

# CRISIL IER

Independent Equity Research

## MSP Steel & Power Ltd

**Q4FY13 Results First Cut**

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Enhancing investment decisions

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## 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		CRISIL Valuation Grade	
	Assessment		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 (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

## About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

## About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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**Last updated: May, 2013**

## 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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## Q4FY13 results first cut: Results below expectations

Fundamental Grade **2/5 (Moderate fundamentals)**

Valuation Grade **5/5 (CMP has strong upside)**

Industry **Metals & Mining**

MSP Steel & Power Ltd's (MSP's) Q4FY13 results were below CRISIL Research's expectations. Highlights of the results are mentioned below; this will be followed by a detailed quarterly update. Our outstanding fundamental grade is **2/5** and the fair value is ₹39. We may revise our assessment post our discussion with the management.

- Revenues grew by 58.7% y-o-y and 42.2% q-o-q to ₹2,958 mn.
- EBITDA margin declined 503 bps y-o-y (contracted 654 bps q-o-q) to 13.3%. Higher raw material cost (raw material as a percentage of sales up by 250 percentage points y-o-y) resulted in contraction of the margin.
- Depreciation and interest cost increased y-o-y
- Interest cost declined by 17.6% q-o-q
- Other income grew significantly – up 261.2% q-o-q, 92.3% y-o-y
- The company reported PAT of ₹55 mn compared to ₹20 mn in Q3FY13

### Valuations: Current market price has strong upside

We continue to value MSP by assigning an EV/EBITDA multiple of 5x FY14E EBITDA at ₹39 per share. At the current market price of ₹21, our valuation grade is **5/5**.

### KEY FORECAST

(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Operating income	5,079	6,993	9,217	10,029	10,798
EBITDA	1,068	1,184	1,609	2,024	2,262
Adj Net income	496	261	201	479	711
Adj EPS-₹	8.5	4.5	2.1	5.4	8.1
EPS growth (%)	28.3	(47.4)	(52.9)	156.6	48.5
Dividend Yield (%)	4.9	1.6	2.4	3.3	5.1
RoCE (%)	10.7	8.3	8.3	10.6	14.0
RoE (%)	21.2	9.6	4.3	8.5	13.4
PE (x)	2.4	4.6	9.8	3.8	2.6
P/BV (x)	0.5	0.4	0.3	0.4	0.3
EV/EBITDA (x)	7.6	8.6	7.0	4.1	3.5

NM: Not meaningful; CMP: Current market price

# Based on abridged financials

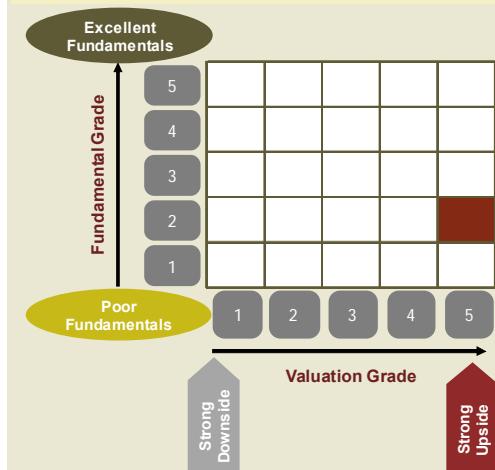
Source: Company, CRISIL Research estimates

**May 30, 2013**

Fair Value **₹39**

CMP **₹21**

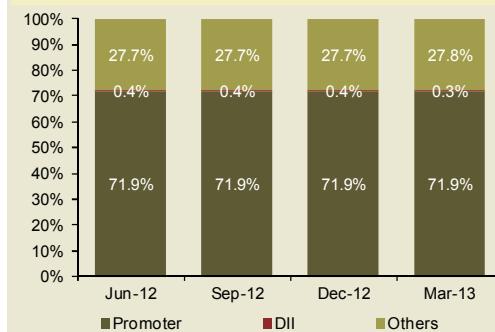
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY/SENSEX	6104/20147
NSE/BSE ticker	MSPL / MSPSTEEL
Face value (₹ per share)	10
Shares outstanding (mn)	88
Market cap (₹ mn)/(US\$ mn)	1,621/31
Enterprise value (₹ mn)/(US\$ mn)	11,515/217
52-week range (₹)/(H/L)	39/18
Beta	1.0
Free float (%)	28
Avg daily volumes (30-days)	13,311
Avg daily value (30-days) (₹ mn)	0.27

