Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

Equity Research

Industry: Mining
Date: June 10, 2011

MOIL LTD.

Analyst Recommendation: Buy

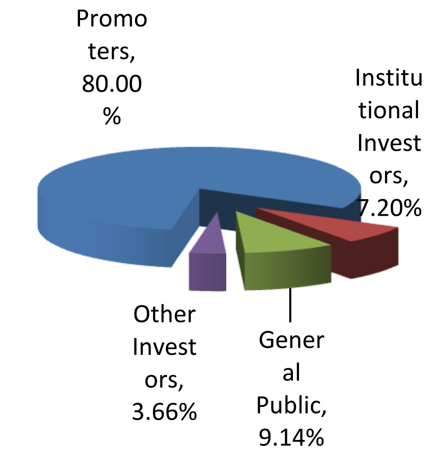
Buy | Accrue | Hold | Ease | Sell

BSE Code:	533286	NSE Code:	MOIL	Reuters:	MOIL.BO	Bloomberg Code:	MOIL:IN

CMP:	**₹349.60**
3 month Target:	**₹391**
SL:	**₹335**

EPS (₹)	35.0
P/E (X)	10.0
Revenue (₹mn)	11,399.7
EBITDA (₹mn)	9,126.6
EBITDA Margin (%)	71.0
EV/EBITDA (X)	4.4
Market Cap (₹mn)	58,733
Free Float Mar Cap (₹mn)	11,746.6
52 week high/low	591/348
Total Debt (₹mn) (FY10)	0
Enterprise Value (₹mn)	39,936.3
Book Value per Share	126.7
P/BV	2.8

Shareholding pattern as on March 31, 2011



Price correction of manganese ore weighed over the topline in Q4FY2011:

MOIL, India's largest manganese ore producer (formerly Manganese Ore India) Q4FY2011 performance remained lower than expected. The net sales during Q4FY2011 have decreased by 13.7% yoy to ₹2,517.3 million mainly due to decline in sales volume and realization. As a result, the EBITDA during the quarter also fell by 19.6% yoy to ₹1,596.5 million. The operational expenses increased to ₹920.8 million that led the margin to dip by 461 basis points. Further, the other income increased substantially by 65.7% to ₹504.2 million and the depreciation charges grew over 78% to ₹118.20 million. After providing for all the expenses, the net profit of the company declined by 8.5% yoy to ₹1,323.7 million. The sales volume of manganese ore during the quarter stood at 0.26 million tonne and the average realization was ₹9,376 per metric tonne. MOIL has adjusted its prices in the Q4FY2011 as a result of which the average realization per tonne of the manganese ore has fallen sharply. The company has also decreased the prices by around 23% in the Q1FY2012.

Investment Argument:

- MOIL is the only company of its kind in manganese mining in India. So continued demand of domestic steel augurs well for the company and any rise in demand in steel will improve the company's performance.
- Expanding its production capacity at existing mines to 1.5 million tonnes by FY2016 and to a level of 2 million tonnes of production by 2020 from the current 1 million tonnes.
- MOIL is a zero debt company. It is a cash rich organization, having cash and bank reserve of ₹18,000 million in FY11.
- Reputation of maintaining strong financial performance and cash flows from its existing operations that provides upper hand to fund its projects from internal accruals.

₹Million	FY10A	FY11A	FY12E	FY13E
Operating Income	9,693.9	11,399.7	12,323.1	13,617.0
EBITDA	7,320.9	9,126.6	9,610.4	10,311.1
Net Profit	4,663.5	5,880.6	6,006.5	6,320.2
Share Capital	1,680.0	1,680.0	1,680.0	1,680.0
EPS (₹)	27.8	35.0	35.8	37.6
PE (x)	12.6	10.0	9.8	9.3
P/BV (x)	3.5	2.8	2.3	2.0
EV/EBITDA (x)	6.0	4.4	3.9	3.3
ROE (%)	27.8	27.6	23.8	21.2
ROA %	27.6	27.6	23.8	21.2

