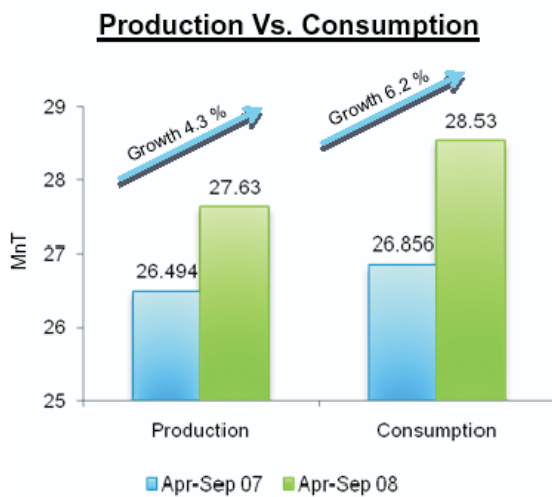
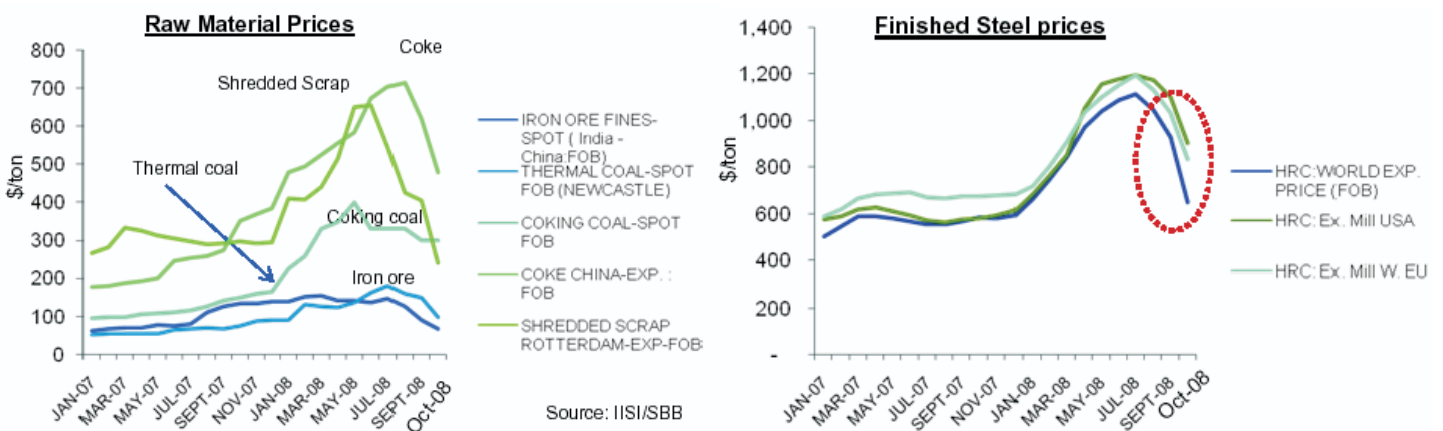


The global economy is facing serious threat of recession, in the backdrop of a severe global financial crisis (largest ever in terms of huge financial losses) that has been triggered primarily by US sub prime issues. This led to serious disturbances in credit/ equity, commodity and currency markets results in to drying up of liquidity including credit spreads.

Emerging economies, notwithstanding cooling of their momentum (because of more than expected time in decoupling from global crisis) are expected to provide the source of resilience through productivity growth and policy framework. Like its counterparts, in US and Europe, India too has responded with swift measures through the Central Bank, RBI, to combat the financial crisis.

There has been a sharp fall in global demand for steel products and also drop in the international prices. However, the impact of falling steel prices is expected to be partially mitigated by lower raw Material prices and Rupee Depreciation.



Indian domestic demand for steel products is expected to sustain with the committed investments in infrastructure and considering the lower rate of growth in steel production relative to the growth in consumption.

