JINDAL STEEL AND POWER LIMITED BUY

July 25, 2012

Risk-reward ratio favourable; all negatives factored in the present price

(BSE Code: 532286)

Present price: Rs.400

Upside: 15-20 per cent

Time Horizon: 6 months

Company Background:

Jindal Steel and Power Ltd (JSPL) is one of India's major steel producers with a significant presence in sectors like Mining, Power Generation and Infrastructure. JSPL is a part of the about USD 15 billion diversified O. P. Jindal Group and is consistently tapping new opportunities by increasing production capacity, diversifying investments.

The company produces economical and efficient steel and power through backward integration from its captive coal and iron-ore mines. From the widest flat products to a whole range of long products, JSPL today sports a product portfolio that caters to varied needs in the steel market. The company also has the distinction of producing the world's longest 121 metre rails and introducing large size parallel flange beams in India.

Investment Rationale

All negatives seem to have been factored in the present price: Jindal Steel & Power Limited (JSPL) came up with Q1FY'13 results. The company has reported a PAT of Rs.385 crore on net sales of Rs.4680 crore. The provision for the Bolivian operations is the to the extent of Rs.574 crore. The share price of the company has corrected by ~40 per cent since its 52-week high levels of Rs.663 touched on February 17, 2012.

Massive provisioning in the results: JSPL has provided for a massive provisioning of Rs.814 crore while the cash profits stood in excess of Rs.1300 crore (ex-Bolivian operations)

Higher inventory pile-up should generate profitability going forward: JSPL has recorded 23 per cent growth in steel volume but still has seen the inventory go up by more than a lakh tonne. Similarly, in case of pellet sales the sales figure stood at ~4 lakh tonne with accumulated inventory of 2 lakh tonne. These figures would get reflected in Q2FY'13 results.

Considering the fact that the company is more than doubling its power capacity and is in the process of increasing steel capacity by 50 per cent over the next twelve months, the risk reward ratio is much favourable at the present price of Rs.400 considering the fact that the 40 per cent decline in the share price factors all the negatives in the stock and the massive provisioning has taken a toll on the numbers!

PCG Research

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