

“Resourced” for growth

CMP: Rs.324

Target Price: Rs.425

Recommendation: Buy

Stock Info

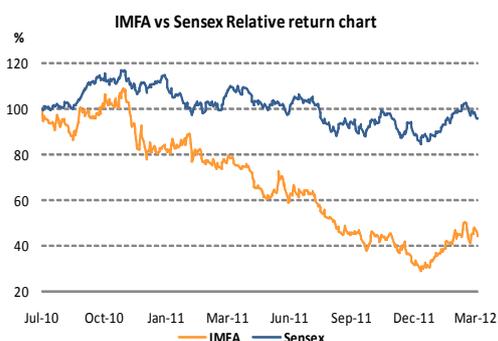
BSE Group	B
BSE Code	533047
NSE Symbol	IMFA
Bloomberg	IMFA IN
Reuters	IMFA.BO
BSE Sensex	17146
NSE Nifty	5220

Market Info

Market Capital	₹ 852cr
Equity Capital	₹ 26.3 cr
Avg. Trading Vol.	1594
52 Wk High/ Low	600/210
Face Value	10

Shareholding Pattern (%) (31st Dec. 2011)

Promoters	55.7
Domestic Institutions	11.0
Foreign Institutions	22.6
Non Promoters Corp.	4.0
Public & Others	29.2
Govt. Holdings	-



March 09, 2012

Key Investment Positives

- Assured offtake and improving fundamentals to give fillip to volumes**
 Indian metals & ferro alloys Ltd (IMFA) expanded its ferrochrome capacity over FY2007-11 to 275000 tonne through a mix of business restructuring and brown field expansion. Around 65-70% of its volume (1,20,000-1,25,000 tonne) is tied-up under long term contracts and provides stability to earnings against the volatility of ferrochrome business. The company, even during recent turbulent times, has managed to clock volume and realisation growth of ~ 8% and 4%, respectively, thus far in FY12E. With improving macro economic conditions world over, China in particular, we expect demand for ferrochrome to remain firm and expect IMFA's volumes to grow 8% yoy and 5% yoy in FY12E and FY13E, respectively.
- Power capacity additions to provide cushion to margins**
 IMFA is setting up 120MW of incremental power capacity at its Choudwar facility. Post commissioning of these units IMFA will be self sufficient in term of captive power requirements and will have 50-60MW of excess power available for sale.
- Captive resources hold the key to growth**
 IMFA is one of the low cost producers of ferrochrome globally due to captive chrome ore mines and power units. This has enabled it to remain EBITDA positive when its peers were making losses. Further, IMFA, through its 74% subsidiary, has been allotted captive coal block in Orissa. Post commissioning of this mine, IMFA's power generation cost is likely to fall significantly from Rs 5 per unit at present to Rs 2.6-2.7 per unit and shall result into margin improvement.
- Valuations:**
 IMFA through its integrated business model provides significant growth opportunities going forward, which is likely to come through volume expansion and low cost resources base. We believe there is a significant upside potential to our earnings estimates as they don't capture the full benefits of captive coal mine. At CMP of Rs 324 the stock is trading at attractive valuations of 8.2x and 5.8x its FY13E EPS and EBITDA respectively, which is 30% discount to its last 30 months average PE(x) and EV/EBITDA (x) of 14.8x and 8.6x. We have valued IMFA at 6.5x FY13E EBITDA and have arrived at a target price of Rs 425. **We initiate on IMFA with Buy recommendation.**

Financials

Y/E March, (₹ in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	593	1040	1136	1340
EBITDA	113	312	177	311
Adj PAT	41	165	56	104
EPS	16	63	21	39
EPS Growth (%)	(87)	296	(65)	84
RONW (%)	7.7	24.5	6.4	10.7
P/E (x)	20.8	5.3	15.1	8.2
EV/EBITDA (x)	11.4	4.7	9.9	5.8

Source: Arianth Research



Company Profile

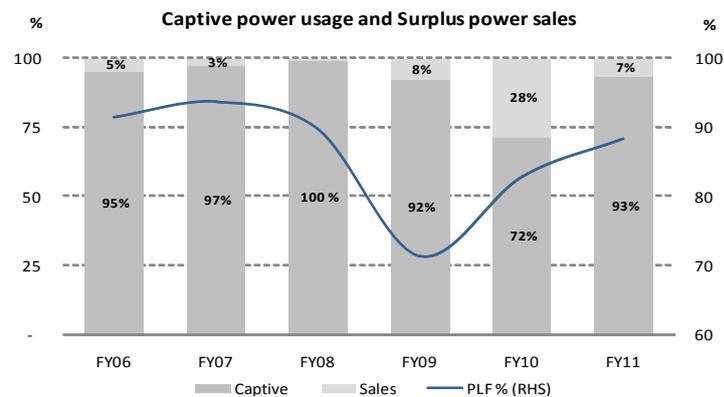
Indian metals and ferro alloys ltd (IMFA) is the largest and backward integrated ferro alloy producer in India. IMFA's production facility is spread over Choudwar and Therubali units in Orissa and comprises of six furnaces with combined production capacity of 187MVA that translates into tonnage capacity of 2,75,000 tonne. IMFA has capability of producing Ferrosilicon, Ferromanganese and Ferrochrome. At present the company has stopped production of ferrosilicon and ferromanganese and is producing only ferrochrome.

IMFA is one of the largest producer and exporter of ferro chrome in India with capacity of 187MVA.

Facility		Capacity MVA	Capacity (tonne)
Therubali	FeSi, FeMn, FeCr	48	1,20,000
		24	
		10	
Choudwar	FeCr only	48	1,55,000
		27	
		30	
	Power (MW)		138

Source: Company, Arihant Research

In terms of power the company is 100% self sufficient with present captive power generation capacity of 138MW located at Choudwar. Power is supplied to Therubali unit, which is ~500km away from Choudwar unit, through a grid.



IMFA's captive chrome ore mine has reserves of 21mn tonne with average ore contain of 30-52%

Source: Company, Arihant Research

IMFA is one of the few ferrochrome producers in India and Asia to have captive chrome ore mines. The company has five chrome ore mines in the state of Orissa located at average distance of 100km from its Choudwar unit. The mine has total estimated reserves of 21mn tonne with the content of chrome ore ranging between 30-52%. Ore is transported to the plants via road.

