

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 Fundamental Grade		CRISIL Valuation Grade	
Assessment	Assessment	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

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About CRISIL Research

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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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MSP Steel & Power Ltd

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

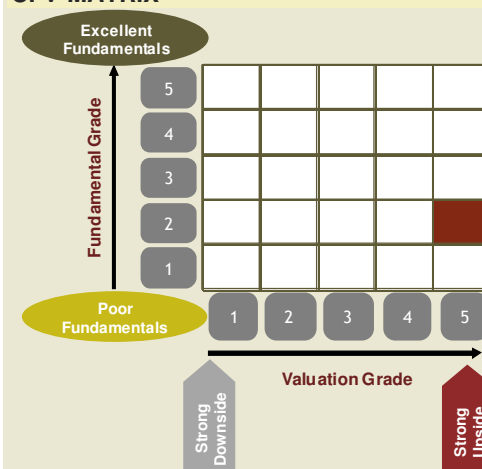


November 12, 2012

Fair Value Rs 39

CMP Rs 28

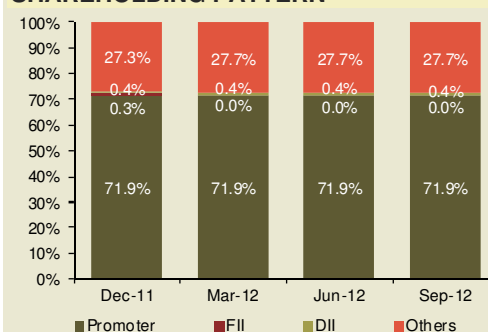
CFV MATRIX



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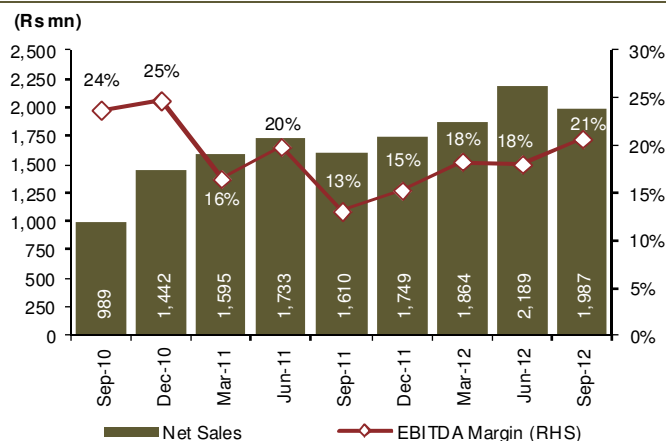
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

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)

