Jindal Steel and Power Limited

Price Objective Change UNDERPERFORM

Equity | India | Steels
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Facing multiple challenges; lower PO

Bank of America Merrill Lynch

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Cut estimates, PO on multiple challenges; Underperform

We cut our FY13-14E EPS 3-9% and PO to Rs428 due to (1) potential delays in key growth projects; (2) lower margin outlook at the Tamnar II project; & (3) lower captive power valuation. We expect EPS growth to be muted over FY12-14E. While downside appear limited post recent correction based on our base case valuation, we maintain our Underperform rating as risk reward still appears skewed to the downside, as upside catalysts are limited & further delays in mining lease approval & adverse policy changes could dent valuation further.

Angul steel, captive power expansion likely to be delayed

Approval of the Utkal 1B coal block mining lease is delayed. It may remain on hold until (1) the Orissa government's washery reject coal-based power policy is approved; (2) the enquiry for the CAG report on coal block allocation is complete. JSPL may not commission its 4x135MW captive power and steel units at Angul unless coal supply is secured. Execution of upstream units (coal gasification) appears delayed until March 2013 and could impede the start of steel production.

Tamnar II (4x600MW) expansion margin outlook lower

JSPL may not be able to source low cost linkage coal and sell power at higher merchant tariffs as planned (our earlier base case) as Coal India plans to offer linkage coal only to firms with PPA, under the new FSA norms. JSPL may have to (1) sell power at lower PPA tariff if it plans to source linkage coal, or (2) sell power on merchant basis & source coal at higher cost. Hence margins should be lower.

Policy headwinds could dent valuation further

Orissa govt.'s proposed policy requires 33% (may be revised to 13%) of power from washery reject coal-based power plants to be given to the State free. This hits our captive power valuation by Rs14 (assuming 13% free power). Possible cap on tariffs for captive coal based power could hit our valuation by Rs45.

Estimates (Mar)

(Rs)	2011A	2012A	2013E	2014E	2015E
Net Income (Adjusted - mn)	38,037	40,718	40,231	42,244	47,900
EPS	40.99	42.73	43.36	45.53	51.62
EPS Change (YoY)	4.7%	4.2%	1.5%	5.0%	13.4%
Dividend / Share	1.56	1.60	2.17	2.28	2.58
Free Cash Flow / Share	(52.90)	(45.14)	(30.05)	(36.81)	27.50

Valuation (Mar)

	2011A	2012A	2013E	2014E	2015E
P/E	10.41x	9.98x	9.84x	9.37x	8.26x
Dividend Yield	0.365%	0.375%	0.508%	0.534%	0.605%
EV / EBITDA*	9.44x	8.57x	8.41x	7.57x	5.86x
Free Cash Flow Yield*	-12.36%	-10.55%	-7.02%	-8.60%	6.43%

* For full definitions of *iQmethod* SM measures, see page 11.

Stock Data

Price	Rs426.60
Price Objective	Rs428.00
Date Established	23-Jul-2012
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs409.05-Rs664.00
Mrkt Val / Shares Out (mn)	US$7,191 / 930.8
Market Value (mn)	Rs397,071
Average Daily Volume	2,293,263
BofAML Ticker / Exchange	XJDLF / BSE
Bloomberg / Reuters	JSP IN / JNSP.BO
ROE (2013E)	20.1%
Net Dbt to Eqty (Mar-2012A)	91.9%
Est. 5-Yr EPS / DPS Growth	38.6% / NA
Free Float	41.4%

Key Changes

(Rs)	Previous	Current
Price Obj.	525.00	428.00
2013E EPS	44.68	43.36
2014E EPS	49.83	45.53
2015E EPS	NA	51.62
2013E EBITDA (m)	75,639.0	71,794.9
2014E EBITDA (m)	85,519.9	79,752.8
2015E EBITDA (m)	NA	103,122.0

