



Visa Steel –Good Show but fairly valued

CMP:	Rs.60
Target Price:	Rs 60
Recommendation:	Reduce

Stock Info

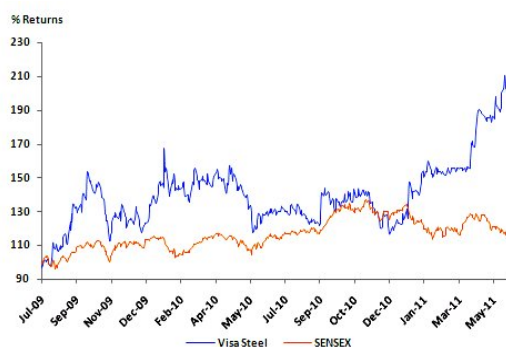
BSE Group	B
BSE Code	532721
NSE Symbol	VISASTEEL
Bloomberg	VISA.IN
Reuters	VISA.BO
BSE Sensex	18503
NSE Nifty	5560

Market Info

Market Capital	Rs.697 cr
Equity Capital	Rs.110 cr
Avg. Trading Vol.	363843
52 Wk High/ Low	65/33
Face Value	Rs.10

Shareholding Pattern (%) (31st Mar.,2011)

Promoters	74
Domestic Institutions	0.04
Foreign Institutions	4.5
Non Promoters Corp.	4.3
Public & Others	17.2
Govt. Holdings	-



Higher realisations boosts top-line

Visa Steel reported better than estimated results on account of higher realisations and better operating performance across the products. Net sales during the quarter jumped 6% yoy to Rs 430cr. The Better than estimated performance should be seen in context of sequential improvement in operating performance, where net sales have gone up by 26%. Visa's performance over the preceding three quarters was marred by unavailability of iron ore for blast furnace operation, and lower coke volumes. However, situation have improved since then and all the facilities are running at optimal level, with blast furnace operated at capacity utilisation of 60% during 4QFY11 compared to 24% in 3QFY11 and 43% in 4QFY10. Realisation across the categories have improved considerably, with Pig iron, DRI, Met coke and Ferro Chrome realisation growing by 26% yoy, 31% yoy, 37%yoy and 12% yoy respectively.

EBITDA margins up 226bps yoy

Improved operating performance and higher realisation during the quarter has resulted into 226bps yoy improvement in EBITDA margins. On sequential basis margins have improved 382bps to 17.7%. Visa reported EBITDA per tonne of US \$111/tonne during 4QFY11 compared to US \$89/tonne. In absolute terms EBITDA has grown 22% yoy to Rs 75cr.

PAT up 153% yoy on lower interest and tax incidence

Visa reported 153% yoy growth in PAT to Rs 23.2cr (Rs 9.2cr). Lower interest cost of Rs 18.7cr (Rs 26.7cr) and lower tax incidence of 48% (61%) resulted into higher PAT.

Valuations:

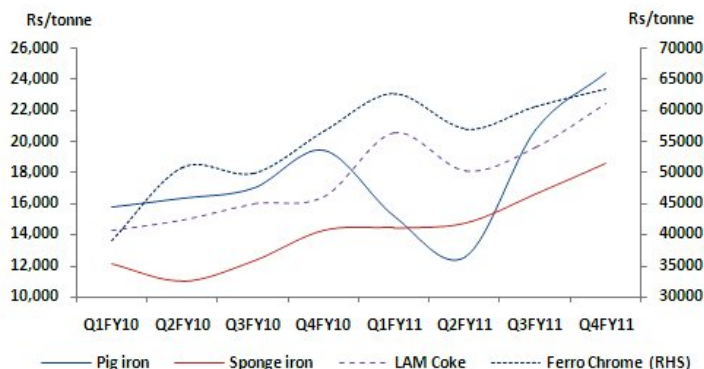
Visa is likely to benefit from 0.5mn tonne special steel expansion plan and will help it to improve margins going forward. We believe this will pave the way for next phase of expansion. However, we are bit concerned about the quantum of leverage on Visa's balance sheet. Any delay in production ramp up could negatively affect the profitability of the company and thus propensity to generate cash flows. We are maintaining our FY12E based target price at Rs 60. At CMP of Rs 60 the stock is trading at 5.4x FY12E EBITDA and 6.5x FY12E EPS. **We maintain Reduce on the stock.**

