

Key Highlights

- ✓ After witnessing the worst third quarter in over six year, stability was visible across the metal industry. However, this quarter financials are going to be miserable on YoY basis, since corresponding quarter of last year was very strong in term of financial performance. Nevertheless, on QoQ basis, results would be a mix bag as ferrous metal segment would be able to improve its financials, while non-ferrous would continue to witness deterioration in performance.
- ✓ In terms of demand perspective, Indian ferrous metal segment outperformed its global counterparts. Global steel demand continued to remain bleak in view of severest contraction in global GDP post great depression; however, Indian steel demand surged on back of robust infrastructure and stable automobile demand. This enabled majority of steel producer to achieve 20-50% growth in steel production from third quarter.
- ✓ Global steel prices continued their falling trajectory, while domestic steel prices have been on same line, albeit at a lower pace. Nevertheless, the quarterly price comparison would depict a sizeable decline due to the falling price line.
- ✓ Steel prices are likely to remain subdued for periods to come since world is still battling to get out from this recession, while severe production cut to the tune of 20-25% would ensure that higher demand to be easily absorbed.
- ✓ Global steel industry would be relieved following the lower long-term price contracts of its basic raw material like iron ore and coking coal, applicable from first/second quarter of FY10. Coking coal contract price has been settled 57% lower compare to FY09, while iron ore prices is also expected to settle 30-40% lower compare to last year.
- ✓ Non-ferrous industry is also grappling with the issue of acute demand contraction at global level, while India is witnessing stable demand environment from consumer industries.
- ✓ Brutal price correction on LME along with time lag in cost reduction has forced 25-50% of global industry in cash burning position across the categories. Going forward, we expect prices to stabilize at current levels in view of deteriorating demand environment and sharp surge in LME inventories (200% jump in aluminium, copper and zinc inventories during last one year)
- ✓ Metal stocks have risen 24-113% in last one month, which seems unwarranted considering the demand and prices outlook. Therefore, we advise investor to book profit and look to re-enter at lower levels.

Aggregate Metal & Mining Sector

Company	Recom.	Total Income			EBITDA			PAT		
		INR Mn	YoY (%)	QoQ (%)	INR Mn	YoY (%)	QoQ (%)	INR Mn	YoY (%)	QoQ (%)
Hindalco	NEUTRAL	33,798	-34.7	-20.8	2,507	-68.5	-67.8	1,056	-90.2	-80.6
Hind. Zinc	BKPROFIT	14,141	-45.4	8.3	3,795	-74.4	24.4	4,364	-65.9	18.3
JSW Steel (Std)	BKPROFIT	37,850	-10.4	33.9	8,135	-14.1	88.0	2,349	-49.0	LP
JSW Steel (Con)	BKPROFIT	42,283	-14.6	27.4	8,763	-17.4	73.7	1,652	-63.1	LP
NALCO	UNDPERF.	9,056	-41.2	-21.2	869	-84.7	-67.3	746	-81.8	-66.0
SAIL	BKPROFIT	115,591	-16.6	22.0	10,662	-68.1	-5.5	7,386	-68.9	-12.4
Sterlite Ind.	BKPROFIT	45,213	-38.5	-11.7	3,357	-84.6	-40.6	3,829	-71.0	-25.5
Tata Steel (Std)	BKPROFIT	72,440	26.3	50.9	20,566	-14.4	39.1	9,687	-19.6	107.8
Tata Steel (Con)	BKPROFIT	288,572	-20.0	-13.1	-3,474	PL	PL	-22,738	PL	PL

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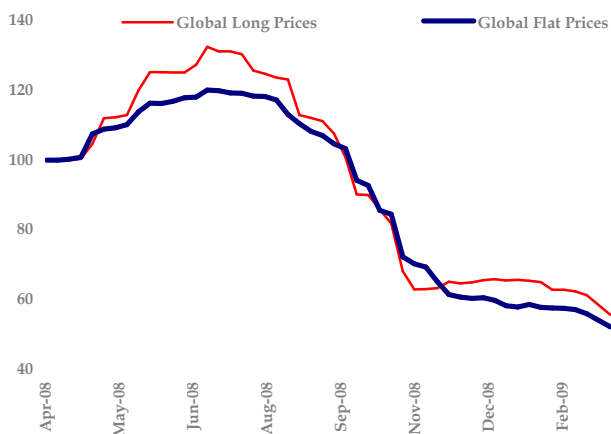
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Global Steel Prices

