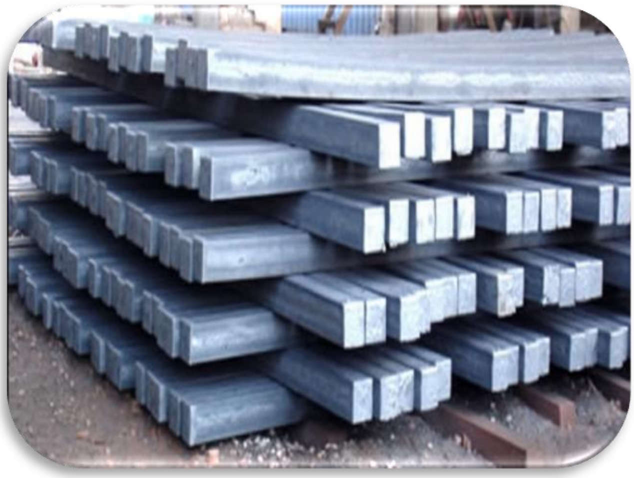
LOHIA SECURITIES LTD.



MSP STEEL & POWER LIMITED

Krishna Kumar Agarwal
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Dear Patrons...

The Indian steel industry has made a rapid progress on strong fundamentals over the recent few years. The industry is getting all essential ingredients required for dynamic growth. The government is backing the industry through favorable industrial reforms, while the private sector is supporting it with investments worth billions of dollars. Even in the tough times of economic slowdown, the industry succeeded to sustain its positive growth momentum on the strong fundamentals of domestic demand from construction, automobile and infrastructure sector. India became the fifth largest producer of crude steel in the world in 2010 as against the eighth position in 2003 and is expected to become the second largest producer of crude steel in the world by 2015. India also maintained its lead position as the world's largest producer of direct reduced iron (DRI) or sponge iron. Led by strong demand for autos and engineering services, the domestic steel demand in India remains robust, as per Moody's sectoral analysis on Asia's steel sector. According to the analysis, the outlook for the domestic operating environment is positive, driven by robust growth in infrastructure, autos and households items.

According to report of Ministry of Steel during April-December 2009-10 crude steel production registered growth of 4 percent and was 45.775 million tonne. In case of finished steel (alloy + non-alloy) during April-December, 2009 the production for sale grew by 3.2 percent and was at 43.849 million tonne. The steel consumption during the said period also grew by 7.8 Percent and was at 40.997 million tonne. As a result of increase in consumption, steel imports increased by 16.6 percent and was about 5.21 million tonne. Further during the last quarter of 2010 the demand and production improved further and on a whole steel production increased by 4.2% to 60 million tonne and steel consumption increased by 8%. The domestic demand surged 23% growth in steel imports to 7.2 million tonne for the fiscal even as exports declined by almost a third as global demand remained subdued.

The focus of the industry is being gradually shifted to the emerging markets, as developed markets continued to suffer from low growth and high deficits. On the other hand, emerging markets led by China and India staged a speedy recovery which helped the Metals and Mining industry among others to perform better. When, most of the developed countries are still facing with low demand and thus lower capacity utilizations, both China and India have actually managed to post higher metals production on YoY basis. The World Steel Association has also predicted India's steel demand to grow by 13% during next couple of years. Also, many technological collaborations have been signed between Indian and foreign players recently indicating a strong growth phase going ahead.

The iron and steel industry in India has been going through some challenges related to environmental issues, illegal mining, stiff regulations, higher input costs etc., however the coordinated approach, strong demand and scouting for raw material security even in abroad should maintain a healthy growth for the industry. On the pricing front, steel prices started firming up recently on cost push on the back of higher iron ore and coking coal prices and higher demand and we believe prices to remain strong in the near-medium term. Margin pressure however cannot be ruled out because of higher coking coal costs. Base metals prices on the other side has seen sharp rise led by copper on recovery hopes in developed markets and investment demand.

Regards,
Lohia Research

July 13, 2011

Investment Rationale

Backward integration to enhance operating margins: In order to secure raw material supply for steel production the company has been expanding its pelletisation capacity which leads to higher in-house sponge iron production. Lower cost involved in pellet production and resilience from the higher market sponge iron price will enhance operating margin.

Update on capacity expansion plan: MSPL's ₹8,140mn capacity expansion plan is on track. The company has commissioned and stabilized 115,500 MTPA of sponge iron and 18 MW of power plants under the first phase of expansion. The second phase is under advanced stage of execution; the company has achieved financial closure for the project and it is expected to come on stream by the end of Q2FY12.

Captive Power Generation: Currently MSP Steel operates a 42 MW thermal power plant, with coal and waste gas heat as fuel. The company plans to setup an additional 34 MW thermal power plant, which is expected to be operational by Q2FY12. The upcoming power generation capacity will also be fed by the coal washery middlings, rejects and waste gas from sponge iron plant. This will further reduce the costs and improve in margin.

