

SO WHAT? THE BNP PARIBAS ANGLE

- We think that the Street is ignoring rising spot steel prices and its impact on contract prices.
- We are first on the Street to point out that upward trend in spot prices will have a bearing on contract prices that are negotiated quarterly.

Stock Picks

Company	BBG code	Rec	Share price (INR)	Target price (INR)	Upside/ (Downside) (%)	Mkt cap (USD m)	Rec P/E 2008E (x)	2009E (x)	2010E (x)
Tata Steel	TATA IN	BUY	822.55	1,037.00	26.0	16,530	10.8	6.3	4.9
JSW Steel	JSTL IN	BUY	987.25	1,100.00	11.4	4,626	10.1	11.0	7.1
SAIL	SAIL IN	HOLD	162.45	165.00	1.6	15,642	8.7	9.0	8.0

Source: BNP Paribas estimates

Rising spot steel prices highlight the limited impact of price cuts by major steel producers. While we are not building in a formal price hike in August, we view higher spot prices as incrementally positive and leading indicator of higher contract rates for companies under coverage. Top pick is Tata Steel. Reiterate BUY on JSW Steel; HOLD on SAIL.

Spot steel prices on the rise; leading indicator for higher contract prices

Secondary steel producers raising prices to cover higher input costs

In the last one month, spot prices for hot rolled coil (HRC) and thermo mechanically treated (TMT) rebar have increased by 7% and billet prices have moved up by 16%, ending two months of price decline. We believe the increase in spot prices is due to secondary steel producers raising prices to compensate for higher input costs. As a result, dealers are increasing prices.

Price cuts have had limited impact

Only five major steel producers accounting for nearly 55% of the country's production rolled back steel prices by USD100/tonne in May 2008. The announced price cut is applicable on spot sales only and excludes contractual sales, where prices are typically negotiated on a quarterly basis. The moratorium on price increase ends in early August.

Rising spot prices may lead to higher contract prices. We are still not expecting a formal steel price increase by major steel producers, primarily due to the government's interest in keeping prices low in an election year. But, higher prices for contractual sales are possible, which can result in upside for companies under coverage.

Incrementally positive for companies under coverage. SAIL and Tata Steel can potentially increase prices on contract sales given rising spot prices. For SAIL, we estimate about 40% of sales are under contracts, wherein prices are negotiated quarterly or semi-annually. JSW Steel has already adopted a variable pricing structure, which has reduced the volume of products sold at discounted prices. We believe JSW sells about 50% of its HRC/CRC steel in spot market, while the remaining is sold under contracts.

Tata Steel is our top pick

Reiterate BUY on Tata Steel and JSW Steel. We are now a HOLD on SAIL as we see limited downside from the current price level.

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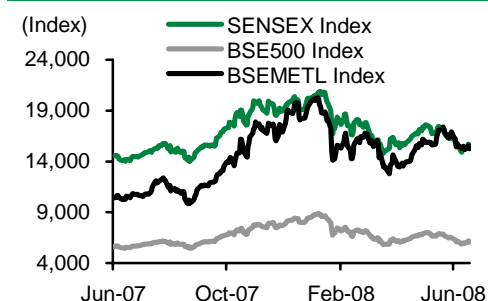
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India Steel Demand-Supply Scenario

	FY08E	FY09E	FY10E	FY11E	FY12E
Installed capacity – crude steel	55.0	62.9	69.9	89.5	90.5
Existing capacity	55.0	55.0	62.9	69.9	89.5
New capacity	0.0	7.9	6.9	19.6	1.0
Installed capacity – flat/long	55.0	62.9	69.9	89.5	90.5
Flat	28.8	34.2	35.5	47.0	47.0
Long	26.2	28.7	34.4	42.5	43.5
Production available for sale	47.7	52.6	60.0	72.6	77.2
Imports	6.6	7.9	8.2	7.0	9.4
Exports	5.1	5.6	6.2	6.8	7.5
Supply	49.2	54.8	62.0	72.8	79.1
Apparent consumption	48.5	54.8	62.0	70.0	79.1

