



Jindal Steel & Power

BSE SENSEX 18,197
S&P CNX 5,482

CMP:INR586

TP:INR727

Buy

Bloomberg JSP IN
Equity Shares (m) 934.1
52-Week Range (INR) 755/573
1,6,12 Rel. Perf. (%) -4/-10/-7
M.Cap. (INR b) 547.4
M.Cap. (USD b) 12.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EY/	EY/
END	(INR M)	(INR M)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	110,915	35,837	37.9	10.5	-	-	33.9	24.3	-	-
3/11A	131,116	37,539	40.1	6.0	14.6	3.9	26.6	17.9	5.2	10.7
3/12E	169,865	39,814	42.6	6.1	13.8	3.1	22.2	14.7	4.3	10.4
3/13E	200,109	49,479	52.9	24.3	11.1	2.4	22.0	14.5	3.8	8.8

Consolidated

- Jindal Steel and Power's (JSP) 1QFY12 consolidated PAT declined 8% QoQ to INR9.2b (against our estimate of INR11.4b) due to lower-than-expected sales of steel products and lower pellet production. Net sales declined 8% QoQ to INR25.3b due to lower steel sales because of weak market conditions.
- Pellet plant reached production of 4mtpa but production in 1QFY12 disappointed, declining 4% QoQ to 828,800 tons due to logistic bottlenecks in the Barbil region.
- Captive power generation declined 7% QoQ to 931m kWh as Tamnar units (2x135MW) still face teething problems despite being commissioned 8-10 months ago. Average PLF achieved was 50-55%.
- Overseas operations contributed INR110m to the bottom line. Profits from Oman and South Africa mines were partially offset by other corporate overseas experimental investment activities.
- JSP's PAT declined 9% QoQ to INR4.5b against our estimate of INR4.7b. Average rate was INR3.92/kWh, in line with our estimate of INR3.9/kWh. Merchant power rates were INR4.19/kWh. We expect ordering for Goda and Dumka projects within four months.
- The company expects to commission its 2mtpa coal gasification and gas based DRI unit at Angul in FY13. We are positive about JSP's long term growth outlook but in the near to medium term, weaker merchant power rates, possible delays in commissioning of steel projects and starting of captive coal mines will slow down earnings growth. We are cutting sales volumes of steel and pellets by 2.5% and 10% respectively in FY12 to factor in lower performance in 1QFY12. As a result, FY12E EPS is cut 5% to INR42.6 and FY13E EPS is unchanged at INR52.9. Maintain **Buy**.

Quarterly Performance (Consolidated)

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	30,010	30,821	31,740	38,545	39,441	41,004	43,688	45,733	131,116	169,865
Change (YoY %)	9.2	26.0	18.1	20.1	31.4	33.0	37.6	18.6	18.2	29.6
Total Expenditure	14,362	15,804	15,753	21,271	23,184	24,342	25,712	26,934	67,190	100,172
EBITDA	15,648	15,017	15,987	17,274	16,257	16,661	17,975	18,799	63,926	69,693
Change (YoY %)	-2.0	15.0	10.2	15.7	3.9	11.0	12.4	8.8	9.3	9.0
As % of Net Sales	52.1	48.7	50.4	44.8	41.2	40.6	41.1	41.1	48.8	41.0
Interest	861	782	813	900	1,073	1,390	1,447	1,582	3,356	5,492
Depreciation	2,509	2,731	2,926	3,345	3,250	3,272	3,325	3,449	11,510	13,296
Other Income	89	37	87	606	284	509	530	593	820	1,917
PBT (before EO item)	12,367	11,542	12,336	13,636	12,218	12,509	13,734	14,361	49,880	52,822
Extra-ordinary Income	0	0	0	0	0	0	0	0	-4	0
PBT (after EO item)	12,367	11,542	12,336	13,636	12,218	12,509	13,734	14,361	49,876	52,822
Total Tax	2,797	2,600	2,825	3,619	2,888	2,872	3,158	3,617	11,840	12,535
% Tax	22.6	22.5	22.9	26.5	23.6	23.0	23.0	25.2	23.7	23.7
Reported PAT	9,570	8,942	9,511	10,017	9,330	9,637	10,576	10,743	38,036	40,287
Minority interest	189	166	166	139	184	151	162	163	659	660
Associate	37	39	9	72	42	47	11	87	158	187
Adjusted PAT	9,418	8,816	9,354	9,951	9,188	9,533	10,426	10,667	37,539	39,814
Change (YoY %)	-5.3	8.6	8.4	10.4	-2.4	8.1	11.5	7.2	5.1	6.1

