

## Metals – 2QFY16 Results Review

### Continued pressure on realisations taking toll on performance...

**Ferrous:** The companies under our coverage set reported average revenue de-growth of ~3% and ~20% on QoQ and YoY basis, respectively, primarily on account of lower realisations (Rs 1,500-2,000/tonnes lower QoQ). Volumes for most of the companies were flat to marginally higher on QoQ basis. Though some companies did witness some benefits from lower iron ore and coking coal prices, fall in realisation more than outweighed the positive impact, thus hurting the operating performance. The implied benefits of the safeguard duty on HRC of 20% to Indian manufacturers have been wiped off by further fall in Chinese steel prices. 3QFY16 would witness a further fall in steel prices of Rs 500-1000/tonne QoQ. Demand scenario continues to remain weak, thus we do not see growth in steel volumes to happen before FY17.

**Non-ferrous:** Prices continue to remain under pressure. LME prices in 2Q for aluminium, zinc, lead and copper fell sequentially by 9%, 15%, 12% and 13%, respectively. The fall in realisations were further aggravated due to decline in premia (aluminium 2Q average was US\$ 100/tonne lower QoQ). All the companies under coverage reported better volumes sequentially. Higher volumes, improved product mix, better availability of e-auction coal and Rupee depreciation of ~2% arrested the fall in EBITDA to some extent for this sector. 3Q realisation would be further lower QoQ (3Q average for aluminium, zinc, lead and copper till date is down by 6%, 9%, 2% and 4%, respectively over 2Q). 2H volumes are expected to be better than 1H (major maintenance shutdowns are over in 1H). Premia and Rupee has witnessed some stability off late. Expect volumes to protect profitability in 2H.

**Pipes:** The SAW pipe players under coverage have outperformed our expectation as they executed better margins orders during the quarter. Seamless players continue to suffer from Chinese dumping while stainless steel pipe players have also witnessed some slowdown in order booking. Falling crude prices is making us cautious on the pace of new order book additions as many projects are getting delayed or re-evaluated impacting the visibility beyond FY17. In India, government thrust on infrastructure and water management would drive the demand for HSAW as well as DI pipes (steadily growing). However, we expect increasing competitive intensity (JSAW operating PSL's mill) in HSAW business. This coupled with delays in global orders execution are expected to put pressure on EBITDA/tonne going forward. Stay cautious on the outlook for this sector.

**Top pick – Nalco:** Higher alumina sales (insulated from fluctuations in metal premiums) through ramping up of existing facility and commissioning of ~1.0 mn tpa alumina plant over the next three-four years is expected to drive earnings growth for the company. This backed by strong balance sheet, with stable net cash of ~Rs 24/share in FY17 (despite planned capex), dividend yield of ~5% and attractive valuation of 3.7x FY17E EV/EBITDA and 2.8x FY18E EV/EBITDA (5-year mean for one-year forward EV/EBITDA stands at 8.2x), keeps us upbeat on this company. Maintain Buy with a target price of Rs 50 (6.5x FY17E EV/EBITDA and 5.0x FY18E EV/EBITDA).

**Upgrades/Downgrades:** We have downgraded Tata Steel, JSW Steel, SAIL and Godawari to Outperformer, Underperformer, Sell and Underperformer respectively due to earnings cuts lead by higher than expected fall in realisations.

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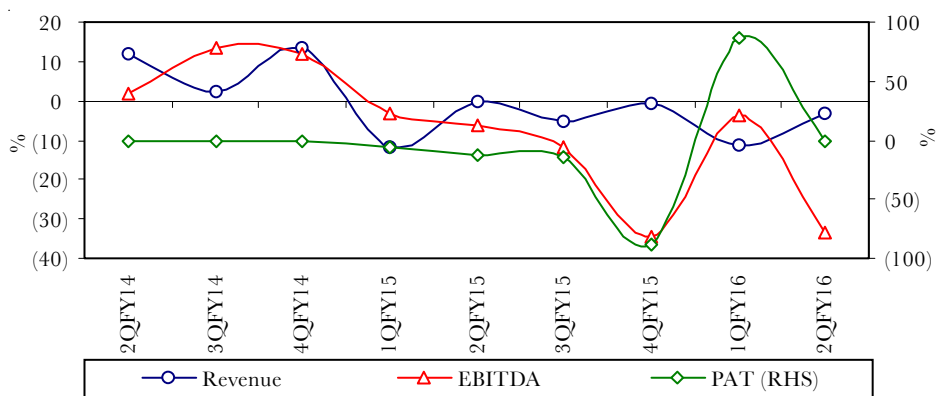
## Ferrous

### Performance at a glance

2Q is traditionally a weak quarter for steel sector. However, persistent imports and falling realisations have aggravated the fall in operating performance. The companies under our coverage universe reported aggregated revenue fall of ~3% on QoQ basis primarily on account of fall in realisations. The average realisation across companies witnessed a fall of ~6% while volumes for most of the companies were flat to marginally better. Ex-NMDC, the volumes under our coverage set reported ~1% increase on QoQ basis.

Underperformance at the EBITDA coupled with higher interest charges owing to commissioning of facilities leads to significant erosion in profits. The 8 ferrous companies under coverage reported aggregated net loss (adjusted) of Rs 12.3 bn against net profit of Rs 6.5 bn in 1QFY16 and Rs 37.5 bn in 2QFY15. A large part of the loss was contributed by SAIL which reported net loss of Rs 10.6 bn.

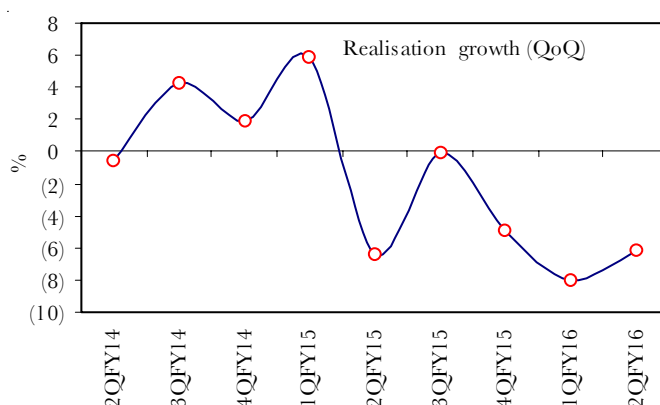
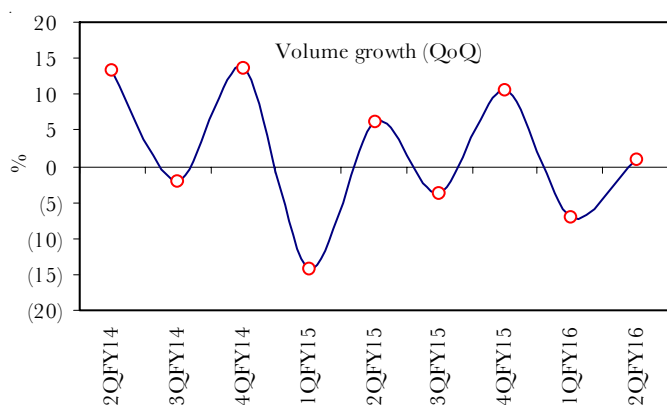
### Realisation, EBITDA and PAT growth trend



Source: Company, B&K Research

**Steep fall in realisations and higher than expected raw material incidence, impacted the EBITDA**

### Volumes and realisation trend for the sector



Source: Company, B&K Research

### Movement in costs

The raw material incidence has been higher sequentially as well as against our expectation. The benefits of falling raw material prices was lower than expectation as many companies had old inventories this coupled with disruption in captive mining has inflated the cost for the players. Commissioning of new plants has led to increase in other manufacturing costs.

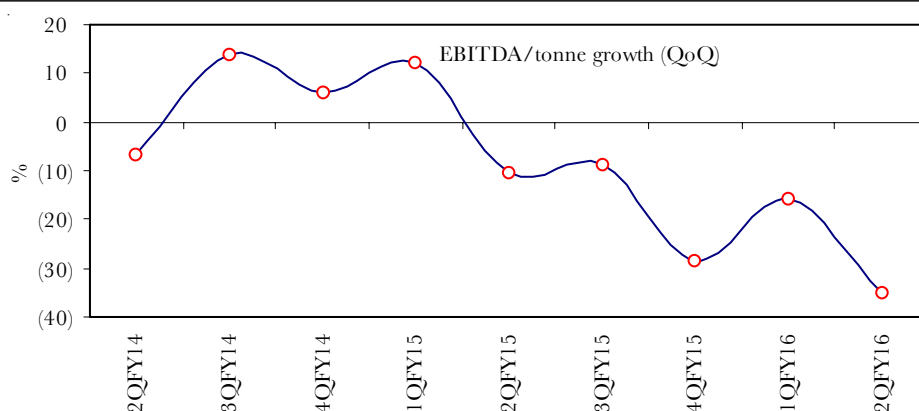
## Cost incidence

% of sales	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Raw material	43.5	41.7	44.6	39.9	39.7	40.1	41.1	40.4	41.8
Employee cost	11.9	11.1	10.6	12.4	12.0	11.9	13.3	13.7	14.2
Manufacturing and others	28.5	29.6	26.9	28.6	30.3	31.2	33.4	33.7	35.2

## Fall in realisation weigh down on EBITDA/tonne

The companies under our coverage universe reported a 35% sequential fall in EBITDA/tonne primarily on falling realisations. The fall in EBITDA/tonne was aggravated on account of one of the worst performance of SAIL (reported EBITDA/tonne loss of Rs 3,800 against EBITDA/tonne loss of Rs 304 in 1Q). Ex-SAIL, the fall in EBITDA/tonne stood at ~21%.

## EBITDA/tonne growth



Source: Company, B&K Research

*EBITDA/tonne continues to remain under pressure*

## EBITDA/tonne

(Rs/tonne)	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16E	4QFY16E
Tata Steel India	14,402	14,210	17,049	15,504	14,664	9,295	6,972	7,880	7,979	6,621	6,682
Tata Steel Europe (US\$)	25	32	32	52	46	64	44	26	(11)	(3)	15
JSW Steel	7,137	7,478	8,052	8,545	8,534	6,988	5,469	4,838	4,908	4,511	4,741
Jindal Steel & Power	7,130	9,783	8,944	13,927	10,066	11,636	7,922	7,523	5,372	6,939	7,450
SAIL	2,870	3,799	3,539	4,101	4,553	4,224	2,943	(304)	(3,828)	(2,658)	(1,144)
NMDC	2,280	2,607	2,572	2,798	2,761	2,791	1,846	1,658	1,397	1,132	1,231

Source: B&K Research

## LARGE CAP

## Share Data

Price (Rs)	224
BSE Sensex	25,776
Reuters code	TISC.BO
Bloomberg code	TATAIN
Market cap. (US\$ mn)	3,282
6M avg. daily turnover (US\$ mn)	26.5
Issued shares (mn)	971
Target price (Rs)	255

Performance (%)	1M	3M	12M
Absolute	(9)	9	(53)
Relative	(3)	9	(48)

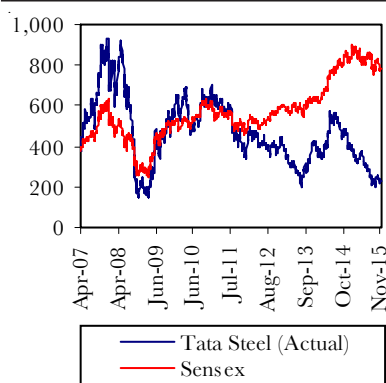
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	9.1	27.0
+/- (%)	-	195.8
PER (x)	24.6	8.3
PBV (x)	0.6	0.6
Dividend/Yield (%)	4.0	4.0
EV/Sales (x)	0.7	0.6
EV/EBITDA (x)	6.0	4.8

## Major shareholders (%)

Promoters	31
FII's	14
MF's	5
BFSI's	21
Public & Others	29

## Relative performance



## Tata Steel

## Downgrade to Outperformer

## Looses at European operations to continue...

**2QFY16 performance:** Tata Steel consolidated operating results (EBITDA came in at Rs 18.3 bn versus our expectation of Rs 25.3 bn) were much lower than our expectation on account of underperformance of the Tata Steel Europe (EBITDA loss at Rs 2.4 bn versus our expectation of profit of Rs 5.8 bn owing to lower volumes) and other subsidiaries (EBITDA of Rs 1.3 bn versus our expectation of Rs 4 bn).

## Other highlights and key takeaways from concalls

**3Q expectations:** Tata Steel India realisations are expected to be Rs 1,000-1,500/tonne lower. Higher raw material cost (disruption in captive iron ore mine) would impact the EBITDA/tonne. However, we expect EBITDA losses to be lower for Corus owing to lower raw material incidence. Overall, we expect 3Q EBITDA to be marginally better QoQ. Ferro Chrome unit has re-started. The company expects this unit to report EBITDA of Rs 8 bn annually.

**UK Steel assets value written down:** The company has written down the UK assets value to its bare minimum considering the current weak environment (Rs 77.7 bn impairment charges). It is now evaluating viability of Canada iron ore project.

## Outlook and valuation

Outlook for the steel industry continues to remain weak. The pressure on steel prices due to falling international prices, higher imports coupled with weak domestic demand outlook hurt the profitability of the sector. In the current scenario, Tata Steel India is poised well to deliver volume led growth over a medium term. Kalinganagar operations are now expected to commission by 4QFY16 (earlier expected to commission in end 2QFY16). Problems for its iron ore procurement from its captive mines have been resolved. Tata Steel Europe continues to face problems due to weak demand outlook in UK (partially magnified due to higher imports). Delay in commissioning of Kalinganagar project (we had assumed 0.3 mn tonnes of volumes which would now only come in FY17) and given the dismal performance of Tata Steel Europe, we have reduced our FY16 and FY17 EBITDA/tonne from US\$ 41.7 and US\$ 45 to US\$ 7.7 and US\$ 18.0, respectively. At the same time, we have changed our INR call from 62 to 65. Consequently our FY16 and FY17 EBITDA stands downward revised by 20% and 5%, respectively.

We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 19% primarily on account of better volumes and marginally better realisations. We are valuing the company on FY17 earnings. On our revised numbers we arrive at a target price of Rs 255 (6.3x FY17E EV/EBITDA). Downgrade the stock to Outperformer, given there is limited upside for the stock.

## Tata Steel

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net Sales</b>	<b>1,370,133</b>	<b>1,209,925</b>	<b>1,283,042</b>	<b>1,370,054</b>
Growth (%)	(5.9)	(11.7)	6.0	6.8
Operating expenses	(1,269,680)	(1,121,623)	(1,157,029)	(1,216,468)
<b>Operating profit</b>	<b>100,454</b>	<b>88,302</b>	<b>126,013</b>	<b>153,586</b>
Other operating income	24,904	20,000	20,000	20,000
<b>EBITDA</b>	<b>125,358</b>	<b>108,302</b>	<b>146,013</b>	<b>173,586</b>
Growth (%)	(23.6)	(13.6)	34.8	18.9
Depreciation	(59,436)	(61,042)	(70,246)	(74,099)
Other income	7,962	9,000	9,000	9,001
<b>EBIT</b>	<b>73,883</b>	<b>56,260</b>	<b>84,768</b>	<b>108,488</b>
Finance Cost	(48,478)	(43,647)	(60,305)	(62,538)
Exceptional & Extraordinary	(39,287)	24,027	0	0
<b>Profit before tax</b>	<b>(13,881)</b>	<b>36,639</b>	<b>24,462</b>	<b>45,950</b>
Tax (current + deferred)	(25,674)	(13,272)	(14,584)	(18,688)
<b>P/(L) for the period</b>	<b>(39,555)</b>	<b>23,367</b>	<b>9,878</b>	<b>27,262</b>
P/L of Associates, Min Int, Pref Div	300	(1,000)	(1,000)	(1,000)
Reported Profit/(Loss)	(39,255)	22,367	8,878	26,262
Adjusted Net profit	32	(1,659)	8,878	26,262
Growth (%)	(99.9)	(5,368.2)	(635.0)	195.8

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share Capital	9,714	9,732	9,732	9,732
Reserves & surplus	326,530	337,795	334,633	348,858
<b>Shareholders' funds</b>	<b>336,244</b>	<b>347,526</b>	<b>344,365</b>	<b>358,589</b>
Minority Int, Share Appl, Pref Capital	17,239	17,239	17,239	17,239
<b>Non-Current Liabilities</b>	<b>777,711</b>	<b>778,211</b>	<b>783,712</b>	<b>789,213</b>
Long-term borrowings	656,752	651,752	651,752	651,752
Other Long term liab, Prov, DTL	120,959	126,459	131,960	137,461
<b>Current liabilities</b>	<b>458,261</b>	<b>436,216</b>	<b>470,413</b>	<b>506,090</b>
Short-term borrowings, Curr Maturity	149,185	125,395	111,786	105,290
Other Current Liab + Provi	309,077	310,821	358,627	400,800
<b>Total (Equity and Liab.)</b>	<b>1,589,455</b>	<b>1,579,192</b>	<b>1,615,729</b>	<b>1,671,131</b>
<b>Non-current assets</b>	<b>1,053,508</b>	<b>1,102,655</b>	<b>1,134,257</b>	<b>1,121,314</b>
Fixed assets (Net block)	833,709	884,198	910,476	891,801
Non-current Investments	20,804	22,885	25,173	27,691
Long-term loans and advances	50,655	46,798	49,691	52,761
Other non-current assets, DTA, Goodwill	148,340	148,774	148,916	149,061
<b>Current assets</b>	<b>535,947</b>	<b>476,537</b>	<b>481,472</b>	<b>549,818</b>
Cash & Current Investment	101,246	116,207	99,119	144,091
Other current assets	434,702	360,331	382,353	405,727
<b>Total (Assets)</b>	<b>1,589,455</b>	<b>1,579,192</b>	<b>1,615,729</b>	<b>1,671,131</b>
Total Debt	805,937	777,147	763,538	757,042
Capital Employed	1,280,379	1,268,371	1,257,102	1,270,331

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before Tax	(13,881)	36,639	24,462	45,950
Depreciation	59,436	61,042	70,246	(74,099)
Change in working capital	39,306	100,247	25,391	18,229
Total tax paid	(23,665)	(22,571)	(13,585)	(17,689)
Others	48,478	43,647	60,305	137,177
<b>Cash flow from oper. (a)</b>	<b>109,673</b>	<b>219,005</b>	<b>166,820</b>	<b>183,127</b>
Capital expenditure	(27,508)	(111,531)	(96,524)	(55,424)
Change in investments	16,384	(2,080)	(2,288)	(2,517)
Others	(7,256)	(140)	(142)	(143)
<b>Cash flow from inv. (b)</b>	<b>(18,380)</b>	<b>(113,752)</b>	<b>(98,954)</b>	<b>(58,084)</b>
<b>Free cash flow (a+b)</b>	<b>91,293</b>	<b>105,253</b>	<b>67,866</b>	<b>125,042</b>
Equity raised/(repaid)	104	956	0	0
Debt raised/(repaid)	(8,918)	(28,790)	(13,609)	(6,496)
Dividend (incl. tax)	(11,355)	(18,095)	(9,809)	(9,809)
Others	(69,669)	(44,363)	(61,535)	(63,765)
<b>Cash flow from fin. (c)</b>	<b>(89,839)</b>	<b>(90,292)</b>	<b>(84,953)</b>	<b>(80,071)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,454</b>	<b>14,961</b>	<b>(17,087)</b>	<b>44,972</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	0.0	(1.7)	9.1	27.0
Growth	(99.9)	(5,358.8)	(635.0)	195.8
CEPS (Rs)	61.2	61.0	81.3	103.1
Book NAV/share (Rs)	346.1	357.1	353.9	368.5
Dividend/share (Rs)	8.0	9.0	9.0	9.0
Dividend payout ratio	(24.0)	46.2	110.5	37.4
EBITDA margin	9.1	9.0	11.4	12.7
EBIT margin	5.4	4.6	6.6	7.9
Tax Rate	101.1	105.2	59.6	40.7
RoCE	5.6	4.4	6.7	8.6
Total debt/Equity (x)	2.3	2.1	2.1	2.0
Net debt/Equity (x)	2.0	1.8	1.8	1.6
<b>Du Pont Analysis - ROE</b>				
Net margin	0.0	(0.1)	0.7	1.9
Asset turnover (x)	0.8	0.8	0.8	0.8
Leverage factor (x)	4.3	4.6	4.6	4.7
Return on equity	0.0	(0.5)	2.6	7.5

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	9,768.1	(131.6)	24.6	8.3
PCE	5.2	3.7	2.8	2.2
Price/Book	0.9	0.6	0.6	0.6
Yield (%)	2.5	4.0	4.0	4.0
EV/EBITDA	8.1	8.1	6.0	4.8

## LARGE CAP

## Share Data

Price (Rs)	887
BSE Sensex	25,776
Reuters code	JSTL.BO
Bloomberg code	JSTLIN
Market cap. (US\$ mn)	3,229
6M avg. daily turnover (US\$ mn)	11.5
Issued shares (mn)	242
Target price (Rs)	825

Performance (%)	1M	3M	12M
Absolute	(3)	2	(27)
Relative	3	2	(20)

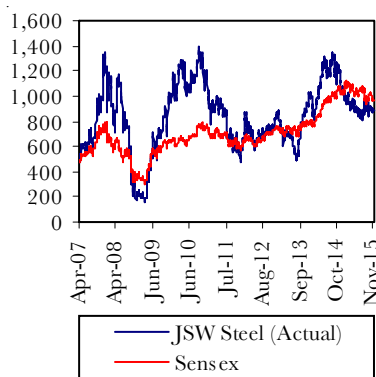
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	63.9	94.3
+/- (%)	1,049.1	47.6
PER (x)	13.9	9.4
PBV (x)	0.9	0.8
Dividend/Yield (%)	0.1	0.1
EV/Sales (x)	1.2	1.0
EV/EBITDA (x)	6.7	5.6

## Major shareholders (%)

Promoters	41
GOI	1
FII's	17
MF's	3
BFSI's	2
Public & Others	36

## Relative performance



## JSW Steel

## Downgrade to Underperformer

## Pure converters play...

## 2QFY16 performance

JSW Steel (standalone) reported operating performance better than our expectation. Higher volumes (3.19 mn tonnes, ~3% better than expectation) and lower raw material incidence (iron ore prices lower than our expectation) are the primary reason for the outperformance. EBITDA came in at Rs 15.6 bn versus our estimate of Rs 13.4 bn. EBITDA per tonne stood at Rs 4,908 (B&K estimate was at Rs 4,318) marginally higher from Rs 4,838/tonne in 1QFY16.

## Other highlights and key takeaways from concalls

**3Q performance:** We expect volume (~2% lower) and realisations (~Rs 500/tonne) to be lower sequentially. However, the fall in EBITDA/tonne would be lower owing to benefits of lower raw material incidence.

**Volume guidance maintained:** JSW is taking planned shutdown in all of its plants during 3Q in phases to increase the capacity to 18 mn tonnes by 4QFY16. However, full year production and sales guidance was maintained at 13.4 mn tonnes and 12.9 mn tonnes, respectively (we have taken 12.6 mn tonnes of sales in FY16).

