

MSP Steel and Power Ltd

Q4FY12 First Cut: High operating profit boosts PAT despite high interest cost

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) Q4FY12 earnings were below CRISIL Research's expectations on account of lower-than-expected revenue growth and higher interest cost. We await volume and realisations details from the management to analyse the revenues. EBITDA margin grew q-o-q on account of lower raw material costs. In line with the operating profit growth, PAT grew q-o-q despite rise in interest cost. Following lower-than-expected earnings, we are likely to revise our numbers downwards for FY13 post interaction with the management. We maintain our fundamental grade of 2/5.

Q4FY12 result analysis (standalone)

- Revenues grew by 7% q-o-q and 17% y-o-y to Rs 1,864 mn. We await volume and realisations details from the management to analyse the revenue growth. We also await the segmental information – steel and power segments.
- EBITDA margin improved by 305 bps q-o-q and 169 bps y-o-y to 18.3% due to lower raw material costs, nil purchase of traded goods and benefit of operating leverage. Raw material cost as a percentage of sales decreased 577 bps q-o-q to 64.0%. We await clarity from the management for the same. Employee costs declined 9% q-o-q to Rs 43 mn; as a percentage of sales they decreased 41 bps q-o-q and 58 bps y-o-y to 2.3%. However, other expenses grew 34% q-o-q to Rs 288 mn; as a percentage of sales they increased 312 bps q-o-q to 15.4%.
- Following the growth in operating profit, PAT grew 43% q-o-q (down 37% y-o-y) despite rise in interest costs. Interest and finance charges increased 33% q-o-q (up 210% y-o-y) to Rs 179 mn. Depreciation remained flat q-o-q at Rs 75 mn.
- Accordingly, EPS was Rs 1.25 as against Rs 0.87 in Q3FY12 and Rs 1.99 in Q4FY11.
- The company has announced a dividend of Rs 2.5 for FY12 translating into a dividend yield of 8.9%.
- Working capital cycle improved from 115 days in FY11 to 106 days in FY12 mainly due to a sharp increase in liabilities. Creditor days increased from 60 days in FY11 to 124 days in FY12. Inventory days increased from 112 days in FY11 to 132 days in FY12 while debtor days reduced from 34 days in FY11 to 24 days in FY12.
- Gearing improved to 2.1x in FY12 as against 2.2x in FY11.

Valuation: Current market price has strong upside

We maintain our fair value of Rs 55 per share. We have assigned EV/EBITDA multiple of 5x to our FY13E EBITDA to value MSP. At the current market price of Rs 28, the valuation grade is 5/5.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12#	FY13E
Operating income	4,039	3,959	5,079	6,963	12,516
EBITDA	643	701	1,068	1,161	2,384
Adj Net income	268	314	496	260	737
Adj EPS-Rs	4.6	5.4	8.5	4.5	12.7
EPS growth (%)	(21.6)	16.8	58.3	(47.6)	183.2
Dividend Yield (%)	-	-	3.6	8.9	3.6
RoCE (%)	14.5	10.2	10.7	8.0	16.7
RoE (%)	18.0	16.0	21.2	8.4	24.6
PE (x)	6.1	5.2	3.3	6.3	2.2
P/BV (x)	1.0	0.7	0.7	0.4	0.5
EV/EBITDA (x)	6.5	7.8	8.0	8.5	3.8

NM: Not meaningful; CMP: Current market price # based on abridged financials

Source: Company, CRISIL Research estimates

For detailed initiating coverage report please visit: www.ier.co.in

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

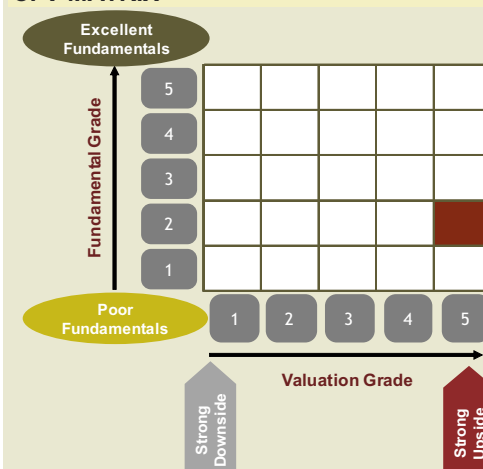


May 30, 2012

Fair Value Rs 55

CMP Rs 28

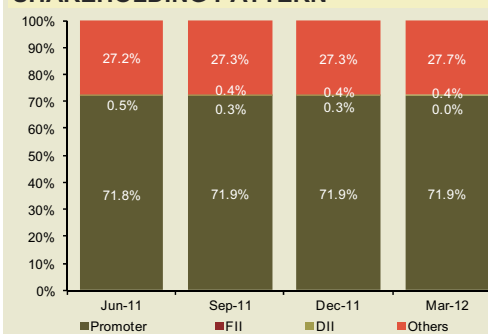
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	4946/16304
NSE/BSE ticker	MSPL / MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	28
Market cap (Rs mn)/(US\$ mn)	58
Enterprise value (Rs mn)/(US\$ mn)	1,636/30
52-week range (Rs)/(H/L)	8,587/155
Beta	62/26
Free float (%)	1.44
Avg daily volumes (30-days)	28%
Avg daily value (30-days) (Rs mn)	12,108

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-8%	-14%	-11%	-40%
NIFTY	-6%	-8%	2%	-10%

SSANALYTICAL CONTACT

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