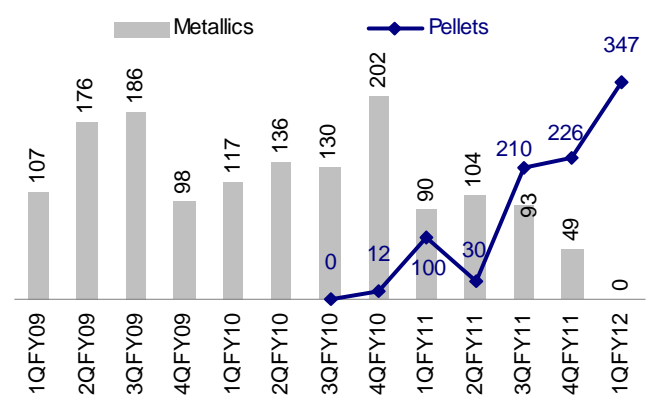
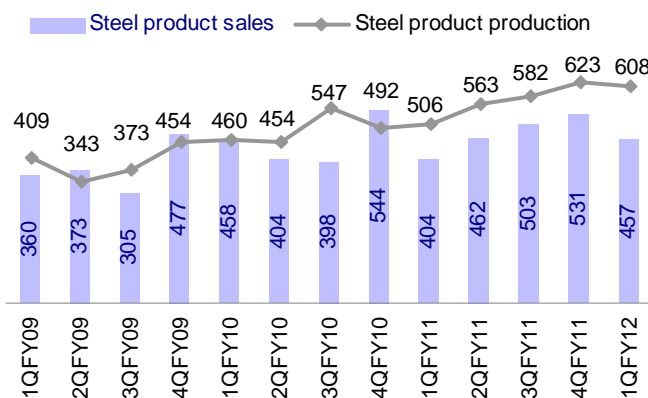
E: MOSL Estimates

Standalone PAT down 27% QoQ; pellet production down 4% QoQ

- JSP's 1QFY12 net sales declined 8% QoQ to INR25.3b due to lower steel sales because of weak market conditions. Sales tonnage of steel products declined 14% QoQ to 456,887 tons (against our estimate of 517,000), and steel production declined only 2% QoQ to 607,726 tons. Thus, steel inventories increased 22% QoQ to 0.3mtpa.
- Production of pig iron declined 6% QoQ to 402,107 tons. Sponge iron production increased 13% QoQ to 363,653 tons. There were no sales of sponge/pig iron. However JSP sold 180kt iron ore fines in 1QFY12.
- JSP's pellet plant reached a production rate of 4mtpa but production in 1QFY12 disappointed and declined 4% QoQ to 828,800 tons due to logistic bottlenecks in the Barbil region. Pellet sales increased 54% QoQ to 347,104 tons, lower than the expected 500kt, due to lower production.
- EBITDA declined 10% QoQ (up 22% YoY) to INR9.6b (against our estimate of INR12.3b) due to lower steel products and pellet tonnage.
- Consolidated debt at the end of 1QFY12 was INR140b with cash and equivalents of INR20b. Thus, net debt was INR120b.
- JSP plans to invest INR100b in FY12 and FY13. At present CWIP is ~INR70b.

Standalone steel sales volume down 14% QoQ (000 tons)

Pellet sales improve 54% QoQ (000 tons)



Source: Company/MOSL

Captive power plant (10x 135MW): Two units at Tamnar not stabilized; Angul unit stabilizes faster

- Captive power generation declined 7% QoQ to 931m kWh as the Tamnar units (2x135MW) are facing teething problems despite being commissioned 8-10 months ago. Average PLF achieved was just 50-55%.
- Captive power plants made losses as JSP capitalized three 135MW units in 1QFY12. It had higher interest and depreciation costs and insignificant contribution from merchant sales. Power generated at the units was used as captive consumption and the older 340MW CPP was on a maintenance shutdown.
- One 135MW unit, at Angul has been running at 90-95% PLF over the past few days. This is expected to contribute to 2QFY12 volumes.
- Demand from Orissa is low. JSP is trying to get open access since Orissa is unable to consume the power generated.
- Cost of production at these 10 units is expected to be INR1.75-2.25/kWh depending on transfer pricing of middling. At present, the Raigarh units are expected to run on middlings generated in captive coal mining. Coal linkage is available for all six 135MW units at Angul. Once captive coal mining starts at Angul, coal middlings generated in

