

JSW Steel Ltd

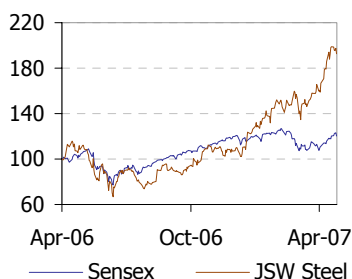
Relative to sector: **Neutral**

Lead Analyst: **Jagdishwar Toppo**
Email: jagdishwar@enam.com
Tel: 9122 6754 7605

Associate: **Pallav Agarwal**
Email: pallav@enam.com
Tel: 9122 6754 7761

Associate: **Ravindra Deshpande**
Email: ravindra.deshpande@enam.com
Tel: 9122 6754 7627

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares (fully diluted): 172mn
Market cap : Rs.100bn
52 week high/low : Rs 606/ Rs 205
Avg. daily vol. (6mth) : 707,200 shares
Bloomberg code : JSTL IN
Reuters code : JSTL.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 46.5	1.6
FIIIs	: 18.7	(0.0)
MFs / UTI	: 6.5	1.5
Banks / FIs	: 4.5	(0.5)
Others	: 23.7	(2.6)

ROBUST VOLUME GROWTH AHEAD

JSW Steel's (JSW) Q4FY07 revenues increased 58% YoY and 9% QoQ backed by higher volumes and realizations. Q4FY07 EBITDA increased sharply by 96% YoY to Rs 8.2bn. EBITDA margin improved YoY to 32.8% in Q4FY07 from 26.3% in Q4FY06 (34.6% in Q3FY07) due to higher realizations, operating leverage benefits and savings in power & coke costs (with higher proportion of captive power & captive coke). Despite higher depreciation and interest costs (due to the expansion project), adjusted PAT before non-recurring items jumped 907.7% YoY from Rs 0.37bn to Rs 3.7bn in Q4FY07.

Q4FY07 Highlights

- Total saleable steel volume increased ~33% YoY to 0.74mn tonnes. Q4FY07 HR coil sales volume was higher by 50% YoY at 0.47mn tonnes.
- Blended saleable steel realizations improved ~13% YoY but declined marginally by 2.5% sequentially.
- JSW has restarted the corex furnace that had been shut down for repairs due to an accidental fire. The company has received an insurance claim of Rs 96mn towards cost of repairs and has also accounted for Rs 563mn as income towards claim for loss of profits.
- As planned, JSW expects to complete 6.8mtpa capacity expansion by March 2009.

Steel outlook

We believe that steel pricing in the short to medium term would be supported by industry consolidation and cost pressures on account of rising cost of metallics and higher freight costs.

Maintain Neutral Rating

Going forward we expect steel volumes to grow by ~25% & ~18% in FY08 & FY09 respectively with the full effect of the expanded capacities. We retain our FY08 and FY09 earnings forecast at Rs 85.7 and Rs 109.1 respectively. At CMP Rs 583, the stock trades at 6.8x FY08E earnings. We maintain our sector **Neutral** rating on the stock with an unchanged price target of Rs 600. (7X FY08E earnings)

Financial summary

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	61,801	4,923	-	28.6	(39)	10.6	16	17.8	5.4	8.3
2007	86,312	11,957	-	69.5	143	7.1	27	25.1	4.6	13.6
2008E	98,474	14,738	85.9	85.7	23	6.8	26	23.7	4.7	14.3
2009E	113,107	18,760	99.0	109.1	27	5.3	26	24.9	3.9	14.3

Source: *Consensus broker estimates, Company, ENAM estimates on fully diluted equity

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	24,985	15,832	57.8	23,015	8.6	98,474	86,312	14.1
EBITDA	8,187	4,168	96.4	7,967	2.8	32,126	28,535	12.6
Other income	366	-	-	64	476.5	222	-	-
PBIDT	8,553	4,168	105.2	8,031	6.5	32,348	28,535	13.4
Depreciation	1,498	1,015	47.6	1,295	15.7	6,975	6,073	14.9
Interest [^]	1,016	816	24.6	1,107	(8.2)	4,014	4,274	(6.1)
PBT	6,038	2,337	158.4	5,630	7.3	21,359	18,188	17.4
Tax	2,077	1,815	14.4	1,738	19.5	6,621	6,232	6.3
Other provisions	270	156	73.6	270	0.1	-	-	-
Adjusted PAT	3,691	366	907.7	3,622	1.9	14,738	11,957	23.3
Extra ordinary income#/(exp.)	441	3,741	(88.2)	-	-	-	684	-
Reported PAT	4,133	4,107	0.6	3,622	14.1	14,738	12,641	16.6
No. of shares (mn)*	172	172	-	172	-	172	172	-
EBITDA margins (%)	32.8	26.3	-	34.6	-	32.6	33.1	-
PBIDT margins (%)	34.2	26.3	-	34.9	-	32.8	33.1	-
EPS - annualized (Rs.)	85.9	8.5	-	84.2	-	85.7	69.5	-

Source: Company, ENAM Research Note *fully diluted equity shares, ^Interest for FY07 & FY08E includes dividend on preference shares of Rs 279 mn; #Extraordinary income in FY07 includes post tax insurance claim of Rs 659 mn and for Mar 06 quarter includes profit on sale of investments.

Other Highlights

Expansion to 10mtpa: JSW expects to complete 6.8mtpa capacity expansion by March 09. The company now further plans to increase the steel capacity to 10mtpa by CY10 at a total cost of Rs 70bn. The project is to be financed by way of internal cash accruals of Rs 20bn and the balance through a mix of Foreign Currency Convertible Bonds, external commercial borrowings, structured finance products and rupee loans.

Acquisition of Service Centre in the UK

JSW Steel Ltd, through its wholly owned subsidiary JSW Steel (UK) Ltd has acquired 100% stake in Argent Independent Steel Ltd. This is a steel-processing center strategically located at Newport, South Wales, UK about 2kms away from the seaport. The annual steel processing capacity of the company is 0.15mtpa.

Acquisition of Cold Rolling Complex: The Board of Directors is planning to acquire Jindal Steel & Alloys Ltd. (JSAL), which owns a 230,000-tonne Cold Rolling facility at Vasind, adjacent to the company's facility. The total consideration for the facility is Rs 633.4mn, which will be discharged by taking over liabilities of Rs 619.8mn. The balance of Rs.13.6 mn is to be paid in cash subject to certain approvals received from JSAL.

Coking Coal block: JSW has been jointly allotted (69% entitlement) the Rohne coal block in the State of Jharkhand with ~250mn tonnes of mineable reserves of medium to high grade coking coal. The company is eligible to transfer a part of the coking coal to the steel plant at Vijaynagar, although the cost of transportation would be high. We believe that the mines would be part

of the company's plans for the Jharkhand steel plant. Actual mining is expected to commence only after two years.

Mozambique coalmines: The Company has received an encouraging due diligence report on the coal blocks proposed to be acquired. It has signed further MOU's to take over two more licenses for coal mines in Africa for which further due diligence would be undertaken.

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.