



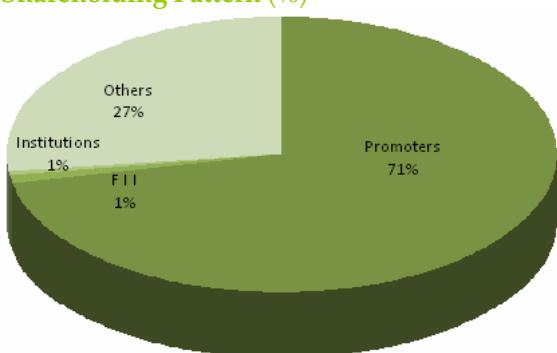
MSP Steel Ltd

4 June 2011

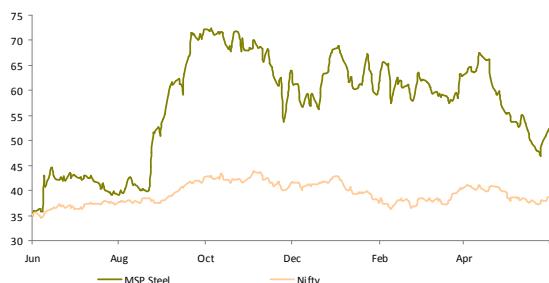
BUY

Industry	Steel
CMP (INR)	52
Target (INR)	82
Upside / Downside (%)	58
52 week High/Low (INR)	80 / 34
Market Cap (INR Mn)	3,039
3M Avg. Volumes (000's)	232,771
P/E (FY12e)	5.8x

Shareholding Pattern (%)



Stock Performance



Performance (%)

	1 Month	3 Months	1 Year
MSP	-7.9	-17.8	48.4
NIFTY	-2.7	1.3	12.5

(INR Mn)

Particulars	Actual	Estimates
Total Income	1,595	1,340
EBIDTA	263	395
Reported PAT	116	205

* Source: Bloomberg, Unicon Research

MSP Steel Ltd (MSP) reported a strong increase in revenue during the quarter higher than Unicon estimates. EBITDA and PAT margins however disappointed on the back of increase in input costs.

MSP recorded a sales growth of 29% YoY to INR 1.6 bn while on annual basis net sales increased 29% to INR 5.1 bn. This was on account of higher realisations, improved product mix and additional revenue from the recently commissioned sponge iron plant and 18MW power plant.

Despite the growth in sales, EBITDA remained flat on account of a steep rise in input costs. EBITDA for the quarter stood at INR 263 mn same as the corresponding quarter last year while the annual EBITDA recorded a 50% YoY to INR 1,060 mn. EBITDA for the quarter was below our estimate due to increase in raw material prices. Raw material price as a percentage of sales increased 225 bps compared to the previous quarter.

Net profit for Q4FY11 fell 21% YoY to INR 115.5 mn while profit for the year FY11 increased 57% YoY to INR 501.3 mn. PAT margin for Q4FY11 has contracted by 462 bps while on an annual basis PAT margin improved by 173 bps in FY11. The fall in PAT margin was cushioned by a steep jump in other income to INR 30mn compared to INR -7mn in the corresponding quarter last year.

Outlook & Valuation

MSP has recently commissioned the 115,000 MTPA Sponge Iron Plant and the 18MW power plant. The expansion plan is well on schedule and the company expects to commission the 600,000 MTPA Pellet Plant and the 34MW power plant at Raigarh in Q3FY11. MSP expects strong growth in overall business in FY12 with steel prices expected to increase to reflect the increase in raw material prices.

At CMP stock is trading at PE of 5.8x FY12e earnings which seem reasonable. We have used the discounted cash flow (DCF) method to value MSP due to the huge capex plan, the benefits of which would accrue over a longer period. We have revised our target price downwards on account of the increase in raw material prices. Our valuation suggests Mar'12 target price of INR 82 based on a discount rate of 10.3% and a terminal growth of 2%. The target price implies a potential upside of 58% from current levels. We maintain our BUY recommendation on the stock.



