



INDEPENDENT EQUITY RESEARCH

MSP Steel and Power Ltd

Q1FY12 Result Update

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

Expansion on schedule

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

Industry Metals & Mining

MSP Steel and Power Ltd's (MSP's) Q1FY12 revenues were in line with CRISIL Research's expectations. The y-o-y growth in revenues was driven by capacity expansion and higher contribution from value added products - structural and TMT - which command higher realisations. EBITDA margins improved q-o-q on account of increased power tariffs and drop in per unit coal cost. We believe completion of the second phase of expansion by end-Q2FY12 will fuel top line growth. However, the cool off in commodity prices due to the current global economic environment can significantly impact MSP's profitability. Hence, we maintain our fundamental grade of **2/5**.

Q1FY12 result analysis

- Revenues grew by 62% y-o-y and 9% q-o-q to Rs 1,739 mn. The y-o-y growth was driven by a) higher sponge iron production (up 37% to 58,210 MTPA) as 115,000 MTPA sponge iron capacity was commissioned in Q4FY11 and b) increased contribution from high-value products due to higher volumes and realisations. Structural and TMT bars' sales volume increased by 110% y-o-y and revenue contribution increased to ~64% from 41% in Q1FY11. The realisation per tonne of structural and TMT has increased by 17% and 21% y-o-y, respectively. However, the q-o-q growth was primarily on account of higher trading sales.
- EBITDA margin remained flat y-o-y but expanded 323 bps q-o-q to 19.7%. The q-o-q expansion was due to increased contribution from power sales due to better realisation and higher volumes and decrease in coal prices. Power realisation and volumes grew by ~100% and 73% to Rs 4.05 per Kwh and 9,395 MWh, respectively, and coal cost decreased by ~26% to Rs 2,049 per tonne due to higher supply of linkage coal.
- Interest cost increased to Rs 133 mn as compared to Rs 57 mn in Q4FY11 and Rs 56 mn in Q1FY11. The increase is on account of a) capitalisation of phase I expansion, b) increase in interest cost, and c) higher working capital requirement.
- PAT grew by 32% y-o-y on the back of revenue growth but remained flat q-o-q at Rs 114 mn as the higher interest cost neutralised revenue growth.
- EPS increased to Rs 2 as compared to Rs 1.5 in Q1FY11.

Valuations: Current market price has strong upside

We continue to use EV/EBITDA method to value MSP. We have assigned EV/EBITDA multiple of 5.0x to FY13 EBITDA of Rs 2,969 mn and maintained our fair value of Rs 75 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	4,039	3,959	5,096	8,493	12,027
EBITDA	643	701	1,062	1,940	2,969
Adj PAT	268	314	504	817	1,268
Adj EPS-Rs	4.6	5.4	8.7	14.1	21.8
EPS growth (%)	(21.6)	16.8	60.6	62.2	55.2
Dividend yield (%)	-	-	1.11	1.11	1.11
RoCE (%)	14.5	10.2	10.4	13.0	17.0
RoE (%)	18.0	16.0	21.5	28.8	33.0
P/E (x)	10.2	8.7	5.4	3.3	2.2
P/BV (x)	1.6	1.2	1.1	0.8	0.6
EV/EBITDA (x)	8.2	9.4	9.5	6.9	4.4

#FY11 numbers are based on abridged financials;

NM: Not meaningful; CMP: Current market price

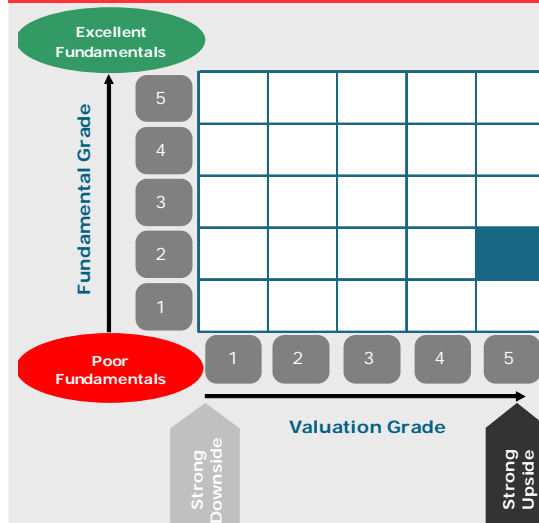
Source: Company, CRISIL Research estimate

