



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

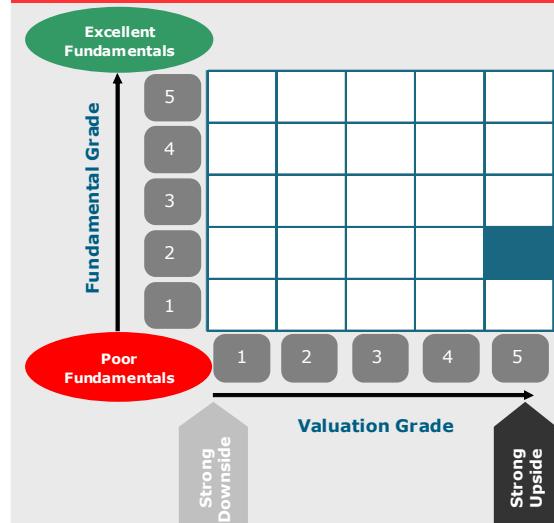
* We could revisit our estimates and fair value after interaction with the management

Source: Company, CRISIL Equities estimate

May 31, 2011

Fair Value Rs 75
CMP Rs 52

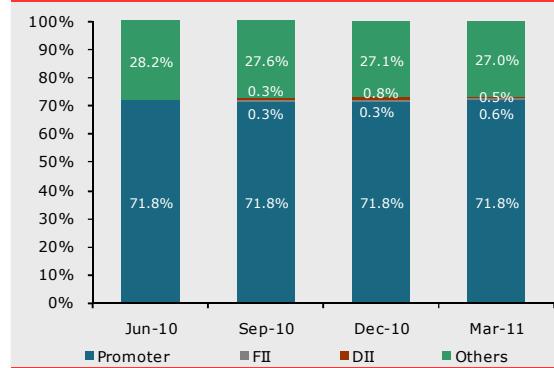
CFV MATRIX



KEY STOCK STATISTICS

| | |
|-------------------------------------|-----------------|
| NIFTY / SENSEX | 5560/18503 |
| NSE/BSE ticker | MSPL / 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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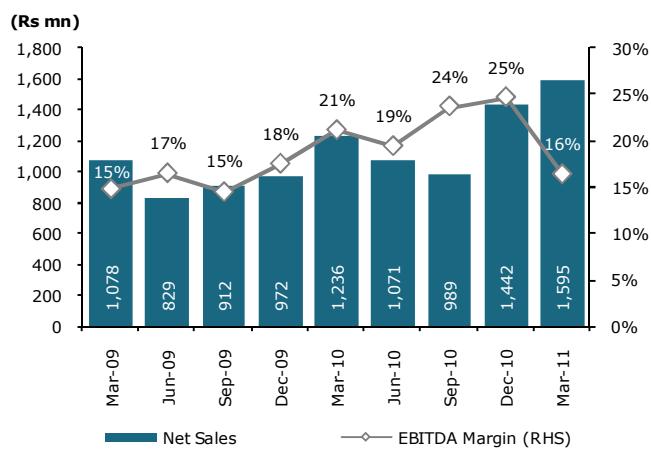
Q4FY11 Result Summary