Key Risks

- High leverage to fund the ongoing expansion
- Economic slowdown
- Legal hassles in operating mines
- Fluctuations in input costs

Valuation

The revenue visibility has improved given the revival seen in the volume and capacity expansion. However, at the current market price the stock trades at a P/E of 4.1x and 2.8x of its EPS for FY12E and FY13E respectively. Thus MSPL seems fairly valued. ***We initiate a 'buy' rating on the stock with accumulate at every dip.***

MARKET DATA	
Bloomberg Code	MSPS.IN
Reuters Code	MSPO.BO
Price (₹)	50.0
Target Price (₹)	65.0
Time (in months)	12
Dividend Yield (%)	1.0
52 Week High/ Low	80.0/38.9
Equity Capital(₹mn)	656.4
Face Value (₹)	10.0
Market Cap (₹ mn)	3000
Avg.3M Vol. (NSE)	60991

INDEX	WEIGHTAGE
BSE SMCAP	0.061%

SHARE-HOLDING PATTERN (%)	
Promoter	71.8
Public	11.2
FIIs/DIIs	1.2
Other	15.8
(as on Mar'11)	100.00

RELATIVE PERFORMANCE (%)

	CNX SMCP	Stock	Stock over CNXSMCP
1m	(0.9)	3.6	4.6
3m	(3.8)	(21.8)	(18.0)
6m	(3.2)	(20.0)	(16.8)
1yr	(3.1)	17.7	20.8

Particulars	2009-10	2010-11	2011-12E	2012-13E	2013-14E
Revenue (₹ in millions)	3950	5096	7992	10446	13454
% Growth	(4.5)	29.0	56.8	30.7	28.8
EBDITA (₹ in millions)	706	1062	1824	2600	3692
EBIT	580	868	1464	2165	3227
Net Profit (₹ in millions)	320	502	708	1042	1667
EPS (₹)	5.5	8.6	12.2	17.9	28.7
EPS growth	(19.8)	56.4	41.4	47.2	59.9
P/E (x)*	7.0	7.3	4.1	2.8	1.7
P/BV (x)*	1.0	1.1	0.7	0.6	0.4
ROE (%)	28.7	18.5	20.0	23.8	29.2
EV/EBIDTA (x)*	9.2	10.0	7.3	5.5	3.7

* *calculated on the basis of CMP as on 12th July 2011*

Company Profile

MSP Steel & Power Ltd. (MSPL), part of the MSPL group, is a Kolkata-based steel manufacturer. The company was incorporated on Nov. 18, 1968. MSP Steel & Power Limited is engaged in the manufacturing and trading of iron and steel. The Company manufactures pellet, sponge iron, billets/ingots, ferro alloy, pig iron, industrial oxygen, constructions bars (TMT), structural's and power. The Company also produces medical oxygen. The integrated plant is located in Jamgaon, Chattisgarh with an installed sponge iron manufacturing capacity of 307,500 TPA, steel melting shop of 144,109 TPA, TMT rolling mill of 80,000 TPA, coal washery of 345,600 TPA, and railway siding of 2.4 Km. The company markets its TMT bars under the brand name of MSP Gold Theremax TMT. It has a 42 MW captive power plant. The company signed a memorandum of understanding with the government of Chhattisgarh for its expansion program in the state of Chhattisgarh. MSPL's key customers include Prakash Industries, Parsvnath Developers, Sundew Properties, NTPC, Shree Cement and Chhattisgarh State Electricity Board.

The captive power plant reduces 59,000 metric tons of CO^2 equivalents per annum which lead to substantial revenue inflow by selling CER credits (certified energy reduction) which will accrue to the company for a period of 10 years. The company has already been accorded the coal block in the Madanpur South Coal Company Limited by the Ministry of Coal to meet its coal requirement for the next 30 years having a stake of 14.9%, and its application for iron ore mines in Chhattisgarh is in advanced stages of consideration.

Existing Manufacturing Capacity

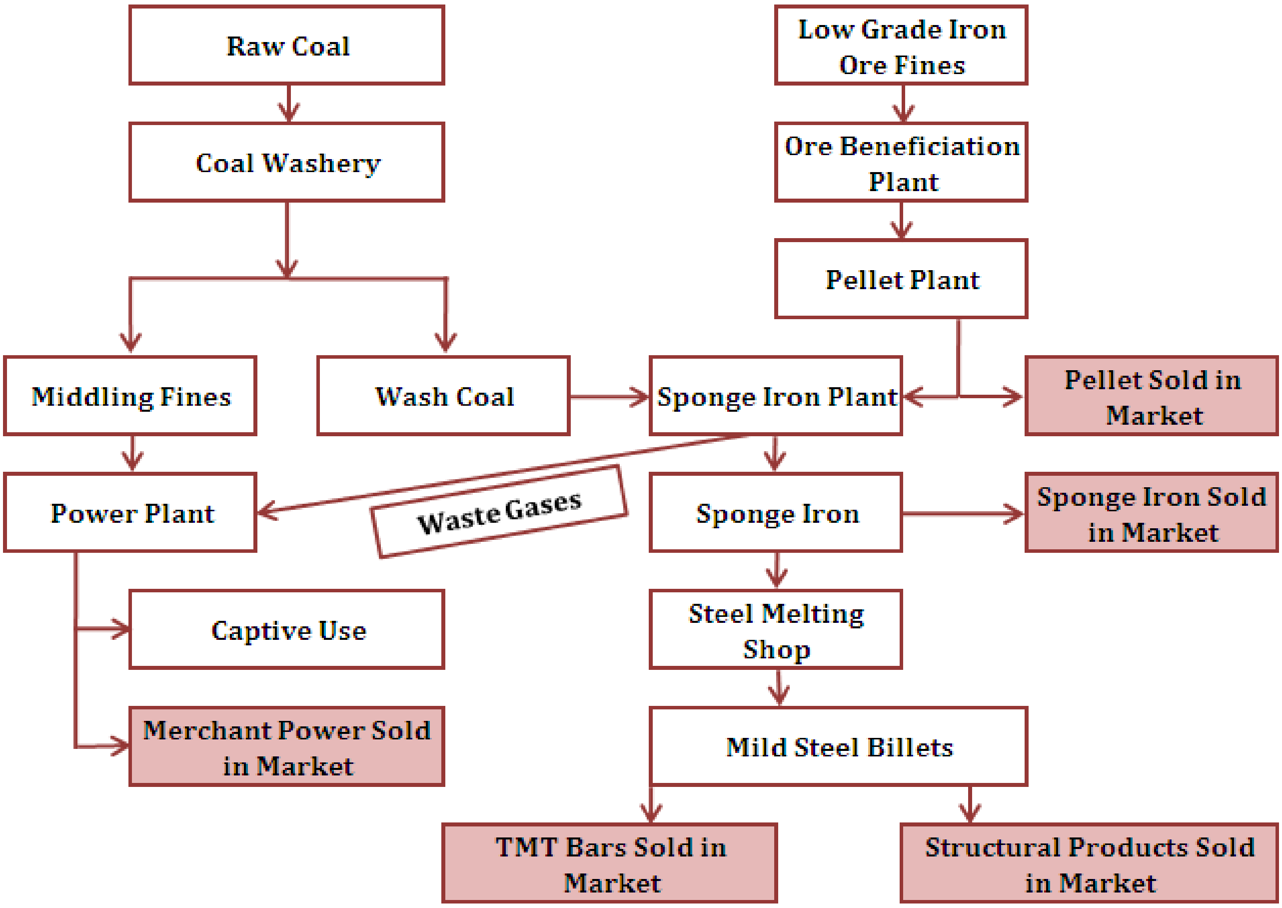
Particulars	Capacity
Pellet (TPA)	300000
Sponge Iron (TPA)	307500
Coal Washery (TPA)	345600
Billet (TPA)	144109
Structural (TPA)	128000
TMT (TPA)	80000
Captive Power (MW)	42
Railway Siding (Km)	2.4

