- **And we are already above consensus:** We stand 12% above consensus for FY11E and believe that in an ideal scenario earnings could be even higher by 20%+.
- **Sensitivity to steel, iron ore and met coal:** We estimate that a 10% increase in steel prices would increase earnings by 10% on a consolidated basis, an increase in the iron ore price by 10% would add 1% to earnings and an increase in coking coal prices by 10% would reduce EBITDA by 1%. We estimate that every Rs1/unit increase in power realisation increases profits by 12% and that every extra million ton of iron ore pellet sales increases profits by 7%.

Earnings and target price revision

- We have changed our EPS estimates for FY11 and FY12 by 4% and 3%, respectively, and have raised our target price Rs5 to Rs968.

Price catalyst

- 12-month price target: Rs968.00 based on a DCF methodology.
- Catalyst: Earning upgrades and upcoming IPO of its power business.

Action and recommendation

- **Maintain Outperform:** JSPL is our top pick due to its low-cost operations, sizable resource base, technology innovation and strong growth pipeline, both for steel and power. We believe that the upcoming IPO of its power business (we estimate a value of US\$10.4bn) will unlock value and also highlight that its steel business looks extremely cheap at below 5x PER.

Changes to our estimates

Fig 1 Changing our estimates

	Sales (Rsm)			EBITDA (Rsm)			PAT (Rsm)			EPS (Rs)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg
FY3/11E	137,750	140,141	2%	75,858	78,219	3%	48,954	50,691	4%	52.7	54.6	4%
FY3/12E	163,311	166,178	2%	86,171	88,863	3%	55,283	56,902	3%	59.5	61.3	3%
FY3/13E	188,579	204,626	9%	99,052	112,520	14%	65,460	72,973	11%	70.5	78.6	11%

Source: Company data, Macquarie Research, June 2010

On the back changes to our commodity price assumptions

Fig 2 Steel price forecast changes

(US\$/ tonne)	FY08A	FY09A	FY10A	FY11E	FY12E	FY13E	Long term
HRC - previous (US\$/t)	625	830	528	685	696	654	558
HRC - new (US\$/t)	625	830	540	708	708	658	558
% Change from last forecast	0%	0%	2%	3%	2%	1%	0%
% increase (YoY)	9.8%	32.8%	-34.9%	31.1%	0.0%	-7.0%	N.A.

Source: World Steel Dynamics, Macquarie Research, June 2010

Fig 3 Coking coal price forecast changes

(US\$/ tonne)	FY08A	FY09A	FY10A	FY11E	FY12E	FY13E	Long term
Coking coal - previous	152	300	129	216	235	191	130
Coking coal - new	152	300	129	214	235	193	130
% Change from last forecast	0%	0%	0%	-1%	0%	1%	0%
% increase (YoY)	32.4%	97.0%	-57.0%	65.7%	9.9%	-18.1%	N.A.

Source: World Steel Dynamics, Macquarie Research, June 2010

Fig 4 Iron ore fines price forecast changes

(US\$/ tonne)	FY08A	FY09A	FY10A	FY11E	FY12E	FY13E	Long term
Iron ore - previous	90	85	57	99	101	95	44
Iron ore - new	90	85	57	122	117	102	46
% Change from last forecast	0%	0%	0%	23%	16%	8%	4%
% increase (YoY)	108.2%	-5.4%	-32.9%	113.7%	-4.8%	-12.3%	N.A.

Source: World Steel Dynamics, Macquarie Research, June 2010

Changing our assumptions

Fig 5 JSPL standalone profit and loss

	Sales (Rsm)			EBITDA (Rsm)			PAT (Rsm)			EPS (Rs)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg
FY3/11E	102,184	106,619	4%	44,953	49,358	10%	27,483	30,786	12%	30	33	12%
FY3/12E	133,309	136,177	2%	60,970	63,664	4%	36,988	39,008	5%	40	42	5%
FY3/13E	156,700	158,034	1%	73,018	73,892	1%	47,118	47,774	1%	51	52	1%

Source: Company data, Macquarie Research, June 2010

Fig 6 JSPL standalone assumptions

	Steel volume (Kt)			Steel realization (Rs/t)			Power realization (Rs/unit)			Depreciation (Rsm)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg
FY3/11E	2,134	2,134	0%	38,163	39,237	3%	4.50	4.50	0%	11,040	11,040	0%
FY3/12E	2,942	2,942	0%	34,958	35,451	1%	3.80	3.80	0%	13,470	13,470	0%
FY3/13E	3,514	3,514	0%	33,029	33,216	1%	3.35	3.35	0%	14,187	14,187	0%

Source: Company Data, Macquarie Research, June 2010

Jindal Steel and Power (JSP IN, Outperform, Target Price: Rs968.00)

