DOLAT CAPITAL

India Research

Metals and Mining

Steel on, Mining gone...!!!

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Steel on, Mining gone...!!!

The dynamics of metals and mining sector has undergone a considerable change over the past year, largely led by the slowdown in China. The change in the Chinese growth structure from an investment led growth to consumption led growth in 2014 has reduced its resource consumption to a large extent. China's huge appetite for resources and growth rate of over 10% for building massive infrastructure led to a global commodities boom a decade back from the year 2004.

We believe that boom is history now, and will not be witnessed again as the Chinese growth is cooling down along with its characteristics from over 10% to around to 7% With the new "normal" price range of all minerals coming into play, considerable price declines have been witnessed. The price range prevailing currently, is more than 60% lower from the top prices prevailing during the boom period for all metals. Though the prices have bottomed out however the upside will be limited to 25-30% . We believe there will be further consolidation and small players would be either closing down or selling off to larger players as survival becomes difficult in the new "normal" metals prices regime.

Volume growth back on forefront

We believe that growth in the sector would come from volumes and operational efficiency rather than captive mining benefits as low prices and high royalty rates and different cesses take away the benefits of captive resources. Against this backdrop we like **JSW Steel, Tata Steel, GPIL, IMFA**. We are negative on Coal India, Sail, NMDC and MOIL as we believe that the valuations are expensive and earnings will be disappointing despite volume growth because of low mineral prices and sticky cost.

High Royalty Rates: Key Overhang

Mining in India suffers from the highest royalty rates among the world. Royalty rates for iron ore and bauxite is 15%. Besides, poor logistics and years of unscientific mining have been responsible for high freight and mining cost as ore body goes deeper.

The logistical problems and overburdened railways have resulted in high freight cost. This makes mining unattractive and uncompetitive in India as compared to global mining companies at current mineral prices. Margins get squeezed further when minerals prices are weak. This is making it difficult to attract investment in mining in India.

Product Prices near bottom, upside potential of 25-30%

We believe that we are close to a bottom as far as steel prices are concerned, however we are not building the case for another bull run in the price given structural demand slowdown in China.

China continues to remain the biggest consumer and producer of metals and a slowdown in its consumption without proportionate decline in production and capacities is leading to an oversupply situation which will continue to keep a lid on any sharp bull run in prices. However we believe that over the next 2-3 years, unviable capacities will close down giving support to the prices, therefore we expect upside of about 25-30% from the current level.

Low input prices/domestic cost structure make captives uncompetitive

In the current low pricing environment, the disadvantage of captive mining is clearly visible as the landed cost of imported raw materials like iron ore, coal equals or in many cases slightly lower than the domestic prices. Increasing the cost further in India is the highest royalty rates in the world and different cesses levied on minerals in recent times. Besides, the auction process put in place for major minerals will keep the bid prices closer to international prices thereby offsetting any advantage. The other factor having a negative bearing on domestic situation is the passing of new MMDR bill that empowers the local state administration to levy additional cess on account of DMF (District Mineral fund). This cess which can be levied maximum up to royalty rate on concerned minerals will further increase the cost of production. We believe this would be 2% of royalty rate. With difficult times approaching, we believe that operational efficiency and management proficiency will come into play thus separating the men from the boys as far as Indian companies are concerned.

Exhibit 1: Iron ore price movement

Exhibit 2: Thermal coal price movement

Exhibit 3: Royalty rates for different minerals in India -2015

Royalty rates in India 2015	Royalty (%)
Iron ore	15
Bauxite	15
Manganese ore	5
Coal	14
Zinc	8.4
Lead	12

Source: IBM and Dolat Research

Comparison between mining and metals players

Even upto a a year back, pure mining companies and metals companies having captive mine resources would be looked at positively and would command higher valuations as compared to non-integrated pure metals companies. But with China slowing down, demand for commodities has declined sharply driving down the prices of commodities by 50% over the past year. We believe that this situation will continue for long term as replacing China's demand would be very difficult as we enter a "new normal "growth phase. As such, we believe that pure metal players with better operational efficiency, conversion cost and management bandwidth will do well. We also believe that companies which would be able to ramp up volume growth would comparatively do well despite a soft pricing regime.

Iron ore and coal prices to remain soft for long term

We expect iron ore prices would remain soft for the long term as China's growth slowdown reduces demand in absolute terms coupled with new mining capacities by Rio, BHP and Vale increasing supply. This will result in a surplus situation in the medium to long term. Besides, a decade of China's huge growth will result into availability of more scrap as people start replacing older vehicles. This will further reduce consumption of iron ore and coal for steel making because of increased scrap usage.

Steel prices to remain soft, Ferro alloys to follow through

Due to softer raw material prices and a reduction in demand from the Chinese market steel prices will also remain under pressure. This will reduce the demand for Ferro alloys. This in turn will keep Manganese ore prices soft. As a result, volume growth and operational cost efficiency will be the key earnings growth driver in the medium term.

India Domestic Demand: Better Days Ahead!

Housing for all and development of allied infrastructure to drive demand for steel

The government of India has set a very ambitious target to provide housing for all by the year 2022. As per the target, 20mn urban housing and 40mn rural housing would be built. The government has allocated Rs 40bn for this in its last budget. Assuming an average 500 sq.ft of house, this target would require building about 11 mn square feet (appx.1.1mn sq.m) per day for next 7 years. Though it seems an unrealistic goal, there is reason to believe that it can be achieved to a great extent by faster clearances, ease of credit for poor and weaker section of the society, resolution of land acquisition issues and other bureaucratic hurdles. Even if government is able to achieve 40% of this target, it would be great demand driver for steel and cement. Besides, relevant infrastructure such as roads, water system, sewage, hospitals, malls, movie halls, schools and colleges, etc. will need to be built as well. This will serve as the demand driver for the steel. The world average for steel –cement ratio used in construction is about 1 while in India, it is very low at about 0.3. An improvement on this ratio would further boost the steel demand.

Robust demand in India to result in increased capacity

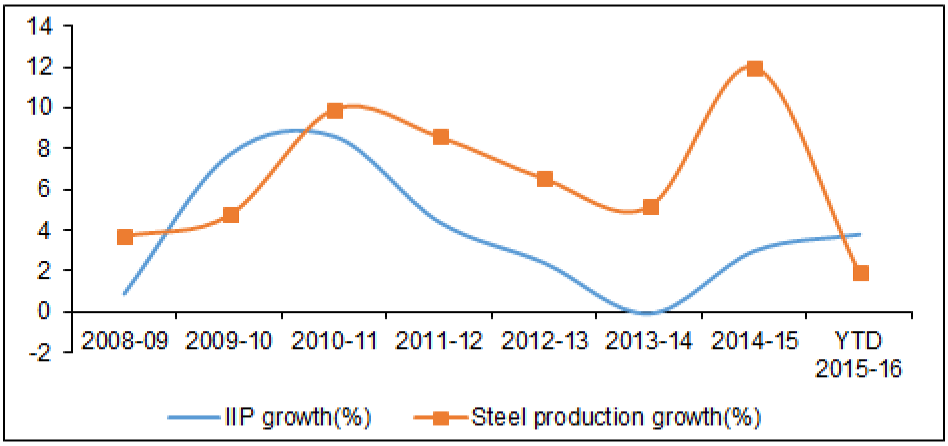
Currently, India's per capita steel consumption is low at 47kg vs ~340kg in China and the world average of 211kg. Hence, we believe Indian steel industry's long-term growth prospects are bright.

The Ministry of Steel has indicated that India's steel capacity is likely to increase to 124mt by FY20 from the current 90mt. However, we feel this is an aggressive target given the several issues companies are facing pertaining to balance sheet stress due to low prices, land acquisition and mine allocation and regulatory clearances, etc. We estimate that the capacity is likely to rise to 110mt by FY20.

Domestic Industrial growth to spur steel consumption

An Increased industrial manufacturing activity is reflected in the country's IIP growth. It has been observed the IIP and steel consumption move in tandem with each other. Thus, we believe that a recovery in IIP would ultimately lead to growth in steel consumption with a lag effect.

Exhibit 4: IIP vs Steel production



Source: IISI, Dolat Research

The Global Arena

Global steel production contraction as demand slows down balancing the oversupply situation

The global steel production grew at about 3% CAGR from 2007-2014 to reach 1640mt. But with the slow down of China, production declined by 0.5% in 2014 to 1640mt from 1649mt in 2013. Notably production growth is happening only in India, Russia and Korea with other major producers like China, Japan, USA showing flat production. We also believe that steel production would decline to 1620mt in 2015 as China's production starts declining due to demand slow down balancing the oversupply situation.

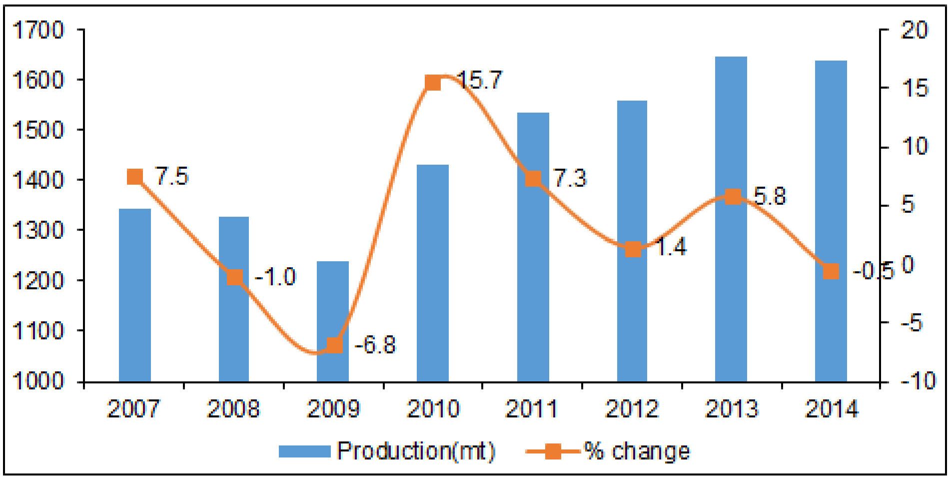
Exhibit 5: Top 10 steel producers

Top 10 global steel producers (mt)

Country	2013	2014
China	822	823
Japan	111	111
USA	87	88
India	81	86
Russia	69	71
South Korea	66	71
Germany	43	43
Turkey	35	34
Brazil	34	34
Ukraine	33	27

Source: Worldsteel.Org

Exhibit 6: World crude steel production and YoY growth

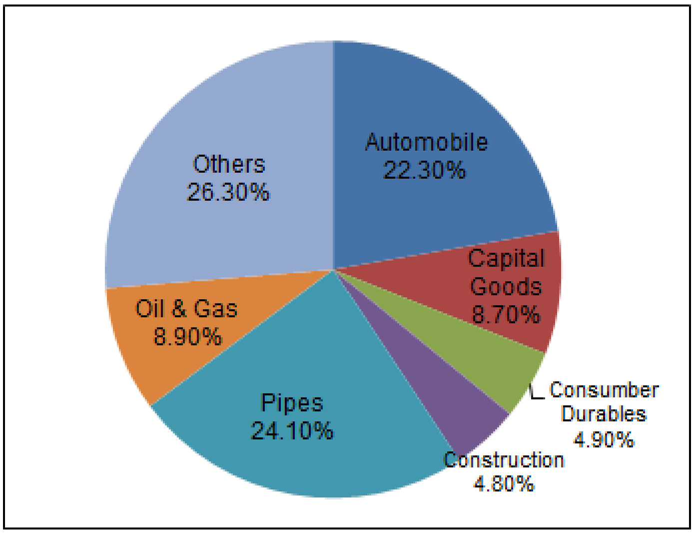


Source: Worldsteel.Org, Dolat Research

Global steel prices near bottom, see upside of 25-30% over 2 years

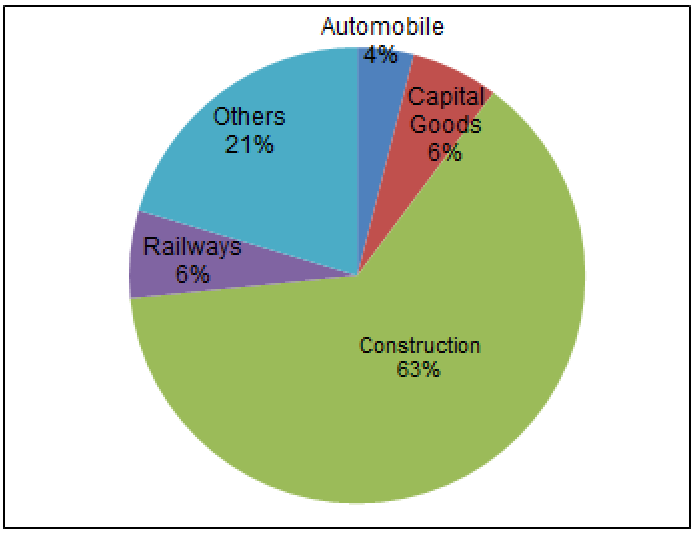
We believe steel prices are near bottom as current prices are lower than the marginal cost of production for 50% of world capacities. We also believe that slowing down of growth in China is reducing the demand for iron ore, coal and other raw materials which are also expected to remain soft. As unviable capacities start closing down in response to low demand, balance would be restored between supply and demand. As a result, we believe prices would start rising over the next 2 years.

Exhibit 7: Global Flat steel consumption pattern



Source: ECB, Dolat Research

Exhibit 8: Global Long steel consumption pattern

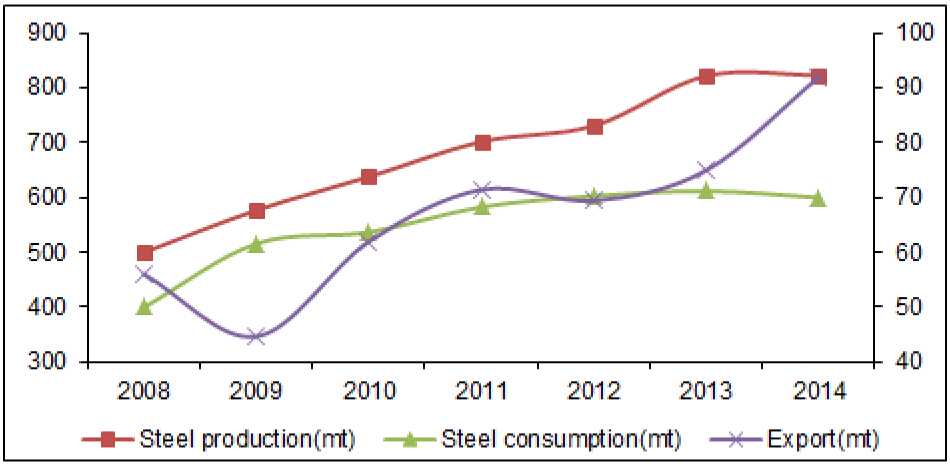


Source: ECB, Dolat Research

The slowdown in China- a real threat to prices

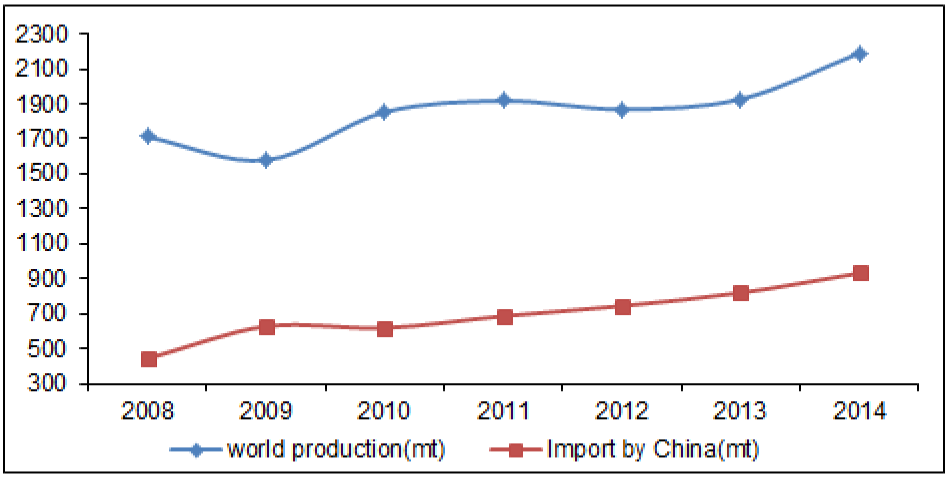
The Chinese economic growth is slowing down but production continues to grow (Exhibit 9). As such, China is flooding the world market with increased export of steel which is keeping prices under pressure. We believe that China will be forced to cut production and close down unviable capacities as more countries around the world begin to build up tariff and nontariff barriers against the dumping by China which will give support to the prices. We also believe that cutting production will not be easy as it may create social tensions and politically it can be problem of the government but it will have no other option but to undertake such a measure for the long term sustainable growth structure.

Exhibit 9: China's steel production, consumption and exports



Source: IISI, Dolat Research

Exhibit 10: World iron ore production and import by China

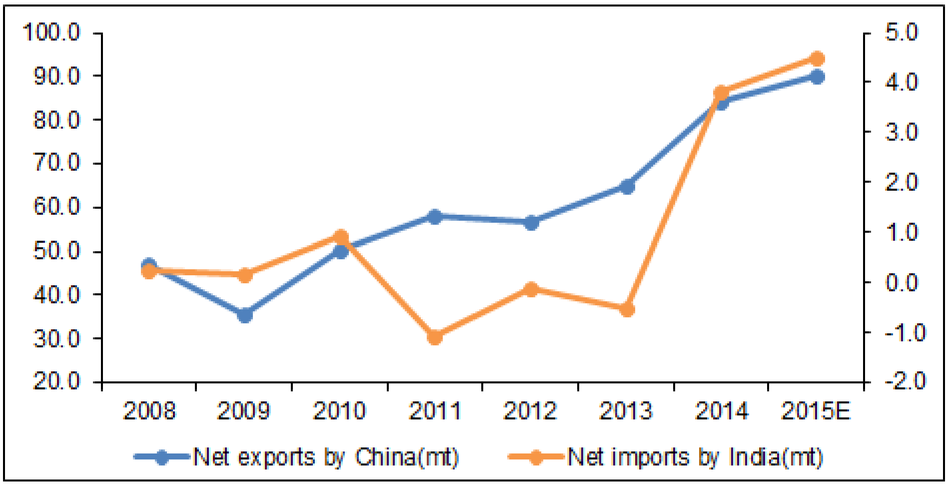


Source: IISI, Dolat Research

Increasing Chinese exports will keep domestic steel prices under pressure

As its growth slows down, steel consumption also is slowing down in China. This is leading to a jump in exports as production is not declining substantially due to socio-economic-political factors. As a result, lot of Chinese material is being flooded in the global market. India being its next door neighbour is receiving significant volumes of incremental exports from China at very low prices. This has resulted in depressing domestic steel prices in India and this has harmed the Indian steel industry.

Exhibit 11: Increasing exports by China to India



Source: IISI, Dolat Research

Conclusion

We believe that growth in the sector would come from volumes and operational efficiency rather than captive mining benefits as low prices and high royalty rates and different cesses take away the benefits of captive resources. Against this backdrop we like **JSW Steel, Tata Steel, GPIL, IMFA**. We are negative on Coal India, Sail, NMDC and MOIL as we believe that the valuations are expensive and earnings will be disappointing despite volume growth because of low mineral prices and sticky cost.

