

Date: January 25, 2008
Ref. No. Port/SR/019/2008

RESEARCH REPORT ON INDIAN METAL INDUSTRY

The metals industry is a key sector in the Indian economy as it meets the requirements of a wide range of important industries such as engineering, electrical and electronics, infrastructure, automobile and automobile components, packaging etc. The metal industry consists of two major groups: ferrous metals and non-ferrous metals. India's key advantages in the sector include a liberalised overall policy regime and reduced customs duty on primary and secondary metals, growing market demand, favourable conditions for production, presence of related and supporting industries and state support for helping companies improve performance and stimulating industry environment.

FUTURE OUTLOOK OF THE METAL INDUSTRY

The outlook for the metals sector in India is bright. Sustained growth is expected across all key segments, aided by several factors, such as growing domestic demand, investment in capacity addition, increasing supply deficit in other countries and favourable government regulations.

With economy projected to grow at 8 per cent in the coming years, there is expected to be a surge in per capita steel consumption and doubling of its capacity to 60 million tonnes by 2010.

The positive outlook in the Indian metals sector has attracted multinationals like BHP Billiton and Rio Tinto to enter India for prospecting. At the same time successful Indian players are looking at acquiring mining rights abroad – for example, the AV Birla group has acquired mining rights in two copper mines in Australia.

REASONABLE VALUATIONS:

We maintain our positive view on the Metals sector on the back of (a) continued momentum in order intake; (b) improvement in EBITDA margins; (c) robust management guidance and (d) possibility of value unlocking from subsidiaries.

DOMINANT INDUSTRY PLAYERS:

The industry is dominated by few big players viz Ispat Industries Ltd, Tata steel Ltd, Hindustan zinc Ltd and JSW Steel Ltd etc.

ISPAT INDUSTRIES LTD.

There is an Ispat industry; there was a buzz about the company offloading 25% in Ispat Energy to private equity players at about Rs 800 crores. The wholly owned subsidiary of Ispat where all the

power plans is embedded. This maybe a pre IPO placement, after which they will look at listing the energy arm of the company. Some of the other key positives are - it's a steel company, primarily; steel cycle is robust, most analysts have upgraded their 2008 targets for steel prices, so that is one big positive. Steel plants have got plans to increase its capacity to around 10 million tonne per annum by 2015, lot of cost saving, captive power, etc. so that's another positive, but power is giving momentum for this stock at the moment. We are pretty confident that the stock has a potential to actually move above Rs 100 levels.

JSW STEEL LTD.

JSW Steel Ltd., formerly known as Jindal Vijayanagar Steel Ltd., and a part of the O.P. Jindal group, is a 13-year old Mumbai based company established in 1994. Jindal Iron and Steel Company (JISCO) and other associate companies of the Jindal group together with the Karnataka State Industrial Investment and Development Corporation (KSIIDC) jointly promote the company. Share Profile: The JSW Steel share with a face value of Rs.10 is listed and traded on BSE under the A group. Its share price touched a 52-week high of Rs.1389 and a low of Rs.373. At its current market price of Rs. **1335** it has a market capitalization of Rs. 21607 cr.

TATA STEEL LTD.

Tata Steel is trading at 7.8x FY09E. This is at a 38% discount to Steel Authority of India (SAIL), its closest Indian peer. Tata Steel's stock price already discounts Corus' lack of raw material integration, but it ignores the potential upside from synergy benefits, which will unfold over the next 12-18 months. Steel prices are likely to rise 6-7% in FY09 in India and Europe. It is estimates that a 1% change in steel price may increase Tata Steel's EPS by 9%. it is cushioned by potential synergies to some extent.

HINDUSTAN ZINC LTD.

Hindustan Zinc is the largest domestic integrated zinc producer with a presence across the entire value chain. The company recently completed expansion of mining, refining, smelting and captive power operations. Augmented capacities are likely to drive the volume growth of the zinc major. Well-integrated value chain, strong operational and financial contours, robust demand coupled with firm pricing environment, competitive cost structure and relatively attractive valuations make the stock of Hindustan Zinc an attractive buy over the medium term. At its current price of about Rs 205, it commands a price-to-earnings multiple of about 10x. Compared to its global peers such as Zinifex (Australia) and Falcon bridge (Canada), the valuations appear attractive. STERLITE INDUSTRIES Ltd.

STERLITE INDUSTRIES LTD.

Sterlite Industries (India) Ltd. (SIIL) is the principal subsidiary of the Vedanta Resources Group. Sterlite is a leading producer of copper in India. It was the first company in India to set up a Copper Smelter and Refinery in Private Sector and operate the largest capacity continuous Cast Copper Rod plants. Copper concentrates from Sterlite Industries copper mine is blended with bought out concentrates from other sources and treated to get optimum results. The Refineries convert Copper anodes to electrolytic grade Copper cathodes of 99.99% purity.

STOCKS TO WATCH UNDER METAL SECTOR: -

Ispat Industries Ltd. (current market price Rs.47)
Jsw steel ltd. (Current market price Rs.945)
Tata steel ltd. (current market price Rs.722)
Hindustan zinc ltd. (current market price Rs.625)
Sterlite Industries Ltd. (current market price Rs.786)

BUY AND HOLD RECOMMENDATION : -

Ispat Industries Ltd. (Buy at Rs.44 levels)
Jsw steel ltd. (Buy at Current Market Price Rs.945)
Tata steel ltd. (Buy at Current Market Price Rs.722)
Sterlite Industries Ltd. (Buy at Current Market Price Rs.786)

Thanks

PMS Team.