

# JINDAL STEEL & POWER LIMITED

**- UPDATE -**  
**BUY AT CURRENT LEVELS**

6th February, 2003

## OUR RECOMMENDATION

Date of Report	: 14.10.02	Price Rs. 272	Sensex : 3003	Proj. Price : Rs. 885 (24m)
Current Date	: 06.02.03	Price Rs. 386	Sensex : 3305	(Touched Rs. 424 on 23rd Jan.)
Change	: 116 days	42 %	10 %	Outperformer by 4 times

In 116 days, JSPL has appreciated by 42 % (an annualised return of 132 %) as against a return of just 10% (an annualised return of 32 %) in BSE sensex during the period due to superlative performance.

## OUR PROJECTIONS for FY'03

Sales	: Rs. 760.5 cr.	Net Profit : Rs. 148.5 cr.	EPS : Rs. 108.10
Actual (9 months)	: Rs. 663.3 cr.	Net Profit : Rs. 130.59 cr.	EPS : Rs. 86.74
Annualised	: Rs. 884.4 cr.	Net Profit : Rs. 174.12 cr.	EPS : Rs. 115.65
Out performed by	: + 16 %	+ 17 %	+ 7 %
Rev. Projection (FY03)	: Rs. 940.0 cr.	Net Profit : Rs. 195.0 cr.	EPS : Rs. 133.28

JSPL continue to outperform our projections by posting strong numbers. We expect similar performance in Q4FY03 due to sustained buoyancy in sponge iron prices and actual profit should be well above our projected figure of Rs.148.5 cr. for FY03.

## FINANCIAL HIGHLIGHTS

(Rs. in cr.)

Particulars	FY01	FY02	9m FY02	9mFY03% Change	Q3FY02	Q3FY03	% Change
Net Sales	507.73	583.64	404.92	<b>663.38</b>	151.52	<b>267.82</b>	<b>76.76</b>
Other income	7.04	5.86	2.92	<b>4.33</b>	0.85	<b>2.44</b>	<b>187.06</b>
Total Income	514.77	589.50	407.84	<b>667.71</b>	152.37	<b>270.26</b>	<b>77.37</b>
Total Expenditure	333.09	379.93	253.04	<b>415.80</b>	94.24	<b>166.20</b>	<b>76.36</b>
Operating Profit	181.68	209.57	154.80	<b>251.91</b>	58.13	<b>104.06</b>	<b>79.01</b>
Interest	38.44	47.87	39.37	<b>64.17</b>	15.65	<b>22.18</b>	<b>41.73</b>
Gross Profit	143.24	161.70	115.43	<b>187.74</b>	42.48	<b>81.88</b>	<b>92.75</b>
Depreciation	31.81	39.00	27.52	<b>42.04</b>	10.61	<b>14.79</b>	<b>39.40</b>
PBT	111.43	122.70	87.91	<b>145.70</b>	31.87	<b>67.09</b>	<b>110.51</b>
Tax (incl. Deferred)	10.18	15.15	6.73	<b>15.11</b>	2.44	<b>6.88</b>	<b>181.97</b>
Net Profit	101.25	107.55	81.18	<b>130.59</b>	29.43	<b>60.21</b>	<b>104.59</b>
Equity	12.71	12.90	12.90	<b>14.63</b>	12.90	<b>14.63</b>	<b>13.41</b>
Preference Capital	71.00	71.00	71.00	<b>11.00</b>	71.00	<b>11.00</b>	<b>-84.51</b>
EPS	72.60	76.43	57.22	<b>86.74</b>	20.91	<b>40.85</b>	<b>95.36</b>
CPS	97.62	106.68	78.55	<b>115.48</b>	29.13	<b>50.96</b>	<b>74.91</b>
Book Value	326.17	360.63					
Dividend %	50	70					
OPM %	35.29	35.55	37.96	37.73	38.15	38.50	
PBDT %	27.83	27.43	28.30	28.12	27.88	30.30	
NPM %	19.67	18.24	19.90	19.56	19.31	22.28	



