



Jindal Steel & Power

STOCK INFO. BLOOMBERG
BSE Sensex: 14,296 JSP IN
REUTERS CODE
S&P CNX: 4,337 JNSP.BO

28 May 2009

Buy

Previous Recommendation: Buy

Rs2,075

Equity Shares (m)	154.0
52-Week Range	2,396/517
1,6,12 Rel. Perf. (%)	2/134/10
M.Cap. (Rs b)	319.5
M.Cap. (US\$ b)	6.7

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
3/08A	54,890	13,634	88.6	97.0	23.4	8.3	35.4	16.6	7.0	16.2
3/09E	108,443	30,572	198.6	124.2	10.4	4.7	45.1	28.5	3.5	7.3
3/10E	109,538	31,568	205.0	3.3	10.1	3.3	32.1	19.6	3.8	8.0
3/11E	126,419	38,363	249.2	21.5	8.3	2.4	28.3	17.0	4.0	7.7

Consolidated

Adjusted consolidated PAT grew 84% YoY to Rs8.8b, which is higher than we had estimated, driven by strong PAT of Rs6.5b reported by JPL. JSPL reported only annual numbers; hence, quarterly numbers are derived. Forex losses of Rs2b have been capitalized to gross block in FY09. In 9MFY09, forex losses were Rs2.6b, including losses on revenue account. Consolidated PAT for FY09 increased 124% to Rs30.6b.

Lower prices, steady costs lead to margin shrinkage: Saleable steel sales increased 32% YoY to 477,000 tons. Sales of sponge iron increased 69% YoY to 98,000 tons. EBITDA declined 37% YoY to Rs4.3b and margins shrank 20pp to 24.5% due to higher cost of coking coal. Steel prices declined 5% QoQ. Interest cost declined QoQ due to forex gains. Other income was boosted due to dividend of Rs867m from JPL. PAT declined 25% to Rs3.6b.

JPL's PAT increased 13% QoQ to Rs6.5b despite flat topline and volumes: Average rate was Rs6.6/kwh on sale of 1,757m kWh (v/s1734m kWh in 3Q).

Valuation and view: We expect margins of steel business to remain under pressure until 1QFY10 due to high cost coking coal inventories. Steel production growth, new pellet plant will drive volumes in FY10. Capex will intensify in coming years, which will continue to fuel earnings growth. JPL posted strong earnings in FY09, which may decline if power rates soften due to increased supply. JPL is undertaking brownfield expansions to increase capacity by 2,400MW. The stock trades at 10.1x FY10E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

Y/E MARCH	FY 08				FY 09				FY 08	FY 09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	12,231	12,690	13,956	15,230	18,953	22,161	17,811	17,607	54,108	76,532
Change (YoY %)	83.6	60.7	38.2	44.5	55.0	74.6	27.6	15.6	53.7	41.4
Total Expenditure	7,440	7,284	8,633	8,437	11,128	13,610	10,965	13,300	31,332	51,605
EBITDA	4,792	5,407	5,324	6,793	7,825	8,551	6,846	4,307	22,775	24,927
Change (YoY %)	47.5	75.3	41.1	73.4	63.3	58.2	28.6	-36.6	62.4	9.4
As % of Net Sales	39.2	42.6	38.1	44.6	41.3	38.6	38.4	24.5	42.1	32.6
Interest	621	791	500	603	475	563	743	759	2,086	2,040
Depreciation	1,115	1,178	1,188	1,035	1,057	1,077	1,109	1,087	4,515	4,330
Other Income	96	29	118	248	74	150	104	1,135	491	1,462
PBT (before EO item)	3,152	3,467	3,754	5,402	6,368	7,061	5,097	3,596	16,666	20,019
Extra-ordinary Income	250	-	-	(1,000)	(770)	(1,106)	(726)	500	(1,640)	-
PBT (after EO item)	3,402	3,467	3,754	4,402	5,598	5,955	4,371	4,096	15,025	20,019
Total Tax	901	692	564	499	1,575	1,455	1,120	505	2,656	4,654
% Tax	26.5	20.0	15.0	11.3	28.1	24.4	25.6	12.3	17.7	23.2
Reported PAT	2,501	2,775	3,191	3,903	4,023	4,500	3,252	3,591	12,370	15,365
Adjusted PAT	2,317	2,775	3,191	4,792	4,576	5,336	3,792	3,153	13,720	15,365
Change (YoY %)	51.4	76.5	68.0	136.3	97.5	92.3	18.8	-34.2	95.2	12.0
Consolidated PAT	2,317	2,775	3,191	4,792	4,989	8,483	9,538	8,798	12,512	30,572
Change (YoY %)	51.4	76.5	68.0	136.3	115.3	205.7	198.9	83.6	79.0	144.3

