

Indian Steel

Market tough; protection still on the agenda

Equities

India
Steel

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Government support for the steel industry remains on the agenda

We believe intense lobbying for duties continues, but the timeframe is uncertain. There are mixed messages from the government, acknowledging at different points the steel industry's long-term importance and short-term stress, but also its need to restructure and the interests of steel consumers. With import parity prices around \$20 or 5% below domestic prices even action below the 20-40% safeguard duty mooted by SAIL or the 8-35% range seen historically in the India market should at least underpin pricing. With the stocks on average 30% underperformers of the NIFTY YTD we do not think this is "priced in". SAIL is the most operationally/financially geared beneficiary.

Market backdrop is still challenging; China devaluation another headwind

While the demand backdrop is solid, albeit still not reflecting the longer-term opportunities from penetration growth, pricing pressure from imports is more than offsetting this. Q1 results were actually slightly better overall (JSW, Tata Steel and JSPL all ahead of admittedly low consensus EBITDA) but the near-term outlook was still cautious. While these pressures are largely expected, Chinese currency devaluation in August is another headwind to pricing (see our recent global note on the topic – [Implication of Yuan's fall for the steel market](#)).

No change to fundamental views; favourable longer-term dynamics

We see domestic capacity discipline (driven by both choice and balance sheets) favourable long-term demand and peaking debt in Indian steel. JSW Steel (Buy) is our preferred India "pure-play". We believe it has modern capacity, good profitability and a better debt profile than closest equivalent SAIL (Neutral). We like the more diverse Tata Steel (Buy) as resolution of issues in Europe should complement its mix/scale advantages. We prefer it to Jindal Steel and Power (Neutral), which has an interesting risk/reward skew, but higher external uncertainty and high balance sheet risk.

Valuation and estimates

Estimates reduce: on average 7% at revenue/12% at EBITDA/29% at EPS driven mainly by lower near-term price assumptions and operational and financial leverage. PTs are based on forward EV/EBITDA and PB and fall broadly in line with these downgrades.

Figure 1: Changes to PT & Earnings

Company	UBS PT (Rs)		UBS Rating		EPS New		EPS Old		EPS Change		EBITDA New		EBITDA Old		EBITDA Change	
	New	Old	New	Old	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Tata Steel	360.00	420.00	Buy	Buy	26.83	31.60	35.65	41.46	-24.7%	-23.8%	119,160	135,821	138,780	149,908	-14.1%	-9.4%
JSW Steel	1100.00	1200.00	Buy	Buy	56.93	94.41	84.28	109.96	-32.4%	-14.1%	86,186	100,505	98,318	108,564	-12.3%	-7.4%
JSPL	75.00	95.00	Neutral	Neutral	2.10	5.35	5.75	11.09	-63.5%	-51.8%	53,912	61,752	58,635	68,626	-8.1%	-10.0%
SAIL	55.00	67.00	Neutral	Neutral	2.76	3.58	4.68	5.63	-41.0%	-36.4%	33,360	49,190	45,979	60,850	-27.4%	-19.2%

Source: UBS estimates

Figure 2: Key Metrics

Company	Reuters	Mcap	UBS	PT	CMP	Upside	PE (x)			EVEBITDA (x)		
	Code	(Rs mn)	Rating	(Rs)	(Rs/sh)	%	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Tata Steel	TISC.BO	213,326	Buy	360	220	64%	8.2	6.9	4.2	8.2	7.3	6.1
JSW Steel	JSTL.BO	215,820	Buy	1100	893	23%	15.7	9.5	6.6	6.8	5.6	4.8
JSPL	JNSP.BO	59,942	Neutral	75	64	16%	30.7	12.0	4.5	9.5	8.5	7.5
SAIL	SAIL.BO	192,064	Neutral	55	47	18%	16.8	13.0	9.7	14.1	10.4	8.9

Source: Bloomberg, UBS estimates

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Reflecting further pricing pressure

Market conditions in Global Steel have remained weak. In the 6 weeks since we initiated coverage on the India steel sector ([India Steel Sector Initiation](#)). While Q1FY16 results were overall ahead of market expectations for 4 covered companies, expectations were low. Meanwhile, market concerns increased about the economic outlook for China generally. For steel specifically, the devaluation of the RMB has exacerbated fears about pressure on traded steel prices, already under pressure because of Chinese overcapacity/weak domestic demand.

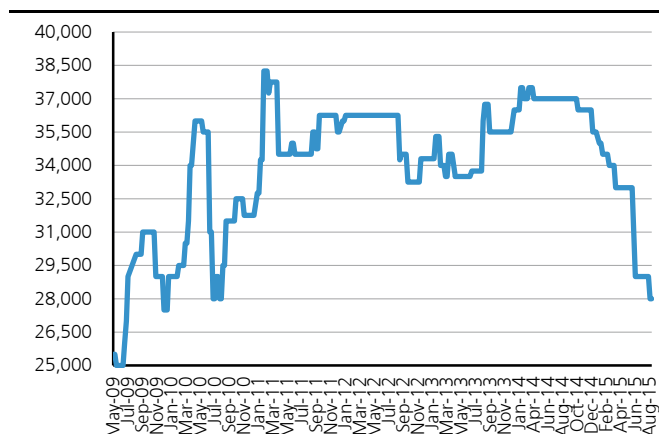
Pressure on pricing continues

There has been no sign of pricing pressure in the Indian market abating. Company commentary through Q1 suggested the monthly pace of decline in realisations remained steady. Domestic HRC prices have dropped sharply since the start of the year. Import pressure, from China in particular, is the main driver of this. Recent data suggests that while imports to India have peaked on a sequential basis, they are still materially up y/y. Chinese pressure is likely to remain: our colleagues in the Asia steel team have flagged ongoing high levels of production ([Production Rising in China](#)) and the likely incremental pressure on export pricing from the RMB de-valuation ([Implication of Yuan's fall for the steel market](#)).

Data / anecdotal evidence suggests steady pricing pressure

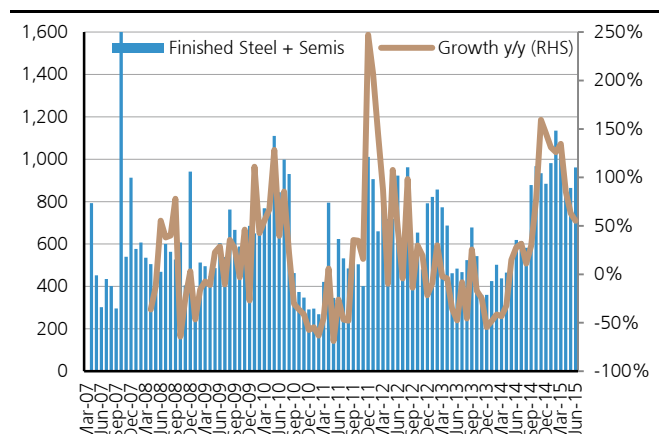
High Chinese production and RMB devaluation unhelpful

Figure 3: Domestic HRC price monthly trend (Rs/t)



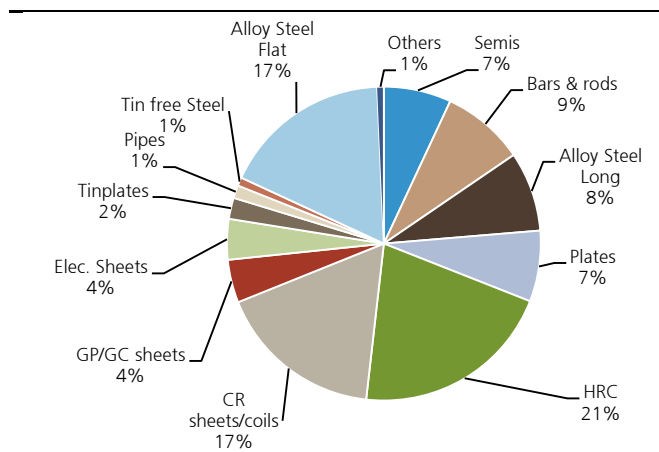
Source: Metal Bulletin, UBS

Figure 4: Monthly Import trends India



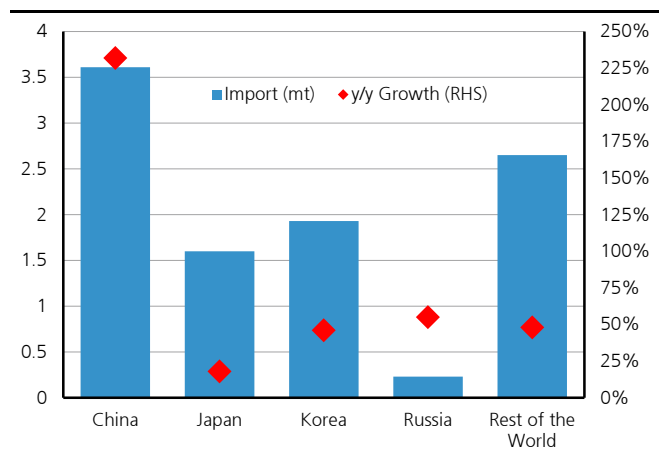
Source: JPC, UBS

Figure 5: FY15 Steel imports by type



Source: JPC, UBS

Figure 6: FY15 India steel imports by country & y/y grth

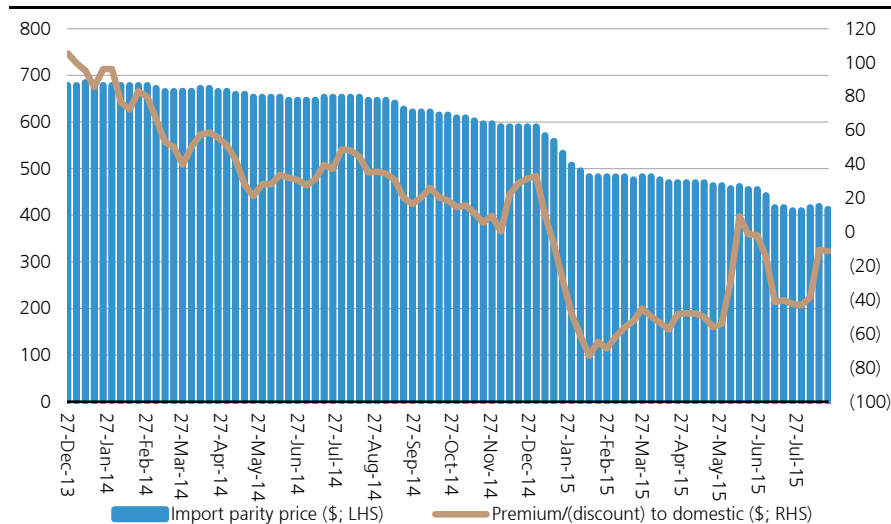


Source: Company data, UBS

Imports are at a c.\$20 discount (c.5%) to domestic price equivalents despite the Indian government twice increasing the rate of duty by 2.5% increments in June and August, in line with provisions originally made in the February Union Budget. China is the biggest single-country source of imports into India and has shown the strongest recent rates of y/y growth. While Chinese imports represent only ~5% of FY15 consumption in India, they still represent a floor for pricing.

Import parity price is c.\$20 or 5% below domestic prices

Figure 7: Import parity pricing - HRC



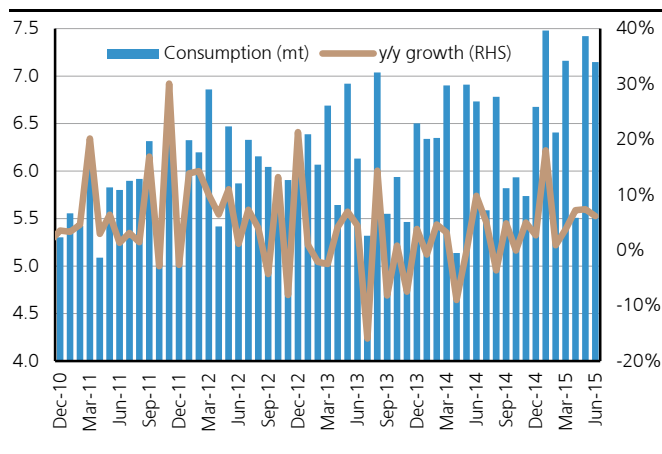
Source: Data takes Chinese export HRC price, adjusts for Freight (\$10/t) and insurance (2.5%) and converts to Rs. at weekly spot rate. We then adjust for duty (including 2 very recent hikes), CVED and Cess, deduct Rs.200/t for port handling charges (per JPC estimate)

Indian domestic demand trends remain reasonably solid, although much of the growth is being absorbed by the higher levels of imports. YTD FY15 steel consumption growth is 6%.

Demand trends solid, but not enough to offset import pressures

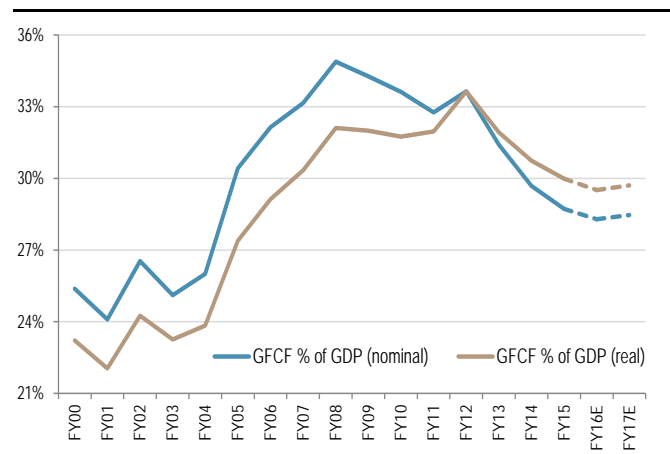
At UBS India we have consistently flagged the longer-term capex/infrastructure opportunity, but the muted on-the-ground trends so far in 2015. There are still no signs of rapid acceleration ([Capex led growth recovery hopes may disappoint](#)) and it appears the capex/infrastructure growth acceleration is 1 year+ away.

Figure 8: India steel consumption



Source: JPC, UBS

Figure 9: Investment to GDP might not rise soon



Source: CEIC, UBS; Note: 2011-12 series used as base to calculate historical data, values prior to FY12 are approximate

Tariff talk continues, but some mixed messages

Press commentary suggests that Indian steel industry lobbying of the government to take more substantial action in terms of protection for the steel industry. SOE SAIL (whose Chairman is the Government Steel Secretary) was explicit on its Q1FY16 conference call that it expected the imposition of a safeguard duty in the range of 20-40% to be imposed in the "coming days". This timing at least seems to have been somewhat optimistic given the company made this statement over 2 weeks ago, but is also reflective of the complexity of the investigation.

Anticipating government policy is difficult and complicated by the range of stakeholders (for example end users of steel benefit from the lower prices) and the fact that the decision impacts several areas of government (for example Safeguard and Anti-Dumping duty responsibilities rest with separate ministries). Public statements have also been mixed. The Revenue Secretary said in the *Business Standard* on 22 August that the Government would not stand in the way of a recommendation to impose Safeguard Duty. However the next day the Finance Minister apparently "asked the industry to enhance its competitiveness and stand on its own feet, rather than look for 'band-aid' solutions", according to the Financial Express. Long-term commitment to the health of the industry also remains: In August the government held a conference entitled "Roadmap to 300 Million Tonnes: Opportunities & Challenges for Secondary Steel Producers". This is not to mention the importance of the banking sector, to which the steel industry is highly indebted ([Potentially stressed exposure and lending practices](#))

Precedents are building in global steel markets of material action in terms of both anti-dumping and safeguard measures. Material support for the Indian steel industry would not be out of context in this wider steel market environment. This trend of rising protectionism is something that we have flagged in the UBS Steel team for some time ([Intensifying Protectionism Trend](#)). We have no doubt that it is also being used by the steel industry as a negotiating tool in its lobbying with the Government.

