



Press Release

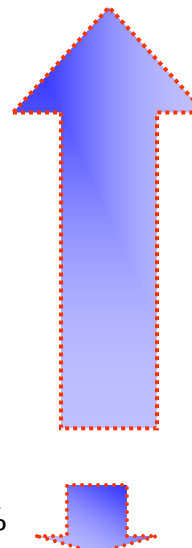
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JSW Steel reports squeeze in margins

JSW Steel Limited posted a net profit of Rs.461 crores and Rs.1,728.19 crores for the Q 4 2007-08 and financial year ended March 2008 respectively. The surging input costs squeezed the EBIDTA margins in Q4 by 11.6% and for the year ended March 2008 by 2.66%. The financial results for the quarter and year under consideration are not comparable with that of the previous corresponding period as the current period results include the financial results of erstwhile Southern Iron & Steel Co. Ltd. (SISCOL) which was merged with the Company with appointed date as of 1st of April 2007 pursuant to Scheme of Amalgamation approved by the Hon'ble High Court of Bombay.

The Key performance highlights are as under:

	Q4 FY 07-08 Vs Q4 FY 06-07 <u>Growth</u>	FY 07-08 Vs FY 06-07 <u>Growth</u>
➤ Volume growth (Crude Steel Production):	82 %	37 %
➤ Saleable Steel sold	: 61 %	27 %
➤ Net sales	: 68 %	33 %
➤ Blended sales realization	: 9 %	8 %
➤ Blended Cost of production	: 27 %	16 %
➤ EBIDTA	: 9.3%	23.6%
➤ EBIDTA margin	: 11.6%	2.66%



The un-precedented rise in input cost viz. iron ore by 68% and coke 66% has exerted tremendous pressure on the EBIDTA margins of the Company. However, in absolute terms, the Company has shown increase in EBIDTA, cash profit and net profit mainly on account of volume growth and efficiency in operations.

Operational Performance

The significant volume growth during Q4 and financial year ended March 2008 is due to:

- ❖ The stabilization of brown field expansion from 2.5 MTPA to 3.8 MTPA.
- ❖ The stabilization of modernized Hot Strip mill from 2 MTPA to 2.5 MTPA.
- ❖ Commissioning of 1 MTPA of CRM complex enhancing the product mix.
- ❖ Capacity addition coming from acquisition of SISCOL (1 MTPA long product capacity) pursuant to a Scheme of Amalgamation.

The cost reduction initiatives resulted in to lower power consumption by 4.5%, lower fuel consumption in Corex by 1.2%, lower fluxes consumption by 21% and higher LD gas recovery by 67%. In spite such cost reduction and efficiencies along with an increase of 8% in blended realization, the margins dropped substantially due to surging input costs namely, Coke, Iron ore, Coking coal, Ferro alloys and transportation cost.

Financial Performance

The net sales for the year ended 31.3.2008 stood at Rs.11,420 crores showing a growth of 33% over previous year. The increase in net sales is accounted by a growth of 27% in the volume of saleable steel and higher blended sales realization of 8%. The Company could not maintain its margins in spite of impressive growth in volume and higher realization as the cost of production has in fact gone up by 16%. This led to a drop of 2.66% in the EBIDTA margin which stood at 30.93% for the year ended March 2008. The Company has a net foreign exchange gain of Rs.104.89 crores for the year ended March 2008 after

netting out the foreign exchange losses of Rs.92.99 crores in Q4 FY 2007-08 arising mainly on account of translation of outstanding foreign currency liabilities.

As the Company has advanced the commissioning of its brown field expansion from 3.8 MTPA to 6.8 MTPA by almost 6 months ahead of schedule (scheduled date of commissioning 31ST march 2009), the Company has drawn additional loans to meet the accelerated capex programme. This resulted into a higher debt gearing of 0.93 as against 0.75 as on 31.3.2007. The weighted average cost of debt was at 7.34%.

The Company has reported a consolidated turn over, EBIDTA and net profit of Rs.13,665.56 crores, Rs.3,739.59 crores & Rs.1,640.04 crores respectively after incorporating the financials of subsidiaries, joint ventures and associates. The net profit for the consolidated Company is lower at Rs.1,640 crores compared to Rs.1,728 crores in the stand alone Company mainly due to netting off un realized profits attributable to inventory related to inter Company sales. The consolidated debt gearing was at 1.49 considering the loans raised by the Company for acquiring Mining rights in Chile and Plate and pipe mill in USA.

Value Accretive initiatives

- A) Volume :**
- Brown field expansion from 3.8 MTPA to 6.8 MTPA to be completed by September 2008 (6 months ahead of schedule).
 - Commissioning further capacity expansion to 10 MTPA from 6.8 MTPA by March 2010 (once again 6 months ahead of schedule).

B) Product Mix Enrichment :

- Commissioning of 2nd colour coating line with 0.1 MTPA by September 2008.
- Conversion of two Galvalnising lines at Tarapur to Galvalume in fiscal 2008-09.
- Setting up new Blooming mill at Salem works in fiscal 2008-09 increasing the capacity of rolled products from 0.45 MTPA to 0.9 MTPA.
- Modernization of HSM - I from 2.5 MTPA to 3.2 MTPA in FY 2008-09.

