

Well hedged business model

29 August 2011

MSPL delivers robust top line on better utilization on expanded capacities

MSPL delivered robust top line growth of 62.5% (Y-o-Y) & 9% (Q-o-Q) to Rs1.73bn driven primarily on account of better utilization on recently expanded capacity across business segments (Sponge iron, Pelletisation, CPP, Structural). MSPL, over the past 12M has raised its sponge iron capacity by 0.115Mtpa to 0.30 Mtpa & CPP by 18MW to 42MW. Besides, rising share of value added products-Structurals (Angles, Channels, Beams) helped boost realization/T which increased by 20% (Y-o-Y) to Rs32,500/T. Production of Structural nearly doubled (Y-o-Y) to 18,170 tonnes in 1QFY12 (on a sequential basis, structural registered 20% growth). Typically, the realization on structural is Rs 9500-10,000/T higher than the TMT (TMT realization ranges between 27,000/T-28,000/T).

Backward integration (coal washery, pelletisation) yields superior EBITDA

MSPL delivered 64% (Y-o-Y) & 30.4% (Q-o-Q) rise in EBITDA to Rs343mn due to the combined effect of robust top line growth astute control on opex. It is noteworthy that MSPL's opex (Q-o-Q) is near flat despite 30% (Q-o-Q) in thermal coal cost & iron ore. The strategy of sourcing 'low grade iron ore fines (58-grade) from Odisha which then is pelletized to high grade and sourcing of thermal coal ('F' grade, 3,200 Kcal) from CIL has paid off. Against the backdrop of 'rising raw material' cost, **MSPL has been able to augment its EBITDA margins (Q-o-Q)....the only player to do so** (refer table below). Going forward, it is targeting to achieve OPM of 30% by FY12E & 34% in FY13E due to increased contribution from relatively more profitable business of power & pelletisation.

EBITDA margins (%)	1QFY12	Chg (Y-o-Y)	Chg (Q-o-Q)
JSPL	38.0%	0.8%	-0.4%
SAIL	11.1%	-8.2%	-6.9%
JSW Steel	19.7%	-1.9%	-2.8%
MSPL	19.7%	0.2%	3.2%

Major capex to complete by FY12E

MSPL is currently on its last leg of expansion to complete its forward & backward integration initiatives with capex of Rs3.5bn for FY12E. This involves trebling pellet capacity to 9lac tonnes, adding CPP of 34MW and increasing DRI capacity by 1lac tonnes to 4lac tonnes by FY12E. **With expanded capacity base, MSPL targets to double turnover to Rs10.0bn by FY13E.**

Integrated business model yet to be rewarded

At CMP of Rs42/share, MSPL trades at imputed FY12E & FY13E EV/EBITDA(x) of 3.9x and 3.0x respectively (quick estimates). In our opinion, its integrated business model deserves merit as it is capable of yielding better profitability. **If one were to ascribe EV/EBITDA of 4.0x (FY12E) & 3.5x (FY13E), 50% discount to leader, the fair value=Rs69/share & weighted average =Rs57/share.** Given its robust 1QFY12 performance and discounted valuations, it is worth to keep on your radar.

Stock data

Market Cap (Rs bn)	2.4
Market Cap (USD mn)	52
Shares Outstanding (mn)	58
Free Float (%)	28.8
3M avg. daily vol.(mn)	0.11
Bloomberg Code	MSPL IN
Reuters Code	MSPO.BO

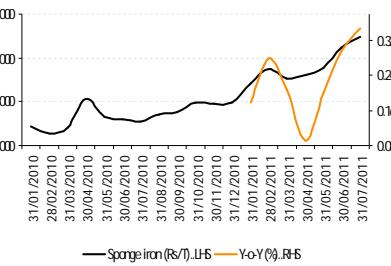
Stock Performance

Return (%)	1m	3m	6m	12m
Absolute	-23.7	-10.4	-26.5	-17.9
Relative	-10.8	2.8	-15.4	-6.0

Shareholding Pattern (%)