Management Guidance

In FY 2012, MSPL is looking at increasing its revenues by ~ 60% as expansion will contribute in operations for six months. In FY 2013 also, MSPL believes that its revenues will increase further by 30% - 40% as it will get contribution from the expansions throughout the year. Further, MSPL also believes that its margins will improve as pellet and beneficiation plant have much higher EBITDA margins than its existing operations. Company also believes that post expansion, merchant power sales will also lead to considerable improvement in its EBITDA margins.

The Company has a capex plan of ₹8140 million till fiscal 2012 which is mainly to strengthen their backward integration plans. This was to be invested in two phases, out of which the first phase is complete and the second phase has begun. In the first phase, the company expanded sponge iron capacity from 192,000 tonne per annum (TPA) to 307,000 TPA at an investment of close to ₹2400 mn. Under the second phase, MSPL will expand its power generation and pellet capacity and operationalise its coal and iron ore mines, which are expected to be complete by fiscal 2013. It is increasing its power capacity to 76 megawatts (MW) from 42 MW currently and pellet capacity to 900,000 TPA from the current 300,000 TPA at present, besides bringing its mines on-stream. The company had been awarded a 26 million tonne coal mine and a 35 million tonne iron ore mine in Chhattisgarh, which will start production from 2013.

Business Model (Process Flow):



Board of Directors

Name	Designation
Mr. Puran Mal Agarwal	Chairman
Mr. Suresh Kumar Agarwal	Managing Director
Mr. Manish Agarwal	Director (Marketing)
Mr. Saket Agarwal	Director (Finance & Accounts)
Ms. Pinky Gupta	Company Secretary

Mr. Puran Mal Agarwal: The 'Key Man' who envisioned the various projects, made planning and implemented the same successfully. Engaged in steel business for the last 27 years. He is the Chairman of the company, looking after and in control of overall matters.

Mr. Suresh Kumar Agarwal: Engaged in steel business for the last 22 years. B.E.(Mech.) from Jabalpur University, M.P. He is technically sound and is looking after the production, quality control matters.

Mr. Manish Agarwal: Commerce Graduate from St. Xavier's College, Kolkata and MBA from IMI, Delhi. Engaged in steel business for the last 7 years. He looks Iron ore procurement, Mining activities and operations of Power plant and Steel melting plant.

Mr. Saket Agarwal: Commerce Graduate from St. Xavier's College, Kolkata and MBA from IMI, Delhi. Engaged in steel business for the last 7 years. He looks after Accounts, Finance, Commercial activities and operation of Structural Rolling Mill.

Investment Rationale

Growth from expansions and Backward Integration – Cost Benefits

MSPL is focusing on backward integration and intends to become a well-integrated player. The company had lined up an aggressive capital expenditure for increasing capacities of sponge iron, pellets and power. From the current expansion, the company is substantially integrating backward and it is also believed that company will have attractive savings from this.

The total project cost for the entire expansion is around ₹8140 million and of this; company has achieved a financial closure of ₹5445 mn from banks and financial institutions. For the balance funding, the company is looking at raising funds through QIP and promoters themselves are also partly infusing the funds in the company. The company is expecting to close the QIP this month. Further for capex, ₹4500 mn has been already invested into the company and all the expansion plans are scheduled to be operational phase wise before October 2011. A part of the project – 18 MW power plant and 115500 tonne of DRI had commenced operations in the March 2011 quarter.

Particulars	Current Capacity	Expansion	Total Capacity	Completion
Pellet (TPA)	300000	600000	900000	Oct-11
Sponge Iron (TPA)	307500	115500	423000	Oct-11
Coal Washery (TPA)	345600	383525	729125	Apr-11
Billet (TPA)	144109		144109	
Structural (TPA)	128000		128000	
TMT (TPA)	80000		80000	
Captive Power (MW)	42	34	76	Sep-11
Railway Siding (Km)	2.4	2	4.4	Mar-12

The details of company's expansion plans are as under:

Sponge Iron: Recently, MSPL Completed its 115000 TPA Phase I sponge iron capacity expansion plan and has already commenced its 115000 Phase II expansion plan which will increase current sponge iron capacity from 307500 TPA to 423000 TPA. The company expects the Phase II of the expansion plan to be completed by Q2FY12. Since, MSPL is not expanding its upstream capacity; revenues from sponge iron will represent a higher percentage of the company's revenue from FY12.

