

**RESULTS REVIEW**
**Share Data**

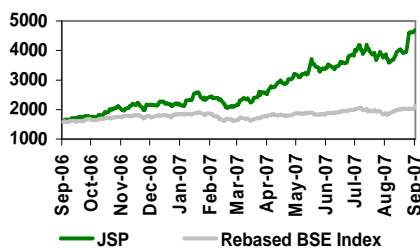
Market Cap	Rs. 144.3 bn
Price	Rs. 4,685.60
BSE Sensex	16,322.75
Reuters	JNSP.BO
Bloomberg	JSP IN
Avg. Volume (52 Week)	0.01 mn
52-Week High/Low	Rs. 4,739/1,545.9
Shares Outstanding	30.8 mn

**Valuation Ratios**

Year to 31 March	2008E	2009E
EPS (Rs.)	318.2	384.6
+/- (%)	38.9%	20.9%
PER (x)	14.7x	12.2x
EV/ Sales (x)	3.8x	3.0x
EV/ EBITDA (x)	10.0x	8.1x

**Shareholding Pattern (%)**

Promoters	59
FII's	23
Institutions	5
Public & Others	13

**Relative Performance**

**Jindal Steel & Power Limited**
**Buy**
**Strong growth driven by higher volumes**

Jindal Steel and Power Limited (JSPL) reported 83.6% yoy increase in 1QFY08 net sales on the back of significant (more than 100%) increase in sales volume of steel products coupled with a marginal increase in steel prices.

EBITDA and net profits increased by 47.5% and 63.4% respectively on the back of strong volume growth, though margins declined as a result of higher input costs.

The Company successfully commissioned its 1 mtpa capacity plate mill in April and is expected to set up two 250 MW units of the 1,000 MW power plant this year. This would lead to higher revenues in the coming quarters. Further, JSPL entered into an agreement with the Bolivia government for the development of the world's largest iron ore mine, this would ensure good growth in the long run.

We have upgraded our earnings estimates by 0.3% for FY08E and 3.1% for FY09E due to better growth visibility and to factor in good first quarter results. At the current price of Rs. 4,685.6 the stock trades at 10x FY08E and 8.1x FY09E EV/EBITDA. Based on our valuations, we believe that the stock has limited downside and expect an upside of around 23% over the next 6–9 months. We upgrade our rating to Buy with a target price of Rs. 5,780.

**Result Highlights**

JSPL's 1QFY08 net sales grew by 83.6% yoy, from Rs. 6.7 bn in 1QFY07 to Rs. 12.2 bn in 1QFY08, primarily due to an increase of 96% yoy in revenues

**Key Figures**

Quarterly Data	1Q'07	4Q'07	1Q'08	QoQ%	YoY%
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(Figures in Rs. mn, except per share data)

Net Sales	6,662	10,539	12,231	16.1%	83.6%
EBITDA	3,249	3,917	4,792	22.3%	47.5%

<b>Net Profit</b>	1,531	2,028	2,501	23.3%	63.4%
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**Margins(%)**

EBITDA	48.8%	37.2%	39.2%
NPM	23.0%	19.2%	20.4%

**Per Share Data (Rs.)**

Adjusted EPS	49.7	66.8	81.2	21.5%	63.4%
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*Strong growth in revenues driven by higher volumes of steel products*

from iron and steel segment. This increase was a result of enhanced capacity, higher demand, and increase in prices of steel products. While sales volume of steel products witnessed an increase of 101.8% yoy, sponge iron witnessed a decline of 36.4% yoy in sales volumes due to increased internal consumption. Further, revenues from the power segment increased 10% yoy to Rs. 1.4 bn due to better realizations, despite increased internal consumption.

EBITDA increased 47.5% yoy to Rs. 4.8 bn mainly due to increased sales. However, EBITDA margins declined 959 bps yoy to 39.2%, on the back of significant increase in input costs coupled with increased share of low margin steel products.

Net profit increased 63.4% yoy to Rs. 2.5 bn. While net profit margins declined by 253 bps yoy to 20.4%, due to higher depreciation resulting from increased capitalization and higher tax expense.

### Key Events

#### *Raigarh plate mill commissioned successfully*

*1 mtpa capacity plate mill commissioned in April*

JSPL successfully commissioned 1 mtpa capacity plate mill and started commercial production in April 2007. We expect this mill to sell 0.4 mn tons of steel plates in FY08E at an average realization rate of Rs. 32,000/ton for the year. This is expected to increase the revenues by around Rs. 13 bn.

