

# ACTION

## Removed from Asia Pacific Buy List

### Jindal Steel & Power (JNSP.BO)

## Downgrade to Neutral on valuation; structural story intact

### What happened

We are **downgrading Jindal Steel to Neutral from Buy**, with a revised 12m SOTP-based TP of Rs625 (from Rs652). We still like the long-term structural growth story unfolding at JSPL. But, based on our P/B vs ROE regression analysis of global utilities peers, we think JSPL's underlying fundamentals are now fairly priced in. The stock is trading at 3.5X FY11E P/B with an FY11E ROE of 36%. We would look for more attractive entry levels to gain meaningful exposure to the stock. Since we added the stock to our Buy list on July 21, '09, it has risen 31% vs. 2% rise for BSE Sensex. Last 12m, the stock is up 356% vs. 49% rise in the index.

### Current view

1) We remain positive on JSPL's power business fundamentals (we expect 66% contribution from power in FY2011), and management's track record of executing profitable growth projects. We also believe JSPL has superior fundamentals given its first mover and least cost advantage relative to peers in the power sector, especially the newer entrants most of which are at a project execution stage. However, we find it difficult to justify current valuations on an absolute basis, and relative to the returns and growth that we expect over FY09-12E.

2) JSPL reported 2QFY10 consolidated net income of Rs8.1bn, up 6% yoy, down 18% qoq, 25% below our expectation. While the power subsidiary reported robust earnings on the back of firm merchant power tariffs (Rs5.15 per unit), steel volumes surprised on the downside, which were down 12% sequentially. We are lowering our FY10E-12E EPS by 4%-16% on lower steel volumes and revised cost assumptions.

Upside risks: Higher merchant power tariffs, greater investor interest in power stocks, strong volume growth and pricing in steel business, and announcement of new projects to enhance the growth profile over the medium term. Downside risks: Lower merchant power tariffs, weak volumes and pricing in steel business, and project execution delays.

### INVESTMENT LIST MEMBERSHIP

Neutral

### Coverage View: Attractive

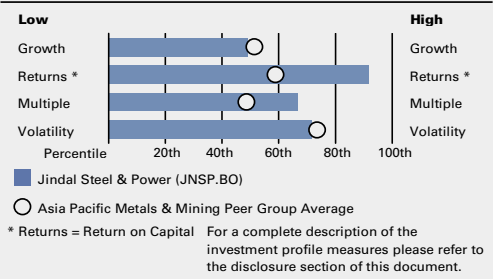
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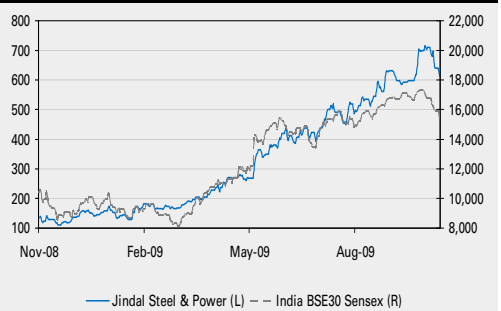
### Investment Profile



Key data	Current
Price (Rs)	613.75
12 month price target (Rs)	625.00
Market cap (Rs mn / US\$ mn)	566,962.6 / 12,072.0
Foreign ownership (%)	30.6

	3/09	3/10E	3/11E	3/12E
EPS (Rs) New	32.57	42.77	53.07	58.74
EPS revision (%)	0.0	(16.3)	(7.3)	(4.0)
EPS growth (%)	142.5	31.3	24.1	10.7
EPS (dil) (Rs) New	32.57	42.77	53.07	58.74
P/E (X)	18.8	14.3	11.6	10.4
P/B (X)	8.1	5.0	3.5	2.7
EV/EBITDA (X)	5.6	9.9	8.1	7.2
Dividend yield (%)	0.1	0.2	0.3	0.3
ROE (%)	55.8	43.4	36.0	29.2

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	23.9	126.0	355.6
Rel. to India BSE30 Sensex	28.1	67.3	205.7

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/03/2009 close.