| (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

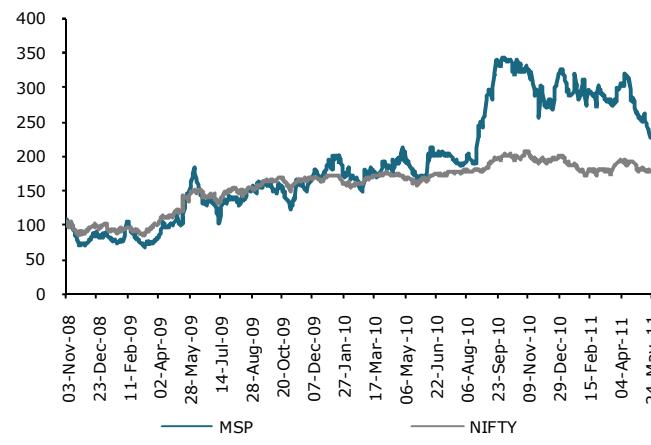
Source: Company, CRISIL Equities

Revenues increase but margins hit



Source: Company, CRISIL Equities

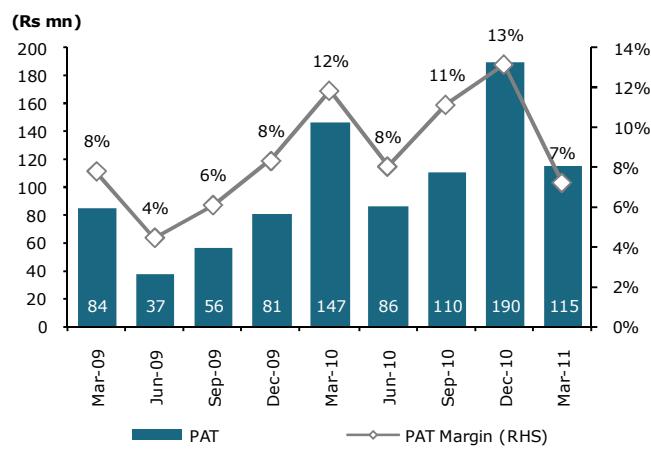
Share price movement



-indexed to 100

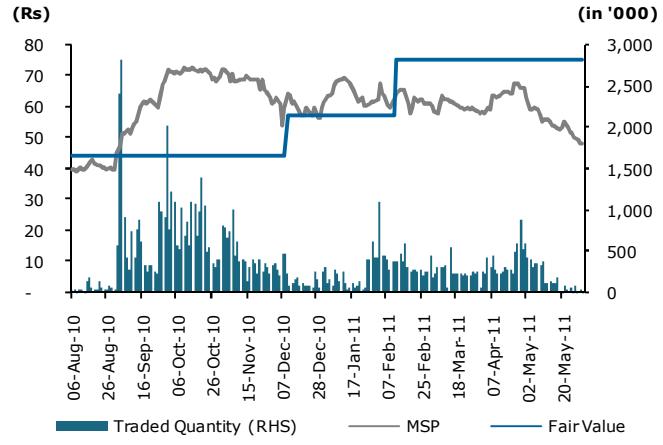
Source: NSE, CRISIL Equities

Quarterly PAT and PAT margins decline



Source: Company, CRISIL Equities

Fair value movement since initiation



Source: NSE, BSE, CRISIL Equities

FINANCIALS

| Income statement | | | | Balance Sheet | | | | | |
|----------------------------|--------------|--------------|--------------|--------------------------------------|----------------|----------------|----------------|--------------|--------------|
| (Rs mn) | FY09 | FY10 | FY11# | (Rs mn) | FY09 | FY10 | FY11# | | |
| Operating income | 4,039 | 3,959 | 5,096 | Liabilities | | | | | |
| EBITDA | 643 | 701 | 1,062 | Equity share capital | 581 | 581 | 581 | | |
| EBITDA margin | 15.9% | 17.7% | 20.8% | Reserves | 1,111 | 1,654 | 1,865 | | |
| Depreciation | 79 | 127 | 193 | Minorities | - | - | - | | |
| EBIT | 564 | 573 | 869 | Net worth | 1,692 | 2,235 | 2,446 | | |
| Interest | 215 | 205 | 235 | Convertible debt | - | - | - | | |
| Operating PBT | 348 | 368 | 634 | Other debt | 2,727 | 4,611 | 7,407 | | |
| Other income | 7 | 7 | 39 | Total debt | 2,727 | 4,611 | 7,407 | | |
| Exceptional inc/(exp) | 111 | 7 | (2) | Deferred tax liability (net) | 158 | 199 | 334 | | |
| PBT | 466 | 382 | 671 | Total liabilities | 4,578 | 7,044 | 10,187 | | |
| Tax provision | 87 | 62 | 169 | Assets | | | | | |
| Minority interest | - | - | - | Net fixed assets | 2,273 | 2,559 | 5,764 | | |
| PAT (Reported) | 380 | 321 | 502 | Capital WIP | 1,052 | 2,454 | 2,654 | | |
| Less: Exceptionals | 111 | 7 | (2) | Total fixed assets | 3,325 | 5,013 | 8,418 | | |
| Adjusted PAT | 268 | 314 | 504 | Investments | 67 | 70 | 70 | | |
| Ratios | | | | Current assets | | | | | |
| | FY09 | FY10 | FY11# | Inventory | 393 | 683 | 1,209 | | |
| Growth | | | | Sundry debtors | 418 | 669 | 405 | | |
| Operating income (%) | 11.3 | (2.0) | 28.7 | Loans and advances | 400 | 500 | 1,174 | | |
| EBITDA (%) | (7.0) | 9.0 | 51.6 | Cash & bank balance | 194 | 379 | 103 | | |
| Adj PAT (%) | (21.6) | 16.8 | 60.6 | Marketable securities | - | 380 | - | | |
| Adj EPS (%) | (21.6) | 16.8 | 60.6 | Total current assets | 1,406 | 2,611 | 2,891 | | |
| Profitability | | | | Total current liabilities | 220 | 649 | 1,191 | | |
