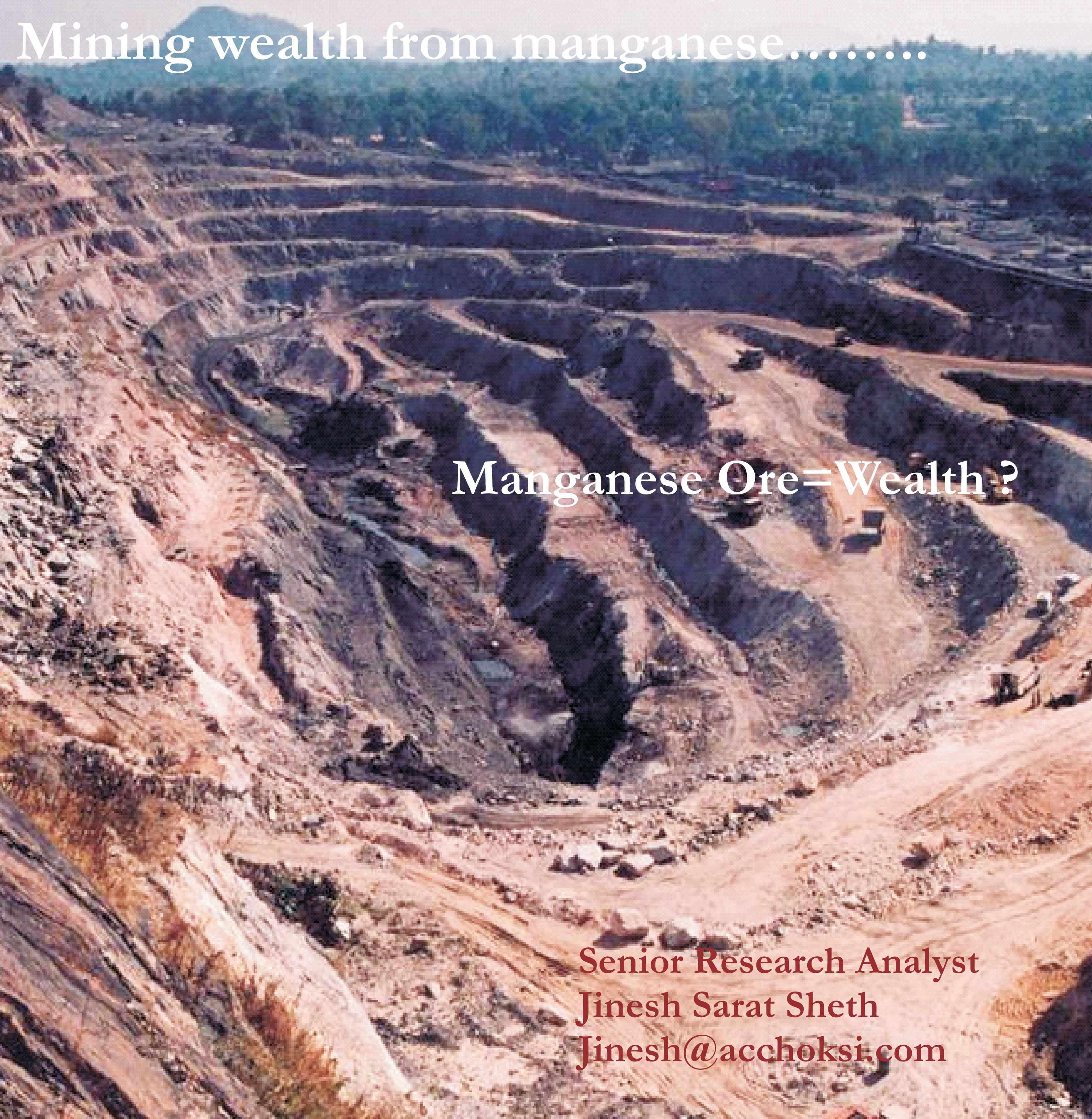
A C Choksi
Share Brokers Private Limited

Initiation Report
Sector: Mining

Recommendation: BUY
Target Price:₹ 448
Potential Upside: 16%

MOIL LTD

Mining wealth from manganese……..



Manganese Ore=Wealth ?

