

# Visa Steel (VISST)

Rs. 38

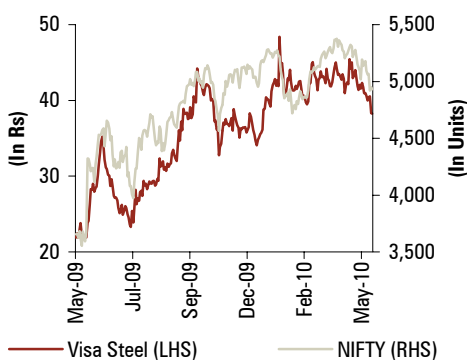
Rating matrix	
Rating	: <b>Strong Buy</b>
Target	: Rs. 52
Target Period	: 12 months
Potential Upside	: 27 %

Annual performance				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	1035.0	1156.9	1460.4	1944.5
EBITDA	-38.0	197.6	265.3	421.1
Net Profit	-66.8	47.4	74.1	169.1

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	NA	8.9	5.7	2.5
Target PE (x)	NA	12.1	7.7	3.4
EV/EBITDA (x)	NA	6.8	5.7	3.8
P/BV (x)	1.5	1.3	1.0	0.7
RoNW (%)	-23.8	14.5	18.4	29.6
RoCE (%)	-5.2	14.3	11.4	17.8

Stock data	
Market Capitalisation	Rs 420.8 Crore
Debt-Cons. (FY09)	Rs 893 Crore
Cash & Invst.-Cons. (FY09)	Rs 134.2 Crore
EV	Rs 1349.5 Crore
52 week H/L	50.2/22
Equity capital	Rs 110 Crore
Face value	Rs 10
DII Holding (%)	0.3
FII Holding (%)	5.5

## Price movement (stock v/s nifty)



## Analyst's name

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## WHAT'S CHANGED...

PRICE TARGET .....	Maintained at Rs 52
EPS (FY11E) .....	Changed from Rs 8.5 to Rs 6.7
EPS (FY12E) .....	Unchanged at Rs 15.4
RATING.....	Strong Buy

## Moving towards a better scenario...

Visa Steel reported satisfactory performance for Q4FY10. The top line of the company rose by ~42% and ~60% on YoY and QoQ respectively to Rs 407.3 crore against our estimate of Rs 308.6 crore. However, excluding trading income of ~Rs 95 crore for the quarter, it remained pretty much in line with our expectation. Bottom line for Q4FY10 was reported at Rs 16.5 crore against our estimates of Rs 17.7 crore. The company however, saw 254 bps dip in margin on QoQ basis to 17.3% (against our estimate of 19.6%). This should be attributed to the higher employee costs and other expenses both QoQ and YoY. In terms of volumes, while coke and pig iron saw dip in sales YoY, sponge iron and ferrochrome sales jumped decently on both YoY and QoQ basis. We maintain our target price at Rs 52 per share with a **STRONG BUY** rating.

### Realisations witness decent jump

Though, sales volumes remain slightly lower in pig iron on QoQ basis however, decent improvement in realisations across the product categories helped the company to maintain growth in top line.

### Margins dip but set to improve in future

The margins for Q4FY10 fell 280 bps QoQ to 17.3%, which was lower than our estimates of 19.6%. This was due to higher employee costs on higher manpower and also on account of higher other expenses. We however, expect margins to improve going forward from Q4FY11E after commissioning of the rolling mill.

## Valuation

At the CMP of 38.5, the stock is discounting its FY11E and FY12E earnings by 5.7x and 2.5x respectively. On the other hand, it also discounts FY11E and FY12E EV/ EBITDA by 5.7x and 3.8x respectively. We value the stock on both FY11E and FY12E basis by providing equal weights to the EV/ EBITDA assigning a multiple of 5x on each. This translates to a target price of Rs 52/ share. We assign a **STRONG BUY** rating on the stock.