Mines	Type	Reserves (mt)	Grade (%)	Mining Plan (mtpa)	Status
Nuasahi	Underground	21	30-52	0.4	Operational
Sukinda	Open cast				
Chingudipal	Open cast				
Mahagiri	Underground				
Bangur	Open cast				

Source: Company, Arihant Research

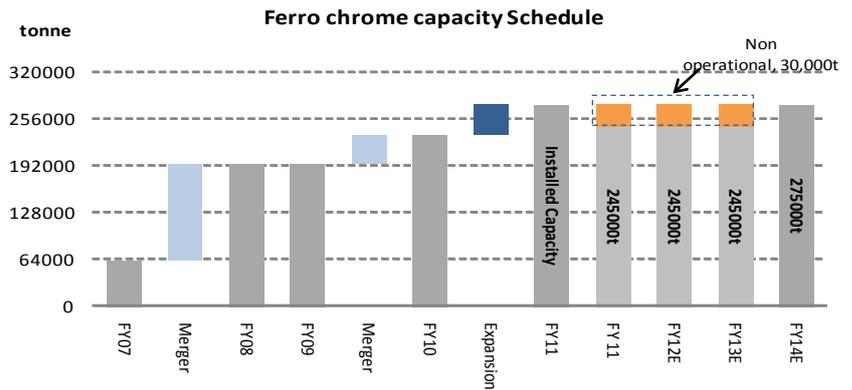


Investment Arguments:

■ **Improving fundamentals to give fillip to volumes**

IMFA's ferro alloys capacity; Ferrochrome in particular, has increased over the last few years. Capacity ramp-up during FY2007-2010 happened on account of amalgamation of business resulting into incremental capacity addition of 115000 tonne thereby taking its total ferrochrome capacity to 2,35,000 tonne by FY2010. The company added another 40,000 tonne of ferrochrome production unit at Choudwar through a brown field expansion by setting up a 30MVA furnace.

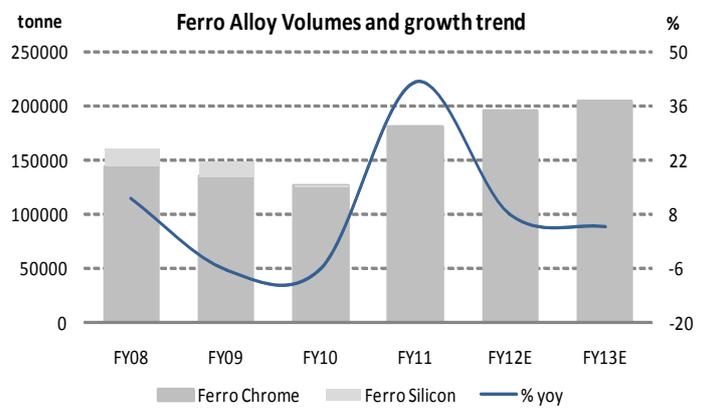
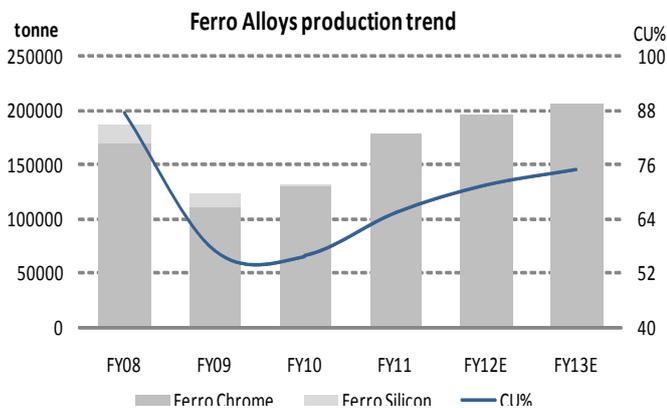
Ferro alloys capacities increased over 2007-2011 through a mix of business restructuring and brown field expansion.



Source: Company, Arihant Research

Post expansion IMFA's total ferrochrome capacity now stands at 2,75,000 tonne comprising of six furnaces amounting to 187MVA. At present only 5 furnaces with cumulative capacity of 163MVA are operating, while 24MVA sixth furnace, that produces ferro silicon, has been shut for some time. The company is contemplating on converting its sixth furnace into ferrochrome unit with an estimated capex of ~Rs 30cr which we believe is contingent upon favorable ferrochrome business dynamics. The possible conversion could possibility add another 30,000 tonne to volumes. The management has guided 2,10,000 tonne of ferrochrome production during FY12E-FY13E, however, we are factoring in lower volumes in our estimates and expect ferrochrome production to be around 1,96,625 tonne in FY12E and ~2,06,250 tonne in FY13E compared to ~1,80,000 tonne in FY11.

Conversion of 24MVA Ferro silicon unit into ferrochrome would add another 30000 tonnes to volumes.



Source: Company, Arihant Research

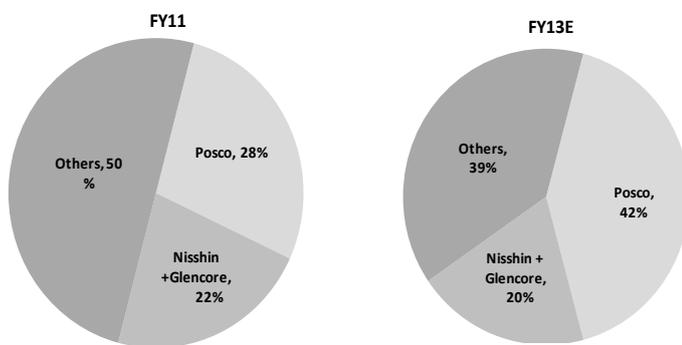


■ **Assured offtake provides sustainable earnings**

POSCO will off-take entire production from newly commissioned 40,000 tonne FeCr unit.

IMFA has signed a joint venture (JV) agreement with POSCO in January 2011 in which POSCO will hold 24% stake and infuse \$ 5mn as equity contribution. As per JV agreement the newly commissioned 30MVA (40,000 tonne) furnace will be transferred to the JV and will be leased back to IMFA for operating and supplying entire ferrochrome production to POSCO. Effectively POSCO will be off-taking ~35,000 tonne of ferrochrome from the new facility. POSCO already has 50,000 tonne of ferrochrome off-take agreement with IMFA. Other than POSCO it also supplies 40,000-45,000 tonne of FeCr to Nisshin steel and Glencore under long term supply agreement. Put together collectively, around 1,20,000 tonne is tied up under long term contract representing ~65-70% of its volume off take.

Nearly ~70% of volumes are tied-up under contracts

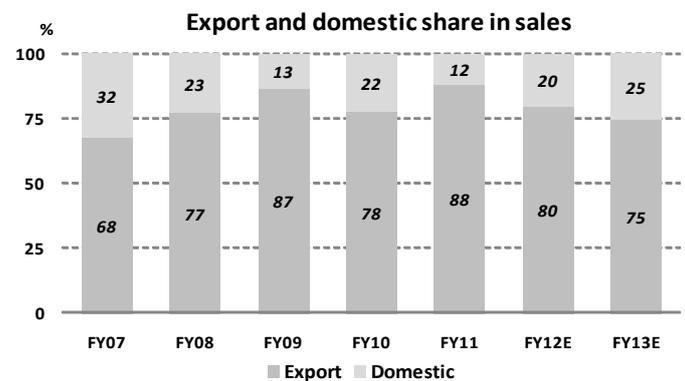


Source: Company, Arihant

Export will continue to be around 75-80% of total sales volumes.

