

MSP Steel and Power Ltd

Q2FY12 first cut – Disappointing results

Fundamental Grade 2/5 (Moderate fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Metals & Mining

MSP Steel's (MSP's) Q2FY12 revenues and margins were below CRISIL Research's expectations. Revenue growth was lower on account of low utilisation of the sponge iron plant. Profitability was lower due to high raw material prices and interest costs. The company is on track in implementing the second phase of expansion, which will significantly enhance MSP's capacity and contribute to its top line. However, we remain cautious on account of high gearing and the current slowdown. We are likely to revise our numbers downwards post interaction with the management. We maintain our fundamental grade of **2/5**.

Q2FY12 result analysis

- MSP's Q2FY12 revenues increased by 63% y-o-y but declined by 7% q-o-q to Rs 1,610 mn. Yearly growth was driven by capacity expansion – sponge iron capacity increased by 115,000 MTPA and power capacity increased by 18 MW. The quarterly decline in revenues was primarily on account of lower production of sponge iron (declined 31% to 39,915 tonnes) and lower power sales (declined 70% to 2.9 mn units).
- EBITDA margin declined sharply by 1,062 bps y-o-y and 663 bps q-o-q to 13.1% due to cost pressure and decline in share of high-margin power sales. Raw material cost as a percentage of sales increased by 1,474 bps y-o-y and 545 bps q-o-q to 70.6% despite the company using low-cost fines. We await more clarity from the management for the sharp increase in raw material cost.
- PAT declined by 78.7% y-o-y and 79.4% q-o-q to Rs 23 mn, on account of lower operating profit. Accordingly, EPS was Rs 0.4 vis-a-vis Rs 1.9 in Q2FY11 and Rs 2 in Q1FY12.

Valuation: Current market price has strong upside

We continue to use the EV/EBITDA method to value MSP. We have assigned EV/EBITDA multiple of 5x FY13 EBITDA of Rs 2,719 mn and maintain our fair value of Rs 70 per share.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,039	3,959	5,079	8,051	12,535
EBITDA	643	701	1,068	1,902	2,719
Adj PAT	268	314	496	711	1,045
Adj EPS-Rs	4.6	5.4	8.5	12.2	18.0
EPS growth (%)	(21.6)	16.8	58.3	43.2	47.0
Dividend yield (%)	-	-	2.6	2.6	2.6
RoCE (%)	14.5	10.2	10.7	15.2	19.2
RoE (%)	18.0	16.0	21.2	25.7	29.2
PE (x)	8.4	7.2	4.6	3.2	2.2
P/BV (x)	1.3	1.0	0.9	0.7	0.6
EV/EBITDA (x)	7.5	8.7	8.6	5.1	3.6

NM: Not meaningful; CMP: Current market price

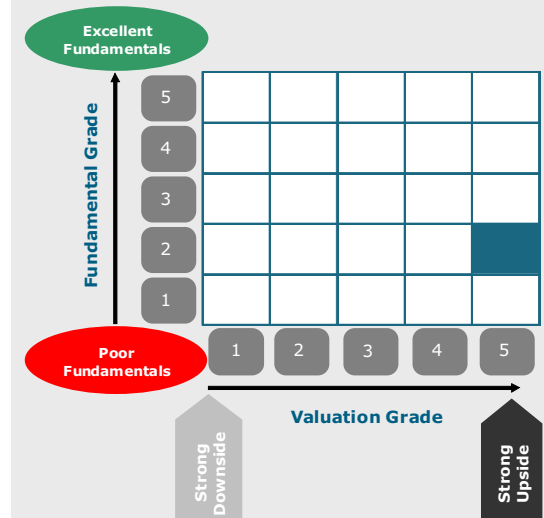
Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value Rs 70

CMP Rs 38

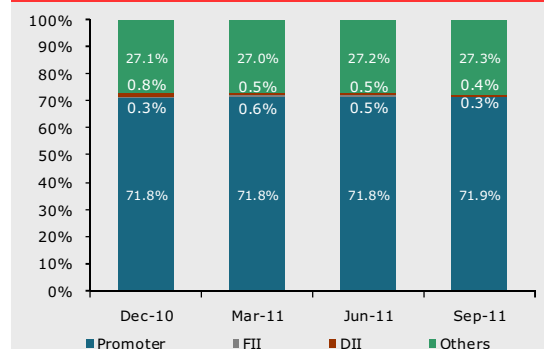
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5068/16883
NSE / BSE ticker	MSPL/ MSPSTEEL
Face value (Rs per share)	10
Shares outstanding (mn)	58.1
Market cap (Rs mn)/(US\$ mn)	2,266/46
Enterprise value (Rs mn)/(US\$ mn)	9,217/204
52-week range (Rs) (H/L)	72/39
Beta	1.38
Free float (%)	28.0
Avg daily volumes (30-days)	18,685
Avg daily value (30-days) (Rs mn)	0.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
MSP	-9%	-16%	-29%	-43%
NIFTY	-1	0%	-9%	-17%

ANALYTICAL CONTACT

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