## Exhibit 1: Financial performance

(Rs Crore)	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY (Chg %)	QoQ (Chg %)
Net Sales	407.3	308.6	286.1	254.5	42.3	60.0
EBITDA	69.1	60.6	-157.0	50.7	LP	36.2
EBITDA Margin (%)	17.3	19.6	-54.9	20.1	LP	-280 bps
Depreciation	11.8	15.0	9.8	11.9	19.8	-0.9
Interest	26.7	15.5	11.9	14.4	124.7	85.8
Reported PAT	16.5	17.7	-110.7	12.1	LP	36.0
EPS (Rs)	1.5	1.6	-10.1	1.1	LP	36.0

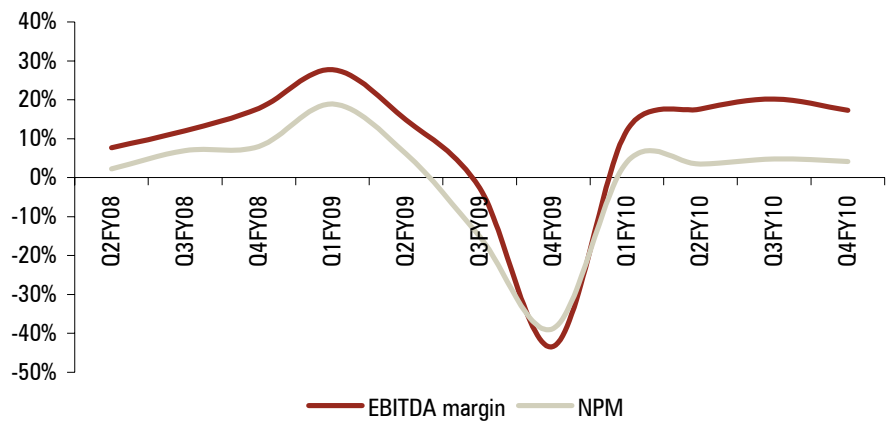
Source: Company, ICICIdirect.com Research

**Result Analysis**

The top line of the company including the income from trading activities came at Rs 407 crore. However, excluding the trading income of ~Rs 95 crore it remained pretty close to our estimates of Rs 308 crore. On the YoY and QoQ basis the top line grew by 42% and 60% respectively. EBITDA of the company in Q4 rose by ~36% QoQ to Rs 69 crore. EBITDA margin however, contracted 280 bps QoQ to 17.3% during the quarter under consideration mainly due to 28% and 46% QoQ rise in employee costs and other expenses respectively. The YoY figures here are not comparable as the company made a loss at the EBITDA level in Q4FY09. On the bottom line front the company managed to report highest PAT (of Rs 16.51 crore) since Q2FY09. The PAT in Q4 has seen a sequential growth of 36%. In Q4FY09 the company reported a net loss of ~Rs 111 crore. Profitability could have been higher excluding the deferred tax component of ~Rs 10 crore in Q4. Cash profit on the other hand continued to grow from Rs 22.7 crore in Q1 to Rs 38.9 crore in Q4FY10.

The top line came higher than our estimates on higher trading income. Margins fell on QoQ on higher employee costs and other expenses. The bottom line performance however, remained in line with the expectations.