Exhibit 12: Global Peer Valuation

	2016				2017			
	P/E	P/B	EV/E	ROE(%)	P/E	P/B	EV/E	ROE(%)
Arcelor Mittal	15.6	0.4	4.9	3.2	9.7	0.4	4.4	4.4
Salzgitter	13.6	0.6	3.3		9.7	0.6	3.1	
Nucor	14.8	1.7	6.9		12.5	1.6	6.2	
US steel	21.3	0.7	4.9		9.4	0.7	3.9	
Steel dynamics	10.7	1.5	6.2	15.2	9.6	1.3	5.9	15.0
Schnitzer steel	15.8	0.8	5.7		9.5	0.7	4.8	
Posco	9.1	0.4	6.4	4.3	8.0	0.4	6.0	4.6
Hyundai steel	6.5	0.4	6.2	6.8	6.1	0.4	6.0	6.8
Dongkuk steel	NA	0.3	22.9	(9.0)	NA	0.3	21.9	(11.3)
Wuhan iron & steel	15.8	1.5	8.8	9.4	12.4	1.4	7.9	10.8
Baoshan iron & steel	16.2	1.0	7.6	6.4	13.6	1.0	6.3	6.7
Hebei iron & steel	NA	NA	NA	2.8	NA	NA	NA	3.6
Angang	18.5	0.5	8.2		13.1	0.5	7.3	
Nippon Steel	9.6	0.8	7.3		8.4	0.8	6.6	
Severstal	8.3	2.0	NA	24.0	7.7	1.8	NA	31.3
NLMK	9.0	0.9	NA	11.2	8.3	1.0	NA	13.2
Magnitogotsk Iron & Steel	6.6	0.6	NA	8.9	5.4	0.7	NA	11.1
BHP billiton	21.0	1.5	7.4	8.6	14.2	1.5	6.2	10.8
Rio tinto	14.7	1.5	7.2		11.9	1.5	6.3	
Fortescue Metal Group	148.3	0.6	6.2	0.8	15.0	0.5	5.1	4.3
Vale	18.3	0.5	6.5		6.8	0.5	4.8	
Glencore	11.5	0.8	7.2		7.8	0.8	6.2	
Arch Coal	NA	0.0	15.4		NA	0.0	13.7	
Peabody	NA	0.2	8.4		NA	0.3	6.6	

Source: Bloomberg

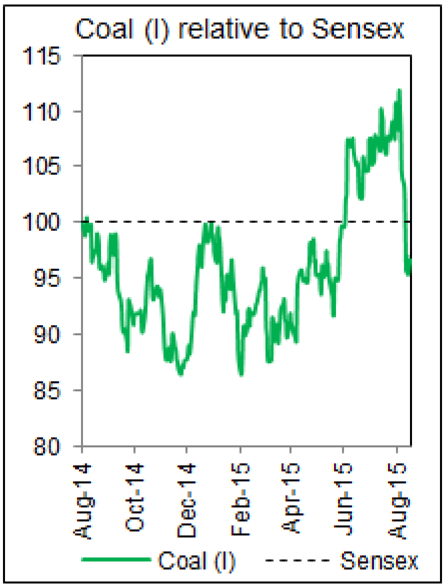
Company Snapshot

Coal India

DOLAT CAPITAL

CMP: ₹ 364 Target Price: ₹ 300 SELL

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 631,64mn
Face Value	₹ 10/-
Market Cap	₹ 2261bn
	USD 35.3bn
52 week High / Low	₹ 447 / 332
Avg. Volume (no)	4,883,943
BSE Code	533278
NSE Symbol	COALINDIA
Bloomberg Code	COAL IN
Reuters Code	COAL.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	79.65
MF/Banks/FIs	8.61
FIIs	9.16
Public / Others	2.58



Coal India (CIL) is the single largest coal producer in the world. It operates 81 mining areas in India and produces about 80% of India's coal output. Coal India's volume grew by 7% in FY15 to 494mt. The Government of India has set an ambitious target of doubling the production to 1bt by CIL by 2020. We expect the company to achieve 8% CAGR in coal production to 575mt in the FY15-FY17E period on the back of aggressive capacity expansion and by undertaking investment in rail wagons for faster evacuation of coal. However weak international prices and subdued demand would keep realization under pressure.

On track to achieve more than 8% Volume growth

CIL has undertaken an aggressive capex plan of ₹7bn each year to increase coal production and sales to 575MTPA by 2017E and 900MTPA by 2020E. Though the government has set an ambitious target of 1bt of coal by 2020, we expect the company will be able to achieve 720mt even assuming a modest 8% growth. If it is able to overcome the land acquisition hurdles, forest and environment clearances and deploy more technology and mechanized operations to increase production and faster evacuation of coal, we believe it will be able to 750mtpa by 2020.

Soft international coal prices and logistic problems to keep earnings under pressure

The weak international coal prices will continue to put pressure on Coal India as auction prices will decline in line with international coal prices. Besides, logistic problems and unavailability of railway rakes for evacuation of coal will put more pressure on prices as coal cannot be stored for long. CIL will continue to produce to meet production targets. However the limited storage capacity will further increase availability which in turn will put further pressure on prices.

Key risks to our stance

1) Prices increasing sharply contrary to our assumptions.2) lower than assumed volumes may adversely impact earnings.

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	688,100	0.7	159,588	23.2	151,073	22.0	23.9	(12.9)	15.0	35.6	49.7
FY15	741,201	7.7	173,311	23.4	137,223	18.5	21.7	(9.2)	16.5	34.0	48.2
FY16E	724,033	(2.3)	117,712	16.3	108,906	15.0	17.2	(20.6)	20.8	21.3	29.2
FY17E	816,965	12.8	133,533	16.3	128,348	15.7	20.3	17.9	17.6	20.0	27.5

Figures in ₹ mn

Valuations: Too much optimism

The stock has rallied over 20% in last 2 months as investors believe that price realization will improve. On the contrary, we however believe that due to weak international prices and logistic problems, prices will remain under pressure. Even with higher optimistic assumption, we fail to justify the sky high valuations. We therefore believe it has run ahead of its fundamentals and so we recommend "SELL" on the stock with price target of ₹ 300 valuing company at 15x FY17E EPS and 16.4x FY17E EV/EBITDA.

Earnings and margins to decline sharply despite volume growth, premium valuation unsustainable

Coal Pricing is key driver of company's profit growth. With the auctioning of coal blocks and now to be followed by the auctioning of linkage coal the government is steering CIL towards market based pricing. Since international coal prices are down by 50% in last 1 year, and is expected to continue to remain soft due to a demand slowdown going forward CIL's average price realization will also remain under heavy pressure and volume growth of 10% will not be able to offset price decline. We therefore believe that the premium valuations commanded by CIL is unsustainable.

Exhibit 1: Key assumptions for Coal India

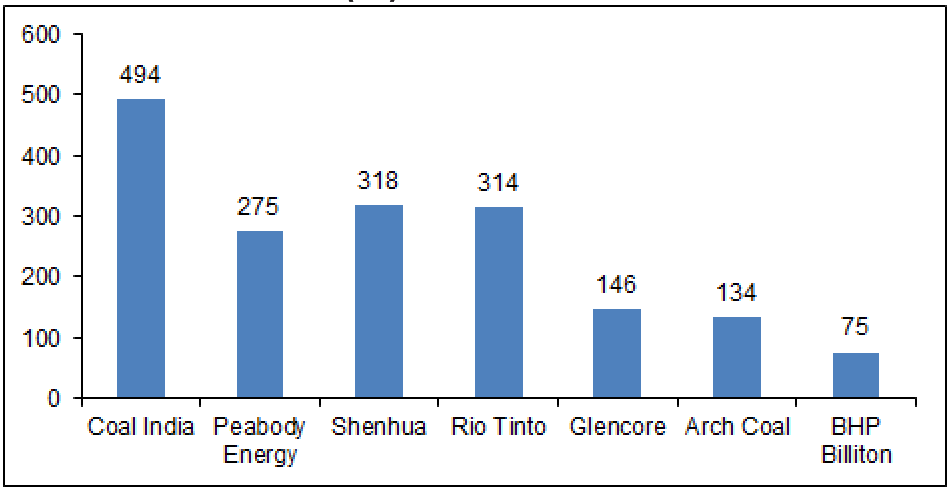
	FY16E	FY17E
Volume (mt)	535	575
Realization (₹/t)	1,350	1,420
Average Cost (₹/t)	1,132	1,166

Source: Dolat Research

Largest coal producer in world

CIL operates 471 mines in 21 major coalfields (five coal fields accounted for ~65% production over the last three years) across 8 states in India of 64.8bn tonnes. CIL holds the largest reserves in the world, which makes the company largest in terms of reserves and production. The company produced 494MT of coal which is significantly high compared to international coal companies like **Peabody, Australia and Shenuha, China**. Going forward, we believe that growth will increase with the resolution of logistic issues, use of mechanized mining and increased engagement of private mining contractors.

Coal Production in 2014 (mt)



Source: Dolat Capital

Huge Reserves

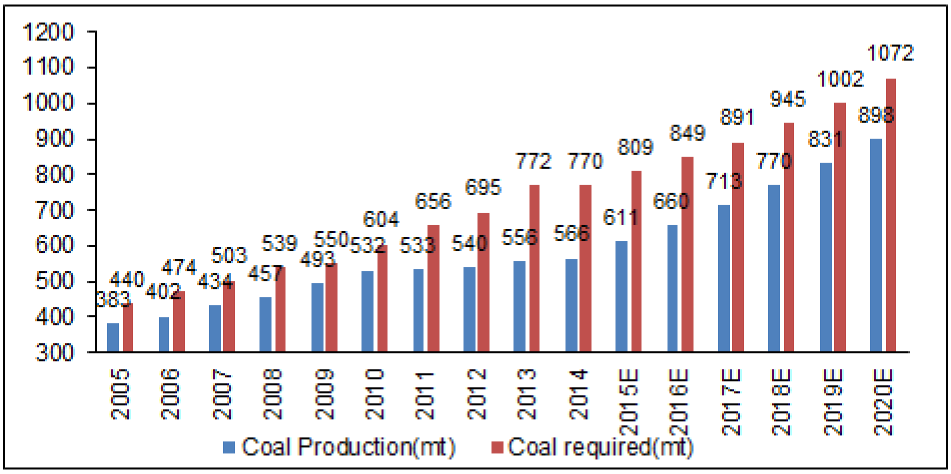
The company has a huge reserve base of 64bn tones. Out of this, 37bn tonnes have not been evaluated for mineability. But there are some concerns regarding the reserve base. Jharia and Raniganj fields, which are amongst the oldest coalfields in India, have only 7% and 4% of the resources classified as reserves respectively. Jharia coalfield is the only source of prime coking coal in the country and is beset with coal mine fires.

Demand supply mismatch to decline going forward

India has got the 3rd largest reserves of coal in the world with a rough estimate of about 287 bt. But historically coal production has grown at a slow rate of 5% over the last decade, whereas demand has grown at about 6% in recent times. CIL registered a record annualized production growth of about 7% for FY15 and registered growth of 10.5% in last 4months. At the same time, because of overall sluggish world economy triggered by the Chinese slowdown has created problems for Indian metals companies. With the increased supply and slowdown in demand, we believe that there would be decline in import going forward.

commercial mining purpose and is in the process of preparing the ground work and guidelines in order to achieve a stiff production target of 1bt for CIL by 2020.This would bring in huge investment from global mining companies in India.

India's Demand supply dynamics



Source: Company, Dolat Research

Industry Overview

Demand for coal rising steadily but slowly

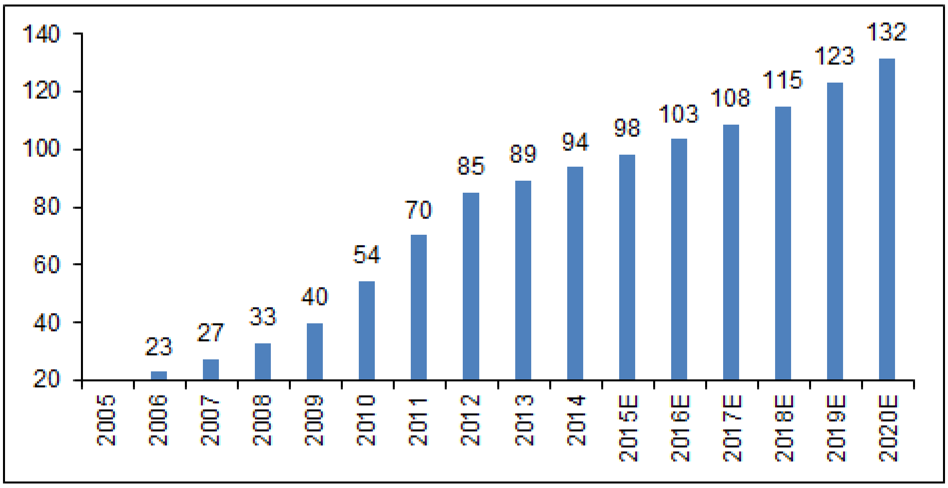
Global coal production exceeds 6 bt (billion tonne) and the demand for coal is expected to grow by about 2.1% per year through 2019 as per IEA report mainly driven by China, India,Turkey,Korea and other developing countries like Brazil, South Africa. The bulk of the demand is expected from power and steel sectors. Globally, about 45% power is generated from coal, and about 15% coal is used by the steel sector. Though India is the 3rd largest producer of steam coal in the world, it still has to import as supply has not kept pace with demand. Going forward, the demand-supply gap will narrow down as domestic coal production rises rapidly.

Commercial mining expected to be allowed

That government is expected to hold an auction for coal blocks for commercial mining purpose and is in the process of preparing the ground work and guidelines in order to achieve a stiff production target of 1bt by 2020.This would bring in huge investment from global mining companies in India.

At present, the steel sector requires about 94 mt of coal, out of which 50% is coking coal. We believe that steel production is expected to grow by about 6% for the next 5 years. As per the government target, India's steel production capacity would reach 120 mt by 2020 and would reach 150 mt by 2025. India has negligible reserves and production of coking coal. At least 50% of the coal required by the steel sector would be coking coal, which would be imported from Australia, United States, etc.

Coal required by Steel sector in India (mt)

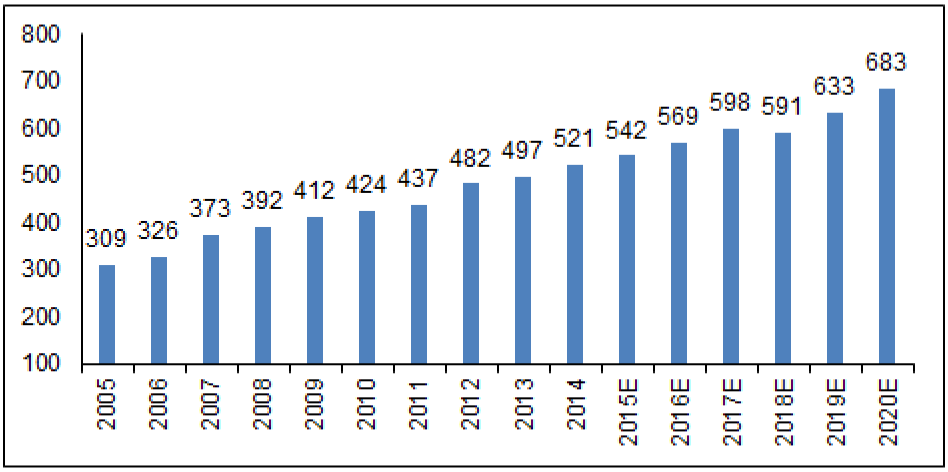


Source: Worldcoal.org, Dolat Research Estimates

Coal requirement for power in India

In India, 70% of the power is generated through coal-based power plants. Though India has got the 3rd largest coal reserves in the world, production remained stagnant all these years. Only in in 2014 it registered a record production growth of 7%. Besides, the quality of India's coal is inferior with high ash content, and as such steam coal is also imported despite having the 3rd highest reserves. We believe that going forward by 2020 our requirement for coal would exceed 1bt, and the government has set a target of 1bt of coal production in India.

Coal required by power sector (mt)



Source: Worldcoal.org, Dolat Research Estimates

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net Sales	**688,100**	**741,201**	**724,033**	**816,965**
Total Expenditure	**528,512**	**567,890**	**606,321**	**683,431**
EBITDA	**159,588**	**173,311**	**117,712**	**133,533**
EBITDA Margin (%)	23	23	16	16
Other Income	89,694	65,706	69,041	79,920
Operating Profit	249,282	239,017	186,753	213,453
Depreciation	19,964	23,198	24,075	24,600
EBIT	229,318	215,819	162,678	188,853
Interest	580	73	107	83
PBT	228,738	215,746	162,571	188,770
Exceptional Items	14	50	0	0
Profit Before Tax	228,752	215,796	162,571	188,770
Provision for Tax	77,679	78,573	53,665	60,422
Tax Rate (%)	34	36	33	32
Profit After Tax	**151,073**	**137,223**	**108,906**	**128,348**

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	231,069	233,049	132,981	152,948
Cash Flow from working capital	(85,822)	(89,234)	25,396	15,469
Net operating cash flow	**145,247**	**143,815**	**158,377**	**168,417**
Net purchase of fixed assets	(41,164)	(49,014)	(38,406)	(41,000)
Net purchase of investments	126,961	57,957	(866)	0
Net cash flow from investing	**85,798**	**8,943**	**(39,272)**	**(41,000)**
Net cash flow from fin.	**(253,503)**	**(150,257)**	**(219,111)**	**(219,697)**
Free Cash Flow	**(22,458)**	**2,501**	**(100,005)**	**(92,280)**
Opening Cash Balance	116,849	94,391	530,925	430,920
Closing Cash Balance	94,391	96,892	430,920	338,640
Cash Balance	528,424	530,925	430,920	338,640

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
SOURCES OF FUNDS:				
Share Capital	63,164	63,164	63,164	63,164
Total Reserves	360,881	340,367	449,273	577,621
Shareholder's Funds	**424,045**	**403,531**	**512,437**	**640,785**
Minority Interest	636	658	678	700
Shifting & rehabilitation fund	25,201			
Secured Loans	11,804	42,013	42500	42500
Unsecured Loans	0	2,001	2,200	2,300
Total Debts	**11,804**	**44,014**	**44,700**	**44,800**
Total Liabilities	**461,685**	**448,203**	**557,815**	**686,285**
APPLICATION OF FUNDS :				
Gross Block	408,971	448,079	483,079	521,079
Less: Accumulated Depreciation	263,022	286,928	311,003	335,603
Less: Impairment of Assets				
Net Block	**145,949**	**161,151**	**172,076**	**185,476**
Capital Work in Progress	**45052.7**	**51594**	**55000**	**58000**
Investments	**37,749**	**28,134**	**29000**	**29000**
Current Assets, Loans & Advances				
Inventories	55,681	61,838	59510	60433
Sundry Debtors	82,410	85,219	79346	89530
Cash and Bank	523,895	530,925	430,920	338,640
Other Current Assets	54,375	61,808	62000	65000
Loans and Advances	77,594	105,150	105,150	105,150
Total Current Assets	793,955	844,940	736,926	658,753
Less : Current Liabilities and Provisions				
Current Liabilities	188,831	215,174	232562	262138
Provisions	391908.2	503875	222625	371209
Total Current Liabilities	580,739	719,049	455,187	633,347
Net Current Assets	**213,216**	**125,890**	**281,739**	**25,406**
Miscellaneous Exp	0			368,403
Deferred Tax Assets / Liabilities	19,717	19,596	20,000	20,000
Total Assets	**461,685**	**448,204**	**557,815**	**686,285**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBITDA Margin (excl. O.I.)	23.2	23.4	16.3	16.3
Interest / Sales	0.08	0.01	0.01	0.01
Gross Profit Margin	36.2	32.2	25.8	26.1
Tax/PBT	34.0	36.4	33.0	32.0
Net Profit Margin	22	19	15	16
(B) As Percentage of Net Sales				
Raw Material				
Employee Expenses	40	40	45	45
Other Expenses	23	24	27	27
(C) Measures of Financial Status				
Debt / Equity (x)	0.0	0.1	0.1	0.1
Interest Coverage (x)	429.8	3265.3	1745.4	2571.7
Average Cost Of Debt (%)	4.9	0.2	0.2	0.2
Debtors Period (days)	44	42	40	40
Inventory Turnover Ratio (x)	12.4	12.0	12.2	13.5
Fixed Assets Turnover (x)	4.7	4.6	4.2	4.4
Working Capital Turnover (x)	3.2	5.9	2.6	32.2
Non Cash Working Capital (₹ bn)	(310)	(405)	(149)	(313)
(D) Measures of Investment				
EPS (Rs.) (excl EO)	23.9	21.7	17.2	20.3
EPS (Rs.)	23.9	21.7	17.2	20.3
CEPS (Rs.)	27.1	25.4	21.1	24.2
DPS (Rs.)	29.0	29.0	29.0	29.0
Dividend Payout (%)	121.2	133.5	168.2	142.7
Profit Ploughback (%)	-21.2	-33.5	-68.2	-42.7
Book Value (Rs.)	67.1	63.9	81.1	101.4
RoANW (%)	35.6	34.0	21.3	20.0
RoACE (%)	49.7	48.2	29.2	27.5
RoAIC (%) (Excl Cash & Invest.)	-229.4	-194.7	166.2	59.3
Valuation Ratios				
CMP (₹)	358	358	358	358
P/E (x)	15.0	16.5	20.8	17.6
Market Cap. (₹ bn.)	2,261	2,261	2,261	2,261
MCap/ Sales (x)	3.3	3.1	3.1	2.8
EV (₹ bn.)	1,749	1,774	1,875	1,967
EV/Sales (x)	2.5	2.4	2.6	2.4
EV/EBDITA (x)	11.0	10.2	15.9	14.7
P/BV (x)	5.3	5.6	4.4	3.5
Dividend Yield (%)	8.1	8.1	8.1	8.1

E-estimates

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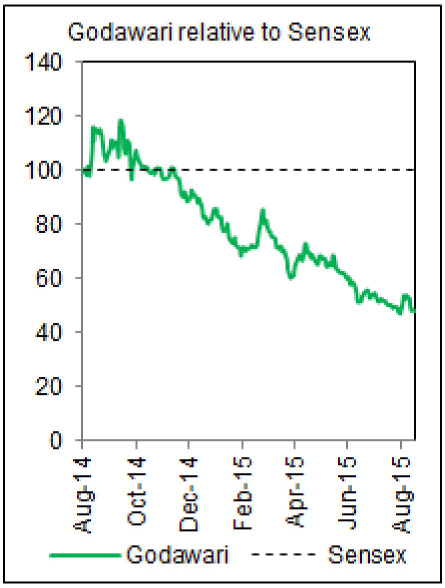
Godawari Power & Ispat

DOLAT CAPITAL

CMP: ₹ 78 | Target Price: ₹ 121 | Buy

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 328mn
Face Value	₹ 10/-
Market Cap	₹ 2.5bn
	USD 40mn
52 week High / Low	₹ 186 / 73
Avg. Volume (no)	32366
BSE Code	532734
NSE Symbol	GPIL
Bloomberg Code	GODPI IN
Reuters Code	GDPI.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	64.89
MF/Banks/FIs	6.37
FIIs	-
Public / Others	28.74



Godawari Power (GPIL) is an integrated sponge iron, steel and ferro alloys producer based at Raipur,Chhatisgarh in India. Most of the Chhattisgarh based steel companies follow a similar model. This model of steel, Ferro alloys and power used to be a very lucrative business opportunity till merchant power crashed and prices of commodities declined sharply. The only differentiation between different companies in Chhattisgarh following this business model is having captive resources or not. A boost to the margins and earnings to GPIL will come from the production of iron ore from its captive mines at Boria Tibu and Ari Dongri, Chhatisgarh by Dec 2015 and the doubling of its steel making capacity by FY17E. We recommend Buy on the stock with price target of ₹121 valuing it conservatively at 5x FY17E EBIDTA after deducting the equity investment of ₹2bn made in solar power business.

