



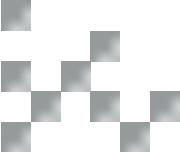
CRISIL IER

Independent Equity Research

MSP Steel & Power Ltd

Q2FY13 Results 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		CRISIL	
Fundamental Grade	Assessment	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 (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Last updated: April 30, 2012

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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Q2FY13 results first cut: Revenues 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) Q2FY13 revenues and profitability were below CRISIL Research's expectations. Highlights of the results are mentioned below and we will release a detailed quarterly update post our discussion with the management.

- Revenues grew by 23% y-o-y but declined 9% q-o-q to Rs 1,987 mn. We expect tepid demand has led to the sequential decline. We will provide more clarity on this in our result update report.
- EBITDA margin improved 760 bps y-o-y and 267 bps q-o-q to 20.7%. The y-o-y improvement was on account of lower raw material cost and better product mix (increased share of high margin pellet sales), while the q-o-q improvement was on account of a low base. In Q1FY13, the company charged off capitalised borrowing and other costs worth Rs 90 mn pertaining to the abandoned sponge iron project.
- Depreciation and interest cost increased as the company capitalised the pellet plant. This increase in capital costs impacted PAT which grew 4% y-o-y and declined 76% q-o-q to Rs 24 mn.
- MSP reported EPS of Rs 0.36 as compared to Rs 0.40 in Q2FY12 and Rs 3.3 in Q1FY13.

Valuations: Current market price has a strong upside

We continue to value MSP by assigning an EV/EBITDA multiple of 5x FY14E EBITDA at Rs 39 per share. At the current market price of Rs 28, our valuation grade is 5/5.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	4,021	5,079	6,993	9,952	11,245
EBITDA	774	1,068	1,184	2,045	2,381
Adj net income	387	496	261	479	773
Adj EPS-Rs	6.7	8.5	4.5	7.0	11.3
EPS growth (%)	35.6	28.3	(47.4)	56.5	61.5
Dividend yield (%)	-	3.6	1.2	1.8	2.5
RoCE (%)	11.5	10.7	8.3	12.6	15.3
RoE (%)	19.7	21.2	9.6	14.4	19.4
PE (x)	4.2	3.3	6.2	4.0	2.5
P/BV (x)	0.7	0.7	0.5	0.5	0.4
EV/EBITDA (x)	7.1	8.0	9.0	5.1	3.9

NM: Not meaningful; CMP: Current market price

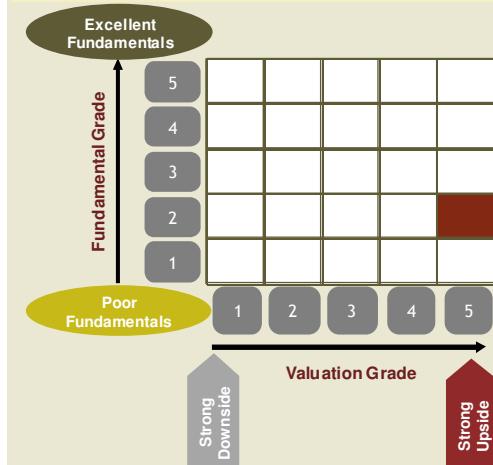
Source: Company, CRISIL Research estimates

November 12, 2012

Fair Value Rs 39

CMP Rs 28

CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5686/18684
NSE/BSE ticker	MSPL / MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58
Market cap (Rs mn)/(US\$ mn)	1,624/30
Enterprise value (Rs mn)/(US\$ mn)	10,638/196
52-week range (Rs)/(H/L)	55/26
Beta	1.4
Free float (%)	28%
Avg daily volumes (30-days)	96,934
Avg daily value (30-days) (Rs mn)	2.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-3%	-1%	-4%	-31%
NIFTY	-0.3%	7%	14%	9%

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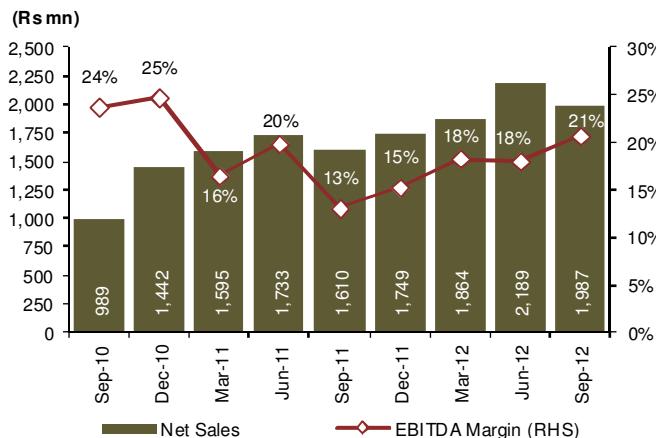
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Q2FY13 Results Summary

