

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/EBITA 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

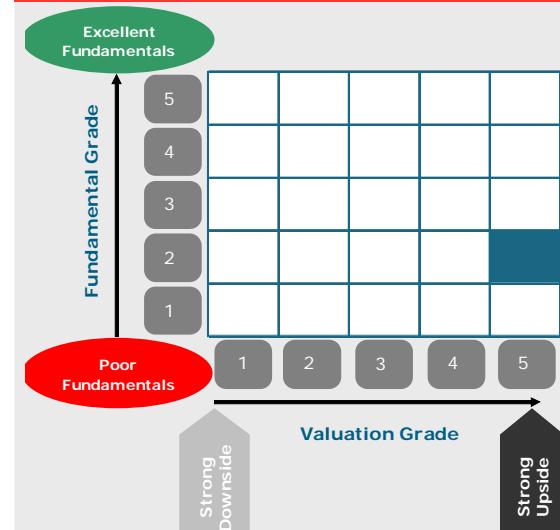
#FY11 numbers based on the abridged financials

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%

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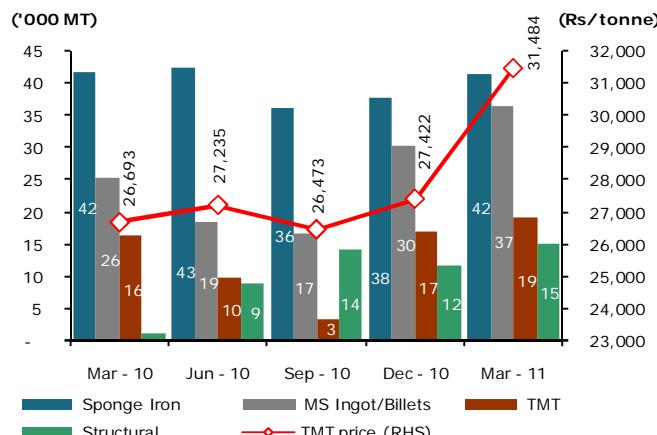
Q4FY11 Result Summary

(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

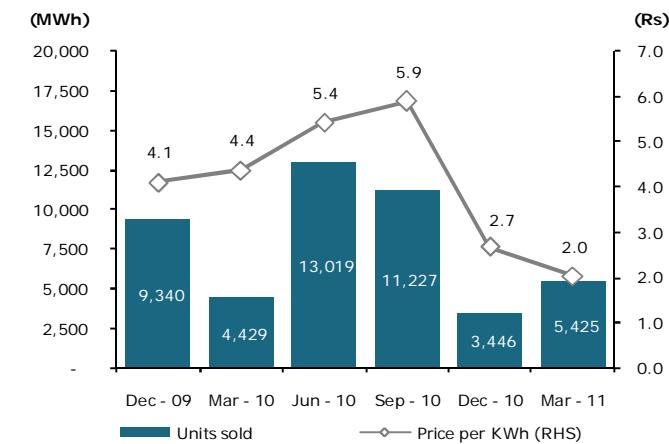
Source: Company, CRISIL Equities

Production of steel up as prices increased...



