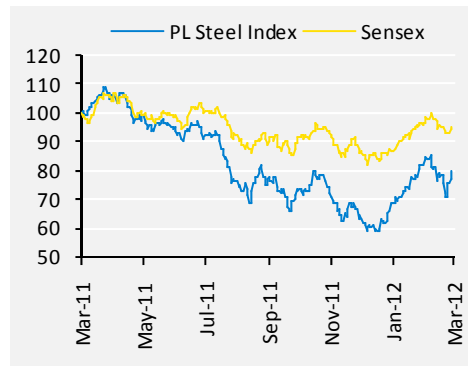


March 15, 2012

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Sensex v/s PL Steel Index



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	(1.6)	6.2	(1.4)
PL Steel Index	(4.0)	2.8	(21.0)
JSPL	(0.9)	9.9	(8.6)
JSW Steel	(9.9)	15.3	(13.8)
SAIL	(10.6)	(10.3)	(35.2)
Tata Steel	(6.9)	(1.0)	(22.3)

■ **Surge in European steel prices driven by restocking:** European steel prices rose by ~US\$69/t (YTD CY12), attributed primarily to restocking, firm global prices and unreasonable fall in prices during Q4CY11. However, real demand continues to remain subdued. Based on Eurofer (European steel association), real steel consumption fell by ~0.4% YoY in Q4CY11, while apparent consumption saw a sharper fall at ~4% YoY, owing to accelerated destocking. The association expects continued weakness in real consumption in the next 2-3 quarters, given the dearth of new orders and tepid investment climate. The region also runs a risk of peaked-out net exports of ~1.5m tonnes, highest in the past seven years. We remain highly cautious on European steel prices, given the sluggish domestic demand outlook and high dependence on volatile exports market.

■ **China witnessing protracted demand slowdown:** Demand environment continues to remain challenging in China on the backdrop of **1)** tight liquidity gauged by lowest ever growth in money supply (MS) in the past 10 years during the month of January @ 12% YoY **2)** weak demand across the major consuming sectors during December; vehicle sales (down 26% YoY), real estate (down 22-23%) and machinery (down 8%) and **3)** sharp deceleration in Fixed asset investment (flat YoY in December), the major driver of China’s steel demand. We expect short-term recovery in demand and prices from the current trough levels on the back of liquidity easing. However, we don’t expect rally in prices to sustain for long given elevated stock levels and weak demand outlook.

■ **US, the only bright spot:** Thanks to strong liquidity (MS↑10%), accelerated expansion in investment (Gross private investment↑10%) and consumer demand, US apparent consumption grew by 8% in January to 8.8m tonnes; almost near its pre-crisis levels. We expect demand to remain firm in the coming months as suggested by all leading indicators. However, the wide price differential between US and other regional prices would pose a major or the only risk to the domestic prices in the near term.

■ **Reiterate Accumulate on Tata; downgrade JSPL to Reduce:** We remain positive on **Tata** given the underlying distress valuations of European operations (EV/tonne of US\$200), strong domestic operations and increased raw material self-sufficiency. We downgrade **JSPL** from ‘**BUY**’ to ‘**Reduce**’ on account of expensive valuations. **JSTL** remains our least preferred stock in the space, backed by underlying risk associated with shortage of iron ore and expensive valuations given the abnormal exposure to acceptances. Maintain ‘**Reduce**’ on **SAIL** given the expensive valuations and below average project execution.

Exhibit 1: Valuation Summary

Company Name	Rating	CMP (Rs)	TP (Rs)	EBITDA (Rs m)		EPS (Rs)		PE (x)		P/BV (x)		EV/EBITDA (x)	
				FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Jindal Steel & Power	Reduce	605	625	82,179	102,980	51.2	58.9	11.8	10.3	2.5	2.0	9.2	7.4
JSW Steel	Reduce	784	745	66,583	71,607	81.1	94.7	9.7	8.3	0.9	0.9	5.6	5.3
Steel Authority of India	Reduce	100	103	74,967	100,479	11.1	12.9	9.0	7.8	1.0	0.9	7.9	6.8
Tata Steel	Accumulate	461	495	159,324	191,152	43.1	69.1	10.7	6.7	1.1	1.0	6.0	5.1

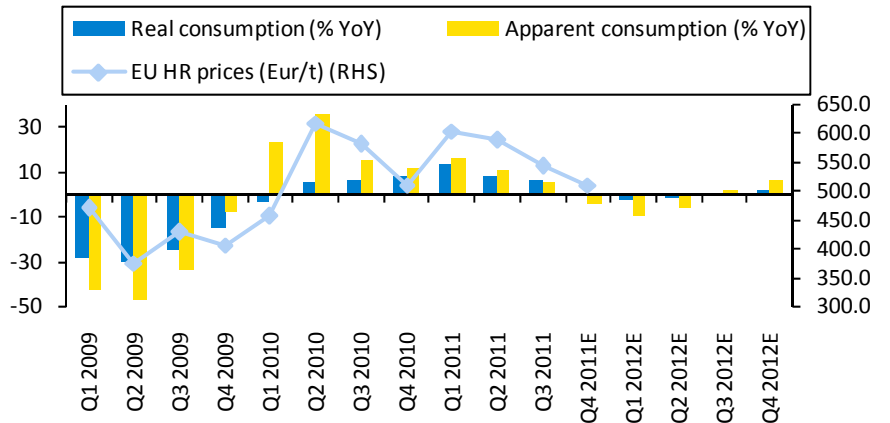
Source: PL Research

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Outlook for the real consumption remains sluggish in the next 2-3 quarters

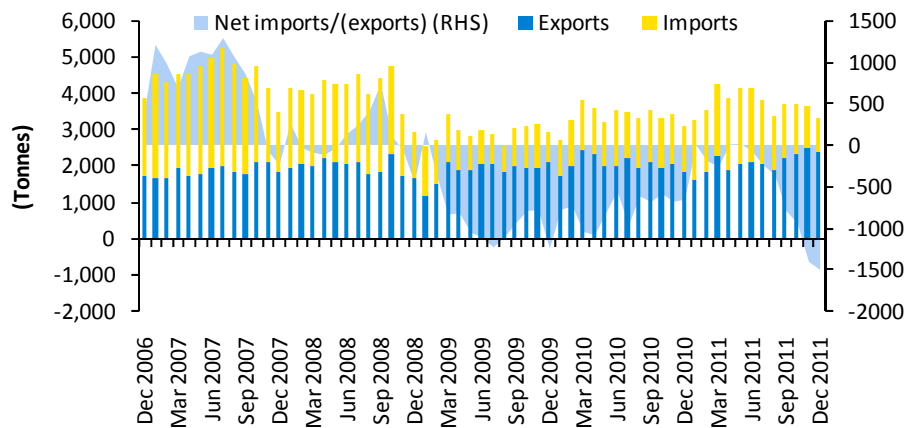
Exhibit 2: Real, Apparent consumption trends in Europe v/s HRC prices



Source: Eurofer, PL Research

Net exports in December 2011 at a 8-year high in Europe

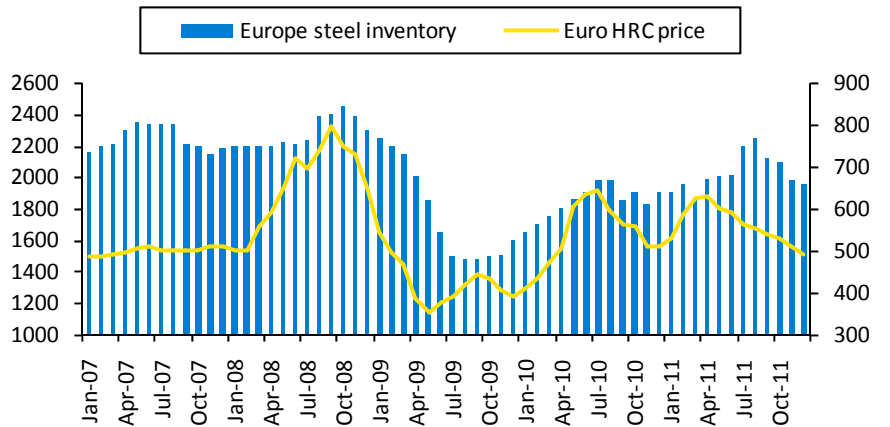
Exhibit 3: Net exports of Steel in Europe



Source: Eurofer, PL Research

Cautious demand outlook and falling prices led to de-stocking in Q4CY11. Inventory replenishment currently driving the prices firm

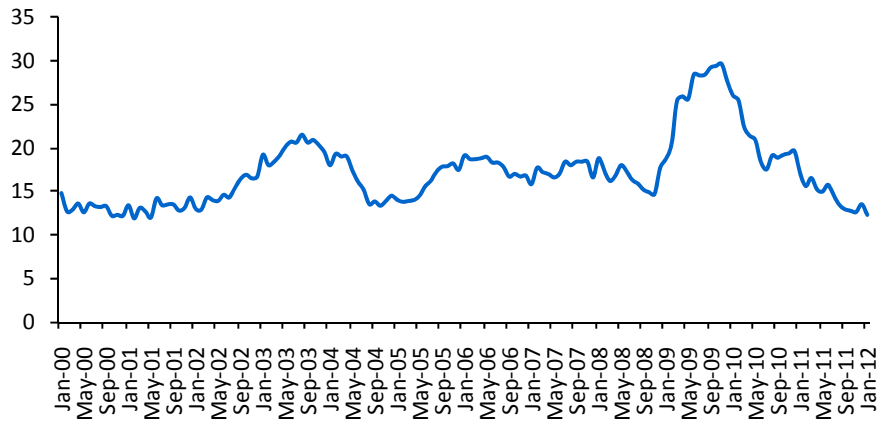
Exhibit 4: Europe steel inventory versus Europe HRC price



Source: Industry, PL Research

Thanks to the tight monetary policy, money supply is at record lows. This strained the demand across all major steel consuming sectors

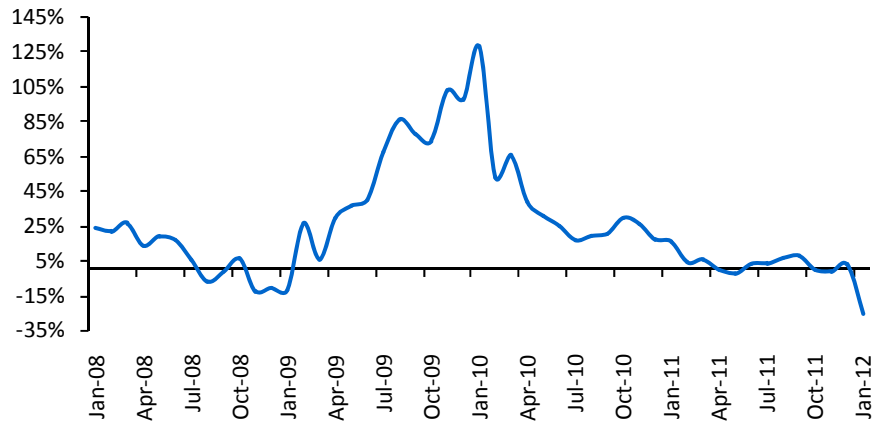
Exhibit 5: China money supply (YoY %)



Source: Bloomberg, PL Research

Growth in vehicle sales turned negative for the first time after 2008 global financial crisis

