

“An organisation’s aspirations must be greater than its available resources.”

- C.K. Prahalad, renowned management guru

Aspirations Resources

MSP Steel & Power Limited
reported revenues of

Rs. 395.85 cr
in 2009-10.

The Company embarked on a
business plan to generate

Rs. 1,000 cr
in revenues in 2011-12.

Vision

To unleash the power of our products to help enhance the country's economic growth and the wellbeing of its citizens

Legacy

MSP Steel & Power Limited is the flagship of the MSP Group, promoted by Mr Puranmal Agrawal (Chairman) and Mr Suresh Kumar Agrawal (Managing Director).

Credentials

MSP Steel & Power Limited is one of India's fastest growing industrial conglomerates.

The Company is engaged in the production and distribution of steel products.

Its product mix comprises sponge iron, MS ingots/billets, TMT bars, structurals (angles, channels, plates and joists) and power.

Brand

The Company's TMT bars are marketed under the widely accepted 'MSP Gold Thermex TMT Bars' brand

Clientele

- Prakash Industries Ltd
- Monnet Ispat & Energy Ltd
- Parsvnath Developers Ltd
- Sterling Construction (P) Ltd
- Knowledge Infrastructure Systems Pvt Ltd
- Chhattisgarh State Electricity Board

Presence

Headquartered in Kolkata (India) with a pan-India marketing presence

Intellectual capital
692 people

Listing

The Company's equity shares are listed on the Bombay Stock Exchange and the National Stock Exchange.

The promoters hold 71.80 percent in the Company's equity share capital.

Asset allocation

(MT)

Products	Annual installed capacity			Production		Sales*	
	2008-09	2009-10	2010-11 (E)	2008-09	2009-10	2008-09	2009-10
Sponge iron	192,000	192,000	307,000	124,896	155,851	33,557	55,907
MS ingots/ billets	144,109	144,109	144,109	95,078	107,579	57,230	47,227
TMT bars	80,000	80,000	80,000	56,506	68,385	57,026	64,811
Captive power (kWh)	190,080,000	190,080,000	332,640,000	137,088,268	161,783,321	5,051,600	16,321,315
Structural rolling mill	-	128,000	128,000	-	1,099	-	3

*Excluding products transferred for further processing

Key financial highlights, 2009-10

Turnover
(Rs. cr)
388.74

Post-tax profit
(Rs. cr)
32.05

Operating profit
(percent)
8.08

Return on
capital employed
(percent)
6.69

Book value per
share (Rs.)
10

Debt-equity ratio
2.06

From the Chairman's desk

“We expect to emerge with a million tonne integrated steel capacity with power assets in five years.”

Dear fellow stakeholders,

In the hierarchy of human needs, steel and energy are paramount.

On this basis, global steel demand is expected to grow 10 percent while in India and China, this growth is estimated at 12-13 percent. Besides, projections suggest that as population increases, global energy demand will grow 60 percent by 2030 (over the year 2000 base). Since steel manufacture is linked to power generation - captive waste heat gases and steam fed into boilers - co-generation will be increasingly preferred.

India will emerge as an increasingly prominent global steel manufacturer and energy producer, leveraging rising aspirations, vast hydrocarbon (as indicated in the KG D6 block off the Andhra coast) reserves, mineral resources, strong workforce, stable government and a safe regulatory environment.

Different positioning

At MSP Steel & Power, we are favourably placed to capitalise on these emerging realities. We have, across the five years leading to 2009-10, demonstrated our ability to grow turnover and profits at a five-year CAGR of 35.75 percent and 96.28 percent, outperforming our industry growth for differentiated - even contrarian - reasons.

■ One, while most steel companies were consuming calibrated iron ore, an expensive option, which is generally imported, we focused on securing resources without investing significant capital expenditure in mine acquisition. We commissioned a 3 lac TPA pellet plant at a tenth of the typical cost of mine acquisition. In doing so, we were able to consume iron ore fines (sizes of under 1 mm), traditionally unsuitable for direct blast furnace consumption. Besides, this resource could not be exported because of its low iron content and the need to circumvent hoarding, ensuring adequate availability.