Lower prices, steady costs lead to shrinkage of standalone margins

- Net sales increased 16% YoY to Rs17.6b. Saleable steel sales increased 32% to 477,000 tons. Sales of sponge iron increased 69% to 98,000 tons.
- EBITDA declined 37% YoY to Rs4.3b and margins shrank 20pp to 24.5% due to higher cost of coking coal and lower steel prices. Steel prices declined 5% QoQ. Coking coal inventory will continue to impact margins in 1QFY10 due to carryover inventories.
- Interest cost declined QoQ due to forex gains.
- Other income was boosted due to dividend of Rs867m from JPL.
- PAT declined 25% to Rs3.6b. This is above our estimate due to higher other income.

JPL's PAT increased 13% QoQ to Rs6.5b despite flat topline and volumes

- Net sales remained flat QoQ at Rs11.5b; the company sold 1,757m kWh (v/s 1,734m kWh in 3Q), which implies average realization of Rs6.6/kWh (flat QoQ).
- PAT increased 13% QoQ to Rs6.5b.
- For FY09, JPL sold 5,531m kWh at an average rate of Rs5.9/kWh and its operating costs (excluding interest & depreciation) were Rs5.2b (difference of consolidated and standalone expenditure), translating into Rs0.94/kWh. Fuel costs were Rs0.34/kWh.

QUARTERLY PERFORMANCE (JPL, RS M)

Y/E MARCH	FY09				FY09E	FY10E
	1Q	2Q	3Q	4Q		
Power sales (MU)	740	1,300	1,734	1,757	5,531	7,096
Rate (Rs/kWh)	3.97	5.03	6.69	6.54	5.89	4.56
Net Sales	2,936	6,539	11,607	11,494	32,575	32,356
Reported PAT	413	3,147	5,746	6,513	15,819	15,609

Source: Company/MOSL

Concall highlights

- Though merchant power rates are volatile, it is still possible to fetch Rs5/kWh for a bulk supplier like JPL in the near to medium term. Long-term rate may stabilize around Rs4/kWh.
- JPL has adopted accelerated depreciation policy of written down value at the rate of 15%. Since the applicable tax rate is MAT for first the 10 years of project life, it helps in improving cash flows.
- JPL is repaying high cost debt of Rs8b by low yielding surplus cash on balance sheet, which will reduce its average interest cost. The standalone entity has a debt of Rs49b, while JPL has debt of Rs32b. There are cash surpluses of Rs13b, largely in JPL.
- Power is sold to various customers across the country and payments are received within a week due to 2% cash discount policy. Hence, the debtors risk is least.
- Power generation costs will fall further due to higher unit generation next year and mining development costs have already been expensed.

- 2,400MW power project will be commissioned during FY13. 30% of power will be sold to the state at tariffs based on CERC guidelines, i.e. at fixed RoE plus incentives. Additionally, 5% of the power will be supplied to the state at variable costs. Thus, this project will be able to sell only 65% of power at market prices. Coal linkages to this project are expected within a year.
- 1,350MW of captive power plant (CPP) will be commissioned in phases of 135MW each starting December 2009. 540MW CPP will feed on coal middlings already accumulated at its coal washeries. 810MW CPP will feed on coal from its coal mines at Angul.
- Iron ore mining is expected to start in coming months at Bolivia. Initially, small quantities will be mined.
- Capex is expected to be Rs20b, which is much lower than our calculations based on project commissioning and capex schedule (see table). Therefore, we expect slippages.