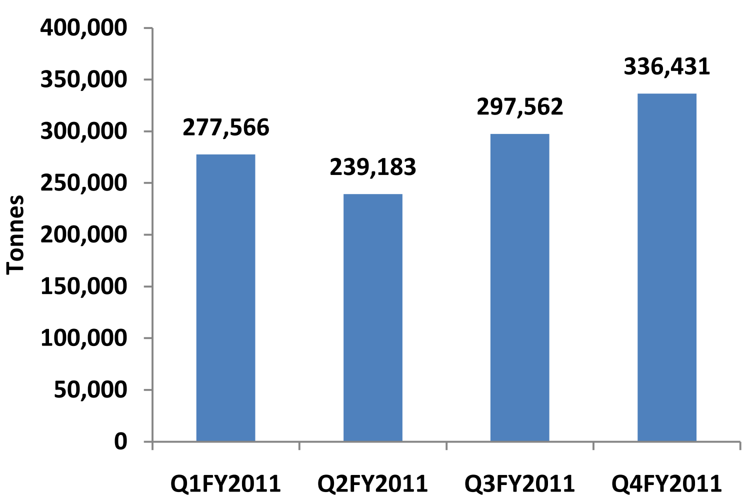
Earmarked ₹12,000 million for development of mines

MOIL has proposed a capex plan of ₹12,000 million excluding the acquisitions of the mines. The company has set aside funds either to develop all the 10 mines, or deepening the existing shaft and thinking another shaft. It is also doing massive development in the opencast mines. The company has already started with sinking of shaft at four mines i.e. at Ukwa, Gumgaon and then Munsar and deepening of the mines at Balaghat and Beldongri. Along with that, it is looking to go for further shafts in Chikla as well as high-speed shaft at the Balaghat. These all above developments will help boost the production capacity to 1.5 million tonnes by FY2016 and to a level of 2 million tonnes of production by 2020. Apart from this, the company is also in the process of development of heavy open cast in the Dongri Buzurg mine and the company is expected to incur expenditure of around ₹500-700 million. MOIL is also planning to invest around ₹1,500 million in the joint venture investment with SAIL and RINL.

Expanding capacity through joint venture

MOIL is the largest producer of manganese ore by volume in India and with the expected increase in the consumption of steel in the future years will improve the company's performance. Currently, the company is having proved and probable reserves of 21.7 million tonnes and a total resources of 61.3 million tonnes. Taking into consideration, the brighter future prospect of steel industry, the demand for ferro alloys is expected to remain robust. So, in order to derive a major benefit from this, the company has entered into the joint venture agreement with Steel Authority of India Ltd (SAIL) and Rashtriya Ispat Nigam Ltd (RINL) in order to augment its value added capacity. The company is planning to build up two two ferro alloy plants in Chhattisgarh and Andhra Pradesh and is planning to invest around ₹1,500 million in the joint venture investment with SAIL and RINL. As a whole, this is expected to expand the ferro manganese capacity with a total installed capacity of 51,000 tonnes per annum and silico manganese with a total installed capacity of 112,500 tonnes per annum. The plants are expected to get completed by mid 2012.

