

Market Movement

| | Close | Diff | % Chg |
|--------------|-----------|---------|--------|
| BSE 100 | 7,059.84 | 77.28 | 1.09 |
| CNX Nifty Jr | 7,168.65 | 62.30 | 0.87 |
| Dow Jones | 12,463.15 | (38.37) | (0.31) |
| Nasdaq | 2,415.29 | (10.28) | (0.43) |

Turnover

| | Rs mn | | % Chg |
|-----|--------|---|--------|
| BSE | 33,810 | ↓ | (19.4) |
| NSE | 59,380 | ↓ | (40.4) |

Advances/Declines (%)

| | Advances | Declines |
|-----|----------|----------|
| BSE | 72.5 | 23.6 |
| NSE | 74.2 | 24.1 |

Institutional Activity

| 29 December 2006 | Cash (Rs mn) | F&O (Rs mn) |
|---------------------|--------------|-------------|
| Fls | | |
| Buy | 1488.50 | - |
| Sell | 1156.70 | - |
| Net | 331.80 | - |
| Mutual Funds | | |
| Buy | 557.72 | - |
| Sell | 332.54 | - |
| Net | 225.18 | - |

Key Statistics

| | Close | Change |
|-------------------------|----------|---------|
| Rs/US\$ | 44.23 | (0.01) |
| Rs/Euro | 58.77 | 0.08 |
| 10 yr G-Sec (%) | 7.53 | (0.08) |
| Call rate (%) | 19.00 | - |
| Brent-spot (US\$/bbl) | 60.09 | 0.29 |
| WTI-spot (US\$/bbl) | 61.05 | 0.52 |
| Aluminium (LME, US\$/t) | 2,830.00 | (20.00) |
| Copper (LME, US\$/t) | 6,201.00 | (89.00) |
| Zinc (LME, US\$/t) | 4,259.00 | (72.00) |
| Steel (US\$/t) | | |

Inside

□ JSW Steel: Lower coal prices to improve profits

Recently coking coal contracts internationally have been settled at US\$98/tonne, 14% lower YoY. These contracted prices will benefit JSW Steel considerably in FY08E, as its contract comes up for renewal in April 2007. The company will also benefit from volume growth as it improves capacity utilization from its expansion to 3.8 mn tpa from 2.5 mn tpa. Its product mix is also improving as it commissions its 1.0 mn tpa Cold Rolling Mill Complex in 1H FY08.

International steel prices have corrected by around US\$40/tonne (5-7%) in the last three months. However, domestic players have managed to maintain prices, with minor correction of US\$10-15/tonne. Given the improved realizations, higher by 6% versus our estimates, we are upgrading FY07E profits for JSW Steel by 14% to Rs10.5 bn. We continue to be negative on the outlook for steel prices, given the increasing exports from China. Hence, we are assuming lower realizations in FY08E. But primarily due to the reduced coking coal prices and higher sales volumes from its cold rolling mill we are upgrading our FY08E profits by 16% to Rs11.0 bn. The stock currently trades at a PE of 6.7x FY07E and 6.4x FY08E. In line with our upgraded estimates, our revised target price at 6.5x PE will be Rs405 (versus Rs350 earlier). We maintain our Hold recommendation.

Sector: Metals

| | |
|------------------------------------|----------------------|
| Target Price | Rs405 |
| Market cap | Rs62 bn/US\$1,358 mn |
| 52-week range | Rs400/184 |
| Shares in issue (mn) | 157.0 |
| 6-mon avg daily vol (no of shares) | 356,831 |
| 6-mon avg daily vol (mn) | Rs142.0/US\$ 3.1 |
| Bloomberg | JSTL IN |
| Reuters | JNDL.BO |
| BSE Sensex | 13942 |
| Website | www.jsw.in |

Shareholding Pattern (%)

| | |
|---------------|------|
| Promoters | 45.4 |
| FIs | 19.3 |
| MFs/FIs/Banks | 10.0 |
| Others | 25.3 |

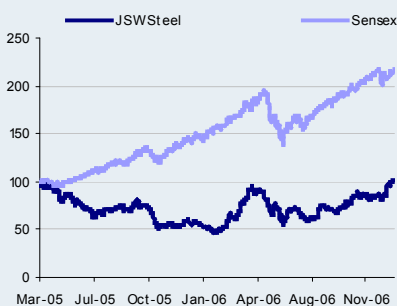
(As of 30 September 2005)

Price Performance (%)

| | M | 3M | 12M |
|----------|------|------|------|
| Absolute | 21.3 | 37.4 | 76.8 |
| Relative | 20.1 | 24.1 | 30.0 |

* To the BSE Sensex

Relative Performance



(As of 2 January 2007)

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Lower coal prices to improve profits

Recently coking coal contracts internationally have been settled at **US\$98/tonne, 14% lower YoY**. These contracted prices will benefit **JSW Steel considerably in FY08E**, as its contract comes up for renewal in **April 2007**. The company will also benefit from volume growth as it improves capacity utilization from its expansion to **3.8 mn tpa from 2.5 mn tpa**. Its product mix is also improving as it commissions its **1.0 mn tpa Cold Rolling Mill Complex in 1H FY08**.