iQprofile SM Jindal Steel and Power Limited

Key Income Statement Data (Mar)	2011A	2012A	2013E	2014E	2015E
(Rs Millions)					
Sales	131,116	182,086	190,659	212,253	265,750
Gross Profit	63,993	70,460	71,795	79,753	103,122
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	52,413	56,596	57,026	58,493	73,813
Net Interest & Other Income	(2,536)	(3,640)	(5,292)	(4,957)	(10,771)
Associates	0	200	200	200	0
Pretax Income	49,877	53,156	51,934	53,737	63,041
Tax (expense) / Benefit	(11,840)	(11,863)	(11,163)	(11,040)	(14,688)
Net Income (Adjusted)	38,037	40,718	40,231	42,244	47,900
Average Fully Diluted Shares Outstanding	928	928	928	928	928
Key Cash Flow Statement Data					
Net Income	38,037	40,718	40,231	42,244	47,900
Depreciation & Amortization	11,580	13,865	14,769	21,260	29,309
Change in Working Capital	(29,469)	(34,195)	(4,470)	(6,016)	2,042
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	14,676	15,195	5,786	4,682	10,806
Cash Flow from Operations	34,825	35,583	56,316	62,170	90,058
Capital Expenditure	(83,911)	(77,471)	(84,201)	(96,330)	(64,538)
(Acquisition) / Disposal of Investments	315	(1,277)	0	0	0
Other Cash Inflow / (Outflow)	820	1,419	2,001	4,383	541
Cash Flow from Investing	(82,777)	(77,329)	(82,200)	(91,947)	(63,997)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(1,690)	(1,737)	(2,353)	(2,471)	(2,802)
Cash Flow from Financing	48,931	24,346	27,856	32,956	17,284
Free Cash Flow	(49,087)	(41,888)	(27,885)	(34,160)	25,520
Net Debt	134,964	169,274	204,804	246,393	234,446
Change in Net Debt	52,998	48,543	35,531	41,588	(11,947)
Key Balance Sheet Data					
Property, Plant & Equipment	248,646	301,146	370,581	445,654	480,885
Other Non-Current Assets	3,931	3,467	3,667	3,867	3,867
Trade Receivables	11,537	13,364	14,626	16,282	20,386
Cash & Equivalents	4,802	1,635	3,606	6,785	50,129
Other Current Assets	91,788	130,465	132,771	136,416	134,467
Total Assets	360,703	450,075	525,250	609,004	689,735
Long-Term Debt	139,766	170,908	208,411	253,177	284,575
Other Non-Current Liabilities	10,055	11,920	11,920	11,920	11,920
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	67,649	83,066	82,319	81,076	84,855
Total Liabilities	217,470	265,894	302,649	346,173	381,350
Total Equity	143,233	184,182	222,602	262,831	308,385
Total Equity & Liabilities	360,703	450,076	525,251	609,004	689,735
iQmethod* SM - Bus Performance					
Return On Capital Employed	16.5%	13.7%	11.4%	10.3%	10.1%
Return On Equity	31.1%	25.3%	20.1%	17.7%	17.0%
Operating Margin	40.0%	31.1%	29.9%	27.6%	27.8%
EBITDA Margin	48.8%	38.7%	37.7%	37.6%	38.8%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	0.9x	0.9x	1.4x	1.5x	1.9x
Asset Replacement Ratio	7.2x	5.6x	5.7x	4.5x	2.2x
Tax Rate (Reported)	23.7%	22.3%	21.5%	20.5%	23.3%
Net Debt-to-Equity Ratio	94.2%	91.9%	92.0%	93.7%	76.0%
Interest Cover	15.6x	11.2x	7.8x	6.3x	6.5x

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 11.

Company Description

JSPL, part of O.P. Jindal group is a low cost EAF based steel producer with current steel capacity of 3mtpa and steel production of 2.4mtpa(FY12).It also produces coal based sponge iron and has a capacity of 1.37mtpa. It has also emerged as a player in power generation with the commissioning of 1000MW pit head coal based power capacity. It has 100% integration in thermal coal, 10% integration in iron ore and access to low cost iron ore.

Investment Thesis

We expect EPS growth to be muted for next two years as gains from expansion should be back-ended. Growth from captive power should be largely negated by lower JPL profits. Angul expansion is expected to contribute to volumes, mainly post-FY13. We expect steel margins to decline in FY13E due to lower steel price and limited benefit from lower raw material price owing to 100% integrated iron ore and coal mines. Current valuations appear rich given muted earnings growth outlook. Hence Underperform.

Stock Data

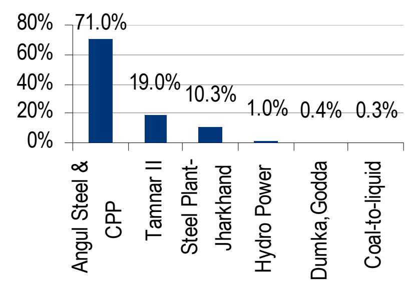
Price to Book Value	1.8x

Table 1: SOTP Valuation (Rs per share)

SOTP Valuation	New	Old
JSPL	132	142
JPL (3400 MW)	240	306
Captive Power- 1350 MW	43	64
Shahdeed Steel	13	13
SOTP Valuation	428	525

