

**Metals & Mining**  
**Sector Outlook - Cautious**

**Recommendation**

CMP (₹)	520
Price Target (₹)	NR
Upside (%)	NR
52 Week H / L ₹	735/441
BSE 30	17085

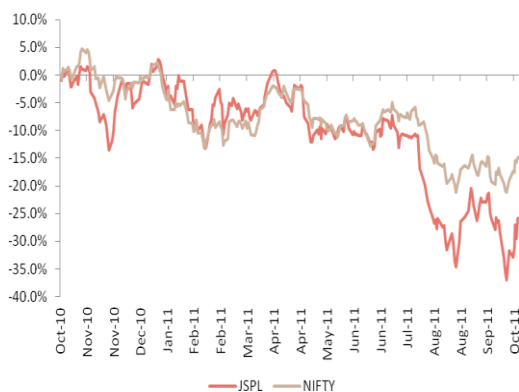
**Key Data**

No.of Shares, Mn.	935
Mcap, ₹ mn	485940
Mcap,USD mn @ ₹49	9917
2 W Avg Qty (BSE+NSE) Mn	3.0

**Share holding, Sep'11**

Promoters	58.6
FII	21.9
DII	7.5
Public & Others	12.1

Performance	1 M	3 M	6 M	12 M
Stock Return %	-2.8	-15.9	-19.9	-25.1
Relative Return %	-5.0	-7.5	-9.4	-10.4



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JSPL reported Q2FY12 results ahead of market expectations. Standalone sales grew 45% YoY and 32% QoQ, while EBIDTA growth was lower at 27% YoY and 13% QoQ due to higher input costs. Its sales were higher due to higher sales of pellets in Q2FY12. Its power segment too reported descent performance YoY due to ramping up of its new 3x135MW CPP. However PLF at two of the three new CPP remained subdued.

**Higher pellet sales boost Steel segment performance**

JSPL reported strong production growth of pellets at 42% YoY and sales of pellets grew 24 times YoY on back of strong demand as well as company's strategy to sell higher pallets. On steel products front, its production of sponge and pig iron remained flat YoY as well QoQ. However higher inventory built up in Q1FY12 helped the company to register growth of 29% QoQ in sales of steel products.

**Standalone Power performance remained subdued, 3x135 MW new units still under losses**

JSPL's power segment remained subdued in Q2FY12 on back of lower merchant rates and lower PLF. After commissioning of 3 x 135 MW CPP (2 x135MW at Raigarh and 1x135MW at Angul) in Q1FY12, we expected stabilization of these CPPs in Q2FY12. However Angul power plant has stabilized and operating at 100% PLF (but we see this because of plant being fuelled on coal lumps), two units at Raigarh which are fuelled on coal middlings are still finding it difficult to stabilize and operating at sub-50% PLF. It's all three units are still making losses to the tune of ₹140 mn in Q2FY12. Along with these three units, its existing 353MW too operated at lower PLF due to maintenance shut down.

**JPL delivered strong performance**

JPL produced 2042mn units in Q2FY12, which were highest units generated for any 2<sup>nd</sup> quarter of all the previous financial years. However muted merchant realizations of ₹3.7 in Q2FY12 versus ₹4.4 in Q2FY11 resulted in JPL's sales to fall by 16%. Lower realizations also resulted in lower PAT, which declined by 11% YoY. Management expects merchant rates to remain in the range of ₹4-₹4.25 per unit for next one year on back of power shortage in India, higher costs of power generation among all Indian players etc.

**Capex on track; keeps CoD unchanged for Angul, but unclear on Tanmar-II**

JSPL has maintained its capex guidance unchanged for Angul, Orissa and has mentioned following dates for CoD:-

- 1) Remaining 7x 135MW CPP- FY12
- 2) Plate Mill 1.6mtpa- March 12
- 3) DRI- Sept 12
- 4) SMS- Sept 12

However on Tanmar-II, company hasn't guided for any precise date of commissioning as the company is still waiting for statutory clearances. Once all clearances obtained it expects the Tanmar-II phase-I commissioning in next twenty months. The company expects Tanmar-II to come online by FY14. On Utkal B-1 coal block, company is awaiting regulatory clearances and expects the mine to start in next six months. Till clearance of Utkal Block, Company would run the plants (both sponge and power plant) on coal linkages or E-auction coal.

**Overseas operations shows a mix bag**

- **Oman:** Shadeed produced 300,000 tonnes of DRI and contributed USD130 mn to sales and USD 10mn to profits.
- **Mozambique:** c.0.25mn tonnes have been exported. Company aims to export 1mn tonnes in FY12.
- **Indonesia:** Indonesian coal mine is expected to start production in April-12.
- **Bolivia:** Company exported very miniscule iron ore from Bolivia in Q2FY12. It is still going slow in ramping up production in Bolivia. However company expects a pickup in exports from January 2012 onwards.

