Emkay Research

VISA Steel Ltd.

Result update

Forward Integration-next growth driver

21st Jun 2007

Not Rated

Price	Target Price
Rs34	N.A.

Sensex – 14412

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	22	24	24
Rel. to Sensex	(10)	8	15	(15)

Source: Bloomberg

Stock Details

Sector	Metals
Reuters	VISA.BO
Bloomberg	VISA@IN
Equity Capital (Rs mn)	1100
Face Value (Rs)	10
52 Week H/L (Rs)	39/23
Market Cap (Rs bn)	3.7
Daily Avg Vol (No of shares)	60957
Daily Avg Turnover (US$ mn)	0.1

Shareholding Pattern (%)
(31st Mar.'07)

Promoters	72.7
FII/NRI	15.8
Institutions	0.0
Private Corp.	3.1
Public	8.4

Source: Capitaline

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VISA Steel Ltd. (VSL) is engaged in the production of Pig Iron, Lam Coke and Chrome Concentrates. VSL has manufacturing facilities in Kalinganagar and Golagaon. It is currently operating a mini blast furnace with production capacity of 225,000 tpa of Pig Iron; a chrome ore benefication plant and a chrome ore grinding plant with capacity of 100,000 tpa each. For 4QFY07, the company reported net sales of Rs1,415mn (qoq up 11%, yoy up 27%), PAT of Rs7mn (qoq down 89%, yoy down 70%). For FY07, company reported net sales of Rs5,312mn (yoy up 37%), EBITDA of Rs437mn (yoy up 21%), EBITDA margins were 6.4% (yoy down 165bps). PAT was Rs205mn (yoy up 65%), net margins were 3.9% (yoy up 64bps). The company has plans to set up an integrated 0.5mtpa special and stainless steel complex in a phased manner in Kalinganagar. It also has plans to set up wire and bar mill and captive power plants.

4QFY07 net margins under pressure due to high depreciation and DTL

For 4QFY07, the net margins stood at 0.5% (qoq down 435bps, yoy down 150bps). The reduction in margins was mainly on account of higher depreciation, which stood at Rs.33mn (qoq up 31%, yoy up 134%); and also on account of increased deferred tax liability, which was at Rs.53mn (qoq up 279%, yoy up 28%). The company incurred losses in trading activities for FY07 of Rs71mn, which has also contributed to the reduction in margins.

Expansion Plans

Special steel and Stainless steel plant – backward integrated

The company is setting up an integrated 0.5mtpa special and stainless steel complex at Kalinganagar, Orissa. It is expected to commence by Dec.08. The product mix for the 0.5mtpa steel complex will be 80% speciality steel and 20% stainless steel. This will be backward integrated to ferro chrome, coke and sponge iron.

Ferro Chrome Plant

VSL is setting up a Ferro Chrome plant of 50,000 tpa capacity, which is expected to be commenced shortly. Its commencement was delayed by 3-4 months. This will meet the ferro chrome requirement of steel complex.

Coke Oven Battery

The company had plans of setting up a coke oven battery of 400,000 tpa; out of which 300,000 tpa is already commissioned and the balance 100,000 tpa is expected to commence in 2QFY08. Currently VSL has pig iron manufacturing capacity of 225,000 tpa; assuming 90% capacity utilisation the coke requirement will be 141,750 tpa which will be met by the coke oven battery. The surplus coke will be sold in the market, which will add to the bottomline of the company. The company is making coke through stamp charging technology, which enables usage of soft coking coal blended with prime hard coking coal; thereby reducing the cost of production.

Sponge Iron Plant

VSL is seting up a 300,000 tpa sponge iron plant; of which first DRI kiln is expected to be commissioned by 3QFY08 and second DRI kiln by 4QFY08. The project is progressing as per the schedule. This will meet the sponge iron requirement of the steel complex.

Bar and wire rod mill – leading to value addition

VSl is planning to set up a 0.5mtpa bar and wire rod mill. This will enable the company to forward integrate and enter into value added segment. This is expected to commence by 4QFY09.

Captive Power Plants

The company will be setting a 50MW captive power plant, which is expected to be commissioned by 4QFY08. This will meet the power requirements of the steel plant. VSL is also setting an additional captive power plant of 25MW to meet the power requirements of 0.5mtpa bar and wire rod mill. Currently, company is sourcing its power from grid at an average cost of Rs.3/unit.