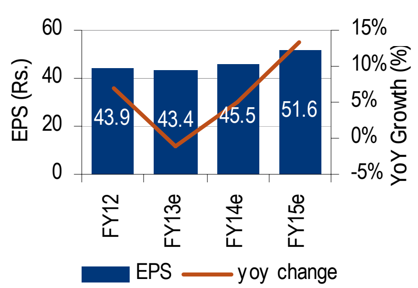
Source: JSPL, BofAML Research Estimates

Chart 1: Share of total planned capex spent till end of FY12 (%)



Source: JSPL, BofAML Research Estimates

Chart 2: EPS CAGR muted at 5.6% over FY12-15E



Source: JSPL, BofAML Research Estimates

Cut estimates and PO, maintain Underperform

We cut our FY13-14E EPS by 3-9% and our SOTP NPV-based PO from Rs525 to Rs428 due to (1) potential delays in key growth projects; (2) lower margin outlook at the Tamnar II project and (3) lower captive power valuation. We expect EPS growth to be muted at 5.6 over FY12-15E.

Recent correction in JSPL's stock price appears to reflect our concerns somewhat and downside now appears limited based on our base case SOTP valuation of Rs428. However, risk reward appears still skewed to the downside in our view as a) upside catalysts appear limited given muted earnings outlook near term and b) potential more delays in mining lease approval and adverse policy changes related to merchant power tariff/ captive coal could dent valuation further. A potential bear case scenario assuming capping of power tariff based on captive coal and no mining lease approval at Utkal could potentially reduce our valuation by 18% as per our estimates. Thus, we think it may still be premature to get more constructive on the stock at this stage as these concerns are likely to weigh on JSPL's valuation in our view. Hence, we maintain our Underperform rating on the stock.

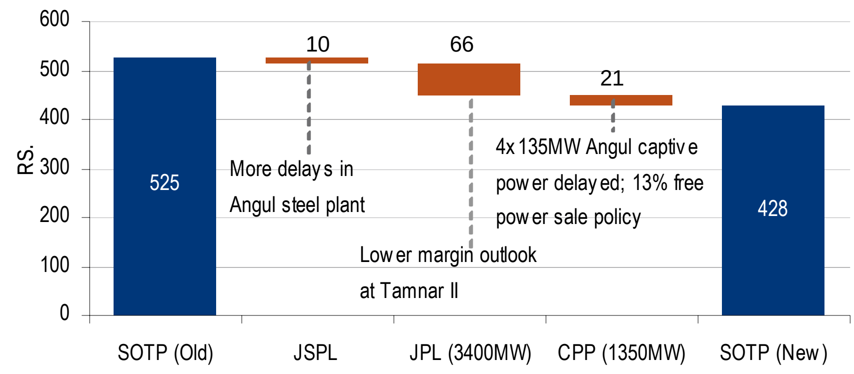
- **Angul steel and captive power expansion could be delayed:** We believe key growth projects could be delayed as (1) the Utkal coal mining lease is delayed and approval may take longer; (2) the remaining 4x135MW captive power units and 1.6mt steel plant at Angul are unlikely to be commissioned until coal supply is secured; and (3) potential delays in execution of upstream coal gasification units may delay the start of steel production at Angul. Separately, we also note that, as of March 2012, JSPL had invested only 19% of Tamnar II capex even though the first two units are expected to come on-stream in 1H14.

- **Expect lower margins at Tamnar II expansion:** While, JSPL intends to use linkage coal (lower cost) and sell power at higher merchant tariffs at its Tamnar II (4x600MW) expansion project, we think this may be difficult given new FSA norms for Coal India. We believe JSPL may have to (1) enter into PPA (power purchase agreements) and sell power at lower PPA-based tariffs in case it plans to source low cost linkage coal from Coal India or (2) sell at higher merchant tariffs, but source coal through alternate sources (e-auction, imports) at higher costs. We believe profitability for the project would be lower in either scenario. Our SOTP NPV is hit by 12.5% as a result.

- **Muted earnings growth over FY12-14E:** We expect earnings growth to remain flat over FY12-14E as (1) we see limited earnings contributions from growth projects near term and gains from expansions are likely to be back ended; and (2) we expect profits from existing 1,000MW (33% of EBIDTA) assets in JPL to continue to slide in FY13e due to lower merchant tariffs.

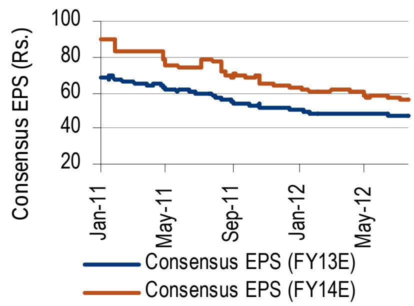
- **Policy headwinds could dent valuation further and could remain an overhang on the stock:** (1) Partial free power sale of 13% as per the Orissa government's proposed washery reject coal-based power policy hits our valuation for Angul captive power unit (6x135MW) by Rs14 (total valuation hit of Rs21 including project delays); and (2) CAG report controversy may lead to policy tightening around pricing of power based on captive coal. The potential hit to our base case valuation, in the case power tariffs for captive coal-based power plants are capped (at Rs3/kwh) will be around Rs45 (about 11%) by our estimates.

