

Subsidiaries and associates continues to be a drag

| | |
|------------------------|---------------|
| CMP: | Rs.806 |
| Target Price: | Rs 801 |
| Recommendation: | Reduce |

Stock Info

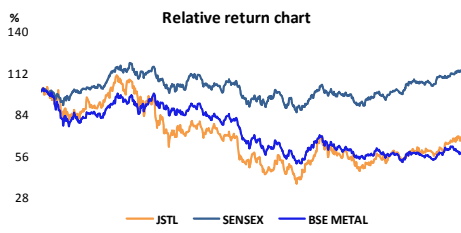
| | |
|-------------------|----------|
| BSE Group | A/BSE100 |
| BSE Code | 500228 |
| NSE Symbol | JSWSTEEL |
| Bloomberg | JSTLIN |
| Reuters | JSTL.BO |
| BSE Sensex | 19461 |
| NSE Nifty | 5898 |

Market Info

| | |
|-------------------------------------|-----------|
| Market Capital | ₹ 17954cr |
| Equity Capital | ₹ 223cr |
| Avg. Trading Vol. (NSE Qtly) | 2594730 |
| 52 Wk High/ Low | 894/566 |
| Face Value | 10 |

Shareholding Pattern (%) (31th Dec. 2012)

| | |
|------------------------------|------|
| Promoters | 38.1 |
| Domestic Institutions | 5.8 |
| Foreign Institutions | 19.3 |
| Non Promoters Corp. | 4.9 |
| Public & Others | 31.9 |
| Govt. Holdings | - |



Feb 13, 2013

JSW steel reported consolidated loss of Rs 74cr during the quarter compared to profit of 691cr last year. Loss is also higher qoq due to losses at US steel and Chile iron ore operations. US steel operation reported its first loss in last eight quarters at \$ 0.8mn, while Chilean operation reported net loss of \$2.52mn. Bottom-line was also impacted by losses at JSW Isapt. JSW Ispat reported net loss of Rs 76cr during the quarter.

On operating front volumes of US operations jumped 9% qoq to 85,365 tonnes, while utilization levels remain flat at 33% for plate mill and 16% for pipe mill. Blended realisations dipped 18% qoq to \$917/tonne.

Chilean iron operations witnessed jump in dispatches at 2,20,833 tonnes when compared to 1,47,734 tonne during 2QFY13. In sync with fall in iron ore prices globally, blended iron ore realisation dipped 10% qoq to \$99/tonne. EBITDA during the quarter came in negative at \$ 0.82mn.

JSW Ispat showed marked improvement in its operating performance. HR Coil volumes jump 12% yoy and qoq to 0.67mn tonne and value added products sales jumped 12.5% yoy and qoq to 0.09mn tonnes. Blended realizations dipped 7% qoq to Rs 35242/tonne. However, decline in operating cost resulted in 70bps qoq jump in EBITDA margins at 4.7%. EBITDA/tonne during the quarter came in at Rs 1698/tonne compared to Rs 1581/tonne during 2QFY13.

Valuations:

JSW steel has consistently been delivering stable operating performance on standalone basis, however, subsidiaries and associate companies continues to remain a drag on its profitability. Going into FY14, iron ore sourcing is going to be the key and we expect JSW steel to tide over the same. Also, weakness in coking coal prices and improvement in steel prices globally, augers well for the company. Further, we likely to see FY15 to be a turnaround year for the company, as ongoing capacity expansion and efficiency improvement measures start contributing big way to earnings. Stock has gained more than 20% in recent times and has achieved our target price of Rs 801 in the interim. **Post recent run up in the stock we change our recommendation from Hold to Reduce and maintain target price of Rs 801 per share.**

| (Rs Cr) | FY12 | FY13E | FY14E | FY15E |
|-----------------------|-------|-------|-------|-------|
| Net Revenue | 34137 | 37648 | 39381 | 42112 |
| EBITDA | 5871 | 6259 | 6957 | 7860 |
| EBITDA% | 17.2 | 16.6 | 17.7 | 18.7 |
| Reported PAT | 538 | 1313 | 1691 | 2029 |
| Reported EPS | 24 | 59 | 76 | 91 |
| EPS Growth (%) | 2.5 | -27.0 | 28.8 | 19.9 |
| RONW (%) | 3 | 7 | 9 | 10 |
| P/E (x) | 33.4 | 13.7 | 10.6 | 8.9 |
| EV/EBITDA (x) | 7.3 | 7.3 | 6.5 | 5.7 |



| JSW Steel (mt) | 3QFY13 | 3QFY12 | yoy % | 2QFY13 | qoq% |
|----------------------|-------------|------------|------------|-------------|-----------|
| Semis | 0.08 | 0.1 | -11% | 0.11 | -27% |
| Flat | 1.66 | 1.44 | 15% | 1.66 | 0% |
| Long | 0.43 | 0.36 | 18% | 0.4 | 6% |
| Value added | 0.37 | 0.41 | -25% | 0.42 | -13% |
| Total Volumes | 2.17 | 1.9 | 14% | 2.17 | 0% |
| Realisations | 38133 | 41193 | -7.4% | 40708 | -6% |
| EBITDA/t (Rs/t) | 6054 | 6565 | | 7028 | |