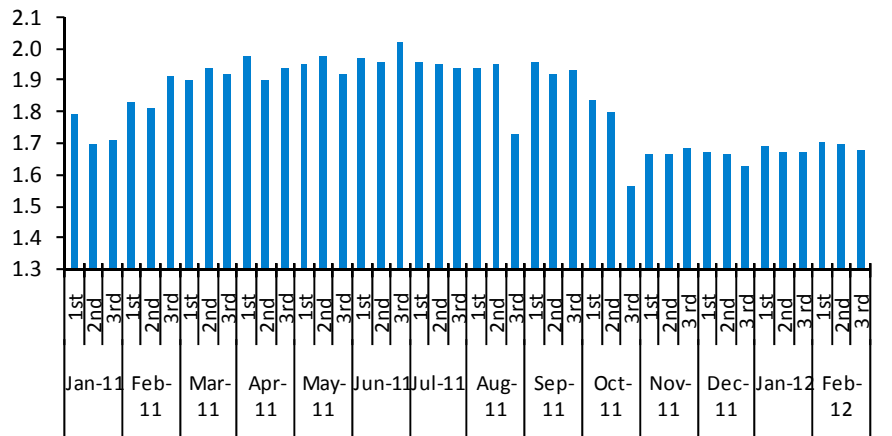
Exhibit 6: China Vehicle sales (YoY %)



Source: Bloomberg, PL Research

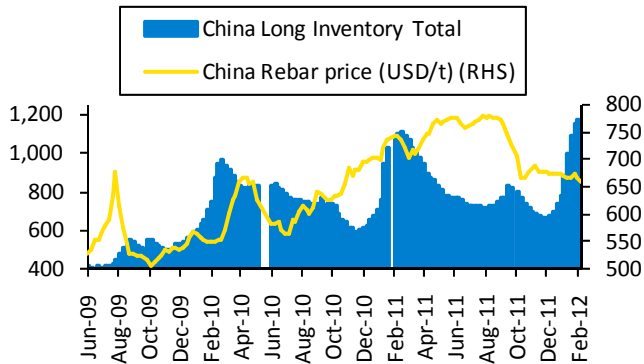
Given the sharp fall in demand and elevated inventory levels, industry retaliated with production cuts in CY12

Exhibit 7: China average daily steel output



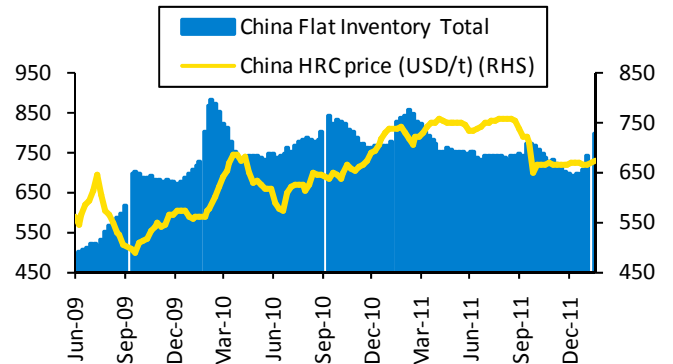
Source: CISA, PL Research

Exhibit 8: Weak construction activity pushed inventory at near highs



Source: Bloomberg, PL Research

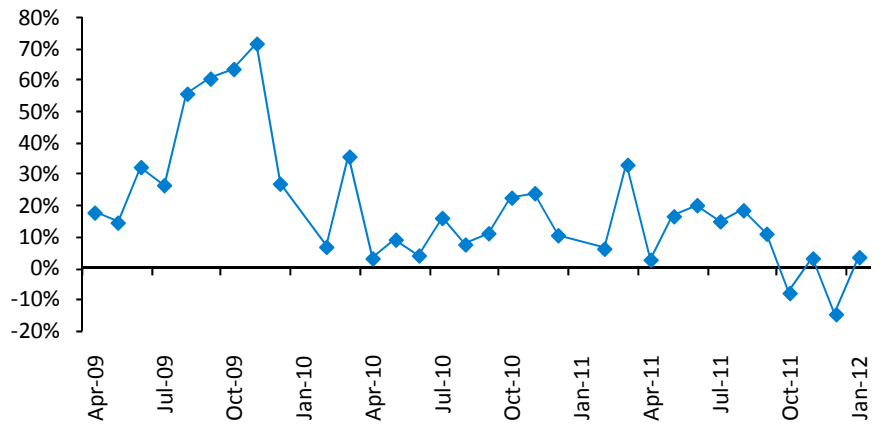
Exhibit 9: Flats inventory in control and hence, driving the prices



Source: Bloomberg, PL Research

Real estate construction activity remains sluggish owing to tight liquidity.

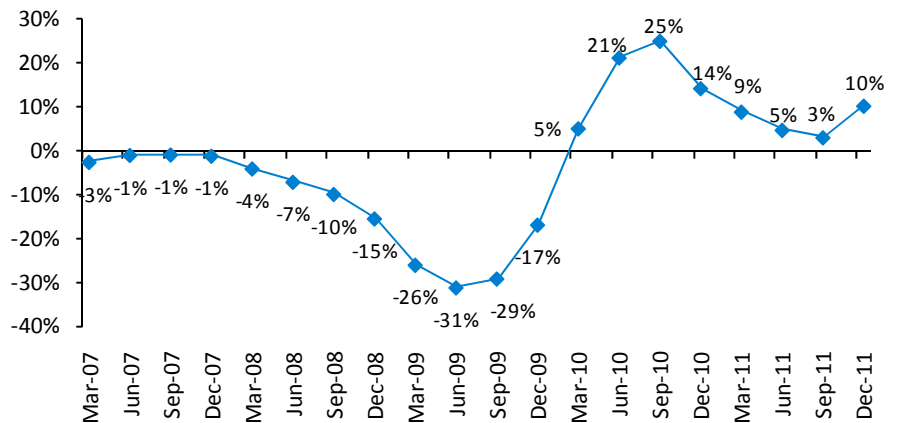
Exhibit 10: China Real estate projects under construction (YoY %)



Source: Bloomberg, PL Research

Strong private investments laid the foundation for sustained expansion in steel demand. Apparent consumption grew by 21% in January

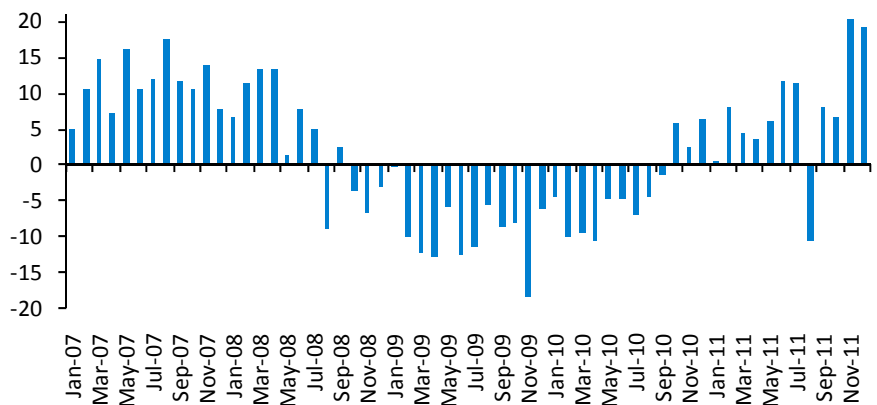
Exhibit 11: US Gross domestic private investment (YoY %)



Source: Bloomberg, PL Research

Increased credit availability propelled consumer demand

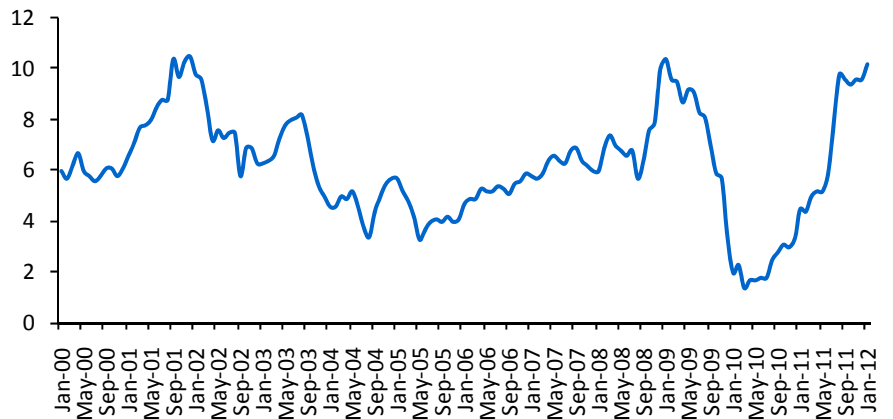
Exhibit 12: Change in Total Consumer credit (in billion \$)



Source: Bloomberg, PL Research

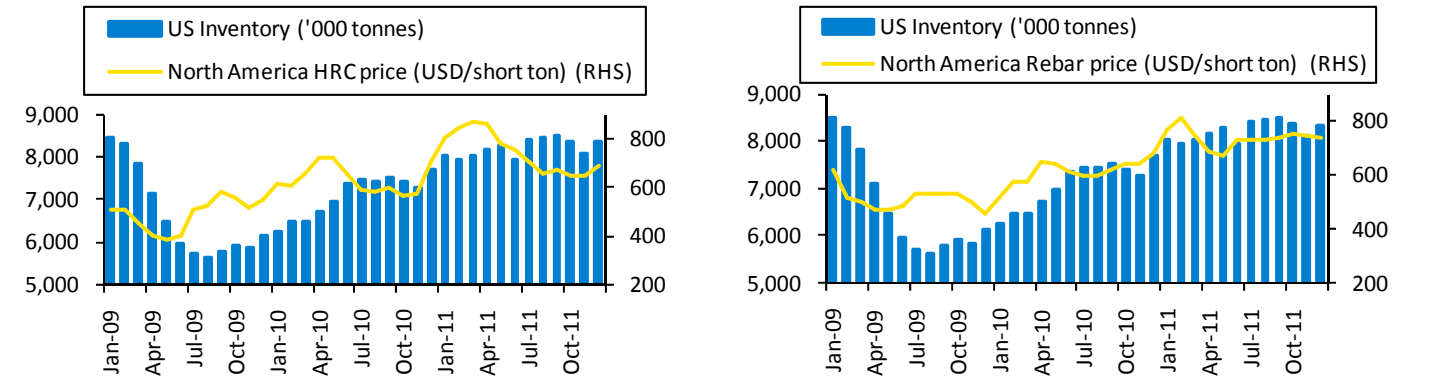
Thanks to strong liquidity injection associated with QEs, money supply rose to near-to-record high.

