VISA STEEL LTD.

Stabilisation pangs...

Q2 FY 2007 update

COMPANY DETAILS

Auditors M/s Lovelock & Lewes.

Bankers SBI, Syndicate Bank, ICICI Bank
MD Mr. Vishal Agarwal

Regd. office 11 Ekamra Kannan Nayapalli
751 015, Bhubaneswar, Orrisa

Plant Locations Kalinganagar, Orissa

Website www.visasteel.com

SCRIP DETAILS

Market Capitalisation Rs. 3.4 bn. Book Value per share Rs. 27 Equity Shares O/S (F.V. Rs 10) 110 mn. 58,300 (BSE+NSE) Median Volumes (8 mths) 52 Week High/Low Rs.62 / 23 532721 BSE Scrip Code NSE Scrip Code **VISASTEEL** Reuters Code VISA.BO

SHAREHOLDING PATTERN (%)

Otr. Ended	Mar-06	Jun-06	Sep-06
Promoters	72.7	72.7	72.7
MFs/FI's	2.1	0.8	-
FIIs	13.4	14.1	15.6
NRI/OCBs	0.2	0.1	0.4
Pvt. Corp. Bodies	2.7	3.0	2.5
Others	8.9	9.3	8.8

KEY	FINA	NCIAL	S (ST	TANDA	LONE)	
Rs Mn	Qua	arter En	ded	Year	Ended (March)
K5 WIII	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	1,089	1,125	1,497	3,840	5,302	8,795
YoY Gr. (%)	65.1	76.2	46.0	55.0	38.1	65.9
Op. Profits	85	111	117	361	689	1,231
OP. Marg. (%)	7.8	9.8	7.8	9.4	13.0	14.0
Net Profits	22	81	56	124	382	574
Eq. Capital	1,100	1,100	1,100	1,100	1,100	1,100
KEY RATIOS						

		112	IVALLO			
Year Ended	EPS	ROCE	RONW	P/E	EV/Sales	EV/EBIDT
(March)	(Rs.)	(%)	(%)	(x)	(x)	(x)
2006	1.1	12.8	6.7	27.5	1.3	9.6
2007E	3.5	15.6	12.8	8.9	1.3	8.7
2008E	5.2	15.9	17.5	5.9	1.3	3.3

SUMMARY

- Visa Steel Ltd. (VSL) posted a 46% YoY rise in sales to Rs 1. 5 bn in Q2FY07. This was mainly due to spurt in trading revenues during the quarter.
- Revenues from manufacturing business increased by 8% YoY to Rs 672 mn. Hot metal production at 45k mt in Q2FY07, was higher by 26% YoY and 3% QoQ basis, where as pig iron production was 41k mt (+23% YoY and +4% QoQ). VSL also produced ~5k mt of coking coal, which was captively consumed for pig iron production.
- Pig Iron sales volumes improved by 6% YoY to 37k in Q2FY07. Effective net realisation increased by ~15% YoY to Rs 14k/mt in Q2FY07.
- Trading business revenues at Rs 875 mn, were higher 71% YoY and 85% QoQ, as the company offloaded its iron ore fine and coking coal inventory in Q2FY07, expecting further softening of prices.
- Coke production suffered during the quarter, due to breakdown of one of the machinery, which had to be imported. The company expects its coke oven batteries to fully stabilise by Dec'06.
- Op. profits were at Rs 117 mn (+61% YoY & 6% QoQ) in Q2FY07, due to improvement in realisations and higher volumes of pig iron. OPM improved by 70 bps to 7.8%, but declined by 200 bps QoQ, as due to higher contribution from low margin trading business, which in fact suffered losses during the quarter.
- Other income increased to Rs 7 mn in Q2FY07 as compared to Rs 2 mn in Q2FY06. Depreciation charges increased by 72% YoY to Rs 20 mn, due to capitalisation of coke oven batteries.
- Higher op. profits, spurt in other income and dip in interest charges, helped the company report 180% jump in net profits to Rs 56 mn in Q2FY07.
- VSL has potential to emerge as one of the largest players in special & alloy steel, in India. This along with the group's implementation skills, scalability potential and financial closure of the project, we maintain a 'BUY'.

Nov 10, 2006 Sensex :13283 Nifty : 3835 CMP : Rs 31 Recomm : BUY

VSL's results in Q2FY07, were below our expectations, mainly due to losses suffered by the company in its trading business and loss of production of coke due to breakdown.

