

24 September 2012

CMP: Rs.106

Industry: Iron & Steel

BSE group/index: B/-

Promoters

Ashok Malhotra, Hanish Malhotra and Vikas Malhotra

Year of incorporation

1972

Corporate office

Plot No. 117, GIDC Industrial Estate,
Panchmahal District, Gujarat, 389330

Company website

www.panchmahalsteel.co.in

Key Data (as on 24 Sep'12)

BSE	513511	ISIN	INE798F01010
Face Value	10	Mkt Cap (Rs. mn)	1,820
Current P/E	138.5	Current P/BV	1.4
52 week high-low	113-42	30 day volume	3,079
Equity capital (Rs mn)	189.1	Net worth (Rs mn)	1,368

Company business

Panchmahal Steel Ltd ('PSL') is a secondary steel manufacturer. Its range of stainless steel products includes hot rolled wire rods and bars and cold finished bars and wires. These products are used in industries like engineering, construction and infrastructure, railways, automobiles, etc.

Ashok Malhotra is associated with the company since 1976 and is the present chairman and managing director of the company. Hanish Malhotra is executive director (marketing) since February 2006.

Peer group analysis

FY12, Rs million	Panchmahal Steel	Mukand Ltd	Shah Alloys	Real Strips
Total income	4,654	25,207	7,610	3,341
EBIDTA	302	1,184	(1,158)	235
EBIDTA margin	6.5%	4.7%	-15.2%	7.0%
PAT	58	(935)	(1,614)	51
PAT margin	1.2%	-3.7%	-21.2%	1.5%
Cash accruals	178	(278)	(1,296)	117
EPS	3.0	-12.8	-81.5	8.5
BV/share	72	290	(174)	73
Debt/EBIDTA (x)	1.5	13.6	-	5.3
Debt/Equity (x)	0.3	0.8	-	2.9
ROANW	4.2%	-	-	11.6%
ROACE	9.9%	-	-	10.0%
P/E	17.9	-	-	14.6
P/BV	0.8	0.1	-	1.7

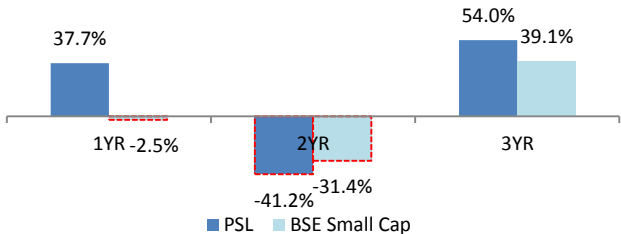
Source: Moneycontrol, Company

The steel off take declined in FY12 on account of delayed capital expenditure by the end user industries. This was attributed to several reasons including high interest rates and other hurdles in execution of projects.

PSL has healthy ROACE among its peer set and an adequate leverage. It has consistently reduced its debt each year after financial restructuring in FY09. As at 31 March 2012, the company has an EBIDTA and PAT margin of 6.5% and 1.2% respectively. While Real Strips Ltd. has relatively higher margins, its market capitalization is 1.7 times net worth, relative to 0.8 times in the case of PSL.

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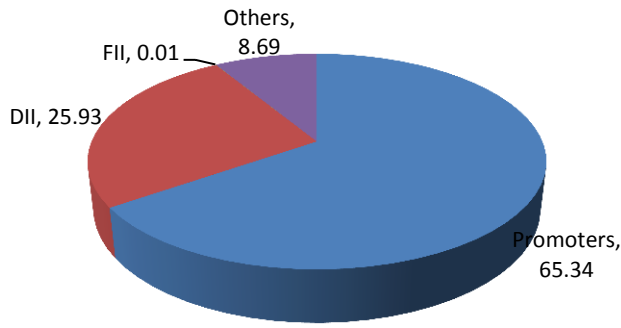
Business capacity		Price Performance	
Business	Capacity (MT/annual)		
Steel Billets	150,000		
Stainless steel (Bars, Rods, Coils and Wires)	72,000		
MT – Metric tonne			
<i>Source: Company</i>		 <p><i>Source: BSE</i></p>	

