



INDEPENDENT EQUITY RESEARCH

MSP Steel and Power Ltd

Q4FY11 First Cut

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

Q4FY11 first cut – Revenue and margin below expectations

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

Industry Metals & Mining

MSP Steel and Power Ltd (MSP) reported a weak Q4FY11. Both revenues and margins were below CRISIL Equities' expectations. Revenues were lower on account of lower trading sales while profitability was affected by higher cost of iron ore and lower realisation from power. We could revisit our estimates post interaction with the management. We maintain the 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. The Q4FY11 performance was driven by higher realisation from sponge iron (prices increased by ~10% during the quarter to Rs 19,600 per ton) and full quarter performance from newly commissioned 115,000 MTPA sponge iron and 18 MW power plant (commissioned in November 2010).
- EBITDA margin contracted by 488 bps q-o-q and 821 bps y-o-y to 16.5% on account of a sharp increase in raw material prices and 78% q-o-q jump in other expenses. Prices of iron ore increased by ~ 40% during the quarter to ~Rs 6,500 per ton.
- Depreciation increased to Rs 67 mn from Rs 41 mn in Q3FY11 on account of newly commissioned units.
- 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 declined by 21% y-o-y and 39% q-o-q to Rs 115 mn.
- EPS decreased by 21% y-o-y and 39% q-o-q to Rs 2 per share.
- Overall, FY11 revenues grew 29% y-o-y to Rs 5,096 mn driven by higher realisations and higher volumes (due to commissioning of new plants). FY11 EBITDA margin improved by 314 bps to 20.8% and PAT increased by 57%.
- The company has declared a dividend of Rs 0.50 per share, subject to approval.

Valuations: Current market price has strong upside

We continue to value MSP based on the discounted cash flow method. We maintain our fair value of Rs 75 per share.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11#	FY12E*
Operating income	3,628	4,039	3,959	5,096	9,323
EBITDA	691	643	701	1,062	2,119
Adj PAT	343	268	314	504	1,002
Adj EPS-Rs	5.9	4.6	5.4	8.7	17.2
EPS growth (%)	70.28	(21.6)	16.8	60.6	99.0
Dividend yield (%)	-	-	-	0.98	0.98
RoCE (%)	23.2	14.5	10.2	10.4	14.2
RoE (%)	32.4	18.0	16.0	21.5	34.2
P/E (x)	8.6	11.0	9.4	5.9	3.0
P/BV (x)	2.3	1.7	1.3	1.2	0.9
EV/EBITDA (x)	6.9	8.5	9.7	9.7	6.6

NM: Not meaningful; CMP: Current Market Price

#FY11 numbers based on the abridged financials

* We could revisit our estimates and fair value after interaction with the management

Source: Company, CRISIL Equities estimate

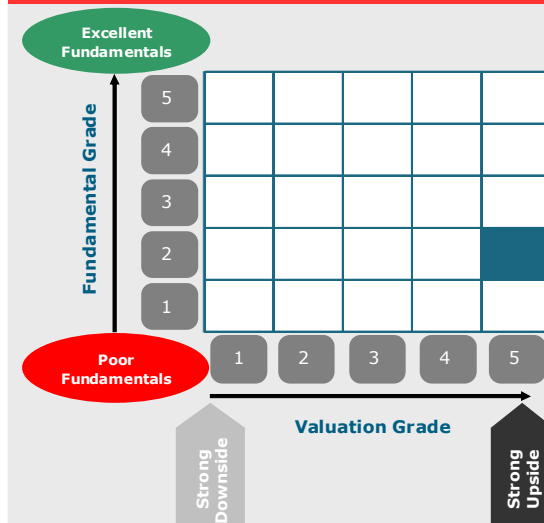


May 31, 2011

Fair Value Rs 75

CMP Rs 52

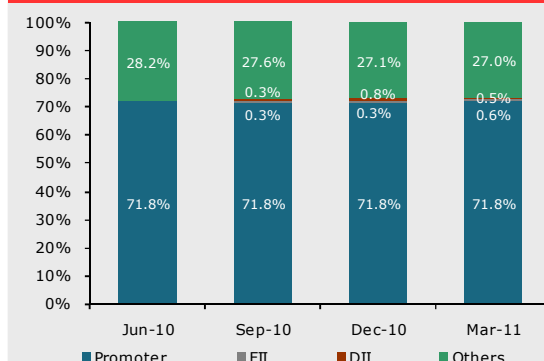
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5560/18503
MSPL / NSE/BSE ticker	MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58
Market cap (Rs mn)/(US\$ mn)	3,004/66
Enterprise value (Rs mn)/(US\$ mn)	9,827/217
52-week range (Rs) (H/L)	74/34
Beta	1.33
Free float (%)	28%
Avg daily volumes (30-days)	59,045
Avg daily value (30-days) (Rs mn)	3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-25%	-26%	30%	39%
NIFTY	-11%	-11%	1%	13%