Pellet Plant: MSPL is also progressing on its 600000 TPA Pellet capacity expansion plan. Post expansion, the company's pellet capacity will reach to 900000 TPA at a cost of ₹2260 million of which it will only consume 75% of the output internally. As cost controls measure it buys iron ore fine for pellet production which is available at a cheaper price due to its lower quality. This low grade iron ore is then converted to higher grade in its beneficiation plant before sending to the pelletisation plant for pellet production. This is expected to significantly reduce the cost of production by over ~ ₹2,200 per tonne as pellets can be directly used to produce sponge iron. In addition to cost saving from pellet operation, the company is also expected to generate higher revenue and profits from the sale of excess pellets in open market. The company plans to source the iron ore requirement from the spot market till the start of iron ore mining operation.

₹ Per Tonne	Fines	Sized	Total Saving
Landed Cost	1800	6500	
Processing Cost	2500	0	2200
Total	4300	6500	

Power Generation: In Jan 2011, MSPL completed its 18 MW Phase I power capacity expansion program. This project includes 12 MW of waste gas fired and 6 MW coal Power Plant, which are currently used in captive consumption. The company is also progressing on its 34 MW coal fired merchant power plant. Based on the current project activity level, the company expects to finish the project as per schedule. This plant is designed in such a way that the company can use the lowest quality of coal to produce power. Hence, raw material sourcing should not be a problem for this project. After completion of Phase II of expansion plan, the company's total power generation will reach 76 MW of which ~50% of the output will be available for merchant sale, which will further add to the company's near term revenue growth and profitability.

Coal Washery: To support its sponge iron capacity expansion plan, MSPL is also expanding its coal washery capacity by 383525 TPA to 729125 TPA. The company plans to source low priced F-Grade coal from the spot market and use its coal washery to improve the grades, thereby adding value (cost saving) to its operation.

Railway siding: MSPL is also in the process of modernizing and extending its railway siding facility by 2 KM from 2.4 KM to 4.4 KM.

Thus from above, we believe that company will have substantial savings from backward integration and upon completion of expansion and backward integration; the company will have much high revenues, its margins will increase and its profits also will increase substantially.

Surplus Power after Captive Use to Expand Top Line & Margins and Fungible model advantage:

Company is currently producing significant amount of power over and above its captive requirement which it sells in open market as merchant power and this is expected to increase further by FY13. Post its expansion plans its total installed capacity will increase to 76 MW of which 34-36 MW will be required for its captive use and the rest would be sold in the open market

In order to produce power, almost 100% of the coal required is available from the rejections of its coal washery which otherwise would be left wasted, giving the company a high advantage and a significant boost in its margins.

Power (in MW)	Current Capacity	Expansion	Total Capacity
Coal	18	24	42
Waste Heat Recovery	24	10	34
Total	42	34	76
Captive Consumption	25-26	9-10	34-36
Merchant Power	16-17	24-25	40-42

This leads to a power production cost for MSPL of around ₹1.4-2/unit which is around 30-40% lower than the average of around ₹2.8/unit and with average merchant power tariff of around ₹3.5-4/unit in Eastern India adds a robust amount of growth to its bottom line by FY13.

By FY13, as per discussions with the management, power should account for about 13% of its total top line compared to only around 3% from its current levels.

Further, the MSPL also has the advantage of a fungible model wherein it can swap billet production by selling merchant power in the open market. As Billet production is a very power intensive, on finding that it is not feasible in producing the billets in cases where the power costs are high and exceed certain limit then in such situations it stops the production of billets and sells power.

Cost benefit from Coal and Iron ore mines

MSPL has been allotted a coal mine with reserves of 26 mn MT in Chhattisgarh which will significantly reduce its raw material costs upon starting of the operations which are expected by end of 2012. Further, MSPL has been also allotted an iron ore mine with reserves of 35 mn MT in Chhattisgarh which is likely to be operational by 2015.

Nature of Mines	Location	Mining Area	Reserve	MSPL'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

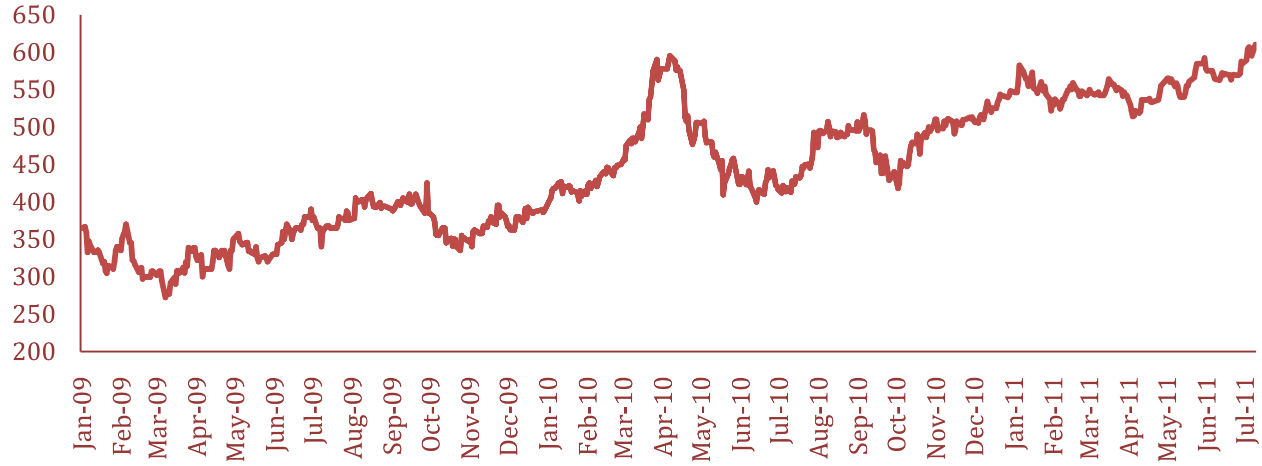
Thus from above we believe that upon the operationalisation of its mines, the MSPL's raw material cost will reduce further.