| US Operations (tonnes) | 3QFY13 | 3QFY12 | yoy % | 2QFY13 | qoq% |
|----------------------------|--------------|--------------|-------------|--------------|-------------|
| Production-Plate Mill | 79,803 | 65956 | 21% | 79,172 | 1% |
| Pipe Mill | 21,477 | 17785 | 21% | 29,479 | -27% |
| Volumes - Plate Mill | 65,396 | 66,309 | -1% | 53875 | 21% |
| Pipe Mill | 19969 | 17443 | 14% | 24,590 | -19% |
| Total Volumes | 85365 | 83752 | 1.9% | 78465 | 8.8% |
| Realisations (\$/t) | 917 | 1123 | -18% | 1,118 | -18% |
| EBITDA/t (\$/t) | -9 | 43 | | 37 | |

| Chile mine (tonnes) | 3QFY13 | 3QFY12 | yoy % | 2QFY13 | qoq% |
|----------------------|--------|--------|-------|--------|------|
| Production | 194158 | 191432 | 1% | 170744 | 14% |
| Sales Volumes | 220833 | 148040 | 49% | 147734 | 49% |
| Blended realisations | 99 | 136 | -27% | 110 | -10% |
| EBITDA/T | -3.7 | 19.4 | | -0.5 | |

| JSW Ispat (mt) | 2QFY13 | 2QFY12 | yoy % | 1QFY13 | qoq% |
|---------------------|--------|--------|-------|--------|--------|
| Sales Volumes | 0.76 | 0.68 | 11.8% | 0.67 | 13.4% |
| Realisations (Rs/t) | 35242 | 39213 | -7.3% | 38015 | -10.1% |
| EBITDA/t (Rs/t) | 1698 | 3648 | -53% | 1581 | 7.4% |

Note: Financial year ending June



3QFY13 Results (Consolidated)

| Rs in Crore | 3QFY13 | 3QFY12 | YOY (%) | 2QFY13 | QoQ (%) |
|-----------------------------|--------|--------|---------|--------|---------|
| Net Sales | 8866 | 8405 | 5.5 | 9475 | -6.4 |
| Expenditure | 7557 | 7101 | 6.4 | 7982 | 7556.9 |
| EBITDA | 1331 | 1323 | 0.6 | 1531 | -13.1 |
| EBITDA Margins (%) | 15.0 | 15.7 | | 16.1 | |
| Other Income | 8 | 23 | -63.7 | 28 | -70.2 |
| Interest | 517 | 379 | 36.4 | 483 | 7.0 |
| Depreciation | 563 | 502 | 12.2 | 547 | 2.9 |
| Exceptional Items (Loss) | 268 | 504 | -46.7 | -424 | - |
| PBT after exceptional items | -9 | -39 | - | 953 | - |
| Tax | -17 | -131 | - | 336 | - |
| Tax rate (%) | - | - | | 35% | |
| MI | -16 | -7 | - | -13 | - |
| Share of Associate | -99 | -147 | - | 61 | - |
| PAT | -74 | -48 | - | 691 | - |
| Net Profit Margin (%) | -0.8 | -1 | | 7 | |
| EPS (Rs) | -3 | -2 | 53.9 | 31 | -110.7 |

Valuations

| FY14E (Rs cr) | EV/EBITDA(x) | EBITDA | EV |
|------------------------------|--------------|--------|--------------|
| JSW Steel-Standalone | 5.5 | 6654 | 36596 |
| JSW Ispat | 4.5 | 843 | 3793 |
| JSW-USA | 4.0 | 183 | 730 |
| JSW-Chile | 4.0 | 120 | 481 |
| Total EV | | | 41600 |
| less Net Debt | | | 26776 |
| add CWIP | | | 3513 |
| less Pref. Capital | | | 279 |
| Less Minority Interest | | | 236 |
| Implied Market Cap | | | 17822 |
| No. of shares (cr) | | | 22 |
| Fair Value (Rs/share) | | | 801 |



