

CRISIL IER Independent Equity Research

**MSP Steel & Power
Ltd**

Q3FY13 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	Assessment	CRISIL 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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MSP Steel & Power Ltd

Q3FY13 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) Q3FY13 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 19% y-o-y and 5% q-o-q to ₹2,081 mn. We believe a decline in realisation capped sequential growth.
- EBITDA margin improved 456 bps y-o-y (contracted 86 bps q-o-q) to 19.8%. Lower raw material cost (raw material as a percentage of sales declined by 10 percentage points y-o-y) led to the y-o-y improvement in margin.
- Depreciation and interest cost increased y-o-y as the company capitalised the pellet plant in Q2FY13. PAT for the reported quarter was ₹20 mn compared to ₹51 mn and ₹24 mn in Q3FY12 and Q2FY13, respectively.
- MSP reported EPS of ₹0.30 compared to ₹0.88 in Q3FY12 and ₹0.36 in Q2FY13.

Valuations: Current market price has a 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 ₹24, our valuation grade is **5/5**.

KEY FORECAST

(₹ mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	4,021	5,079	6,993	8,913	11,226
EBITDA	774	1,068	1,184	1,889	2,374
Adj net income	387	496	261	345	767
Adj EPS-₹	6.7	8.5	4.5	5.1	11.3
EPS growth (%)	35.6	28.3	(47.4)	12.8	122.3
Dividend yield (%)	-	4.3	1.4	2.1	2.9
RoCE (%)	11.5	10.7	8.3	11.4	15.4
RoE (%)	19.7	21.2	9.6	10.6	19.9
PE (x)	3.6	2.8	5.3	4.7	2.1
P/BV (x)	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (x)	6.8	7.8	8.8	5.4	3.8

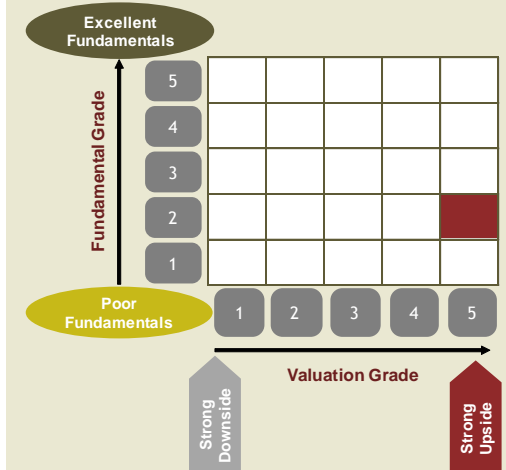
NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

February 08, 2013

Fair Value ₹39
CMP ₹24

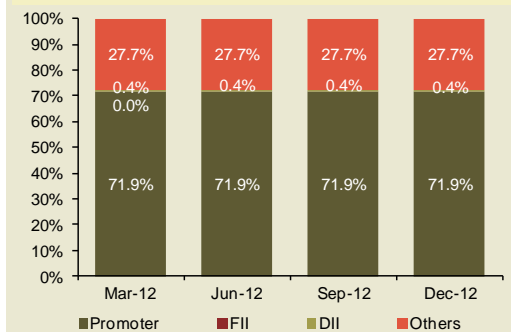
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5939/19580
NSE/BSE ticker	MSPL / MSPSTEEL
Face value (₹ per share)	10
Shares outstanding (mn)	58
Market cap (₹ mn)/(US\$ mn)	1,621/31
Enterprise value (₹ mn)/(US\$ mn)	11,515/217
52-week range (₹)/(H/L)	55/26
Beta	1.4
Free float (%)	28%
Avg daily volumes (30-days)	96,934
Avg daily value (30-days) (₹ mn)	2.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-14%	-14%	-14%	-26%
NIFTY	-1%	4%	13%	11%

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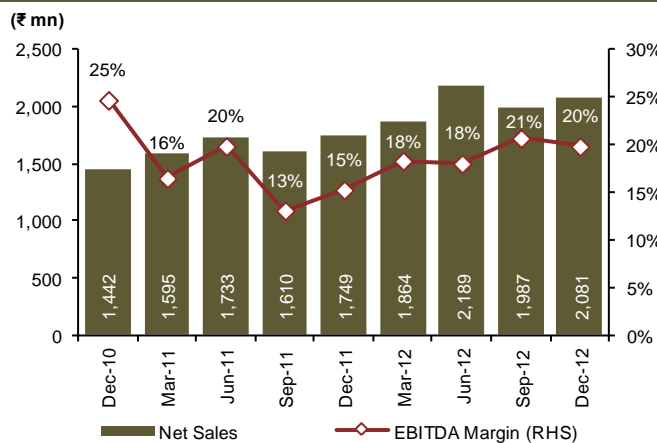
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Q3FY13 Results Summary