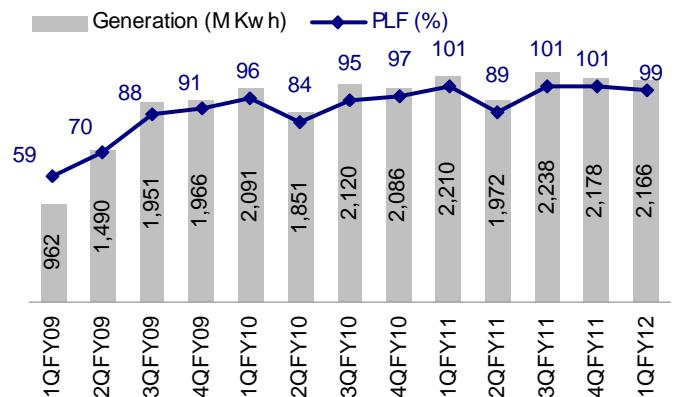
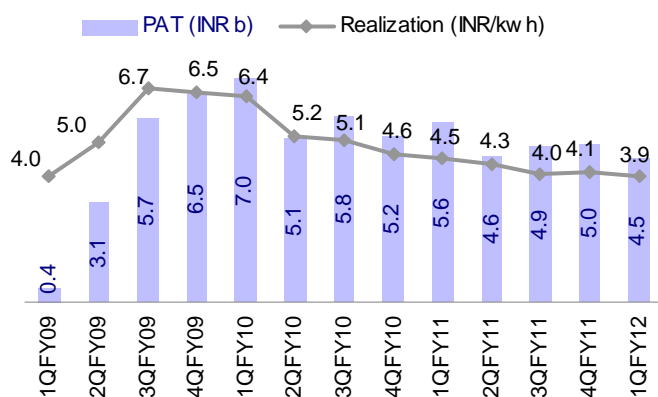
the process will be used to generate power at the six power units. Captive coal mine (Utkal B, allotted to the Angul steel plant) is expected to start in FY12 as most clearances are in place.

Jindal Power merchant rate INR4.19/kWh, two units to shut for maintenance in 2QFY12

- PAT at Jindal Power, a subsidiary of JSP, declined 9% QoQ to INR4.5b due to lower realizations and higher costs.
- Jindal Power produced 2,166m kWh at PLF of 99% in 1QFY12. Jindal Power sold 1,910m kWh implying average power rate of INR3.92. Merchant rates were INR4.19/kWh.
- Nearly 15% of the power was sold to the state at INR3.13/kWh, implying merchant rates of INR4.1/kWh.
- Internal consumption was much higher at 12% against a normal run rate of 7%.
- Two units of 250MW each undertake planned maintenance shutdown for 15 days in 2QFY12 as power demand is low during the quarter.
- BTG ordering for Jindal Power's Goda and Dumka projects is expected in 3-4 months.
- Jindal Power expects FY12 merchant power rates to be INR3.75-4.75/kWh. Power rates are trading lower due to liquidity issues with SEBs and this situation is not expected to last long.

Jindal Power: PAT declined due to lower average realization

Power generation steady at 99.2% PLF



Source: Company/MOSL

Overseas operations in green; Iron ore shipments from Bolivia to start in FY12

Overseas operations contributed INR110m to the bottom line. Profits from the Oman and South Africa mines were partially offset by other corporate overseas experimental investment activities.

- **Shadeed, Oman:** Shadeed produced 300kt of DRI and contributed INR370m to consolidated profits.
- **South Africa:** 0.3mt of coal was exported in 1QFY12 from South Africa contributing INR30m to the bottom line.
- **Bolivia:** Jindal Steel Bolivia, a subsidiary of JSP, started dispatches of iron ore from its El-Mutun mines in Puerto Aguirre, a river port in Bolivia. JSP is investing in building/widening roads to transport the ore from its site (~30km away from the Parana River)

to Puerto Aguirre port (handling capacity 40mtpa). Iron ore shipments are expected to start in FY12, but the management gave no guidance on export volumes. Corporate tax rate is ~25% and royalty on iron ore varies on grade and ranges from 15-25%. JSP plans to invest ~USD200m in Bolivia in FY12 and FY13.

- **Indonesia:** Indonesian coal mines are expected to start production between February and June 2012.

