CRISIL RESEARCH

INDEPENDENT EQUITY RESEARCH

MSP Steel and Power Ltd

Detailed Report

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 (negative 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

Adding assets to drive future growth

Fundamental Grade	**2/5 (Moderate fundamentals)**
Valuation Grade	**5/5 (CMP has strong upside)**
Industry	**Metals & Mining**

November 02, 2011

Fair Value Rs 70
CMP Rs 42

CRISIL Research maintains MSP Steel & Power's (MSP's) fundamental grade of **2/5**, indicating that its fundamentals are **moderate** relative to other listed securities in India. Although MSP's phase II expansion is on track, we largely remain concerned about the debt taken for the expansion. Though MSP is likely to benefit from growth in steel demand in India, the current slowdown and sharp increase in raw material prices are expected to lower its profitability. However, backward integration into pellet is expected to lower cost and arrest the sharp drop in PAT margin.

Enhancing pellet capacity to cut costs

MSP is enhancing its pellet capacity by 0.6 mn tonnes per annum (MTPA) to 0.9 MTPA to support its upcoming sponge iron capacity. The sharp increase in iron ore lump compared to fines offers cost saving of Rs 2,200-2,400/ tonne of iron ore lump, thus boosting MSP's margins. However, with many players adding pellet capacity, margins are likely to shrink over the next 2-3 years.

Investing ~Rs 8.14 bn to drive future growth

MSP is expanding capacity – at a capex of Rs 8.14 bn - to integrate operations to cut costs and drive growth. It plans to add 0.6 mtpa pellet plant, 0.115 MTPA sponge iron plant and 34 MW power plant. The operations will mostly be integrated. However, MSP will have additional power capacity (76 MW against 36 MW required), which would be sold on a merchant basis. Revenues are expected to grow at a two-year CAGR of 57.1% to ~Rs 13 bn in FY13.

In a cyclical industry, exposed to input cost fluctuations

MSP operates in a highly cyclical industry where the profitability of steel players is dependent on global steel prices and they are exposed to fluctuations in prices of key input materials (iron ore and coal). Any adverse movement in steel demand or raw material prices will affect profitability. The expected slowdown and raw material shortage is expected to result in cost pressure. However, pellet capacity is expected to help cut costs and arrest a sharp drop in PAT margins.

Expect two-year revenue CAGR of ~57%; gearing level to remain high

Revenues expected to grow at a two-year CAGR of 57.1% to ~Rs 12.5 bn driven by capacity additions. We expect EBITDA margin to be around 21-22% and PAT to rise at 44% CAGR to Rs 1,045 mn by FY13. Debt to equity ratio to remain high at 2x owing to capex plans. In FY12, MSP's EBITDA margins are expected to improve owing to cost reduction measures (pellet capacity).

Valuations – the current price has 'strong upside' to fair value

CRISIL Research has assigned EV/EBITDA multiple of 5x on FY13 earnings to value MSP and arrived at a fair value of Rs 70 per share.

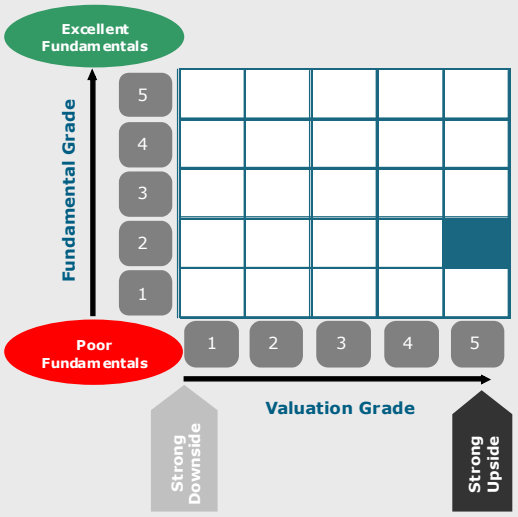
KEY FORECAST

(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 (%)	-	-	2.5	2.5	2.5
RoCE (%)	14.5	10.2	10.7	15.2	19.2
RoE (%)	18.0	16.0	21.2	25.7	29.2
PE (x)	8.7	7.4	4.7	3.3	2.2
P/BV (x)	1.4	1.0	1.0	0.8	0.6
EV/EBITDA (x)	7.6	8.8	8.7	5.2	3.6

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

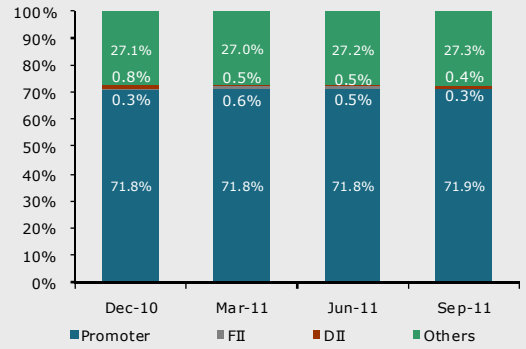
CFV MATRIX



KEY STOCK STATISTICS

NIFTY /SENSEX	5258/17481
NSE / BSE ticker	MSPL / MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58.1
Market cap (Rs mn)/(US$ mn)	2,330/48
Enterprise value (Rs mn)/(US$ mn)	9,281/205
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	-7%	-32%	-29%	-41%
NIFTY	6%	-4%	-8%	-14%

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Table 1: MSP: Business environment

Product / Segment	Sponge iron	Billets	TMT/Structurals	Power
Revenue contribution (FY11)	25%	7%	64%	4%
Revenue* contribution (FY13)	37%	4%	46%	7%
End-market	Billets/ ingots manufacturers	Rolling mills	Infrastructure and construction sector	State electricity boards (SEBs) and other industrial customers
Market position	Small player in a highly fragmented industry with a large number of unorganised players	Small player in a highly fragmented industry with a large number of unorganised players	Small player in a highly fragmented industry with a large number of unorganised players	Insignificant
Industry growth expectations	6-7%	8-9%	8-9%	11-12%
Sales growth (FY08-FY11 – 3-yr CAGR)	31.4%	-37.1%	34.7%	148%
Sales forecast (FY11-FY13 – 2-yr CAGR)	95.9%	21.8%	37.9%	120.0%
Demand drivers	Domestic and export-market driven consumption of steel products	Domestic consumption of structurals steel products	Domestic and export-driven demand from construction and infrastructure sector	Demand for power in domestic market
Key competitors	Adhunik Metaliks, Bihar Sponge Iron, Jai Balaji Sponge Ltd, Monnet Ispat, Jindal Steel & Power, TATA Sponge Iron Ltd	TATA Steel, SAIL, RINL, JSW, Ispat, Godavari	TATA Steel, SAIL, RINL, JSW, Ispat, Godavari	NTPC, TATA Power, CESC, Sterlite Energy
Key risks	• Availability and prices of iron ore lumps and fine • Overcapacity in the Indian sponge iron sector	• NA	• Reduced demand from the infrastructure and construction sector	• Realisation rate per unit

*10-20% of pellet production to be sold in open market contribution to total revenues - ~4% in FY12 and 7% in FY13

Source: Company, CRISIL Research

Grading Rationale

Mid-sized steel player with pellet plant

MSP has evolved as a steel manufacturer with a presence across the steel production value chain – pellets (0.3 MTPA), sponge iron (0.31 MTPA), billets (0.14 MTPA) and value-added products like TMT and structural steel (0.2 MTPA). It is further scaling up its capacity in pellet and sponge iron manufacturing, and coal washery to reap the benefits of an increase in demand for steel in the domestic market.

One of the few integrated players across the steel production value chain – from pellets to structural steel

MSP has successfully stabilised the pellet plant (commissioned in 2009 based on relatively cheaper Chinese technology) over the past three years and is now investing ~Rs 2.3 bn to enhance its pelletisation capacity to 0.9 MTPA along with a beneficiation facility. Pelletisation, which allows the company to use the less costlier iron ore fines instead of lumps, has enabled MSP redcue its manufacturing cost of sponge iron.

Table 2: Peers comparions: Pellet capacity

Capacity (tonnes)	FY10	FY11
MSP	300,000	300,000
Jindal Steel and Power	4,500,000	4,500,000
Godawari power	NA	600,000

Source: Company, CRISIL Research

Pelletisation gaining traction

Pelletisation has gained traction in recent times with an increase in iron ore prices. It ensures judicious use of available natural resources (iron ore) to manufacture steel. In less than a decade, iron ore prices have increased more than ten-fold with an increase in international steel demand. Rising iron ore prices are escalating input costs for India's non-integrated steelmakers - steel producers who do not have access to captive iron ore mines. Iron ore availability issues and reduction in payback period for pellet plants have triggered a move to set up pellet manufacturing units to lower costs (pellets result in cost savings). Over 2008-09 to 2010-11, the price differential has increased from Rs 1,800 per tonne to Rs 3,100 per tonne.

MSP has set up a pellet plant to largely reduce its iron ore-related costs

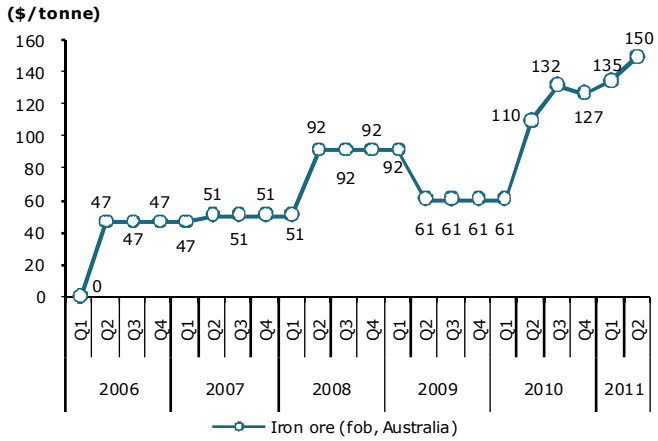
In the recent budget, the Union government has increased the export duty on iron ore to 20% from 5% for fines and from 15% for lumps with zero duty on pellet exports to conserve supply for domestic steel makers. Though pellet plants are common in other geographies, lower prices of iron ore resulted in low activity in India. With 200 MTPA of iron ore production in India, about 56% comes out as fines and 44% as lumps (big boulders). The demand for iron fines is huge in the export market especially from China who converts them into pellets for steel production.