Exhibit 13: US money supply



Source: Bloomberg, PL Research

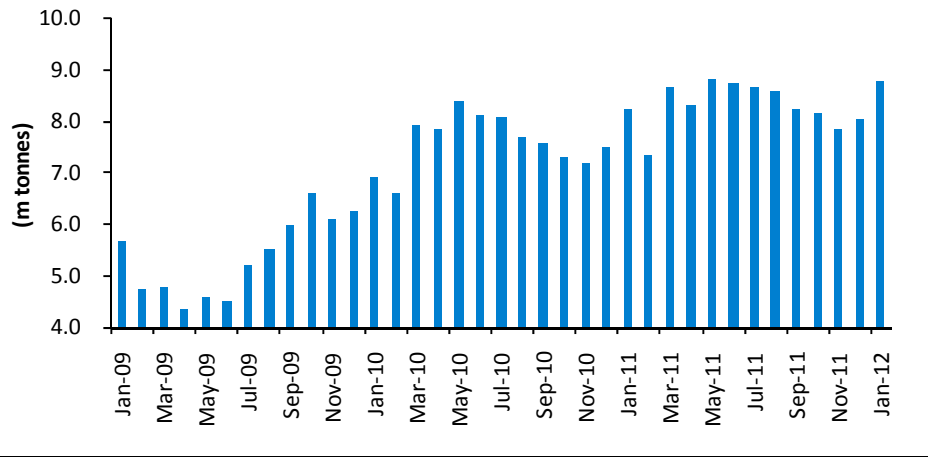
Exhibit 14: Strong demand outlook driving the inventory re-stocking



Source: Bloomberg, PL Research

Apparent steel consumption soared near to pre-crisis levels

Exhibit 15: US Apparent Consumption



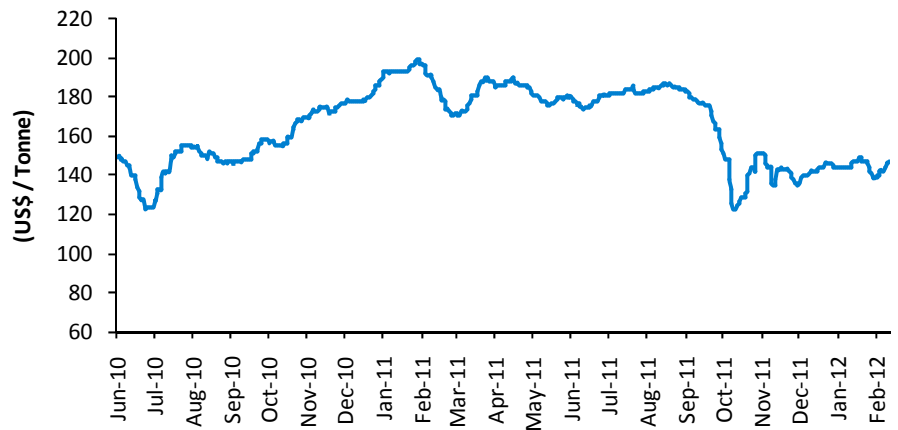
Source: Bloomberg, PL Research

Iron ore: Prices expected to remain firm

Benchmark of 63% Fe spot iron ore prices (CIF to Chinese ports) stabilised in the broad range of US\$135-145/tonne since beginning of November 2011. We expect mild strength in the iron ore prices during the next two quarters on the back of seasonal pick-up in China's steel production and demand, liquidity easing and increased taxes across all the iron ore supplying majors.

Iron ore prices have remained in the \$135-145/tonne range since November 2011

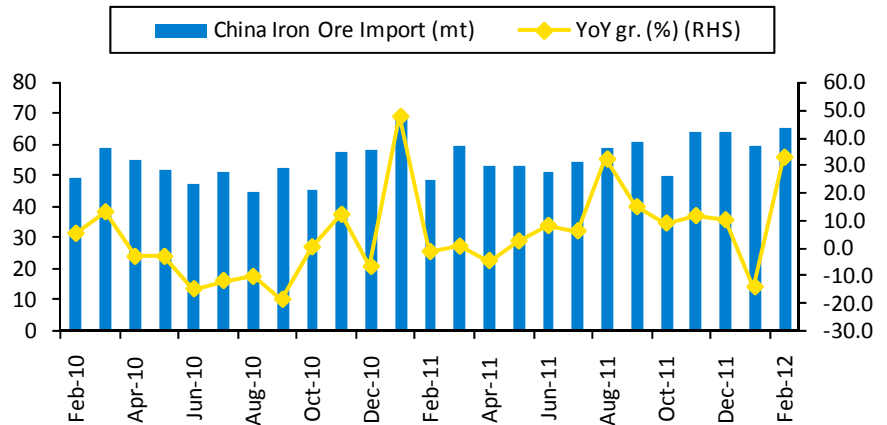
Exhibit 16: Iron ore prices



Source: Bloomberg, PL Research

China's Iron ore imports recovered strongly with 33% YoY at 65m tonnes in February

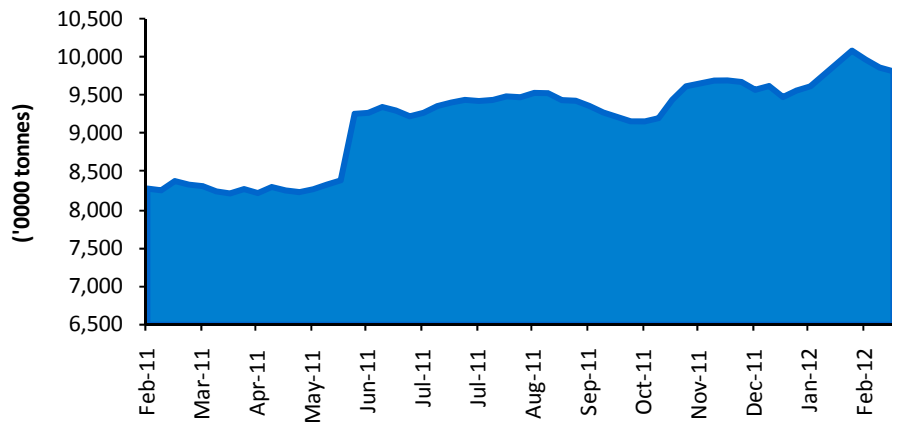
Exhibit 17: China Iron ore import volumes



Source: Bloomberg, PL Research

Iron ore inventory levels at Chinese ports continued to remain high at ~98mt as on end of February 2012

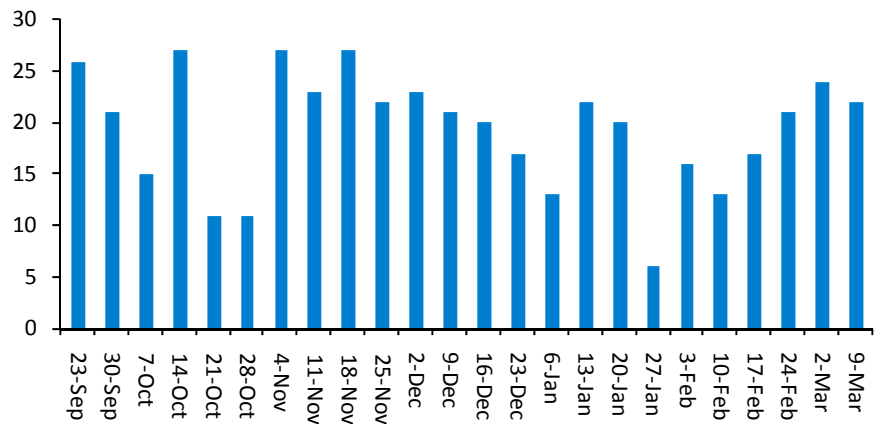
Exhibit 18: China Iron ore inventory



Source: Bloomberg, PL Research

Thanks to seasonal pick-up in steel production, spot shipment picked up

Exhibit 19: Vessels chartered to ship iron ore to China



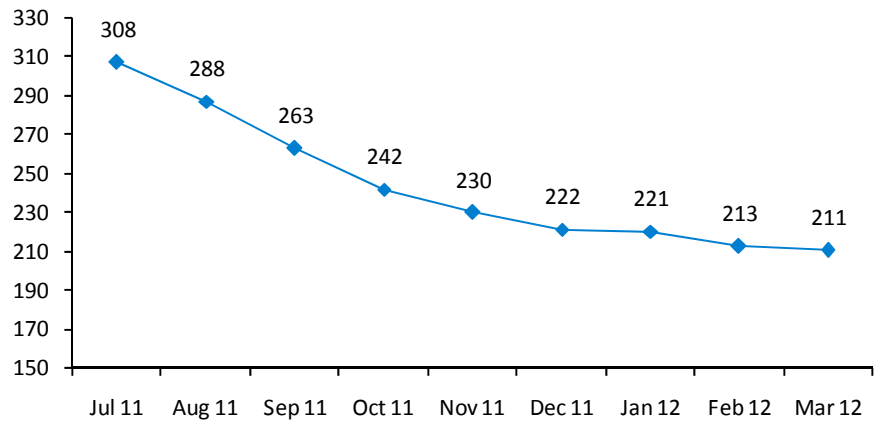
Source: Industry, PL Research

Coking coal: Remains weak; seems to have bottomed-out

Thanks to sluggish global steel demand and crowding of various new supplies, spot hard coking coal (HCC) prices fell almost to the two-year low of US\$210 (FoB-Australia) per tonne in March.

Coking coal prices fell by US\$100 in the past nine months

Exhibit 20: Coking coal prices (US\$ per tonne)



Source: Industry sources

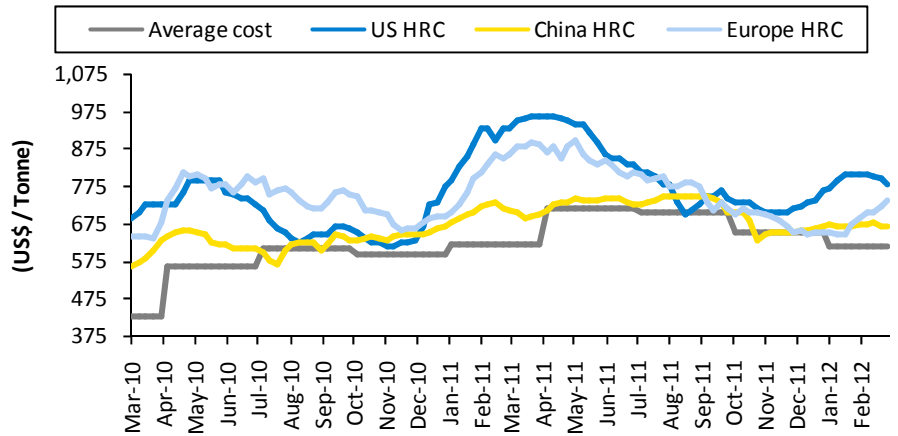
However, we believe that coking coal prices have bottomed-out and see the prices move upward to the range of US\$215-230, given the high production and capital cost of new supplies and likely case for restoration of steel production in developed markets because of highly profitable steel prices.

Price v/s cost dynamics: Stage set for restoration of supplies

Thanks to 20% and 25% reduction in iron ore and coking coal prices, respectively, marginal cost of production (CoP) for steel producers declined by ~US\$100/tonne since Q3CY11 end. Contrary to that, steel prices rose by ~US\$41 and US\$17/tonne in US and Europe respectively. However, prices remained weak in China with an average cut of US\$30/tonne while, prices remained weak-to-flat in rest of markets.