**Debt and Capex:** The current consolidated net debt stood at ~Rs 390 bn. JSW maintained capex guidance at ~Rs 90 bn in the next couple of years (Rs 52 bn in FY16) to increase Vijayanagar and Dolvi capacity by around ~2 mn tpa each.

## Outlook and valuation

Expansion at Dolvi and Vijayanagar are expected to aid volume driven growth over the next couple of years. Improving integration at Dolvi unit coupled with softening in raw material prices (increasing supplies with opening of more iron ore mines and falling coking coal prices) would augur well for the company. Continuous fall in global steel prices would hurt the profitability of the Indian domestic steel producers in the medium term. The net exports from China has moved up by ~32% YoY (for first 10 months), is a threat to the global steel industry.

Due to continuous pressure on realisation on account of imports and subdued demand, we have reduced our FY16 and FY17 realisation estimates by 3% and 7%, respectively, versus our previous estimates. Consequently, our FY16 and FY17 EBITDA estimates are down by ~22% and ~20%, respectively. We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 16% primarily on account of better volumes and marginally better realisations. On our revised numbers we arrive at a target price of Rs 825 (6.5x FY17E EV/EBITDA and 5.6x FY18E EV/EBITDA).



## JSW Steel

## Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>520,506</b>	<b>454,612</b>	<b>514,119</b>	<b>604,476</b>
Growth (%)	3.3	(12.7)	13.1	17.6
Operating expenses	(435,692)	(393,989)	(428,410)	(503,900)
<b>Operating profit</b>	<b>84,813</b>	<b>60,622</b>	<b>85,709</b>	<b>100,576</b>
Other operating income	9,209	4,425	4,926	4,927
<b>EBITDA</b>	<b>94,023</b>	<b>65,047</b>	<b>90,635</b>	<b>105,503</b>
Growth (%)	2.6	(30.8)	39.3	16.4
Depreciation	(34,345)	(31,362)	(33,426)	(35,205)
Other income	1,114	3,500	3,500	3,501
<b>EBIT</b>	<b>60,792</b>	<b>37,186</b>	<b>60,709</b>	<b>73,800</b>
Finance cost	(34,930)	(33,015)	(35,491)	(37,606)
Exceptional & extraordinary	(471)	0	0	0
<b>Profit before tax</b>	<b>25,391</b>	<b>4,171</b>	<b>25,218</b>	<b>36,194</b>
Tax (current + deferred)	(8,194)	(1,376)	(8,322)	(11,944)
<b>P/(L) for the period</b>	<b>17,197</b>	<b>2,794</b>	<b>16,896</b>	<b>24,250</b>
P/L of Associates, Min Int, Pref Div	769	(1,450)	(1,450)	(1,450)
Reported Profit/(Loss)	17,966	1,344	15,446	22,800
Adjusted net profit	18,437	1,344	15,446	22,800
Growth (%)	(14.8)	(92.7)	1,049.1	47.6

## Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	2,417	2,417	2,417	2,417
Reserves & surplus	219,869	220,320	234,873	256,640
<b>Shareholders' funds</b>	<b>222,286</b>	<b>222,737</b>	<b>237,290</b>	<b>259,057</b>
Minority Interest and others	9,231	9,280	9,331	9,385
<b>Non-current liabilities</b>	<b>375,126</b>	<b>395,484</b>	<b>410,843</b>	<b>431,219</b>
Long-term borrowings	336,766	351,784	361,784	376,784
Other non-current liabilities	38,360	43,700	49,059	54,435
<b>Current liabilities</b>	<b>252,549</b>	<b>192,121</b>	<b>211,399</b>	<b>246,539</b>
ST borrowings, Curr maturity	43,132	43,132	43,132	43,133
Other current liabilities	209,417	148,989	168,267	203,406
<b>Total (Equity and Liab.)</b>	<b>859,192</b>	<b>819,622</b>	<b>868,863</b>	<b>946,200</b>
<b>Non-current assets</b>	<b>671,019</b>	<b>681,201</b>	<b>700,477</b>	<b>722,912</b>
Fixed assets (Net block)	588,562	608,279	615,103	626,398
Non-current Investments	5,990	5,990	5,990	5,990
Long-term loans and advances	55,279	48,281	63,385	74,524
Other non-current assets	21,188	18,652	16,000	16,000
<b>Current assets</b>	<b>188,173</b>	<b>138,421</b>	<b>168,386</b>	<b>223,288</b>
Cash & current investment	19,136	2,900	15,127	43,093
Other current assets	169,038	135,520	153,259	180,195
<b>Total (Assets)</b>	<b>859,192</b>	<b>819,622</b>	<b>868,863</b>	<b>946,200</b>
Total debt	379,898	394,916	404,916	419,917
Capital employed	649,775	670,633	700,596	742,794

## Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	25,391	4,171	25,218	36,194
Depreciation	34,345	31,362	33,426	35,205
Change in working capital	3,193	(16,766)	(13,518)	(3,028)
Total tax paid	(695)	3,639	(668)	(6,943)
Others	33,816	29,515	31,991	34,105
<b>Cash flow from oper. (a)</b>	<b>96,050</b>	<b>51,921</b>	<b>76,449</b>	<b>95,532</b>
Capital expenditure	(70,076)	(51,078)	(40,250)	(46,500)
Change in investments	635	0	0	0
Others	(1,392)	6,036	3,499	3,501
<b>Cash flow from inv. (b)</b>	<b>(70,833)</b>	<b>(45,042)</b>	<b>(36,751)</b>	<b>(42,999)</b>
<b>Free cash flow (a+b)</b>	<b>25,216</b>	<b>6,878</b>	<b>39,698</b>	<b>52,533</b>
Equity raised/(repaid)	(0)	0	0	0
Debt raised/(repaid)	32,277	15,018	10,000	15,001
Dividend (incl. tax)	(3,158)	(3,257)	(140)	(140)
Others	(41,833)	(34,874)	(37,332)	(39,428)
<b>Cash flow from fin. (c)</b>	<b>(12,714)</b>	<b>(23,113)</b>	<b>(27,472)</b>	<b>(24,567)</b>
<b>Net chg in cash (a+b+c)</b>	<b>12,503</b>	<b>(16,235)</b>	<b>12,226</b>	<b>27,966</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	76.3	5.6	63.9	94.3
Growth	(14.8)	(92.7)	1,049.1	47.6
CEPS (Rs)	218.4	135.3	202.2	240.0
Book NAV/share (Rs)	919.6	921.5	981.7	1,071.7
Dividend/share (Rs)	11.0	0.5	0.5	1.0
Dividend payout ratio	18.1	10.4	0.9	1.2
EBITDA margin	18.1	14.3	17.6	17.5
EBIT margin	11.7	8.2	11.8	12.2
Tax rate	31.7	33.0	33.0	33.0
RoCE	9.7	5.6	8.9	10.2
Total debt/Equity (x)	1.7	1.8	1.7	1.6
Net debt/Equity (x)	1.6	1.7	1.6	1.4
<b>Du Pont Analysis - ROE</b>				
Net margin	3.5	0.3	3.0	3.8
Asset turnover (x)	0.6	0.5	0.6	0.7
Leverage factor (x)	3.8	3.8	3.7	3.7
Return on equity	8.5	0.6	6.7	9.2

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	11.9	159.4	13.9	9.4
PCE	4.2	6.6	4.4	3.7
Price/Book	1.0	1.0	0.9	0.8
Yield (%)	1.2	0.1	0.1	0.1
EV/EBITDA	6.2	9.3	6.7	5.6



## MID CAP

## Share Data

Price (Rs)	86
BSE Sensex	25,776
Reuters code	JNSP.BO
Bloomberg code	JSP IN
Market cap. (US\$ mn)	1,190
6M avg. daily turnover (US\$ mn)	12.0
Issued shares (mn)	915

Performance (%)	1M	3M	12M
Absolute	13	27	(42)
Relative	20	27	(36)

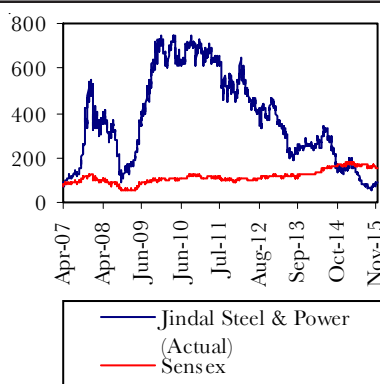
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	(5.1)	10.0
PER (x)	–	8.6
PBV (x)	0.4	0.4
Dividend/Yield (%)	1.2	2.3
EV/Sales (x)	1.9	1.6
EV/EBITDA (x)	9.2	7.1

## Major shareholders (%)

Promoters	62
FII's	17
MF's	1
BFSI's	2
Public & Others	18

## Relative performance



## Jindal Steel &amp; Power

Under Review

## Lack of integration continues to hurt the performance...

## 2QFY16 performance

Jindal Steel & Power (JSPL) reported consolidated EBITDA (Rs 10.1 bn) broadly in line with expectation despite lower revenues. Underperformance of JPL (reported EBITDA of Rs 1.68 bn versus our expectation of Rs 2.56 on account of higher coal cost) was largely compensated by better performance of other subsidiaries.

## Other highlights and key takeaways from concalls

**3Q performance:** We expect 3Q performance to be largely flat to marginally lower. As better volumes/product mix and lower raw material incidence is expected to largely compensate for the fall in realisations. The company is increasing its focus on retail segment to drive the growth.

**Transferring all power assets under one roof:** JSPL board has approved the transfer of 920 MW captive power capacity situated at Angul, Odisha (6x135 MW) and at Raigarh, Chhattisgarh (2x55 MW) to JPL at a fair market value determined by an independent valuer appointed by the Board.

**Opting for 5/25 scheme:** JSPL is looking to re-structure its debt through 5/25 scheme. JPL has already received the necessary approvals.

## Outlook and valuation

Outlook for the steel industry continues to remain weak. The pressure on steel prices due to lower international prices and higher imports coupled with weak domestic demand outlook hurt the profitability of the sector. Ramping up of Angul, Oman and Tamnar II would provide volume led growth to the company going forward. Better utilisations of facilities coupled with the benefits of lower raw material prices are expected to aid the operating performance of the company. Despite, the fundamental volume growth story being intact, it is still difficult to attribute discount to the fair value multiple because of the regulatory concerns and uncertainties. Therefore, we would like to maintain our Under Review stance on the company. As and when some clarity emerges on regulatory front, we would bring the stock back under rating. Given the challenging market scenario, we are reducing our consolidated FY16 and FY17 EBITDA estimates by ~10% and ~12%, respectively. The fall was primarily on account of steel business (lower realisation in both, standalone and Shaded) which was marginally offset by better performance of other subsidiaries (South Africa, Mozambique, Australia, etc). We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 30% primarily on account of better volumes (power and steel) and marginally better realisations in steel business.

## Jindal Steel &amp; Power

Income Statement				
Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>194,007</b>	<b>203,322</b>	<b>265,307</b>	<b>319,807</b>
Growth (%)	(3.0)	4.8	30.5	20.5
Operating expenses	(139,409)	(163,012)	(211,741)	(249,967)
<b>Operating profit</b>	<b>54,598</b>	<b>40,310</b>	<b>53,566</b>	<b>69,841</b>
<b>EBITDA</b>	<b>54,598</b>	<b>40,310</b>	<b>53,566</b>	<b>69,841</b>
Growth (%)	0.1	(26.2)	32.9	30.4
Depreciation	(27,328)	(28,359)	(28,630)	(28,480)
Other income	2,256	3,650	3,150	3,150
<b>EBIT</b>	<b>29,526</b>	<b>15,601</b>	<b>28,086</b>	<b>44,510</b>
Finance cost	(25,837)	(32,589)	(34,390)	(33,680)
Exceptional & extraordinary	(19,116)	0	0	0
<b>Profit before tax</b>	<b>(15,428)</b>	<b>(16,987)</b>	<b>(6,304)</b>	<b>10,831</b>
Tax (current + deferred)	882	3,571	(886)	(4,678)
<b>P/(L) for the period</b>	<b>(14,546)</b>	<b>(13,416)</b>	<b>(7,190)</b>	<b>6,152</b>
P/L of Associates, Min Int, Pref Div	1,765	2,086	2,503	3,004
Reported Profit/(Loss)	(12,781)	(11,330)	(4,686)	9,156
Adjusted net profit	6,335	(11,330)	(4,686)	9,156
Growth (%)	(66.8)	(278.8)	(58.6)	(295.4)

Balance Sheet				
Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Share capital	915	915	915	915
Reserves & surplus	209,506	197,714	192,105	199,415
<b>Shareholders' funds</b>	<b>210,421</b>	<b>198,629</b>	<b>193,020</b>	<b>200,330</b>
Minority Interest and others	8,573	9,430	10,373	11,410
<b>Non-current liabilities</b>	<b>380,056</b>	<b>377,551</b>	<b>369,146</b>	<b>360,846</b>
Long-term borrowings	353,996	349,996	339,996	329,996
Other non-current liabilities	26,061	27,556	29,150	30,850
<b>Current liabilities</b>	<b>156,317</b>	<b>207,709</b>	<b>235,564</b>	<b>260,008</b>
ST borrowings, Curr maturity	101,012	100,645	99,727	98,809
Other current liabilities	55,305	107,064	135,838	161,199
<b>Total (Equity and Liab.)</b>	<b>755,366</b>	<b>793,319</b>	<b>808,103</b>	<b>832,595</b>
<b>Non-current assets</b>	<b>592,043</b>	<b>595,499</b>	<b>600,117</b>	<b>599,983</b>
Fixed assets (Net block)	551,677	555,333	550,558	542,155
Non-current Investments	3,528	3,528	3,528	3,528
Long-term loans and advances	30,885	30,638	39,978	48,190
Other non-current assets	5,954	6,001	6,053	6,110
<b>Current assets</b>	<b>163,323</b>	<b>197,820</b>	<b>207,986</b>	<b>232,612</b>
Cash & current investment	25,715	58,558	23,361	10,061
Other current assets	137,608	139,262	184,624	222,551
<b>Total (Assets)</b>	<b>755,366</b>	<b>793,319</b>	<b>808,103</b>	<b>832,595</b>
Total debt	455,007	450,640	439,723	428,805
Capital employed	700,061	686,255	672,265	671,395

Cash Flow Statement				
Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Profit before tax	(15,428)	(16,987)	(6,304)	10,831
Depreciation	27,328	28,359	28,630	28,480
Change in working capital	19,556	(10,450)	(39,677)	(32,104)
Total tax paid	(46,449)	49,235	13,524	6,907
Others	25,837	32,589	34,390	33,680
<b>Cash flow from oper. (a)</b>	<b>10,845</b>	<b>82,745</b>	<b>30,563</b>	<b>47,794</b>
Capital expenditure	(53,298)	(16,271)	(23,856)	(20,077)
Change in investments	(14,433)	0	0	0
Others	(463)	(47)	(52)	(57)
<b>Cash flow from inv. (b)</b>	<b>(68,194)</b>	<b>(16,317)</b>	<b>(23,908)</b>	<b>(20,134)</b>
<b>Free cash flow (a+b)</b>	<b>(57,349)</b>	<b>66,427</b>	<b>6,655</b>	<b>27,660</b>
Equity raised/(repaid)	5	0	0	0
Debt raised/(repaid)	91,326	(4,367)	(10,918)	(10,918)
Dividend (incl. tax)	(1,385)	0	(462)	(923)
Others	(31,359)	(29,217)	(30,472)	(29,120)
<b>Cash flow from fin. (c)</b>	<b>58,587</b>	<b>(33,584)</b>	<b>(41,852)</b>	<b>(40,961)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,238</b>	<b>32,843</b>	<b>(35,197)</b>	<b>(13,301)</b>

Key Ratios				
Period end (%)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	6.9	(12.4)	(5.1)	10.0
Growth	(66.8)	(278.8)	(58.6)	(295.4)
CEPS (Rs)	36.8	18.6	26.2	41.1
Book NAV/share (Rs)	230.0	217.1	211.0	219.0
Dividend/share (Rs)	0.0	0.5	1.0	2.0
Dividend payout ratio	0.0	(4.1)	(19.7)	20.2
EBITDA margin	28.1	19.8	20.2	21.8
EBIT margin	15.2	7.7	10.6	13.9
Tax rate	129.6	21.0	(14.1)	43.2
RoCE	4.5	2.3	4.1	6.6
Total debt/Equity (x)	2.1	2.2	2.2	2.0
Net debt/Equity (x)	2.0	1.9	2.0	2.0
<b>Du Pont Analysis - ROE</b>				
Net margin	3.3	(5.6)	(1.8)	2.9
Asset turnover (x)	0.3	0.3	0.3	0.4
Leverage factor (x)	3.4	3.8	4.1	4.2
Return on equity	2.9	(5.5)	(2.4)	4.7

Valuations				
Period end (x)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
PER	22.6	(7.0)	(16.9)	8.6
PCE	4.3	4.6	3.3	2.1
Price/Book	0.7	0.4	0.4	0.4
Yield (%)	0.0	0.6	1.2	2.3
EV/EBITDA	10.5	11.7	9.2	7.1

## LARGE CAP

## Share Data

Price (Rs)	44
BSE Sensex	25,776
Reuters code	SAIL.BO
Bloomberg code	SAIL IN
Market cap. (US\$ mn)	2,734
6M avg. daily turnover (US\$ mn)	3.0
Issued shares (mn)	4,130
Target price (Rs)	35

Performance (%)	1M	3M	12M
Absolute	(21)	(13)	(50)
Relative	(16)	(13)	(44)

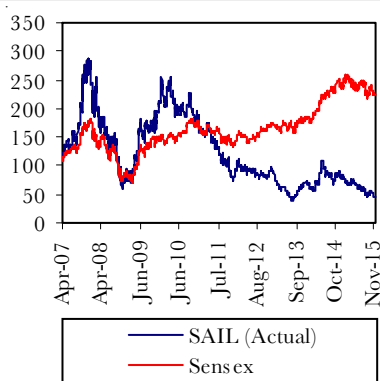
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	0.9	5.5
+/- (%)	-	506.6
PER (x)	48.3	8.0
PBV (x)	0.5	0.5
Dividend/Yield (%)	4.6	4.8
EV/Sales (x)	1.2	1.2
EV/EBITDA (x)	15.6	9.9

## Major shareholders (%)

Promoters	75
FII's	6
MF's	1
BFSI's	15
Public & Others	3

## Relative performance



## Steel Authority of India

Downgrade to SELL

## No respite in sight...

## 2QFY16 performance

Steel Authority of India (SAIL) reported one of the worst operating performance in the last 10 years. The company reported EBITDA losses higher than our expectation at Rs 10.5 bn (B&K expectation was Rs 2.3 bn) primarily due to higher raw material incidence and other expenditure. Raw material incidence came in at 44% versus our expectation of 37.5%. The other expenditure was ~13% higher than our expectation and QoQ. Primarily on account of Rs 2.8 bn DMF provision.

## Other highlights and key takeaways from concalls

**3Q performance:** We expect realisations to be lower by ~Rs 1,000/tonne. Overall, SAIL would continue to make EBITDA losses albeit lower owing to higher volumes and savings on coking coal cost.

**Lowered FY16 guidance:** SAIL has given the production guidance of 14.0 mn tonnes of saleable steel in FY16 a tad lower than previous guidance of 14.5-15.0 mn tonnes as weak demand and rising inventories (3.1 mn tonnes of finished and semi) are hurting the company.

**Debt and Capex:** The net debt as on 2Q end stood Rs 319 bn, ~Rs 22 bn higher sequentially largely on account of capex of ~Rs 17 bn during the quarter. The company plans to spend ~Rs 65 bn, as capex during FY16 (Rs 30 bn spent during 1H) lower than earlier guidance of Rs 75 bn. Most of the facilities have been commissioned (except Bhilai plant which would commission by March 2016).

## Outlook and valuation

Outlook for the steel industry continues to remain weak. The pressure on steel prices is expected to continue; safeguard duty does not seem to be helping given the Chinese HRC prices have fallen by ~10% from the time safeguard duty was implemented to now. Thus, the benefits that the steel companies could have achieved through execution of better volumes (import substitution) and some price increases has all been washed out. A phased commissioning of the new expansions is expected to drive volume going forward for SAIL. The spread between raw material prices and domestic steel prices has narrowed substantially, which is hurting the company's overall performance at present. Given the dismal performance, we have reduced our FY16 and FY17 volume guidance from 13.3 and 15.3 mn tonnes to 11.8 and 14.8 mn tonnes, respectively. We have also reduced our FY16 and FY17 realisations by ~2% and ~4%, respectively. Thus, FY17 EBITDA stands downgraded by 31%. We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 70% (lower base effect) primarily on account of better volumes and marginally better realisations. We continue to remain negative on the SAIL. We thus are downgrading the stock to Sell with a revised target price of Rs 35 (15.3x FY17E EV/EBITDA and 8.9x FY18E EV/EBITDA) from Rs 45 earlier.

