

Ispat Industries

Management Meet Note

We met management of Ispat Industries. Key takeaways of our meeting are as follows:

Joint venture with Stemcor to set up a coke oven plant: Ispat has entered into a JV (Amba River Coke) with Stemcor for setting up a 1mn tonne coke oven plant at a cost of Rs1,124cr. Ispat holds 26% equity stake & the balance is held by Stemcor. The project will be funded through debt-equity ratio of 2:1 and is yet to achieve the financial closure. Ispat's equity contribution will be Rs100cr (Rs50cr will be through land and infrastructure support and balance Rs50cr through cash infusion). Once commissioned, the plant will cater to 100% coke requirement of the company.

110MW power plant to lead to cost savings: Ispat under its subsidiary, Ispat Energy, is setting up 110MW captive power plant (CPP) comprising of two units of 55MW each. The plant will primarily use gases from coke oven and blast furnace. Land for the project has been acquired and the civil work has also started. Total cost of the project is expected to be Rs491cr and the company expects savings of Rs1,300cr post commissioning of the power plant.

Captive raw material holds the key for future performance: Ispat has already secured the prospecting license for developing iron ore mines in Maharashtra. The management expects to start mining in FY2012 and targets iron ore production of 2mn tonnes. The company in a JV with Essar Steel, Mukand, Kalyani Steel and Ind Synergy has also been allotted Behrabad (North) coking coal block in Madhya Pradesh. The mine has reserves of 170mn tonnes, with Ispat's share being 76mn tonnes.

Outlook and Valuation: At the CMP, the stock is trading at P/BV of 1.4x and EV/EBITDA of 7.8x FY2010. We believe that future stock performance would be dependent upon improvement in raw material integration and successful commissioning of the power and coke oven plants.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E
Net Sales	7,473	8,323	8,264	7,783
% chg	48.8	11.4	(0.7)	(5.8)
Net Profit	(10)	31	(690)	(253)
% chg	-	-	-	-
EPS (Rs)	(0.8)	-	(6.3)	(3.4)
EBITDA (%)	20.4	14.6	5.3	16.1
P/E (x)	-	-	-	-
P/BV (x)	0.8	0.9	1.2	1.4
RoE (%)	-	0.0	-	-
RoCE (%)	8.3	5.4	-	6.8
EV/Sales (x)	1.4	1.2	1.2	1.2
EV/EBITDA (x)	6.9	7.9	22.4	7.8

Source: Company, Angel Research

NOT RATED

CMP	Rs20
Target Price	-
Investment Period	-

Stock Info

Sector	Steel
Market Cap (Rs cr)	2,488
Beta	1.4
52 Week High / Low	25/16
Avg. Daily Volume	5392856
Face Value (Rs)	10
BSE Sensex	18,667
Nifty	5,608
Reuters Code	ISPT.BO
Bloomberg Code	NDEN@IN

Shareholding Pattern (%)

Promoters	41.1
MF / Banks / Indian Fls	11.9
FII / NRIs / OCBs	2.5
Indian Public / Others	44.5

Abs. (%)	3m	1yr	3yr
Sensex	12.3	15.8	19.7
Ispat	22.6	(14.1)	8.0

Paresh Jain

Tel: 022 – 4040 3800 Ext: 348

E-mail: pareshn.jain@angeltrade.com

Pooja Jain

Tel: 022 – 4040 3800 Ext: 311

E-mail: pooja.j@angeltrade.com

Other key takeaways

- Ispat buys iron ore fines and lump ore from NMDC and imports pellets from GIIC Bahrain. The landed cost of iron ore from Bachel complex is Rs8,500/tonne and from the Kirandul complex is Rs7,200/tonne. Ispat also has a contract with GIIC Bahrain for supply of pellets, with prices being fixed on a quarterly basis.
- The blended cost of natural gas is ~Rs10/scm. Ispat sources gas from Reliance, PMT and ONGC.
- Currently, the company purchases power at Rs5.5/unit, which is expected to reduce post the commissioning of the 110MW power plant.
- The current cost of production for sponge iron, pig iron and hot rolled coils is Rs17,500, Rs22,000 and Rs29,000/tonne, respectively.
- The main advantage of using natural gas in sponge iron plants is that the product quality is superior and the plant can produce both long and flat products, whereas coal-based plants manufacture only long products.
- Maintenance costs are low as gas-based plants undertake 10-15 days of annual maintenance shutdown as compared to coal-based plants, which undergo quarterly shutdown.
- Total debt at the end of 4QFY2010 was Rs6,739cr. This included foreign currency loan of Rs2,335cr, with the balance being rupee loan. The average annual interest rate for the debt was 9.91%. Management indicated annual debt repayment of Rs723cr and Rs755cr in FY2011 and FY2012, respectively.