Production Trend



Source: Company, Research Desk

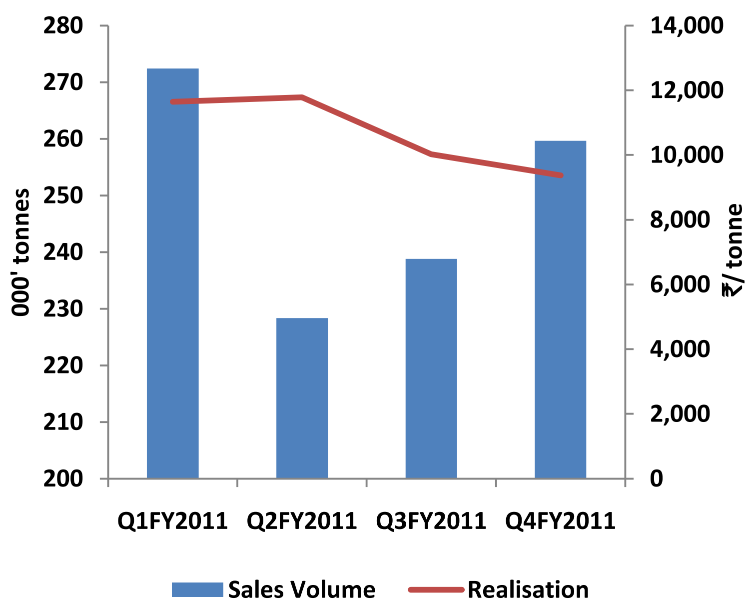
MOIL to augment its production capacity

MOIL is on a capacity expansion mode and is augmenting its production capacity at its existing mines. The company is planning to increase its production capacity to 1.2 million tonnes by FY2012 and further to 1.5 million tonnes by FY2016 from the current 1 million tonnes. In addition to this, the company is also targeting a production capacity of more than 2 million tonnes by 2020. For FY2012, though the company has planned to produce 1.2 million tonnes of manganese ore, but with the availability of inventory of 0.8 million tonnes, the company will able to sell 1.3 million tonnes of manganese ore. Further, MOIL has projected that there will be an increase in sales volumes by 30% and the price pressure will remain around 20%. Apart from this, the average price realisation varies during the last four quarters mainly because of product mix. In FY2011, the volume of the best grade of ore is relatively less compared to the fines that led to the decline in the realization.

Fall in manganese ore prices to get compensated by increase in sales volume

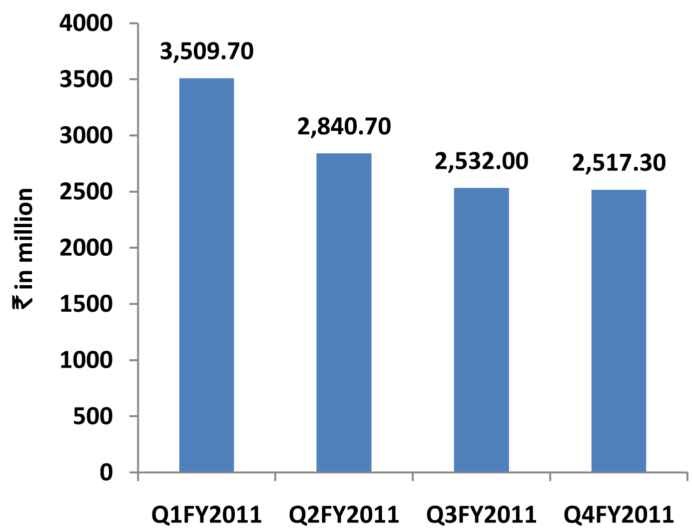
Manganese ore accounts for the major component in steel-making process, as around 94% of manganese ore production used directly or indirectly in steel making. There has been a significant price pressure of manganese ore from the international markets. The movement in the prices of manganese ore price is depended on the price movement of steel. Currently, the prices of the global manganese ore are trading at a discount of around 20% as compared to a year ago. In order to remain inline with the international manganese price, MOIL has adjusted its prices in the Q4FY2011 as a result of which the average realization per tonne of the manganese ore has fallen sharply. But the correction in the price got compensated by the increase in sales volume in Q4FY2011. Further, the company has reduced its manganese ore prices by around 23% in Q1FY2012. But the company remained confident that the sales volume for the current year to increase by 30% as compared to the last year. Overall, the price reduction will get compensated by the volume of quantity available for sale.

Quarterly realisation and sales volume trend



Source: Company, Research Desk

Price adjustment and product mix weighed on revenue over the period



Source: Company, Research Desk

MOIL is eyeing to buy manganese ore assets in South Africa, Middle-East

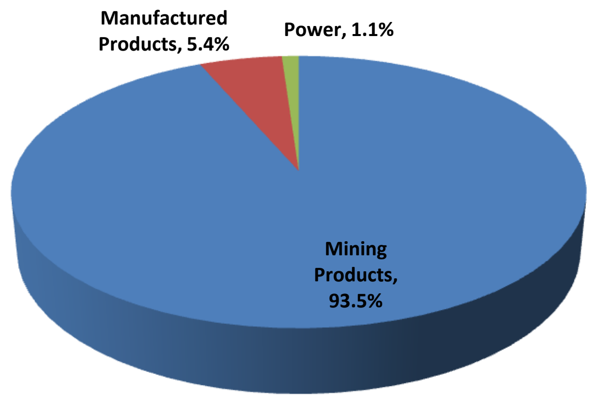
MOIL is all set to raise its manganese ore reserves both domestically and as well as internationally. It has already been allotted 814 hectares of manganese reserve bearing land by the Maharashtra government. But, the company is still waiting to get the final PL from the Maharashtra government. After that the company will start exploration and then mining in that mine. MOIL is getting at least 30% mining lease of the total mines domestically. Apart from this, MOIL is also betting big globally and is planning to purchase mines from countries like South Africa and Middle East. These all will lead the company to have a good substantial reserve of manganese bearing land. Currently, the company is having 1,800 hectare of manganese bearing land.