However, increasing iron ore prices and export duty on iron ore has made pellet business very attractive in India too. The recent ban on iron ore mining in Karnataka, that feeds 25% of the domestic steel industry, has also resulted in firming of prices and has built in uncertainty in iron ore supply. The same has resulted in firming up of iron ore prices and a widening gap between iron ore lumps and iron fines. The other benefits of using pellet are:

- Productivity improvement - kiln can produce up to 25% more
- Coal consumption to likely to come down by 10%
- Metallisation will be better compared to lump ore
- No handling (transport) losses as in case of iron ore – pellets will not break

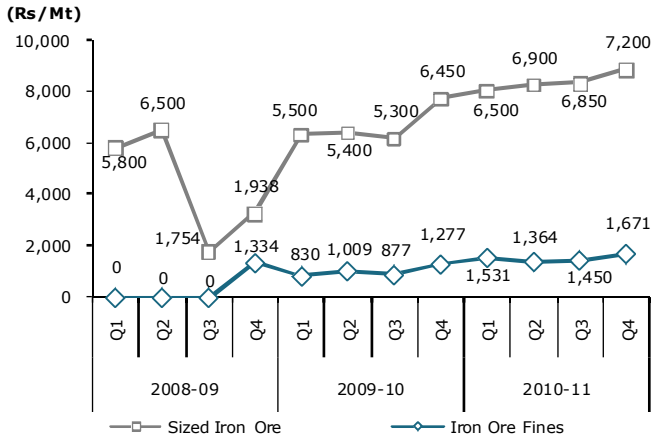
A widening price difference between lump ore and fines has shortened the payback period of pelletisation units

Figure 1: Iron ore prices on an upswing



Source: CRISIL Research, World Steel Association

Figure 2: Trend in iron ore fines and pellet prices*



Source: CRISIL Research

*Sized iron ore and iron ore fines prices for 64 grade sourced from Orissa

The domestic steel industry is on an upswing because of the strong domestic demand. The National Steel Policy (NSP) has targeted 110 mn tonnes (MT) finished steel by 2019-2020. Add to this export commitments, and a total 270 MT of lumps are required, which means 400 MT of run-off-mines every year. For this reason, NSP envisages investment in modern mining and beneficiation methods for value addition and utilisation of iron ore fines.

Many players have lined up huge expansion in pellets

Considering the profitability of a pellet plant (better pricing and reduced payback period to two-three years from six-eight years two years ago), many players like MSP have lined up capex plans to set up pellet capacity. CRISIL Research expects sintering and pelletisation capacity to increase at 15% per annum over 2010-11 to 2014-15. The existing domestic pellet capacity of 11.6 MTPA is optimally utilised - 11.5 MTPA produced, of which 6.1 MTPA is exported.

Table 3: Upcoming pellet plants

Company	Description	Status
JSPL	5 MTPA pellet capacity in Orissa Also setting up 10 MTPA capacity in Bolivia, S.A.	Recently commissioned Engineering/commissioning stage
Tata Steel	6 MT at Jamshedpur	Engineering/commissioning stage
Godawari Power and Ispat	Increasing pellet capacity by 2.4 MTPA, which will increase total capacity to 3 MTPA in Orissa	Work under progress
Bhushan Energy and Power Ltd	2.5 MT at Angul, Orissa	Engineering/commissioning stage
Xindia Pvt Ltd	2 MTPA in Karnataka	Operational
Brahmani River Pellets Ltd	4 MTP, Jaipur road	Engineering/commissioning stage
Jai Balaji	1 MT in Chhattisgarh	Engineering/commissioning stage
Adhunik	1 MT in Chhattisgarh	Engineering/commissioning stage

Source: Industry Sources, CRISIL Research

MSP is tripling its pellet capacity

MSP is expanding its pellet capacity to 0.9 MTPA from current 0.3 MTPA; the new capacity is expected to come on stream from Q3FY12. It is also increasing the beneficiation facility so that it can use lower grade iron ore fines (as lower as 57-58 grade) by removing impurities and bringing the fines at par (in terms of iron content) with 64-65 grade iron ore.

Beneficiation further lowers cost as it enables use of lower grade iron ore fines

Note: The price differential between iron ore lumps and fines (after taking into account conversion cost of iron ore fines of 64-65 grade to pellet) is ~Rs 2,200 per tonne.

A back-of-the-envelope calculation shows that with a beneficiation facility, one can procure relatively cheaper lower grade fines yet earn a higher delta - when iron ore cost is at ~Rs 7,500/tonne (August 2011), low grade iron ore fines are available at ~Rs 2,200/tonne; with input output ratio of 1.4 and conversion cost of fines to pellet, the saving works out to ~Rs 2,200/tonne.

Table 4: Savings per tonne of sponge iron production

Cost per tonne of sponge iron production	Unit	FY12E	FY13E
Cost of Iron ore lumps	Rs per tonne	7,000	7,000
Cost of Pellet including conversion cost	Rs per tonne	4,750	4,750
Savings	Rs per tonne	2,250	2,250
Input/output norm	Per tonne of production	1.6	1.6
Pellet utilised for sponge iron manufacturing	%	83.5	100
Sponge iron cost per tonne of production - iron ore lumps	Rs per tonne	17,240	16,160
Sponge iron cost per tonne of production - iron ore + pellet	Rs per tonne	15,555	14,153
Savings	Rs per tonne	1,685	2,008

Source: Company, CRISIL Research

In FY12, pellet production is expected to satisfy 83% of iron ore requirement to manufacture sponge iron (at 80% utilisation levels). In FY13, once pellet plant operations are ramped up, sponge iron will be manufactured utilising only pellets. Apart from cost savings, MSP is also likely to enter into third party sales of excess pellet production (around 10-20%) in the open market. We expect Rs 1,400 mn savings on account of pelletisation.

The cost-cutting measures (pellet plant with a beneficiation facility) enabled MSP to report higher EBITDA margin compared to its peers. MSP's average EBITDA margin for the past four years was 18%, better than its peer Jai Balaji's 14% during the same period. Rising input prices and expected cool off in the end product due to the current global economic environment can significantly impact a steel manufacturers' profitability. Thus, the move to enhance pellet manufacturing capacity is likely to support lined-up capacity expansion and check increase in costs.

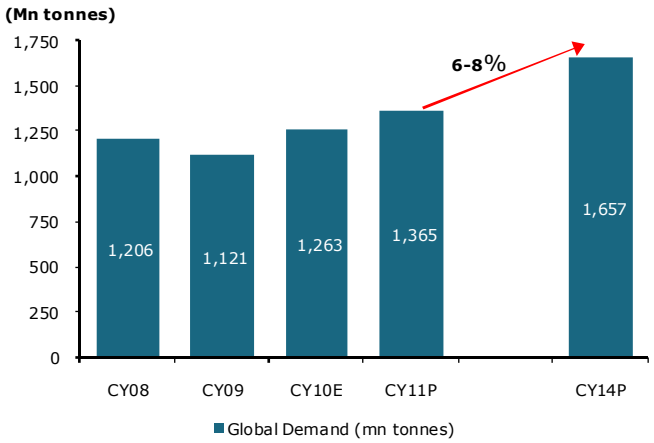
MSP's 18% EBITDA margin (average of past four years) fares better than its peer Jai Balaji's 14%; cushion provided by the pellet plant

Rising steel demand to benefit players like MSP

CRISIL Research expects sponge iron demand to grow at 6-7% over the next five years driven by 10-12% growth in steel demand (specifically long products) that find application in infrastructure and construction work. Sponge iron prices move in tandem with steel prices, which have increased due to higher iron ore and coking coal prices. Domestic sponge iron producers such as MSP are likely to benefit with the increase in steel prices as their cost has not increased considering they use coal instead of coke, but realisations have moved up.

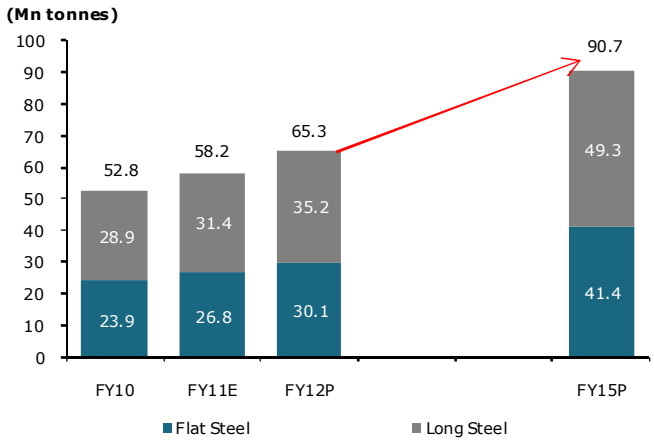
Apart from demand, near-term improvement in prices to support growth of sponge iron producers

Figure 3: Global crude steel demand outlook



Source: CRISIL Research, World Steel Association

Figure 4: Domestic crude steel demand outlook



Source: CRISIL Research

Global steel prices, which declined in 2009 following a steep fall in demand, recovered sharply in 2010 owing to strong demand and a rise in raw material prices. Prices are expected to remain firm in 2011 due to iron ore supply concerns and rising demand from China (imports 45-50% of total iron ore requirement). Additionally, banning of iron ore mining in Karnataka, India has further pushed up domestic ore prices domestically. Similarly, tightness in coking coal supply (following the flooding of Australian coal mines) resulted in

firm prices. CRISIL Research expects international steel prices to increase from US$ 614 per tonne in CY10 to US$ 690-720 in CY11. In line with global prices, domestic steel prices are expected to move up to Rs 38,500-40,000 per tonne from 35,000-36,500 per tonne.

Expansion on track

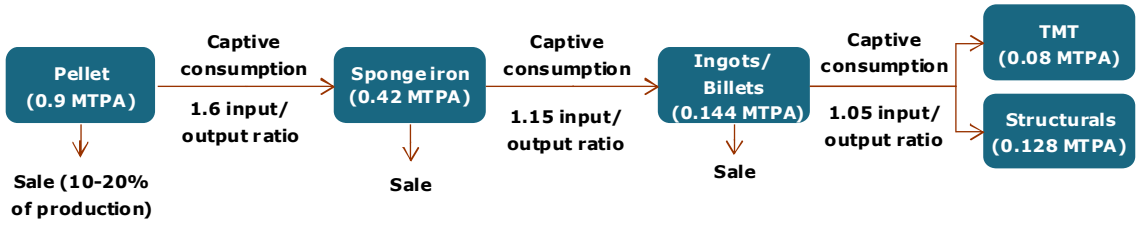
MSP will be investing Rs 8.14 bn to increase its pellet, sponge iron and coal washery capacities in two phases as shown in Table 5. The project has already achieved financial closure. Of the total project cost, Rs 5.2 bn will be funded through debt while the balance through preference share capital infused by the promoters (Rs 1.5 bn) and internal accruals.

