

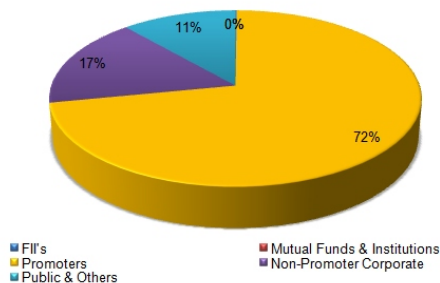


### Key Stock Summary

Current Market Price	70.3
BSE Code	532650
Bloomberg Ticker	MSPS IN
Face Value	10
Shares Outstanding (in crs)	5.81
Market Cap (Rs crs)	408.4
Enterprise Value (Rs crs)	869.5
52-week range (Rs)(H/L)	74 / 25.3
Beta	1.655
Avg. daily Volumes 2 Week	320282
Dividend Yield (%)	0

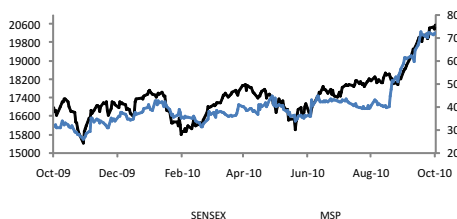
Source: Company, DFPL Research

### Share Holding Pattern



Source: Company, DFPL Research

### Share Price Movement



Source: Company, DFPL Research

### Research Team

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### Investment Rationale

**Pelletisation plant - key to raw material cost reduction, helps to improve margins**

The pelletisation process converts iron ore fines into the shape of a pellet with characteristics appropriate for use in a blast furnace for the production of sponge iron. MSP has setup a pellet plant at Raigarh with a 300,000 MTPA capacity and plans to increase it to 900,000 MTPA by FY12. This will significantly lower the cost of production and will save Rs. 2200 / tonne in raw material costs.

**CAPEX plans to ensure high growth in topline**

MSP has undertaken a massive phase wise expansion plan to increase its pellets, sponge iron and power capacity by FY12 with spending of approx Rs 8.14 bn over FY10-12. With these expansion, MSP is now well positioned to take advantage of the growing steel demand in the country. We expect expansion would drive revenues going forward and its operating income to increase at high growth rate.

**Further improvement in margin by way of backward integration - moving across the value chain**

MSP is currently focusing on backward integration initiatives and post the expansion it will have a presence across the entire value chain. It will be an integrated player right from mining its own iron ore and coal to manufacturing pellets to producing value added steel products. This helps it withstand pricing pressures effectively and benefit from the lower cost of production compared to non-integrated producers.

**Extended Power capacity to add additional revenue earning opportunities by way of merchant power**

Against the requirement of 19-20MW for its captive purposes MSP has an installed power generation capacity of 24 MW. This will be further expected to increase to 76MW by FY12, of which 34-36MW will be required to support the expanded manufacturing capacity. Excess power units will be sold to merchant and hence, it will earn addition revenue.

### Valuation

We believe MSP Steel & Power Ltd. is all set to post higher growth on account of huge CAPEX plan. With completion of capex, MSP is expected to earn higher margin. At current price of Rs. 70.30, the stock is trading at a PE of 12x and 8x and P/BV of 1.7x and 1.4x for FY11E and FY12E respectively. The valuation looks attractive and we recommend "OUTPERFORMER" on the stock with a target price of Rs. 88.5 per share (PE of 10 x for FY12E), an upside of 26%.