Protection for the domestic steel industry remains on the agenda

Mixed messages from the government make it difficult to assess likelihood

Precedents in other markets are there

Figure 10: Recent trade measures examples

Imposed by*	Range of AD/CVD/SD	Imposed upon
Australia	7.8%-33.8%	Japan, Vietnam, Finland, India, Sweden.
Brazil	US\$211.56-746.41 per metric ton	China, Ukraine, Sweden.
Canada	3.8%-59.7%	China, Japan, Korea, Taiwan, Ukraine, Brazil, Denmark, Indonesia, Italy, Turkey.
Canada	Under investigation - AD/CVD	Russia, India.
Egypt	7.30%	China, Ukraine, Turkey.
EU	24%	China, Japan, Korea, Russia, US.
EU	Under investigation - AD	China, Russia.
Indonesia	5.9%-55.6%	China, Japan, Korea, Vietnam, Taiwan.
Mexico	65.99%-103.41%	China.
Malaysia	2.19%-25.4%	China, Indonesia.
Thailand	2.65%-31.92%	China, Japan, Korea, Taiwan, Russia, Ukraine, South Africa, Kazakhstan, India, Venezuela, Argentina, Algeria, Indonesia, Slovakia, Romania.
Thailand	SD of 34.01%	All.
US	6.88%-407.52%	China, Japan, Korea, Russia, Taiwan, Ukraine, Vietnam, Mexico, Turkey, Germany, India, Saudi Arabia, Sweden.
US	Under investigation - AD/CVD	China, South Korea, Taiwan, India, Italy.

Source: JSW Steel Q116 presentation; AD=anti-dumping; CVD=countervailing duty; SD=safeguard duty.

The ongoing uncertainty about whether safeguard or anti-dumping duties will be applied is likely due to the complexity of the decision-making and approval process. There have been precedents of assistance for the industry in India/globally. There is a clearly a case that the Indian domestic steel industry is under stress and that surging imports are partly to blame.

Safeguard duties are a form of "temporary relief" which can be used when the importing country proves a surge in imports causing "serious injury" to the domestic industry. Once approved, safeguard measures can be in place up to 4 years (and any measures due to last more than three years must be reviewed at the midpoint). Temporary (and refundable) measures of up to 200 days can be put in place more quickly. Anti-dumping duties are administered by the Ministry of Commerce and are slightly different in nature to safeguards. The burden of proof is still substantial with applicants having to prove that imports are being sold at an "unfair" price. The WTO defines the difference as *"safeguard measures, unlike anti-dumping and countervailing measures, do not require a finding of an "unfair" practice, (generally) must be applied on an MFN {most-favoured-nation} basis and (generally) must be "paid for" by the Member applying them"*.

Importantly both anti-dumping and safeguard measures allow the affected country to circumvent the conditions of FTAs (free trade agreements). Whether or not FTAs should permit anti-dumping is a matter for debate, academically and within the global trade community. We note that India's free-trade agreement with Japan and Korea specifically excludes (ie permits the use of) anti-dumping and safeguard measures within the terms of the agreement.

In India the Director General of Safeguards lists 26 concluded investigations since 2009. Of these investigations, which cover products from uncoated paper to front axle beams, some 9 were rejected, 4 were withdrawn, 12 were successful and 1 was unclear. The range of duties applied has a low of 8% ad valorem to a maximum of 35%. Steel has a mixed track record with the stainless steel application (2013) successful, but the hot rolled coil application (2010) rejected. China was named solely in 10 of the safeguard cases and as one of various countries in almost all other cases. The application process can span many months and the investigations are detailed (final reports can be over 100 pages in length). Ministry of Commerce data shows that some 690 anti-dumping investigations have been initiated to date with duty imposed in 535 (78%) of cases.

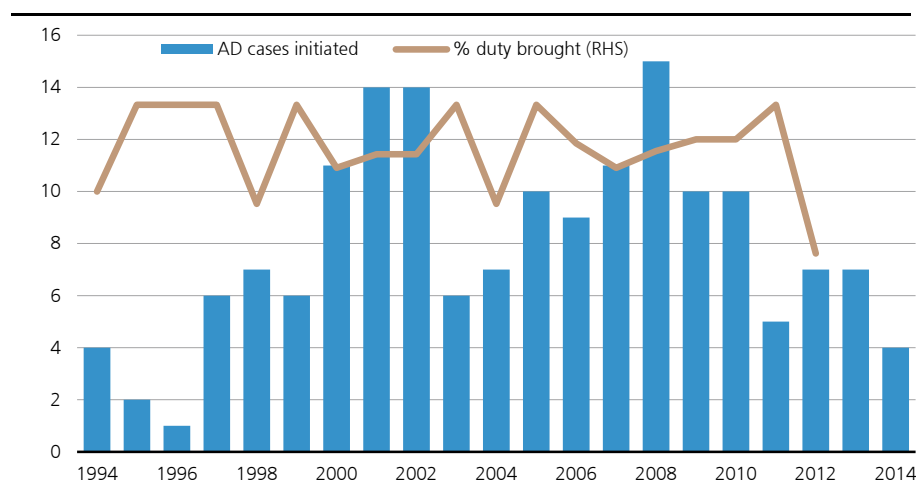
A case for protection can be made

Safeguard duties and anti-dumping slightly different in nature

Safeguard duties can be applied within Free Trade Agreements (FTAs)

Some success historically, although cases are routinely rejected; amount of enforcement is unclear

Figure 11: Number of Anti-Dumping cases against Peoples Republic of China



Source: India Ministry of Commerce

Are duties effective?

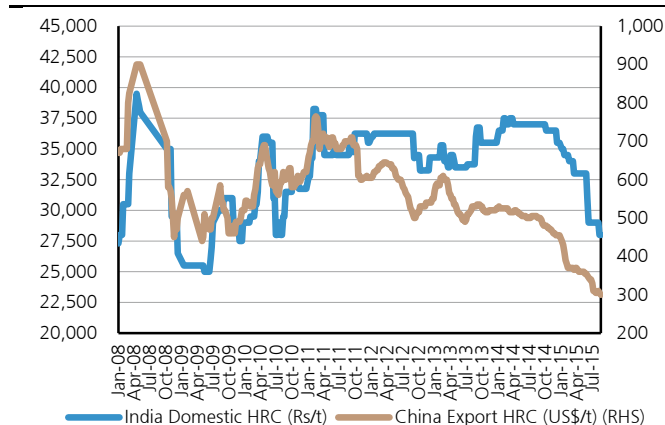
It is difficult to disaggregate the impact of safeguard/anti-dumping duties with the numerous other factors that impact steel prices. Measures are often counter-cyclical, coming at times of high market and industry stress. So the recovery in Indian steel prices from mid-2009 would have benefited from any of the additional duties imposed, but also the recovery of the economic/demand environment. We note the industry's application for HRC *safeguard* duty in 2009/2010 was only temporarily approved so there has been no precedent for their effectiveness in the Indian steel market in respect to crude steel. There has been more evidence of *anti-dumping* measures relating to steel: in the last decade 12 cases have been raised of which 8 have been successful. Evidence in other markets and academic studies have also proved somewhat inconclusive as to their effectiveness ([Trade duties are effective near-term deterrents, but can't deliver a bull market](#)).

Nonetheless given the relatively small discount of import parity prices to domestic prices we believe a safeguard measure in the historic range (8-35%) on a major product category would at the very least address the price decline. It is harder to argue for an improvement in Indian domestic prices without a stronger demand recovery or structural improvements in the Chinese steel industry, neither of which look likely in the near-term in our view. Below we also show the simple sensitivity of FY16 EBITDA/t to a price environment that stabilises immediately, rather than declines sequentially (as in our current forecasts). SAIL stands to benefit the most from Indian safeguard duties, given it is a pure play on Indian steel, its high fixed costs and its depressed current EBITDA/t. Limited disclosure at JSPL does not permit this analysis.

Duties are often counter-cyclical making it hard to gauge their effectiveness

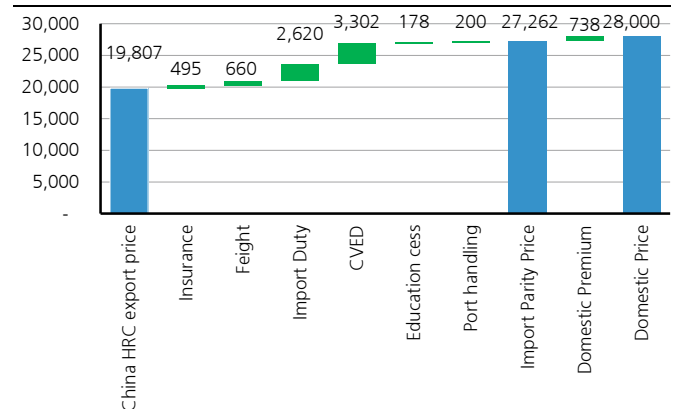
We believe new duties in the historical range would at least address the recent price decline in the short-term

Figure 12: India domestic HRC vs China export HRC



Source: Metal bulletin, UBS

Figure 13: Landed cost bridge



Source: Metal Bulletin, UBS

Figure 14: Short-term pricing assumptions and sensitivity

Rs.	SAIL	Tata Steel	JSW
Q1 average realisation	34,631	40,913	32,566
Q2-Q4e average realisation	32,558	37,411	31,000
Delta	-2,073	-3,502	-1,566
Delta %	-6%	-9%	-5%
EBITDA/t forecast	2,592	8,392	6,277
EBITDA/t at stable prices	4,192	10,136	7,793
Delta	1,600	1,744	1,516
Delta %	62%	21%	24%

Source: Company data; UBSe

Company Pages

Tata Steel

Most favourable risk reward

Weak market conditions continue

As we discuss earlier in this note, market conditions in the Indian steel industry remain challenging, with ongoing pricing pressure driven by elevated imports, especially from China. Tata Steel has also seen some pressure on profitability in its European business coming mainly from FX, offsetting the improving demand environment there. Q1FY16 results were also ahead of expectations ([Q1 beats consensus](#)), albeit still at highly depressed levels.

Changes to estimates post Q1FY16, Annual Report update

We reduce our EBITDA estimates by c.10% over the next 3 years to reflect the incremental pricing pressure in Indian and profitability pressure in Europe. Due to leverage (depreciation and finance costs), EPS estimates falls by c.19% over this period.

Fundamental view unchanged

Risks and rewards in FY16 appear evenly balanced and Tata Steel has much to do, in our view: ramp up Kalinganagar in a tricky domestic environment, resolve the future of its long products business in Europe and deal with industrial action in the UK. Yet, we believe each case is much closer to the end than the beginning which should allow the company and investors to look forward. They also provide additional sources of leverage (financial and operational) into any demand recovery.

Valuation:

Our PT is based on mid-cycle EV/EBITDA and PB multiples, and reduces broadly in-line with our forecast changes. Our upside scenario valuation is Rs.920, and our downside scenario valuation is Rs.180.

Equities

India
Steel

12-month rating

Buy

12m price target

Rs360.00

Prior: Rs420.00

Price

Rs229.65

RIC: TISC.BO BBG: TATA IB

Trading data and key metrics

52-wk range Rs519.20-206.15

Market cap. Rs223bn/US\$3.37bn

Shares o/s 971m (ORD)

Free float 69%

Avg. daily volume ('000) 7,038

Avg. daily value (m) Rs1,838.6

Common s/h equity (03/16E) Rs354bn

P/BV (03/16E) 0.6x

Net debt / EBITDA (03/16E) 6.1x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/16E	35.65	26.83	-24.73	24.76
03/17E	41.46	31.60	-23.77	33.54
03/18E	56.21	51.98	-7.54	48.69

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Highlights (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenues	1,347,115	1,486,136	1,395,037	1,247,953	1,322,461	1,439,791	1,528,497	1,623,461
EBIT (UBS)	67,459	105,698	65,922	69,538	88,343	120,834	150,886	181,451
Net earnings (UBS)	3,323	36,225	31	26,067	30,701	50,492	69,514	91,196
EPS (UBS, diluted) (Rs)	3.42	37.29	0.03	26.83	31.60	51.98	71.56	93.88
DPS (Rs)	8.00	10.00	8.00	7.15	8.43	13.61	17.46	21.63
Net (debt) / cash	(451,337)	(598,081)	(704,891)	(728,486)	(735,536)	(726,349)	(694,789)	(646,600)
Profitability/valuation	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
EBIT margin %	5.0	7.1	4.7	5.6	6.7	8.4	9.9	11.2
ROIC (EBIT) %	8.4	11.8	6.5	6.6	8.1	10.8	13.2	15.6
EV/EBITDA (core) x	6.8	5.3	9.1	8.3	7.4	6.1	5.1	4.3
P/E (UBS, diluted) x	NM	8.7	NM	8.6	7.3	4.4	3.2	2.4
Equity FCF (UBS) yield %	(10.3)	(20.0)	(12.0)	(9.8)	1.1	11.1	23.0	32.6
Net dividend yield %	2.0	3.1	1.8	3.1	3.7	5.9	7.6	9.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs229.65 on 03 Sep 2015 22:38 HKT

Tata Steel

Price Target **Rs 360, Buy**

Pivotal Questions

Q: How is Tata Steel positioned in terms of capacity?

It has modern capacity in India (Odisha phase 1 expansion should be completed in FY16) and is the most diverse Indian player. It is optimising exposure in Europe (long products disposal) to focus on profitability but has options to expand further in India should the market allow.

Q: Can it withstand the price/cost pressures?

Profitability in India has been hit by regulatory issues around raw materials, which are gradually clearing. The long products disposal in Europe should leave it with more focused and profitable exposure going forward.

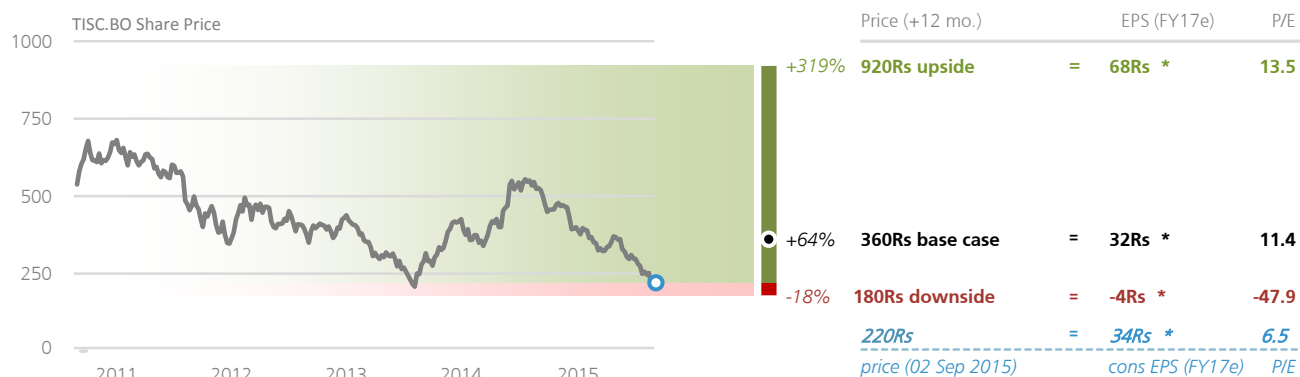
Q: How secure is the debt position?

Debt has been an issue since the Corus acquisition in 2007. But as capex reduces and market conditions improve we expect improvement. We also note the significant refinancing concluded in H214 meaning good liquidity.

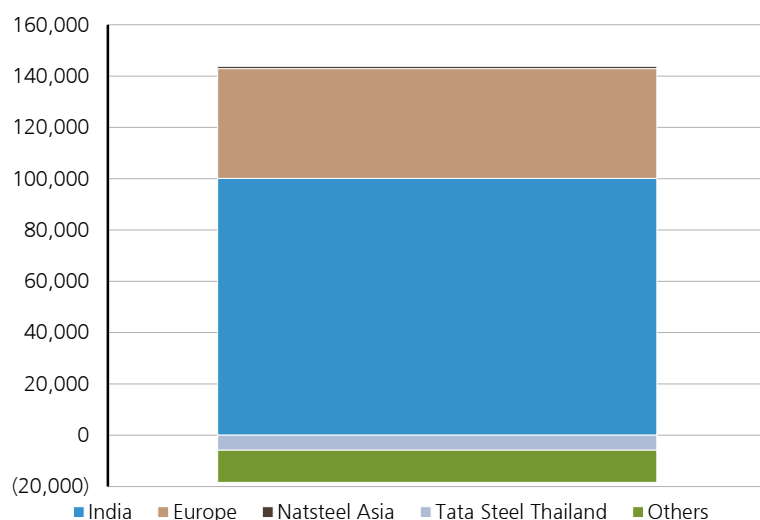
Investment Thesis

The debate around Tata Steel has focused on the progress of its Kalinganagar expansion, conditions in Europe (and the sale of its long products business), and the high levels of debt. We expect these issues to clear on a one- to two-year view. Kalinganagar adds capacity in attractive segments in India, although market conditions in the short term are likely to remain tough. UBS is relatively positive on Europe as a market and post the long products disposal, Tata Steel should have more profitable exposure. Union issues in the UK are also close to final resolution in our view. All this benefits cash flow and we believe the anticipated improvement in cash flow and debt represents an interesting turning point.