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	4%	-5%	-24%	-26%
NIFTY	3%	7%	5%	22%

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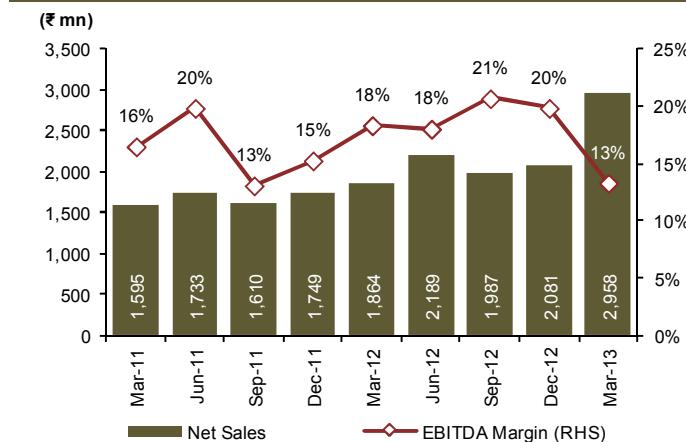
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

**Q4FY13 Results Summary**

(₹ mn)	Q4FY13	Q3FY13	Q4FY12	q-o-q (%)	y-o-y (%)	FY13	FY12	y-o-y (%)
<b>Net sales</b>	<b>2,958</b>	<b>2,081</b>	<b>1,864</b>	<b>42.2</b>	<b>58.7</b>	<b>9,216</b>	<b>6,956</b>	<b>32.5</b>
(Increase)/decrease in stock in trade and WIP	14	98	90	(85.4)	(84.0)	84	186	(55.1)
Consumption of Raw Materials	1,654	1,204	1,282	37.4	29.1	5,261	4,281	22.9
Purchase of traded goods	582	157	-	271.5	NM	840	580	44.9
Raw materials cost (% of net sales)	76.1%	70.1%	73.6%	598 bps	250 bps	67.1%	72.5%	(543) bps
Employees cost	63	68	43	(8.2)	46.7	250	184	35.9
Other expenses	281	338	288	(16.8)	(2.5)	1,337	935	43.0
<b>EBITDA</b>	<b>393</b>	<b>412</b>	<b>341</b>	<b>(4.7)</b>	<b>15.2</b>	<b>1,611</b>	<b>1,163</b>	<b>38.5</b>
<b>EBITDA margin</b>	<b>13.3%</b>	<b>19.8%</b>	<b>18.3%</b>	<b>(654) bps</b>	<b>(503) bps</b>	<b>17.5%</b>	<b>16.7%</b>	<b>77 bps</b>
Depreciation	132	129	75	2.8	76.0	463	291	59.1
<b>EBIT</b>	<b>261</b>	<b>284</b>	<b>266</b>	<b>(8.1)</b>	<b>(2.1)</b>	<b>1,148</b>	<b>872</b>	<b>31.7</b>
Interest and finance charges	212	258	179	(17.6)	18.8	905	593	52.6
<b>Operating PBT</b>	<b>48</b>	<b>26</b>	<b>87</b>	<b>86.1</b>	<b>(44.9)</b>	<b>243</b>	<b>278</b>	<b>(12.8)</b>
Other Income	30	8	16	261.2	92.3	59	59	1.5
Extraordinary Income/(expense)	-	-	-	NM	NM	-	(0)	(100.0)
<b>PBT</b>	<b>78</b>	<b>34</b>	<b>103</b>	<b>128.5</b>	<b>(24.2)</b>	<b>302</b>	<b>337</b>	<b>(10.3)</b>
Tax	23	14	30	65.3	(24.8)	100	77	31.1
<b>PAT</b>	<b>55</b>	<b>20</b>	<b>72</b>	<b>171.4</b>	<b>(23.9)</b>	<b>202</b>	<b>260</b>	<b>(22.4)</b>
Adj PAT	55	20	72	171.4	(23.9)	292	260	12.2
Adj PAT margin	1.9%	1.0%	3.9%	89 bps	(202) bps	3.2%	3.7%	(57) bps
No of equity shares (mn)	88.1	68.1	58.1	29.4	51.6	88.1	58.1	51.6
<b>Adj EPS (₹)</b>	<b>0.63</b>	<b>0.30</b>	<b>1.25</b>	<b>109.8</b>	<b>(49.8)</b>	<b>3.3</b>	<b>4.5</b>	<b>(26.0)</b>