### Financial Snapshot

Particulars (Rs in Crs)	FY09	FY10	FY11E	FY12E
Net Sales	405.4	386.8	502.8	628.5
<b>EBITDA</b>	<b>66.5</b>	<b>62.9</b>	<b>80.4</b>	<b>100.6</b>
EBITDA (%)	16.4%	16.3%	16.0%	16.0%
<b>PAT</b>	<b>39.9</b>	<b>32.1</b>	<b>34.9</b>	<b>51.4</b>
PAT (%)	9.8%	8.3%	6.9%	8.2%
<b>EPS</b>	<b>6.9</b>	<b>5.5</b>	<b>6.0</b>	<b>8.8</b>
ROCE (%)	14.2%	7.6%	9.5%	11.7%
<b>ROE (%)</b>	<b>23.6%</b>	<b>14.3%</b>	<b>14.8%</b>	<b>17.9%</b>
P/E (x)	10.2	12.7	11.7	8.0
<b>EV/EBITDA (x)</b>	<b>10.2</b>	<b>13.8</b>	<b>10.0</b>	<b>7.5</b>

Source: Company, DFPL Research



*MSP Group has a diversified portfolio, ranging from pellet to sponge iron to steel to power generation to rolling mills to structure mill to ferro alloys to Pig Iron etc.*

### Company Overview:

MSP Steel & Power Limited (MSP), a medium sized integrated steel manufacturer which started operations in 1996 produces sponge iron and a range of long products such as billets, TMT, structurals (joints, beams, angles, channels and plates). The company has plant located at at Jamgaon, Raigarh in Chattisgarh. MSP Group has a diversified portfolio, ranging from pellet to sponge iron to steel to power generation to rolling mills to structure mill to ferro alloys to Pig Iron etc. The group is Fully Integrated across the value chain and boasts of manufacturing facilities in major parts of India.

### Group and Promoters:

The MSP group has nine operational companies, which are into the production of steel intermediaries, steel products, ferro alloys, power, industrial and medical oxygen, and cement. The group Chairman, Mr. Puran Mal Agarwal, has with his wealth of experience and keen foresight led the group over the years. He is aptly supported by his younger brother, Mr. Suresh Kumar Agrwal, B. E. Mechanical, who provides the technical support for all projects.

### Product Profile:

Companies	Production facilities	Installed capacity	Location
MSP Metallics Ltd	Sponge iron, billets, TMT, power	-	Raigarh
	Sponge Iron	256,000	
	SMS	263,000	
	Pig Iron	294,000	
	Pellets LAM Coke	600,000 250,000	Jharsuguda
	Sinter Plant	416,000	
	Captive Power Plant	27MW	
	Coal Washery	300000 Mt	
	Railway Siding	5Km	
Chaman Metallics Private Ltd	Sponge iron	94,000	Chandrapur
Howrah Gases Ltd	Sponge Iron SMS	60,000 50,000	Burdwan
	Sponge Iron	78,000	
MSP Sponge Iron Ltd	SMS Re-rolling Mill Ferro Alloys	50,000 48,000 26,657	Keonjhar and Raigarh
	Captive Power Plant	12MW	
MSP Rolling Mills Private Ltd	TMT	48,000	Howrah

Source: Company, DFPL Research



**Investment Rationale:**

*In FY10, MSP saved Rs 2,200 per tonne in raw material costs with the commissioning of the 300,000 tonne per annum (tpa) pelletisation plant in March 2009. Similar savings is also expected in raw material costs to accrue over the next three-four years.*

**Pelletisation plant - key to raw material cost reduction, helps to improve margins**

The pelletisation process converts iron ore fines into the shape of a pellet with characteristics appropriate for use in a blast furnace for the production of sponge iron. MSP has setup a pellet plant at Raigarh with a 300,000 MTPA capacity and plans to increase it to 900,000 MTPA by FY12. This will significantly lower the cost of production and will save Rs. 2200 / tonne in raw material costs. In FY10, pellets contributed approx 60% of the iron ore requirement for the production of sponge iron while iron ore lumps contributed the balance. Going forward, we are expecting similar ratio of pellets and lumps. In FY10, MSP saved Rs 2,200 per tonne in raw material costs with the commissioning of the 300,000 tonne per annum (tpa) pelletisation plant in March 2009. Similar savings is also expected in raw material costs to accrue over the next three-four years. In tandem with the expansion in sponge iron capacities, MSP is increasing its pellet plant capacity to 900,000 tpa from 300,000 tpa. The incremental capacity is expected to be operational by FY13.