Pricing Paths and Upside/Downside Skew



Group EBITDA Split for FY15 (Rs m)



Scenario Assumptions

Upside (Rs920) – Accelerating India growth and more benign pricing. Solid market conditions in Europe. Faster ramp up in Kalinganagar. FCF positive by FY17E.

Base case (Rs360) – A still difficult FY16E in India due to pricing pressure, but gradual subsequent recovery and on-time ramp of Kalinganagar. Europe to benefit from better mix upon disposal of long products in the next 12 months. Leverage ratios to normalise from FY17E.

Downside (Rs180) – Reflects weaker economic conditions in India and Europe, coupled with execution delays. India pricing remains tough (FY16E realisations -18% YoY). Limited profitability growth in Europe. Pressure on operating cash flow means leverage ratios remain stretched

Source for this page: UBS estimates, Thomson Financial

Figure 15: Changes to estimates

Rs.m (unless stated)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
Revenue change	0%	-8%	-3%	-2%	-2%	-1%	
EBITDA - new	125,358	119,160	135,821	162,999	192,052	221,617	
EBITDA - old	125,358	138,780	149,908	176,458	204,056	231,435	Downgrades mainly realisation
Change	0%	-14%	-9%	-8%	-6%	-4%	driven. Operational leverage means
EPS - new (Rs)	0.03	26.83	31.60	51.98	71.56	93.88	greater EBITDA than revenue
EPS - old (Rs)	0.03	35.60	41.50	56.20	73.50	93.50	downgrade. Financial leverage
Change	0%	-25%	-24%	-8%	-3%	0%	means greater impact on EPS.
Net debt - new	704,891	728,486	735,536	726,349	694,789	646,600	
Net debt - old	697,350	715,793	719,617	714,699	691,110	653,388	
Standalone							
Change in steel volume	0%	-1%	-1%	-1%	-1%	-1%	
Realisations (Rs/t)	43,716	38,049	37,711	39,306	41,278	43,349	Lower realisations to reflect YTD
Change	0%	-6%	-6%	-6%	-6%	-6%	trends and guidance and impact of
Change (abs; Rs)	-182	-2,344	-2,326	-2,426	-2,548	-2,675	China devaluation.
EBITDA/t (Rs)	11,439	8,405	8,163	8,757	10,091	11,337	
Change (abs; Rs)	0	-1,548	-1,236	-987	-765	-482	
TSE							
Change in volume	0%	13%	27%	28%	27%	28%	Estimates reflect us retaining long-
Realisations (Rs/t)	58,433	49,508	49,508	50,994	52,523	54,099	products business in business (we had
Change	0%	-18%	-20%	-20%	-20%	-20%	previously anticipated a disposal; talks
Change (abs; Rs)	0	-10,678	-12,484	-12,857	-13,244	-13,641	with Klesch have been discontinued),
EBITDA/t (Rs)	3,135	2,161	2,656	3,245	3,868	4,525	hence higher volumes, but lower
Change (abs; Rs)	7	-1,681	-1,896	-2,099	-2,269	-2,507	blended realisations.

Source: Company data; UBSe

Figure 16: Scenario output and valuation summary

Base	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
EBITDA (Rs.m)	125,358	119,160	135,821	162,999	192,052	221,617	
Multiple (x)	7.70	7.70	7.70	7.70	7.70	7.70	Currently on 7x EV/EBITDA and 0.6x PB on our
Per Share (Rs)	292	219	344	569	831	1,115	estimates. Assume slight rerating as the cycle
Book value (Rs.m)	336,244	354,185	375,308	410,336	460,012	526,630	stabilises on our forecasts. PT is based on 1 year
Multiple (x)	0.66	0.66	0.66	0.66	0.66	0.66	forward basis (combining FY17/FY18).
Per Share (Rs)	228	241	255	279	313	358	
Per Share (Rs)	260	230	299	424	572	737	
Upside							
EBITDA (Rs.m)	125,358	137,946	192,441	253,396	316,223	383,144	
Multiple (x)	9.2	9.2	9.2	9.2	9.2	9.2	Assume 20% more rerating than in our base
Per Share (Rs)	512	619	1,109	1,711	2,389	3,162	case. 5 year high PB has been 1.7x and
Book value (Rs.m)	336,244	360,597	410,462	499,212	627,555	802,580	EV/EBITDA 10.4x.
Multiple (x)	0.79	0.79	0.79	0.79	0.79	0.79	
Per Share (Rs)	274	294	335	407	512	654	
Downside							
EBITDA (Rs.m)	125,358	82,059	87,874	96,695	106,052	114,112	
Multiple (x)	10.2	10.2	10.2	10.2	10.2	10.2	EV/EBITDA rerates further to account for
Per Share (Rs)	574	102	135	209	307	406	continued solvency of the business. Rarely see
Book value (Rs.m)	336,244	332,123	328,470	331,826	340,554	354,803	tough multiples on tough earnings for cyclical
Multiple (x)	0.50	0.50	0.50	0.50	0.50	0.50	stocks. 5 year low PB has been 0.5x and
Per Share (Rs)	173	171	169	171	175	183	EV/EBITDA 5.3x.

Source: Company data; UBSe

Tata Steel (TISC.BO)

Income statement (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Revenues	1,347,115	1,486,136	1,395,037	1,247,953	-10.5	1,322,461	6.0	1,439,791	1,528,497	1,623,461
Gross profit	276,350	341,836	312,312	253,713	-18.8	275,010	8.4	325,227	366,399	409,006
EBITDA (UBS)	123,212	164,110	125,358	119,160	-4.9	135,821	14.0	162,999	192,052	221,617
Depreciation & amortisation	(55,753)	(58,412)	(59,436)	(49,622)	-16.5	(47,479)	-4.3	(42,166)	(41,166)	(40,166)
EBIT (UBS)	67,459	105,698	65,922	69,538	5.5	88,343	27.0	120,834	150,886	181,451
Associates & investment income	2,753	2,483	6,106	14,692	140.6	6,407	-56.4	7,804	9,116	11,224
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(37,642)	(40,683)	(46,622)	(41,784)	10.4	(43,582)	-4.3	(44,318)	(43,812)	(40,181)
Exceptionals (incl goodwill)	(73,899)	(276)	(39,287)	0	-	0	-	0	0	0
Profit before tax	(41,329)	67,221	(13,881)	42,446	-	51,168	20.6	84,320	116,190	152,494
Tax	(32,294)	(30,582)	(25,674)	(16,978)	33.9	(20,467)	-20.6	(33,728)	(46,476)	(60,998)
Profit after tax	(73,624)	36,640	(39,555)	25,467	-	30,701	20.6	50,592	69,714	91,496
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	3,048	(691)	300	600	100.1	0	-	(100)	(200)	(300)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	(70,576)	35,949	(39,255)	26,067	-	30,701	17.8	50,492	69,514	91,196
Net earnings (UBS)	3,323	36,225	31	26,067	NM	30,701	17.8	50,492	69,514	91,196
Tax rate (%)	0.0	45.5	0.0	40.0	-	40.0	0.0	40.0	40.0	40.0
Per share (Rs)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
EPS (UBS, diluted)	3.42	37.29	0.03	26.83	NM	31.60	17.8	51.98	71.56	93.88
EPS (local GAAP, diluted)	(72.65)	37.01	(40.41)	26.83	-	31.60	17.8	51.98	71.56	93.88
EPS (UBS, basic)	3.42	37.29	0.03	26.83	NM	31.60	17.8	51.98	71.56	93.88
Net DPS (Rs)	8.00	10.00	8.00	7.15	-10.6	8.43	17.9	13.61	17.46	21.63
Cash EPS (UBS, diluted) ¹	60.81	97.42	61.22	77.92	27.3	80.48	3.3	95.38	113.94	135.23
Book value per share	375.28	440.76	346.21	364.61	5.3	386.35	6.0	422.41	473.55	542.13
Average shares (diluted)	971.41	971.41	971.41	971.41	0.0	971.41	0.0	971.41	971.41	971.41
Balance sheet (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Cash and equivalents	98,597	86,045	101,246	77,651	-23.3	70,600	-9.1	79,788	111,348	159,536
Other current assets	514,744	561,763	499,393	470,197	-5.8	505,749	7.6	555,506	596,339	640,544
Total current assets	613,341	647,808	600,639	547,847	-8.8	576,349	5.2	635,294	707,687	800,080
Net tangible fixed assets	692,132	859,806	833,709	868,429	4.2	892,640	2.8	910,475	929,309	949,143
Net intangible fixed assets	130,650	157,488	134,075	134,075	0.0	134,075	0.0	134,075	134,075	134,075
Investments / other assets	32,942	51,342	21,032	21,065	0.2	21,165	0.5	21,265	21,365	21,465
Total assets	1,469,064	1,716,445	1,589,455	1,571,416	-1.1	1,624,229	3.4	1,701,108	1,792,436	1,904,764
Trade payables & other ST liabilities	423,418	467,372	299,118	255,209	-14.7	277,526	8.7	308,977	339,109	372,077
Short term debt	81,146	160,262	149,185	149,185	0.00	149,185	0.00	149,185	149,185	149,185
Total current liabilities	504,563	627,634	448,303	404,393	-9.8	426,711	5.5	458,162	488,294	521,261
Long term debt	468,788	523,864	656,952	656,952	0.0	656,952	0.0	656,952	656,952	656,952
Other long term liabilities	114,547	119,500	130,918	139,348	6.4	148,620	6.7	158,820	170,040	182,382
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	1,087,899	1,270,998	1,236,173	1,200,693	-2.9	1,232,283	2.6	1,273,934	1,315,286	1,360,596
Common s/h equity	364,472	428,070	336,244	354,184	5.3	375,307	6.0	410,336	460,011	526,629
Minority interests	16,694	17,377	17,039	16,539	-2.9	16,639	0.6	16,839	17,139	17,539
Total liabilities & equity	1,469,064	1,716,444	1,589,455	1,571,416	-1.1	1,624,229	3.4	1,701,108	1,792,436	1,904,764
Cash flow (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Net income (before pref divs)	(70,576)	35,949	(39,255)	26,067	-	30,701	17.8	50,492	69,514	91,196
Depreciation & amortisation	55,753	58,412	59,436	49,622	-16.5	47,479	-4.3	42,166	41,166	40,166
Net change in working capital	38,407	(12,696)	3,514	(6,283)	-	(3,962)	36.9	(8,106)	518	1,105
Other operating	88,346	16,550	44,205	(6,970)	-	0	-	100	200	300
Operating cash flow	111,930	98,216	67,900	62,437	-8.0	74,218	18.9	84,651	111,398	132,767
Tangible capital expenditure	(152,224)	(161,255)	(120,488)	(84,342)	30.0	(71,690)	15.0	(60,000)	(60,000)	(60,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(2,510)	(961)	1,945	0	-	0	-	0	0	0
Other investing	18,190	(5,814)	30,943	6,437	-	0	-	0	0	0
Investing cash flow	(136,545)	(168,030)	(87,600)	(77,905)	11.1	(71,690)	8.0	(60,000)	(60,000)	(60,000)
Equity dividends paid	(16,248)	(11,905)	(14,181)	(8,127)	42.7	(9,578)	-17.9	(15,464)	(19,839)	(24,578)
Share issues / (buybacks)	208	114	128	0	-	0	-	0	0	0
Other financing	1,067	(37)	(893)	0	-	0	-	0	0	0
Change in debt & pref shares	29,168	58,737	43,051	0	-	0	-	0	0	0
Financing cash flow	14,195	46,909	28,104	(8,127)	-	(9,578)	-17.9	(15,464)	(19,839)	(24,578)
Cash flow inc/(dec) in cash	(10,420)	(22,906)	8,404	(23,595)	-	(7,050)	70.1	9,188	31,560	48,189
FX / non cash items	1,001	10,355	6,797	0	-100.0	0	-21.2	0	0	0
Balance sheet inc/(dec) in cash	(9,419)	(12,552)	15,201	(23,595)	-	(7,050)	70.1	9,188	31,560	48,189

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Tata Steel (TISC.BO)

Valuation (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
P/E (local GAAP, diluted)	NM	8.8	NM	8.6	7.3	4.4	3.2	2.4
P/E (UBS, diluted)	NM	8.7	NM	8.6	7.3	4.4	3.2	2.4
P/CEPS	6.6	3.3	7.4	2.9	2.9	2.4	2.0	1.7
Equity FCF (UBS) yield %	(10.3)	(20.0)	(12.0)	(9.8)	1.1	11.1	23.0	32.6
Net dividend yield (%)	2.0	3.1	1.8	3.1	3.7	5.9	7.6	9.4
P/BV x	1.1	0.7	1.3	0.6	0.6	0.5	0.5	0.4
EV/revenues (core)	0.6	0.6	0.8	0.8	0.8	0.7	0.6	0.6
EV/EBITDA (core)	6.8	5.3	9.1	8.3	7.4	6.1	5.1	4.3
EV/EBIT (core)	12.5	8.3	17.3	14.2	11.3	8.3	6.5	5.2
EV/OpFCF (core)	6.8	5.3	9.1	8.3	7.4	6.1	5.1	4.3
EV/op. invested capital	1.0	1.0	1.1	0.9	0.9	0.9	0.9	0.8
Enterprise value (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Market cap.	391,540	314,925	438,196	223,038	223,038	223,038	223,038	223,038
Net debt (cash)	421,547	524,709	651,486	716,689	732,011	730,942	710,569	670,695
Buy out of minorities	13,803	17,035	17,208	16,789	16,589	16,739	16,989	17,339
Pension provisions/other	13,750	15,500	31,000	31,000	31,000	31,000	31,000	31,000
Total enterprise value	840,639	872,169	1,137,890	987,516	1,002,638	1,001,719	981,596	942,072
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	840,639	872,169	1,137,890	987,516	1,002,638	1,001,719	981,596	942,072
Growth (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenue	1.4	10.3	-6.1	-10.5	6.0	8.9	6.2	6.2
EBITDA (UBS)	-0.8	33.2	-23.6	-4.9	14.0	20.0	17.8	15.4
EBIT (UBS)	-14.6	56.7	-37.6	5.5	27.0	36.8	24.9	20.3
EPS (UBS, diluted)	-83.6	NM	-99.9	NM	17.8	64.5	37.7	31.2
Net DPS	-33.3	25.0	-20.0	-10.6	17.9	61.5	28.3	23.9
Margins & Profitability (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Gross profit margin	20.5	23.0	22.4	20.3	20.8	22.6	24.0	25.2
EBITDA margin	9.1	11.0	9.0	9.5	10.3	11.3	12.6	13.7
EBIT margin	5.0	7.1	4.7	5.6	6.7	8.4	9.9	11.2
Net earnings (UBS) margin	0.2	2.4	0.0	2.1	2.3	3.5	4.5	5.6
ROIC (EBIT)	8.4	11.8	6.5	6.6	8.1	10.8	13.2	15.6
ROIC post tax	0.1	6.4	NM	3.9	4.9	6.5	7.9	9.4
ROE (UBS)	0.8	9.1	0.0	7.6	8.4	12.9	16.0	18.5
Capital structure & Coverage (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Net debt / EBITDA	3.7	3.6	5.6	6.1	5.4	4.5	3.6	2.9
Net debt / total equity %	118.4	134.3	199.5	196.5	187.7	170.0	145.6	118.8
Net debt / (net debt + total equity) %	54.2	57.3	66.6	66.3	65.2	63.0	59.3	54.3
Net debt/EV %	53.7	68.6	61.9	73.8	73.4	72.5	70.8	68.6
Capex / depreciation %	NM	NM	NM	170.0	151.0	142.3	145.8	149.4
Capex / revenue %	11.3	10.9	8.6	6.8	5.4	4.2	3.9	3.7
EBIT / net interest	1.8	2.6	1.4	1.7	2.0	2.7	3.4	4.5
Dividend cover (UBS)	0.4	3.7	0.0	3.8	3.8	3.8	4.1	4.3
Div. payout ratio (UBS) %	233.9	26.8	NM	26.6	26.7	26.2	24.4	23.0
Revenues by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Europe (Net)	780,120	846,660	798,780	697,083	717,995	761,721	808,110	857,324
India (Net)	381,994	417,110	417,850	394,667	442,391	509,830	545,673	584,626
Natsteel Asia (Net)	93,930	121,280	90,280	77,232	83,104	89,269	95,742	102,539
Tata Steel Thailand (Net)	44,360	48,600	40,200	40,200	40,200	40,200	40,200	40,200
Other Businesses (Net)	46,711	52,485	47,927	38,771	38,771	38,771	38,771	38,771
Others	0	0	0	0	0	0	0	0
Total	1,347,115	1,486,136	1,395,037	1,247,953	1,322,461	1,439,791	1,528,497	1,623,461
EBIT (UBS) by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Others	67,459	105,698	65,922	69,538	88,343	120,834	150,886	181,451
Total	67,459	105,698	65,922	69,538	88,343	120,834	150,886	181,451

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

JSW Steel

Solid performer; still some upside

Weak market conditions continue

As we discuss earlier in this note, market conditions in the Indian steel industry remain challenging, with ongoing pricing pressure driven by elevated imports, especially from China. JSW is not faring worse than its competition in terms of steel and remains ahead of the pack in terms of efficiency/profitability in our view. Q1FY16 results were also ahead of expectations ([Weaker on pricing, stronger on cost](#)) as a result of strong cost control.