Exports continue to drive volumes

IMFA is one of the largest exporters of ferrochrome in India and exports ~85-90% of ferrochrome to countries like South Korea (30-40%), China (35-40%) and Japan (15-20%). Its key customers include POSCO, Nisshin Steel etc. Going forward, the management intends to bring down the share of exports to 65-75% from the current 85-90% as the stainless steel consumption is expected to rise in the domestic market. Given the current pace of steel consumption in India we estimate export contribution to remain around 75-80% during FY12E and FY13E



■ **Power capacity additions to provide cushion to margins**

In addition to existing 108MW of power capacity, the company had under taken captive power capacity expansion of 150MW at its Choudwar facility. Incremental capacity comprises of 30MW of power unit based on dual fuel technology and 120MW of coal fired power plant. The project is being commissioned at an estimated capex of Rs 720cr. The company has incurred majority of the capex related to 30MW unit while around ~Rs 460cr have also been incurred on 120MW power unit.

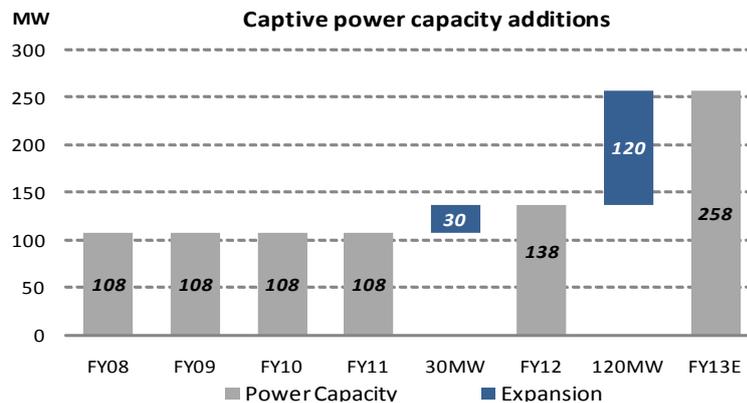
Capex for 30+120MW captive power units					
Unit	Capex (Rs cr)	D/E(x)	Incurred	Balance	Schd Commissioning
120MW	595	"75:25"	460	135	1QFY13E
30MW	124	"70:30"	119	5	Aug-11

Source: Arihant Research.



After facing delays for some time, 30MW power unit was commissioned in 2QFY12 end. The unit is yet to achieve full load and steps are being taken to address initial teething issues. In case of 120MW expansion; first unit of 60MW will get commissioned by beginning of 1QFY13E, while second unit of 60MW by the end of 1QFY13. Post all capacity additions it will have 258MW of captive power of which it will need 200-210MW for captive consumption, there by implying 50-60MW of excess capacity that it can sell to the state utility.

150MW of captive power addition would result in 50-60MW of surplus power.



Source: Company, Arihant Research

Linkage/captive coal necessary for surplus power sale

Cost of power generation increased substantially owing to non availability of linkage coal

Up till now IMFA was able to sell certain quantity of surplus power (~7% of generation in FY2011) to the state grid due to lower power generation cost of Rs 2-2.2 per unit against the realisation of ~Rs 3 per unit as it was able to source low cost linkage coal from Mahanadi Coal Ltd (MCL). However, it did not receive any linkage coal from September-10 and it had to resort to purchase of high cost e-auction and imported coal. This has resulted into power generation cost to go up to Rs 4.5-5 per unit making it unviable to sell power in open market as current realisation are Rs 3-3.25 per unit. In the mean time the company has got interim relief from Kolkata high court on linkage coal supplies (50000 tonne a month) from MCL. As per fuel supply agreement (FSA) signed with MCL, the company is entitled to receive 50000 tonne per month of linkage coal; sufficient to meet 80-85% of its coal requirement. The company has started receiving about 35000-37000 tonne of coal from MCL. Subsequently, we have built in 30% share of linkage coal in our estimates at which power generation cost would be around Rs 4.2 per unit.

IMFA is likely to receive 50,000 tonne per month of linkage coal from MCL.

Supply (mn units/month)	Supplying 100% surplus firm power to GRIDCO	Supplying 60% & above surplus firm power to GRIDCO and balance export through open access
Up to 7.3	Rs 2.75 per kwh	Rs 2.75 per kwh
7.31-36	Rs 3.10 per kwh	Rs 3.00 per kwh
Above 36	Rs 3.25 per kwh	Rs 3.20 per kwh

Source: OERC, Arihant Research

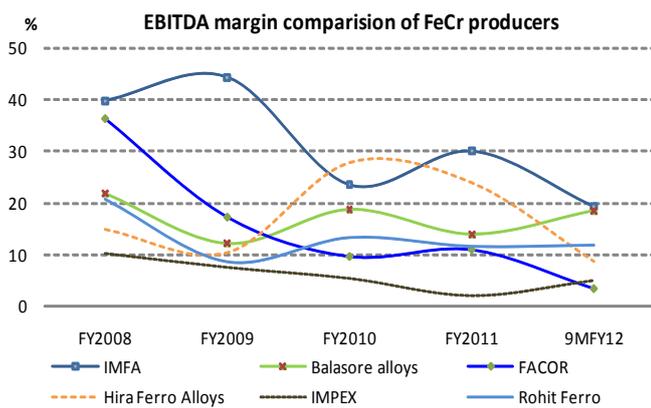


As per current Orissa electricity regulatory commission (OERC) guidelines the maximum tariff that captive power generator, IMFA in this case, could get is Rs 3.25 per unit based on supply of 100% surplus power (*more than 36mn units per month*). Further, any revision in prices for sales of surplus power from captive power generators and co-generation plants by commission for FY 2011-12 would be considered only during FY 2012-13. OERC in past have had hiked power tariff for captive producers in the range of 10-20%. Even if we assume 20% hike in tariffs, IMFA would still be incurring losses on surplus power sales.

■ **Captive chrome mine-Gem of the crown**

IMFA is one of the few companies in India to have captive chrome ore mine that has helped it mitigate the adversities of highly volatile ferrochrome business. The company has five chrome ore mines located in the state of Orissa at an average distance of 100km from its Choudwar unit. Mines have estimated cumulative reserves of 21mn tonne with a chrome ore content of 30-52%. Average landed cost of chrome ore is Rs 3,500 per tonne compared to current market rate of Rs 12,000-15,000 per tonne. Based on chrome ore to ferrochrome conversion rate of 2.2(x) the savings on account of captive ore is Rs 22,000 per tonne of ferrochrome produced.

Landed cost of captive chrome ore is ~Rs3500 per tonne.



Resource Availability with Ferro Chrome producers

	IMFA	Balasore Alloys	FACOR*	HFA	IMPEX	Rohit Ferro#
Chrome ore	✓	✓	✓	×	×	×
Power	✓	×	✓	✓	×	×
Coke	×	×	×	×	×	×
Coal	✓	×	×	×	×	×

* 45 MW of 100MW expansion

67.5 MW CPP to come by FY14E.

Source: C-line, Arianth Research

At current production rate IMFA's mine will last for more than 50 years.

As per industry estimates India has 67mn tonne of chrome ore reserves and with current output of 3.2mn tonne per annum, the reserves are expected to last only for 21 years, while IMFA's reserves at current production rate is expect to last for more than 50 years. We believe this will benefit IMFA as falling reserves levels in India expect to harden prices further.