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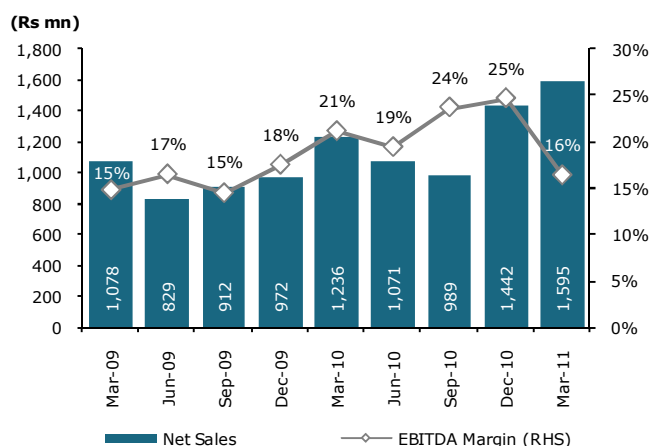
Q4FY11 Result Summary

(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

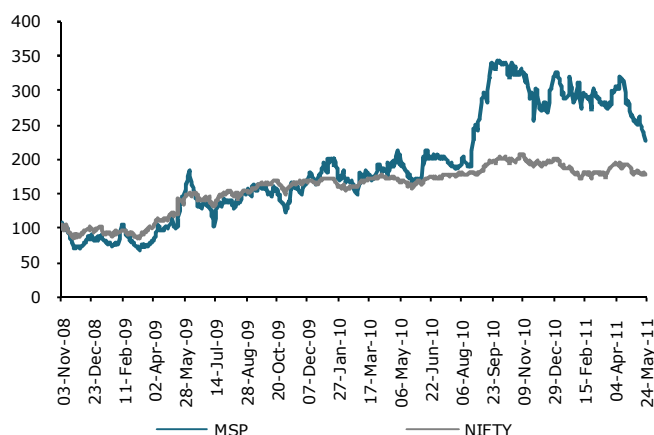
Source: Company, CRISIL Equities

Revenues increase but margins hit



Source: Company, CRISIL Equities

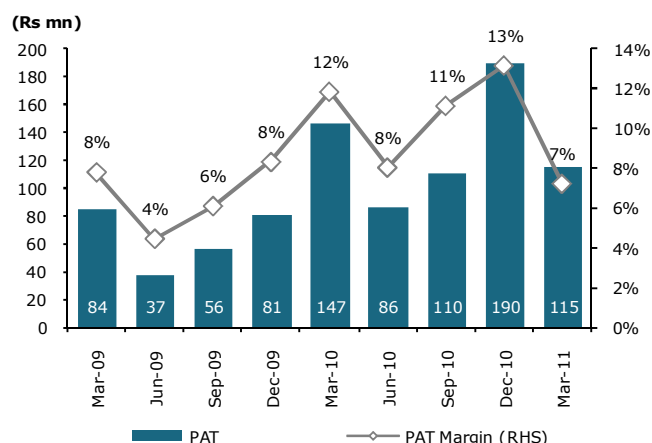
Share price movement



-indexed to 100

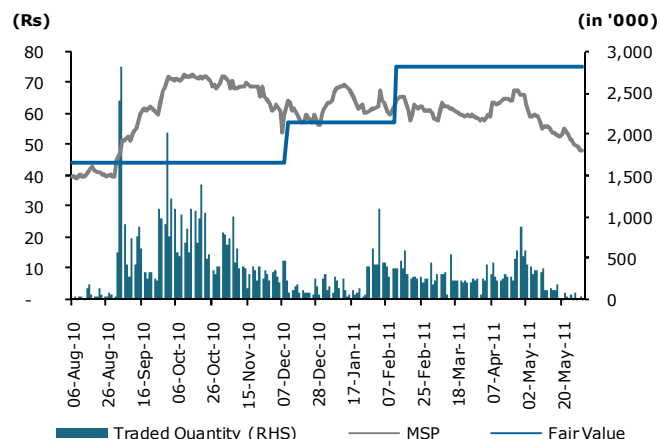
Source: NSE, CRISIL Equities

Quarterly PAT and PAT margins decline



Source: Company, CRISIL Equities

Fair value movement since initiation



Source: NSE, BSE, CRISIL Equities

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11#
Operating income	4,039	3,959	5,096
EBITDA	643	701	1,062
EBITDA margin	15.9%	17.7%	20.8%
Depreciation	79	127	193
EBIT	564	573	869
Interest	215	205	235
Operating PBT	348	368	634
Other income	7	7	39
Exceptional inc/(exp)	111	7	(2)
PBT	466	382	671
Tax provision	87	62	169
Minority interest	-	-	-
PAT (Reported)	380	321	502
Less: Exceptionals	111	7	(2)
Adjusted PAT	268	314	504

Ratios

	FY09	FY10	FY11#
Growth			
Operating income (%)	11.3	(2.0)	28.7
EBITDA (%)	(7.0)	9.0	51.6
Adj PAT (%)	(21.6)	16.8	60.6
Adj EPS (%)	(21.6)	16.8	60.6
Profitability			
EBITDA margin (%)	15.9	17.7	20.8
Adj PAT Margin (%)	6.6	7.9	9.9
RoE (%)	18.0	16.0	21.5
RoCE (%)	14.5	10.2	10.4
RoIC (%)	13.6	10.0	9.7
Valuations			
Price-earnings (x)	11.0	9.4	5.9
Price-book (x)	1.7	1.3	1.2
EV/EBITDA (x)	8.5	9.7	9.7
EV/Sales (x)	1.4	1.8	2.1
Dividend payout ratio (%)	-	-	5.8
Dividend yield (%)	-	-	1.0
B/S ratios			
Inventory days	44	77	109
Creditors days	23	72	97
Debtor days	37	61	29
Working capital days	96	101	100
Gross asset turnover (x)	2.0	1.5	1.1
Net asset turnover (x)	2.2	1.6	1.2
Sales/operating assets (x)	1.5	0.9	0.8
Current ratio (x)	6.4	4.0	2.4
Debt-equity (x)	1.6	2.1	3.0
Net debt/equity (x)	1.5	1.7	3.0
Interest coverage	2.6	2.8	3.7