Firm Steel price backed by strong demand

International Steel prices have been holding on at the $500 to 600 per tonne levels for the past 6-8 months. We expect domestic Steel prices to remain stable with an upward bias on strong domestic demand and global economic recovery.

The short term outlook for steel released by WSA in April 2011 has projected steel demand in India to increase by 14.3% in 2012, up from 13.7% in 2011. We expect prices of steel billet, TMT bars and other structural products to remain firm for the next two years.

Steel Billet Prices (US$/Tonne)



Source: Bloomberg, Lohia Securities

Cost and other advantages

MSPL has various costs and other advantages as under:

1) It has the advantage of geographical proximity to abundant, high quality coal and iron ore reserves.
2) Further, due to a combination of captive production of raw material, pelletisation, coal beneficiation and captive power generation, the operating cost of the company is lower by ₹2000 – ₹3000 / MT as compared to other non integrated players.
3) Its Railway siding reduces the transportation cost by more than ₹500 per MT.

Thus, as seen MSPL enjoys various advantages.

Key Risks

High leverage to fund the ongoing expansion:

The Company is executing a mega-expansion plan; total capex for the same is ₹8140 mn. Banks and institutions will lend ₹5445 mn, the rest will be financed by promoters. The debt undertaken is huge considering the size of the company. If things don't go as planned, it can severely affect the company's future prospects.

Economic slowdown:

There may be a slowdown in economic growth due to high inflation, interest rates, and global factors. This will lower steel prices, hurting the company's margins. Interest costs will further eat into margins.

Legal hassles in operating mines:

The mines allotted to the company for coal and iron ore in Chhattisgarh have raised objections from environmentalists. Subsequently, a court order was issued asking the company to stall work on developing the mines. This can threaten the company's plans to operate the mines by FY13-14. However, going by the recent clearance given to POSCO to go ahead with its project in Orissa, we are hopeful that the matter will be resolved soon.

Fluctuations in input costs:

MSPL sources iron ore (lumps and fine) from the spot market and is hence exposed to risk of a sharp increase in iron ore prices. Though the company has acquired captive iron ore mines in Chhattisgarh, benefits are expected only after FY 15.

No non-compete agreement among group companies:

The MSP group has entities whose line of business is similar to that of MSPL Steel & Power. There is no non-compete agreement in place, exposing the company to possible conflict of interest.

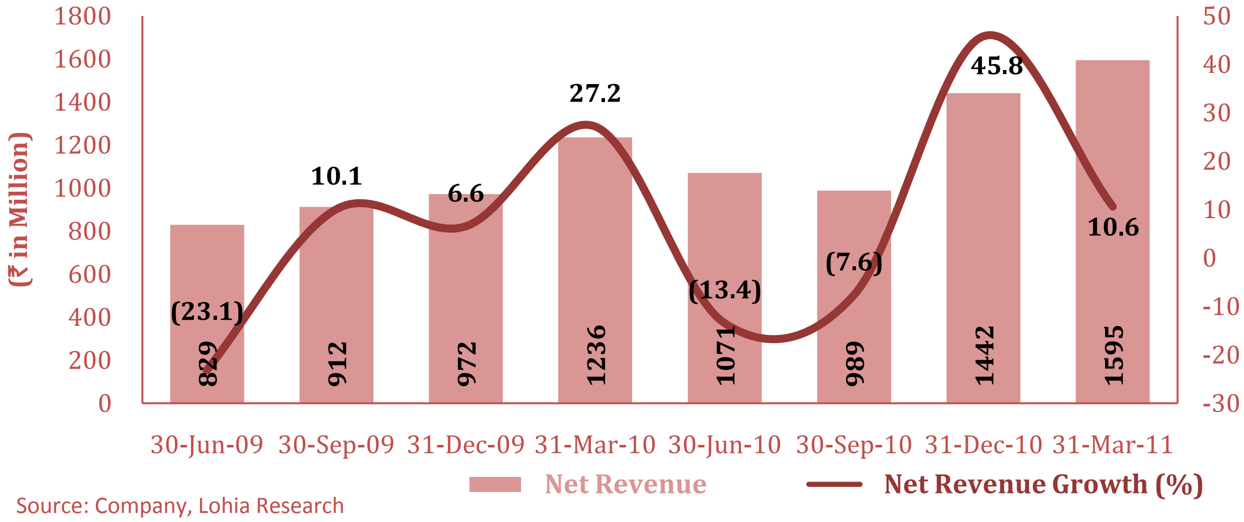
Quarterly Performance

Particulars (₹ in Millions)	Q4FY11	Q4FY10	YOY (%)	Q3FY11	QOQ (%)
Net sales	1595.0	1236.4	29.00	1441.6	10.64
Other income	27.9	-5.1		2.4	
Raw materials	1014.0	761.1	33.23	897.4	12.99
Employee Cost	45.9	33.6	36.72	35.5	29.25
Other expenses	272.4	177.8	53.23	152.9	78.17
Total Expenses	1332.2	972.4	37.01	1085.8	22.70
EBDIT	290.6	259.0	12.23	358.2	(18.86)
Interest expenses	57.3	50.3	13.98	63.2	(9.32)
Depreciation	66.9	32.8	104.15	41.4	61.55
PBT	168.3	173.6	(3.08)	250.6	(32.85)
Tax provision	52.8	26.9	95.95	60.5	(12.77)
Net profit	115.5	146.7	(21.25)	190.1	(39.23)
EPS (₹)	1.97	2.52	(21.83)	3.27	(39.76)