■ Two, while most steel companies were mobilising funds for large capex programmes, we focused on capex-light, phase-wise expansions. This was done to initiate cash flows that could be progressively invested in subsequent expansion phases. This enabled us to raise relatively low-cost funds. So while our debt increased from Rs. 94.60 cr in 2005-06 to Rs. 461.07 cr in 2009-10, our average cost of funds declined 2 basis points and interest cover strengthened

from 1.75 to 2.87.

■ Three, while most steel companies focused on select products, we created a large bouquet of downstream products to tide over sectoral cyclicity. For instance, our sponge iron capacity is 33.23 percent higher than our MS ingot/billet capacity; our billet capacity is 80.14 percent higher than our TMT bar capacity. In doing so, we created the flexibility to market a wide range of products to capitalise on market dynamics and cater to the growing market needs of those products as well.

■ Four, while most steel companies considered an 'either-or' approach in steel and power, we integrated the two. The contribution of our power division to overall sales climbed from 0.16 percent in 2008-09 to 1.49 percent in 2009-10. Besides, over 70 percent of our 18-MW power capacity will be deployed towards merchant sales.

Resource securitisation

With faster natural resource (coal and iron ore) depletion and rising resource costs, it became imperative to strengthen raw material security.

Coal: We were allocated a coal mine 150 km from our Raigarh plant. Our part in the mine comprises reserves of 27 million tonnes of D-grade quality coal. We expect to commence mining from March 2011 onwards. A secure captive access will represent the building block of our growing investments in power generation.

Iron ore: We received the prospecting license for an iron ore mine proximate to our Raigarh plant. The mine comprises estimated reserves of 36 million tonnes. We expect to commercialise the mine in five years.

Sectoral optimism

A number of positive developments are catalysing prospects for the country's steel industry.

- One, the Twelfth Five Year Plan (2012-17) earmarked an infrastructure investment estimated in excess of USD 1 trillion. Infrastructure accounts for over 60 percent of India's steel consumption.
- Two, India's steel demand growth is estimated at around 12 percent; on a base of around 60 million tonnes, this works out to incremental annual demand of 7 million tonnes.
- Three, rural steel consumption (per capita) is expected to double by 2020. Economic growth of around 9.6 percent (growth touched earlier) could lead to a per capita income growth of close to 8 percent. Indian households will earn twice as much by 2019-20.
- Four, India will need to expand existing cities and increase their number to address increasing urbanisation. By 2030, the country will need to make room for 250 million more urban-dwellers, the equivalent of 10 new Mumbais.
- Five, the middle real estate segment predicts an annual demand of 20-24 million dwelling units.
- Six, even as fresh steel making capacities

were proposed (30 million tonnes by 2012 as against annual demand growth of 8-9 million MT), these capacities will be phased and steel manufacturers generally do not perform at 100 percent utilisation (industry average around 85 percent).

Looking into the future

With structural products added to our overall portfolio and with full-year worth of working in 2010-11, we expect to report a higher EBIDTA on account of the margin-accretive nature of these products (joints, beams, angles, channels and plates). My optimism of sustained growth in EBIDTA levels stem from the following realities:

Market realisations: Steel realisations are expected to stay stable as India is expected to remain a net importer over the short term.

Our corporate blueprint ensures that we remain aggressive in creating new synergistic capacities, drive volume growth across existing units and enhance the sale of products that fetch us the highest realisations.

Cost efficiencies: Our cost efficiency is expected to improve owing to a combined use of pelletisation, coal beneficiation and captive power generation.

Product mix: A graduation in our product mix from MS ingots/TMT bars to value-added structural products will enhance margins. The difference in EBIDTA between the first line of products and structurals is more than Rs. 8,230 per tonne. So a sizeable percentage of the product mix skewed towards margin-accretive products, in addition to a 15 percent volume growth in 2010-11, will augment margins and profitability.

Creating shareholder value

Our corporate blueprint ensures that we remain aggressive in creating new synergistic capacities, drive volume growth across existing units and enhance the sale of products that fetch us the highest realisations. We intend to emerge as a Rs. 1,000-cr revenues company in the short-term (2011-12) and create a million tonne integrated steel capacity with power assets over the long-term (five years).

We will work to enhance value for all those who invest in us, work with us and depend upon us.