Changes to estimates

We reduce EBITDA estimates by c.9% in the next 3 years, largely due to the ongoing weak realisation (price) trend in the Indian market. As a result of leverage (depreciation and finance costs), EPS estimates reduce c.20% in this period.

Fundamental view unchanged

If one believes in the India growth story, then there is a case for buying into the greater leverage at SAIL or JSPL. It is hard to disagree: if prices recover and the hoped-for infrastructure/urbanisation boom comes, then the rising tide will lift all boats. Yet we prefer the security of the higher starting point at JSW in terms of profitability, and lower levels of debt. We like the simplicity of the business model and the relative lack of direct risk from external factors (unions, raw material supply etc). All this means options: whether brownfield expansion, bidding for mines in potential auctions, or acquiring new assets. Also, we think JSW's track record of profitability/efficiency leaves it best-placed to maintain/grow profit if the Indian recovery remains tepid.

Valuation:

We base our PT on mid-cycle EV/EBITDA/PB multiples. It falls broadly in-line with our earnings estimates. Our upside scenario valuation is Rs.2,000 and our downside scenario valuation is Rs.690.

Equities

India
Steel

12-month rating

Buy

12m price target

Rs1,100.00

Prior: Rs1,200.00

Price

Rs930.90

RIC: JSTL.BO BBG: JSTL IB

Trading data and key metrics

52-wk range Rs1,347.05-811.15

Market cap. Rs225bn/US\$3.40bn

Shares o/s 242m (ORD)

Free float 44%

Avg. daily volume ('000) 838

Avg. daily value (m) Rs745.1

Common s/h equity (03/16E) Rs234bn

P/BV (03/16E) 1.0x

Net debt / EBITDA (03/16E) 4.3x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/16E	84.28	56.93	-32.45	75.03
03/17E	109.96	94.41	-14.15	96.49
03/18E	155.85	134.37	-13.78	133.69

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Highlights (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenues	382,097	512,196	529,715	472,320	517,426	567,630	623,506	685,697
EBIT (UBS)	42,664	59,829	59,678	50,341	61,660	73,299	89,892	109,414
Net earnings (UBS)	13,001	21,321	18,101	13,762	22,820	32,480	45,637	60,814
EPS (UBS, diluted) (Rs)	58.27	88.20	74.88	56.93	94.41	134.37	188.80	251.59
DPS (Rs)	10.00	11.00	11.00	11.00	11.00	19.00	24.00	29.00
Net (debt) / cash	(198,281)	(347,956)	(368,407)	(369,405)	(350,422)	(322,964)	(288,620)	(245,177)
Profitability/valuation	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
EBIT margin %	11.2	11.7	11.3	10.7	11.9	12.9	14.4	16.0
ROIC (EBIT) %	12.7	13.1	10.5	8.5	10.3	12.3	15.0	18.0
EV/EBITDA (core) x	5.5	5.8	6.9	6.9	5.7	4.9	4.0	3.2
P/E (UBS, diluted) x	12.5	8.8	15.2	16.4	9.9	6.9	4.9	3.7
Equity FCF (UBS) yield %	(7.8)	(30.0)	(7.7)	1.4	10.0	14.7	18.4	23.1
Net dividend yield %	1.4	1.4	1.0	1.2	1.2	2.0	2.6	3.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs930.90 on 03 Sep 2015 22:38 HKT

JSW Steel

Price Target **Rs 1,100, Buy**

Pivotal Questions

Q: How is JSW positioned in terms of capacity?

Expansion via acquisitions and mostly brownfield expansion is largely complete and leaves JSW as a market leader with well diversified and well invested capacity. It has a broad spread of end markets and products and is thus well-placed ahead of any demand recovery in India. It has options to expand further via existing facilities or acquisitions, should market conditions allow.

Q: Can it withstand the price/cost pressures?

JSW's current model of non-captive raw materials is unique in its main peer group. This allows it the benefits of low raw materials prices, but lack of security is a risk, while it also limits operating leverage into an upturn. JSW seeks to counter this by being the lowest-cost/most efficient producer in India.

Q: How secure is the debt position?

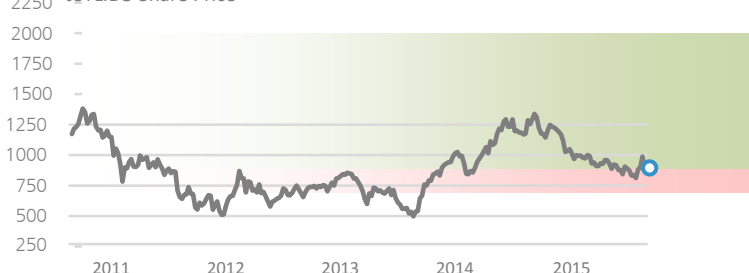
We regard JSW's debt position as relatively secure as capacity expansion programmes come to an end and capex reduces. Faster deleveraging is dependent on a demand recovery in India.

Investment Thesis

We believe JSW presents a balanced way to play the favourable long-term prospects in the Indian steel market. It is focused on India with a successful programme of capacity expansion almost complete. It is a market leader in terms of efficiency and profitability which leaves it well positioned to drive earnings/cash if market conditions remain tepid. And while debt is high relative to history, this is set to reduce from FY16E. Risks remain over its relative lack of raw material security compared with some peers, although this has been an advantage in a period of low prices.

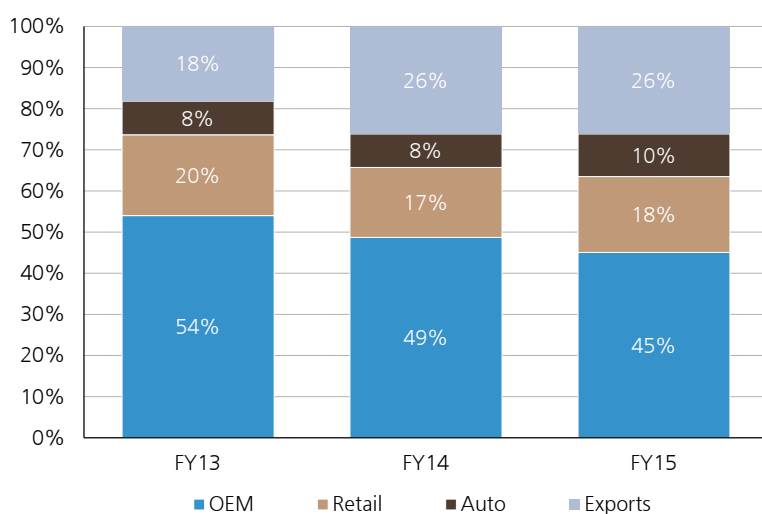
Pricing Paths and Upside/Downside Skew

JSTL.BO Share Price



Price (+12 mo.)	EPS (FY17e)	P/E
+124% 2000Rs upside	= 192Rs *	10.4
+23% 1100Rs base case	= 94Rs *	11.7
-23% 690Rs downside	= 40Rs *	17.4
<u>893Rs</u> price (01 Sep 2015)	= <u>98Rs *</u> cons EPS (FY17e)	<u>9.1</u> P/E

End Market Exposure by Volume (FY13-15)



Source for this page: UBS estimates, Thomson Financial

Scenario Assumptions

Upside (Rs2,000) –Accelerating domestic growth aiding steel demand in India. Lower pressure on realisations in FY16E and a subsequent stronger pick up. Improved cash flows will help in reducing leverage ratios to <.3x by FY17E.

Base case (Rs1,100) –Solid volumes driven by new capacity, but falling FY16E realisations due to higher market capacity and imports, but a gradual recovery thereafter. Profitability holds in FY16E followed by a gradual improvement. Leverage ratios stabilise in FY16E and then decline on falling capex.

Downside (Rs690) –Subdued domestic growth and more import pressure impacting realisations in FY16E and FY17E. This and slower subsequent recovery translates to lower cash flows with leverage ratios worsening in FY16E/ FY17E.

Figure 17: Changes to estimates

Rs.m (unless stated)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
Revenue - new	534,021	472,320	517,426	567,630	623,506	685,697	
Revenue - old	534,021	520,058	555,263	612,834	673,862	738,123	
Change	0%	-9%	-7%	-7%	-7%	-7%	
EBITDA - new	98,329	86,186	100,505	112,144	127,737	146,259	
EBITDA - old	98,329	98,318	108,564	121,373	134,774	152,040	Downgrades are mainly driven by lower realisations, following Q1FY16 guidance and also to incorporate some potential impact from the China devaluation.
Change	0%	-12%	-7%	-8%	-5%	-4%	
EPS - new (Rs)	92.7	56.9	94.4	134.4	188.8	251.6	
EPS - old (Rs)	92.7	84.3	110.0	155.8	203.9	262.9	
Change	0%	-32%	-14%	-14%	-7%	-4%	
Net debt - new	368,407	369,405	350,422	322,964	288,620	245,177	
Net debt - old	358,050	349,900	329,072	306,790	280,276	251,860	
Change in volume	0.0%	2.9%	3.9%	3.9%	3.9%	3.9%	
Realisations (Rs/t)	38,297	31,000	32,550	34,178	35,886	37,681	Lower realisations reflect higher sequential decline in Q1FY16 than prior co guidance and consensus and then the potential impact of the China devaluation.
Change	0.0%	-12.5%	-9.9%	-9.9%	-9.5%	-8.6%	
Change (abs; Rs)	-13	-4,437	-3,596	-3,776	-3,775	-3,567	
EBITDA/t (Rs)	7,372	6,227	6,924	7,336	7,938	8,628	
Change	0.0%	-16.0%	-11.5%	-11.4%	-8.7%	-7.9%	
Change (abs; Rs)	-3	-1,186	-896	-940	-758	-743	

Source: Company data; UBSe

Figure 18: Scenario and valuation summary

Base	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
EBITDA (Rs.m)	94,023	86,186	100,505	112,144	127,737	146,259	
Multiple (x)	6.0	6.0	6.0	6.0	6.0	6.0	Currently on 5.4x EV/EBITDA and 0.9x PB on our estimates. Assume slight rerating as the cycle stabilises on our forecasts. PT is based on 1 year forward basis (combining FY17/FY18).
Per Share (Rs)	810	611	1,045	1,448	1,977	2,616	
Book value (Rs.m)	222,896	233,526	253,215	280,301	319,130	371,721	
PB multiple (x)	0.9	0.9	0.9	0.9	0.9	0.9	
Per Share (Rs)	830	869	943	1,044	1,188	1,384	
Upside							
EBITDA (Rs.m)	94,023	103,301	119,905	150,795	176,506	208,039	
Multiple (x)	7.2	7.2	7.2	7.2	7.2	7.2	Assume 20% more rerating than in our base case. 5 year high PB has been 1.8x and EV/EBITDA 10.4x.
Per Share (Rs)	1,276	1,532	2,111	3,197	4,179	5,403	
Book value (Rs.m)	222,896	244,494	284,452	344,444	419,720	513,947	
PB multiple (x)	1.1	1.1	1.1	1.1	1.1	1.1	
Per Share (Rs)	996	1,092	1,271	1,539	1,875	2,296	
Downside							
EBITDA (Rs.m)	94,023	60,075	68,481	77,151	84,131	90,932	
Multiple (x)	7.2	7.2	7.2	7.2	7.2	7.2	Both EV/EBITDA and PB hold in-line with base case to account for continued solvency of the business. Rarely see trough multiples on trough earnings for cyclical stocks. 5 year low PB has been 0.8x and EV/EBITDA 4.6x.
Per Share (Rs)	1,276	192	463	769	1,035	1,308	
Book value (Rs.m)	222,896	224,734	233,987	248,492	265,654	285,130	
PB multiple (x)	0.8	0.8	0.8	0.8	0.8	0.8	
Per Share (Rs)	738	744	774	822	879	944	

Source: Company data; UBSe

JSW Steel (JSTL.BO)

