

JSW STEEL

Satisfactory performance

India Equity Research | Metals and Mining



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JSW Steel (JSW) reported a consolidated EBITDA of INR15.3bn (broadly in-line) and PAT of INR6.9bn (in-line after forex adjustment). Standalone sales volume and EBITDA/t at 2.17mt (up ~15% YoY) and INR7,025 (flat YoY) respectively were also on expected lines. With sufficient iron ore inventory, NMDC production and the restart of Category A mines, the management maintained its guidance of 8.5mt of crude steel production in FY13 (our estimate at 8mt). We retain our forward estimates and maintain 'BUY' with TP of INR868/share.

Operational performance in-line with expectations

Standalone EBITDA at INR15.2bn was in-line with estimates. Sales volume, blended realization and EBITDA/t were as broadly on the expected lines at 2.17mt (up ~15% YoY, flat QoQ), INR 40,861 (flat YoY, down ~4.5% QoQ) and INR7,025 (flat YoY, down ~16% QoQ). Consolidated EBITDA at INR15.3 was marginally below estimates due to weak results in the overseas operations (Chile and US). Consolidated PAT at INR6.9bn was higher than estimate of INR3.4bn due to forex gains of INR4.3bn in JSW Steel and INR 2.35bn in JSW Ispat. Adjusted for the forex gains, PAT also was also in-line.

Maintains FY13 production guidance

With an iron ore inventory of 3.1mt (including ore to be shortly auctioned), 60%-70% share of NMDC production of 8mtpa, the restart of category A mines (5mtpa) and a potential usage of low-grade iron ore, JSW Steel maintained its FY13 crude steel volume guidance of 8.5mt (H1FY13 actual: 4.3mt; our FY13 assumption: 8mt). Going forward, JSW Steel expects clearance for Category B mines (7mtpa) and is hopeful of auction in some Category C mines in its favour.

Outlook and valuations: Clearing clouds; maintain 'BUY'

We remain positive on JSW Steel due to the progressive normalization of the iron ore mining situation in Karnataka. We expect crude steel volumes to grow to 9.7mt in FY14 with an upside risk to our FY13 estimate of 8mt. Steel sector margins have bottomed out in our view and should gradually move up in FY14. We retain our forward earnings estimates and maintain 'BUY/Sector Outperformer' recommendation/rating with a target price of INR868. The stock trades at 3.3x FY14E EV/EBITDA.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: JSTL.BO, B: JSTL IN)

CMP	: INR 738
Target Price	: INR 868
52-week range (INR)	: 886 / 462
Share in issue (mn)	: 223.1
M cap (INR bn/USD mn)	: 165/ 3,048
Avg. Daily Vol.BSE/NSE('000)	: 2,477.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters *	38.0	38.0	37.9
MF's, FI's & BK's	5.3	5.3	5.3
FII's	20.6	20.2	20.5
others	36.0	36.5	36.3
* Promoters pledged shares (% of share in issue)			15.5

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	1.9	(0.0)	1.7
3 months	10.2	11.2	(1.5)
12 months	28.3	12.7	1.8

Financials (Consolidated)

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Net revenue	95,137	81,443	16.8	99,099	(4.0)	343,681	324,609	384,695
EBITDA	15,313	13,938	9.9	19,085	(19.8)	61,019	67,388	79,994
Net profit	6,913	(6,693)	NM	497	NM	13,399	18,127	26,831
Diluted EPS (INR)	31.0	(30.0)	NM	2.2	NM	60.1	81.2	120.3
Diluted P/E (x)						12.3	9.1	6.1
EV/EBITDA (x)						4.4	4.1	3.3
ROAE (%)						8.3	10.7	14.0

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October 29, 2012

Other highlights for the quarter

- Robust volume growth:**

Crude steel production increased ~25% YoY and saleable steel increased ~15% YoY. Within that, flats saw an increase of ~13% YoY while volume for longs increased by ~18% YoY.