Iron ore mine and doubling of steel making capacity to boost revenues and expand margins

The company has got 2 mines in Chhattisgarh at Boria Tibu and Ari Dongri spread over 243hectare. Mining at Boria Tibu has stopped as all material has been taken out from the mines. GPIL is expected to commence iron ore production from other mine at Boria Tibu and also increase production from Ari Dongri mine as it has received all clearances and will achieve full production capacity by Dec 2015. This will boost margins as even with depressed iron ore prices it will save about ₹500/t. The company is also in the process of doubling its steel making capacity to 420,000tpa by installing 2 new induction furnaces (2x30 t), continuous casting machine, hot charging facility, wire rod and TMT bar mills. This will boost its revenues and improve margins.

No profit in power selling as merchant prices collapsed

The company has stopped selling power in the merchant market as tariffs have collapsed and instead it is boosting steelmaking capacity to utilize the power.

High debt and interest charges,a key concern

The Company has a debt of about ₹18bn and D/E ratio of 1.93x which would further come under pressure because of falling steel prices and shrinking margins. This can be a big concern but we believe that company is taking steps to reduce its debt by utilizing internal accruals for capex and restructuring its non-core assets.

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	21,180.5	(10.1)	3,472.4	16.4	578.3	3.3	17.7	(61.1)	4.4	6.7	8.8
FY15	23,949.8	13.1	3,582.0	15.0	661.9	3.0	20.2	14.5	3.9	7.2	9.0
FY16E	19,965.7	(16.6)	2,819.0	14.1	(561.0)	(3.0)	(17.1)	(184.8)	(4.6)	(6.5)	6.2
FY17E	23,722.3	18.8	4,633.3	19.5	980.0	4.0	29.9	(274.7)	2.6	10.1	11.6

Figures in ₹ mn

Valuations

The company is at a critical point and can be a breakout point in either direction depending on the execution of some of measures like the starting of a new captive iron ore mine, reduction of debt, etc. We also believe that downside to the stock is limited and expect a turnaround from the current level. At CMP the stock is trading at 2.5x FY17E EPS of ₹ 30 and on EV/E it trades at 7.1x FY16E and 4.2x FY17E EBIDTA. We are only taking the value of its core steel business into consideration. Therefore we are deducting the equity investment of about ₹ 2bn made by GPIL in its 100% subsidiary “Godawari Green Energy” for solar power business from our valuation. We recommend Buy on the stock with price target of ₹121 valuing it conservatively at 5x FY17E EBIDTA after deducting the equity investment of ₹2bn made in solar power business.

Iron ore mining & increase in steelmaking capacity to expand margin

The Company has got two iron ore mines in Ari Dongri and Boria Tibu in Chhattisgarh spread over 215 hectares. The Boria Tibu mine is expected to begin production in Nov-Dec 2015. The Ari Dongri mine is expected to increase production as it has received environmental and forest clearances. The full impact of this will reflect in Q4FY16E which would then suffice its annual requirement for the sponge iron production. With the ramp up in production, the company expects to be 100% captive on iron ore from FY17E onwards. Thus we believe that iron ore mining will contribute significantly to its operating profit from FY17E onwards and will be a key driver of margin expansion.

GPIL is doubling its steelmaking capacity to 420,000tpa by installing 2 new induction furnaces (2x30t), continuous casting machine, hot charging facility, wire rod and TMT bar mills.

What can be trigger for the stock?

We think that the stock has bottomed out and don’t see much downside from the current level. There are also triggers like getting captive iron ore and capacity expansion and increasing value added products like TMT bars. We also believe that steel prices have bottomed out and we see 25-30% upside from the current level.

Exhibit 1: Expansion plan

Product (Tonnes)	Existing Capacity FY2015	Expansion FY2016	Post Expansion FY2017
Sponge Iron	495,000		495,000
Steel Billets	240,000	180,000	420,000
H.B.Wire & TMT Bar	150,000	200,000	350,000
Ferro Alloys	16500		16500
Power (MW)	73		73
Pellet	1,800,000		1,800,000

Exhibit 2: Mineral resources

Mines details

Iron ore	Reserves (mn tons)	Status
Ari Dongri & Boria Tibu, CG	30	Mining to start from Nov-Dec 2016

Source: Company, Dolat Capital Research

Exhibit 3: Key assumptions

Y/E March	FY16E	FY17E	Existing capacity
Sales Volumes (t)			
Sponge	252,000	105,000	500,000
Steel (Billets + Wire rods)	232,000	376,000	420,000
Ferro manganese	24,000	40,000	66,000*
Pellet	940,000	972,000	1,800,000

Realizations (₹/t)		
Sponge	15,300	17,000
Steel	27,800	28,700
Ferro Manganese	47,000	50,700
Pellet	5,700	5,700

Source: Company, Dolat Capital Estimates

** includes group co.Hira Ferro cap*

INCOME STATEMENT ₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net sales	21,181	23,950	19,966	23,722
Total Expenditure	17,708	20,368	17,147	19,089
(Inc)/Dec. in stock	(136)	(536)	0	0
Raw material	12,339	14,966	13,045	12,578
EBIDTA	3,472	3,582	2,819	4,633
Margin(%)	16	15	14	20
Other income	156	200	180	180
Depreciation	1,055	1,182	1,250	1,400
EBIT	2,573	2,601	1,749	3,413
Interest	1,650	2,237	2,340	2,160
Exceptional items	0	(402)		
PBT	923	766	(591)	1,253
Tax	223	59	0	313
Etr(%)	24	8	0	25
PAT	700	707	(591)	940
PAT Margin(%)	3	3	(3)	4
Minority Interest	110	45	(30)	(40)
Share of associates	(12)	(1)	0	
Adj. PAT	578	662	(561)	980

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	3,527	1,844	689	2,380
Cash Flow from working capital	(2,972)	2,597	(773)	141
Net operating cash flow	**555**	**4,441**	**(84)**	**2,521**
Net purchase of fixed assets	(3,104)	(3,802)	(719)	(2,000)
Net purchase of investments	346	(162)	0	0
Net cash flow from investing	**(2,758)**	**(3,964)**	**(719)**	**(2,000)**
Net cash flow from financing	**2,133**	**(1,194)**	**96**	**(39)**
Free Cash Flow	(70)	(717)	(706)	481
Opening Cash Balance	319	1,770	1,053	346
Closing Cash Balance	249	1,053	346	828

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
Share Holders' Fund	8,642	9,244	8,683	9,663
Capital	328	328	328	328
Reserves	8,315	8,917	8,355	9,335
Debt	19,019	17,865	18,000	18,000
Minority interest	1,627	1,671	1,700	1,800
Total Liabilities	**29,288**	**28,780**	**28,383**	**29,464**
Gross Block	27,606	31,408	32,000	34,000
Acc. Depreciation	4,328	5,510	6,760	8,160
Net Block	23,278	25,898	25,240	25,840
CWIP	1,373	1,373	1,500	1,500
Investments	**508**	**670**	**670**	**670**
Inventories	4,022	4,192	3,829	4,225
Sundry Debtors	1,019	1,559	1,641	1,950
Cash and bank balances	349	1,053	346	828
Loans & advances	4,355	3,916	3,800	3,700
Total current assets	9,745	10,720	9,617	10,702
Less:				
Current Liabilities	4,878	7,747	6,577	7,322
Provision	142	1,492	1,066	726
Net current assets	4,725	1,481	1,974	2,654
Others	234	193		
Def. tax assets	(829)	(835)	(1,000)	(1,200)
Total Assets	**29,288**	**28,780**	**28,383**	**29,464**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin	16.4	15.0	14.1	19.5
EBIDTA Margin (excl. O.I.)	16.4	15.0	14.1	19.5
Interest / Sales	7.8	9.3	11.7	9.1
Gross Profit Margin	17.1	15.8	15.0	20.3
Tax/PBT	24.2	7.7	0.0	25.0
Net Profit Margin	3.3	3.0	-3.0	4.0
(B) As Percentage of Net Sales				
Raw Material	58.1	62.3	65.3	53.0
Employee Expenses	3.8	3.8	4.8	4.3
Other Expenses	21.8	18.9	15.8	23.1
(C) Measures of Financial Status				
Debt / Equity (x)	2.20	1.93	2.07	1.86
Interest Coverage (x)	1.6	1.2	0.7	1.6
Average Cost Of Debt (%)	8.7	12.5	13.0	12.0
Debtors Period (days)	18	24	30	30
Inventory Turnover Ratio (x)	2.17	2.23	2.08	2.22
Fixed Assets Turnover (x)	0.9	0.9	0.8	0.9
Working Capital Turnover (x)	4.5	16.2	10.1	8.9
Non Cash Working Capital (₹ Mn)	4376	429	1627	1826
(D) Measures of Investment				
EPS (₹)	18	20	-17	30
CEPS (₹)	53.6	57.7	20.1	71.4
DPS (₹)	2.5	1	1	1
Dividend Payout (%)	14.2	4.9	-5.8	3.3
Profit Ploughback (%)	85.8	95.1	105.8	96.7
Book Value (₹)	263.5	281.8	264.7	294.6
RoANW (%)	6.7	7.2	-6.5	10.1
RoACE (%)	8.8	9.0	6.2	11.6
RoAIC (%) (Excl Cash & Invest.)	8.9	9.4	6.2	11.9
Valuation Ratios				
CMP (₹)	78	78	78	78
P/E (x)	4.4	3.9	-4.6	2.6
Market Cap. (₹ Mn.)	2555	2555	2555	2555
MCap/ Sales (x)	0.12	0.11	0.13	0.11
EV (₹ Mn.)	21226	19367	20209	19727
EV/Sales (x)	1.00	0.81	1.01	0.83
EV/EBDITA (x)	6.1	5.4	7.2	4.3
P/BV (x)	0.30	0.28	0.29	0.26
Dividend Yield (%)	3.2	1.3	1.3	1.3

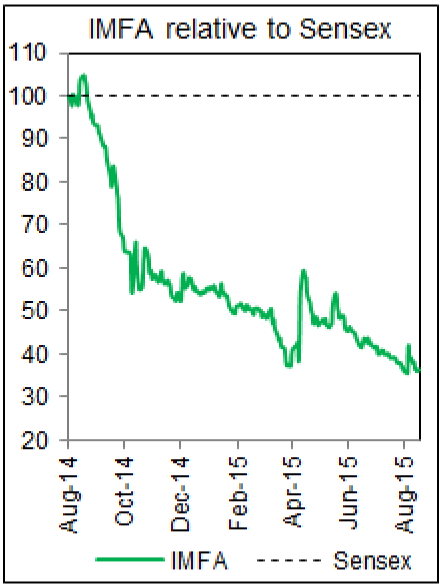
E-estimates

Indian Metals & Ferro Alloys

DOLAT CAPITAL

CMP: ₹ 148 Target Price: ₹ 239 Buy

BSE Sensex	27,832
NSE Nifty	8449
Scrip Details	
Equity	₹ 260mn
Face Value	₹ 10/-
Market Cap	₹ 4.3bn
	USD 66.9mn
52 week High / Low	₹ 410 / 137
Avg. Volume (no)	14,850
BSE Code	533047
NSE Symbol	IMFA
Bloomberg Code	IMFA IN
Reuters Code	IMFA.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	55.73
MF/Banks/FIs	10.86
FIIs	-
Public / Others	33.41



IMFA is India's leading fully integrated producer of Ferro chrome with 157 MVA installed furnace capacity (82 MVA at Therubali and 75 MVA at Choudwar, both in Orissa) backed by 108 MW coal-based captive power plants and chrome ore mines at Sukinda valley and Nuasahi in Orissa. With these assets, the company is well positioned for growth in both Ferro chrome and power. Ferro chrome is the used to impart "stainless" properties to Stainless steel which derives its name from it. So, the demand for ferro chrome is linked to the stainless steel demand.

Leading fully integrated producer

The Company has an installed capacity of 235,000 tonne, backed by captive power along with coal linkages and its own chrome ore mines. It is one of the few companies which has operational chrome ore mines with estimated reserves of 21 mt spread over 300 hectares. IMFA is one of the lowest cost producers of ferro chrome due to its fully integrated operations.

Largest exporter

IMFA is the largest exporter of ferro chrome, which contributes about 80–90% of its total revenue. Korea, Japan, and China are some of its major exporting areas.

Increased ore and power to boost production

Ferro chrome production will increase as ore production is increased from Sukinda and Mahagiri mines in Odisha. Also increased power generation from its captive power plant will help boost production. We believe that production of ferro chrome will increase from 205,000t in FY15 to 222,000t in FY16E, 240,000t in FY17E and 250,000t in FY18E.

Weak coal prices to reduce power cost

The coal prices have declined by about 35% over the past year with a major decline happening over the last 6 months. As a result, its average power cost has declined by 10% to ₹ 4.8/unit despite an increase of ₹ 0.1/unit on account of compulsory purchase of renewable energy certificates in order to comply with regulatory requirement of 7% of total power to be renewable energy. As such, IMFA is required to buy about ₹20mn of renewable energy certificates per month (Non solar energy certificate price-₹2.5/unit and solar energy certificate price- ₹3.5/unit). As

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	13,179	3.5	2,871	21.8	349	2.7	13.4	(33.9)	11.0	4.0	7.6
FY15	13,448	2.0	2,408	17.9	42	0.3	1.4	(89.5)	104.5	0.4	6.2
FY16E	14,471	7.6	2,336	16.1	430	3.0	16.4	1,054.8	9.0	4.6	6.0
FY17E	16,526	14.2	2,740	16.6	611	3.7	23.3	42.6	6.3	6.2	7.9

Figures in ₹ mn

per the Supreme Court judgement for the coal sector, all coal mines allotted from 1993 have been taken back by the government and they are being sold through an auction process. IMFA was also allocated a coal mine in Utkal, Odisha and has invested about ₹2.6bn in the same. It has gone to court against this order and asked for compensation for the loss of this mine. At this point, the management is confident of recovering this money.

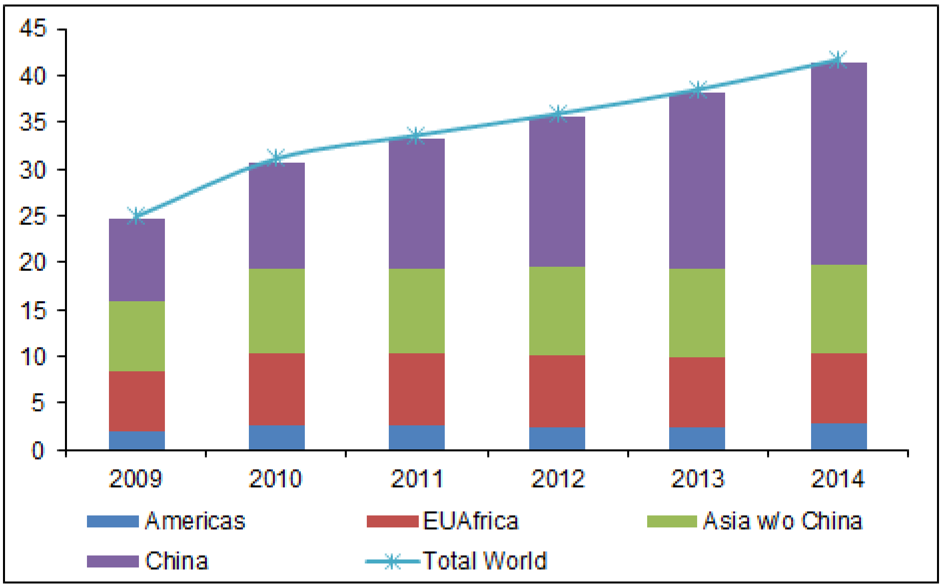
Dollarization of Rupee debt to reduce interest cost

The company is carrying out negotiations with its lenders to convert some of domestic rupee debt to USD to take advantage of lower interest cost since rupee has remained relatively stable against USD. It has gross debt of about ₹8.5bn(50% is foreign currency loan) in addition to the working capital loan of ₹ 2.5bn.

Valuation

Ferro chrome prices are relatively stable compared to other metals and mineral prices as it has declined by only about 10% in last 6 months as against the decline of about 30% in other metals prices. The volume growth will boost EBIDTA and earnings growth since interest cost is expected to decline and it is not doing any capex which will keep depreciation stable. At CMP, the stock trades at 8.8 x FY16E and 6.2x FY17E EPS of ₹16.4 and ₹23.3 respectively and on EV/E it trades at 5.7x FY16E and at 4.3x FY17E EBIDTA . We recommend Buy on the stock with price target of ₹239 valuing it at 5x FY17E EBIDTA.

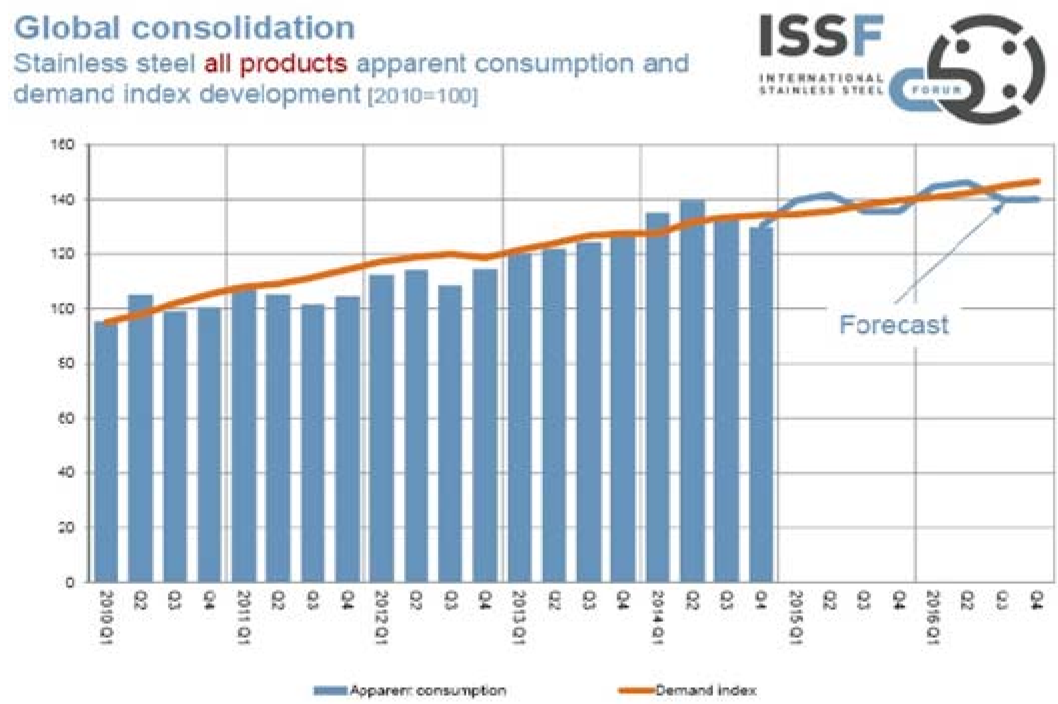
Exhibit 1: Stainless steel production (mt)



Source: ISSF, Dolat Research

As can be seen form exhibit 1 & 2, stainless steel production and demand has shown uptrend which has kept the price decline under check as prices have declined only about 10% as against decline of more than 30% for other metals.