## Steel Authority of India

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net Sales</b>	<b>452,081</b>	<b>392,829</b>	<b>490,752</b>	<b>574,013</b>
Growth (%)	(2.1)	(13.1)	24.9	17.0
Operating expenses	(411,451)	(417,879)	(453,979)	(508,548)
<b>Operating profit</b>	<b>40,629</b>	<b>(25,050)</b>	<b>36,773</b>	<b>65,466</b>
Other operating income	5,027	2,500	2,500	2,500
<b>EBITDA</b>	<b>45,656</b>	<b>(22,550)</b>	<b>39,273</b>	<b>67,966</b>
Growth (%)	12.7	-	-	73.1
Depreciation	(17,733)	(17,733)	(20,733)	(23,233)
Other income	10,208	6,618	7,428	7,155
<b>EBIT</b>	<b>38,131</b>	<b>(33,665)</b>	<b>25,968</b>	<b>51,888</b>
Finance Cost	(14,542)	(18,042)	(21,542)	(25,042)
<b>Profit before tax</b>	<b>23,589</b>	<b>(51,708)</b>	<b>4,426</b>	<b>26,846</b>
Tax (current + deferred)	(2,662)	21,480	(664)	(4,027)
<b>P/(L) for the period</b>	<b>20,927</b>	<b>(30,227)</b>	<b>3,762</b>	<b>22,819</b>
Reported Profit/(Loss)	20,927	(30,227)	3,762	22,819
Adjusted Net profit	20,927	(30,227)	3,762	22,819
Growth (%)	7.6	-	-	506.6

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share Capital	41,305	41,305	41,305	41,305
Reserves & surplus	393,743	354,359	348,382	360,598
<b>Shareholders' funds</b>	<b>435,048</b>	<b>395,665</b>	<b>389,688</b>	<b>401,903</b>
<b>Non-Current Liabilities</b>	<b>213,653</b>	<b>271,144</b>	<b>333,746</b>	<b>393,465</b>
Long-term borrowings	140,256	195,256	255,256	312,256
Other Long term liab, Prox, DTL	73,398	75,888	78,490	81,209
<b>Current liabilities</b>	<b>344,568</b>	<b>350,454</b>	<b>372,473</b>	<b>400,014</b>
Short-term borrowings,	158,722	165,722	176,722	183,722
Curr Maturity				
Other Current Liab + Provi	185,846	184,732	195,751	216,292
<b>Total (Equity and Liab.)</b>	<b>993,269</b>	<b>1,017,262</b>	<b>1,095,907</b>	<b>1,195,382</b>
<b>Non-current assets</b>	<b>707,908</b>	<b>779,049</b>	<b>856,258</b>	<b>934,028</b>
Fixed assets (Net block)	653,644	719,128	793,395	867,663
Non-current Investments	9,191	9,283	9,375	9,469
Long-term loans and advances	45,073	50,639	53,487	56,896
<b>Current assets</b>	<b>285,361</b>	<b>238,213</b>	<b>239,649</b>	<b>261,354</b>
Cash & Current Investment	23,052	14,117	1,668	3,593
Other current assets	262,309	224,096	237,981	257,761
<b>Total (Assets)</b>	<b>993,269</b>	<b>1,017,262</b>	<b>1,095,907</b>	<b>1,195,382</b>
Total Debt	298,977	360,977	431,977	495,977
Capital Employed	807,423	832,530	900,155	979,090

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before Tax	23,589	(51,708)	4,426	26,846
Depreciation	17,733	17,733	20,733	23,233
Change in working capital	(11,778)	29,163	(4,467)	(1,638)
Total tax paid	484	22,559	594	(2,707)
Others	6,763	82,093	32,187	37,990
<b>Cash flow from oper. (a)</b>	<b>36,791</b>	<b>30,386</b>	<b>36,613</b>	<b>64,836</b>
Capital expenditure	(64,991)	(81,343)	(92,839)	(95,352)
Change in investments	(1,989)	(92)	(93)	(94)
Others	5,781	3,406	3,916	3,643
<b>Cash flow from inv. (b)</b>	<b>(61,199)</b>	<b>(78,029)</b>	<b>(89,015)</b>	<b>(91,803)</b>
Free cash flow (a+b)	(24,408)	(47,644)	(52,402)	(26,967)
Debt raised/(repaid)	46,163	62,000	71,000	64,000
Dividend (incl. tax)	(8,666)	(6,123)	(9,712)	(9,905)
Others	(18,597)	(17,169)	(21,335)	(25,202)
<b>Cash flow from fin. (c)</b>	<b>18,900</b>	<b>38,708</b>	<b>39,953</b>	<b>28,893</b>
<b>Net chg in cash (a+b+c)</b>	<b>(5,507)</b>	<b>(8,935)</b>	<b>(12,449)</b>	<b>1,925</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	5.1	(7.3)	0.9	5.5
Growth	7.6	-	-	506.6
CEPS (Rs)	9.4	(3.0)	5.9	11.1
Book NAV/share (Rs)	105.3	95.8	94.3	97.3
Dividend/share (Rs)	2.0	2.0	2.0	2.1
Dividend payout ratio	47.4	(32.3)	256.9	44.5
EBITDA margin	10.1	(5.7)	8.0	11.8
EBIT margin	8.4	(8.6)	5.3	9.0
Tax Rate	11.3	41.5	15.0	15.0
RoCE	4.9	(4.1)	3.0	5.5
Total debt/Equity (x)	0.7	0.9	1.1	1.2
Net debt/Equity (x)	0.6	0.9	1.1	1.2
<b>Du Pont Analysis - ROE</b>				
Net margin	4.6	(7.7)	0.8	4.0
Asset turnover (x)	0.5	0.4	0.5	0.5
Leverage factor (x)	2.2	2.4	2.7	2.9
Return on equity	4.9	(7.3)	1.0	5.8

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	13.3	(6.0)	48.3	8.0
PCE	7.2	(14.5)	7.4	3.9
Price/Book	0.6	0.5	0.5	0.5
Yield (%)	3.0	4.6	4.6	4.8
EV/EBITDA	12.1	(23.4)	15.6	9.9

## LARGE CAP

## Share Data

Price (Rs)	92
BSE Sensex	25,776
Reuters code	NMDC.BO
Bloomberg code	NMDC IN
Market cap. (US\$ mn)	5,486
6M avg. daily turnover (US\$ mn)	3.4
Issued shares (mn)	3,965
Target price (Rs)	94

Performance (%)	1M	3M	12M
Absolute	(9)	(2)	(37)
Relative	(3)	(2)	(30)

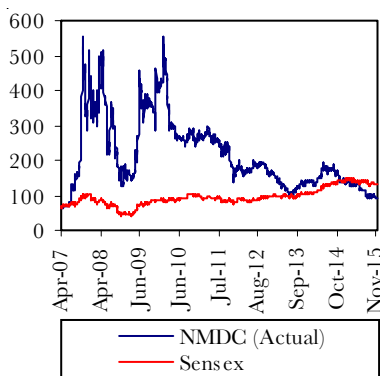
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	10.4	11.6
+/- (%)	5.9	11.6
PER (x)	8.8	7.9
PBV (x)	1.1	1.1
Dividend/Yield (%)	9.5	9.5
EV/Sales (x)	3.3	3.5
EV/EBITDA (x)	6.3	6.3

## Major shareholders (%)

Promoters	80
FII's	4
BFSI's	13
Public & Others	3

## Relative performance



## NMDC

## Maintain Underperformer

## Iron ore prices continue to stay under pressure...

## 2QFY16 performance

Operating performance was lower than our expectations owing to lower realisations (~4%) and higher DMF provisions (Rs 1.36 bn versus our expectation Rs 1 bn). EBITDA stood at Rs 9.02 bn versus our expectation of Rs 9.5 bn (1QFY16 stood at Rs 11.0 bn). This implies an EBITDA/tonne of Rs 1,397 down from Rs 1,658/tonne in 1QFY16 (B&K estimate stood at Rs 1,471/tonne).

## Other highlights and key takeaways from concalls

**3Q expectation:** We expect company to execute higher volumes sequentially. However, operating performance is expected to deteriorate further on account of further fall in realisations.

**Further cuts in lump prices:** The company has reduced the lump prices further by Rs 100/tonne to Rs 2,400/tonne. Fines prices on the other hand has been increased by Rs 100/tonne to Rs 1,560. The cumulative cuts in lump and fines prices since April 1 2015 stood at Rs 650/tonne and Rs 400/tonne, respectively.

## Outlook and valuation

Ramping up of Bailadila 11B, commissioning of Kumaraswamy mines coupled with improving evacuation facilities (slurry pipeline, railways, etc.) would translate into higher volumes going forward. However, outlook for iron ore prices has deteriorated on increasing iron ore capacities globally as well as domestic. This coupled with slowdown of steel production in China would continue to keep the iron ore prices weak domestically. NMDC took fresh cuts in iron ore prices in 3Q. The cumulative cuts in lump and fines prices since April 1 2015 stood at Rs 650/tonne and Rs 400/tonne, respectively, is steeper than our expectation. Given higher than expected fall in realisations, we have cut our blended realisation for FY16 and FY17 by ~8% and ~16%, respectively, against our previous estimates. At the same time owing to slower execution of volumes, we have reduced FY16 and FY17 volumes by 7-8% each. Consequently, our FY16 and FY17 EBITDA stands downward revised by 20% and 28%, respectively. We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 20% primarily on account of better volumes and marginally better realisations. On our revised earnings we arrive at a target price of Rs 94 (6.5x FY17E EV/EBITDA). Maintain Underperformer.



## NMDC

## Income Statement

Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
<b>Net Sales</b>	<b>123,564</b>	<b>76,552</b>	<b>79,632</b>	<b>92,072</b>
<i>Growth (%)</i>	2.5	(38.0)	4.0	15.6
Operating expenses	(45,781)	(36,745)	(37,302)	(41,429)
<b>Operating profit</b>	<b>77,784</b>	<b>39,807</b>	<b>42,330</b>	<b>50,643</b>
<b>EBITDA</b>	<b>77,784</b>	<b>39,807</b>	<b>42,330</b>	<b>50,643</b>
<i>Growth (%)</i>	0.1	(48.8)	6.3	19.6
Depreciation	(1,622)	(1,822)	(1,842)	(1,862)
Other income	22,654	21,000	22,000	22,000
<b>EBIT</b>	<b>98,815</b>	<b>58,985</b>	<b>62,487</b>	<b>70,781</b>
Exceptional & Extraordinary	(1,130)	0	0	0
<b>Profit before tax</b>	<b>97,685</b>	<b>58,985</b>	<b>62,487</b>	<b>70,781</b>
Tax (current + deferred)	(33,467)	(20,072)	(21,264)	(24,792)
<b>P/(L) for the period</b>	<b>64,219</b>	<b>38,913</b>	<b>41,224</b>	<b>45,989</b>
Reported Profit/(Loss)	64,219	38,913	41,224	45,989
Adjusted Net profit	65,349	38,913	41,224	45,989
<i>Growth (%)</i>	2.5	(40.5)	5.9	11.6

## Balance Sheet

Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Share Capital	3,965	3,965	3,965	3,965
Reserves & surplus	319,353	317,571	317,386	321,966
<b>Shareholders' funds</b>	<b>323,317</b>	<b>321,536</b>	<b>321,351</b>	<b>325,931</b>
<b>Non-Current Liabilities</b>	<b>1,491</b>	<b>1,491</b>	<b>1,491</b>	<b>1,491</b>
Other Long term liab, Prov, DTL	1,491	1,491	1,491	1,491
<b>Current liabilities</b>	<b>19,890</b>	<b>12,627</b>	<b>13,135</b>	<b>15,187</b>
Other Current Liab + Provi	19,890	12,627	13,135	15,187
<b>Total (Equity and Liab.)</b>	<b>344,698</b>	<b>335,654</b>	<b>335,977</b>	<b>342,609</b>
<b>Non-current assets</b>	<b>105,747</b>	<b>146,120</b>	<b>196,951</b>	<b>253,776</b>
Fixed assets (Net block)	90,437	130,549	181,105	237,642
Non-current Investments	5,619	5,619	5,619	5,619
Long-term loans and advances	9,691	9,952	10,226	10,514
Current assets	238,951	189,534	139,026	88,833
Cash & Current Investment	184,431	151,293	99,145	43,910
Other current assets	54,520	38,241	39,881	44,924
Total (Assets)	344,698	335,654	335,977	342,609
Capital Employed	324,808	323,027	322,842	327,422

## Cash Flow Statement

Period end (Rs mn)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Profit before Tax	97,685	58,985	62,487	70,781
Depreciation	1,622	1,822	1,842	1,862
Change in working capital	1,947	9,016	(1,132)	(2,991)
Total tax paid	(33,555)	(20,072)	(21,264)	(24,792)
<b>Cash flow from oper. (a)</b>	<b>67,699</b>	<b>49,751</b>	<b>41,934</b>	<b>44,860</b>
Capital expenditure	(26,050)	(42,195)	(52,674)	(58,687)
Change in investments	(3,116)	0	0	0
<b>Cash flow from inv. (b)</b>	<b>(29,166)</b>	<b>(42,195)</b>	<b>(52,674)</b>	<b>(58,687)</b>
<b>Free cash flow (a+b)</b>	<b>38,533</b>	<b>7,556</b>	<b>(10,739)</b>	<b>(13,827)</b>
Dividend (incl. tax)	(40,709)	(40,695)	(41,409)	(41,409)
Others	35	0	0	0
<b>Cash flow from fin. (c)</b>	<b>(40,674)</b>	<b>(40,695)</b>	<b>(41,409)</b>	<b>(41,409)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(2,141)</b>	<b>(33,139)</b>	<b>(52,148)</b>	<b>(55,236)</b>

## Key Ratios

Period end (%)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	16.5	9.8	10.4	11.6
Growth	2.5	(40.5)	5.9	11.6
CEPS (Rs)	16.9	10.3	10.9	12.1
Book NAV/share (Rs)	81.5	81.1	81.1	82.2
Dividend/share (Rs)	8.6	8.6	8.7	8.7
Dividend payout ratio	63.4	104.6	100.4	90.0
EBITDA margin	62.9	52.0	53.2	55.0
EBIT margin	80.0	77.1	78.5	76.9
Tax Rate	33.9	34.0	34.0	35.0
RoCE	31.6	18.2	19.3	21.8
Net debt/Equity (x)	(0.6)	(0.5)	(0.3)	(0.1)
<b>Du Pont Analysis - ROE</b>				
Net margin	52.9	50.8	51.8	49.9
Asset turnover (x)	0.4	0.2	0.2	0.3
Leverage factor (x)	1.1	1.1	1.0	1.0
Return on equity	21.0	12.1	12.8	14.2

## Valuations

Period end (x)	Mar 15P	Mar 16E	Mar 17E	Mar 18E
PER	7.8	9.4	8.8	7.9
PCE	7.6	8.9	8.5	7.6
Price/Book	1.6	1.1	1.1	1.1
Yield (%)	6.6	9.3	9.5	9.5
EV/EBITDA	4.2	5.3	6.3	6.3

## SMALL CAP

## Share Data

Price (Rs)	69
BSE Sensex	25,776
Reuters code	GDPI.BO
Bloomberg code	GODPIIN
Market cap. (US\$ mn)	34
6M avg. daily turnover (US\$ mn)	0.03
Issued shares (mn)	33
Target price (Rs)	71

Performance (%)	1M	3M	12M
Absolute	(10)	6	(52)
Relative	(4)	6	(47)

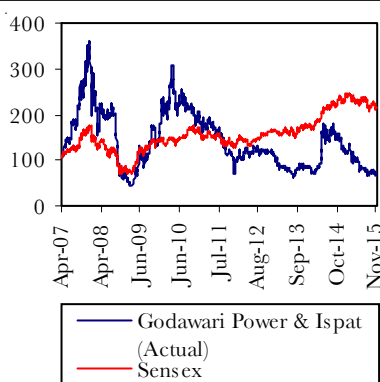
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	(5.0)	6.7
PER (x)	(13.7)	10.3
PBV (x)	0.3	0.3
Dividend/Yield (%)	–	0.7
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	6.9	5.8

## Major shareholders (%)

Promoters	65
MFs	6
BFSTs	1
Public & Others	28

## Relative performance



## Godawari Power &amp; Ispat Downgrade to Underperformer

## Pellet outlook worsening...

## 2QFY16 performance

Godawari Power & Ispat's (GPIL) consolidated operating performance was lower than our expectation. Both standalone as well as subsidiaries underperformed. EBITDA stood at Rs 571 mn (B&K estimate was Rs 680 mn) despite in line revenues. A large part of underperformance can be attributed to poor performance of subsidiaries (Rs 153 mn against our expectation of Rs 228 mn) as Ardent Steel made EBITDA losses (we were expecting EBITDA positive) due to significant fall in pellet prices.

## Other highlights and key takeaways from concalls

**3Q expectation:** We expect largely flat volumes and realization to be lower by ~Rs 550/tonne and Rs 1,000/tonne for pellet and steel, respectively. However, significant increase in captive mining coupled with softening in raw material prices (iron ore as well as coal) would lead to marginally better operating performance.

**Guidance:** The company intends to play volume game and maximise absolute EBITDA (to produce pellet and sponge iron at full capacity). Significant increase in iron ore mining (from 0.45 mn tonnes in FY15 to ~0.8 mn tonnes in FY16) would drive the profitability.

The current debt stood at ~Rs 20 bn (to remain at this level in FY16) with an average cost of ~12%.

## Outlook and valuation

We expect the growth to be primarily driven by better volumes going forward (targeting to ramp up the production and sales of pellets, sponge, billets, etc. to optimum level to maximise EBITDA). Ramping up of Ari Dongri (mining capacity increased from 0.7 mn tpa to 1.4 mn tpa) and Boria Tibu iron ore mine would improve the integration level. However, benefits of captive mine would now be much lower than previously envisages due to fall in merchant iron ore prices and increased costs (DMF, etc.). GPIL derives majority of the profits from its pellet division and savings on captive mining. However, considering the sharp correction in pellet prices and weak outlook we expect margins to remain under pressure on medium term. Given the higher than expected fall in realisation, we have reduced our pellet realisations/tonne from Rs 5,800 to Rs 5,000 for FY16 and from Rs 5,650 to Rs 4,650 for FY17. At the same time, we have also reduced our FY16 and FY17 steel realisations by 6-7% for both the year. Consequently, our FY16 and FY17 EBITDA stands downward revised by 35% and 27%, respectively. We are also introducing our FY18 numbers where we are expecting FY18 EBITDA to grow by 14% primarily on account of better contribution from captive iron ore mining and marginally better realisations.

We are downgrading the stock to Underperformer with a revised target price of Rs 71 (6.9x FY17E EV/EBITDA) from Rs 80 earlier.



## Godawari Power &amp; Ispat

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>23,950</b>	<b>22,935</b>	<b>23,245</b>	<b>24,031</b>
<i>Growth (%)</i>	13.1	(4.2)	1.3	3.4
Operating expenses	(20,368)	(20,336)	(20,147)	(20,506)
<b>Operating profit</b>	<b>3,582</b>	<b>2,600</b>	<b>3,097</b>	<b>3,525</b>
<b>EBITDA</b>	<b>3,582</b>	<b>2,600</b>	<b>3,097</b>	<b>3,525</b>
<i>Growth (%)</i>	3.2	(27.4)	19.1	13.8
Depreciation	(1,182)	(1,233)	(1,232)	(1,141)
Other income	602	210	221	232
<b>EBIT</b>	<b>3,003</b>	<b>1,577</b>	<b>2,086</b>	<b>2,615</b>
Finance cost	(2,237)	(2,333)	(2,349)	(2,296)
<b>Profit before tax</b>	<b>766</b>	<b>(756)</b>	<b>(263)</b>	<b>320</b>
Tax (current + deferred)	(59)	143	37	(92)
<b>P/(L) for the period</b>	<b>707</b>	<b>(613)</b>	<b>(227)</b>	<b>228</b>
P/L of Associates, Min Int, Pref Div	(62)	124	62	(8)
Reported Profit/(Loss)	645	(490)	(165)	220
Adjusted net profit	645	(490)	(165)	220
<i>Growth (%)</i>	11.6	-	-	-

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	328	328	328	328
Reserves & surplus	8,917	8,462	8,309	8,511
<b>Shareholders' funds</b>	<b>9,244</b>	<b>8,790</b>	<b>8,637</b>	<b>8,838</b>
Minority Interest and others	1,671	1,755	1,842	1,935
<b>Non-current liabilities</b>	<b>15,005</b>	<b>14,713</b>	<b>14,121</b>	<b>13,530</b>
Long-term borrowings	14,094	13,794	13,194	12,594
Other non-current liabilities	911	918	927	936
<b>Current liabilities</b>	<b>11,561</b>	<b>11,209</b>	<b>11,085</b>	<b>11,080</b>
ST borrowings, Curr maturity	6,286	6,398	6,291	6,184
Other current liabilities	5,275	4,812	4,795	4,896
<b>Total (Equity and Liab.)</b>	<b>37,481</b>	<b>36,467</b>	<b>35,686</b>	<b>35,383</b>
<b>Non-current assets</b>	<b>26,944</b>	<b>26,646</b>	<b>26,273</b>	<b>25,854</b>
Fixed assets (Net block)	25,897	25,573	25,169	24,716
Non-current Investments	664	664	664	664
Long-term loans and advances	207	216	227	240
Other non-current assets	176	194	213	234
<b>Current assets</b>	<b>10,537</b>	<b>9,821</b>	<b>9,412</b>	<b>9,528</b>
Cash & current investment	1,059	454	429	703
Other current assets	9,478	9,367	8,983	8,826
<b>Total (Assets)</b>	<b>37,481</b>	<b>36,467</b>	<b>35,686</b>	<b>35,383</b>
Total debt	20,380	20,192	19,485	18,778
Capital employed	32,206	31,655	30,891	30,487

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	766	(756)	(263)	320
Depreciation	1,182	1,233	1,232	1,141
Change in working capital	1,903	(359)	356	248
Total tax paid	(49)	125	37	(92)
Others	2,237	2,333	2,349	2,296
<b>Cash flow from oper. (a)</b>	<b>6,038</b>	<b>2,576</b>	<b>3,711</b>	<b>3,912</b>
Capital expenditure	(2,428)	(908)	(828)	(688)
Change in investments	(162)	(1)	(1)	(1)
Others	53	(18)	(19)	(21)
<b>Cash flow from inv. (b)</b>	<b>(2,538)</b>	<b>(927)</b>	<b>(848)</b>	<b>(710)</b>
<b>Free cash flow (a+b)</b>	<b>3,501</b>	<b>1,649</b>	<b>2,862</b>	<b>3,202</b>
Debt raised/(repaid)	(456)	(188)	(707)	(707)
Dividend (incl. tax)	(79)	57	15	(14)
Others	(2,261)	(2,123)	(2,196)	(2,208)
<b>Cash flow from fin. (c)</b>	<b>(2,797)</b>	<b>(2,254)</b>	<b>(2,888)</b>	<b>(2,929)</b>
<b>Net chg in cash (a+b+c)</b>	<b>704</b>	<b>(605)</b>	<b>(26)</b>	<b>273</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	19.7	(14.9)	(5.0)	6.7
Growth	11.6	-	-	-
CEPS (Rs)	55.8	22.7	32.6	41.5
Book NAV/share (Rs)	282.2	268.3	263.7	269.8
Dividend/share (Rs)	1.0	(0.9)	0.0	0.5
Dividend payout ratio	5.9	7.2	7.0	8.2
EBITDA margin	15.0	11.3	13.3	14.7
EBIT margin	12.5	6.9	9.0	10.9
Tax rate	7.7	18.9	13.9	28.7
RoCE	9.4	4.9	6.7	8.5
Total debt/Equity (x)	1.9	1.9	1.9	1.7
Net debt/Equity (x)	1.8	1.9	1.8	1.7
<b>Du Pont Analysis - ROE</b>				
Net margin	2.7	(2.1)	(0.7)	0.9
Asset turnover (x)	0.7	0.6	0.6	0.7
Leverage factor (x)	4.1	4.1	4.1	4.1
Return on equity	7.2	(5.4)	(1.9)	2.5

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	4.9	(4.6)	(13.7)	10.3
PCE	1.7	3.0	2.1	1.7
Price/Book	0.3	0.3	0.3	0.3
Yield (%)	1.0	(1.3)	0.0	0.7
EV/EBITDA	6.3	8.5	6.9	5.8

## SMALL CAP

## Share Data

Price (Rs)	32
BSE Sensex	25,776
Reuters code	MNET.BO
Bloomberg code	MISP IN
Market cap. (US\$ mn)	32
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	66

Performance (%)	1M	3M	12M
Absolute	(13)	12	(58)
Relative	(7)	12	(54)

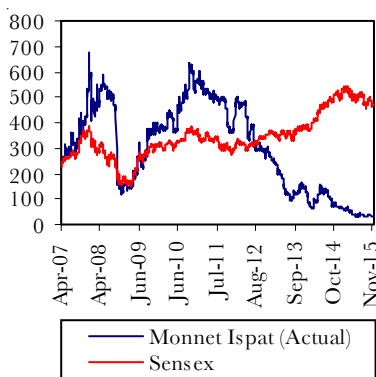
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	(134.2)	(132.8)
PER (x)	(0.2)	(0.2)
PBV (x)	4.5	(0.3)
EV/Sales (x)	3.5	2.5
EV/EBITDA (x)	49.2	28.0

## Major shareholders (%)

Promoters	49
FII's	22
Public & Others	29

## Relative performance



## Monnet Ispat &amp; Energy

Under Review

## Working capital issue hampering ramp-up...

## 2QFY16 performance

Monnet Ispat & Energy (Standalone) reported operating performance lower than our expectations. Underperformance at the revenue level coupled with high raw material incidence adversely impacted the operating performance. The company reported EBITDA loss of Rs 953 mn versus our expectation of EBITDA loss of Rs 515 mn.