International steel prices have corrected by around **US\$40/tonne (5-7%)** in the last three months. However, domestic players have managed to maintain prices, with minor correction of **US\$10-15/tonne**. Given the improved realizations, higher by **6%** versus our estimates, we are upgrading **FY07E profits for JSW Steel by 14%** to **Rs10.5 bn**. We continue to be negative on the outlook for steel prices, given the increasing exports from China. Hence, we are assuming lower realizations in **FY08E**. But primarily due to the reduced coking coal prices and higher sales volumes from its cold rolling mill we are upgrading our **FY08E profits by 16%** to **Rs11.0 bn**. The stock currently trades at a **PE of 6.7x FY07E and 6.4x FY08E**. In line with our upgraded estimates, our revised target price at **6.5x PE** will be **Rs405 (versus Rs350 earlier)**. We maintain our **Hold** recommendation.

Highlights

- **FY08E profits higher by 16% driven by lower coking coal prices:** BHP Billiton has recently negotiated prices for its coking coal contracts at **US\$98/tonne, lower by 14% YoY**. JSW Steel imports 100% of its coking coal requirements, and will hence benefit substantially from the same. The company's coking coal contracts will be renewed in **April 2007**. Given the full benefit will come in **FY08E**, our profit estimates are increasing by **9%**. Iron ore negotiations, which have concluded internationally with China's steel players have been settled at a **9.5% YoY increase in prices**. Considering that we had assumed a **10% YoY rise in iron ore prices**, our estimates have already factored the same.

Exhibit 1: Financial summary

| Y/E March | FY05 | FY06 | FY07E | FY08E |
|------------------|--------|--------|--------|--------|
| Net Sales | 66,794 | 61,008 | 83,809 | 97,781 |
| EBITDA | 23,468 | 16,668 | 25,115 | 27,233 |
| EBITDA (%) | 35.1 | 27.3 | 30.0 | 27.9 |
| Net profit (adj) | 8,734 | 5,446 | 10,486 | 11,028 |
| FD EPS (Rs) | 49.0 | 29.8 | 59.1 | 62.3 |
| EPS growth (%) | - | (39.0) | 98.2 | 5.3 |
| ROCE (%) | 24.0 | 20.1 | 18.9 | 16.5 |
| RONW (%) | 43.8 | 15.7 | 22.5 | 18.7 |
| PE (x) | 8.1 | 13.3 | 6.7 | 6.4 |
| EV/EBITDA (x) | 4.6 | 6.7 | 4.5 | 4.1 |

Source: Company, ASK Raymond James. Valuations as of 2 January 2007.

- **Higher product mix improvement:** JSW Steel's 1.0 mn tpa CRM is expected to be commissioned by June 2007. We have revised our volume estimates for its cold rolling sales from 0.15 mn tonnes to 0.35 mn tonnes. This has resulted in a 3-4% rise in our profit estimates, given the higher margins earned by cold rolled products versus hot rolled products. We have marginally reduced our FY07E volumes to 2.72 mn tonnes versus 2.87 mn tonnes earlier, due to delay in commissioning expanded capacity, but have maintained our FY08E volumes of 3.3 mn tonnes. The company will witness strong volume growth of 29% YoY in FY07E, and 22% YoY in FY08E.
- **Improved realizations in FY07E:** International steel prices have declined by 5-7% in the last three months by around US\$40/tonne (Ukraine F.O.B. export prices). However, domestic players have managed to maintain prices, and are expected to see a marginal decline of 2-3%. Given this, we have increased our FY07E realizations for JSW Steel by 6%. This has single-handedly resulted in the increase of 14% in our profit estimates, indicating the sensitivity to steel prices. However, going forward we expect increasing exports from China to result in further pressure on international steel prices. Accordingly, we have assumed lower realizations in FY08E.
- **Backward integration possibilities:** JSW Steel currently has captive mines catering to 25% of its iron ore requirements. It is aggressively looking at acquiring coking coal and iron ore mines to strengthen its backward integration. It has signed an agreement with a Mozambique party to conduct due diligence studies on 6,900 hectares of land for coal and associated minerals. An announcement is expected by January 2007 regarding the availability and quality of coal reserves. JSW Steel has also applied for iron ore mines in the Bellary (Karnataka) area. Although, the benefits will begin two years from these possible acquisitions, this would be a major trigger for the stock going forward. Captive sources of iron ore provide the mineral at around one-tenth of international prices, and coking coal at nearly half the market prices, which would lead to substantial cost savings.
- **Upgrading target price to Rs405, maintaining Hold rating:** Domestic players have managed to maintain prices, with minor correction of US\$10-15/tonne despite a US\$40/tonne drop in international prices. Given the improved realizations, higher by 6% versus our estimates, we are upgrading FY07E profits for JSW Steel by 14% to Rs10.5 bn. We continue to be negative on the outlook for steel prices, given the increasing exports from China. Hence, we are assuming lower realizations in FY08E. But primarily due to the reduced coking coal prices and higher sales volumes from its cold rolling mill we are upgrading our FY08E profits by 16% to Rs11.0 bn. The stock currently trades at a PE of 6.7x FY07E and 6.4x FY08E. In line with our upgraded estimates, our revised target price at 6.5x PE will be Rs405 (versus Rs350 earlier). We maintain our Hold recommendation.

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