■ Utkal-C coal block- key to growth

IMFA's 74% subsidiary, Utkal Coal, has been allocated coal blocks in Talcher; Orissa. The mine has an estimated 196mn tonne of F-G grade thermal coal reserves and will be used to feed captive power units at Choudwar. Recently the central government has granted final approval (Stage II clearance) to the coal block in which it is allowed to divert 149 ha of Forest land in Utkal C-block. Management expects mine to become operational by FY12 end and intends to mine 1mn tonne of coal in its first year of operation before gradually increasing it to 3.3mn tonne.

Coal Mine	State	Type	Reserves (mt)	Grade	Distance(Km)	Commissioning
Utkal-C	Orissa	Open cast	196	F-G	120	Q4-FY12

Source: Company, Arihant Research

Total capex for the mine is ~Rs 292cr and is expected to get commissioned by FY2012 end.

The company has earmarked capex of Rs ~292cr on the mine that includes Rs 248cr on mine development (including land acquisition and rehabilitation of people in surrounding areas) and another Rs 44cr on railway sidings'. Capex is going to be funded through debt equity mix of 65:35. Till date it has spent Rs 220cr on mine most of which is related to land acquisition and rehabilitation of surrounding area.

Capital expenditure schedule for Utkal coal Block					
Rs Cr	Capex	Total Capex	Debt	Equity	Spent Till date
Land Acquisition	150				
Mine development expenses	98	292	192	100	220
Railway Sidings	44				

Source: Company, Arihant Research

With commissioning of captive coal mine, cost of power generation is likely to fall significantly to Rs 2.6-2.7 per unit from Rs 4.5-Rs 5 per unit at present as landed coal cost is expected to be around Rs 1,200-1,300 per tonne, which is significantly lower than current average coal cost of Rs 4,000 per unit (assuming no linkages). We have factored 50% requirement from captive mine and anticipate Rs 102cr of pre tax savings to flow in FY13E.

Captive coal will reduce power generation cost to Rs 2.6-2.7 per unit from Rs 4.5-5 per unit at present.

Coal Savings	FY13E
Power Generation(mn units)	857
Coal Consumed (tonne)	727160
Captive	50%
Blended Cost (Rs/t)	2603
Market Prices (Rs/t)	4000
Savings (Rs/t)	1397
Savings (Rs cr)	102



Future expansion plans: Foray into merchant power and mining business

Recently IMFA acquired 70% interest in Indonesian mine at \$ 8.75mn.

Post commissioning of its ongoing expansion plan, IMFA wants to foray into merchant power generation business by setting up a 1320MW (2*660MW) plant in Orissa and that will be undertaken by special purpose vehicle. The company has already submitted the proposal with Orissa government.

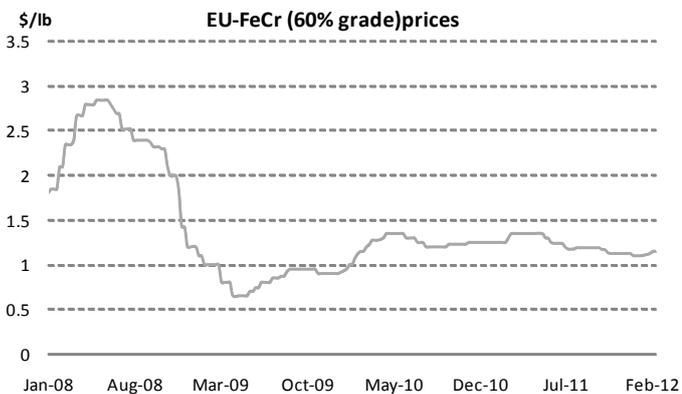
IMFA is also looking at acquiring chrome ore and thermal coal assets overseas as yet another business opportunity. Recently, it has acquired 70% interest in Indonesian mine at \$ 8.75mn. The mine possesses high quality of thermal coal with calorific value of ~6500kcal, however, exact quantity of reserves have not been ascertained as detailed assessment of mine reserves has not been carried out. Coal from the mine will be used for the upcoming merchant power project and captive power units. The company is also looking at selling coal on merchant basis. Management expects commercial mining to start in mid 2014.

Industry Scenario

Ferro chrome prices stabilizing on improving stainless steel market....

Chinese Ferrochrome prices have corrected ~15% in last six months

Fortunes of ferrochrome industry are contingent upon stainless steel sector as 90% of ferrochrome consumption comes from stainless steel making. World stainless steel production during 9mCY11 has jumped by 3.6% yoy to 24.2mn tonne largely aided by high production growth in China. China is a major producer in ferrochrome market accounting for 39% of global stainless steel production. As per latest data, Chinese stainless steel production grew 25% yoy to 14.1mn tonne and within that ferrochrome based stainless steel production jumped 13.8% yoy (3.3mn tonne) and that of Nickel based by 25% yoy to 10.8mn tonne.



Source: Bloomberg, Arihant Research

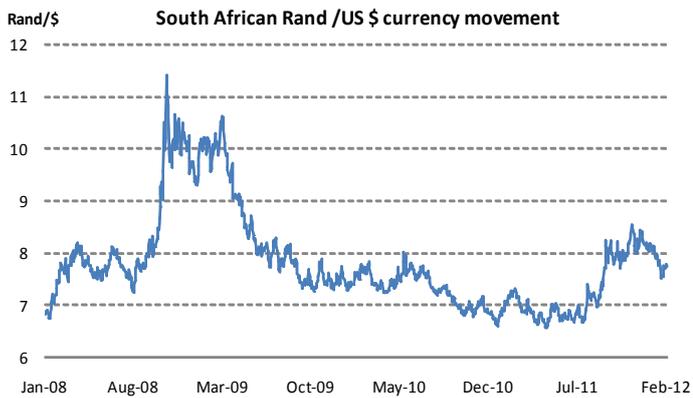
The price of ferro chrome that jumped ~20% since 2010; largely due to surging stainless steel production in China, now have corrected 15% in last nine months on account of lower demand from end user industries specifically from EU and Japan. However surging production in china has kept check on significant fall in prices. Chinese ferro chrome prices that dipped to levels of Yuan 7550/t in December-11 from Yuan 9500/t in March has inched up to Yuan 8000/t in recent times.



.....High cost South African producers to lend support to price.

South African power tariffs are going to be increased by 25% at an average over the next two years.

Power is a major cost factor in ferrochrome production contributing 30-35% of cost of production of ferrochrome. Globally, prices of thermal coal have increased considerably since fallout of 2008 thereby increasing overall power generation cost. South Africa is not only one of the largest producers (50% of global production) of ferrochrome but also has one of the largest high quality thermal coal reserves. Despite having large coal reserves South Africa is facing massive power shortages as country's largest power generator ESKOM is unable to add incremental capacities to feed the booming South African economy. This has resulted into repeated hike in power tariffs by ESKOM that started off with ~24.8% hike in April 2010, and 25.8% from April 2011 which will be followed by another 25.9% from April 2012. Further, ESKOM has asked National Energy Regulator of South Africa (NERSA) for another 25% power tariff hike and is likely to come into effect from 2013 to March 2016. We believe higher power tariffs are likely to keep the ferrochrome prices at elevated levels.