## Other highlights

**Working capital constraints:** The company is finding difficult to ramp-up the 1.5 mn tpa steel plant to its optimum capacity owing to dearth of working capital. The current utilisation of the plant is ~40%. Management plans to sell some assets to improve liquidity.

**Strategic Debt Restructuring (SDR):** The Board of Directors have considered accepting SDR scheme where the loans of the bank would be converted into equity shares. This means that the control of the company would eventually go to the lenders.

**Monnet Power stake sale:** Monnet Ispat has signed an MoU with JSW Energy to sell part/full stake in Monnet Power (87.5% stake) which is developing a 1,050 MW (2x525) coal fired thermal power plant at Angul, Orissa. Monnet Ispat had invested ~Rs 6 bn in Monnet Power. Monnet Power has debt of ~Rs 40 bn.

## Outlook and valuation

Subdued demand, rising import pressure coupled with falling prices have taken a toll on the performance of the company. Lack of working capital has forced the company to run at suboptimal utilisation levels which further deteriorated the condition. Monnet is trying to sell 1,050 MW power plant (in advance stage of negotiation with JSW Energy) which if goes through would aid it to reduce the debt at the consolidated level and provide it much needed working capital for steel plant ramp-up. We expect Monnet to report losses at the net level in the near to medium term. Possibility of SDR for steel business (Strategic Debt restructuring) implies management control going into the hands of lenders. Lenders then would have 12 months to sell the assets therefore the clarity on future prospectus of the company is diminishing. Therefore we are withdrawing our Sell rating and keeping the company Under Review until further clarity emerges.

## Monnet Ispat &amp; Energy

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>32,421</b>	<b>25,097</b>	<b>39,597</b>	<b>57,095</b>
Growth (%)	40.8	(22.6)	57.8	44.2
Operating expenses	(31,552)	(27,044)	(36,797)	(52,016)
<b>Operating profit</b>	<b>869</b>	<b>(1,947)</b>	<b>2,800</b>	<b>5,079</b>
<b>EBITDA</b>	<b>869</b>	<b>(1,947)</b>	<b>2,800</b>	<b>5,079</b>
Growth (%)	(77.5)	(324.0)	(243.8)	81.4
Depreciation	(2,884)	(3,587)	(4,620)	(5,719)
Other income	647	439	490	547
<b>EBIT</b>	<b>(1,368)</b>	<b>(5,095)</b>	<b>(1,329)</b>	<b>(93)</b>
Finance cost	(6,705)	(9,122)	(11,505)	(12,850)
Exceptional & extraordinary	(2,559)	0	0	0
<b>Profit before tax</b>	<b>(10,632)</b>	<b>(14,217)</b>	<b>(12,834)</b>	<b>(12,943)</b>
Tax (current + deferred)	1,940	4,553	3,912	4,060
<b>P/(L) for the period</b>	<b>(8,692)</b>	<b>(9,665)</b>	<b>(8,922)</b>	<b>(8,884)</b>
P/L of Associates,	124	54	87	139
Min Int, Pref Div				
Reported Profit/(Loss)	(8,568)	(9,610)	(8,835)	(8,745)
Adjusted net profit	(6,009)	(9,610)	(8,835)	(8,745)
Growth (%)	(1,717.3)	59.9	(8.1)	(1.0)

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	659	659	659	659
Reserves & surplus	18,257	8,647	(188)	(8,931)
<b>Shareholders' funds</b>	<b>18,916</b>	<b>9,305</b>	<b>471</b>	<b>(8,273)</b>
Minority Interest and others	3,048	3,178	3,249	3,324
<b>Non-current liabilities</b>	<b>94,757</b>	<b>95,801</b>	<b>103,847</b>	<b>108,396</b>
Long-term borrowings	93,934	94,934	102,934	107,434
Other non-current liabilities	823	867	913	962
<b>Current liabilities</b>	<b>48,143</b>	<b>45,820</b>	<b>50,915</b>	<b>58,088</b>
ST borrowings, Curr maturity	31,063	33,063	33,563	33,563
Other current liabilities	17,081	12,757	17,353	24,525
<b>Total (Equity and Liab.)</b>	<b>164,864</b>	<b>154,104</b>	<b>158,483</b>	<b>161,535</b>
<b>Non-current assets</b>	<b>141,354</b>	<b>142,774</b>	<b>141,275</b>	<b>137,188</b>
Fixed assets (Net block)	129,403	130,358	128,369	123,768
Non-current Investments	943	990	1,039	1,091
Long-term loans and advances	7,341	7,708	8,093	8,498
Other non-current assets	3,667	3,719	3,773	3,830
<b>Current assets</b>	<b>23,510</b>	<b>11,330</b>	<b>17,208</b>	<b>24,347</b>
Cash & current investment	2,662	983	883	808
Other current assets	20,849	10,347	16,325	23,539
<b>Total (Assets)</b>	<b>164,864</b>	<b>154,104</b>	<b>158,483</b>	<b>161,535</b>
Total debt	124,997	127,997	136,497	140,997
Capital employed	147,783	141,347	141,130	137,010

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	(10,632)	(14,217)	(12,834)	(12,943)
Depreciation	2,884	3,587	4,620	5,719
Change in working capital	5,993	6,755	(1,357)	(15)
Total tax paid	(23)	3,999	3,912	4,060
Others	6,705	9,122	11,505	12,850
<b>Cash flow from oper. (a)</b>	<b>4,927</b>	<b>9,247</b>	<b>5,846</b>	<b>9,670</b>
Capital expenditure	(14,100)	(4,889)	(2,996)	(1,501)
Change in investments	71	(47)	(49)	(52)
Others	76	(52)	(54)	(57)
<b>Cash flow from inv. (b)</b>	<b>(13,952)</b>	<b>(4,988)</b>	<b>(3,099)</b>	<b>(1,610)</b>
<b>Free cash flow (a+b)</b>	<b>(9,025)</b>	<b>4,259</b>	<b>2,747</b>	<b>8,060</b>
Equity raised/(repaid)	(2)	0	0	0
Debt raised/(repaid)	17,629	3,000	8,500	4,500
Dividend (incl. tax)	(211)	0	0	0
Others	(6,997)	(8,938)	(11,346)	(12,635)
<b>Cash flow from fin. (c)</b>	<b>10,419</b>	<b>(5,938)</b>	<b>(2,846)</b>	<b>(8,135)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,394</b>	<b>(1,679)</b>	<b>(100)</b>	<b>(75)</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	(91.3)	(146.0)	(134.2)	(132.8)
Growth	(1,717.3)	59.9	(8.1)	(1.0)
CEPS (Rs)	(47.5)	(91.5)	(64.0)	(46.0)
Book NAV/share (Rs)	287.3	141.3	7.2	(125.6)
EBITDA margin	2.7	(7.8)	7.1	8.9
EBIT margin	(4.2)	(20.3)	(3.4)	(0.2)
Tax rate	24.0	32.0	30.5	31.4
RoCE	(0.9)	(3.5)	(0.9)	(0.1)
Total debt/Equity (x)	6.2	11.9	69.3	(21.0)
Net debt/Equity (x)	6.1	11.8	68.8	(20.9)
<b>Du Pont Analysis - ROE</b>				
Net margin	(18.5)	(38.3)	(22.3)	(15.3)
Asset turnover (x)	0.2	0.2	0.3	0.4
Leverage factor (x)	6.8	11.3	32.0	(41.0)
Return on equity	(25.7)	(68.1)	(180.7)	224.2

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	(0.5)	(0.2)	(0.2)	(0.2)
PCE	(1.1)	(0.3)	(0.5)	(0.7)
Price/Book	0.2	0.2	4.5	(0.3)
EV/EBITDA	144.5	(66.3)	49.2	28.0

## SMALL CAP

## Share Data

Price (Rs)	14
BSE Sensex	25,776
Reuters code	USBL.BO
Bloomberg code	USM IN
Market cap. (US\$ mn)	63
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	305
Target price (Rs)	13

Performance (%)	1M	3M	12M
Absolute	(19)	(12)	(51)
Relative	(14)	(12)	(46)

## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	(9.3)	(6.4)
PER (x)	(1.5)	(2.1)
PBV (x)	0.4	0.4
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	9.9	7.5

## Major shareholders (%)

Promoters	42
FII's	22
MF's	12
BFSI's	3
Public & Others	21

## Relative performance



## Usha Martin

## Maintain Underperformer

## No silver lining in sight; high debt levels a concern...

## 2QFY16 performance

Usha Martin's (USM) consolidated operating performance was below expectation primarily on account of underperformance of standalone business. EBITDA stood at Rs 534 mn much lower than our estimate of ~Rs 1.06 bn. Almost entire underperformance came from subdued standalone EBITDA (Rs 401 mn versus our estimate of Rs 925 mn). Inventory losses to the tune of Rs 178 mn; DMF provision of Rs 186 mn and 23 days shutdown of Blast furnace impacted the operating performance. Net losses stood at Rs (993) mn.

## Other highlights and key takeaways from concalls

**Looking to monetise assets:** The company has identified some additional land and other non-core assets which it intends to sell to garner Rs 2.5 bn over the next 24-30 months time. It has recently sold its 50% stake in JV (flight charter business) for Rs 81 mn.

**Promoters stand firm on capital infusion:** Out of total proposed Rs 1.2 bn equity infusion by promoters, the company has received Rs 300 mn (25% of warrant money). Promoters committed to infuse Rs 600 mn by March 2016 and Rs 300 mn by September 2016.

**Compensation from Kathutia mine yet to come:** Usha Martin is still under active negotiation with Hindalco for Kathautia coal mine compensation (expects to receive Rs 1.85 bn by FY16 end).

**Debt and capex:** The current net debt stood at ~Rs 40 bn almost flat QoQ. The company is negotiating with banks for a moratorium of three years on principal repayment (some banks have already approved). Usha Martin would be spending ~Rs 1 bn in FY16 largely on maintenance and Brinda & Sasai mine (would take 24-30 moths to commission).

## Outlook and valuation

We expect the company to deliver higher volume growth going forward as facilities ramps up (entire expansion project along with pellet plant is up and running). However, subdued domestic demand, falling steel prices and threat of imports coupled with capacity additions by domestic players would keep the margins under pressure in near term. We have reduced our blended realisation by 3-4% for both FY16 and FY17 to reflect the fall in commodity prices. Also, given the temporary shutdown of pellet plant we have reduced the outside pellet sales by 0.4 mn tonnes and 0.15 mn tonnes for FY16 and FY17, respectively, and sold more semi during these years. Consequently our FY16 and FY17 EBITDA stands downward revised by 40% for each of the year. We maintain Underperformer rating with a revised target price of Rs 13 (10x FY17 EV/EBITDA) down from Rs 18 earlier. Maintain Underperformer.

## Usha Martin

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>45,611</b>	<b>43,964</b>	<b>46,975</b>	<b>49,421</b>
Growth (%)	12.0	(3.6)	6.8	5.2
Operating expenses	(38,446)	(40,051)	(42,667)	(43,997)
<b>Operating profit</b>	<b>7,165</b>	<b>3,913</b>	<b>4,308</b>	<b>5,424</b>
<b>EBITDA</b>	<b>7,165</b>	<b>3,913</b>	<b>4,308</b>	<b>5,424</b>
Growth (%)	1.4	(45.4)	10.1	25.9
Depreciation	(4,184)	(4,276)	(4,339)	(4,405)
Other income	370	409	451	498
<b>EBIT</b>	<b>3,351</b>	<b>45</b>	<b>420</b>	<b>1,517</b>
Finance cost	(5,219)	(5,275)	(5,154)	(4,739)
Exceptional & extraordinary	(1,002)	0	0	0
<b>Profit before tax</b>	<b>(2,870)</b>	<b>(5,230)</b>	<b>(4,733)</b>	<b>(3,223)</b>
Tax (current + deferred)	356	1,726	1,562	1,063
<b>P/(L) for the period</b>	<b>(2,514)</b>	<b>(3,504)</b>	<b>(3,171)</b>	<b>(2,159)</b>
P/L of Associates,	(17)	366	317	216
Min Int, Pref Div				
Reported Profit/(Loss)	(2,531)	(3,138)	(2,854)	(1,943)
Adjusted net profit	(1,530)	(3,138)	(2,854)	(1,943)
Growth (%)	(1,529.5)	105.1	(9.0)	(31.9)

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	305	305	305	305
Reserves & surplus	17,285	14,147	11,292	9,369
<b>Shareholders' funds</b>	<b>17,590</b>	<b>14,452</b>	<b>11,598</b>	<b>9,674</b>
Minority Interest and others	315	331	347	365
<b>Non-current liabilities</b>	<b>29,443</b>	<b>29,302</b>	<b>28,399</b>	<b>27,449</b>
Long-term borrowings	27,128	26,928	25,928	24,928
Other non-current liabilities	2,315	2,374	2,471	2,521
<b>Current liabilities</b>	<b>35,707</b>	<b>34,641</b>	<b>36,075</b>	<b>36,798</b>
ST borrowings, Curr maturity	12,797	12,797	12,797	12,797
Other current liabilities	22,909	21,844	23,278	24,001
<b>Total (Equity and Liab.)</b>	<b>83,055</b>	<b>78,726</b>	<b>76,419</b>	<b>74,286</b>
<b>Non-current assets</b>	<b>56,499</b>	<b>53,130</b>	<b>49,748</b>	<b>46,297</b>
Fixed assets (Net block)	55,525	52,158	48,742	45,258
Non-current Investments	5	5	5	5
Long-term loans and advances	352	339	363	382
Other non-current assets	617	627	639	653
<b>Current assets</b>	<b>26,556</b>	<b>25,597</b>	<b>26,672</b>	<b>27,989</b>
Cash & current investment	738	885	267	1,358
Other current assets	25,818	24,712	26,404	26,630
<b>Total (Assets)</b>	<b>83,055</b>	<b>78,726</b>	<b>76,419</b>	<b>74,286</b>
Total debt	39,926	39,726	38,726	37,726
Capital employed	60,146	56,883	53,141	50,285

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	(2,870)	(5,230)	(4,733)	(3,223)
Depreciation	4,184	4,276	4,339	4,405
Change in working capital	(1,414)	71	(257)	511
Total tax paid	(837)	1,714	1,550	1,049
Others	5,219	5,275	5,154	4,739
<b>Cash flow from oper. (a)</b>	<b>4,283</b>	<b>6,106</b>	<b>6,053</b>	<b>7,482</b>
Capital expenditure	(1,254)	(910)	(922)	(922)
Others	(1)	0	0	0
<b>Cash flow from inv. (b)</b>	<b>(1,255)</b>	<b>(910)</b>	<b>(922)</b>	<b>(922)</b>
<b>Free cash flow (a+b)</b>	<b>3,028</b>	<b>5,197</b>	<b>5,131</b>	<b>6,560</b>
Equity raised/(repaid)	(1)	0	0	0
Debt raised/(repaid)	2,607	(200)	(1,000)	(1,000)
Dividend (incl. tax)	0	(0)	0	(19)
Others	(6,851)	(4,849)	(4,748)	(4,450)
<b>Cash flow from fin. (c)</b>	<b>(4,245)</b>	<b>(5,049)</b>	<b>(5,748)</b>	<b>(5,470)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,217)</b>	<b>147</b>	<b>(618)</b>	<b>1,091</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	(5.0)	(10.3)	(9.3)	(6.4)
Growth	(1,529.5)	105.1	(9.0)	(31.9)
CEPS (Rs)	8.7	3.7	4.9	8.1
Book NAV/share (Rs)	56.3	46.0	36.7	30.4
EBITDA margin	15.7	8.9	9.2	11.0
EBIT margin	7.3	0.1	0.9	3.1
Tax rate	47.3	33.0	33.0	33.0
RoCE	5.5	0.1	0.8	2.9
Total debt/Equity (x)	2.2	2.7	3.2	3.8
Net debt/Equity (x)	2.2	2.6	3.2	3.6
<b>Du Pont Analysis - ROE</b>				
Net margin	(3.4)	(7.1)	(6.1)	(3.9)
Asset turnover (x)	0.5	0.5	0.6	0.7
Leverage factor (x)	4.6	5.2	6.1	7.4
Return on equity	(8.2)	(20.1)	(22.6)	(19.0)

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	(4.6)	(1.3)	(1.5)	(2.1)
PCE	2.6	3.7	2.8	1.7
Price/Book	0.4	0.3	0.4	0.4
EV/EBITDA	6.4	11.0	9.9	7.5

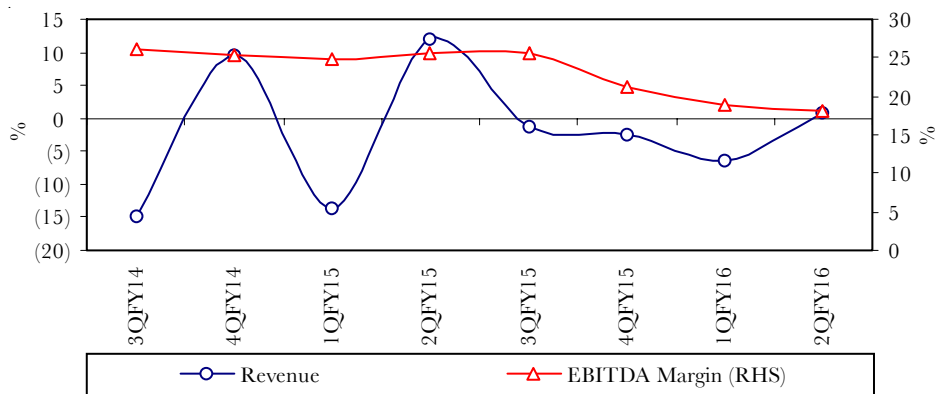
## Non-ferrous

### Performance at a glance

The aggregate revenues grew by ~1% (Ex Hindustan Zinc) despite LME prices in 2Q for aluminium, zinc and lead and copper falling sequentially by 9%,15%,12% and 13%, respectively. Domestic realisations for aluminium, zinc and lead were lower by 2%, 8% and 4%, respectively. Higher volumes (capacity ramping up) coupled with INR depreciation of ~2% aided the revenue growth.

EBITDA margins (ex-Hindustan Zinc) witnessed a fall of 70 bps sequentially primarily on account of lower realisations.

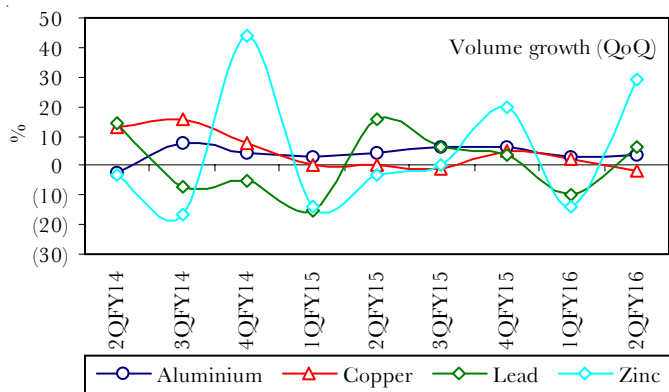
### Revenue and EBITDA margin trend



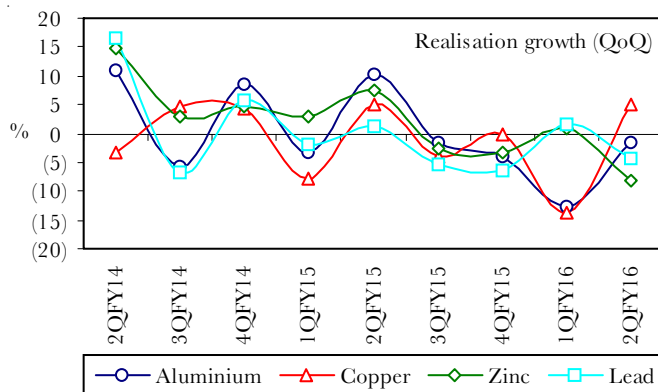
Source: Company, B&K Research

Aggregate aluminium volumes grew by 4% while zinc and lead witnessed growth of 7% and 29%, respectively. Fall in domestic realisation were relatively lower on account of better domestic premiums, improvement in product mix and INR depreciation of 2%.

### Volume growth trend



### Realisation growth trend



Source: Company, B&K Research



## LARGE CAP

## Share Data

Price (Rs)	90
BSE Sensex	25,776
Reuters code	SESA.BO
Bloomberg code	VEDL.IN
Market cap. (US\$ mn)	4,028
6M avg. daily turnover (US\$ mn)	18.5
Issued shares (mn)	2,965
Target price (Rs)	98

Performance (%)	1M	3M	12M
Absolute	(12)	11	(62)
Relative	(6)	11	(58)

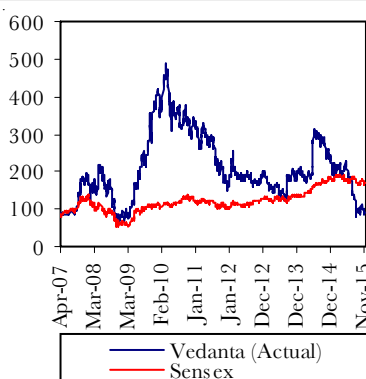
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	9.7	10.7
+/- (%)	(8.3)	10.6
PER (x)	9.3	18.7
PBV (x)	0.5	0.5
Dividend/Yield (%)	2.1	0.0
EV/Sales (x)	0.6	0.6
EV/EBITDA (x)	2.4	2.3

## Major shareholders (%)

Promoters	60
FII's	22
MF's	3
BFSI's	5
Public & Others	10

## Relative performance



## Vedanta

## Maintain Outperformer

## Weaker commodity prices hurt profitability...

## 2QFY16 performance

Vedanta reported operating performance below our expectations. EBITDA came in at Rs 40 bn versus our expectation of Rs 43.7 bn. Large part of the underperformance was largely due to the aluminium (marred by lower realisations and premia and higher costs) and oil & gas division (higher profit petroleum) which was partially negated by better performance of Zinc India (lower than expected DMF and employee expenses) and power business (higher than expected units generated at lower costs).