Exhibit 2: Stainless steel consumption trend



Source: ISSF, Dolat Research

Global scenario 2014

- Out of the four main types of chrome ore, the most prominent one is the metallurgical grade which is smelted to produce ferrochrome and accounted for 96.5% of the 2014 global chrome ore output
- The global chrome ore production showed a small decline in 2014. Following the 2013 peak production of 30.3 million tonne, the global output of chrome ore and concentrate reduced by 4.2% in 2014 to roughly 29 million tonne.

Indian scenario

- India remained the third largest chrome-ore producer in 2014, but saw its production fall by 25%. This is mainly attributable to a mining license renewal issue that left most of India's chrome mines inactive for several months causing a relative domestic shortage.

Challenge

- A general bearish trend in all commodities - the most marked being oil - was evident and stainless steel mills cut back on procurement as the demand for their products too were contracted.

Opportunities

- 'Make in India' holds great promise for the manufacturing sector and stainless steel in particular is at a tipping point.
- Lower oil prices have provided a boost by way of containing Inflation and spurring demand.

IMFA 's Risk management w.r.t Price and currency volatility

- The Company hedges export proceeds using several means such as forward contracts and derivatives. It also adopts a mix of long term contracts and spot sales to optimize off take and realizations.

IMFA 's Raw material security

Chrome Ore is sourced from captive mines ensuring quality, reliability and a competitive advantage while other raw materials are sourced from several suppliers with whom the Company has developed excellent relationship over the years.

Stainless Steel Industry

Global stainless steel crude production was up by 8.3% y-o-y to 41.68 million metric tonnes in 2014.

Exhibit 1: Key Assumptions

Y/E March	FY16E	FY17E	Existing capacity
Sales Volumes (t)			
Ferro Chrome	220,000	240,000	275,000
Realizations (cents/pound)			
Ferro Chrome	79	83	

Source: Company, Dolat Capital Estimates

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net sales	13,179	13,448	14,471	16,526
Total Expenditure	10,308	11,040	12,135	13,787
(Inc)/Dec. in stock	(655)	165	248	0
Raw material	6,895	6,936	6,886	8,263
EBIDTA	**2,871**	**2,408**	**2,336**	**2,740**
Margin(%)	*22*	*18*	*16*	*17*
Other income	171	123	141	120
Depreciation	1,490	1,219	1,232	1,240
EBIT	1,551	1,312	1,245	1,620
Interest	1,052	1,057	830	747
Exceptional items	0	10	199	0
PBT	499	265	614	873
Tax	150	223	184	262
etr(%)	0	1	0	0
PAT	**349**	**42**	**430**	**611**
Minority interest	0	5	**5**	**5**
Adj. PAT	349	37	425	606

CASH FLOW

Particulars	Mar14	Mar15	Mar16E	Mar17E
Cash Flow from operations	2,942	2,430	2,238	2,369
Cash Flow from working capital	(678)	(691)	95	(110)
Net operating cash flow	**2,264**	**1,739**	**2,333**	**2,259**
Net purchase of fixed assets	(1,282)	(695)	(600)	(600)
Net purchase of investments	204	264	0	0
Net cash flow from investing	**(1,079)**	**(431)**	**(600)**	**(600)**
Net cash flow from financing	**(1,621)**	**(1,129)**	**(1,277)**	**(1,094)**
Free Cash Flow	**(436)**	**179**	**456**	**566**
Opening Cash Balance	740	313	492	948
Cash balance	314	492	948	1,513

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
SOURCES OF FUNDS :				
Share Capital	260	260	260	260
Reserves Total	8,551	8,553	8,978	9,584
Total Shareholders Funds	8,811	8,813	9,238	9,844
Minority Interest	305	310	315	315
Secured Loans	10,615	11,184	10,000	9,000
Total Debt	10,615	11,184	10,000	9,000
Net Deferred Tax	(783)	(996)	(1,200)	(1,300)
Total Liabilities	**20,514**	**21,303**	**20,753**	**20,459**
APPLICATION OF FUNDS :				
Gross Block	18,205	19,753	19,753	20,353
Less: Accumulated Depreciation	5,493	6,750	7,982	9,222
Net Block	12,712	13,002	11,770	11,130
Capital Work in Progress	2,867	2,647	3,247	3,247
Investments	122	1	1	1
Current Assets, Loans & Advances				
Inventories	3,727	4,051	4,361	4,981
Sundry Debtors	568	645	714	815
Cash and Bank	344	855	948	1,513
Loans and Advances	3,742	3,795	3,800	3,800
Total Current Assets	8,381	9,346	9,823	11,109
Less : Current Liabilities and Provisions				
Current Liabilities	3,617	4,008	4,488	5,099
Provisions	230	220	107	109
Total Current Liabilities	3,847	4,228	4,595	5,208
Net Current Assets	4,534	5,117	5,228	5,901
Miscellaneous	279	535	507	180
Total Assets	**20,514**	**21,303**	**20,753**	**20,459**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	21.8	17.9	16.1	16.6
Interest / Sales	8.0	7.9	5.7	4.5
Gross Profit Margin	23.1	18.8	17.1	17.3
Tax/PBT	30%	84%	30%	30%
Net Profit Margin	2.7	0.3	3.0	3.7
(B) As Percentage of Net Sales				
Raw Material	47.4	52.8	49.3	50.0
Employee Expenses	9.0	9.5	9.1	8.1
Other Expenses	21.9	19.8	25.4	25.3
(C) Measures of Financial Status				
Debt / Equity (x)	1.20	1.27	1.08	0.91
Interest Coverage (x)	1.5	1.2	1.5	2.2
Average Cost Of Debt (%)	0.10	0.09	0.08	0.08
Debtors Period (days)	16	18	18	18
Inventory Turnover Ratio (x)	0.28	0.30	0.30	0.30
Fixed Assets Turnover (x)	1.04	1.03	1.23	1.48
Working Capital Turnover (x)	2.9	2.6	2.8	2.8
Non Cash Working Capital (₹ Mn)	4,190	4,262	4,280	4,387
(D) Measures of Investment				
EPS (₹) (excl EO)	13.4	1.4	16.4	23.3
CEPS (₹)	70.8	48.4	63.8	71.1
DPS (₹)	3	1.5	1.5	3
Dividend Payout (%)	22.3	105.9	9.2	12.9
Profit Ploughback (%)	77.7	-5.9	90.8	87.1
Book Value (₹)	339	339	356	379
RoANW (%)	4.0	0.4	4.6	6.2
RoACE (%)	7.6	6.2	6.0	7.9
RoAIC (%) (Excl Cash & Invest.)	7.7	6.4	6.3	8.6
Valuation Ratios				
CMP (₹)	148	148	148	148
P/E (x)	11.0	104.5	9.0	6.3
Market Cap. (₹ Mn.)	4280	4280	4280	4280
MCap/ Sales (x)	0.32	0.32	0.30	0.26
EV (Rs. Mn.)	14,551	14,609	13,332	11,767
EV/Sales (x)	1.10	1.09	0.92	0.71
EV/EBDITA (x)	5.07	6.07	5.71	4.29
P/BV (x)	0.44	0.44	0.42	0.39
Dividend Yield (%)	2.0	1.0	1.0	2.0

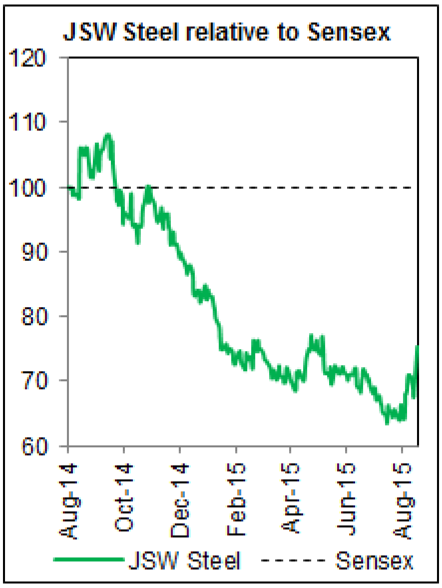
E-estimates

JSW Steel

DOLAT CAPITAL

CMP: ₹ 963 Target Price: ₹ 1,073 Buy

BSE Sensex	27,832
NSE Nifty	8449
Scrip Details	
Equity	₹ 2417mn
Face Value	₹ 10/-
Market Cap	₹ 233bn
	USD 3.6bn
52 week High / Low	₹ 1365 / 801
Avg. Volume (no)	772995
BSE Code	500228
NSE Symbol	JSWSTEEL
Bloomberg Code	JSTL IN
Reuters Code	JSTL.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	40.42
MF/Banks/FIs	5.31
FIIs	18.47
Public / Others	35.80



JSW Steel is the fastest growing and the largest private sector steel company in India with steel making capacity of 13.5mtpa which is increasing to 15mtpa by 2016. We expect the company to achieve 7.2% CAGR in steel output to 13.8mt during FY15-FY17E period on the back of capacity expansion undertaken by it. In addition, thrust on backward integration initiatives and benefits of economies of scale would help it in stabilizing margins in current situation when prices are down by about 50%.

Volume growth

The Company has undertaken an aggressive capex plan of ₹7bn to increase its steel making capacity to 15mtpa by 2016 from the existing 13.5mtpa. We expect 7.2% CAGR in steel volumes to 13.8mt over FY15-FY17E period.

The most efficient steel producer

The company has been one of the most efficient steel producers not only domestically but internationally as well. Its conversion cost is about US$ 180/t as compared to Tata Steel India operation's conversion cost at US$360/t and Sail's conversion cost of US$ 325/t. The difference becomes stark when compared on manpower productivity and cost efficiency. JSW Steel's employee cost is US$20/t as compared to Tata Steel's US$80/t and Sail's US$150/t. The slowdown in the Chinese economy is going keep prices of minerals like iron ore, coal, etc. weak which offsets any advantage enjoyed by companies having captive mines and resources. So in such times, manufacturing efficiency differentiates the players. As a result, we believe that JSW Steel becomes the best positioned player in the sector.

Key concerns

1. Steel prices remaining weak as against expectations due to any reasons like continued increased Chinese production despite economic slowdown as against our assumption of improvement in FY17 may not only adversely impact the earnings but also may have negative impact on debt
2. Increase in raw material prices higher than expected
3. Weak demand may result in lower than assumed sales volumes.

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	512,196	34.0	91,655	17.9	3,880	0.9	18.7	(0.6)	51.5	2.1	10.7
FY15	529,715	3.4	94,023	17.7	17,197	3.4	74.3	3.0	13.0	7.8	9.9
FY16E	499,443	(5.7)	64,635	12.9	(4,054)	(0.8)	(16.8)	(1.2)	(57.4)	(1.8)	4.6
FY17E	582,157	16.6	81,642	14.0	7,182	1.2	29.7	2.8	32.4	3.6	7.0

Figures in ₹ mn

Valuation

We believe the company's long-term growth story is intact given the positive demand and volume expansion. This along with lowest conversion cost with highest manufacturing efficiency makes it the first among equals. At CMP, the stock trades at xx. We recommend Buy on the stock with a price target of ₹1073 valuing the stock at 7.5x FY17E EV/EBITDA. At CMP, it trades at 9x FY16E and 7.2x FY17E EV/EBITDA.

Exhibit 01: Key assumptions for JSW Steel

	FY16E	FY17E
Volume (mt)	12.9	13.8
Realization (USD/t)	500	545
Raw materials (FOB price)		
Iron ore (USD/t)	40	45
Coking coal (USD/t)	100	110

Source: Dolat Research

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net Sales	**512,196**	**529,715**	**499,443**	**582,157**
Raw Materials	303,340	296,860	292,206	334,988
EBITDA	**91,655**	**94,023**	**64,635**	**81,642**
EBITDA Margin (%)	18	18	13	14
Depn & Amortn.	31,826	34,345	37,050	37,488
EBIT	59,829	59,678	28,385	45,114
Interest Exps.	30,479	34,930	34,177	34,937
EBT	29,350	24,748	(5,792)	10,176
Other Income	858	1,114	800	900
Exceptional Items	(17,128)	(471)	0	0
PBT	13,081	25,391	(5,792)	10,116
Tax-Total	9,201	8,194	(1,737)	2,934
Tax Rate (%) - Total	70	32	30	29
Profit after tax	**3,880**	**17,197**	**(4,054)**	**7,182**
Minority Interest	**640**	**769**	**0**	**0**
Profit after minority interest	**4,519**	**17,966**	**(4,054)**	**7,182**

CASH FLOW

Particulars	Mar14	Mar15	Mar16E	Mar17E
Cash Flow from operations	65,168	88,500	56,920	69,476
Cash Flow from working capital	(39,233)	(19,475)	(27,653)	(24,918)
Net Cash from Opt. Activities	**25,935**	**69,025**	**28,267**	**44,558**
Net purchase of fixed assets	(57,443)	(65,134)	(37,405)	(52,512)
Net purchase of investments	731	1,165	(1)	0
Net Cash in Invt Activities	**(56,713)**	**(63,969)**	**(37,406)**	**(52,512)**
Net Cash in Fin. Activities	**33,510**	**(1,691)**	**1,862**	**16,862**
Net Increase/(Decrease) in Cash	2,733	3,365	(6,276)	8,909
Cash at Beginning of the year	3,024	5,757	19,132	12,855
Others	874	10,010		0
Cash at End of the year	6,630	19,132	12,855	21,764

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
Sources of Funds				
Equity Capital	2,417	2,417	2,417	2,417
Reserves and Surplus	216,966	228,124	224,070	231,252
Shareholders' Funds	**219,384**	**230,541**	**226,487**	**233,669**
Minority Interest	1,670	976	976	976
Total Loan Funds	**324,998**	**354,755**	**359,755**	**379,755**
Deferred Tax Liab. - Net	21,234	28,894	30,050	31,553
Total Liabilities	**567,285**	**615,167**	**617,268**	**645,953**
Appl. Of Funds				
Gross Block	597,360	690,942	741,000	781,000
Accumulated Depn.	142,520	185,034	179,147	216,635
Capital WIP	93,998	82,653	70,000	50,000
Net Fixed Assets	**548,838**	**588,561**	**631,853**	**614,365**
Other Investments	**6,627**	**5,993**	**5,993**	**5,993**
Goodwill	**15,619**	**15,854**	**15,854**	**15,854**
Inventories	81,551	110,090	109,467	119,621
Sundry Debtors	22,924	24,998	27,367	31,899
Cash and Bank Balances	6,630	19,133	12,855	21,764
Loans and Advances	94,034	89,229	85,000	85,000
Total Current Assets	**205,140**	**243,449**	**234,689**	**258,284**
Current Liabilities	204,894	236,906	262,076	301,680
Provisions	4,220	4,466	9,045	9,000
Total Current Liab.	**209,114**	**241,372**	**271,121**	**310,680**
Net Current Assets	**(3,974)**	**2,077**	**(36,432)**	**(52,396)**
Misc. Expenditure	175	2,682	9,541	62,138
Total assets	**567,285**	**615,166**	**617,268**	**645,954**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	18	18	13	14
Interest / Sales	5.9	6.6	6.8	6.0
Gross Profit Margin	18.1	17.9	13.1	14.2
Tax/PBT	70.3	32.3	30.0	29.0
Net Profit Margin	0.9	3.4	-0.8	1.2
(B) As Percentage of Net Sales				
Raw Material	59	56	59	58
Employee Expenses	3	3	3	3
Other Expenses	13	16	16	16
(C) Measures of Financial Status				
Debt / Equity (x)	1.5	1.5	1.6	1.6
Interest Coverage (x)	2.0	1.7	0.8	1.3
Average Cost Of Debt (%)	9.38%	9.85%	9.50%	9.20%
Debtors Period (days)	16	17	20	20
Inventory Turnover Ratio (x)	6.3	4.8	4.6	4.9
Fixed Assets Turnover (x)	0.9	0.9	0.8	0.9
Working Capital Turnover (x)	-128.9	255.0	-13.7	-11.1
Non Cash Working Capital (₹ Mn)	(10,604)	(17,055)	(49,287)	(74,160)
(D) Measures of Investment				
EPS (₹)	18.7	74.3	-16.8	29.7
CEPS (₹)	148	213	137	185
DPS (₹)	10	11	11	11
Dividend Payout (%)	50.81%	14.80%	-65.59%	37.02%
Profit Ploughback (%)	99	100	101	100
Book Value (₹)	908	954	937	967
RoANW (%)	2	8	(2)	4
RoACE (%)	11	10	5	7
RoAIC (%) (Excl Cash & Invest.)	11	10	5	7
Valuation Ratios				
CMP (₹)	963	963	963	963
P/E (x)	51.50	12.96	-57.42	32.41
Market Cap. (₹ Mn.)	232,776	232,776	232,776	232,776
MCap/ Sales (x)	0.45	0.44	0.47	0.40
EV (₹ Mn.)	551,144	568,399	579,676	590,768
EV/Sales (x)	1.08	1.07	1.16	1.01
EV/EBDITA (x)	6.0	6.0	9.0	7.2
P/BV (x)	1.06	1.01	1.03	1.00
Dividend Yield (%)	0.99%	1.14%	1.14%	1.14%

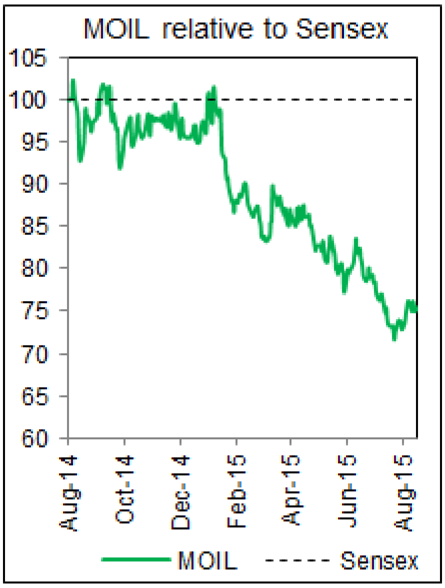
E-estimates

MOIL

DOLAT CAPITAL

CMP: ₹ 237 Target Price: ₹ 233 Reduce

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 1680mn
Face Value	₹ 10/-
Market Cap	₹ 39bn
	USD 611mn
52 week High / Low	₹ 325 / 228
Avg. Volume (no)	53,113
BSE Code	533286
NSE Symbol	MOIL
Bloomberg Code	MOIL IN
Reuters Code	MOIL.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	80.00
MF/Banks/FIs	3.91
FIIs	6.79
Public / Others	9.30



Manganese Ore India Ltd (MOIL) is India's largest manganese mining company with 50% market share and proven reserves of about 33mt. It is mining about 1-1.13mtpa since last 5 years. In order to maintain its leadership position and ramp up production, the company has planned investments of development of existing mines and has taken up various projects. These include the deepening of production shafts at Balaghat mines, sinking of the first and second vertical shaft at Ukwa mine, etc. This will increase the production substantially going forward. We expect the volume to grow at an average rate of 6% for next 2 years and after that the significant growth in volumes will happen as new mines are commissioned. We recommend "Reduce" rating on the stock valuing it at 10xFY17E EPS of Rs23.4

India's steel demand is a key trigger of growth

The main use of manganese ore is in the production of ferro alloys like ferro manganese and silico manganese which in turn in used in steel making. This imparts some physical and chemical properties in steel like hardness, toughness, malleability, etc. The demand of manganese is linked to the steel industry growth and prices also move accordingly. We believe that the current prices have hit the floor and as steel demand picks up, prices of ferro alloys and manganese ore will also move in tandem. This will however be capped at 20-25% from the current level due to subdued demand of steel in China and increased production of manganese ore in the world.

Mining expansion projects

MOIL has undertaken various expansion projects in existing as well as new mines. Currently it has 5 mines at Balaghat, Ukwa, Chikla, Munsar and Gumgaon in Madhya Pradesh, India. It has undertaken various investment projects like deepening and sinking of verticals shafts in order to increase production. MOIL has been granted Prospecting License (PL) for 597 hectares of manganese bearing area comprising of 3 mines in Maharashtra which is expected to start production in future.

Cash rich, high dividend paying company

MOIL is a cash rich company with annual average cash generation of about ₹3500 mn and cash reserves of ₹30bn. It pays good dividend of ₹8.5/share consistently since last 3 years.