JSP expects delay in Angul project, cutting FY12 EPS 5%; Maintain Buy

- A 2mtpa coal gasification and gas based DRI unit in Angul is expected to be commissioned in FY13. JSP had planned to commission a 1.5mtpa plate mill and DRI unit by March 2012.
- We are positive about JSP's long term growth outlook as it is augmenting its steel capacity 4x over four years and power generation capacity 10x in 10 years. Only a third of its planned 12mtpa steel capacity will be exposed to coking coal imports. Even overseas coal mines can cover the requirement in future, depending on the progress.
- However in the near to medium term, weaker merchant power rates, possible delays in commissioning of steel projects and starting of captive coal mines would slow earnings growth. We are cutting sales volumes of steel and pellet by 2.5% and 10% respectively for FY12 to factor in lower performance in 1QFY12. As a result, FY12 EPS is cut 5% to INR42.6 and FY13 EPS is unchanged at INR52.9. Maintain **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY11	FY12E
Sales volume										
Steel (000 tons)	404	462	503	531	457	611	611	658	1,900	2,337
Metalics (000 tons)	90	104	93	49	0	-10	59	-5	336	45
Pellets (000 tons)	100	30	210	226	347	583	589	666	565	2,185
Power (M kwh)	331	180	256	299	259	283	496	709	1,066	1,747
Net Sales	21,216	22,996	24,102	27,422	25,265	28,128	30,371	31,910	95,736	115,674
Change (YoY %)	34.6	43.9	36.2	13.1	19.1	22.3	26.0	16.4	29.9	20.8
EBITDA	7,913	8,560	9,360	10,691	9,634	10,391	11,344	12,098	36,524	43,466
Change (YoY %)	41.6	55.3	51.2	31.4	21.7	21.4	21.2	13.2	45.8	19.0
As % of Net Sales	37.3	37.2	38.8	39.0	38.1	36.9	37.4	37.9	38.2	37.6
Interest	742	781	967	1,061	1,325	1,142	1,199	1,335	3,550	5,001
Depreciation	1,475	1,638	1,821	1,945	2,066	1,990	2,043	2,168	6,878	8,267
Other Income	62	60	83	1,232	167	61	61	1,362	1,437	1,651
PBT (after EO item)	5,759	6,202	6,655	8,918	6,410	7,319	8,163	9,958	27,534	31,849
Total Tax	1,402	1,420	1,636	2,435	1,709	1,830	2,041	2,489	6,892	8,068
% Tax	24.3	22.9	24.6	27.3	26.7	25.0	25.0	25.0	25.0	25.3
Reported PAT	4,357	4,782	5,019	6,483	4,702	5,489	6,122	7,468	20,641	23,781
Adjusted PAT	4,357	4,782	5,019	6,483	4,702	5,489	6,122	7,468	20,641	23,781
Change (YoY %)	45.2	56.8	54.1	18.1	7.9	14.8	22.0	15.2	38.7	15.2

E: MOSL Estimates

Quarterly Performance (Jindal Power)

Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY11	FY12E
Capacity	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
PLF	101%	89%	101%	101%	99%	91%	101%	101%	98%	98%
Gross generation (MU)	2,210	1,972	2,238	2,178	2,166	1,993	2,212	2,212	8,598	8,583
Estimated Power sales (MU)	2,055	1,834	2,005	2,026	1,906	1,853	2,057	2,057	7,920	7,874
Estimated Rate	4.5	4.3	4.0	4.1	3.9	3.9	3.7	3.7	4.2	3.9
Expenditure (Rs/kwh)	0.56	0.53	0.48	0.28	0.51	0.74	0.70	0.70	0.46	0.66
Net Sales	9,276	7,856	7,966	8,280	7,495	7,191	7,632	7,632	33,377	29,950
Reported PAT	5,600	4,590	4,871	4,955	4,528	4,221	4,525	4,569	20,016	17,844

E: MOSL Estimates; Note: Quarterly data (except for Gross generation; Net Sales and PAT) are assumed (close approximation) for Analysis

Jindal Steel & Power: an investment profile

Company description

Jindal Steel and Power (JSP) has 3mtpa of operational steelmaking capacity at Raigarh. JSP has one of the best iron ore and coal resources in India, with assets over various mineral-rich countries. JSP offers the best insulation from iron ore and coking coal prices among Indian steel producers and is the only power producer in India that has most of its projects secured for coal from captive mines. JSP has rich iron ore and coal resources overseas, mainly in Bolivia, Mozambique, South Africa and Indonesia.