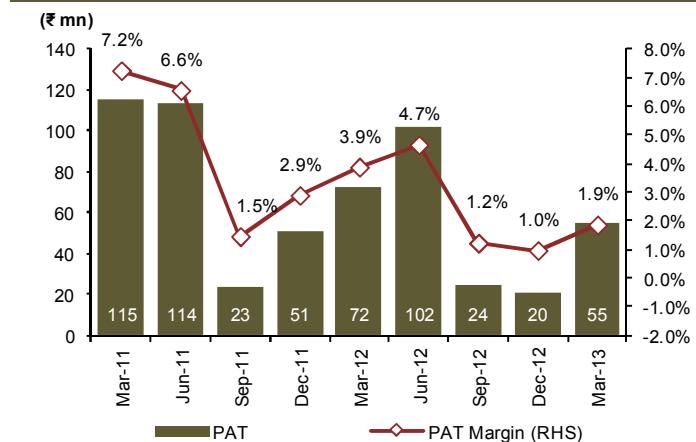
Source: Company, CRISIL Research

**Net sales grew by 42.2% q-o-q**



Source: Company, CRISIL Research

**PAT grew q-o-q**



Source: Company, CRISIL Research

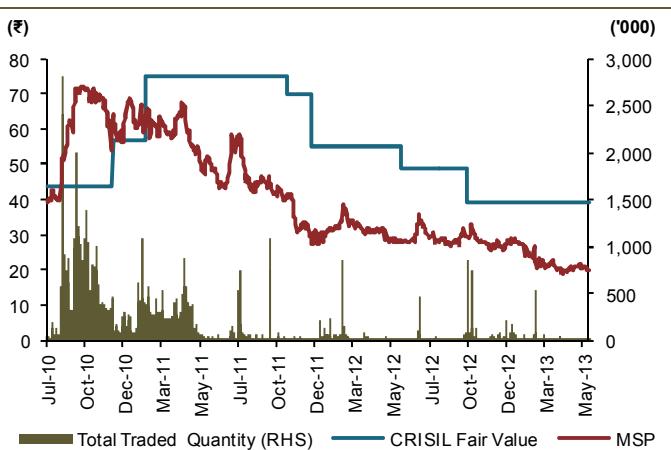
## Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

## Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

## Annexure: Financials

Income statement				Balance Sheet			
(₹ mn)	FY11	FY12	FY13#	(₹ mn)	FY11	FY12	FY13#
<b>Operating income</b>	<b>5,079</b>	<b>6,993</b>	<b>9,217</b>	<b>Liabilities</b>			
<b>EBITDA</b>	<b>1,068</b>	<b>1,184</b>	<b>1,609</b>	Equity share capital	581	581	949
<b>EBITDA margin</b>	<b>21.0%</b>	<b>16.9%</b>	<b>17.5%</b>	Reserves	1,865	2,103	3,738
Depreciation	193	291	463	Shares application money pending allotment	-	318	1,384
<b>EBIT</b>	<b>874</b>	<b>893</b>	<b>1,147</b>	Minorities	-	-	200
Interest	248	607	905	<b>Net worth</b>	<b>2,446</b>	<b>3,002</b>	<b>6,271</b>
<b>Operating PBT</b>	<b>627</b>	<b>286</b>	<b>242</b>	Preference shares	754	879	879
Other income	39	52	61	Other debt	7,055	9,063	9,325
Exceptional inc/(exp)	6	(1)	-	<b>Total debt</b>	<b>7,809</b>	<b>9,943</b>	<b>10,205</b>
<b>PBT</b>	<b>671</b>	<b>337</b>	<b>302</b>	Deferred tax liability (net)	334	381	504
Tax provision	169	77	101	<b>Total liabilities</b>	<b>10,588</b>	<b>13,325</b>	<b>16,980</b>
Minority interest	-	-	-	<b>Assets</b>			
<b>PAT (Reported)</b>	<b>502</b>	<b>260</b>	<b>201</b>	Net fixed assets	4,999	4,958	8,864
Less: Exceptionals	6	(1)	-	Capital WIP	3,419	5,224	1,870
<b>Adjusted PAT</b>	<b>496</b>	<b>261</b>	<b>201</b>	<b>Total fixed assets</b>	<b>8,418</b>	<b>10,183</b>	<b>10,734</b>
<b>Ratios</b>				<b>Investments</b>	<b>74</b>	<b>354</b>	<b>654</b>
	<b>FY11</b>	<b>FY12</b>	<b>FY13#</b>				
<b>Growth</b>				<b>Current assets</b>			
Operating income (%)	26.3	37.7	31.8	Inventory	1,209	2,101	3,075
EBITDA (%)	38.0	10.9	35.9	Sundry debtors	424	517	1,263
Adj PAT (%)	28.3	(47.4)	(23.0)	Loans and advances	1,429	1,807	4,793
Adj EPS (%)	28.3	(47.4)	(52.9)	Cash & bank balance	103	49	89
<b>Profitability</b>				Marketable securities	-	-	58
EBITDA margin (%)	21.0	16.9	17.5	<b>Total current assets</b>	<b>3,164</b>	<b>4,473</b>	<b>9,279</b>
Adj PAT Margin (%)	9.8	3.7	2.2	<b>Total current liabilities</b>	<b>1,068</b>	<b>1,685</b>	<b>3,718</b>
RoE (%)	21.2	9.6	4.3	<b>Net current assets</b>	<b>2,097</b>	<b>2,789</b>	<b>5,561</b>
RoCE (%)	10.7	8.3	8.3	<b>Intangibles/Misc. expenditure</b>	-	-	31
RoIC (%)	10.0	8.8	8.8	<b>Total assets</b>	<b>10,588</b>	<b>13,325</b>	<b>16,980</b>
<b>Valuations</b>				<b>Cash flow</b>			
Price-earnings (x)	2.4	4.6	9.8				
Price-book (x)	0.5	0.4	0.3	<b>(₹ mn)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13#</b>
EV/EBITDA (x)	7.6	8.6	7.0	Pre-tax profit	665	338	302
EV/Sales (x)	1.7	1.5	1.2	Total tax paid	(34)	(29)	23
Dividend payout ratio (%)	11.8	7.4	23.6	Depreciation	193	291	463
Dividend yield (%)	4.9	1.6	2.4	Working capital changes	(790)	(747)	(2,673)
<b>B/S ratios</b>				<b>Net cash from operations</b>	<b>35</b>	<b>(148)</b>	<b>(1,886)</b>
Inventory days	114	139	171	<b>Cash from investments</b>			
Creditors days	60	75	72	Capital expenditure	(3,598)	(2,056)	(1,045)
Debtor days	30	25	46	Investments and others	376	(280)	(358)
Working capital days	142	134	197	<b>Net cash from investments</b>	<b>(3,222)</b>	<b>(2,336)</b>	<b>(1,403)</b>
Gross asset turnover (x)	1.2	1.2	1.2	<b>Cash from financing</b>			
Net asset turnover (x)	1.3	1.4	1.3	Equity raised/(repaid)	679	113	1,858
Sales/operating assets (x)	0.8	0.8	0.9	Debt raised/(repaid)	3,198	2,134	262
Current ratio (x)	3.0	2.7	2.5	Dividend (incl. tax)	(69)	(22)	(56)
Debt-equity (x)	3.2	3.3	1.6	Others (incl. extraordinaries)	(216)	317	1,266
Net debt/equity (x)	3.2	3.3	1.6	<b>Net cash from financing</b>	<b>3,591</b>	<b>2,542</b>	<b>3,330</b>
Interest coverage	3.5	1.5	1.3	Change in cash position	403	58	41
<b>Per share</b>				Closing cash	103	49	89
	<b>FY11</b>	<b>FY12</b>	<b>FY13#</b>				
Adj EPS (₹)	8.5	4.5	2.1	<b>Quarterly financials</b>			
CEPS	11.9	9.5	7.0				
Book value	42.1	51.7	66.1	<b>(₹ mn)</b>	<b>Q4FY12</b>	<b>Q1FY13</b>	<b>Q2FY13</b>
Dividend (₹)	1.0	0.3	0.5	<b>Q3FY13</b>	<b>Q4FY13</b>		
Actual o/s shares (mn)	58.1	58.1	94.9	Net Sales	1,864	2,189	1,987
				Change (q-o-q)	7%	17%	-9%
				EBITDA	341	394	411
				Change (q-o-q)	28%	16%	4%
				EBITDA margin	18%	18%	21%
				PAT	72	102	24
				Adj PAT	72	192	24
				Change (q-o-q)	42%	166%	-87%
				Adj PAT margin	4%	9%	1%
				Adj EPS	1.2	1.8	0.4
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**Note:** Financials are not strictly comparable with that of the previous years due to the new format of disclosure under Schedule VI of the Companies Act