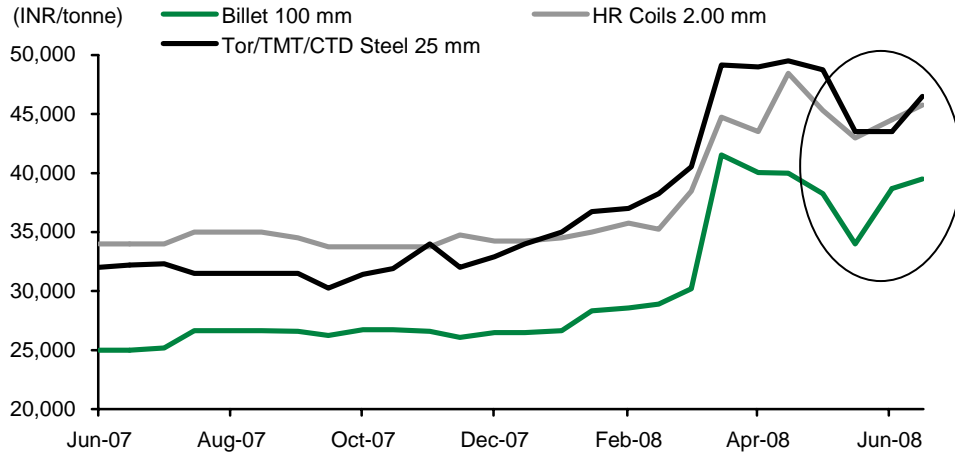
Source: BNP Paribas estimates

Performance Of The BSE Metal Index



Source: Bloomberg

Exhibit 1: Spot Steel Prices Move Up As Secondary Producers Raise Prices



Note: Spot prices ex Mumbai inclusive of excise duty, sales/vat tax, freight and dealer's commission
 Sources: JPC; BNP Paribas

FINANCIAL STATEMENTS

Tata Steel

Profit and Loss (INR m)					
Year Ending March	2006A	2007A	2008E	2009E	2010E
Revenue	203,221	252,133	1,282,801	1,592,157	1,682,987
Cost of sales ex depreciation	(66,588)	(86,312)	(572,832)	(783,612)	(810,040)
Gross profit ex depreciation	136,634	165,821	709,969	808,545	872,947
Other operating income	-	-	-	-	-
Operating costs	(73,190)	(90,744)	(532,990)	(571,369)	(587,599)
Operating EBITDA	63,444	75,077	176,979	237,176	285,348
Depreciation	(8,604)	(10,110)	(36,931)	(40,438)	(41,629)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	54,840	64,967	140,049	196,738	243,719
Net financing costs	(1,616)	(4,112)	(41,721)	(32,373)	(32,373)
Associates	-	-	-	-	-
Recurring non operating income	2,467	4,381	3,544	-	-
Non recurring items	(542)	(2,106)	3,654	-	-
Profit before tax	55,150	63,130	105,525	164,365	211,346
Tax	(17,939)	(21,474)	(35,047)	(52,626)	(67,339)
Profit after tax	37,211	41,656	70,478	111,738	144,008
Minority interests	(186)	(675)	-	-	-
Preferred dividends	-	-	-	-	-
Other items	322	792	-	-	-
Reported net profit	37,346	41,773	70,478	111,738	144,008
Non recurring items & goodwill (net)	718	2,822	(4,867)	-	-
Recurring net profit	38,065	44,595	65,612	111,738	144,008
Per share (INR)					
Recurring EPS *	68.83	80.86	76.11	129.62	167.05
Reported EPS	67.53	75.74	81.76	129.62	167.05
DPS	12.87	13.00	13.14	13.14	13.14
Growth					
Revenue (%)	27.0	24.1	408.8	24.1	5.7
Operating EBITDA (%)	2.3	18.3	135.7	34.0	20.3
Operating EBIT (%)	(1.3)	18.5	115.6	40.5	23.9
Recurring EPS (%)	1.8	17.5	(5.9)	70.3	28.9
Reported EPS (%)	3.5	12.2	7.9	58.5	28.9
Operating performance					
Gross margin inc depreciation (%)	63.0	61.8	52.5	48.2	49.4
Operating EBITDA margin (%)	31.2	29.8	13.8	14.9	17.0
Operating EBIT margin (%)	27.0	25.8	10.9	12.4	14.5
Net margin (%)	18.7	17.7	5.1	7.0	8.6
Effective tax rate (%)	32.5	34.0	33.2	32.0	31.9
Dividend payout on recurring profit (%)	18.7	16.1	17.3	10.1	7.9
Interest cover (x)	35.5	16.9	3.4	6.1	7.5
Inventory days	144.3	140.9	86.9	136.4	161.4
Debtor days	22.8	21.0	28.5	47.0	50.3
Creditor days	185.8	184.7	108.8	149.7	162.9
Operating ROIC (%)	51.4	50.2	44.2	36.3	39.2
Operating ROIC - WACC (%)	34.2	33.0	27.0	19.0	21.9
ROIC (%)	40.7	29.7	22.2	19.1	21.9
ROIC - WACC (%)	23.5	12.5	5.0	1.8	4.7
ROE (%)	43.2	35.8	33.2	37.4	34.9
ROA (%)	20.8	14.1	11.9	10.4	11.4