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	10,213	5.6	5,012	49.1	5,096	49.9	30.3	18.0	7.7	16.3	24.7
FY15	8,233	(19.4)	3,790	46.0	4,280	52.0	25.3	(16.5)	9.2	12.7	19.2
FY16E	7,157	(13.1)	2,268	31.7	3,474	48.5	20.6	(18.8)	11.3	9.3	13.9
FY17E	8,623	20.5	2,678	31.1	3,952	45.8	23.4	13.8	10.0	9.6	14.1

Figures in ₹ mn

Reserve valuations vary widely, price realization with volume thrust is the surest way

There is no particular base value or ideal value on which reserves are valued but a wide range from US$1–10 /t of mineable reserves can be implied from some of the past acquisitions happened around the world. We believe that the best way to value a mining company should be based on price realisations and and volume growth A mining company with stagnant volumes will get lower valuation discounting as compared to a company with consistent volume growth.

Valuation

Mining companies are generally valued by taking into consideration the pricing potential of underlying minerals and metals produced by the company. The level of debt or stress in the balance sheet is also taken into consideration and and weighed by taking future growth or de growth prospects into account. Since it is our assumption that average price realization will remain capped to 20-30% from the current low level due to continuing weakness in Chinese growth and slowdown of steel consumption, we believe the stock is expensive and recommend “Sell” on the stock with price target of ₹233 valuing it at 10x FY17E EPS

At CMP, the stock is trading at 11.3x and 10x FY16E and FY17E earnings, and on EV/EBITDA it trades at 4x and 2.5x FY16E and FY17E respectively.

Future expansion projects

MOIL is undertaking several expansion projects to enhance production from its existing mines as well as from the new mines. Some of the projects are:

Balaghat mines: This mine produces high grade Mn ore with 48+% Manganese content. It has reserves of about 24.2mt in different grades available upto 750mtrs of depth from surface. It is targeted to enhance the production of this mine from the present level and will contribute the highest to an increase in production.

Ukwa mine: This mine produces ferro grade ore with 36+% Manganese content with high phosphorus (0.2% to 0.5%). It has reserves of around 8.8mt in different grades.

Chikla mine: This mine produces ferro grade ore with 36+% Manganese content. It has reserves of around 4.22mt in different grades available upto 200mtrs of depth from surface.

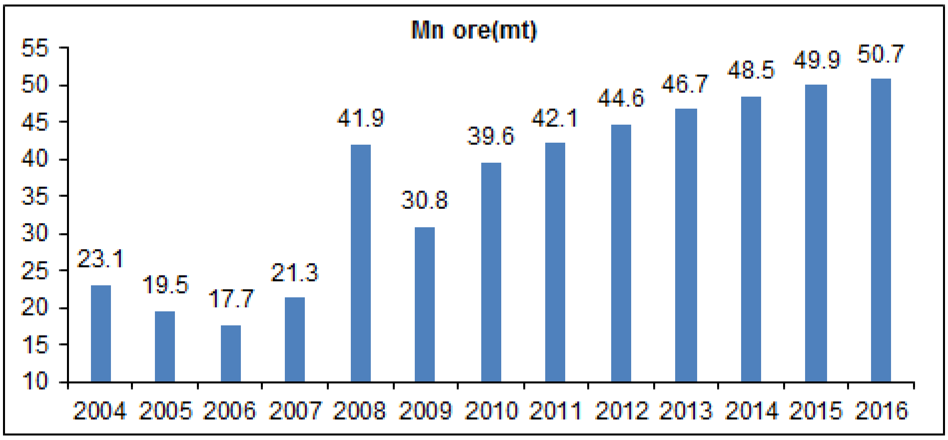
Munsar mine: This mine produces ferro grade ore with 36+% Manganese content. It has reserves of around 4.43mt in different grades available upto 190mtrs of depth from surface. It is targeted to enhance the production from present level of 55kt to 125kt by 2021.

Gumgaon mine: This mine produces high grade Manganese ore with 42+% Mn content. It has reserves of around 4.34mt in different grades available upto 310mtrs of depth from surface.

Exhibit 1: Key assumptions

Y/E March	FY16E	FY17E	Existing capacity
Sales Volumes (t)			
Manganese Ore	1,062,000	1,115,000	1,500,000
Realizations (USD/dmtu)			
Manganese Ore	2.9	3.3	
Exchange rate(USD/₹)	63	64	

Exhibit 1: Global Manganese ore production (mt)



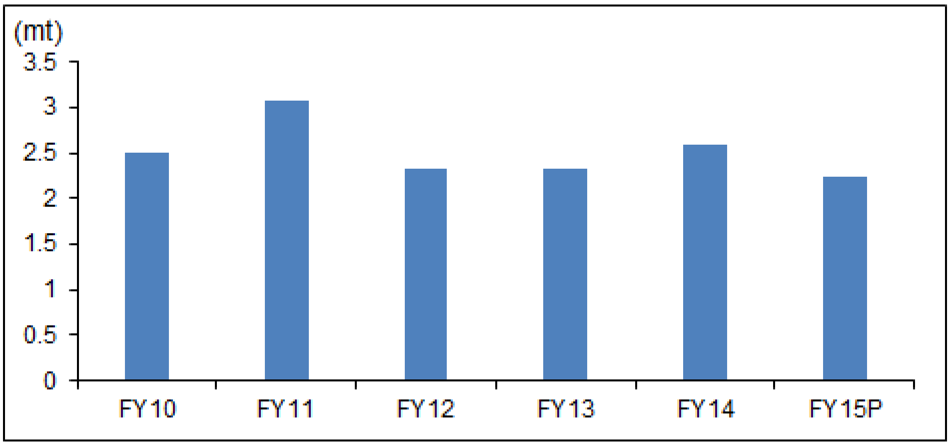
Source: Various sources, Dolat Research

Exhibit 2: Global Manganese resources distribution

Country	Reserves(mt)
Australia	97
Brazil	54
China	44
Gabon	24
India	49
Kazakhstan	5
Mexico	5
South Africa	150
Ukraine	140
Total World	570

Source: Dolat Research

Exhibit 3: India Manganese Ore production (mt)



Source: Company, Dolat Research

INCOME STATEMENT ₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Revenue	**10,213**	**8,233**	7,157	8,623
Total Expenditure	5,201	4,442	4,889	5,945
Raw material	258	241	276	290
Employee cost	2,561	2,628	2,981	3,380
Royalty and cess	386	-	-	-
Other expenditure	1,930	2,522	2,255	2,485
EBIDTA	**5,012**	**3,790**	**2,268**	**2,678**
Margin(%)	49	46	32	31
Other income	3,033	3,166	3,388	3,625
Dep.	352	451	470	490
PBT	7,693	6,506	5,186	5,812
Tax	2,598	2,226	1,711	1,860
Etr(%)	34	34	33	32
PAT	**5,096**	**4,280**	**3,474**	**3,952**

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	8,048	4,731	3,944	4,442
Cash Flow from working capital	(646)	(1,112)	495	81
Net operating cash flow	**7,402**	**3,618**	**4,440**	**4,524**
Net purchase of fixed assets	(762)	(456)	(1,032)	(500)
Net cash flow from investing	**(762)**	**(456)**	**(1,032)**	**(500)**
Net cash flow from financing	**(1,478)**	**(1,685)**	**(1,685)**	**(1,685)**
Free Cash Flow	5,162	1,478	1,723	2,339
Opening Cash Balance	22,767	27,929	28,299	30,022
Closing Cash Balance	27,929	28,299	30,022	32,361

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
SOURCES OF FUNDS:				
Share Capital	1,680	1,680	1,680	1,680
Total Reserves	29,593	32,137	35,611	39,564
Shareholder's Funds	31,273	33,817	37,291	41,244
Deferred Tax lia.	(165)	110	120	120
Total Liabilities	**31,108**	**33,927**	**37,411**	**41,364**
APPLICATION OF FUNDS :				
Gross Block	5,101	6,696	7,747	8,267
Less: Accumulated Depreciation	2,777	3,228	3,247	3,267
Net Block	2,323	3,468	4,500	5,000
Capital Work in Progress	689			
Investments	42	42	42	42
Current Assets, Loans & Advances				
Inventories	491	1,442	1,177	1,181
Sundry Debtors	1,132	1,072	941	1,181
Cash and Bank	27,928	28,299	30,022	32,361
Other Current Assets	1,231	1,364	1,400	1,450
Loans and Advances	715	792	800	800
Total Current Assets	31,498	32,969	34,340	36,973
Less : Current Liabilities and Provisions				
Current Liabilities	1,610	1,599	1,741	2,117
Provisions	1,835	954	900	800
Total Current Liabilities	3,445	2,552	2,641	2,917
Net Current Assets	28,053	30,417	31,698	34,056
Miscellaneous Expenses			1,171	2,266
Total Assets	**31,107**	**33,927**	**37,411**	**41,364**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	18.9	30.6	31.5	28.8
Gross Profit Margin	78.8	84.5	79.0	73.1
Tax/PBT	33.8	34.2	33.0	32.0
Net Profit Margin	49.9	52.0	48.5	45.8
(B) As Percentage of Net Sales				
Raw Material	3.2	(8.6)	(4.8)	0.9
Employee Expenses	25.1	31.9	41.7	39.2
Other Expenses	18.9	30.6	31.5	28.8
(C) Measures of Financial Status				
Debtors Period (days)	40	48	48	50
Inventory Turnover Ratio (x)	20.8	5.7	6.1	7.3
Fixed Assets Turnover (x)	4.4	2.4	1.6	1.7
Working Capital Turnover (x)	0.4	0.3	0.2	0.3
Non Cash Working Capital (₹ Mn)	124	2,118	1,676	1,695
(D) Measures of Investment				
EPS (₹)	30.3	25.3	20.6	23.4
CEPS (₹)	32.4	28.0	23.3	26.3
DPS (₹)	7.0	8.5	8.5	8.5
Dividend Payout (%)	23.1	33.6	41.3	36.3
Profit Ploughback (%)	76.9	66.4	58.7	63.7
Book Value (₹)	186.2	201.3	222.0	245.5
RoANW (%)	16.3	12.7	9.3	9.6
RoACE (%)	24.7	19.2	13.9	14.1
RoAIC (%) (Excl Cash & Invest.)	242.0	115.6	70.2	64.6
Valuation Ratios				
CMP (₹)	233	233	233	233
P/E (x)	7.7	9.2	11.3	10.0
Market Cap. (₹ Mn.)	39144	39144	39144	39144
MCap/ Sales (x)	3.8	4.8	5.5	4.5
EV (₹ Mn.)	11216	10845	9122	6783
EV/Sales (x)	1.1	1.3	1.3	0.8
EV/EBDITA (x)	2.2	2.9	4.0	2.5
P/BV (x)	1.3	1.2	1.0	0.9
Dividend Yield (%)	3.00	3.65	3.65	3.65

E-estimates

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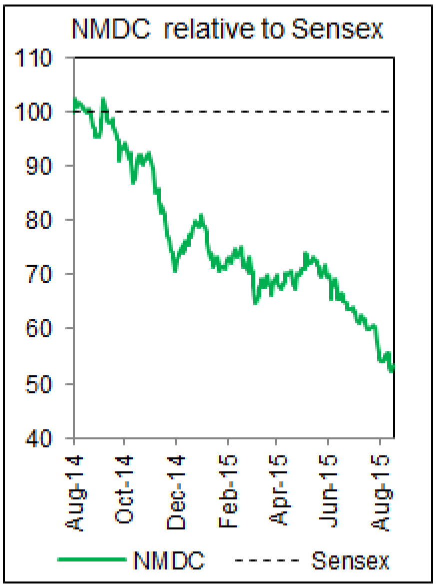
NMDC

DOLAT CAPITAL

CMP: ₹ 94 Target Price: ₹ 92 Reduce

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 3965mn
Face Value	₹ 1/-
Market Cap	₹ 377bn
	USD 5.9bn
52 week High / Low	₹ 187 / 98
Avg. Volume (no)	1,946,927
BSE Code	526371
NSE Symbol	NMDC
Bloomberg Code	NMDC IN
Reuters Code	NMDC.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	80.00
MF/Banks/FIs	12.53
FIIs	4.02
Public / Others	3.45



We believe that NMDC will be weighed down by the global weakness in iron ore prices coupled with its inability to deliver volume growth. We believe that iron ore prices would remain weak due to declining demand in China. Chinese economy is slowing down and its growth is expected to stabilise at lower level. NMDC's margins would be under pressure because of lower prices coupled with increased royalty and freight cost. We recommend "Reduce" on the stock

Lower iron ore prices

Iron ore prices are down by about 50% from last year as steel production has been impacted negatively due to a slowdown in the Chinese economy. The situation is further worsened by commissioning of new mines by Rio and BHP Billiton which is further expected to increase supply by about 35mt over next 2 years.

Higher royalty and freight cost to put margins under pressure

The Government of India increased royalty on iron ore from 10% to 15% last year making it the highest in the world. Besides, logistic problems adding to the freight cost are also making it difficult for transportation of large volumes.

Key concerns

1) Prices increasing sharply contrary to our assumptions.2) Lower volumes than assumptions may adversely impact earnings

Valuation

We believe iron ore prices would remain weak and see limited upside potential to the tune of 10% from the current levels due to lack of triggers like demand and also increasing supply from BHP Billiton, Rio and Vale. We recommend "Reduce" on the stock with price target of Rs92 valuing company at PEx of 7x FY17E EPS of ₹ 13.2.

Exhibit 1: Key assumptions for NMDC

	FY13E	FY14E
Sales Volume (mt)	33	37
Realization (USD/t)	39	46
Employee Cost(USD/T)	3.8	3.9
Royalty	15%	15%
Freight cost(USD/T)	6	7

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	120,582	12.6	77,701	64.4	63,711	52.8	16.1	0.5	5.9	21.3	32.3
FY15	123,564	2.5	77,659	62.8	63,467	51.4	16.0	(0.4)	5.9	19.7	30.4
FY16E	84,055	(32.0)	35,602	42.4	39,526	47.0	10.0	(37.7)	9.5	10.9	16.4
FY17E	111,150	32.2	50,901	45.8	52,319	47.1	13.2	32.4	7.2	12.6	19.0

Figures in ₹ mn

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Sales	120,582	123,564	84,055	111,150
Total Expenditure	42,881	45,905	48,453	60,249
EBIDTA	77,701	77,659	35,602	50,901
Margin(%)	*64*	*63*	*42*	*46*
Other income	20,891	22,669	26,000	30,000
Depreciation	1,506	1,726	1,800	2,000
EBIT	97,086	98,602	59,802	78,901
Interest	18	1	2	4
PBT	97,068	98,601	59,800	78,897
Exceptional items	(455)	1,130		
PBT	97,523	97,471	59,800	78,897
Tax	33,391	33,460	19,734	26,036
Tax rate(%)	*34*	*34*	*33*	*33*
PAT	64,132	64,011	40,066	52,861
Share of loss of associates	(421)	(505)	(500)	(500)
Minority interest		(39)	(40)	(42)
PAT after min.int.	63,711	63,467	39,526	52,319

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	78,741	65,193	41,326	54,319
Cash Flow from working capital	(41,533)	(4,614)	(1,962)	(4,847)
Net operating cash flow	**37,208**	**60,579**	**39,364**	**49,473**
Net purchase of fixed assets	(22,896)	(25,636)	(1,731)	(1,000)
Net purchase of investments	57,442	(998)	(9)	0
Net cash flow from investing	**34,546**	**(26,634)**	**(1,740)**	**(1,000)**
Net cash flow from financing	**(58,007)**	**(39,766)**	**(21,053)**	**(21,053)**
Free Cash Flow	**13,747**	**(5,821)**	**16,571**	**27,420**
Closing Cash Balance	210,258	186,605	184,860	201,431
Adjustment	(37,400)	4,076		
Cash Balance	186,605	184,860	201,431	228,851

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
SOURCES OF FUNDS:				
Share Capital	3,965	3,965	3,965	3,965
Total Reserves	295,503	318,608	358,134	410,453
Shareholder's Funds	**299,468**	**322,573**	**362,099**	**414,418**
Minority Interest	14	182	192	212
Def. tax liabilities	1,071	983	1,000	1,000
Other long term liabilities	291	406	450	500
Total Liabilities	**300,843**	**324,144**	**363,549**	**415,918**
APPLICATION OF FUNDS :				
Net Block	66,633	92,269	94,000	95,000
Capital Work in Progress				
Investments	2,193	3,191	3,200	3,200
Current Assets, Loans & Advances				
Inventories	6,812	6,919	7,600	10,049
Sundry Debtors	14,484	17,523	17,963	23,753
Cash and Bank	186,605	184,860	201,431	228,851
Other Current Assets	7,313	10,142	10,500	10,500
Loans and Advances	30,398	29,325	30,000	30,000
Total Current Assets	245,612	248,769	267,493	303,153
Less : Current Liabilities and Provisions				
Current Liabilities	13,460	13,748	13,939	17,332
Provisions	135	6,337	6,500	6,500
Total Current Liabilities	13,595	20,085	20,439	23,832
Net Current Assets	**232,017**	**228,684**	**247,054**	**279,321**
Miscellaneous Expenses			19,295	38,397
Total Assets	**300,843**	**324,144**	**363,549**	**415,918**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	64.4	62.8	42.4	45.8
Gross Profit Margin	81.8	81.2	73.3	72.8
Tax/PBT	34.2	34.3	33.0	33.0
Net Profit Margin	52.8	51.4	47.0	47.1
(B) As Percentage of Net Sales				
Raw Material	0.1	0.1	0.6	0.6
Employee Expenses	5.9	5.7	9.4	8.4
Other Expenses	7.6	8.1	13.3	11.8
(C) Measures of Financial Status				
Interest Coverage (x)	5,394	70,430	29,901	19,725
Debtors Period (days)	43.8	51.8	78.0	78.0
Inventory Turnover Ratio (x)	17.7	17.9	11.1	11.1
Fixed Assets Turnover (x)	1.8	1.3	0.9	1.2
Working Capital Turnover (x)	52.0%	54.0%	34.0%	39.8%
Non Cash Working Capital (₹ Mn)	45,412	43,824	45,623	50,470
(D) Measures of Investment				
EPS (₹)	16.1	16.0	10.0	13.2
CEPS (₹)	16.4	16.4	10.4	13.7
DPS (₹)	7.5	8.5	4.5	4.5
Dividend Payout (%)	46.7	53.1	45.1	34.1
Profit Ploughback (%)	53.3	46.9	54.9	65.9
Book Value (₹)	75.5	81.4	91.3	104.5
RoANW (%)	21.3	19.7	10.9	12.6
RoACE (%)	32.3	30.4	16.4	19.0
RoAIC (%) (Excl Cash & Invest.)	85.0	70.8	36.9	42.2
Valuation Ratios				
CMP (₹)	95.0	95.0	95.0	95.0
P/E (x)	5.9	5.9	9.5	7.2
Market Cap. (₹ Mn.)	376,647	376,647	376,647	376,647
MCap/ Sales (x)	3.1	3.0	4.5	3.4
EV (₹ Mn.)	190,042	191,787	175,216	147,796
EV/Sales (x)	1.6	1.6	2.1	1.3
EV/EBDITA (x)	2.4	2.5	4.9	2.9
P/BV (x)	1.3	1.2	1.0	0.9
Dividend Yield (%)	7.9	8.9	4.7	4.7

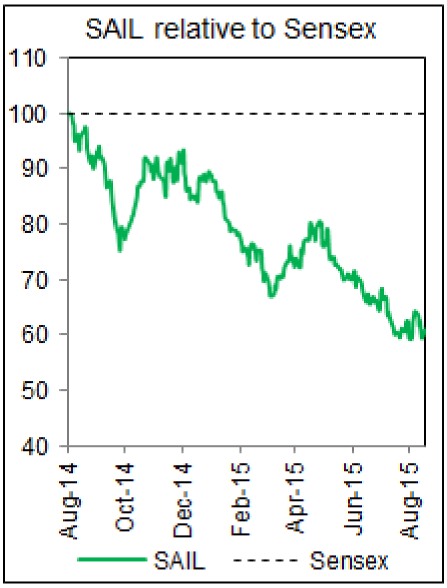
E-estimates

SAIL

DOLAT CAPITAL

CMP: ₹56 Target Price: ₹35 SELL

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 41,305mn
Face Value	₹ 10/-
Market Cap	₹ 231bn
	USD 3.6bn
52 week High / Low	₹ 91 / 56
Avg. Volume (no)	3,281,354
BSE Code	500113
NSE Symbol	SAIL
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	75.00
MF/Banks/FIs	15.33
FIIs	6.08
Public / Others	3.59



Steel Authority of India (SAIL) is one of India's largest integrated steel producer with a capacity of 12.6mtpa. It is in midst of brownfield capacity expansion to increase its steelmaking capacity by 50% over next 3 years in phased manner. We believe that because of soft steel prices, the company would be under tremendous pressure on the margins front which will have a significant adverse impact on bottom line due to increased depreciation and interest charges. Under the softer price regime, benefits of captive resources will not accrue.