## Other highlights and key takeaways from concalls

## Zinc India business

- Mr Sunil Duggal has been appointed as new CEO. He is with Hindustan Zinc (HZ) since 2010 and has experience of ~30 years. Prior to joining HZ, he was working at Ambuja Cements as President.
- As per media report, Rajasthan government has cancelled 601 mining leases. HZ management assured that none of their mines (even those with prospecting licence) is affected.

## Zinc International business

- Mine metal production would gradually decline on account of gradual closure of Lisheen mine by November 2015. The company maintained volume guidance of 220,000-230,000 tonnes with an estimated cost of production of US\$ 1,450-1,500/tonne.
- FY16 capex has been slashed from US\$ 80 to US\$ 40 which would lead to some delays in project commissioning.

**Iron ore business:** Iron ore shipment from Goa has started. At current prices, Goa operations would be break-even only. VEDL has requested the government to reduce taxes (cumulative taxes are ~40% of selling price) to make operations profitable. The CoP in Goa is ~US\$ 20/tonne.

## Aluminium business

- The company is going slow on ramping up of pots given the tough economic environment. Start-up of additional pots at Balco II was put on hold. While Jharsuguda II 312,000 tonne first line was delayed till 3QFY16.
- Management has lowered the aluminium volume guidance for FY16 to 0.9 mn tonnes from over 1.0 mn tonnes a quarter ago.
- The company has temporarily shut high cost rolling facility at Balco which is expected to save Rs 600 mn annually (from FY17). Vedanta has also reduced Lanjigarh capacity by ~20% to 0.8 mn tonnes on Bauxite unavailability. The current cost of production at Jharsuguda and Balco is ~US\$ 1,600 and ~1,675/tonne, respectively.
- Management expect Chotia coal block to start producing from in the next two-three weeks. Gare Palma IV/I coal block is still awaiting resolution.



**Power business**

- Talwandi Saboo (660 MW x 3): 1 Unit has operated at ~80% availability. Management expects second unit to commission by end 3QFY16 and third and final unit to commission in 4QFY16.
- Coal availability for IPP is still an issue. The company has procured 41% from linkage; 34% from e-auction and 25% imports (8-12% fall in import prices) during the quarter.

**Debt**

- The net debt has reduced to Rs 271 bn from Rs 324 bn a quarter ago on account of higher cash flows from operations and release of working capital.
- The company would be refinancing US\$ 1.5 bn in FY16 (US\$ 0.5 bn already committed; US\$ 0.9 bn has in principal approval). The average cost of debt has come off by 30 bps largely on account of reduction in spreads on bank loans.

**Update on Cairn Vedanta merger:** Approvals from stock exchanges have been received. The management indicated they are in constant touch with the concerned parties and remains optimistic about the merger to go through.

**Outlook and valuation**

We expect volume growth across major business segments. Ramping up of new smelters in aluminium business (both Balco 0.375 mn tpa and Jharsuguda II – 1.25 mn tpa), re-starting of iron ore mining in Karnataka and Goa (meaningful contribution from 2HFY16 only) and commissioning of 1,980 MW (660\*3) power plant at Talwandi Sabo would fuel the volume growth for Vedanta in FY16 and FY17. The Cairn merger with Vedanta is still awaiting shareholders approval, which we think is the biggest hurdle for the deal to go through. We remain cautious on the commodity price outlook, thus Vedanta's consolidated earnings would stay exposed to this risk. We maintain our Outperformer rating on the stock with a target price of Rs 98 (3.2x FY17E attributable EV/EBITDA).

## Vedanta

## Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>737,095</b>	<b>722,586</b>	<b>785,124</b>	<b>885,060</b>
Growth (%)	11.4	(2.0)	8.7	12.7
Operating expenses	(516,650)	(527,949)	(586,059)	(669,807)
<b>Operating profit</b>	<b>220,446</b>	<b>194,637</b>	<b>199,065</b>	<b>215,253</b>
Other operating income	0	11,546	11,547	11,760
<b>EBITDA</b>	<b>220,446</b>	<b>206,183</b>	<b>210,612</b>	<b>227,013</b>
Growth (%)	12.7	(6.5)	2.1	7.8
Depreciation	(71,592)	(81,853)	(89,380)	(94,150)
Other income	29,772	32,500	35,000	35,001
<b>EBIT</b>	<b>178,626</b>	<b>156,829</b>	<b>156,232</b>	<b>167,864</b>
Finance cost	(56,588)	(68,110)	(73,154)	(78,963)
Exceptional & extraordinary	(221,289)	0	0	0
<b>Profit before tax</b>	<b>(99,251)</b>	<b>88,719</b>	<b>83,078</b>	<b>88,901</b>
Tax (current + deferred)	(14,484)	(11,534)	(10,800)	(11,557)
<b>P/(L) for the period</b>	<b>(113,735)</b>	<b>77,186</b>	<b>72,278</b>	<b>77,344</b>
P/L of Associates, Min Int, Pref Div	(42,723)	(45,909)	(43,608)	(45,648)
Reported Profit/(Loss)	(156,458)	31,277	28,670	31,696
Adjusted net profit	64,832	31,277	28,670	31,696
Growth (%)	0.3	(51.8)	(8.3)	10.6

## Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	2,965	2,965	2,965	2,965
Reserves & surplus	535,788	559,933	582,064	569,022
<b>Shareholders' funds</b>	<b>538,753</b>	<b>562,898</b>	<b>585,029</b>	<b>571,987</b>
Minority interests and others	355,297	373,062	391,715	411,301
<b>Non-current liabilities</b>	<b>589,219</b>	<b>581,747</b>	<b>575,406</b>	<b>569,234</b>
Long-term borrowings	520,252	510,252	500,252	490,252
Other non-current liabilities	68,967	71,495	75,154	78,982
<b>Current liabilities</b>	<b>419,555</b>	<b>421,992</b>	<b>439,133</b>	<b>464,327</b>
ST borrowings, curr maturity	257,271	256,159	255,047	253,934
Other current liabilities	162,284	165,834	184,086	210,392
<b>Total (equity and liab.)</b>	<b>1,902,824</b>	<b>1,939,699</b>	<b>1,991,283</b>	<b>2,016,849</b>
<b>Non-current assets</b>	<b>1,276,246</b>	<b>1,254,709</b>	<b>1,274,928</b>	<b>1,301,805</b>
Fixed assets (net block)	910,661	892,178	898,389	903,617
Non-current investments	2,134	2,134	2,134	2,134
Long-term loans and adv.	164,531	160,914	174,332	195,360
Other non-current assets	198,920	199,482	200,073	200,693
<b>Current assets</b>	<b>626,579</b>	<b>684,990</b>	<b>716,355</b>	<b>715,044</b>
Cash & current investment	450,889	509,205	525,357	499,734
Other current assets	175,690	175,785	190,998	215,310
<b>Total (assets)</b>	<b>1,902,824</b>	<b>1,939,699</b>	<b>1,991,283</b>	<b>2,016,849</b>
Total debt	777,523	766,411	755,299	744,186
Capital employed	1,740,540	1,773,865	1,807,197	1,806,457

Note: Merged numbers are from FY14 onwards

## Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>(99,251)</b>	<b>88,719</b>	<b>83,078</b>	<b>88,901</b>
Depreciation	71,592	81,853	89,380	94,150
Change in working capital	(60,467)	18,409	(8,494)	(17,087)
Total tax paid	(10,340)	(13,701)	(9,052)	(9,722)
Others	26,816	35,610	38,154	43,962
<b>Cash flow from oper. (a)</b>	<b>(71,650)</b>	<b>210,890</b>	<b>193,066</b>	<b>200,204</b>
Capital expenditure	(70,820)	(62,715)	(96,246)	(100,034)
Change in investments	(16,965)	0	0	0
Others	70,024	31,938	34,410	34,382
<b>Cash flow from inv. (b)</b>	<b>(17,760)</b>	<b>(30,777)</b>	<b>(61,836)</b>	<b>(65,652)</b>
<b>Free cash flow (a+b)</b>	<b>(89,410)</b>	<b>180,113</b>	<b>131,230</b>	<b>134,552</b>
Equity raised/(repaid)	(199,650)	0	0	0
Debt raised/(repaid)	(28,137)	(11,112)	(11,112)	(11,112)
Dividend (incl. tax)	(14,343)	(14,126)	(6,541)	0
Others	311,662	(96,559)	(97,425)	(149,062)
<b>Cash flow from fin. (c)</b>	<b>69,532</b>	<b>(121,796)</b>	<b>(115,078)</b>	<b>(160,174)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(19,878)</b>	<b>58,316</b>	<b>16,152</b>	<b>(25,623)</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	21.9	10.5	9.7	10.7
Growth	0.3	(51.8)	(8.3)	10.6
CEPS (Rs)	46.0	38.2	39.8	42.4
Book NAV/share (Rs)	181.7	189.9	197.3	192.9
Dividend/share (Rs)	4.1	2.1	1.9	0.0
Dividend payout ratio	(10.3)	22.8	22.8	0.0
EBITDA margin	29.9	28.5	26.8	25.6
EBIT margin	24.2	21.7	19.9	19.0
Tax rate	11.9	13.0	13.0	13.0
RoCE	9.7	8.9	8.7	9.3
Total debt/Equity (x)	0.9	0.8	0.8	0.8
Net debt/Equity (x)	0.4	0.3	0.2	0.2
<b>Du Pont Analysis - ROE</b>				
Net margin	8.8	4.3	3.7	3.6
Asset turnover (x)	0.4	0.4	0.4	0.4
Leverage factor (x)	3.2	3.5	3.4	3.5
Return on equity	10.2	5.7	5.0	5.5

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	8.7	8.6	9.3	18.7
PCE	4.1	2.4	2.3	2.1
Price/Book	1.0	0.5	0.5	0.5
Yield (%)	2.2	2.3	2.1	0.0
EV/EBITDA	4.0	2.5	2.4	2.3

## LARGE CAP

## Share Data

Price (Rs)	74
BSE Sensex	25,776
Reuters code	HALC.BO
Bloomberg code	HNDL IN
Market cap. (US\$ mn)	2,289
6M avg. daily turnover (US\$ mn)	11.9
Issued shares (mn)	2,065
Target price (Rs)	70

Performance (%)	1M	3M	12M
Absolute	(14)	(6)	(56)
Relative	(8)	(7)	(51)

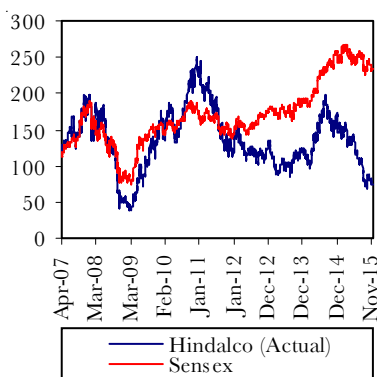
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	9.9	17.0
+/- (%)	159.1	71.3
PER (x)	7.4	4.3
PBV (x)	0.4	0.3
Dividend/Yield (%)	2.0	2.0
EV/Sales (x)	0.7	0.6
EV/EBITDA (x)	6.8	5.5

## Major shareholders (%)

Promoters	37
FII's	29
MF's	2
BFSS's	16
Public & Others	16

## Relative performance



## Hindalco

## Maintain Underperformer

## Falling LME a concern...

## 2QFY16 performance

Hindalco standalone reported operating performance lower than our expectation (EBITDA came in at Rs 6.03 bn versus our expectation of Rs 7.7 bn) primarily due to higher raw material bill and higher other expenditure. Novelis posted sequentially better adjusted EBITDA of US\$ 182 mn in 2QFY16 primarily led by lower one-offs on account of price (metal) fluctuations (US\$ 53 mn in 2Q against US\$ 85 mn in 1Q on account of metal price lag). The EBITDA/tonne stood at US\$ 231/tonne versus US\$ 165/tonne in 1Q (2QFY15 stood at US\$ 301/tonne).

## Other highlights and key takeaways from mgmt discussion

## Aluminium volumes to improve despite mothballing inefficient old capacity:

The company expects domestic aluminium business to report better volumes going forward (ramping up relatively low cost of Mahan and Aditya). Hindalco has shut 1 line representing ~85,000 tonne pa at Hirakud facility.

**Novelis:** Metal premium lag impacted EBITDA by US\$ 53 mn in 2Q. The company has absorbed a large part of the metal lag hit. However, marginal effect would flow in 2H result also. Higher use of recycled material and increased contribution from automotive segment is expected to drive the profitability.

**Debt and capex:** Major domestic capex have been completed (except on recently acquired coal mines). Novelis would do an annual capex of US\$ 400 mn in FY16.

## Outlook and valuation

Aluminium realisations (premia included) have come off substantially since March 2015 which would meaningfully impact the profitability of Hindalco. Though, we expect ramping up of new facilities (Mahan, Aditya and Utkal) to drive the volume led growth, the profitability would be negligible at current LME (including premia) and increased coal cost (~30% of capacity backed by coal blocks won in auction at an average premium of ~Rs 3,000/tonne). Higher TC/RC charges for copper would provide some support to the performance of the company. Novelis performance was also impacted by sharp decline in premia (partial hit to come in 2H as well). We expect company to report better YoY volumes. Majority of premia hit have already factored in and we expect 2H EBITDA/tonne to be better. We have reduced our standalone FY17 aluminium realisation by US\$ 50/tonne. We have also changed our FY16 and FY17 INR to 65 from 64 previously. We are not changing our Novelis estimates. After factoring in all our FY16 EBITDA has increased by ~3% while FY17 EBITDA grew by ~1% only. We are introducing our FY18 estimated where we are assuming higher realisation at US\$ 1650 (US\$ 100/tonne better YoY) along with ~50,000 tonnes higher volumes YoY. In Novelis we have taken ~5% higher volumes. The EBITDA/tonne is expected to be better at US\$ 308 against US\$ 269 in FY17 on account of better volumes and improved product mix. We are valuing the company on FY17 earnings and maintaining Underperformer rating on the stock with a target price of Rs 70 (6.8x FY17E EV/EBITDA).

## Hindalco

## Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>1,035,374</b>	<b>1,020,897</b>	<b>1,055,866</b>	<b>1,134,724</b>
Growth (%)	18.7	(1.4)	3.4	7.5
Operating expenses	(953,365)	(934,538)	(948,713)	(1,003,146)
<b>Operating profit</b>	<b>82,009</b>	<b>86,359</b>	<b>107,153</b>	<b>131,578</b>
Other operating income	7,437	0	0	0
<b>EBITDA</b>	<b>89,446</b>	<b>86,359</b>	<b>107,153</b>	<b>131,578</b>
Growth (%)	7.9	(3.5)	24.1	22.8
Depreciation	(35,906)	(40,788)	(42,904)	(46,900)
Other income	11,047	9,341	9,156	9,339
<b>EBIT</b>	<b>64,587</b>	<b>54,912</b>	<b>73,404</b>	<b>94,016</b>
Finance cost	(41,784)	(45,968)	(49,692)	(53,432)
Exceptional & extraordinary	(19,401)	0	0	0
<b>Profit before tax</b>	<b>3,402</b>	<b>8,944</b>	<b>23,712</b>	<b>40,584</b>
Tax (current + deferred)	(2,564)	(1,178)	(3,352)	(5,591)
<b>P/(L) for the period</b>	<b>838</b>	<b>7,766</b>	<b>20,360</b>	<b>34,993</b>
P/L of Associates, Min Int, Pref Div	7,704	161	177	195
Reported Profit/(Loss)	8,542	7,927	20,538	35,189
Adjusted net profit	27,943	7,927	20,538	35,189
Growth (%)	8.7	(71.6)	159.1	71.3

## Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	2,065	2,065	2,065	2,065
Reserves & surplus	381,220	385,430	402,250	433,722
<b>Shareholders' funds</b>	<b>383,285</b>	<b>387,495</b>	<b>404,316</b>	<b>435,787</b>
Minority interests and others	9,561	10,517	11,569	12,726
<b>Non-current liabilities</b>	<b>667,116</b>	<b>660,495</b>	<b>677,116</b>	<b>681,085</b>
Long-term borrowings	553,862	558,862	563,862	568,862
Other non-current liabilities	113,255	101,634	113,255	112,223
<b>Current liabilities</b>	<b>371,426</b>	<b>375,780</b>	<b>386,916</b>	<b>410,617</b>
ST borrowings, curr maturity	130,188	120,798	126,100	132,992
Other current liabilities	241,238	254,982	260,816	277,625
<b>Total (equity and liab.)</b>	<b>1,431,389</b>	<b>1,434,288</b>	<b>1,479,917</b>	<b>1,540,214</b>
<b>Non-current assets</b>	<b>955,581</b>	<b>985,952</b>	<b>1,005,104</b>	<b>1,016,895</b>
Fixed assets (net block)	729,098	759,800	778,153	788,140
Non-current investments	57,264	57,264	57,264	57,264
Long-term loans and adv.	23,687	23,355	24,155	25,959
Other non-current assets	145,532	145,532	145,532	145,532
<b>Current assets</b>	<b>475,808</b>	<b>448,336</b>	<b>474,812</b>	<b>523,319</b>
Cash & current investment	119,289	110,915	111,369	129,624
Other current assets	356,519	337,421	363,443	393,695
<b>Total (assets)</b>	<b>1,431,389</b>	<b>1,434,288</b>	<b>1,479,917</b>	<b>1,540,214</b>
Total debt	684,050	679,660	689,961	701,853
Capital employed	1,190,151	1,179,306	1,219,100	1,262,589

## Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>3,402</b>	<b>8,944</b>	<b>23,712</b>	<b>40,584</b>
Depreciation	35,906	40,788	42,904	46,900
Change in working capital	13,808	27,935	(10,651)	(16,165)
Total tax paid	(9,551)	(9,608)	(3,352)	(5,591)
Others	30,737	36,627	40,536	44,093
<b>Cash flow from oper. (a)</b>	<b>74,301</b>	<b>104,686</b>	<b>93,150</b>	<b>109,822</b>
Capital expenditure	(47,202)	(65,622)	(61,257)	(56,887)
Change in investments	6,147	0	0	0
Others	11,047	9,341	9,156	9,339
<b>Cash flow from inv. (b)</b>	<b>(30,008)</b>	<b>(56,281)</b>	<b>(52,102)</b>	<b>(47,548)</b>
<b>Free cash flow (a+b)</b>	<b>44,294</b>	<b>48,405</b>	<b>41,049</b>	<b>62,273</b>
Equity raised/(repaid)	1,721	0	0	0
Debt raised/(repaid)	37,098	(4,390)	10,302	11,892
Dividend (incl. tax)	(2,495)	(6,255)	(3,717)	(3,717)
Others	(77,741)	(46,134)	(47,179)	(52,194)
<b>Cash flow from fin. (c)</b>	<b>(41,417)</b>	<b>(56,779)</b>	<b>(40,595)</b>	<b>(44,019)</b>
<b>Net change in cash (a+b+c)</b>	<b>2,877</b>	<b>(8,374)</b>	<b>454</b>	<b>18,254</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	13.5	3.8	9.9	17.0
Growth	8.7	(71.6)	159.1	71.3
CEPS (Rs)	30.9	23.6	30.7	39.7
Book NAV/share (Rs)	185.6	187.6	195.8	211.0
Dividend/share (Rs)	1.0	1.5	1.5	1.5
Dividend payout ratio	30.4	46.9	18.1	10.6
EBITDA margin	8.6	8.5	10.1	11.6
EBIT margin	6.2	5.4	7.0	8.3
Tax rate	11.2	13.2	14.1	13.8
RoCE	5.5	4.6	6.1	7.6
Total debt/Equity (x)	1.7	1.7	1.7	1.6
Net debt/Equity (x)	1.4	1.4	1.4	1.3
<b>Du Pont Analysis - ROE</b>				
Net margin	2.7	0.8	1.9	3.1
Asset turnover (x)	0.7	0.7	0.7	0.8
Leverage factor (x)	3.6	3.7	3.7	3.6
Return on equity	7.1	2.1	5.2	8.4

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	9.5	19.2	7.4	4.3
PCE	4.2	3.1	2.4	1.9
Price/Book	0.7	0.4	0.4	0.3
Yield (%)	0.8	2.0	2.0	2.0
EV/EBITDA	9.3	8.3	6.8	5.5

## LARGE CAP

## Share Data

Price (Rs)	142
BSE Sensex	25,776
Reuters code	HZNC.BO
Bloomberg code	HZ IN
Market cap. (US\$ mn)	9,006
6M avg. daily turnover (US\$ mn)	2.1
Issued shares (mn)	4,225
Target price (Rs)	160

Performance (%)	1M	3M	12M
Absolute	(10)	17	(15)
Relative	(4)	17	(6)

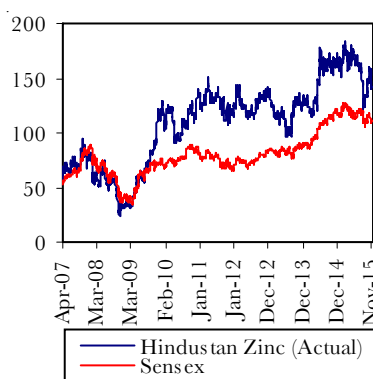
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	19.8	20.9
+/- (%)	(3.7)	5.5
PER (x)	7.1	6.8
PBV (x)	1.1	1.0
Dividend/Yield (%)	4.2	4.2
EV/Sales (x)	1.3	0.9
EV/EBITDA (x)	2.7	2.0

## Major shareholders (%)

Promoters	65
GOI	30
FII's	2
MF's	1
BFSI's	1
Public & Others	1

## Relative performance



## Hindustan Zinc

## Maintain Outperformer

## Volume driven growth...

## 2QFY16 performance

Hindustan Zinc's (HZ) operating performance was better than our expectations on account of better zinc and lead realisations; higher than expected by-products contribution and DMF write-backs (Rs 1.4 bn versus our expectation of Rs 970 mn). EBITDA came in at Rs 21.6 bn versus our expectation of Rs 16.7 bn.

## Other highlights and key takeaways from concalls

**Management changes:** Mr Sunil Duggal has been appointed as new CEO. He is with HZ since 2010 and has experience of ~30 years. Prior to joining HZ, he was working at Ambuja Cements as President.

**Guidance:** The company maintained the volume guidance of over 0.9 mn tonnes of metal in FY16 and ~1.0 mn tonnes in FY17 backed by increase in the mining capacity of Kayad, Sindesar Khurd and Zawar mines. Silver production guidance was maintained at 350-400 tonnes in FY16. Cost of production is expected to remain stable.

**Lowered capex guidance:** The company would spend ~US\$ 200-225 mn annually on expansion plan lower than previously envisaged capex of ~US\$ 250 mn p.a.