Capex Plans

VSL expects a total capex of Rs18bn. The capex will be funded in a debt-equity ratio of 65:35. Rs6.3bn will be funded through internal accruals and balance debt of Rs11.7bn through rupee term loan. Out of the total debt requirement, the cost of Rs1.65bn is 8% fixed, cost of Rs7.45bn is 9% fixed and cost of Rs1.04bn is 11% floating. Balance Rs1.6bn debt is yet to be tied up. Average cost of debt tied up currently is 9%.

Facilities	Capacity	Date of Commencement	Capex
Pig Iron	225,000 tpa	Already commenced	
Coke Oven	400,000 tpa	- 300,000 tpa commenced	Rs2.6bn
		-100,000 tpa to be commissioned shortly	
Ferro Chrome	50,000 tpa	To be commissioned shortly	
Sponge Iron	300,000 tpa	- 1st DRI kiln by 3QFY08	
		- 2nd DRI kiln by 4QFY08	
Special and stainless steel	0.5mtpa	Dec.08	Rs11.4bn
CPP	75MW	- 50MW by Dec.08	
		- 25 MW by 4QFY09	
Bar and wire rod mill	0.5mtpa	4QFY09	Rs4bn

Source: Company estimates

Risks and concerns

VSL was previously engaged in trading of iron ore fines, which resulted in a loss of Rs71mn at EBITDA levels. The company still has an iron ore inventory of 20,000 tonnes, which the compnay expects to sell at a marginal profit.

Any delay in the project implementation and project cost over-run may have an impact on the company's topline and bottomline. Coke prices are historically benchmarked against Chinese prices. Currently the coke prices in China are USD 230 – 240/t FOB. Due to high volatility in the coke prices, the margins of this segment is likely remain volatile. Currently VSL imports coking coal from Australia. Frieght cost in the current year have increased from USD 23 – 27/t to USD 30 – 37/t. With the frieght market expected to remain firm, any future hike in frieght rates will likely impact the margins of the company.

Valuations

At the current market price of Rs.34 the stock is trading at 18.2x its FY07 EPS of Rs.1.87. We do not have any rating on the stock, however given the current expansion programe including benefits from coke and ferro chrome operations that are likely to flow in FY08, we are positive on the stock.

Financials

	4QFY07	3QFY07	qoq change	4QFY06	yoy change	FY07	FY06	yoy change
Net Sales	1,415	1,276	11%	1,117	27%	5,312	3,868	37%
EBITDA	87	124	-30%	85	2%	437	361	21%
Ebitda margin	6.1%	9.7%	*-358bps*	7.6%	*-145bps*	8.2%	9.3%	*-109bps*
PAT	7	61	-89%	21.89	-1	205	125	65%
Net margin	0.5%	4.8%	*-435bps*	2.0%	*-150bps*	3.9%	3.2%	*64bps*
Reported EPS	0.06	0.56	-89%	0.26	-77%	1.87	1.62	15%

All fig in Rs mn except for % and per sh data

Source:Company

Segmental Results

	4QFY07	3QFY07	qoq change (%)	4QFY06	yoy change (%)	FY07	FY06	yoy change (%)
Segment Revenue (gross)								
Manufacturing	953	697	37%	797	20%	3,669	2,150	71%
Trading	562	664	-15%	372	51%	1,949	1,967	-1%
Total	**1,514**	**1,361**	**11%**	**1,168**	**30%**	**5,618**	**4,116**	**36%**
Segment EBITDA								
Manufacturing	139	149	187%	74	478%	565	242	134%
Trading	-19	-31	69%	21	-345%	-71	193	-137%
Total	**120**	**118**	**218%**	**95**	**294%**	**494**	**435**	**14%**
Segment Capital Employed								
Manufacturing	7,587	1,250	507%	7,587	-84%	7,587	4,747	60%
Trading	74	398	-81%	74	437%	74	29	157%
Unallocable	-4,495	1,403	-420%	-4,495	-131%	-4,494	-1,814	148%
Total	**3,166**	**3,051**	**0%**	**3,166**	**-4%**	**3,167**	**2,962**	**7%**

All fig in Rs mn except for %

Source:Company

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