



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

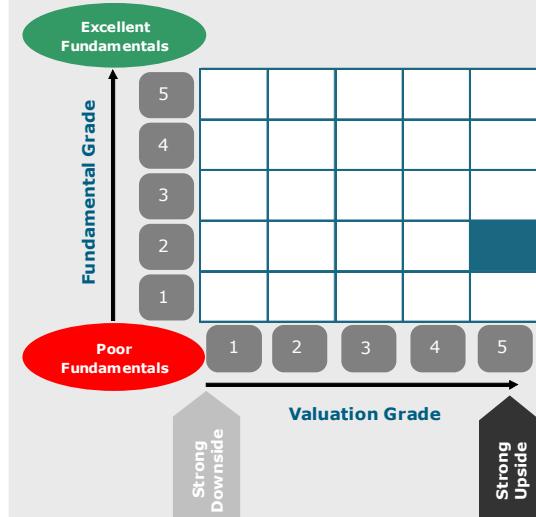
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value Rs 70
CMP Rs 38

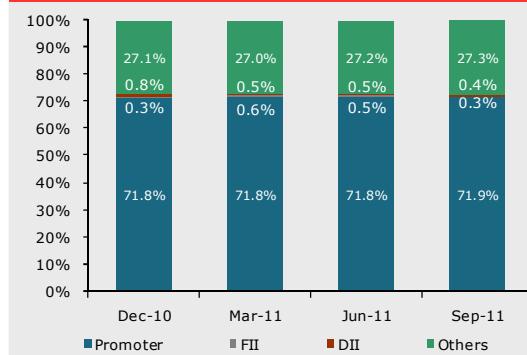
CFV MATRIX



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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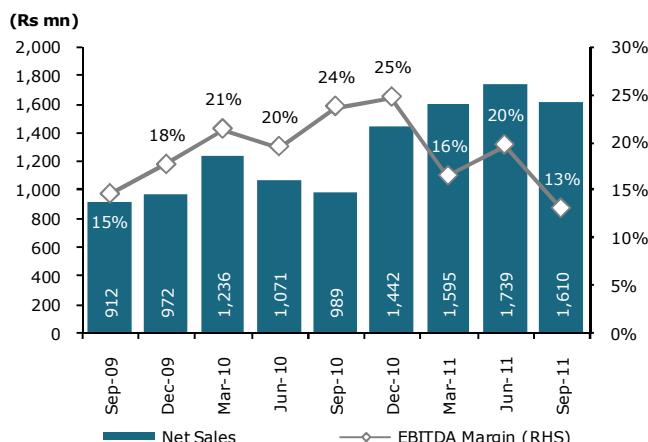
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Q2FY12 Result Summary

(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)

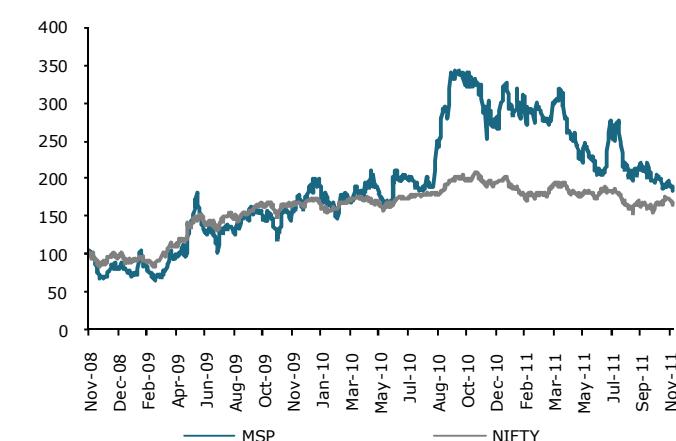
Source: Company, CRISIL Research

Revenues declined q-o-q...