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# Jindal Steel & Power: Summary financials

Profit model (Rs mn)	3/09	3/10E	3/11E	3/12E	Balance sheet (Rs mn)	3/09	3/10E	3/11E	3/12E
<b>Total revenue</b>	<b>108,510.1</b>	<b>116,982.1</b>	<b>148,102.4</b>	<b>171,511.8</b>	Cash & equivalents	10,218.9	16,193.8	13,735.1	29,746.5
Cost of goods sold	(54,168.5)	(55,131.9)	(70,187.5)	(83,754.5)	Accounts receivable	5,741.1	5,409.8	6,606.5	8,659.0
SG&A	(11,720.5)	(8,533.5)	(11,526.9)	(14,469.5)	Inventory	12,402.7	12,111.2	16,693.0	19,602.6
R&D	0.0	0.0	0.0	0.0	Other current assets	35,823.1	31,990.4	31,990.4	31,990.4
Other operating profit/(expense)	56.4	813.7	1,212.2	1,506.7	<b>Total current assets</b>	<b>64,185.8</b>	<b>65,705.1</b>	<b>69,025.1</b>	<b>89,998.5</b>
<b>EBITDA</b>	<b>52,318.1</b>	<b>63,210.9</b>	<b>78,686.3</b>	<b>89,794.6</b>	Net PP&E	126,862.8	155,605.3	217,780.9	279,723.3
Depreciation & amortization	(9,640.6)	(9,080.3)	(11,086.1)	(15,000.1)	Net intangibles	394.6	595.3	595.3	595.3
<b>EBIT</b>	<b>42,677.5</b>	<b>54,130.5</b>	<b>67,600.2</b>	<b>74,794.5</b>	Total investments	1,613.4	3,643.5	3,643.5	3,643.5
Interest income	0.0	247.2	32.0	409.1	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(4,566.5)	(5,110.5)	(5,288.6)	(5,365.5)	<b>Total assets</b>	<b>193,056.6</b>	<b>225,549.2</b>	<b>291,044.8</b>	<b>373,960.6</b>
Income/(loss) from uncons. subs.	395.9	0.0	0.0	0.0	Accounts payable	15,740.1	15,788.5	21,814.2	27,029.9
Others	0.0	0.0	0.0	0.0	Short-term debt	14,548.7	6,206.8	6,206.8	6,206.8
<b>Pretax profits</b>	<b>38,506.9</b>	<b>49,267.2</b>	<b>62,343.6</b>	<b>69,838.0</b>	Other current liabilities	18,453.6	19,749.6	19,749.6	19,749.6
Income tax	(8,039.5)	(9,221.2)	(12,674.1)	(14,872.8)	<b>Total current liabilities</b>	<b>48,742.4</b>	<b>41,744.9</b>	<b>47,770.6</b>	<b>52,986.3</b>
Minorities	(10.2)	(46.6)	(38.0)	(28.4)	Long-term debt	66,584.4	63,833.3	75,441.5	100,345.6
<b>Net income pre-preferred dividends</b>	<b>30,457.2</b>	<b>39,999.4</b>	<b>49,631.5</b>	<b>54,936.8</b>	Other long-term liabilities	7,170.3	5,997.7	5,997.7	5,997.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	73,754.7	69,831.0	81,439.2	106,343.3
<b>Net income (pre-exceptionals)</b>	<b>30,457.2</b>	<b>39,999.4</b>	<b>49,631.5</b>	<b>54,936.8</b>	<b>Total liabilities</b>	<b>122,497.1</b>	<b>111,575.9</b>	<b>129,209.7</b>	<b>159,329.6</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>30,457.2</b>	<b>39,999.4</b>	<b>49,631.5</b>	<b>54,936.8</b>	<b>Total common equity</b>	<b>70,514.9</b>	<b>113,873.6</b>	<b>161,697.4</b>	<b>214,464.9</b>
EPS (basic, pre-except) (Rs)	32.85	43.15	53.54	59.26	Minority interest	44.6	99.8	137.7	166.2