Table 5: MSP's expansion plan

Divisions	Installed capacity (FY10)	Phase - I	Phase- II	Capacity post expansion	Company's estimate of completion Phase-II	CRISIL's estimate of completion
Pellet (metric tonnes - MT)	300,000	-	600,000	900,000	2HFY12	Q3FY12
Sponge iron (MT)	192,000	115,000	115,000	423,000	2HFY12	Q4FY12
Coal Washery (MT)	345,600	-	383,525	729,125	2HFY12	Q3FY12
CPP/thermal power plant (MW)	24	18	34	76	2HFY12	Q3FY12
Railway siding (Kms)	2.4	-	4	6.4	2HFY12	Q1FY13

Source: Company, CRISIL Research

Integration across the value chain (after expansion)



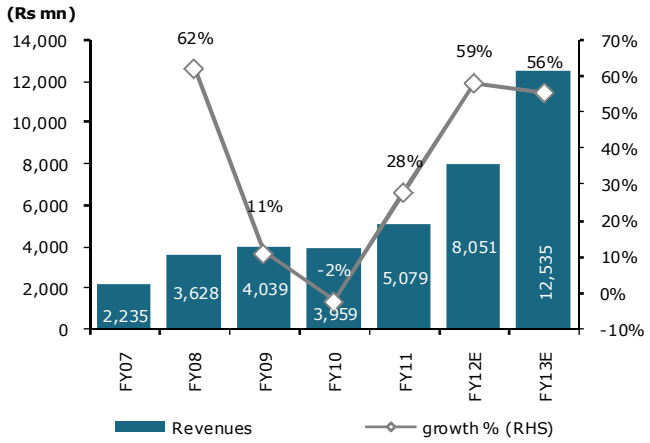
Source: Company, CRISIL Research

Phase I - The company has completed the phase I expansion six months ahead of schedule and commissioned 0.115 MTPA sponge iron plant in Q3FY11.

Phase II - The work is in an advanced stage. As on August 2011, the company has spent Rs 5.2 bn out of the planned Rs 8.14 bn. The management has indicated that phase II is also running ahead of schedule. A shorter project execution period will help the company maintain the overall project cost despite an increase in interest rates (during construction period). MSP is adding capacity across the value chain to integrate operations to reduce costs as well as drive future growth. Revenues are expected to grow at a two-year CAGR of 57.1% to ~Rs 13 bn on the back of expansion.

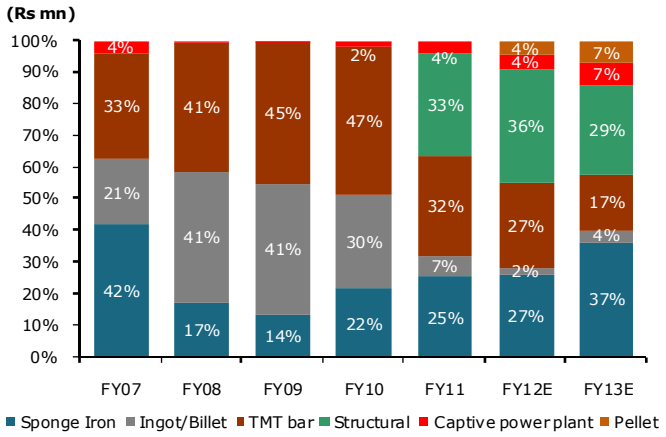
Project funded through a mix of debt to equity 2:1; equity includes internal accruals and preference shares issued to promoters

Figure 5: Revenue growth driven by…



Source: Company, CRISIL Research

Figure 6: …change in revenue mix



Source: Company, CRISIL Research

- **Enhancing sponge iron capacity:** MSP is increasing sponge iron capacity in line with pellet expansion. The total sponge capacity would increase to 0.42 mtpa. Sponge iron will be sold to non-integrated players as the company is not adding steel capacity.

- **Adding 34 MW power plant for merchant sales:** MSP has also lined up investment of ~Rs 1.8 bn to set up a 34 MW power plant which will utilise the waste gas generated from the expanded sponge-iron capacity and help the company produce power at a low rate of Rs 0.5-0.6 per unit. With the addition of this power plant, MSP's total installed power generation capacity will increase to 76 MW by Q3FY12. Of this, 36 MW will be required to support the enhanced sponge iron manufacturing capacity. MSP plans to sell power on a merchant basis. However, the company does not have linkage coal and has to depend on e-auction and imported coal to run the power plant and, therefore, is exposed to higher coal cost. We expect the company to fetch Rs 3.5-Rs 3.6 per unit on merchant sales against cost of Rs 3.2-Rs 3.3 per unit. We expect MSP's power revenue contribution to increase to 7% to Rs 743 mn in FY13. However, lower utilisation of the sponge iron plant will directly impact operations of the power plant due to lower heat generation.

Merchant power operations dependent on sponge iron business

Table 6: MSP expanding capacity with focus on merchant power

Rs mn	FY10	FY11	FY12E	FY13E
Power revenues	62	153	326	743
% of total revenues	2%	4%	4%	7%

Source: Company, CRISIL Research

Table 7: MSP enhancing power capacity to boost revenues and margins

	Existing	Additions		Total
Power (in MW)	FY10	FY11	FY12	
Coal	8	10	26	44
Waste heat recovery	16	8	8	32
Total	24	18	34	76
Captive consumption	24	3	9	36
Merchant power	0	15	25	40

Source: Company, CRISIL Research

To sell additional power units, MSP will rely on waste heat recovery system (WHRS) and rejects of the sponge iron manufacturing process such as dolochar to use as fuel for the power plant. Usage of dolochar will not only reduce costs (due to reduced dependence on coal) but will also take care of waste disposal. Dolochar will account for 20-30% of the fuel required for power generation, as indicated by the management.

MSP's total coal requirement is 7.5 lakh tonnes (includes sponge iron manufacturing and captive power plant requirements). MSP will source 2.5 lakh tonnes of coal through linkage and 5 lakh tonnes through e-auction. MSP has long-term contracts of coal linkages with Coal India Ltd (CIL). The linkages provide assured coal supply at a pre-determined price.

Post expansion, MSP to generate 32% of power from waste heat – a cheaper source of power

- **Coal washery to lower coal cost:** MSP is also nearly doubling coal washery capacity to 0.7 MTPA to enable use of coal fines and lower grade coal resulting in cost savings of Rs 500-600/tonne.

Continues to be small player in commodity industry

MSP has a small scale of operations in the steel commodity business compared to other large players. And its small size of operations limits its bargaining power with suppliers. Though the company has backward integrated into pellet manufacturing, it does not have mining operations. The setting up of pellet plant did enable MSP report higher EBITDA margins in the recent past. However, considering new upcoming capacity in pellet and increase in raw material prices, MSP is expected to face margin pressure. We expect PAT margin to drop from 9.3% in FY11 to 8.3% in FY13. The drop in PAT margin would have been higher had the promoter not infused low-cost preference share capital. Reduced margins will have a bearing on MSP's debt servicing capability as the company expansion is largely debt funded.

Operational flexibility in line with product margins

The product mix variance depends on the delta between the prices of finished goods and raw material prices, and can significantly impact the top line as well as EBITDA margins. Intermediate products are directly sold or can be processed further for making higher realisable products such as billets, TMT bars or structurals. The company focused on sponge iron sales in FY11 considering the 25% improvement in y-o-y realisations. Similarly, it shifted its product mix in favour of structurals instead of billets or TMT bars. MSP has the capability to change the product mix to capture high profitability scenarios. Apart from enabling the company to change revenue mix to sustain profitability in different price scenarios, outlined capex plans are expected to cap the rising cost of production.

MSP has the capability to change the product mix to capture high profitability scenarios

Table 8: Segmental volume details

Sales volumes (in tonnes)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Sponge Iron	76,099	38,553	33,557	55,907	65,968	97,666	211,548
y-o-y change		-49.3%	-13.0%	66.6%	18.0%	48.1%	116.6%
Ingot/Billet	**22,400**	**51,952**	**57,230**	**47,227**	**10,201**	**4,786**	**16,625**
y-o-y change		131.9%	10.2%	-17.5%	-78.4%	-53.1%	247.3%
TMT bar	**32,950**	**48,771**	**57,026**	**64,811**	**46,854**	**59,505**	**59,424**
y-o-y change		48.0%	16.9%	13.7%	-27.7%	27.0%	-0.1%
Structurals	**-**	**-**	**-**	**3**	**48,320**	**76,719**	**95,614**
y-o-y change	-	-	-	NM	NM	58.8%	24.6%
Captive power plant (KWH)	**24,161,791**	**4,491,800**	**5,051,600**	**16,321,315**	**33,053,702**	**95,478,396**	**212,212,796**
y-o-y change		-81.4%	12.5%	223.1%	102.5%	188.9%	122.3%

Source: Company, CRISIL Research

Table 9: Segmental realisations

Realisations (Rs/tonne)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Sponge Iron	**10,113**	**12,474**	**15,453**	**13,248**	**16,553**	**19,910**	**19,810**
y-o-y change		23.3%	23.9%	-14.3%	24.9%	20.3%	-0.5%
Ingot/Billet	**17,112**	**21,949**	**27,199**	**21,228**	**27,805**	**25,432**	**25,305**
y-o-y change		28.3%	23.9%	-22.0%	31.0%	-8.5%	-0.5%
TMT bar	**18,632**	**23,130**	**29,691**	**24,468**	**28,932**	**33,406**	**33,239**
y-o-y change		24.1%	28.4%	-17.6%	18.2%	15.5%	-0.5%
Structurals	**-**	**-**	**-**	**32,333**	**29,012**	**34,327**	**34,155**
y-o-y change	-	-	-	NM	NM	18.3%	-0.5%
Captive power plant (Rs per unit)	**2.9**	**2.2**	**1.4**	**3.8**	**4.6**	**3.4**	**3.5**
y-o-y change		-23.9%	-37.7%	170.3%	23.1%	-26.6%	2.7%

Source: Company, CRISIL Research

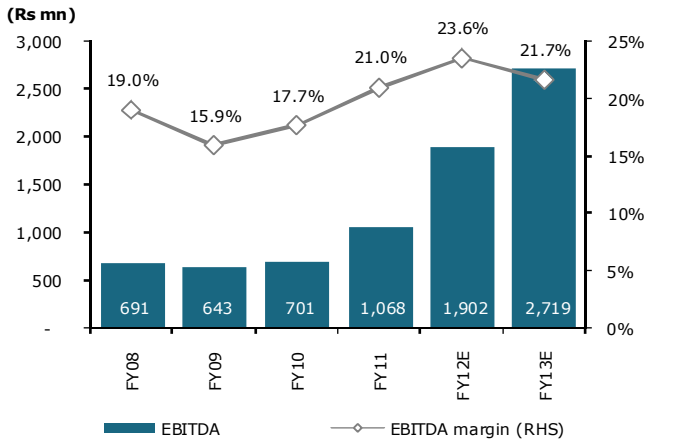
Profitability of non-pellet chain to decline

A sharp increase in raw material prices along with slow down in steel demand is expected to erode profitability of the non-pellet segment. CRISIL Research expects domestic steel prices to decline by 3-4% y-o-y in FY13 to Rs 37,500-39,000 per tonne. Operating margins of players across the industry are likely to remain under pressure in 2012-13 owing to moderate demand, fall in steel prices and firmness in raw material costs (especially of iron ore). Thus, MSP's profitability in the non pellet segment is expected to come down. However, overall PAT margin would not erode due to backward integration to pellet.