(Rs mn)	Q2FY13	Q1FY13	Q2FY12	q-o-q (%)	y-o-y (%)	H1FY13	H1FY12	y-o-y (%)
Net sales	1,987	2,189	1,610	(9.3)	23.4	4,176	5,079	(17.8)
(Increase)/decrease in stock in trade and WIP	(40)	69	65	(158.4)	(162.6)	29	(269)	(110.7)
Consumption of Raw Materials	1,141	1,262	827	(9.6)	38.0	2,403	3,395	(29.2)
Purchase of traded goods	101	-	245	NM	(58.7)	101	349	(71.0)
Raw materials cost (% of net sales)	60.5%	60.8%	70.6%	(29) bps	(1,007) bps	60.7%	68.4%	(778) bps
Employees cost	67	52	47	30.2	41.7	119	153	(22.4)
Other expenses	307	412	216	(25.6)	42.1	719	382	88.1
EBITDA	411	394	211	4.2	95.0	805	1,068	(24.6)
EBITDA margin	20.7%	18.0%	13.1%	267bps	760bps	19.3%	21.0%	(174) bps
Depreciation	127	75	72	69.6	76.7	201	193	4.2
EBIT	284	320	139	(11.1)	104.5	604	874	(30.9)
Interest and finance charges	254	181	140	40.6	81.6	435	248	75.6
Operating PBT	30	139	(1)	(78.4)	(3,176.2)	169	627	(73.0)
Other Income	8	13	12	(38.8)	(34.5)	21	39	(44.9)
Extraordinary Income/(expense)	-	90.3	-	NM	NM	90	6	1,484.7
PBT	38	152	11	(75.0)	233.9	281	671	(58.2)
Tax	14	50	(12)	(72.8)	(213.0)	64	169	(62.2)
PAT	24	102	23	(76.1)	4.2	217	502	(56.8)
Adj PAT	24	192	23	(87.3)	4.2	217	496	(56.3)
Adj PAT margin	1.2%	8.8%	1.5%	(756) bps	(23) bps	5.2%	9.8%	(458) bps
No of equity shares (mn)	68.1	58.1	58.1	17.2	17.2	68.1	58.1	17.2
Adj EPS (Rs)	0.36	3.31	0.40	(89.2)	(11.1)	3.2	8.5	(62.7)

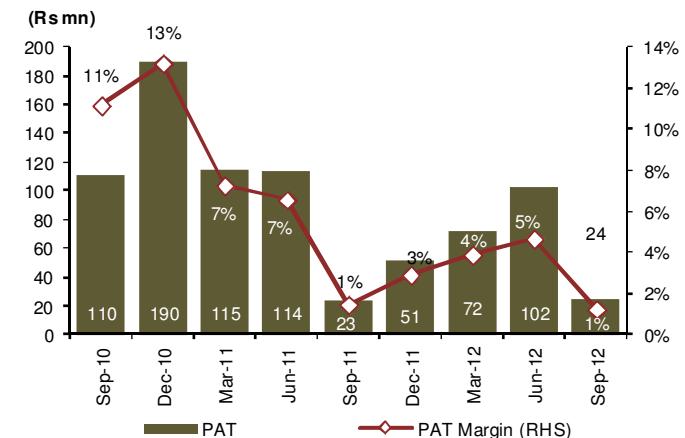
Source: Company, CRISIL Research

Better product mix led to improvement in EBITDA margin



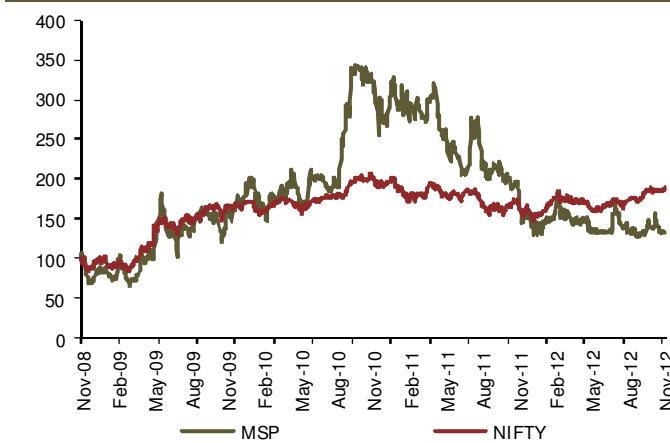
Source: Company, CRISIL Research

Higher capital costs impact PAT margin



Source: Company, CRISIL Research

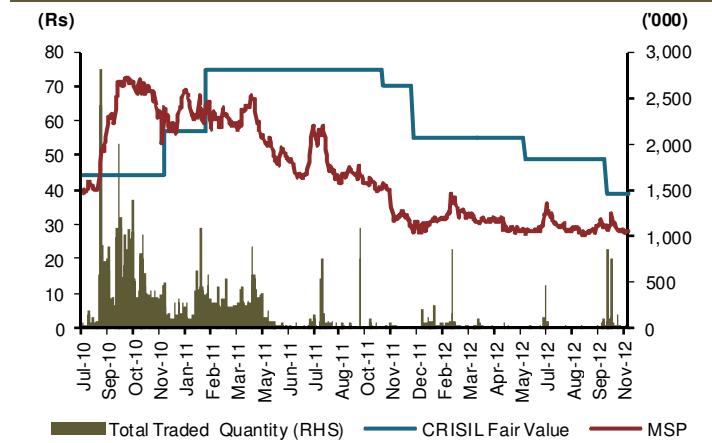
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Annexure: Financials