JINDAL POWER TO CONTRIBUTE 49% TO THE CONSOLIDATED EARNINGS

	FY08	FY09	FY10E	FY11E
Stand-alone				
Saleable Steel (000 tons)	1,305	1,515	2,000	3,000
Realization (Rs per ton)	26,113	41,126	28,291	25,843
Net Sales	54,108	76,532	77,183	98,320
Ebitda	22,775	24,927	26,700	43,677
Margins (%)	42.1	32.6	34.6	44.4
EBITDA per ton	17,451	16,450	13,350	14,559
PAT	13,720	15,365	15,960	25,572
EPS (Rs)	89	96	104	166
Jindal Power (JPL)				
Power Generation (MW)	21	708	1,000	1,000
Plant Load factor (PLF)	70%	79%	90%	90%
Saleable power (M kwh)	115	5,531	7,096	7,096
Average Rate (Rs/kwh)	2.8	5.9	4.6	4.0
Net Sales	322	32,575	32,356	28,099
Operating costs (Rs/kwh)	0.84	0.94	0.91	0.95
EBITDA	226	27,364	25,934	21,386
Margins (%)	70.1	84.0	80.2	76.1
PAT	80	15,819	15,609	12,790
EPS (Rs)	1	103	101	83
Consolidated				
Net Sales	54,429	109,107	109,538	126,419
EBITDA	23,001	52,291	52,634	65,063
PAT	13,801	31,184	31,568	38,363
EPS (Rs)	90	199	205	249

Source: Company/MOSL

GROWTH PLAN AND CAPEX (RS M)

JINDAL STEEL & POWER (STAND-ALONE)	COMM.	CAPEX	FY10E	FY11E	FY12E
Regular Capex			1,184	1,184	1,184
Raigarh		53,500	12,900	21,400	17,000
270 MW power plant	Mar-10	11,000	4,400	4,400	
270 MW power plant	Sep-10	11,000	2,200	4,400	4,400
DRI -gas based	Mar-11	25,000	5,000	10,000	10,000
Medium Structural Mill	Jun-10	6,500	1,300	2,600	2,600
Orissa (1.5mtpa)	Jun-10	101,090	29,693	31,213	18,016
810 MW CPP	Aug-11	34,820	6,964	10,446	10,446
DRI plant in Orissa (2mtpa)	Dec-10	31,410	9,423	9,423	6,282
Plate mill (1.5mtpa)	Sep-10	15,480	6,192	6,192	
Pelletization (5mtpa)	Jul-09	6,500	3,250		
SMS (1.6mtpa)	Dec-10	12,880	3,864	5,152	1,288
Jharkhand		99,988	19,998	29,996	29,996
2mtpa wire rod & rebar	Mar-12	57,000	11,400	17,100	17,100
1000 MW CPP	Mar-12	42,988	8,598	12,896	12,896
Total Capex of JSPL standalone			63,774	83,793	66,196
Investment in foreign assets			4,000	4,000	4,000
Funds needed for investments			67,774	87,793	70,196
Debt increase			40,000	40,000	40,000
Internal accruals			27,774	47,793	30,196
Jindal Power Ltd.					
Capex (2400MW expansion)			25600	38400	38400
Debt increase			-3,825	20,000	20,000
Internal accruals			29,425	18,400	18,400
Net increase in loans			36,175	60,000	60,000

Source: Company/MOSL

Jindal Steel & Power: an investment profile

Company description

Jindal Steel and Power (JSP) 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 completed expansion of steel capacity to 2.3MTPA. JSP produces steel through electric arc furnace (EAF) route and uses captive production of sponge iron and hot metal as raw materials rather than expensive steel scrap. Half captive power is generated from recovery of waste gases and 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 in steel production from 1.4m ton in FY08 to 2.5m ton in FY10.
- Total power capacity is expected to increase from 1083MW presently to 9000-10,000MW over the next five years.