EBITDA margin to increase with pellet plant commissioning

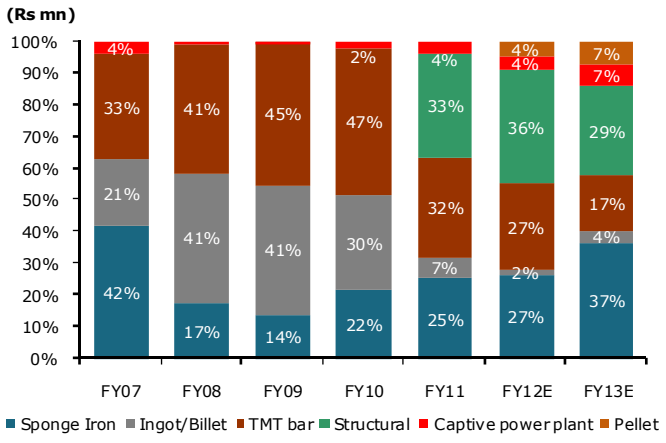
Operational flexibility will enable MSP to expand EBITDA margins in FY12 and restrict the decline in profitability in FY13. In FY12, the company's margins are expected to improve on cost reduction measures such as expanding pellet and power plant capacities. However, in FY13, MSP's margins are likely to come under pressure with the decline in revenue share of high-margin TMT and structurals, expected rise in input costs and stable to marginal decline in realisations across the value chain as industry is adding capacity across the value chain.

Figure 7: EBITDA margin to decline in FY13



Source: Company, CRISIL Research

Figure 8: Low margin sponge iron lead sales growth



Source: Company, CRISIL Research

Table 10: Revenue-mix (Rs mn)

Particulars	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	Two- year CAGR
Sponge Iron	770	481	519	741	1,092	1,945	4,191	96%
Ingot/Billet	383	1,140	1,557	1,003	284	122	421	22%
TMT bar	614	1,128	1,693	1,586	1,356	1,988	1,975	21%
Structurals	0	0	0	0	1,402	2,634	3,266	53%
Captive power plant	71	10	7	62	153	326	743	120%
Pellet*	0	0	0	0	0	320	823	157.1%

*10-20% of pellet production to be sold in open market contributing to total revenues - ~4% in FY12 and 7% in FY13

Mining to boost MSP's profitability in the long run...

Coal and iron ore are the key raw materials required by MSP. Its steel unit at Raigarh, Chhattisgarh is strategically located at an economical distance from these input reserves. MSP has been allotted a coal block and an iron ore block in Chhattisgarh. The mines, once operational, will significantly reduce MSP's raw material cost and boost profitability. However, there has been no progress on the environmental approvals and land acquisition for the mines. We will factor in the same once visibility improves.

Table 11: MSP's captive mine allocation

Nature of mines	Location	Mining Area	Reserves	MSP's share	Company estimate of operations
Coal block	Chhattisgarh	714 hectares	175 mn tonnes	26 mn tonnes	FY14
Iron ore block	Chhattisgarh	150 hectares	35 mn tonnes	35 mn tonnes	FY16

Source: Company, CRISIL Research

... meanwhile vulnerable to rising coal prices

The sponge iron manufacturing segment makes MSP vulnerable to rising coal prices as 67% of the coal requirement will be procured through e-auction. As far as merchant power is concerned, its operations are dependent on the sponge iron business. MSP's railway siding of 2.4 km helps procure 80% of its current raw material requirements, lowering cost by Rs 500 per tonne. It is setting up another 4 kms of railway siding to lower the cost of procurement for enhanced scale of operations.

Forward integration in future

As indicated by the management, MSP is currently concentrating on strengthening its backward integration, i.e. pellet, sponge iron capacity and captive power plant. Going forward, the company will be focusing on increasing the manufacturing capacity of billets and TMT and further boost its position in the value-added products segment. The company possesses ~300 acres land in Raipur, Chhattisgarh, which is sufficient to increase steel capacity to a one-MTPA steel plant. The company already has environmental clearances for this steel plant. Currently, MSP has 0.08 MTPA of TMT manufacturing capacity and 0.128 MTPA of structurals manufacturing capacity.

Competition analysis

The Indian steel industry can broadly be classified into primary players and secondary players. Typically, mini mills with direct reduced iron (DRI)/ induction process are considered as secondary steel producers.

Table 12: Peer comparison

	Primary players		Secondary players		
Parameters	**With mine**	**Without mine**	**Small integrated**	**Non-integrated**	**Re-rollers**
Key players	Tata, SAIL	JSW, Ispat	MSP, Jai Balaji, Godawari	Marmagoa, Modern, Garg	Rathi bars, Kamdhenu
Product category	Full value chain, Flat dominated	Full value chain, Flat dominated	Mainly longs	Mainly TMT	Mainly TMT
Steel making process	Blast Furnace/ Basic Oxygen Furnace (BF/BOF)	Mainly BF/BOF	Electric Arc Furnace(EAF), Induction Furnace (IF)	Induction Furnace (IF)	N/A
Raw materials	Iron ore + coal	Iron ore + coal	Iron ore + coal	Sponge iron, scrap	Billet, ingot, scrap
Raw material sourcing					
Iron ore	Fully captive	Partially captive	Few partially captive	Sponge iron sourced locally	Semis sourced locally
Coking coal	Only Tata 60% captive	Import	Imported / locally sourced coke	Scrap is local or imported	Re rollable scrap is local or imported
Product quality	High	High	Close to primary	Varying quality	Varying quality
Typical realisation			Rs 34,000-35,000 per tonne		Rs 29,000-31,000 per tonne
Typical op. margins	28-29%	20-21%	14-15%	8-9%	4-5%
Key markets	Large projects, infrastructure, auto		Regional market		
Branding	Established	Established	Few partially	Not a focus area	Minimal

Source: Company, CRISIL Research

A large integrated player across the value chain enjoys lower cost of production compared to small non-integrated players. MSP's EBITDA margins are on a lower side compared to players like Monnet that own mines and also have a presence across the value chain. But considering the size of operations and the fact that it does not own mines, MSP's EBITDA margins of 18% (average of past

four years) are considered good. The same is on account of integration of operations across the value chain – pellet to TMT/structurals.

Table 13: Peers' financials

Sales of industry players

Company Name	FY08	FY09	FY10	FY11
MSP	3,628	4,039	3,959	5,079
Jai Balaji	15,617	18,935	20,703	23,453
Monnet Ispat	11,583	15,498	14,808	15,737
Bhushan Steel	47,484	54,279	61,215	76,462
Godawari Power	9,375	12,444	8,908	12,207
TATA Sponge	5,159	6,761	5,577	7352.7

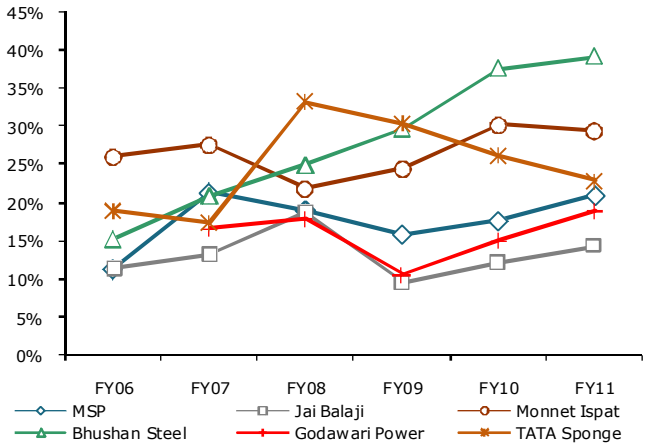
Source: Company, Industry, CRISIL Research

Sales growth (y-o-y)

Company Name	FY08	FY09	FY10	FY11
MSP	62.3%	11.3%	-2.0%	28.3%
Jai Balaji	36.0%	21.3%	9.3%	13.3%
Monnet Ispat	82.2%	33.8%	-4.4%	6.3%
Bhushan Steel	10.7%	14.3%	12.8%	24.9%
Godawari Power	69.4%	32.7%	-28.4%	37.0%
TATA Sponge	63.3%	31.1%	-17.5%	31.8%

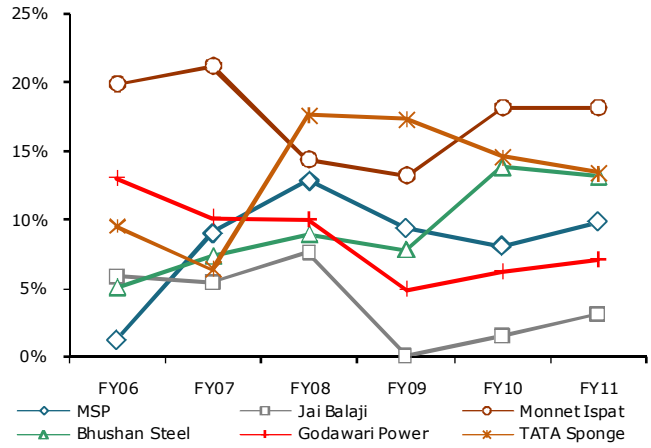
Source: Company, Industry, CRISIL Research