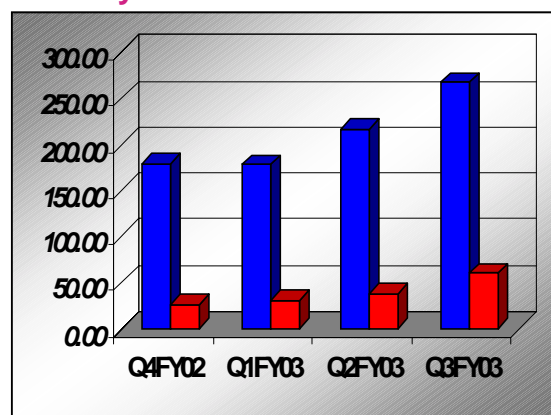
- ✓ Superlative Q3FY03 performance with 77% rise in sales from Rs.151.52 cr to Rs.267.82 cr and 105 % jump in net profits from Rs.29.43 cr to Rs.60.21 cr.
- ✓ Sponge iron division contributed handsomely both to topline and bottom line in the current quarter due to continued buoyancy in prices. Average realization of sponge iron has gone up from Rs. 4577 to 5742 per MT - a rise of 25 % over corresponding quarter.
- ✓ Prices of sponge iron has breached the Rs.7000 level per MT in Jan 2003 ( highest in decade) which will be reflected in Q4FY03. Buoyancy in sponge iron prices is expected to be maintained due to continued demand of steel from China, US, other developed countries and closure of sponge iron units in Venezuela (a leading sponge iron exporter) due to strike.
- ✓ Production is substantially higher in all the divisions during third quarter as well as nine months of the current financial year against the corresponding period of previous year.
- ✓ Promoter's stake has gone up from 37.03% to 44.5% in Q3 on account of conversion of warrants and will further increase to 48.31% on conversion of the remaining warrants reflecting their commitment and confidence in the company.

### Financial Performance : QoQ in the year 2003

(Rs. in cr.)

Particulars	Q4FY02	Q1FY03	Q2FY03	Q3FY03	QoQ % Growth
<b>Net Sales</b>	178.72	178.38	217.18	<b>267.82</b>	<b>14.43</b>
<b>Other income</b>	3.04	1.06	0.83	<b>2.44</b>	
<b>Total Income</b>	181.76	179.44	218.01	<b>270.26</b>	<b>14.14</b>
<b>Total Expend.</b>	117.48	111.22	138.36	<b>166.20</b>	<b>12.26</b>
<b>PBDIT</b>	64.28	68.22	79.65	<b>104.06</b>	<b>17.42</b>
<b>Interest</b>	18.02	20.30	21.71	<b>22.18</b>	<b>7.17</b>
<b>Gross Profit</b>	46.26	47.92	57.94	<b>81.88</b>	<b>20.96</b>
<b>Depreciation</b>	11.49	12.87	14.38	<b>14.79</b>	<b>8.78</b>
<b>PBT</b>	34.77	35.05	43.56	<b>67.09</b>	<b>24.49</b>
<b>Tax</b>	8.40	3.46	4.77	<b>6.88</b>	
<b>Net Profit</b>	26.37	31.59	38.79	<b>60.21</b>	<b>31.68</b>
<b>Equity</b>	12.90	12.90	12.90	<b>14.63</b>	<b>4.28</b>
<b>EPS</b>	<b>18.89</b>	<b>22.99</b>	<b>29.14</b>	<b>40.85</b>	<b>29.31</b>
<b>CPS</b>	27.80	32.97	40.29	50.96	<b>22.39</b>
<b>OPM %</b>	35.37	38.02	36.54	38.50	<b>2.87</b>
<b>PBDT %</b>	25.45	26.71	26.58	30.30	<b>5.98</b>
<b>NPM %</b>	14.51	17.60	17.79	22.28	<b>15.37</b>

Operating Profit has gone up by 17.4 % compounded QoQ in last 4 quarters, an increase unmatched in the industry



■ Net Profit      ■ Sales

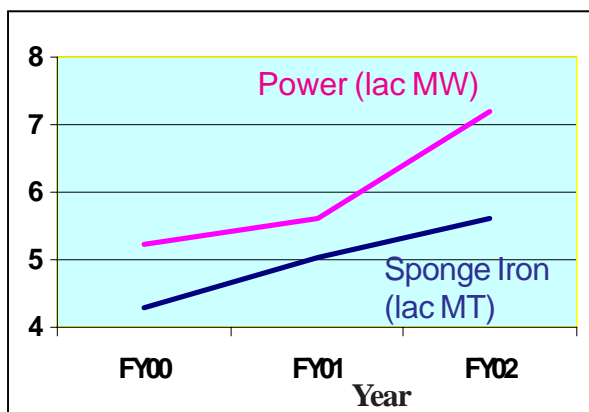
Stupendous growth in EPS in last 4 quarters despite increase in equity.