Source: Bloomberg, Arihant Research

Excerpt from NERSA's Order on power tariff

"The National Energy Regulator of South Africa (NERSA) at its meeting held today, Wednesday, 24 February 2010, approved an allowed revenue of R 85bn for 2010/11, R 109 bn for 2011/12 and R 141bn for 2012/13. This will result in the average standard price of 41.57 c/kWh, 52.30 c/kWh and 65.85 c/kWh for 2010/11, 2011/12 and 2012/13 financial years respectively. This will result in a percentage price increase of 24.8% on the average standard tariff from 1 April 2010 followed by another average increase of 25.8 % from 1 April 2011 and a further price increase of 25.9 % from 1 April 2012".

Source: ESKOM, Arihant Research

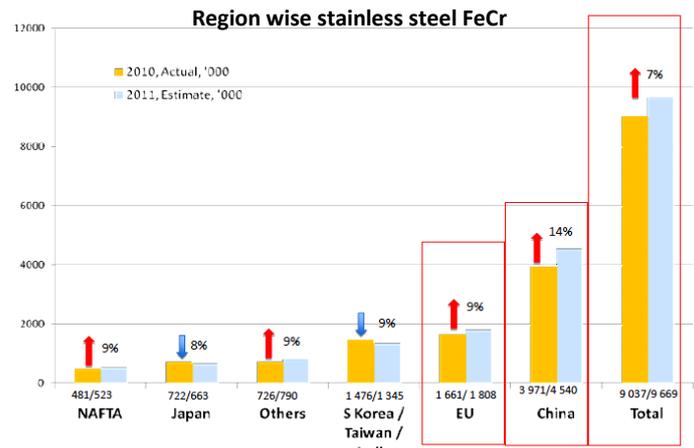
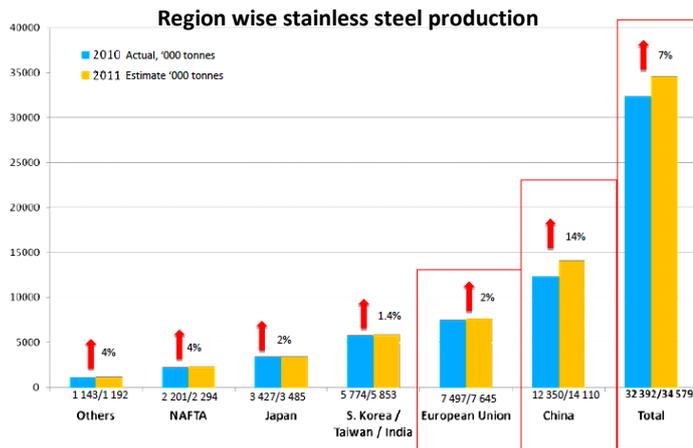
By virtue of its dominant position in ferrochrome industry South Africa will continue to be the price setter.

In addition to ongoing power crisis, appreciating rand; in the past, had resulted into higher ferro chrome prices. Appreciating rand puts South African producer at disadvantage as realisation in domestic currency would be lower and this has resulted into hike in ferrochrome prices by South African producers to offset the impact of appreciating currency. Rand had depreciated 36% from March-09 to June-11, before it started weakening till Dec-11 (appreciating 20%). Since then Rand has appreciated by 8%.



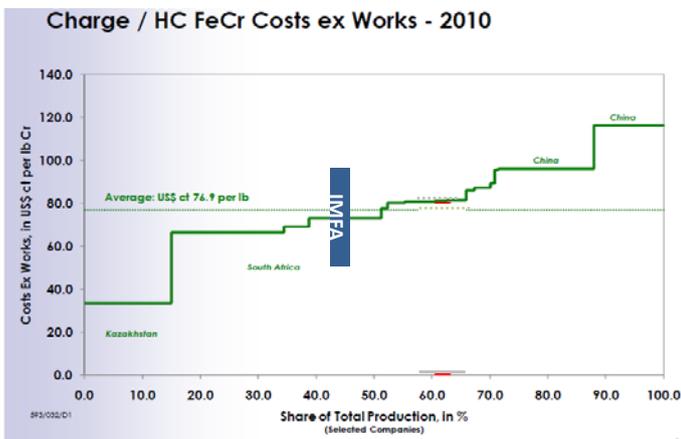
Production cuts due to higher cost and stable demand to keep FeCr market balanced

Of late South Africa, other than higher power tariffs, has been grappling with over capacity of Ferro chrome and thus lower prices. In wake of fall in demand due to Euro zone crisis many producers in South Africa has either shut down their operations or have reduced utilization levels. Players like Merafe resources and International ferro metals had curtailed production by 20-40% in response to sluggish demand and high energy costs.

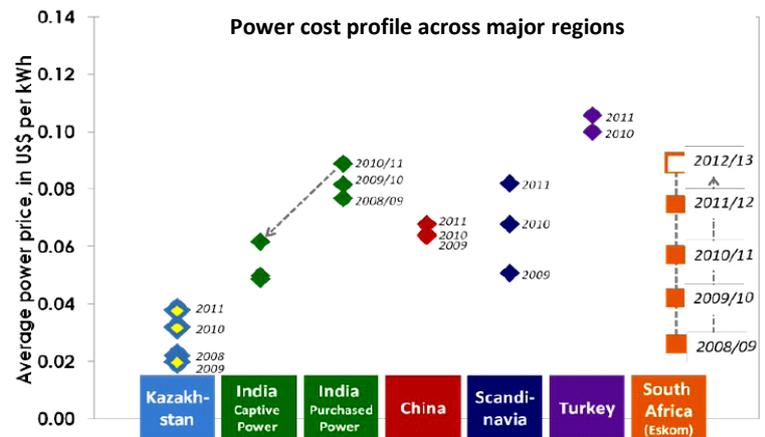


Source: Merafe Resources Oct-11 presentation

Other factor that is likely to lend support to ferrochrome prices is escalating input costs; power in particular. Around 50% of global ferrochrome producers have cost of production above 80 c/lb and majority of which are in china with cost of production around 95 c/lb. Going forward, we believe, with 25-26% hike power tariff in South Africa, cost of ferrochrome production is likely to go up by 20% over 2010-12.