Figure 9: EBITDA margins of industry players



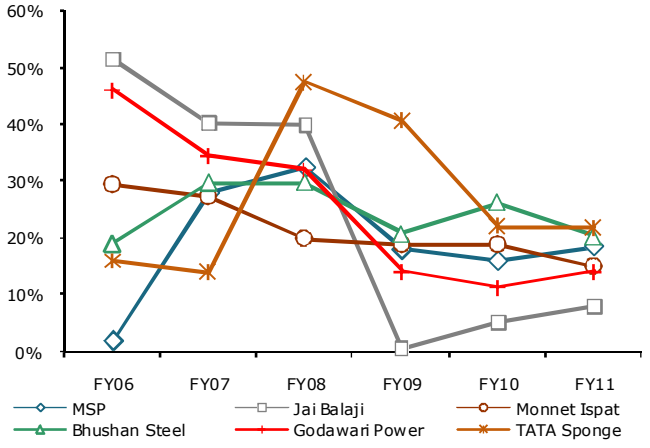
Source: Industry, CRISIL Research

Figure 10: PAT margins of industry players



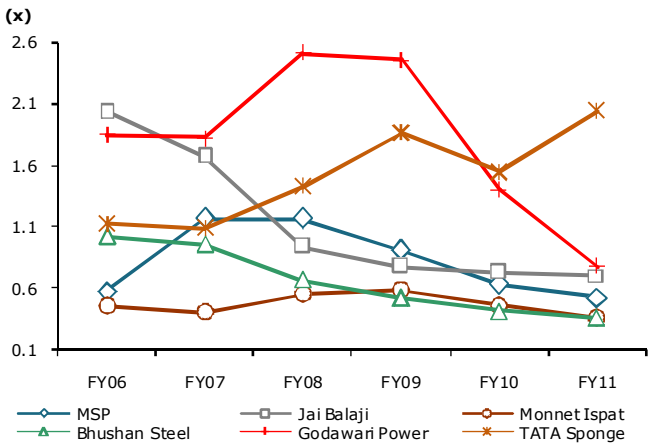
Source: Industry, CRISIL Research

Figure 11: RoE of industry players



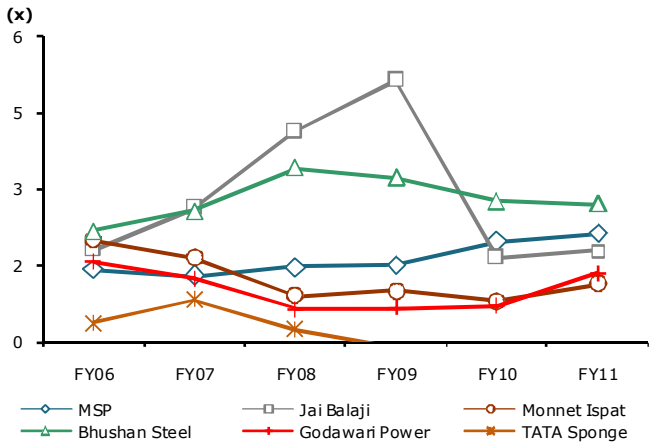
Source: Industry, CRISIL Research

Figure 12: Asset turnover of industry players



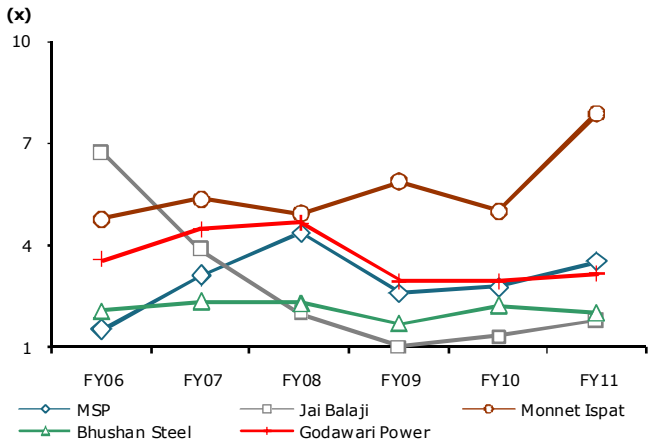
Source: Industry, CRISIL Research

Figure 13: Debt-to-equity of industry players



Source: Industry, CRISIL Research

Figure 14: Interest-coverage of industry players



Source: Industry, CRISIL Research

Key risks

Exposed to cyclicality of end-user industries

End-user industries such as construction and infrastructure are highly susceptible to economic cycles, changes in interest rates and varying demand patterns. Any slowdown in the economic activity can hamper the consumers' ability to spend or result in postponement of consumption. This has a negative impact on the business (revenues) of industries like real estate, construction and infrastructure, which in turn impacts steel manufacturers like MSP.

Exposed to fluctuations in input costs

MSP procures iron ore fines from the open market for production of sponge iron, which exposes it to fluctuations in iron ore fines prices. The upcoming pellet plant is expected to result in replacement of high-cost iron ore lumps with iron ore fines. Note, iron ore fine prices are relatively cheaper but linked to movement in iron ore prices. MSP will be better placed to reduce operational cost compared to other non-integrated players (in terms of mining operations and pellet capacity) but will remain exposed to volatility in iron ore fines prices. The other key raw material that has a significant bearing on the company's profitability is coal. Going forward, ~67% of coal requirements would be sourced through e-auction and balance through linkage.

The company has received prospecting licence (for coal and iron ore mines) but the benefits from the captive mining are expected to flow to the company only after FY14 onwards. Hence, MSP remains exposed to fluctuations in iron ore and coal prices in the medium term.

Gearing to remain high

MSP's debt-servicing capacity is expected to be adversely affected as its capital expansion is largely funded through debt. Interest coverage ratio is expected to drop to 2.4x and 2.3x in FY12 and FY13, respectively, from 3.5x in FY11. Lower capacity absorption will adversely affect profitability. And adverse impact on cash flows to the company will worsen debt servicing ability and returns to shareholders.

MSP has an agreement with the bankers wherein preference share capital can be redeemed only after loan is paid back or else written consent is taken from the bankers. Considering this and the long-term nature of the instrument as the management does not intend to redeem the preference share capital, we believe this capital can be considered as equity.

Sharp increase in iron ore fines

Any sharp increase in iron ore fines and lowering of spread between iron ore lump and fines, over the next two to three years, can reduce MSP's profitability.

Power plant dependent on sponge-iron plant utilisation

To operate its new 34-MW power plant, MSP will be dependent on waste heat recovery and rejects of the sponge iron manufacturing process such as dolochar to be used as fuel. Dolochar is expected to account for 20-30% of the fuel required for power generation, as indicated by the management. Thus, utilisation of sponge iron plant would directly impact operations of the power plant due to lower heat generation. Lower absorption of additional capacity will also result in higher fixed costs. Thus, inability to optimally utilise assets will adversely impact profitability of the company.

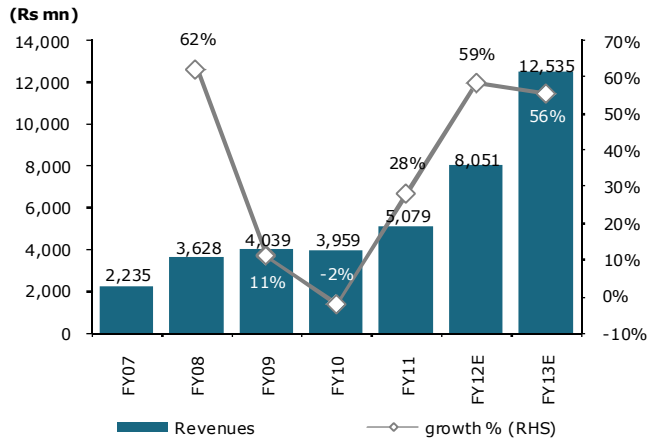
Financial Outlook

Revenues to grow at two-year CAGR of 57.1%

Consolidated revenues are expected to increase at a two-year CAGR of 57.1% to ~ Rs 12.5 bn by FY13 driven by secular growth across all segments, specifically sponge iron (FY11-FY13 CAGR of 95%). The overall revenue growth will be supported by capacity expansion and higher realisations in the medium term. The product mix variance depends on the delta between the finished goods prices and raw material prices, and can significantly impact the top line as well as EBITDA margins. Intermediate products are directly sold or can be processed further for making higher realisable products such as billets, TMT bars or structurals.

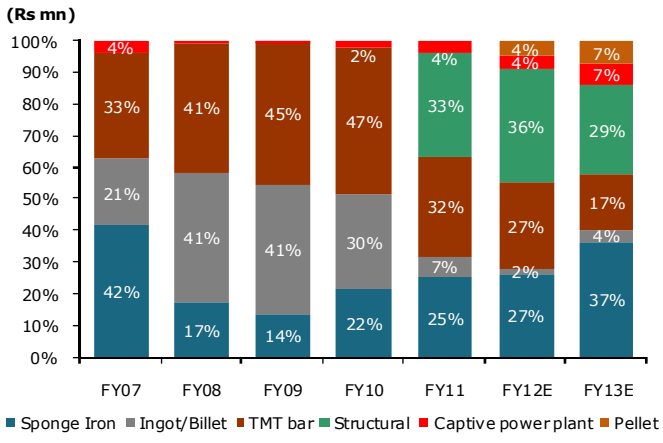
Revenue growth will be supported by capacity expansion and higher realisations in the medium term

Figure 15: Revenue to grow at CAGR of 57.1%



Source: Company, CRISIL Research

Figure 16: Due to changing revenue-mix



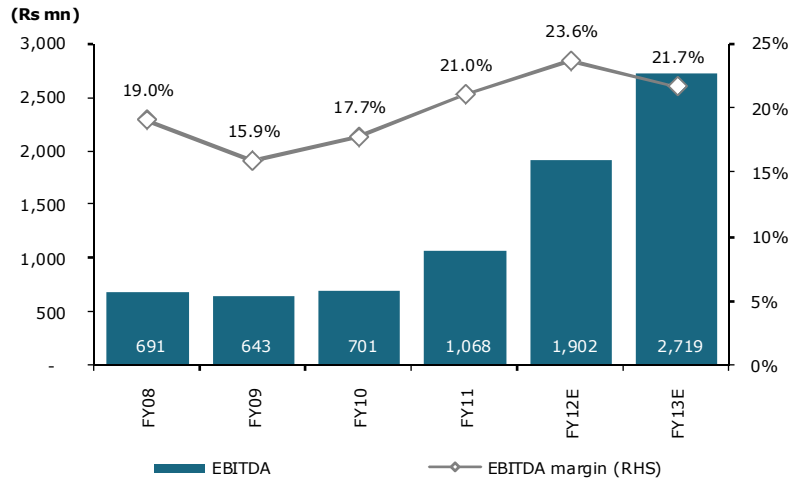
Source: Company, CRISIL Research

EBITDA margins to move up before falling in FY13

Operational flexibility will enable MSP to expand EBITDA margins in FY12 and restrict the decline in profitability in FY13. In FY12, the company's margins are expected to improve following cost reduction measures such as expanding pellet and power plant capacities. However, in FY13, MSP's margins are likely to come under pressure with decline in revenue share of high-margin TMT and structurals, expected rise in input costs and stable to marginal decline in realisations across the value chain as industry is adding capacity across the value chain.