EPS (basic, post-except) (Rs)	32.85	43.15	53.54	59.26	<b>Total liabilities &amp; equity</b>	<b>193,056.6</b>	<b>225,549.2</b>	<b>291,044.8</b>	<b>373,960.6</b>
EPS (diluted, post-except) (Rs)	32.57	42.77	53.07	58.74	<b>BVPS (Rs)</b>	<b>75.99</b>	<b>122.72</b>	<b>174.26</b>	<b>231.13</b>
DPS (Rs)	0.92	1.00	1.67	2.00					
Dividend payout ratio (%)	2.8	2.3	3.1	3.4					
Free cash flow yield (%)	(3.3)	2.1	(2.9)	(1.9)					
<b>Growth &amp; margins (%)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	<b>Ratios</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Sales growth	97.7	7.8	26.6	15.8	ROE (%)	55.8	43.4	36.0	29.2
EBITDA growth	132.2	20.8	24.5	14.1	ROA (%)	18.7	19.1	19.2	16.5
EBIT growth	140.6	26.8	24.9	10.6	ROACE (%)	28.1	28.5	27.1	22.6
Net income growth	139.1	31.3	24.1	10.7	Inventory days	75.3	81.1	74.9	79.1
EPS growth	138.2	31.3	24.1	10.7	Receivables days	15.6	17.4	14.8	16.2
Gross margin	50.1	52.9	52.6	51.2	Payable days	84.8	104.4	97.8	106.4
EBITDA margin	48.2	54.0	53.1	52.4	Net debt/equity (%)	100.5	47.2	42.0	35.8
EBIT margin	39.3	46.3	45.6	43.6	Interest cover - EBIT (X)	9.3	11.1	12.9	15.1
<b>Cash flow statement (Rs mn)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	<b>Valuation</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Net income pre-preferred dividends	30,457.2	39,999.4	49,631.5	54,936.8	P/E (analyst) (X)	18.8	14.3	11.6	10.4
D&A add-back	9,640.6	9,080.3	11,086.1	15,000.1	P/B (X)	8.1	5.0	3.5	2.7
Minorities interests add-back	10.2	46.6	38.0	28.4	EV/EBITDA (X)	5.6	9.9	8.1	7.2
Net (inc)/dec working capital	(11,013.9)	5,799.9	247.0	253.7	Dividend yield (%)	0.1	0.2	0.3	0.3
Other operating cash flow	4,377.6	(1,172.6)	0.0	0.0					
<b>Cash flow from operations</b>	<b>33,471.7</b>	<b>53,753.6</b>	<b>61,002.6</b>	<b>70,219.0</b>					
Capital expenditures	(37,176.4)	(37,822.8)	(73,261.7)	(76,942.5)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(1,344.0)	0.0	0.0	0.0					
<b>Cash flow from investments</b>	<b>(38,520.4)</b>	<b>(37,822.8)</b>	<b>(73,261.7)</b>	<b>(76,942.5)</b>					
Dividends paid (common & pref)	(385.7)	(1,084.7)	(1,807.8)	(2,169.3)					
Inc/(dec) in debt	15,538.3	(7,795.9)	11,608.2	24,904.1					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(7,594.3)	(1,075.4)	0.0	0.0					
<b>Cash flow from financing</b>	<b>7,558.3</b>	<b>(9,956.0)</b>	<b>9,800.4</b>	<b>22,734.8</b>					
<b>Total cash flow</b>	<b>2,509.6</b>	<b>5,974.9</b>	<b>(2,458.6)</b>	<b>16,011.3</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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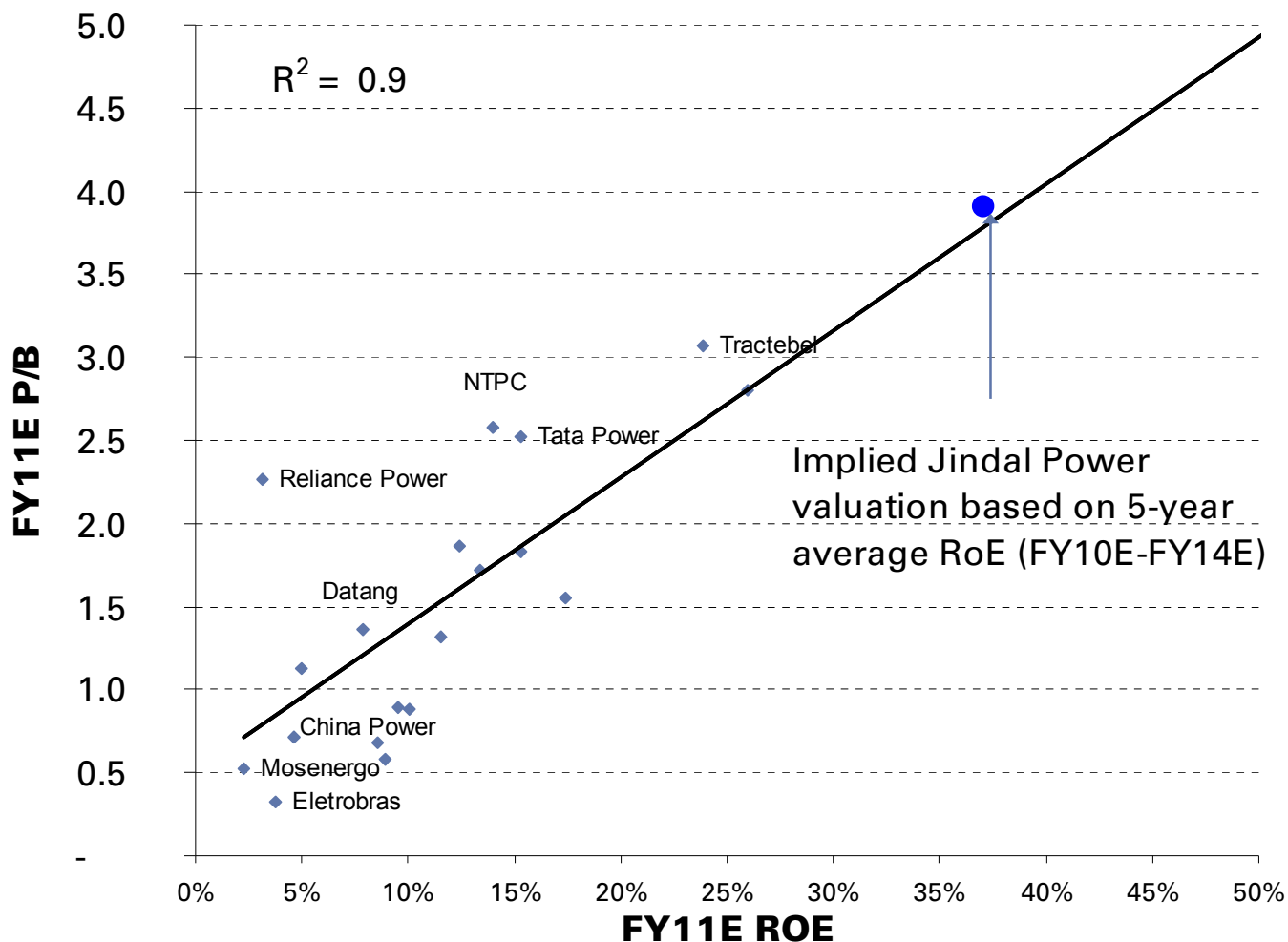
**Exhibit 1: SOTP Valuation of Jindal Steel & Power**