Financial Highlights

Revenue up by 29% due to higher realization and increase in capacity:

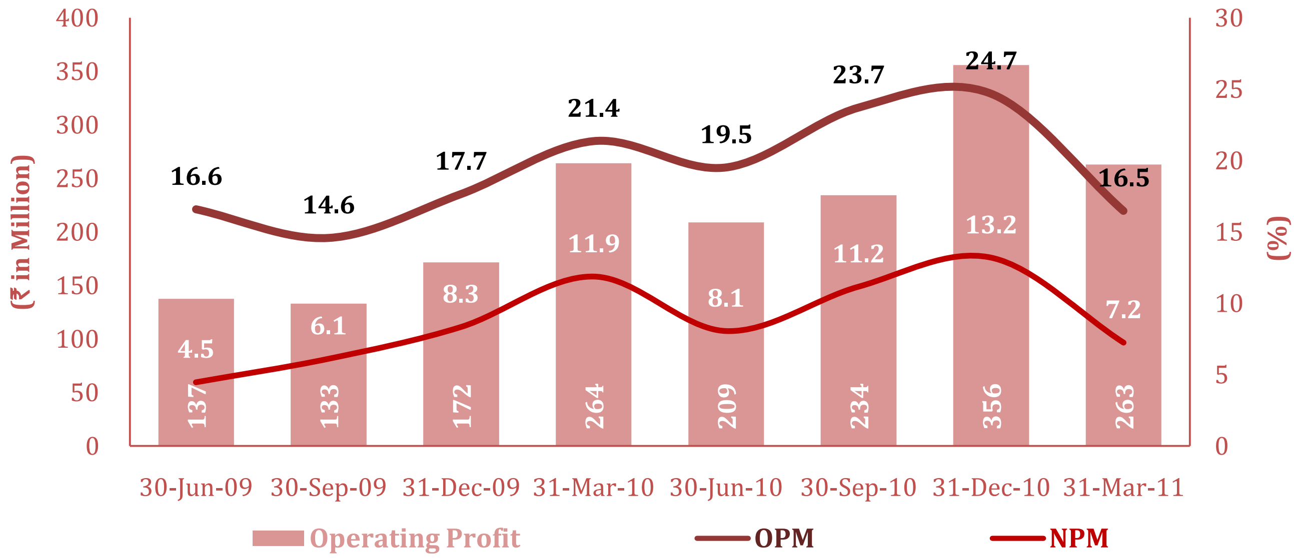
MSPL recorded a sales growth of 29% YoY to ₹1595 mn while on annual basis net sales increased 29% to ₹5096 mn. This was on account of higher realizations, improved product mix, increase in capacity utilization and additional revenue from the recently commissioned sponge iron plant and 18MW power plant.



Source: Company, Lohia Research

Despite the growth in sales, EBITDA remained flat on account of a steep rise in input costs. EBITDA for the quarter stood at ₹263 mn same as the corresponding quarter last year while the annual EBITDA recorded a 50% YoY to ₹1,062 mn. EBITDA for the quarter decreases due to increase in raw material prices. Raw material price as a percentage of sales increased 225 bps compared to the previous quarter.

Net profit for Q4FY11 fell 21% YoY to ₹115.5 mn while profit for the year FY11 increased 57% YoY to ₹501.8 mn. PAT margin for Q4FY11 has contracted by 47 bps while on an annual basis PAT margin improved by 173 bps in FY11. The fall in PAT margin was cushioned by a steep jump in other income to ₹30mn compared to ₹-7mn in the corresponding quarter last year.



Source: Company, Lohia Research

Income Statement (Consolidated)

₹ in million

Particulars	2009-10	2010-11	2011-12E	2012-13E	2013-14E
Net Revenue	**3950**	**5096**	**7992**	**10446**	**13454**
(Increase) in Stock In Trade & WIP	(52)	(363)	(233)	(302)	(495)
Consumption of Raw Materials	2289	3166	4775	6160	7665
Purchase of Trade Goods	382	349	481	420	510
Employee Cost	119	153	272	406	524
Other expenditure	505	729	873	1163	1557
Total Expenditures	3244	4034	6168	7846	9761
EBITDA	**706**	**1062**	**1824**	**2600**	**3692**
Depreciation & Amortization	126	193	360	435	465
EBIT	**580**	**868**	**1464**	**2165**	**3227**
Financial Charges	204	235	446	669	803
Other Income	9	39	71	107	140
PBT	382	672	1089	1603	2564
Tax	62	169	381	561	897
Reported PAT	**320**	**502**	**708**	**1042**	**1667**
EPS (₹)	**5.5**	**8.6**	**12.2**	**17.9**	**28.7**

Balance Sheet (Consolidated)

₹ in million

Particulars	2009-10	2010-11	2011-12E	2012-13E	2013-14E
ASSETS					
Gross Asset	2922	5556	9546	10581	11144
Accumulated Depreciation	363	557	917	1352	1817
Capital WIP	2454	3419	3565	3745	4067
Net Fixed Asset	**5013**	**8418**	**12195**	**12975**	**13394**
Investments	450	70	70	70	70
Current Asset	2272	2891	3716	4958	5904
Current Liabilities & Provisions	691	790	947	1155	1339
Net Current Asset Excluding Cash	**1203**	**1998**	**2393**	**3464**	**4064**
Capital Deployed	**7044**	**10588**	**15034**	**16848**	**18029**
CAPITAL AND LIABILITIES					
Secured Loans	4247	6405	9824	10551	10137
Unsecured Loans	363	650	997	1071	1029
Total Loans	**4611**	**7055**	**10821**	**11622**	**11166**
Deferred Tax Liabilities	199	334	334	334	334
Total Liabilities	4809	7389	11155	11956	11499
Share Capital	581	656	656	656	656
Reserve and Surplus	1654	2543	3223	4236	5873
Total Stock Holder's Capital	**2235**	**3200**	**3879**	**4892**	**6530**
Capital Employed	**7044**	**10588**	**15034**	**16848**	**18029**