India steel production has gathered momentum and is expected to post 9-10% CAGR in the next 2-3 years to cross 80mnte by FY12E after growing at a slow pace of 3-5% in the early part of the decade versus 9% expected demand growth, and will continue to remain as a net importer. Indian per capita consumption of steel (at 46kgs) is extremely low as against the global average of 200kgs, leaving scope for incremental demand growth.

We initiate coverage on SAIL and Tata Steel with "OUTPERFORMER" and JSW Steel with "ACCUMULATE" recommendations.

TATA STEEL
"OUTPERFORMER"

CMP: 210

BSE Code	500470
NSE Code	TATASTEEL
Bloomberg Code	TATA IN
Reuters Code	TISC.BO

Key Data

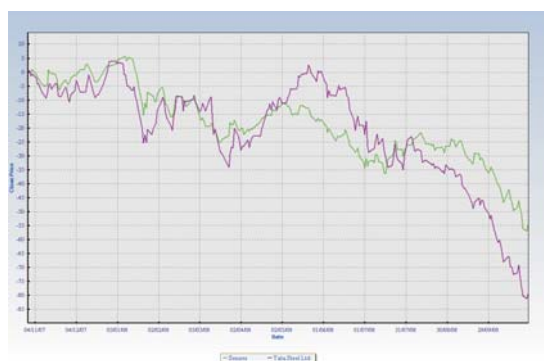
Sensex	9045
52 week H/L (Rs.)	952/150
Oct month H/L (Rs.)	446/150
Market Cap (Rs cr)	13355
Avg. daily vol. (6mth)	1700998
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	33.94
MFs / Banks/ FI's	21.79
FII's /NRI/ OCB's	19.49
Private Corporate Body	2.58
Public and Others	22.20

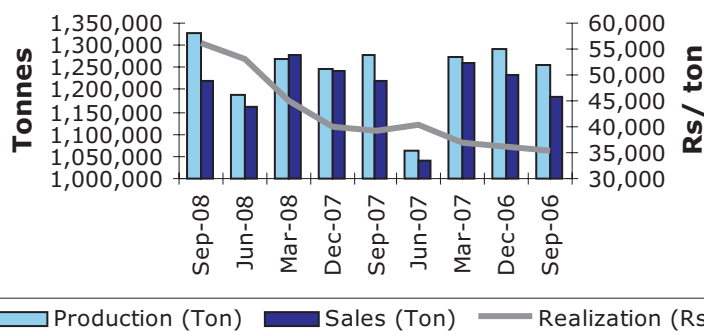
Source: Capitaline

One-Year Performance (Rel. to Sensex)


Source: Capitaline

Result Key Highlights

- Top line registered an impressive growth of 43% YoY of Rs 6850 Cr against our expectation of Rs 6587 Cr due to
 - ▲ 44% YoY increase in blended realisations
 - ▲ 4% YoY growth in volumes of saleable steel
 - ▲ Unprecedented rise in ferro alloy prices.

Saleable Steel Volume and Blended Realization


- Steel business reported 37% jump in revenue to Rs 5891 Cr, while Ferro business registered 119% increase in revenue to Rs 954 Cr.
- EBIDTA Margin expanded 46% due to
 - ▲ Unprecedented rise in raw materials particularly Ferro Alloys prices
 - ▲ Self sufficiency in raw material
- Notional exchange loss during the period includes an unrealized translation loss of Rs.599.81 crores (Rs. 345.62 crores for the quarter) on Convertible Alternate Reference Securities (CARS) issued in September 2007. The liability has been translated at the exchange rate as on 30th September 2008.
- Marginal reduction in tax rate from 32% to 27% helped the company to report 53% YoY jump in net profit to Rs 1787 Cr.