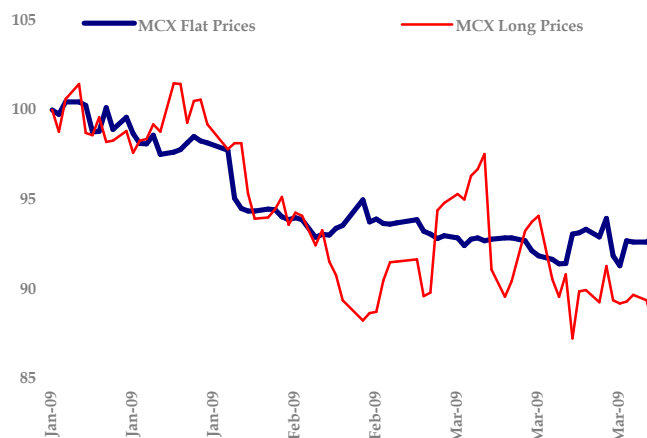
Global steel prices started to correct from the beginning of September quarter, which turned havoc during third quarter before stabilizing in current one. Prices has corrected ~ 55-60% from peak across the globe on account of likely global recession.



Source: Khandwala Research, Bloomberg

Indian Steel Prices

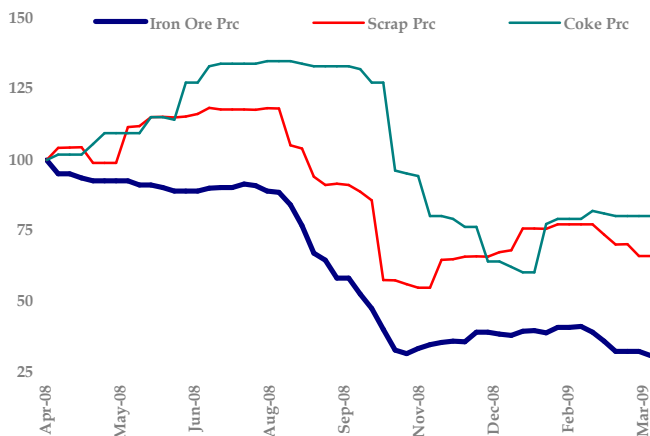
Domestic steel prices continued their declining spree with slower pace during last quarter. Indian steel prices have corrected ~ 40-45% from peak, outperforming the global prices on account of favorable INR movement.



Source: Khandwala Research, Bloomberg

Raw Material Prices

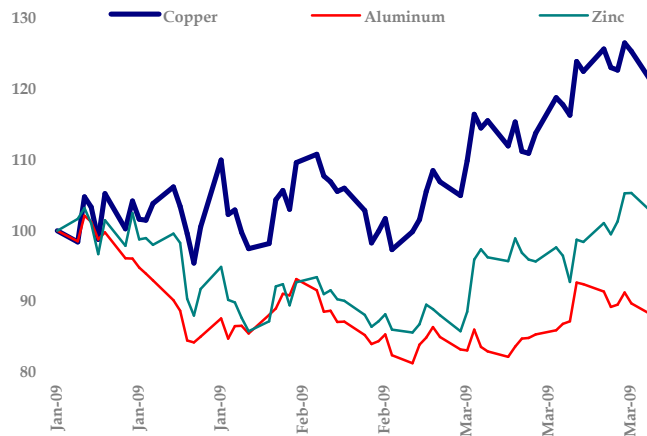
Raw material prices were also on the same line amid higher enormity considering ~ 40-70% decline from peak levels in key inputs. However, major benefit will accrue in current year with lower long-term contract.



Source: Khandwala Research, Bloomberg

Non-ferrous Metal Prices

Non-ferrous metal prices also witnessed 55-75% decline from peak, leading to prices falling below marginal cost of production. Prices are likely to remain stable in view of subdued demand and high inventories levels.