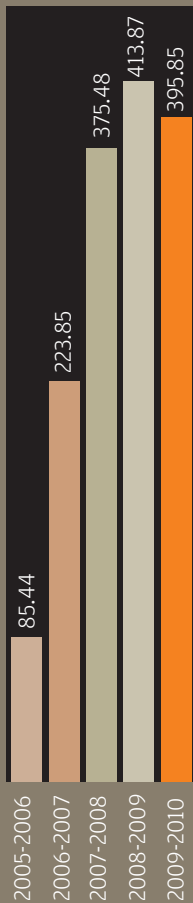
Sincerely,

Puranmal Agrawal
Chairman



Our **future** is more exciting than our **past**.

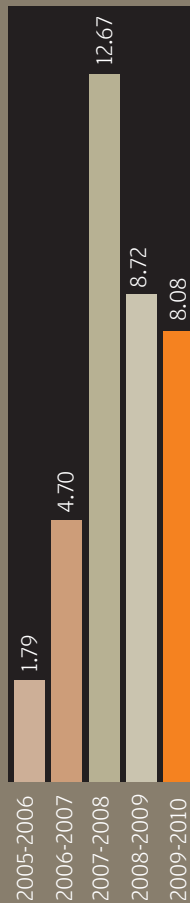
Revenue (gross)
(Rs. cr)



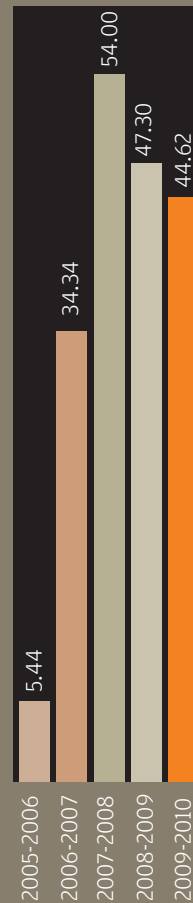
Operating profit
(Rs. cr)



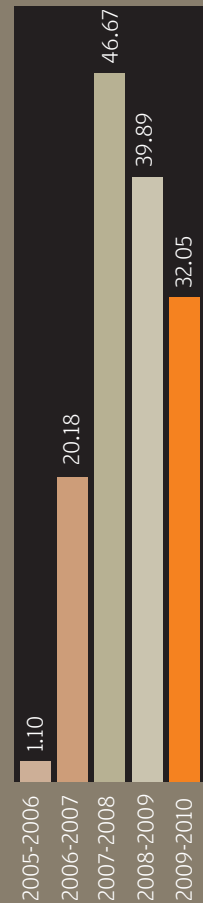
Operating profit
margin (percent)



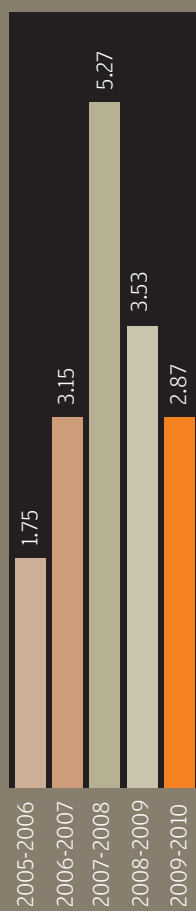
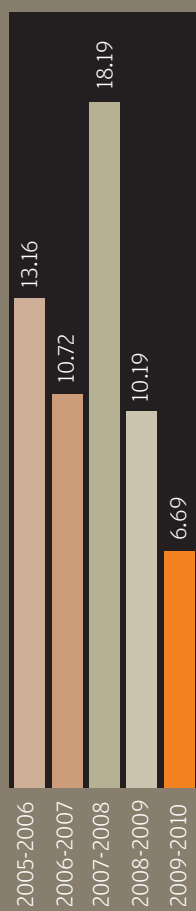
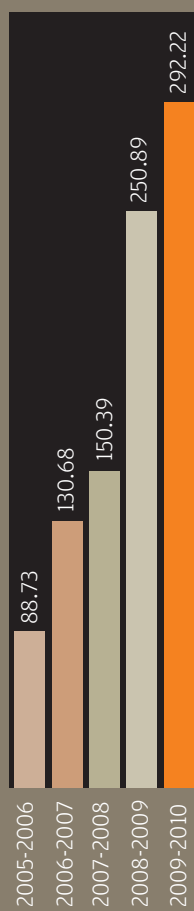
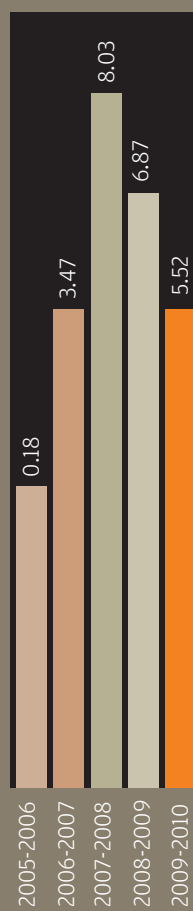
Cash profit
(Rs. cr)