Company Profile

Incorporated in 1984, Ispat Industries produces sponge iron, pig iron, hot rolled coils, galvanised sheets and cold rolled coils at its steel plants, located at Dolvi and Kalmeshwar in Maharashtra. The company's upstream facilities (sponge iron, pig iron, hot rolled coils) are located at Dolvi (Maharashtra), 80-85kms away from Mumbai and are spread across 1,400 acres. The downstream facilities (galvanized sheets, cold rolled coils) are located at Kalmeshwar (Nagpur, Maharashtra).

Dolvi complex

The complex has a 1.6mn tonne sponge iron plant, which was commissioned in 1994 and is the world's largest single module gas-based plant using Midrex technology. The management plans to increase the capacity to 1.8mn tonnes. Ispat owns a jetty at the Dharmatar port, which is connected to the steel plant by a 1.5km long conveyor belt. The jetty has a cargo handling capacity of 12mn tonne with 3-4mn tonne being surplus capacity. Management indicated it would outsource the surplus capacity for commercial purposes. Feasibility studies are being undertaken to increase the hot strip mill capacity from 3.3mn tonnes to 4.2mn tonnes.

Exhibit 1: Dolvi - Capacity details

Facilities	Capacity (mn tonnes)
Sponge iron plant (expansion of sponge iron)	1.6
Sinter plant	2.8
Blast furnace	2.0
Conarc furnace	4.2
Hot strip mill	3.3

Source: Company

Kalmeshwar complex

Hot rolled coils from Dolvi are transported to the Kalmeshwar complex via road/rail. The complex manufactures downstream products like cold rolled coils, galvanised, galvalume, colour coated sheets, pipes and tubes.

Exhibit 2: Kalmeshwar - Capacity details

Facilities	Capacity (mn tonnes)
Cold rolling mill	0.330
Galvanising line	0.225
Galvalume line	0.100
Colour-coating line	0.060
Pipe and tube mill	0.056

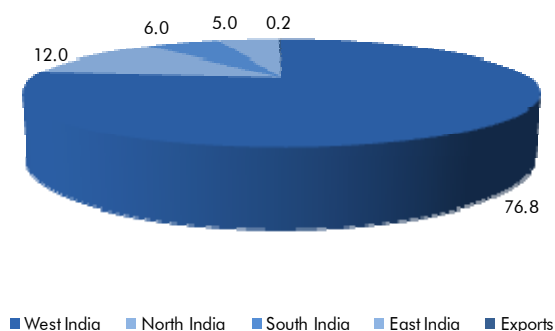
Source: Company

Ispat produces steel using the twin shell conarc furnace technology developed by SMS Siemag, Germany. The technology provides flexibility in terms of raw material feed, ie. sponge iron, hot metal or scrap. Generally, the charge mix is 55:35:10 of hot metal:DRI:scrap. Also, energy consumption is lower at ~240 units/tonne compared to the conventional EAF requirement of ~550 units/tonne of steel.

Ispat enjoys close proximity to its customers as 71% of its domestic sales are within Maharashtra, where it avails deferred VAT credit. In FY2010, total sales in West India stood at 77% followed by North India (12%), South India (6%), exports (5%) and East India accounted for 0.2% of the revenue mix. The top-ten customers of HRC contributed ~35% to total sales in FY2010.

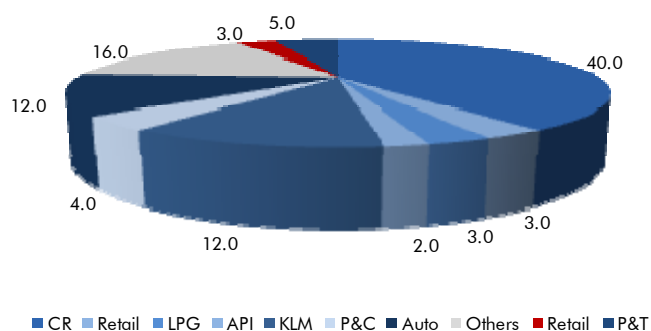
The company caters to the major steel-end user markets in the vicinity including automobiles, consumer durables, construction, ship-building, etc. In FY2010, cold rolled (CR) products accounted for 40% of the company's domestic sales whereas auto sales accounted for 12%. The company has entered into quarterly pricing contracts with the automotive and OEM customers, while for others it has a monthly pricing mechanism.