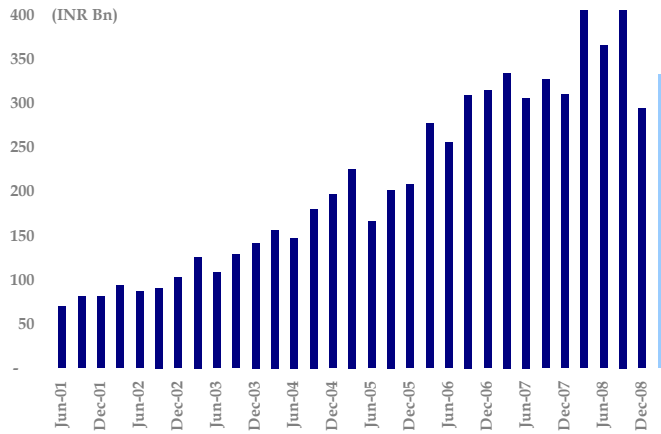


Source: Khandwala Research, Bloomberg

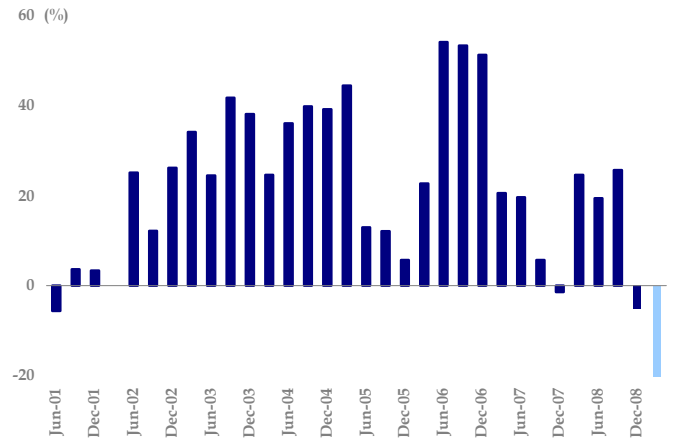


Result Analysis of Metal Companies under KSL Coverage

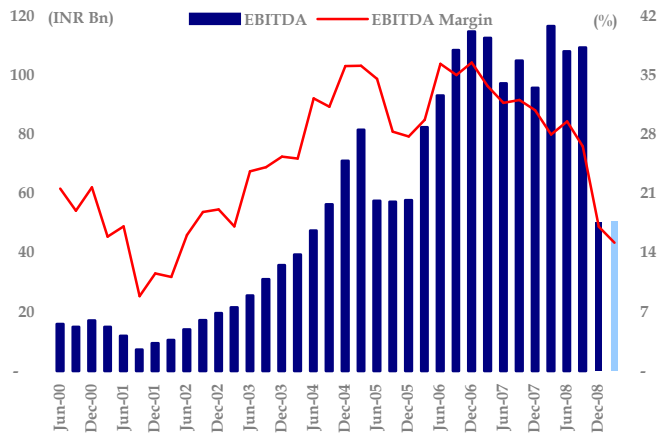
Total Income



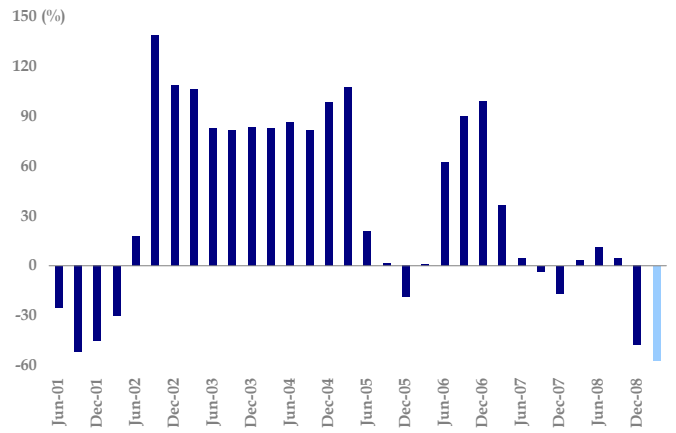
Total Income Growth



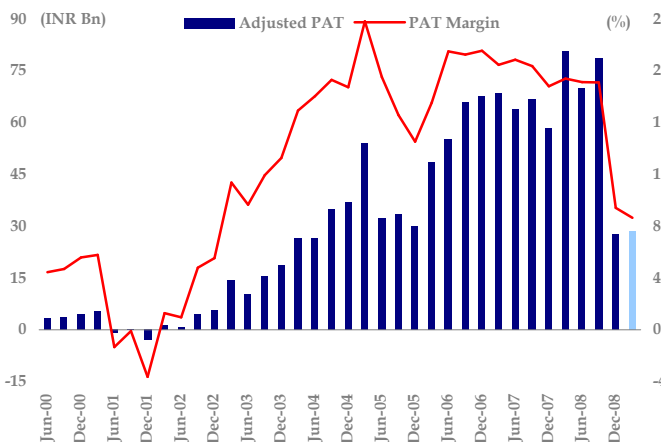
EBITDA and EBITDA Margin



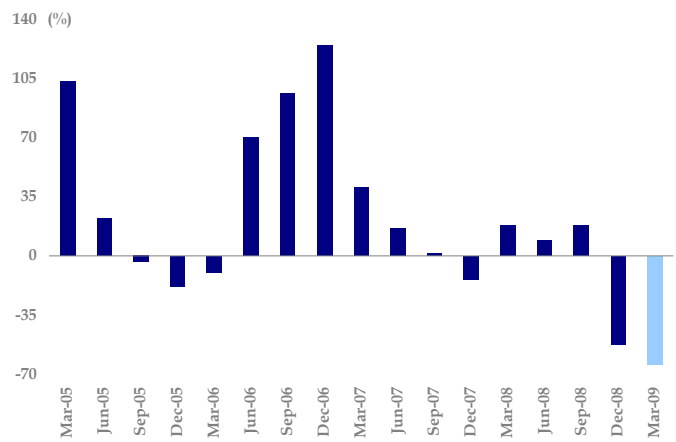
EBITDA Growth



PAT and PAT Margin



PAT Growth



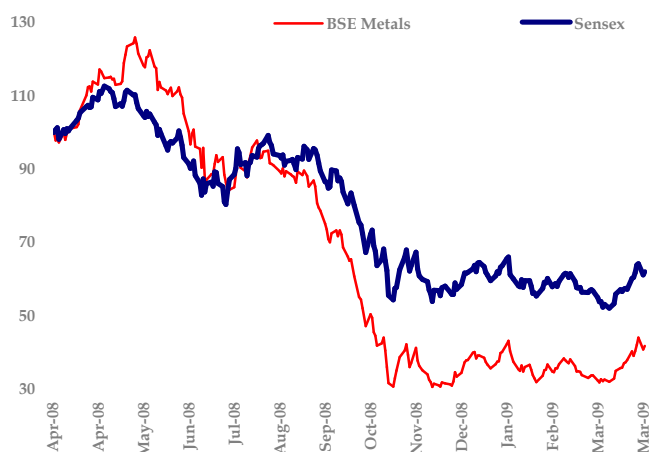
Source: Khandwala Research, Capitaline

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Stock Performance (1 Year)

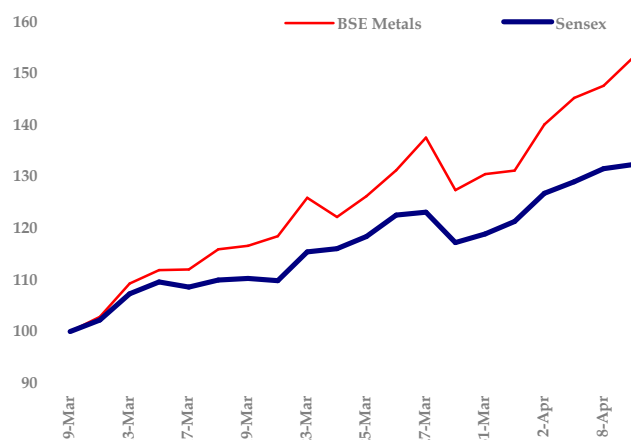
The metal sector was among the worst performer during last year, however, it has significantly outperformed in last one month. This has led to 24-113% rise in stock under our coverage, which we believe is unwarranted during this short span of time.



Source: Khandwala Research, Bloomberg

Stock Performance (1 Month)

Although, we remain positive on SAIL, Tata Steel, JSW Steel, Sterlite Industries and Hindustan Zinc for medium to long term perspective, we advise book profit on all stock in short term. We continue our Underperformer and Neutral rating on Nalco and Hindalco respectively. Fresh investors are advised to Accumulate at lower levels and existing investor can re-enter at those levels.