August 12, 2011

Fair Value Rs 75

CMP Rs 47

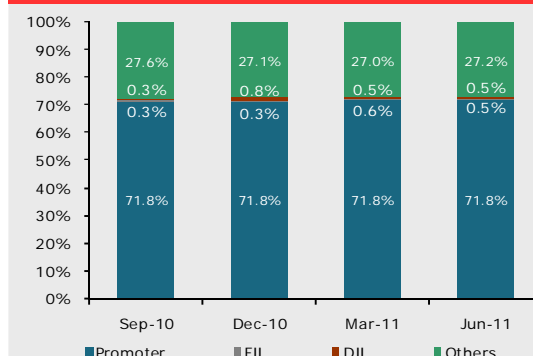
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5138/17059
NSE/BSE ticker	MSPL /MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58
Market cap (Rs mn)/(US\$ mn)	2,731/60
Enterprise value (Rs mn) /(US\$ mn)	9,281/205
52-week range (Rs) (H/L)	80/39
Beta	1.38
Free float (%)	28%
Avg daily volumes (30-days)	113,651
Avg daily value (30-days) (Rs mn)	6.3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-7%	-12%	-21%	14%
NIFTY	-8%	-8%	-4%	-6%

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Q1FY12 Result Summary

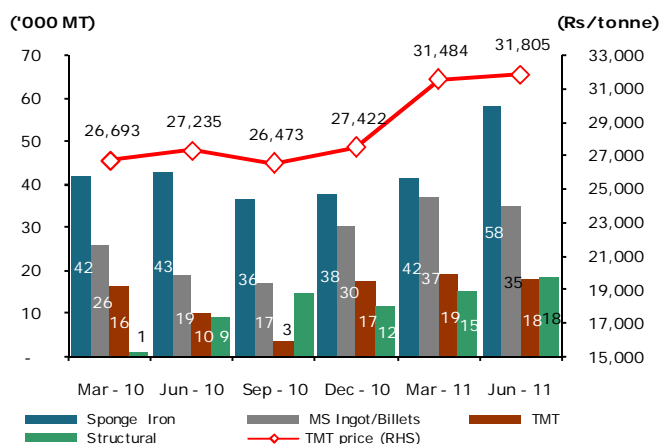
(Rs mn)	Q1FY12	Q4FY11	Q1FY11	q-o-q (%)	y-o-y (%)
Net sales	1,739	1,595	1,071	9	62.5
(Increase)/decrease in stock in trade and WIP	(64)	(54)	(68)	18	(20)
Consumption of Raw Materials	1,064	1,068	756	(0.4)	40.6
Purchase of traded goods	133	-	-	NM	NM
Raw materials cost (% of net sales)	65.1%	63.6%	64.3%	155bps	80bps
Employees cost	46	46	36	1.3	27.7
Other expenses	217	272	137	(20.2)	59.2
EBITDA	343	263	209	30.4	64.0
EBITDA margin	19.7%	16.5%	19.5%	323bps	19bps
Depreciation	72	67	42	7.2	69.7
EBIT	271	196	167	38.3	62.6
Interest and finance charges	133	57	56	132.6	138.1
Operating PBT	138	139	111	(0.6)	24.4
Other Income	12	28	0.2	(55.2)	NM
Extraordinary Income/(expense)	0.1	2	(0.4)	(94.8)	(124.7)
PBT	150	168	110	(10.7)	36.0
Tax	37	53	24	(30.7)	50.8
PAT	114	115	86	(1.6)	31.8
Adj PAT	114	115	86	(1.6)	31.8
Adj PAT margin	6.5%	7.2%	8.1%	(70) bps	(152) bps
No of equity shares (Mn)	58.1	58.1	58.1	-	-
Adj EPS (Rs)	2.0	2.0	1.5	(1.6)	31.8

