



INDEPENDENT EQUITY RESEARCH

MSP Steel and Power Ltd

Q4FY11 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

Capacity expansion on track

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) Q4FY11 revenues were below CRISIL Equities' expectations on account of lower trading sales and lower-than-expected production from the recently commissioned sponge iron and power plants. Margins were adversely impacted mainly due to surge in iron ore prices and lower realisation of power. The recent completion of the first phase of expansion along with expected completion of second phase by Q2FY12 will significantly enhance MSP's capacity and contribute to its top line. We maintain our fundamental grade of 2/5.

Q4FY11 result analysis

- Revenues grew by 29% y-o-y and 11% q-o-q to Rs 1,595 mn driven by higher realisation of steel products (increase of 10% q-o-q), which was partially offset by lower realisation of power (Rs 2.02 per KWh vs Rs 2.67 per KWh). Further, revenues were boosted by higher contribution of high-value products - billets, TMT and structurals (84% of sales as compared to 49% in Q4FY10).
- EBITDA margin contracted by 488 bps y-o-y and 821 bps q-o-q to 16.5% on account of a sharp increase in raw material prices, lower realisation of power and 78% q-o-q jump in other expenses. Prices of iron ore increased sharply by ~40% q-o-q to ~Rs 6,500 per tonne.
- PAT margin dipped by 464 bps y-o-y and 595 bps q-o-q to 7.2% in line with the drop in EBITDA margin. PAT and EPS declined by 21% y-o-y and 39% q-o-q to Rs 115 mn and Rs 2, respectively.
- FY11 revenues grew 29% y-o-y to Rs 5,096 mn driven by higher realisations and higher volumes, following the commissioning of new plants. EBITDA margin improved by 314 bps to 20.8% and PAT margin improved by 196 bps to 9.9%.

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 sponge iron and 18 MW of power plants under the first phase of expansion. The second phase is under advanced stage of execution; the company has achieved financial closure for the project and it is expected to come on stream by the end of Q2FY12.

Valuations: Current market price has strong upside

We value MSP using EV/EBITDA method. We have lowered our revenue estimate for FY12 and rolled forward our valuation by one year to FY13. We maintain 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
Adj EPS growth (%)	(21.6)	16.8	60.6	62.2	55.2
Dividend yield (%)	-	-	1.09	1.09	1.09
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)	10.0	8.5	5.3	3.3	2.1
P/BV (x)	1.6	1.2	1.1	0.8	0.6
EV/EBITDA (x)	8.1	9.3	9.4	6.8	4.4

NM: Not meaningful; CMP: Current Market Price

#FY11 numbers based on the abridged financials

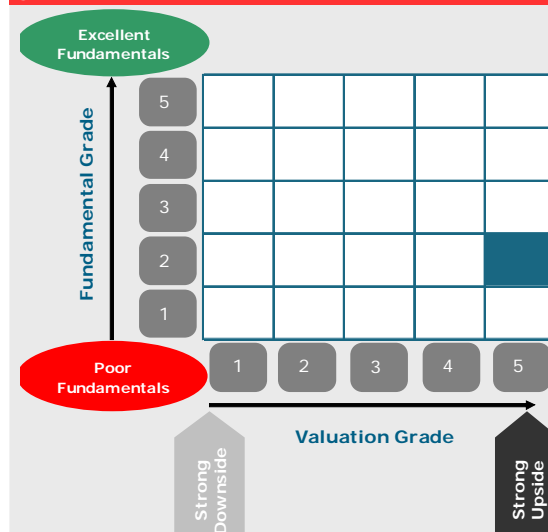
Source: Company, CRISIL Equities estimate

June 21, 2011

Fair Value Rs 75

CMP Rs 45

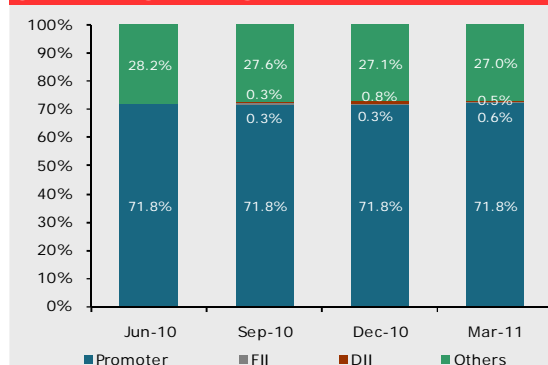
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5258/17507
NSE/BSE ticker	MSPL/MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58
Market cap (Rs mn)/(US\$ mn)	2,673/60
Enterprise value (Rs mn)/(US\$ mn)	9,223/204
52-week range (Rs) (H/L)	74/37
Beta	1.38
Free float (%)	28%
Avg daily volumes (30-days)	11,941
Avg daily value (30-days) (Rs mn)	0.6

