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Feedback from US NDR

Quick Note

December 21, 2011

Rating Remains	**Buy**
Target price Remains	INR 739
Closing price December 20, 2011	INR 469

Research analysts

India Metals & Mining

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JSW Steel was on an NDR (non deal road show) with us last week to the USA. Investors seemed concerned about the outlook for commodities given concerns in Europe and, more importantly, the slowdown in China. For India, concerns are greater given policy inaction and high interest rates. Though the investors generally believe that the valuations are factoring in most of the concerns, they don't see a trigger for the stocks to perform in the near term.

We highlight some of the key areas of discussion during the meetings.

Agree with valuation comfort but not sure the time is right

In general, investors have adopted a wait and watch policy given global growth concerns. While most agreed that stocks have corrected a lot and are now factoring in most of the issues, they are not convinced if it's the right time to buy. They don't see any near term triggers as, apart from global issues, Indian stocks have faced internal issues as well, which have little clarity even now.

European crisis a concern but Chinese slowdown a bigger threat for commodities

While the European debt crisis is a concern, investors think the slowdown in China would be a bigger threat for the steel industry. China has large surplus capacity and in general the fear is that it could start dumping excess production (despite at a loss) leading to a collapse in global steel prices. There is little clarity on the extent of Chinese demand slowdown and how it will pan out.

- Our house view on China recognises the above concerns and agrees that there is a threat to current production numbers. Our China Steel analyst expects flat production/demand in China going forward. However, we think the threat of cheaper exports would be limited, given raw material prices remain high and our belief that companies would rather go for production cuts than flood overseas markets with cheaper steel; overseas demand is weak anyway and lowering prices won't lead to higher utilizations.

Indian steel sector is in worse shape – policy inaction/lower investments the key reasons

Apart from the global crisis, India as a country is in bad shape with almost all the fields seeing a slowdown in activities/growth. As a result of policy inactiveness and high interest rates, investments have been impacted. This has resulted in slower steel demand growth. The key question is how companies see the demand outlook?

If the same scenario continues India could turn into a steel surplus country, and along with a global surplus scenario, this could lead to a fall in capacity utilizations. Therefore Indian companies might see both margin pressure and lower volumes.

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

- Our view: While we agree that Indian steel demand has remained weak, we believe even the supply side has been weak with delay in SAIL (SAIL IN, BUY) expansion and even ESSAR Steel (Not listed) has been slow in the ramp up of production. Therefore we see limited steel capacity addition for the next 12-18 months. Even if Indian steel demand grows 5-6% YoY, India would remain a marginal importer of steel. We don't believe overcapacity is a concern in India and hence don't see volume pressure for Indian companies.

Depreciating INR – has saved P&L of Indian steel companies, but what about balance sheet

Depreciating INR has helped Indian companies as domestic steel prices haven't corrected much despite fall in global steel prices. However all the major companies have foreign currency debt and would see cash flow pressure. How would this affect the balance sheet stretch and cash outflows if any in next 6-12 months time?

- Our view: We agree that the depreciating INR would have a negative impact on the balance sheet of the companies. However most of the companies have hedged the foreign currency loans and the problem is with the convertible loans which are not hedged and given current stock prices, these are unlikely to be converted. However, companies don't have very significant FCCB and hence it shouldn't be a major concern – though is certainly a negative.

Government regulation over land acquisition/iron ore bans – when is clarity likely

Land acquisition and illegal iron ore mining have been two key issues affecting expansion plans in India. With new mining act even royalty would be doubled. Investor concern is that what other government intervention is likely and how would it affect the industry. Will doubling the royalty in the mining bill help the industry in any way (through better land acquisition policy)?

- Our view: While we agree that government policy has created an uncertain environment and there are no near term solutions to these issues, the stocks have been sufficiently penalized and we believe stock prices are discounting expansions (despite spending a significant sum on capex) altogether.

JSW Steel: is there an alternate to Karnataka iron ore?

Investors agree that while there is strong likelihood of Karnataka iron ore situation improving, they asked the company if it has any alternate strategy in place in case there is no solution in the next six months.