**Exhibit 2: Margins saw a mild dip**

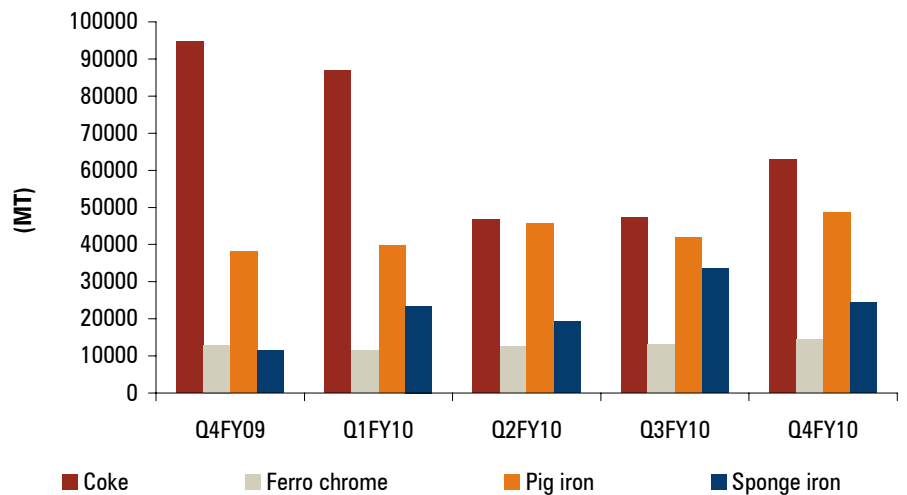


Source: Company data, ICICIdirect.com Research

On QoQ basis, sales volume, rose in all categories except pig iron. Sponge iron particularly saw a decent jump of 49% in sales volume. Ferro chrome and coke sales rose by 10% and 33% on QoQ basis, while pig iron sales fell by 41% during same period.

Price improvement continued to help higher sponge iron sales. Lower pig iron production on the other side helped higher coke sales.

**Exhibit 3: Sales volume showing stable improvement**



Source: Company, ICICIdirect.com Research

**Realisations seen improving**

Realisations as expected showed good improvement across all the categories. All the products saw decent growth in price realisations both QoQ and YoY basis. Ferro chrome on a YoY basis outperformed all the products in this regard. On QoQ basis prices of all the products have risen between 13% to 17%. Encouraging trend for the company has been the current prices have been running at an even higher level compared to the average realisations for the Q4FY10. This is indicating that we should see further improvement in the top line for the next year even without contribution from the rolling mill. Also, as recently India has started importing coke from its traditional market i.e. China and due to higher export taxes on Chinese coke, the prices are likely to remain firm. We believe a correction in coke prices can only happen if steel prices fall sharply, which at this moment is unlikely to happen. Ferrochrome prices on the other hand should remain strong on supply worries from South Africa, the world's largest producer. While, pig iron would follow the price trend in coke we are little cautious on sponge iron prices.

Product prices are likely to remain firm across all the categories, however, we are cautious on sponge iron prices...

**Exhibit 4: Realisations show modest rise**

Product	Realisation (Rs/ tonne)	Change (%)	
		YoY	QoQ
Coke	16398	2.3	15.4
Ferro chrome	56551	52.3	13.4
Sponge iron	14258	13.6	16.5
Pig iron	19444	18.6	14.4

Source: Company data, ICICIdirect.com Research

**Exhibit 5: Current prices show further improvement**

Product	Current Price (Rs/ tonne)	Change (%)		
		YoY	vs. Q3FY10	vs. Q2FY10
Coke (BF)	22000	37.3	34.2	54.9
Ferro chrome	65000	75.0	14.9	30.3
Spong iron	14500	15.6	1.7	18.5
Pig iron	21000	28.1	8.0	23.6

Source: Company data, Industry, ICICIdirect.com Research

### Valuations

Recent scenario in steel industry across the globe has been brighter than recent past due to improving prices across the product categories backed by stronger demand from construction, infrastructure and automobile segments. Some concerns however, are still there on the strategies and measures being taken by China to cool down its overheating economy. We believe this could be a threat to the industry as a whole. Recent fiscal problems in the European zone also might impact the industry in the short medium term due to some expected slowdown in that region. Having said that we are still confident that the robust domestic demand would help the domestic steel companies to remain better placed. Visa Steel's aim to be an integrated steel player is in the process and should be achieved with the commissioning of 0.5 million tonnes SMS and rolling facility during Q4FY11. This would help the company to improve its margin significantly other than boosting decent top line and bottom line growth. In FY11E however, we would like to remain cautious due to rise in raw material costs, which may dent into the margins.

Taking into account the above scenario, we have revised up our earning estimates for the company for both FY11E and FY12E.

### Exhibit 6: Revised earnings

Before revising		After revising	
FY11E	FY12E	FY11E	FY12E
8.5	15.4	6.7	15.4

Source: Company, ICICIdirect.com Research

At the CMP of 38.5, the stock is discounting its FY11E and FY12E earnings by 5.7x and 2.5x respectively. On the other hand, it also discounts FY11E and FY12E EV/ EBITDA by 5.7x and 3.8x respectively. The company has the significant growth potential from Q4FY11 onwards after the commissioning of bar and wire rod mill. At this point we like to value the stock on both FY11E and FY12E basis by providing equal weights to the EV/ EBITDA assigning a multiple of 5x on each. This translates to a target price of Rs 52/ share. We assign a STRONG BUY rating on the stock.