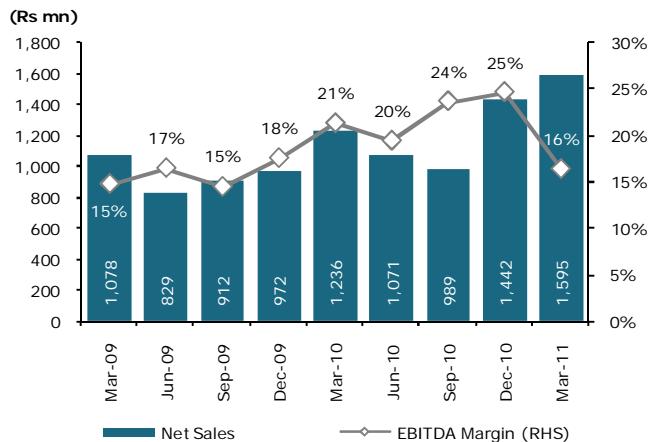
Source: Company, CRISIL Equities

... and merchant rate for power decreased



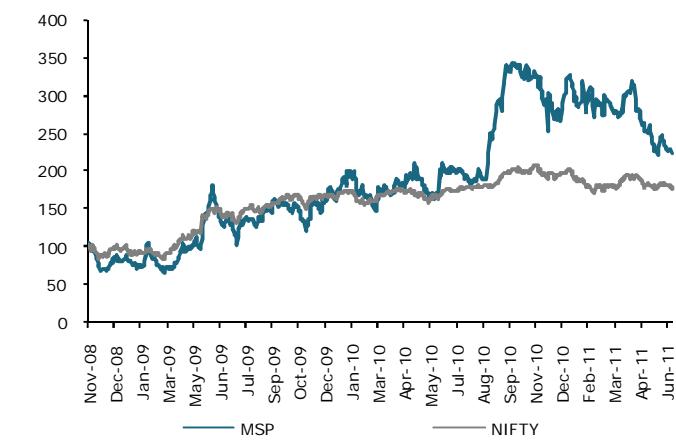
Source: Company, CRISIL Equities

Quarterly sales up but EBITDA margin down



Source: Company, CRISIL Equities

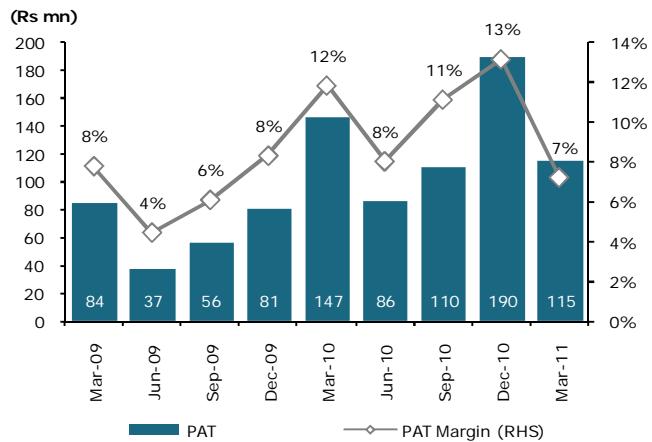
Share price movement



-indexed to 100

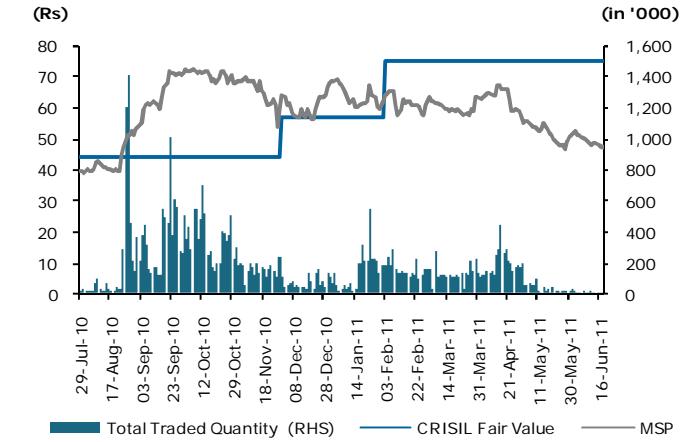
Source: NSE, CRISIL Equities

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.

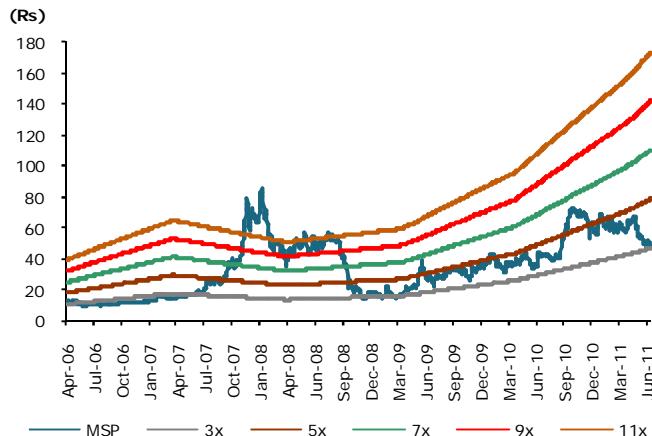
Particulars	Unit	FY12E			FY13E
		Old	New	% change	New
Operating income	(Rs mn)	9,323	8,493	-9%	12,027
EBITDA	(Rs mn)	2,119	1,940	-8%	2,969
EBITDA margin	%	22.7	22.8	12 bps	24.7
PAT	(Rs mn)	998	817	-18%	1,268
PAT margin	%	10.7	9.6	-109 bps	10.5
EPS	Rs	17.2	14.1	-18%	21.8

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.