Tata Steel India capacity expansion from 5m tonnes to 6.8m tonnes

* Pre exceptional, pre-goodwill and fully diluted

Sources: Tata Steel; BNP Paribas estimates

Tata Steel

Cash Flow (INR m)					
Year Ending March	2006A	2007A	2008E	2009E	2010E
Recurring net profit	38,065	44,595	65,612	111,738	144,008
Depreciation	8,604	10,110	36,931	40,438	41,629
Associates & minorities	186	675	-	-	-
Other non-cash items	(4,812)	(13,790)	103,808	(621)	(3,015)
Recurring cash flow	42,043	41,590	206,350	151,555	182,622
Change in working capital	(7,328)	7,314	(120,145)	(92,907)	(13,729)
Capex - maintenance	(18,816)	(29,271)	(43,000)	(52,700)	(83,300)
Capex - new investment	-	-	-	-	-
Free cash flow to equity	15,899	19,634	43,205	5,949	85,593
Net acquisitions & disposals	(8,464)	(138,781)	(560,000)	-	-
Dividends paid	(7,117)	(7,168)	(11,327)	(11,327)	(11,327)
Non recurring cash flows	2,278	5,169	-	-	-
Net cash flow	2,596	(121,146)	(528,122)	(5,379)	74,266
Equity finance	7	15,459	45,039	-	-
Debt finance	298	202,638	316,477	-	-
Movement in cash	2,902	96,951	(166,607)	(5,379)	74,266
Per share (INR)					
Recurring cash flow per share	76.03	75.41	239.37	175.81	211.84
FCF to equity per share	28.75	35.60	50.12	6.90	99.29
Balance Sheet (INR m)					
Year Ending March	2006A	2007A	2008E	2009E	2010E
Working capital assets	51,313	75,562	436,297	605,708	633,916
Working capital liabilities	(43,675)	(75,238)	(315,829)	(392,333)	(406,813)
Net working capital	7,638	324	120,469	213,375	227,104
Tangible fixed assets	107,881	142,205	367,915	380,177	420,362
Operating invested capital	115,519	142,529	488,383	593,552	647,466
Goodwill	1,140	2,197	253,237	253,237	253,237
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	37,349	167,073	234,113	234,113	234,113
Invested capital	154,008	311,799	975,733	1,080,901	1,134,815
Cash & equivalents	(7,768)	(108,880)	(8,113)	(2,735)	(77,000)
Short term debt	-	-	-	-	-
Long term debt *	33,774	249,255	574,802	574,802	574,802
Net debt	26,007	140,376	566,689	572,067	497,802
Deferred tax	9,922	7,859	17,699	17,699	17,699
Other liabilities	14,026	11,183	136,113	136,113	136,113
Total equity	102,818	146,397	249,247	349,037	477,217
Minority interests	1,236	5,984	5,984	5,984	5,984
Invested capital	154,008	311,799	975,732	1,080,901	1,134,815
<i>* Includes convertibles and preferred stock which is being treated as debt</i>					
Per share (INR)					
Book value per share	185.93	265.44	289.13	404.89	553.58
Tangible book value per share	183.87	261.46	(4.63)	111.13	259.82
Financial strength					
Net debt/equity (%)	25.0	92.1	222.0	161.1	103.0
Net debt/total assets (%)	12.7	28.3	43.6	38.8	30.8
Current ratio (x)	1.4	2.5	1.4	1.6	1.7
CF interest cover (x)	10.8	5.8	2.0	1.2	3.6
Valuation					
2006A	2007A	2008E	2009E	2010E	
Recurring P/E (x) *	11.9	10.2	10.8	6.3	4.9
Recurring P/E @ target price (x) *	15.1	12.8	13.6	8.0	6.2
Reported P/E (x)	12.2	10.9	10.1	6.3	4.9
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
P/CF (x)	10.8	10.9	3.4	4.7	3.9
P/FCF (x)	28.6	23.1	16.4	119.2	8.3
Price/book (x)	4.4	3.1	2.8	2.0	1.5
Price/tangible book (x)	4.5	3.1	neg	7.4	3.2
EV/EBITDA (x) **	7.3	6.8	5.2	5.4	4.4
EV/EBITDA @ target price (x) **	9.1	8.3	6.1	6.2	5.0
EV/invested capital (x)	3.1	1.9	1.3	1.2	1.1
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
<i>** EBITDA includes associate income and recurring non-operating income</i>					