(₹ mn)	Q3FY13	Q2FY13	Q3FY12	q-o-q (%)	y-o-y (%)	9MFY13	9MFY12	y-o-y (%)
Net sales	2,081	1,987	1,749	4.7	19.0	6,257	5,093	22.9
(Increase)/decrease in stock in trade and WIP	98	40	91	142.7	7.9	69	96	(28.1)
Consumption of Raw Materials	1,204	1,141	1,109	5.5	8.6	3,607	2,999	20.3
Purchase of traded goods	157	101	201	NM	(22.2)	258	580	(55.5)
Raw materials cost (% of net sales)	70.1%	64.6%	80.1%	552 bps	(1,001) bps	62.9%	72.2%	(929) bps
Employees cost	68	67	47	1.6	44.6	187	141	32.7
Other expenses	338	307	215	10.1	56.6	1,056	647	63.2
EBITDA	412	411	267	0.4	54.6	1,218	821	48.3
EBITDA margin	19.8%	20.7%	15.3%	(86) bps	456bps	19.5%	16.1%	333bps
Depreciation	129	127	72	1.6	78.5	330	216	53.2
EBIT	284	284	195	(0.2)	45.7	887	606	46.5
Interest and finance charges	258	254	134	1.4	92.4	693	414	67.1
Operating PBT	26	30	61	(13.8)	(57.4)	195	191	1.8
Other Income	8	8	12	1.8	(30.8)	30	43	(31.2)
Extraordinary Income/(expense)	-	-	-	NM	NM	-	(0)	(100.0)
PBT	34	38	73	(10.4)	(53.1)	224	234	(4.2)
Tax	14	14	22	1.2	(36.5)	78	46	67.8
PAT	20	24	51	(16.9)	(60.1)	147	188	(21.9)
Adj PAT	20	24	51	(16.9)	(60.1)	147	188	(21.9)
Adj PAT margin	1.0%	1.2%	2.9%	(25) bps	(194) bps	2.3%	3.7%	(135) bps
No of equity shares (mn)	68.1	68.1	58.1	-	17.2	68.1	58.1	17.2
Adj EPS (₹)	0.30	0.36	0.88	(16.9)	(66.0)	2.2	3.2	(33.4)

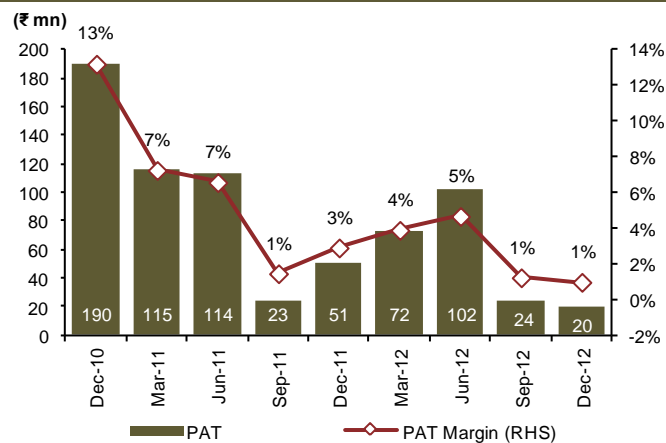
Source: Company, CRISIL Research

Sales grew 19% y-o-y



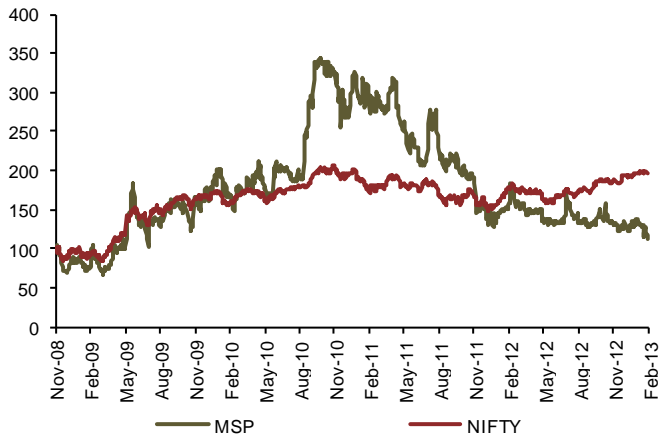
Source: Company, CRISIL Research

PAT impacted by high capital costs



Source: Company, CRISIL Research

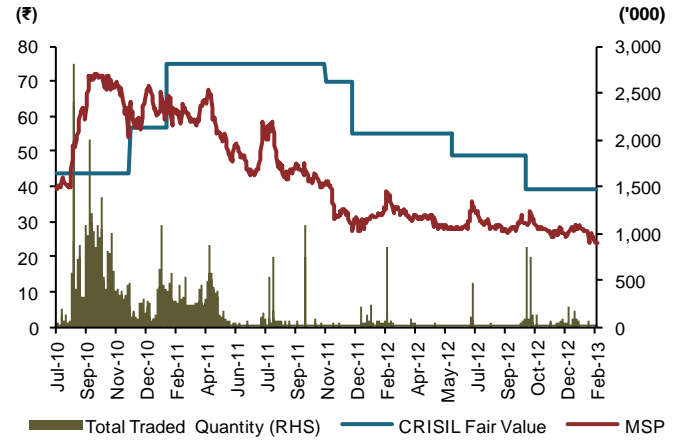
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

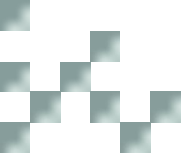
Annexure: Financials

Income statement				Balance Sheet					
(₹ mn)	FY10	FY11	FY12	(₹ 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		
				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					
				(₹ 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					
				(₹ mn)	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
				Net Sales	1,749	1,864	2,189	1,987	2,081
				Change (q-o-q)	9%	7%	17%	-9%	5%
				EBITDA	267	341	394	411	412
				Change (q-o-q)	27%	28%	16%	4%	0%
				EBITDA margin	15%	18%	18%	21%	19.8%
				PAT	51	72	102	24	20
				Adj PAT	51	72	192	24	20
				Change (q-o-q)	117%	42%	166%	-87%	-17%
				Adj PAT margin	3%	4%	9%	1%	1.0%
				Adj EPS	0.9	1.2	1.8	0.4	0.3

Source: CRISIL Research

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- Assigned the first IPO grade in India

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