KEY TAKEAWAYS FROM CONFERENCE CALL

- ❑ CAPEX was 1000 Cr in this Quarter.
- ❑ Avg Debtors Days has been reduced from 13 to 10 Days in this quarter and
- ❑ Out of Total Debt of 3000 mn pounds, 10% have been paid in this quarter.
- ❑ Management indicated only ~25-30% of its total sales volumes which was sold through dealer/retail chains witnessed pricing pressure; and company was able to retain its pricing on institutional (~60-65%) and export (~10-12%) contracted volumes.
- ❑ Current quarter saw one time gains worth Rs140 Cr (reflected in exceptional items), resulting from TATA Steel India transferring its stake in Tata Steel (Thailand) to TATA Steel Global Holdings Pvt. Ltd.

VALUATION & RECOMMENDATION

We expect a drop in standalone Bottom line figures for next two quarters on the back of correction in steel prices even as higher price contractual coking coal continues. However, at current price, we believe all the negatives seem to be priced in as prices have fallen 85% in one year to Rs 150, from its high of Rs 970. Gigantic expansion & better results from initial quarters of FY10 will help prices sustain higher.

At CMP of 210, on standalone basis, stock trades at P/E of 1.75x and EV/EBIDTA of 3.35x of FY09 EPS of Rs 120. And stock trades at P/E of 2.0x of FY08 Consolidated Adjusted EPS of Rs 105.8. We recommend "**OUTPERFORMER**" rating for this stock.

FINANCIAL HIGHLIGHTS

(In Crore Rs)

Standalone	Q2 FY09	Q2 FY08	QoQ%
Net Sales	6850.67	4785.9	43.14
Other Income	238.37	80.51	
Total Income	7089.04	4866.41	
Expenditure	4013.12	2725.63	
EBIDT	3075.92	2140.78	43.68
Interest	254.82	189.15	
EBDT	2821.10	1951.63	
Depreciation	248.82	205.01	
EBT	2572.28	1746.62	
Tax	784.47	555.79	
Net Profit	1787.81	1190.83	50.13
Extra Ordinary Items	-240.08	23.19	
Adjusted PAT	2027.89	1167.64	73.67
OPM (%)	41.42	43.05	
NPM (%)	26.10	24.88	
Equity	730.58	730.58	
EPS	24.47	16.30	

“OUTPERFORMER”

CMP: 85

BSE Code	500113
NSE Code	SAIL
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO

Key Data

Sensex	9045
52 week H/L (Rs.)	293/62
Jul month H/L (Rs.)	130/62
Market Cap (Rs cr)	33332.33
Avg. daily vol. (6mth)	2481588
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	85.82
MFs / Banks/ FI's	6.25
FII's /NRI/ OCB's	5.48
Private Corporate Body	0.53
Public	1.94

Source: Capitaline

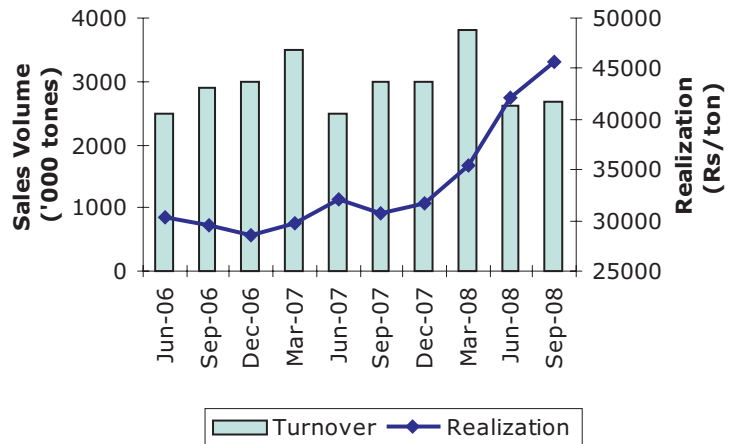
One-Year Performance (Rel. to Sensex)



Source: Capitaline

Result Key Highlights

- SAIL posted the Top line growth of 34% to Rs 12239 Cr in line our expectation of 12303 Cr, encouraged by 54% rise in average net realisation. Net Realization rose from Rs around Rs 42100 / ton to Rs 45666 / ton on QoQ basis. However, Sales volumes were lower YoY at 2.6mn tonnes from 3.0mn tonnes.