Tata Steel India
acquires Corus Group

Sources: Tata Steel; BNP Paribas estimates

JSW Steel

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	85,944	114,377	190,706	245,574	352,249
Cost of sales ex depreciation	(56,022)	(79,009)	(146,720)	(180,626)	(261,215)
Gross profit ex depreciation	29,923	35,368	43,986	64,948	91,033
Other operating income	-	-	-	-	-
Operating costs	(2,845)	(2,740)	(3,782)	(5,519)	(8,165)
Operating EBITDA	27,078	32,628	40,203	59,429	82,869
Depreciation	(4,982)	(6,707)	(9,181)	(13,343)	(18,668)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	22,096	25,921	31,023	46,086	64,201
Net financing costs	(3,995)	(4,404)	(7,779)	(8,855)	(16,170)
Associates	-	-	-	-	-
Recurring non operating income	1,052	3,324	2,912	3,350	3,153
Non recurring items	-	-	-	-	-
Profit before tax	19,152	24,841	26,155	40,582	51,184
Tax	(6,232)	(7,559)	(8,108)	(12,580)	(16,891)
Profit after tax	12,920	17,282	18,047	28,001	34,293
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	12,920	17,282	18,047	28,001	34,293
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	12,920	17,282	18,047	28,001	34,293
Per share (INR)					
Recurring EPS *	78.88	97.96	89.79	139.31	170.61
Reported EPS	78.88	97.96	89.79	139.31	170.61
DPS	24.95	14.12	11.73	11.73	11.73
Growth					
Revenue (%)	38.3	33.1	66.7	28.8	43.4
Operating EBITDA (%)	60.3	20.5	23.2	47.8	39.4
Operating EBIT (%)	72.2	17.3	19.7	48.6	39.3
Recurring EPS (%)	44.6	24.2	(8.3)	55.2	22.5
Reported EPS (%)	44.6	24.2	(8.3)	55.2	22.5
Operating performance					
Gross margin inc depreciation (%)	29.0	25.1	18.3	21.0	20.5
Operating EBITDA margin (%)	31.5	28.5	21.1	24.2	23.5
Operating EBIT margin (%)	25.7	22.7	16.3	18.8	18.2
Net margin (%)	15.0	15.1	9.5	11.4	9.7
Effective tax rate (%)	32.5	30.4	31.0	31.0	33.0
Dividend payout on recurring profit (%)	31.6	14.4	13.1	8.4	6.9
Interest cover (x)	5.8	6.6	4.4	5.6	4.2
Inventory days	63.1	56.1	53.4	63.9	59.5
Debtor days	10.3	9.9	9.6	10.7	10.2
Creditor days	134.5	113.1	95.0	111.8	104.6
Operating ROIC (%)	29.6	28.0	23.1	22.0	25.3
Operating ROIC - WACC (%)	12.5	11.0	6.0	4.9	8.2
ROIC (%)	23.6	23.1	19.3	21.1	25.5
ROIC - WACC (%)	6.5	6.1	2.2	4.0	8.5
ROE (%)	26.0	26.9	22.4	27.7	26.4
ROA (%)	13.9	13.9	11.8	12.5	13.8
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
Key Assumptions (INR m)					
	2007A	2008A	2009E	2010E	2011E
Sales Volume, Mn Tonne	2.67	3.40	5.29	6.91	10.29
ASP, \$ per tonne		858	897	885	853
Iron ore cost per tonne, \$		46.34	65.97	69.12	72.85
Coking Coal/Coke per tonne, \$		179.9	383.0	331.5	309.1
Capacity Addition, Mn Tonne			2.80	3.20	-