62% y-o-y revenue growth on account of higher volumes and realisation

PAT margin contracted on account of higher interest cost

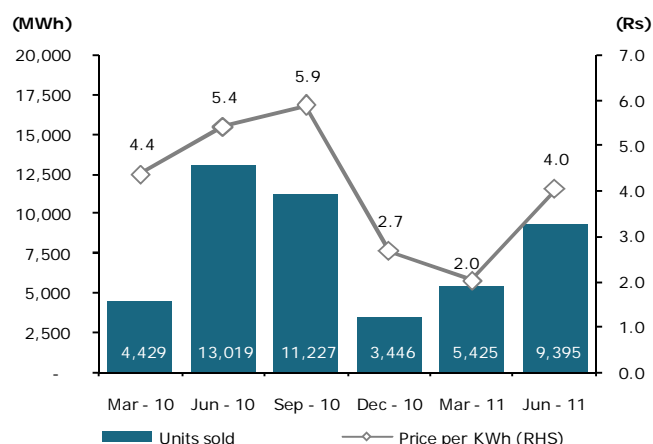
Source: Company, CRISIL Research

Production of steel up as prices increased y-o-y



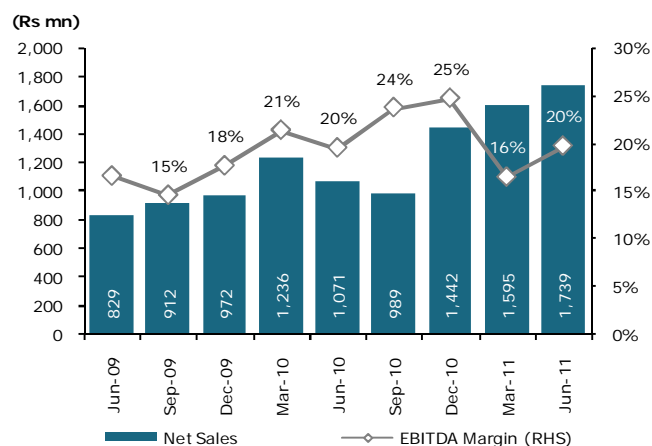
Source: Company, CRISIL Research

Merchant power rate up q-o-q



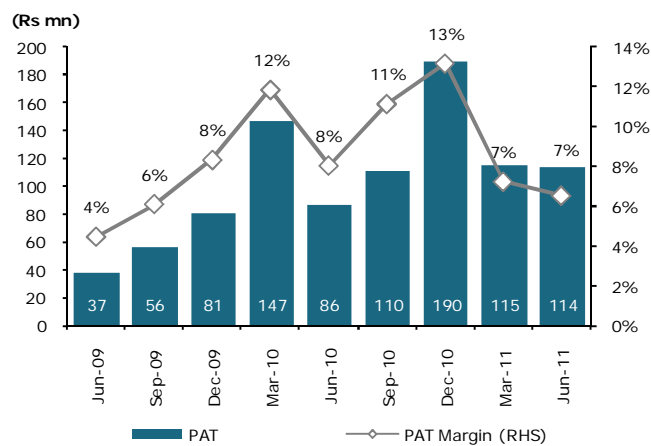
Source: Company, CRISIL Research

Quarterly sales up but EBITDA margin flat y-o-y



Source: Company, CRISIL Research

Quarterly PAT up but PAT margin declined y-o-y



Source: Company, CRISIL Research

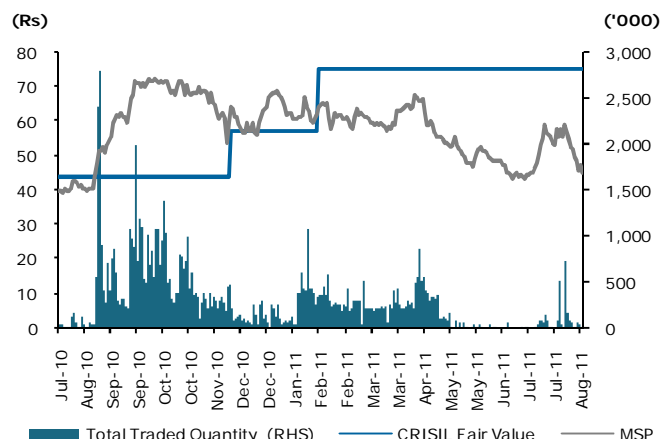
Share price movement



-indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

KEY DEVELOPMENTS

Update on capacity expansion plan

MSP's Rs 8,140 mn capacity expansion plan is on track. The company has commissioned and stabilised 115,500 MTPA of the sponge iron plant and 18 MW of the power plant under the first phase of expansion.