	Valuation Methodology	Valuation base FY2011E BVPS (Rs.)	RoE FY2011E	P/B Multiple (x)	Share value (Rs/share)
Parent Business	2011E P/B	101	35%	3.0	308
Power Subsidiary	2011E P/B	82	37%	3.8	317
<b>Total value</b>					<b>625</b>

Source: Goldman Sachs Research estimates.

**Exhibit 2: JSPL's power subsidiary appears fairly valued when compared with global utilities coverage in a P/B vs ROE regression framework**

GS Global Utilities coverage FY11E P/B Vs ROE chart



Source: FactSet, Goldman Sachs Research estimates.

**Exhibit 3: Share price performance vs. peer group**

Prices as of the close of November 3, 2009

Company	Ticker	Primary analyst	Price currency	Price as of 11/03/09	Price performance since 07/21/09	3 month price performance	6 month price performance	12 month price performance
<b>Asia Pacific Metals &amp; Mining Peer Group</b>								
<b>Jindal Steel &amp; Power</b>	<b>JNSP.BO</b>	<b>Pritesh Vinay</b>	<b>Rs</b>	<b>613.75</b>	<b>31.4%</b>	<b>23.9%</b>	<b>126.0%</b>	<b>355.6%</b>
Aluminum Corporation of China (A)	601600.SS	Song Shen	Rmb	14.14	-11.8%	-28.4%	36.6%	131.8%
Aluminum Corporation of China (H)	2600.HK	Song Shen	HK\$	8.43	3.1%	-12.8%	41.7%	191.7%
Angang Steel (A)	000898.SZ	Song Shen	Rmb	12.78	-13.1%	-32.4%	47.1%	127.8%
Angang Steel (H)	0347.HK	Song Shen	HK\$	14.12	-4.6%	-25.0%	50.9%	186.4%
Anhui Conch Cement (A)	600585.SS	Song Shen	Rmb	43.54	-9.1%	-13.5%	-1.9%	148.9%
Anhui Conch Cement (H)	0914.HK	Song Shen	HK\$	50.50	-8.8%	-15.8%	-2.8%	95.7%
Baoshan Iron & Steel	600019.SS	Song Shen	Rmb	7.07	-12.8%	-30.0%	22.3%	58.5%
Bumi Resources	BUMI.JK	Patrick Tiah, CFA	Rp	2,300.00	12.2%	-13.2%	51.3%	5.7%
China Coal Energy (A)	601898.SS	Song Shen	Rmb	13.37	-8.2%	-16.8%	28.4%	101.7%
China Coal Energy (H)	1898.HK	Song Shen	HK\$	11.30	13.2%	-0.4%	67.7%	143.0%
China Molybdenum Co.	3993.HK	Jim Hung	HK\$	6.31	9.0%	-16.5%	60.2%	165.1%
China National Building Material	3323.HK	Song Shen	HK\$	16.32	-4.9%	-9.6%	-0.7%	329.5%
China Shenhua Energy (A)	601088.SS	Song Shen	Rmb	36.03	2.6%	-7.0%	45.7%	99.6%
China Shenhua Energy (H)	1088.HK	Song Shen	HK\$	35.45	21.8%	9.2%	63.0%	141.2%
China Steel (GDR)	2002q.L	Jim Hung	\$	17.88	1.2%	-7.5%	20.5%	27.9%
China Steel Corporation	2002.TW	Jim Hung	NT\$	29.00	0.2%	-9.2%	18.2%	21.0%
Dongkuk Steel Mill	001230.KS	Rajeev Das	W	24,700.00	-16.3%	-22.1%	-15.4%	17.1%