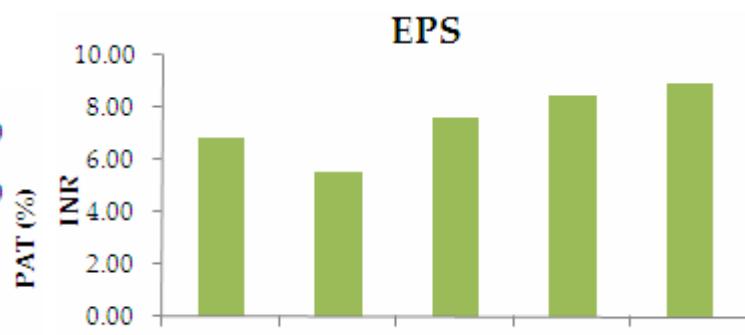
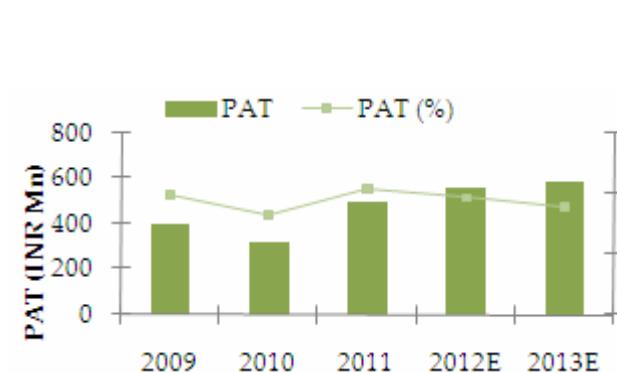
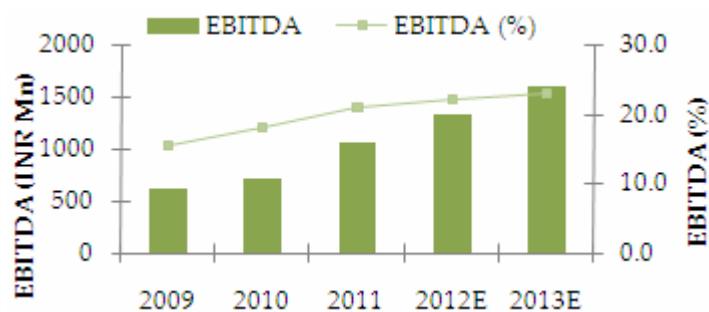
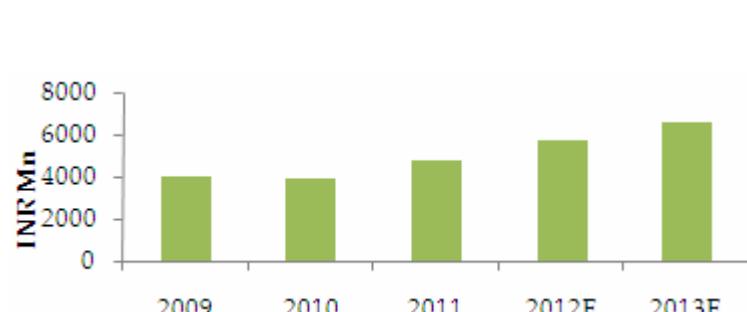
MSP Steel Ltd

Standalone Financials

(INR Mn)

	Q4 FY11	Q4 FY10	Y-o-Y	FY11	FY10	Y-o-Y
Net Revenue	1,595	1,236	29%	5,096	3,952	29%
Operating Exp.	1,332	972	37%	4,036	3,247	24%
EBITDA	263	264	0%	1,060	705	50%
EBITDA (%)	16.5%	21.4%	-488 bps	20.8%	17.8%	296 bps
Depreciation	67	33	104%	194	126	54%
EBIT	196	231	-15%	866	579	50%
EBIT (%)	12.3%	18.7%	-642 bps	17.0%	14.7%	234 bps
Interest	57	50	14%	235	204	15%
Other Income	30	-7	NA	39	7	455%
Tax Provision	53	27	96%	169	62	173%
Net Profit	115.54	146.69	-21%	501.31	320.26	57%
Reported PAT (%)	7.2%	11.9%	-462 bps	9.8%	8.1%	173 bps
EPS	2.0	2.5	-21%	7.6	5.5	39%

Source: Company, Unicon Research



MSP Steel Ltd

Income Statement	FY09	FY10	FY11E	FY12E	FY13E
Gross Sales	4388.9	4142.8	5179.0	6214.7	7147.0
Excise dut	400.2	255.3	404.3	485.1	557.9
Net Sales	3988.6	3887.4	4774.7	5729.6	6589.1
Other Op. Income	0.0	64.1	321.1	385.3	443.1
Total Op. Income	3988.6	3951.6	5095.8	6114.9	7032.2
Raw Materials Consumed	2908.4	2690.8	3514.9	4158.2	4711.6
% to Total Op. Exp.	86.1	82.9	87.1	87.0	86.8
Total Op. Exp.	3378.6	3246.7	4035.8	4782.1	5429.1
EBITDA	610.0	704.8	1059.9	1332.9	1603.1
Other Income	150.1	7.0	38.7	42.6	46.9
Depreciation	74.1	125.8	193.8	332.9	545.2
EBIT	686.0	586.0	904.8	1042.6	1104.7
Interest	194.2	204.0	234.7	300.0	325.0
PBT	491.7	382.0	670.2	742.6	779.7
Tax Provision	92.8	61.7	168.9	185.6	194.9
PAT	398.9	320.3	501.3	556.9	584.8

