

JSW Steel posted strong results with revenues rising by 56.2% and net profit pre-exceptional items growing by robust 163% on yoy basis. Company benefited from buoyancy in steel prices, higher volumes from enhanced capacities and better product mix. OPM was significantly higher yoy both in the quarter and the year. Management expects Q1 FY08 to be weak sequentially with preventive shutdown to be taken in second furnace of Vijaynagar plant. In FY08, company has guided for strong 26% growth in production and stable prices.

### Financial Highlights

Period to	03/07	12/06	Growth	03/06	Growth	03/07	03/06	Growth
(Rs mn)	(3)	(3)	(qoq %)	(3)	(yoy %)	(12)	(12)	(yoy %)
Net sales	24,985	23,015	8.6	15,930	56.8	85,944	62,155	38.3
Expenditure	(16,799)	(15,048)	11.6	(11,803)	42.3	(57,776)	(44,550)	29.7
Operating profit	8,187	7,967	2.8	4,127	98.4	28,168	17,605	60.0
Other income	807	64	1171.3	3,794	(78.7)	1,052	3,830	(72.5)
Interest	(1,016)	(1,107)	(8.2)	(826)	23.1	(3,995)	(3,640)	9.8
Depreciation	(1,498)	(1,295)	15.7	(1,015)	47.6	(4,982)	(4,058)	22.8
Miscellaneous exp w/off	(270)	(270)	0.1	(156)	73.6	(1,090)	(618)	76.4
PBT	6,209	5,360	15.9	5,925	4.8	19,152	13,119	46.0
Tax	(2,077)	(1,738)	19.5	(1,818)	14.2	(6,232)	(4,454)	39.9
PAT	4,133	3,622	14.1	4,107	0.6	12,920	8,665	49.1
Exceptional items	0	0	-	0	-	0	0	-
Adjusted PAT	4,133	3,622	14.1	4,107	0.6	12,920	8,665	49.1
OPM (%)	32.8	34.6	-	25.9	-	32.8	28.3	-
Equity capital	1,640	1,570	-	1,570	-	1,640	1,570	-
EPS (Rs) Annualized	100.8	92.3	-	104.6	-	78.8	55.2	-
P/E (x)	5.9	6.4	-	5.6	-	7.5	10.7	-

### Operational Highlights

Particulars	Production (in mn tons)								
	Q4 FY07	Q3 FY07	qoq % grth	Q4 FY06	yoy % grth	FY07	FY06	yoy % grth	
Pellets	0.86	0.96	(9.8)	0.99	(13.1)	3.80	3.80	(0.1)	
Crude Steel	0.71	0.73	(2.3)	0.60	19.6	2.65	2.25	17.9	
HR Coils/Sheets	0.65	0.65	0.8	0.55	18.1	2.16	2.15	0.3	
GP/GC	0.18	0.20	(9.5)	0.21	(14.6)	0.71	0.78	(8.7)	
HR Plates	0.06	0.04	52.6	0.04	56.8	0.18	0.09	111.6	
Total	2.47	2.57	(4.1)	2.39	3.2	9.50	9.07	4.8	
Particulars	Sales (in mn tons)								
	Q4 FY07	Q3 FY07	qoq % grth	Q4 FY06	yoy % grth	FY07	FY06	yoy % grth	
Pellets	0.10	0.06	75.4	0.12	(15.3)	0.26	0.50	(47.8)	
Slabs	0.06	0.02	200.0	-	-	0.36	-	-	
HR Coils/Sheets	0.47	0.41	13.3	0.31	50.0	1.39	1.19	16.7	
GP/GC	0.17	0.18	(7.1)	0.22	(22.6)	0.66	0.76	(13.6)	
HR Plates	0.04	0.03	20.6	0.03	41.4	0.15	0.07	104.1	
Total	0.84	0.71	18.9	0.68	24.0	2.81	2.53	11.4	
Particulars	Sales Product Mix (%)								
	Q4 FY07	Q3 FY07	Inc/(Dec)	Q4 FY06	Inc/(Dec)	FY07	FY06	Inc/(Dec)	
Pellets	11.9	8.0	3.8	17.4	(5.5)	9.3	19.8	(10.5)	
Slabs	7.5	3.0	4.5	-	-	12.6	-	-	
HR Coils/Sheets	55.5	58.3	(2.7)	45.9	9.6	49.3	47.1	2.2	
GP/GC	20.3	26.0	(5.7)	32.5	(12.2)	23.4	30.2	(6.8)	
HR Plates	4.9	4.8	0.1	4.3	0.6	5.4	2.9	2.4	
Total	100.0	100.0	-	100.0	-	100.0	100.0	-	

Revenues in the quarter stood at Rs24.99bn, up 8.6% qoq and 56.8% yoy. On yoy basis, the strong growth resulted from a combination of 24% jump in saleable steel volumes, better product mix (higher HR Coil contribution) and 19% higher net sales realization for HR Coils. Sequential revenue growth was mainly driven by 18.8% higher saleable steel volumes. The product mix shifted away from HR Coils and GP/GC and realizations on HR were lower by 2% on qoq basis.