## Outlook and valuation

Better volumes backed by expansion of mines (SK, Zawar, Kayad and Rajpur Dariba) would drive the next leg of growth. We believe that the concerns on slowdown in China would keep the commodity prices under pressure over the medium-term. Though divestment by GoI remains an inflection point for the stock, considering the improved government finances (aided by low crude price), we do not expect this to happen anytime soon. The stock has already reached our target price of Rs 152 (recommended Outperformer at Rs 122). We have reduced our zinc realisation for FY16 and FY17 from US\$ 1,955 and US\$ 1,845 to US\$ 1,810 and US\$ 1,600, respectively. Lead realisations were also reduced to US\$ 1,750 and US\$ 1,650 from US\$ 1,805 and 1,750 for FY16 and FY17, respectively. We have changed our INR/US\$ assumption from 64.5 to 65. After factoring for everything, our FY16 and FY17 EBITDA came down by ~1% and ~8%, respectively. We have also introduced our FY18 estimates where we are taking almost flat volumes with zinc and lead realisations of US\$ 1,700 and US\$ 1,750, respectively. At the current market price, we believe most positives are factored in and upside is limited. We are valuing the company on FY17 earnings and maintaining our Outperformer rating with a target price of Rs 160 (3.8x FY17E EV/EBITDA and 3.0x FY18E EV/EBITDA).



## Hindustan Zinc

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>147,884</b>	<b>158,495</b>	<b>155,243</b>	<b>166,024</b>
Growth (%)	8.5	7.2	(2.1)	6.9
Operating expenses	(73,688)	(80,153)	(83,288)	(88,143)
Operating profit	74,196	78,342	71,956	77,881
<b>EBITDA</b>	<b>74,196</b>	<b>78,342</b>	<b>71,956</b>	<b>77,881</b>
Growth (%)	7.5	5.6	(8.2)	8.2
Depreciation	(6,442)	(7,191)	(7,542)	(8,122)
Other income	28,211	30,000	33,000	33,000
<b>EBIT</b>	<b>95,964</b>	<b>101,151</b>	<b>97,414</b>	<b>102,759</b>
Finance cost	(235)	(120)	(126)	(132)
Exceptional & extraordinary	(28)	0	0	0
<b>Profit before tax</b>	<b>95,701</b>	<b>101,031</b>	<b>97,288</b>	<b>102,627</b>
Tax (current + deferred)	(13,921)	(14,144)	(13,620)	(14,368)
<b>P/(L) for the period</b>	<b>81,780</b>	<b>86,887</b>	<b>83,667</b>	<b>88,259</b>
Reported Profit/(Loss)	81,780	86,887	83,667	88,259
Adjusted net profit	81,808	86,887	83,667	88,259
Growth (%)	18.5	6.2	(3.7)	5.5

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	8,451	8,451	8,451	8,451
Reserves & surplus	425,080	487,249	541,255	599,853
<b>Shareholders' funds</b>	<b>433,531</b>	<b>495,700</b>	<b>549,706</b>	<b>608,303</b>
<b>Non-current liabilities</b>	<b>26,507</b>	<b>27,497</b>	<b>28,451</b>	<b>29,456</b>
Long-term borrowings	1,321	1,321	1,321	1,321
Other non-current liabilities	25,186	26,176	27,130	28,135
<b>Current liabilities</b>	<b>29,882</b>	<b>31,616</b>	<b>32,596</b>	<b>33,974</b>
Other current liabilities	29,882	31,616	32,596	33,974
<b>Total (equity and liab.)</b>	<b>489,920</b>	<b>554,813</b>	<b>610,752</b>	<b>671,734</b>
<b>Non-current assets</b>	<b>157,882</b>	<b>171,927</b>	<b>183,455</b>	<b>201,493</b>
Fixed assets (net block)	114,509	125,441	137,923	152,800
Long-term loans and advances	43,373	46,485	45,532	48,693
<b>Current assets</b>	<b>332,038</b>	<b>382,886</b>	<b>427,298</b>	<b>470,240</b>
Cash & current investment	307,851	358,637	403,411	444,734
Other current assets	24,187	24,248	23,887	25,506
<b>Total (assets)</b>	<b>489,920</b>	<b>554,813</b>	<b>610,752</b>	<b>671,734</b>
Total debt	1,321	1,321	1,321	1,321
Capital employed	460,038	523,197	578,156	637,759

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>95,701</b>	<b>101,031</b>	<b>97,288</b>	<b>102,627</b>
Depreciation	6,442	7,191	7,542	8,122
Change in working capital	(8,617)	(1,440)	2,296	(3,404)
Total tax paid	(5,316)	(13,154)	(12,667)	(13,362)
Others	(27,975)	(29,880)	(32,874)	(32,868)
<b>Cash flow from oper. (a)</b>	<b>60,235</b>	<b>63,748</b>	<b>61,585</b>	<b>61,115</b>
Capital expenditure	(14,069)	(18,124)	(20,024)	(22,999)
Change in investments	(47,472)	0	0	0
Others	28,211	30,000	33,000	33,000
<b>Cash flow from inv. (b)</b>	<b>(33,330)</b>	<b>11,876</b>	<b>12,976</b>	<b>10,001</b>
<b>Free cash flow (a+b)</b>	<b>26,904</b>	<b>75,624</b>	<b>74,561</b>	<b>71,117</b>
Debt raised/(repaid)	757	0	0	0
Dividend (incl. tax)	(22,068)	(24,718)	(29,662)	(29,662)
Others	(593)	(120)	(126)	(132)
<b>Cash flow from fin. (c)</b>	<b>(21,903)</b>	<b>(24,838)</b>	<b>(29,788)</b>	<b>(29,794)</b>
<b>Net change in cash (a+b+c)</b>	<b>5,001</b>	<b>50,786</b>	<b>44,774</b>	<b>41,323</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	19.4	20.6	19.8	20.9
Growth	18.5	6.2	(3.7)	5.5
CEPS (Rs)	20.9	22.3	21.6	22.8
Book NAV/share (Rs)	102.6	117.3	130.1	144.0
Dividend/share (Rs)	4.4	5.0	6.0	6.0
Dividend payout ratio	27.0	28.4	35.5	33.6
EBITDA margin	50.2	49.4	46.4	46.9
EBIT margin	64.9	63.8	62.7	61.9
Tax rate	14.5	14.0	14.0	14.0
RoCE	22.5	20.6	17.7	16.9
Net debt/Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
<b>Du Pont Analysis - ROE</b>				
Net margin	55.3	54.8	53.9	53.2
Asset turnover (x)	0.3	0.3	0.3	0.3
Leverage factor (x)	1.1	1.1	1.1	1.1
Return on equity	20.3	18.7	16.0	15.2

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	8.3	6.9	7.1	6.8
PCE	7.7	6.4	6.6	6.2
Price/Book	1.6	1.2	1.1	1.0
Yield (%)	2.7	3.5	4.2	4.2
EV/EBITDA	5.0	3.1	2.7	2.0

## MID CAP

## Nalco

Maintain BUY

## Share Data

Price (Rs)	38
BSE Sensex	25,776
Reuters code	NALU.BO
Bloomberg code	NACL IN
Market cap. (US\$ mn)	1,456
6M avg. daily turnover (US\$ mn)	0.9
Issued shares (mn)	2,577
Target price (Rs)	50

Performance (%)	1M	3M	12M
Absolute	(8)	27	(39)
Relative	(2)	27	(33)

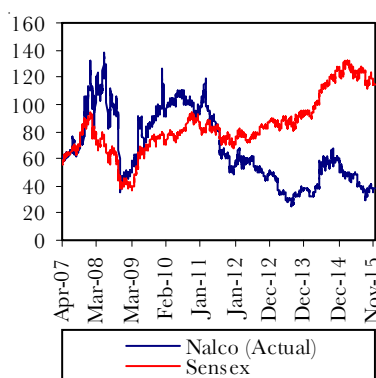
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	3.6	4.5
+/- (%)	(6.9)	25.0
PER (x)	10.5	8.4
PBV (x)	0.7	0.7
Dividend/Yield (%)	3.8	4.9
EV/Sales (x)	0.6	0.5
EV/EBITDA (x)	3.7	2.8

## Major shareholders (%)

Promoters	81
FII's	3
BFSS's	9
Public & Others	7

## Relative performance



## Alumina to drive profits...

## 2QFY16 performance

Nalco's operating performance was much better than our expectation. Both alumina as well as aluminium volumes and realisations were better than our expectation leading to outperformance. EBITDA came in at Rs 3.4 bn, 52% higher on QoQ basis (B&K estimate stood at Rs 1.9 bn).

## Other highlights and key takeaways from concalls

**Volume guidance:** The company is expected to produce ~370,000 tonnes of aluminium in FY16 a tad higher than previous guidance of 360,000 tonnes owing to better availability of e-auction coal at reasonable price. It is expected to produce alumina at full capacity in FY16.

**Increasing raw material security:** Government has allotted Utkal D and E coal blocks (non-operational) having combined reserve of ~100 mn tonnes to the company. However, it will take time for these block to be operational (Utkal D is likely to commission first); it would give much needed coal security for a part of the capacity. Also the company is in advance stage of receiving Pottangi bauxite mine which would feed proposed 2 mn tpa alumina refinery.

**Cash position continues to improve:** The net cash has improved to ~Rs 62 bn (including Rs 8 bn on fixed maturity plan reported as long term investment) implying cash per share of Rs 24 from Rs 22 in FY15.

**Capex:** FY16 capex is expected to be ~Rs 8 bn largely on 100 MW wind power plant. Nalco would be setting up 1 mn tpa brownfield alumina plant at Damanjodi (backed by Pottangi bauxite mine) with a capex of ~Rs 55 bn over the next four-five years.

## Outlook and valuation

Aluminium LME and premia have both come off substantially since March 2015 which has impact the profitability of aluminium division. However, impact on alumina division is relatively lower (alumina prices are insulated from fall in premiums) which is expected to drive the majority of the profits. Allotment of Utkal D and E blocks would ensure long term coal security (both blocks having combined reserve of ~200 mn tonnes would take at least 24-30 months to commission). The company expects to maintain net cash (Rs 24/share) status despite planned capex of Rs 55 bn over the next four-five years on 1 mn tpa alumina refinery backed by Pottangi bauxite mine, gives us additional comfort. Given the steeper fall in LME, we have reduced our realisation assumption by US\$ 100/tonne to US\$ 1,550/tonne for FY17. Also we have factored in INR/US\$ at 65 from previous assumption of 64.5. Consequently our FY17 EBITDA stands downward revised by ~9%. We are also introducing FY18 numbers whereas we have assumed flat volumes with realisation of US\$ 1,650, ~US\$ 100 higher YoY. On our revised earnings, we arrive at a target price of Rs 50; the stock is quoting at an attractive valuation of 3.7x FY17E EV/EBITDA and 2.8x FY18E EV/EBITDA. We maintain our Buy rating on the stock.

**Remains our top pick in the sector.**



## Nalco

## Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>73,828</b>	<b>69,877</b>	<b>69,247</b>	<b>73,481</b>
Growth (%)	8.9	(5.4)	(0.9)	6.1
Operating expenses	(56,768)	(57,576)	(58,131)	(59,038)
Operating profit	17,060	12,301	11,116	14,442
<b>EBITDA</b>	<b>17,060</b>	<b>12,301</b>	<b>11,116</b>	<b>14,442</b>
Growth (%)	82.6	(27.9)	(9.6)	29.9
Depreciation	(4,137)	(4,337)	(4,537)	(4,737)
Other income	6,726	7,063	7,416	7,787
<b>EBIT</b>	<b>19,650</b>	<b>15,027</b>	<b>13,996</b>	<b>17,492</b>
Exceptional & extraordinary	1,484	0	0	0
<b>Profit before tax</b>	<b>21,134</b>	<b>15,027</b>	<b>13,996</b>	<b>17,492</b>
Tax (current + deferred)	(7,916)	(5,109)	(4,759)	(5,947)
<b>P/(L) for the period</b>	<b>13,219</b>	<b>9,918</b>	<b>9,237</b>	<b>11,545</b>
Reported Profit/(Loss)	13,219	9,918	9,237	11,545
Adjusted net profit	11,734	9,918	9,237	11,545
Growth (%)	69.6	(15.5)	(6.9)	25.0

## Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	12,886	12,886	12,886	12,886
Reserves & surplus	115,087	120,595	125,509	131,517
<b>Shareholders' funds</b>	<b>127,973</b>	<b>133,481</b>	<b>138,396</b>	<b>144,403</b>
<b>Non-current liabilities</b>	<b>14,133</b>	<b>14,820</b>	<b>15,540</b>	<b>16,297</b>
Other non-current liabilities	14,133	14,820	15,540	16,297
<b>Current liabilities</b>	<b>19,670</b>	<b>18,717</b>	<b>18,565</b>	<b>19,587</b>
Other current liabilities	19,670	18,717	18,565	19,587
<b>Total (equity and liab.)</b>	<b>161,777</b>	<b>167,018</b>	<b>172,501</b>	<b>180,287</b>
<b>Non-current assets</b>	<b>84,180</b>	<b>88,806</b>	<b>96,361</b>	<b>101,898</b>
Fixed assets (net block)	71,952	75,966	82,880	87,743
Non-current Investments	10	10	10	10
Long-term loans and advances	12,219	12,829	13,471	14,144
<b>Current assets</b>	<b>77,596</b>	<b>78,212</b>	<b>76,140</b>	<b>78,389</b>
Cash & current investment	55,780	57,491	55,549	56,516
Other current assets	21,817	20,722	20,592	21,873
<b>Total (assets)</b>	<b>161,777</b>	<b>167,018</b>	<b>172,501</b>	<b>180,287</b>
Capital employed	142,106	148,301	153,936	160,700

## Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>21,134</b>	<b>15,027</b>	<b>13,996</b>	<b>17,492</b>
Depreciation	4,137	4,337	4,537	4,737
Change in working capital	(10,168)	1,326	(413)	(671)
Total tax paid	(5,882)	(4,814)	(4,178)	(5,338)
Others	(6,726)	(7,063)	(7,416)	(7,787)
<b>Cash flow from oper. (a)</b>	<b>2,494</b>	<b>8,813</b>	<b>6,525</b>	<b>8,434</b>
Capital expenditure	(254)	(8,479)	(11,584)	(9,741)
Change in investments	2,940	0	0	0
Others	6,726	7,063	7,416	7,787
<b>Cash flow from inv. (b)</b>	<b>9,413</b>	<b>(1,416)</b>	<b>(4,168)</b>	<b>(1,954)</b>
<b>Free cash flow (a+b)</b>	<b>11,907</b>	<b>7,396</b>	<b>2,357</b>	<b>6,480</b>
Dividend (incl. tax)	(5,156)	(5,708)	(4,323)	(5,538)
Others	(955)	23	24	26
<b>Cash flow from fin. (c)</b>	<b>(6,110)</b>	<b>(5,686)</b>	<b>(4,299)</b>	<b>(5,512)</b>
<b>Net change in cash (a+b+c)</b>	<b>5,797</b>	<b>1,711</b>	<b>(1,942)</b>	<b>968</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	4.6	3.8	3.6	4.5
Growth	69.6	(15.5)	(6.9)	25.0
CEPS (Rs)	6.2	5.5	5.3	6.3
Book NAV/share (Rs)	49.7	51.8	53.7	56.0
Dividend/share (Rs)	1.8	1.5	1.4	1.8
Dividend payout ratio	40.9	44.5	46.8	48.0
EBITDA margin	23.1	17.6	16.1	19.7
EBIT margin	26.6	21.5	20.2	23.8
Tax rate	40.3	34.0	34.0	34.0
RoCE	14.3	10.3	9.3	11.1
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Du Pont Analysis - ROE</b>				
Net margin	15.9	14.2	13.3	15.7
Asset turnover (x)	0.5	0.4	0.4	0.4
Leverage factor (x)	1.3	1.3	1.2	1.2
Return on equity	9.4	7.6	6.8	8.2

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	10.2	9.7	10.5	8.4
PCE	7.6	6.8	7.0	5.9
Price/Book	0.9	0.7	0.7	0.7
Yield (%)	3.8	3.9	3.8	4.9
EV/EBITDA	3.8	3.2	3.7	2.8

## Pipes

The SAW pipe players under coverage have outperformed our expectation as they executed better margins orders during the quarter. Seamless players continue to suffer from Chinese dumping while stainless steel pipe players have also witnessed some slowdown in order booking. Falling crude prices are impacting the cash flows of MENA region which is making us cautious on the pace of new order book additions as many projects are getting delayed or re-evaluated impacting the visibility beyond FY17. In India, government thrust on infrastructure and water management (irrigation, interlinking river, smart cities), etc. would drive the demand for HSAW as well as DI pipes (steadily growing). However, we expect increasing competitive intensity (JSAW operating PSL's mill) in HSAW business. This coupled with delays in global orders execution is expected to put pressure on EBITDA/tonne going forward. Stay cautious on the outlook for this sector.

### Order book trend

(Rs bn)	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
<b>Jindal SAW (US\$ mn)</b>									
- SAW Pipes	230	278	475	685	655	660	630	615	500
- DI pipes	215	242	325	329	330	335	330	335	280
- Seamless pipes	30	40	20	19	15	15	10	15	10
<b>Welspun Corp</b>	<b>35</b>	<b>55</b>	<b>58</b>	<b>64</b>	<b>71</b>	<b>66</b>	<b>72</b>	<b>58</b>	<b>52</b>
<b>Maharashtra Seamless</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Ratnamani Metals &amp; Tubes</b>									
- Stainless Steel pipes	5	5	5	5	4	4	4	4	4
- SAW pipes	3	3	6	8	6	5	5	6	10

## MID CAP

## Share Data

Price (Rs)	63
BSE Sensex	25,776
Reuters code	JIND.BO
Bloomberg code	JSAW IN
Market cap. (US\$ mn)	291
6M avg. daily turnover (US\$ mn)	1.3
Issued shares (mn)	305
Target price (Rs)	75

Performance (%)	1M	3M	12M
Absolute	(8)	(1)	(41)
Relative	(2)	(1)	(35)

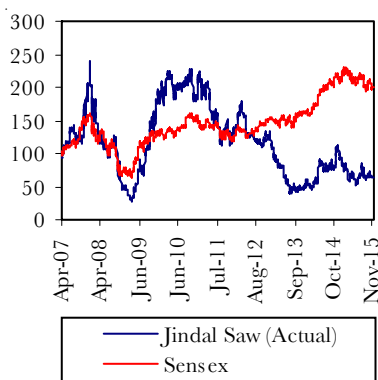
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	8.8	6.5
+/- (%)	16.5	(25.5)
PER (x)	7.2	9.6
PBV (x)	0.5	0.4
Dividend/Yield (%)	1.6	1.3
EV/Sales (x)	0.8	0.8
EV/EBITDA (x)	7.4	7.8

## Major shareholders (%)

Promoters	51
FII's	10
MF's	11
BFSI's	2
Public & Others	26

## Relative performance



## Jindal SAW

## Maintain Outperformer

## Volume across segments to drive growth...

## 2QFY16 performance

Jindal SAW (JSAW) (standalone) reported EBITDA broadly in line with our estimates (at Rs 2.5 bn) despite lower revenues (lower SAW pipe volumes). However, EBITDA/tonne was higher due to decline in other expenses (expiry of outsourced coating contract in Middle East market during last quarter led to lower other expenses in 1Q). Blended EBITDA per tonne (ex-pellets) for pipes was better at ~Rs 8,600 versus our estimate of ~Rs 7,900).

**Order book:** Standalone order book stood at ~US\$ 790 mn (SAW pipes – US\$ 500 mn; DI – US\$ 280 mn and seamless – US\$ 10 mn) versus US\$ 965 mn in 1Q implying no major additions during the quarter. UAE DI pipe plant has an order book of ~100,000 tonnes and US pipe mill has an order book of US\$ 25-50 mn.

## Outlook and valuation

Better utilisation of SAW pipe facilities along with ramping up of DI pipe facilities (Mundra and UAE) is expected to drive volumes in FY16 and 1HFY17. Falling crude prices are impacting the cash flows of MENA region countries which are in turn delaying the projects impacting the demand and visibility beyond 2HFY17. We expect increasing competitive intensity in HSAW business coupled with delays in execution of orders to put pressure on EBITDA/tonne going forward. Significant fall in pellet prices would also impact the overall EBITDA. JSAW would be hiving off the loss making subsidiary Jindal ITF into a separate listed entity (some regulatory approvals pending). Deferring the steel mill capex for the time being is a welcome step given the current scenario. We expect some reduction in debt going forward due to lower capex. We have introduced our FY18 estimates where we are assuming ~0.1 mn tonnes lower SAW pipe volumes in standalone business as we expect the fall in crude pieces would impact the execution of orders going forward. We have taken EBITDA/tonne at Rs 6,800 almost Rs 1,500 lower YoY (deteriorating in product mix and increasing competitive intensity).

Maintain Outperformer with a target price of Rs 75 (7.7x FY17E EV/EBITDA).