Cash Flow Statement (Consolidated)

₹ in million

	2009-10	2010-11	2011-12E	2012-13E	2013-14E
Cash Flow from Operating Activities					
PAT	320	502	708	1042	1667
Depreciation	126	193	360	435	465
Operating Profit Before WC Changes	715	1099	1895	2707	3832
Changes In WC	(1203)	(795)	(396)	(1071)	(600)
Other	(9)	(39)	(71)	(107)	(140)
Net Cash Generated From Operations	**(559)**	**96**	**1047**	**969**	**2195**
Cash Flow from Investing Activities					
Capital Expenditure (CAPEX)	(5376)	(3598)	(4137)	(1215)	(885)
Net Cash Used In Investing Activities	**(5817)**	**(3180)**	**(4065)**	**(1108)**	**(745)**
Cash Flow from Financing Activities					
Change in Debt	4809	2579	3766	801	(456)
Interest Paid	(204)	(235)	(446)	(669)	(803)
Others	1792	417	(0)	(0)	0
Net Cash used in Financing Activities	**6754**	**2808**	**3291**	**103**	**(1288)**
Net Increase in Cash and Cash Equivalents	**379**	**(275)**	**273**	**(37)**	**161**
Cash and cash equivalents At the beginning	0	379	103	376	340
Cash and cash equivalents At the end	**379**	**103**	**376**	**340**	**501**

Financial Ratios (Consolidated)

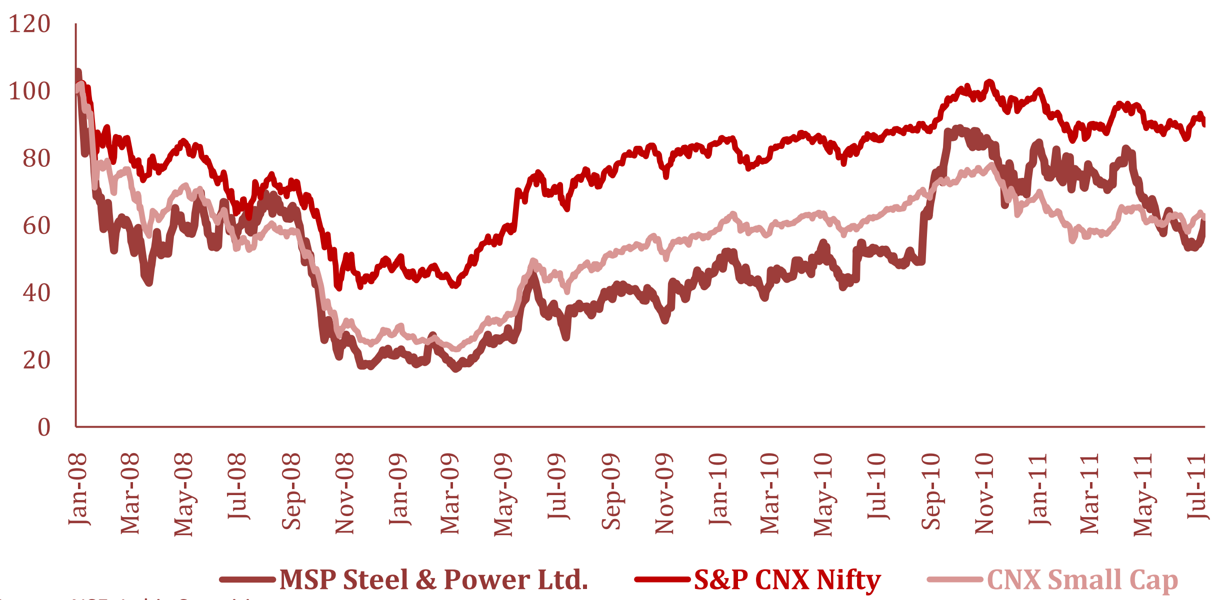
	2009-10	2010-11	2011-12E	2012-13E	2013-14E
Per Share (₹)					
Adj. EPS	5.51	8.62	12.19	17.94	28.69
CEPS	7.68	11.96	18.38	25.43	36.70
BVPS	38.47	55.08	66.76	84.20	112.39
Valuation Ratios (x)					
P/E	7.01	7.33	4.10	2.78	1.74
P/BV	1.00	1.15	0.75	0.59	0.44
EV/EBITDA	9.17	10.00	7.32	5.46	3.67
EV/SALES	1.64	2.08	1.67	1.36	1.01
Dividend Yield	0.78	0.79	1.00	1.00	1.00
Working Ratios (Days)					
Inventory	64.17	92.39	60.72	53.42	47.70
Debtors	62.75	30.89	20.30	17.86	15.95
Creditors	64.86	60.36	43.24	40.36	36.33
Net Working Capital Excluding Cash	112.95	152.70	109.31	121.03	110.26
Profitability Ratios (%)					
Return on Assets (ROA)	4.55	4.74	4.71	6.19	9.24
Return on Capital Employed (ROCE)	16.48	9.85	11.43	13.58	18.50
Return on Equity (ROE)	28.66	18.47	20.01	23.76	29.18
Efficiency Ratios (%)					
Current Ratio	3.29	3.66	3.93	4.29	4.41
Debt-Equity Ratio	2.06	2.20	2.79	2.38	1.71
Interest Coverage Ratio	2.84	3.70	3.28	3.24	4.02
Margin Ratios (%)					
EBITDA Margin	17.88	20.83	22.82	24.89	27.45
Net Profit Margin	8.11	9.85	8.86	9.98	12.39