Rs per tone	Fine	Iron ore lumps	Total saving
Landed cost	2,000	5,800	
Processing cost	1,600	0	
Total	3,600	5,800	2,200

Source: Company, DFPL Research

*MSP has undertaken a massive phase wise expansion plan to increase its pellets, sponge iron and power capacity by FY12 with spending of approx Rs 8.14 bn over FY10-12.*

**CAPEX plans to ensure high growth in topline**

MSP has undertaken a massive phase wise expansion plan to increase its pellets, sponge iron and power capacity by FY12 with spending of approx Rs 8.14 bn over FY10-12. MSP has already spent Rs 3.5 bn as of August 31st 2010, of which, debt contribute around Rs 2.5 bn and rest from preference capital. The capital expenditure is expected to be funded through a mix of internal accruals and preference shares issued to promoters, and debt funds in the ratio of 1:2. The phase wise expansion plan will also allow the company to utilise rising internal accruals thus reducing the financing costs. With these expansion, MSP is now well positioned to take advantage of the growing steel demand in the country. We expect expansion would drive revenues going forward and its operating income to increase at high growth rate. MSP is also increasing the coal washing capacity to support increased usage of coal. MSP is currently focussing on strengthening its backward integration by increasing the production capacity for sponge iron, pellets and power.



MSP has also been allotted coal mines in Chhattisgarh, 150 km from its plant and it expects to commence commercial mine operations from March 2011. The reserves are estimated at 175 million tonnes of which MSP has a share of 26 MT. The company has also been recently allotted the prospecting license of an iron ore mine, 125 km from its plant and these reserves are estimated at around 36 million tonnes. The company expects to operationalise this mine in about 3-4 years. The company also possesses the flexibility to procure low-quality coal (D, E and F grades) and beneficiate them in its coal washery which increases the productivity and longevity of the sponge iron plant, while reducing the manufacturing cost.

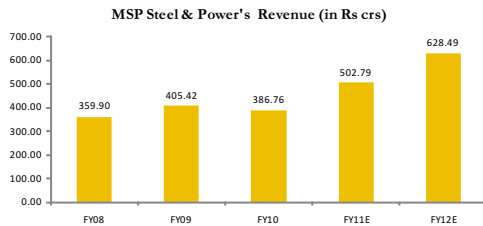
Particulars	Existing	Phase I	Phase II	Total
Pellet	300000		600000	900000
Sponge Iron	192000	115500	115500	423000
Coal Washery	345600	383525		729125
Billets	144109			144109
Power Plant	24	18	34	76
TMT	80000			80000
Structural	128000			128000
Railway Sliding	2.4		4	6.4

Source: Company, DFPL Research

### Further improvement in margin by way of backward integration – moving across the value chain

*MSP is currently focusing on backward integration initiatives and post the expansion it will have a presence across the entire value chain. It will be an integrated player right from mining its own iron ore and coal to manufacturing pellets to producing value added steel products. This helps it withstand pricing pressures effectively and benefit from the lower cost of production compared to non-integrated producers.*

MSP is currently focusing on backward integration initiatives and post the expansion it will have a presence across the entire value chain. It will be an integrated player right from mining its own iron ore and coal to manufacturing pellets to producing value added steel products. This helps it withstand pricing pressures effectively and benefit from the lower cost of production compared to non-integrated producers. The operating cost of integrated players like MSP is lower by Rs 2,000-3,000 per tonne compared to that of non-integrated players, mainly due to captive production of raw material like sponge iron and power. A large integrated player, present across the value chain (with or without mines), enjoys an even lower cost of production. MSP is also increasing the coal washing capacity to support increased usage of coal and modernising & extending its railway siding, through which the company procures 90% of its raw materials. This reduces transportation costs by more than Rs. 500/MT thereby resulting in significant savings in terms of logistic costs.



