

25<sup>th</sup> November 2010

## MOIL Limited- Attractively placed

Recommendation: Subscribe



Issue Summary		
Price Band (Rs)#	340	375
Bid Lot	17 shares	
Face Value	Rs.10	
Opens on	26 <sup>th</sup> Nov'10	
Closes on	01 <sup>th</sup> Dec'10	
Total no of shares on offer	3.36cr	

Pre-issue share capital	Rs 168 cr	
Post-issue share capital	Rs 168 cr	
Fresh Issue Size (Rs cr)	1,142	1,260
Post Issue Mkt Cap (Rs cr)	5,712	6,300
P/E on Annualized FY11	8.6	9.5

Book Running Lead Managers:

- Edelweiss
- IDBI Capital
- JP Morgan

Note: # 5% discount to retail investors

## Company &amp; Business Profile

Incorporated in 1962, MOIL is Government owned company, with 'Mini-Ratna' status, engaged in mining of Manganese Ore. MOIL is the largest manganese ore producing company in India and ranks fifth in the world. MOIL has access to 21.7 mn tonne of proved and probable reserve of manganese ore, with 69.5mn tonne of resource. The company poses one of the high quality manganese ore reserves in the world with average manganese content ranging from 36%-40%. Around 55% of its reserves have an average manganese content of 40%. Currently, MOIL operates ten mines, out of which, six mines are located in Nagpur and Bhandara districts in Maharashtra. The other four mines are located in the Balaghat district of Madhya Pradesh. Of the 10 operating mines they have, 7 are open cast mines and rests are underground. An area of approximately 814.71 hectares in the State of Maharashtra has been allocated to MOIL by the Ministry of Mines in October 2009. The company has applied for a prospecting license for that.

Name of Mine	State	Avg Grade (%)	Reserves (mn tonnes)		
			Proved	Probable	Total
Balaghat	MP	40	6.9	2.1	9
Dongri Buzurg	MH	42	3	0	3
Chikla	MH	36	0.5	0.6	1.1
Tirodi	MP	32	0.1	0.8	0.9
Kandri	MH	38	0.4	0	0.4
Beldongri	MH	30	0.2	0	0.2
Ukwa	MP	38	1.4	1.4	2.8
Munsar	MH	32	0.1	1.2	1.3
Gumgaon	MH	36	1.6	0	1.6
Sitapatore	MP	30-32	0	0	0
Dumps	-	-	1.4	0	1.4
<b>Total</b>			<b>15.6</b>	<b>6.1</b>	<b>21.7</b>

Source: RHP, Arihant Research:

Note: MP: Madhya Pradesh, MH: Maharashtra

Company's current mining capacity stands at 1.1mtpa. In addition, MOIL has high ferro manganese production facility of 10,000 tpa capacity and electrolytic manganese di-oxide capacity of 1,000 tpa. The company also has 20MW of wind based captive power plant, of which around 5MW consumed by Balaghat mines, while rest is sold to state electricity grid. It sells manganese ore to ferro alloy producers in the Indian market, with Maharashtra Elektrosnelt Ltd and Bhilai Steel Plant being its major consumers, which are subsidiaries of SAIL.

## Objects of the Issues

Objects	Amount (Rs cr)
Offer for sale 3.36 cr shares by government of India. MOIL will not receive any of the proceeds from the offer for sale.	1,142-1,260

Source: RHP, Arihant Research

*MOIL produces more than 50% of India's manganese ore.*

*One of the lowest cost producer with Avg Cost of production of US \$71/tonnesvs BHP's CoP of US \$260/tonne*

*MOIL's growth prospects hinges upon timely execution of its expansion projects*

## Investment Positives

### ▪ **Strong capex in pipe line**

The company has envisaged a capex of Rs 760cr to expand its manganese capacity from 1.1 mtpa to 1.5 mtpa by FY16. The company already has incurred a capex of Rs 24cr till October this year with Rs 60 cr to be spent over remaining of FY11. Total capital expenditure for FY12 is pegged at Rs 100 cr. In addition, MOIL has entered in to 50:50 joint ventures with SAIL and RINL, to set up ferro alloy plant in Chhattisgarh and Andhra Pradesh, with annual production capacity of 0.106 mn tonne and 56, 000 tonne respectively. Combined cost of project is around Rs 600 cr of which Rs 300 cr would be incurred by MOIL. The Projects are expected to come on stream by FY13.