Net sales of the company increased to Rs 1.5 bn in Q2FY07 (+46% YoY and 33% QoQ). This was mainly driven by higher revenues from the trading business, which jumped 71% YoY and 85% QoQ. Manufacturing business grew 8% YoY, but was lower by 6% QoQ.

Table I: Existing Capacities	s (Sep'30, 06)
Division	Capacity (TPA)
1. Pig Iron	225,000
2. Chrome Ore Beneficiation Plant	100,000
3. Chrome Ore Grinding Plant	100,000
4. LAM Coke	100,000

The company produced 45k mt of hot metal in Q2FY07, up by 26% YoY and 3% QoQ. Pig iron production was at 41k mt (+ 23% YoY and 4% QoQ). Pig iron sales increased by 6% YoY to 37k during the quarter. Avg. realisations of pig iron were \sim 14k/mt in Q2FY07.

VSL's coke production was just ~5k mt during the quarter, because of breakdown at one of the parts of its coke oven batteries. VSL's plans to commission all 4 set of batteries (4x100k mt) by Sep'06, got delayed by almost 2-3 months due to heavy monsoon and initial teething problems. The company commissioned 2 more set of batteries (100k x2 mt) in Oct'06 and Nov'06, and expects both of these to stabilise by the end of Q3FY07. The last set of batteries (100k mt) is expected to commission by Dec'06.

The trading business of the company, which includes exporting iron ore fines and coal imports suffered

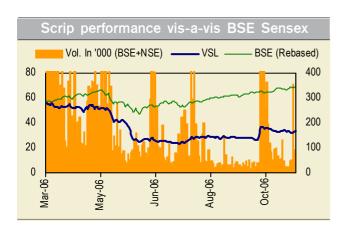
badly during the quarter due to strengthening of rupee against dollar and softening of coking coal prices. The company off-loaded its high cost inventory in anticipation of further decline in the prices of coking coal. Also, non-availability of rakes, adversely impacted its iron ore fines business as the stock had to be moved via road resulting in high freight charges. All this led to the company suffering a loss of Rs 15 mn at PBIT level in Q2FY07.

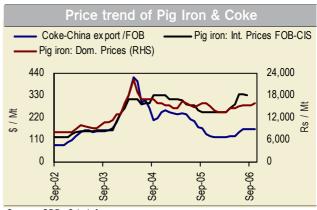
The company procures iron ore from local suppliers and has tied up with Sesa Goa & OMC and its current landed cost works out to ~Rs 1800/mt. The coking coal is imported from Australia, and prices of hard coking coal have been around \$110-115/mt (FOB). The company also had to source coke from outside, due to breakdown in its coke oven batteries, at an the average cost of ~\$190-200/mt (CIF).

Operating profit of the company increased by 61% YoY to Rs 117 mn in Q2FY07. OPM at 7.8% was also higher by 70 bps YoY, but took a hit of 200bps QoQ because of increased share of low margin (infact made losses during this quarter) trading revenues.

VSL's net interest charges at Rs 16 mn was although down by 46% YoY, but increased 809% QoQ and is expected to increase further in coming quarters due to increased debt, as the work on the expansion project gets into full swing. Depreciation charges were also up 72% YoY and 9% QoQ, due to capitalisation of coke oven batteries.

Net profits of the company increased by 180% YoY to Rs 56 mn. However, the same were lower by 31% QoQ, due to higher capital charges and losses in trading business.





Source: SBB, Cris-Infac

VISA STEEL LTD. OUR VIEW

VSL is setting up 0.5 mn of special and stainless steel capacity at its existing facility in Kalinganagar (Orissa), at a total cost of Rs 11.5 bn. This project is planned to be funded via debt:equity ratio of 65:35, with the debt being tied up at \sim 9% p.a. The equity portion is met via IPO proceeds (~Rs 2 bn raised in Mar'06 by issue of 35 mn share at Rs 57/share, out of which promoters subscribed to 5 mn shares at the same price) and internal accruals of the company.

The expansion envisages a 300K tpa sponge iron plant (2 X 500 tpd kilns), a steel making plant of 500K tpa and two power plants (25 MW each). It will also have a 50K tpa ferro chrome plant, operating on two 16.5 MVA furnaces, servicing captive requirements.

The schedule of completion of these projects is elaborated in Table II.