Cost of production for steel producers has declined by ~\$100/ tonne compared to Q3CY11 end

Exhibit 21: Average CoP versus steel prices



Source: Bloomberg, PL Research

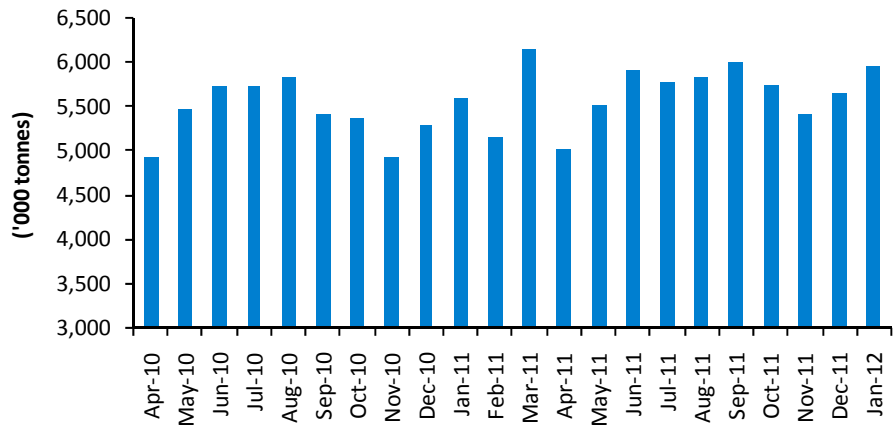
Given the current profitability levels and reduction in CoP by another US\$20/tonne (associated with 12% cut in HCC price at US\$206) in Q2CY12, we expect restoration of various closed facilities in Europe and increased utilisation levels at existing facilities in China and CIS. We see substantial downside risk in European and US steel prices, given the sizeable differential with the rest of world prices.

India: Long product's demand strong; flat products languish

Thanks to revival in long product's demand (up 7% YoY), India's steel consumption grew by 5.5% in Apr-Jan-2012 to ~57m tonnes despite lower growth at 4% in flat product's demand.

India steel consumption growth tepid on lacklustre flat products demand

Exhibit 22: India monthly steel consumption

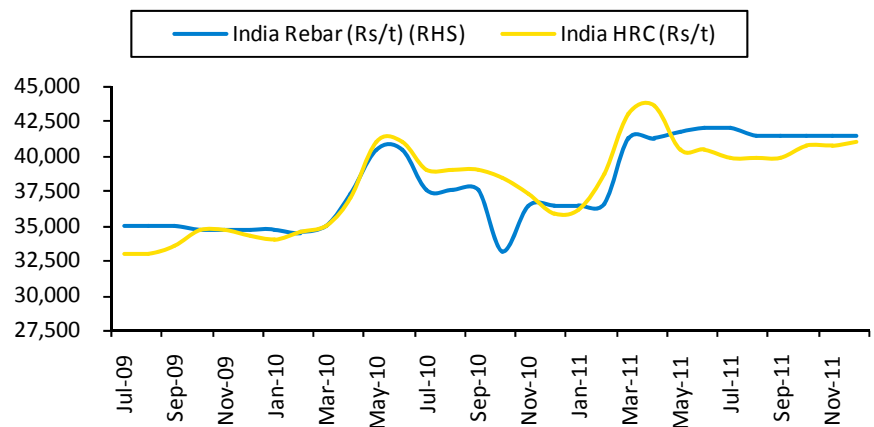


Source: JPC, PL Research

Long product prices remained firm on the back of strong demand, short supply of the products attributed to no major addition in the segment during last three years and delay in restoration of closed facilities in unorganised sector. We expect prices to remain stable during FY13 since markets would continue to remain in deficit due to reduced supplies.

Long product prices remains strong. Flat product prices under pressure due to increased supplies and weak demand.

Exhibit 23: India Steel prices (\$/t)

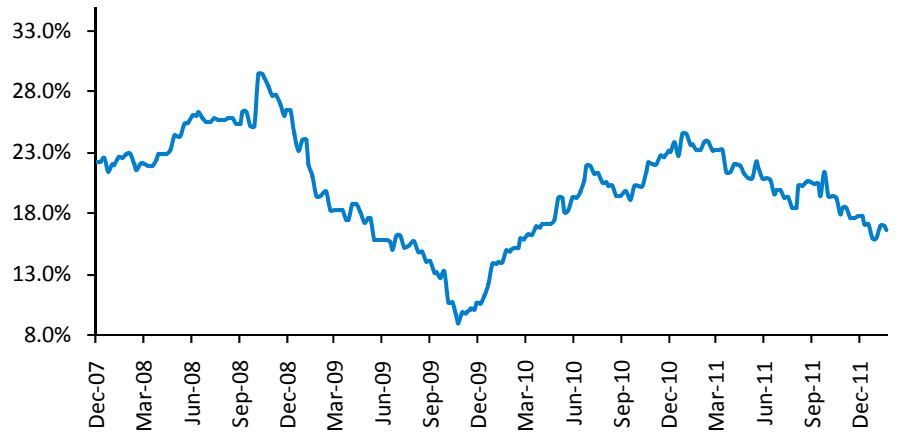


Source: Bloomberg, PL Research

Contrary to Long products, Flat product's prices remained subdued on account of weak demand and increased supplies from 5mtpa (JSW-3mtpa, Essar-2mtpa) capacity addition. The weakness could have been far higher had the 1) iron shortage not happened in Karnataka and 2) Gas unavailability and iron ore shortage not hit plants located in Maharashtra (JSW-Ispat-3.3mtpa) and Hazira (Essar-10mtpa). We expect prices to remain under pressure in FY13 and FY14 due to continued capacity addition which includes Tata's 3mtpa (FY13) and SAIL's 2mtpa at RSP (FY13 end).

Credit growth has moderated to ~17% versus levels of 20% + in 1H CY11

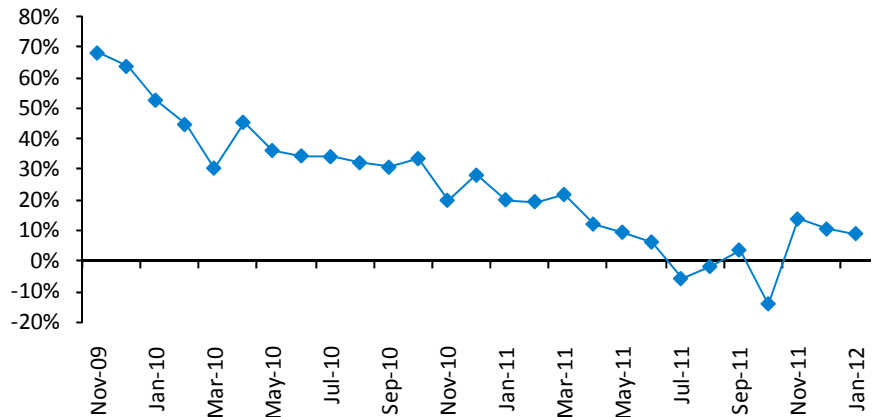
Exhibit 24: Credit Growth



Source: Bloomberg, PL Research

India vehicle sales growth have slowed down considerably since June 2011

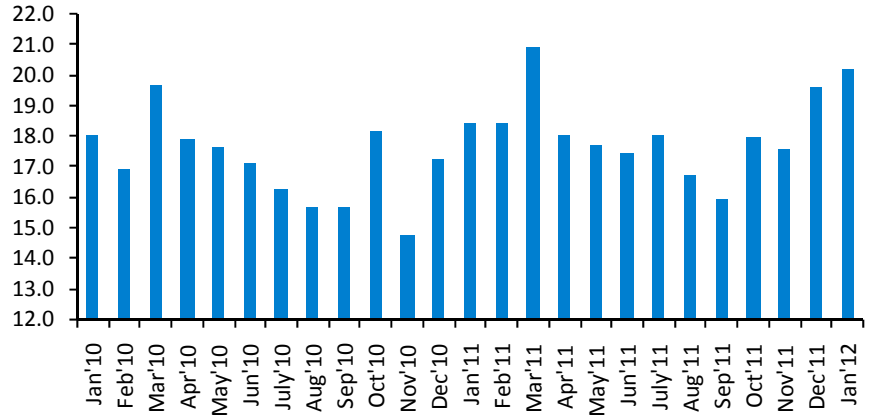
Exhibit 25: India vehicle sales (YoY % gr)



Source: Bloomberg, PL Research

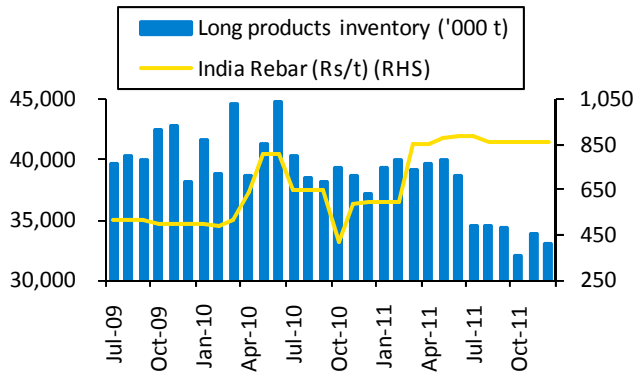
Exhibit 26: Cement demand

Cement demand witnessing a pick up in the last few months, increasing ~10% YoY in February 2012



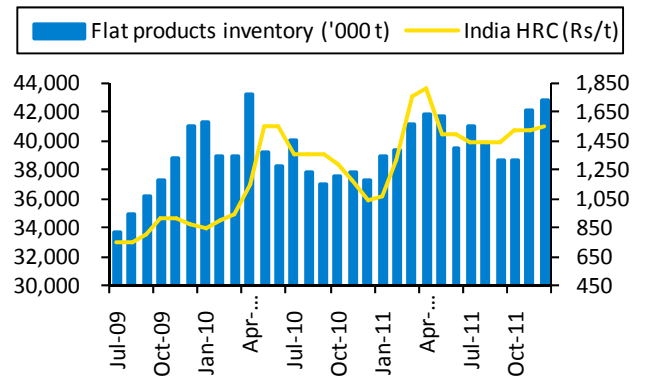
Source: Bloomberg, PL Research

Exhibit 27: Strong construction demand and reduced supplies



Source: Bloomberg, PL Research

Exhibit 28: Flats witnessing inventory built up on tepid demand



Source: Bloomberg, PL Research

Exhibit 29: Regionwise Steel Prices and Raw Material Prices

	Last Price	Units	1W	1M	3M	6M	12M
Flat Product Prices							
Northern Europe	720	US\$/Tonne	0.1	2.9	10.6	5.5	(13.3)
Southern Europe	688	US\$/Tonne	(0.1)	0.7	12.3	(0.5)	(16.0)
China	674	US\$/Tonne	0.2	(0.1)	1.5	(10.5)	(6.2)
United States of America	761	US\$/Tonne	(2.1)	(6.1)	3.6	1.5	(20.7)
Long Product Prices							
Northern Europe	806	US\$/Tonne	(0.4)	3.1	4.2	0.4	(6.1)
Southern Europe	747	US\$/Tonne	0.3	-	2.7	0.9	1.8
China	635	US\$/Tonne	0.9	(3.1)	(6.0)	(15.1)	(12.8)
United States of America	821	US\$/Tonne	(1.7)	(4.2)	0.7	2.1	-
Export Prices							
China HR Coil	633	US\$/Tonne	-	2.4	2.4	(11.2)	(15.7)
CIS HR Coil	630	US\$/Tonne	7.5	11.5	16.3	(5.6)	(7.5)
Raw Material							
Indian origin iron ore import for delivery to China (63% Fe)-CIF	148	US\$/Tonne	1.7	-	3.1	(21.7)	(15.5)
East Asia Scrap Import price CIF	468	US\$/Tonne	-	0.5	5.1	(7.0)	(5.6)
US domestic Scrap price	443	US\$/Long Tonne	0.6	(3.3)	4.7	(3.3)	(2.7)