Public Shareholders >1%

Sl. No.	Name of the Shareholder	No. of Shares held (mn)	Shares as % of Total No. of Shares
1	Asset Reconstruction Company India Ltd	4.0	21.1
2	Gujarat Industrial Investment Corp Ltd	0.6	3.1
3	Manohar Manak Alloys Pvt Ltd	0.5	2.8
4	Movies N More India Pvt Ltd	0.4	2.0
5	Life Insurance Corporation of India	0.3	1.8
Total		5.8	30.7

Source: BSE

Change in Shareholding Pattern (%)					Shareholding Pattern (%)	
Year	Promoters	DII	FII	Others		
Jun-12	65.34	25.93	0.01	8.69		
Mar-12	65.34	25.93	0.01	8.69		
Dec-11	64.22	25.93	0.01	9.84		
Sep-11	63.48	25.93	0.01	10.58		
Mar-11	63.48	25.93	0.01	10.58		
Mar-10	66.68	22.30	0.01	10.98		
Mar-09	85.78	0.04	0.01	14.17		
Mar-08	85.78	0.04	0.01	14.17		



Source: BSE, as at 30 June 2012

Source: BSE

Customized solutions

Key strengths

PSL manufactures stainless steel with various modified chemistries for customer specific applications. Its offerings in stainless steel grades includes stainless steel in austenitic, martensitic, ferritic, precipitation hardening, duplex and low nickel - high manganese (200 series) grades. It has the ability to provide customized products to specialty niche market requirements.

Low import duty on stainless steel

Key concerns

India has a low import duty on stainless steel. If China turns net exporter of stainless steel it may have adverse effects on the domestic industry.

Financial restructuring during FY09

With the slowdown in steel demand and rise in interest rates the company defaulted on its loan obligations and had to undergo financial restructuring during FY09. On 31 March 2009, the company had Rs.1,367 mn of outstanding borrowings (all secured) and a high leverage. It had a debt to equity of 2.4 times and debt to EBIDTA of 13.9 times.

Lower per capita consumption of steel relative to world average

Industry overview

The per capita consumption of stainless steel in India is one of the lowest in the world. India consumes only 1.2 kg of stainless steel v/s 6 kg in China and the world average per capita consumption of 9.4 kg.

India is the tenth largest producer of stainless steel

According to Indian Stainless Development Organization (ISDO), India consumes 2.2 mn tonnes of stainless steel while it produces 1.8 to 2 mn tonnes annually. The deficit is met through imports. Since 2007, the domestic stainless steel industry has grown at 11% CAGR led by the growth in the automobile, railways, transportation and construction sectors.

Further, the emergence of cost-effective 200 series (chrome-manganese) of stainless steel has made it affordable for average households to own stainless steel utensils. This is resulting in sustained demand for stainless steel in the kitchenware segment.

Stainless steel manufacturing capacity to double to 4 mn tonnes by 2015

ISDO expects the domestic stainless steel manufacturing capacity to increase to 4 mn tonnes by 2015.

Industry favorable policies

Government policy

Indian government de-regulated the pricing of steel in January 1992. Since then the government has taken several initiatives to promote the sector like reduction of import duty on all steel items to 5% and no import duty on melting scrap.

Efficient steel producer with a yield of over 93% in past three years

Company fundamentals

PSL is an efficient producer of finished stainless steel. This is reflected in higher yield the company has obtained in the last three years. It has a yield (conversion of billets into rods, coils, wires and bars) of over 93% each year between FY10-12.

It has a capacity to produce 150,000 MT steel billets per year.

The plant is equipped with ultra-high powered 50 metric ton electric arc furnace, AOD (Argon oxygen decarburization) convertor and ladle furnace. Steel is further processed for value addition and casted in the form of billets. The company has an installed capacity to produce 150,000 MT of billets. These billets are used as an input in wire mills, bar mills and rod mills.

Sufficient capacity to play the rise of capex cycle

For FY12, PSL utilized only 20.4% of its billets manufacturing capacity. Revival of demand for finished steel in the end user industries will enable the company to expand production upto 120,000 MT (upto 3.9 times its FY12 production) without further capital investment.