Key investment risks

- Unexpected fall in steel prices would adversely impact the earnings.

Recent developments

- Nil.

Valuation and view

- The stock trades at 10.1x FY10E EPS. **Maintain Buy.**

Sector view

- Weakening demand and sharp fall in prices of scrap will force steel prices to trend lower until the beginning of 2009 as sharp production cuts, steps taken by central banks for normalization of credit market and end of destocking start bringing customers back to the market. The margins of steel producers will come under severe pressure from October 2008 until March 2009. Power Business will continue to contribute significantly to the overall profitability of the company.

COMPARATIVE VALUATIONS

		JSP	SAIL	TATA
P/E (x)	FY09E	10.4	2.9	10.0
	FY10E	10.1	9.8	14.1
P/BV (x)	FY09E	4.7	1.9	2.4
	FY10E	3.3	2.0	2.1
EV/Sales (x)	FY09E	3.5	0.6	1.3
	FY10E	3.8	0.8	1.6
EV/EBITDA (x)	FY09E	7.3	4.1	5.7
	FY10E	8.0	7.0	8.6

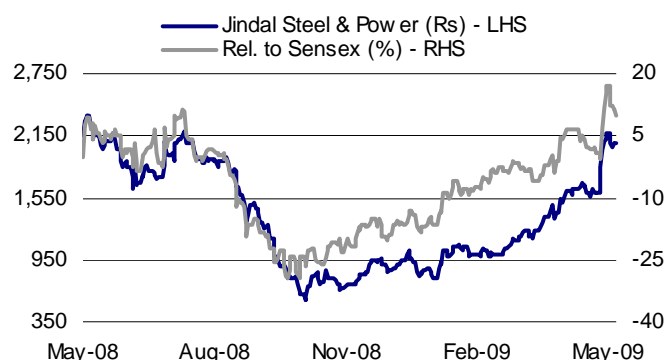
SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	58.8	58.8	58.9
Domestic Inst	5.3	5.7	4.9
Foreign	19.9	19.4	24.1
Others	16.1	16.1	12.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
2,075	-	-	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2007	2008	2009	2010E	2011E	
Net sales	35,198	54,890	108,443	109,538	126,419	
Change (%)	35.9	55.9	97.6	1.0	15.4	
Total Expenses	21,212	31,217	56,248	56,905	61,356	
EBITDA	13,986	23,673	52,195	52,634	65,063	
% of Net Sales	39.7	43.1	48.1	48.1	51.5	
Deprn. & Amortization	3,365	4,793	9,641	9,861	10,348	
EBIT	10,621	18,880	42,554	42,773	54,714	
Net Interest	1,504	2,545	4,567	4,697	4,295	
Other income	290	498	624	1,457	1,522	
PBT before EO	9,407	16,833	38,611	39,532	51,942	
EO income	2	-1,640				
PBT after EO	9,409	15,193	38,611	39,532	51,942	
Tax	2,419	2,681	8,040	7,964	13,579	
Rate (%)	25.7	17.6	20.8	20.1	26.1	
Reported PAT	6,991	12,512	30,572	31,568	38,363	
Preference dividend						
Share of Associates	62	225				
Adjusted PAT	6,920	13,634	30,572	31,568	38,363	
Change (%)	20.8	97.0	124.2	3.3	21.5	