Aggressive Capex Plan

SAIL started its brownfield capacity expansion project in FY07 with an estimated cost of Rs. 729 bn to double its steel making capacity. It trimmed its expansion plans from 10MT to 7MTPA. It is now expected to increase capacity in phased manner with commissioning of 2MT every year over the next three years taking its total capacity to increase its saleable steel capacity to 20.6MTPA by end of CY18, from 12.8MTPA at the moment. Though capacity expansion would enable it to maintain its leadership position, we believe that the volume growth would not fuel the earning growth due to depressed steel prices. We expect volume growth CAGR of 8% resulting into 16% CAGR in terms of revenue.

Enough iron ore but a lack of coking coal

SAIL is India's largest integrated steel producer and has access to captive iron ore and low cost power. However the company is entirely dependent on third parties for sourcing coking coal. Under a softer commodity prices regime, this would be good for SAIL but steel prices are also declining by the same proportion giving no benefit of integration.

Key concerns

1) Steel prices remaining weak as against expectations due to any reasons like continued increased Chinese production despite economic slowdown as against our assumption of improvement in FY17 may have adverse impact on earnings

2) Increase in raw material prices higher than expected

3) Problems in capacity ramp up

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	468,213	5.1	40,241	8.6	26,319	5.6	6.4	20.7	8.8	6.1	5.0
FY15	458,436	(2.1)	46,339	10.1	21,175	4.6	5.1	(19.5)	10.9	4.9	4.7
FY16E	473,768	3.3	23,774	5.0	(6,175)	(1.3)	(1.5)	(129.2)	(37.5)	(1.4)	1.4
FY17E	618,750	30.6	48,042	7.8	8,779	1.4	2.1	LP	26.3	2.0	3.3

Figures in ₹ mn

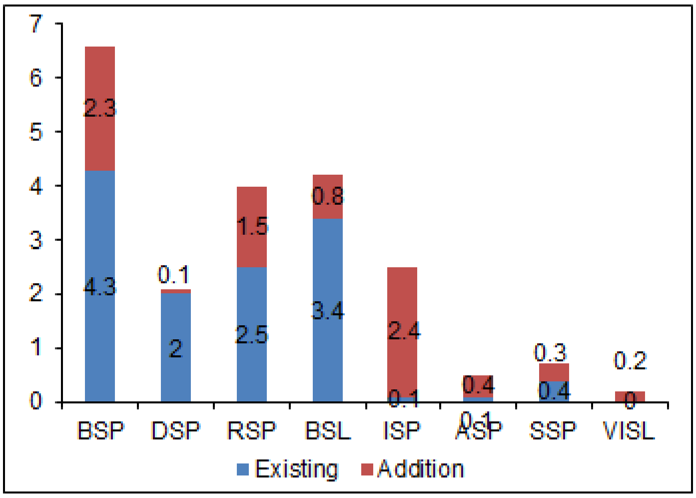
Valuation

We expect SAIL's earnings to remain under pressure for a long time due to higher interest outgo and depreciation as new capacities are ramped up and brought online without commensurate increase in prices We believe due to its past record of delays in project implementation and cost over runs, stabilization of new capacities will take time. We don't expect significant improvement in its operations and EBIDTA and recommend a "Sell" rating on the stock with price target of ₹35 despite valuing it at higher EV/E of 10x FY17E EBIDTA. At CMP the stock is trading at 22.1x FY16E and 11.8x FY17E EBIDTA.

Long term expansion plan intact

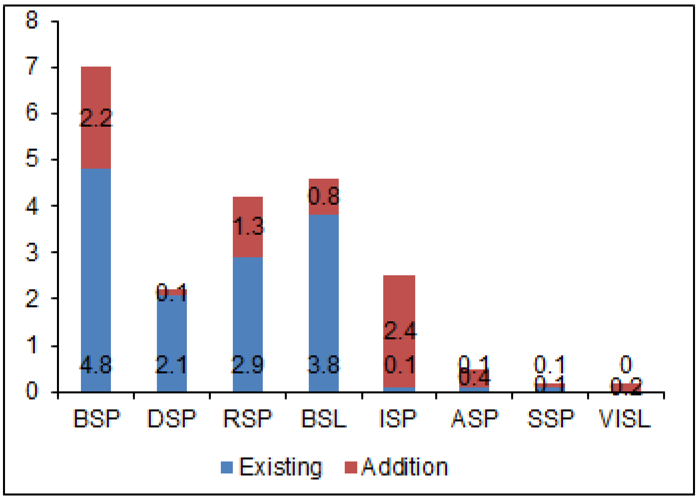
SAIL is in middle of its brownfield expansion plan that would double its steel making capacity. This would enable it to maintain its leadership position in the country. The company also plans to increase its hot metal, crude steel and saleable steel and hot metal capacity to 23.5mt, 21.4mt and 20.2mt respectively by end of CY18 from current 15.4mt, 13.9mt and 12.8mt capacity respectively. Post expansion, there would be substantial volume growth. However, till that happens, we expect muted volume growth for the company.

Exhibit 1: Saleable Steel Capacity



Source: Company, Dolat Research

Exhibit 2: Crude Steel Capacity



Source: Company, Dolat Research

The entire capex plan is pegged around Rs729bn for adding capacities across the location. This amount will be spent on the Expansion Plan and other Capital Schemes of SAIL (incl. subsidiary). Besides an additional capex plan of Rs102bn has been made for the augmentation of raw material facilities

Table 1: Investment spend for capex over 8 years

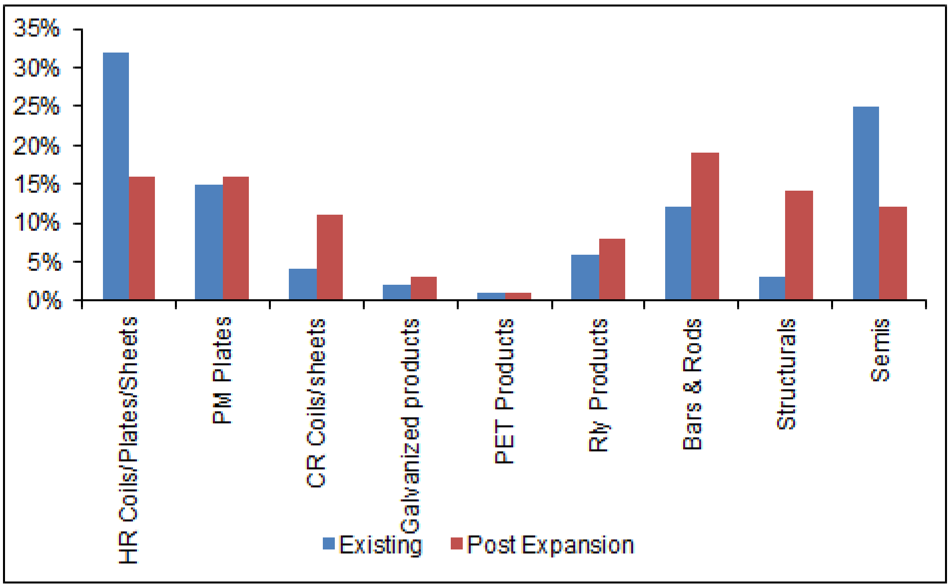
	(₹ bn)
FY09	52.3
FY10	106
FY11	112.8
FY12	110.2
FY13	97.3
FY14	98.9
FY15	68.4
FY16E	75

Source: Company, Dolat Research

Product mix change to achieve better realization

SAIL's products mix is set to improve post its modernization and expansion plan, which aims at reducing sales of semis. The current product mix of the company consists of 25% semis which fetches lower realization. Out of the ₹ 629 bn capex, the company has allocated ₹70 bn for value added products or an improvement in product mix. This in turn would increase the capacity of autograde CR products, galvanized coils, rails and pipes on the one hand and on the other will reduce the sale of semis . We believe that with the improvement in the product mix, SAIL's realization per ton would increase. We also believe that the product mix will change from current flats to longs ratio of 55:45 to 49:51 post expansion as majority expansion is taking place in long products.

Exhibit 3: Product mix- Saleable steel



Source: Company, Dolat Research

Delay in capex and adverse market weakening balance sheet

It undertook capex 8 years back with the objective of doubling the capacity to 25mtpa but wobbled on its way with huge delays and cost over runs. As a result, it trimmed its capacity expansion to 20mtpa about five years back. Besides, weak demand and pricing situation has badly impacted profits in such a way that it is continuously sliding down in last 5 years. The result being a company which used to have huge cash of ₹100bn and no debt in FY08 has lost all cash and piled up debt of about ₹270bn after it started its capex plans. We expect it to increase its debt by about ₹70bn over next 2-3 years to complete the capex.

Sufficient ore, lack coal – power generation to increase

SAIL has access to 100% captive availability of iron ore, which is expected to be maintained post expansion also due to development at various captive mines. However, on the coking coal front it is entirely dependent on third parties for sourcing it. The company's captive coal production is around 0.5mt, it imports 86% of its requirement and the remaining is sourced from CIL. Since, it imports a majority of its coal requirements it faces majority of the problems on account of availability of ships to carry coal to India. To insulate itself from these problems, the company entered into a JV with SCI to purchase vessels, which will ensure the uninterrupted supply of coking coal in India and also reduce its transportation cost. In addition to basic raw materials, the company is also planning to increase its captive power generation capacity to 1,922MW from current 872MW. This would further help the company to reduce its overall production cost.

Year	Hot Metal Production	Iron Ore Consumption	Linkages
20014-15	15.41	26	Existing Mines
Post Expansion	23.46	39	The capacity of existing mines at Kiriburu, Meghataburu, Bolani, Gua & Barsua are being ramped up to meet the requirement of Iron Ore for post ongoing phase of expansion. New Pellet plant of 5 mtpa capacity has being planned for better utilization of Iron Ore fines. In addition to the above, iron ore shall be mined from new mines at Rowghat, Chiria and Taldih.

Source: Company, Fortune Research

Year	Hot Metal Production	Coking Coal Consumption	Linkages
20014-15	15.41	15.1	Import Component–86% Over 90% of imported coal is imported from Australia. Indigenous:14% Domestic coal is largely sourced from Coal India Ltd. SAIL has existing captive coking coal production of near 0.5mtpa.
Post Expansion	23.46	21	Long term/Quarterly contracts to cover 95% of Import requirements. Tasra captive coal block is being developed to produce 4mtpa of ROM(2mtpa washed coal) Sitanala coal block shall also be developed for production of 0.3mtpa of ROM(0.2mtpa of washed coal)
2020	60	50	New alliances/linkages/acquisitions are being explored

Source: Company, Fortune Research

Widespread distribution network

Sail has got a wide distribution network across India which comprises of 37 branches, 67 warehouses and 2711 dealers in addition to 26 customer contact centers.

The company also has extensive presence in international markets where it exports its products. The company is also in process of enhancing its distribution network to ramp up its reach. We believe that with the presence of an extensive distribution network, the company would be in a position to gain the market share and would be able to sell increased volumes post expansion.

Higher productivity to improve margin

We expect the modernisation of plants to help SAIL in achieving the technological shift, which will lead to improved production processes, high manpower productivity, and reduced coke rate and energy consumption leading to overall reduction in cost.

Technology	Current Status	After Expansion
BOF Steel Making	79%	100%
ConCast Route	71%	94%
Pelletisation & Beneficiation unit	No/Partial	Full
Coke Dry Quenching	Partial	Yes
Auxiliary Fuel injection in BF	Partial	Full
Thin Slab Casting	No	Yes

Source: Company, Fortune Research

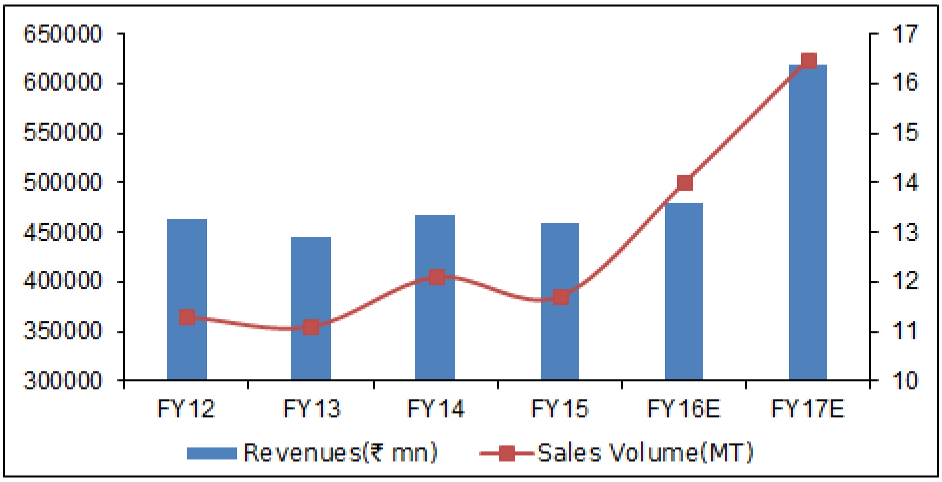
Exhibit 4: Key assumptions

	FY16E	FY17E
Sales Volume (MT)	13.7	16.5
Average realization (₹/t)	34,500	37,500
Raw material costs(FOB)		
Coking coal (USD/t)	100	110
Iron ore (₹/t)	1,600	1,600

Financials

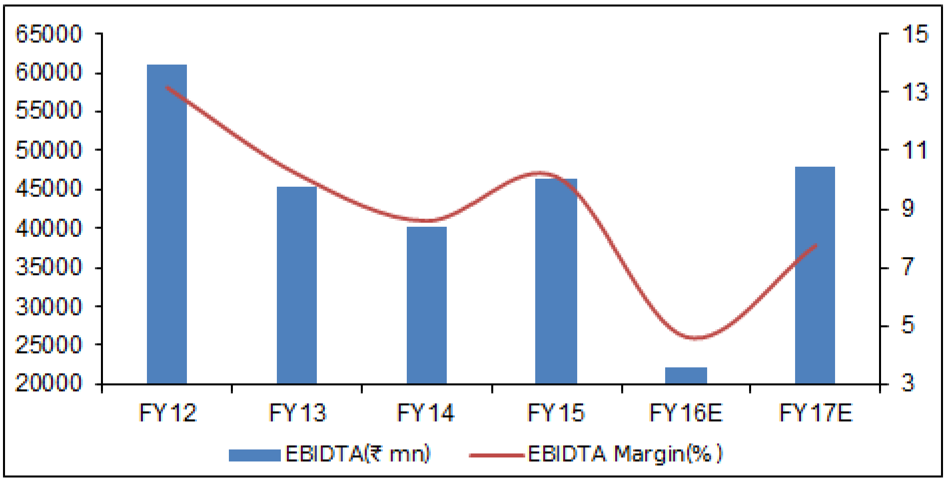
Higher volume growth expected to boost revenues…

SAIL is in the final stages of its capex and expects to commission 2mtpa each year for next 3 years. This is expected to increase volumes from 12.84mt in FY15 to 17mt in FY17E leading to increase in revenues.



…..but weak prices to depress EBIDTA and Margin

As raw materials suppliers insisted on quarterly and spot pricing in lieu of traditional yearly pricing methodology, raw material prices are fraught with uncertainity. However, in the scenario of an increase in input costs and the softening of steel prices, the company is unlikely to post healthy margin.



Source: Company, Dolat Research

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net Sales	**468,213**	**458,436**	**473,768**	**618,750**
Other Expenses	80,300	88,715	102,033	122,760
EBITDA	**40,241**	**46,339**	**23,774**	**48,042**
EBITDA Margin (%)	9	10	5	8
Depn & Amortn.	17,186	17,752	19,761	25,500
EBIT	23,055	28,587	4,013	22,542
Interest Exps.	9,677	14,543	17,030	18,000
EBT	13,378	14,044	(13,017)	4,542
Other Income	8,537	9,885	6,842	8,000
Extraord. Inc./(Exps).	10,563	0	0	0
PBT	32,478	23,929	(6,175)	12,542
Tax-Total	6,159	2,754	0	3,763
Tax Rate (%) - Total	19	12	0	30
Profit after minority interest	**26,319**	**21,175**	**(6,175)**	**8,779**

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	48,956	49,107	25,507	46,879
Cash Flow from working capital	14,438	(17,748)	(7,102)	(14,651)
Net Operating Cash Flow	**63,395**	**31,359**	**18,405**	**32,228**
Net purchase of fixed assets	(89,228)	(29,318)	(55,000)	(65,000)
Net purchase of investments	5,594	(8,626)	0	0
Net Cash From Investment	**(83,634)**	**(37,945)**	**(55,000)**	**(65,000)**
Net Cash From Financing	**10,047**	**21,772**	**20,088**	**10,088**
Net Increase/(Decrease) in Cash	(10,193)	15,186	(16,507)	(22,684)
Cash at Beginning of the year	41,766	31,580	46,766	30,259
Cash at End of the year	**31,573**	**46,766**	**30,259**	**7,576**

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
Sources of Funds				
Equity Capital	41,305	41,305	41,305	41,305
Reserves and Surplus	391,761	393,746	387,571	396,350
Shareholders' Funds	**433,067**	**435,051**	**428,876**	**437,656**
Total Loan Funds	**262,913**	**294,596**	**324,596**	**344,596**
Deferred Tax Liab. - Net	22,222	23,952	26,000	27,000
Total Liabilities	**718,201**	**753,599**	**779,473**	**809,252**
Appl. Of Funds				
Gross Block	590,718	977,373	1,052,873	1,143,373
Accumulated Depn.	283,515	301,267	321,028	346,528
Capital WIP	339,585	0	0	0
Net Fixed Assets	**646,788**	**676,106**	**731,106**	**796,106**
Other Investments	**565**	**9,191**	**9,191**	**9,191**
Inventories	153,655	177,364	188,209	220,377
Sundry Debtors	55,006	31,920	45,430	59,332
Cash and Bank Balances	31,580	23,052	30,259	7,576
Loans and Advances	52,656	75,636	76,000	76,000
Total Current Assets	**292,897**	**307,972**	**339,898**	**363,284**
Current Liabilities	93,650	99,504	117,122	148,540
Provisions	128,395	140,162	183,598	210,786
Total Current Liab.	**222,045**	**239,667**	**300,720**	**359,326**
Net Current Assets	**70,852**	**68,305**	**39,179**	**3,958**
Total assets	**718,204**	**753,602**	**779,475**	**809,255**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
Contribution Margin				
EBIDTA Margin (excl. O.I.)	8.6	10.1	5.0	7.8
Interest / Sales	2.07	3.17	3.59	2.91
Gross Profit Margin	10.42	12.26	6.46	9.06
Tax/PBT	19.0	11.5	0.0	30.0
Net Profit Margin	5.6	4.6	(1.3)	1.4
(B) As Percentage of Net Sales				
Raw Material	43.1	37.4	36.0	37.3
Employee Expenses	27.4	27.8	32.9	40.9
Other Expenses	17.2	19.4	21.5	19.8
(C) Measures of Financial Status				
Debt / Equity (x)	8,216.0	9,206.1	10,143.6	10,768.6
Interest Coverage (x)	2.4	2.0	0.2	1.3
Average Cost Of Debt (%)	3.68	4.94	5.25	5.22
Debtors Period (days)	42.9	25.4	35.0	35.0
Inventory Turnover Ratio (x)	3.0	2.6	2.5	2.8
Fixed Assets Turnover (x)	0.7	0.7	0.6	0.8
Working Capital Turnover (x)	6.6	6.7	12.1	156.3
Non Cash Working Capital (₹ Mn)	39,272	45,253	8,919	(3,618)
(D) Measures of Investment				
EPS (₹)	6.4	5.1	(1.5)	2.1
CEPS (₹)	1.1	0.9	0.3	0.8
DPS (₹)	2.2	2.0	2.0	2.0
Dividend Payout (%)	34.5	39.0	-133.8	94.1
Profit Ploughback (%)	99.7	99.6	101.3	99.1
Book Value (₹)	104.8	105.3	103.8	106.0
RoANW (%)	6.1	4.9	(1.4)	2.0
RoACE (%)	5.0	4.7	1.4	3.3
RoAIC (%) (Excl Cash & Invest.)	3.36	3.96	0.54	2.84
Valuation Ratios				
CMP (₹)	56.0	56.0	56.0	56.0
P/E (x)	8.8	10.9	(37.5)	26.3
Market Cap. (₹ bn.)	231	231	231	231
MCap/ Sales (x)	0.5	0.5	0.5	0.4
EV (₹ bn.)	462	502	525	568
EV/Sales (x)	1.0	1.1	1.1	0.9
EV/EBDITA (x)	11.5	10.9	22.1	11.8
P/BV (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	3.93	3.57	3.57	3.57

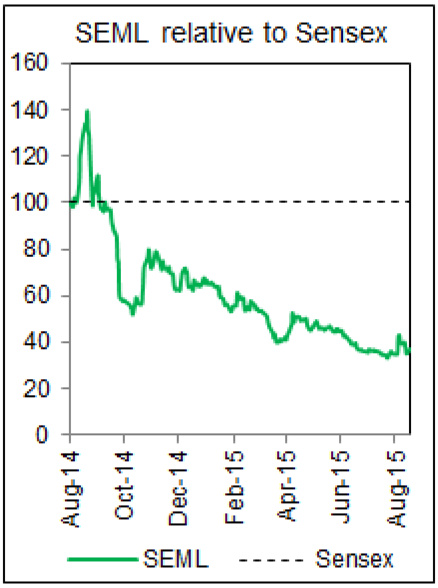
E-estimates

Sarda Energy & Minerals

DOLAT CAPITAL

CMP: ₹ 112 Target Price: ₹ 103 Reduce

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 360mn
Face Value	₹ 10/-
Market Cap	₹ 4bn
	USD 63mn
52 week High / Low	₹ 403 / 102
Avg. Volume (no)	157,931
BSE Code	504614
NSE Symbol	SARDAEN
Bloomberg Code	SEML IN
Reuters Code	SAEM.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	71.29
MF/Banks/FIs	6.46
FIIs	0.21
Public / Others	22.04



Sarda Energy & Minerals (SEML), is one of the largest manufacturers & exporter of Ferro Alloys and sponge iron in India. It lost its operational coal mines having 100mt of reserves and producing 0.6mtpa of coal in recent Supreme Court judgement along with all companies which had been allotted mines from 2004 onwards. But the recent resumptionof iron ore mines will help it partially., SEML's earnings will remain under pressure because of the loss of coal mines and overall weak commodity prices resulting in weak Ferro alloy prices. Besides, the merchant power market has lost its lustre as power tariffs has declined significantly due to the weak financial position of state electricity boards as well as recent regulatory changes on the one hand and cost of power increasing due to loss of captive coal mines.