Based on our plant visit in August, we don't foresee any major delays in the execution of the second phase, scheduled for completion in Q2FY11. All the major components of the power plant (including the boiler, turbine and generator) and the kiln for the pellet plant are in place.

Phase 2 expansion details

(MTPA)	Existing	Phase 2	Total Post expansion
Pellet	300,000	600,000	900,000
Sponge Iron	307,500	115,500	423,000
Coal washery	345,600	383,525	729,125
Billets	144,109		144,109
Power plant (MW)	42	34	76
TMT	80,000		80,000
Structural	128,000		128,000

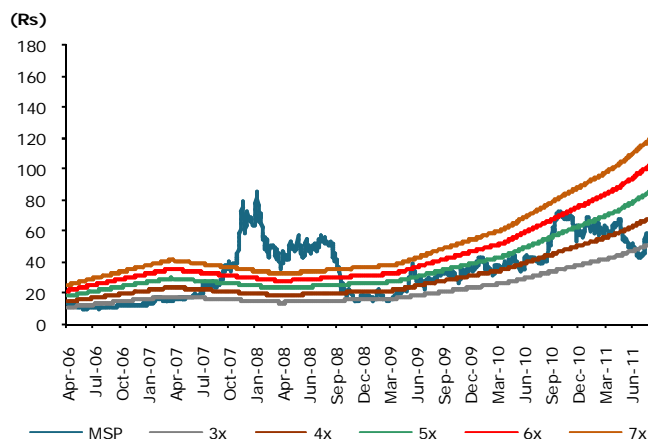
Source: Company

VALUATION

We continue to value MSP using EV/EBITDA method. We have assigned EV/EBITDA multiple of 5.0x to FY13 EBITDA of Rs 2,969 mn and maintained our fair value of Rs 75 per share.

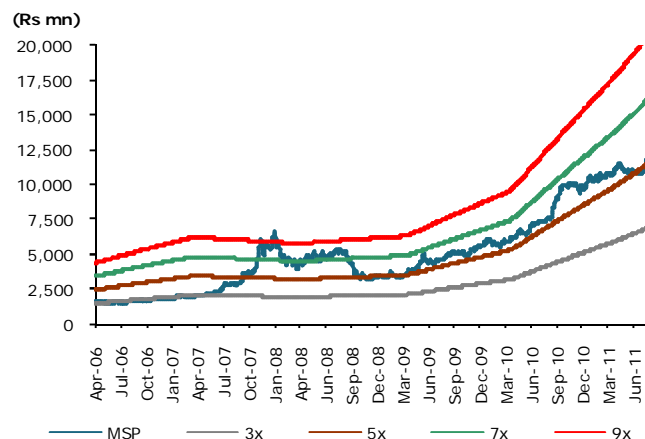
We maintain our fair value at Rs 75 per share

