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JSW Steel Limited—Buy—465—INR

Sector — Metals (Steel)
Regd.Off. — 5 A, Jindal Mansion, Dr G D. Marg, Mumbai, M.H. - 400026
Listed — NSE, BSE.

Company Overview—

JSW steel started its operations in 1982, when the Jindal Group acquired Piramal Steel Ltd, which operated a mini steel mill at Tarapur in Maharashtra. The Jindals, who had wide experience in the steel industry, renamed it as Jindal Iron and Steel Co Ltd (JISCO) now known as JSW Steel Limited (Downstream). In the year 1994 company was incorporated as a public limited company to achieve the vision of moving up the value chain and building a strong, resilient company. Its plant is located at Toranagallu in the Bellary-Hospet area of Karnataka, the heart of the high-grade iron ore belt, and spread over 3,700 acres of land. It is just 340 kms from Bangalore, and well connected to Goa and Chennai ports. The Jindal Group took a lead in adopting the latest technology of steel making for JSW steel, known as 'COREX,' developed by Voest Alpine of Austria. Then JVSL was the first greenfield project to have 'COREX' as a mainstream facility.

Products & Services—

JSW Steel Ltd is today a fully integrated steel plant having units across Karnataka and maharashtra producing from pellets to color coated steel. It has an integrated steel plant to manufacture 3.6 mtpa of hot-rolled coils at Torangallu, Karnataka, which includes a pellet plant at an estimated cost of Rs 300 crores. It is one of the few steel manufacturers in the world to follow the Corex process for production of hot metal. Posco and Saldanha are two other companies using the corex process. Company is the first steel company in India to implement a total integrated resource planning solution for its business process. The modules involved in its ERP project are materials management, steel process tracking system, computer managed maintenance system, Oracle financials and product costing. The company exports about 70% of the 900,000 tonne of galvanized coils manufactured from the company's facilities in Tarapur and Vasind in Maharashtra. Company will expand the capacity of its Bellary plant in Karnataka to 10 million tonne per annum by 2010 from 3.6 million tonne at present at an investment of Rs 50 billion. The Karnataka government and the company have reached an agreement for allotment of 4,000 acres of land for the expansion of the project.

Company is planning to infuse Rs 20 billion to set up a 2-million tonne hot strip mill near its facility in Karnataka to convert the slabs into high-value steel products. Other than processing the one million tonne of slabs that JSW Steel currently produces, the proposed mill will be commissioned on time to complement its next phase of expansion that will add another million tonne of slabs by the end of next financial year. Slabs are intermediate steel products that can be rolled into either construction grade steel or into flat steel used for making consumer goods and cars. The usual model followed is to supply slabs to overseas facilities. The strategy is to leverage on the low operational cost that Tata Steel enjoys. It is among the top five lowest cost producer of steel in the world and to also increase presence in foreign steel markets. Company's hot strip mill also makes economic sense, as the incremental value of processing slabs to hot rolled coils is Rs 5,000 per tonne. The cost for value addition increases by just Rs 1,000 per tonne. Besides, the company is also scouting for cold roll mills in Europe that can process the slabs.

Recent developments—

Company is looking at acquiring a small value-added facility in Western Europe that will help it cater not only to Europe, but the US as well. The deal would be worth around USD 2 million and the company intends to meet most of the investment through internal accruals and the balance through debt.

JSW Steel plans to sign a pact with the West Bengal government for a 10 million-tonne steel plant at an expenditure of Rs 100 billion. The proposed steel plant will be set up at Salboni in West Midnapore district on 5,000 acres of land. The project would be implemented in phases, with the first phase being of 3 million-tonne capacities. The company is keen to start work on the project before the onset of monsoon and the plant would be commissioned within 36 months from the date of construction. The company has been negotiating with the West Bengal government for nearly two years for setting up a steel plant in the state, but it could not be finalized because supply of iron ore could not be tied up.

JSW Energy, the unlisted subsidiary of JSW Steel, is close to buying a significant equity stake in an Indonesian mining company as part of its efforts to own coalmines and lower operating costs. JSW Energy is believed to have completed the due diligence and would complete the transaction soon. Indonesia is known for having huge reserves of thermal coal used in power plants. The move is part of JSW Steel's plans to meet raw material needs as it expands capacity to 6.8 million tonnes by 2009 from the current 3.6 million tonnes. The group is targeting a coal production capacity of 10 million tonnes within three years. The Jindal group is the second-largest private steel manufacturer in the country and has already signed a MoU with a local player in Mozambique to conduct due diligence on a 6,900 hectare site that could later be mined for coking coal.

Financials—

Company's net profit jumped 2.6 times from Rs. 13920.0 Lakhs to Rs. 36215.00 Lakhs, for the quarter ending in December 2006. Sales for the quarter rose 51.61% to Rs. 230150.00 million compared with the corresponding quarter a year ago. Operating margins increased to 27.82% and net margins rose from 9.15% to 15.69% during the quarter.

Financial Results	Rs.lakhs
Net Sales	230150.00
Other Income	635.00
Gross Income	230785.00
Increase/Decrease in Stock	2521.00
Consumption of Raw Materials	116541.00
Staff Cost	4876.00
Total Expenditure (Excluding Other Expenditure)	123938.00
Other Expenditure	26539.00
Total Expenditure	150477.00

Interest	11067.00
Profit Before Depreciation & Taxes	69241.00
Depreciation	12945.00
Profit Before Tax	56296.00
Provision for Taxation	17381.00
Misc Expd.w/o	2700.00
Net Profit	36215.00
Adjusted Net Profit	36215.00
Face Value of Share (in Rs.)	10.00
Paid-up Equity Share Capital	15698.00
Basic EPS (in Rs.)	22.56
Diluted EPS (in Rs.)	22.37
Non-promoter Shareholding (Nos.)	86491497
Non-promoter Shareholding (%)	55.10

Valuation—

JSW Steel has registered a 30% growth in crude steel production at 236,000 tons in February. Production of HR coils has risen 27% to 206,000 tons, HR plates has gone up by 103% to 20,000 tons and pre-painted GI products 167% to 7,000 tons for the same month. Recently on 1st march producers of HRC Steel increased prices by 1000 Rs/tonne. At CMP, stock is trading at 5.4 X multiple of its FY2008 Estimated EPS. We recommend investors to "Buy JSW steel at every correction" for medium to long-term investment horizon.

We invite Readers to send Feedback, stock and subscription queries at E-mail Id- investment_guru1@yahoo.com

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