Losing of coal mines to government –biggest shock

As per the Supreme Court judgement in Coalgate scam, coal mines which were allotted since 2004 have been taken over by the government and are being auctioned. So SEML also lost the mine which it had been operating successfully since September 2008 and was producing about 0.7mtpa and had mined about 5mt till Dec 2014 when it had to pay fines of Rs255/t on the total coal produced till that time. Though as per the ruling, whoever wins the mine in the auction process will have to compensate the previous owner for the land, in terms of infrastructure, the valuation of such compensation remains the big dispute and companies are fighting in the court for the right compensation.

Lose some, win some -Restarting of iron ore mines

The irony for SEML is that though it had both coal and iron ore mines but could not operate simultaneously for some reasons as Naxalite problems stopped its iron ore mines in Nov 2008 when it was fast ramping up its coal mines. When the company was finally able to restart its iron ore mines in Sep-Oct 2014, came the adverse Supreme Court judgement on coal mines allotted from 2004 onwards to all private companies to be taken over by government. In the current scenario though it has lost its coal mines its but iron ore mine is up and running. However there are still some issues like the quality of ore and labour problemsthat are hampering the ramping up of mines.

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	15,913.8	13.2	3,262.6	20.5	910	5.7	25.4	(43.6)	4.4	7.9	9.8
FY15	17,598.8	10.6	3,773.5	21.4	549	3.1	15.3	(39.9)	7.3	4.5	13.0
FY16E	14,490.4	(17.7)	2,265.5	15.6	414	2.9	11.6	(24.2)	9.7	3.3	6.5
FY17E	15,618.9	7.8	2,126.4	13.6	369	2.4	9.6	(10.8)	10.9	2.7	6.0

Figures in ₹ mn

Weak Ferro alloys and merchant power tariffs hurting Vizag operations

SEML operates its new Ferro alloys and power plant at Vizag, India under its 100% subsidiary called" Sarda Metals and Alloys Ltd". Ferro alloys prices have declined significantly in line with all commodities price and in the absence of very low merchant power tariffs, it is forced to operate the Ferro alloy plant at 40% capacity in order to recover its fixed cost in the least. The actual business model had flexibility of switching between Ferro alloys and merchant power sale depending on price and profitability in order to maximize the profits and optimize the operations but with weakness in Ferro alloys price and structural and regulatory issues combined with a distressed financial situation of SEBs (State Electricity Boards) has depressed the merchant power price thereby hurting the companies like SEML.

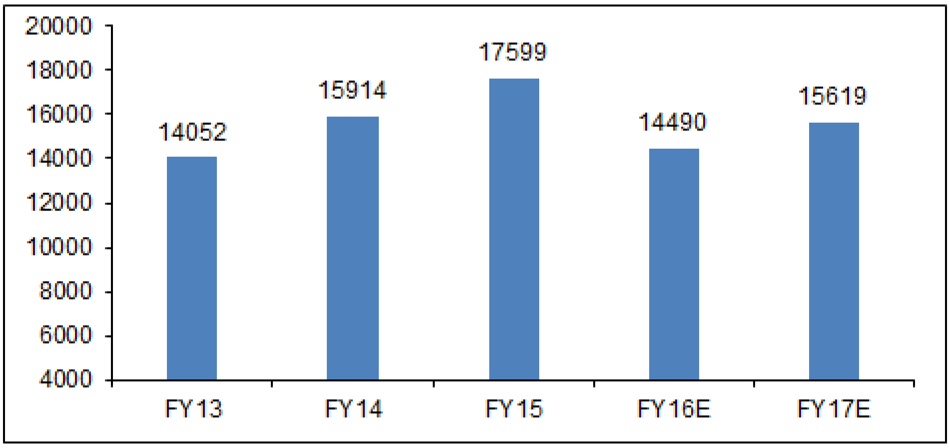
Valuations

At CMP, the stock trades at 9.9 x FY16E and 11x FY17E earnings of ₹11.6 and ₹10.3 respectively. On an EV/EBITDA basis, it trades at 6.7x FY16E and 6.7x FY17E EBITDA which is fully valued. We recommend Reduce on the stock with price target of ₹103 valuing at 6.5x FY17E EBIDTA

Weak demand keeping Vizag plant underutilized

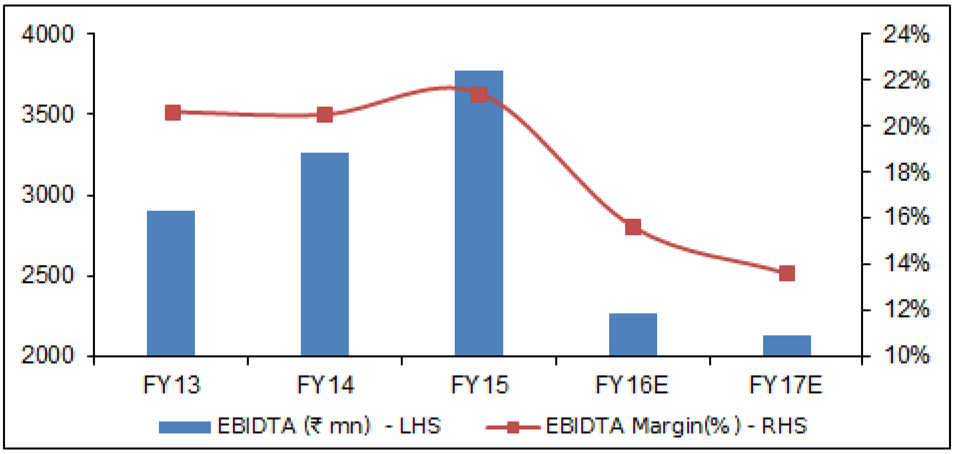
It set up and commissioned 125,000 tpa Ferro alloy capacity at Vizag along with captive power plant of 80MW under its 100% subsidiary "Sarda Metals and Alloys Ltd"(SMAL) in March-April 2013. However, the price of Ferro alloys has reduced significantly due to weak demand and merchant power tariffs have reduced significantly from the peaks achieved in 2012 is keeping Vizag plant utilization at less than 50%.

Revenue Chart (₹ mn)



Source: Company, Dolat Research

EBITDA & Margin Chart



Source: Company, Dolat Research

Restarting of iron ore mine to partially offset loss of coal mine

Restarting of iron ore mine is going to only partially offset the loss incurred due to loss of coal mine. There are problems in ramping up production from the mine as still there are labor issues and fear of Naxalites is stopping it from going ahead with full steam. Besides, there are some quality issues regarding ore. This is going to save only about Rs 1,000/t for iron ore as against cost increase of Rs2,000/t due to loss of coal mine assuming iron ore mine is ramped up and no iron ore is purchased from the market.

Exhibit 4: Mineral resources

Mines details

Iron ore	Reserves (mn tons)	Status
Rajnandgaon, CG	20	Extraction started in 2007 but stopped in 2008 due to Naxal violence. Resumed mining in Oct 2014

Source: Company, Fortune Research

Exhibit 5: Key assumptions

Y/E March	FY16E	FY17E	Existing capacity
Sales Volumes (t)			
Sponge	155,000	157,000	360,000
Steel (Billets + Wire rods)	140,000	159,000	240,000
Ferro manganese	125,000	122,500	207,000*
Power (MU)	294	294	160 MW
Pellet	286,000	315,600	600,000
Realizations (₹/t)			
Sponge	15,500	17,000	
Steel	26,000	28,000	
Ferro manganese	51,000	53,000	
Power (₹/unit)	5.5	5.5	
Pellet	5,700	5,700	

Source: Company, Dolat Research Estimates

** includes 125,000tpa Vizag plant of SMAL(100% subsidiary)*

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net Sales	**15,914**	**17,599**	**14,490**	**15,619**
Other Expenses	3,535	4,541	5,454	5,229
EBITDA	**3,263**	**3,773**	**2,265**	**2,126**
EBITDA Margin (%)	21	21	16	14
Depn & Amortn.	956	930	900	862
EBIT	2,307	2,844	1,365	1,265
Interest Exps.	1,225	1,204	1,131	1,131
EBT	1,082	1,640	234	133
Other Income	462	625	375	410
Extraord. Inc./(Exps).	151	1,393	0	0
PBT	1,393	873	609	543
Tax-Total	472	310	195	174
Tax Rate (%) - Total	34	35	32	32
Profit after tax	**921**	**563**	**414**	**369**
Minority Interest	**11**	**14**	**0**	**0**
Profit after minority interest	**910**	**549**	**414**	**369**

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
Sources of Funds				
Equity Capital	358	360	360	360
Reserves and Surplus	11,123	11,737	12,151	12,520
Shareholders' Funds	**11,481**	**12,096**	**12,510**	**12,880**
Minority Interest	673	707	720	750
Total Loan Funds	**15,461**	**13,071**	**12,571**	**12,571**
Deferred Tax Liab. - Net	716	780	900	1,000
Total Liabilities	**28,331**	**26,653**	**26,701**	**27,200**
Appl. Of Funds				
Gross Block	18,504	23,342	24,502	24,600
Accumulated Depn.	4,672	5,602	6,502	7,363
Capital WIP	3,751	0	0	0
Net Fixed Assets	**17,583**	**17,740**	**18,000**	**17,237**
Other Investments	**5,717**	**2,790**	**2,790**	**2,790**
Goodwill	**0**	**0**	**0**	**0**
Inventories	2,845	4,280	3,771	4,065
Sundry Debtors	648	973	873	941
Cash and Bank Balances	1,028	113	1,462	2,452
Loans and Advances	4,594	4,496	4,496	4,496
Total Current Assets	**9,115**	**9,862**	**10,603**	**11,954**
Current Liabilities	3,777	3,361	3,349	3,697
Provisions	366	424	1,343	1,084
Total Current Liab.	**4,144**	**3,786**	**4,692**	**4,781**
Net Current Assets	**4,971**	**6,076**	**5,911**	**7,174**
Misc. Expenditure	60	47	0	0
Total assets	**28,331**	**26,653**	**26,701**	**27,200**

E-estimates

CASH FLOW

Particulars	Mar14	Mar15E	Mar16E	Mar17E
Cash Flow from operations	3,358	1,479	1,314	1,231
Cash Flow from working capital	(949)	(2,077)	596	(15)
Net Operating Cash Flow	**2,409**	**(598)**	**1,910**	**1,217**
Net purchase of fixed assets	(970)	(1,087)	(1,160)	(98)
Net purchase of investments	(2,877)	2,927	0	(0)
Net Cash from Investment	**(3,847)**	**1,840**	**(1,160)**	**(98)**
Net Cash from Finance	**1,761**	**(2,519)**	**(629)**	**(129)**
Net Increase/(Decrease) in Cash	323	(1,278)	121	989
Cash at Beginning of the year	2,296	2,619	1,341	1,462
Cash at End of the year	2,619	1,341	1,462	2,452

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	21	21	16	14
Interest / Sales	7.7	6.8	7.8	7.2
Gross Profit Margin	23	25	18	16
Tax/PBT	34	35	32	32
Net Profit Margin	6	3	3	2
(B) As Percentage of Net Sales				
Raw Material	53	49	43	49
Employee Expenses	4.0	4.1	4.2	3.9
Other Expenses	22.2	25.8	37.6	33.5
(C) Measures of Financial Status				
Debt / Equity (x)	1.3	1.1	1.0	1.0
Interest Coverage (x)	2	2	1	1
Average Cost Of Debt (%)	7.9	9.2	9.0	9.0
Debtors Period (days)	15	20	22	22
Inventory Turnover Ratio (x)	5.6	4.1	3.8	3.8
Fixed Assets Turnover (x)	0.9	1.0	0.8	0.9
Working Capital Turnover (x)	3.2	2.9	2.5	2.2
Non Cash Working Capital (₹ Mn)	3,943	5,963	4,448	4,722
(D) Measures of Investment				
EPS (₹)	25.4	15.3	11.6	10.3
CEPS (₹)	52.4	41.5	36.7	34.4
DPS (₹)	4.0	5.0	3.0	3.0
Dividend Payout (%)	15.8	32.7	25.9	29.1
Profit Ploughback (%)	84	67	74	71
Book Value (₹)	320.3	336.4	349.4	359.8
RoANW (%)	7.9	4.5	3.3	2.9
RoACE (%)	9.8	13.0	6.5	6.2
RoAIC (%) (Excl Cash & Invest.)	10.7	12.0	6.1	5.8
Valuation Ratios				
CMP (₹)	112	112	112	112
P/E (x)	4	7	9.7	10.9
Market Cap. (₹ Mn.)	4,015	4,027	4,027	4,027
MCap/ Sales (x)	0.3	0.2	0.3	0.3
EV (₹ Mn.)	18,448	16,984	15,135	14,146
EV/Sales (x)	1.2	1.0	1.0	0.9
EV/EBDITA (x)	5.7	4.5	6.7	6.7
P/BV (x)	0.3	0.3	0.3	0.3
Dividend Yield (%)	3.6	4.5	2.7	2.7

E-estimates

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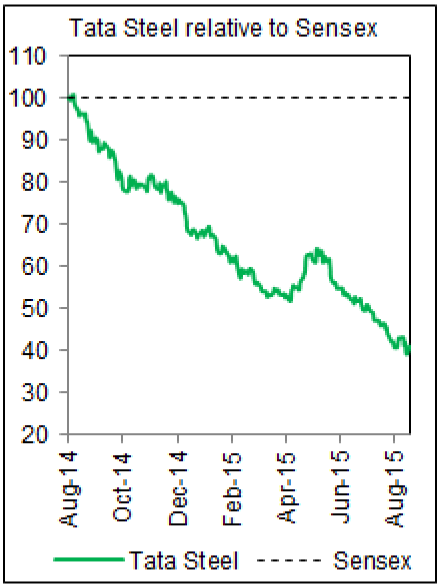
Tata Steel

DOLAT CAPITAL

CMP: ₹ 244 | Target Price: ₹ 319 | Buy

BSE Sensex	27,832
NSE Nifty	8,449
Scrip Details	
Equity	₹ 9714mn
Face Value	₹ 10/-
Market Cap	₹ 237bn
	USD 3.7bn
52 week High / Low	₹ 554 / 245
Avg. Volume (no)	6,558,788
BSE Code	500470
NSE Symbol	TATASTEEL
Bloomberg Code	TATA IN
Reuters Code	TISC.BO
Shareholding Pattern as on Junet'15(%)	
Promoter	31.35
MF/Banks/FIs	28.75
FIIs	12.36
Public / Others	27.54



Indian operations to come under pressure due to new capacity expansion

Tata Steel India is the only fully integrated steel producer in India as it has captive iron ore and coal mines (appx 60% captive coking coal). But weak steel prices resulting from international weak prices as well as lack of domestic demand has suppressed its otherwise healthy domestic margins. Besides, commissioning of new steel plant at Kalinganagar, Orissa would put further pressure on margins as this would reduce its level of captive resources.

Capacity to expand by 25% till FY18 but weakness in commodity prices to drag margins

With the expanded capacity being stabilized to 10MTPA at its Jamshedpur plant and further commissioning of 2.5MT at its new plant at Kalinganagar, Orissa in phased manner over next 3 years, Tata Steel intends to expand its capacity by 25% till FY18. The new plant will produce only flat products which will increase flat to long product mix from 53:47 to 62:38 post commissioning of new plant. Tata Steel would be investing about ₹250 bn. Tata Steel's India operations are fully integrated with 100% captive iron ore mines and 50% captive coking coal resources. This benefits the company in the times of high commodity prices as seen during 2007-2008 and again during 2010-2013 but when commodity prices are under pressure and we believe "New Normal" prices of commodities would be about 35% lower from the peaks seen in 2012-14. As such no benefits accrue from having captive resources since raw materials would be available from the market at prices close to the cost.

Europe operations to remain under pressure despite cost restructuring and new products

We believe that Tata Steel's Europe operations will continue to remain under pressure despite cost restructuring and introduction of premium new products because there is a limit to cost rationalization and the premium charged on new products which will barely compensate for the weakness in steel prices higher depreciation and interest charges. We believe that steel prices have bottomed out and expect upside potential of 25-30% from the current levels by FY17. Therefore we expect improvement in European and South East Asian operations in FY17E .

Financials

Year	Net Sales	growth(%)	EBIDTA	EBIDTA(%)	PAT	NPM (%)	EPS(₹)	Growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY14	1,486,136	10.3	164,110	11.0	35,949	2.4	37.0	150.9	6.6	8.9	6.9
FY15	1,395,037	(6.1)	125,358	9.0	(39,255)	(2.8)	(40.4)	PL	(6.0)	(12.5)	4.9
FY16E	1,217,876	(12.7)	119,003	9.8	14,048	1.2	14.5	135.8	16.9	4.3	4.9
FY17E	1,349,738	10.8	157,481	11.7	30,377	2.3	31.3	116.2	7.8	8.5	5.6

Figures in ₹ mn

Key concerns

1) Steel prices remaining weak as against expectations despite economic slowdown as against our assumption of improvement in FY17 may not only adversely impact the earnings but also may have adverse impact on overall company as it has huge debt of about USD11bn

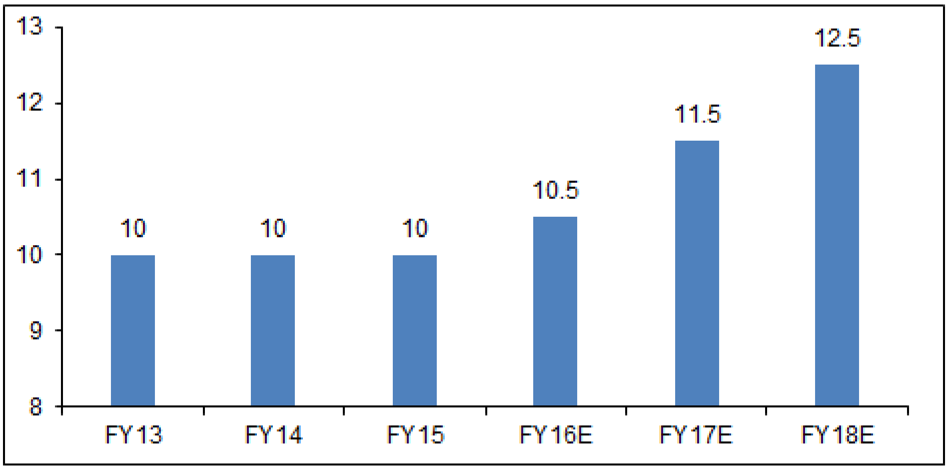
2) Increase in raw material prices higher than expected.

3) Weak demand may result in lower than assumed sales volumes.