Table II: Propos	ed Capac	ities
Expansion Plans	Capacity (TPA)	Expected Completion
Coke Oven Batteries	300,000	Dec '06
Ferro Chrome	50,000	Mar '07
Sponge Iron	300,000	Sept '07
Special & Stainless Steel	500,000	Mar '08
Power (MW)	50	Sep '07
Project Cost (Rs. bn)	11.5	Mar'08
Funded via Debt:Equity	65:35	
Debt (Rs. bn)	7.5	
IPO money raised (Rs. bn)	2.0	Mar'06
Internal accruals (bal.) (Rs. bn)	2.0	

The sponge iron plant would be based on Lurgi technology and the steel making would be via the EAF/ AOD/ LRF/ VD/VOD route. The same would have continuous casting facility also.

The total power requirement of the company upon commissioning all the projects is expected to be 115 MW. VSL plans to set up two 25 MW waste heat recovery based power plants initially, to tap its flue gases. It also has power supply arrangement with the state grid for ~40MW. There is potential to set up another 25 MW power plant at a later date, based on the char and fines from its sponge iron plant.

Civil and fabrication work on sponge iron, power and ferro alloys plant has already started and orders for long delivery items has also been placed. Negotiations are on for supply of equipment for special and stainless steel plant and orders are expected to be placed by the end of Q3FY07.

Raw Material Linkages

VSL has a chrome ore mine (via its 89% subsidiary Ghotaringa Minerals Ltd) which is expected to meet majority of its chrome ore demand, once ferro chrome furnaces go on stream.

Also, a coal block in the Patrapara coal block (Talcher) has been allotted to the company. It envisages setting up a coal washery and meet its entire steam coal requirements via this mine.

For coking coal (req. of ~600K tpa), it has arrangement with Millennium Coal Pty Ltd. (Australia).

VSL has also signed a MoU with Orissa govt for allotment of an iron ore mine to suffice its requirement. The company has already emerged as front runner for the allotment of iron ore mines following recommendation of HOODA committee, which the company already satisfies. However, till its allocation, iron ore requirement would be met from local suppliers like Sesa Goa, OMC, etc.

Outlook

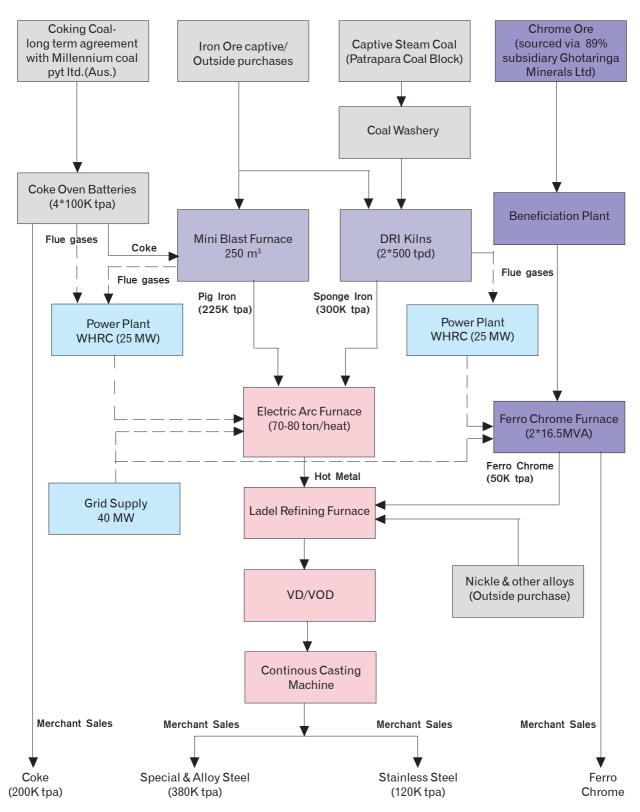
The company has planned its expansion project in such a manner, that it would be able to make merchant sales of pig iron, power, sponge iron, power and ferro alloys, till the final 0.5 mn mt special and alloy steel plant comes up in Mar'08. This will help the company generate revenues & earnings stream during the project implementation stage.

Due to subdued performance during this quarter and lower than expected coke production, we have revised downwards our profits estimates for FY07. However, we remain positive on the long term growth prospects of VSL, as the company has high scalability potential, once all its facilities go on stream and the company stabilises its operations. At 0.5 mn tpa, the company has potential to post turnover of Rs 25 bn & net profits of Rs 1.7 bn in FY10.