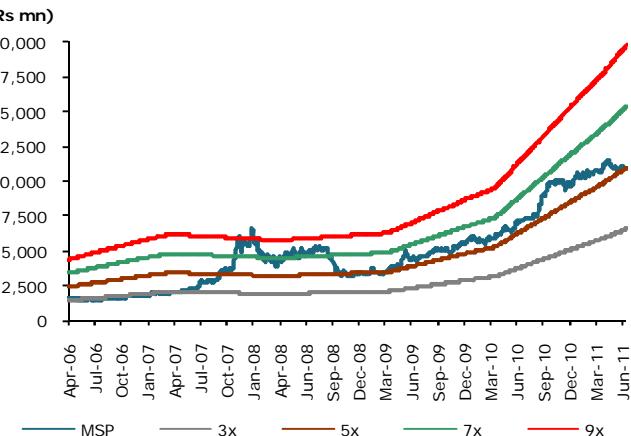
We maintain our fair value at Rs 75 per share

One-year forward P/E band



Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



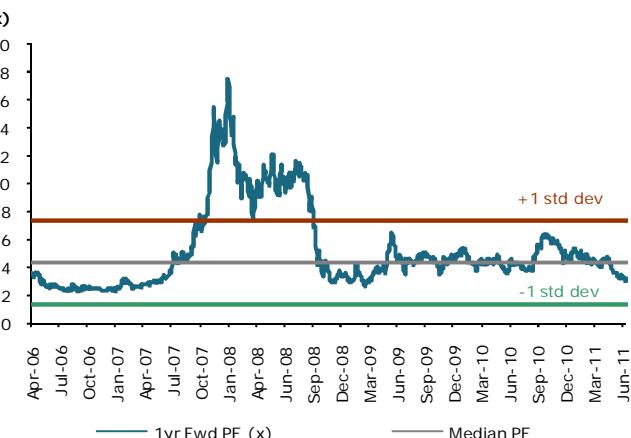
Source: NSE, CRISIL Equities

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					Balance Sheet					
(Rs mn)	FY09	FY10	FY11#	FY12E	(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	Equity share capital	581	581	581	581
EBITDA margin	15.9%	17.7%	20.8%	22.8%	24.7%	Reserves	1,111	1,654	1,865	2,648
Depreciation	79	127	193	374	485	Minorities	-	-	-	-
EBIT	564	573	869	1,566	2,484	Net worth	1,692	2,235	2,446	3,229
Interest	215	205	235	630	914	Convertible debt	-	-	-	-
Operating PBT	348	368	634	936	1,570	Other debt	2,727	4,611	7,407	10,957
Other income	7	7	39	85	120	Total debt	2,727	4,611	7,407	10,957
Exceptional inc/(exp)	111	7	(2)	-	-	Deferred tax liability (net)	158	199	334	199
PBT	466	382	671	1,021	1,691	Total liabilities	4,578	7,044	10,187	14,385
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					Current assets					
	FY09	FY10	FY11#	FY12E	FY13E	Inventory	393	683	1,209	1,396
Growth						Sundry debtors	418	669	406	698
Operating income (%)	11.3	(2.0)	28.7	66.7	41.6	Loans and advances	400	500	1,174	1,072
EBITDA (%)	(7.0)	9.0	51.6	82.7	53.1	Cash & bank balance	194	379	103	371
Adj PAT (%)	(21.6)	16.8	60.6	62.2	55.2	Marketable securities	-	380	-	-
Adj EPS (%)	(21.6)	16.8	60.6	62.2	55.2	Total current assets	1,406	2,611	2,891	3,538
Profitability						Total current liabilities	220	649	1,191	390
EBITDA margin (%)	15.9	17.7	20.8	22.8	24.7	Net current assets	1,185	1,962	1,699	3,147
Adj PAT Margin (%)	6.6	7.9	9.9	9.6	10.5	Total assets	4,578	7,044	10,187	14,385
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					
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					

Note: All ratios are computed on adj. PAT

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

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