## Jindal SAW

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>83,247</b>	<b>98,755</b>	<b>106,533</b>	<b>104,938</b>
<i>Growth (%)</i>	25.1	18.6	7.9	(1.5)
Operating expenses	(73,890)	(87,337)	(94,283)	(93,908)
<b>Operating profit</b>	<b>9,356</b>	<b>11,418</b>	<b>12,250</b>	<b>11,030</b>
Other operating income	0	0	0	0
<b>EBITDA</b>	<b>9,356</b>	<b>11,418</b>	<b>12,250</b>	<b>11,030</b>
<i>Growth (%)</i>	46.2	22.0	7.3	(10.0)
Depreciation	(4,029)	(4,260)	(4,463)	(4,568)
Other income	1,291	1,442	1,455	1,469
<b>EBIT</b>	<b>6,618</b>	<b>8,599</b>	<b>9,242</b>	<b>7,930</b>
Finance cost	(5,398)	(5,708)	(5,685)	(5,342)
Exceptional & extraordinary	(861)	0	0	0
<b>Profit before tax</b>	<b>359</b>	<b>2,891</b>	<b>3,557</b>	<b>2,588</b>
Tax (current + deferred)	(213)	(723)	(889)	(647)
<b>P/(L) for the period</b>	<b>147</b>	<b>2,169</b>	<b>2,668</b>	<b>1,941</b>
P/L of Associates, Min Int, Pref Div	112	123	135	149
Reported Profit/(Loss)	259	2,292	2,803	2,090
Adjusted net profit	1,120	2,292	2,803	2,090
<i>Growth (%)</i>		104.6	22.3	(25.5)

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	580	609	640	640
Reserves & surplus	36,318	39,384	43,003	44,778
<b>Shareholders' funds</b>	<b>36,898</b>	<b>39,993</b>	<b>43,642</b>	<b>45,418</b>
Minority Interest and others	1,543	1,620	1,701	1,786
<b>Non-current liabilities</b>	<b>47,596</b>	<b>44,058</b>	<b>39,394</b>	<b>34,588</b>
Long-term borrowings	44,303	40,303	35,303	30,303
Other non-current liabilities	3,292	3,754	4,091	4,285
<b>Current liabilities</b>	<b>57,826</b>	<b>62,124</b>	<b>64,345</b>	<b>64,125</b>
ST borrowings, Curr maturity	38,994	38,994	38,994	38,994
Other current liabilities	18,832	23,130	25,351	25,131
<b>Total (Equity and Liab.)</b>	<b>143,862</b>	<b>147,794</b>	<b>149,082</b>	<b>145,917</b>
<b>Non-current assets</b>	<b>73,216</b>	<b>71,841</b>	<b>70,770</b>	<b>69,785</b>
Fixed assets (Net block)	69,317	67,614	66,379	65,428
Non-current Investments	172	172	172	172
Long-term loans and advances	2,191	2,519	2,683	2,649
Other non-current assets	1,536	1,536	1,536	1,536
<b>Current assets</b>	<b>70,646</b>	<b>75,953</b>	<b>78,312</b>	<b>76,132</b>
Cash & current investment	6,390	4,152	4,066	2,997
Other current assets	64,256	71,802	74,247	73,135
<b>Total (Assets)</b>	<b>143,862</b>	<b>147,794</b>	<b>149,082</b>	<b>145,917</b>
Total debt	83,297	79,297	74,297	69,297
Capital employed	125,030	124,664	123,732	120,786

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	359	2,891	3,557	2,588
Depreciation	4,029	4,260	4,463	4,568
Change in working capital	(11,014)	(3,175)	(339)	1,071
Total tax paid	(231)	(979)	(770)	(516)
Others	4,750	4,266	4,230	3,873
<b>Cash flow from oper. (a)</b>	<b>(2,106)</b>	<b>7,263</b>	<b>11,141</b>	<b>11,585</b>
Capital expenditure	(12,948)	(2,557)	(3,227)	(3,617)
Change in investments	(2,305)	0	0	0
Others	623	1,442	1,455	1,469
<b>Cash flow from inv. (b)</b>	<b>(14,631)</b>	<b>(1,116)</b>	<b>(1,772)</b>	<b>(2,149)</b>
<b>Free cash flow (a+b)</b>	<b>(16,736)</b>	<b>6,148</b>	<b>9,368</b>	<b>9,436</b>
Equity raised/(repaid)	797	1,176	1,235	0
Debt raised/(repaid)	23,408	(4,000)	(5,000)	(5,000)
Dividend (incl. tax)	(323)	(349)	(372)	(388)
Others	(5,071)	(5,213)	(5,316)	(5,116)
<b>Cash flow from fin. (c)</b>	<b>18,810</b>	<b>(8,386)</b>	<b>(9,454)</b>	<b>(10,504)</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,074</b>	<b>(2,239)</b>	<b>(86)</b>	<b>(1,069)</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	3.9	7.5	8.8	6.5
Growth		94.9	16.5	(25.5)
CEPS (Rs)	17.8	21.5	22.7	20.8
Book NAV/share (Rs)	127.1	131.2	136.4	141.9
Dividend/share (Rs)	1.0	1.0	1.0	0.8
Dividend payout ratio	135.0	16.2	13.8	15.0
EBITDA margin	11.2	11.6	11.5	10.5
EBIT margin	8.0	8.7	8.7	7.6
Tax rate	17.4	25.0	25.0	25.0
RoCE	5.9	6.9	7.4	6.5
Total debt/Equity (x)	2.2	1.9	1.6	1.5
Net debt/Equity (x)	2.0	1.8	1.5	1.4
<b>Du Pont Analysis - ROE</b>				
Net margin	1.3	2.3	2.6	2.0
Asset turnover (x)	0.6	0.7	0.7	0.7
Leverage factor (x)	3.6	3.8	3.6	3.3
Return on equity	3.1	6.0	6.7	4.7

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	17.0	8.4	7.2	9.6
PCE	3.7	2.9	2.8	3.0
Price/Book	0.5	0.5	0.5	0.4
Yield (%)	1.5	1.6	1.6	1.3
EV/EBITDA	10.3	8.3	7.4	7.8

## MID CAP

## Welspun Corp

Maintain Outperformer

## Share Data

Price (Rs)	100
BSE Sensex	25,776
Reuters code	wgsr.BO
Bloomberg code	wlco IN
Market cap. (US\$ mn)	396
6M avg. daily turnover (US\$ mn)	2.7
Issued shares (mn)	263
Target price (Rs)	125

Performance (%)	1M	3M	12M
Absolute	(10)	(4)	34
Relative	(4)	(4)	48

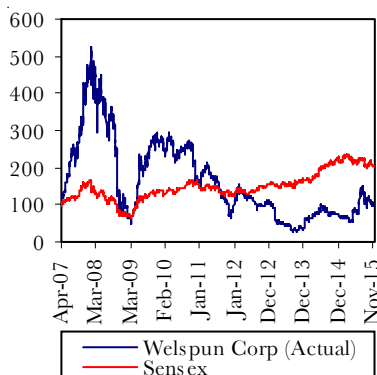
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	10.1	6.6
+/- (%)	(1.4)	(33.9)
PER (x)	9.9	15.0
PBV (x)	0.8	0.8
Dividend/Yield (%)	1.0	1.0
EV/Sales (x)	0.4	0.4
EV/EBITDA (x)	4.0	4.3

## Major shareholders (%)

Promoters	41
FII's	13
MF's	2
BFSI's	8
Public & Others	36

## Relative performance



## Cautious outlook...

## 2QFY16 performance

Welspun Corp's operating results were significantly better than our expectations primarily on account of higher volumes. EBITDA came in better than our expectation at ~Rs 3.06 bn versus our estimate of Rs 2.17 bn. Blended EBITDA per tonne stood at ~Rs 9,400 against our estimate of ~Rs 7,750. . The company has executed better margins order during the quarter (contribution from US Mill as well as exports from India was higher).

**Order book:** The current pipe order book stands at ~Rs 52 bn (~0.85 mn tonnes) as against Rs 58 bn (~0.83 mn tonnes) in 1QFY16. Nearly 53% of the orders are from US and 29% from MENA region. The company has a strong bid pipeline of ~4 mn tonnes (~5% conversion rate).

## Outlook and valuation

Welspun Corp enjoys one of the best order books among domestic pipe players providing reasonable earning visibility till 1HFY17 (pending bids of ~4 mn tonnes). Nearly half of current order book is from US market which enjoys better EBITDA/tonne. Though, the company has managed to maintain its order book, falling crude prices (Welspun Corp's dependence on oil & gas market is high) is making us cautious on the pace of new order book additions as many projects are getting delayed or re-evaluated, impacting the visibility beyond FY17. The domestic water pipeline demand expected to remain strong. However, increasing competitive intensity (JSAW is operating PSL mills) would impact the EBITDA/tonne of new orders. Given the company would not be incurring any capex; we expect net debt to reduce gradually. We are introducing our FY18 numbers where we expect ~0.1 mn tonnes lower volumes YoY. Also we expect EBITDA/tonne to be lower at Rs 7,000 against Rs 8,100 in FY17 (fall in crude prices to impact order inflows along with increasing competitive intensity to put pressure on EBITDA/tonne). Overall, EBITDA is expected to be lower by ~20% YoY.

Maintain Outperformer with a target price of Rs 125 (4.7x FY17E EV/EBITDA).

## Welspun Corp

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>84,505</b>	<b>89,783</b>	<b>92,021</b>	<b>84,738</b>
Growth (%)	9.7	6.2	2.5	(7.9)
Operating expenses	(76,083)	(79,532)	(82,084)	(76,876)
Operating profit	8,422	10,252	9,937	7,862
<b>EBITDA</b>	<b>8,422</b>	<b>10,252</b>	<b>9,937</b>	<b>7,862</b>
Growth (%)	25.8	21.7	(3.1)	(20.9)
Depreciation	(4,365)	(4,555)	(4,674)	(4,838)
Other income	1,086	1,100	1,210	1,331
<b>EBIT</b>	<b>5,143</b>	<b>6,796</b>	<b>6,473</b>	<b>4,355</b>
Finance cost	(2,830)	(2,655)	(2,416)	(1,879)
<b>Profit before tax</b>	<b>2,313</b>	<b>4,141</b>	<b>4,058</b>	<b>2,476</b>
Tax (current + deferred)	(177)	(828)	(812)	(495)
<b>P/(L) for the period</b>	<b>2,135</b>	<b>3,313</b>	<b>3,246</b>	<b>1,981</b>
P/L of Associates, Min Int,	(1,445)	(630)	(602)	(232)
Pref Div				
Reported Profit/(Loss)	690	2,683	2,645	1,748
Adjusted net profit	690	2,683	2,645	1,748
Growth (%)	(5.9)	288.6	(1.4)	(33.9)

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	1,316	1,316	1,316	1,316
Reserves & surplus	26,672	29,040	31,369	32,802
<b>Shareholders' funds</b>	<b>27,988</b>	<b>30,356</b>	<b>32,684</b>	<b>34,118</b>
Minority interests and others	3,563	3,811	4,085	4,386
<b>Non-current liabilities</b>	<b>32,897</b>	<b>29,234</b>	<b>25,588</b>	<b>19,959</b>
Long-term borrowings	26,160	22,160	18,160	12,160
Other non-current liabilities	6,737	7,074	7,428	7,799
<b>Current liabilities</b>	<b>33,707</b>	<b>30,104</b>	<b>30,616</b>	<b>28,311</b>
ST borrowings, curr maturity	4,046	3,815	3,584	3,189
Other current liabilities	29,661	26,289	27,032	25,122
<b>Total (equity and liab.)</b>	<b>98,155</b>	<b>93,505</b>	<b>92,974</b>	<b>86,774</b>
<b>Non-current assets</b>	<b>49,063</b>	<b>47,083</b>	<b>45,446</b>	<b>42,115</b>
Fixed assets (net block)	47,415	44,832	41,528	38,116
Non-current investments	265	796	2,387	2,387
Long-term loans and advances	1,321	1,387	1,456	1,529
Other non-current assets	63	69	75	82
<b>Current assets</b>	<b>49,092</b>	<b>46,422</b>	<b>47,528</b>	<b>44,659</b>
Cash & current investment	11,111	7,797	7,939	8,204
Other current assets	37,981	38,626	39,588	36,455
<b>Total (assets)</b>	<b>98,155</b>	<b>93,505</b>	<b>92,974</b>	<b>86,774</b>
Total debt	30,205	25,975	21,744	15,349
Capital employed	68,494	67,216	65,942	61,652

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>2,313</b>	<b>4,141</b>	<b>4,058</b>	<b>2,476</b>
Depreciation	4,365	4,555	4,674	4,838
Change in working capital	2,068	(4,114)	(325)	1,110
Total tax paid	105	(506)	(471)	(136)
Others	2,830	2,655	2,416	1,879
<b>Cash flow from oper. (a)</b>	<b>11,680</b>	<b>6,732</b>	<b>10,351</b>	<b>10,168</b>
Capital expenditure	(1,412)	(1,975)	(1,371)	(1,429)
Change in investments	3,350	(531)	(1,592)	0
Others	1	(6)	(6)	(7)
<b>Cash flow from inv. (b)</b>	<b>1,939</b>	<b>(2,512)</b>	<b>(2,969)</b>	<b>(1,436)</b>
<b>Free cash flow (a+b)</b>	<b>13,619</b>	<b>4,220</b>	<b>7,382</b>	<b>8,732</b>
Equity raised/(repaid)	(3)	0	0	0
Debt raised/(repaid)	(7,206)	(4,231)	(4,231)	(6,396)
Dividend (incl. tax)	(154)	(300)	(298)	(297)
Others	(4,377)	(3,004)	(2,710)	(1,774)
<b>Cash flow from fin. (c)</b>	<b>(11,739)</b>	<b>(7,535)</b>	<b>(7,239)</b>	<b>(8,467)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,880</b>	<b>(3,314)</b>	<b>143</b>	<b>265</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	2.6	10.2	10.1	6.6
Growth	(5.9)	288.6	(1.4)	(33.9)
CEPS (Rs)	19.2	27.5	27.8	25.0
Book NAV/share (Rs)	106.4	115.4	124.3	129.8
Dividend/share (Rs)	0.5	1.0	1.0	1.0
Dividend payout ratio	22.9	11.8	11.9	18.1
EBITDA margin	10.0	11.4	10.8	9.3
EBIT margin	6.1	7.6	7.0	5.1
Tax rate	7.7	20.0	20.0	20.0
RoCE	7.2	10.0	9.7	6.8
Total debt/Equity (x)	1.0	0.8	0.6	0.4
Net debt/Equity (x)	0.6	0.5	0.4	0.2
<b>Du Pont Analysis - ROE</b>				
Net margin	0.8	3.0	2.9	2.1
Asset turnover (x)	0.9	0.9	1.0	0.9
Leverage factor (x)	3.3	3.3	3.0	2.7
Return on equity	2.4	9.2	8.4	5.2

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	20.5	9.8	9.9	15.0
PCE	2.8	3.6	3.6	4.0
Price/Book	0.5	0.9	0.8	0.8
Yield (%)	0.9	1.0	1.0	1.0
EV/EBITDA	3.9	4.3	4.0	4.3



## MID CAP

## Ratnamani Metals &amp; Tubes

Maintain Outperformer

## Share Data

Price (Rs)	572
BSE Sensex	25,776
Reuters code	RM.TBO
Bloomberg code	RMTIN
Market cap. (US\$ mn)	402
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	47
Target price (Rs)	650

Performance (%)	1M	3M	12M
Absolute	(12)	(3)	(4)
Relative	(6)	(3)	7

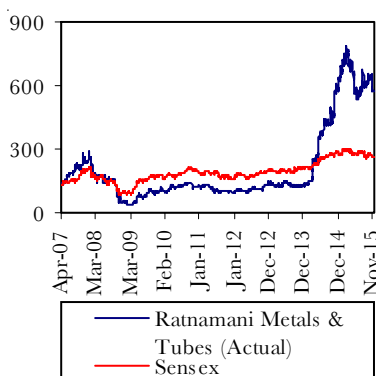
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	40.4	43.0
+/- (%)	9.5	6.4
PER (x)	14.1	13.3
PBV (x)	2.2	1.9
Dividend/Yield (%)	1.1	1.1
EV/Sales (x)	1.4	1.3
EV/EBITDA (x)	7.9	7.4

## Major shareholders (%)

Promoters	60
FII's	13
MF's	1
Public & Others	26

## Relative performance



## Niche play...

## 2QFY16 performance

Ratnamani Metals and Tubes (RM.TL) reported sequentially much better operating performance aided by both SS and CS segment (lower raw material incidence). Revenues stood at Rs 4.3 bn, ~15% and 23% higher on QoQ and YoY basis, respectively. Sequentially RM.TL reported almost flat volumes in SS and ~15% higher in CS segment. While SS and CS segment reported ~4% and ~7% better realisation. EBITDA stood at Rs 883 mn versus Rs 558 mn in 4Q. EBITDA margins stood at 20.5% versus 14.9% in 4Q.

Other highlights and key takeaways from concalls

**Guidance:** Management expects 10-15% volume growth in FY16. However, due to decline in realisations, overall revenues may remain flat. Blended EBITDA margin guidance was reduced by 50-100 bps to 17-19% (previous guidance was 18-20%) owing to higher contribution from CG segment.

**Order book:** The current order book has increased by Rs 4.4 bn (primarily on account of CS segment) to Rs 13.8 bn. Out of the total order book, ~Rs 4 bn is for stainless steel pipes Rs 9.8 bn is for carbon steel pipes.

**Capex:** Capex guidance for FY16 maintained at Rs 500-700 mn and for FY17 Rs 1.2-1.3 bn. FY17 capex is higher as the company intends to expand SS segment capacity by 20,000 tpa (to be completed in three-four years in phases).

**Working capital stretched:** Working capital requirement has increased meaningfully on account of higher order book and delays in delivery (customers are delaying dispatches). This is expected to normalise going forward.

## Outlook and valuation

We expect SS segment to drive the majority of profitability going forward. Growth in this segment could be affected due to fall in crude prices, however, we expect the company to largely maintain the margins owing to its superior product mix and leadership position. Translation to Euro VI fuel standard and government plan to provide power to all would be major growth drivers going forward. Outlook for CS segment also remains strong as the companies continue to improve its order book. Water projects of Rajasthan, Telangana, Gujarat, and Madhya Pradesh would drive the demand in this segment.

Given the order book additions were primarily on CS segment coupled with deteriorating outlook of SS segment owing to fall in crude prices, we have changed the product mix of SS: CS to 46:54 to 40:60 for FY16 and FY17. Consequently our EBITDA witnessed a fall of ~7% for both the years.

Maintain Outperformer with a target price of Rs 650 (9.0x FY17E EV/EBITDA).



## Ratnamani Metals &amp; Tubes

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>16,756</b>	<b>17,039</b>	<b>18,515</b>	<b>20,030</b>
<i>Growth (%)</i>	23.8	1.7	8.7	8.2
Operating expenses	(13,762)	(14,012)	(15,247)	(16,581)
Operating profit	2,993	3,027	3,268	3,449
<b>EBITDA</b>	<b>2,993</b>	<b>3,027</b>	<b>3,268</b>	<b>3,449</b>
<i>Growth (%)</i>	5.6	1.1	8.0	5.5
Depreciation	(544)	(571)	(599)	(689)
Other income	251	273	324	351
<b>EBIT</b>	<b>2,701</b>	<b>2,728</b>	<b>2,993</b>	<b>3,111</b>
Finance cost	(94)	(142)	(160)	(95)
<b>Profit before tax</b>	<b>2,607</b>	<b>2,586</b>	<b>2,833</b>	<b>3,016</b>
Tax (current + deferred)	(882)	(861)	(943)	(1,004)
<b>P/(L) for the period</b>	<b>1,725</b>	<b>1,725</b>	<b>1,890</b>	<b>2,011</b>
Reported Profit/(Loss)	1,725	1,725	1,890	2,011
Adjusted net profit	1,725	1,725	1,890	2,011
<i>Growth (%)</i>	1.7	0.0	9.5	6.4

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	93	93	93	93
Reserves & surplus	8,990	10,415	11,962	13,608
<b>Shareholders' funds</b>	<b>9,084</b>	<b>10,508</b>	<b>12,055</b>	<b>13,702</b>
<b>Non-current liabilities</b>	<b>562</b>	<b>544</b>	<b>569</b>	<b>595</b>
Long-term borrowings	84	42	42	42
Other non-current liabilities	478	502	527	553
<b>Current liabilities</b>	<b>2,610</b>	<b>2,879</b>	<b>2,682</b>	<b>2,671</b>
ST borrowings, curr maturity	220	720	360	180
Other current liabilities	2,390	2,159	2,322	2,491
<b>Total (equity and liab.)</b>	<b>12,256</b>	<b>13,931</b>	<b>15,306</b>	<b>16,967</b>
<b>Non-current assets</b>	<b>4,916</b>	<b>5,251</b>	<b>5,708</b>	<b>6,317</b>
Fixed assets (net block)	4,666	4,976	5,405	5,985
Non-current investments	1	1	1	1
Long-term loans and advances	249	274	302	332
<b>Current assets</b>	<b>7,340</b>	<b>8,680</b>	<b>9,599</b>	<b>10,650</b>
Cash & current investment	957	946	1,196	1,561
Other current assets	6,383	7,734	8,403	9,089
<b>Total (assets)</b>	<b>12,256</b>	<b>13,931</b>	<b>15,306</b>	<b>16,967</b>
Total debt	304	762	402	222
Capital employed	9,866	11,772	12,984	14,477

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>2,607</b>	<b>2,586</b>	<b>2,833</b>	<b>3,016</b>
Depreciation	544	571	599	689
Change in working capital	(903)	(1,608)	(532)	(548)
Total tax paid	(871)	(837)	(918)	(978)
Others	94	142	160	95
<b>Cash flow from oper. (a)</b>	<b>1,470</b>	<b>854</b>	<b>2,142</b>	<b>2,274</b>
Capital expenditure	(661)	(881)	(1,029)	(1,269)
Change in investments	340	0	0	0
<b>Cash flow from inv. (b)</b>	<b>(321)</b>	<b>(881)</b>	<b>(1,029)</b>	<b>(1,269)</b>
<b>Free cash flow (a+b)</b>	<b>1,149</b>	<b>(27)</b>	<b>1,113</b>	<b>1,005</b>
Equity raised/(repaid)	4	0	0	0
Debt raised/(repaid)	(426)	458	(360)	(180)
Dividend (incl. tax)	(309)	(301)	(343)	(366)
Others	(363)	(141)	(159)	(95)
<b>Cash flow from fin. (c)</b>	<b>(1,095)</b>	<b>15</b>	<b>(863)</b>	<b>(640)</b>
<b>Net chg in cash (a+b+c)</b>	<b>54</b>	<b>(11)</b>	<b>250</b>	<b>365</b>

## Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	36.9	36.9	40.4	43.0
Growth	1.6	0.0	9.5	6.4
CEPS (Rs)	48.6	49.1	53.3	57.8
Book NAV/share (Rs)	194.4	224.9	258.0	293.2
Dividend/share (Rs)	5.5	5.4	6.1	6.5
Dividend payout ratio	17.9	17.5	18.2	18.2
EBITDA margin	17.9	17.8	17.7	17.2
EBIT margin	16.1	16.0	16.2	15.5
Tax rate	33.8	33.3	33.3	33.3
RoCE	28.4	25.2	24.2	22.7
Total debt/Equity (x)	0.0	0.1	0.0	0.0
Net debt/Equity (x)	(0.1)	(0.0)	(0.1)	(0.1)
<b>Du Pont Analysis - ROE</b>				
Net margin	10.3	10.1	10.2	10.0
Asset turnover (x)	1.4	1.3	1.3	1.2
Leverage factor (x)	1.4	1.3	1.3	1.3
Return on equity	20.3	17.6	16.8	15.6

## Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	18.6	15.5	14.1	13.3
PCE	14.2	11.6	10.7	9.9
Price/Book	3.5	2.5	2.2	1.9
Yield (%)	0.8	0.9	1.1	1.1
EV/EBITDA	10.5	8.8	7.9	7.4

## SMALL CAP

## Maharashtra Seamless

Maintain Underperformer

## Share Data

Price (Rs)	151
BSE Sensex	25,776
Reuters code	MHSM.BO
Bloomberg code	MHS IN
Market cap. (US\$ mn)	152
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	67
Target price (Rs)	140

Performance (%)	1M	3M	12M
Absolute	(5)	(0)	(52)
Relative	1	(0)	(46)

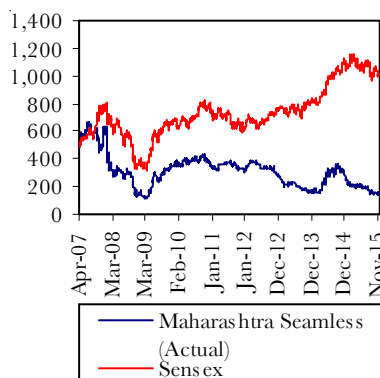
## Valuation Ratios

Yr to 31 Mar	FY17E	FY18E
EPS (Rs)	7.7	10.3
+/- (%)	52.1	33.4
PER (x)	20.0	15.0
PBV (x)	0.5	0.5
Dividend/Yield (%)	3.5	3.5
EV/Sales (x)	0.5	0.5
EV/EBITDA (x)	20.7	13.4

## Major shareholders (%)

Promoters	59
FII's	9
MF's	7
Public & Others	25

## Relative performance



## Demand outlook deteriorating...

## 2QFY16 performance

Maharashtra Seamless's (MHS) operating performance was below our expectation owing to higher than expected other expenditure. Revenues came in line with expectation at stood at Rs 2.64 bn (B&K estimate was Rs 2.68 bn). Total pipes volumes were in line with expectation at ~53,000 tonnes. The company reported EBITDA of Rs 27 mn versus our expectation of Rs 74 mn. Other income came in lower at Rs 109 mn against our expectation of Rs 170 mn further denting the PAT.