Table 1: Sales volume increases ~15% YoY

(mt)	Q2FY13	Q2FY12	Y-o-Y (%)	Q1FY13	Q-o-Q (%)
Production					
Crude steel	2.17	1.74	24.7	2.14	1.4
Flat products	1.45	1.30	11.5	1.61	(9.9)
Long products	0.45	0.34	32.4	0.44	2.3
Sales Volume					
Total Sales	2.17	1.88	15.4	2.11	2.8
Flat products	1.66	1.47	12.9	1.67	(0.6)
Long products	0.40	0.34	17.6	0.38	5.3
VAP (CR/GI)	0.42	0.42	0.0	0.41	2.4
Semis	0.11	0.08	37.5	0.05	120.0
Blended realisation/t (INR)	40,861	40,553	0.8	42,853	(4.6)
Blended EBITDA/t (INR)	7,025	6,887	2.0	8,406	(16.4)

Table 2: Per tonne analysis

Per ton analysis (USD)	Q2FY13	Q2FY12	% change	Q1FY13	% change
Blended realisation	740	887	(16.6)	791	(6.4)
Raw material	472	574	(17.8)	491	(3.8)
Staff costs	15	17	(13.7)	15	(3.7)
Other expenses	85	95	(10.1)	85	(0.1)
Total expenditure	613	737	(16.8)	636	(3.6)
EBITDA	127	151	(15.5)	155	(18.0)

Source: Company, Edelweiss research

- Performance of subsidiaries, 'US Plate and Pipe Mill' and Chile were both below expectations.

Table 3: US plate mill operates at utilization of ~31% vs ~39% in Q1FY13

	Q2FY13		Q1FY13		Q4FY12		Q3FY12	
	Plate mill	Pipe mill	Plate mill	Pipe mill	Plate mill	Pipe mill	Plate mill	Pipe mill
Production (tonne)	79,172	29,479	98,102	22,011	108,183	22,541	65,956	17,785
Sales (tonne)	53,875	24,590	68,741	22,079	65,795	24,482	66,309	17,443
Utilisation rate (%)	31.0	21.0	39.2	16.0	43.3	16.4	26.4	12.9

Source: Company, Edelweiss research

Table 4: Performance of US operations weakens

	Q2FY13	Q1FY13	Q4FY12	Q3FY12	Q2FY12
Revenue	87.76	103.7	105.2	94	100.5
EBITDA	2.89	6.4	42.6	3.6	6.4
PAT	(13.39)	(8.20)	27.70	(10.10)	(7.60)

Source: Company, Edelweiss research

**Table 5: Chile operations adversely affected led by fall in iron ore prices**

Particulars	Q2FY13	Q2FY12	Q1FY13	Q4FY12
Production (Tonnes)	170,744	202,507	194,886	172,580
Sales (Tonnes)	147,734	149,807	343,249	101,199
Turnover	16.31	25.56	44.8	13.6
EBITDA	(0.07)	8.41	8.50	0.90
Profit after Tax	(1.63)	4.57	5.30	(0.90)

Source: Company, Edelweiss research

Key takeaways from the JSW Steel Q2FY13 earnings concall

Global steel scenario remains weak; steel prices appear to have bottomed out

World crude steel production grew by just ~0.6% in Jan-Sep 2012 compared with the demand growth outlook of 2.1% in CY12. China crude steel production was up just 1.3% in 9MCY12. Global capacity utilisations have dropped below 80%. A high proportion of steel manufacturers in China is making losses while large companies in the US and other geographies have seen their profits for the most recent quarter falling >30% YoY. While HRC prices continued to fall in Q2, last fortnight has seen some recovery in the US and China. Steel prices appear to have bottomed out and will remain range bound for the next two quarters. WSA projects global steel demand to grow by 3.2% in CY13.

Steel scenario in India

While the apparent finished steel consumption grew by 5.4% in 1HFY13, finished steel production grew by 2.6% in 1HFY13. Steel imports in 1HFY13 jumped up by 36.5% to 3.94 million tonnes whereas steel exports marginally went up by 4.8% to 2.37 million tonnes.

Company is hopeful that steel demand will improve in the festive season and will broadly track the GDP growth rate going ahead.

Global raw material price scenario

While raw material prices too have corrected tracking the weak demand, prices are expected to be range bound. The correction in raw material prices is with a lag to the steel prices. Therefore, the positive impact of the same will accrue in the coming two quarters.