Income statement (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Revenues	382,097	512,196	529,715	472,320	-10.8	517,426	9.5	567,630	623,506	685,697
Gross profit	56,456	79,270	83,369	69,648	-16.5	82,506	18.5	96,074	114,681	136,386
EBITDA (UBS)	65,097	91,655	94,023	86,186	-8.3	100,505	16.6	112,144	127,737	146,259
Depreciation & amortisation	(22,432)	(31,826)	(34,345)	(35,845)	4.4	(38,845)	8.4	(38,845)	(37,845)	(36,845)
EBIT (UBS)	42,664	59,829	59,678	50,341	-15.6	61,660	22.5	73,299	89,892	109,414
Associates & investment income	697	858	1,114	2,000	79.5	2,000	0.0	2,000	2,000	2,000
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(19,675)	(30,479)	(34,930)	(32,365)	7.3	(30,149)	6.8	(27,141)	(24,091)	(21,000)
Exceptionals (incl goodwill)	(3,694)	(17,127)	(471)	0	-	0	-	0	0	0
Profit before tax	19,993	13,081	25,391	19,976	-21.3	33,510	67.8	48,158	67,801	90,413
Tax	(8,452)	(9,201)	(8,194)	(6,446)	21.3	(10,723)	-66.3	(15,411)	(21,696)	(28,932)
Profit after tax	11,541	3,880	17,197	13,529	-21.3	22,787	68.4	32,748	46,104	61,481
Preference dividends	(324)	(326)	(336)	(336)	-	(336)	-	(336)	(336)	(336)
Minorities	(1,910)	640	769	569	-26.0	369	-35.2	69	(131)	(331)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	9,307	4,193	17,630	13,762	-21.9	22,820	65.8	32,480	45,637	60,814
Net earnings (UBS)	13,001	21,321	18,101	13,762	-24.0	22,820	65.8	32,480	45,637	60,814
Tax rate (%)	42.3	70.3	32.3	32.3	0.0	32.0	-0.8	32.0	32.0	32.0
Per share (Rs)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
EPS (UBS, diluted)	58.27	88.20	74.88	56.93	-24.0	94.41	65.8	134.37	188.80	251.59
EPS (local GAAP, diluted)	41.71	17.35	72.93	56.93	-21.9	94.41	65.8	134.37	188.80	251.59
EPS (UBS, basic)	58.27	88.20	74.88	56.93	-24.0	94.41	65.8	134.37	188.80	251.59
Net DPS (Rs)	10.00	11.00	11.00	11.00	0.0	11.00	0.0	19.00	24.00	29.00
Cash EPS (UBS, diluted) ¹	158.81	219.87	216.97	205.22	-5.4	255.11	24.3	295.07	345.36	404.01
Book value per share	779.03	875.97	922.13	966.10	4.8	1,047.55	8.4	1,159.61	1,320.18	1,537.74
Average shares (diluted)	223.12	241.72	241.72	241.72	0.0	241.72	0.0	241.72	241.72	241.72
Balance sheet (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Cash and equivalents	17,969	7,310	19,136	8,138	-57.5	17,120	110.4	34,578	58,922	92,366
Other current assets	134,948	198,685	226,998	192,293	-15.3	207,651	8.0	224,055	241,549	260,166
Total current assets	152,917	205,995	246,134	200,431	-18.6	224,771	12.1	258,634	300,471	352,532
Net tangible fixed assets	393,004	548,838	588,562	604,717	2.7	605,872	0.2	607,027	614,182	627,337
Net intangible fixed assets	13,143	15,619	15,854	15,854	0.0	15,854	0.0	15,854	15,854	15,854
Investments / other assets	16,064	5,947	5,990	5,990	0.0	5,990	0.0	5,990	5,990	5,990
Total assets	575,128	776,399	856,539	826,991	-3.4	852,486	3.1	887,504	936,496	1,001,713
Trade payables & other ST liabilities	150,052	182,270	211,763	182,134	-14.0	198,288	8.9	216,267	236,278	258,551
Short term debt	39,528	80,595	43,132	28,132	-34.78	23,132	-17.77	18,132	13,132	8,132
Total current liabilities	189,580	262,865	254,895	210,265	-17.5	221,419	5.3	234,399	249,410	266,682
Long term debt	173,932	267,026	336,766	341,766	1.5	336,766	-1.5	331,766	326,766	321,766
Other long term liabilities	36,207	25,454	33,360	33,360	0.0	33,360	0.0	33,360	33,360	33,360
Preferred shares	2,790	7,644	7,644	7,644	0.00	7,644	0.00	7,644	7,644	7,644
Total liabilities (incl pref shares)	402,509	562,990	632,666	593,036	-6.3	599,190	1.0	607,170	617,181	629,453
Common s/h equity	170,647	211,739	222,896	233,526	4.8	253,215	8.4	280,301	319,130	371,721
Minority interests	1,972	1,670	976	429	-56.1	81	-81.1	33	186	538
Total liabilities & equity	575,128	776,399	856,539	826,991	-3.4	852,486	3.1	887,504	936,496	1,001,713
Cash flow (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Net income (before pref divs)	9,631	4,520	17,966	14,098	-21.5	23,156	64.3	32,816	45,973	61,150
Depreciation & amortisation	22,432	31,826	34,345	35,845	4.4	38,845	8.4	38,845	37,845	36,845
Net change in working capital	5,888	(35,195)	(11,748)	(797)	93.2	(5,233)	NM	(3,854)	(2,300)	(546)
Other operating	5,896	1,216	3,302	5,904	78.8	5,661	-4.1	5,360	4,950	4,531
Operating cash flow	43,847	2,367	43,865	55,050	25.5	62,429	13.4	73,167	86,467	101,980
Tangible capital expenditure	(56,180)	(57,443)	(65,134)	(52,000)	20.2	(40,000)	23.1	(40,000)	(45,000)	(50,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	1,313	168	699	0	-	0	-	0	0	0
Investing cash flow	(54,868)	(57,275)	(64,435)	(52,000)	19.3	(40,000)	23.1	(40,000)	(45,000)	(50,000)
Equity dividends paid	(2,269)	(3,154)	(3,437)	(3,447)	-0.3	(3,447)	0.0	(5,709)	(7,123)	(8,537)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	0	0	0	0	0.00	0	0.00	0	0	0
Change in debt & pref shares	9,546	60,290	27,373	(10,000)	-	(10,000)	0.00	(10,000)	(10,000)	(10,000)
Financing cash flow	7,277	57,135	23,935	(13,447)	-	(13,447)	0.0	(15,709)	(17,123)	(18,537)
Cash flow inc/(dec) in cash	(3,744)	2,227	3,365	(10,397)	-	8,982	-	17,458	24,344	33,443
FX / non cash items	(10,797)	(12,886)	8,460	(601)	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	(14,541)	(10,659)	11,826	(10,998)	-	8,982	-	17,458	24,344	33,443

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

JSW Steel (JSTL.BO)

Valuation (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
P/E (local GAAP, diluted)	17.4	44.7	15.6	16.4	9.9	6.9	4.9	3.7
P/E (UBS, diluted)	12.5	8.8	15.2	16.4	9.9	6.9	4.9	3.7
P/CEPS	4.6	3.5	5.2	4.5	3.6	3.2	2.7	2.3
Equity FCF (UBS) yield %	(7.8)	(30.0)	(7.7)	1.4	10.0	14.7	18.4	23.1
Net dividend yield (%)	1.4	1.4	1.0	1.2	1.2	2.0	2.6	3.1
P/BV x	0.9	0.9	1.2	1.0	0.9	0.8	0.7	0.6
EV/revenues (core)	0.9	1.0	1.2	1.3	1.1	1.0	0.8	0.7
EV/EBITDA (core)	5.5	5.8	6.9	6.9	5.7	4.9	4.0	3.2
EV/EBIT (core)	8.4	8.9	10.8	11.8	9.3	7.5	5.7	4.3
EV/OpFCF (core)	5.7	6.0	7.1	7.2	6.0	5.1	4.2	3.3
EV/op. invested capital	1.1	1.2	1.1	1.0	1.0	0.9	0.9	0.8
Enterprise value (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Market cap.	159,106	183,893	274,801	225,017	225,017	225,017	225,017	225,017
Net debt (cash)	198,281	347,956	368,407	369,405	350,422	322,964	288,620	245,177
Buy out of minorities	1,972	1,670	976	429	81	33	186	538
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	359,359	533,518	644,184	594,850	575,520	548,015	513,823	470,732
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	359,359	533,518	644,184	594,850	575,520	548,015	513,823	470,732
Growth (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenue	11.2	34.0	3.4	-10.8	9.5	9.7	9.8	10.0
EBITDA (UBS)	6.5	40.8	2.6	-8.3	16.6	11.6	13.9	14.5
EBIT (UBS)	2.3	40.2	-0.3	-15.6	22.5	18.9	22.6	21.7
EPS (UBS, diluted)	-5.0	51.4	-15.1	-24.0	65.8	42.3	40.5	33.3
Net DPS	33.3	10.0	0.0	0.0	0.0	72.7	26.3	20.8
Margins & Profitability (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Gross profit margin	14.8	15.5	15.7	14.7	15.9	16.9	18.4	19.9
EBITDA margin	17.0	17.9	17.7	18.2	19.4	19.8	20.5	21.3
EBIT margin	11.2	11.7	11.3	10.7	11.9	12.9	14.4	16.0
Net earnings (UBS) margin	3.4	4.2	3.4	2.9	4.4	5.7	7.3	8.9
ROIC (EBIT)	12.7	13.1	10.5	8.5	10.3	12.3	15.0	18.0
ROIC post tax	8.2	9.1	7.1	5.8	7.0	8.3	10.2	12.3
ROE (UBS)	7.8	11.2	8.3	6.0	9.4	12.2	15.2	17.6
Capital structure & Coverage (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Net debt / EBITDA	3.0	3.8	3.9	4.3	3.5	2.9	2.3	1.7
Net debt / total equity %	114.9	163.0	164.6	157.9	138.3	115.2	90.4	65.9
Net debt / (net debt + total equity) %	53.5	62.0	62.2	61.2	58.0	53.5	47.5	39.7
Net debt/EV %	55.2	65.2	57.2	62.1	60.9	58.9	56.2	52.1
Capex / depreciation %	NM	180.5	189.6	145.1	103.0	103.0	118.9	135.7
Capex / revenue %	14.7	11.2	12.3	11.0	7.7	7.0	7.2	7.3
EBIT / net interest	2.2	2.0	1.7	1.6	2.0	2.7	3.7	5.2
Dividend cover (UBS)	5.8	8.0	6.8	5.2	8.6	7.1	7.9	8.7
Div. payout ratio (UBS) %	17.2	12.5	14.7	19.3	11.7	14.1	12.7	11.5
Revenues by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Standalone (Net)	354,918	452,977	460,873	399,172	444,278	494,482	550,358	612,549
Other Businesses (Net)	27,027	63,503	73,148	73,148	73,148	73,148	73,148	73,148
Others	152	(4,284)	(4,306)	0	0	0	0	0
Total	382,097	512,196	529,715	472,320	517,426	567,630	623,506	685,697
EBIT (UBS) by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Others	42,664	59,829	59,678	50,341	61,660	73,299	89,892	109,414
Total	42,664	59,829	59,678	50,341	61,660	73,299	89,892	109,414

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Jindal Steel & Power

Still too much balance sheet uncertainty

Weak trading conditions continue

As we discuss earlier in this note, market conditions in the Indian steel industry remain challenging, with ongoing pricing pressure driven by elevated imports, especially from China. Jindal Steel and Power is not faring worse than its competition in terms of steel and has good assets and mix of products in our view. Q1FY16 results were also ahead of expectations ([Q1FY16 beat: market/debt challenges remain](#)), albeit still at highly depressed levels. JSPL compares poorly in the near term against peers due to its power business (suffering from low coal availability and utilisation) and elevated levels of net debt (7.8x in FY15).

Changes to estimates

We reduce EBITDA estimates by c.7% for the next 3 years, due to both lower price assumption in steel (market driven) and slower ramp up in the power business. Depressed profitability and high depreciation/interest mean EPS estimates fall >40%.

Fundamental view unchanged

Despite its high cost, JSPL's expansion in steel has left it with scale and a differentiated product and technology mix to peers. Its move into merchant power was visionary historically, but now challenged by regulatory/coal availability issues. Debt remains the biggest concern for investors and drag on valuation: JSPL cannot deleverage rapidly without non-operational measures such as asset sales.

Valuation:

We use 9x forward EV/EBITDA to set our PT. Leverage drives a very wide range of potential outcomes. Operational and successful deleveraging could push it to Rs.290 (our upside scenario and still below where it was trading c.12m ago). We estimate another leg down in the market and refinancing via an equity issuance could push it to Rs.26 (our downside scenario).

Equities

India
Steel

12-month rating **Neutral**

12m price target **Rs75.00**
Prior: **Rs95.00**

Price **Rs65.30**

RIC: JNSP.BO BBG: JSP IB

Trading data and key metrics

52-wk range	Rs240.55-64.40
Market cap.	Rs60.8bn/US\$0.92bn
Shares o/s	931m (ORD)
Free float	37%
Avg. daily volume ('000)	9,983
Avg. daily value (m)	Rs798.4
Common s/h equity (03/16E)	Rs212bn
P/BV (03/16E)	0.3x
Net debt / EBITDA (03/16E)	8.3x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/16E	5.66	2.07	-63.49	(1.99)
03/17E	10.91	5.26	-51.75	6.62
03/18E	16.08	14.19	-11.75	11.18

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Highlights (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenues	198,068	200,040	201,592	217,729	238,206	255,416	282,126	304,139
EBIT (UBS)	50,293	36,276	27,506	26,606	31,735	39,923	48,169	54,865
Net earnings (UBS)	34,842	19,104	6,335	1,921	4,896	13,200	20,399	27,442
EPS (UBS, diluted) (Rs)	37.27	20.53	6.81	2.07	5.26	14.19	21.93	29.50
DPS (Rs)	1.60	1.50	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(244,180)	(353,529)	(433,767)	(449,507)	(463,128)	(464,264)	(457,242)	(444,087)
Profitability/valuation	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
EBIT margin %	25.4	18.1	13.6	12.2	13.3	15.6	17.1	18.0
ROIC (EBIT) %	12.5	7.0	4.5	4.1	4.7	5.8	6.8	7.6
EV/EBITDA (core) x	9.1	10.0	11.1	9.5	8.5	7.5	6.6	6.0
P/E (UBS, diluted) x	11.2	12.5	32.1	31.6	12.4	4.6	3.0	2.2
Equity FCF (UBS) yield %	(16.4)	(44.5)	(23.5)	(33.3)	(22.4)	(1.9)	11.6	21.6
Net dividend yield %	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs65.30 on 03 Sep 2015 22:38 HKT

Jindal Steel & Power

Price Target **Rs75, Neutral**

Pivotal Questions

Q: How is JSPL positioned in terms of capacity?

JSPL is the most diverse of the main listed steel companies, with a range of activities in the group beyond steel, not least Jindal Power. The company has aggressively invested in capacity, leaving it well positioned for any recovery.

Q: Can it withstand the price/cost pressures?

JSPL has a broad product portfolio which should help support realisations in tough market conditions. Yet it is also the most exposed to the regulatory issues around raw materials in steel and power. Volumes should improve, but expect "noise" and disruption around raw materials supply to be an ongoing headwind.

Q: How secure is the debt position?

High leverage is probably the main concern for investors and is the main source of risk/reward. To return to a comfortable level (c.4x net debt : EBITDA), JSPL needs non-operating measures (such as asset sales) as well as a recovery in India.

Investment Thesis

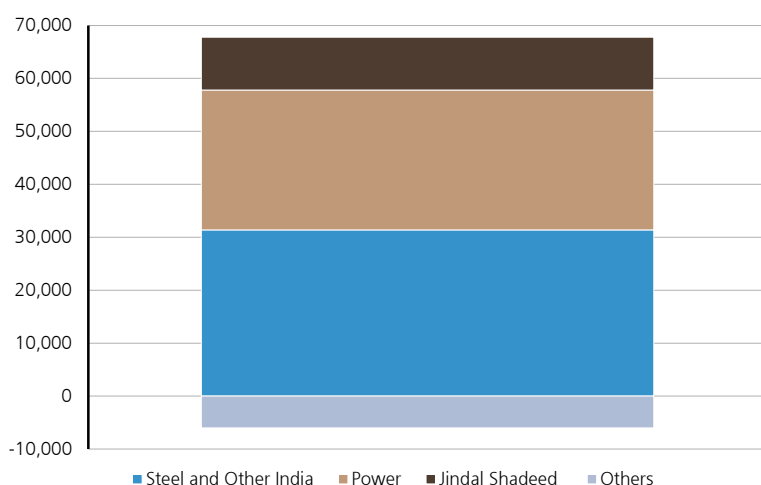
We like the asset base in both power and steel, so JSPL should be well placed into the long term for a demand recovery in India. But regulatory noise around fuel availability in coal in particular, high levels of debt and a CBI (Central Bureau of Investigation) investigation into the chairman are of greater current concern to investors, in our view. From an equity perspective, this means the risk reward bands are very wide. A weaker growth environment than we anticipate or an equity raising to repair the balance sheet suggest >50% downside. Yet an option remains on these issues being resolved and deleveraging driving material equity upside. We do not think the risk reward is compelling in either direction, which drives our Neutral rating.

Pricing Paths and Upside/Downside Skew



Price (+12 mo.)	EPS (FY17e)	P/E
+350% 290Rs upside	=	20Rs * 14.6
75Rs base case	=	5Rs * 14.0
64Rs	=	7Rs * 8.6
26Rs downside	=	0Rs * -130.0
price (02 Sep 2015)	cons EPS (FY17e)	P/E

EBITDA Breakdown by Business Line - FY17E (Rs m)



Scenario Assumptions

Upside (Rs290) – Reflects a strong economy in India, improvement in the Middle East business and resolution to some of the regulatory issues related to coal. Operations and divestments of non-core assets generate strong cash flows and faster deleveraging.

Base case (Rs75) – Reflects an improving market and economy in India. India steel volumes grow as capacity comes on stream, but price pressure offsets this in FY16E. Oman prospects improve as downstream facilities are commercialised. Debt ratios peak in FY16E, but slow deleverage only towards 5x. FCF positive only by FY19E.