Key investment arguments

- JSP plans to increase steel capacity 4x over four years. It is augmenting its 3mtpa capacity, by setting up a 1.6mtpa module in Angul, which will use the coal gasification route. It plans to add two more modules of 1.6mtpa each at Angul and Raigarh, using this technology. At Patratu (Jharkhand), JSP has selected the blast furnace route to make steel. It will produce 3mtpa of steel in phase-I.
- Only a third of the 12mtpa steel capacity will be exposed to coking coal imports. Even imports may be covered by overseas coal mines, depending on progress.
- Jindal Power, JSP's 96.43% subsidiary, plans to increase capacity by 10x in 10 years by adding 4,380MW of thermal power projects in Chhattisgarh and Jharkhand at a capex of USD5.3b and 6,100MW of hydro power projects in Arunachal Pradesh at a capex of USD8.1b.

Comparative valuations

		JSPL	SAIL	Tata Steel
P/E (x)	FY12E	13.8	13.8	8.5
	FY13E	11.1	14.7	6.7
P/BV (x)	FY12E	3.1	1.3	1.7
	FY13E	2.4	1.2	1.4
EV/Sales (x)	FY12E	4.3	1.3	0.7
	FY13E	3.8	1.4	0.6
EV/EBITDA (x)	FY12E	10.4	9.0	6.0
	FY13E	8.8	10.0	4.8

Shareholding pattern (%)

	Jun-11	Mar-11	Jun-10
Promoter	58.4	58.4	58.4
Domestic Inst	6.5	6.1	2.8
Foreign	24.1	24.5	23.9
Others	11.0	11.0	15.0

Key investment risks

- An unexpected fall in steel prices and delay in project execution will adversely impact earnings.

Recent developments

- Jindal Steel Bolivia (JSB), subsidiary of JSP, commenced dispatch of iron ore from its El-Mutun mines in Puerto Aguirre, a river port in Bolivia. Iron ore shipments are expected to start in FY12.

Valuation and view

- The stock trades at a P/E of 13.8x FY12E and EV/EBITDA of 10.4x FY12E. Maintain **Buy**.

Sector view

- The steel pricing environment weakened due to demand uncertainty led by political crisis, the European debt crisis and inflation in developing countries. Recently, prices recently started consolidating as raw material prices were firm. Apparent world steel use is expected to increase 5.9% to 1,359mt in 2011 as per WSA. Indian steel demand is expected to grow 12-14% over 2010-12 due to the government's planned infrastructure investment and strong domestic consumption. However, raw material scarcity and incremental capacity addition are expected to put pressure on margins. World crude steel production increased 7.6% YoY to 758mt in 1HCY11.

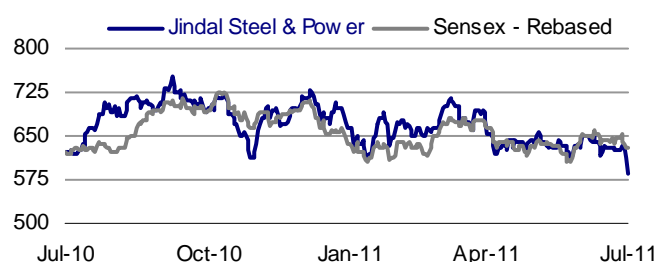
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	42.6	46.3	-7.9
FY13	52.9	52.2	1.4

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
586	727	24.1	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Net sales	110,915	131,116	169,865	200,109	
Change (%)	2.2	18.2	29.6	17.8	
Total Expenses	52,331	67,190	100,172	113,416	
EBITDA	58,584	63,926	69,693	86,693	
% of Net Sales	52.8	48.8	41.0	43.3	
Deprn. & Amortization	9,970	11,510	13,296	15,726	
EBIT	48,614	52,416	56,397	70,967	
Net Interest	3,576	3,356	5,492	8,914	
Other income	603	820	1,917	2,661	
PBT before EO	45,641	49,880	52,822	64,713	
EO income	-107		0	0	
PBT after EO	45,535	49,880	52,822	64,713	
Tax	9,189	11,840	12,535	14,797	
Rate (%)	20.2	23.7	23.7	22.9	
Reported PAT	36,346	38,040	40,287	49,916	
Minority interests	755	659	660	594	
Share of Associates	139	158	187	158	
Adjusted PAT	35,837	37,539	39,814	49,479	
Change (%)	12.3	4.7	6.1	24.3	