Relative Valuation

	Price (TTM)	Market Cap (Mn)	EV (Mn)	EPS (₹)	P/E (x)	P/BV (x)	EV/ EBIDTA	D/E (x)	RoNW (%)
SAIL	176.1	727157	926097	12.0	14.7	2.0	12.0	0.5	13.3
Tata Steel	602.1	577209	1075127	93.7	6.4	1.6	6.7	1.7	25.4
JSW Steel	1063.9	237374	381638	78.6	13.5	1.4	7.8	1.0	10.6
Jindal Steel	670.6	626542	761612	40.2	16.7	4.4	11.9	1.0	26.5
Jai Balaji	225.6	14386	33277	12.2	18.6	1.4	9.5	1.9	7.7
Monnet Ispat	529.3	34052	35495	44.3	11.9	1.8	7.3	0.1	15.2
Adhunik Metaliks	100.1	12362	40878	14.9	6.7	1.4	7.1	3.5	21.2
Godawari Power	193.4	6139	13621	27.0	7.1	1.0	5.9	1.5	14.2
Modern Steel	37.9	477	1497	6.5	5.8	0.8	5.1	1.8	14.2
MSP Steel	**57.6**	**3344**	**10295**	**8.6**	**6.7**	**1.0**	**9.7**	**2.2**	**15.7**
Average					**10.8**	**1.7**	**8.3**	**1.5**	**16.4**

Source: NSE, Company, Lohia Research,
Price as on July 12, 2011.

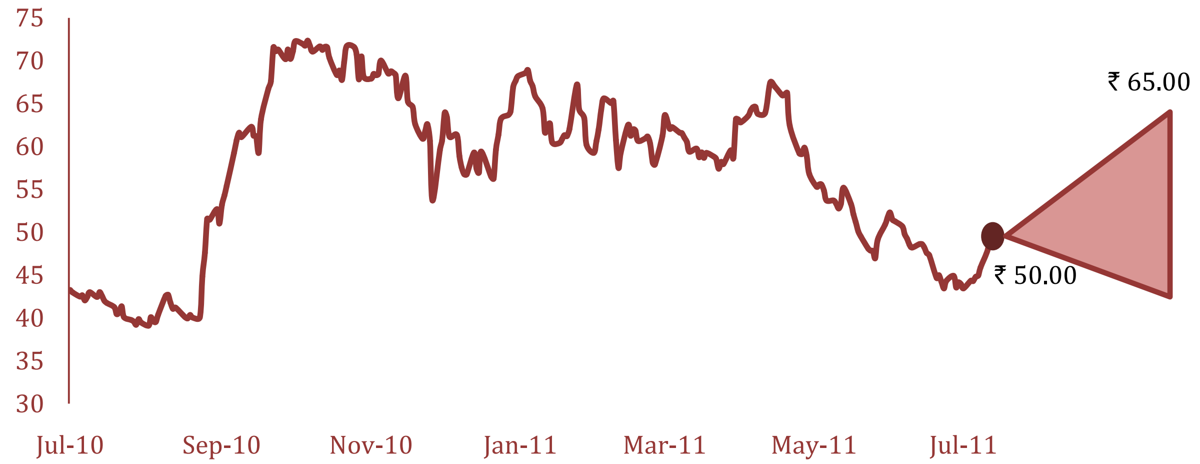
Comparison with Index



Source: NSE, Lohia Securities

Valuation

DCF Valuation	FY10	FY11	FY12E	FY13E	FY14E
EBITDA	706	1062	1824	2600	3692
Depreciation	126	193	360	435	465
Less: Cash Tax	62	169	381	561	897
NOPLAT	592	795	1186	1690	2400
Capex	(5376)	(3598)	(4137)	(1215)	(885)
Changes in WC	(1582)	(519)	(669)	(1034)	(762)
Free Cash Flows	(6359)	(3294)	(3573)	(490)	844
PV of Estimated FC Flows	0	0	(3319)	(422)	676
Fundamental Value					
Cumulative PV of Estimated FC Flows					(3065)
PV of Estimated Perpetuity Flows					14601
Total Present Value					10860
Book Value of Debt					7055
Fundamental Value of Equity					3805
No of Outstanding Shares					58
Fundamental Value per share (₹)					65



Source: NSE, Lohia Securities

Valuation & Outlook

MSP Steel has undertaken a massive phase wise expansion plan with a capex of ₹8140 mn to increase its pellets, sponge iron and power capacity by Q2FY12. MSPL has recently commissioned the 115,000 MTPA Sponge Iron Plant and the 18MW power plant. The expansion plan is well on schedule and the company expects to commission the 600,000 MTPA Pellet Plant and the 34MW power plant at Raigarh in Q2FY12. MSPL expects strong growth in overall business in FY12 with steel prices expected to increase to reflect the increase in raw material prices.

At CMP stock is trading at PE of 4.1x FY12E earnings which seem reasonable. We have used the discounted cash flow (DCF) method to value MSPL due to the huge capex plan, the benefits of which would accrue over a longer period. Our valuation suggests Mar'12 target price of ₹65 based on a discount rate of 7.7% and a terminal growth of 3%. The target price implies a potential upside of ~30% from current levels. We maintain our BUY recommendation on the stock.

For Suggestions, clarifications & your valuable feedback write back to us at:

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Investment Rating

Buy > 15 **Hold (5%-15%)** **Sell < 5%**

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