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-9%	-19%	-20%	10%
NIFTY	-1%	-1%	-10%	2%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com

Rishi Gupta rgupta@crisil.com

Vishal Rampuria vrampuria@crisil.com

Client servicing desk

+91 22 3342 3561

clientservicing@crisil.com

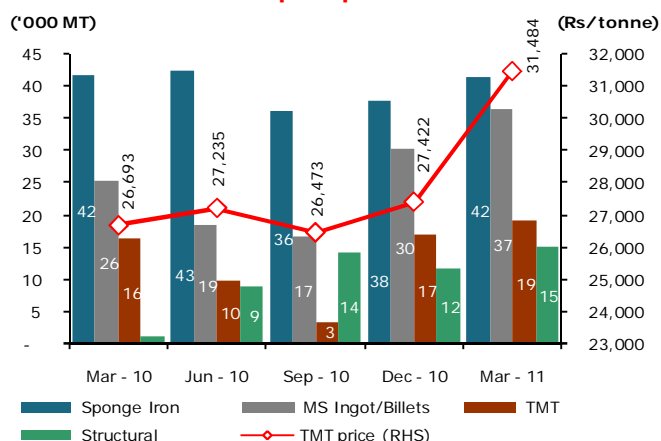
Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11#	FY10	y-o-y (%)
Net sales	1,595	1,442	1,236	11	29.0	5,096	3,959	29
(Increase)/decrease in stock in trade and WIP	(54)	(173)	89	NM	NM	(363)	(25)	NM
Consumption of raw materials	1,068	836	394	27.8	171.0	3,166	2,857	11
Purchase of traded goods	-	235	278	NM	NM	349	-	NM
Raw materials cost (% of net sales)	63.6%	62.3%	61.6%	132 bps	202 bps	61.9%	71.6%	(970) bps
Employee cost	46	35	34	29.2	36.7	153	119	28
Other expenses	272	153	178	78.2	53.2	729	306	138
EBITDA	263	356	264	(26.1)	(0.5)	1,062	701	52
EBITDA margin	16.5%	24.7%	21.4%	(821) bps	(488) bps	20.8%	17.7%	314 bps
Depreciation	67	41	33	61.6	104.2	193	127	52
EBIT	196	314	231	(37.7)	(15.3)	869	573	52
Interest and finance charges	57	63	50	(9.3)	14.0	235	205	15
Operating PBT	139	251	181	(44.8)	(23.5)	634	368	72
Other Income	28	2	(5)	NM	NM	39	7	463
Extraordinary Income/(expense)	2	(3)	(2)	NM	NM	(2)	7	NM
PBT	168	251	174	(32.9)	(3.1)	671	382	76
Tax	53	60	27	(12.8)	97.7	169	62	175
PAT	115	190	147	(39.3)	(21.4)	502	321	57
Adj PAT	115	190	147	(39.3)	(21.4)	504	314	61
Adj PAT margin	7.2%	13.2%	11.9%	(595) bps	(464) bps	9.9%	7.9%	196 bps
No of equity shares (mn)	58.1	58.1	58.1	-	-	58.1	58.1	-
Adj EPS (Rs)	2.0	3.3	2.5	(39.3)	(21.4)	8.6	5.5	56.6

#Annual numbers are not strictly comparable as FY10 numbers are adjusted to CRISIL Equities' standards while FY11 numbers are based on abridged financials