Chart 3: JSPL's SOTP NPV based PO cut to Rs.428



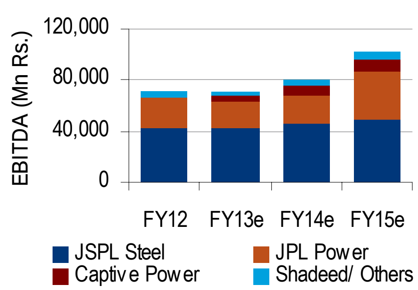
Source: JSPL, BofAML Research Estimates

Chart 4: Consensus has been downgrading estimates



Source: Bloomberg, BofAML Research

Chart 5: JSPL's EBITDA break-up



Source: JSPL, BofAML Research Estimates

Our revised earnings estimates for FY13-14e are 8-20% below consensus. Recent correction in JSPL's stock price reflects our concerns somewhat and downside now appears limited based on our base case SOTP NPV of Rs428. However, valuations at 8.4x FY13E EBITDA is not yet compelling, in our view, given flat earnings growth outlook over next two years.

Also we see scope for more downsides due to further delays in projects and Utkal mining lease resolution, uncertainty around the Sarda mine issue and potential adverse policy changes around captive coal/merchant power policy. A potential bear case scenario assuming capping of merchant power tariff based on captive coal at Rs3/kwh in FY13e and assuming linkage coal at Utkal, due to no mining lease approval could potentially reduce our valuation by 18% as per our estimates.

Angul project facing multiple challenges

JSPL's Angul steel and captive power project has been delayed and the project continues to face multiple challenges due to (1) delays in Utkal mining lease approval; (2) disruptions to construction activity (in January 2012) due to protests from affected locals/land losers; and (3) delays in execution of coal gasification units. JSPL had earlier indicated commissioning the remaining 4x135MW captive power units by 1H FY13 and 1.6mtpa steel plant by March 2013, but this could be delayed in our view for the following reasons.

Utkal 1B coal block mining lease delayed; resolution may take longer

JSPL has got forest and other approvals for its Utkal 1B coal block (captive coal source for Angul steel and captive power project), but mining lease approval has been delayed. This is due to differences with the Orissa government regarding its proposed washery reject coal-based thermal power plant policy, which stipulates sale of 33% free power from power plants based on washery reject coal to the state.

We understand the Orissa government and JSPL have now agreed to 13% free power sale. However, mining lease approval is still pending. JSPL is hopeful of getting the mining lease approval any time soon, but timing remains uncertain in our view. We think, the approval may come thru only after the washery reject coal-based power policy is approved by the Orissa government.

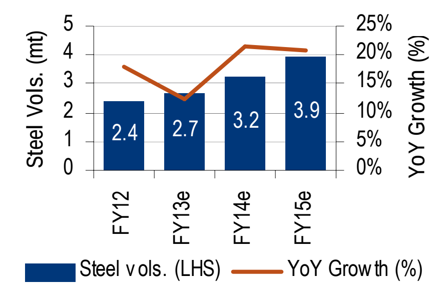
Also, approvals may remain on hold till the enquiry related to the CAG report on coal block allocation is complete, (though Utkal 1B allocation was prior to the period considered in the CAG report). JSPL expects mine development and production to take 6-8 months after mining lease approval, but we do not rule out further delays.

Table 2: Orissa government's proposed washery reject coal based policy requires partial sale of power free to the state

Date	Event
24-Mar-11	■ Orissa Govt Committee recommends 33% of power from washery reject coal based power plants to be given free to Orissa.
4-May-11	■ Orissa Govt's high powered committee accepts the policy recommendations.
8-Sep-11	■ Orissa issues notification with 33% free power provision for washery reject based power plant.
5-Dec-11	■ Committee constituted to suggest policy recommendations following JSPL's objections.
23-Apr-12	■ Committee recommends 13% free power, including 1% free power for the villages near plants. ■ Final approval by the Chief Minister of Orissa awaited before policy is implemented.

Source: BofAML Global Research

Chart 6: Volumes from Angul steel expansion to come thru mainly post 1HFY14e



Source: JSPL, BofAML Research Estimates

JSPL plans to commission the remaining 4x135 MW captive power units and upstream steel plant at Angul only after coal supply is secured. Thus, mining lease resolution is the key for a timely ramp up and profitability of these projects**. Our base case estimates assume coal production starts by March 2013.**

Construction activities were impacted by protests by locals

Construction activities at the Angul project were affected by protests and violence by locals in January 2012. While the issue was resolved and construction activities have normalized, there were recent media reports indicating recent protests by affected locals demanding higher compensation and employment opportunity.