One-year forward P/E band



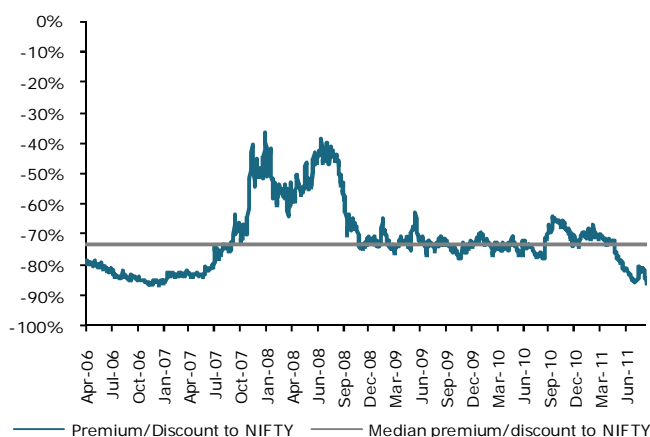
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



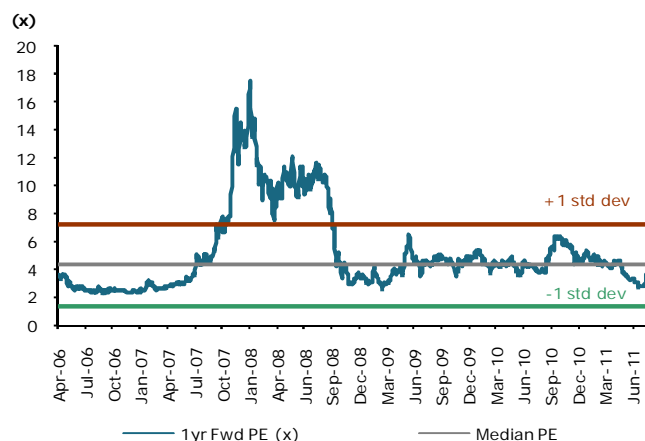
Source: NSE, CRISIL Research

P/E – premium/discount to NIFTY



Source: NSE, CRISIL Research

P/E movement



Source: NSE, 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

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

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	4,039	3,959	5,096	8,493	12,027
EBITDA	643	701	1,062	1,940	2,969
EBITDA margin	15.9%	17.7%	20.8%	22.8%	24.7%
Depreciation	79	127	193	374	485
EBIT	564	573	869	1,566	2,484
Interest	215	205	235	630	914
Operating PBT	348	368	634	936	1,570
Other income	7	7	39	85	120
Exceptional inc/(exp)	111	7	(2)	-	-
PBT	466	382	671	1,021	1,691
Tax provision	87	62	169	204	423
Minority interest	-	-	-	-	-
PAT (Reported)	380	321	502	817	1,268
Less: Exceptionals	111	7	(2)	-	-
Adjusted PAT	268	314	504	817	1,268

