



INDEPENDENT EQUITY RESEARCH

MSP Steel and Power Ltd

Q2FY12 First Cut

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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MSP Steel and Power Ltd

Q2FY12 first cut – Disappointing results

Fundamental Grade 2/5 (Moderate fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Metals & Mining

MSP Steel's (MSP's) Q2FY12 revenues and margins were below CRISIL Research's expectations. Revenue growth was lower on account of low utilisation of the sponge iron plant. Profitability was lower due to high raw material prices and interest costs. The company is on track in implementing the second phase of expansion, which will significantly enhance MSP's capacity and contribute to its top line. However, we remain cautious on account of high gearing and the current slowdown. We are likely to revise our numbers downwards post interaction with the management. We maintain our fundamental grade of **2/5**.

Q2FY12 result analysis

- MSP's Q2FY12 revenues increased by 63% y-o-y but declined by 7% q-o-q to Rs 1,610 mn. Yearly growth was driven by capacity expansion – sponge iron capacity increased by 115,000 MTPA and power capacity increased by 18 MW. The quarterly decline in revenues was primarily on account of lower production of sponge iron (declined 31% to 39,915 tonnes) and lower power sales (declined 70% to 2.9 mn units).
- EBITDA margin declined sharply by 1,062 bps y-o-y and 663 bps q-o-q to 13.1% due to cost pressure and decline in share of high-margin power sales. Raw material cost as a percentage of sales increased by 1,474 bps y-o-y and 545 bps q-o-q to 70.6% despite the company using low-cost fines. We await more clarity from the management for the sharp increase in raw material cost.
- PAT declined by 78.7% y-o-y and 79.4% q-o-q to Rs 23 mn, on account of lower operating profit. Accordingly, EPS was Rs 0.4 vis-a-vis Rs 1.9 in Q2FY11 and Rs 2 in Q1FY12.

Valuation: Current market price has strong upside

We continue to use the EV/EBITDA method to value MSP. We have assigned EV/EBITDA multiple of 5x FY13 EBITDA of Rs 2,719 mn and maintain our fair value of Rs 70 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,039	3,959	5,079	8,051	12,535
EBITDA	643	701	1,068	1,902	2,719
Adj PAT	268	314	496	711	1,045
Adj EPS-Rs	4.6	5.4	8.5	12.2	18.0
EPS growth (%)	(21.6)	16.8	58.3	43.2	47.0
Dividend yield (%)	-	-	2.6	2.6	2.6
RoCE (%)	14.5	10.2	10.7	15.2	19.2
RoE (%)	18.0	16.0	21.2	25.7	29.2
PE (x)	8.4	7.2	4.6	3.2	2.2
P/BV (x)	1.3	1.0	0.9	0.7	0.6
EV/EBITDA (x)	7.5	8.7	8.6	5.1	3.6

NM: Not meaningful; CMP: Current market price

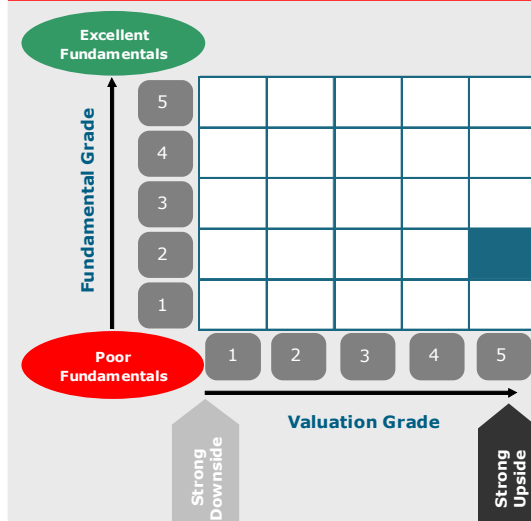
Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value Rs 70