Potential delays in coal gasification unit may impede start of steel production

While construction of the steel and captive plant has been broadly on track (70% of capex was incurred as of March 2012), execution of the coal gasification units has been lagging behind schedule. JSPL now expects these seven units to be completed by March 2013, but further delays are possible in our view. Also, JSPL is unlikely to start the coal gasification unit until coal production from Utkal 1B captive coal mines commences.

We believe any delays in coal gasifier units could delay the start of the upstream DRI unit and the steel plant as we expect the DRI/steel plant to be commissioned with a lag. Thus commissioning of the DRI/steel plant may be pushed beyond March 2013. We believe Angul expansion is likely to contribute to volumes mainly post 1H FY14. We forecast steel volumes of 2.7mt in FY13E and 3.24mt in FY14E.

Tamnar II (4x 600MW) project margin outlook has declined

JSPL plans to source low cost linkage coal and sell most of the power at higher merchant tariffs at its Tamnar II (4x600MW) expansion. However, this may be difficult as Coal India now plans to offer low cost linkage coal only to companies with PPA, under the new FSA norms. We believe JSPL may have to enter into a PPA and sell power at the lower PPA rate if it plans to source linkage coal. Alternately, JSPL may source coal externally at higher costs (e-auction coal, imported coal) and sell on a merchant basis. In either scenario, we expect profitability for the Tamnar II expansion to be lower than we anticipated.

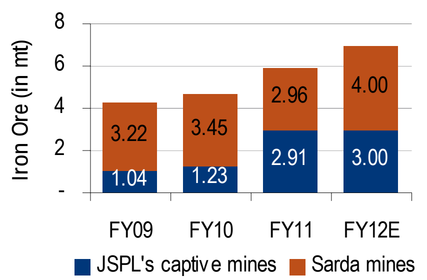
In our base case, at Tamnar II (4x600MW), we assume 70% of power produced to be sold on a PPA basis and 30% of power to be sold on a merchant basis (100% merchant earlier). We assume 70% linkage coal and 30% e-auction coal in our model. We also incorporate higher linkage coal costs led by CIL's shift to GCV-based pricing. Our valuation of JSPL reduces by Rs66 (12.5%) as a result.

Table 3: JPL: Key assumptions and forecasts

	FY12	FY13e	FY14e	FY15e
Capacity (MW)	1,000	1,000	2,200	3,400
Units Sold (mn KWH)	7,902	7,915	10,044	20,905
Merchant Tariff (Rs/ unit)	4.25	3.70	3.70	3.81
Avg to CSEB/Industrial Estate	2.50	2.55	2.60	2.71
% of sales on merchant/spot	74%	74%	74%	74%
Avg. Tariff - Rs/ unit				
- Tamnar I	3.80	3.40	3.42	3.52
- Tamnar II			3.27	3.37
- Blended	3.80	3.40	3.38	3.43

Source: JSPL, BofAML Research Estimates

Chart 7: JSPL sources ~56% of the iron ore from Sarda mines



Source: JSPL, BofAML Research Estimates

Policy headwinds could dent valuation further

In addition to issues related to growth projects, JSPL is exposed to potential adverse changes in policy in our view.

Proposed washery reject coal-based power policy to dent valuation

We assume 13% of power produced from the Angul captive power plant will be sold free to the state as per the proposed washery reject coal-based power plant policy. This impacts our Angul captive power valuation by Rs14 (Rs31 assuming 33% free power sales). We note that Rs21 per share reduction in our captive power valuation also reflects the impact of delay in commissioning of the remaining 4x135MW captive power units.

Potential cap on tariff for power produced from captive coal

Recent CAG coal report controversy has initiated debate around discretionary allocation of coal blocks, pricing of power produced from captive coal. A potential fall out of the controversy could be potential changes/tightening of the policy around captive coal blocks or pricing of power produced from captive coal. JSPL has been allocated coal reserves of 2.6bn tons (including 1.5bn tons related to coal to liquid project) and is hence exposed to any adverse policy changes.

- The coal ministry has recently threatened to cancel coal block allocation to power companies using captive coal and selling power on a merchant basis. The ministry wants such companies to enter into PPA.
- JSPL's core Tamnar I (1000MW) project (52% of valuation) is based on captive coal and is exposed to potential capping of power tariffs for power produced from captive coal. Assuming Tamnar I (1000MW captive coal based project) is required to sell on a PPA basis, our valuation for JSPL could be hit by Rs45 per share (assuming power tariff of Rs3/kwh).