FY09 and FY10 Sales growth driven by volume growth

EBITDA margin will remain subdued in FY09 and recover in FY10

Sources: JSW Steel; BNP Paribas estimates

JSW Steel

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	12,920	17,282	18,047	28,001	34,293
Depreciation	4,982	6,707	9,181	13,343	18,668
Associates & minorities	-	-	-	-	-
Other non-cash items	3,925	(215)	(1,794)	(4,702)	-
Recurring cash flow	21,827	23,774	25,434	36,642	52,961
Change in working capital	4,643	(3,797)	(3,751)	(1,836)	(3,976)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(23,468)	(45,773)	(53,251)	(66,366)	(10,860)
Free cash flow to equity	3,002	(25,796)	(31,568)	(31,560)	38,126
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(4,087)	(2,640)	(2,357)	(2,357)	(2,357)
Non recurring cash flows	(486)	0	(5,000)	0	(0)
Net cash flow	(1,572)	(28,436)	(38,925)	(33,917)	35,768
Equity finance	2,122	2,176	-	-	-
Debt finance	1,839	28,987	34,528	37,202	4,548
Movement in cash	2,389	2,727	(4,397)	3,285	40,316
Per share (INR)					
Recurring cash flow per share	133.26	134.77	126.54	182.30	263.49
FCF to equity per share	18.32	(146.23)	(157.05)	(157.01)	189.68
Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	21,478	30,521	57,907	71,996	104,586
Working capital liabilities	(22,857)	(28,103)	(51,738)	(63,990)	(92,604)
Net working capital	(1,379)	2,418	6,169	8,006	11,982
Tangible fixed assets	81,891	101,451	157,960	245,794	239,989
Operating invested capital	80,512	103,869	164,130	253,800	251,971
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	23,907	43,718	38,878	10,881	8,878
Invested capital	104,419	147,587	203,008	264,681	260,849
Cash & equivalents	(3,378)	(6,105)	(1,708)	(4,993)	(45,309)
Short term debt	-	-	-	-	-
Long term debt *	41,730	70,718	105,246	142,448	146,995
Net debt	38,352	64,613	103,538	137,455	101,686
Deferred tax	10,127	10,216	11,022	13,134	13,134
Other liabilities	-	-	-	-	-
Total equity	55,941	72,758	88,448	114,092	146,028
Minority interests	-	-	-	-	-
Invested capital	104,419	147,587	203,008	264,681	260,849
<i>* Includes convertibles and preferred stock which is being treated as debt</i>					
Per share (INR)					
Book value per share	341.53	389.08	440.04	567.62	726.51
Tangible book value per share	341.53	389.08	440.04	567.62	726.51
Financial strength					
Net debt/equity (%)	68.6	88.8	117.1	120.5	69.6
Net debt/total assets (%)	29.4	35.5	40.4	41.2	25.5
Current ratio (x)	1.1	1.3	1.2	1.2	1.6
CF interest cover (x)	7.6	5.5	3.8	4.9	4.0
Valuation					
2007A	2008A	2009E	2010E	2011E	
Recurring P/E (x) *	12.5	10.1	11.0	7.1	5.8
Recurring P/E @ target price (x) *	13.9	11.2	12.3	7.9	6.4
Reported P/E (x)	12.5	10.1	11.0	7.1	5.8
Dividend yield (%)	2.5	1.4	1.2	1.2	1.2
P/CF (x)	7.4	7.3	7.8	5.4	3.7
P/FCF (x)	53.9	neg	neg	neg	5.2
Price/book (x)	2.9	2.5	2.2	1.7	1.4
Price/tangible book (x)	2.9	2.5	2.2	1.7	1.4
EV/EBITDA (x) **	7.0	6.2	6.4	5.1	3.7
EV/EBITDA @ target price (x) **	7.7	6.8	6.9	5.4	4.0
EV/invested capital (x)	1.9	1.7	1.5	1.3	1.2
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
<i>** EBITDA includes associate income and recurring non-operating income</i>					