Other highlights and key takeaways from concalls

**2H performance expected to remain subdued:** The 1H performance was marred by ~Rs 250 mn inventory losses (booked in 1Q) due to sharp correction in steel prices. Therefore 2Q performance is expected to be better, provided price does not crash significantly from current levels.

**Net cash to support earnings:** The cash and equivalents as of 1HFY16 stand at Rs 5.4 bn. The company expects other income from investments to support the net profit in a meaningful way going forward.

## Outlook and valuation

Continued Chinese dumping and slowdown in E&P activities owing to fall in crude prices is taking a toll on the performance of the company. We expect that the implementation of safeguard duty would aid the company to win back some portion of demand lost to Chinese dumping. However, benefits of duty were below expectation owing to subdued demand and price differential maintained by Chinese players. Also the order book of less than a quarter gives us limited visibility on the future earnings of the company. Significant investment in non core businesses (iron ore mine and rig business) during weak commodity outlook is also a concern. Seamless pipe players have requested the government to put an anti-dumping duty on Chinese imports which if implemented can be the only silver lining for the company.

We have reduced our FY16 and FY17 seamless pipe volumes by ~9% and ~14%, respectively. We have also toned down our realisation assumptions by ~7% to incorporate the steeper than expected fall in realisations. However, we have increased the ERW pipe volumes by ~10,000 tonnes (~17% higher) for both the years. After factoring in everything, our FY16 and FY17 EBITDA have reduced to Rs 43 mn and Rs 268 mn from Rs 717 mn and Rs 776 mn, respectively.

We value the core business (pipes) at 8.0x EV/EBITDA and arrived at a fair value of Rs 104. Also, we are also giving 60% discount to investments in iron ore business which gives per share value of Rs 36. Thus, we are maintaining Underperformer rating with a target price of Rs 140.

## Maharashtra Seamless

Income Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Net sales</b>	<b>13,552</b>	<b>10,863</b>	<b>10,623</b>	<b>12,102</b>
Growth (%)	12.4	(19.8)	(2.2)	13.9
Operating expenses	(12,455)	(10,820)	(10,354)	(11,662)
Operating profit	1,097	43	268	440
<b>EBITDA</b>	<b>1,097</b>	<b>43</b>	<b>268</b>	<b>440</b>
Growth (%)	24.8	(96.1)	521.6	63.9
Depreciation	(292)	(308)	(339)	(324)
Other income	828	745	783	822
<b>EBIT</b>	<b>1,632</b>	<b>480</b>	<b>712</b>	<b>937</b>
Finance Cost	(36)	(36)	(36)	(36)
<b>Profit before tax</b>	<b>1,596</b>	<b>444</b>	<b>676</b>	<b>901</b>
Tax (current + deferred)	(371)	(103)	(157)	(209)
<b>P/(L) for the period</b>	<b>1,226</b>	<b>341</b>	<b>519</b>	<b>692</b>
Reported Profit/(Loss)	1,226	341	519	692
Adjusted net profit	1,226	341	519	692
Growth (%)	26.2	(72.2)	52.1	33.4

Balance Sheet				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share Capital	335	335	335	335
Reserves & surplus	27,685	26,934	26,322	25,883
<b>Shareholders' funds</b>	<b>28,020</b>	<b>27,269</b>	<b>26,657</b>	<b>26,218</b>
<b>Non-current liabilities</b>	<b>1,216</b>	<b>1,241</b>	<b>1,290</b>	<b>1,341</b>
Long-term borrowings	8	8	8	8
Other Long term liab, Prov, DTL	1,209	1,233	1,282	1,334
<b>Current liabilities</b>	<b>1,719</b>	<b>1,652</b>	<b>1,722</b>	<b>1,871</b>
Short-term borrowings, curr maturity	96	101	106	112
Other current liab + provi	1,623	1,551	1,615	1,759
<b>Total (equity and liab.)</b>	<b>30,956</b>	<b>30,162</b>	<b>29,668</b>	<b>29,430</b>
<b>Non-current assets</b>	<b>15,387</b>	<b>14,939</b>	<b>14,467</b>	<b>14,012</b>
Fixed assets (net block)	11,976	11,505	11,007	10,524
Non-current investments	2,947	2,947	2,947	2,947
Long-term loans and advances	464	487	513	541
<b>Current assets</b>	<b>15,569</b>	<b>15,222</b>	<b>15,201</b>	<b>15,418</b>
Cash & current investment	3,414	4,134	4,941	4,624
Other current assets	12,155	11,088	10,260	10,794
<b>Total (assets)</b>	<b>30,956</b>	<b>30,162</b>	<b>29,668</b>	<b>29,430</b>
Total debt	104	109	114	120
Capital employed	29,333	28,611	28,053	27,671

Cash Flow Statement				
Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
<b>Profit before tax</b>	<b>1,596</b>	<b>444</b>	<b>676</b>	<b>901</b>
Depreciation	292	308	339	(324)
Change in working capital	(1,495)	982	804	(443)
Total tax paid	(216)	(87)	(94)	(143)
Others	(620)	(543)	(571)	(864)
<b>Cash flow from oper. (a)</b>	<b>(442)</b>	<b>1,105</b>	<b>1,153</b>	<b>38</b>
Capital expenditure	(152)	(246)	(250)	(250)
Change in investments	1,167	224	235	247
Others	237	355	373	391
<b>Cash flow from inv. (b)</b>	<b>1,252</b>	<b>332</b>	<b>357</b>	<b>387</b>
<b>Free cash flow (a+b)</b>	<b>811</b>	<b>1,437</b>	<b>1,510</b>	<b>425</b>
Equity raised/(repaid)	(277)	0	0	0
Debt raised/(repaid)	(46)	5	5	5
Dividend (incl. tax)	(468)	(402)	(390)	(429)
Others	(156)	(319)	(318)	(318)
<b>Cash flow from fin. (c)</b>	<b>(947)</b>	<b>(716)</b>	<b>(703)</b>	<b>(742)</b>
<b>Net change in cash (a+b+c)</b>	<b>(136)</b>	<b>721</b>	<b>807</b>	<b>(317)</b>

Key Ratios				
Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	18.3	5.1	7.7	10.3
Growth	28.6	(72.2)	52.1	33.4
CEPS (Rs)	22.7	9.7	12.8	15.2
Book NAV/share (Rs)	338.0	332.8	329.8	329.4
Dividend/share (Rs)	5.0	5.0	5.5	5.5
Dividend payout ratio	32.9	114.9	83.1	62.3
EBITDA margin	8.1	0.4	2.5	3.6
EBIT margin	12.0	4.4	6.7	7.7
Tax Rate	23.2	23.2	23.2	23.2
RoCE	5.6	1.7	2.5	3.4
Net debt/Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
<b>Du Pont Analysis - ROE</b>				
Net margin	9.0	3.1	4.9	5.7
Asset turnover (x)	0.4	0.4	0.4	0.4
Leverage factor (x)	1.4	1.4	1.3	1.3
Return on equity	5.5	1.5	2.3	3.1

Valuations				
Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	10.8	30.4	20.0	15.0
PCE	8.7	16.0	12.1	10.2
Price/Book	0.6	0.5	0.5	0.5
Yield (%)	2.5	3.2	3.5	3.5
EV/EBITDA	9.0	147.3	20.7	13.4

## Ferrous – Change in estimates

(Rs mn)		FY16E		FY17E		Consensus		FY18E %
		Old	New	Old	New	FY16E	FY17E	
Tata Steel	Sales	1,390,942	1,209,925	1,470,506	1,283,042	1,298,106	1,390,213	1,370,054
	EBITDA	134,640	108,302	153,462	146,013	106,444	140,516	173,586
	Adj. PAT	478	(1,659)	11,094	8,878	6,526	16,190	26,262
	EPS (Rs)	0.5	(1.7)	11.4	9.1	7.0	5.5	27.0
	Net debt	677,505	660,940	664,717	664,419	-	-	612,951
	RoCE (%)	6.0	4.4	7.3	6.7	-	-	8.6
	RoE (%)	0.1	(0.5)	3.4	2.6	-	-	7.5
Jindal Steel & Power	Sales	213,285	203,322	257,588	265,307	227,894	263,453	319,807
	EBITDA	44,998	40,310	60,653	53,566	48,851	61,815	69,841
	Adj. PAT	(10,526)	(11,330)	405	(4,686)	-7,091	1,339	9,156
	EPS (Rs)	(11.5)	(12.4)	0.4	(5.1)	-7.8	1.4	10.0
	Net debt	395,017	392,082	408,952	416,361	-	-	418,744
	RoCE (%)	2.6	2.3	4.9	4.1	-	-	6.6
	RoE (%)	(5.1)	(5.5)	0.2	(2.4)	-	-	4.7
JSW Steel	Sales	484,113	454,612	570,552	514,119	481,565	542,193	604,476
	EBITDA	83,782	65,047	113,850	90,635	77,456	100,276	105,503
	Adj. PAT	8,629	1,344	24,721	15,446	6,095	19,603	22,800
	EPS (Rs)	35.7	5.6	102.3	63.9	26.8	83.0	94.3
	Net debt	388,397	392,015	394,010	389,789	-	-	376,824
	RoCE (%)	7.8	5.6	11.3	8.9	-	-	10.2
	RoE (%)	3.8	0.6	10.3	6.7	-	-	9.2
SAIL	Sales	450,659	392,829	529,057	490,752	436,604	527,629	574,013
	EBITDA	36,437	(22,550)	56,892	39,273	16,369	51,028	67,966
	Adj. PAT	4,906	(30,227)	13,429	3,762	(7,253)	9,961	22,819
	EPS (Rs)	1.2	(7.3)	3.3	0.9	-1.7	3.4	5.5
	Net debt	340,065	346,860	414,653	455,392	-	-	531,252
	RoCE (%)	3.0	-4.1	4.5	3.0	-	-	5.6
	RoE (%)	1.1	-7.3	3.1	1.0	-	-	5.8
NMDC	Sales	89,289	76,552	100,930	79,632	81,678	89,990	92,072
	EBITDA	49,939	39,807	58,617	42,330	42,558	45,716	50,643
	Adj. PAT	47,613	38,913	54,316	41,224	39,909	40,646	45,989
	EPS (Rs)	12.0	9.8	13.7	10.4	9.9	10.2	11.6
	Net debt	(157,451)	(151,293)	(116,670)	(99,145)	-	-	(43,910)
	RoCE (%)	22.0	18.2	24.3	19.3	-	-	21.8
	RoE (%)	14.6	12.1	16.1	12.8	-	-	14.2

## Ferrous – Change in estimates

(Rs mn)		FY16E		FY17E		Consensus		FY18E %
		Old	New	Old	New	FY16E	FY17E	
Monnet Ispat	Sales	31,743	25,097	43,250	39,597	31,780	43,291	57,095
	EBITDA	2,051	(1,947)	5,037	2,800	2,064	5,054	5,079
	Adj. PAT	(5,421)	(9,610)	(6,323)	(8,835)	(5,494)	(6,565)	(8,611)
	EPS (Rs)	(82.3)	(146.0)	(96.0)	(134.2)	(83.4)	(99.7)	(131)
	Net debt	125,096	127,423	130,692	136,224	-	-	137,554
	RoCE (%)	(0.6)	(3.5)	0.6	(1.0)	-	-	(0.1)
	RoE (%)	(33.4)	(68.1)	(61.2)	(180.7)	-	-	224.6
Usha Martin	Sales	47,306	43,964	49,721	46,975	47,306	49,721	49,421
	EBITDA	6,565	3,913	7,229	4,308	6,565	7,229	5,424
	Adj. PAT	(2,061)	(3,138)	(1,480)	(2,854)	(2,061)	(1,480)	(1,943)
	EPS (Rs)	(6.7)	(10.3)	(4.8)	(9.3)	(6.7)	(4.8)	(6.4)
	Net debt	39,270	38,841	37,673	38,458	-	-	36,368
	RoCE (%)	4.6	0.1	5.9	0.8	-	-	2.9
	RoE (%)	(12.8)	(20.1)	(10.3)	(22.6)	0.0	0.0	(19.0)
Godawari Power & Iapat	Sales	25,925	22,935	27,058	23,245	24,463	25,873	24,031
	EBITDA	3,970	2,600	4,313	3,097	3,388	4,570	3,525
	Adj. PAT	492	(490)	701	(165)	226	921	220
	EPS (Rs)	15.0	(14.9)	21.4	(5.0)	6.9	23.1	6.7
	Net debt	19,149	19,738	18,219	19,056	-	-	18,076
	RoCE (%)	9.1	4.9	10.0	6.7	-	-	8.5
	RoE (%)	5.2	(5.4)	7.0	(1.9)	-	-	2.5

## Non-ferrous – Change in estimates

(Rs mn)		FY16E		FY17E		Consensus		FY18E
		Old	New	Old	New	FY16E	FY17E	
Vedanta	Sales	759,615	731,567	822,677	799,254	692,627	778,997	886,610
	EBITDA	213,838	209,801	218,971	218,699	174,334	199,924	228,181
	Adj. PAT	34,783	33,260	33,245	32,775	32,455	44,079	32,507
	EPS (Rs)	11.7	11.2	11.2	11.1	10.3	14.7	11.0
	Net debt	256,430	256,430	226,438	226,438	-	-	235,781
	RoCE (%)	9.2	9.0	9.1	9.1	-	-	9.2
	RoE (%)	6.3	6.0	5.7	5.7	-	-	5.6
Hindalco	Sales	1,018,292	1,020,897	1,070,205	1,055,866	1,044,877	1,125,934	1,134,724
	EBITDA	83,866	86,359	105,641	107,153	86,251	105,806	131,578
	Adj. PAT	5,908	7,927	19,313	20,538	7,494	18,951	35,189
	EPS (Rs)	2.9	3.8	9.4	9.9	4.0	9.5	17.0
	Net debt	570,125	568,744	583,075	578,592	-	-	572,230
	RoCE (%)	4.4	4.6	6.0	6.1	-	-	7.6
	RoE (%)	1.5	2.1	4.9	5.2	-	-	8.4
NALCO	Sales	69,722	69,877	72,915	69,247	68,549	71,963	73,481
	EBITDA	12,094	12,301	13,536	11,116	9,880	10,081	14,442
	Adj. PAT	9,781	9,918	10,834	9,237	7,894	8,102	11,545
	EPS (Rs)	3.8	3.8	4.2	3.6	3.1	3.2	4.5
	Net debt	(54,422)	(57,491)	(53,647)	(55,549)	-	-	(56,516)
	RoCE (%)	10.2	10.3	10.8	9.3	-	-	11.1
	RoE (%)	7.5	7.6	7.9	6.8	-	-	8.2
Hindustan Zinc	Sales	160,024	158,495	163,364	155,243	151,727	160,911	166,024
	EBITDA	79,001	78,342	78,333	71,956	72,378	76,216	77,881
	Adj. PAT	85,994	86,887	87,625	83,667	78,004	82,258	88,259
	EPS (Rs)	20.4	20.6	20.7	19.8	18.4	19.5	20.9
	Net debt	(357,525)	(357,317)	(405,288)	(402,090)	-	-	(443,413)
	RoCE (%)	20.4	20.6	18.5	17.7	-	-	16.9
	RoE (%)	18.5	18.7	16.7	16.0	-	-	15.2



## Pipes – Change in estimates

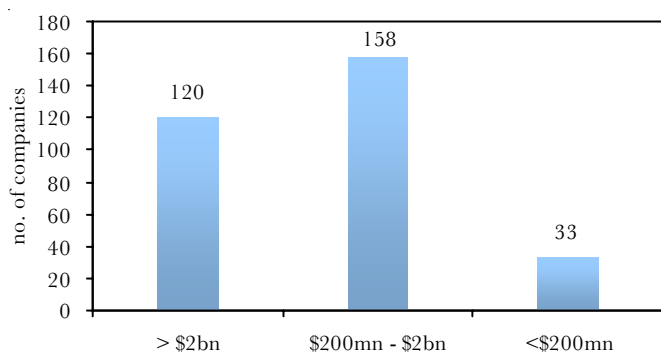
(Rs mn)		FY16E		FY17E		Consensus		FY18E
		Old	New	Old	New	FY16E	FY17E	
Jindal SAW	Sales	98,755	98,755	106,533	106,533	105,580	118,612	104,938
	EBITDA	11,418	11,418	12,250	12,250	13,604	15,754	11,030
	Adj. PAT	2,292	2,292	2,803	2,803	4,073	5,710	2,090
	EPS (Rs)	7.5	7.5	8.8	8.8	13.5	18.6	6.5
	Net debt	75,146	75,146	70,231	70,231	–	–	66,300
	RoCE (%)	6.9	6.9	7.4	7.4	–	–	6.5
	RoE (%)	6.0	6.0	6.7	6.7	–	–	4.7
Welspun Corp	Sales	89,783	89,783	92,021	92,021	90,357	96,408	84,738
	EBITDA	10,252	10,252	9,937	9,937	9,920	10,547	7,862
	Adj. PAT	2,683	2,683	2,645	2,645	2,564	3,110	1,748
	EPS (Rs)	10.2	10.2	10.1	10.1	9.7	11.8	6.6
	Net debt	18,178	18,178	13,805	13,805	–	–	7,144
	RoCE (%)	10.0	10.0	9.7	9.7	–	–	6.8
	RoE (%)	9.2	9.2	8.4	8.4	–	–	5.2
Maharashtra Seamless	Sales	12,014	10,863	12,697	10,623	11,823	13,261	12,102
	EBITDA	717	43	776	268	706	1,010	440
	Adj. PAT	859	341	908	519	708	938	692
	EPS (Rs)	12.8	5.1	13.6	7.7	10.6	14.1	10.3
	Net debt	(3,393)	(4,025)	(3,813)	(4,827)	–	–	(4,504)
	RoCE (%)	3.9	1.7	4.2	2.5	–	–	3.4
	RoE (%)	3.8	1.5	4.0	2.3	–	–	3.1
Ratnamani Metals and Tubes	Sales	17,563	17,039	19,086	18,515	17,811	20,031	20,030
	EBITDA	3,266	3,027	3,567	3,268	3,174	3,706	3,449
	Adj. PAT	1,930	1,725	2,158	1,890	1,859	2,200	2,011
	EPS (Rs)	41.3	36.9	46.2	40.4	39.8	47.1	43.0
	Net debt	(1,412)	(184)	(2,333)	(793)	–	–	(1,339)
	RoCE (%)	28.0	25.2	26.9	24.2	–	–	22.7
	RoE (%)	19.5	17.6	18.7	16.8	–	–	15.6

## Valuation

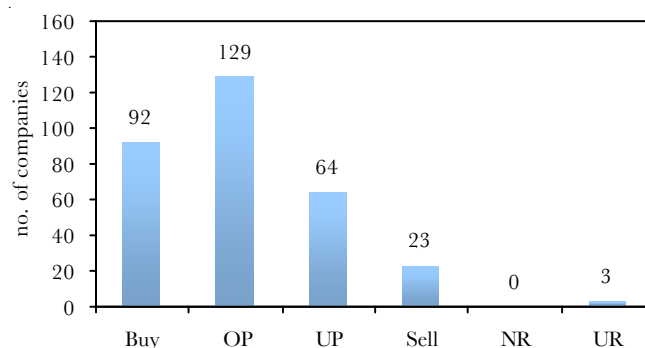
	CMP	TP (Rs)		Rating	Adj EPS (Rs)			PER (x)			EV/EBITDA (x)			P/BV (x)			RoE (%)	
	Rs	Old	New		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E
<b>Ferrous</b>																		
Tata Steel	224	250	255	OP	(1.7)	9.1	27.0	–	24.6	8.3	8.1	6.0	4.8	0.6	0.6	0.6	(0.5)	2.6
Jindal Steel and Power	86	–	–	UR	(12.4)	(5.1)	10.0	–	–	8.6	11.7	9.2	7.1	0.4	0.4	0.4	(5.5)	(2.4)
JSW Steel	887	925	825	UP	5.6	63.9	94.3	159.4	13.9	9.4	9.3	6.7	5.6	1.0	0.9	0.8	0.6	6.7
SAIL	44	46	35	SELL	(7.3)	0.9	5.5	–	48.3	8.0	–	16.2	10.5	0.5	0.5	0.5	(7.3)	1.0
NMDC	92	100	94	UR	9.8	10.4	11.6	9.4	8.8	7.9	5.3	6.3	6.3	1.1	1.1	1.1	12.1	12.8
Monnet Ispat	32	22	–	SELL	(146.0)	(134.2)	(130.8)	–	–	–	–	49.4	27.5	0.2	4.5	(0.3)	(68.1)	(180.7)
Usha Martin	14	18	13	UP	(10.3)	(9.3)	(6.4)	–	–	–	11.0	9.9	7.5	0.3	0.4	0.4	(20.1)	(22.6)
Godawari Power and Ispat	69	80	71	UP	(14.9)	(5.0)	6.7	–	–	10.3	8.5	6.9	5.8	0.3	0.3	0.3	(5.4)	(1.9)
<b>Non-Ferrous</b>																		
Vedanta	90	98	98	OP	10.5	9.7	10.7	8.6	9.3	8.4	2.5	2.4	2.3	0.5	0.5	0.5	5.7	5.0
Hindalco	74	63	70	UP	3.8	9.9	17.0	19.2	7.4	4.3	8.3	6.8	5.5	0.4	0.4	0.3	2.1	5.2
Nalco	38	46	50	BUY	3.8	3.6	4.5	9.7	10.5	8.4	3.2	3.7	2.8	0.7	0.7	0.7	7.6	6.8
Hindustan Zinc	142	152	160	OP	20.6	19.8	20.9	6.9	7.1	6.8	3.1	2.7	2.0	1.2	1.1	1.0	18.7	16.0
<b>Pipes</b>																		
Jindal SAW	63	75	75	OP	7.5	8.8	6.5	8.4	7.2	9.7	8.3	7.3	7.8	0.5	0.5	0.4	6.0	6.7
Welspun Corp	100	125	125	OP	10.2	10.1	6.6	9.8	9.9	15.0	4.3	4.0	4.3	0.9	0.8	0.8	9.2	8.4
Maharashtra Seamless	151	161	140	UP	5.1	7.7	10.3	29.6	19.5	14.6	140.8	19.7	12.7	0.5	0.5	0.5	1.5	2.3
Ratnamani Metals	572	690	650	OP	36.9	40.4	43.0	15.5	14.1	13.3	8.8	7.9	7.4	2.5	2.2	1.9	17.6	16.8

## B&amp;K Universe Profile

## By Market Cap (US\$ mn)



## By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

## B&amp;K Investment Ratings.

	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap < USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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