Expected rise in input costs and marginal decline in realisations across the value chain to adversely impact margins in FY13; pellet plant to cushion declining margins

Figure 17: EBITDA to grow at a CAGR of 59.6%

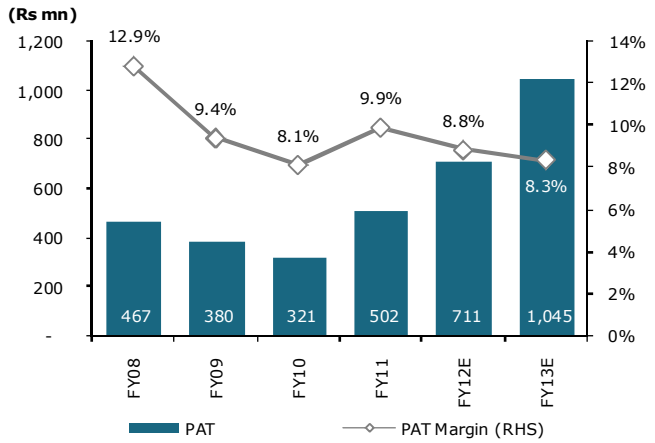


Source: Company, CRISIL Research

PAT margins to contract

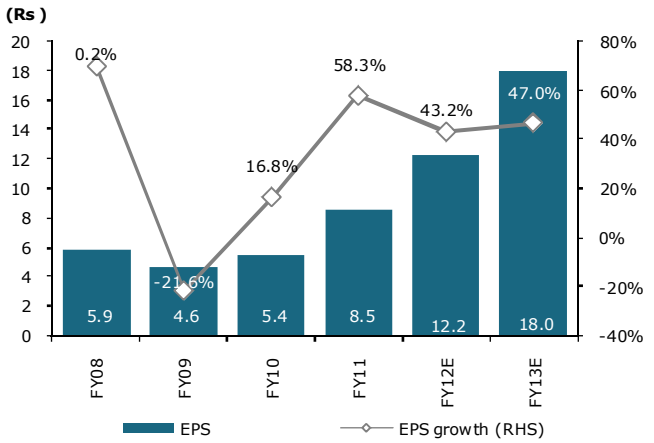
PAT margin is likely to decline to 8.8% in FY12 and then drop to 8.3% in FY13. This is on account of capital expenditure - higher interest and depreciation costs. The drop in PAT margin would have been higher had not the promoter infused low cost preference share capital.

Figure 18: PAT to grow at CAGR of ~44%



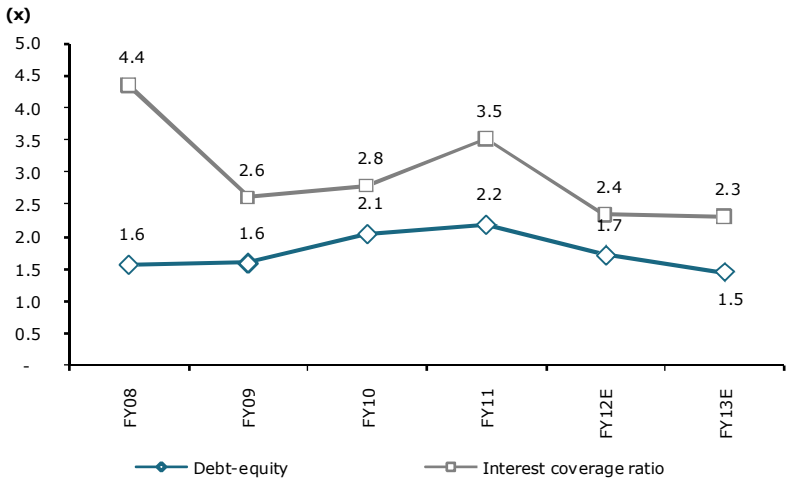
Source: Company, CRISIL Research

Figure 19: EPS growth trend



Source: Company, CRISIL Research

Figure 20: Debt-to-equity ratio trend



Source: Company, CRISIL Research

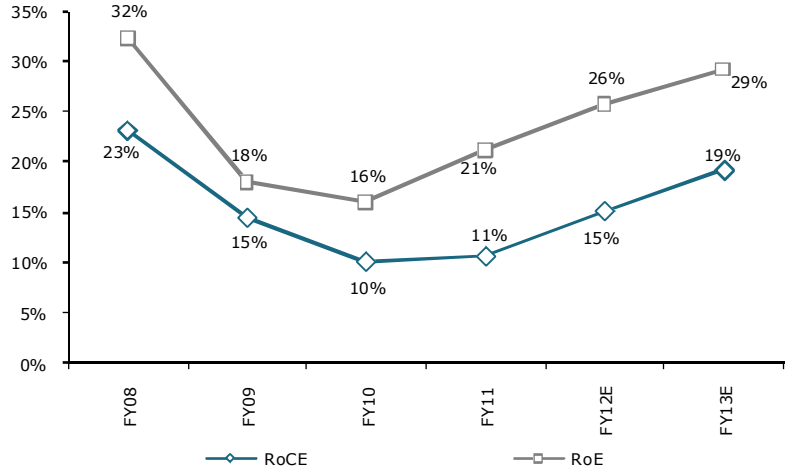
If preference share is considered as equity, then gearing ratio drops significantly to around 1.7x in FY13

If preference share capital is considered as share capital

MSP has an agreement with the bankers wherein preference share capital can be redeemed only after loan is paid back or else written consent is taken from the bankers. Considering this and the long-term nature of the instrument as the management does not intend to redeem the preference share capital, this capital can be considered as equity.

We had earlier assumed high gearing will restrict the financial flexibility of the firm. However, management has raised additional capital through low cost preference shares (1% yield) and will do so in case required. In FY11, the promoter infused Rs 754 mn as preference share capital.

Figure 21: RoCE and RoE to improve over a period of time



Source: Company, CRISIL Research

Returns to shareholders expected to improve on account of infusion of preference share capital and as benefits of planned capex start flowing from Q3FY12 onwards

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Family-driven business

MSP has an experienced management headed by Mr Puran Mal Agarwal (Chairman) and his brother Mr Suresh Kumar Agarwal (Managing Director). They are the first generation entrepreneurs and have more than two decades of experience in the steel sector. Their sons are also on the board and are actively involved in the business.

MSP has an experienced management, quick in identifying new opportunities

Mr Manish Agarwal, Puran Mal Agarwal's son, is a commerce graduate and MBA from IMI Delhi. He has been taking an active interest in the business for the past seven years and is responsible for iron ore procurement, mining activities and operations of power plant and steel melting plant.

Mr Saket Agarwal, Suresh Kumar Agarwal's son, is a commerce graduate and holds an MBA degree from IMI Delhi. He has also been involved in the business for the past seven years and looks after operations of the structural rolling mill and accounts, finance and commercial activities.

Promoters have been quick in identifying growth opportunities

Promoters have proactively focussed on integration (both backward and forward) to strengthen the value chain. They set up a pellet plant at Raigarh to reap the cost advantage and to hedge price volatility in iron ore prices. The benefits of the same were visible in the recent past (FY11 and CY11); while peers were struggling to cover costs, MSP witnessed margin expansion q-o-q. For future growth, the company has outlined huge capacity additions. The strengthening of backward integration – with added sponge iron capacity, captive power plant, pelletisation plant and coal washery –is a positive. The company has implemented the phase 1 expansion six months ahead of schedule with the commissioning of the 0.115 MTPA sponge iron plant in Q3FY11.

Second line of management

MSP has an experienced second line of management who brings to the table adequate domain expertise. The second line of management has experience of 12 to 26 years in their respective fields; they have been with the company for more than five-six years. The company has inducted various professionals from the industry at the senior and mid management levels to prepare for the next level of growth.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at MSP meets the minimum levels supported by reasonably good board practices and an independent board.

Board composition

MSP's board comprises eight members, of whom four are independent directors, which meets SEBI's listing guidelines under Clause 49. During the year, Mr Pavan Kumar Gupta was inducted on board as an independent director as a replacement for Mr Debabrata Mukherjee. Mr Niranjan Dash has resigned as independent director owing to health issues.

The directors are highly qualified and have strong relevant industry experience. Given the background of directors, we believe the board is well experienced. The independent directors have a fairly good understanding of the company's business and its processes.

Board's processes

MSP's disclosure levels have improved over the past one year (since we initiated coverage on the company) in terms of details published – in annual report and on company website. The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, nomination and investor grievance in place to support corporate governance practices. The audit committee is chaired by an independent director, Mr Arvind Saraf.

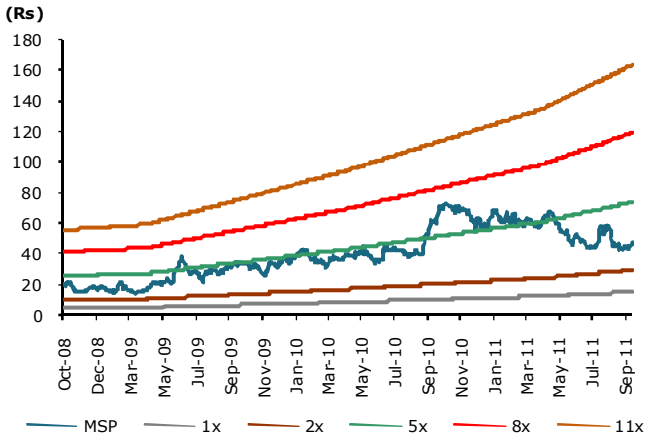
Corporate governance practices meet regulatory requirements

Valuation Grade: 5/5

Considering the commoditised segment and volatility in earnings, we continue to value MSP at 5x EV/EBITDA. Based on our revised FY13 EBITDA of Rs 2,719 mn, we lower our fair value to Rs 70 from Rs 75 per share. The stock is currently trading at Rs 42 per share. Consequently, we maintain our valuation grade of **5/5,** indicating that the market price has 'strong upside' from the current levels.

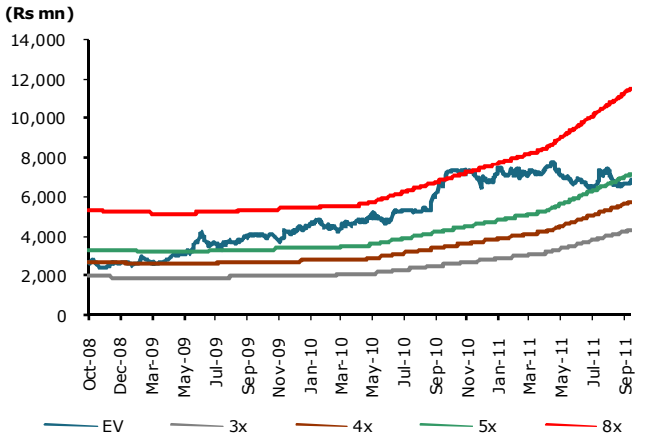
We lower our fair value to Rs 70 from Rs 75 per share but maintain the valuation grade of "5/5"

One-year forward P/E band



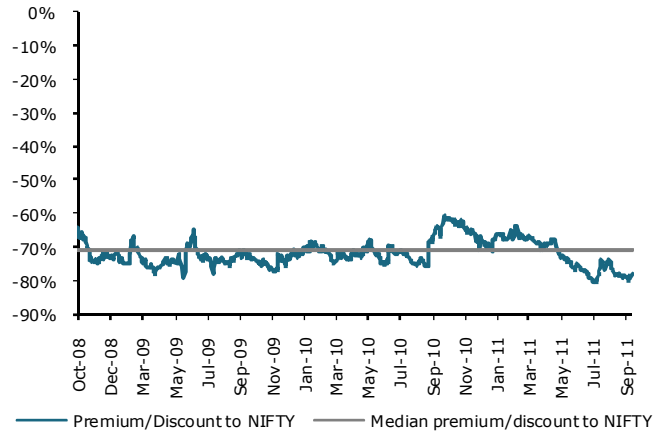
Source: NSE, BSE, Company, CRISIL Research

