

BSE SENSEX
17,384

 S&P CNX
5,254


Bloomberg	JSTL IN
Equity Shares (m)	223.1
52-Week Range (INR)	885/464
1,6,12 Rel. Perf. (%)	-5/-12/-10
M.Cap. (INR b)	149.5
M.Cap. (USD b)	2.7

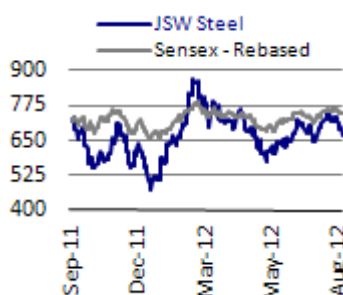
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
Net Sales	343.7	469.1	493.4
EBITDA	61.0	77.9	77.8
NP	14.8	12.3	12.8
EPS (INR)	66.5	51.1	53.0
EPS Gr.(%)	-11.6	0.6	3.8
BV/Sh.(INR)	750.7	660.7	691.0
P/E (x)	10.1	13.1	12.6
P/BV (x)	0.9	1.0	1.1
EV/Sales (x)	1.2	1.1	1.1
EV/EBITDA (x)	6.8	6.7	6.9
RoE (%)	8.9	7.7	7.8
RoCE (%)	8.7	9.2	8.7
RoIC (%)	11.6	10.4	10.2

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	38.6	38.5	38.3
Dom.Inst.	4.7	4.7	4.8
Foreign	41.3	41.7	45.4
Others	15.3	15.2	11.5

Stock performance (1 year)



Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR670
TP: INR391
Sell

Merger with JSW Ispat

Synergies in tax, interest cost and operations; Net debt at INR362b; Reiterate Sell

- JSW Steel announced the merger with JSW Ispat in swap ratio of 1:72. JSW Steel already holds 46.7% stake in the latter. The merger will result in issue of 18.6m shares to the minority shareholders of JSW Ispat, expanding the equity of JSW Steel by 8.3% to 241.7m shares. Post merger, Jindals, Mittals and JFE will hold 35.1%, 2.8% and 14.9% stake respectively. The merger is expected to be completed by March 2013.
- Post merger, JSW Steel will have a total capacity of 14.3mtpa thus making it the largest steel producer in the country. Downstream facilities at Vasind, Tarapur and Kamleshwar with a combined capacity of 1.2mtpa will be spun off into a wholly-owned subsidiary so that VAT benefits available to Dolvi HSM (erstwhile JSW Ispat) can still be enjoyed.
- It has chosen purchase accounting rather the pooling of interest method, which will allow revaluation of assets of JSW Ispat and higher net worth for the combined entity. Apparently, this will result in increase in net worth of INR38.59b as evident from the gap between the net worth of JSW Steel merged and networth of individual companies as displayed in its presentation.
- Merger will allow JSW Steel tax benefits from unabsorbed INR97b losses of JSW Ispat and reduction in interest rate for the latter.
- Post merger, JSW Steel plans to leverage the infrastructure of Dolvi unit to add another 3-4mtpa of capacity through brownfield expansion. Apparently, JSW Bengal project, if not shelved, is taking a backseat in the overall growth strategy of JSW Steel due to delays in execution. JSW Steel still talks about expansion to 40mtpa by 2020.

Pre- and post-merger shareholding pattern

	JSW Steel		JSW Ispat		JSW Steel merged	
	shares (m)	(%)	shares (m)	(%)	shares (m)	(%)
Jindals	85	38.0	0.0	0.0	85	35.1
JFE	36	16.2	0.0	0.0	36	14.9
JSW Steel	0	0.0	1,177	46.7	0.0	0.0
Mittals	0	0.0	494	19.6	7	2.8
Public (other)	102	45.8	846	33.6	114	47.1
Total	223	100.0	2,517	100.0	241.7	100.0

Source: Company, MOSL

Our view

- We believe that the merger will result in synergies of operations, taxes and interest costs. Dolvi unit's infrastructure and its proximity to ports and market of western India opens up doors to JSW Steel for further growth through brownfield projects.

Sanjay Jain (Sanjay.Jain@MotilalOswal.com); +91 22 3982 5412

Pavas Pethia (Pavas.Pethia@MotilalOswal.com); +91 22 3982 5413

- According to our calculations, JSW Steel will have net debt (including acceptances) of INR362b by March 2013 and net debt/equity of 2.3x (window dressing by revaluation is hardly useful). JSW Steel's strategy of aggressive growth has been fruitful so far because of boom in steel sector. However, continuance of the same strategy with leverage can be disastrous going forward because we believe that the period of high growth in steel demand is over (highlighted in our recent report titled "Downhill Run").
- We continue to admire the execution skills and operational efficiencies of JSW Steel. We will be more comfortable if JSW Steel rejigs its strategy to focus on deleveraging rather than pursuing aggressive growth. Stock is trading at expensive FY14 valuation of 6.9x EV/EBITDA and 12.6x P/E. Re-iterate **Sell**.

