

MSP Steel & Power

Sensex: 16,698

CMP: INR 43.65



Steel & Power

MSP is focusing on enhancing its backward integrated facilities that will help to expand the topline as well as bottomline. With a major capex set to be commissioned by FY12, the company's financials are set to grow at a robust pace over the next two years. In order to gauge more about the current performance and future outlook, we met with Mr. Kamal Jain (Head - Finance and Accounts). Following are the key takeaways:

Capex Phase I commissioned, Phase II soon

MSP completed its Phase I expansion plan during the last fiscal and improved its sponge iron and power generation capacities. The company has already started implementing its Phase II expansion plans and these facilities are expected to be commissioned by the end of FY12. All the expanded capacities will have a full year of operations in FY13.

The total expansion outlay is INR 8,145mn, of which INR 5,450mn will be funded through debt and INR 2,695mn through promoter's contribution. MSP till 1QFY12 has already spent INR 5,400mn towards capex.

Product	Unit	Existing Capacities	Phase I	Phase II	Total Capacities
Pellet	tonne	300,000	0	600,000	900,000
Sponge Iron	tonne	192,000	115,500	115,500	423,000
Coal Washery	tonne	345,600	0	383,525	729,125
Billnets	tonne	144,109	0	0	144,109
Power Plant	MW	24	18	34	76
TMT	tonne	80,000	0	0	80,000
Structural	tonne	128,000	0	0	128,000
Railway Siding	km	2.4	0	4.0	6.4
Completion			FY11	FY12	

Pellet plant to improve topline as well as bottomline

MSP is banking on its pellet plant, which is undergoing expansion to increase its capacity by 2x to 0.9mntpa from 0.3mntpa, to lead the topline as well as bottomline growth. Pelletization along with beneficiation will help to save INR 3,000/t while producing sponge iron, thereby being margin accretive. By FY13, the company plans to produce 675,000t of pellets and post captive consumption, sell 200,000t of pellets leading to additional revenues to the tune of INR 1,300-1,400mn.

New power capacities to help in merchant sales

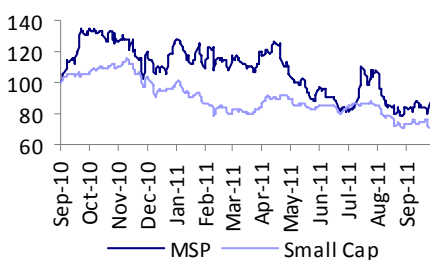
By FY13, the total power generation capacity is slated to increase to 76MW from the current 42MW. Post the completion of the expansion projects, the company will require 40-45MW of power for captive use and the balance 30-35MW of surplus capacity available for merchant sales. The revenues from the power division are expected to contribute INR 600-675mn to the topline in FY13 as against INR 153.4mn in FY11.

Outlook

Expanding backward integrated facilities will help the company to post robust topline as well as bottomline growth. A major part of this growth will come in by FY12 and FY13. Revenues from sale of pellets and power on merchant basis will lead to further revenue growth. At the CMP of INR 43.65, the stock is available at a P/E multiple of 5.05x and at an EV/EBIDTA multiple of 12.81x.

Shareholding, Jun 2011	% Holding
Promoter	71.80
FII	0.48
DII	0.52
Others	27.20

Relative Price Performance



Key Data	
BSE Code	532650
NSE Code	MSPL
Bloomberg Code	MSPS IN
Reuters Code	MSPO.BO
Shares Outstanding (mn)	58.10
Face Value	43.65
Mcap (INR mn)	2,536
52 Week H/L	74.00/41.00
2W Avg. Qty, NSE	160,198
Free Float (%)	28.20
Beta (1 Yr Nifty)	0.90

(INR mn)	FY08	FY09	FY10	FY11
Net Sales	3,607	4,048	3,887	4,775
Growth	71.35%	12.21%	-3.96%	22.82%
EBIDTA Margin	18.59%	16.68%	16.57%	15.51%
PAT	467	399	321	502
Growth	131.10%	-14.51%	-19.64%	56.64%
EPS (INR)	8.03	6.87	5.52	8.64
P/E (x)	5.43	6.36	7.91	5.05
EV/EBIDTA (x)	6.52	7.51	10.51	12.81
Net D/E (x)	1.42	1.50	2.10	2.17
RoACE	16.72%	14.00%	8.50%	7.70%
RoAE	35.93%	26.67%	17.30%	19.26%

Low cost of power to expand margins

MSP is relatively insulated from high coal prices as out of the current power generation capacity of 42MW, 24MW is generated through WHRS. The average cost per unit of power generation is as low as INR 1.9-2.0. Even with another 34MW (8MW - WHRS, 26MW - thermal) of generation capacity to come online, the overall power cost is not expected to increase beyond INR 2.5/unit. The thermal power cost is quite low vis-à-vis other players (INR 3.5-4.0/unit) as the company uses more of linkage coal and less of e-auction coal.