Source: Heinz H. Pariser Presentation, Arihant Research

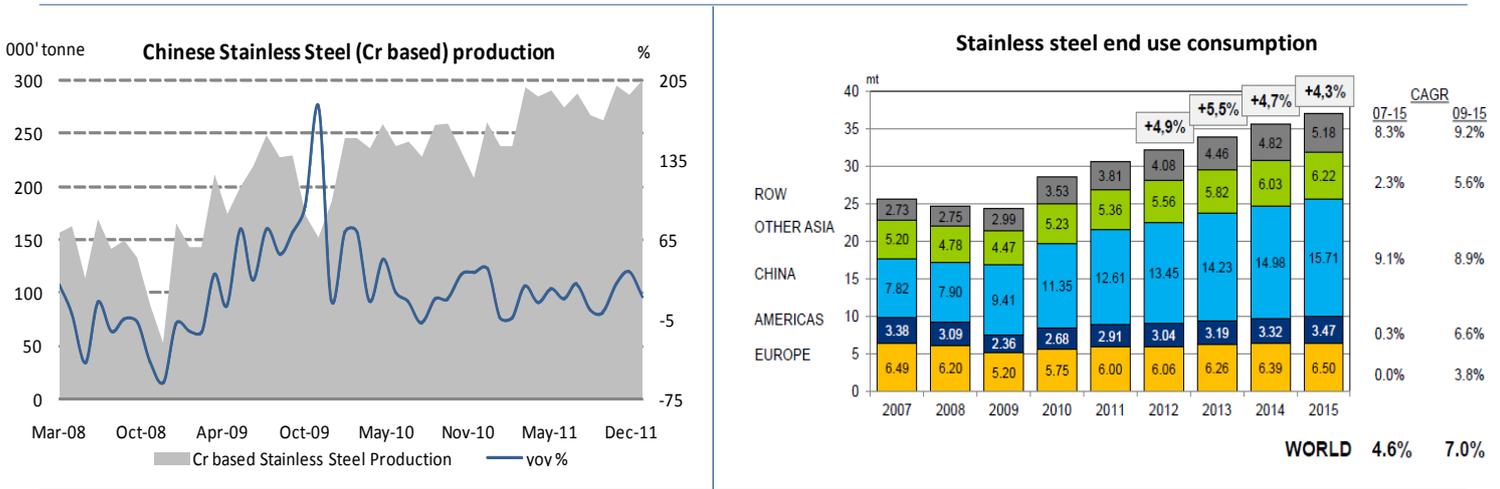


Source: Merafe Oct-11 presentation, Arihant Research



Stainless steel demand growth to average 5-6%

Demand for ferrochrome is derived from stainless steel as it consumes ~90% of ferrochrome produced globally. Stainless steel consumption during CY-11 is believed to have increased by 7.5% yoy to 31mn tonne. China which accounts for 40% of stainless steel consumption is main driver of stainless steel demand and there demand is expected to have gone up by 11% yoy during CY11. Going forward, as per industry estimates global stainless steel demand is expected to grow at stable rate of 4-5% over next 3-4 years largely aided by 5-6% growth in China.



Source: Bloomberg, Arianth Research

Source: Outokumpu Feb-12 presentation, Arianth Research

Ferro Chrome contract prices for 1QCY12 settled 5 cents/lb lower at \$1.15/lb

Ferrochrome contract prices for 1QCY12 with European buyers have been negotiated 5 cents/lb lower at \$ 1.15/lb on account of tepid demand in Europe and China. We expect ferrochrome prices to inch up here on account of improved macros world over and China in particular. Also impending power tariff hike in South Africa from April-12 will also support ferrochrome prices. However, given the fragile nature of global economy on account of European debt crisis and monetary tightening in China, we expect ferrochrome prices to remain range bound at current levels i.e between \$ 1.25-1.3/lb, over the next two years. Accordingly, we have factored in ferrochrome price at \$ 1.25/lb for FY2012E and FY2013E respectively.

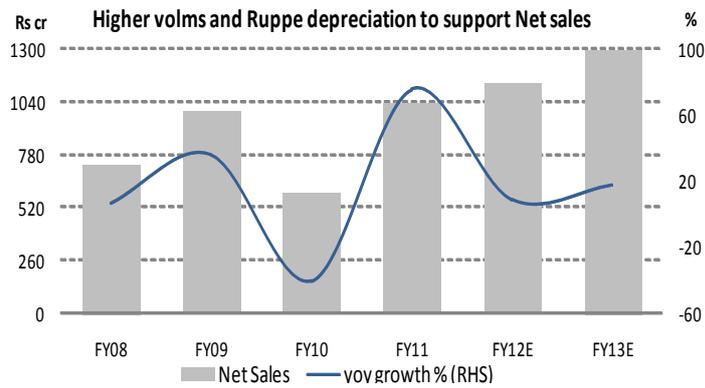


Financials

Net Sales to grow at a cagr of 13.5% over FY11-13E

We estimate IMFA's consolidated revenues to register 13.5% CAGR over FY11-FY13E driven by growth in realizations and volumes. We estimate IMFA's ferrochrome realisations to increase 2.5% in FY12E to Rs 58346 per tonne followed by 6% growth in FY13E to Rs 61,858 per tonne. Ferrochrome volumes during FY12E and FY13E are likely to go up by 8% yoy and 5% yoy respectively. Management has set a production target of 210000 tonne in FY12E and FY13E; however, we are factoring in conservative production estimate of ~1,96,625 tonne in FY12E and 2,06,250 tonne in FY13E.

Ferrochrome volumes to grow 8% yoy and 5% yoy during FY12E and FY13E, respectively.

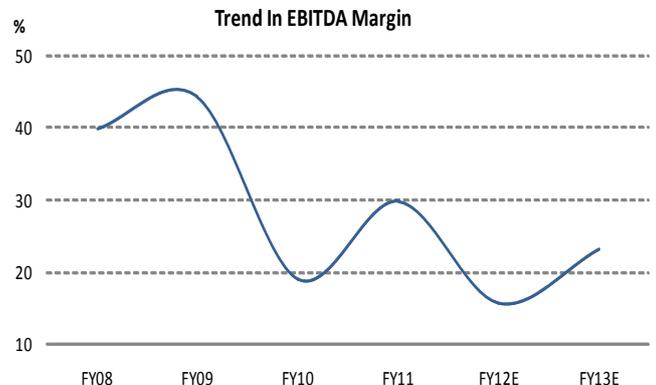
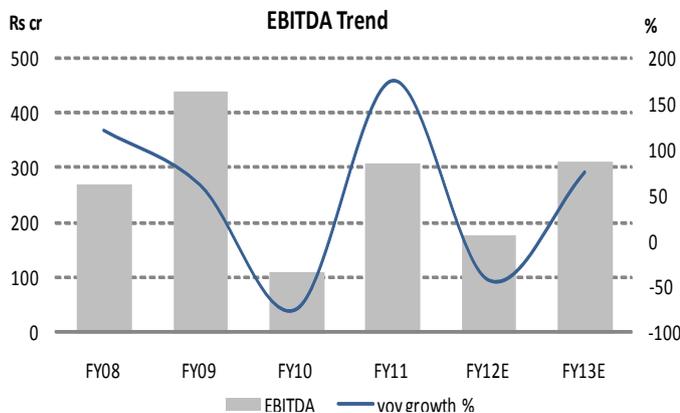


Source: Company, Arihant Research

Margin to come under pressure near term; improve in FY13E

We expect EBITDA margin to come under pressure in FY12E after witnessing 650bps jump in FY11 as ferrochrome prices were high and raw material prices were low. Going forward, with prices of coal and coke to remain at elevated levels, EBITDA margins during FY12E are likely to correct by ~1400bps to 15.6%. Going forward as we move into FY13E, we believe margins to improve led by lower raw material cost as benefit of captive coal starts to tick in. We estimate operating margins to improve by ~760bps yoy to 23.2% in FY13E.

Margins are likely to come under pressure in FY12E before improving in FY13E.