| EBITDA margin (%) | 15.9 | 17.7 | 20.8 | Net current assets | 1,185 | 1,962 | 1,699 | | |
| Adj PAT Margin (%) | 6.6 | 7.9 | 9.9 | Intangibles/Misc. expenditure | | | | | |
| RoE (%) | 18.0 | 16.0 | 21.5 | Total assets | 4,578 | 7,044 | 10,187 | | |
| RoCE (%) | 14.5 | 10.2 | 10.4 | Cash flow | | | | | |
| RoIC (%) | 13.6 | 10.0 | 9.7 | (Rs mn) | FY09 | FY10 | FY11# | | |
| Valuations | | | | Pre-tax profit | 355 | 375 | 673 | | |
| Price-earnings (x) | 11.0 | 9.4 | 5.9 | Total tax paid | (21) | (21) | (34) | | |
| Price-book (x) | 1.7 | 1.3 | 1.2 | Depreciation | 79 | 127 | 193 | | |
| EV/EBITDA (x) | 8.5 | 9.7 | 9.7 | Working capital changes | 131 | (212) | (393) | | |
| EV/Sales (x) | 1.4 | 1.8 | 2.1 | Net cash from operations | 544 | 270 | 439 | | |
| Dividend payout ratio (%) | - | - | 5.8 | Cash from investments | | | | | |
| Dividend yield (%) | - | - | 1.0 | Capital expenditure | (1,364) | (1,816) | (3,598) | | |
| B/S ratios | | | | Investments and others | (6) | (382) | 380 | | |
| Inventory days | 44 | 77 | 109 | Net cash from investments | (1,370) | (2,198) | (3,218) | | |
| Creditors days | 23 | 72 | 97 | Cash from financing | | | | | |
| Debtor days | 37 | 61 | 29 | Equity raised/(repaid) | (5) | - | - | | |
| Working capital days | 96 | 101 | 100 | Debt raised/(repaid) | 674 | 1,884 | 2,797 | | |
| Gross asset turnover (x) | 2.0 | 1.5 | 1.1 | Dividend (incl. tax) | - | - | (34) | | |
| Net asset turnover (x) | 2.2 | 1.6 | 1.2 | Others (incl. extraordinaries) | 136 | 229 | (259) | | |
| Sales/operating assets (x) | 1.5 | 0.9 | 0.8 | Net cash from financing | 804 | 2,113 | 2,504 | | |
| Current ratio (x) | 6.4 | 4.0 | 2.4 | Change in cash position | (21) | 185 | (275) | | |
| Debt-equity (x) | 1.6 | 2.1 | 3.0 | Closing cash | 194 | 379 | 103 | | |
| Net debt/equity (x) | 1.5 | 1.7 | 3.0 | Quarterly financials | | | | | |
| Interest coverage | 2.6 | 2.8 | 3.7 | (Rs mn) | Q4FY10 | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 |
| Per share | | | | Net Sales | 1,236 | 1,071 | 989 | 1,442 | 1,595 |
| | FY09 | FY10 | FY11# | Change (q-o-q) | 27% | -13% | -8% | 46% | 11% |
| Adj EPS (Rs) | 4.6 | 5.4 | 8.7 | EBITDA | 262 | 209 | 234 | 356 | 263 |
| CEPS | 6.0 | 7.6 | 12.0 | Change (q-o-q) | 53% | -20% | 12% | 52% | -26% |
| Book value | 29.1 | 38.5 | 42.1 | EBITDA margin | 21.2% | 19.5% | 23.7% | 24.7% | 16.5% |
| Dividend (Rs) | - | - | 0.5 | PAT | 147 | 86 | 110 | 190 | 115 |
| Actual o/s shares (mn) | 58.1 | 58.1 | 58.1 | 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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