Source: Khandwala Research, Bloomberg

Stock Price Performance

Company	9-Mar-09	9-Apr-09	% Change
JSW Steel	163.3	347.6	112.8
Tata Steel	152.4	261.1	71.4
Sterlite Inds.	244.5	395.9	61.9
Hindalco Inds.	38	59	55.3
S A I L	74.8	110.8	48.1
Hind.Zinc	355.6	470.1	32.2
Natl. Aluminium	204.2	253.2	24.0



4QFY09 Results Estimates

Descriptions (INR Mn)	Recom.	Mar-09 4QFY09E	Mar-08 4QFY08	YoY' % Growth	Dec-08 3QFY09	QoQ' % Growth	Mar-09 FY2009E	Mar-08 FY2008	YoY' % Growth
Hindalco	NEUTRAL								
Total Income		33,798	51,759	-34.7	42,677	-20.8	183,696	197,012	-6.8
EBITDA		2,507	7,945	-68.5	7,792	-67.8	29,723	33,979	-12.5
EBITDA Margin		7.7	15.8	-8.1	19.1	-11.4	16.9	17.7	-0.8
PAT		1,056	10,725	-90.2	5,448	-80.6	20,671	28,566	-27.6
Equity		1,701	1,226	38.7	1,701	-	1,701	1,226	38.7
FDEPS (Rs)		0.62	8.75	-92.9	3.20	-80.6	12.15	23.30	-47.8
Hindustan Zinc	BOOKPROFIT								
Total Income		14,141	25,920	-45.4	13,055	8.3	65,438	87,641	-25.3
EBITDA		3,795	14,810	-74.4	3,051	24.4	26,443	53,796	-50.8
EBITDA Margin		33.2	65.4	-32.2	29.6	3.6	47.5	68.3	-20.8
PAT		4,364	12,780	-65.9	3,688	18.3	26,125	44,070	-40.7
Equity		4,225	4,225	-	4,225	-	4,225	4,225	-
FDEPS (Rs)		10.33	30.25	-65.9	8.73	18.3	61.83	104.30	-40.7
JSW Steel (Standalone)	BOOKPROFIT								
Total Income		37,850	42,260	-10.4	28,275	33.9	146,231	122,282	19.6
EBITDA		8,135	9,474	-14.1	4,327	88.0	33,720	34,649	-2.7
EBITDA Margin		21.5	22.6	-1.1	15.3	6.2	23.1	28.5	-5.4
PAT		2,349	4,610	-49.0	-1,275	LP	6,442	18,190	-64.6
Equity		1,871	1,871	-	1,871	-	1,871	1,871	-
FDEPS (Rs)		12.56	24.65	-49.0	-6.82	LP	34.44	97.25	-64.6
JSW Steel (Consolidated)	BOOKPROFIT								
Total Income		42,283	49,491	-14.6	33,200	27.4	167,189	132,663	26.0
EBITDA		8,763	10,603	-17.4	5,046	73.7	37,654	35,928	4.8
EBITDA Margin		20.8	21.6	-0.8	15.2	5.6	22.6	27.2	-4.6
PAT		1,652	4,476	-63.1	-1,878	LP	4,800	17,309	-72.3
Equity		1,871	1,871	-	1,871	-	1,871	1,871	-
FDEPS (Rs)		8.83	23.93	-63.1	-10.04	LP	25.66	92.53	-72.3
NALCO	UNDER PER.								
Total Income		9,056	15,407	-41.2	11,492	-21.2	53,031	55,567	-4.6
EBITDA		869	5,671	-84.7	2,655	-67.3	17,953	22,988	-21.9
EBITDA Margin		11.3	40.3	-29.0	26.1	-14.8	37.5	46.1	-8.6
PAT		746	4,091	-81.8	2,195	-66.0	12,639	16,249	-22.2
Equity		6,443	6,443	-	6,443	-	6,443	6,443	-
FDEPS (Rs)		1.16	6.35	-81.8	3.41	-66.0	19.62	25.22	-22.2

Contd...



