

MSP Steel & Power Limited (MSPL)

Steel - Sponge Iron

We recently visited the manufacturing plant of MSP Steel & Power Limited (MSPL) located at Raigarh, Chhattisgarh & the following are the key takeaways from the meeting.

Company Description: MSPL is a mid-size integrated steel manufacturer located in Raigarh, Chhattisgarh. The company produces sponge iron and long steel products including Billets, Construction bars and Structural. The company's operations are partly backward integrated with a captive power plant, iron ore beneficiation plant, pellet plant, coal washery, and railway siding.

Key Rationale

FY10-12 Capacity Expansion Programs To Drive Near Term Profitability: Currently, MSPL is progressing towards completion of its ₹ 814 crore capital expenditure program for FY10-12. The company has already commissioned its 115 ktpa sponge iron plant (phase 1) as well as 18 MW captive power plant in H2 FY11 and plans to complete the remaining projects over the next 12 months. The company expects to complete the phase two 115 ktpa sponge iron capacity expansion plan by September 2011. The company is also expanding its pellet capacity by 600 ktpa, coal washery capacity by 340 ktpa and railway siding by 4 km to support its increasing sponge iron capacity. The benefits from the above mentioned projects are expected to reflect in the company's FY12-13 earnings.

Benefits from Mining Operations to Come in the Medium Term: MSPL has been allotted a coal mine which is located at 150 km from its Raigarh plant. The company's share in the mine reserves is estimated to be 27 million ton of D-grade quality coal. The company also received an iron ore prospecting license, located 200 km away from its plant. The mine is estimated to have total iron ore reserves of 36 million ton, which is expected to come on stream in next five years. Given the long gestation period, the company's mining operations are expected to create shareholder value in the medium term.

Strategic Plant Location Reduces Operating Cost: MSPL's plant is located in mineral rich Chhattisgarh state, which is also nearer to mineral rich Odisha state. As a result of this, the company is able to source the raw material (*iron ore, coal and limestone*) at a cheaper rate thereby maintaining a healthy profit margins.

Financial Performance of the Company

	FY2008	FY2009	FY2010
Net Sales (mn)	3,607	3,989	3,887
EBITDA	820	760	712
Net Profit (mn)	467	399	321
EBITDA Margins(%)	22.7	19.1	18.3
EPS	8.0	6.9	5.5
P/E	7.4	8.6	10.8
P/BV (x)	2.7	2.1	1.6
ROE (%)	43.8	26.7	16.3
ROCE (%)	28.0	17.7	10.4
EV/Sales	2.6	2.3	2.4
EV/EBITDA	11.3	12.2	13.0

Source: Company, ULJK Research

Plant Visit Note

Not Rated

MSPO.BO, MSPL IN

CMP: ₹ 59.40

Price Target: `UR

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ULJK Financial Services Private Limited

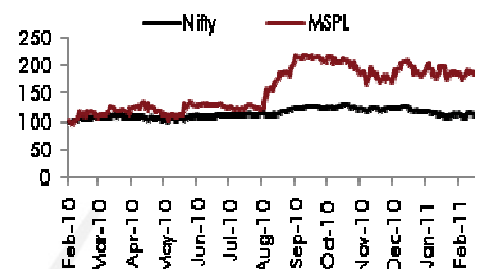
Market Data

Market Cap. (Mn)	3490
Outstanding Shares (Mn)	58.1
52 Week High/Low (₹)	74.00/33.35
Avg Volume (₹)	130804
Face Value (₹)	10

Shareholding

	%
Promoters	71.80
MF/Banks/DII	0.77
FII/NRIs/OCB	0.33
Indian Public/Others	27.10

Nifty and Stock Movement



Please refer to the important disclosures and analyst certifications at the end of the document

FY10-12 Capacity Expansion Program:

		Existing Capacity	Phase I	Phase II	Post Expansion
Pellet	Tons	300,000	-	600,000	900,000
Sponge Iron	Tons	192,000	115,000	115,000	422,000
Coal Washery	Tons	328,000	-	340,000	668,000
Billets	Tons	144,109	-	-	144,109
Power	MW	24	18	34	76
TMT Bar	Tons	80,000	-	-	80,000
Structural	Tons	128,000	-	-	128,000
Railway Siding	Km	2.4	-	4.0	6.4

Source: Company Filings, ULJK Securities

Sponge Iron: Recently, MSPL completed its 115 ktpa Phase I sponge iron capacity expansion plan and has already commenced its 115 ktpa Phase II expansion plan. The company expects the phase two of the expansion plan to complete by Q3 FY12. Since, MSPL is not expanding its upstream capacity, revenues from sponge iron will represent a higher percentage of the company's revenue from FY12.