Installed capacity to produce 72,000 MT of stainless steel long products

PSL has an installed capacity to produce 72,000 MT of wires, bars and rods (stainless steel long products). These high quality facilities promote superior output. Its mill capacity is also under-utilized. It produced 28,812 MT of long products relative to its installed manufacturing capacity of 72,000 MT.

Growth in PAT not reflected in profits

Key financial indicators

PSL's total income increased by 14.7% to Rs.4,654 mn. Domestic sales decreased from Rs.2,723 mn in FY11 to Rs.2,479 mn in FY12, while exports revenue increased from Rs.1,484 mn to Rs.2,297 mn in FY12.

EBIDTA declined by 24.5% to Rs.302 mn. PSL reported loss on foreign exchange fluctuations of Rs.95 mn (income of Rs.1.7 mn in FY11). EBIDTA margins declined from 9.9% in FY11 to 6.5% in FY12.

High interest expense and bank charges majorly led to decline in PAT

Higher interest expense led to decline in PAT margin to 1.2% relative to 2.9% in FY11. PAT declined to Rs.58 mn (Rs.116 mn in FY11).

Financial restructuring during FY09

The company undertook financial restructuring during FY09. As per this scheme of compromise/arrangement with its secured lenders, the company allotted secured zero coupon debentures, non-convertible debentures and fully convertible debentures to its lenders for an aggregate value of Rs.942 mn.

PSL issued 8.9 mn equity shares between FY10 to FY12. Upon conversion of these debentures the paid up equity share capital of the company was diluted by 40% since FY09. Of these, 4 mn shares were issued to Asset Reconstruction Company India Ltd (ARCIL). As at 31 March 2012, ARCIL holds 21.1% stake in PSL.

Since the restructuring in FY09, the company has consistently reduced debt from Rs.1,367 mn in FY09 to Rs.448 mn in FY12. It also has been repaying the interest on its defaulted borrowing (interest accrued and due on secured borrowings). It paid Rs.1.5 mn as interest accrued and due on secured borrowings in FY12. The leverage ratios have fallen since then. Debt to EBIDTA ratio and debt to equity ratio have come down to 1.5 times and 0.3 times as at 31 March 2012, a huge decline since FY09.

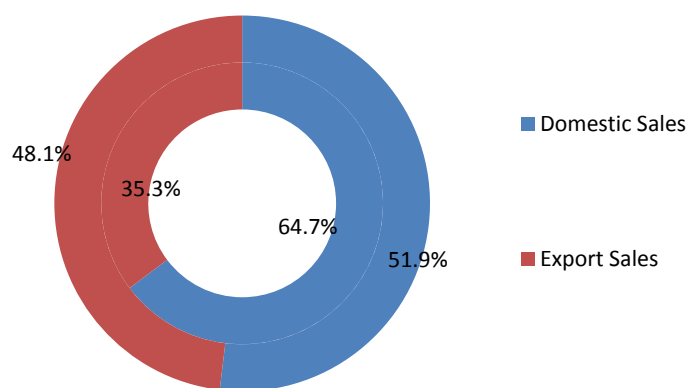
Quarterly results

Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change ¹	Jan '12 to Mar '12	% Change ²
Total income	996	1,321	-24.6%	933	6.7%
Total expenditure	922	1,200	-23.2%	850	8.4%
EBIDTA	74	121	-38.8%	83	-10.8%
EBIDTA margin	7.5%	9.2%	-18.8%	8.9%	-16.4%
PAT	17	61	-72.4%	12	34.7%
PAT margin	1.7%	4.6%	-63.4%	1.3%	26.2%
EPS	0.9	3.2	-72.6%	0.7	35.4%