Exhibit 3: Geographic revenue mix (FY2010)



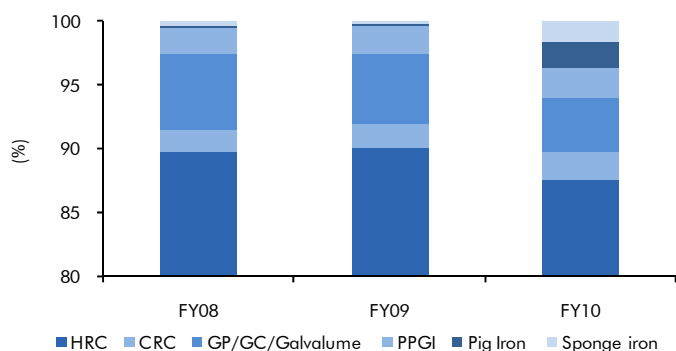
Source: Company, Angel Research

Exhibit 4: Domestic sales breakup sector wise



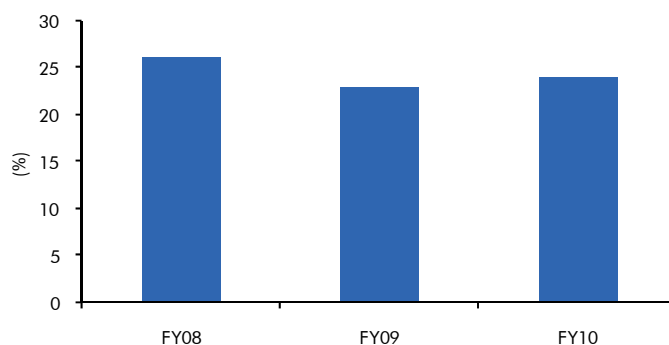
Source: Company, Angel Research

Exhibit 5: Product-wise sales volume breakup



Source: Company, Angel Research

Exhibit 6: Value-added product accounts for 25%



Source: Company, Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010
Gross sales	8,363	9,440	9,177	8,398
Less: Excise duty	890	1,117	913	615
Net Sales	7,473	8,323	8,264	7,783
Other operating income	-	-	-	236
Total operating income	7,473	8,323	8,264	8,019
% chg	48.8	11.4	(0.7)	(3.0)
Total Expenditure	5,952	7,105	7,829	6,770
Net Raw Materials	3,742	4,706	4,756	4,232
Other Mfg costs	2,048	2,201	2,876	2,321
Personnel	162	198	197	216
Other	-	-	-	-
EBITDA	1,521	1,218	435	1,249
% chg	435.0	(19.9)	(64.3)	187.2
(% of Net Sales)	20.4	14.6	5.3	16.1
Depreciation	624	638	647	625
EBIT	897	580	(212)	624
% chg	(412.6)	(35.4)	-	(394.9)
(% of Net Sales)	12.0	7.0	(2.6)	8.0
Interest charges	1,100	1,108	1,227	1,026
Other Income	205	640	414	2
(% of PBT)	7,730.9	573.1	-	-
Recurring PBT	3	112	(1,026)	(400)
% chg	-	4,111.3	-	-
Extraordinary Inc/(Expense)	0	0	0	130
PBT	3	112	(1,026)	(270)
Tax	13	81	(336)	(17)
PAT (reported)	(10)	31	(690)	(253)
Less: Minority interest (MI)	-	-	0	-
PAT after MI (reported)	(10)	31	(690)	(253)
(% of Net Sales)	-	0.4	-	-
Basic EPS (Rs)	(0.8)	-	(6.3)	(3.4)
Fully Diluted EPS (Rs)	(0.8)	-	(6.3)	(3.4)

Balance Sheet (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E
SOURCES OF FUNDS				
Equity Share Capital	2,289	2,294	2,273	2,273
Reserves & Surplus	652	605	(275)	(528)
Shareholders Funds	2,941	2,899	1,997	1,744
Share Warrants	-	0	97	97
Total Loans	8,316	7,225	7,355	6,944
Total Liabilities	11,256	10,124	9,449	8,784
APPLICATION OF FUNDS				
Gross Block	13,067	13,178	13,567	13,667
Less: Acc. Depreciation	3,244	3,962	4,670	5,294
Net Block	9,823	9,216	8,897	8,373
Capital Work-in-Progress	475	547	582	582
Investments	2	2	13	13
Current Assets	2,512	2,552	2,754	2,372
Cash	330	93	82	89
Loans & Advances	481	511	727	577
Other	1,701	1,948	1,945	1,706
Current liabilities	2,180	2,739	3,747	3,504
Net Current Assets	332	(188)	(993)	(1,133)
Net deferred tax asset	624	547	950	950
Total Assets	11,256	10,124	9,449	8,784