At CMP of Rs 31, VSL is trading at a P/E of 5.9x and EV/ EBIDTA of 3.3x, discounting its FY08 nos. While these appear to be on the higher side in comparison to its peers like Mukand Ltd & Mahindra Ugine, VSL is in investment phase, the benefits of which will start accruing from FY09.

VSL has potential to emerge as one of the largest players in special & alloy steel, in India. This along with the group's implementation skills, scalability potential and financial closure of the project, we maintain our 'BUY' recommendation.

VISA STEEL LTD. **BUSINESS MODEL**



Note: VSL is setting up integrated special and stainless steel plant of 0.5 mn tpa, to be commissioned in phases by Mar'08. Till that date, it will have merchant sales of pig iron, sponge iron, coke and ferro chrome, as these facilities will be commissioned first.

VISA STEEL LTD.

RESULTS TABLE

Financial results for the qua	rter and	half year	ended S	Sep'30, 2	2006 (Sta	ndalone)	
Particulars (Rs mn)		uarter Ende			alf Year Ende		Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Net Sales	1,497	1,025	46.0	2,623	1,664	57.6	3,840
Total Expenditure	1,380	952	44.9	2,394	1,528	56.7	3,480
(Inc)/dec in Stock in Trade	47	(24)		76	(405)		(222)
Consumption of Raw Material	511	389	31.5	923	683	35.1	1,502
Staff cost	13	17	(26.6)	21	22	(2.3)	42
Cost of Trading Goods	706	495	42.6	1,163	1,027	13	1,709
Other Expenses	104	75	37.6	210	202	4.4	449
Operating Profit	117	73	60.5	228	136	68.3	361
Other income	7	2		17	2		6
PBDIT	124	75	65.3	245	138	77.8	367
Interest (Net)	16	30	(46.3)	18	53	(66.2)	118
Depreciation	20	12	71.7	39	23	71.0	50
РВТ	88	33	164.4	188	62	204.3	200
(-) Provision for current tax	11	6	84.5	22	8	165.8	17
(-) Provision for deferred tax (net)	20	7	188.9	27	9	186.6	55
(-) FBT	1	1	108.3	2	1	66.7	3
Net Profit	56	20	180.4	137	43	219.3	125
Equity Capital	1,100	750		1,100	750		1,100
Reserves (excl rev res)							1,861
Basic EPS for the period (Rs.)	0.5	0.3	91.2	1.2	0.6	117.7	1.1
Book Value(Rs)							27
OPM (%)	7.8	7.1		8.7	8.1		9.4
NPM (%)	3.7	2.0		5.2	2.6		3.2
Production (Mt '000)							
Hot Metal	45	35	26.3	88	64	37.5	
Pig Iron	41	33	23.4	80	60	33.2	141.9
Sales (Mt '000)							
Pig Iron	37	35	5.8	80	46	74.9	127.7

Segmentwise results for the	quarter &	k half yea	r ended	Sep'30,	2006 (St	andalone)
Dorticulous (Do ma)	Q	uarter Ende	ed	Ha	alf Year End	ed	Yr Ended
Particulars (Rs mn)	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Segement Revenue							
a) Manufacturing	672	622	8.0	1,397	743	88.0	2,150
b) Trading	875	510	71.4	1,346	1,028	30.9	1,967
Total Income (incl. other income)	1,547	1,133	36.6	2,743	1,771	54.9	4,116
Segment PBIT							
a) Manufacturing	152	54	181.8	294	88	234.4	242
b) Trading	(15)	50	(130.5)	6	80	(92.0)	193
Segment Profit	137	104	31.9	300	168	78.5	435
Less: Unallocable Selling, General &							
Admin expenses(net of income)	33	40	(18.8)	94	53	77.1	117
Less: Depriciation							
Total PBIT	104	63	64.1	206	115	79.2	317
Less: Interest	16	30	(46.3)	18	53	(66.2)	118
PBT	88	33	164.4	188	62	204.3	200
(-) Provision for current tax	11	5.7	84.5	22	8	165.8	17
(-) Provision for deferred tax (net)	20	6.8	188.9	27	9	186.6	55
(-) FBT	1	0.6	108.3	2	1	66.7	3
Net Profit	56	20	1.8	137	43	219.3	125
Capital Employed							
a) Manufacturing	2,922	819		2,922	819		2,887
b) Trading	170	14		170	14		29
c) Unallocable	7	52		7	52		45
Total	3,098	884		3,098	884		2,961
PBIT Margin (%)							
a) Manufacturing	22.6	8.6		21.0	11.8		11.3
b) Trading	(1.7)	9.7		0.5	7.8		9.8
Total	8.8	9.1		10.9	9.5		10.6
ROCE (%)							
a) Manufacturing	20.8	26.3		20.1	21.5		8.4
b) Trading	(35.6)	1,412.9		7.6	1,141.2		669.1
Total	17.6	46.8		19.4	38.0		14.7
Sales Mix (%)							
a) Manufacturing	43.5	55.0		50.9	41.9		52.2
b) Trading	56.5	45.0		49.1	58.1		47.8
Total	100.0	100.0		100.0	100.0		100.0