Promoter	71.8
Institutions	1.2
Public & Others	27.0

Trend in domestic sponge iron prices



Source: Capital Line, Almondz Research

MSP Steel	FY11				FY12	Y-o-Y	Q-o-Q	FY09	FY10	FY11	FY12E	FY13E
	1Q	2Q	3Q	4Q								
Revenue	1,070	989	1,442	1,595	1,739	62.5%	9.0%	3,989	3,952	5,096	7,997	10,197
Less: Operating exp.	862	754	1,086	1,332	1,397	62.0%	4.8%	3,385	3,247	4,036	5,547	7,272
EBITDA	209	234	356	263	343	64.3%	30.4%	604	705	1,060	2,450	2,925
EBITDA margin (%)	19.5%	23.7%	24.7%	16.5%	19.7%			15.1%	17.8%	20.8%	30.6%	28.7%
Less: Depreciation	42	43	41	67	72	69.5%	7.2%	74	126	193	322	423
Less: Interest	56	58	63	57	133	138.1%	132.5%	194	204	235	794	761
PBT (operating)	110	134	251	139	301	173.1%	117.4%	335	375	632	1,333	1,741
Add: Other income	0	8	2	28	12			150	7	39	106	123
PBT	110	142	254	166	372	236.9%	123.6%	485	382	671	1,440	1,864
Less: Tax	24	31	60	~	37			87	62	169	360	466
Effective tax rate (%)	22%	22%	24%	32%	24%			17.9%	16.1%	23.0%	25.0%	25.0%
PAT	86	110	193	114	114	31.9%	0.0%	399	320	502	1,080	1,398
Prior period items	0.4	0.0	3.0	-1.8								
PAT (after EO)	87	110	196	112	114	31.3%	1.6%	399	320	502	1,080	1,398
EPS [Rs]	1.49	1.90	3.38	1.93	1.96	31.3%	1.6%	6.87	5.53	8.65	18.6	24.1
Diluted shares (mn)	58	58	58	58	58			58	58	58	58	58

Exhibit 1: MSPL production schedule across segments

ITEM	1QFY11	2QFY11	3QFY11	4QFY11	1QFY11	Y-oY	Q-o-Q
Pellet	41,303	39,542	46,812	57,562	58,210	40.9%	1.1%
Sponge Iron	42,544	32,043	36,548	28,745	49,541	16.4%	72.3%
Billets	18,501	16,769	30,311	36,745	34,980	89.1%	-4.8%
TMT	9,951	3,284	17,026	19,118	17,520	76.1%	-8.4%
Structural	9,110	14,517	11,866	15,111	18,170	99.5%	20.2%
Power (mn units)	43.2	39.3	49.1	61.2	56.9	31.7%	-7.0%

Source: Company, Almondz Research

Exhibit 2: Utilization trend across key segments of MSPL

Utilization	1QFY11	1QFY12	Capacity as on June '11 (Mtpa)	Capacity by Mar'12E (Mtpa)
Sponge Iron	89%	66%	0.30	0.42
Structurals	28%	57%	128,000	128,000
TMT	49%	88%	80,000	80,000
Billets	51%	97%	144,109	144,109
Pelletisation	55%	78%	0.3	0.9
Captive Power Plant (MW)	24	42	42	76
Coal Washery			0.3	0.7

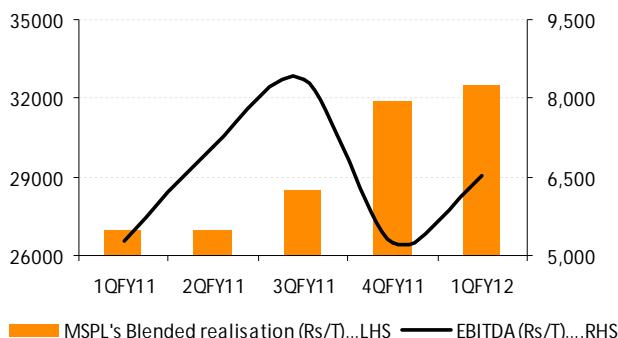
Source: Company, Almondz Research

Exhibit 3: MSPL's capex schedule

MSPL	Existing Capacity	Proposed Expansion	Post Expansion	Capex (Rsmn)	Completion Date
Sponge Iron(tonnes)	192,000	115,500	307,500	956	Commissioned January -2011
Coal Washery (tonnes)	345,600	383,525	729,125	388	Commissioned -Jul' 11
CPP/Thermal Plant(MW)	24	18	42	989	Commissioned Jan'-11
Phase-I capex (Rsmn)				2,333	
Sponge Iron(MT)	307,500	115,500	423,000	903	Mar-12
Railway Siding(KM)	2.4	2	4.4	897	Mar-12
Phase II- capex (Rsmn)				1,800	
CPP/Thermal (MW)-phase-iii	42	34	76	1,752	Oct-11
Pellet(MT)-phase-iv	300,000	600,000	900,000	2,260	Oct-11
Total Capex				8,145	
Gross debt as on 30 June '2011 (incl WC)-Rsmn				7,055	
Avg cost of Long term debt				13%	

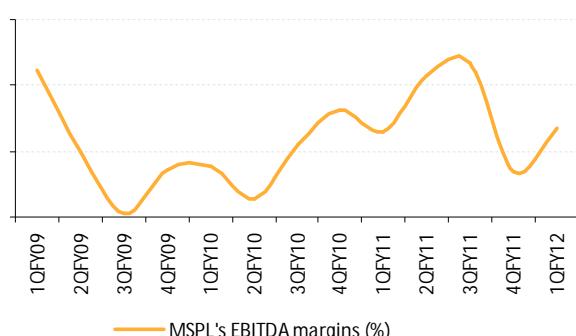
Source: Company, Almondz Research

Exhibit 4: Trend in MSPL's blended NSR/T and EBITDA/T



Source: Company, Almondz Research

Exhibit 5: Trend in MSPL's EBITDA margins



Source: Company, Almondz Research

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