Post-tax profit
(Rs. cr)



Interest cover

Return on capital employed (average)
(percent)Gross block
(Rs. cr)Earning per share
(EPS, basic) (Rs.)Book value per share
(Rs.)



Value overshadows **volume**.

AT MSP STEEL, OUR RESPECT IS DERIVED FROM OUR ABILITY TO PRODUCE A SUPERIOR QUALITY OF STEEL RATHER THAN OUR ABILITY TO MANUFACTURE GROWING VOLUMES.

This quality is derived from our extensive product integration - ranging from iron ore fines at one end to specialised steel products at the other.

The result: MSP Steel is not merely known to produce one of the most respected steel products in India by the virtue of its

quality, but also for its low costs.

Integration

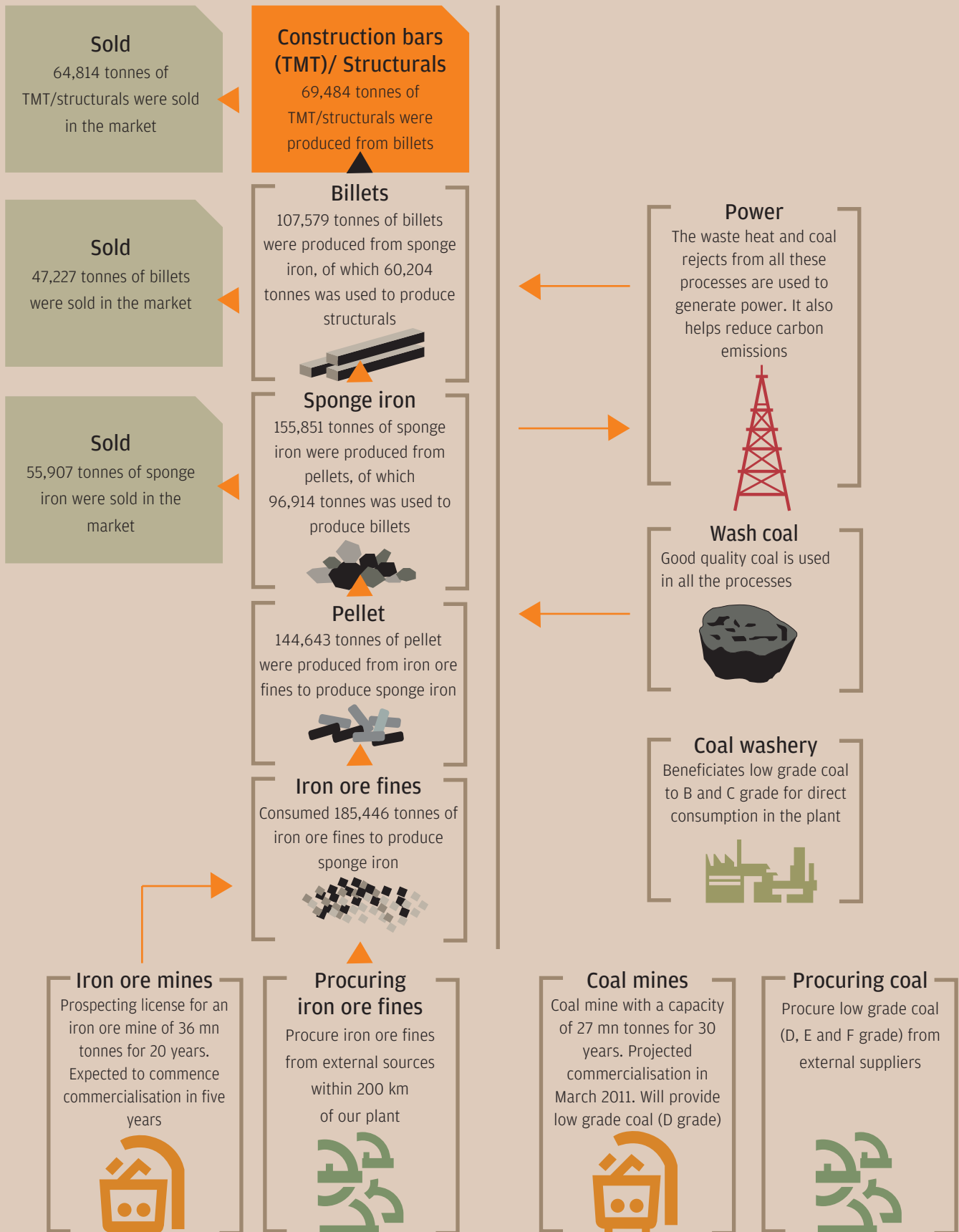
This is what makes our product integration strategy effective: we leveraged the low-cost pelletisation route for the manufacture of sponge iron over the direct ownership of mines, a more expensive option.