Financials and Valuation

Income Statement (Consolidated)				(INR Million)	
Y/E March	FY10	FY11	FY12	FY13E	FY14E
Net Sales	189,572	241,059	343,681	469,076	493,415
Change (%)	19.0	27.2	42.6	4.8	8.3
Total Expenses	148,865	192,380	282,662	391,200	415,635
EBITDA	40,707	48,679	61,019	77,876	77,780
% of Net Sales	21.5	20.2	17.8	18.2	16.5
Depn. & Amortization	12,987	15,597	19,332	28,531	29,069
EBIT	27,720	33,082	41,687	49,345	48,711
Net Interest	11,080	10,603	14,273	28,847	30,800
Other income	1,012	1,900	769	2,457	1,625
PBT before EO	17,652	24,379	28,183	22,955	19,536
EO income	4,348		-15,353	-9,336	
PBT after EO	22,000	24,379	12,830	13,619	19,536
Current tax	4,793	5,855	4,113	2,446	2,725
Deffered tax	1,674	1,930	889	5,772	5,733
Tax	6,467	7,785	5,002	8,217	5,861
Rate (%)	29.4	31.9	39.0	42.5	30.0
Reported PAT	15,533	16,594	7,828	5,402	11,078
Minority interests	-332	-239	189	36	36
Share of Associates	111	707	-2,262		
Preference dividend	289	279	279	828	828
Adj. PAT (after MI & Asso)	11,952	16,783	14,844	12,345	12,811
Change (%)	46.4	40.4	-11.6	-23.7	-2.7

Balance Sheet (Consolidated)				(INR Million)	
Y/E March	FY10	FY11	FY12	FY13E	FY14E
Share Capital	1,871	2,231	2,231	2,417	2,417
Reserves	87,911	163,062	165,265	157,306	164,623
Net Worth	89,781	165,293	167,496	159,724	167,040
Minority Interest	2,187	2,219	2,177	2,213	2,250
Total Loans	215,019	237,431	298,513	389,491	409,491
Deferred Tax Liability	16,848	20,494	27,250	11,243	16,258
Capital Employed	323,834	425,437	495,435	562,670	595,038
Gross Block	276,912	337,771	426,895	596,378	627,878
Less: Accum. Deprn.	53,393	68,732	88,775	183,892	212,961
Net Fixed Assets	223,520	269,039	338,121	412,487	414,918
Capital WIP	69,562	65,078	35,703	56,335	76,335
Investments	6,282	26,437	18,856	4,441	4,441
Curr. Assets	54,700	98,329	146,453	178,697	190,201
Inventory	28,667	44,097	57,893	83,075	86,774
Account Receivables	6,964	9,334	15,394	22,260	23,110
Cash and Bank Balance	3,030	23,170	32,653	27,432	34,387
Others	16,038	21,729	40,514	45,930	45,930
Curr. Liability & Prov.	30,229	33,446	43,698	89,289	90,856
Account Payables	27,580	29,622	41,039	86,173	87,739
Provisions & Others	2,649	3,823	2,659	3,117	3,117
Net Current Assets	24,471	64,884	102,755	89,408	99,345
Appl. of Funds	323,834	425,437	495,435	562,670	595,038

E: MOSL Estimates

Financials and Valuation

Ratios (Consolidated)

Y/E March	2010	2011	2012	2013E	2014E
Basic (INR)					
EPS	63.9	75.2	66.5	51.1	53.0
Cash EPS	152.5	144.3	121.7	140.4	166.1
BV/Share	480.0	740.8	750.7	660.7	691.0
DPS	9.5	12.3	7.5	7.5	7.5
Payout (%)	20.2	20.9	15.4	14.7	14.2
Valuation (x)					
P/E			10.1	13.1	12.6
Cash P/E			5.5	4.8	4.0
P/BV			0.9	1.0	1.0
EV/Sales			1.2	1.1	1.1
EV/EBITDA			6.8	6.7	6.9
Dividend Yield (%)			1.1	1.1	1.1
EV/ton			1,109		
Return Ratios (%)					
RoE	14.5	12.3	8.9	7.7	7.8
RoCE (pre-tax)	9.2	9.6	8.7	9.2	8.7
RoIC (pre-tax)	12.2	11.9	11.6	10.4	10.2
Working Capital Ratios					
Debtor (Days)	13	14	16	17	17
Inventory (Days)	55	67	61	65	64
Creditors(Days)	53	45	44	67	65
Leverage Ratio (x)					
Current Ratio	1.8	2.9	3.4	2.0	2.1
Interest Cover Ratio	2.5	3.1	2.9	1.7	1.6
Debt/Equity	2.4	1.3	1.6	2.3	2.2

Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY10	FY11	FY12	FY13E	FY14E
EBITDA	40,707	48,679	61,019	77,876	77,780
(Inc)/Dec in Wkg. Cap.	-4,710	-13,137	-28,388	7,409	-2,982
Tax Paid	-4,594	-4,269	-4,113	-2,446	-2,725
CF from Op. Activity	31,404	31,273	28,518	82,840	72,073
(Inc)/Dec in FA + CWIP	-27,418	-52,994	-59,750	-51,500	-51,500
(Pur)/Sale of Investments	-2,033	-266	7,581		
Acquisition in subsidiaries		-23,598			
Int. & Dividend Income	128	526	769	2,457	1,625
CF from Inv. Activity	-29,323	-76,331	-51,400	-49,043	-49,875
Equity raised/(repaid)	-99	59,356			
Debt raised/(repaid)	6,392	4,008	61,082	6,948	20,000
Dividend (incl. tax)	-570	-2,397	-2,284	-2,237	-2,237
Interest paid	-11,485	-10,007	-14,273	-28,847	-30,800
Other financing	2,209	-281	-12,159	-15,064	-2,206
CF from Fin. Activity	-3,552	50,679	32,366	-39,199	-15,243
(Inc)/Dec in Cash	-1,471	5,621	9,484	-5,402	6,955
Add: opening Balance	5,093	3,030	23,170	32,834	27,432
Margin Money & debenture balance	-591	14,518			
Closing Balance	3,030	23,170	32,653	27,432	34,387

E: MOSL Estimates

N O T E S

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JSW Steel

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com