Update on iron ore situation in Karnataka

On approval of Reclamation & Rehabilitation (R & R) plans by CEC, three mines in category 'A' (capacity of 1.4 MTPA) have restarted production. Balance eight mines (capacity of 3.3 MTPA) are in various stages of approval and expected to commence production during Oct-Dec 2012 quarter. While the R&R plans for three mines in category 'B' are approved, the Hon'ble Supreme Court has stipulated certain conditions for category 'B' mines to consider the recommencement of mining. JSW is hopeful that these mines too will start soon and can contribute to ~7-8mtpa. The CEC has recommended cancellation of Category 'C' mines and auction these to end users. JSW is hopeful of obtaining some of these C category mines if they are auctioned.

JSW Steel maintains full year production guidance at 8.5mt

Company's steel production in H1 has grown at 26% YoY outperforming the regional and global production growth. Company has reiterated its full year crude steel production guidance foreseeing enough availability of iron ore. JSW has ~1.8mt of iron ore inventory

from the volume it purchased from e-auction while another ~2mt is yet to be auctioned. With production continuing at NMDC and given its feasibility to use low grade iron ore (due to its beneficiation plant), the company sees enough availability of iron ore for production till March 2013.

Iron ore cost for the quarter stood at ~INR3400/t, an increase of INR400/t QoQ. JSW has also sourced some iron ore from sources besides Karnataka in the quarter.

Chile mines will produce ~1mt of iron ore this year and due to low iron ore prices, the company seeks to break even this year.

Operating cost remained high at JSW Ispat due to the lag effect of high cost of coking coal and also due to an increase in power cost as a result of a planned maintenance shutdown at its plant. With 55MW of CPP and railway siding coming up by March 2013, the company is hopeful that the efficiency of JSW Ispat will increase going ahead. Besides, there are other long term initiatives like the coke oven batteries and pelletisation plant (which will get commissioned by mid FY14) which will drive the profitability higher.

Capex guidance of INR60bn remains intact for FY13 even though the actual cash flow may be less as the company has spent only INR19 bn in H1FY13. While the gross debt will continue to be at the current levels, the net debt can increase, implying a decrease in cash and cash equivalents.

Financial snapshot (Consolidated)
(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	95,137	81,443	16.8	99,099	(4.0)	343,681	324,609	384,695
Dec/(inc) in stock	(5,077)	(1,868)	NA	(2,571)	NA	(4,437)		
Raw material	66,117	54,166	22.1	63,620	3.9	223,717	198,341	233,309
Power and fuel	5,155	4,506	14.4	5,294	(2.6)	17,519	14,400	17,460
Staff costs	2,632	1,992	32.2	2,646	(0.5)	8,464	6,880	8,342
Other expenses	10,997	8,709	26.3	11,026	(0.3)	37,399	37,600	45,590
Total expenditure	79,824	67,505	18.2	80,014	(0.2)	282,662	257,221	304,701
EBITDA	15,313	13,938	9.9	19,085	(19.8)	61,019	67,388	79,994
Depreciation	5,468	4,554	20.1	5,334	2.5	19,332	21,524	22,486
Other income	276	363	(24.1)	311	(11.3)	769	2,948	3,829
Interest	4,829	3,076	57.0	4,605	4.9	14,273	19,175	20,531
Profit before tax	5,292	6,671	(20.7)	9,457	(44.0)	28,183	29,637	40,806
Tax	3,357	629	433.9	1,507	122.7	5,002	9,992	13,663
Current taxes	3,357	629	433.9	1,507	122.7	5,002	9,992	13,663
PAT	1,935	6,042	(68.0)	7,950	(75.7)	23,181	19,645	27,143
Minority interest	(131)	48	NA	9	NA	189	(175)	(153)
Share in profit from associates	(492)	(930)	NA	101	NA	(9,366)	(1,433)	(465)
Net profit	6,913	(6,693)	(203.3)	497	1,292.2	13,399	18,127	26,831
Equity capital (FV INR 10)	2,231	2,231		2,231		2,231	2,231	2,231
No. of shares (mn)	223	223		223		223	223	223
Diluted EPS (INR)	31.0	(30.0)	(203.3)	2.2	1,292.2	60.1	81.2	120.3
As % of net revenues								
Raw material	64.2	64.2		61.6		63.8	61.1	60.6
Employee cost	2.8	2.4		2.7		2.5	2.1	2.2
Power & fuel	5.4	5.5		5.3		5.1	4.4	4.5
Other expenses	11.6	10.7		11.1		10.9	11.6	11.9
EBITDA	16.1	17.1		19.3		17.8	20.8	20.8
Reported net profit	7.3	(8.2)		0.5		3.9	5.6	7.0
Tax rate	63.4	9.4		15.9		17.7	33.7	33.5