The company is having 10 mines under its portfolio. Out of these 10 mines, 7 are underground mines. The company expects its sales realisation to improve with the start of the monsoon as during the monsoon majority of open cast mines worldwide witness a fall in production that leads to the reduction in supply. But with having most of the underground mines under its portfolio, the company do not expect any major fall in the production and can meet the demand.

Risk factors

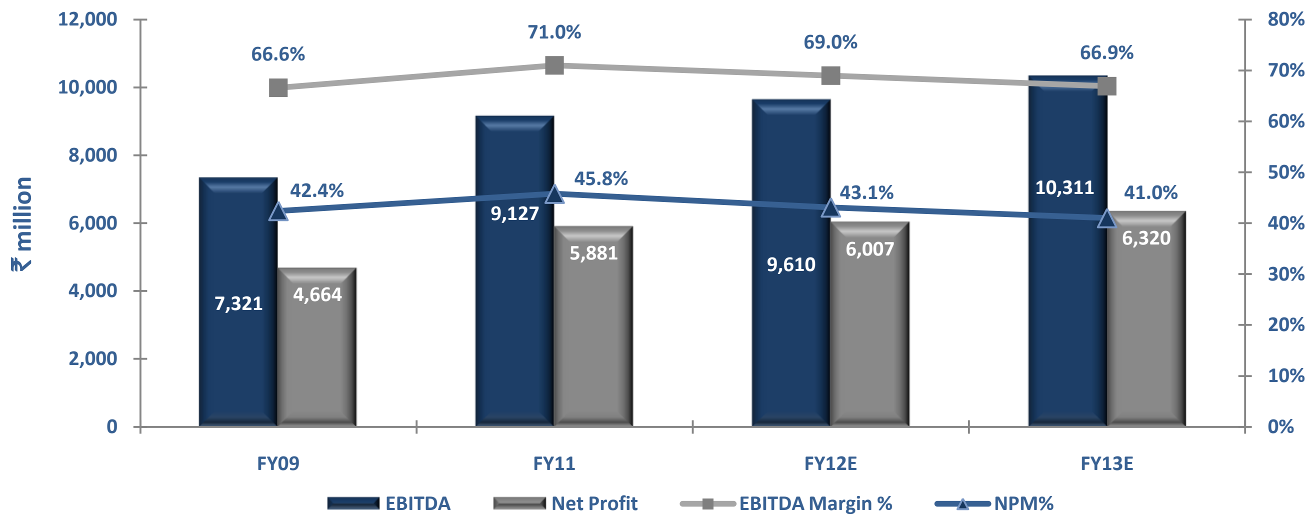
- The manganese ore mining industry is largely depended on the demand for manganese ore in the steel industry. So any significant decline in demand for steel products or any fall in the price of these products would adversely impact the business.
- The company is obligated to various government policies, permits, licenses and leases with its operations and any change therein may impact the company's performance.
- Import of manganese ore and policy thereon, remained as a concern. Any increase in transportation cost, labour, power and other raw material cost would affect the margins of the company.
- The company's customer base remained limited. Failing to renew the agreement with the existing customer may results in losing the customer and affects the revenues.