Senior Research Analyst
Jinesh Sarat Sheth
Jinesh@acchoksi.com

MOIL LTD

'Jinesh Sarat Sheth
jinesh@acchoksi.com
+ 91 22 3021 9025

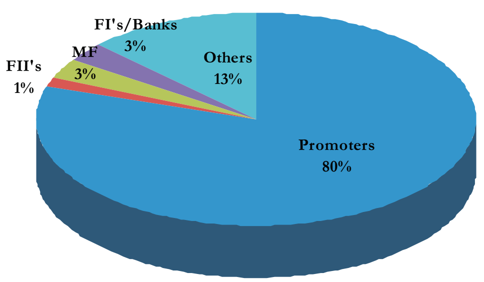
Recommendation	BUY
Target Price	₹448
Recommendation Price	₹387
Potential Upside(%)	15.8%
Industry	Mining
Market Cap (₹Mn)	64,949
Shares O/S (Mn)	168
Face Value	₹10

Key Indices	
BSE Sensex	19602
BSE Metals	16659
NSE Nifty	5885

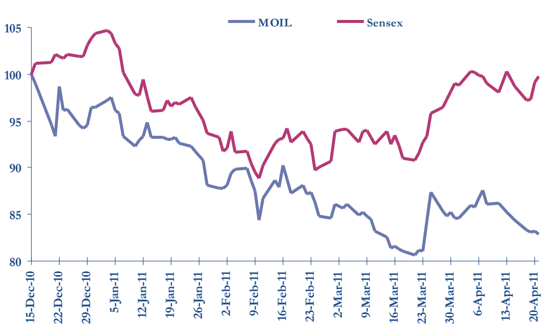
Stock Info	
BSE Code	533286
NSE Code	MOIL Limited
Bloomberg	MOIL:IN
Reuters Code	MOIL.BO
52-Week High	₹591
52-Week Low	₹367
Life High	₹591
Life Low	₹367

Market Stats	
Average Volumes	925,376
Average Trades	17,336
Average Turnover (₹Mn)	437

Shareholding Chart (as on 31/03/2011)



Share Price Movement (Since listing)



Source: NSE, BSE, A C Choksi Institutional Research

Investment Thesis

➢ ***Production to double by 2020-The increase in steel consumption to augur well for manganese ore producers; MOIL with near about 50% share in the country's Manganese ore production is all set to reap the benefits***

Demand for manganese ore is derived from steel, as the steel consumption is expected to increase in future years, the manganese ore consumption is also likely to follow. The company being the largest producer of manganese ore by volume in India having access to 21.7 million tonnes of proved and probable reserves and a total of 61.3 million tonnes of resources (as per JORC code refer exhibit 51 & 52)is likely to gain the most under such a scenario.

➢ ***Zero Debt Company; with huge pile of cash, best placed to acquire mines in India and overseas; and can finance its capex internally***

In the high interest cost environment, MOIL is immune to increase in interest rates at least directly, because it doesn't have the burden of debt in its balance sheet. That's one reason for its high PAT Margins (48.03% for FY 10).

➢ ***Exploring opportunities in Ferro Alloy space through JVs with SAIL & RINL; likely to add value in coming years***

Production capacities in manganese alloys have been on the rise during the past ten years. The capacity increases by about 19-20% each year, whereas the domestic demand increases by 17-18%. In light of the brighter future potential for steel sector, global demand for ferro alloys is expected to be robust; the company is planning to encash this opportunity by entering into joint ventures with SAIL & RINL for setting up ferro manganese and silico manganese plant. Collectively, this is expected to expand the ferro manganese capacity by 51,000 Tonnes per annum and silico manganese capacity by 112,500 Tonnes per annum.

➢ ***Attractive Valuation: We initiate coverage with a BUY Rating on MOIL with a target price of ₹448, valuing it at 5.50x FY2012E EV/EBITDA, giving it an upside potential of 16% from current levels.***

We expect MOIL's Sales, EBITDA & PAT to grow at a 2 year CAGR of 19%, 24% & 24% respectively till FY 12 E. We have employed the EV/EBITDA method for valuing MOIL.

Production to double by 2020-The increase in steel consumption to augur well for manganese ore producers; MOIL with near about 50% share in the country's Manganese ore production is all set to reap the benefits

Demand for manganese ore is derived from steel, as the steel consumption is expected to increase in future years, the manganese ore consumption is also likely to follow.
The company being the largest producer of manganese ore by volume in India having access to 21.7 million tonnes of proved and probable reserves and a total of 61.3 million tonnes of resources (as per JORC code refer exhibit 51& 52)is likely to gain the most under such a scenario.

MOIL's share in the Indian Manganese ore market is around ~50%. We can say that it enjoys a sort of monopoly in this space. MOIL believes to hold ~17% of the proved reserves of manganese ore in India.

The company has invited bids from companies across the globe to form JVs for acquisitions of mines abroad. to meet the rising demand for manganese ore. The company has plans to ramp up production to ~1.5 mn tonnes by 2014-15. The company is planning to double its production to ~2.0-2.5 mn tonnes by 2020. It produced 1,364,575 tonnes, 1,175,318 tonnes, 1,093,363 tonnes and 516,749 tonnes of manganese ore in FY08, FY09, FY10 and HY11 respectively.