Hidilii Industry International Development	1393.HK	Song Shen	HK\$	8.03	10.3%	-12.6%	154.9%	398.8%
Hindalco Industries	HALC.BO	Pritesh Vinay	Rs	109.15	23.3%	0.9%	102.7%	71.9%
Hindustan Zinc	HZNC.BO	Pritesh Vinay	Rs	857.55	28.4%	16.1%	77.5%	169.8%
Hyundai Steel	004020.KS	Rajeev Das	W	74,900.00	24.0%	6.7%	38.2%	98.1%
Jiangxi Copper (A)	600362.SS	Song Shen	Rmb	39.71	-10.0%	-18.2%	63.9%	355.4%
Jiangxi Copper (H)	0358.HK	Song Shen	HK\$	17.74	16.4%	-6.3%	92.4%	364.4%
Jinduicheng Molybdenum Co.	601958.SS	Jim Hung	Rmb	21.35	20.9%	-9.4%	69.4%	220.2%
JSW Steel	JSTL.BO	Pritesh Vinay	Rs	680.65	12.2%	-8.7%	102.2%	118.2%
Maanshan Iron & Steel (A)	600808.SS	Song Shen	Rmb	4.54	-18.5%	-35.1%	16.1%	41.4%
Maanshan Iron & Steel (H)	0323.HK	Song Shen	HK\$	4.66	-13.7%	-27.4%	46.1%	228.2%
National Aluminium Company	NALU.BO	Pritesh Vinay	Rs	361.15	22.9%	11.4%	70.7%	145.1%
POSCO	005490.KS	Rajeev Das	W	497,500.00	8.4%	-0.5%	25.3%	37.8%
POSCO (ADR)	PKX	Rajeev Das	\$	105.10	12.3%	4.0%	30.9%	56.4%
PT Adaro Energy Tbk	ADRO.JK	Patrick Tiah, CFA	Rp	1,510.00	25.8%	18.0%	42.5%	86.4%
PT Tambang Batubara Bukit Asam	PTBA.JK	Patrick Tiah, CFA	Rp	14,550.00	24.9%	7.4%	59.0%	122.1%
Sesa Goa	SESA.BO	Pritesh Vinay	Rs	282.55	21.4%	16.9%	152.5%	239.6%
Shenzhen Zhongjin Lingnan Nonfemet	000060.SZ	Jim Hung	Rmb	28.13	4.3%	-11.3%	80.6%	343.0%
Steel Authority of India	SAIL.BO	Pritesh Vinay	Rs	157.25	-8.5%	-12.5%	43.9%	74.4%
Sterlite Industries (India)	STRL.BO	Pritesh Vinay	Rs	722.15	21.2%	7.8%	76.5%	144.8%
Straits Asia Resources	STRL.SI	Patrick Tiah, CFA	S\$	1.85	2.2%	-15.9%	74.5%	62.3%
Tata Steel	TISC.BO	Pritesh Vinay	Rs	445.60	8.2%	-7.9%	87.2%	97.8%
Western Mining	601168.SS	Jim Hung	Rmb	14.61	-18.3%	-23.7%	6.7%	162.8%
Wuhan Iron and Steel	600005.SS	Song Shen	Rmb	7.57	-23.5%	-38.4%	10.3%	79.8%
Yanzhou Coal Mining (A)	600188.SS	Song Shen	Rmb	20.09	6.0%	-10.3%	41.4%	137.5%
Yanzhou Coal Mining (H)	1171.HK	Song Shen	HK\$	12.16	11.6%	-2.9%	65.9%	154.9%
Yunnan Chihong Zinc & Germanium	600497.SS	Jim Hung	Rmb	29.41	18.0%	-8.3%	49.2%	320.7%
Zhaojin Mining Industry	1818.HK	Song Shen	HK\$	13.82	5.7%	3.4%	37.9%	397.1%
Zhongjin Gold	600489.SS	Song Shen	Rmb	58.30	-9.7%	-8.8%	113.8%	414.5%
Zijin Mining(H)	2899.HK	Song Shen	HK\$	7.77	3.2%	0.5%	29.5%	205.9%
<b>India BSE30 Sensex</b>				<b>15,405</b>	<b>2.3%</b>	<b>-3.3%</b>	<b>35.1%</b>	<b>49.0%</b>