Source: Bloomberg, PL Research

Exhibit 30:

	Currency	Price	M.cap (US\$ bn)	P/E (x)		EV/EBITDA (x)		P/B (x)	
				FY13	FY14	FY13	FY14	FY13	FY14
India									
SAIL	INR	100	8.1	10.2	9.1	8.7	7.5	1.1	1.0
Tata Steel	INR	461	8.9	11.3	6.8	6.1	5.1	1.6	1.4
Jindal Steel and Power	INR	605	11.2	11.8	10.4	9.2	7.3	2.4	2.0
JSW Steel	INR	784	3.4	9.6	8.2	5.6	5.3	1.0	0.9
Asia (Ex. India)									
POSCO	KRW	398,500	30.7	9.2	8.3	6.7	6.2	0.8	0.8
Nippon Steel	JPY	239	19.4	—	16.5	9.6	8.4	0.9	0.8
JFE Holdings Inc	JPY	1,801	13.3	—	17.1	9.2	8.4	0.7	0.7
Baoshan Iron & Steel Co Ltd	CNY	5	14.1	10.8	8.3	6.5	6.1	0.8	0.8
China Steel corp	TWD	30	15.5	22.9	22.9	15.5	15.0	1.6	1.6
Sumitomo steel	JPY	174	10.0	—	13.6	10.4	8.6	1.1	1.0
Angang Steel	CNY	5	5.3	—	25.2	11.7	7.7	0.7	0.7
Hyundai steel	KRW	103,500	7.6	8.1	7.1	8.0	7.2	0.8	0.7
Kobe Steel	JPY	139	5.2	—	20.7	7.2	6.6	0.8	0.8
Wuhan Iron & Steel	CNY	3	4.8	13.2	10.3	8.0	7.8	0.9	0.9
US & Europe									
Arcelor Mittal	EUR	15	32.1	9.6	6.7	5.7	4.9	0.5	0.5
ThyssenKrupp AG	EUR	20	13.4	25.1	8.7	6.2	4.4	1.1	1.0
Nucor Corp	USD	44	13.9	14.2	10.7	6.8	5.6	1.7	1.6
Voestalpine	EUR	27	5.9	9.8	8.1	5.6	5.1	1.0	0.9
United States Steel Corp	USD	28	4.4	11.5	8.1	5.3	4.4	1.1	1.0
Salzgitter	EUR	43	3.4	13.8	9.4	3.7	3.2	0.6	0.5
Russia									
Novolipetsk steel	RUB	69	14.1	3.6	2.8	7.2	6.2	1.3	1.2
Severstal	RUB	435	14.7	6.8	7.3	4.8	5.0	1.6	1.3
Magnitogorsk Iron and steel	RUB	14	5.5	54.3	11.9	6.5	5.9	0.5	0.5
Brazil									
CSN	BRL	19	15.4	9.2	11.2	6.2	5.9	2.8	2.4
Gerdau	BRL	19	17.1	13.8	10.1	7.7	6.2	1.2	1.1
Usiminas	BRL	18	8.8	47.1	18.9	12.6	7.8	1.0	1.0

Source: Bloomberg, PL Research



March 15, 2012

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Rating	Accumulate
Price	Rs461
Target Price	Rs495
Implied Upside	7.4%
Sensex	17,919
Nifty	5,464

(Prices as on March 14, 2012)
Trading data

Market Cap. (Rs bn)	441.7
Shares o/s (m)	958.5
3M Avg. Daily value (Rs m)	3776.7

Major shareholders

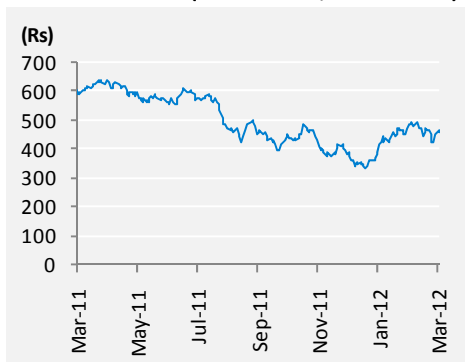
Promoters	30.73%
Foreign	12.95%
Domestic Inst.	28.73%
Public & Other	27.59%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.6)	(1.8)	(23.3)
Relative	(6.0)	(9.1)	(20.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	43.1	55.5	-22.4
2014	69.1	69.9	-22.4

Price Performance (RIC: TISC.BO, BB: TATA IN)

Source: Bloomberg

- Domestic earnings to grow in double digit despite headwinds on margins:** Domestic operations would face multiple headwinds in FY13 on account of sharp fall in iron ore and coking coal prices, high competitive intensity in flat products and reduced integration on coking coal. However, thanks to 17% volume growth attributed to partial benefit of 2.8mtpa brownfield expansion, FY13 EBITDA would manage to grow by 11% despite 5% decline in EBITDA per tonne at Rs16,564. EBITDA would further grow by 19% in FY14, driven by 17% volumes growth and scale benefits.
- Current hike in Europe prices driven by restocking; underlying real demand remains weak:** European steel prices rose by ~US\$69/t (YTD), attributed primarily to restocking, firm global prices and unreasonable fall in prices during Q4CY11. However, the underlying real demand continues to remain weak. Based on Eurofer's recent estimates, region's real demand is expected to fall by 1% in CY12 on the backdrop of weakness in construction, shipyard and tubes sector.
- Europe ops set to gain from correction in input prices:** Given the lower input prices, operation would benefit by reduction in CoP by US\$90-100/tonne and working capital release by US\$200m in FY13. Operations would further gain by closure of loss-making long product manufacturing units in UK and cost savings associated with rebuild of inefficient BF in Port Talbot in FY13.
- Maintain 'Accumulate' with TP of Rs495:** Despite sharp run-up in the stock price, stock continues to offer an attractive opportunity given the distress valuations of European operations at EV/tonne of US\$200, strong domestic operations and increased raw material self-sufficiency from current 33% to 50% in iron ore and 18% to 23% in coking coal (by FY13 end). We reiterate our 'Accumulate' rating with TP of Rs495; EV/EBITDA of 6.3x FY13E domestic earnings and 5x rest of operations.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	1,187,531	1,283,441	1,231,466	1,329,142
Growth (%)	16.0	8.1	(4.0)	7.9
EBITDA (Rs m)	159,956	130,778	159,324	191,152
PAT (Rs m)	59,337	25,126	41,855	67,105
EPS (Rs)	61.9	25.9	43.1	69.1
Growth (%)	(503.1)	(58.2)	66.6	60.3
Net DPS (Rs)	12.0	15.0	18.0	22.0

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	13.5	10.2	12.9	14.4
RoE (%)	20.3	6.6	10.1	15.1
RoCE (%)	8.7	4.4	6.4	9.0
EV / sales (x)	0.8	0.7	0.8	0.7
EV / EBITDA (x)	5.8	7.2	6.0	5.1
PE (x)	7.4	17.8	10.7	6.7
P / BV (x)	1.2	1.1	1.1	1.0
Net dividend yield (%)	2.6	3.3	3.9	4.8

Source: Company Data; PL Research

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Operating Metrics

Y/e March	FY11	FY12E	FY13E	FY14E
Domestic operations				
Revenue (Rs m)	293,964	335,931	385,210	448,545
EBITDA (Rs m)	114,329	114,563	127,270	151,484
Volume	6.4	6.6	7.7	9.0
Realisation per tonne	33,620	39,805	39,930	40,708
Iron ore cost per tonne	764	873	917	963
Coking coal cost per tonne	6,748	9,581	9,245	9,315
Total cost per tonne	28,066	33,607	33,570	33,185
EBITDA per tonne	17,863	17,392	16,564	16,923
Corus				
Volume	14.8	14.0	13.0	13.5
Realisation per tonne (US\$)	1,135	1,180	1,110	1,130
EBITDA per tonne (US\$)	53	30	44	48
South East Asian operations				
Volume	3.3	3.5	3.5	3.8
Realisation per tonne (US\$)	772	820	800	850
EBITDA per tonne (US\$)	24	10	20	20
Others				
Revenue (US\$ m)		270	300	370
EBITDA (US\$ m)		-110	40	40

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	1,187,531	1,283,441	1,231,466	1,329,142
Raw Material Expenses	525,785	553,278	493,185	523,475
Gross Profit	661,746	730,163	738,281	805,667
Employee Cost	152,869	195,953	203,707	216,218
Other Expenses	348,920	403,432	375,250	398,296
EBITDA	159,956	130,778	159,324	191,152
Depr. & Amortization	44,148	46,054	51,641	53,616
Net Interest	27,700	29,056	35,731	37,500
Other Income	32,912	41,373	2,093	2,260
Profit before Tax	121,020	97,042	74,045	102,296
Total Tax	32,459	34,117	34,306	39,753
Profit after Tax	88,560	62,924	39,739	62,543
Ex-Od items / Min. Int.	30,550	39,258	657	3,907
Adj. PAT	59,337	25,126	41,855	67,105
Avg. Shares O/S (m)	958.7	970.7	970.7	970.7
EPS (Rs.)	61.9	25.9	43.1	69.1

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	64,629	92,834	136,291	134,866
C/F from Investing	(83,785)	(66,160)	(95,993)	(95,946)
C/F from Financing	59,930	(65,105)	(91,314)	(62,617)
Inc. / Dec. in Cash	40,774	(38,432)	(51,016)	(23,698)
Opening Cash	68,151	108,926	70,494	19,478
Closing Cash	108,926	70,494	19,478	(4,219)
FCFF	14,911	(118,769)	41,693	78,572
FCFE	105,751	(144,581)	5,262	75,572

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	16.0	8.1	(4.0)	7.9
EBITDA (%)	98.9	(18.2)	21.8	20.0
PAT (%)	(535.8)	(57.7)	66.6	60.3
EPS (%)	(503.1)	(58.2)	66.6	60.3
Profitability				
EBITDA Margin (%)	13.5	10.2	12.9	14.4
PAT Margin (%)	5.0	2.0	3.4	5.0
RoCE (%)	8.7	4.4	6.4	9.0
RoE (%)	20.3	6.6	10.1	15.1
Balance Sheet				
Net Debt : Equity	1.4	1.2	1.2	1.1
Net Wrkng Cap. (days)	27	24	14	17
Valuation				
PER (x)	7.4	17.8	10.7	6.7
P / B (x)	1.2	1.1	1.1	1.0
EV / EBITDA (x)	5.8	7.2	6.0	5.1
EV / Sales (x)	0.8	0.7	0.8	0.7
Earnings Quality				
Eff. Tax Rate	26.8	35.2	46.3	38.9
Other Inc / PBT	2.7	3.8	2.8	2.2
Eff. Depr. Rate (%)	4.5	4.0	4.2	4.3
FCFE / PAT	178.2	(575.4)	12.6	112.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	355,639	406,112	425,557	466,033
Total Debt	621,843	596,032	559,601	556,601
Other Liabilities	39,739	44,621	49,250	53,860
Total Liabilities	1,017,222	1,046,765	1,034,407	1,076,494
Net Fixed Assets	523,934	596,782	644,239	691,598
Goodwill	152,982	152,982	152,982	152,982
Investments	46,908	32,086	34,742	38,977
Net Current Assets	291,643	263,159	200,690	191,181
<i>Cash & Equivalents</i>	<i>140,492</i>	<i>102,060</i>	<i>51,044</i>	<i>27,347</i>
<i>Other Current Assets</i>	<i>488,760</i>	<i>535,406</i>	<i>507,197</i>	<i>542,670</i>
<i>Current Liabilities</i>	<i>337,610</i>	<i>374,307</i>	<i>357,552</i>	<i>378,835</i>
Other Assets	1,756	1,756	1,756	1,756
Total Assets	1,017,222	1,046,765	1,034,407	1,076,494