Exhibit 4.
Manganese Ore Production (Tonnes)

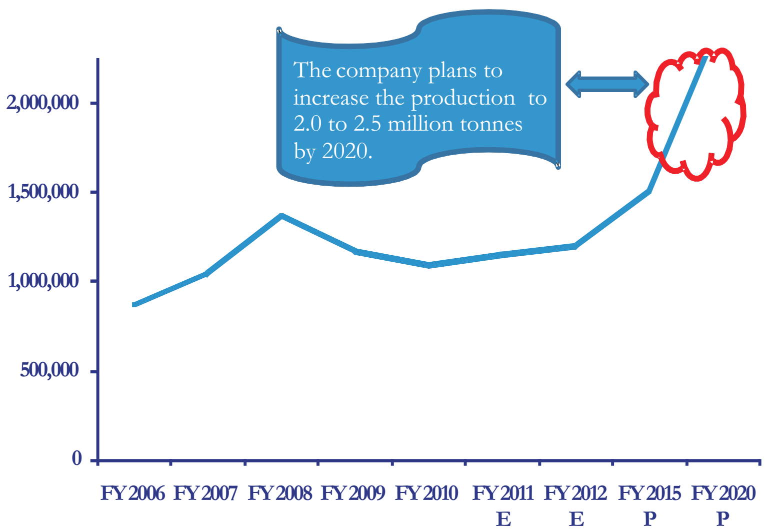
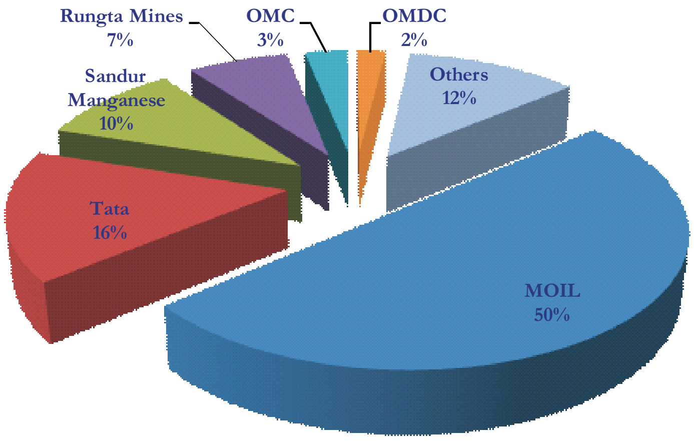


Exhibit 5.
Indian Mn Ore Market Share



'P' stands for Company Projected

Source: MOIL , RHP, A C Choksi Institutional Research

Zero Debt Company; with huge pile of cash, best placed to acquire mines in India and overseas; and can finance its Capex internally

In the high interest cost environment, MOIL is immune to increase in interest rates at least directly, because it doesn't have the burden of debt in its balance sheet. That's one reason for its high PAT Margins (48.03% for FY10).

MOIL has a cash reserve of ~₹18 bn as of 31-12-2010 (it was ₹17 bn as per the RHP as on 30-06-10)(refer exhibit 6). On a per share basis it is ~₹107 (refer exhibit 7). The company has huge cash reserves which it may use to pay dividends, acquire companies abroad and finance its capex. The management has taken up various proposals of mines expansion and is estimating to spend ₹7.7 bn over the next four years (refer exhibit 78). It is planning to invest around ₹1.5 bn in the JV with RINL & SAIL for setting up ferro alloy plants at Bhilai and at Bobbili. The company is also planning to invest in exploratory activities in an area of 814.71 hectares allocated by the Govt. of Maharashtra. The company's total outlay in various projects could be around ₹12.3 bn and the expansion are likely to take place by 2016-17 as per the management.

Apart from the above plans, the management is looking to deploy its cash in acquisition of mines. It is exploring the possibility of buying mines and grow inorganically by utilizing its cash reserves. The management didn't deny that it can acquire companies if the valuations look appealing to them. The company is reported to be in talks related to formation of joint venture, acquisition of the mines and long term supply with companies/mines from South Africa, Gabon, Turkey and Chile.

The company has been paying dividends at 20% (5 year average of 19.9%) we believe the company can maintain the dividend payout ratio at 20% for the next couple of years at least. On a conservative estimate we expect the company to pay ₹1344 mn & ₹1428 mn of dividends (₹8.0 per share ₹8.5 per share) for FY 11 E & FY12 E respectively (refer exhibit 8) . We expect the company to have a dividend yield of 2.17% in FY 12 E.