Power Generation: In Jan 2011, MSPL completed its 18 MW Phase I power capacity expansion program. This project includes 12 MW of waste gas fired and 6 MW coal power plant, which are currently used in captive consumption. The company is also progressing on its 34 MW coal fired merchant power plant. Based on the current project activity level, the company expects to finish the project as per schedule. This plant is designed in such a way that the company can use the lowest quality of coal to produce power. Hence, raw material sourcing should not be a problem for this project. After completion of phase 2 of expansion plan, the company's total power generation capacity will reach 76 MW of which approx. 50% of the output will be available for merchant sale, which will further add to the company's near-term revenue growth and profitability.

Pellet Plant: MSPL is also progressing on its 600 ktpa pellet capacity expansion plan. Post expansion, the company's pellet capacity will reach 900 ktpa of which it could only consume 75% of the total output internally. In addition to cost saving from pellet operations, the company is also expected to generate higher revenue and profits from the sale of excess pellets in the open market. The company plans to source the iron ore requirement from the spot market till the start of its iron ore mining operations.

Coal Washery: To support its sponge iron capacity expansion plan, MSPL is also expanding its coal washery capacity by 340 ktpa. The company plans to source low priced F-grade coal from the spot market and use its coal washery to improve the grades, thereby adding value (*cost saving*) to its operations.

Outlook & Valuation:

Based on capacity expansion program, MSP Steel & Power Limited (MSPL) is expected to report higher profitability in FY12-13. Slow progress on mining operations and high debt in the books are the concerns for the company. At CMP ₹ 54, MSPL's stock is trading at 1.6x FY10 P/BV and 13x FY10 EV/EBITDA.

Financial Statements

₹ in Million

Income Statement	FY 2008	FY 2009	FY 2010	Cash Flow Statement	FY 2008	FY 2009	FY 2010
Net Sales	3,607	3,989	3,887	PBT	605	492	382
Other income	149	150	71	Add: Depreciation	73	74	126
Total Income	3,756	4,139	3,959	Interest	139	188	195
Cost of Good Sold	2,599	2,909	2,619	(Inc)/ Dec in WC	(423)	38	(196)
Personal Expenses	54	74	119	Net Cash from Operating Activities	229	707	460
Selling & Administrative Exp.	284	389	505	Net Cash used in Investing Activities	(854)	(1,104)	(2,017)
Other Expenses	-	6	3	Net Cash used in Financing Activities	759	374	1,739
Total Expenses	2,937	3,379	3,246	Net increase in cash & Cash Equiv.	135	(23)	182
EBITDA	820	760	712	Cash & Cash Equivalents (Op Bal)	76	211	188
Depreciation	73	74	126	Closing Cash Balance	211	188	370
EBIT	746	686	586				
Interest	142	194	204	Ratios	FY 2008	FY 2009	FY 2010
PBT	605	492	382	EBITDA Margins (%)	21.8	18.4	18.0
Tax	138	93	62	EBIT Margins (%)	19.9	16.6	14.8
PAT	467	399	321	PAT Margins (%)	12.4	9.6	8.1
				Debt/ Equity (x)	1.6	1.6	2.1
Balance Sheet	FY 2008	FY 2009	FY 2010	Valuation Ratio			
Source of Funds				Diluted EPS	8.0	6.9	5.5
Share Capital	581	581	803	Cash EPS	9.3	8.1	7.7
Reserve & Surplus	718	1,111	1,432	P/E (x)	7.4	8.6	10.8
Deferred Tax liability	93	158	199	P/BV (x)	2.7	2.1	1.6
Total Debt	2,053	2,727	4,611	P/EBITDA (x)	11.3	12.2	13.0
Total	3,444	4,578	7,044	EV/Sales (x)	2.6	2.3	2.4
Application of Funds				ROCE (%)	28.0	17.7	10.4
Fixed Assets				RONW (%)	43.8	26.7	16.3
Gross Block	1,504	2,509	2,922				
less: Depreciation	157	236	363				
Net Block	1,347	2,273	2,559				
CWIP	40	55	232				
Pre-operative & Trial Run Exp.	797	997	2,222				
Investments	61	67	450				
Current Assets & Loans & Adv.	1,815	1,432	2,272				
Current Liabilities & Prov.	620	246	691				
Misc Expenses	5	-	-				
Total	3,444	4,578	7,044				

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Disclosure Appendix

ULJK Financial Services Pvt Ltd: (Time range– 12 months)

BUY: Returns>20%; **ACCUMULATE:** 5%<Returns<20% ; **HOLD:** -5%<Returns<5%, **REDUCE** -20%<Returns<-5% and **SELL:** Returns<-20%

Analyst(s) holding in the Stock : Nil

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