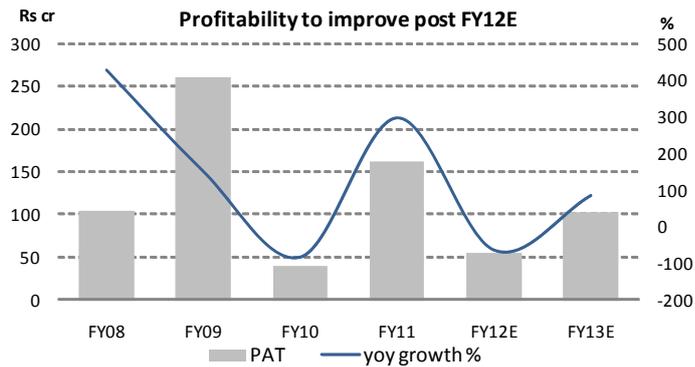


Source: Company, Arihant Research

**Net profit to come under pressure in FY12E; to increase ~2x in FY13**

Higher interest and depreciation cost will restrict earnings growth.

We estimate net profit to come under pressure in FY12E due to fall in operating margins and expect it to decline by ~65% yoy to Rs 56cr. In FY13E, we estimate net profit to improve on account of higher volumes and lower raw material cost incidence. However, significant jump in depreciation and interest cost on account of capitalization of new units will partly affect the profitability. Accordingly we expect profit after tax to go up by 84% yoy to Rs 104cr.



Source: Company, Arianth Research

Key Assumptions

Key Assumptions		
	FY12E	FY13E
FeCr Production	196625	206250
Volumes	194659	204188
Realisations (Rs/unit)	58346	61858
Power Gen (mn units)	821	942
Sales (mn units)	0	73
Realisation(Rs/unit)	3.1	3.1



Risk and Concerns

- **Enactment of mines and mineral development act (MMDRA):** Central government cabinet recently cleared new Mines and Mineral development and Regulation (MMDR) bill which now be tabled in winter session of parliament for approval. As per bill coal miners would have to pay 26% of the profit to project affected people, while non-coal miners (*iron ore, bauxite, alumina, zinc ore, chrome ore etc*) would now have to pay an amount equal to the royalty they pay to states or 100% royalty to people affected by the project. Though bill is required to be passed in the parliament and there is no clarity on whether the companies would be given any tax exemptions or any other kind of offsetting, the impact of bill in its current form is likely to be detrimental to the profitability and cost competitiveness of companies.
- **Exchange rate fluctuations:** IMFA earns ~80% of its revenues through exports and is thus subject to volatility in exchange rate. Significant appreciation of rupee against dollar will impact the earnings of the company. Further company could get impacted from depreciation of South African currency as the country is a price setter in the global ferrochrome market. Depreciation of rand against major currencies would result into fall of prices in dollar terms thus impacting realisation of IMFA.

EPS and Target price sensitivity to Realisations

Scenario Summary (keeping Rs/\$ constant)			
	Worst case	Base case	Best case
Rs/\$	48	48	48
Realisations(\$/lb)	1.1	1.25	1.35
EPS (Rs/share)	21	39	54
Target Prices (Rs/share)	253	425	565

EPS and Target price sensitivity to Exchange Rate

Scenario Summary (keeping realisation constant)			
	Worst case	Base case	Best case
Rs/\$	45	48	52
Realisations(\$/lb)	1.25	1.25	1.25
EPS (Rs/share)	29	39	53
Target Prices (Rs/share)	329	425	553

Source: Arihant Research

- **Drop in stainless steel demand:** 90% of ferrochrome produced globally finds its application in stainless steel. Thus any significant drop in the stainless steel demand is likely to have adverse impact on ferrochrome prices and thus earnings of IMFA.

Valuation Bands

1- Year forward P/E (x) band



1-Year forward EV/EBITDA(x) band



Source: C-Line, Arihant Research



Valuations:

IMFA (Consolidated) (Rs cr)	FY13E
EV/EBITDA(x)	6.5
EBITDA	311
EV	2023
Net Debt (FY-12)	904
Implied Market Cap	1119
No of Shares (cr)	2.6
Value (Rs/Share)	425

Relative valuation Table	FY13E
Historical Avg 1-yr fwd P/E(x)	14.8
Discount %	25%
Implied P/E(x)	11
EPS	39
Value per share (Rs/share)	434
Historical Avg 1-yr fwd P/B(x)	1.6
Discount %	25%
Implied P/B(x)	1.2
BV	368
Value per share (Rs/share)	441

IMFA through its integrated business model provides significant growth opportunities going forward, which is likely to come through volume expansion and low cost resources base. We believe there is a significant upside potential to our earnings estimates as they don't capture the full benefit of captive coal mine. The stock had, historically, traded at premium to its global peers which we believe is justified given the integrated nature of its business and assured long term contracts. The stock has, in the past, traded at an average one year forward EV/EBITDA (x) and P/E(x) of 8.6x and 14.8x, respectively. We have valued IMFA using EV/EBITDA(x) methodology given the cyclical nature of its business and have ascribed EV/EBITDA(x) of 6.5x, which is 25% discount to historical multiple. At CMP of Rs 324 the stock is trading at attractive valuations of 8.2x and 5.8x its FY13E EPS and EBITDA respectively, which is 30% discount to its last 30 months average PE(x) and EV/EBITDA (x) of 14.8x and 8.6x. **We initiate on IMFA with Buy recommendation and target price of Rs 425 per share.**

Peer group comparison table

	Mkt Cap(\$mn)	EBITDA(%)		EV/EBITDA(x)		P/E(x)		P/B(x)		RoE (%)	
		FY-12E	FY-13E	FY-12E	FY-13E	FY-12E	FY-13E	FY-12E	FY-13E	FY-12E	FY-13E
IMFA	180	15.6	23.2	9.9	5.8	15.1	8.2	1.0	0.9	6.4	10.7
Outokumpu	1259	6.4	9.3	10.3	6.5	0.0	0.0	0.5	0.5	0.9	7.1
ENRC	9021	43.1	43.7	4.4	3.9	8.0	6.8	1.2	1.0	18.8	14.8
Merafe	285	15.0	17.8	4.7	3.2	10.5	7.2	0.7	0.7	5.2	7.4
IFM	170	6.7	17.6	15.1	4.4	0.0	6.1	0.5	0.5	-	6.9
African Rainbow	5434	43.4	45.4	5.5	4.5	9.7	7.7	1.7	1.4	18.6	20.4
Industry Mean		21.4	25.6	8.5	4.7	8.3	6.1	0.9	0.8	9.6	11.7
Industry Median		14.4	22.2	9.4	4.5	9.7	6.8	1.0	0.9	7.0	10.7

Source: Bloomberg, Arianth Research



Profit & Loss Statement (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	593	1040	1136	1340
% Chg	-40.4	75.6	9.2	18.0
Total Expenditure	480	731	958	1028
% chg	-13.5	52.2	31.1	7.3
EBDITA	113	310	177	311
EBDITA Margin %	19	30	16	23
Other Income	30	37	51	58
Depreciation	40	42	53	99
EBIT	102	305	176	271
Interest	44	54	86	105
PBT bfr excep Items	57	250	90	165
Exceptional Items	-	-	-	-
PBT after EI	57	250	90	165
Tax Provisions	16	88	33	60
PAT before MI	41	162	56	105
MI	-	-	-	0.84
Reported PAT	41	162	56	104
PAT %	6.9	15.6	5.0	7.8