Financial snapshot (Standalone)

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12
Net revenues	88,709	76,321	16.2	90,376	(1.8)	321,227
Dec/(inc) in stock	(5,349)	(1,433)	NM	(1,874)	NM	(2,978)
Raw material	61,894	50,836	21.8	57,935	6.8	210,376
Power & fuel	4,959	4,351	14.0	5,120	(3.1)	16,838
Staff costs	1,759	1,463	20.2	1,742	1.0	6,259
Other expenses	10,195	8,144	25.2	9,726	4.8	34,424
Total expenditure	73,458	63,360	15.9	72,648	1.1	264,919
EBITDA	15,252	12,961	17.7	17,728	(14.0)	50,405
Interest	4,208	2,344	79.5	4,067	3.5	11,864
Depreciation	4,812	4,039	19.1	4,678	2.9	17,082
Other income	783	368	NM	723	NM	1,793
PBT	7,015	6,947	1.0	9,706	(27.7)	29,155
Tax	3,016	546	NM	1,096	NM	4,687
Current taxes	3,016	344	NM	1,096	NM	4,687
Extraordinary items - loss/(gain)	(4,224)	5,130	NM	5,921	NM	8,210
Reported net profit	8,223	1,271	NM	2,690	NM	16,259
Equity capital	2,231	2,231		2,231		2,231
no. of shares (mn) (FV INR 10)	223	223		223		223
EPS (INR)	36.9	5.7	NM	12.1	NM	72.9
as % of net revenues						
Raw material	63.7	64.7		62.0		64.6
Power & fuel	5.6	5.7		5.7		5.2
Staff costs	2.0	1.9		1.9		1.9
Other expenses	11.5	10.7		10.8		10.7
EBITDA	17.2	17.0		19.6		15.7
Reported net profit	9.3	1.7		3.0		5.1
Tax rate	43.0	7.9		11.3		16.1

Company Description

JSW, part of the USD 8 bn O.P. Jindal Group, was incorporated as Jindal Vijaynagar Steel (JVSL). It began operations in 1999 with the commissioning of the first Corex-2000 module in India (third in the world after Posco in South Korea and Iscor in South Africa), with a capacity to produce 0.8 mn tonnes of hot metal. In FY05, the company merged group company JISCO (Jindal Iron and Steel Company), which had a strong presence in downstream products such as CR and GP/GC products. In FY06, the company merged Euro Ikon, Euro Coke, and JSW Power and was renamed JSW Steel, transforming into an integrated steel manufacturer. The current steel capacity of JSW Steel is 11 mtpa, which includes 10 mtpa capacity at Vijaynagar and 1 mtpa capacity at Salem that caters exclusively to the long product segment.

Investment Theme

We believe the worst is over for the global steel sector in Q2FY13 and expect steel margins to gradually recover in FY14. JSW has expanded rapidly to emerge as India's second largest steel producer in terms of capacity and has added 3.2 mtpa capacity in FY12. JSW has a strong sales and marketing strategy and is continuously increasing its penetration in semi-urban and rural areas by opening retail outlets. We are also positive on JSW due to the progressive normalization of the iron ore mining situation in Karnataka.

We expect crude steel volumes to continue to grow in FY14 for JSW. In the longer term the company would also benefit from 2mtpa brownfield expansion in Karnataka.

Key Risks

- Lower than anticipated iron ore availability in Karnataka.
- Weakness in global and/or domestic steel demand leading to squeeze in margins.

Financial Statements

Key assumption

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro	GDP (YoY %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.00	6.75	8.50	7.50	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52
Ferrous sector	HRC price - India (net, INR '000/t)	31.76	33.58	35.38	35.58	35
	Hard coking coal price (FOB, USD/t)	129	215	291	217	217
	India steel demand growth (%)	14.5	12.4	5.4	7	11
JSW Steel - India	Crude steel production (mt)	6.0	6.4	7.4	8.0	9.7
	Net blended realisation (USD/tonne)	626	783	789	755	762
	EBITDA (USD/tonne)	159	167	149	160	170