Sources: JSW Steel; BNP Paribas estimates

Steel Authority of India

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	350,262	402,142	474,064	487,613	652,319
Cost of sales ex depreciation	(120,156)	(122,932)	(196,490)	(197,688)	(254,715)
Gross profit ex depreciation	230,106	279,210	277,573	289,924	397,604
Other operating income	-	-	-	-	-
Operating costs	(128,836)	(165,819)	(158,708)	(156,699)	(193,224)
Operating EBITDA	101,271	113,391	118,866	133,225	204,380
Depreciation	(12,115)	(12,355)	(12,955)	(13,505)	(21,774)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	89,156	101,036	105,911	119,720	182,607
Net financing costs	4,205	9,338	7,249	7,748	(8,304)
Associates	-	-	-	-	-
Recurring non operating income	866	4,314	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	94,227	114,688	113,159	127,468	174,302
Tax	(32,203)	(39,320)	(38,474)	(43,339)	(59,263)
Profit after tax	62,023	75,369	74,685	84,129	115,040
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	62,023	75,369	74,685	84,129	115,040
Non recurring items & goodwill (net)	(70)	1,532	-	-	-
Recurring net profit	61,954	76,901	74,685	84,129	115,040
Per share (INR)					
Recurring EPS *	15.00	18.62	18.08	20.37	27.85
Reported EPS	15.02	18.25	18.08	20.37	27.85
DPS	-	-	-	-	2.68
Growth					
Revenue (%)	23.8	14.8	17.9	2.9	33.8
Operating EBITDA (%)	61.8	12.0	4.8	12.1	53.4
Operating EBIT (%)	76.4	13.3	4.8	13.0	52.5
Recurring EPS (%)	53.1	24.1	(2.9)	12.6	36.7
Reported EPS (%)	51.1	21.5	(0.9)	12.6	36.7
Operating performance					
Gross margin inc depreciation (%)	62.2	66.4	55.8	56.7	57.6
Operating EBITDA margin (%)	28.9	28.2	25.1	27.3	31.3
Operating EBIT margin (%)	25.5	25.1	22.3	24.6	28.0
Net margin (%)	17.7	19.1	15.8	17.3	17.6
Effective tax rate (%)	34.2	34.3	34.0	34.0	34.0
Dividend payout on recurring profit (%)	-	-	-	-	9.6
Interest cover (x)	na	na	na	na	22.0
Inventory days	195.3	200.1	164.8	202.2	180.1
Debtor days	21.9	23.0	23.1	24.7	21.8
Creditor days	na	na	na	na	na
Operating ROIC (%)	79.5	90.1	85.4	82.8	75.5
Operating ROIC - WACC (%)	61.5	72.2	67.4	64.8	57.5
ROIC (%)	70.3	74.7	57.9	43.7	43.5
ROIC - WACC (%)	52.4	56.8	39.9	25.8	25.5
ROE (%)	41.4	37.5	27.8	25.1	27.1
ROA (%)	18.4	18.1	14.4	12.3	14.8

