

MSP Steel and Power Ltd

Slight relief

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Metals & Mining

MSP Steel and Power Ltd's (MSP's) Q3FY12 revenue was in line with CRISIL Research's expectations but EBITDA margin was below due to high raw material prices. Steel product realisations improved q-o-q, which boosted MSP's operating margin, but the expansion was lower than expected. We expect margins to further improve sequentially in Q4FY12 on account of upcoming pellet capacity and likely increase in steel realisations. However, the overall performance of the company till 9MFY12 is lower than expected on account of demand sluggishness and high input costs. To factor in the same, we have lowered our earnings estimates for FY12 and FY13. We maintain our fundamental grade of **2/5**.

Q3FY12 result analysis

- Revenue increased by 21% y-o-y and 9% q-o-q to Rs 1,749 mn. Growth was fuelled by improved capacity utilisation and higher realisations. The steel segment's realisations improved across products - sponge iron up 4%, billets up 7%, TMT up 7% and structural up 6%.
- EBITDA margin, like in Q2FY12, was lower y-o-y but saw an improvement sequentially. It declined sharply by 943 bps y-o-y but improved 217 bps q-o-q to 15.3%. The y-o-y decline was primarily on account of high raw material prices. The q-o-q improvement was supported by improvement in realisations. The contribution from high-margin structural declined 1443 bps y-o-y and 1828 bps q-o-q to 16% in Q3FY12 on account of weak demand and lower margins.
- PAT declined by 73% y-o-y and increased 116% q-o-q to Rs 51 mn in line with the operating performance. Accordingly, EPS was Rs 0.9 vis-a-vis Rs 0.4 in Q2FY12 and Rs 3.3 in Q3FY12.

Earnings estimates revised downwards

We have lowered our margin estimates for FY12 and FY13 to factor in weak demand and high raw material prices. However, we believe margin contraction in FY13 will be less than estimated for FY12 due to improvement in realisations supported by demand recovery.

Valuation: Current market price has strong upside

We continue to use the EV/EBITDA method to value MSP and maintain our fair value of Rs 55 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,039	3,959	5,079	7,066	12,516
EBITDA	643	701	1,068	1,182	2,384
Adj PAT	268	314	496	286	737
Adj EPS-Rs	4.6	5.4	8.5	4.9	12.7
EPS growth (%)	(21.6)	16.8	58.3	(42.4)	157.9
Dividend yield (%)	-	-	2.7	2.6	2.6
RoCE (%)	14.5	10.2	10.7	8.8	16.7
RoE (%)	18.0	16.0	21.2	11.2	24.6
P/E (x)	8.2	7.0	4.4	7.7	3.0
P/BV (x)	1.3	1.0	0.9	0.8	0.7
EV/EBITDA (x)	7.4	8.6	8.6	8.4	4.1

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

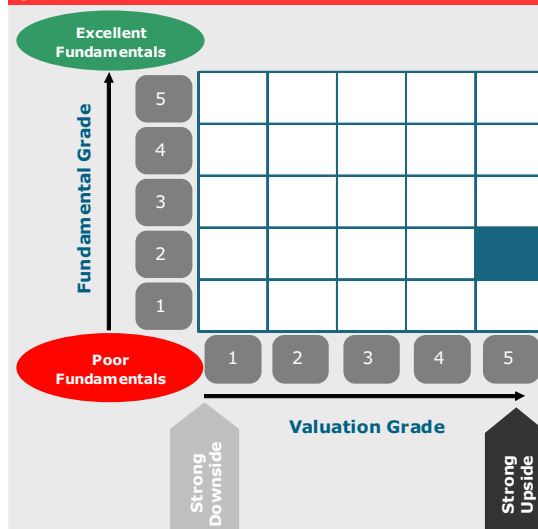


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Fair Value Rs 55

CMP Rs 38

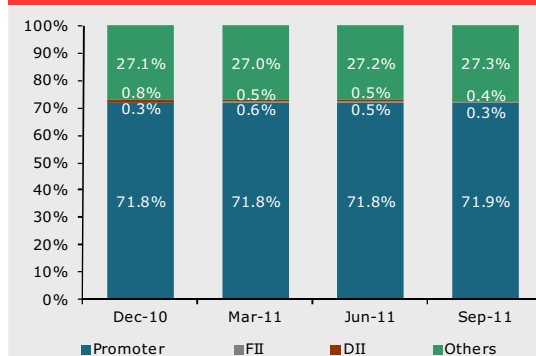
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5607/18429
NSE / BSE ticker	MSPL/MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58.1
Market cap (Rs mn)/(US\$ mn)	2,208/45
Enterprise value (Rs mn)/(US\$ mn)	9,159/186
52-week range (Rs) (H/L)	69/26
Beta	1.38
Free float (%)	28.0
Avg daily volumes (30-days)	15,962
Avg daily value (30-days) (Rs mn)	0.5

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	19%	24%	-11%	-38%
NIFTY	11%	17%	16%	2%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com
 Pravesh Rawat prawat@crisil.com
 Vishal Rampuria vrampuria@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com