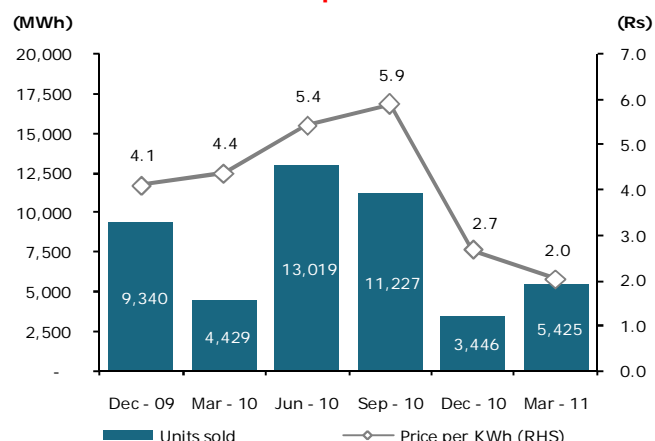
Source: Company, CRISIL Equities

Production of steel up as prices increased...



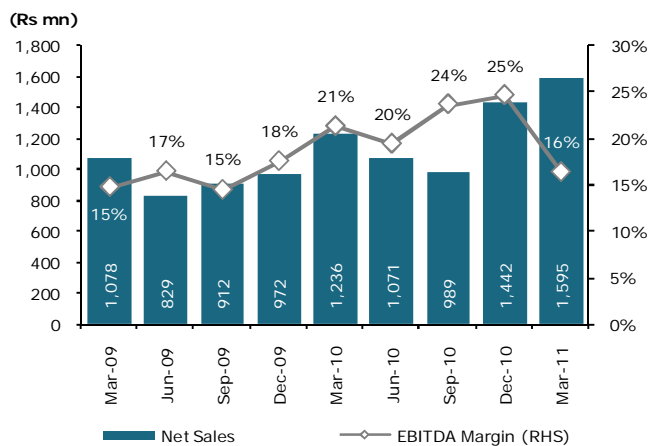
Source: Company, CRISIL Equities

... and merchant rate for power decreased



Source: Company, CRISIL Equities

Quarterly sales up but EBITDA margin down



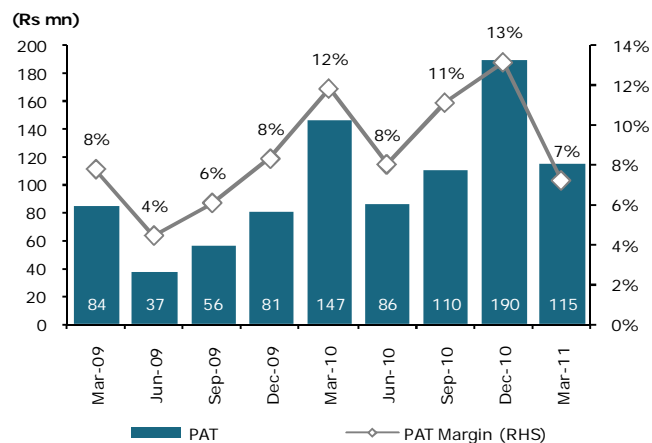
Source: Company, CRISIL Equities

Share price movement



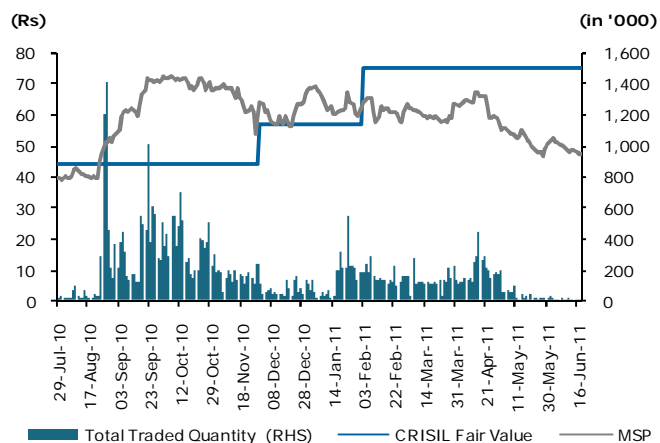
Source: NSE, CRISIL Equities

Quarterly PAT and PAT margin decline



Source: Company, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

EARNINGS ESTIMATES REVISED DOWNWARDS

Though we expect the second phase to be commissioned by Q2FY12, we have built in a stabilisation period of three to four months on similar lines as the first project. Accordingly, we reduce our revenue estimates for FY12 by 9% to factor in lower production from the upcoming 600,000 MTPA pellet, 34 MW power and 115,500 MTPA sponge iron plants.