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	338,227	330,002	327,979	331,031
EBITDA	44,661	44,229	27,500	17,173
<i>% of revenue</i>	<i>13.2</i>	<i>13.4</i>	<i>8.4</i>	<i>5.2</i>
Depr. & Amortization	11,664	11,508	11,088	11,640
Net Interest	7,655	7,377	7,161	7,069
Other Income	2,116	(368)	1,204	1,383
Profit before Tax	50,252	64,167	10,456	(153)
Total Tax	8,764	11,230	9,065	6,720
Profit after Tax	41,756	53,466	2,124	(6,022)
Adj. PAT	18,962	14,274	2,124	(6,022)

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Rev. Indian Op. (US\$ m)	6,450	7,147	8,196	9,544
Rev. Corus (US\$ m)	16,841	16,520	14,430	15,255
Rev. South East (US\$ m)	2,510	2,870	2,800	3,230
EBITDA-India (US\$ m)	2,509	2,438	2,708	3,223
EBITDA-Corus (US\$ m)	780	420	572	648
EBITDA-South East (US\$ m)	79.0	35.0	70.0	76.0
Volume (mt)-India	6.4	6.6	7.7	9.0
Real./ Tonne- India (Rs)	33,620	39,805	39,930	40,708
EBITDA/Tonne- India (Rs)	17,863	17,392	16,564	16,923
SalesVol.-Corus (mt)	14.8	14.0	13.0	13.5
Real./Tonne-Corus (US\$)	1,134.8	1,180.0	1,110.0	1,130.0
EBITDA/Tonne-Corus (US\$)	52.6	30.0	44.0	48.0
Sales Vol.-South East (mt)	3.3	3.5	3.5	3.8
Real./Tonne-SEAN (US\$)	771.8	820.0	800.0	850.0
EBITDA/Tonne-SEAN (US\$)	24.3	10.0	20.0	20.0

Source: Company Data, PL Research.

March 15, 2012

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Rating	Reduce
Price	Rs605
Target Price	Rs625
Implied Upside	3.3%
Sensex	17,919
Nifty	5,464

(Prices as on March 14, 2012)

Trading data

Market Cap. (Rs bn)	563.3
Shares o/s (m)	931.2
3M Avg. Daily value (Rs m)	1299.4

Major shareholders

Promoters	58.58%
Foreign	21.30%
Domestic Inst.	7.79%
Public & Other	12.33%

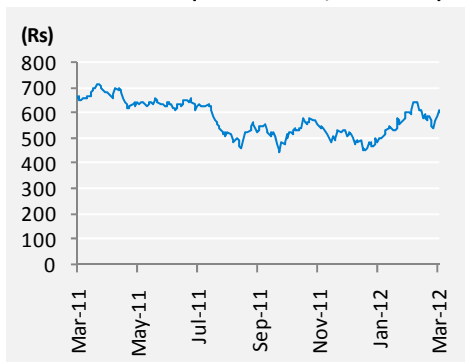
Stock Performance

(%)	1M	6M	12M
Absolute	1.0	11.5	(8.9)
Relative	0.6	4.3	(6.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	51.2	48.0	6.6
2014	58.9	61.7	6.6

Price Performance (RIC: JNSP.BO, BB: JSP IN)



Source: Bloomberg

- Fuel security assured for 2400MW with PMOs recent directives on FSAs:** The new FSAs will assure coal availability for a period of 20 (earlier 5) years at 80% (earlier 50%) of the requirement. The enhanced domestic coal availability would marginalize Jindal Power's dependence on supplies expected from captive mines in Mozambique and Indonesia for its upcoming 2400MW power plant (expected during H2FY14) in Chhattisgarh with all-round profitability improvement.
- Mining lease for Utkal B1 coal mine struck:** Grant of mining lease for Utkal B-1 coal mine (capacity of 6mtpa) is struck due to Govt. of Odisha's demand for 33% of the power generated from washery rejects at free of cost. Otherwise, the company has secured all other clearances and also acquired ~75% of the required land. The mine would feed steel plant's entire coal requirement, while would meet 50% of power plant's requirement. Hence, the activity on the coal mine would stand as the most crucial milestone for profitability of JSPL's 810MW (135MWX6) and 1.6mtpa steel plant at Angul, Odisha. We expect 1.5m tonnes of coal production from these mines in FY14.
- Production from overseas coal assets still far away:** On the backdrop of average quality of Indonesian coal mines, increased regulatory intervention and logistics bottlenecks in Mozambique, we don't expect any meaningful contribution from overseas coal assets in the next couple of years.
- Downgrade to Reduce with TP of Rs625:** Given the sharp run-up in the stock price and expensive valuations, we downgrade our rating on the stock from 'BUY' to 'Reduce' with TP of Rs625. However, we continue to like JSPL's strong structural play on resources and attractive returns profile.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	131,116	181,512	223,020	274,265
Growth (%)	18.2	38.4	22.9	23.0
EBITDA (Rs m)	63,433	71,477	82,179	102,980
PAT (Rs m)	37,539	40,934	47,796	55,031
EPS (Rs)	40.2	43.8	51.2	58.9
Growth (%)	4.7	9.0	16.8	15.1
Net DPS (Rs)	1.5	1.9	2.2	2.5

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	48.4	39.4	36.8	37.5
RoE (%)	30.6	25.5	23.6	21.9
RoCE (%)	16.5	13.8	13.4	14.1
EV / sales (x)	5.3	4.0	3.4	2.8
EV / EBITDA (x)	11.0	10.2	9.1	7.4
PE (x)	15.1	13.8	11.8	10.3
P / BV (x)	4.0	3.1	2.5	2.0
Net dividend yield (%)	0.3	0.3	0.4	0.4

Source: Company Data; PL Research

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Operating Metrics

	FY11	FY12E	FY13E	FY14E
Steel business				
Sales Volume (000 tonnes)	1,925	2,351	2,795	3,771
Net realisation (Rs/Tonnes)	31,515	34,840	34,776	35,600
<i>% change</i>	<i>19.2</i>	<i>10.6</i>	<i>(0.2)</i>	<i>2.4</i>
Net sales	95,736	123,330	164,975	208,254
<i>% change</i>	<i>29.9</i>	<i>28.8</i>	<i>33.8</i>	<i>26.2</i>
EBITDA	36,091	42,840	54,810	73,463
<i>% change</i>	<i>44.1</i>	<i>18.7</i>	<i>27.9</i>	<i>34.0</i>
Net profit	20,841	23,211	30,225	37,113
<i>% change</i>	<i>40.2</i>	<i>11.4</i>	<i>30.2</i>	<i>22.8</i>
Jindal power Ltd (JPL)				
Unit sales (Mn KWH)	7,812	7,812	7,812	7,174
Realised rate/KWH	4.3	3.9	3.7	3.7
Net revenue	33,592	30,077	28,905	26,545
<i>% change</i>	<i>(18.5)</i>	<i>(10.5)</i>	<i>(3.9)</i>	<i>(8.2)</i>
EBITDA	28,614	23,499	22,243	20,182
<i>% Margin</i>	<i>85.2</i>	<i>78.1</i>	<i>77.0</i>	<i>76.0</i>
Net profit	19,627	17,623	17,823	17,374
Shadeed				
Sales volume (000 tonnes)	—	1,140	1,200	1,275
Realisation per tonne (US\$)	—	450	450	450
Cost per tonne (US\$)	—	376	376	375
EBITDA per tonne (US\$)	—	74	74	75
Revenue (US\$ m)	—	513	540	574
EBITDA (US\$ m)	—	84	89	95
PAT (US\$ m)	—	45	50	56

Source: Company Data, PL Research

SOTP valuation

	FY13	Multiple on FY13	Value (Rs m)
Standalone Power EBITDA	8,966	6.5	58,280
Steel EBITDA	45,844	6.0	275,065
South Africa coal mines	940	6.0	5,640
Shadeed EBITDA	4,186	5.5	23,022
CWIP in Steel business			93,180
JPL			311,961
Equity valuation of 1000MW			203,130
Equity valuation of 2400MW			48,755
Gross debt of 2400MW			60,076
Net debt			185,241
Total Shareholder's value			581,907
Value per share			625

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	131,116	181,512	223,020	274,265
Raw Material Expenses	67,683	110,035	140,841	171,284
Gross Profit	63,433	71,477	82,179	102,980
Employee Cost	—	—	—	—
Other Expenses	—	—	—	—
EBITDA	63,433	71,477	82,179	102,980
Depr. & Amortization	11,510	14,134	14,813	20,464
Net Interest	3,589	5,420	7,059	13,119
Other Income	1,546	1,910	2,973	4,225
Profit before Tax	49,880	53,833	63,280	73,623
Total Tax	11,840	12,428	15,006	18,118
Profit after Tax	38,040	41,405	48,274	55,505
Ex-Od items / Min. Int.	(501)	(471)	(478)	(474)
Adj. PAT	37,539	40,934	47,796	55,031
Avg. Shares O/S (m)	934.3	934.3	934.3	934.3
EPS (Rs.)	40.2	43.8	51.2	58.9

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	40,321	50,615	65,754	84,847
C/F from Investing	(85,862)	(75,042)	(75,883)	(77,212)
C/F from Financing	49,215	23,940	9,605	(8,325)
Inc. / Dec. in Cash	3,675	(487)	(525)	(690)
Opening Cash	1,128	4,802	4,315	3,791
Closing Cash	4,802	4,315	3,791	3,101
FCFF	(31,011)	(487)	(40,871)	63,817
FCFE	22,712	30,314	(22,160)	71,001