Uncertainty around Sarda mines issue is a risk

The ongoing probe (Table 3) around alleged violation of Mining Concession Rules by Sarda mines (key third-party supplier or iron ore to JSPL) is a potential risk to JSPL's low iron ore cost advantage. JSPL sources about 56% (around 4mt) of its iron ore requirement (approximately 7mt) from Sarda mines at about US$24/t, which is at a substantial discount to the market price (US$55-60/t locally).

JSPL management expects the issue to be resolved. While we expect the issue to be resolved, JSPL could be adversely impacted if (1) leases of Sarda mines are terminated or (2) Sarda mines are required to sell iron ore at market prices. **We estimate JSPL's consolidated EPS could be hit by 12% in such a scenario.** We believe the issue also casts doubt over the sustainability of JSPL's low cost iron ore sourcing advantage.

Table 4: Orissa Govt has issued show cause notice to Sarda mines (JSPL's key iron ore supplier)

- Show cause issued to Sarda Mines for selling iron ore to JSPL without agreement & at discount to mkt price.
- The report alleged this amounts to transfer of interest in mining lease to JSPL.
- Alleged violations fall under Rule 37 of Mining Concession Rules 1960.
- The committee has suggested further enquiry. Sarda Mines given 30 days to reply to the notice.

Source: BofAML Global Research

Table 5: JSPL: Summary of estimate changes

In Mn Rs.	FY13E			FY14E		
	New	Old	% chg	New	Old	% chg
Revenue	190,659	193,499	-1%	212,253	222,338	-5%
EBITDA						
- Steel EBITDA	42,363	43,694	-3%	46,297	48,755	-5%
- JPL EBITDA	21,235	21,160	0%	22,291	23,596	-6%
- Captive Power (1350MW)	3,632	6,220	-42%	6,822	8,826	-23%
- Shadeed	4,565	4,565	0%	4,343	4,343	0%
Group EBITDA	71,795	75,639	-5%	79,753	85,520	-7%
Margins	38%	39%		38%	38%	
Depreciation	14,766	16,986	-13%	21,257	20,073	6%
Financial Expenses net	5,292	5,265	1%	4,957	6,424	-23%
Tax	11,163	11,640	-4%	11,040	12,533	-12%
Net Profits (pre exceptionals)	40,570	41,746	-3%	42,497	46,487	-9%
Minority Interest	540	491		453	449	
Share of Profits of Associate	200	200		200	200	
PAT post minority/associate	40,231	41,455	-3%	42,244	46,238	-9%
Group EPS	43.4	44.7	-3.0%	45.5	49.8	-9%
Volumes (mn tons)	2.7	2.7	0%	3.2	3.5	-8%
Avg Realisations (Rs/t)	36,083	36,668	-2%	34,400	33,987	1%
Power Units (mn Units) net	7,915	7,915	0%	10,044	10,044	0%
Merchant Tariff	3.70	3.70	0%	3.70	3.70	0%

Source: JSPL, BofAML Research Estimates

Table 6: Captive Power assumptions

Captive Power	FY12e	FY13e	FY14e	FY15e
Caapcity (MW)				
Orissa	270	810	810	810
Raigarh	540	540	540	540
Total	810	1,350	1,350	1,350
Generation (mn unit)				
Orissa	701	2,484	4,776	5,095
Raigarh	1416	2855	3219	3219
Exports Units (mn units)				
Orissa	701	2484	2866	3057
Raigarh	425	1428	1771	1771
% sales on merchant				
Orissa	0%	0%	0%	0%
Raigarh	70%	70%	70%	70%
Average Tariff (Rs/kwh)				
Orissa	3.0	3.1	3.2	3.3
Raigarh	3.8	3.4	3.4	3.5
EBITDA	1,158	3,632	6,822	8,704

Source: JSPL, BofAML Research Estimates

Table 7: Summary Consolidated EPS outlook

In Mn Rs	FY12	FY13e	FY14e	FY15e
Revenues	182,086	190,659	212,253	265,750
yoy growth	39%	5%	11%	25%
EBITDA				
- JSPL Steel	42,403	42,363	46,297	49,252
- JPL Power	23,358	21,235	22,291	38,293
- Captive Power	1,158	3,632	6,822	8,704
- Shadeed/ Others	3,541	4,565	4,343	6,873
EBITDA	70,460	71,795	79,753	103,122
yoy growth	10%	2%	11%	29%
Margins	39%	38%	38%	39%
Provisions	0	3	3	3
Depreciation	13,865	14,766	21,257	29,306
Interest	3,640	5,292	4,957	10,771
Tax	11,863	11,163	11,040	14,688
PAT	41,092	40,570	42,497	48,353
Minority/Associate Income	(374)	(340)	(253)	(453)
PAT post minority	40718	40231	42244	47900
EPS	43.9	43.4	45.5	51.6
yoy change	7%	-1%	5%	13%