Exhibit 6.
Cash reserves in ₹ Mn

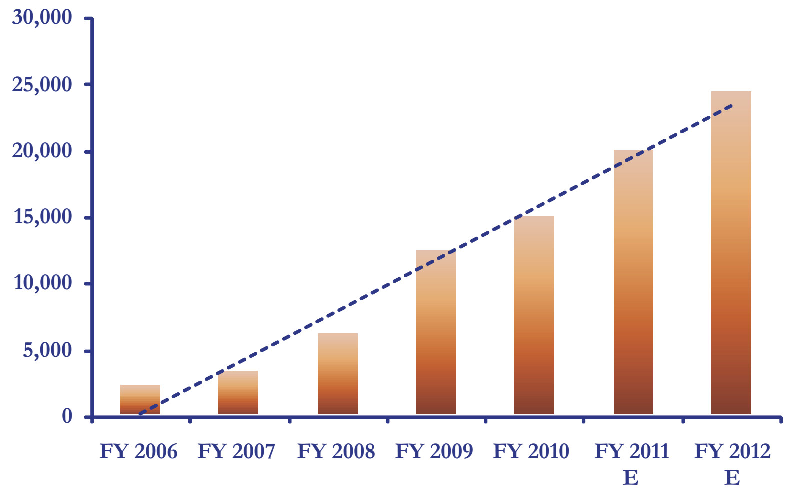


Exhibit 7.
Cash Per Share in ₹

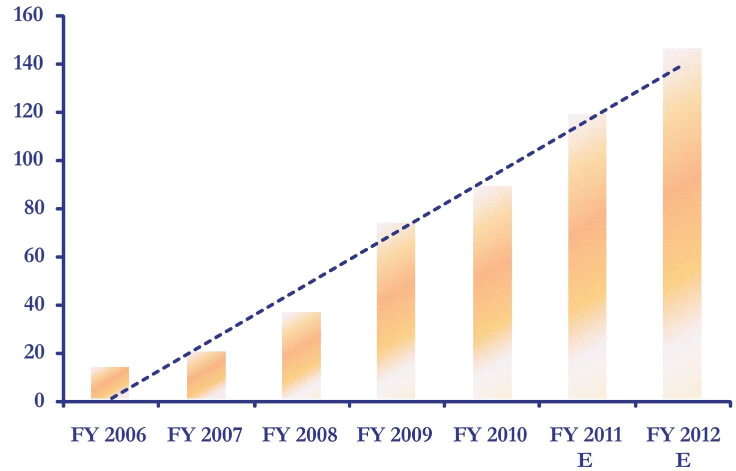
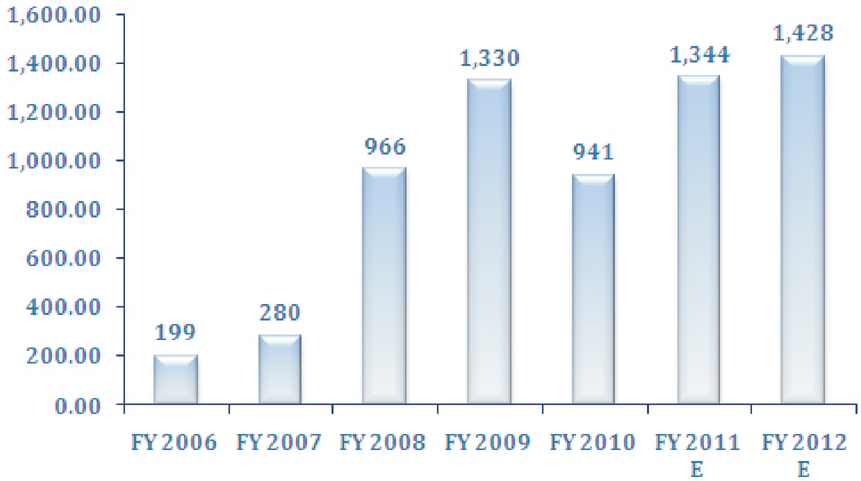


Exhibit 8.
Dividend in ₹ Mn



Source:RHP, A C Choksi Institutional Research

Exploring opportunities in Ferro Alloy space through JVs with SAIL & RINL; likely to add value in coming years

Production capacities in manganese alloys have been on the rise during the past ten years. The capacity increases by about 19-20% each year, whereas the domestic demand increases by 17-18%. In light of the brighter future potential for steel sector, global demand for ferro alloys is expected to be robust; the company is planning to encash this opportunity by entering into joint ventures with SAIL & RINL for setting up ferro manganese and silico manganese plant. Collectively, this is expected to expand the ferro manganese capacity by 51,000 Tonnes per annum and silico manganese capacity by 112,500 Tonnes per annum.