Income statement				Balance Sheet			
(Rs mn)	FY10	FY11	FY12	(Rs mn)	FY10	FY11	FY12
Operating income	4,021	5,079	6,993	Liabilities			
EBITDA	774	1,068	1,184	Equity share capital	581	581	581
EBITDA margin	19.2%	21.0%	16.9%	Reserves	1,432	1,865	2,103
Depreciation	127	193	291	Shares application money pending allotment	222	-	318
EBIT	646	874	893	Minorities	-	-	-
Interest	205	248	607	Net worth	2,235	2,446	3,002
Operating PBT	442	627	286	Preference shares	-	754	879
Other income	7	39	52	Other debt	4,611	7,055	9,063
Exceptional inc/(exp)	(5)	6	(1)	Total debt	4,611	7,809	9,943
PBT	444	671	337	Deferred tax liability (net)	199	334	381
Tax provision	62	169	77	Total liabilities	7,044	10,588	13,325
Minority interest	-	-	-	Assets			
PAT (Reported)	382	502	260	Net fixed assets	2,559	4,999	4,958
Less: Exceptionals	(5)	6	(1)	Capital WIP	2,454	3,419	5,224
Adjusted PAT	387	496	261	Total fixed assets	5,013	8,418	10,183
Ratios				Investments	70	74	354
	FY10	FY11	FY12	Current assets			
Growth				Inventory	683	1,209	2,101
Operating income (%)	(0.9)	26.3	37.7	Sundry debtors	685	424	517
EBITDA (%)	17.3	38.0	10.9	Loans and advances	712	1,429	1,807
Adj PAT (%)	35.6	28.3	(47.4)	Cash & bank balance	379	103	49
Adj EPS (%)	35.6	28.3	(47.4)	Marketable securities	380	-	-
Profitability				Total current assets	2,840	3,164	4,473
EBITDA margin (%)	19.2	21.0	16.9	Total current liabilities	878	1,068	1,685
Adj PAT Margin (%)	9.6	9.8	3.7	Net current assets	1,962	2,097	2,789
RoE (%)	19.7	21.2	9.6	Intangibles/Misc. expenditure	-	-	-
RoCE (%)	11.5	10.7	8.3	Total assets	7,044	10,588	13,325
RoIC (%)	11.3	10.0	8.8	Cash flow			
Valuations							
Price-earnings (x)	4.2	3.3	6.2	(Rs mn)	FY10	FY11	FY12
Price-book (x)	0.7	0.7	0.5	Pre-tax profit	448	665	338
EV/EBITDA (x)	7.1	8.0	9.0	Total tax paid	(21)	(34)	(29)
EV/Sales (x)	1.4	1.8	1.5	Depreciation	127	193	291
Dividend payout ratio (%)	-	11.8	7.4	Working capital changes	(212)	(790)	(747)
Dividend yield (%)	-	3.6	1.2	Net cash from operations	343	35	(148)
B/S ratios				Cash from investments			
Inventory days	79	114	139	Capital expenditure	(1,816)	(3,598)	(2,056)
Creditors days	72	60	75	Investments and others	(382)	376	(280)
Debtor days	61	30	25	Net cash from investments	(2,198)	(3,222)	(2,336)
Working capital days	108	142	134	Cash from financing			
Gross asset turnover (x)	1.5	1.2	1.2	Equity raised/(repaid)	-	679	113
Net asset turnover (x)	1.7	1.3	1.4	Debt raised/(repaid)	1,884	3,198	2,134
Sales/operating assets (x)	1.0	0.8	0.8	Dividend (incl. tax)	-	(69)	(22)
Current ratio (x)	3.2	3.0	2.7	Others (incl. extraordinaries)	156	(216)	317
Debt-equity (x)	2.1	3.2	3.3	Net cash from financing	2,040	3,591	2,542
Net debt/equity (x)	1.7	3.2	3.3	Change in cash position	185	403	58
Interest coverage	3.2	3.5	1.5	Closing cash	379	103	49
Per share				Quarterly financials			
	FY10	FY11	FY12				
Adj EPS (Rs)	6.7	8.5	4.5				
CEPS	8.9	11.9	9.5	(Rs mn)	Q2FY12	Q3FY12	Q4FY12
Book value	38.5	42.1	51.7	Net Sales	1,610	1,749	1,864
Dividend (Rs)	-	1.0	0.3	Change (q-o-q)	-7%	9%	7%
Actual o/s shares (mn)	58.1	58.1	58.1	EBITDA	211	267	341
				Change (q-o-q)	-39%	27%	28%
				EBITDA margin	13%	15%	18%
				PAT	23	51	72
				Adj PAT	23	51	72
				Change (q-o-q)	-79%	117%	42%
				Adj PAT margin	1%	3%	4%
				Adj EPS	0.4	0.9	1.2
							0.4

Source: CRISIL Research

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