- Commissioning of new Hot strip mill with 3.5 MTPA capacity (Phase – I) by September 2009. Phase – II to expand it to 5 MTPA by September 2010.

C) Cost reduction initiatives :

- Commissioning of 30 MW captive power plant to meet the power requirement at Downstream unit to be commissioned by October 2008.
- Commissioning of railway siding at Vasind by December 2008.
- Setting up 20 MTPA beneficiation plant to be completed in 2 phases of 10 MT each by March 2010.
- Setting up new captive power plant of 300 MW to achieve self-sufficiency at Vijayanagar works by 2010.

D) Raw material security : - The Company has been working to develop the iron ore mines in Chile, Coal mines in Mozambique, Coal mines in Jharkhand, Orissa and West Bengal in India to increase the self sufficiency by operationalising the Mines over 36 months.

Dividend

The Board has, subject to the approval of the Members at the ensuing Annual General Meeting, recommended dividend :

- at the stipulated rate of 10%, on the 27,90,34,907 10% Cumulative Redeemable Preference Shares of Rs.10/- each of the Company, for the year ended 31.03.2008; and
- at the stipulated rate of 11%, on the 99,00,000 11% Cumulative Redeemable Preference Shares of Rs.10/- each (11% CRPS) of the Company, for the year ended 31.03.2008, along with arrears for the period 10.03.2007 to 31.03.2007.

The Board has also, considering the performance of the Company for the year under review and the financial position of the Company, recommended dividend @. 140% (Rs.14 per Equity Share) on the 18,70,48,635 Equity Shares of Rs.10/- each of the Company for the year ended 31.03.2008, subject to the approval of the Members at the Annual General Meeting.

Together with the Corporate Tax on Dividend, the total outflow on account of Equity Dividend is Rs.306.37 crores, vis-à-vis Rs.233.73 crores paid for FY 2006-07, an increase of 31%.

Outlook

The world economy showed signs of slow down following the tightness in credit markets triggered by sub prime crisis in USA, rising food and commodity prices spiraling inflation across the world. The inflationary pressure, surging oil prices and tightening credit and capital markets are expected to have some dampening effect on the world economic growth. The strong fixed asset investment and infrastructure spend in emerging economies are expected to support the secular trend growth momentum. The estimated growth of 3.3% in the world economy by IMF for the calendar year 2008 is encouraging.

While the apparent finished steel consumption is estimated to grow by 6.7% (1.252 billion tones) in calendar year 2008, the steel consumption in India is growing at a much faster pace due to robust investment in pipe line and the thrust on infrastructure building. India has already become net importer of steel of about 2 million tones in fiscal 2007-08.

The international long term prices for the key inputs, namely; iron ore and coal have been settled at historically high levels of 70%, 210%, over last year, respectively. The prices of coke, scrap and ferro alloys are skyrocketing. While the international steel product prices are rising in sympathy with the increase in the cost of inputs the steel producers in India refrained themselves in hiking the

steel product prices sharing the concern of the Government of India in containing inflation. Besides, some Indian steel producers reduced the prices responding to the Government of India initiative of removing custom duties on import of certain raw materials. The reduction in custom duties on imports has been passed on by Indian steel producers, in spite of certain raw material suppliers in India bench marking their realizations to international prices.

The fiscal measures announced by the Govt. of India relating to steel sector, particularly imposing export duties on export of steel products are expected to be temporary to contain inflation. The strong demand growth for steel products across the world and the surging input cost will push up the international steel prices further. While certain Indian steel producers are exercising self restraint in hiking finished goods prices, in a challenging environment of rising input costs, there will be a significant growth in volumes coming out of brown field expansions.

Guidance

The Company targets to produce the following volumes for FY 2008-09.

(Million tons)			
Products	FY 07-08 Actual	FY 08-09 Estimates	Growth
Production :			
Billets / Blooms / Slabs	3.626	5.537	53%
<u>Saleable Steel</u>			
Semies	0.291	1.614	454%
Rolled products	3.109	3.885	25%
Total	3.400	5.499	62%

About JSW Steel Limited

JSW Steel Ltd., belonging to JSW group, part of the US \$ 8 billion O P Jindal Group, is one of the lowest cost steel producers in the world. The group has diversified interest in Mining, Carbon, Steel, Power, Industrial gases and Port facilities. JSW Steel Limited is engaged primarily in manufacture of flat products viz. H R Coils, C R Coils, Galvanised products, auto grade / white goods grade CRCA Steel and Power. Incorporated in 1994, it has grown to US \$ 3.50 billion in little over a decade. JSW Steel Limited has the largest galvanizing production capacity in the country and is the largest exporter of galvanized products with presence in over 74 countries across five continents.

Forward looking and Cautionary Statements:

Certain statements in this release concerning our future growth prospects are forward looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition within Steel Industry including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our internal operations, reduced demand for steel, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which – has made strategic investments, withdrawal of fiscal governmental incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward looking statements that may be made from time to time by or on behalf of the company.