- Sales grew at a very impressive rate of 14% compounded QoQ basis whereas expenditure grew at only 12% clearly indicating the effective cost control measures implemented by JSPL.
- Interest cost witnessed a nominal rise of 7% compounded QoQ reflecting management's timely steps of restructuring of loans, better cash management and lower inventory levels.
- **Net profit has grown at a scorching pace of 31% compounded QoQ – a growth which is matched only by IT industry in its hey days that too by companies like Infosys, Wipro, etc.,**

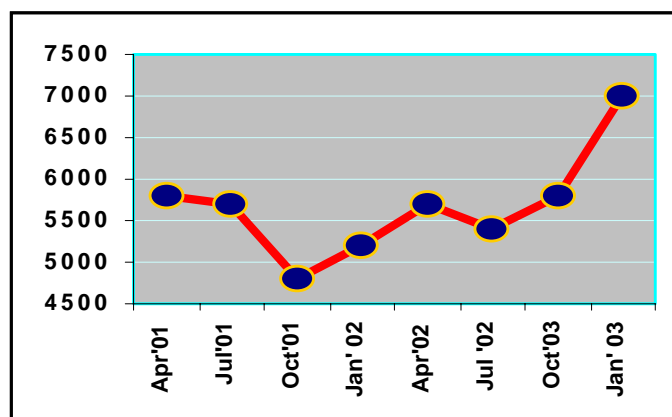
## GROWTH DRIVERS

### SPONGE IRON & POWER

India has emerged as the world's largest producer of Sponge Iron in the year 2002, accounting for around 12% of the global output. The performance of the steel industry has been extremely good in the current year and is likely to continue on the back of strong export demand, which augurs very well for sponge iron industry. JSPL, being the lowest cost producer in the country, is ideally placed to reap benefits in current boom in sponge iron. JSPL's production has grown at a compounded rate of 14% in last three years and is expected to cross 6.0 lac MT in FY03. The power division is also contributing handsomely to bottomline with continuous addition of capacity (production growth at a compounded rate of 17% in last three years) the profits would steadily grow in coming years. The prices of sponge iron have breached the level of Rs. 7000 first time in last many years on account of sustained demand of steel in China, US and disruption in supply from Venezuela due to strike, a leading exporter of sponge iron.



**Production of Sponge Iron & Power**



**Price of Sponge Iron**

### RAIL & UNIVERSAL BEAM MILL (RUBM)

The state of art Rail Mill, second of its kind in the world to produce 120 m rails conforming to stringent international norms. Trial production has already commenced during the current quarter and commercial production will start in Q1FY04. The demand for long rails is expected to increase manifold due to inherent advantage on account of safety and prolonged life. Further, our Hon'ble Prime Minister has launched Rs. 15000 cr. National Rail Vikas Yojana for upgradation and construction of golden quadrilateral and its diagonals, multimodel rail corridor etc. The RUBM products possess huge export potential due to superior products. Its unique product- structurals (typically known as H-beams and presently imported or fabricated) will provide superior stiffness, sectional efficiency and economy vis-à-vis the conventional beams by as much as 8%. Higher spending in infrastructure projects like bridges, ports, railway electrification, etc. to boost topline growth. This would result in huger demand for RUBM products which augur very well for JSPL. RUBM will act as future growth driver for JSPL.

**We expect that JSPL would continue to outperform the sensx due to low equity base, cost effective projects, low operating cost, complete backward and forward integration of facilities, diversification in high value added products led by a team of professionals.**

## TECHNICAL ANALYSIS



- The scrip has been on a continuous rising trend and has formed a series of higher tops and bottoms.
- All the important moving averages viz. 50 DMA, 100 DMA and 200 DMA have a rising slope which indicates strength in the trend.
- 14 Day RSI which is a very smoothed oscillator has during the entire uptrend has never gone below the 50 level even when the stock underwent a sizeable correction. **BUY AT DECLINES**

### EQUITY STRATEGIST

**THE FEATURES** - A techno- funda newsletter that caters to the needs of all market participants through its various columns:

COLUMN	HOLDING PERIOD	APPRX RETURN	RISK PROFILE
STOCK WATCH	2-5 WEEKS	10-15%	LOW RISK/HIGH RETURNS
TRADING OPPORTUNITIES	5-10 DAYS	5-10%	MEDIUM RISK/MEDIUM RETURNS
INTRADAY TRADES	ONE DAY	3-5%	HIGH RISK/LOW RETURNS
FUNDAMENTAL PICK	6-12 MONTHS	35-40%	LOW RISK/SUPER RETURNS
INVESTMENT PICK	3-6 MONTHS	25-30%	LOW RISK/HIGH RETURNS
INFORMED GOSSIP	BUYING/SELLING RUMOURS OF MARKET OPERATORS, FIIs & MUTUAL FUNDS		
MARKET COMMENTARY	DETAILED OUTLOOK OF MARKET AND STRATEGY TO DEAL WITH IT		
KNOWLEDGE BANK	INFORMATION ON TRADING RULES & PSYCHOLOGY, MONEY MGMT. ETC.		

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