SAIL Joint Venture:

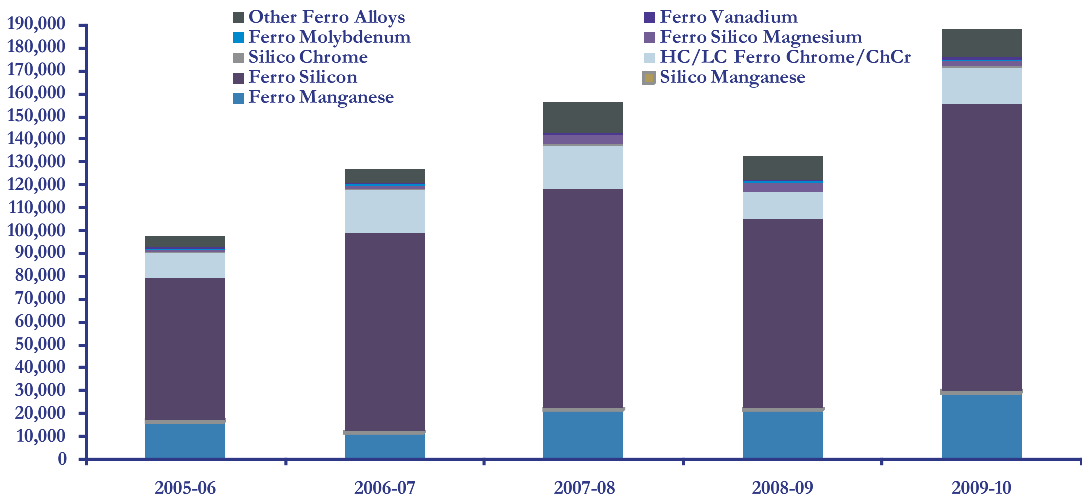
The company entered into 50:50 JV with SAIL to set up a ferro manganese and silico manganese plant at Nandini, near Bhilai, in Chhattisgarh. SAIL will lease the land required for this proposed plant to the Joint Venture Company (JVC).MOIL has agreed to provide manganese ore of suitable quality at a price to be set out in the manganese purchase agreement to be entered into with the JVC. SAIL has agreed to provide support services, power and raw materials and will have the right of first refusal to purchase the ferro manganese and silico manganese produced by the JVC. The plant is intended to have an installed capacity of 106,000 tonnes per annum, comprising 31,000 tonnes of ferro manganese and 75,000 tonnes of silico manganese. The project is scheduled to be completed within a timeframe of 24 months at an estimated cost of ₹3,920 million. The debt equity ratio of the JVC is 1:1. The JVC shall be responsible for arranging all the funds needed for this project. Based on industry estimates, these ferro-alloy plants, if running at 100% capacity, are expected to require 0.33 million tonnes of manganese ore.

RINL Joint Venture:

MOIL has entered into one more 50:50 JV, this time with Rashtriya Ispat Nigam Limited (RINL)for the creation of a ferro manganese and silico manganese plant, proposed to be set up at Bobbili, Vizag District of Andhra Pradesh. MOIL has agreed to lease the land and provide manganese ore of suitable quality at a price set out in the manganese purchase agreement to be entered into by the JVC. RINL has agreed to provide support services and raw materials required by JVC for the production of ferro manganese and silico manganese. The plant is intended to have an installed capacity of 57,500 tonnes per annum, comprising of 20,000 tonnes of ferro manganese and 37,500 tonnes of silico manganese. This project is scheduled to be completed within a timeframe of 24 months at an estimated cost of ₹2,062 million. The debt equity ratio of the JVC is 1:1. The JVC shall be responsible for arranging all the funds needed for this project.

Domestic Ferro Alloy Scenario

Exhibit 9.
Indian Imports of Ferro Alloys in Tonnes



The share of ferro manganese & silico manganese imports out of total imports of ferro alloys were 15.2% & 0.7% respectively for 2009-10. According to the Indian Ferro Alloy Producers' Association (IFAPA) as a result of imports there was a foreign exchange outflow of ₹12517 Mn. India has 38% capacity of total ferro alloys (40% in case of Manganese Alloys) lying idle (refer exhibit 10).
It is capable to produce the required alloy by utilising its idle capacity.