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	- Head - Equity Broking	baskarb@pinc.co.in	91-22-66186400
Research			
Bhavin Chheda	- Metals & Mining	bhavinc@pinc.co.in	91-22-66186375
(Head of Research)	<u> </u>	впачисшрине.со.пі	91-22-00100373
Sameer Ranade	- Capital Goods / Utilities	comport@nine co in	91-22-66186381
Nirjhar Handa	- FMCG / Pharma	sameerr@pinc.co.in nirjharh@pinc.co.in	91-22-66186400
Sujit Jain	- Fertilisers / Agro products	sujitj@pinc.co.in	91-22-66186379
Amol Rao	- Hospitality / Pipes	amolr@pinc.co.in	91-22-66186378
Niray Shah	- Sugar	niravs@pinc.co.in	91-22-66186383
Nakul Dharmawat	- Cement	nakuld@pinc.co.in	91-22-66186382
Kalpesh Makwana	- Specialty Chemicals / Pharma	kalpeshm@pinc.co.in	91-22-66186377
Rishabh Bagaria	- Auto / Auto Ancilliary	rishabhb@pinc.co.in	91-22-66186391
Ruchir Desai	- Technology	ruchird@pinc.co.in	91-22-66186372
Syed Sagheer	- Logistics / Light Engineering	syeds@pinc.co.in	91-22-66186390
Chandana Jha	- Associate - Banking	chandanaj@pinc.co.in	91-22-66186398
Dipti Solanki	- Associate - Media	diptis@pinc.co.in	91-22-66186392
Rahhul Aggarwal	- Associate - Steel	rahhula@pinc.co.in	91-22-66186388
Faisal Memon	- Associate - Logistics	faisalm@pinc.co.in	91-22-66186389
Abhishek Gangwani	- Associate	abhishekg@pinc.co.in	91-22-66186385
Institutional Sa	ales:		
Jaykrishna Gandhi		jaykrishnag@pinc.co.in	91-22-66186327
Rajesh Khanna		rajeshk@pinc.co.in	91-22-66186328
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<u>Dealing</u>			
Bhavik Broker / Chet		11.00.1	
	an Trivedi	equity@pinc.co.in	91-22-66186306
Manoj Parmar / Raju		equity@pinc.co.in equity@pinc.co.in	91-22-66186306 91-22-66186323
Manoj Parmar / Raju	Bhavsar		
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Manoj Parmar / Raju Business Deve Sachin Kasera	Bhavsar elopment / New initiatives:	equity@pinc.co.in	91-22-66186323
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Manoj Parmar / Raju Business Deve Sachin Kasera Derivative Des Sailav Kaji	Bhavsar elopment / New initiatives: k Strategy	equity@pinc.co.in sachink@pinc.co.in sailavk@pinc.co.in	91-22-66186323
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Business Development Sachin Kasera Derivative Des Sailav Kaji Anand Kuchelan Nilesh G. Inamdar PMS Desk Vivek Agrawal Hormasd Sumariwal Directors Gaurang Gandhi Girish Bakre Hemang Gandhi Ketan Gandhi	Bhavsar Elopment / New initiatives: k Strategy Analyst Dealer	equity@pinc.co.in sachink@pinc.co.in sailavk@pinc.co.in anandk@pinc.co.in nileshg@pinc.co.in viveka@pinc.co.in hormasds@pinc.co.in gaurangg@pinc.co.in girishb@pinc.co.in	91-22-66186323 91-22-66186384 91-22-66186341 91-22-66186349 91-22-66186347 91-22-66186389 91-22-66186400 91-22-66186400 91-22-66186400

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