Income statement

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	189,572	239,002	343,681	324,609	384,695
Materials costs	112,483	154,031	223,717	198,341	233,309
Employee costs	4,795	6,368	8,464	6,880	8,342
Total SG&A expenses	21,282	26,888	37,399	37,600	45,590
EBITDA	40,707	46,627	61,019	67,388	79,994
Depreciation & Amortization	12,987	15,597	19,332	21,524	22,486
EBIT	27,720	31,030	41,687	45,864	57,508
Other income	5,360	2,840	769	2,948	3,829
Interest expenses	11,080	9,454	14,273	19,175	20,531
Profit before tax	22,000	24,417	28,183	29,637	40,806
Provision for tax	6,467	7,823	5,002	9,992	13,663
Net profit	15,533	16,594	23,181	19,645	27,143
Profit after minority interest	15,976	17,540	5,377	18,387	26,831
Adjusted PAT	15,201	16,751	13,399	18,127	26,831
Shares outstanding (mn)	187	223	223	223	223
Diluted EPS (INR)	81.3	75.1	60.1	81.2	120.3
Dividend per share (INR)	9.5	12.3	10.0	10.0	10.0
Dividend payout (%)	11.7	16.3	16.7	12.3	8.3
Tax rate (%)	29.4	32.0	17.7	33.7	33.5

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
EBITDA margins	21.5	19.5	17.8	20.8	20.8
Net profit margins	8.2	6.9	6.7	6.1	7.1

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	19.0	26.1	43.8	(5.5)	18.5
EBITDA	86.1	14.5	30.9	10.4	18.7
Net profit	539.9	6.8	(10.0)	31.6	38.2

Balance sheet					
(INR mn)					
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital- Voting shares	2,481	2,842	2,842	2,841	2,841
Pref. Capital	2,790	2,790	2,790	2,790	2,790
Reserves & surplus	87,300	159,662	161,864	177,315	201,210
Shareholders funds	92,571	165,293	167,496	182,947	206,842
Minority interest (BS)	2,187	2,358	2,177	2,002	1,849
Secured loans	134,541	121,728	133,964	152,308	160,308
Unsecured loans	27,190	43,016	13,758	29,349	28,560
Borrowings	161,730	164,744	147,721	181,657	188,868
Deferred tax liability	19,650	23,256	30,412	30,412	30,412
Sources of funds	276,138	355,652	347,805	397,017	427,971
Gross block	267,921	326,839	414,455	439,455	449,455
Depreciation	53,393	68,732	88,775	110,298	132,784
Net block	214,528	258,107	325,681	329,157	316,671
Capital work in progress	69,562	65,077	28,317	44,502	74,502
Total fixed assets	284,090	323,183	353,998	373,659	391,173
Goodwill	8,992	10,932	12,440	12,440	12,440
Investments	6,282	29,138	20,896	19,463	18,998
Inventories	28,667	44,097	57,893	62,702	71,062
Sundry debtors	6,964	9,333	15,394	11,561	13,701
Cash and equivalents	3,030	20,480	30,470	57,336	78,246
Loans and advances	16,038	21,568	47,900	47,900	47,900
Other current assets	-	171	144	-	-
Total current assets	54,700	95,649	151,799	179,499	210,909
Sundry creditors and others	78,078	102,019	192,181	186,884	203,590
Provisions	2,649	3,995	2,308	4,323	5,123
Total current liabilities & provisions	80,727	106,014	194,490	191,207	208,713
Net current assets	(26,027)	(10,365)	(42,690)	(11,708)	2,196
Net Deferred tax	2,802	2,762	3,162	3,162	3,162
Uses of funds	276,138	355,652	347,805	397,017	427,971
Book value per share (INR)	480.0	728.3	738.2	807.5	914.5

Free cash flow					
(INR mn)					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Net profit	15,976	17,540	5,377	18,387	26,831
Depreciation	12,987	15,597	19,332	21,524	22,486
Others	9,361	8,302	13,305	21,866	21,308
Gross cash flow	38,323	41,439	45,746	61,776	70,625
Less: Changes in WC	4,710	13,137	10,622	4,116	(7,006)
Operating cash flow	33,613	28,302	35,124	57,660	77,631
Less: Capex	27,537	55,181	40,802	41,185	40,000
Free cash flow	6,076	(26,879)	(5,678)	16,475	37,631