CMP Rs 38

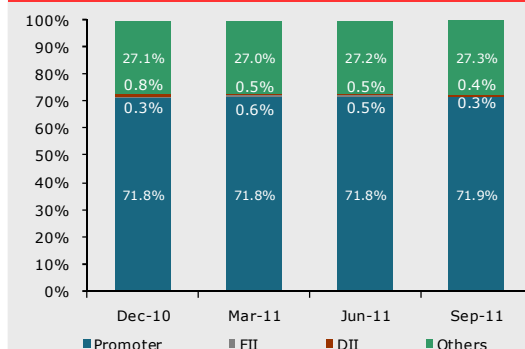
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5068/16883
NSE / BSE ticker	MSPL/ MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58.1
Market cap (Rs mn)/(US\$ mn)	2,266/46
Enterprise value (Rs mn)/(US\$ mn)	9,217/204
52-week range (Rs) (H/L)	72/39
Beta	1.38
Free float (%)	28.0
Avg daily volumes (30-days)	18,685
Avg daily value (30-days) (Rs mn)	0.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-9%	-16%	-29%	-43%
NIFTY	-1	0%	-9%	-17%

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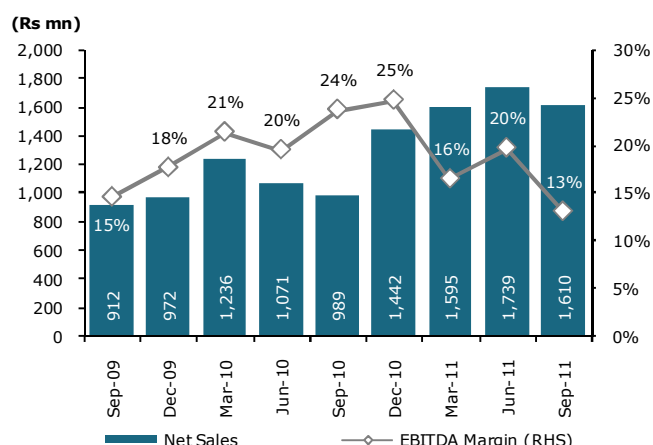
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Q2FY12 Result Summary

(Rs mn)	Q2FY12	Q1FY12	Q2FY11	q-o-q (%)	y-o-y (%)	H1FY12	H1FY11	y-o-y (%)
Net sales	1,610	1,739	989	(7)	62.9	3,350	2,059	63
Increase/decrease in stock in trade & WIP	65	(64)	(67)	NM	NM	0	(135)	NM
Consumption of Raw Materials	827	1,064	505	(22.3)	63.7	1,891	1,261	49.9
Purchase of traded goods	245	133	114	84.0	114.6	378	114	231.2
Raw materials cost (% of net sales)	70.6%	65.1%	55.8%	545 bps	1,474 bps	67.7%	60.2%	749 bps
Employees cost	47	46	36	2.1	33.3	94	72	30.5
Other expenses	216	217	167	(0.8)	29.4	433	303	42.8
EBITDA	211	343	234	(38.5)	(10.1)	553	443	24.9
EBITDA margin	13.1%	19.7%	23.7%	(662) bps	(1,062) bps	16.5%	21.5%	(500) bps
Depreciation	72	72	43	0.1	68.0	143	85	68.8
EBIT	139	271	192	(48.7)	(27.5)	410	358	14.4
Interest and finance charges	140	133	58	5.0	140.7	273	114	139.4
Operating PBT	(1)	138	133	(100.7)	(100.7)	137	244	(44.0)
Other Income	13	12	8.2	6.6	51.4	26	8	204.6
Extraordinary Income/(expense)	-	0	-	NM	NM	0.1	(0.4)	NM
PBT	11	150	142	(92.4)	(92.0)	162	252	(35.9)
Tax	(12)	37	31	NM	NM	24	56	(56.0)
PAT	23	114	110	(79.4)	(78.7)	137	197	(30.2)
Adj PAT	23	114	110	(79.4)	(78.7)	137	197	(30.2)
Adj PAT margin	1.5%	6.5%	11.2%	(508) bps	(970) bps	4.1%	9.5%	(545) bps
No of equity shares (mn)	58.1	58.1	58.1	-	-	58.1	58.1	-
Adj EPS (Rs)	0.4	2.0	1.9	(79.4)	(78.7)	2.4	3.4	(30.2)

Source: Company, CRISIL Research

Revenues declined q-o-q...