### ▪ **Major producer of high quality ore**

MOIL accounts for about 50% of India's total manganese ore production, with high quality manganese ore reserves at its disposal, which are strategically located in manganese ore rich region of Balaghat in MP and Nagpur in Maharashtra. Demand for manganese ore is correlated to domestic steel demand, which is expected to grow at 10%, annually, over next few years. This augers well for MOIL and can help it to reap benefits arising out of strong demand and capacity expansion. Out of MOIL's total current manganese ore reserves, 55.0% have an average manganese content of 40.0% or higher, which help it to garner higher realizations.

### ▪ **One of the lowest cost producer in the world**

MOIL's is one of the lowest manganese ore producer in the world with average cost of production (CoP) of US \$71 per tonne, which is strikingly lower than BHP's CoP of US \$260 per tonne. Accordingly, it enjoys one of the best operating margins in mining business with average EBITDA margins of 70%.

### ▪ **Strong Financials**

MOIL is a debt free company with strong cash and cash equivalents in hand. By 1HFY11 end, its cash position stood at Rs 1,760 cr, translating into per share value of Rs 105.

## Concerns

### ▪ **Execution delays**

MOIL future performance is contingent upon its ability to execute capex on time. Any significant delay in executing these projects could adversely affect its future growth prospects and would result into increased project cost.

### ▪ **High dependence on steel industry**

The manganese ore industry is highly dependent on steel industry. 70-80% of total usage of manganese comes from steel industry. Steel being a cyclical commodity, any abrupt changes in demand could adversely affect the consumption of manganese.

MOIL is available at EV/EBITDA(x) of 5.1x its annualised FY11 EBITDA on upper end of price band and 4.4x on lower end of price band.

### Profit & Loss Account

(Rs.in cr)

Particulars	FY 2008	FY 2009	FY 2010	1HFY2011
<b>Net Sales</b>	<b>977.5</b>	<b>1293.3</b>	<b>969.4</b>	<b>635.1</b>
Other Income	46.6	111.7	130.0	61.4
Total Income	1024.2	1405.1	1099.4	696.4
Total Expenditure	266.3	372.0	366.4	188.0
<b>EBITDA</b>	<b>711.2</b>	<b>921.4</b>	<b>603.0</b>	<b>447.1</b>
EBITDA (%)	72.8	71.2	62.2	70.4
Depreciation	16.1	24.7	25.3	13.3
Interest	0	0	0	0
Write-offs	6.88	1.66	0.93	0.35
Profit Before Tax	734.9	1006.8	706.8	494.8
Provision for Tax	255.1	343.0	240.4	164.1
Profit after Tax	479.8	663.8	466.3	330.7
Extra Ordinary Items	0	0	0	0
<b>Profit After Tax after EO</b>	<b>479.8</b>	<b>663.8</b>	<b>466.3</b>	<b>330.7</b>
PAT (%)	49.1	51.3	48.1	52.1
EPS (Rs)(Pre Issue)	28.6	39.5	27.8	19.7
EPS (Rs) (Post Issue)	28.6	39.5	27.8	19.7

Source: RHP, Arihant Research

### Valuations

At the upper end of the price band of Rs340-Rs375, MOIL would trade at EV/EBITDA of 5.1x its annualized FY11 EBITDA, while at lower end it would trade at EV/EBITDA of 4.4x its FY11 EBITDA. In our view, the stock is attractively priced and offers good value accretion potential going forward; backed by strong fundamentals and robust steel demand. **We recommend "Subscribe" to MOIL's IPO with long term investment horizon.**

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