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Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-66322237

Rating	Accumulate
Price	Rs609
Target Price	Rs753
Implied Upside	23.6%
Sensex	15,849

(Prices as on August 29, 2011)

Trading data

Market Cap. (Rs bn)	146.6
Shares o/s (m)	240.6
3M Avg. Daily value (Rs m)	1671.9

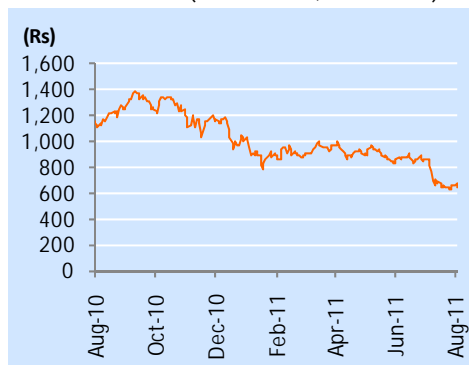
Major shareholders

Promoters	37.71%
Foreign	24.14%
Domestic Inst.	5.39%
Public & Other	32.76%

Stock Performance

(%)	1M	6M	12M
Absolute	(30.0)	(29.5)	(45.9)
Relative	(15.6)	(19.1)	(32.8)

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



Source: Bloomberg

JSW Steel

Court's positive ruling on stock release- a big relief

The honorable Supreme court on Friday imposed blanket ban on iron ore mining in Tumkur and Chitradurga districts. However, in order to safeguard the steel industry, the Court directed Central Empowered Committee's (CEC) to submit report in a week's time with all the requisite details for smooth release of existing inventory of 25m tonnes. We believe that ruling is positive for JSW steel as release of inventory would enable it to operate the plant at 80% levels. We reiterate our '**Accumulate**' rating on the stock with price target of Rs753, EV/EBITDA of 5.5x FY13. However, slow restoration of the mining activity would remain key risk to the stock.

We also attended the conference call, organised by Management for update on the Supreme Court's ruling. Following were the key highlights of the call:

- **Release of inventory to compensate for supplies lost due to ban:** JSW procures ~50% or 20ktpd of its total iron ore requirement of 40ktpd (from Tumkur and Chitradurga districts. Management expects that the inventory liquidation would compensate for the supplies lost due to ban on mining in these districts.
- **Company's Inventory sufficient for 7-10 days of operations:** Company has ore inventory, ample enough to operate the plant for 7-10 days at 80% utilisation.
- **Confident on operating plant at 80% level:** Management once again confidently reiterated its guidance to operate the plant at 80% utilisation on the back of supplies from existing inventory of 25m tonnes and NMDC.
- **Cost of production (CoP) higher by US\$20/tonne:** JSW's CoP escalated by Rs900 (USD20)/tonne post mining ban in Bellary, on the backdrop of higher freight and royalty cost and absence of savings associated with beneficiation of low grade ore.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	188,970	238,616	294,038	354,760
Growth (%)	19.0	26.3	23.2	20.7
EBITDA (Rs m)	40,105	46,241	51,913	69,785
PAT (Rs m)	15,976	17,540	11,944	24,052
EPS (Rs)	85.4	78.6	49.6	100.0
Growth (%)	481.1	(8.0)	(36.9)	101.4
Net DPS (Rs)	9.5	12.2	6.4	12.9

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	21.2	19.4	17.7	19.7
RoE (%)	19.4	13.9	6.8	12.2
RoCE (%)	9.2	8.3	6.2	8.7
EV / sales (x)	1.4	1.2	1.1	1.0
EV / EBITDA (x)	6.7	6.0	6.2	4.9
PE (x)	7.1	7.7	12.3	6.1
P / BV (x)	1.3	0.8	0.8	0.7
Net dividend yield (%)	1.6	2.0	1.1	2.1

Source: Company Data; PL Research

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**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	188,970	238,616	294,038	354,760
Raw Material Expenses	112,312	146,851	188,171	219,393
Gross Profit	76,657	91,765	105,867	135,367
Employee Cost	4,795	6,368	7,719	8,542
Other Expenses	31,757	39,157	46,235	57,040
EBITDA	40,105	46,241	51,913	69,785
Depr. & Amortization	12,987	15,597	19,204	20,887
Net Interest	11,149	10,569	14,038	14,533
Other Income	6,031	4,342	1,372	1,481
Profit before Tax	22,000	24,417	20,043	35,846
Total Tax	6,467	7,823	6,614	10,754
Profit after Tax	15,533	16,594	13,429	25,092
Ex-Od items / Min. Int.	(222)	469	(651)	(426)
Adj. PAT	15,976	17,540	11,944	24,052
Avg. Shares O/S (m)	187.1	223.1	240.6	240.6
EPS (Rs.)	85.4	78.6	49.6	100.0