Segment wise revenue contribution in FY2011



Source: Company, Research Desk

Slump in manganese ore prices to put pressure on margins



Business Overview

MOIL is India's largest manganese ore producer. The company currently operates seven underground mines (Kandri, Munsar,Beldongri,Gumgaon, Chikla, Balaghat and Ukwa mines) and three opencast mines (Dongri Buzurg, Sitapatore, and Tirodi). The company produced various qualities of manganese ore that includes high, medium and low grade manganese ore. The company intend to expand value-added production capacity and have entered into joint ventures with Steel Authority of India Limited ("SAIL") and Rashtriya Ispat Nigam Limited ("RINL") to set up ferro alloy plants in Chhattisgarh and Andhra Pradesh. MOIL were also conferred the Mini Ratna status in 2008. Currently, the company is having is having proved and probable reserves of 21.7 million tonnes and a total resources of 61.3 million tonnes along with 1,800 hectare of manganese bearing land under its portfolio. MOIL also own two wind farms with a total capacity of 20 MW in Nagda Hills and Ratedi hills in Madhya Pradesh.

Indian Mining Industry

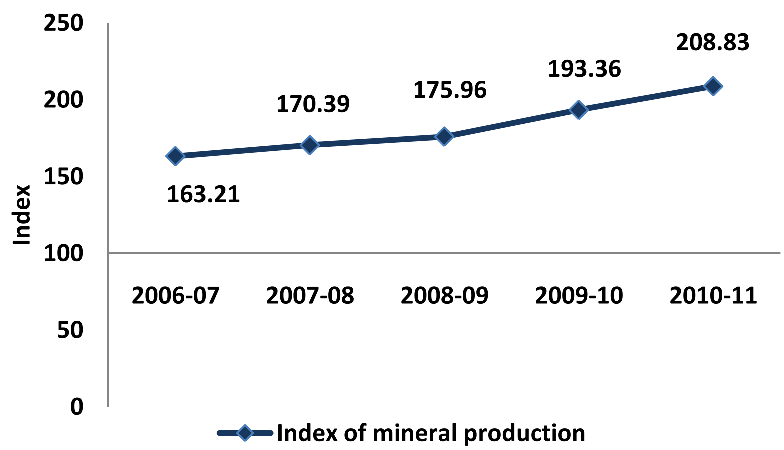
India has always been considered as one of the mineral rich nation with a wide range which include four fuel minerals (such as coal), 11 metallic minerals (such as iron), 22 minor minerals (such as copper), and 52 non-metallic minerals (such as clay). The mining industry creates the backbone of the iron and steel industry as it is a significant producer of a number of ores and minerals as they constitute the vital raw materials for many basic industries and are a major resource for development. India belong at the top in the production of sheet mica, third largest producer in coal, the fourth largest producer of iron ore and the fifth largest producer of bauxite. The advance estimates of GDP (at 2004-05 prices) for the year 2010-11 in respect of mining and quarrying sector accounted for about 2.26% of GDP. The contribution of mining and quarrying sector to GDP for the year 2010-11 is estimated at ₹1,104,820 million which would indicate an increase of 6.2% over that in the previous year.

Growing production trend in mining sector

Based on the overall trend so far, the index of mineral production (base 1993-94=100) for the year 2010-11 is estimated to be 208.83 as compared to 193.36 for 2009-10 showing a positive growth of 7.43%. The index has performed well over the period with decent growth, indicating positive signs on the production level year on year.

In spite of such a huge production, India's mammoth energy demand requires more development from the sector. Henceforth, it's necessary for the mining sector to post impressive output on a continuous basis.

Index of mineral production (base 1993 - '94 = 100) consistent growth



Source: Ministry of Mines

Value of minerals rising

During the year 2010-11, the total value of mineral production (excluding atomic minerals) has been anticipated at ₹2,006,093.8 million, showing a rise of 11.83% as compared to the previous year. The estimated value during the year for fuel minerals accounts for ₹1,352,438.1 million or 67.42%, metallic minerals, ₹418,284.4 million or 20.85% of the total value and the remaining was for non-metallic minerals including minor minerals of ₹235,371.3 million. Indian mining industry is characterized by a large number of small operational mines. The number of mines which reported mineral production (excluding minor minerals, petroleum (crude), natural gas and atomic minerals) in India was 2,628 in 2010-11 as against 2,999 in the previous year.