Source: JSPL, BofAML Research Estimates

Table 8: JSPL's projects

Location	Project/ Capacity	Planned Invt. USD bn	Invt. till Mar-12 USD bn	Expected Completion Date	Update/Status
Angul (Odisha)	1.6mtpa Steel Plant	3.1	2.2	Mar-13	- JSPL expects DRI & steel melting shop to start by Mar-2013 - Coal mine (Utkal 1B) allocated; Iron ore mine allocation pending - Utkal 1B coal mining lease approval delayed despite other approvals in place
	6X135 MW Captive power			1HFY13	- 2 units (135 MW) commissioned (Jan-12); currently operating at 90-95% PLF
Raigarh (Chhattisgarh)	4X600 MW Thermal Power (Tamnar II)	2.9	0.55	FY14-FY15	- Land for main plant acquired, water approvals received - Financial closure complete; ~19% of proposed capex has been invested - Allocated coal linkage for 2 units; coal linkage pending for other 2 units - Plans to use linkage coal and sell majority of power on merchant basis
Dumka, Godda (Jharkhand)	3X660 MW Thermal Power	2.4	0.01	FY15	- Environment Clearance received for project - Allocated Amarkonda and Jitpur coal block - Jitpur: Stage-I forest clearance (FC), mining lease & land acquisition pending - Amarkonda: FC for exploration approved; drilling stopped due to law & order problem - In the process of tying up of debt
Patratu (Jharkhand)	3 MTPA Steel Plant (Long products)	2.9	0.3	Mar-15	- Blast furnace based steel plant - Jiraldaburu Iron ore mine allotted; Environmental clearance still awaited
Angul (Odisha)	80,000 BPD Coal to Liquid	8.0	0.02	FY18	- MoU with Orissa govt. likely to be signed - Requires 4000 acres of land; ~50% likely to be allocated soon - Allocated Ramchandi Coal Block; Applied for exploration license - EIA completed; Work likely to start next year after environmental clearance
Arunachal Pradesh	6,100 MW Hydro Power	8.1	0.08	N/A	- JV with Hydro Power Dev. Corp of Arunachal Pradesh - Project set up in 8 years post Detailed project report
Capex (bn USD)		27.4	3.2		

Source: JSPL, BofAML Research

Price objective basis & risk

Jindal Steel and Power Limited (XJDLF)

Our PO of Rs428 is based on SOTP valuation of JSPL's steel and power business based on DCF. This implies Rs145 for steel business (including Shadeed Steel) and Rs283 for the power business. Our NPV calculation is based on a WACC of 12.5% and terminal growth rate of 0%. Our NPV of steel business implies 8.4x FY13E EBITDA.

Our average steel realisation assumptions are Rs36,083/t in FY13E and Rs34,400/t in FY14E. In merchant power, we forecast merchant tariff of Rs3.7/kwh in FY13E and FY14E. Upside risks to our valuation are higher steel prices and higher power tariff. Downside risks to our valuation are sharper-than-expected fall in steel prices, lower-than-expected steel production, and lower power tariff.

Link to Definitions

Basic Materials

Click here for definitions of commonly used terms.