**Source:** CRISIL Research

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## Our Capabilities

### Making Markets Function Better

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- Largest team of economy and industry research analysts in India
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- Special coverage on key growth sectors including real estate, infrastructure, logistics, and financial services
- Inputs to India's leading corporates in market sizing, demand forecasting, and project feasibility
- Published the first India-focused report on Ultra High Net-worth Individuals
- All opinions and forecasts reviewed by a highly qualified panel with over 200 years of cumulative experience

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- Value more than ₹33 trillion (USD 650 billion) of Indian debt securities, comprising 85 per cent of outstanding securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 12 standard indices and over 80 customised indices
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- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 50 million individuals, for selecting fund managers and monitoring their performance

#### Equity and Company Research

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- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

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Fax: +91 79 2755 9863

### Hyderabad

3rd Floor, Uma Chambers  
Plot No. 9&10, Nagarjuna Hills,  
(Near Punjagutta Cross Road)  
Hyderabad - 500 482, India  
Phone: +91 40 2335 8103/05  
Fax: +91 40 2335 7507

### Bengaluru

W-101, Sunrise Chambers,  
22, Ulsoor Road,  
Bengaluru - 560 042, India  
Phone: +91 80 2558 0899  
+91 80 2559 4802  
Fax: +91 80 2559 4801

### Kolkata

Horizon, Block 'B', 4th Floor  
57 Chowinghee Road  
Kolkata - 700 071, India  
Phone: +91 33 2289 1949/50  
Fax: +91 33 2283 0597

### Chennai

Thapar House,  
43/44, Montieth Road, Egmore,  
Chennai - 600 008, India  
Phone: +91 44 2854 6205/06  
+91 44 2854 6093  
Fax: +91 44 2854 7531

### Pune

1187/17, Ghole Road,  
Shivaji Nagar,  
Pune - 411 005, India  
Phone: +91 20 2553 9064/67  
Fax: +91 20 4018 1930

### Gurgaon

Plot No. 46  
Sector 44  
Opp. PF Office  
Gurgaon - 122 003, India  
Phone: + 91 124 6722 000