Recent domestic updates

Recently, India's iron ore exports fell for the eighth straight month in February due to continuing ban on shipments by its key Karnataka state and exports are likely to face further pressure as the country hikes freight rates again. The world's No. 3 iron ore supplier, India's exports of the steelmaking ingredient fell 18.6% from a year ago to 10.137 million tonnes in February, as per Federation of Indian Mineral Industries. However, the production figures are expected to show much figures in coming months as the Supreme Court lifted the ban in Karnataka. Spot iron ore prices have lost 12% since hitting record peaks near $200 a tonnes in mid-February as high prices and tighter credit restrained demand from top importer China. Indian Railways will impose a charge of 7% on iron ore freight rates from April 1 to June 30 and from Oct. 1 to March 31. India had already hiked railway freight rates by ₹100 to ₹1,600 per tonne from 3 Mar'11.

Key State Scenario

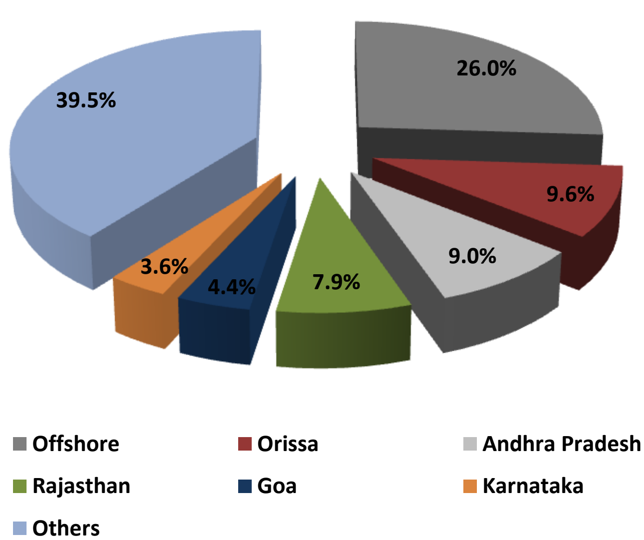
Karnataka

Karnataka is the sole producer of felsite and leading producer of iron ore, chromite and dunite. Karnataka hosts country's 74% iron ore (magnetite) and 11% iron ore (hematite) resources. Important iron ore (magnetite) deposits are located in Chickmagalur, Hassan, Uttar and Dakshin Kannad and Shimoga districts. The value of mineral production in Karnataka during 2009-10 was at ₹54,160.9 million, a decrease of 14.22% over the previous year. Iron ore, gold, manganese ore and limestone being the important minerals produced in the State together accounted for about 98.92% of the total value of mineral production during the year. Karnataka was the second leading producer of iron ore. The number of reporting mines in Karnataka was 233 in 2009-10 as against 238 in the previous year. The index of mineral production in Karnataka (Base 1993-94=100) was 288.50 in 2009-10 as compared to 311.05 in the previous year.

Goa

Goa is well known for its iron and manganese ores. Iron and manganese ore belts extend from South-East to North-West of the State. Important iron ore deposits are located in Bicholim, Sanguem and Satari talukas. The value of mineral production in Goa in 2009-10 got increased by 20.88% as compared to the previous year and was at ₹58874.9 million. About 99.90% of the total value of mineral production in Goa was contributed by iron ore. During the year under review, production of iron ore got increased by 26.05% over the previous year. The production value of minor minerals was estimated at ₹57.3 million for the year 2009-10. There were 74 reporting mines in 2009-10 as against 77 in the previous year. The index of mineral production in Goa (base 1993-94=100) was 275.62 in 2009-10 as against 219.55 in the previous year.

States in value of mineral production FY11 (estimate)



Source: Ministry of Mines

Orissa

Orissa is the leading producer of chromite, graphite, bauxite, manganese ore, iron ore, sillimanite, quartzite, pyroxenite and dolomite. Thus it indicates the opportunity to grow beyond its existing capacity. The value of mineral production in Orissa got decreased by 3.43% in 2009-10 over the previous year and was at ₹1,711,970 million. The State contributed 9.54% of the total value of mineral production and it is in third position among the States in the country during the year under review. The important minerals produced in Orissa were coal, bauxite, chromite, iron ore, manganese ore and limestone which together accounted for about 99.10% of the total value of mineral production in 2009-10.

Future Outlook

The long-term prospects of the sector - like that of the Indian economy as a whole - are very positive. Although the country is still far behind in achieving its full production potential, India's mining industry emerged from a 4.65% contraction in 2009 to resume growth in 2010. India is yet to be self sufficient in terms of minerals, however the reserve it holds, will induce the nation to focus on increasing the production capacity in coming years.