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APR - Metals & Mining Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Banpu Pcl	BPULF	BANPU TB	Komsun Suksumrun
	Baosteel	BAOSF	600019 CH	Yongtao Shi
	China Coal Energy Ltd.	CCOZF	1898 HK	Yongtao Shi
	China Hongqiao	XCGQF	1378 HK	Bruce Wang
	China National Materials	XFCHF	1893 HK	Bruce Wang
	China Resources Cement	CJRCF	1313 HK	Bruce Wang
	China Shanshui Cement	CCGLF	691 HK	Bruce Wang
	China Shenhua Energy Ltd.	CUAEF	1088 HK	Yongtao Shi
	CITIC Dameng Holdings Limited	XCDHF	1091 HK	Yongtao Shi
	Fushan International Energy	YULKF	639 HK	Yongtao Shi
	Hidili	XHILF	1393 HK	Yongtao Shi
	Hyundai Steel	XHDUF	004020 KS	Elli Lee
	Indo Tambangraya	PTIZF	ITMG IJ	Daisy Suryo
	Jiangxi Copper	JIAXF	358 HK	Yongtao Shi
	POSCO	PKXFF	005490 KS	Elli Lee
	POSCO -A	PKX	PKX US	Elli Lee
	Sakari Resources Ltd	SSGDF	SAR SP	Daisy Suryo
	Winsway Coking Coal Holdings Limited	XWNYF	1733 HK	Yongtao Shi
	Yanzhou Coal	YZCHF	1171 HK	Yongtao Shi
NEUTRAL				
	Aluminum Corp. of China	ALMMF	2600 HK	Bruce Wang
	Borneo Lumbung Energy	PBTLF	BORN IJ	Daisy Suryo
	Bumi Resources	PBMRF	BUMI IJ	Daisy Suryo
	China National Building Material Co Ltd.	CBUMF	3323 HK	Bruce Wang
	Coal India Limited	XOXCF	COAL IN	Bhaskar N Basu, CFA
	Hindalco	HNDFF	HNDL IN	Bhaskar N Basu, CFA
	Hyundai Hysco	HYUPF	010520 KS	Elli Lee
	Shougang Concord International	SCGEF	697 HK	Yongtao Shi
	Tambang Batubara	PBATF	PTBA IJ	Daisy Suryo
UNDERPERFORM				
	Angang Steel	ANGGF	347 HK	Yongtao Shi
	Anhui Conch-H	AHCHF	914 HK	Bruce Wang
	China Molybdenum	CMCLF	3993 HK	Bruce Wang
	Dongkuk Steel	DKUSF	001230 KS	Elli Lee
	Intl Nickel In	PTNDF	INCO IJ	Daisy Suryo
	Jindal Steel and Power Limited	XJDLF	JSP IN	Bhaskar N Basu, CFA
	JSW Steel	XJWJF	JSTL IN	Bhaskar N Basu, CFA
	Maanshan Iron & Steel	MAANF	323 HK	Yongtao Shi
	NALCO	NAUDF	NACL IN	Bhaskar N Basu, CFA
	PT Adaro Energy Tbk	PADEF	ADRO IJ	Daisy Suryo
	PT Bayan Resources Tbk	XBAYF	BYAN IJ	Daisy Suryo
	PT Indika Energy Tbk	XIDKF	INDY IJ	Daisy Suryo
	Sesa Goa Limited	XSGAF	SESA IN	Bhaskar N Basu, CFA
	Steel Authority of India	SLAUF	SAIL IN	Bhaskar N Basu, CFA
	Tata Steel	TAELF	TATA IN	Bhaskar N Basu, CFA
RSTR				
	Sterlite Industries India Limited	XTNDF	STLT IN	Bhaskar N Basu, CFA
	Sterlite Industries India Limited	SLT	SLT US	Bhaskar N Basu, CFA
RVW				
	Aneka Tambang	XANEF	ANTM IJ	Daisy Suryo
	Medco Energi Itl	PTGIF	MEDC IJ	Daisy Suryo

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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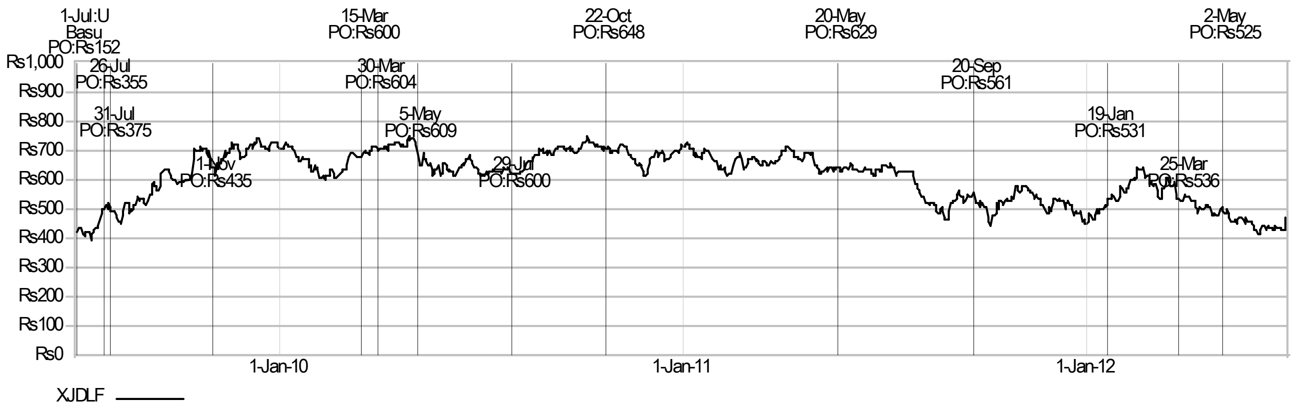
XJDLF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Steel Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	24	37.50%	Buy	17	85.00%
Neutral	7	10.94%	Neutral	5	71.43%
Sell	33	51.56%	Sell	22	75.86%

Investment Rating Distribution: Global Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

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