Note: Cash and Bank balance includes fixed deposits

Cash Flow Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E
Profit before tax	3	112	(1,026)	(270)
Depreciation	624	638	647	625
Change in Working Capital	(148)	329	532	147
Less: Other income	943	468	1,149	0
Direct taxes paid	(4)	(3)	(3)	17
Cash Flow from Operations	1417	1544	1299	518
Inc./ (Dec.) in Fixed Assets	(285)	(199)	(144)	(100)
Inc./ (Dec.) in Investments	(0)	0	(10)	-
Other income	7	(10)	57	0
Cash Flow from Investing	(278)	(209)	(97)	(100)
Issue of Equity	0.1	13	97	0
Inc./ (Dec.) in loans	259	(877)	(479)	(412)
Dividend Paid (Incl. Tax)	0	0	0	0
Others	(1,217)	(720)	(820)	0
Cash Flow from Financing	(958)	(1,584)	(1,202)	(412)
Inc./ (Dec.) in Cash	181	(249)	0	7
Opening Cash balances	71	252	3	82
Closing Cash balances	252	3	3	89

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E
Valuation Ratio (x)				
P/E (on FDEPS)	-	-	-	-
P/CEPS	4.0	3.7	-	6.7
P/BV	0.8	0.9	1.2	1.4
Dividend yield (%)	-	-	-	-
EV/Sales	1.4	1.2	1.2	1.2
EV/EBITDA	6.9	7.9	22.4	7.5
EV/Total Assets	0.9	0.9	1.0	1.1
Per Share Data (Rs)				
EPS (Basic)	(0.8)	-	(6.3)	(3.4)
EPS (fully diluted)	(0.8)	-	(6.3)	(3.4)
Cash EPS	5.0	5.5	(0.4)	3.0
DPS	-	-	-	-
Book Value	24.1	23.7	16.3	14.3
DuPont Analysis				
EBIT margin	12.0	7.0	-	7.8
Tax retention ratio (%)	-	27.6	67.3	93.7
Asset turnover (x)	0.7	0.8	0.9	0.9
RoIC (Post-tax)	-	1.6	-	6.7
Cost of Debt (Post Tax)	13.3	14.3	16.8	14.4
Leverage (x)	2.7	2.5	3.6	3.9
Returns (%)				
RoCE (Pre-tax)	8.3	5.4	-	6.8
Angel RoIC (Pre-tax)	9.2	5.8	-	7.2
RoE	-	0.0	-	-
Turnover ratios (x)				
Asset Turnover (Gross Block)	0.6	0.6	0.6	0.6
Inventory (days)	50	53	61	55
Receivables (days)	30	27	25	25
Payables (days)	56	53	75	80
Working capital cycle (days)	88	59	60	46
Solvency ratios (x)				
Net debt to equity	2.7	2.5	3.6	4.1
Net debt to EBITDA	5.2	5.9	16.7	5.8
Interest Coverage	0.8	0.5	-	0.6

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Ispat Industries

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)

Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.

Tel: (022) 3952 4568 / 4040 3800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG, Media	anand.shah@angeltrade.com
Deepak Pareek	Oil & Gas	deepak.pareek@angeltrade.com
Sushant Dalmia	Pharmaceutical	sushant.dalmia@angeltrade.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angeltrade.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@angeltrade.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angeltrade.com
Viraj Nadkarni	Retail, Hotels, Mid-cap	virajm.nadkarni@angeltrade.com
Paresh Jain	Metals & Mining	pareshn.jain@angeltrade.com
Amit Rane	Banking	amitn.rane@angeltrade.com
John Perinchery	Capital Goods	john.perinchery@angeltrade.com
Srishti Anand	IT, Telecom	srishti.anand@angeltrade.com
Jai Sharda	Mid-cap	jai.sharda@angeltrade.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angeltrade.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angeltrade.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angeltrade.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihir.salot@angeltrade.com
Chitrangda Kapur	Research Associate (FMCG, Media)	chitrangdar.kapur@angeltrade.com
Vibha Salvi	Research Associate (IT, Telecom)	vibhas.salvi@angeltrade.com
Pooja Jain	Research Associate (Metals & Mining)	pooja.j@angeltrade.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angeltrade.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angeltrade.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angeltrade.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angeltrade.com

Technical:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angeltrade.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angeltrade.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
Jaya Agarwal	Derivative Analyst	jaya.agarwal@angeltrade.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angeltrade.com
Abhimanyu Sofat	AVP - Institutional Sales	abhimanyu.sofat@angeltrade.com
Nitesh Jalan	Sr. Manager	niteshk.jalan@angeltrade.com
Pranav Modi	Sr. Manager	pranavs.modi@angeltrade.com
Sandeep Jangir	Sr. Manager	sandeep.jangir@angeltrade.com
Ganesh Iyer	Sr. Manager	ganeshb.lyer@angeltrade.com
Jay Harsora	Sr. Dealer	jayr.harsora@angeltrade.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angeltrade.com
Gaurang Tisani	Dealer	gaurangp.tisani@angeltrade.com

Production Team:

Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Simran Kaur	Research Editor	simran.kaur@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com