Downside (Rs26) – Tepid market conditions in India continue with muted steel volume growth, despite new capacity, largely due to weak demand. India realisations remain under pressure. The Oman and India power situation is stable, but higher costs weigh on margins. We assume asset sales (50% of the upside scenario) and a US\$1000m equity raising stabilising the balance sheet, but diluting existing holders.

Source for this page: UBS estimates, Thomson Financial

Figure 19: Changes to estimates

Rs.m (unless stated)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
Revenue - new	201,592	217,729	238,206	255,416	282,126	304,139	
Revenue - old	201,592	217,197	245,850	267,795	295,952	319,541	
Change	0%	0%	-3%	-5%	-5%	-5%	
EBITDA - new	54,835	53,912	61,752	70,725	79,682	87,086	
EBITDA - old	54,835	58,635	68,626	72,717	82,020	89,818	Cuts to EBITDA generate substantial EPS cuts in near-term due to low base and operational and financial
Change	0%	-8%	-10%	-3%	-3%	-3%	gearing.
Adj EPS - new (Rs)	6.9	2.1	5.4	14.4	22.3	30.0	
Adj EPS - old (Rs)	6.9	5.8	11.1	16.3	24.6	32.7	
Change	0%	-63%	-52%	-12%	-9%	-8%	
Net debt - new	429,290	449,507	463,128	464,264	457,242	444,087	
Net debt - old	429,290	445,032	456,374	458,270	449,713	434,707	
EBITDA delta	0	-4,723	-6,874	-1,992	-2,338	-2,732	
- o/w Standalone	0	-5,566	-4,231	-1,394	-1,743	-2,141	
- o/w JPL	0	-2,165	-2,753	-768	-784	-799	Standalone delta reflects lower India steel realisations
- o/w Oman	0	0	0	0	0	0	than previously anticipated. JPL represents slower
- o/w Other	0	3,007	111	171	189	209	utilisation ramp.

Source: Company data; UBSe

Figure 20: Scenario and valuation summary

	FORECAST	UPSIDE	DOWNSIDE	PT	Comment
EPS (INR)	3.7	14.8	-3.5	3.7	Average of FY16 and FY17
Cons EPS (INR)	6.0	6.0	6.0		Reuters consensus
Delta vs cons	-37%	149%	-158%		
EBITDA (INRm)	57,832	71,655	43,768	57,832	Average of FY16 and FY17
Cons EBITDA (INRm)	66,000	66,000	66,000		Reuters consensus
Delta vs cons	-12%	9%	-34%		
Net debt (Rs.m)	456,317	379,276	344,219	456,317	Average of FY16 and FY17
Net debt:EBITDA (x)	7.9	5.3	7.9	7.9	
EV/EBITDA (x)	9.0	9.0	9.0	9.1	10x average; 8x current level
EV (Rs.m)	522,802	644,891	393,914	524,632	
Equity (Rs.m)	66,485	265,615	49,695	68,315	
Shares (m)	915	915	1,887	915	
Per share (Rs)	75	290	26	75	Revert to base case
Implied PER (x)	20.0	19.6	-7.6	20.0	
Share price (Rs)	68	68	68	68	
Upside / (downside)	10%	327%	-61%	10%	

Source: Company data; UBSe

Jindal Steel & Power (JNSP.BO)

Income statement (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Revenues	198,068	200,040	201,592	217,729	8.0	238,206	9.4	255,416	282,126	304,139
Gross profit	67,723	53,880	45,246	43,658	-3.5	49,394	13.1	57,444	65,469	71,877
EBITDA (UBS)	65,685	54,568	54,835	53,912	-1.7	61,752	14.5	70,725	79,682	87,086
Depreciation & amortisation	(15,392)	(18,292)	(27,328)	(27,306)	-0.1	(30,017)	9.9	(30,802)	(31,512)	(32,220)
EBIT (UBS)	50,293	36,276	27,506	26,606	-3.3	31,735	19.3	39,923	48,169	54,865
Associates & investment income	1,364	656	2,256	2,494	10.6	3,183	27.6	5,191	5,274	7,443
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(7,582)	(11,812)	(26,073)	(28,174)	-8.1	(29,092)	-3.3	(27,548)	(25,725)	(24,989)
Exceptionals (incl goodwill)	(5,741)	0	(19,116)	0	-	0	-	0	0	0
Profit before tax	38,335	25,120	(15,428)	927	-	5,827	NM	17,565	27,719	37,319
Tax	(9,218)	(6,182)	882	(32)	-	(1,457)	NM	(4,391)	(6,930)	(9,330)
Profit after tax	29,116	18,938	(14,546)	895	-	4,370	388.3	13,174	20,789	27,990
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(15)	166	1,765	1,026	-41.8	526	-48.7	26	(391)	(548)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	29,101	19,104	(12,781)	1,921	-	4,896	154.8	13,200	20,399	27,442
Net earnings (UBS)	34,842	19,104	6,335	1,921	-69.7	4,896	154.8	13,200	20,399	27,442
Tax rate (%)	24.0	24.6	0.0	3.4	-	25.0	NM	25.0	25.0	25.0
Per share (Rs)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
EPS (UBS, diluted)	37.27	20.53	6.81	2.07	-69.7	5.26	154.8	14.19	21.93	29.50
EPS (local GAAP, diluted)	31.13	20.53	(13.74)	2.07	-	5.26	154.8	14.19	21.93	29.50
EPS (UBS, basic)	37.45	20.88	6.92	2.10	-69.7	5.35	154.8	14.43	22.30	29.99
Net DPS (Rs)	1.60	1.50	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted)*	53.74	40.20	36.18	31.42	-13.2	37.53	19.5	47.30	55.80	64.13
Book value per share	228.33	242.92	221.26	232.10	4.9	237.45	2.3	251.88	274.17	304.17
Average shares (diluted)	934.83	930.35	930.35	930.35	0.0	930.35	0.0	930.35	930.35	930.35
Balance sheet (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Cash and equivalents	2,001	10,153	25,715	45,779	78.0	25,452	-44.4	17,611	17,928	14,378
Other current assets	149,811	199,142	168,493	174,195	3.4	173,747	-0.3	174,936	182,394	187,443
Total current assets	151,812	209,295	194,207	219,973	13.3	199,199	-9.4	192,547	200,322	201,821
Net tangible fixed assets	385,049	522,071	551,677	574,371	4.1	590,278	2.8	600,439	609,657	618,052
Net intangible fixed assets	1,543	5,930	5,485	5,485	0.0	5,485	0.0	5,485	5,485	5,485
Investments / other assets	32,322	3,425	3,998	3,998	0.0	4,024	0.7	4,050	4,077	4,103
Total assets	570,726	740,721	755,366	803,826	6.4	798,986	-0.6	802,520	819,540	829,460
Trade payables & other ST liabilities	38,301	62,455	53,758	63,891	18.8	61,360	-4.0	58,399	61,309	59,918
Short term debt	92,165	104,679	105,486	109,951	4.23	108,463	-1.35	106,974	105,486	101,778
Total current liabilities	130,466	167,134	159,244	173,843	9.2	169,823	-2.3	165,374	166,795	161,695
Long term debt	154,016	259,003	353,996	385,334	8.9	380,117	-1.4	374,901	369,684	356,688
Other long term liabilities	68,148	77,677	27,610	24,735	-10.4	24,735	0.0	24,735	24,735	24,735
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	352,631	503,813	540,849	583,911	8.0	574,675	-1.6	565,009	561,213	543,118
Common s/h equity	212,523	226,105	205,944	212,342	3.1	217,238	2.3	230,439	250,837	278,279
Minority interests	5,573	10,802	8,573	7,573	-11.7	7,073	-6.6	7,073	7,490	8,064
Total liabilities & equity	570,726	740,721	755,366	803,826	6.4	798,986	-0.6	802,520	819,540	829,460
Cash flow (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Net income (before pref divs)	29,101	19,104	(12,781)	1,921	-	4,896	154.8	13,200	20,399	27,442
Depreciation & amortisation	15,392	18,292	27,328	27,306	-0.1	30,017	9.9	30,802	31,512	32,220
Net change in working capital	(23,207)	12,816	(1,962)	4,431	-	(2,083)	-	(4,150)	(4,548)	(6,440)
Other operating	(708)	(10,395)	(1,724)	(3,875)	-124.7	(1,451)	62.6	(488)	160	432
Operating cash flow	20,578	39,816	10,861	29,783	174.2	31,379	5.4	39,363	47,522	53,655
Tangible capital expenditure	(83,791)	(141,348)	(58,650)	(50,000)	14.7	(45,000)	10.0	(40,500)	(40,500)	(40,500)
Intangible capital expenditure	(625)	(4,388)	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(12,557)	3,000	(110)	0	-	0	-	0	0	0
Investing cash flow	(96,973)	(142,736)	(58,760)	(50,000)	14.9	(45,000)	10.0	(40,500)	(40,500)	(40,500)
Equity dividends paid	(1,569)	(1,488)	0	0	-	0	-	0	0	0
Share issues / (buybacks)	0	(5,006)	0	0	-	0	-	0	0	0
Other financing	3,120	1,232	0	0	-	0	-	0	0	0
Change in debt & pref shares	75,274	115,838	91,323	40,280	-55.89	(6,705)	-	(6,705)	(6,705)	(16,705)
Financing cash flow	76,824	110,577	91,323	40,280	-55.9	(6,705)	-	(6,705)	(6,705)	(16,705)
Cash flow inc/(dec) in cash	429	7,657	43,424	20,063	-53.8	(20,326)	-	(7,842)	317	(3,550)
FX / non cash items	80	495	(27,863)	0	-	0	-100.0	0	0	0
Balance sheet inc/(dec) in cash	509	8,152	15,562	20,064	28.9	(20,326)	-	(7,842)	317	(3,550)

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Jindal Steel & Power (JNSP.BO)

Valuation (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
P/E (local GAAP, diluted)	13.4	12.5	NM	31.6	12.4	4.6	3.0	2.2
P/E (UBS, diluted)	11.2	12.5	32.1	31.6	12.4	4.6	3.0	2.2
P/CEPS	7.7	6.3	5.9	2.0	1.7	1.4	1.2	1.0
Equity FCF (UBS) yield %	(16.4)	(44.5)	(23.5)	(33.3)	(22.4)	(1.9)	11.6	21.6
Net dividend yield (%)	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
P/BV x	1.8	1.1	1.0	0.3	0.3	0.3	0.2	0.2
EV/revenues (core)	3.0	2.7	3.0	2.3	2.2	2.1	1.9	1.7
EV/EBITDA (core)	9.1	10.0	11.1	9.5	8.5	7.5	6.6	6.0
EV/EBIT (core)	11.9	15.0	22.1	19.2	16.5	13.3	11.0	9.5
EV/OpFCF (core)	9.3	10.3	11.4	9.8	8.8	7.7	6.8	6.1
EV/op. invested capital	1.5	1.0	1.0	0.8	0.8	0.8	0.8	0.7
Enterprise value (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Market cap.	389,296	238,173	203,746	60,780	60,780	60,780	60,780	60,780
Net debt (cash)	206,798	298,855	393,648	441,637	456,317	463,696	460,753	450,665
Buy out of minorities	4,322	8,187	9,687	8,073	7,323	7,073	7,281	7,777
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	600,416	545,215	607,081	510,489	524,420	531,549	528,814	519,221
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	600,416	545,215	607,081	510,489	524,420	531,549	528,814	519,221
Growth (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenue	8.8	1.0	0.8	8.0	9.4	7.2	10.5	7.8
EBITDA (UBS)	-6.7	-16.9	0.5	-1.7	14.5	14.5	12.7	9.3
EBIT (UBS)	-11.0	-27.9	-24.2	-3.3	19.3	25.8	20.7	13.9
EPS (UBS, diluted)	-15.0	-44.9	-66.8	-69.7	154.8	169.6	54.5	34.5
Net DPS	0.0	-6.2	-	-	-	-	-	-
Margins & Profitability (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Gross profit margin	34.2	26.9	22.4	20.1	20.7	22.5	23.2	23.6
EBITDA margin	33.2	27.3	27.2	24.8	25.9	27.7	28.2	28.6
EBIT margin	25.4	18.1	13.6	12.2	13.3	15.6	17.1	18.0
Net earnings (UBS) margin	17.6	9.5	3.1	0.9	2.1	5.2	7.2	9.0
ROIC (EBIT)	12.5	7.0	4.5	4.1	4.7	5.8	6.8	7.6
ROIC post tax	9.9	5.3	4.5	3.9	3.5	4.3	5.1	5.7
ROE (UBS)	17.7	8.7	2.9	0.9	2.3	5.9	8.5	10.4
Capital structure & Coverage (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Net debt / EBITDA	3.7	6.5	7.9	8.3	7.5	6.6	5.7	5.1
Net debt / total equity %	112.0	149.2	202.2	204.4	206.5	195.5	177.0	155.1
Net debt / (net debt + total equity) %	52.8	59.9	66.9	67.1	67.4	66.2	63.9	60.8
Net debt/EV %	40.7	64.8	71.5	88.1	88.3	87.3	86.5	85.5
Capex / depreciation %	NM	NM	NM	183.1	149.9	131.5	128.5	125.7
Capex / revenue %	NM	NM	29.1	23.0	18.9	15.9	14.4	13.3
EBIT / net interest	6.6	3.1	1.1	0.9	1.1	1.4	1.9	2.2
Dividend cover (UBS)	23.4	13.9	-	-	-	-	-	-
Div. payout ratio (UBS) %	4.3	7.2	-	-	-	-	-	-
Revenues by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Standalone (Net)	149,547	145,440	140,994	142,506	142,679	148,883	161,702	175,809
Jindal Power (Net)	25,097	25,129	32,280	41,505	57,372	63,296	71,541	72,972
Shadeed (Net)	34,440	32,004	32,315	36,475	41,171	46,472	52,455	59,209
Other Businesses (Net)	(11,016)	(2,533)	(2,571)	(2,757)	(3,017)	(3,235)	(3,573)	(3,852)
Others	0	0	(1,425)	0	0	0	0	0
Total	198,068	200,040	201,592	217,729	238,206	255,416	282,126	304,139
EBIT (UBS) by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Others	50,293	36,276	27,506	26,606	31,735	39,923	48,169	54,865
Total	50,293	36,276	27,506	26,606	31,735	39,923	48,169	54,865

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Steel Authority of India

Operational and financial leverage weigh

Weak market conditions continue; realisation pressure only pushed back

As we discuss earlier in this note, market conditions in the Indian steel industry remain challenging, with ongoing pricing pressure driven by elevated imports, especially from China. SAIL has adopted a different strategy in recent months, preferring to build inventory rather than sell at depressed prices. But given the market conditions we believe this is providing temporary relief to realisation and we expect the price vs volume balance to reverse. Q1FY16 results were below expectations with an EBITDA loss the first in recent memory ([Q1FY16 miss, but on volumes \(not prices\)](#))

Changes to estimates

We reduce our EBITDA estimates by c.20% in the next 3 years. This reflects the weak start to FY16, lower realisations (partly offset by higher volumes) and operational gearing (from the captive raw material supply model). Due to high fixed costs (depreciation and finance costs) EPS estimates reduce by c.37% in this period.

Fundamental view unchanged

With Indian market prices weak, and weakening further in Q2, and capex still high, we do not expect meaningful improvement in debt ratios until FY17 and a slower improvement towards positive FCF than peers. Long term, we do see an attractive mix of exposure to the India infrastructure growth story, with operational and financial gearing. Yet in the short term, we think there are relatively safer ways to access the same themes in India (for example JSW Steel) with more attractive cash/debt profiles.

Valuation:

Our PT is based on mid-cycle EV/EBITDA and PB multiples and falls broadly in-line with our earnings downgrades. Our upside valuation is Rs.122 and our downside valuation is Rs.20.

