

May 5, 2010

CARE REAFFIRMS RATINGS FOR THE BANK FACILITIES OF MSP STEEL & POWER LTD.

CARE has retained the '**CARE BBB**' (**Triple B**) rating for the long term & medium term bank facilities and '**PR2**' (**PR two**) rating for the short term bank facilities of MSP Steel & Power Ltd. (MSPL). While '**Triple B**' rating is applicable for facilities having tenure of over one year, '**PR two**' rating is applicable for facilities having tenure up to one year. The aforesaid ratings are applicable to the long/medium term and short-term bank facilities aggregating Rs.554.76 crore (enhanced from Rs.281.84 crore).

Facilities with 'Triple B' rating are considered to offer moderate safety for timely servicing of debt obligations. Such facilities carry moderate credit risk. Facilities with 'PR Two' rating would have adequate capacity for timely repayment of short term debt obligations and carry higher credit risk as compared to facilities rated higher.

CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol. A snapshot of the rating retained is as under: -

Instrument	Amount (Rs. crore)	Rating
Long term bank facilities	541.36	' CARE BBB '
Long term/short term bank facilities	11.00	' CARE BBB/PR2 '
Short term bank facilities	2.40	' PR2 '
Total	554.76	

Rating rationale

The above ratings continue to draw strength from the experience of the promoters, operational efficiency by virtue of having an integrated plant, production of value added products fetching higher margin, increasing profit level and moderate financial position. The ratings are however, constrained by relatively short track record in manufacturing operation, capacity utilization being on the lower side, volatility in input prices vis-à-vis lack of backward integration for coal & iron ore, risks associated with the implementation of relatively large size projects, cyclicity in the steel industry along with increasing competition from unorganised sector and complete dependence on the fortunes of steel industry. Ability of the company to successfully complete the ongoing projects & reap the consequential benefits there from in the due course and improve its profitability would remain the key rating sensitivities.

Company profile

MSPL, incorporated in November 1968, is engaged in manufacturing of sponge iron, billets and TMT bars at its plant at Raigarh, Chattisgarh. It also has a pellet plant, coal washery and Captive Power Plant. In October 2009, the company commissioned a project comprising structural re-rolling mill (1,28,000 MTPA), laying of 132 KVA line and installing of material handling systems. The company is also involved in trading of steel & related products, to a large extent.

MSPL is, currently, implementing various projects, in three phases, at its existing manufacturing facility, at an aggregate project cost of Rs.555.0 cr. While financial closure for Phases I & II costing Rs.413.0 cr has been achieved, the same for Phase III is yet to be achieved.

On a total income of Rs.413.9 cr, MSPL earned a PAT (after defd, tax) of Rs.40.5 cr in FY09. Interest coverage ratio was comfortable at 3.22 in FY09, while overall gearing was moderate as on Mar.31, 2009.

The working results for the nine months ended Dec.31, 2009 (9MFY10) were, by and large, satisfactory.

Analyst Contact

Name: Priti Agarwal/Puja Jalan

Tel # 033-22896150

Mobile # 9831967110/9874494275

Email: priti.agarwal@careratings.com / puja.jalan@careratings.com

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra

Managing Director

Cell : +91-98204 16002

E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi

Dy. Managing Director

Cell : +91-98204 16001

E-mail: rajesh.mokashi@careratings.com

Mr. Ankur Sachdeva

Head - Business Development

Cell : +91-9819698985

E-mail: ankur.sachdeva@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457

Website: www.careratings.com

OFFICES

<p>Mr.Mehul Pandya Regional Manager 32 TITANIUM Pralhadnagar Corporate Road, Satellite, Ahmedabad - 380 015. Tel – 079 4026 5656 Mobile - 98242 56265 E-mail: mehul.pandya@careratings.com</p>	<p>Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's Place No. 6, Raja Ram Mohan Roy Road, Richmond Circle, Bangalore - 560 025. Tel – 080 2211 7140 Mobile – 98803 60878 E-mail: sundara.vathanan@careratings.com</p>
<p>Mr.Ashwini Jani Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai 600 002 Tel: 044 2849 7812/2849 0811 Mobile – 91766 47599 E-mail : ashwini.jani@careratings.com</p>	<p>Mr. Rahul Patni Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat Nagar Hyderabad - 500 029 Tel – 040 _40102030 Mobile – 91600 04563 E-mail: rahul.patni@careratings.com</p>
<p>Mr. Sukanta Nag Regional Manager 3rd Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani Kolkata - 700 071. Tel – 033 2283 1800/1803 Mobile – 98311 70075 E- mail: sukanta.nag@careratings.com</p>	<p>Ms.Swati Agrawal Regional Manager 710 Surya Kiran, 19 K.G. Road, New Delhi - 110 001. Tel – 011 2331 8701/2371 6199 Mobile – 98117 45677 E-mail : swati.agrawal@careratings.com</p>