#### *JSPL gets mining rights in Bolivia*

*JSPL gets mining rights of 20 bn tonnes of iron ore reserves in Bolivia*

The Company has entered into an agreement for the development of 50% of the total 40 bn tonnes of iron ore reserves from El Mutun, Bolivia (one of the largest iron ore reserves in the world). It has committed to invest USD 2.3 bn over the next 8 years, in two phases. The Company is required to build the mining and steel making complex within 5 years, having an integrated steel plant of 1.7 mtpa steel production capacity, 10 mtpa capacity pellets plant, 6 mtpa capacity sponge iron plant, and 450 MW power plant. We expect the Company to commence production by 2012.

*250 MW power unit to be commissioned in September 2007*

*Power segment to boost revenues in the near term*

*Strengthening captive availability of key raw materials*

### *Other updates*

- The first phase of the 1,000 MW thermal power plant, being set up by JSPL's subsidiary Jindal Power Limited (JPL), has been postponed due to delay in equipment supply and will now be commissioned in September this year.
- SC dismisses JSPL's plea seeking exemption from purchasing 5% of the power generated from biomass-based plants in Chhattisgarh. This could affect the rate fixed for power supply to consumers under the long term fixed contracts.

### **Prospects**

#### *Power segment to boost revenues*

The 1,000 MW OP Jindal super thermal power plant will be commissioned in a phased manner and is expected to be completed by September 2008. The Company will supply 350 MW to its Raigarh based industrial park and sell the balance to various State Electricity Boards (SEBs). This will be a key driver for revenues in the near term.

#### *Captive availability of key raw materials*

JSPL is trying to insulate itself against the uncertainties in supply of key raw materials. It is pursuing with the government for allotment of more iron ore and coal mines and expanding its existing power generation capacity for the same. In addition, the recent agreement for the development of El Mutun iron ore reserves will ensure uninterrupted supply of iron ore in the long run. This is also expected to reduce the impact of increasing input costs on margins.

#### *Significant capacity expansion plans*

JSPL has significant capacity expansion plans. In Chhattisgarh, the Company plans to expand operations and increase steel production capacity to 6 mtpa with an additional investment of Rs. 80 bn. It also plans to invest over Rs. 135 bn in Orissa for a 6 mtpa steel plant and 900 MW power plant, and over Rs. 115 bn for a 6 mtpa steel plant in Jharkhand. This would ensure strong growth in the long run.

*Enhanced capacities to ensure volume based growth in the long term*

### Outlook

Our outlook for the Company remains positive based on setting up of the 1 mtpa plate mill, expected commissioning of the 1,000 MW power plant by 2008, significant capacity expansion plans and rising demand for steel products. In addition, the development rights of 20 bn tonnes of iron ore reserves in Bolivia bode well for the long term growth of the Company.

JSPL's diverse range of steel products will help it to ward off market fluctuations by shifting from one product to another in line with market trends. Further, the Company is strengthening internal supply of key raw materials to reduce the impact of increasing input costs on margins.

We have upgraded our revenue estimates by 2.8% for FY08E and 9% for FY09E and earnings estimates by 0.3% for FY08E and 3.1% for FY09E to factor in good first quarter numbers and better growth visibility.

At the current price of Rs. 4,685.6, the stock trades at 10x FY08E and 8.1x FY09E EV/EBITDA. Based on our valuations, we expect a return of around 23% over the next 6–9 months and upgrade our rating to Buy with a target price of Rs. 5,780.

### Key Risks

- Significant increase in input costs
- Unexpected increase or decrease in government expenditure on infrastructure would result in corresponding change steel demand.
- Slowdown in the US economy could negatively impact the demand for steel globally.

### Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	22,519	25,896	34,998	52,107	64,924	36.2%
EBITDA	8,923	10,193	13,859	19,854	24,487	32.9%
<b>Net Profit</b>	5,292	5,775	7,053	9,797	11,843	29.6%
<b>Margins(%)</b>						
EBITDA	39.6%	39.4%	39.4%	37.8%	37.4%	
NPM	23.5%	22.3%	20.0%	18.7%	18.1%	
<b>Per Share Data (Rs.)</b>						
Adjusted EPS	171.9	187.5	229.0	318.2	384.6	29.6%
PER (x)	6.1x	10.1x	20.5x	14.7x	12.2x	

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