Source: Company, DFPL Research

### Extended Power capacity to add additional revenue earning opportunities by way of merchant power

Against the requirement of 19-20MW for its captive purposes MSP has an installed power generation capacity of 24 MW. This will be further expected to increase to 76MW by FY12, of which 34-36MW will be required to support the expanded manufacturing capacity. Excess power units will be sold to merchant and hence, it will earn addition revenue. Through FY07-09, MSP has been incrementally selling power on a merchant basis to SEBs. In FY09, MSP generated revenues worth Rs 7 mn from the sale of 5 mn units (KWH) of power vs. 4.5 mn units sold in FY08. It is expected that, the number of units available for sale to rise significantly (over FY10E) by FY12E by which, the plant would be running full throttle. This will add substantially to the profits considering the fact that the cost of making the power, both by Waste heat gas route (which together will be responsible for more than 80% of the power produced) is negligible, compared to the realizations that the company would enjoy given the power deficiency India faces.

### Financial Analysis

Net profit of MSP Steel & Power rose 119.90% to Rs 8.62 crore in the quarter ended June 2010 as against Rs 3.92 crore during the previous quarter ended June 2009 on the back of high volumes and improved sales realisations. Sales rose 30.22% to Rs 106.51 crore in the quarter ended June 2010 as against Rs 81.79 crore during the previous quarter ended June 2009.

For the audited full year, net profit declined 19.65% to Rs 32.05 crore in the year ended March 2010 as against Rs 39.89 crore during the previous year ended March 2009. Sales declined 2.53% to Rs 388.75 crore in the year ended March 2010 as against Rs 398.86 crore during the previous year ended March 2009.

### Key Risk

Execution Risk

### Valuation

We believe MSP Steel & Power Ltd. is all set to post higher growth on account of huge CAPEX plan. With completion of capex, MSP is expected to earn higher margin. At current price of Rs. 70.30, the stock is trading at a PE of 12x and 8x and P/BV of 1.7x and 1.4x for FY11E and FY12E respectively. The valuation looks attractive and we recommend "OUTPERFORMER" on the stock with a target price of Rs. 88.5 per share (PE of 10 x for FY12E), an upside of 26%..



## Financial Detail

### Standalone Income Statement

(Rs Crs)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>405.42</b>	<b>386.76</b>	<b>502.79</b>	<b>628.49</b>
<i>Net Sales Growth (%)</i>	<i>12.6%</i>	<i>-4.6%</i>	<i>30.0%</i>	<i>25.0%</i>
Total Expenditure	338.90	323.86	422.34	527.93
<b>EBITDA</b>	<b>66.52</b>	<b>62.90</b>	<b>80.45</b>	<b>100.56</b>
<i>EBITDA Margin (%)</i>	<i>16.4%</i>	<i>16.3%</i>	<i>16.0%</i>	<i>16.0%</i>
Depreciation	7.41	12.57	21.08	23.63
Interest	19.43	20.40	24.00	21.00
Other Income	9.49	8.29	8.29	8.29
<b>PBT</b>	<b>49.17</b>	<b>38.22</b>	<b>43.66</b>	<b>64.21</b>
Taxes	9.28	6.17	8.73	12.84
<b>Net Profit</b>	<b>39.89</b>	<b>32.05</b>	<b>34.93</b>	<b>51.37</b>
<i>Net Profit Growth (%)</i>	<i>-14.5%</i>	<i>-19.7%</i>	<i>9.0%</i>	<i>47.1%</i>
<i>Net Profit Margin (%)</i>	<i>9.8%</i>	<i>8.3%</i>	<i>6.9%</i>	<i>8.2%</i>
<b>Adj. Net Profit</b>	<b>39.85</b>	<b>32.06</b>	<b>34.93</b>	<b>51.37</b>
<i>Adj. Net Profit Growth (%)</i>	<i>-14.6%</i>	<i>-19.5%</i>	<i>8.9%</i>	<i>47.1%</i>