FY11 sales growth driven by volume growth

EBITDA margin will remain subdued in FY09 and FY10

* Pre exceptional, pre-goodwill and fully diluted

Sources: Steel Authority of India; BNP Paribas estimates

Steel Authority of India

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	61,954	76,901	74,685	84,129	115,040
Depreciation	12,115	12,355	12,955	13,505	21,774
Associates & minorities	-	-	-	-	-
Other non-cash items	(4,870)	(1,289)	(1,552)	(8,110)	(4,458)
Recurring cash flow	69,199	87,966	86,088	89,524	132,355
Change in working capital	(10,369)	2,333	(29,287)	(3,668)	(14,194)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(10,908)	(30,000)	(50,000)	(110,000)	(180,000)
Free cash flow to equity	47,922	60,299	6,801	(24,143)	(61,839)
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(11,068)	(11,772)	(11,772)	(11,772)	(9,417)
Non recurring cash flows	(1,390)	(0)	-	-	(0)
Net cash flow	35,464	48,528	(4,970)	(35,915)	(71,256)
Equity finance	24	-	-	-	-
Debt finance	(1,115)	(5,651)	35,484	114,873	87,620
Movement in cash	34,372	42,877	30,514	78,958	16,364
Per share (INR)					
Recurring cash flow per share	16.75	21.30	20.84	21.67	32.04
FCF to equity per share	11.60	14.60	1.65	(5.85)	(14.97)
Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	107,688	117,452	164,490	168,156	219,025
Working capital liabilities	(109,490)	(121,587)	(139,338)	(139,337)	(176,011)
Net working capital	(1,802)	(4,135)	25,152	28,819	43,013
Tangible fixed assets	115,977	113,379	112,776	121,558	288,900
Operating invested capital	114,175	109,244	137,928	150,378	331,913
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	18,790	38,790	78,790	178,790	176,429
Invested capital	132,965	148,034	216,718	329,168	508,343
Cash & equivalents	(96,098)	(138,975)	(169,489)	(248,447)	(264,811)
Short term debt	-	-	-	-	-
Long term debt *	41,805	36,155	71,639	186,512	274,131
Net debt	(54,293)	(102,821)	(97,850)	(61,935)	9,321
Deferred tax	14,127	14,127	14,926	19,104	21,401
Other liabilities	-	-	-	-	-
Total equity	173,132	236,728	299,642	371,999	477,621
Minority interests	-	-	-	-	-
Invested capital	132,965	148,034	216,718	329,168	508,343
<i>* Includes convertibles and preferred stock which is being treated as debt</i>					
Per share (INR)					
Book value per share	41.92	57.31	72.55	90.06	115.64
Tangible book value per share	41.92	57.31	72.55	90.06	115.64
Financial strength					
Net debt/equity (%)	(31.4)	(43.4)	(32.7)	(16.6)	2.0
Net debt/total assets (%)	(16.0)	(25.2)	(18.6)	(8.6)	1.0
Current ratio (x)	1.9	2.1	2.4	3.0	2.7
CF interest cover (x)	na	na	na	na	15.2
Valuation					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	10.8	8.7	9.0	8.0	5.8
Recurring P/E @ target price (x) *	11.0	8.9	9.1	8.1	5.9
Reported P/E (x)	10.8	8.9	9.0	8.0	5.8
Dividend yield (%)	-	-	-	-	1.6
P/CF (x)	9.7	7.6	7.8	7.5	5.1
P/FCF (x)	14.0	11.1	98.7	neg	neg
Price/book (x)	3.9	2.8	2.2	1.8	1.4
Price/tangible book (x)	3.9	2.8	2.2	1.8	1.4
EV/EBITDA (x) **	6.2	5.0	4.8	4.4	3.2
EV/EBITDA @ target price (x) **	6.3	5.1	4.9	4.5	3.2
EV/invested capital (x)	4.6	3.8	2.6	1.9	1.3
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
<i>** EBITDA includes associate income and recurring non-operating income</i>					

Capex required to support volume growth

Sources: Steel Authority of India; BNP Paribas estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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