### Exhibit 7: Valuation matrix

	Sales *	EPS (Rs)	PE (x)	EV/EBITDA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
<b>FY09</b>	1035.0	-6.1	NA	NA	1.5	-23.8	-5.2
<b>FY10E</b>	1156.9	4.3	8.9	6.8	1.3	14.5	14.3
<b>FY11E</b>	1460.4	6.7	5.7	5.7	1.0	18.4	11.4
<b>FY12E</b>	1944.5	15.4	2.5	3.8	0.7	29.6	17.8

Source: Company, ICICIdirect.com Research; \* Sales in Rs crore

ICICIdirect.com coverage universe (Metals & Mining)

				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)	
<b>Adhunik Metaliks</b>										
<b>Idirect Code</b>	<b>ADHMET</b>	<b>CMP (Rs)</b>	<b>99.8</b>	<b>FY09</b>	1270.3	5.1	19.5	9.9	13.3	9.1
		<b>Target (Rs)</b>	<b>149.0</b>	<b>FY10E</b>	1457.9	10.9	9.2	6.1	16.9	14.0
<b>MCap (Rs Cr)</b>	<b>1191.6</b>	<b>Upside (%)</b>	<b>49.4</b>	<b>FY11E</b>	1746.1	16.6	6.0	5.0	20.9	17.5
				<b>FY12E</b>	1849.2	17.9	8.3	4.6	18.8	16.7
<b>JSW Steel</b>										
<b>Idirect Code</b>	<b>JINVIJ</b>	<b>CMP (Rs)</b>	<b>1,084.6</b>	<b>FY09</b>	16081.5	14.7	73.8	12.0	3.5	9.3
		<b>Target (Rs)</b>	<b>1,192.0</b>	<b>FY10</b>	19073.8	85.4	12.7	9.5	17.8	11.8
<b>MCap (Rs Cr)</b>	<b>21398.5</b>	<b>Upside (%)</b>	<b>9.9</b>	<b>FY11E</b>	23904.9	98.5	11.0	7.4	17.5	13.7
				<b>FY12E</b>	31780.8	141.9	8.4	5.9	20.3	15.6
<b>Usha Martin</b>										
<b>Idirect Code</b>	<b>USHBEL</b>	<b>CMP (Rs)</b>	<b>76.9</b>	<b>FY09</b>	2949.8	6.6	11.7	7.5	14.6	13.9
		<b>Target (Rs)</b>	<b>105.0</b>	<b>FY10</b>	2534.4	5.5	13.9	8.6	13.5	10.4
<b>MCap (Rs Cr)</b>	<b>2615.8</b>	<b>Upside (%)</b>	<b>36.5</b>	<b>FY11E</b>	3644.2	10.8	7.1	5.3	21.3	16.8
				<b>FY12E</b>	4000.5	13.0	8.1	4.3	20.9	17.8
<b>Visa Steel</b>										
<b>Idirect Code</b>	<b>VISST</b>	<b>CMP (Rs)</b>	<b>38.3</b>	<b>FY09</b>	1035.0	-6.1	NA	NA	NA	NA
		<b>Target (Rs)</b>	<b>52.0</b>	<b>FY10E</b>	1072.0	4.4	8.7	7.5	14.8	14.2
<b>MCap (Rs Cr)</b>	<b>459.3</b>	<b>Upside (%)</b>	<b>35.9</b>	<b>FY11E</b>	1443.8	8.5	4.5	5.6	22.1	12.8
				<b>FY12E</b>	1966.9	15.4	3.4	4.1	28.7	17.1
<b>Tata Steel - Cons</b>										
<b>Idirect Code</b>	<b>TISCO</b>	<b>CMP (Rs)</b>	<b>509.3</b>	<b>FY09</b>	145686.3	67.8	7.5	4.4	17.0	15.0
		<b>Target (Rs)</b>	<b>450.0</b>	<b>FY10E</b>	103553.3	-35.7	-14.3	11.9	-12.1	3.4
<b>MCap (Rs Cr)</b>	<b>45155.2</b>	<b>Upside (%)</b>	<b>-11.6</b>	<b>FY11E</b>	123265.8	47.7	10.7	6.3	13.8	11.0
				<b>FY12E</b>	130357.3	58.1	8.8	5.5	14.9	12.1