Source: Company, DFPL Research

### Standalone Cash Flow

(Rs Crs)	FY09	FY10	FY11E	FY12E
Pre-tax Profit	49.17	38.23	43.66	64.21
Depreciation	7.41	12.57	21.08	23.63
Chg in Working Capital	3.78	(19.55)	(24.90)	(23.76)
Total Tax Paid	(8.64)	(5.26)	(8.73)	(12.84)
Other Operating activities	19.00	19.98	0.00	0.00
<b>CF form Operations (I)</b>	<b>70.72</b>	<b>45.97</b>	<b>31.11</b>	<b>51.24</b>
Capital Expenditure	(110.40)	(164.13)	36.34	7.42
Chg in Investments	0.00	(37.55)	0.00	0.00
Other Investing activities	0.00	0.00	0.00	0.00
<b>CF form Investing (II)</b>	<b>(110.40)</b>	<b>(201.68)</b>	<b>36.34</b>	<b>7.42</b>
Equity Raised/(repaid)	0.00	0.00	0.00	0.00
Debt Raised/(repaid)	37.41	173.93	(61.07)	(50.00)
Dividend	0.00	0.00	0.00	0.00
Other financing activities	0.00	0.00	(22.20)	0.00
<b>CF form Financing (III)</b>	<b>37.41</b>	<b>173.93</b>	<b>(83.27)</b>	<b>(50.00)</b>
Net Change in cash (I+II+III)	(2.27)	18.22	(15.82)	8.66
Beginning Cash	21.09	18.82	37.04	21.22
<b>Ending Cash</b>	<b>18.82</b>	<b>37.04</b>	<b>21.22</b>	<b>29.88</b>

Source: Company, DFPL Research

### Standalone Balance Sheet

(Rs Crs)	FY09	FY10	FY11E	FY12E
Share Capital (FV: Rs 10)	58.10	58.10	58.10	58.10
Shareholder's Funds	169.23	223.49	236.22	287.59
Total Debt	272.69	461.07	400.00	350.00
Current Liabilities and Provisions	24.62	69.08	57.20	70.28
Deffered Tax Liability/Asset	-15.83	-19.86	-19.86	-19.86
<b>Total Liabilities</b>	<b>482.37</b>	<b>773.50</b>	<b>713.27</b>	<b>727.73</b>
Net Fixed Assets	227.28	255.88	293.88	312.83
Capital WIP	105.20	245.42	150.00	100.00
Intangibles	0.00	0.00	0.00	0.00
Investments	6.73	44.95	44.95	44.95
Loans and Advances	42.62	54.20	55.00	55.00
Inventory	39.34	68.34	75.76	94.70
Cash & Bank balance	19.40	37.87	21.22	29.88
Receivables	41.80	66.84	71.63	89.54
<b>Total Assets</b>	<b>482.37</b>	<b>773.50</b>	<b>712.44</b>	<b>726.90</b>

Source: Company, DFPL Research

### Ratio Analysis

	FY09	FY10	FY11E	FY12E
<b>Growth Ratios</b>				
Sales Growth (%)	12.6%	-4.6%	30.0%	25.0%
EBITDA Growth (%)	-0.8%	-5.4%	27.9%	25.0%
EPS Growth (%)	-14.5%	-19.7%	9.0%	47.1%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	16.4%	16.3%	16.0%	16.0%
PAT Margin (%)	9.8%	8.3%	6.9%	8.2%
RONW (%)	23.6%	14.3%	14.8%	17.9%
ROCE (%)	14.2%	7.6%	9.5%	11.7%
<b>Per Share Ratios</b>				
Earnings Per Share	6.9	5.5	6.0	8.8
Cash Per Share	8.1	7.7	9.6	12.9
Book Value Per Share	29.1	38.5	40.7	49.5
<b>Valuation Multiples</b>				
P/E (x)	10.2	12.7	11.7	8.0
P/BV (x)	2.4	1.8	1.7	1.4
EV/EBITDA	10.2	13.8	10.0	7.5

Source: Company, DFPL Research



## Dugad Finserv Private Limited

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