Exhibit 10.
Idle Capacity of Ferro Alloys in Mn tonnes

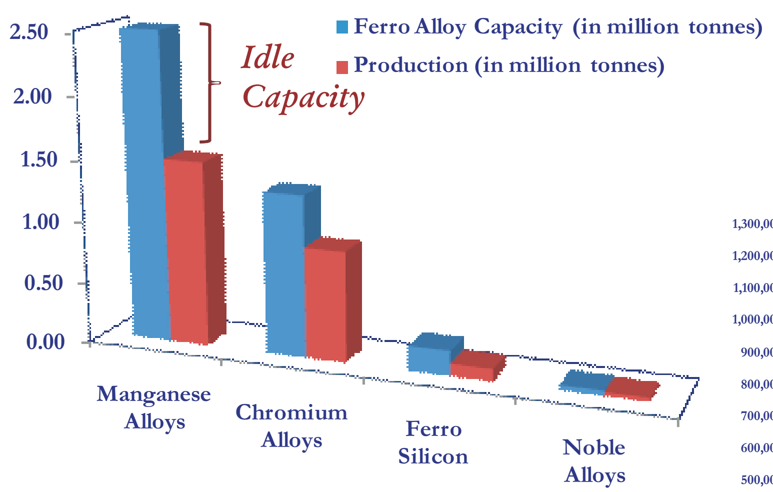
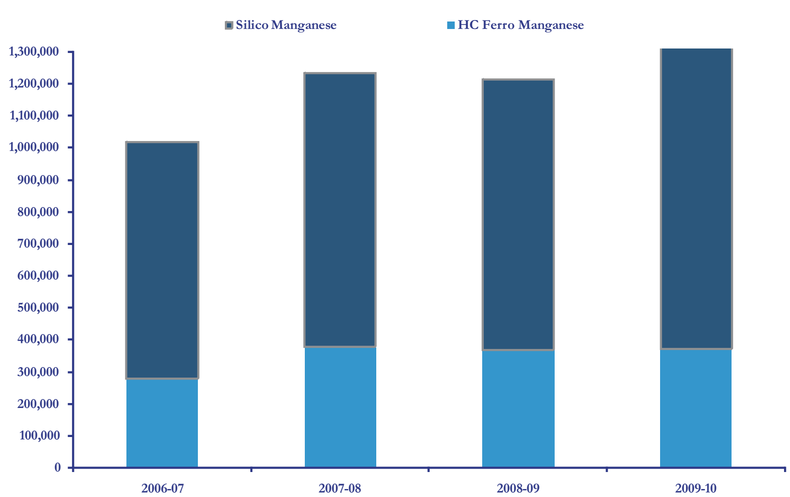


Exhibit 11.
Production of Manganese Alloys in tonnes



Source: MMR Bureau, IFAPA, A C Choksi Institutional Research

	Valuation Grid		
Growth			
Value		✓	
	Large Cap	Mid Cap	Small Cap

Attractive Valuation: We initiate coverage with a BUY Rating on MOIL with a target price of ₹448, valuing it at 5.50x FY2012E EV/EBITDA, giving it an upside potential of 16% from current levels.

We expect MOIL's Sales, EBITDA & PAT to grow at a 2 year CAGR of 19%, 24% & 24% respectively till FY 12 E. We have employed the EV/EBITDA method for valuing MOIL.

MOIL is currently trading at 5.1 times(x) and 4.4 times(x) EV upon FY 11 E & FY 12 E forward EBITDA. We assign a forward multiple of 5.5 times (x) EV/EBITDA to its FY 12 E EBITDA of ₹9,238 Mn (refer exhibit 68). We feel MOIL is undervalued at the current levels and offers a scope for a value buy. It also comes with a dividend yield of 1.4% FY 10 and on a conservative basis we expect it to achieve a dividend yield of 2.2% for FY 12 E.

Source:RHP, A C Choksi Institutional Research

Exhibit 12.
Financial Summary

MOIL							
Particulars (₹ in mn)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 E	FY 2012 E
Period Ended	31-Mar-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12
Income Statement							
Net sales	**3,313**	**4,173**	**9,775**	**12,933**	**9,694**	**12,815**	**13,680**
Ore expenses (incl raw material costs)	1,260	1,770	1,870	2,537	2,638	2,699	3,019
Manufacturing and electricity generation expenses	196	259	289	443	372	475	505
Administrative and selling expenses	197	224	476	722	615	815	865
Total operating expenses	**1,714**	**2,338**	**2,732**	**3,736**	**3,673**	**4,035**	**4,442**
EBITDA	**1,600**	**1,835**	**7,043**	**9,197**	**6,021**	**8,780**	**9,238**
Depreciation	115	141	161	247	253	301	395
EBIT	1,485	1,695	6,883	8,951	5,768	8,479	8,844
PBT	**1,691**	**1,979**	**7,349**	**10,068**	**7,068**	**9,983**	**10,641**
PAT	**1,131**	**1,313**	**4,616**	**6,903**	**4,656**	**6,688**	**7,130**
Fully Diluted EPS (in ₹)	**7**	**8**	**27**	**41**	**28**	**40**	**42**
Balance Sheet							
Share capital	**153**	**280**	**280**	**280**	**1,680**	**1,680**	**1,680**
Reserves and surplus	3,388	4,253	7,583	12,929	15,087	20,221	25,702
Net Worth	3,541	4,533	7,863	13,209	16,767	21,901	27,382
Total Liabilities	**3,560**	**4,629**	**8,030**	**13,394**	**16,895**	**22,029**	**27,510**
Net block	**612**	**845**	**1,889**	**2,056**	**1,965**	**2,262**	**3,159**
Capital work in progress	**126**	**411**	**86**	**155**	**222**	**463**	**607**
Current assets	3,488	4,313	8,379	14,451	17,421	22,796	27,650
Current liabilities and provisions	666	941	2,324	3,269	2,715	3,495	3,908
Net Current assets	**2,822**	**3,372**	**6,056**	**11,182**	**14,706**	**19,301**	**23,742**
Total Assets	**3,560**	**4,629**	**8,030**	**13,394**	**16,895**	**22,029**	**27,510**
Cash Flow Statement							
PBT	**1,691**	**1,979**	**7,349**	**10,068**	**7,068**	**9,983**	**10,641**
Depreciation	**115**	**141**	**161**	**247**	**253**	**301**	**395**
Change in Working Capital	-269	560	259	1,127	-1,031	419	55
Direct taxes paid	-587	-672	-2,452	-3,593	-2,378	-3,294	-3,512
Net cash flow from operating activities	**792**	**1,766**	**4,435**	**7,236**	**2,637**	**5,904**	**5,781**
(Purchase)/Sales of Fixed Asset	**-182**	**-376**	**-1,206**	**-416**	**-163**	**-598**	**-1,292**
Changes in capital work in progress	**-113**	**-286**	**326**	**-69**	**-67**	**-241**	**-144**
Interest Income	185	250	446	1,042	1,242	1,504	1,798
Net cash flow from investing activities	**-110**	**-412**	**-434**	**556**	**1,011**	**664**	**363**
Payment of dividends	-199	-280	-966	-1,330	-941	-1,344	-1,428
Tax on dividends	-28	-41	-164	-226	-158	-211	-221
Net cash flow from financing activities	**-227**	**-321**	**-1,130**	**-1,556**	**-1,098**	**-1,555**	**-1,649**
Net increase in Cash and cash equivalents	**455**	**1,034**	**2,871**	**6,236**	**2,549**	**5,014**	**4,495**
Opening Cash and cash equivalents	**1,727**	**2,181**	**3,215**	**6,086**	**12,322**	**14,871**	**19,885**
Closing Cash and cash equivalents	**2,181**	**3,215**	**6,086**	**12,322**	**14,871**	**19,885**	**24,380**