Cash Flow Statement (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
PAT	41	162	56	104
Oper. Profit Before Work.	126	258	195	308
Changes in WC	41	(110)	(115)	(122)
Cash generated frm	167	149	80	186
Direct Tax Paid	16	88	33	60
Net Cash From Oper. Act	151	60	47	126
Net Cash From Investing	(315)	(297)	(474)	(217)
Cash flow from Financing	201	474	479	85
Net increase in cash &	43	(36)	52	(6)
Opening Cash Balance	7	47	43	95
Closing Cash Balance	48	43	95	89

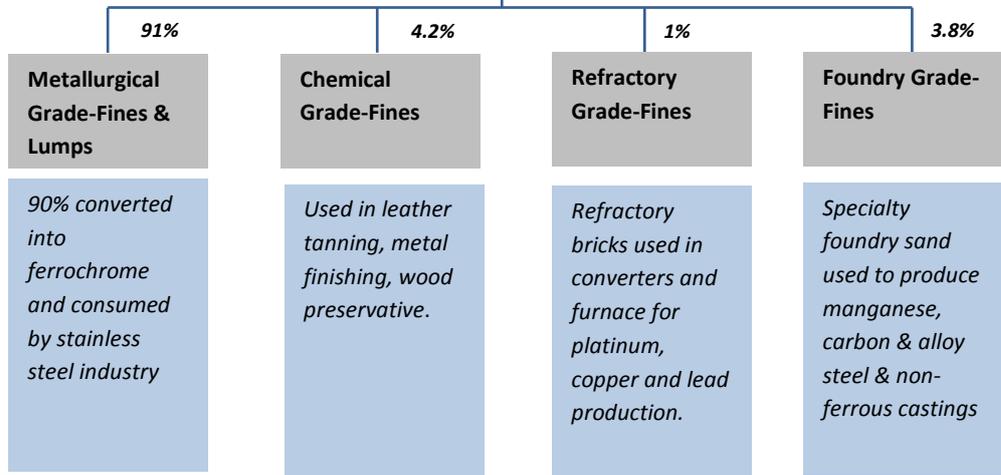
Balance sheet (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Equity Capital	26	26	26	26
Reserve & Surplus	580	714	851	942
Total Loans	475	634	992	1002
Minority Interest	23	23	23	24
Deferred tax	(9)	14	14	14
Total Liabilities	1096	1411	1906	2007
Gross Block	735	846	1036	1756
Less Acc.	256	297	350	449
Net Block	479	549	685	1307
Goodwill	18	18	18	18
CWIP	276	446	666	54
Investments	55	6	6	6
Net Current Assets	245	347	508	596
Misc Exp	23	45	22	25
Total Asset	1096	1411	1906	2007

Key Ratios (Consolidated)				
Y/E March (Rs Cr)	FY10	FY11E	FY12E	FY13E
Per Share data (Rs)				
EPS	15.6	61.6	21.4	39.4
Cash EPS	31	77	41	77
DPS	5.0	10.0	5.0	5.0
Book value	230	281	333	368
Operating, Returns				
Debt/ Equity (X)	0.8	0.9	1.1	1.0
Current Ratio (X)	1.8	1.9	2.0	2.3
RoE (%)	6.8	21.9	6.4	10.7
RoCE (%)	7.2	16.3	7.1	9.3
Dividend Yield (%)	4.8	19.0	6.6	12.2
Valuation Ratio (X)				
P/E	20.8	5.3	15.1	8.2
P/BV	1.4	1.2	1.0	0.9
EV/ Sales	2.2	1.4	1.5	1.3
EV/EBITDA	11.4	4.7	9.9	5.8

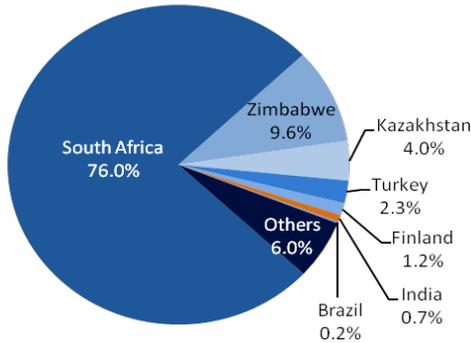


Annexure

Chrome Ore Usage

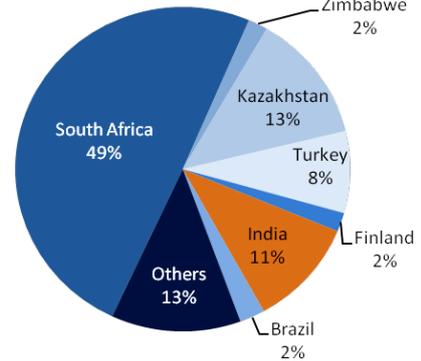


World Chrome Ore Resources: 9657mn tonne



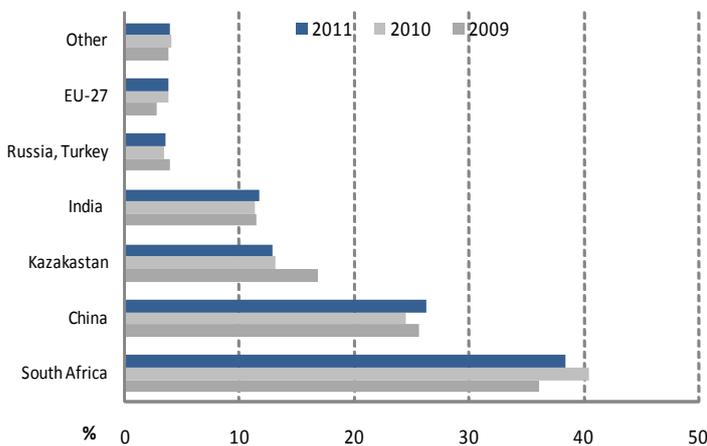
Source: Heinz H. Pariser Presentation, Arihant

World Chrome ore production CY-10: 29.9mn tonne

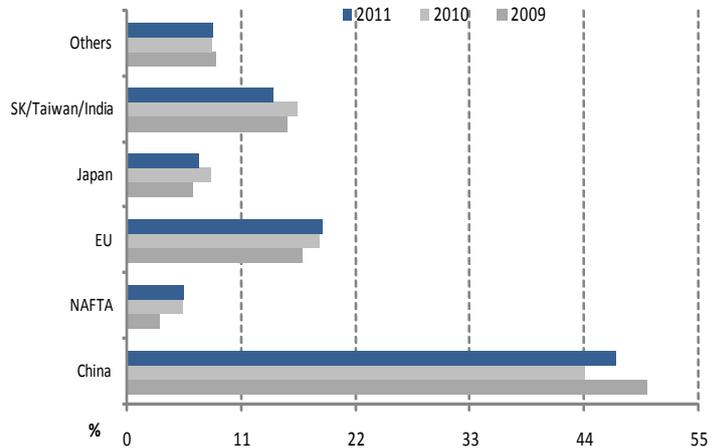


Source: Heinz H. Pariser, Arihant Research

% Share in Ferro chrome Production (%) - CY09-11



% Share in Ferro chrome consumption (%) - CY09-11



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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