Equities

India
Steel

12-month rating **Neutral**

12m price target **Rs55.00**
Prior: **Rs67.00**

Price **Rs48.75**

RIC: SAIL.BO BBG: SAIL IB

Trading data and key metrics

52-wk range	Rs89.65-46.50
Market cap.	Rs201bn/US\$3.04bn
Shares o/s	4,130m (ORD)
Free float	25%
Avg. daily volume ('000)	3,573
Avg. daily value (m)	Rs205.7
Common s/h equity (03/16E)	Rs443bn
P/BV (03/16E)	0.5x
Net debt / EBITDA (03/16E)	8.5x

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/16E	4.68	2.76	-41.02	4.04
03/17E	5.63	3.58	-36.42	6.91
03/18E	7.14	4.77	-33.16	16.46

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Highlights (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenues	449,745	469,377	459,520	424,710	460,103	519,341	586,206	646,292
EBIT (UBS)	34,437	23,613	31,045	15,360	30,190	40,602	54,713	64,521
Net earnings (UBS)	25,174	14,462	22,468	11,410	14,776	19,713	28,120	32,646
EPS (UBS, diluted) (Rs)	6.09	3.50	5.44	2.76	3.58	4.77	6.81	7.90
DPS (Rs)	2.00	2.02	2.00	2.00	2.00	2.00	2.85	3.31
Net (debt) / cash	(183,036)	(228,337)	(279,249)	(284,258)	(326,637)	(356,499)	(370,545)	(371,746)
Profitability/valuation	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
EBIT margin %	7.7	5.0	6.8	3.6	6.6	7.8	9.3	10.0
ROIC (EBIT) %	6.2	3.8	4.5	2.1	4.0	5.1	6.6	7.6
EV/EBITDA (core) x	10.8	11.4	12.1	14.4	10.6	9.1	7.4	6.6
P/E (UBS, diluted) x	14.1	16.6	14.8	17.6	13.6	10.2	7.2	6.2
Equity FCF (UBS) yield %	(17.9)	(12.8)	(12.4)	(2.0)	(18.0)	(10.8)	0.1	7.7
Net dividend yield %	2.3	3.5	2.5	4.1	4.1	4.1	5.9	6.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs48.75 on 03 Sep 2015 22:38 HKT

Steel Authority of India

Price Target **Rs55.00, Neutral**

Pivotal Questions

Q: How is SAIL positioned in terms of capacity?

The long-running expansion programme is finally nearing completion. Driving adequate returns/cash is dependent on demand. SAIL will be at the forefront of India capacity expansion, but we expect this only in the long term.

Q: Can it withstand the price/cost pressures?

It benefits from iron ore security / low coal prices. Diversification via new capacity helps price/mix, but the Indian market remains tough in FY16E.

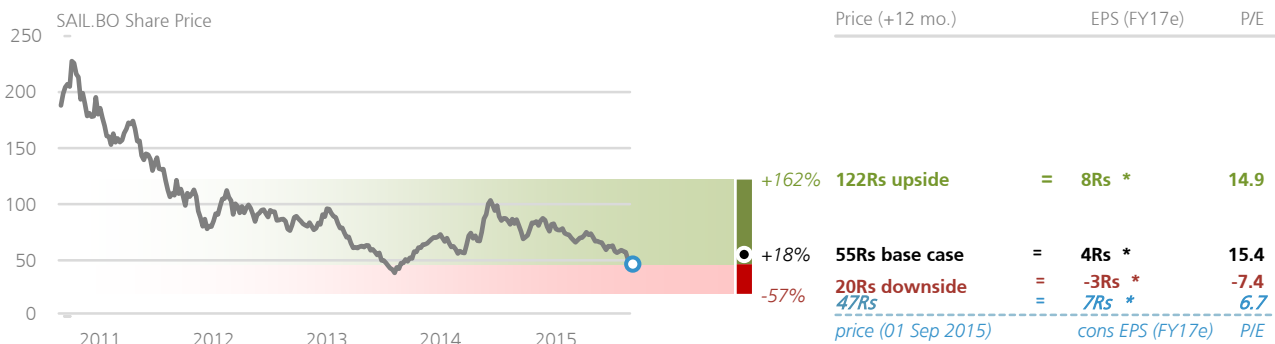
Q: How secure is the debt position?

We do not see material risk from debt, but FCF improvement will only be gradual due to ongoing capex, which could weigh on sentiment/valuation.

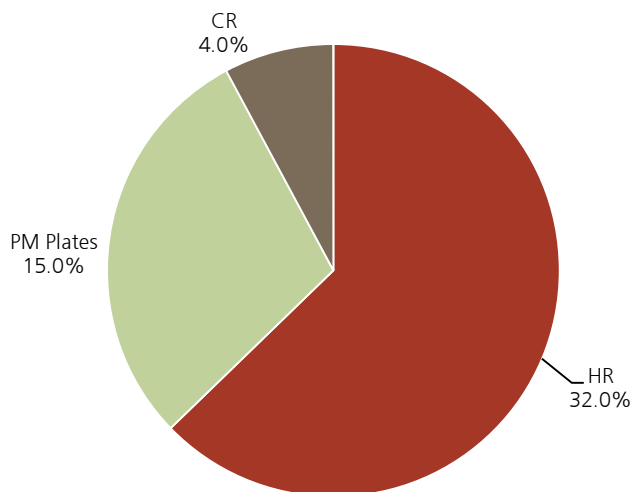
Investment Thesis

As market leader and a pure-play on the Indian market and an SOE, SAIL is particularly geared to the infrastructure/urbanisation story which is a priority of the Modi BJP government. In a sustained growth environment, we also see operational and financial leverage. Yet in the short term, we expect residual capex from the capacity expansion programme to slow FCF improvement and weigh on the valuation / investor sentiment. We see relatively ways to play many of the same themes in the short/medium term, such as JSW Steel.

Pricing Paths and Upside/Downside Skew



Product Mix by Volume (FY15)



Scenario Assumptions

Upside (Rs122) – Still anticipate a subdued 12m, but see good demand/solid prices beyond this. Margin support from modest raw material prices and a limited hit from wage hikes in FY17E. Debt ratios peak in FY16E and SAIL is FCF positive in FY19E.

Base case (Rs55) – Subdued 12m in terms of pricing, but successful execution of final leg in expansion programme drives improvement in volumes. Realisations improve gradually from FY16E. Debt ratios reduce gradually, but FCF positive only in FY19E.

Downside (Rs20) – Subdued volume growth due to weak India demand. FY16 realisations step down and remain flat until FY18E (implying price offsets mix benefit). All this would impact cash flow adversely, so debt ratios remain high and FCF positive only in FY20E.

Source for this page: Company data, UBS estimates, Thomson Financial

Figure 21: Changes to estimates

Rs.m (unless stated)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
Revenue - new	459,520	424,710	460,103	519,341	586,206	646,292	
Revenue - old	453,406	469,276	527,935	595,907	656,987	724,328	Downgrades reflect operational leverage
Change	1%	-9%	-13%	-13%	-11%	-11%	(fixed costs from staff and captive raw
EBITDA - new	49,874	33,360	49,190	61,102	76,713	86,521	materials model); then financial leverage
EBITDA - old	41,110	45,979	60,850	71,968	84,137	98,703	(higher levels of net debt than main peers,
Change	21%	-27%	-19%	-15%	-9%	-12%	due to ongoing capex). Note FY15 changes
EPS - new (Rs)	5.44	2.76	3.58	4.77	6.81	7.90	result of co restatement between Q4
EPS - old (Rs)	5.13	4.68	5.63	7.14	9.42	11.57	release and annual report.
Change	6%	-41%	-36%	-33%	-28%	-32%	
Change in volume	0%	-4%	-6%	-6%	-4%	-4%	Lower volumes reflect cautious approach to
Realisations (Rs/t)	39,275	33,000	32,500	34,125	35,831	37,623	sales in tough environment and inventory
Change	1%	-5%	-7%	-7%	-7%	-7%	build. We do assume some drop in price
Change (abs; Rs)	522	-1877	-2377	-2496	-2621	-2752	through balance of FY16 as sales volume
EBITDA/t (Rs)	4,263	2,592	3,475	4,015	4,689	5,037	increases. EBITDA/t offset via lower raw
Change	21%	-24%	-14%	-9%	-5%	-8%	material cost and wage assumptions (given
Change (abs; Rs)	749	-825	-545	-408	-235	-465	tougher trading environment).

Source: Company data; UBSe

Figure 22: Scenario and valuation summary

Base	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	Comment
EBITDA (Rs.m)	50,069	33,360	49,190	61,102	76,713	86,521	
EV/EBITDA Multiple (x)	10.0	10.0	10.0	10.0	10.0	10.0	Currently on 10x EV/EBITDA and 0.5x PB on our estimates.
Per Share (Rs)	54	12	40	62	96	119	Assume slight rerating as the cycle stabilises on our
Book value (Rs.m)	442,029	443,399	448,135	457,808	471,607	487,626	forecasts. PT is based on 1 year forward basis (combining
PB ratio (x)	0.5	0.5	0.5	0.5	0.5	0.5	FY17/FY18).
Per Share (Rs)	51	52	52	53	55	57	
Upside							
EBITDA (Rs.m)	50,069	47,373	71,921	98,140	139,832	176,556	
Multiple (x)	12.0	12.0	12.0	12.0	12.0	12.0	
Per Share (Rs)	78	69	131	204	331	449	Assume 20% more rerating than in our base case. 5 year
Book value (Rs.m)	442,029	463,068	486,744	524,491	591,320	682,188	high PB has been 2.9x and EV/EBITDA 17.7x.
PB ratio (x)	0.6	0.6	0.6	0.6	0.6	0.6	
Per Share (Rs)	62	65	68	73	82	95	
Downside							
EBITDA (Rs.m)	50,069	20,260	20,174	28,122	42,244	61,804	
Multiple (x)	14.4	14.4	14.4	14.4	14.4	14.4	EV/EBITDA rerates further to account for continued
Per Share (Rs)	107	(2)	(15)	5	50	117	solvency of the business. Rarely see trough multiples on
Book value (Rs.m)	442,029	436,571	425,530	420,878	427,856	451,518	trough earnings for cyclical stocks. 5 year low PB has been
PB ratio (x)	0.4	0.4	0.4	0.4	0.4	0.4	0.4x and EV/EBITDA 8.8x.
Per Share (Rs)	43	42	41	41	41	44	

Source: Company data; UBSe

Steel Authority of India (SAIL.BO)

Income statement (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Revenues	449,745	469,377	459,520	424,710	-7.6	460,103	8.3	519,341	586,206	646,292
Gross profit	59,469	49,635	56,807	39,921	-29.7	55,984	40.2	69,327	86,603	99,427
EBITDA (UBS)	49,740	40,815	50,069	33,360	-33.4	49,190	47.4	61,102	76,713	86,521
Depreciation & amortisation	(15,302)	(17,203)	(19,024)	(18,000)	-5.4	(19,000)	5.6	(20,500)	(22,000)	(22,000)
EBIT (UBS)	34,437	23,613	31,045	15,360	-50.5	30,190	96.5	40,602	54,713	64,521
Associates & investment income	1,976	2,090	4,588	9,000	96.2	4,000	-55.6	2,000	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	73	(4,304)	(10,107)	(11,397)	-12.8	(15,720)	-37.9	(16,318)	(17,220)	(17,884)
Exceptionals (incl goodwill)	(1,883)	12,059	(886)	0	-	0	-	0	0	0
Profit before tax	34,603	33,458	24,640	12,964	-47.4	18,470	42.5	26,285	37,494	46,637
Tax	(11,312)	(6,934)	(3,059)	(1,554)	-49.2	(3,694)	-137.7	(6,571)	(9,373)	(13,991)
Profit after tax	23,291	26,523	21,580	11,410	-47.1	14,776	29.5	19,713	28,120	32,646
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	(2)	1	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	23,291	26,521	21,582	11,410	-47.1	14,776	29.5	19,713	28,120	32,646
Net earnings (UBS)	25,174	14,462	22,468	11,410	-49.2	14,776	29.5	19,713	28,120	32,646
Tax rate (%)	32.7	20.7	12.4	12.0	-3.5	20.0	66.9	25.0	25.0	30.0
Per share (Rs)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
EPS (UBS, diluted)	6.09	3.50	5.44	2.76	-49.2	3.58	29.5	4.77	6.81	7.90
EPS (local GAAP, diluted)	5.64	6.42	5.23	2.76	-47.1	3.58	29.5	4.77	6.81	7.90
EPS (UBS, basic)	6.09	3.50	5.44	2.76	-49.2	3.58	29.5	4.77	6.81	7.90
Net DPS (Rs)	2.00	2.02	2.00	2.00	0.0	2.00	0.0	2.00	2.85	3.31
Cash EPS (UBS, diluted) ¹	9.80	7.67	10.05	7.12	-29.1	8.18	14.8	9.74	12.13	13.23
Book value per share	100.82	104.80	107.02	107.35	0.3	108.50	1.1	110.84	114.18	118.06
Average shares (diluted)	4,130.40	4,130.40	4,130.40	4,130.40	0.0	4,130.40	0.0	4,130.40	4,130.40	4,130.40
Balance sheet (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Cash and equivalents	42,352	31,868	26,484	26,484	0.0	26,484	0.0	26,484	26,484	26,484
Other current assets	276,587	283,648	311,399	233,086	-25.1	244,066	4.7	262,487	283,870	303,036
Total current assets	318,940	315,516	337,882	259,570	-23.2	270,550	4.2	288,971	310,353	329,520
Net tangible fixed assets	545,449	621,335	670,638	724,017	8.0	773,207	6.8	809,301	833,099	846,497
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	655	1,834	4,668	4,668	0.0	4,668	0.0	4,668	4,668	4,668
Total assets	865,043	938,685	1,013,189	988,256	-2.5	1,048,425	6.1	1,102,940	1,148,120	1,180,685
Trade payables & other ST liabilities	135,056	162,199	174,116	142,805	-18.0	155,859	9.1	170,838	188,174	203,519
Short term debt	83,839	118,875	161,352	112,925	-30.01	145,304	28.67	165,167	169,212	160,413
Total current liabilities	218,895	281,073	335,468	255,730	-23.8	301,163	17.8	336,005	357,387	363,932
Long term debt	141,549	141,330	144,381	197,816	37.0	207,816	5.1	217,816	227,816	237,816
Other long term liabilities	88,156	83,436	91,311	91,311	0.0	91,311	0.0	91,311	91,311	91,311
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	448,600	505,840	571,160	544,857	-4.6	600,290	10.2	645,132	676,514	693,059
Common s/h equity	416,443	432,846	442,029	443,399	0.3	448,135	1.1	457,808	471,607	487,626
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	865,043	938,685	1,013,189	988,256	-2.5	1,048,425	6.1	1,102,940	1,148,120	1,180,685
Cash flow (Rsm)	03/13	03/14	03/15	03/16E	% ch	03/17E	% ch	03/18E	03/19E	03/20E
Net income (before pref divs)	23,291	26,521	21,582	11,410	-47.1	14,776	29.5	19,713	28,120	32,646
Depreciation & amortisation	15,303	17,203	19,025	18,000	-5.4	19,000	5.6	20,500	22,000	22,000
Net change in working capital	(22,362)	23,136	(17,980)	47,001	-	2,075	-95.6	(3,441)	(4,047)	(3,822)
Other operating	12,101	(8,504)	(441)	(15,379)	NM	(7,189)	53.3	(3,595)	(797)	(399)
Operating cash flow	28,332	58,357	22,185	61,031	175.1	28,661	-53.0	33,177	45,276	50,426
Tangible capital expenditure	(91,765)	(89,222)	(63,340)	(65,000)	-2.6	(65,000)	0.0	(55,000)	(45,000)	(35,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	4	8,991	3,877	9,000	-	4,000	-	2,000	0	0
Investing cash flow	(91,761)	(80,231)	(59,463)	(56,000)	5.8	(61,000)	-8.9	(53,000)	(45,000)	(35,000)
Equity dividends paid	(11,616)	(11,889)	(8,840)	(10,040)	-13.6	(10,040)	0.0	(10,040)	(14,322)	(16,627)
Share issues / (buybacks)	7	3	279	0	-	0	-	0	0	0
Other financing	151	13	14	0	-	0	-	0	0	0
Change in debt & pref shares	50,034	32,135	46,194	0	-	0	-	0	0	0
Financing cash flow	38,577	20,262	37,646	(10,040)	-	(10,040)	0.0	(10,040)	(14,322)	(16,627)
Cash flow inc/(dec) in cash	(24,852)	(1,613)	368	(5,009)	-	(42,379)	NM	(29,863)	(14,046)	(1,201)
FX / non cash items	112	(8,871)	(5,752)	5,009	-	42,379	NM	29,863	14,046	1,201
Balance sheet inc/(dec) in cash	(24,741)	(10,484)	(5,384)	0	-	0	-	0	0	0