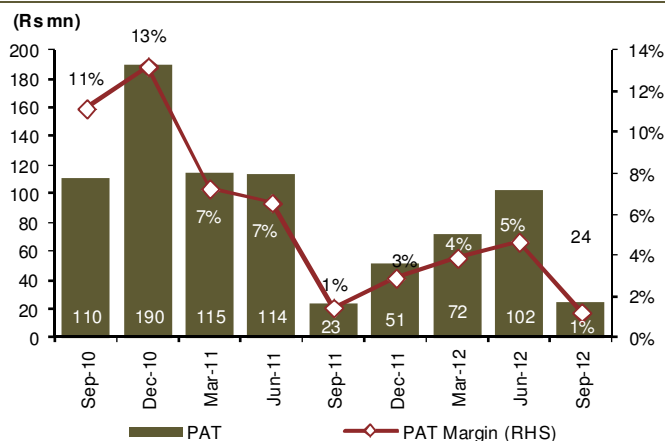
Source: Company, CRISIL Research

Better product mix led to improvement in EBITDA margin



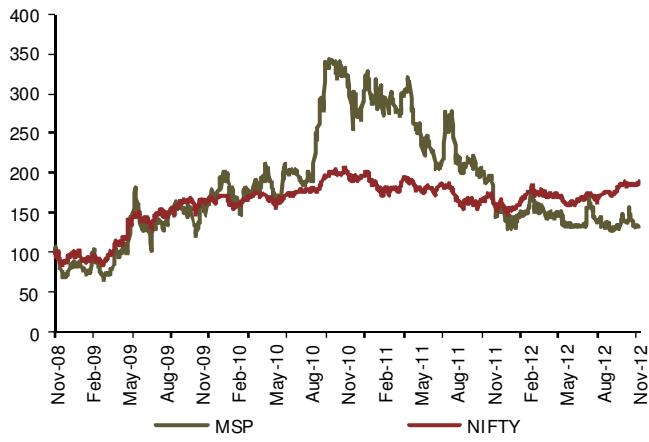
Source: Company, CRISIL Research

Higher capital costs impact PAT margin



Source: Company, CRISIL Research

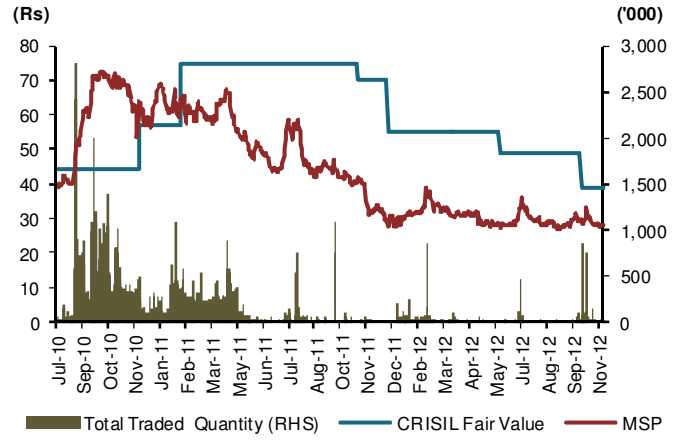
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12
Operating income	4,021	5,079	6,993
EBITDA	774	1,068	1,184
EBITDA margin	19.2%	21.0%	16.9%
Depreciation	127	193	291
EBIT	646	874	893
Interest	205	248	607
Operating PBT	442	627	286
Other income	7	39	52
Exceptional inc/(exp)	(5)	6	(1)
PBT	444	671	337
Tax provision	62	169	77
Minority interest	-	-	-
PAT (Reported)	382	502	260
Less: Exceptionals	(5)	6	(1)
Adjusted PAT	387	496	261

Ratios

	FY10	FY11	FY12
Growth			
Operating income (%)	(0.9)	26.3	37.7
EBITDA (%)	17.3	38.0	10.9
Adj PAT (%)	35.6	28.3	(47.4)
Adj EPS (%)	35.6	28.3	(47.4)
Profitability			
EBITDA margin (%)	19.2	21.0	16.9
Adj PAT Margin (%)	9.6	9.8	3.7
RoE (%)	19.7	21.2	9.6
RoCE (%)	11.5	10.7	8.3
RoC (%)	11.3	10.0	8.8
Valuations			
Price-earnings (x)	4.2	3.3	6.2
Price-book (x)	0.7	0.7	0.5
EV/EBITDA (x)	7.1	8.0	9.0
EV/Sales (x)	1.4	1.8	1.5
Dividend payout ratio (%)	-	11.8	7.4
Dividend yield (%)	-	3.6	1.2
B/S ratios			
Inventory days	79	114	139
Creditors days	72	60	75
Debtor days	61	30	25
Working capital days	108	142	134
Gross asset turnover (x)	1.5	1.2	1.2
Net asset turnover (x)	1.7	1.3	1.4
Sales/operating assets (x)	1.0	0.8	0.8
Current ratio (x)	3.2	3.0	2.7
Debt-equity (x)	2.1	3.2	3.3
Net debt/equity (x)	1.7	3.2	3.3
Interest coverage	3.2	3.5	1.5

Per share

	FY10	FY11	FY12
Adj EPS (Rs)	6.7	8.5	4.5
CEPS	8.9	11.9	9.5
Book value	38.5	42.1	51.7
Dividend (Rs)	-	1.0	0.3
Actual o/s shares (mn)	58.1	58.1	58.1

Balance Sheet

(Rs mn)	FY10	FY11	FY12
Liabilities			
Equity share capital	581	581	581
Reserves	1,432	1,865	2,103
Shares application money pending allotment	222	-	318
Minorities	-	-	-
Net worth	2,235	2,446	3,002
Preference shares	-	754	879
Other debt	4,611	7,055	9,063
Total debt	4,611	7,809	9,943
Deferred tax liability (net)	199	334	381
Total liabilities	7,044	10,588	13,325
Assets			
Net fixed assets	2,559	4,999	4,958
Capital WIP	2,454	3,419	5,224
Total fixed assets	5,013	8,418	10,183
Investments	70	74	354
Current assets			
Inventory	683	1,209	2,101
Sundry debtors	685	424	517
Loans and advances	712	1,429	1,807
Cash & bank balance	379	103	49
Marketable securities	380	-	-
Total current assets	2,840	3,164	4,473
Total current liabilities	878	1,068	1,685
Net current assets	1,962	2,097	2,789
Intangibles/Misc. expenditure	-	-	-
Total assets	7,044	10,588	13,325

Cash flow

(Rs mn)	FY10	FY11	FY12
Pre-tax profit	448	665	338
Total tax paid	(21)	(34)	(29)
Depreciation	127	193	291
Working capital changes	(212)	(790)	(747)
Net cash from operations	343	35	(148)
Cash from investments			
Capital expenditure	(1,816)	(3,598)	(2,056)
Investments and others	(382)	376	(280)
Net cash from investments	(2,198)	(3,222)	(2,336)
Cash from financing			
Equity raised/(repaid)	-	679	113
Debt raised/(repaid)	1,884	3,198	2,134
Dividend (incl. tax)	-	(69)	(22)
Others (incl extraordinary)	156	(216)	317
Net cash from financing	2,040	3,591	2,542
Change in cash position	185	403	58
Closing cash	379	103	49

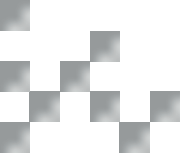
Quarterly financials

(Rs mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Sales	1,610	1,749	1,864	2,189	1,987
Change (q-o-q)	-7%	9%	7%	17%	-9%
EBITDA	211	267	341	394	411
Change (q-o-q)	-39%	27%	28%	16%	4%
EBITDA margin	13%	15%	18%	18%	20.7%
PAT	23	51	72	102	24
Adj PAT	23	51	72	192	24
Change (q-o-q)	-79%	117%	42%	166%	-87%
Adj PAT margin	1%	3%	4%	9%	1.2%
Adj EPS	0.4	0.9	1.2	1.8	0.4

Source: CRISIL Research

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