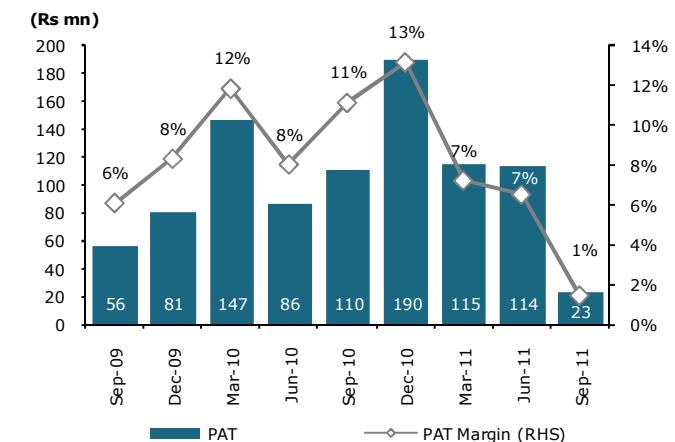
Source: Company, CRISIL Research

Share price movement



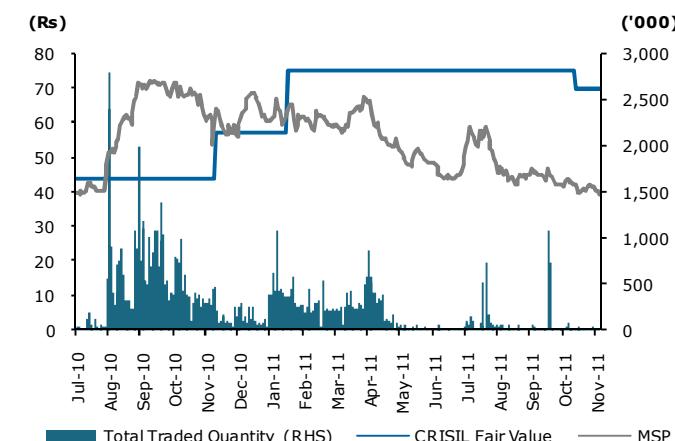
Source: NSE, CRISIL Research

... and so did PAT



Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

FINANCIALS

Income statement					Balance Sheet					
(Rs mn)	FY09	FY10	FY11	FY12E	(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,039	3,959	5,079	8,051	12,535	Liabilities				
EBITDA	643	701	1,068	1,902	2,719	Equity share capital	581	581	581	581
EBITDA margin	15.9%	17.7%	21.0%	23.6%	21.7%	Reserves	1,111	1,654	1,859	2,502
Depreciation	79	127	193	342	485	Minorities	-	-	-	-
EBIT	564	573	874	1,560	2,235	Net worth	1,692	2,235	2,440	3,083
Interest	215	205	248	662	965	Preference Share capital	-	-	760	1,510
Operating PBT	348	368	627	898	1,269	Other debt	2,727	4,611	7,055	7,955
Other income	7	7	39	50	70	Total debt	2,727	4,611	7,814	9,464
Exceptional inc/(exp)	111	7	6	-	-	Deferred tax liability (net)	158	199	334	534
PBT	466	382	671	948	1,339	Total liabilities	4,578	7,044	10,588	13,081
Tax provision	87	62	169	237	295	Assets				
Minority interest	-	-	-	-	-	Net fixed assets	2,273	2,559	4,999	9,570
PAT (Reported)	380	321	502	711	1,045	Capital WIP	1,052	2,454	3,419	219
Less: Exceptionals	111	7	6	-	-	Total fixed assets	3,325	5,013	8,418	9,789
Adjusted PAT	268	314	496	711	1,045	Investments	67	70	74	74
Ratios										
	FY09	FY10	FY11	FY12E	FY13E	Current assets				
Growth						Inventory	393	683	1,209	1,434
Operating income (%)	11.3	(2.0)	28.3	58.5	55.7	Sundry debtors	418	669	424	706
EBITDA (%)	(7.0)	9.0	52.4	78.2	42.9	Loans and advances	400	500	1,081	1,208
Adj PAT (%)	(21.6)	16.8	58.3	43.2	47.0	Cash & bank balance	194	379	103	426
Adj EPS (%)	(21.6)	16.8	58.3	43.2	47.0	Marketable securities	-	380	-	-
Profitability						Total current assets	1,406	2,611	2,816	3,773
EBITDA margin (%)	15.9	17.7	21.0	23.6	21.7	Total current liabilities	220	649	720	554
Adj PAT Margin (%)	6.6	7.9	9.8	8.8	8.3	Net current assets	1,185	1,962	2,097	3,218
RoE (%)	18.0	16.0	21.2	25.7	29.2	Total assets	4,578	7,044	10,588	13,081
RoCE (%)	14.5	10.2	10.7	15.2	19.2					14,458