We introduce FY13 numbers and expect topline to grow 42% y-o-y to Rs 12,027 mn as new capacities will operate for the full year. We expect EBITDA and PAT margins to be 24.7% and 10.5%, respectively, in FY13. EPS is expected to increase 55% y-o-y to Rs 21.8.

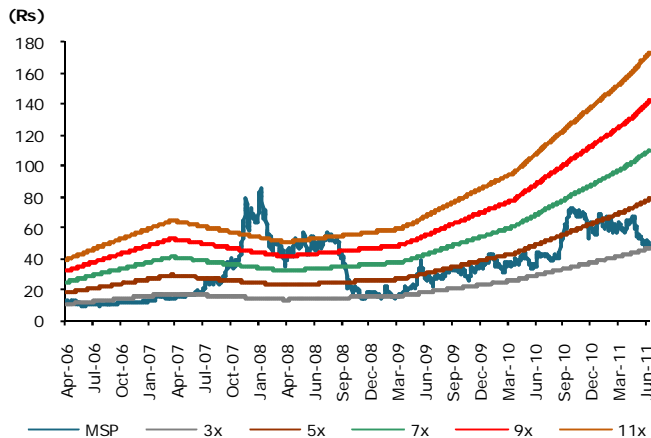
Particulars	Unit	FY12E			FY13E
		Old	New	% change	New
Operating income	(Rs mn)	9,323	8,493	-9%	12,027
EBITDA	(Rs mn)	2,119	1,940	-8%	2,969
EBITDA margin	%	22.7	22.8	12 bps	24.7
PAT	(Rs mn)	998	817	-18%	1,268
PAT margin	%	10.7	9.6	-109 bps	10.5
EPS	Rs	17.2	14.1	-18%	21.8

VALUATION

We value MSP using EV/EBITA method. We have lowered our revenue estimate for FY12 and rolled forward our valuation by one year to FY13. We have assigned EV/EBITDA multiple of 5.0x to FY13 EBITDA of Rs 2,969 mn and maintain our fair value of Rs 75 per share.

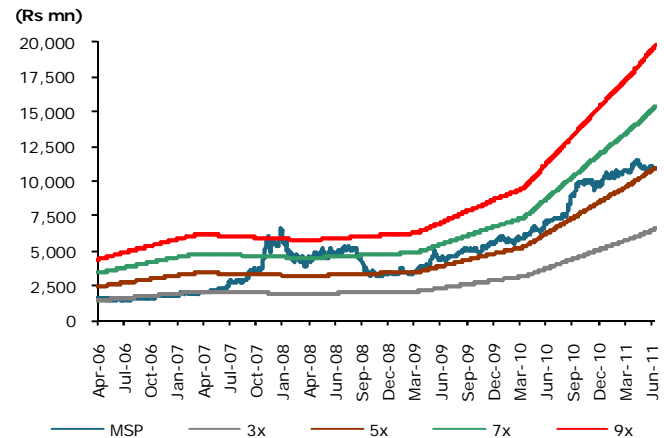
We maintain our fair value at Rs 75 per share

One-year forward P/E band



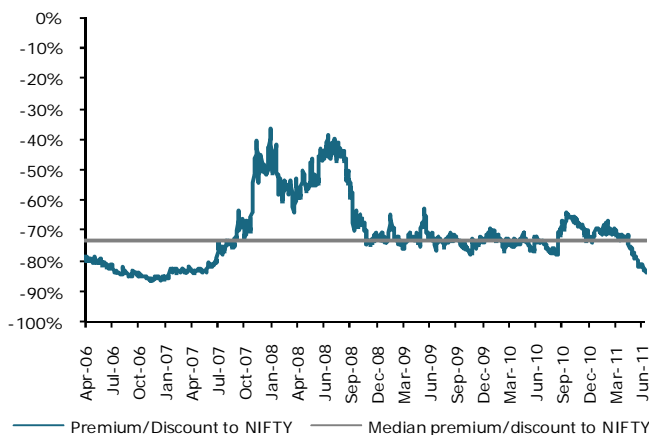
Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