¹ compared to corresponding quarter in the previous year

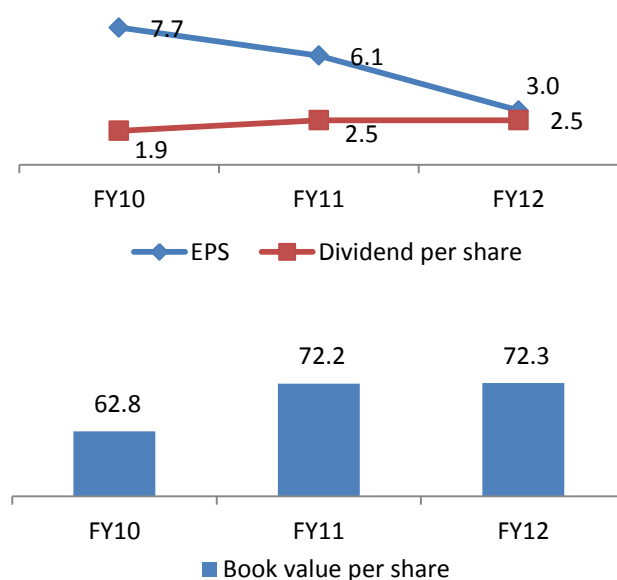
² sequential comparisons

Segment-wise contribution to total revenue

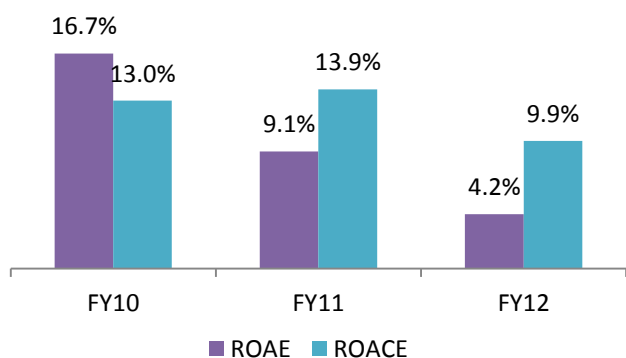


Excludes revenue from goods traded
Inner ring represents FY11 data
Outer ring represents FY12 data

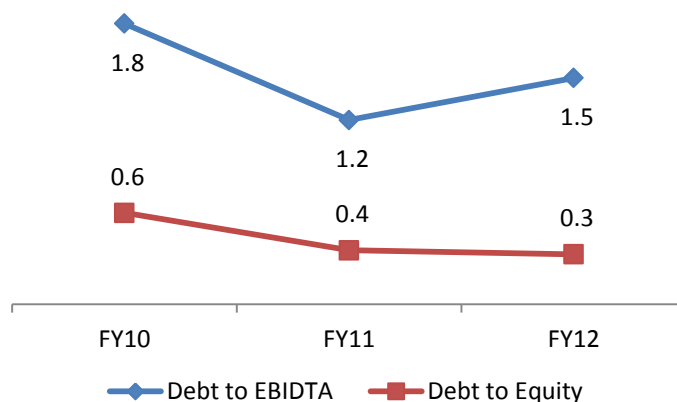
Key ratios



Profitability ratios



Leverage ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12	Balance Sheet (Rs. mn)	FY10	FY11	FY12
Total income	2,941	4,057	4,654	Share Capital	180	189	189
EBITDA	386	400	302	Reserves & Surplus	1,007	1,176	1,179
EBIDTA margin	13.1%	9.9%	6.5%	Net worth	1,187	1,365	1,368
Depreciation	137	140	120	Borrowings	714	485	450
EBIT	249	260	182	Deferred tax liability/(asset)	(110)	(58)	(32)
Interest	41	88	96	Current Liabilities & Provisions	1,128	1,445	1,348
PBT	208	172	85	Other non-current liabilities	-	-	5
Tax	62	56	28	Total liabilities	2,918	3,237	3,138
PAT	146	116	58	Net fixed assets	1,336	1,241	1,184
PAT margin	5.0%	2.9%	1.2%	Loans and Advances	193	234	195
				Current Assets	1,389	1,762	1,759
Valuation ratios	FY10	FY11	FY12	Total assets	2,918	3,237	3,138
P/E	21.4	10.8	17.9				
P/BV	2.6	0.9	0.8	Cash Flow (Rs.mn)	FY10	FY11	FY12
				PBT	154.3	172.1	85.3
				CF from Operation	214.0	292.0	235.6
				CF from Investment	(17.6)	(37.2)	(62.6)
				CF from Financing	(226.6)	(241.1)	(186.7)
				Inc/(dec) in Cash	(30.2)	13.5	(13.7)
				Closing Balance	47.4	60.9	47.2

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