For the full year FY07, revenues were Rs85.94bn, higher 38.3% over pervious year. Company had a volume growth of 11.4% in total saleable steel and 16.7% in HR Coils. Rest of the growth is attributable to significantly better realizations in the year.

Overall, production levels of crude steel and HR Coils were higher yoy in Q4 FY07 and FY07 as the company completed expansion of its crude steel capacity by 1.3mtpa (from 2.5mtps to 3.8mtpa) in November 2006 and hot strip mill by 0.5mtpa (from 2mtpa to 2.5mtpa) in Q2 FY07. On qoq basis, their production was impacted by an accidental fire in one of the furnaces at Vijaynagar Plant. Pellet capacity was expanded during the quarter by 0.8mtpa (from 4.2mtpa to 5mtpa) entailing a shutdown of the plant impacting the production in the period. GP/GC production was consciously contained in the quarter to focus only on thinner profitable gauges.

Operating margin stood at 32.8%, lower 185 bps on sequential basis and significantly higher by 685 bps on yoy basis. Apart from higher realization and volumes, company's efforts towards enriching sales product mix and cost improvement played a critical role in expanding operating margin on yoy basis. Over the last one year, cost efficiencies have been driven by lower coke, fuel and power consumption rate and higher share of captive in coke and power consumed. On sequential basis, margin appears to have impacted by lower realizations on HR and some deterioration in product mix.

The interest cost was lower 8.2% on qoq basis and company repaid debt worth Rs3.59bn in the quarter. For the entire year, it repaid Rs10.18bn and debt/equity stood at 0.75x at the end of March 2007. Depreciation in the quarter was higher 15.7% as it included accelerated write-offs of Rs306mn. The net profit was highest ever recorded in any quarter at Rs4.13bn, up 14.1% qoq and exceptionally higher by 163% on yoy basis after excluding the non-recurring income from sale of shares in a JV company and Target-plus scheme benefits in Q4 FY06. For FY07, net profit was 49.1% higher at Rs12.92bn. EPS for the year stood at Rs78.8.

### Expansion plans

Work towards all the following listed expansion plans is progressing as scheduled

Particulars	FY06	FY07	FY08	FY09
<b>Flat products (mtpa)</b>				
Slabs	2.5	3.8	4.1	5.3
HR Coils	2.0	2.5	3.2	5.2
HR Plates	0.3	0.3	0.3	0.3
CR	1.0	1.0	1.8	1.8
GP/GC	0.9	0.9	0.9	0.9
PPGI	0.1	0.1	0.1	0.1
<b>Long Products (mtpa)</b>				
Bar	-	-	-	0.9
Wire Rod	-	-	-	0.6

### FY08 production expectations

Particulars	FY08E	FY07	yoy % grth
Pellets	4.74	3.80	24.7
Crude Steel	3.34	2.65	26.0
HR Coils/Sheets	2.72	2.16	25.9
HR Plates	0.29	0.18	61.1
CR Products	1.09	0.77	41.6
GC	0.70	0.71	(1.4)
Galvalume	0.05	-	-
Colour coated	0.08	0.05	-

- ✓ Production growth of 26% in crude steel and HR Coils with full benefit of capacity expansion in the year.
- ✓ Realizations to remain steady in the near-term but to moderate a bit toward the end of the year.
- ✓ Operating margin to improve marginally or remain stable backed by cost efficiencies and increase in captive consumption of coke and power.
- ✓ Q1 FY08 to witness a preventive shutdown in the second furnace of the Vijaynagar plant to avoid recurrence of the mid-February event. Production volumes to be hit by some extent due to this.

**Company ended the year FY07 with an EPS of Rs78.8. Broad calculations show that if steel prices remain stable, then company should be able to grow EPS near the volume growth rate of 26% in FY08 ie Rs99. The stock price has almost doubled in the last 5 months making the valuations look steep (P/E-6x) even on the possible robust growth of FY08. We are 'Neutral' on the stock as we believe that current price factors all the positives.**

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