BALANCE SHEET (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2007	2008	2009E	2010E	2011E	
Share Capital	154	154	154	154	154	
Reserves	25,427	38,394	67,562	98,139	135,511	
Net Worth	25,581	38,548	67,716	98,293	135,665	
Minority Interest	54	62				
Total Loans	54,370	69,971	75,782	111,957	171,957	
Deferred Tax Liability	4,150	4,947	5,797	7,793	13,889	
Capital Employed	84,155	113,528	149,295	218,043	321,512	
Gross Block	50,324	79,246	104,189	104,189	104,189	
Less: Accum. Deprn.	7,839	12,160	21,522	31,383	41,731	
Net Fixed Assets	42,485	67,086	82,668	72,807	62,458	
Capital WIP	36,630	27,798	29,016	105,590	234,183	
Investments	1,087	2,709	6,094	10,094	14,094	
Curr. Assets	19,929	34,551	52,284	50,414	34,707	
Inventory	6,424	9,961	16,095	16,904	20,987	
Account Receivables	3,203	3,550	8,656	9,243	11,258	
Cash and Bank Balance	986	6,207	12,997	9,730	-12,075	
Others	9,315	14,833	14,537	14,537	14,537	
Curr. Liability & Prov	16,009	19,584	20,766	20,861	23,930	
Account Payables	12,131	13,716	10,484	10,573	13,469	
Provisions & Others	3,878	5,868	10,283	10,288	10,462	
Net Current Assets	3,920	14,967	31,518	29,553	10,777	
Misc Expenses	32	969				
Appl. of Funds	84,155	113,528	149,295	218,043	321,512	

E: MOSL Estimates

RATIOS (CONSOLIDATED)						
Y/E MARCH	2007	2008	2009E	2010E	2011E	
Basic (Rs)						
EPS	44.9	88.6	198.6	205.0	249.2	
Cash EPS	67.3	112.4	261.2	269.1	316.4	
BV/Share	166.1	250.4	439.8	638.4	881.2	
DPS	3.6	4.0	5.5	5.5	5.5	
Payout (%)	6.6	3.6	3.2	3.1	2.6	
Valuation (x)						
P/E	46.2	23.4	10.4	10.1	8.3	
Cash P/E	30.9	18.5	7.9	7.7	6.6	
P/BV	12.5	8.3	4.7	3.3	2.4	
EV/Sales	10.6	7.0	3.5	3.8	4.0	
EV/EBITDA	26.7	16.2	7.3	8.0	7.7	
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.3	
Return Ratios (%)						
RoE	27.1	35.4	45.1	32.1	28.3	
RoCE	12.6	16.6	28.5	19.6	17.0	
RoIC	17.4	20.5	33.3	36.9	47.4	
Working Capital Ratios						
Asset Turnover (x)	0.4	0.5	0.7	0.5	0.4	
Debtor (Days)	33.2	23.6	29.1	30.8	32.5	
Inventory (Days)	18.3	18.1	14.8	15.4	16.6	
Work.Cap.Turnover (Dx)	8.3	16.0	17.1	18.1	18.1	
Growth (%)						
Sales	35.9	55.9	97.6	1.0	15.4	
EBITDA	38.9	69.3	120.5	0.8	23.6	
PAT	20.8	97.0	124.2	3.3	21.5	
Leverage Ratio (x)						
Debt/Equity	2.1	1.7	0.9	1.0	1.4	

CASHFLOW STATEMENT (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2007	2008	2009E	2010E	2011E	
Pre-tax profit	9,448	15,193	38,611	39,532	51,942	
Depreciation	2,394	4,793	9,641	9,861	10,348	
(Inc)/Dec in Wkg. Cap.	-73	-5,825	-9,762	-1,302	-3,029	
Tax paid	-1,071	-1,885	-3,804	-5,968	-7,483	
Other operating activities		-448	-3,171			
CF from Op. Activity	10,699	11,827	31,515	42,123	51,779	
(Inc)/Dec in FA + CWIP	-14,776	-20,090	-26,161	-76,574	-128,593	
(Pur)/Sale of Investment	-3,145	-1,622	-3,385	-4,000	-4,000	
CF from Inv. Activity	-17,921	-21,711	-29,546	-80,574	-132,593	
Debt raised/(repaid)	7,624	15,601	5,811	36,175	60,000	
Dividend (incl. tax)	-458	-495	-991	-991	-991	
Other financing activities	-76					
CF from Fin. Activity	7,089	15,106	4,821	35,184	59,009	
(Inc)/Dec in Cash	-133	5,221	6,790	-3,267	-21,805	
Add: Opening Balance	668	986	6,207	12,997	9,730	
Closing Balance	535	6,207	12,997	9,730	-12,075	

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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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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