Valuation

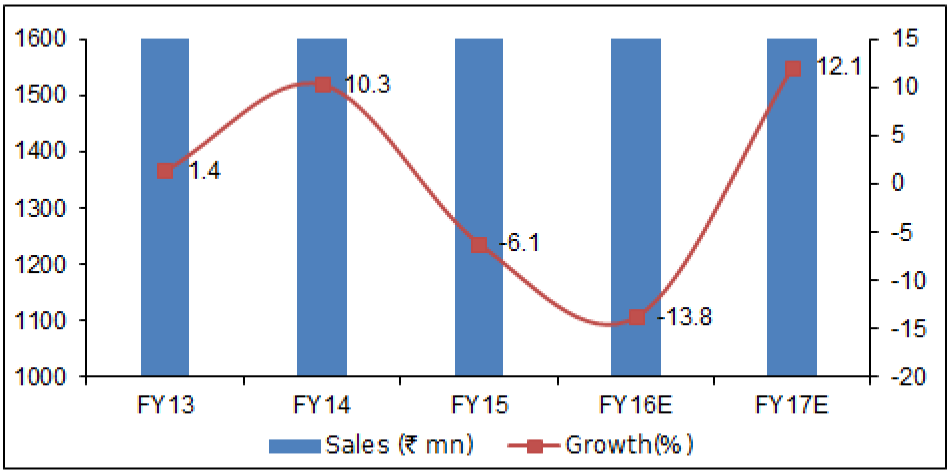
We believe that weak iron ore, coal and steel prices will continue to put pressure on Tata Steel's domestic margins. Actually, the higher prices of raw materials like iron ore, coal, etc. indicate an increasing demand which translates into higher steel prices. This in turn benefits companies like Tata Steel having captive resources since the cost of raw material remains the same for them while getting higher realization on finished products resulting in higher margins. The reverse is also true. At CMP, the stock trades at 7x FY16E 5.7x FY17E EV/EBITDA. We recommend Buy on the stock with a price target of ₹ 319 valuing the stock at 6x FY17E EBITDA.

Capacity expansion in Indian operations (MT)



Source: Company, Dolat Research

Revenue trend in Indian operations

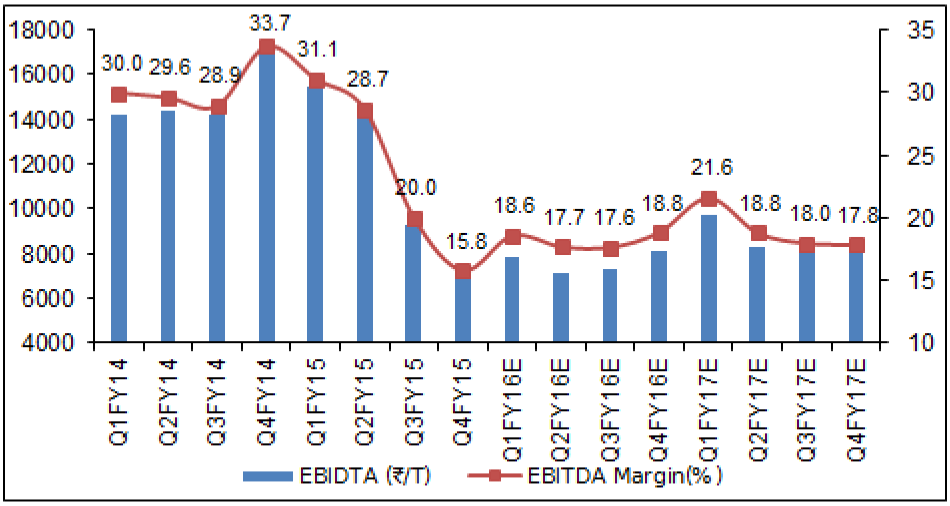


Source: Company, Dolat Research

Raw material advantage – Not any more as domestic EBITDA/T on steady decline and past its peak

Tata Steel India is 100% captive in terms of iron ore and 65% captive in terms of coking coal. In the recent past, there has been large volatility in the iron ore and coking coal prices which had moved the steel prices to the higher trajectory. This was largely on the back of Chinese demand. However the company's Indian operations are highly insulated from the volatility due to captive resources and helped enhance its profitability since its cost structure was almost fixed. But with prices of iron ore and coal down by 50% in last 1 year and near to the lowest level it reached during 2009, prices of steel also declined sharply which has led to compression of margins and low EBITDA/T

EBITDA/T , EBITDA Margin Trend



Source:Dolat Capital

Exhibit 07: Key assumptions

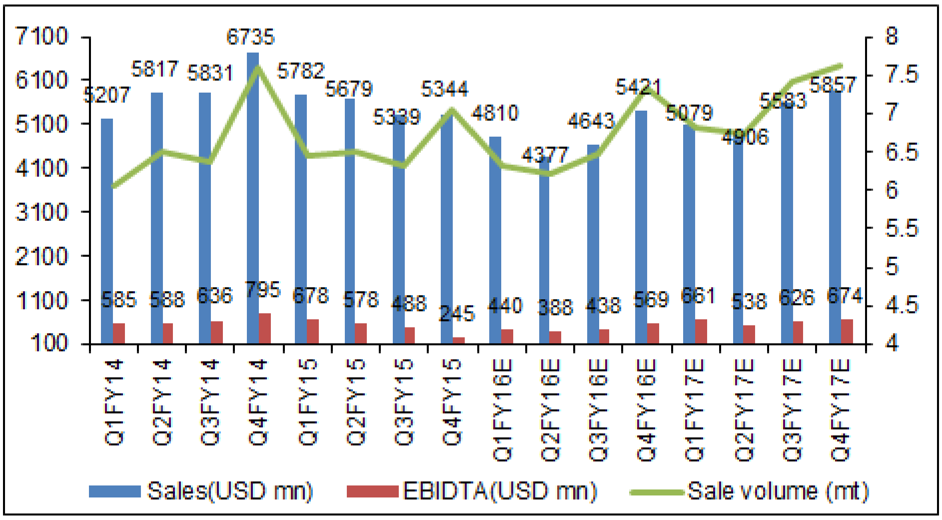
Particulars	FY13E	FY14E
Sales Volumes (mt)	26.4	28.6
Realizations (USD/t)	720	740
Raw Materials (FOB Price)		
Iron ore (USD/t)	40	45
Coking coal (USD/t)	100	110

Source: Company, Dolat Capital

Increased volatility in group earnings and Europe operations continue to be a problem area

The effects of Chinese economy slowdown and crash in metal prices have impacted Tata Steel negatively . Besides, Tata Steel Europe continues to be a problem area with earnings swinging wildly. In any case, we believe that the EBIDTA of the Europe operations would not cover its annual interest outgo and depreciation which is about US$ 950mn. So Tata Steel Europe would not contribute anytime in future to the bottom line of the company. Tata Steel Europe's low integration combined with high debt increased the volatility in consolidated earnings of Tata Steel.

Sales and EBIDTA Trend: Tata Steel consolidated (USD mn)



Source: Dolat Capital

High employee cost in European operations- major concern

Tata Steel, India is an integrated entity, for the majority of its raw material requirements. However, raw material self-sufficiency for the consolidated entity is at 25%. The company is planning to increase its self-sufficiency of raw materials to 50% in the near future. It is also aggressively looking for acquiring raw materials assets either in coking coal or in iron ore which can be aligned to the requirements in Europe. In this pursuit,Tata Steel has acquired several mining assets abroad and is still on the search for more. We believe that in the current atmosphere of weak iron ore and coal prices, lack of raw materials is not going to be problem. The problem in our view continues to be the high cost structure of Tata Steel Europe operations. Conversion cost of Tata Steel Europe is high at about USD500/t mainly due to high employee cost of USD 170/t

Global Raw material project

Location	Project	Joint Venture	Tata Steel Stake (%)	Reserves (MT)
Mozambique	Mozambique Coal	Riversdale	35	720
Canada	Direct Shipping Ore(DSO)	New Millenium Corp		
			80	93
Ivory Cost	Nimbia Iron Ore Mine	Sodemi Mining	75	900

Source: Company, Dolat Research

Riversdale Energy Mining Limited, where the company holds a 35% stake, has announced an inferred reserve of around 4 billion tonnes in one tenement, in Mozambique, where its subsidiary has been awarded the Mining Concession.

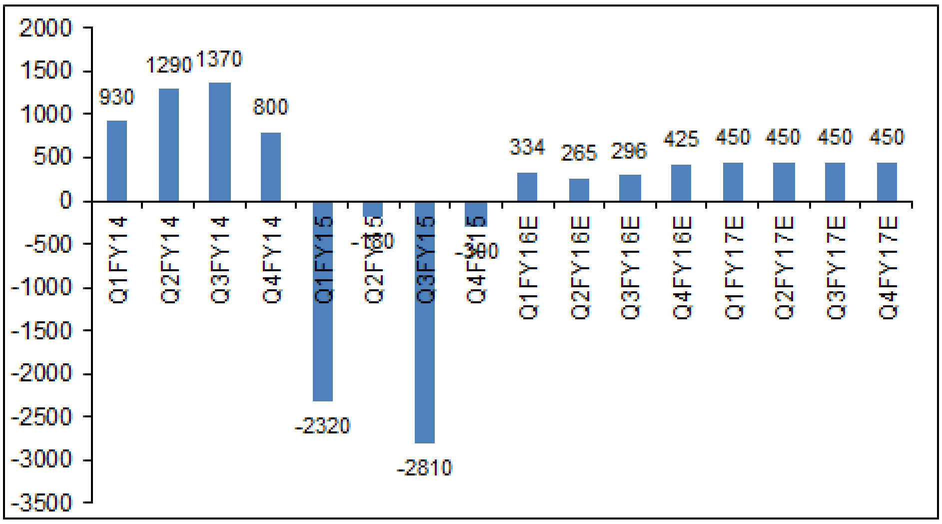
Tata Steel also has a Joint Venture with New Millennium Capital Corp ("NML") in Canada in the Direct Shipping Ore ("DSO") project. This has estimated reserves of around 100 million tonnes of iron ore.

It is expected that iron ore from DSO project will start servicing part requirement of the European operations starting from 2016.

South East operations likely to improve

Apart from Corus, the other two subsidiaries of Tata Steel, NatSteel Asia and Tata Steel Thailand had been severely impacted during the downturn as both reported losses at EBIDTA level last year. They are expected to improve their performance as we expect steel prices to improve by FY17E.

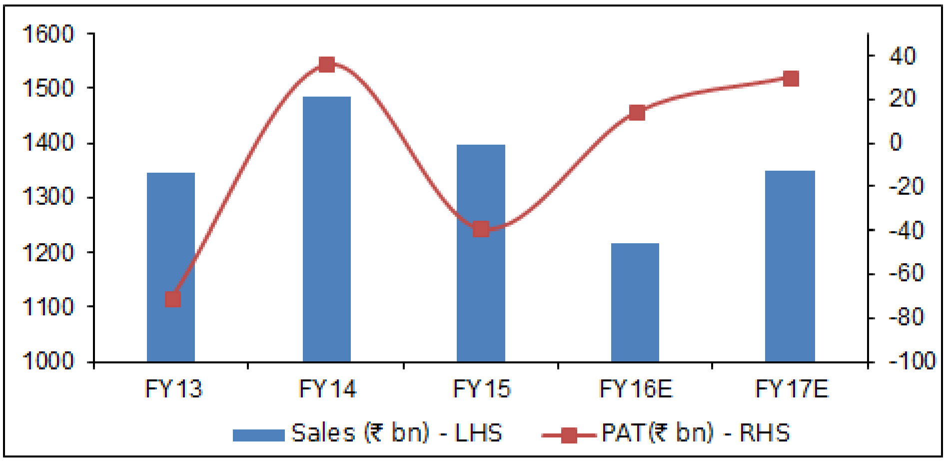
Subsidiaries EBITDA (₹ mn) - Trend



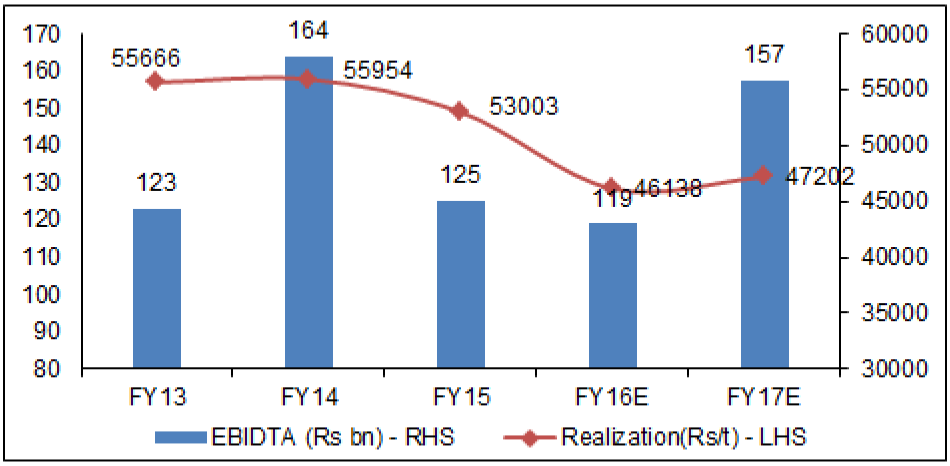
Source: Company, Dolat Capital

Consolidated Financials

Revenue and PAT trend



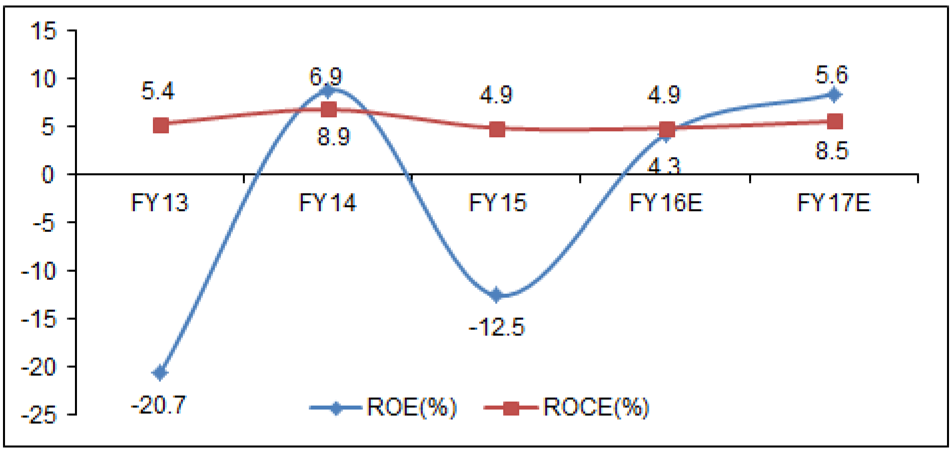
Realization and EBIDTA trend



Return ratios to be back on track

We expect Tata Steel's consolidated return ratios to be back on track led by higher realization and soft raw material prices. We expect the RONW and ROCE to improve to 8.5% and 5.6% in FY17E from (12.5%) and 4.9% in FY15, respectively.

Return Ratios



Source: Company, Dolat Capital

INCOME STATEMENT

₹ mn

Particulars	Mar14	Mar15	Mar16E	Mar17E
Net Sales	**1,486,136**	**1,395,037**	**1,217,876**	**1,349,738**
Expenditure	**1,322,025**	**1,269,680**	**1,098,873**	**1,192,256**
Raw Materials	627,365	556,674	422,701	426,627
Power and fuel	60,358	59,133	55,751	59,449
Employee cost	203,034	214,076	196,442	218,580
Other Expenses	431,268	439,796	423,979	487,601
EBITDA	**164,110**	**125,358**	**119,003**	**157,481**
Margin (%)	11	9	10	12
Other income	5,168	7,962	16,422	4,400
Depreciation	58,412	59,436	60,765	74,000
EBIT	110,866	73,883	74,660	87,881
Interest	43,368	48,478	45,586	47,474
PBT	67,498	25,406	29,074	40,407
Ex-od items (prior period)	(276)	(39,287)	0	0
PBT-Adjusted	67,221	(13,881)	29,074	40,407
Taxes	30,582	25,674	15,080	9,910
Minority Interest/ Share Profits	(691)	300	54	(120)
PAT	**35,949**	**(39,255)**	**14,048**	**30,377**

CASH FLOW

Particulars	Mar14	Mar15	Mar16E	Mar17E
Cash Flow from operations	174,282	139,554	74,813	104,377
Cash Flow from working capital	(42,823)	(20,756)	1,561	(3,066)
Net operating cash flow	**131,459**	**118,798**	**76,374**	**101,311**
Net purchase of fixed assets	(161,255)	(120,488)	(40,000)	(149,000)
Net purchase of investments	(3,256)	36,267	20,051	0
Net cash flow from investing	**(164,511)**	**(84,221)**	**(19,950)**	**(149,000)**
Net cash flow from financing	**10,146**	**(26,172)**	**(9,322)**	**(11,652)**
Free Cash Flow	**(22,906)**	**8,405**	**47,103**	**(59,341)**
Opening Cash Balance	98,597	86,045	87,499	134,602
Closing Cash Balance	86,045	87,499	134,602	75,261

E-estimates

BALANCE SHEET

Particulars	Mar14	Mar15	Mar16E	Mar17E
SOURCES OF FUNDS				
Capital	9,714	9,714	9,714	9,714
Reserves and Surplus	395,806	303,980	318,028	348,405
Total Net worth	**405,520**	**313,694**	**327,742**	**358,119**
Minority Interest	**17,377**	**17,039**	**16,700**	**16,400**
Provision for employee	6,026	0	0	0
Loans	702,306	710,116	710,116	710,116
Total Loan Funds	**725,056**	**732,866**	**732,866**	**732,866**
Deferred Tax Liability - Net	25,550	28,618	30,000	33,000
Total	**1,179,528**	**1,092,216**	**1,107,307**	**1,140,384**
APPLICATION OF FUNDS				
Gross Block	1,829,650	1,798,885	1,838,885	1,987,885
Accumulated Depreciation	969,844	965,176	960,176	1,034,176
Net Fixed Assets	**859,806**	**833,709**	**878,709**	**953,709**
Investments	50,935	34,551	14,500	14,500
Goodwill	157,488	134,075	114,075	84,075
Inventories	268,800	251,499	220,219	244,062
Sundry Debtors	160,058	133,099	116,783	129,427
Cash and Bank Balances	86,045	87,499	134,602	75,261
Loans and Advances	119,747	96,684	94,000	90,000
Total Current Assets	**634,650**	**568,781**	**565,603**	**538,750**
Current Liabilities	448,992	394,939	346,220	375,642
Provisions	87,516	102,073	119,360	75,008
Total Current Liab. & Prov.	**536,508**	**497,012**	**465,580**	**450,650**
Net Current Assets	**98,142**	**71,769**	**100,023**	**88,100**
Miscellaneous Expenditure	13,158	18,112	0	0
Total	**1,179,528**	**1,092,216**	**1,107,307**	**1,140,384**

E-estimates

IMPORTANT RATIOS

Particulars	Mar14	Mar15	Mar16E	Mar17E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	11.0	9.0	9.8	11.7
Interest / Sales	2.9	3.5	3.7	3.5
Gross Profit Margin	11.4	9.6	11.1	12.0
Tax/PBT	45.5	-185.0	51.9	24.5
Net Profit Margin	2.4	(2.8)	1.2	2.3
(B) As Percentage of Net Sales				
Raw Material	42.2	39.9	34.7	31.6
Employee Expenses	13.7	15.3	16.1	16.2
Other Expenses	29.0	31.5	34.8	36.1
(C) Measures of Financial Status				
Debt / Equity (x)	1.8	2.3	2.2	2.0
Interest Coverage (x)	2.6	1.5	1.6	1.9
Average Cost Of Debt ()	6.0	6.6	6.2	6.5
Debtors Period (days)	39	35	35	35
Inventory Turnover Ratio (x)	5.5	5.5	5.5	5.5
Fixed Assets Turnover (x)	1.7	1.7	1.4	1.4
Working Capital Turnover (x)	15.1	19.4	12.2	15.3
Non Cash Working Capital (₹ Mn)	12,097	(15,730)	(34,579)	12,839
(D) Measures of Investment				
EPS (₹)	37.0	(40.4)	14.5	31.3
DPS (₹)	10.0	8.0	8.0	10.0
Dividend Payout (%)	27.0	(19.8)	55.3	32.0
Profit Ploughback (%)	73.0	119.8	44.7	68.0
Book Value (₹)	417.3	322.7	337.4	368.7
RoANW (%)	8.9	(12.5)	4.3	8.5
RoACE (%)	6.9	4.9	4.9	5.6
RoAIC (%) (Excl Cash & Invest.)	10.6	7.6	7.8	8.4
Valuation Ratios				
CMP (₹)	244	244	244	244
P/E (x)	6.6	(6.0)	16.9	7.8
Market Cap. (₹ Mn.)	237,022	237,022	237,022	237,022
MCap/ Sales (x)	0.2	0.2	0.2	0.2
EV (₹ Mn.)	876,032	882,388	835,285	894,626
EV/Sales (x)	0.6	0.6	0.7	0.7
EV/EBDITA (x)	5.3	7.0	7.0	5.7
P/BV (x)	0.6	0.8	0.7	0.7
Dividend Yield (%)	4.1	3.3	3.3	4.1

E-estimates

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Stock price return objective (12 Months)

Buy	> 15%
Accumulate	5 to 15%
Reduce	(-5) to 5%
Sell	< -5%

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