Quarterly Results					Profit & Loss						
	4Q/10A	1Q/11E	2Q/11E	3Q/11E		2010A	2011E	2012E	2013E		
Revenue	m	29,588	32,232	30,831	39,239	Revenue	m	109,584	140,141	166,178	204,626
Gross Profit	m	17,745	20,048	19,176	24,406	Gross Profit	m	65,724	87,165	99,158	124,666
Cost of Goods Sold	m	11,842	12,184	11,655	14,833	Cost of Goods Sold	m	43,861	52,976	67,020	79,959
EBITDA	m	15,429	17,990	17,208	21,901	EBITDA	m	57,146	78,219	88,863	112,520
Depreciation	m	2,692	2,539	2,429	3,091	Depreciation	m	9,970	11,040	13,470	15,364
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	12,738	15,451	14,779	18,810	EBIT	m	47,176	67,178	75,393	97,156
Net Interest Income	m	-965	-867	-830	-1,056	Net Interest Income	m	-3,576	-3,771	-4,559	-5,905
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	162	451	432	550	Other Pre-Tax Income	m	602	1,963	3,113	3,513
Pre-Tax Profit	m	11,935	15,035	14,381	18,303	Pre-Tax Profit	m	44,202	65,369	73,946	94,764
Tax Expense	m	-2,481	-3,376	-3,229	-4,110	Tax Expense	m	-9,189	-14,678	-17,044	-21,791
Net Profit	m	9,454	11,659	11,152	14,193	Net Profit	m	35,013	50,691	56,902	72,973
Minority Interests	m	-8	-5	-5	-7	Minority Interests	m	-28	-24	-19	-28
Reported Earnings	m	9,446	11,653	11,147	14,187	Reported Earnings	m	34,986	50,667	56,883	72,944
Adjusted Earnings	m	9,446	11,653	11,147	14,187	Adjusted Earnings	m	34,986	50,667	56,883	72,944
EPS (rep)		10.18	12.55	12.01	15.28	EPS (rep)		37.69	54.59	61.28	78.59
EPS (adj)		10.18	12.55	12.01	15.28	EPS (adj)		37.69	54.59	61.28	78.59
EPS Growth yoy (adj)	%	18.3	44.8	44.8	44.8	EPS Growth (adj)	%	18.3	44.8	12.3	28.2
						PE (rep)	x	17.2	11.9	10.6	8.3
						PE (adj)	x	17.2	11.9	10.6	8.3
EBITDA Margin	%	52.1	55.8	55.8	55.8	Total DPS		0.83	0.92	0.92	0.92
EBIT Margin	%	43.1	47.9	47.9	47.9	Total Div Yield	%	0.1	0.1	0.1	0.1
Earnings Split	%	27.0	23.0	22.0	28.0	Weighted Average Shares	m	928	928	928	928
Revenue Growth	%	1.0	27.9	27.9	27.9	Period End Shares	m	928	928	928	928
EBIT Growth	%	12.3	42.4	42.4	42.4						
Profit and Loss Ratios					Cashflow Analysis						
	2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E		
Revenue Growth	%	1.0	27.9	18.6	23.1	EBITDA	m	57,146	78,219	88,863	112,520
EBITDA Growth	%	10.6	36.9	13.6	26.6	Tax Paid	m	-9,189	-14,678	-17,044	-21,791
EBIT Growth	%	12.3	42.4	12.2	28.9	Chgs in Working Cap	m	-7,715	7,694	6,950	7,028
Gross Profit Margin	%	60.0	62.2	59.7	60.9	Net Interest Paid	m	-3,576	-3,771	-4,559	-5,905
EBITDA Margin	%	52.1	55.8	53.5	55.0	Other	m	602	1,963	3,113	3,513
EBIT Margin	%	43.1	47.9	45.4	47.5	Operating Cashflow	m	37,268	69,425	77,323	95,365
Net Profit Margin	%	32.0	36.2	34.2	35.7	Acquisitions	m	0	0	0	0
Payout Ratio	%	2.2	1.7	1.5	1.2	Capex	m	-47,179	-113,891	-83,112	-100,709
EV/EBITDA	x	12.2	8.9	7.8	6.2	Asset Sales	m	0	0	0	0
EV/EBIT	x	14.8	10.4	9.2	7.2	Other	m	-8,232	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-55,411	-113,891	-83,112	-100,709	
ROE	%	40.1	39.2	31.3	29.7	Dividend (Ordinary)	m	-0	-0	-0	-0
ROA	%	22.0	21.9	17.6	18.0	Equity Raised	m	0	0	0	0
ROIC	%	25.7	26.2	19.7	21.0	Debt Movements	m	13,821	80,000	37,000	30,000
Net Debt/Equity	%	90.3	90.7	69.8	54.2	Other	m	0	0	0	0
Interest Cover	x	13.2	17.8	16.5	16.5	Financing Cashflow	m	13,821	80,000	37,000	30,000
Price/Book	x	5.8	3.9	2.9	2.1	Net Chg in Cash/Debt	m	-4,322	35,534	31,210	24,656
Book Value per Share		112.4	165.9	226.1	303.6	Free Cashflow	m	-9,911	-44,466	-5,790	-5,344
					Balance Sheet		2010A	2011E	2012E	2013E	
					Cash	m	658	35,194	65,405	89,062	
					Receivables	m	5,467	6,632	7,722	9,621	
					Inventories	m	9,539	11,621	15,187	18,154	
					Investments	m	3,525	3,525	3,525	3,525	
					Fixed Assets	m	164,084	266,935	336,577	421,921	
					Intangibles	m	0	0	0	0	
					Other Assets	m	53,004	53,004	53,004	53,004	
					Total Assets	m	236,277	376,911	481,420	595,288	
					Payables	m	17,447	20,901	26,689	33,369	
					Short Term Debt	m	0	0	0	0	
					Long Term Debt	m	94,954	174,954	211,954	241,954	
					Provisions	m	12,002	19,489	25,308	30,522	
					Other Liabilities	m	7,482	7,482	7,482	7,482	
					Total Liabilities	m	131,885	222,826	271,432	313,327	
					Shareholders' Funds	m	104,321	153,991	209,875	281,822	
					Minority Interests	m	71	94	112	139	
					Other	m	0	0	0	0	
					Total S/H Equity	m	104,393	154,084	209,987	281,961	
					Total Liab & S/H Funds	m	236,277	376,911	481,420	595,288	

All figures in INR unless noted.

Source: Company data, Macquarie Research, June 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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