Balance Sheet (Consolidated)		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	931	934	934	934	
Reserves	103,158	139,965	178,109	224,092	
Net Worth	104,089	140,899	179,044	225,026	
Minority Interest	1,659	2,335	2,978	3,628	
Total Loans	86,043	139,766	188,766	247,766	
Deferred Tax Liability	8,455	10,055	11,668	13,729	
Capital Employed	200,246	293,054	382,456	490,149	
Gross Block	131,625	192,756	217,388	285,786	
Less: Accum. Deprn.	32,651	44,321	57,714	73,441	
Net Fixed Assets	98,974	148,435	159,674	212,345	
Capital WMP	79,470	100,409	167,999	205,549	
Good will	1,007	1,018	1,018	1,018	
Investments	3,185	2,979	2,979	2,979	
Curr. Assets	68,510	107,863	120,849	143,760	
Inventory	14,308	27,734	28,725	34,186	
Account Receivables	7,533	11,537	14,439	17,014	
Cash and Bank Balance	1,128	4,802	13,896	28,771	
loans & advances	45,541	63,790	63,790	63,790	
Curr. Liability & Prov.	50,900	67,649	70,062	75,501	
Account Payables	30,377	36,587	38,999	44,439	
Provisions & Others	20,522	31,063	31,063	31,063	
Net Current Assets	17,611	40,214	50,788	68,259	
Appl. of Funds	200,246	293,054	382,456	490,149	

E: MOSL Estimates

Ratios (Consolidated)					
Y/E March	2010	2011	2012E	2013E	
Basic (Rs)					
EPS	37.9	40.1	42.6	52.9	
Cash EPS	49.7	53.0	57.4	70.3	
BV/Share	111.8	150.8	191.7	240.9	
DPS	1.3	1.5	1.8	2.0	
Payout (%)	3.4	3.8	4.2	3.9	
Valuation (x)					
P/E	15.5	14.6	13.8	11.1	
Cash P/E	11.8	11.0	10.2	8.3	
P/BV	5.2	3.9	3.1	2.4	
EV/Sales	5.7	5.2	4.3	3.8	
EV/EBITDA	10.8	10.7	10.4	8.8	
Dividend Yield (%)	0.2	0.3	0.3	0.3	
Return Ratios (%)					
EBITDA Margins (%)	52.8	48.8	41.0	43.3	
Net Profit Margins (%)	32.3	28.6	23.4	24.7	
RoE	33.9	26.6	22.2	22.0	
RoCE	24.3	17.9	14.7	14.5	
RoIC	33.6	21.7	21.9	21.7	

Working Capital Ratios

Fixed Asset Turnover (x)	0.8	0.7	0.8	0.7
Asset Turnover (x)	0.6	0.4	0.4	0.4
Debtor (Days)	24.8	32.1	31.0	31.0
Inventory (Days)	12.9	21.2	16.9	17.1
Work.Cap.Turnover (Day)	14.9	27.0	21.7	19.7
Payable (Days)	100.0	101.8	83.8	81.1

Leverage Ratio (x)

Current Ratio	1.3	1.6	1.7	1.9
Interest Cover Ratio	13.6	15.6	10.3	8.0
Debt/Equity	0.8	1.0	1.0	1.0

Cash Flow Statement (Consolidated)		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Pre-tax profit	45,535	49,880	52,822	64,713	
Depreciation	9,970	11,510	13,296	15,726	
(Inc)/Dec in Wkg. Cap.	3,290	-18,929	-1,480	-2,596	
Tax paid	-7,905	-9,472	-10,172	-12,002	
Other operating activities	-1,424	262	-500	-2,100	
CF from Op. Activity	49,466	33,252	53,965	63,742	
(Inc)/Dec in FA + CWMP	-61,454	-82,070	-92,222	-105,948	
(Pur)/Sale of Investments	1,954	206	0	0	
CF from Inv. Activity	-59,500	-81,864	-92,222	-105,948	
Debt raised/(repaid)	4,900	53,723	49,000	59,000	
Dividend (incl. tax)	-1,208	-1,439	-1,679	-1,919	
CF from Fin. Activity	4,468	52,287	47,321	57,081	
(Inc)/Dec in Cash	-5,566	3,674	9,065	14,875	
Add: Opening Balance	6,694	1,128	4,802	13,896	
Closing Balance	1,128	4,802	13,896	28,771	

N O T E S

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