

## Executive Summary

MSP Steel & Power Ltd. is an integrated Steel Manufacturer in Eastern India having plant at Raigarh, Chattisgarh. The promoters of the company are Mr. Puran Mal Agrawal and Mr. Suresh Kumar Agrawal. The products of the company include sponge iron, billets, TMT and structurals (angels, channel, flats). The company is undertaking backward integration program to increase its pelletization and power generation capacity.

<b>MSP Steel &amp; Power Ltd.</b>	<b>BUY</b>
Horizon	12 months
CMP(₹)	45
Target Price (₹)	58
Upside	29%

## Key Investment Considerations

- Capacity Expansion to drive volumes.
- Operating margins to improve.
- Raw Material Security.

## Concerns

- Falling commodity prices particularly steel.
- A weaker than expected economic recovery will affect demand for steel.

## Investment Strategy

<b>Period</b>	<b>Cash</b>
Short Term	ACCUMULATE
Mid Term	BUY
Long Term	BUY

*Please read our detailed report below for further information, analysis and details of the Greshma CSI Ranking model and the Greshma Risk Return Matrix*

## Q1 FY12 Result Highlights

Revenues grew by 64% from ₹1070.7 mn in Q1, FY11 to ₹1751.8 mn in Q1, FY12 due to increase in price realization and production volume. EBITDA increased by 72% y-o-y to ₹355.2 mn. Operating margins improved by 100 basis points to 20.3%. However, interest expenses increased from ₹54 mn in Q1, FY11 to ₹133.3 mn in Q1, FY12, an increase of 147%. Net profit surged by 32% y-o-y to ₹113.7 mn. However, net profit margin declined by 150 basis points to 6.5% due to higher interest expenses.

### Operating Performance:

Products	UOM	Production	
		Q1, FY12	Q1, FY11
Iron Pellets	Ore	MT	58,210
Sponge Iron	MT	49,541	42,544
M.S. Billets	MT	34,980	18,501
TMT Bar	MT	17,520	9,951
Structural	MT	18,170	8,912
Power	Units	56,989,240	43,261,361

(Source: Company, Greshma Research)

## Investment Rationale

### Capacity Expansion to drive volumes:

The company is increasing its manufacturing capacity in a phased manner. It is increasing its sponge iron capacity from 192,000 MTPA to 423,000 MTPA by the end of CY12. This capacity addition will be done in a phased manner. The increased capacity will drive volume growth for the company.

### Operating margins to improve:

Pelletization and Beneficiation process converts low grade iron ore fines (58 Fe content) into pellets which can be used in DRI kiln for production of sponge iron. There is not much export demand for iron ore fines and thus are available at cheaper rates. The company is expanding its pellet plant capacity from 300,000 ton per year to 900,000 ton per year. The expanded capacity is expected to be operational by FY12. Increasing capacity will lead to cost reduction resulting in margin expansion.

**BUY**

CMP (₹)	45
Target Price (₹)	58
Potential Upside	~29%
Holding Period	12 Months

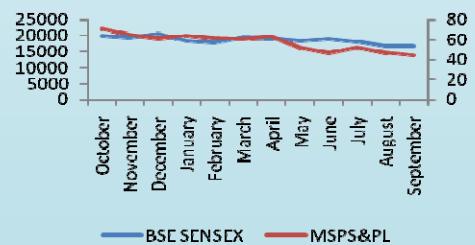
### Stock Matrix

No. of Shares (Mn)	58.1
FV (₹)	10
BV (₹)	35
Market Cap (₹Mn)	2610
52week High/Low (₹)	74/41
2 Week Avg Vol. (BSE)	10,602
BSE Code	532650
NSE Code	MSPL

### Shareholding (%)

	Mar-11	Jun-11	QoQ Chg. (%)
Promoters	71.80	71.80	0.00
DILs	0.53	0.52	-0.01
FILs	0.64	0.48	-0.16
Others	27.03	27.20	+0.17

### Price Performance:



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**Table 1: Cost Analysis.**

₹ Per tone	Fine	Iron Ore Sized	Total Saving
Landed Cost	1500	6500	2500
Processing Cost	2500	-	
Total	4000	6500	

*(Source: Company, Greshma Research)*
**Raw Material Security:**

The company has been allotted coal and high grade iron ore mines in Chhattisgarh. These allotments will take care of the capacity expansion program of the company.

**Table 2: Status of mines.**

Nature of mines	Location	Mining Area	Reserves	MSP's share
Coal Block	Chhattisgarh	714 hectares	175 mn tonnes	26 mn tonnes
Iron Ore Block	Chhattisgarh	150 hectares	35 mn tonnes	35 mn tonnes

*(Source: Company, Greshma Research)*
**Financial Summary**
**Fig.1: Profit/Loss Statement**

Particulars (in ₹ mn)	FY09	FY10	FY11	FY12E
Net Sales	3989	3887	5102	8874
Total Expenditure	3384	3247	4042	7157
EBITDA before Other income	605	640	1060	1717
Depreciation	74	126	193	400
EBIT before Other income	531	514	867	1316
Other Income	156	72	33	164
Interest	194	204	226	466
EBT (PBT)	492	382	674	1014
Tax Expenses	93	62	169	164
PAT	399	321	505	851

*(Source: Company, Greshma Research)*
**Valuation**

Rising infrastructure spending will lead to demand for steel products. MSP Steel & Power Ltd. is into sponge iron, Billets, TMT and Structural. Alongside this, the company is undertaking backward integration program which will result in cost reduction and expanding EBITDA margins. We expect FY12 EPS of ₹13. At 4.5 times FY12E earnings, we recommend BUY on the script with a price target of ₹58 for a 12 month investment horizon.



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