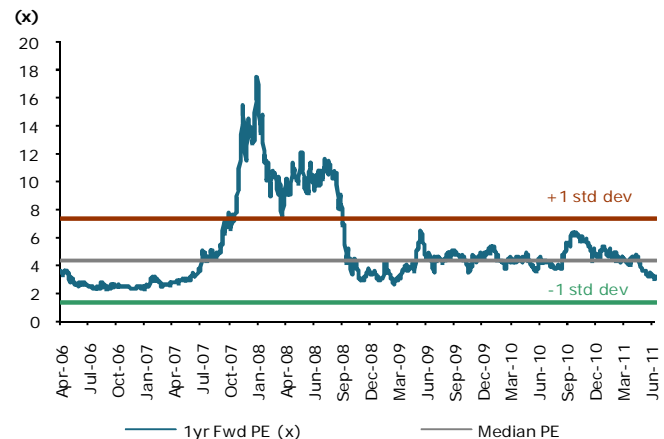
Source: NSE, CRISIL Equities

P/E – premium/discount to NIFTY



Source: NSE, CRISIL Equities

P/E movement



Source: NSE, CRISIL Equities

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

* 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)	10.0	8.5	5.3	3.3	2.1
Price-book (x)	1.6	1.2	1.1	0.8	0.6
EV/EBITDA (x)	8.1	9.3	9.4	6.8	4.4
EV/Sales (x)	1.3	1.7	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

Note: All ratios are computed on adj. PAT

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities 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)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net Sales	1,236	1,071	989	1,442	1,595
Change (q-o-q)	27%	-13%	-8%	46%	11%
EBITDA	264	209	234	356	263
Change (q-o-q)	54%	-21%	12%	52%	-26%
EBITDA margin	21.4%	19.5%	23.7%	24.7%	16.5%
PAT	147	86	110	190	115
Adj PAT	147	86	110	190	115
Change (q-o-q)	81%	-41%	28%	72%	-39%
Adj PAT margin	11.9%	8.1%	11.2%	13.2%	7.2%
Adj EPS	2.5	1.5	1.9	3.3	2.0

CRISIL Independent Equity Research Team

Mukesh Agarwal	Senior Director	+91 (22) 3342 3035	magarwal@crisil.com
Tarun Bhatia	Director, Capital Markets	+91 (22) 3342 3226	tbhatia@crisil.com
Chetan Majithia	Head, Equities	+91 (22) 3342 4148	chetanmajithia@crisil.com
Sudhir Nair	Head, Equities	+91 (22) 3342 3526	snair@crisil.com
Prasad Koparkar	Head, Research	+91 (22) 3342 3137	pkoparkar@crisil.com
Ajay D'Souza	Head, Research	+91 (22) 3342 3567	adsouza@crisil.com
Aparna Joshi	Head, Research	+91 (22) 3342 3540	apjoshi@crisil.com
Manoj Mohta	Head, Research	+91 (22) 3342 3554	mmohta@crisil.com
Sridhar C	Head, Research	+91 (22) 3342 3546	sridharc@crisil.com

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To know more about CRISIL IER, please contact our team members:

Vinaya Dongre – Head, Business Development
Email : vdongre@crisil.com | Phone : 9920225174

Ashish Sethi – Head, Business Development
Email : asethi@crisil.com | Phone : 9920807575

Sagar Sawarkar – Senior Manager, Business Development
Email : ssawarkar@crisil.com | Phone : 9821638322

Regional Contacts:

Ahmedabad / Mumbai / Pune

Vishal Shah - Manager, Business Development
Email : vishah@crisil.com | Phone : 9820598908

Hyderabad

Kaliprasad Ponnuru - Manager, Business Development
Email : kponnuru@crisil.com | Phone : 9642004668

Bengaluru / Chennai

Anand Krishnamoorthy - Manager, Business Development
Email : ankrishnamoorthy@crisil.com | Phone : 9884704111

Kolkata / Delhi

Priyanka Agarwal - Manager, Business Development
Email : priyagarwal@crisil.com | Phone : 9903060685



Head Office: CRISIL House, Central Avenue, Hiranandani Business Park,
Powai, Mumbai - 400 076
Phone : 91-22-3342 3000

Web: www.crisil.com

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