Balance Sheet	FY09	FY10	FY11E	FY12E	FY13E
Net Assets	2272.8	2558.9	4833.1	8368.1	10680.8
CWIP	1052.1	2468.1	3598.3	2395.0	680.0
Investments	67.3	432.4	52.3	52.3	52.3
Current Assets					
Inventories	393.4	683.4	1208.5	978.4	1125.2
Sundry Debtors	418.0	668.4	404.0	1039.5	1195.5
Cash & Bank Balances	194.0	378.7	111.4	379.3	422.2
Other Current Assets	426.2	542.0	1169.7	796.0	845.1
Current Liabilities					
Current Liabilities	215.7	642.3	1071.9	856.1	984.5
Provisions	30.5	48.5	119.2	61.1	70.3
Net Working Capital	1185.4	1581.7	1702.6	2276.1	2533.0
Total assets	4577.6	7041.0	10186.4	13091.4	13946.1
Share Capital	581.0	581.0	656.4	656.4	656.4
Reserves	1111.3	1431.9	2543.0	3099.9	3684.7
Preference Capital	0.0	222.0	0.0	0.0	0.0
Secured Loans	2494.4	4247.4	6245.6	8532.8	8723.5
Unsecured Loans	232.5	363.3	407.7	458.6	527.4
Def. Tax Liabilities	158.3	198.6	333.7	343.7	354.0
Total Liabilities	4577.6	7044.2	10186.4	13091.4	13946.1

Cash flow Statement	FY09	FY10	FY11E	FY12E	FY13E
PBT	491.7	382.0	670.2	742.6	779.7
Add: Depreciation	74.1	125.8	193.8	332.9	545.2
Interest	194.2	204.0	234.7	300.0	325.0
Less: Direct Taxes Paid	-27.0	-21.5	-33.7	-175.6	-184.6
Increase in Working Capital	-11.7	-211.6	-388.2	-305.5	-214.1
Other Miscellaneous	5.0	1.5	0.0	0.0	0.0
CF from Operations	726.3	480.3	676.7	894.3	1251.2
(Pur.) / Sale of Fixed Assets	-1220.7	-1829.3	-3598.3	-2664.5	-1142.9
(Pur.) / Sale of Investments	-6.3	-365.1	380.0	0.0	0.0
Other Miscellaneous	0.0	0.0	0.0	0.0	0.0
CF from Investments	-1227.0	-2194.4	-3218.3	-2664.5	-1142.9
Change in Networth	0.0	222.0	463.2	0.0	0.0
Change in Loan Fund	673.8	1883.8	2042.6	2338.1	259.5
Less: Interest Paid	-194.2	-204.0	-234.7	-300.0	-325.0
Dividend Paid	0.0	0.0	0.0	0.0	0.0
Other Miscellaneous	0.0	0.0	0.0	0.0	0.0
CF from Fin. activities	479.6	1901.7	2271.1	2038.1	-65.5
Net Change in Cash	-21.1	187.6	-270.5	267.9	42.8

Key Ratios	FY09	FY10	FY11E	FY12E	FY13E
Profitability & Margins (%)					
EBITDA Margin	15.3%	17.8%	20.8%	21.8%	22.8%
EBIT Margin	17.2%	15.1%	19.0%	18.2%	16.8%
Pre-tax Margin	12.3%	9.8%	14.0%	13.0%	11.8%
PAT Margin	10.0%	8.2%	10.5%	9.7%	8.9%
EPS	6.9	5.5	7.6	8.5	8.9
Growth %	-14.5%	-19.7%	38.6%	11.1%	5.0%
RoE	23.6%	15.9%	15.7%	14.8%	13.5%
RoCE	15.5%	8.6%	9.2%	8.2%	8.1%
Leverage (x)					
Debt / Equity	1.6	2.1	2.1	2.4	2.1
Interest Coverage	3.5	2.9	3.9	3.5	3.4
Current Ratio	2.3	9.2	4.2	2.7	3.9
Valuations (x)					
EV/Sales	1.4	1.4	1.9	2.0	2.0
EV/EBITDA	7.3	9.1	10.3	9.0	8.7
P/E	7.6	9.5	6.8	6.2	5.9
P/BV	1.8	1.5	0.9	0.8	0.7



MSP Steel Ltd

Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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