Profit & Loss Statement (Consolidated)

| Y/E March (Rs Cr) | FY12 | FY13E | FY14E | FY15E |
|---------------------|-------|-------|-------|-------|
| Net Sales | 34137 | 37648 | 39381 | 42112 |
| % Chg | 43 | 10 | 5 | 7 |
| Total Expenditure | 28266 | 31389 | 32424 | 34252 |
| % chg | 47 | 11 | 3 | 6 |
| EBITDA | 5871 | 6259 | 6957 | 7860 |
| EBITDA Margin % | 17.2 | 16.6 | 17.7 | 18.7 |
| Other Income | 308 | 174 | 182 | 193 |
| Depreciation | 1933 | 2186 | 2357 | 2739 |
| EBIT | 4246 | 4247 | 4782 | 5313 |
| Interest | 1427 | 1949 | 2101 | 2240 |
| PBT bfr excep Items | 2818 | 2298 | 2681 | 3073 |
| Exceptional Items | 825 | 0 | 0 | 0 |
| PBT after EI | 1993 | 2298 | 2681 | 3073 |
| Tax Provisions | 500 | 748 | 869 | 987 |
| PAT before MI | 1493 | 1550 | 1812 | 2086 |
| MI & share of Asso | -956 | -237 | -120 | -58 |
| Reported PAT | 538 | 1313 | 1691 | 2029 |
| PAT % | 1.6 | 3.5 | 4.3 | 4.8 |

Balance sheet (Consolidated)

| Y/E March (Rs Cr) | FY12 | FY13E | FY14E | FY15E |
|---------------------------|-------|-------|-------|-------|
| Shareholder's funds | 563 | 563 | 563 | 563 |
| Reserves and Surplus | 16186 | 17559 | 19029 | 20835 |
| Minority Interest | 218 | 218 | 236 | 257 |
| Non-current liabilities | 16438 | 19440 | 19904 | 18729 |
| Long-term borrowings | 12889 | 15773 | 16220 | 14921 |
| Deferred Tax | 3041 | 3041 | 3041 | 3041 |
| Other Long term | 472 | 591 | 608 | 732 |
| Long-term prov | 35 | 35 | 35 | 35 |
| Current liabilities | 20825 | 18237 | 18386 | 18920 |
| Equity + Liability | 54230 | 56018 | 58117 | 59305 |
| Net Fixed assets | 32568 | 34396 | 35552 | 40762 |
| CWIP | 2832 | 3543 | 4755 | 1755 |
| Goodwill | 1244 | 1244 | 1244 | 1244 |
| Non-current Assets | 1886 | 2517 | 1996 | 1543 |
| Deferred tax assets (net) | 316 | 316 | 316 | 316 |
| Long-term loans and Adv. | 2603 | 2614 | 2613 | 2493 |
| Other non-current assets | 14 | 14 | 14 | 14 |
| Current assets | 12767 | 11374 | 11628 | 11178 |
| Assets | 54230 | 56018 | 58117 | 59305 |

Cash Flow Statement (Consolidated)

| Y/E March (Rs Cr) | FY12 | FY13E | FY14E | FY15E |
|--------------------------------|-------|-------|-------|-------|
| PBT | 1993 | 2298 | 2681 | 3073 |
| Oper. Profit before Work. Cap. | 5046 | 6259 | 6957 | 7860 |
| Changes in WC | 2777 | -4166 | -72 | 763 |
| Cash generated from Ops | 7823 | 2093 | 6885 | 8623 |
| Direct Tax Paid | 175 | -748 | -869 | -987 |
| Net Cash From Oper. Act | 7998 | 1345 | 6016 | 7636 |
| Net Cash From Investing Act | -4903 | -5419 | -4123 | -4221 |
| Cash flow from Financing Act | -2084 | 1342 | -1814 | -3566 |
| Net increase in cash & Equiv | 1011 | -2731 | 78 | -151 |
| Opening Cash Balance | 2036 | 3047 | 316 | 394 |
| Closing Cash Balance | 3047 | 316 | 394 | 243 |

Key Ratios (Consolidated)

| Y/E March (Rs Cr) | FY12 | FY13E | FY14E | FY15E |
|--------------------------|------|-------|-------|-------|
| Per Share data (Rs) | | | | |
| EPS | 24 | 59 | 76 | 91 |
| Cash EPS | 111 | 157 | 181 | 214 |
| DPS | 7.5 | 7.5 | 7.5 | 7.5 |
| Book value | 751 | 812 | 878 | 959 |
| Operating, Returns Ratio | | | | |
| Debt/ Equity (X) | 1.6 | 1.5 | 1.4 | 1.2 |
| Current Ratio (X) | 0.6 | 0.6 | 0.6 | 0.6 |
| RoE (%) | 3 | 7 | 9 | 10 |
| RoCE (%) | 9 | 8 | 8 | 9 |
| Dividend Yield (%) | 0.9 | 0.9 | 0.9 | 0.9 |
| Valuation Ratio (X) | | | | |
| P/E | 33.4 | 13.7 | 10.6 | 8.9 |
| P/BV | 1.1 | 1.0 | 0.9 | 0.8 |
| EV/ Sales | 1.3 | 1.2 | 1.2 | 1.1 |
| EV/EBITDA | 7.3 | 7.3 | 6.5 | 5.7 |

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Stock Rating Scale

| | Absolute Return |
|------------|------------------------|
| BUY | >20 |
| ACCUMULATE | 12-20 |
| HOLD | 5-12 |
| REDUCE | <5 |

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