Focus on resource integration

MSP is a part of a consortium of companies which has been allocated a coal mine with B grade reserves in Chhattisgarh for captive consumption. The share of MSP in this consortium is 14% which turns out to 26mnt. The production from this mine is expected to come on stream by 2013.

The company has been allocated a high grade iron ore (63%) mine in Chhattisgarh with reserves of 35mnt. MSP has a 100% share in the mine and is expected to start production by 2015.

Next phase of growth - finished steel

Over the past 2-3 years, MSP has been expanding and strengthening its backward integration facilities, through which it expects a huge growth in topline as well as bottom line over the next two years.

The management has indicated that once, these facilities are stabilized and have achieved integration at resource level, it will look to expand its finished steel capacities which will drive the next phase of growth from 2015-2016.

Other Takeaways

- The management is aiming to achieve topline of INR 8,000-8,500mn in FY12 and INR 12,500mn in FY13. MSP is aiming to produce 650,000t of pellets, 335,000t of sponge iron, 140,000t of billets and 500mn units of power in FY13.
- The company currently has a term debt of INR 4,570mn with an average cost of 13.75-14.0%.
- MSP will spend around INR 3,000mn in the current fiscal towards capex.
- Management is aiming to increase the share of exports on the back of sale of pellets from 8% in FY11 to 15-20% in FY13.

Company Background

MSP Steel & Power is a partially integrated steel manufacturer having manufacturing presence in Raigarh, Chhattisgarh. The company manufactures sponge iron, billets, TMT bars and structural steel. MSP also has power generation capacity of 42MW for captive use. The company has been allotted a coal and an iron ore block in Chhattisgarh.

Peer Comparison

Company	CMP (INR)	M-Cap (INR mn)	Net Sales (INR mn)	EBIDTAM	PATM	FY11 EPS (INR)	BVPS (INR)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	D:E (x)
MSP Steel & Power	43.65	2,536	4,775	15.51%	10.52%	8.64	55.08	5.05	0.79	12.81	2.20
Adhunik Metaliks	48.35	6,021	17,934	32.06%	10.28%	14.92	70.48	3.24	0.69	6.48	3.45
Godawari Power & Ispat	125.50	3,943	11,161	20.82%	7.69%	27.04	190.50	4.64	0.66	5.10	1.46
Monnet Ispat	490.05	31,574	15,737	29.58%	18.11%	44.31	331.29	11.06	1.48	11.10	1.29

Quarterly Financials

INR mn	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	YoY	QoQ
Gross Sales	1,164	966	1,309	1,741	1,852	59.13%	6.42%
Less: Excise Duty	99	73	95	137	143	44.13%	3.96%
Net Sales	1,065	892	1,214	1,604	1,710	60.53%	6.63%
Other Operating Income	5	97	228	(9)	29	449.15%	NA
Total Income	1,071	989	1,442	1,595	1,739	62.47%	9.05%
(Inc)/Dec in Stock	(68)	(67)	(173)	(54)	(64)		
Consumption of RM	756	505	836	1,068	1,064	45.14%	-1.42%
Purchase of Goods	0	114	235	(0)	133	58.25%	NA
Employee Cost	36	36	35	46	46	27.70%	1.32%
Other Expenditure	139	167	153	270	217	56.93%	-19.60%
Total Expenditure	864	754	1,086	1,330	1,397	61.72%	4.99%
EBIDTA	207	234	356	265	343	65.61%	29.43%
EBIDTA Margin	19.43%	26.27%	29.31%	16.51%	20.04%	61bps	353bps
Other Income	0	8	2	28	12		
Depreciation	42	43	41	67	72	69.65%	7.24%
Interest Expense	54	58	63	59	133	146.71%	124.87%
Exceptional Items	0	0	3	(2)	(0)	-124.67%	NA
EBT	110	142	251	168	150	36.02%	-10.74%
Tax	24	31	60	53	37	50.79%	-30.72%
Tax Rate	21.95%	22.18%	24.13%	31.35%	24.33%		
PAT	86	110	190	116	114	31.87%	-1.61%
PAT Margin	8.09%	12.36%	15.66%	7.21%	6.65%	-144bps	-56bps
No. of Shares (mn)	58.10	58.10	58.10	58.10	58.10		
EPS (INR)	1.48	1.90	3.27	1.99	1.96	31.87%	-1.61%

Production	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	YoY	QoQ
Pellet (t)	41,303	39,542	46,812	57,562	58,210	40.93%	1.13%
Sponge Iron (t)	42,544	32,043	36,548	28,745	49,541	16.45%	72.35%
Billets (t)	18,501	16,769	30,311	36,745	34,980	89.07%	-4.80%
TMT (t)	9,951	3,284	17,026	19,118	17,520	76.06%	-8.36%
Structural (t)	9,110	14,517	11,866	15,111	18,170	99.45%	20.24%
Power (mn units)	43	39	49	61	57	31.71%	-7.03%