- Company view: JSW Steel mentioned that if Karnataka ore is not available they can't run the plant in the long run. Imported iron ore would not make sense as costs would be too high, while getting iron ore from Orissa is not likely due to high freight and logistics issues.

Some key points highlighted by the company during the road show:

Enough iron ore to run the plant at 80-85% utilization

JSW Steel has maintained its guidance of 7.5mtpa production in FY12 and has enough iron ore visibility to run the plant at 80% utilization for next six months. They expect some mines to start production in next 2-3 months time (they expect some decision by January 2012 and post that mines will gradually start production) and major production to start in six months' time.

Expansion to slow: Bengal project delayed

The company has said that while 2mtpa expansion at Vijaynagar will continue (though at a slower pace), the Bengal project has been postponed by a year. They expect some clarity on the start of the project by next year (FY13).

Debt to remain high on working capital increase and FCCB payment

The company has indicated that working capital would increase due to iron ore price increase. At the same time there is FCCB payment of US$ 380mn in July 2012 which would be financed through new debt. Therefore debt should remain at higher levels.

Appendix A-1

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
JSW Steel	JSTL IN	INR 469	20-12-2011	Buy	Not rated	8,48,49

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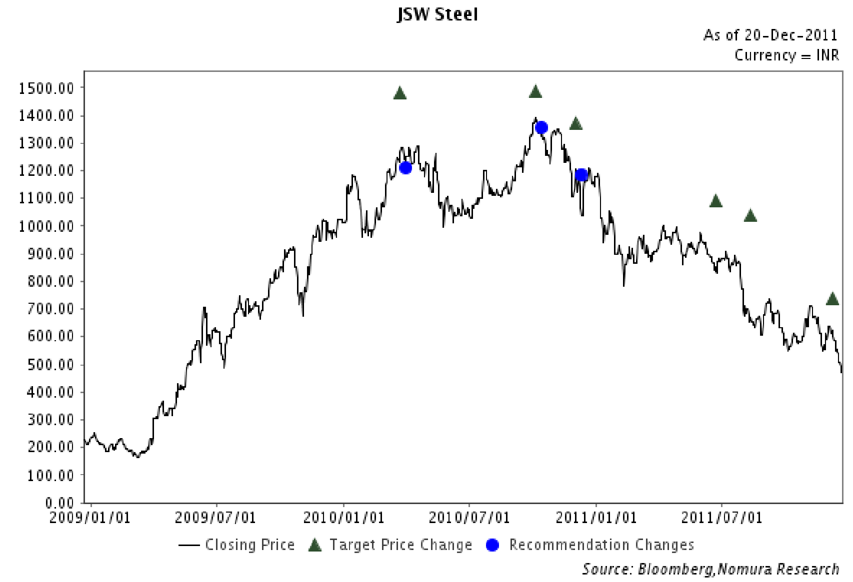
Previous Rating

Issuer name	Previous Rating	Date of change
JSW Steel	Neutral	01-12-2010

JSW Steel (JSTL IN) **INR 469 (20-12-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
07-Dec-11		739.00	620.65
11-Aug-11		1,038.00	667.95
22-Jun-11		1,092.00	838.10
01-Dec-10	Buy		1,206.30
01-Dec-10		1,370.00	1,206.30
05-Oct-10	Neutral		1,376.80
05-Oct-10		1,486.00	1,376.80
23-Mar-10	Buy		1,232.15
23-Mar-10		1,482.00	1,232.15

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value JSW on a sum-of-the-parts basis at INR739. We value JSW's operations at 5x FY13F consolidated EV/EBITDA at INR 728/share. We also include INR11/share for its 4.75% stake in JSW Energy, based on the current market cap of INR 65.5bn . We value JSW Steel's 49.3% stake in ISPAT Industries at INR 0.4/share valued at 5x FY13 EV/EBITDA.

Risks that may impede the achievement of the target price **1) Delays in resuming mining operations in Karnataka; 2) coking coal prices increases without any corresponding increase in steel prices, and; 3) delay in turnaround of ISPAT operations.**

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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