Source: MOIL, RHP, A C Choksi Institutional Research

Risk to our Ratings

MOIL has plans to ramp up its production, but any decrease in demand for steel may adversely affect prices and sales volumes for manganese ore

Manganese ore realisation and sales volume depends primarily on the demand for consumption of manganese ore in the steel industry. Demand for steel products is usually linked to regional or global economic growth. If economic growth declines the consumption of steel might decline leading to reductions in demand for manganese ore. Prices of steel are affected by factors such as demand & supply gap, prices of key raw materials, worldwide production capacity, capacity-utilization rates, innovation or improvement in steel manufacturing process etc. Any significant decline in the price of steel could result in the decline of manganese ore price which can adversely affect MOIL's business and our forecasts.

If JV's don't kick in at the expected time

For MOIL to increase sales in its value added products, the JV with SAIL & RINL needs to start contributing at the expected time. Any delay in such might adversely affect the business. However we have not factored anything on the JV front as we believe that they might start contributing from FY 14 onwards.

The Draft Mines and Minerals (Development and Regulation) Bill, 2010 that has been proposed to replace the Mines and Mineral Development and Regulation Act, 1957 may adversely affect the operating & financial results of MOIL.

The bill contemplates that the holder of the mining lease is liable to an annuity equal to 26.0% of the profit as annual compensation and employment and other assistance in accordance with the Rehabilitation and Resettlement Policy of the concerned State Government. It implies that it proposes a 26% share in mining profits. In its current form the impact of the enactment on MOIL's financial position couldn't be exactly determined. But this should not be under estimated as it might pose a threat to MOIL's future profitability & our forecasts.

Operating costs scale up & margin contraction.

We have assumed that MOIL would be able to maintain its margins. Scaling up of operating costs more than expected combined with lower than expected Manganese ore realisations may pose a threat to our ratings.

Reliance on Few Customers

MOIL is heavily dependent on a few customers for its business

It derives 51.5% of its revenues from its top ten customers. MOIL's sales of manganese ore depends on a few customers heavily. Its top ten customers account for approximately 51.5% of sales of manganese ore for FY 2010. It sells the manganese ore to ferro alloy manufacturers that supply ferro alloys directly to steel plants. Approximately 99.0% of manganese ore production in FY 2010 was sold to manganese ore alloy manufacturers.

Two customers account for nearly 40% of the sales to the top ten customers. The key customers of MOIL include Maharashtra Elektrosmelt Limited and Bhilai Steel Plant, which are both state entities that are subsidiaries of SAIL and which together accounted for 22.1% of the manganese ore sales revenue in Fiscal 2010.

The loss of revenues from such customers, in particular, Maharashtra Elektrosmelt Limited and Bhilai Steel Plant, might have an adverse impact on its results of operations and financial condition and on our forecasts.