- The company registered an operating profit of Rs 3011 Cr, an increase of 14.5% yoy and 8.6% qoq owing to wage revision and increase in raw material costs like coking coal, ferro alloys, freight, etc. Raw material costs spiked mainly on account of higher coking coal price of US \$300/tonne (earlier US \$98/tonne) under the new coking coal contract, which commenced from July 2008. Out of the total coal required, the company sources 30% from domestic market and balance 70% is imported. 80% of the coal imports are on long-term contracts and balance 20% is on spot basis. The employee cost also increased by 108% y-o-y on account of implementation of 6th pay commission guidelines.
- Net profit of the company increased 18% Y-o-Y to Rs 2,010 Crore. Net profit margin dipped by 213 bps Y-o-Y from 18.55% to 16.42%.

KEY TAKEAWAYS FROM CONFERENCE CALL

- The management has guided for full year FY09 saleable steel production of 11.5-12mt. SAIL is working to increase its saleable steel capacity to 23 MT by FY2012, with a capital outlay of Rs 54000 Cr., Out of which company has already placed orders worth Rs34000 Cr.
- In 2QFY09, the saleable steel production volume was 3.051mn tn (YoY down 6%, QoQ up 15%). The production declined due to planned maintenance shutdown.
- The total CAPEX for 1HFY09 was Rs1925 Cr. The management has guided for full year FY09 CAPEX to the tune of Rs5000 Cr.
- As on 30th Sep '08, SAIL has cash balance of Rs160bn and total debt of Rs32.51bn.

VALUATION & RECOMMENDATION

We expect a drop in standalone Bottom line figures for next two quarters on the back of correction in steel prices even as higher price contractual coking coal continues. However, at current price, we believe all the negatives seem to be priced in as prices have fallen 85% in one year to Rs 150, from its high of Rs 970 . Gigantic expansion & better results from initial quarters of FY10 will help prices sustain higher.

At CMP of 187, on standalone basis, stock trades at P/E of 1.5x and EV/EBIDTA of 3.35x of FY09 EPS of Rs 120. And stock trades at P/E of 1.8x of FY08 Consolidated Adjusted EPS of Rs 105.8. We recommend "**OUTPERFORMER**" rating on this stock.

FINANCIAL HIGHLIGHTS

(In Crore Rs)

Standalone	Q2 FY09	Q2 FY08	QoQ%
Net Sales	12238.59	9163.49	33.56
Other Income	422.40	304.26	
Total Income	12660.99	9467.75	
Expenditure	9227.07	6534.29	
EBIDTA	3433.92	2933.46	17.06
Interest	47.54	59.36	
EBDT	3386.38	2874.1	
Depreciation	319.39	301.2	
EBT	3066.99	2572.9	
Tax	1057.39	872.66	
Net Profit	2009.60	1700.24	18.20
Extra Ordinary Items	-	-	
Adjusted PAT	2009.60	1700.24	18.20
OPM (%)	24.61	28.69	
NPM (%)	16.42	18.55	
Equity	4130.40	4130.40	
EPS	4.87	4.12	

"ACCUMULATE"
CMP: 305

BSE Code	500228
NSE Code	JSWSTEEL
Bloomberg Code	JSTL IN
Reuters Code	JSTL.BO

Key Data

Sensex	9045
52 week H/L (Rs.)	1390/188
Oct month H/L (Rs.)	498/188
Market Cap (Rs cr)	4156
Avg. daily vol. (6mth)	279930
Face Value	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	46.97
MFs / Banks/ FI's	33.97
FII's /NRI/ OCB's	6.25
Private Corporate Body	4.39
Public	8.42

Source: Capitaline

One-Year Performance (Rel. to Sensex)