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	18.2	38.4	22.9	23.0
EBITDA (%)	8.3	12.7	15.0	25.3
PAT (%)	5.1	9.0	16.8	15.1
EPS (%)	4.7	9.0	16.8	15.1
Profitability				
EBITDA Margin (%)	48.4	39.4	36.8	37.5
PAT Margin (%)	28.6	22.6	21.4	20.1
RoCE (%)	16.5	13.8	13.4	14.1
RoE (%)	30.6	25.5	23.6	21.9
Balance Sheet				
Net Debt : Equity	1.0	0.9	0.8	0.7
Net Wrkng Cap. (days)	(16)	1	17	7
Valuation				
PER (x)	15.1	13.8	11.8	10.3
P / B (x)	4.0	3.1	2.5	2.0
EV / EBITDA (x)	11.0	10.2	9.1	7.4
EV / Sales (x)	5.3	4.0	3.4	2.8
Earnings Quality				
Eff. Tax Rate	23.7	23.1	23.7	24.6
Other Inc / PBT	3.6	3.5	4.7	5.7
Eff. Depr. Rate (%)	6.0	6.0	4.5	6.1
FCFE / PAT	60.5	74.1	(46.4)	129.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	141,103	179,990	225,396	277,675
Total Debt	139,766	170,567	189,277	196,461
Other Liabilities	12,389	14,564	17,351	20,761
Total Liabilities	293,258	365,121	432,024	494,897
Net Fixed Assets	248,844	308,095	367,823	423,229
Goodwill	1,018	1,018	1,018	1,018
Investments	2,733	2,733	2,733	2,733
Net Current Assets	40,460	53,071	60,246	67,713
<i>Cash & Equivalents</i>	<i>5,048</i>	<i>4,561</i>	<i>4,037</i>	<i>3,346</i>
<i>Other Current Assets</i>	<i>103,061</i>	<i>132,881</i>	<i>160,588</i>	<i>199,485</i>
<i>Current Liabilities</i>	<i>67,649</i>	<i>84,371</i>	<i>104,378</i>	<i>135,118</i>
Other Assets	204	204	204	204
Total Assets	293,258	365,121	432,024	494,897

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	38,481	39,402	44,066	43,545
EBITDA	17,210	16,217	16,872	17,389
<i>% of revenue</i>	<i>44.7</i>	<i>41.2</i>	<i>38.3</i>	<i>39.9</i>
Depr. & Amortization	3,345	3,250	3,343	3,313
Net Interest	900	1,073	1,255	1,443
Other Income	670	324	419	458
Profit before Tax	13,636	12,218	11,951	13,351
Total Tax	3,619	2,888	3,033	3,192
Profit after Tax	9,951	9,188	8,754	9,967
Adj. PAT	9,951	9,188	9,307	9,769

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Standalone operations				
Metallics Sales (Tonnes)	315,583	150,910	197,064	197,065
Steel Prod. Sales (Tonnes)	1,925,322	2,350,822	2,794,806	3,771,278
Steel Sales Vol. (Tonnes)	2,240,905	2,501,732	2,991,870	3,968,342
Real. / tn-Steel	31,515	34,840	34,776	35,600
JSPL-Pwr (m kwh)	931	1,804	8,151	8,296
JSPL-Real/ Kwh	3	3	3	3
Stdalon Steel EBITDA(Rs m)	34,845	40,675	42,584	61,019
Stdalon Pwr EBITDA(Rs m)	1,247	2,165	12,227	12,444
Stdalon Total EBITDA (Rs m)	36,091	42,840	54,810	73,463
Stdalon PAT (Rs m)	20,641	23,211	30,225	37,113
Jindal Power Ltd				
JPL-Kwh sold (m)	7,314	7,812	7,812	7,174
JPL-Rate / Kwh	5	4	4	4
JPL-EBITDA(Rsm)	27,216	30,077	28,905	26,545
JPL-PAT (Rs m)	20,016	17,623	17,823	17,374
Shadeed iron and Steel				
Shadeed EBITDA (US\$ m)	—	84	89	95
PAT (US\$ m)	—	45	50	56

Source: Company Data, PL Research.

March 15, 2012

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Rating	Reduce
Price	Rs100
Target Price	Rs103
Implied Upside	3.0%
Sensex	17,919
Nifty	5,464

(Prices as on March 15, 2012)

Trading data

Market Cap. (Rs bn)	414.9
Shares o/s (m)	4,130.4
3M Avg. Daily value (Rs m)	556.5

Major shareholders

Promoters	85.82%
Foreign	3.26%
Domestic Inst.	7.92%
Public & Other	3.00%

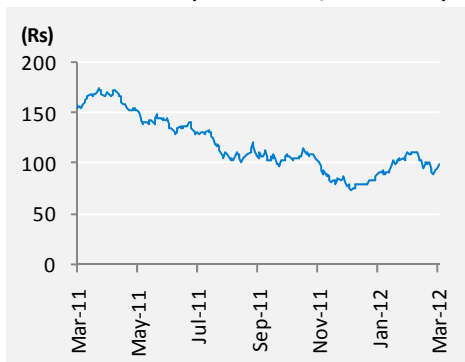
Stock Performance

(%)	1M	6M	12M
Absolute	(9.2)	(8.2)	(37.1)
Relative	(9.6)	(15.5)	(34.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	11.1	10.8	3.1
2014	12.9	13.7	3.1

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



Source: Bloomberg

■ **Volume growth slipping due to continuous project delays:** SAIL continues to disappoint on the execution of its expansion projects. It announced a delay of 6 months in commissioning of its most advanced 2mtpa expansion at IISCO with revised schedule of March-2013; 15 months behind the original schedule. Along with IISCO, company guided a quarter's delay at 2mtpa expansion at Rourkela unit (RSP) with revised schedule of FY13 end. Management had guided for incremental volumes of 1m and 2m tonnes in FY13 and FY14, respectively. However, we believe that guidance runs at a significant downside risk, given the high probability of further delays and poor track-record on ramp-up of facilities.

■ **Wage revision concerns overdone:** The overall wage increase for non-executives (effective January 1, 2012) like the last agreement, looks unlikely this time, given the depressed earnings and leveraged balance sheet. In addition to that, the increase in wage bill last time was exacerbated by sharp increase in superannuation benefits and perquisites from ~18% to 30% and ~20% to 46% of revised basic pay (BP), respectively. We expect an overall increase of 25% (effective hike ~34% in last revision) in wages for non-executives (~50% of total wage bill) amounting to ~Rs10bn on annualised basis.

■ **Valuation in discomfort zone even on normalised earnings:** Assuming 100% utilisation on the expanded capacity (20mtpa) and normalised EBITDA per tonne of Rs7000/tonne in FY14, stock trades at EV/EBITDA of 5x FY14E. Valuations look expensive in the light of the fact that expansions would attain peak capacity utilisations only by the mid/end of FY15. We maintain our '**Reduce**' rating with TP of Rs103.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	427,202	451,274	494,367	580,021
Growth (%)	5.3	5.6	9.5	17.3
EBITDA (Rs m)	69,751	61,312	74,967	100,479
PAT (Rs m)	48,813	42,243	45,895	53,097
EPS (Rs)	11.8	10.2	11.1	12.9
Growth (%)	(27.5)	(13.5)	8.6	15.7
Net DPS (Rs)	2.4	2.6	2.4	2.8

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	16.3	13.6	15.2	17.3
RoE (%)	13.9	11.0	11.0	11.7
RoCE (%)	9.7	7.7	7.4	7.8
EV / sales (x)	1.0	1.1	1.2	1.2
EV / EBITDA (x)	6.3	8.3	7.9	6.8
PE (x)	8.5	9.8	9.0	7.8
P / BV (x)	1.1	1.0	1.0	0.9
Net dividend yield (%)	2.4	2.6	2.4	2.8

Source: Company Data; PL Research

Operating Metrics

Y/e March	FY11	FY12E	FY13E	FY14E
Volume	11.9	11.3	12.8	14.8
Realisation per tonne	34,504	38,423	37,202	37,712
Iron ore cost per tonne	1,013	1,115	1,170	1,229
Coking coal cost per tonne	11,021	13,121	11,689	11,796
Total cost per tonne	30,191	34,361	32,722	32,345
EBITDA per tonne	5,767	5,403	5,849	6,777

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	427,202	451,274	494,367	580,021
Raw Material Expenses	189,094	228,940	237,418	274,398
Gross Profit	238,108	222,335	256,949	305,623
Employee Cost	76,274	81,951	90,064	93,666
Other Expenses	92,083	79,072	91,919	111,477
EBITDA	69,751	61,312	74,967	100,479
Depr. & Amortization	14,843	16,033	19,665	28,005
Net Interest	4,725	7,581	10,150	16,361
Other Income	20,350	23,524	21,363	20,840
Profit before Tax	70,534	61,221	66,514	76,953
Total Tax	22,758	18,979	20,619	23,855
Profit after Tax	47,776	42,243	45,895	53,097
Ex-Od items / Min. Int.	(1,037)	—	—	—
Adj. PAT	48,813	42,243	45,895	53,097
Avg. Shares O/S (m)	4,130.4	4,130.4	4,130.4	4,130.4
EPS (Rs.)	11.8	10.2	11.1	12.9

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	21,560	59,905	62,454	78,072
C/F from Investing	(89,333)	(108,421)	(126,015)	(132,178)
C/F from Financing	18,170	43,397	47,201	43,765
Inc. / Dec. in Cash	(49,602)	(5,118)	(16,360)	(10,341)
Opening Cash	224,029	174,431	169,313	152,953
Closing Cash	174,431	169,313	152,953	142,612
FCFF	(1,868)	41,442	(99,547)	(345,415)
FCFE	34,675	103,942	(29,547)	(272,915)

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	5.3	5.6	9.5	17.3
EBITDA (%)	(23.2)	(12.1)	22.3	34.0
PAT (%)	(27.5)	(13.5)	8.6	15.7
EPS (%)	(27.5)	(13.5)	8.6	15.7

Profitability

EBITDA Margin (%)	16.3	13.6	15.2	17.3
PAT Margin (%)	11.4	9.4	9.3	9.2
RoCE (%)	9.7	7.7	7.4	7.8
RoE (%)	13.9	11.0	11.0	11.7

Balance Sheet

Net Debt : Equity	0.1	0.2	0.4	0.6
Net Wrkng Cap. (days)	32	19	17	24

Valuation

PER (x)	8.5	9.8	9.0	7.8
P / B (x)	1.1	1.0	1.0	0.9
EV / EBITDA (x)	6.3	8.3	7.9	6.8
EV / Sales (x)	1.0	1.1	1.2	1.2

Earnings Quality

Eff. Tax Rate	32.3	31.0	31.0	31.0
Other Inc / PBT	29.9	38.4	32.1	27.1
Eff. Depr. Rate (%)	3.9	3.9	3.4	2.8
FCFE / PAT	71.0	246.1	(64.4)	(514.0)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	370,695	400,265	434,685	474,508
Total Debt	201,655	264,155	334,155	406,655
Other Liabilities	14,911	15,523	18,183	22,031
Total Liabilities	587,260	679,942	787,024	903,194
Net Fixed Assets	373,085	482,052	602,386	719,381
Goodwill	—	—	—	—
Investments	6,841	6,841	6,841	6,841
Net Current Assets	207,334	191,049	177,796	176,972
<i>Cash & Equivalents</i>	<i>174,789</i>	<i>169,670</i>	<i>153,311</i>	<i>142,969</i>
<i>Other Current Assets</i>	<i>206,115</i>	<i>202,518</i>	<i>207,603</i>	<i>233,125</i>
<i>Current Liabilities</i>	<i>173,570</i>	<i>181,139</i>	<i>183,118</i>	<i>199,122</i>
Other Assets	—	—	—	—
Total Assets	587,260	679,942	787,024	903,194

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	119,447	108,109	108,367	105,938
EBITDA	21,187	12,080	11,842	14,462
<i>% of revenue</i>	<i>17.7</i>	<i>11.2</i>	<i>10.9</i>	<i>13.7</i>
Depr. & Amortization	3,856	3,742	3,938	4,093
Net Interest	1,746	1,710	2,000	1,855
Other Income	6,292	5,781	6,332	5,189
Profit before Tax	21,877	12,293	7,149	9,040
Total Tax	6,805	3,913	2,203	2,716
Profit after Tax	15,071	8,381	4,946	6,323
Adj. PAT	15,071	8,459	8,383	9,473

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Sales Vol. (mt)	12	11	13	15
Real./Tonne (Rs)	34,504	38,423	37,202	37,712
EBITDA/Tonne (Rs)	5,767	5,403	5,849	6,777
Cost/Tonne of Iron Ore (Rs)	1,013	1,115	1,170	1,229
Cost/Tonne of coking coal	11,021	13,121	11,689	11,796

Source: Company Data, PL Research.