Per share

	FY09	FY10	FY11#
Adj EPS (Rs)	4.6	5.4	8.7
CEPS	6.0	7.6	12.0
Book value	29.1	38.5	42.1
Dividend (Rs)	-	-	0.5
Actual o/s shares (mn)	58.1	58.1	58.1

Balance Sheet

(Rs mn)	FY09	FY10	FY11#
Liabilities			
Equity share capital	581	581	581
Reserves	1,111	1,654	1,865
Minorities	-	-	-
Net worth	1,692	2,235	2,446
Convertible debt	-	-	-
Other debt	2,727	4,611	7,407
Total debt	2,727	4,611	7,407
Deferred tax liability (net)	158	199	334
Total liabilities	4,578	7,044	10,187
Assets			
Net fixed assets	2,273	2,559	5,764
Capital WIP	1,052	2,454	2,654
Total fixed assets	3,325	5,013	8,418
Investments	67	70	70
Current assets			
Inventory	393	683	1,209
Sundry debtors	418	669	405
Loans and advances	400	500	1,174
Cash & bank balance	194	379	103
Marketable securities	-	380	-
Total current assets	1,406	2,611	2,891
Total current liabilities	220	649	1,191
Net current assets	1,185	1,962	1,699
Intangibles/Misc. expenditure	-	-	-
Total assets	4,578	7,044	10,187

Cash flow

(Rs mn)	FY09	FY10	FY11#
Pre-tax profit	355	375	673
Total tax paid	(21)	(21)	(34)
Depreciation	79	127	193
Working capital changes	131	(212)	(393)
Net cash from operations	544	270	439
Cash from investments			
Capital expenditure	(1,364)	(1,816)	(3,598)
Investments and others	(6)	(382)	380
Net cash from investments	(1,370)	(2,198)	(3,218)
Cash from financing			
Equity raised/(repaid)	(5)	-	-
Debt raised/(repaid)	674	1,884	2,797
Dividend (incl. tax)	-	-	(34)
Others (incl extraordinary)	136	229	(259)
Net cash from financing	804	2,113	2,504
Change in cash position	(21)	185	(275)
Closing cash	194	379	103

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	262	209	234	356	263
Change (q-o-q)	53%	-20%	12%	52%	-26%
EBITDA margin	21.2%	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

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

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