Financials

Income Statement

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Net Sales	3,607	4,048	3,887	4,775
<i>Growth</i>	71.35%	12.21%	-3.96%	22.82%
Cost of Goods Sold	2,599	2,909	2,619	3,152
Employee Cost	54	74	119	153
Other Operating Expenses	284	389	505	729
Total Operating Expenses	2,937	3,372	3,243	4,034
EBIDTA	671	675	644	741
<i>Growth</i>	92.2%	0.68%	-4.60%	15.01%
EBIDTA Margin	18.59%	16.68%	16.57%	15.51%
Depreciation	73	74	126	193
EBIT	597	601	518	547
<i>EBIT Margin</i>	16.55%	14.85%	13.33%	11.47%
Interest Expense	142	194	204	235
Other Income	149	91	71	360
Exceptional Items	0	6	3	2
EBT	605	492	382	671
Tax Expenses	138	93	62	169
PAT	467	399	321	502
<i>Growth</i>	131.10%	-14.51%	-19.64%	56.64%
<i>PAT Margin</i>	12.94%	9.86%	8.25%	10.52%

Key Ratios

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Per Share Data (INR)				
Reported EPS	8.03	6.87	5.52	8.64
Adj. EPS	8.03	6.87	5.52	8.64
Growth (%)	131.10%	-14.51%	-19.64%	56.64%
CEPS	9.29	8.14	7.68	11.97
DPS	0.00	0.00	0.00	1.00
BVPS	22.35	29.13	34.65	55.08
Return Ratios				
RoACE	16.72%	14.00%	8.50%	7.70%
RoANW	35.93%	26.67%	17.30%	19.26%
Liquidity Ratios (x)				
Net Debt/Equity	1.42	1.50	2.10	2.17
Interest Coverage Ratio	4.22	3.09	2.54	2.33
Current Ratio	2.93	5.82	3.29	3.66
Efficiency Ratios				
Fixed Asset T/o	2.40	2.02	1.43	1.13
Inventory Days	65	54	75	110
Debtor Days	5	7	7	9
Creditor Days	78	47	54	65
Valuation Ratios				
P/E (x)	5.43	6.36	7.91	5.05
P/BV (x)	1.95	1.50	1.26	0.79
P/CEPS (x)	4.70	5.36	5.68	3.65
Dividend Yield (%)	0.00%	0.00%	0.00%	2.29%
EV/Net Sales (x)	1.21	1.25	1.74	1.99
EV/EBITDA (x)	6.52	7.51	10.51	12.81

Balance Sheet

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Share Capital	581.0	581.0	581.0	656.4
Reserves and Surplus	717.6	1,111.3	1,431.9	2,543.5
Total Networth	1,298.6	1,692.3	2,012.9	3,199.9
Secured Debt	1,801.0	2,494.4	4,247.4	6,404.8
Unsecured Debt	252.1	232.5	363.3	649.9
Total Debt	2,053.1	2,726.9	4,610.7	7,054.8
Deferred Tax Liability (Net)	92.5	158.3	198.6	333.7
Source of Funds	3,444.2	4,577.6	6,822.2	10,588.4
Net Block	1,386.5	2,328.1	2,791.2	5,308.8
CWIP	796.6	996.7	2,221.7	3,109.1
Investments	61.0	67.3	449.5	69.5
Current Assets	1,815.3	1,431.6	2,272.5	2,890.6
Current Liabilities & Provisions	620.5	246.2	690.8	789.6
Net Current Assets	1,194.8	1,185.4	1,581.7	2,100.9
Misc. Expenditure	5.4	0.0	0.0	0.0
Application of Funds	3,444.2	4,577.6	7,044.2	10,588.4

Cash Flow

Y/E March (INR mn)	FY08	FY09	FY10	FY11
EBT	605	492	382	671
Less: Other Income/Exceptionals	(4)	14	(6)	(36)
Add: Depreciation	73	74	126	193
Add: Interest paid	139	188	195	226
Direct taxes paid	(40)	(86)	(53)	(111)
Change in Working Capital	(423)	38	(196)	(919)
Others	(120)	(12)	11	1
Cash Flow from operations (a)	229	707	460	26
Change in Fixed Assets	(237)	(904)	(416)	(2,524)
Change in CWIP	(614)	(200)	(1,225)	(887)
Change in Investments	(7)	(6)	(382)	361
Others	4	6	7	13
Cash Flow from Investing (b)	(854)	(1,104)	(2,017)	(3,037)
Change in Equity	0	0	222	532
Debt Raised/(Repaid)	898	674	1,884	2,444
Dividend paid	0	0	0	(34)
Interest paid	(139)	(300)	(366)	(220)
Others	0	0	0	0
Cash Flow from Financing (c)	759	374	1,739	2,722
Net Change in Cash (a+b+c)	135	(23)	182	(290)
Opening Cash	76	421	70	467
Closing Cash	211	399	253	177

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