One-year forward EV/EBITDA band



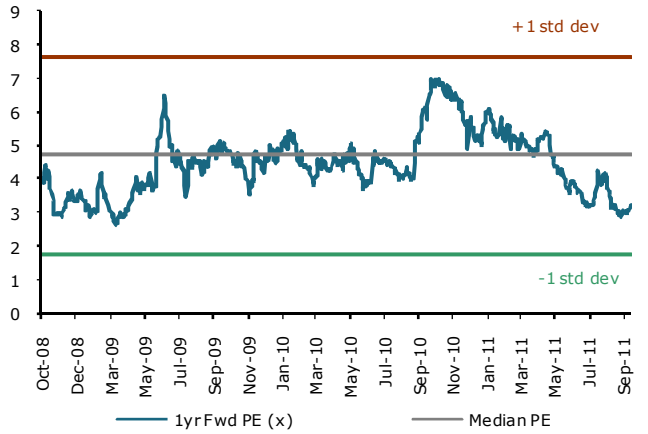
Source: NSE, BSE, Company, CRISIL Research

P/E – premium / discount to NIFTY



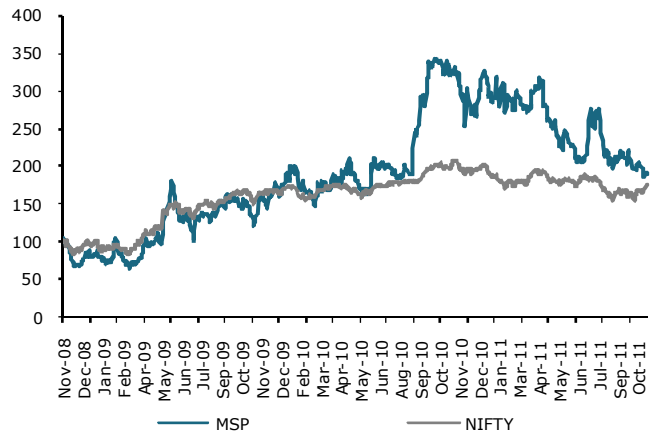
Source: NSE, BSE, Company, CRISIL Research

P/E movement



Source: NSE, BSE, Company, CRISIL Research

Share price movement



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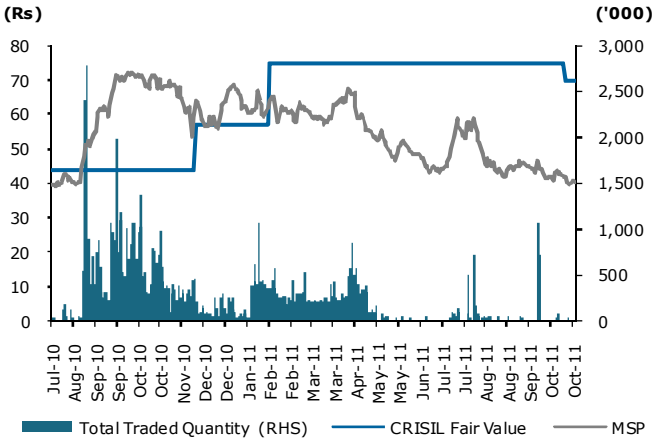
Source: NSE, BSE, Company, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, Company, CRISIL Research

CRISIL IER reports released on MSP Steel and Power Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
29-Jul-10	Initiating coverage*	2/5	Rs 44	3/5	Rs 40
01-Dec-10	Q2FY11 result update	2/5	Rs 57	3/5	Rs 61
03-Feb-11	Q3FY11 result update	2/5	Rs 75	4/5	Rs 62
21-Jun-11	Q4FY11 result update	2/5	Rs 75	5/5	Rs 45
12-Aug-11	Q1FY12 result update	2/5	Rs 75	5/5	Rs 47
02-Nov-11	Detailed report	2/5	Rs 70	5/5	Rs 42

* For detailed initiating coverage report please visit: www.ier.co.in

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Peer comparison

Companies	M.cap (Rs mn)	Price/Earnings (x) FY11	Price/Earnings (x) FY12E	Price/Earnings (x) FY13E	EBITDA Margin FY11	EBITDA Margin FY12E	EBITDA Margin FY13E	EV/EBITDA FY11	EV/EBITDA FY12E	EV/EBITDA FY13E	RoE (%) FY11	RoE (%) FY12E	RoE (%) FY13E
MSP	2,330	4.7	3.3	2.2	23.4	24.6	22.6	8.7	5.2	3.6	21	26	29
Jai Balaji	5,676	17.0	9.6	7.7	16.2	16.7	16.5	9.1	7.1	6.3	8	8	10
Monnet Ispat	29,087	11.0	11.9	10.0	29.6	27.0	24.5	11.1	9.9	8.8	15	12	13
Bhushan Steel	70,705	9.2	6.6	5.7	29.2	30.9	30.2	10.9	8.7	7.4	21	19	18
Godawari Power	3,747	6.5	3.8	3.1	20.8	18.8	19.8	7.2	3.8	3.4	16	17	18
TATA Sponge	5,045	5.2	4.8	4.6	22.2	19.4	18.8	2.3	1.9	2.0	22	17	16
Patnaik Steel	NA	NA	NA	NA	20.6	19.5	20.1	NA	NA	NA	-8	11	11

Source: Industry sources, CRISIL Research

EARNINGS ESTIMATES REVISED DOWNWARDS

We expect the second phase to be commissioned in the mid of Q3FY12 enabling MSP to cap rising cost of operations (pellet and power plant). However, demand is expected to slow down considering the global economic environment. Also input materials (such as coal) are expected to witness a sharp increase.

Revenue estimate: After factoring in slower growth in demand, we have lowered our revenues estimates by 5% for FY12. In FY13, we expect ramp-up of the upcoming sponge iron capacity to drive revenue growth. In addition, usage of pellets is likely to improve productivity resulting in higher volumes. Accordingly, for FY13, we have raised our revenue estimates.

EBITDA margin: EBITDA margin is expected to come under pressure in FY13 with decline in revenue share of TMT and structurals (down to 46% in FY13 from ~64-63% in FY11 and FY12).

PAT margin: At the PAT level, margins to fall sharply owing to recent increase in borrowing rate. Also, higher interest and depreciation costs to exert pressure on margins (full year of operation of capacities added in FY12).

		FY12E			FY13E		
Particulars	**Unit**	**Old**	**New**	**% change**	**Old**	**New**	**% change**
Revenue	(Rs mn)	8,493	8,051	-5%	12,027	12,535	4%
EBITDA	(Rs mn)	1,940	1,902	-2%	2,969	2,719	-8%
EBITDA margin	%	22.8	23.6	79 bps	24.7	21.7	-299 bps
PAT	(Rs mn)	817	711	-13%	1,268	1,045	-18%
PAT margin	%	9.6	8.8	-79 bps	10.5	8.3	-221 bps
EPS	Rs	14.1	12.2	-13%	21.8	18.0	-18%

Company Overview

MSP, a leading operating entity of the MSP group is a medium-size integrated (backward integration in terms of pellet capacity) steel manufacturer in eastern India. The company produces sponge iron and long products. In the long segment, it offers a wide range of products like billets, TMT, structurals, angles, channel, plate and beam. It also has also set up a captive power plant to support its operations. Its manufacturing facilities are located at Jamgaon, Raigarh in Chhattisgarh.

MSP has evolved as an integrated steel manufacturer across the value chain of steel production– pellet (0.3 MTPA), sponge iron (0.31 MTPA), billets (0.14 MTPA) and value added products like TMT and steel structurals (0.2 MTPA). It is further scaling up its capacity - pellet, sponge iron and coal washery capacity - to reap benefits of rising steel demand in the country.

Details of installed capacities and utilisation rate

	Installed capacity			Utilization rate		
	FY09	FY10	FY11	FY09	FY10	FY11
Sponge iron (MT)	192,000	192,000	307,500	65%	81%	51%
Mild Steel billets (MT)	144,109	144,109	144,109	66%	75%	71%
TMT (construction bars)	80,000	80,000	80,000	71%	85%	62%
Structurals	-	128,000	128,000	0%	1%	42%
CPP/thermal power plant (KWH)	190,080,000	190,080,000	332,640,000	72%	85%	58%

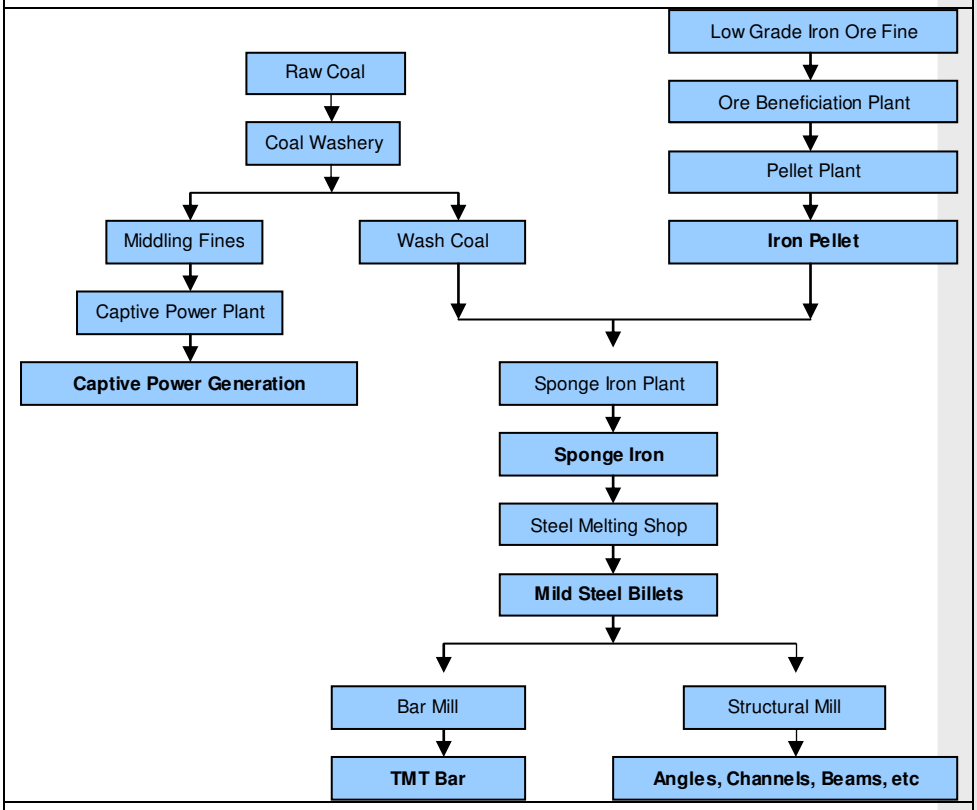
Subsidiary details:

- MSP's sole wholly owned subsidiary company – MSP Group International Singapore (PTE) Ltd remains a dormant company.
- MSP has recently acquired 52.55% stake in AA ESS Tradelink Pvt. Ltd for an amount of Rs 250 mn. AA ESS Tradelink Pvt. Ltd has the rights to use the railway siding in Orissa. Thus, the move will ensure smooth flow of raw materials with increased wagon and rakes availability.