Descriptions (INR Mn)	Recom.	Mar-09 4QFY09E	Mar-08 4QFY08	YoY' % Growth	Dec-08 3QFY09	QoQ' % Growth	Mar-09 FY2009E	Mar-08 FY2008	YoY' % Growth
SAIL	BOOKPROFIT								
Total Income		115,591	138,553	-16.6	94,757	22.0	451,177	415,170	8.7
EBITDA		10,662	33,437	-68.1	11,287	-5.5	79,800	113,391	-29.6
EBITDA Margin		9.6	24.8	-15.2	12.7	-3.1	18.4	28.2	-9.8
PAT		7,386	23,768	-68.9	8,433	-12.4	54,267	75,368	-28.0
Equity		41,304	41,304	-	41,304	-	41,304	41,304	-
FDEPS (Rs)		1.79	5.75	-68.9	2.04	-12.4	13.14	18.25	-28.0
Sterlite Ind.	BOOKPROFIT								
Total Income		45,213	73,577	-38.5	51,214	-11.7	230,212	262,715	-12.4
EBITDA		3,357	21,746	-84.6	5,653	-40.6	45,798	78,682	-41.8
EBITDA Margin		8.8	32.1	-23.3	12.7	-3.9	22.2	31.8	-9.6
PAT		3,829	13,184	-71.0	5,137	-25.5	33,246	43,994	-24.4
Equity		1,417	1,417	-	1,417	-	1,417	1,417	-
FDEPS (Rs)		5.40	18.61	-71.0	7.25	-25.5	46.93	62.09	-24.4
Tata Steel (Standalone)	BOOKPROFIT								
Total Income		72,440	57,367	26.3	48,021	50.9	250,627	199,899	25.4
EBITDA		20,566	24,023	-14.4	14,780	39.1	97,430	81,394	19.7
EBITDA Margin		28.4	41.9	-13.5	30.8	-2.4	38.9	40.0	-1.1
PAT		9,687	12,055	-19.6	4,662	107.8	47,111	46,870	0.5
Equity		7,308	7,308	-	7,308	-	7,308	7,308	-
FDEPS (Rs)		13.26	16.50	-19.6	6.38	107.8	64.47	64.14	0.5
Tata Steel (Consolidated)	BOOKPROFIT								
Total Income		288,572	360,501	-20.0	331,910	-13.1	1,497,555	1,315,526	13.8
EBITDA		(3,474)	44,436	PL	28,574	PL	177,472	177,286	0.1
EBITDA Margin		-1.2	12.3	-13.5	8.6	-9.8	11.9	13.5	-1.6
PAT		(22,738)	12,317	PL	8,139	PL	72,127	65,126	10.7
Equity		7,308	7,308	-	7,308	-	7,308	7,308	-
FDEPS (Rs)		(31.11)	16.85	PL	11.14	PL	98.70	89.12	10.7

Source: Khandwala Research, Companies

Note: All Companies have Face Value of Rs. 10, except Hindalco Industries (Rs. 1), Sterlite Industries (Rs. 2)

All results are Standalone unless specified except Sterlite Industries

Estimates have been done without provisioning for MTM on overseas borrowings

LP: Loss to Profit; PL: Profit to Loss



INDIA

EQUITY RESEARCH		TEL. NO. +91 22 4076 7373	FAX +91 22 4076 7378
Name	Designation	Sectors	E-mail
Ashok Jainani	VP, Head Research	Market Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Research Analyst	IT, Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals & Minings	giriraj@kslindia.com
Kruti Shah	Research Associate	Economics	kruti.shah@kslindia.com
Sandeep Shrimali	Research Associate	Cement	sandeep.shrimali@kslindia.com
Dinesh Bhatia	Research Associate	Technical Analysis	dinesh.bhatia@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com

INSTITUTIONAL DEALING		TEL NO. +91 22 4076 7342-47/56	FAX NO. +91 22 4076 73 77-78
Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com

PRIVATE CLIENT GROUP		TEL No. +91 22 4076 7317-21	FAX NO. +91 22 4076 73 77
Sanjay K Thakur	President	Sales & Marketing	thakursk@kslindia.com
Subroto Duttaroy	General Manager	Equity & Portfolio Mgmt. Service	subroto@kslindia.com
Jagdish R Modi	Manager	Equity & Portfolio Mgmt. Service	jrmodi@kslindia.com

BRANCH OFFICE (PUNE)		TEL NO. +91 20 2567 1404/06	FAX NO. +91 20 2567 1405
Ajay G Laddha	Vice President		ajay@kslindia.com

Corporate Office:

Vikas Building, Ground Floor,
Green Street, Fort,
MUMBAI 400 023.
Tel. No. (91) (22) 4076 7373
Fax No. (91) (22) 4076 7377/78
E-mail: research@kslindia.com

Web site: www.kslindia.com

Branch Office:

C8/9, Dr. Herekar Park,
Off. Bhandarkar Road,
PUNE 411 004
Tel. No. (91) (20) 2567 1404/06
Fax. No. (91) (20) 2567 1405
Email: pune@kslindia.com

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