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Steel Authority of India (SAIL.BO)

Valuation (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
P/E (local GAAP, diluted)	15.2	9.1	15.4	17.6	13.6	10.2	7.2	6.2
P/E (UBS, diluted)	14.1	16.6	14.8	17.6	13.6	10.2	7.2	6.2
P/CEPS	8.8	7.6	8.0	6.8	6.0	5.0	4.0	3.7
Equity FCF (UBS) yield %	(17.9)	(12.8)	(12.4)	(2.0)	(18.0)	(10.8)	0.1	7.7
Net dividend yield (%)	2.3	3.5	2.5	4.1	4.1	4.1	5.9	6.8
P/BV x	0.9	0.6	0.8	0.5	0.4	0.4	0.4	0.4
EV/revenues (core)	1.2	1.0	1.3	1.1	1.1	1.1	1.0	0.9
EV/EBITDA (core)	10.8	11.4	12.1	14.4	10.6	9.1	7.4	6.6
EV/EBIT (core)	15.6	19.8	19.6	NM	17.3	13.6	10.4	8.8
EV/OpFCF (core)	11.2	12.1	12.7	15.6	11.3	9.5	7.7	6.8
EV/op. invested capital	1.0	0.7	0.9	0.7	0.7	0.7	0.7	0.7
Enterprise value (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Market cap.	354,172	240,635	332,418	201,357	201,357	201,357	201,357	201,357
Net debt (cash)	183,036	228,337	279,249	284,258	326,637	356,499	370,545	371,746
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	537,208	468,971	611,667	485,615	527,994	557,856	571,902	573,103
Non core assets	(655)	(1,834)	(4,668)	(4,668)	(4,668)	(4,668)	(4,668)	(4,668)
Core enterprise value	536,553	467,137	606,998	480,946	523,325	553,188	567,234	568,435
Growth (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Revenue	-3.4	4.4	-2.1	-7.6	8.3	12.9	12.9	10.3
EBITDA (UBS)	-21.3	-17.9	22.7	-33.4	47.4	24.2	25.5	12.8
EBIT (UBS)	-25.6	-31.4	31.5	-50.5	96.5	34.5	34.8	17.9
EPS (UBS, diluted)	-34.9	-42.6	55.4	-49.2	29.5	33.4	42.6	16.1
Net DPS	0.0	1.0	-1.0	0.0	0.0	0.0	42.6	16.1
Margins & Profitability (%)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Gross profit margin	13.2	10.6	12.4	9.4	12.2	13.3	14.8	15.4
EBITDA margin	11.1	8.7	10.9	7.9	10.7	11.8	13.1	13.4
EBIT margin	7.7	5.0	6.8	3.6	6.6	7.8	9.3	10.0
Net earnings (UBS) margin	5.6	3.1	4.9	2.7	3.2	3.8	4.8	5.1
ROIC (EBIT)	6.2	3.8	4.5	2.1	4.0	5.1	6.6	7.6
ROIC post tax	4.3	2.5	4.0	1.9	3.2	3.9	5.0	5.3
ROE (UBS)	6.1	3.4	5.1	2.6	3.3	4.4	6.1	6.8
Capital structure & Coverage (x)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Net debt / EBITDA	3.7	5.6	5.6	8.5	6.6	5.8	4.8	4.3
Net debt / total equity %	44.0	52.8	63.2	64.1	72.9	77.9	78.6	76.2
Net debt / (net debt + total equity) %	30.5	34.5	38.7	39.1	42.2	43.8	44.0	43.3
Net debt/EV %	34.1	48.9	46.0	59.1	62.4	64.4	65.3	65.4
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	159.1
Capex / revenue %	20.4	19.0	13.8	15.3	14.1	10.6	7.7	5.4
EBIT / net interest	NM	5.5	3.1	1.3	1.9	2.5	3.2	3.6
Dividend cover (UBS)	3.0	1.7	2.7	1.4	1.8	2.4	2.4	2.4
Div. payout ratio (UBS) %	32.8	57.7	36.8	72.4	55.9	41.9	41.9	41.9
Revenues by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Steel (Net)	449,745	469,377	459,520	424,710	460,103	519,341	586,206	646,292
Other Businesses (Net)	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
Total	449,745	469,377	459,520	424,710	460,103	519,341	586,206	646,292
EBIT (UBS) by division (Rsm)	03/13	03/14	03/15	03/16E	03/17E	03/18E	03/19E	03/20E
Others	34,437	23,613	31,045	15,360	30,190	40,602	54,713	64,521
Total	34,437	23,613	31,045	15,360	30,190	40,602	54,713	64,521

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Tata Steel Investment case

The debate around Tata Steel has focused on the progress of its Kalinganagar expansion, conditions in Europe (and the sale of its long products business), and the high levels of debt. We expect these issues to clear on a one- to two-year view. Kalinganagar adds capacity in attractive segments in India, although market conditions in the short term are to remain tough. UBS is relatively positive on Europe as a market and post the long products disposal, Tata Steel should have more profitable exposure. Union issues in the UK are also close to final resolution in our view. All this benefits cash flow and we believe the anticipated improvement in cash flow and debt represents an interesting turning point.

JSW Steel Investment case

We believe JSW presents a balanced way to play the favourable long-term prospects in the Indian steel market. It is focused on India with a successful programme of capacity expansion almost complete. It is a market leader in terms of efficiency and profitability which leaves it well positioned to drive earnings/cash if market conditions remain tepid. And while debt is high relative to history, this is set to reduce from FY16E. Risks remain over its relative lack of raw material security compared with some peers, although this has been an advantage in a period of low prices.

Steel Authority of India Investment case

As market leader and a pure-play on the Indian market and an SOE, SAIL is particularly geared to the infrastructure/urbanisation story which is a priority of the Modi BJP government. In a sustained growth environment, we also see operational and financial leverage. Yet in the short term, we expect residual capex from the capacity expansion programme to slow FCF improvement and weigh on the valuation / investor sentiment. We see relatively safer ways to play many of the same themes in the short/medium term, such as JSW Steel.

Jindal Steel & Power Investment case

We like the asset base in both power and steel, so JSPL will be well placed into the long term for a demand recovery in India. But regulatory noise around fuel availability in coal in particular, high levels of debt and a CBI (Central Bureau of Investigation) investigation into the chairman are of greater current concern to investors, in our view. From an equity perspective, this means the risk reward bands are very wide. A weaker growth environment than we anticipate or an equity raising to repair the balance sheet suggest >50% downside. Yet an option remains on these issues being resolved and deleveraging driving material equity upside. We do not think the risk reward is compelling in either direction, which drives our Neutral rating.

Statement of Risk

We believe the major risks for the steel sector are: 1) Steel prices—earnings are highly sensitive to steel prices, which are in turn significantly influenced by the international markets. A significant slowdown/recession in China can have an adverse impact on steel prices and hence on the company's financials. 2) Regulatory issues—To execute its day-to-day business, a steel company has to deal with several government agencies and statutory bodies in various states, as well as at the centre. Regime changes and retrospective amendments to laws/rules can have a significant impact on a company's business. 3) Demand environment—A slowdown in India in general and more specifically a slowdown in steel consumption could pose a significant problem to the company's business. 4) Raw materials—Steel companies source raw materials domestically as well as internationally, which form a large portion of the company's cost structure. There could be several incidents, including adverse weather, which can cause a significant spike in the prices of such raw materials, and could potentially derail a company's profitability.

Tata Steel—is exposed to a variety of residual risks relating to its acquisition of Corus in 2007. These include weak performance in long products and the ongoing sales process of this unit, a pension deficit in the UK and associated industrial action, patchy economic recovery across the Eurozone, and currency.

JSW Steel—has almost no captive raw material supply, which limits its control over its operations and reduces operational gearing into any recovery in global raw material / steel prices.

JSPL—continues to work through a number of residual regulatory issues. These mainly relate to raw material supply in both steel and power, and include Indian FBI charges against its chairman, Mr Naveen Jindal, and de-allocation of coal blocks won in the recent coal auction process.

SAIL—remains majority-owned by the government. While implicit state support is positive there is a risk of direct intervention in operations or financial policy which could be detrimental to minority shareholders.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities India Private Ltd: William Vanderpump.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Jindal Steel & Power¹⁸	JNSP.BO	Neutral	N/A	Rs65.30	03 Sep 2015
JSW Steel¹⁸	JSTL.BO	Buy	N/A	Rs930.90	03 Sep 2015
Steel Authority of India¹⁸	SAIL.BO	Neutral	N/A	Rs48.75	03 Sep 2015
Tata Steel¹⁸	TISC.BO	Buy	N/A	Rs229.65	03 Sep 2015

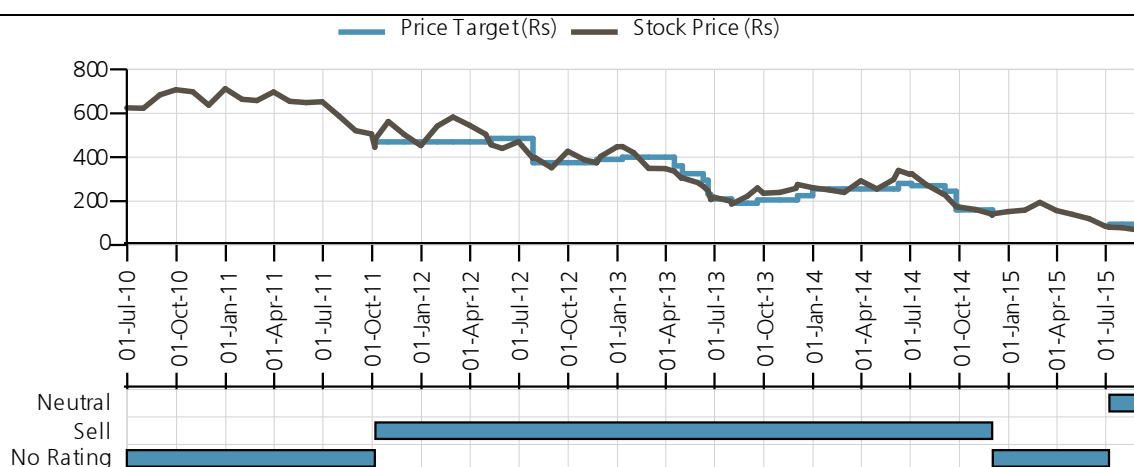
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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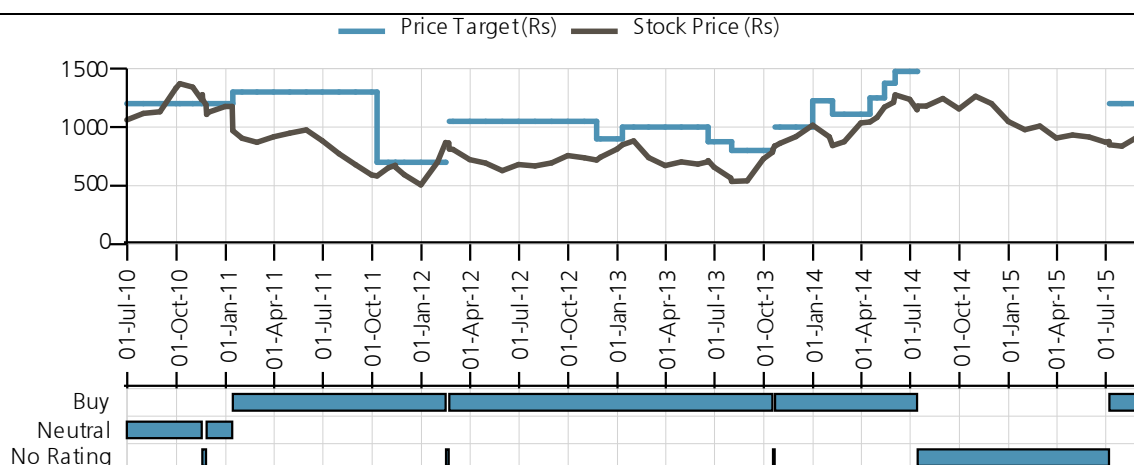
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Jindal Steel & Power (Rs)



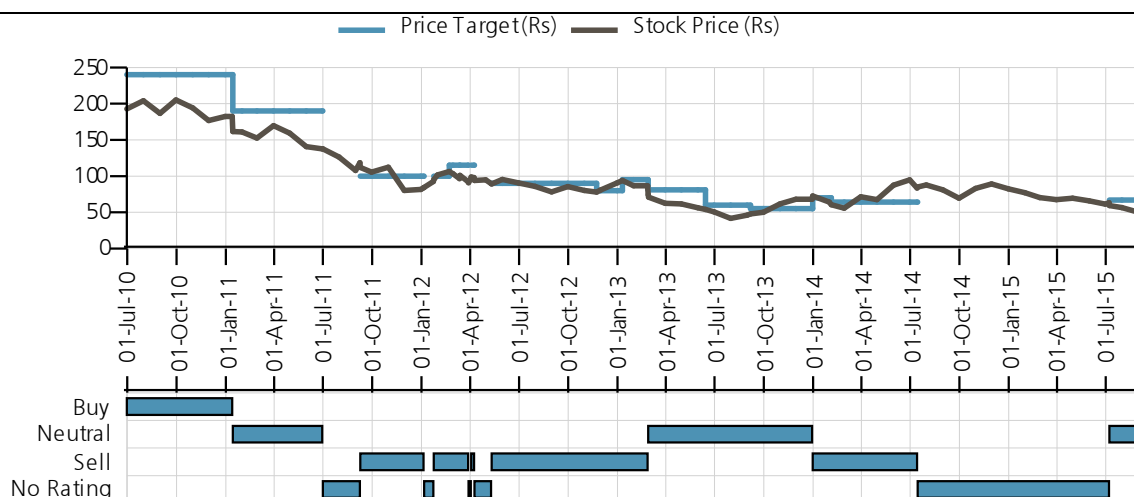
Source: UBS; as of 03 Sep 2015

JSW Steel (Rs)



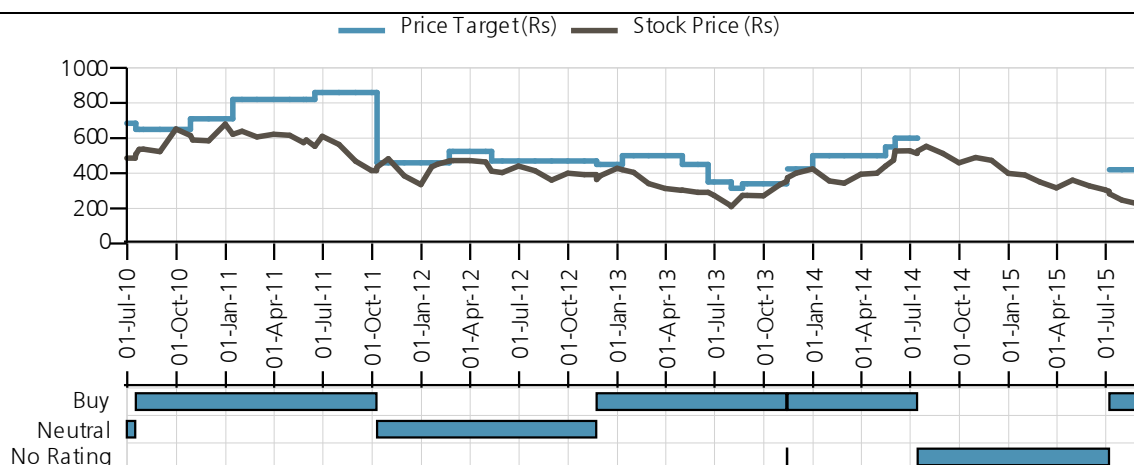
Source: UBS; as of 03 Sep 2015

Steel Authority of India (Rs)



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Tata Steel (Rs)



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