<b>SAIL</b>										
<b>Idirect Code</b>	<b>SAIL</b>	<b>CMP (Rs)</b>	<b>203.0</b>	<b>FY09</b>	43639.7	14.9	13.6	6.3	32.7	37.4
		<b>Target (Rs)</b>	<b>235.0</b>	<b>FY10E</b>	40638.3	16.0	12.7	8.1	22.1	21.0
<b>MCap (Rs Cr)</b>	<b>83826.5</b>	<b>Upside (%)</b>	<b>15.8</b>	<b>FY11E</b>	49225.3	18.2	11.2	7.5	20.0	17.0
				<b>FY12E</b>	58787.2	21.5	9.4	5.8	19.5	17.2
<b>Sesa Goa</b>										
<b>Idirect Code</b>	<b>SESGOA</b>	<b>CMP (Rs)</b>	<b>340.7</b>	<b>FY09</b>	4959.1	25.3	13.5	8.9	42.2	51.9
		<b>Target (Rs)</b>	<b>524.0</b>	<b>FY10</b>	5858.3	31.6	10.8	7.3	32.6	30.1
<b>MCap (Rs Cr)</b>	<b>28304.6</b>	<b>Upside (%)</b>	<b>53.8</b>	<b>FY11E</b>	10362.7	55.8	6.1	3.2	33.3	40.5
				<b>FY12E</b>	11127.5	57.9	5.9	2.4	26.1	31.4
<b>Hindustan Zinc</b>										
<b>Idirect Code</b>	<b>HINZIN</b>	<b>CMP (Rs)</b>	<b>970.8</b>	<b>FY09</b>	5680.3	64.6	15.0	10.9	20.8	19.8
		<b>Target (Rs)</b>	<b>1,312.0</b>	<b>FY10</b>	8017.0	95.6	10.1	6.2	24.7	27.2
<b>MCap (Rs Cr)</b>	<b>41019.2</b>	<b>Upside (%)</b>	<b>35.1</b>	<b>FY11E</b>	9322.1	110.3	8.8	4.7	22.6	25.1
				<b>FY12E</b>	11261.4	137.7	7.0	2.9	22.8	25.7
<b>Sterlite Industries *</b>										
<b>Idirect Code</b>	<b>STEIND</b>	<b>CMP (Rs)</b>	<b>641.7</b>	<b>FY09</b>	21144.2	50.0	12.8	-3.0	14.8	16.4
		<b>Target (Rs)</b>	<b>918.0</b>	<b>FY10</b>	24410.3	44.5	14.4	-3.5	12.1	15.1
<b>MCap (Rs Cr)</b>	<b>53924.3</b>	<b>Upside (%)</b>	<b>43.1</b>	<b>FY11E</b>	28240.7	56.8	11.3	-2.7	12.3	15.0
				<b>FY12E</b>	40235.5	100.7	6.4	-2.3	18.9	20.2
<b>GPIL</b>										
<b>Idirect Code</b>	<b>GODPOW</b>	<b>CMP (Rs)</b>	<b>215.9</b>	<b>FY09</b>	1092.0	22.8	9.5	6.8	14.6	13.6
		<b>Target (Rs)</b>	<b>254.0</b>	<b>FY10E</b>	799.3	17.9	12.0	7.2	10.2	10.6
<b>MCap (Rs Cr)</b>	<b>581.7</b>	<b>Upside (%)</b>	<b>17.6</b>	<b>FY11E</b>	967.1	36.9	5.9	4.0	18.4	17.6
				<b>FY12E</b>	1010.2	42.5	5.1	3.1	17.9	17.3

\* The announcement of bonus and split not factored in as record date is not announced till now

## RATING RATIONALE

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**Strong Buy: 20% or more;**

**Buy: Between 10% and 20%;**

**Add: Up to 10%;**

**Reduce: Up to -10%**

**Sell: -10% or more;**

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## ANALYST CERTIFICATION

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