Note: Prices as of most recent available close, which could vary from the price date indicated above.

This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database.

## Reg AC

I, Pritesh Vinay, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

## Disclosures

### Coverage group(s) of stocks by primary analyst(s)

Pritesh Vinay: Asia Commodities Companies, Asia Pacific Steel.

Asia Commodities Companies: ACC, Aluminum Corporation of China (A), Aluminum Corporation of China (H), Ambuja Cements, Angang Steel (A), Angang Steel (H), Anhui Conch Cement (A), Anhui Conch Cement (H), Baoshan Iron & Steel, Bumi Resources, China Coal Energy (A), China Coal Energy (H), China Molybdenum Co., China National Building Material, China Shenhua Energy (A), China Shenhua Energy (H), Grasim Industries, Hidili Industry International Development, Hindalco Industries, Hindustan Zinc, India Cement, Jiangxi Copper (A), Jiangxi Copper (H), Jinduicheng Molybdenum Co., Maanshan Iron & Steel (A), Maanshan Iron & Steel (H), National Aluminium Company, PT Adaro Energy Tbk, PT Tambang Batubara Bukit Asam, Shenzhen Zhongjin Lingnan Nonfemet, Sterlite Industries (India), Straits Asia Resources, Ultratech Cement, Western Mining, Wuhan Iron and Steel, Yanzhou Coal Mining (A), Yanzhou Coal Mining (H), Yunnan Chihong Zinc & Germanium, Zhaojin Mining Industry, Zhongjin Gold, Zijin Mining(H).

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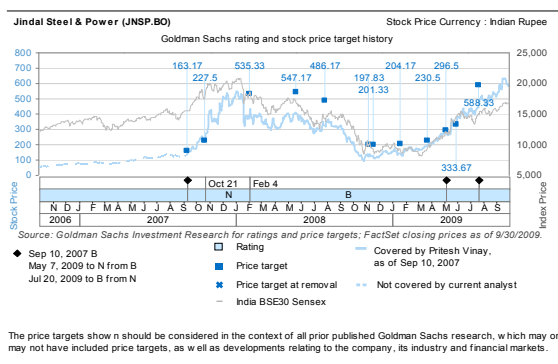
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Goldman Sachs Investment Research global coverage universe

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