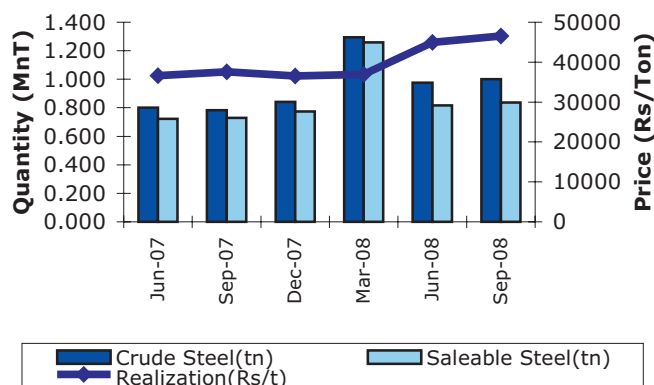


Source: Capitaline

Result Key Highlights

- ❑ Strong volume and better realization along with SISCOIL merger resulted in 56.4% YoY increase in net sales to Rs 43,90 Cr.
- ❑ Crude steel production surpassed ever-highest mark of 1.0 MT during the quarter with a growth of 14%. However volume of saleable steel went up just 4% to 0.84 MT on account of captive consumption of around 46,000 tonne of plates/sheets/TMT bars for the purpose of internal expansion projects.

Steel Production and Realization



- ❑ Blended sales realization has increased 58% to Rs 46,569/tonne, while blended cost of production has augmented 86% to Rs 36,198/tonne.
- ❑ OPM during the quarter dropped 660bps yoy to 25.5% from 32.2% in the corresponding quarter last year. The drop in OPM was reduced due to a jump of Rs470 Cr in inventory, which mainly consisted of finished goods.
- ❑ The company provisioned forex loss of Rs 2,643 mn on account of foreign debt and restatement of foreign liability compared to exchange gain of Rs 760 mn during previous quarter.
- ❑ The company in Q2 FY09 witnessed a fall of 40.6% YoY to Rs317 Cr from 534 Cr profit in the corresponding quarter last year. Adjusted for the FOREX loss of Rs264 Cr during the quarter.

FUTURE GROWTH PLANS

The company is in the process of commissioning the next phase of Expansion project for increasing the Steel Plant capacity at its Vijaynagar Works from 3.8 MTPA to 6.8 MTPA in the third Quarter. On successful completion of the Expansion project and commencement of Operations, the Company is poised to become the largest producer in private sector in the country. The Blast Furnance being commissioned is the largest in the country, with a capacity of 4019 Cubic meters.

VALUATION & RECOMMENDATION

In falling price scenario, JSW proactively took up several cost control, productivity improvements, efficiency enhancements, cost reduction measures, which will immensely benefit the company to stay competitive. The Company will be in an advantageous position with the enhanced capacity of 2.8 MTPA coming up on stream in Q3FY08-09 to reap the benefits of next upturn.

At the CMP of Rs 305, the stock trades at a P/E of 3.4x of FY09 EPS of Rs 90. We recommend, "**ACCUMULATE**" rating on this stock.

FINANCIAL HIGHLIGHTS

(In Crore Rs)

Standalone	Q2 FY09	Q2 FY08	QoQ%
Net Sales	4269.21	2694.17	58.46
Other Income	42.56	62.69	
Total Income	4311.77	2756.86	
Expenditure	3447.20	1751.65	
EBIDT	864.57	1005.21	(13.99)
Interest	195.96	86.58	
EBDT	668.61	918.63	
Depreciation	197.52	150.78	
EBT	471.09	767.85	
Tax	153.64	233.66	
Net Profit	317.45	534.19	(40.57)
Extra Ordinary Items	(180.83)	52.81	
Adjusted PAT	498.28	481.38	3.51
OPM (%)	19.25	34.98	
NPM (%)	7.44	19.83	
Equity	187.05	187.05	
EPS	16.97	28.56	

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period

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