March 15, 2012

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Rating	Reduce
Price	Rs784
Target Price	Rs745
Implied Upside	-5.0%
Sensex	17,919
Nifty	5,464

(Prices as on March 14, 2012)
Trading data

Market Cap. (Rs bn)	174.8
Shares o/s (m)	223.1
3M Avg. Daily value (Rs m)	2560.1

Major shareholders

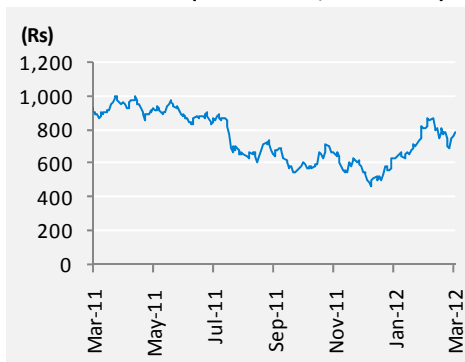
Promoters	37.71%
Foreign	20.23%
Domestic Inst.	5.24%
Public & Other	36.82%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.4)	14.6	(15.6)
Relative	(5.8)	7.4	(12.7)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	81.1	87.3	-7.0
2014	94.7	105.9	-7.0

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

Source: Bloomberg

■ **Existing iron ore inventory sufficient for just 2 months' production:** Iron ore availability turned precarious in Karnataka over the last one month due to exhaustion of ore stocks, sharp grade slippage and production issues at NMDC. The iron ore volumes sold under auction dipped from an average of 3m tonnes/month to 1.2m during February 2012. With this backdrop, JSTL has an inventory of ~4m tonnes, sufficient to sustain two month's production. We believe that utilisations could fall below 75%, provided operations are not restored at the closed mines as the remaining stocks of 6m tonnes would last till June 2012.

■ **Smooth restoration of B-category mines holds the key:** Central Empowered Committee (CEC) recommended instant restoration of operations at 19 mines (excluding NMDC's two operational mines) classified under Category-A with production potential of 5mtpa (12mtpa including NMDC's 7mtpa). CEC has also recommended for limiting the total mining in the state at 30mtpa. This suggests production of ~18mtpa from 72 mines under Category-B. However, we see high risks to production from these mines, given the stringent conditions laid out by CEC regarding R&R obligations. Nevertheless, we assume 85% utilisation in FY13.

■ **Turnaround in JSW-Ispat still far away:** We expect the entity to post loss of Rs6-6.5bn in FY13 as well as FY14 on the backdrop of compressed utilisation levels at 75% due to shortage of natural gas (NG), highly leveraged balance sheet with debt of Rs70bn and weak realisations attributed to over-supply in the flats.

■ **Valuation and outlook:** We maintain our negative outlook on the stock, with the underlying earnings risk associated with availability of iron ore and expensive valuations given the abnormal exposure to acceptances (shown in current liabilities) unlike its peers, TATA and SAIL. We value the stock at Rs745, EV/EBITDA of 5.5x FY13E.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	238,616	306,023	354,516	386,801
Growth (%)	26.3	28.2	15.8	9.1
EBITDA (Rs m)	46,241	51,230	66,583	71,607
PAT (Rs m)	17,540	11,163	18,103	21,119
EPS (Rs)	78.6	50.0	81.1	94.7
Growth (%)	(8.0)	(36.4)	62.2	16.7
Net DPS (Rs)	12.2	6.5	10.5	12.2

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	19.4	16.7	18.8	18.5
RoE (%)	13.9	6.7	10.1	10.8
RoCE (%)	8.3	5.7	7.6	7.8
EV / sales (x)	1.3	1.1	1.0	1.0
EV / EBITDA (x)	6.8	6.7	5.5	5.3
PE (x)	10.0	15.7	9.7	8.3
P / BV (x)	1.1	1.0	0.9	0.9
Net dividend yield (%)	1.6	0.8	1.3	1.6

Source: Company Data; PL Research

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Operating Metrics

Y/e March	FY11	FY12E	FY13E	FY14E
Rs/US\$	45.6	47.0	47.0	47.0
Sales volume	6.1	7.0	8.8	9.2
% Growth	6.9	15.2	24.7	4.8
Realisation (Rs/Tonne)	37,462	36,760	34,439	35,858
in \$	822	782	733	763
Coking coal (Rs/Tonne)	10,470	15,032	13,282	13,341
in \$	230	320	283	284
Iron ore (Rs/tonne)	2,672	3,782	3,527	3,803
in \$	59	80	75	81
EBITDA per tonne (Rs)	7,537	6,892	7,207	7,329
in \$	165	147	153	156
EBITDA break-up (Rs m)				
Domestic	45,970	48,437	63,159	67,285
US operations	685	677	1,123	1,129
Chile iron ore		2,115	1,410	1,410
US coking coal mines		-	891	1,783
Total	46,655	51,230	66,583	71,607

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	238,616	306,023	354,516	386,801
Raw Material Expenses	146,851	196,831	214,948	235,311
Gross Profit	91,765	109,193	139,568	151,490
Employee Cost	6,368	7,765	9,123	10,348
Other Expenses	39,157	50,198	63,862	69,535
EBITDA	46,241	51,230	66,583	71,607
Depr. & Amortization	15,597	18,529	20,806	22,068
Net Interest	10,569	12,507	15,484	15,274
Other Income	4,342	1,372	1,481	1,602
Profit before Tax	24,417	21,565	31,774	35,866
Total Tax	7,823	7,117	10,485	11,836
Profit after Tax	16,594	14,449	21,289	24,030
Ex-Od items / Min. Int.	469	(2,790)	(2,954)	(2,678)
Adj. PAT	17,540	11,163	18,103	21,119
Avg. Shares O/S (m)	223.1	223.1	223.1	223.0
EPS (Rs.)	78.6	50.0	81.1	94.7

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	28,302	32,248	48,697	67,282
C/F from Investing	(54,746)	(41,431)	(51,962)	(56,697)
C/F from Financing	50,961	3,628	(6,683)	(7,793)
Inc. / Dec. in Cash	24,517	(5,555)	(9,949)	2,792
Opening Cash	3,030	20,480	12,924	2,975
Closing Cash	5,809	12,924	2,975	5,767
FCFF	(23,995)	(49,440)	12,215	8,894
FCFE	(20,982)	(29,804)	28,078	19,414

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	26.3	28.2	15.8	9.1
EBITDA (%)	15.3	10.8	30.0	7.5
PAT (%)	9.8	(36.4)	62.2	16.7
EPS (%)	(8.0)	(36.4)	62.2	16.7
Profitability				
EBITDA Margin (%)	19.4	16.7	18.8	18.5
PAT Margin (%)	7.4	3.6	5.1	5.5
RoCE (%)	8.3	5.7	7.6	7.8
RoE (%)	13.9	6.7	10.1	10.8
Balance Sheet				
Net Debt : Equity	0.9	1.0	1.1	1.0
Net Wrkng Cap. (days)	(129)	(71)	(38)	(37)
Valuation				
PER (x)	10.0	15.7	9.7	8.3
P / B (x)	1.1	1.0	0.9	0.9
EV / EBITDA (x)	6.8	6.7	5.5	5.3
EV / Sales (x)	1.3	1.1	1.0	1.0
Earnings Quality				
Eff. Tax Rate	32.0	33.0	33.0	33.0
Other Inc / PBT	15.6	6.4	4.7	4.5
Eff. Depr. Rate (%)	4.8	4.8	5.2	5.1
FCFE / PAT	(119.6)	(267.0)	155.1	91.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	162,503	170,959	185,845	203,471
Total Debt	164,744	184,380	200,244	210,764
Other Liabilities	28,405	31,979	37,093	42,949
Total Liabilities	355,652	387,318	423,182	457,184
Net Fixed Assets	323,183	346,619	378,334	413,545
Goodwill	10,932	10,932	10,932	10,932
Investments	26,437	25,401	22,330	19,536
Net Current Assets	(7,663)	1,604	8,823	10,408
Cash & Equivalents	23,181	15,625	5,677	8,469
Other Current Assets	75,169	88,687	98,569	106,370
Current Liabilities	106,014	102,709	95,422	104,430
Other Assets	2,762	2,762	2,762	2,762
Total Assets	355,652	387,318	423,182	457,184

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	70,321	70,646	76,251	78,596
EBITDA	15,811	13,891	12,890	12,358
% of revenue	22.5	19.7	16.9	15.7
Depr. & Amortization	3,827	3,879	4,039	4,444
Net Interest	1,528	1,966	2,344	2,818
Other Income	770	217	439	176
Profit before Tax	11,226	8,263	1,817	270
Total Tax	2,899	2,480	546	(1,412)
Profit after Tax	8,327	5,783	1,271	1,682
Adj. PAT	8,327	5,783	4,860	3,248

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Crude Steel Prod.	6.4	7.5	9.3	9.9
Rolled Products Prod.	6.1	6.3	8.5	9.3
Sales Vol. (mt)	6.1	7.0	8.8	9.2
Realisation / tonne (Rs)	37,462	36,760	34,439	35,858
EBITDA / tonne (Rs)	7,537	6,892	7,207	7,329
Cost / tonne of iron ore (Rs)	2,672	3,782	3,527	3,803
Cost / tonne of coking coal (Rs)	10,470	15,032	13,282	13,341
Chile iron ore vol. (mt)	—	1	1	1
Real/t of Chile iron ore (US\$)	—	155	140	140
Cost/t of Chile Iron Ore (US\$)	—	70	70	70
EBITDA of Chile op. (US\$m)	—	45	30	30
US Coking Coal Vol. (mt)	—	—	1	1
Real/tonne of coal (US\$)	—	210	178	178
Cost/tonne of coal (US\$)	—	130	130	130
EBITDA of coking coal ops (US\$ m)	—	—	19	38

Source: Company Data, PL Research.

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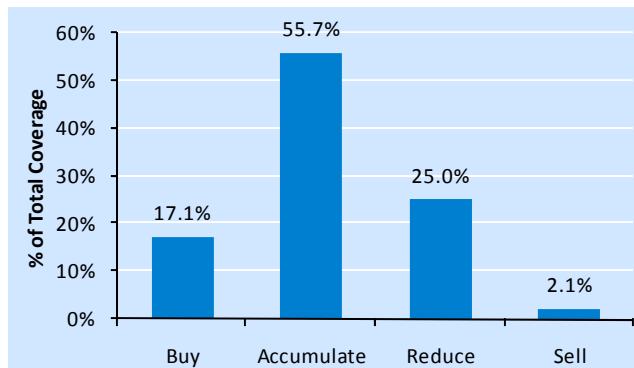
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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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