Source: MOIL, RHP, A C Choksi Institutional Research

Quarter Highlights

Exhibit 13.
3QFY11 Income Statement

Q3 FY 11 (31st Dec 10) Result Highlights	(₹ in mn except per share data)					
MOIL LTD	*Q3FY11*	*Q3FY10*	*Growth*	*9MFY11*	*9MFY10*	*Growth*
Particulars	**31-Dec-10**	**31-Dec-09**	***YoY***	**31-Dec-10**	**31-Dec-09**	***YoY***
Net Sales	**2532.0**	**2485.1**	**1.9%**	**8882.4**	**6776.7**	**31.1%**
(Increase)/decrease in stock in trade	-230.7	19.2	-1301.6%	-191.5	226.7	-184.5%
Employee cost	552.8	491.2	12.5%	1474.5	1403.5	5.1%
% of Net Sales	*21.83%*	*19.77%*	*207bps*	*16.60%*	*20.71%*	*-411bps*
Consumption of raw materials	24.6	38.7	-36.4%	115.9	116.4	-0.4%
% of Net Sales	*0.97%*	*1.56%*	*-59bps*	*1.30%*	*1.72%*	*-41bps*
Royalty & Cess	101.5	95.4	6.4%	339.8	234.2	45.1%
% of Net Sales	*4.01%*	*3.84%*	*17bps*	*3.83%*	*3.46%*	*37bps*
Other Expenditure	475.6	294.0	61.8%	1068.5	759.4	40.7%
% of Net Sales	*18.78%*	*11.83%*	*695bps*	*12.03%*	*11.21%*	*82bps*
Total Expenditure	**923.8**	**938.5**	**-1.6%**	**2807.2**	**2740.2**	**2.4%**
% of Net Sales	*36.48%*	*37.77%*	*-128bps*	*31.60%*	*40.44%*	*-883bps*
EBITDA	**1608.2**	**1546.6**	**4.0%**	**6075.2**	**4036.5**	**50.5%**
EBITDA Margin	*63.52%*	*62.23%*	*128bps*	*68.40%*	*59.56%*	*883bps*
Depreciation	73.8	63.9	15.5%	206.9	186.7	10.8%
EBIT	1534.4	1482.7	3.5%	5868.3	3849.8	52.4%
EBIT Margin	*60.60%*	*59.66%*	*94bps*	*66.07%*	*56.81%*	*926bps*
Other income including provisions w/back	337	352.7	-4.5%	950.7	995.5	-4.5%
EBIT(including Other Income)	1871.4	1835.4	2.0%	6819.0	4845.3	40.7%
Interest Expense	0.0	0.0	-	0.0	0.0	-
Profit from ordinary activities before tax	**1871.4**	**1835.4**	**2.0%**	**6819.0**	**4845.3**	**40.7%**
% of Net Sales	*73.91%*	*73.86%*	*5bps*	*76.77%*	*71.50%*	*527bps*
Tax	621.5	620.7	0.1%	2262.1	1629	38.9%
% of Net Sales	*24.55%*	*24.98%*	*-43bps*	*25.47%*	*24.04%*	*143bps*
Profit after tax	**1249.9**	**1214.7**	**2.9%**	**4556.9**	**3216.3**	**41.7%**
PAT Margin	*49.36%*	*48.88%*	*48bps*	*51.30%*	*47.46%*	*384bps*
Paid up equity capital (Face value ₹ 10)	1680	1680	-	1680	1680	-
EPS(Basic and Diluted) (in ₹)	**7.44**	**7.23**	**2.9%**	**27.12**	**19.14**	**41.7%**

Source: MOIL Ltd, A C Choksi Institutional Research

Bottom Line & Operating levels Stable:

During the 3QFY11, its PAT grew by ~2.9% y-o-y to ₹1.25 bn as compared to ₹1.21 bn in Q3FY10. On a nine month basis it registered a healthy growth of ~41.7% from ₹3.21 bn (9MFY10) to ₹4.56 bn (9MFY11) in PAT.

3QFY11 EBITDA increased marginally over 3QFY10 (on y-o-y basis) to ₹1.61 bn, an increase of ~4.0% from ₹1.55 bn. Whereas; the EBITDA jumped by ~50.5% y-o-y from ₹4.04 bn for 9MFY10 to ₹6.08 bn for nine months ending 31-Dec-10.

Margins showed an improvement for the quarter:

The PAT Margins for Q3FY11 were ~49.4%; it marginally improved by ~48 basis points (bps) over Q3FY10. The margins however increased by ~384 bps on a nine month basis to ~51.3%.

The EBITDA margins showed a decent increase of ~128 bps and ~883 bps over 3 month y-o-y and 9 month y-o-y to ~63.5% and ~68.4%.

Sales growth of 31.1% on 9 month basis:

The nine month ending 31-Dec-2010 net sales showed a growth of ~31.1% to ₹8.88 bn from ₹6.78 bn over the corresponding period of previous year. The top line was flat during the quarter ending 31-Dec-10; growing by 1.9% over the same quarter for previous year. MOIL registered net sales of ₹2.53 bn as compared to ₹2.49 bn in Q3FY10.