Besides, we evolved from a standalone direct reduced iron (sponge iron) manufacturer to a completely integrated steel manufacturer. The result: our value

chain extends from iron ore fines (purchased and converted into pellets) to pellets to steel and power to TMT bars and value-added structural products.

In this differentiated business model, finished products serve as raw material for the immediately subsequent production stage leading to lowest resource wastage, highest value-addition at each intermediate point and margins higher than the industry average.

Our integrated business model



Iron ore fines to pellets: We deployed state-of-the-art technology to convert iron ore fines into pellets. Iron ore fines are generally treated as an avoidable waste by many steel manufacturers owing to their inconvenience in use. Consequently, iron ore fines are available at least USD 30 per tonne cheaper than iron ore or scrap. The process of pelletisation is a suitable remedy; it facilitates the conversion of iron ore fines into uniform iron ore pellets that can be charged into blast furnaces or used in DRI production. MSP Steel utilises all the pellets manufactured in-house for the next stage of production.

Pellets to sponge iron: Pellets are converted into sponge iron (preferred raw material for the production of secondary steel in India) in a DRI plant with energy consumption roughly 15 percent lower than the conventional steel manufacturing route. MSP Steel consumes 62.18 percent of its sponge iron in-house while the rest is marketed to external buyers.

Sponge iron to billets: Sponge iron is used to produce quality mild steel billets/ingots through re-rolling. MSP markets some billets to third party consumers and uses the rest as raw material in the next stage of production.

Billets to construction bars (TMT)/ structurals: The billets manufactured by the Company are used in the production of TMT construction rods and structurals. These TMT bars are branded as 'MSP Gold Thermex TMT Bars' and marketed to retail and institutional customers, leading to superior realisations. The Company commissioned a state-of-the-art structural mill in its Raigarh facility to manufacture heavy and light structural steel (joists, beams, channels and angles).

Pellets, when integrated forward to construction bars or structurals, enhance the Company's realisation five-to-six-fold, than when marketed to customers.

MSP's integrated operations lead to product superiority

- **Superior quality:** MSP manufactures 'fully killed' steel from virgin raw materials. The process is technologically advanced using automatic rolling, leading to superior quality.
- **Bendability, weldability and bonding:** The incidence of low carbon and an advanced Thermex process resulted in superior TMT bar attributes – high strength at weld joints, better elongation and excellent bar-concrete bonding.
- **Corrosion, earthquake and fire resistant:** Cold twisting leads to stress in the bars. Owing to special thermo-mechanical treatment, MSP Gold TMT bars are corrosion-resistant and ideal for use in coastal areas. The product's high ductility and elongation make these bars earthquake-resistant and suitable for use in seismic zones 4 and 5. Owing to a surface layer, they are adept in resisting high load factor and can withstand high temperatures of up to 600°C.
- **Cost saving:** MSP Gold TMT bars represent a superior value-for-money proposition; their strength helps save steel consumption by 20% over the usual cold twisted varieties.
- **International standards:** MSP Gold TMT bars are manufactured in conformity with international standard IS : 1786 Grade Fe 415/ Fe500/ of BIS, resulting in wide acceptability.