RoIC (%)	13.6	10.0	10.0	14.3	19.0	Cash flow				
Valuations						Pre-tax profit	355	375	665	948
Price-earnings (x)	8.4	7.2	4.6	3.2	2.2	Total tax paid	(21)	(21)	(34)	(37)
Price-book (x)	1.3	1.0	0.9	0.7	0.6	Depreciation	79	127	193	342
EV/EBITDA (x)	7.5	8.7	8.6	5.1	3.6	Working capital changes	131	(212)	(790)	(800)
EV/Sales (x)	1.2	1.6	2.0	1.3	0.8	Net cash from operations	544	270	35	453
Dividend payout ratio (%)	-	-	11.8	8.2	5.6	Cash from investments				
Dividend yield (%)	-	-	2.6	2.6	2.6	Capital expenditure	(1,364)	(1,816)	(3,598)	(1,713)
B/S ratios						Investments and others	(6)	(382)	376	-
Inventory days	44	77	112	87	85	Net cash from investments	(1,370)	(2,198)	(3,222)	(1,713)
Creditors days	23	72	60	26	26	Cash from financing				
Debtor days	37	61	34	32	32	Equity raised/(repaid)	(5)	-	679	675
Working capital days	96	101	115	108	102	Debt raised/(repaid)	674	1,884	2,519	975
Gross asset turnover (x)	2.0	1.5	1.2	1.0	1.2	Dividend (incl. tax)	-	-	(69)	(68)
Net asset turnover (x)	2.2	1.6	1.3	1.1	1.3	Others (incl. extraordinary)	136	229	(216)	-
Sales/operating assets (x)	1.5	0.9	0.8	0.9	1.3	Net cash from financing	804	2,113	2,913	1,582
Current ratio (x)	6.4	4.0	3.9	6.8	6.2	Change in cash position	(21)	185	(275)	322
Debt-equity (x)	1.6	2.1	2.2	1.7	1.5	Closing cash	194	379	103	426
Net debt/equity (x)	1.5	1.7	2.2	1.6	1.3					731
Interest coverage	2.6	2.8	3.5	2.4	2.3	Quarterly financials				
Per share						(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12
	FY09	FY10	FY11	FY12E	FY13E	Net Sales	989	1,442	1,595	1,739
Adj EPS (Rs)	4.6	5.4	8.5	12.2	18.0	Change (q-o-q)	-8%	46%	11%	9%
CEPS	6.0	7.6	11.9	18.1	26.3	EBITDA	234	356	263	343
Book value	29.1	38.5	42.0	53.1	69.9	Change (q-o-q)	12%	52%	-26%	30%
Dividend (Rs)	-	-	1.0	1.0	1.0	EBITDA margin	23.7%	24.7%	16.5%	19.7%
Actual o/s shares (mn)	58.1	58.1	58.1	58.1	58.1	PAT	110	190	115	114
						Adj PAT	110	190	115	114
						Change (q-o-q)	28%	72%	-39%	-2%
						Adj PAT margin	11.2%	13.2%	7.2%	6.5%
						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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