Balance Sheet

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	1,680.0	1,680.0	1,680.0	1,680.0
Reserve and surplus	15,093.7	19,602.9	23,523.5	28,113.9
Net Worth	16,773.7	21,282.9	25,203.5	29,793.9
Deferred Tax Liability	128.3	15.0	17.3	19.0
Capital Employed	**16,902.0**	**21,297.9**	**25,220.7**	**29,812.9**
Net Fixed assets including capital work in progress	2,187.2	2,347.7	2,770.3	3,324.3
Investments	2.1	22.1	23.2	24.4
Net Current Assets	14,712.7	18,928.1	22,427.2	26,464.1
Capital Deployed	**16,902.0**	**21,297.9**	**25,220.7**	**29,812.9**

Profit & Loss Account

(₹million)	FY10A	FY11A	FY12E	FY13E
Operating Income	**9,693.9**	**11,399.7**	**12,323.1**	**13,617.0**
Growth in %	-	17.6	8.1	10.5
Other Income	1,299.8	1,454.9	1,600.4	1,800.4
Total Income	**10,993.7**	**12,854.6**	**13,923.5**	**15,417.4**
Expenses	3,672.8	3,728.0	4,313.1	5,106.4
% of Sales	37.9	32.7	35.0	37.5
EBITDA	**7,320.9**	**9,126.6**	**9,610.4**	**10,311.1**
% Growth	(164.4)	24.7	5.3	7.3
EBITDA Margin %	66.6	71.0	69.0	66.9
Depreciation/Amortisation	253.0	325.1	369.7	435.7
EBIT	7,067.9	8,801.5	9,240.7	9,875.3
% Growth	(156.8)	24.5	5.0	6.9
EBIT Margin %	64.3	68.5	66.4	64.1
Interest	0.0	0.0	0.0	0.0
Profit before Tax	7,067.9	8,801.5	9,240.7	9,875.3
Tax	2,404.4	2,920.9	3,234.2	3,555.1
Net Profit	**4,663.5**	**5,880.6**	**6,006.5**	**6,320.2**
% Growth	-	26.1	2.1	5.2
NPM %	42.4	45.8	43.1	41.0

Key Ratios & Valuations

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	66.6	71.0	69.0	66.9
EBIT Margin (%)	64.3	68.5	66.4	64.1
NPM (%)	42.4	45.7	43.1	41.0
ROCE (%)	41.8	41.3	36.6	33.1
ROE (%)	27.8	27.6	23.8	21.2
ROA (%)	27.6	27.6	23.8	21.2
EPS (₹)	27.8	35.0	35.8	37.6
Cash EPS (₹)	29.3	36.9	38.0	40.2
P/E (x)	12.6	10.0	9.8	9.3
BVPS	99.8	126.7	150.0	177.3
P/BVPS (x)	3.5	2.8	2.3	2.0
EV/Operating Income (x)	4.5	3.5	3.0	2.5
EV/EBITDA (x)	6.0	4.4	3.9	3.3
EV/EBIT (x)	6.2	4.5	4.0	3.4

Valuations

MOIL is expanding its production capacity at existing mines to 1.5 million tonnes by FY2016 and to a level of 2 million tonnes of production by 2020 from the current 1 million tonnes. MOIL is also expanding its value added capacity and has entered into the joint venture with SAIL and RINL to expand the ferro manganese capacity with a total installed capacity of 51,000 tonnes per annum and silico manganese with a total installed capacity of 112,500 tonnes per annum. Meanwhile, the continued demand of domestic steel augurs well for the company as it is the only company of its kind in manganese mining in India and any rise in demand in steel will improve the company’s performance. However, the sharp decline in the manganese ore prices post the Q4FY2011 would restrict the company’s sales and profitability growth. However, the company’s remained confident that the increase in sales volume of 30% for the current year would compensate the price reduction. These all activities augur well for the company in the future. At the current market price of ₹349.60, we rate the stock as ‘BUY’. Further, at the current market price the stock is trading at a PE of 10x on FY11 EPS of ₹35 and 9.8x on FY12E EPS of ₹35.8.

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