MSP production flow chart

The following chart shows the long value chain of MSP, which is present right from pelletisation and coal washery to TMT bar and structural production.

Production flow chart



Source: Company, CRISIL Research

About MSP group

The group has nine operational companies, which are into the production of steel intermediaries, steel products, ferro alloys, power, industrial and medical oxygen, and cement. There are no evident overlaps in the business concentration due to geographical distances and different customer markets. Further, all group companies are driven by the same promoter group and there exists mutual understanding. However, they lack any formal agreement in that regard. None of the companies have any holding-subsidiary relationship amongst them and have insignificant cross holdings.

MSP Steel and Power Ltd

Group companies	Production facilities	Installed capacity	Location
MSP Metallics Ltd	Sponge Iron	*256,000*	Jharsuguda
	SMS	*263,000*	
	Pig Iron	*294,000*	
	Pellets	*600,000*	
	LAM Coke	*250,000*	
	Sinter Plant	*416,000*	
	Captive Power Plant	*27 MW*	
	Railway Siding	*5 Km*	
Chaman Metallics Private Ltd	Sponge iron	*94,000*	Chandrapur
Howrah Gases Ltd	Sponge Iron	*60,000*	Burdwan
	SMS	*50,000*	
MSP Sponge Iron Ltd	Sponge Iron	*78,000*	Keonjhar and Raigarh
	SMS	*50,000*	
	Re-rolling Mill	*48,000*	
	Ferro Alloys	*26,657*	
	Captive Power Plant	*12 MW*	
MSP Rolling Mills Private Ltd	TMT	*48,000*	Howrah
Adhunik Cement Ltd	Integrated Cement Plant	*1.5 MTPA*	Meghalaya
	Captive Power Plant	*25MW*	
Ashirwad Steels & Industries Ltd	Sponge iron	*0.15 MTPA*	Jamshedpur, Hyderabad
MSP Steel Private Ltd	Billets/Ingots	*0.05 MTPA*	Keonjhar
	TMT	*0.05 MTPA*	

Source: Company, CRISIL Research

Milestones

1968	Year of incorporation
2003	0.10 MTPA DRI plant commissioned at Raigarh, Chhattisgarh
2005	• DRI capacity expanded to 0.19 MTPA • Did set up billet of capacity 0.10 MTPA
2007	Emerged as a mini-integrated steel player. Commenced commercial production of TMT bars, a coal washery and a captive power plant with installed capacities of 0.08 MTPA, 0.35 MTPA and 24 MW respectively
2008	Total installed capacity of billets increased to 0.14 MTPA
2009	Pellet plant set up with an installed capacity of 0.30 MTPA
2010	Operationalised greenfield structural rolling mill of capacity 0.13 MTPA
2011	• Operationalised 18 MW power plant and 0.12 MTPA DRI plant

Annexure: 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)	8.7	7.4	4.7	3.3	2.2
Price-book (x)	1.4	1.0	1.0	0.8	0.6
EV/EBITDA (x)	7.6	8.8	8.7	5.2	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 (%)	-	-	2.5	2.5	2.5
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

All ratios are computed on Adj PAT

Source: CRISIL Research

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

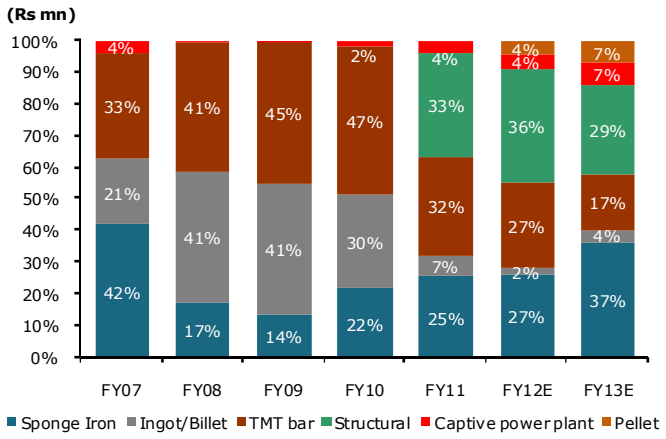
(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	355	375	665	948	1,339
Total tax paid	(21)	(21)	(34)	(37)	(95)
Depreciation	79	127	193	342	485
Working capital changes	131	(212)	(790)	(800)	(1,454)
Net cash from operations	**544**	**270**	**35**	**453**	**276**
Cash from investments					
Capital expenditure	(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 extraordinaries)	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)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Sales	**1,071**	**989**	**1,442**	**1,595**	**1,739**
Change (q-o-q)	-13%	-8%	46%	11%	9%
EBITDA	**209**	**234**	**356**	**263**	**343**
Change (q-o-q)	-21%	12%	52%	-26%	30%
EBITDA margin	**19.5%**	**23.7%**	**24.7%**	**16.5%**	**19.7%**
PAT	86	110	190	115	114
Adj PAT	**86**	**110**	**190**	**115**	**114**
Change (q-o-q)	-41%	28%	72%	-39%	-2%
Adj PAT margin	**8.1%**	**11.2%**	**13.2%**	**7.2%**	**6.5%**
Adj EPS	**1.5**	**1.9**	**3.3**	**2.0**	**2.0**

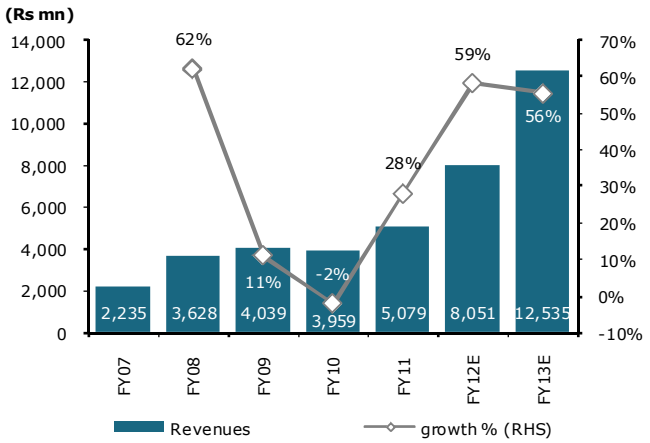
Focus Charts

Changing revenue-mix



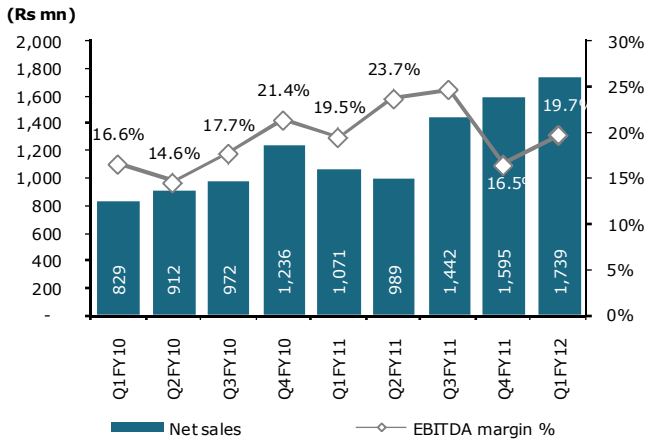
Source: Company, CRISIL Research

Revenue and growth trend



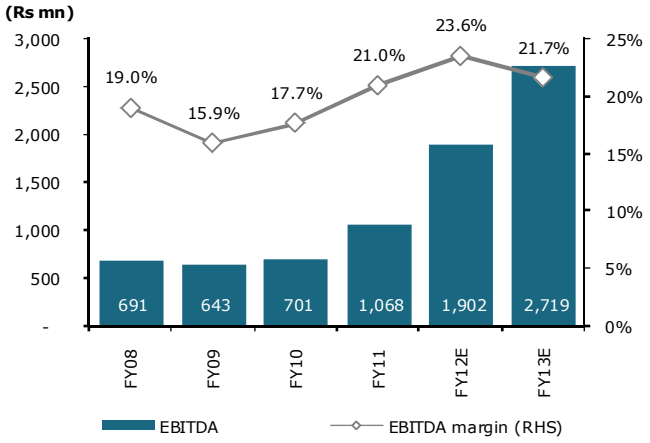
Source: Company, CRISIL Research

Quarterly sales and EBITDA margin trend



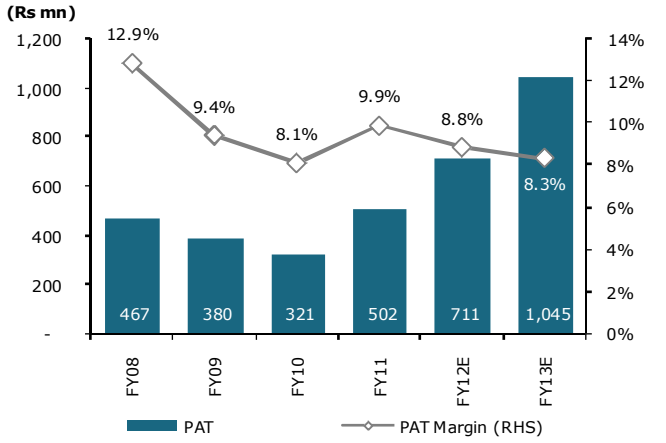
Source: Company, CRISIL Research

EBITDA and EBITDA margin trend



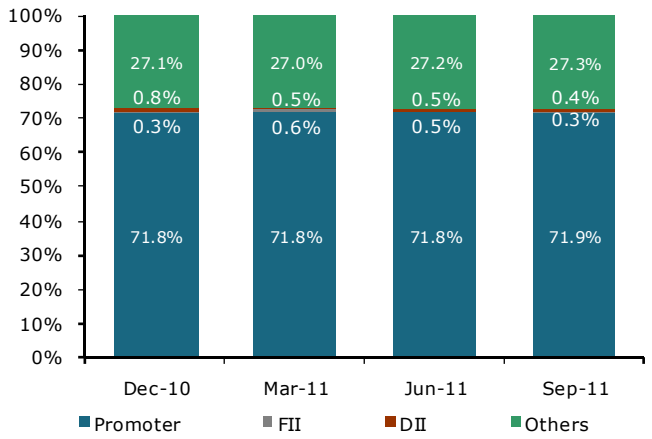
Source: Company, CRISIL Research

PAT and PAT margin trend



Source: Company, CRISIL Research

Shareholding pattern over the quarters



Source: Company, CRISIL Research

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