Source: Company, CRISIL Research

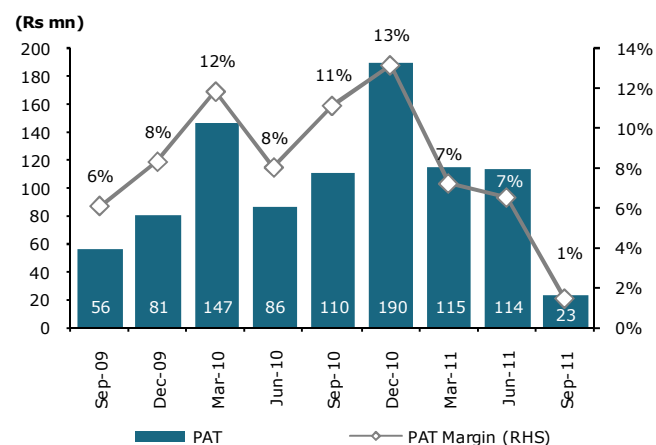
Share price movement



-indexed to 100

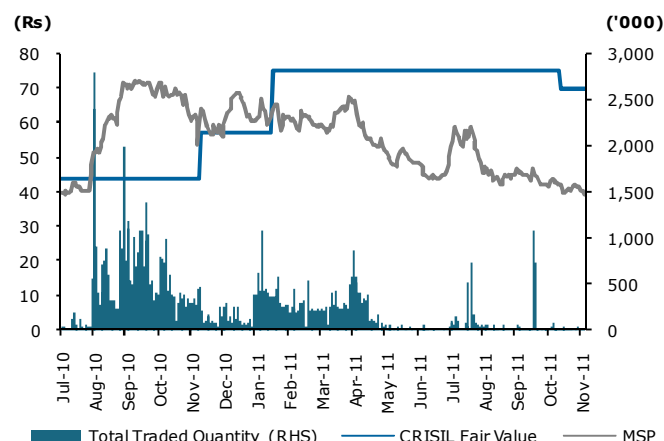
Source: NSE, CRISIL Research

... and so did PAT



Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,039	3,959	5,079	8,051	12,535
EBITDA	643	701	1,068	1,902	2,719
EBITDA margin	15.9%	17.7%	21.0%	23.6%	21.7%
Depreciation	79	127	193	342	485
EBIT	564	573	874	1,560	2,235
Interest	215	205	248	662	965
Operating PBT	348	368	627	898	1,269
Other income	7	7	39	50	70
Exceptional inc/(exp)	111	7	6	-	-
PBT	466	382	671	948	1,339
Tax provision	87	62	169	237	295
Minority interest	-	-	-	-	-
PAT (Reported)	380	321	502	711	1,045
Less: Exceptionals	111	7	6	-	-
Adjusted PAT	268	314	496	711	1,045

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	11.3	(2.0)	28.3	58.5	55.7
EBITDA (%)	(7.0)	9.0	52.4	78.2	42.9
Adj PAT (%)	(21.6)	16.8	58.3	43.2	47.0
Adj EPS (%)	(21.6)	16.8	58.3	43.2	47.0
Profitability					
EBITDA margin (%)	15.9	17.7	21.0	23.6	21.7
Adj PAT Margin (%)	6.6	7.9	9.8	8.8	8.3
RoE (%)	18.0	16.0	21.2	25.7	29.2
RoCE (%)	14.5	10.2	10.7	15.2	19.2
RoIC (%)	13.6	10.0	10.0	14.3	19.0
Valuations					
Price-earnings (x)	8.4	7.2	4.6	3.2	2.2
Price-book (x)	1.3	1.0	0.9	0.7	0.6
EV/EBITDA (x)	7.5	8.7	8.6	5.1	3.6
EV/Sales (x)	1.2	1.6	2.0	1.3	0.8
Dividend payout ratio (%)	-	-	11.8	8.2	5.6
Dividend yield (%)	-	-	2.6	2.6	2.6
B/S ratios					
Inventory days	44	77	112	87	85
Creditors days	23	72	60	26	26
Debtor days	37	61	34	32	32
Working capital days	96	101	115	108	102
Gross asset turnover (x)	2.0	1.5	1.2	1.0	1.2
Net asset turnover (x)	2.2	1.6	1.3	1.1	1.3
Sales/operating assets (x)	1.5	0.9	0.8	0.9	1.3
Current ratio (x)	6.4	4.0	3.9	6.8	6.2
Debt-equity (x)	1.6	2.1	2.2	1.7	1.5
Net debt/equity (x)	1.5	1.7	2.2	1.6	1.3
Interest coverage	2.6	2.8	3.5	2.4	2.3