Ratios

	FY09	FY10	FY11#	FY12E	FY13E
Growth					
Operating income (%)	11.3	(2.0)	28.7	66.7	41.6
EBITDA (%)	(7.0)	9.0	51.6	82.7	53.1
Adj PAT (%)	(21.6)	16.8	60.6	62.2	55.2
Adj EPS (%)	(21.6)	16.8	60.6	62.2	55.2
Profitability					
EBITDA margin (%)	15.9	17.7	20.8	22.8	24.7
Adj PAT Margin (%)	6.6	7.9	9.9	9.6	10.5
RoE (%)	18.0	16.0	21.5	28.8	33.0
RoCE (%)	14.5	10.2	10.4	13.0	17.0
RoIC (%)	13.6	10.0	9.7	13.1	16.2
Valuations					
Price-earnings (x)	10.2	8.7	5.4	3.3	2.2
Price-book (x)	1.6	1.2	1.1	0.8	0.6
EV/EBITDA (x)	8.2	9.4	9.5	6.9	4.4
EV/Sales (x)	1.3	1.8	2.1	1.6	1.1
Dividend payout ratio (%)	-	-	5.8	3.6	2.3
Dividend yield (%)	-	-	1.1	1.1	1.1
B/S ratios					
Inventory days	44	77	109	80	89
Creditors days	23	72	97	21	21
Debtor days	37	61	29	30	30
Working capital days	96	101	100	94	104
Gross asset turnover (x)	2.0	1.5	1.1	1.0	1.2
Net asset turnover (x)	2.2	1.6	1.2	1.1	1.3
Sales/operating assets (x)	1.5	0.9	0.8	0.9	1.1
Current ratio (x)	6.4	4.0	2.4	9.1	9.2
Debt-equity (x)	1.6	2.1	3.0	3.4	2.4
Net debt/equity (x)	1.5	1.7	3.0	3.3	2.3
Interest coverage	2.6	2.8	3.7	2.5	2.7

Per share

	FY09	FY10	FY11#	FY12E	FY13E
Adj EPS (Rs)	4.6	5.4	8.7	14.1	21.8
CEPS	6.0	7.6	12.0	20.5	30.2
Book value	29.1	38.5	42.1	55.6	76.8
Dividend (Rs)	-	-	0.5	0.5	0.5
Actual o/s shares (mn)	58.1	58.1	58.1	58.1	58.1

#FY11 numbers are based on abridged financial

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Research estimate

Balance Sheet

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Liabilities					
Equity share capital	581	581	581	581	581
Reserves	1,111	1,654	1,865	2,648	3,882
Minorities	-	-	-	-	-
Net worth	1,692	2,235	2,446	3,229	4,463
Convertible debt	-	-	-	-	-
Other debt	2,727	4,611	7,407	10,957	10,657
Total debt	2,727	4,611	7,407	10,957	10,657
Deferred tax liability (net)	158	199	334	199	199
Total liabilities	4,578	7,044	10,187	14,385	15,319
Assets					
Net fixed assets	2,273	2,559	5,764	9,174	9,353
Capital WIP	1,052	2,454	2,654	1,994	1,494
Total fixed assets	3,325	5,013	8,418	11,168	10,847
Investments	67	70	70	70	70
Current assets					
Inventory	393	683	1,209	1,396	2,142
Sundry debtors	418	669	406	698	988
Loans and advances	400	500	1,174	1,072	1,518
Cash & bank balance	194	379	103	371	293
Marketable securities	-	380	-	-	-
Total current assets	1,406	2,611	2,891	3,538	4,942
Total current liabilities	220	649	1,191	390	540
Net current assets	1,185	1,962	1,699	3,147	4,402
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	4,578	7,044	10,187	14,385	15,319

Cash flow

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Pre-tax profit	355	375	673	1,021	1,691
Total tax paid	(21)	(21)	(34)	(339)	(423)
Depreciation	79	127	193	374	485
Working capital changes	131	(212)	(394)	(1,179)	(1,332)
Net cash from operations	544	270	438	(124)	420
Cash from investments					
Capital expenditure	(1,364)	(1,816)	(3,598)	(3,124)	(164)
Investments and others	(6)	(382)	380	-	-
Net cash from investments	(1,370)	(2,198)	(3,218)	(3,124)	(164)
Cash from financing					
Equity raised/(repaid)	(5)	-	-	-	-
Debt raised/(repaid)	674	1,884	2,797	3,550	(300)
Dividend (incl. tax)	-	-	(34)	(34)	(34)
Others (incl extraordinary)	136	229	(259)	(0)	-
Net cash from financing	804	2,113	2,504	3,516	(334)
Change in cash position	(21)	185	(276)	269	(78)
Closing cash	194	379	103	371	293

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

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