**Standalone Financials**

Particulars (₹ Mn)	Q2FY12	Q2FY11	YoY	Q1FY12	QoQ
Net Sales from Income/Operations	33172.2	22954.7	45%	25225.9	32%
Other Operating Income	165.9	41.4	301%	39.4	321%
<b>Total Income</b>	<b>33338.1</b>	<b>22996.1</b>	45%	25265.3	32%
<b>Expenditure</b>					
(Increase)/Decrease in Stock-in-Trade and WIP	-46.9	-326.5	-86%	-2130.4	-98%
Consumption of Raw Material	10257.4	6200.4	65%	8061	27%
Purchase of Traded Goods	797.4	348.7	129%	751	6%
Employee Cost	933.4	693.8	35%	880.7	6%
Stores & Spares Consumed	3794.9	2779.6	37%	2934.9	29%
Power & Fuel	2316.2	1521.1	52%	1888.2	23%
Other Expenditure	4418.6	3219	37%	3245.7	36%
<b>Total Expenditure</b>	<b>22471</b>	<b>14436.1</b>	56%	15631.1	44%
<b>EBIDTA</b>	<b>10867.1</b>	<b>8560</b>	27%	<b>9634.2</b>	13%
Depreciation	2139.2	1637.5	31%	2065.9	4%
Other Income	77.2	60	29%	166.5	-54%
<b>EBIT</b>	<b>8805.1</b>	<b>6982.5</b>	26%	<b>7734.8</b>	14%
Interest and Financial Expenses	1458.7	780.5	87%	1324.7	10%
<b>PBT (before exceptional)</b>	<b>7346.4</b>	<b>6202</b>	18%	6410.1	15%
Exceptional Items	1477.5	-	N.A	-	-
<b>PBT (after exceptional)</b>	<b>5868.9</b>	6202	-5%	6410.1	-8%
Tax Expense	1911	1420.3	35%	1708.5	12%
<b>PAT</b>	<b>3957.9</b>	<b>4781.7</b>	-17%	4701.6	-16%
<b>Adj Profit</b>	<b>5435.4</b>	4781.7	14%	4701.6	16%

Source: Company, Sunidhi Research

**Operating Matrix**

Production	Q2FY12	Q2FY11	YoY	Q1FY12	QoQ
Sponge Iron (MT)	339809	311474	9%	363653	-7%
Pig Iron/Hot Metal (MT)	413097	422273	-2%	402107	3%
Pellets (MT)	898065	634100	42%	828800	8%
Steel Products (MT)	629562	562530	12%	607726	4%
JPL (Million KWh)	2042.82	1972	4%	2166.18	-6%
Standalone Power (Million KWh)	947	780	21%	931	2%
<b>Sales</b>					
Sponge Iron (MT)	28798	28825	0%	-	-
Pellets (MT)	526331	21514	2346%	347104	52%
Steel Products (MT)	598209	462429	29%	456887	31%
Standalone Power (Million KWh)	222	180	23%	259	-14%

Source: Company, Sunidhi Research

**Consolidated Financials:**

Particulars (₹ Mn)	Q2FY12	Q2FY11	YoY	Q1FY12	QoQ
Net Sales from Income/Operations	44066.1	30779.5	43%	39401.6	12%
Other Operating Income	165.9	41.4	301%	39.4	321%
<b>Total Income</b>	<b>44232</b>	<b>30820.9</b>	<b>44%</b>	<b>39441</b>	<b>12%</b>
<b>Expenditure</b>					
(Increase)/Decrease in Stock-in-Trade and WIP	-706.2	-410.9	72%	-1344.8	-47%
Consumption of Raw Material	13188.2	6423.5	105%	12338.2	7%
Purchase of Traded Goods	364	-	N.A	281.4	29%
Employee Cost	1316.8	1007.6	31%	1209.7	9%
Stores & Spares Consumed	3935.5	2797.7	41%	3025.6	30%
Power & Fuel	2377.3	2063.4	15%	2792.7	-15%
Other Expenditure	6718.1	3922.8	71%	4881.4	38%
<b>Total Expenditure</b>	<b>27193.7</b>	<b>15804.1</b>	<b>72%</b>	<b>23184.2</b>	<b>17%</b>
<b>Profit before Other Income, Interest and Exceptional Items</b>	<b>17038.3</b>	<b>15016.8</b>	<b>13%</b>	<b>16256.8</b>	<b>5%</b>
Depreciation	3343.3	2730.5	22%	3250	3%
Other Income	252.7	37.4	576%	284.1	-11%
<b>Profit before Interest and Exceptional Items</b>	<b>13947.7</b>	<b>12323.7</b>	<b>13%</b>	<b>13290.9</b>	<b>5%</b>
Interest and Financial Expenses	1255.2	781.8	61%	1073	17%
<b>Profit before Exceptional Items and after Interest</b>	<b>12692.5</b>	<b>11541.9</b>	<b>10%</b>	<b>12217.9</b>	<b>4%</b>
Exceptional Items	741.7	-	N.A	-	-
<b>Profit/Loss from Ordinary Activities</b>	<b>11950.8</b>	<b>11541.9</b>	<b>4%</b>	<b>12217.9</b>	<b>-2%</b>
Tax Expense	3032.8	2599.5	17%	2887.6	5%
<b>Net Profit/Loss from Ordinary Activities</b>	<b>8918</b>	<b>8942.4</b>	<b>0%</b>	<b>9330.3</b>	<b>-4%</b>
Minority Interest	-202.5	-165.5	22%	-184.4	10%
Share of Associates	38.8	38.8	0%	41.4	-6%
<b>Consolidated Net Profit/(Loss) for the Period</b>	<b>8754.3</b>	<b>8815.7</b>	<b>-1%</b>	<b>9187.3</b>	<b>-5%</b>
<b>Adj PAT</b>	<b>9659.7</b>	<b>8942.4</b>	<b>8%</b>	<b>9330.3</b>	<b>4%</b>

Source: Company, Sunidhi Research



## Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(From one year perspective)

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BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

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## SUNIDHI SECURITIES & FINANCE LTD

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