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	4.6	5.4	8.5	12.2	18.0
CEPS	6.0	7.6	11.9	18.1	26.3
Book value	29.1	38.5	42.0	53.1	69.9
Dividend (Rs)	-	-	1.0	1.0	1.0
Actual o/s shares (mn)	58.1	58.1	58.1	58.1	58.1

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	581	581	581	581	581
Reserves	1,111	1,654	1,859	2,502	3,479
Minorities	-	-	-	-	-
Net worth	1,692	2,235	2,440	3,083	4,060
Preference Share capital	-	-	760	1,510	1,510
Other debt	2,727	4,611	7,055	7,955	8,155
Total debt	2,727	4,611	7,814	9,464	9,664
Deferred tax liability (net)	158	199	334	534	734
Total liabilities	4,578	7,044	10,588	13,081	14,458
Assets					
Net fixed assets	2,273	2,559	4,999	9,570	9,388
Capital WIP	1,052	2,454	3,419	219	19
Total fixed assets	3,325	5,013	8,418	9,789	9,407
Investments	67	70	74	74	74
Current assets					
Inventory	393	683	1,209	1,434	2,232
Sundry debtors	418	669	424	706	1,099
Loans and advances	400	500	1,081	1,208	1,880
Cash & bank balance	194	379	103	426	731
Marketable securities	-	380	-	-	-
Total current assets	1,406	2,611	2,816	3,773	5,942
Total current liabilities	220	649	720	554	965
Net current assets	1,185	1,962	2,097	3,218	4,978
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	4,578	7,044	10,588	13,081	14,458

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	355	375	665	948	1,339
Total tax paid	(21)	(21)	(34)	(37)	(95)
Depreciation	79	127	193	342	485
Working capital changes	131	(212)	(790)	(800)	(1,454)
Net cash from operations	544	270	35	453	276
Cash from investments					
Capital expenditure	(1,364)	(1,816)	(3,598)	(1,713)	(102)
Investments and others	(6)	(382)	376	-	-
Net cash from investments	(1,370)	(2,198)	(3,222)	(1,713)	(102)
Cash from financing					
Equity raised/(repaid)	(5)	-	679	675	-
Debt raised/(repaid)	674	1,884	2,519	975	200
Dividend (incl. tax)	-	-	(69)	(68)	(68)
Others (incl extraordinary)	136	229	(216)	-	-
Net cash from financing	804	2,113	2,913	1,582	132
Change in cash position	(21)	185	(275)	322	305
Closing cash	194	379	103	426	731

Quarterly financials

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Sales	989	1,442	1,595	1,739	1,610
Change (q-o-q)	-8%	46%	11%	9%	-7%
EBITDA	234	356	263	343	211
Change (q-o-q)	12%	52%	-26%	30%	-39%
EBITDA margin	23.7%	24.7%	16.5%	19.7%	13.1%
PAT	110	190	115	114	23
Adj PAT	110	190	115	114	23
Change (q-o-q)	28%	72%	-39%	-2%	-79%
Adj PAT margin	11.2%	13.2%	7.2%	6.5%	1.5%
Adj EPS	1.9	3.3	2.0	2.0	0.4

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Research estimate

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