Financials

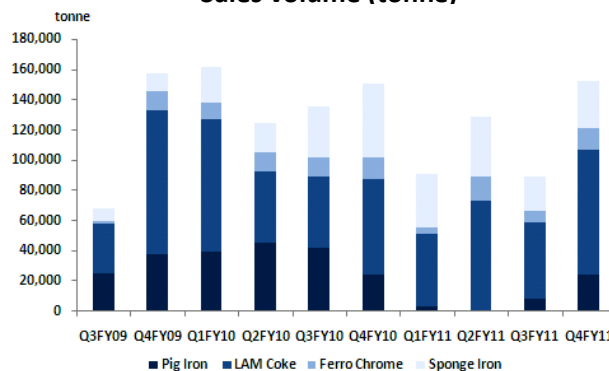
Y/E March, (₹ in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	1157	1306	1616	1916
EBIDTA	183	179	358	457
PAT	47	51	101	165
EPS	4.3	4.7	9.2	15.0
EPS Growth (%)	194	8	96	63
RONW (%)	15	15	23	28
P/E (X)	13.9	12.8	6.5	4.0
EV/EBITDA(X)	9.4	11.1	5.4	4.0



Realisations (Rs/tonne)



Sales volume (tonne)



Source: Company, Arihant Research

Project Status

0.5mn tonne special steel expansion: Visa Steel’ special steel expansion plan that includes 25MW of coal fired power plant, 0.5mn tonne SMS mill and 0.5mn tonne bar and wire rod mill has almost got commissioned. 25MW of captive power unit has commissioned during 4QFY11, and SMS unit commissioned during early 1QFY12. Bar and wire rod mill will start trail run production over next couple of months. Management has guided target production volume (Billet + Finished steel) of 2,10,000-2,20,000 tonne for FY12E and 4,00,000 tonne during FY13E.

Visa-Bao project to commission during FY12 end: Work on Visa-Bao Ferro chrome project is going on full stream, with likely commissioning by March 2012 end. Visa steel in joint venture with Bao steel of China is setting up 0.1mn tonne of Ferro Chrome production facility in Orissa. The project is being setup at a total cost of Rs 260cr and is funded through debt-equity mix of 70:30. Visa steel has 65% equity interest in the venture and has invested entire Rs 51cr of its equity portion, along with equity infusion from Bao steel.

Progress Till date	% Progress
Civil	39%
Structural Fabrication	37%
Structural Erection	16%

**4QFY11 Results**

Rs in Crore	4QFY11	4QFY10	YoY (%)	3QFY11	QoQ (%)
Net Sales	429.7	407.3	5.5	346.9	23.9
Expenditure	354.7	338.2	4.9	300.2	18.1
EBITDA	75.0	69.1	8.6	46.7	60.7
EBITDA Margins (%)	17.5	17.0		13.5	
Other Income	-	-	-	-	-
Interest	18.7	26.7	-30.2	19.2	(3.0)
Depreciation	12.0	11.8	1.7	12.1	(1.2)
Exceptional Items (Loss)	0.0	0.0	-	0.0	-
PBT after exceptional items	44.4	23.2	91.2	15.3	189.5
Tax	21.3	14.1	51.2	5.0	323.9
Tax rate (%)	47.9	60.6		32.7	
PAT after extraordinary items	23.1	9.2	152.7	10.3	124.1
Net Profit Margin (%)	5.4	2.2		3.0	
EPS (Rs)	2.1	1.5	152.7	0.9	124.1

Background

VISA was promoted by Mr. Vishambar Saran in 1996 as a trading company dealing in coal, coke, iron ore fines and other raw materials for the steel industry. The VISA group has interests in steel, power and international trading, shipping and logistics businesses. VISA Steel, a part of the VISA Group, is into manufacturing of sponge iron, pig iron, ferro chrome and coke. The Company is currently operating a Blast Furnace with production capacity of 225,000 TPA of Pig Iron, a Stamp Charged Coke Oven Plant of 4,00,000 TPA and a Chrome Ore Beneficiation Plant & a Chrome Ore Grinding Plant with capacity of 1,00,000 TPA each.

