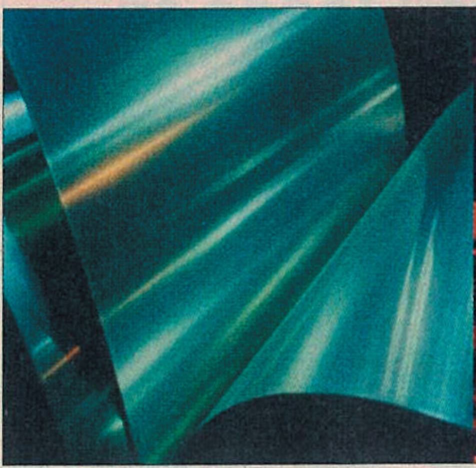
S Viswanathan

JISCO on expansion mode...

Jindals took the bold decision to go for large investments at Vijayanagar despite frustrating market conditions and high cost of capital. That perseverance is today well-rewarded.



WITH THE ARRANGEMENT of amalgamation of Jindal Iron Steel Co Ltd. (JISCO), Jindal Southwest Holdings Ltd and Jindal Vijayanagar Steel Ltd, sanctioned recently by the High Court of Karnataka, the single entity has emerged stronger and among the best performers of the steel industry. The volume growth has benefited vertical integration; the merged entity today has a well-diversified product portfolio from pellets to galvanised steel. JISCO has been already a preferred source for galvanised steel from dozens of countries.

The merged entity has works at Vasind and Tarapur in Maharashtra and Toranagallu in Karnataka. The product range includes HR steel plates, CR coils/sheets and galvanised coils/sheets.

The results for the third quarter of the merged entity has been gratifying with gross sales at Rs.2300 crore and net profit at Rs.225.11 crore. The cumulative results for the nine-month period stood at Rs.5941 crore based on a crude steel output of 1.32 million tonnes (growth of 11 per cent).

Consolidation and expansion

Raman Madhok, joint managing director and chief executive officer, JISCO, a B.Tech engineer from IIT-D and MBA from XLRI, referred to the remarkable turnaround recorded in recent years: "three years ago JISCO suffered a loss of Rs.97 crore and share prices dipped to Rs.5. Today, the company has emerged strong and is planning for consolidation and expansion." Madhok said that the company has focused on re-engineering and man- management: "we have been successful in integrating production from assured supplies of raw material to value-added products. The merger brings in specific advantages in the form of synergetic operations in the entire value chain from iron ore to galvanised coils. Market perception of the company as an integrated steel producer will be much better than that of stand-alone companies. Since both the companies are strong, well performing, robust and at their peak, merger would further enhance shareholder value," said Madhok.

Raman Madhok

The merged entity, aided by the boom in the steel sector, has reduced its debts significantly. "The debt: equity ratio has been brought down from the earlier 2:1 to 1.68:1 as on 31 December 2004. This is targeted to be brought down further to 1:1 by March 2006," said Madhok. Debt reduction through April-December was to the extent of Rs.622 crore. Refinancing of existing debt to the extent of Rs.500 crore was done by accessing funding from State Bank of India at a much lower rate of interest of 7.25 per cent per annum.

The improved financial position is a help to take up expansion of capacity. The company has received approvals to expand capacity of crude steel from the existing 2.5 million tonnes to 3.8 million tonnes at a cost of Rs.1275 crore. The capacity of the pellet plant is also being enhanced from 4.2 million tonnes to 5 million tonnes at a cost of Rs.36 crore. This is expected to be completed by September 2005. The crude steel expansion will be operational by March 2006.

Madhok expressed satisfaction over the cost of expansion being so modest: against the earlier investment of Rs.40,000 per tonne, the specific investment cost per tonne for this expansion will be only Rs.21,000 per tonne!

The company will operate its own jetty at Goa for importing coal. It handles around 5 million tonnes for its steel plant at Vijayanagar. Associate company, Jindal Thermal Power Company (JTPC), has an installed capacity of 260MW. JTPC has plans to expand capacity by another 130MW and 100MW in stages.

Market booms!

In September 2004, Jindal Southwest (JSW) acquired the South India Steel Company promoted by Lakshmi