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	33,613	28,302	35,124	57,660	77,631
Investing cash flow	(29,212)	(75,624)	(50,372)	(42,618)	(40,465)
Financing cash flow	(5,762)	50,961	6,978	11,824	(16,256)
Net cash flow	(1,952)	18,046	(8,270)	26,867	20,910
Capex	(27,537)	(55,181)	(40,802)	(41,185)	(40,000)
Dividends paid	(570)	(2,397)	(3,501)	(2,937)	(2,937)
Share issuance/(buyback)	-	59,356	-	-	-

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	19.4	13.9	8.3	10.7	14.0
ROACE (%)	10.5	10.4	12.8	13.0	14.6
Inventory day	94	90	85	111	105
Debtors days	11	12	13	15	12
Payable days	260	224	245	349	305
Cash conversion cycle (days)	(155)	(121)	(147)	(223)	(189)
Current ratio	0.7	0.9	0.8	0.9	1.0
Debt/EBITDA	4.0	3.5	2.4	2.7	2.4
Debt/Equity	1.7	1.0	0.9	1.0	0.9
Adjusted debt/equity	1.7	1.0	0.9	1.0	0.9

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	0.7	0.8	1.0	0.9	0.9
Fixed asset turnover	1.0	1.0	1.2	1.0	1.2
Equity turnover	2.2	1.9	2.1	1.9	2.0

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	81.3	75.1	60.1	81.2	120.3
Y-o-Y growth (%)	681.5	(7.6)	(20.0)	35.3	48.0
CEPS (INR)	154.8	148.5	182.4	178.9	221.0
Diluted PE (x)	9.1	9.8	12.3	9.1	6.1
Price/BV (x)	1.5	1.0	1.0	0.9	0.8
EV/Sales (x)	1.6	1.2	0.8	0.8	0.7
EV/EBITDA (x)	7.3	6.1	4.4	4.1	3.3
Dividend yield (%)	1.3	1.7	1.4	1.4	1.4

Peer comparison valuation

	Price (USD)	Market Cap (USD bn)	PE (x)		EV/EBITDA(x)		ROE(%)	
			2013E	2014E	2013E	2014E	2013E	2014E
Global steel Companies								
POSCO	313.8	27	8.9	9.1	6.5	6.3	7.9	7.7
ArcelorMittal	15.4	24	10.4	7.1	5.1	4.9	3.6	6.0
Sid Nacional	5.4	8	10.0	7.7	5.6	4.8	20.8	19.9
JFE	13.7	8	18.1	8.0	8.7	6.5	2.5	4.3
Thyssenkrupp	22.3	11	22.8	10.2	6.1	4.7	3.4	9.8
Hyundai Steel	71.1	6	7.5	6.2	7.4	6.6	9.0	9.6
Average			12.9	8.1	6.6	5.7	7.9	9.6
Indian Steel Companies								
Tata Steel	7.4	7.2	22.8	12.9	7.4	6.9	4.0	7.2
SAIL	1.5	6.1	7.9	6.0	6.9	5.7	10.3	12.4
JSW Steel	13.6	3.0	9.1	6.1	4.1	3.3	10.7	14.0
JSPL	7.2	6.7	9.0	8.9	7.5	6.6	20.5	17.3
Bhushan Steel	9.1	2.1	14.5	9.6	10.8	6.9	10.5	13.8
Usha Martin	0.5	0.2	9.5	4.9	5.6	4.5	5.0	9.2
Average			12.1	8.1	7.0	5.6	10.2	12.3

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	REDUCE	SU	M	Coal India	BUY	SO	M
Hindalco Industries	BUY	SO	M	Hindustan Zinc	BUY	SP	L
Jindal Steel & Power	BUY	SP	M	JSW Steel	BUY	SO	M
National Aluminium Company	REDUCE	SU	M	Sesa Goa	HOLD	SP	M
Steel Authority of India	HOLD	SU	L	Sterlite Industries (India)	BUY	SO	M
Tata Steel	BUY	SO	M	Usha Martin	HOLD	SU	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Bhushan Steel, Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, National Aluminium Company, Steel Authority of India, Sesa Goa, Sterlite Industries (India), Tata Steel, Usha Martin

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Oct-12	National Aluminium Company	EBITDA at all-time low; <i>Result Update</i>	48	Reduce
26-Oct-12	Sesa Goa	Looking for restart of mining; <i>Result Update</i>	170	Hold
26-Oct-12	Vale	Recovery underway; <i>Global Pulse</i>		Not Rated

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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