As a part of backward integration move, the company is setting up an integrated 0.5 mtpa special and stainless steel plant at Kalinganagar Industrial Complex, Orissa and also plans to set up integrated steel plants in the other minerals rich states of Chhattisgarh and Jharkhand. The 1,00,000 TPA ferrochrome plant is also being developed in the adjacent premises under VISA BAO joint venture (65% held by VISA) which the company expects to commission in 2 years time. The company is also aiming to commission a 500 MW power plant in Raigarh, Chattisgarh within the next 4 years for which land has been partially acquired.



Profit & Loss Statement (Standalone)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	1157	1306	1616	1916
% Chg	11.8	12.9	23.8	18.5
Total Expenditure	974	1127	1259	1459
% chg	1.6	15.8	11.6	15.9
EBDITA	183.1	178.6	357.9	457.3
EBDITA Margin %	15.8	13.7	22.1	23.9
Other Income	15	27	8	10
Depreciation	47	48	65	77
EBIT	151	157	301	391
Interest	65.1	70.9	150.7	145.0
PBT bfr excep Items	85.7	86.5	150.6	246
Exceptional Items	-	-	-	-
PBT after EI	85.7	86.5	150.6	246
Tax Provisions	38	35	50	81
Adjusted PAT	47	51	101	165
Adj PAT Margins (%)	4.1	3.9	6.2	8.6

Cash Flow Statement (Standalone)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax	85.7	86.5	150.6	246.0
Oper. Profit Before Work. Cap.	107.9	154.2	216.6	221.6
Changes in WC	(10.5)	247.9	(38.6)	(74.8)
Cash generated frm Operation	183.0	488.6	328.5	392.8
Direct Tax Paid	(9)	(35)	(50)	(81)
Int/Div received & Others	-	-	-	-
Net Cash From Oper. Act	174	453	279	313
Net Cash From Investing Act	(326)	(606)	(100)	(100)
Cash flow from Financing Act	164	117	(270)	(208)
Net increase in cash & Equiv	41	(99)	56	-34.4
Opening adjustment for JV	0	0	0	0.0
Opening Cash Balance	70.5	83.3	88.6	46.5
Closing Cash Balance	83.3	88.6	46.5	100.2

Balance sheet (Standalone)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Equity Capital	110	110	110	110
Equity Warrants	-	-	-	-
Reserve & Surplus	314.7	353.3	442.3	594.3
Total Loans	1143	1408	1302	1252
Deferred tax	30	60	60	60
Total Liabilities	1488	1821	1804	1906
Gross Block	927	948	2323	2373
Less Acc. Depreciation	113	161	226	302
Net Block	814	786	2097	2070
CWP	770	1375	50	50
Investments	60	61	61	61
Net Current Assets	(159)	(401)	(404)	(275)
Misc Exp	2.5	-	-	-
Total Asset	1488	1821	1804	1906

Key Ratios (Standalone)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Per Share data (Rs)				
EPS	4.3	4.7	9.2	15.0
Cash EPS	8.6	9.1	15.1	21.9
DPS	1	1	1	1
Book value	28.6	32.1	40.2	54
Operating, Returns Ratio				
Debt/ Equity (X)	3.6	4.0	2.9	2.1
Current Ratio (X)	0.8	0.6	0.6	0.8
ROE (%)	15.1	14.5	22.8	27.7
ROCE (%)	5.6	5.1	11.2	13.7
Dividend Yield (%)	1.6	1.6	1.6	1.6
Valuation Ratio (X)				
P/E	13.9	12.8	6.5	4.0
P/BV	2.1	1.9	1.5	1.1
EV/ Sales	1.5	1.5	1.2	0.9
EV/EBITDA	9.4	11.1	5.4	4.0



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Stock Rating Scale**Absolute Return**

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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