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	33,461	28,302	36,391	68,529
C/F from Investing	(29,227)	(54,746)	(65,951)	(68,847)
C/F from Financing	(5,610)	50,961	12,272	607
Inc. / Dec. in Cash	(1,376)	24,517	(17,287)	289
Opening Cash	4,269	3,030	20,480	1,192
Closing Cash	2,797	5,809	1,192	1,481
FCFF	(22,803)	(23,995)	(47,081)	39,743
FCFE	(26,575)	(20,982)	(33,151)	62,063

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	19.0	26.3	23.2	20.7
EBITDA (%)	36.7	15.3	12.3	34.4
PAT (%)	481.1	9.8	(31.9)	101.4
EPS (%)	481.1	(8.0)	(36.9)	101.4
Profitability				
EBITDA Margin (%)	21.2	19.4	17.7	19.7
PAT Margin (%)	8.5	7.4	4.1	6.8
RoCE (%)	9.2	8.3	6.2	8.7
RoE (%)	19.4	13.9	6.8	12.2
Balance Sheet				
Net Debt : Equity	1.8	0.9	0.9	1.0
Net Wrkng Cap. (days)	(147)	(129)	(80)	(72)
Valuation				
PER (x)	7.1	7.7	12.3	6.1
P / B (x)	1.3	0.8	0.8	0.7
EV / EBITDA (x)	6.7	6.0	6.2	4.9
EV / Sales (x)	1.4	1.2	1.1	1.0
Earnings Quality				
Eff. Tax Rate	29.4	32.0	33.0	30.0
Other Inc / PBT	10.6	15.6	6.8	4.1
Eff. Depr. Rate (%)	4.8	4.8	4.9	5.3
FCFE / PAT	(166.3)	(119.6)	(277.5)	258.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	89,781	162,503	187,504	207,447
Total Debt	161,730	164,744	178,674	200,994
Other Liabilities	21,825	28,405	32,089	36,971
Total Liabilities	273,336	355,652	398,266	445,411
Net Fixed Assets	284,090	323,183	370,464	418,982
Goodwill	8,992	10,932	10,932	10,932
Investments	4,144	26,437	27,370	26,637
Net Current Assets	(23,890)	(7,663)	(13,262)	(13,902)
<i>Cash & Equivalents</i>	<i>5,168</i>	<i>23,181</i>	<i>3,893</i>	<i>4,182</i>
<i>Other Current Assets</i>	<i>51,669</i>	<i>75,169</i>	<i>85,196</i>	<i>98,027</i>
<i>Current Liabilities</i>	<i>80,727</i>	<i>106,014</i>	<i>102,352</i>	<i>116,111</i>
Other Assets	—	2,762	2,762	2,762
Total Assets	273,336	355,652	398,266	445,411

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	59,081	59,648	72,094	74,324
EBITDA	9,586	9,786	15,881	14,285
% of revenue	16.2	16.4	22.0	19.2
Depr. & Amortization	3,791	3,906	4,288	4,401
Net Interest	2,614	1,968	2,172	2,620
Other Income	705	338	739	233
Profit before Tax	5,456	4,328	10,160	7,497
Total Tax	1,816	1,501	2,920	2,582
Profit after Tax	3,733	2,917	7,936	4,852
Adj. PAT	2,685	2,866	7,936	4,852

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Crude Steel Prod.	—	—	—	—
Rolled Products Prod.	—	—	—	—
Sales Vol. (mt)	6	6	7	9
Realisation / tonne (Rs)	29,329	37,462	34,845	33,993
EBITDA / tonne (Rs)	7,384	7,537	6,695	7,278
Cost / tonne of iron ore (Rs)	1,714	2,686	3,348	3,246
Cost / tonne of coking coal (Rs)	7,579	10,568	14,393	13,835
Chile iron ore vol. (mt)	—	—	1	1
Real/t of Chile iron ore (US\$)	—	—	170	160
Cost/t of Chile Iron Ore (US\$)	—	—	70	70
EBITDA of Chile op. (US\$m)	—	—	60	50
US Coking Coal Vol. (mt)	—	—	—	1
Real/tonne of coal (US\$)	—	—	210	200
Cost/tonne of coal (US\$)	—	—	130	130
EBITDA of coking coal ops (US\$ m)	—	—	24	61
	—	—	—	—
	—	—	—	—
	—	—	—	—
	—	—	—	—

Source: Company Data, PL Research.