



Monnet Ispat

STOCK INFO.	BLOOMBERG
BSE SENSEX: 8,701	MISP IN
	REUTERS CODE
S&P CNX: 2,584	MNET.BO

24 October 2008

Buy

Previous Recommendation: Buy

Rs157

Equity Shares (m)	49.2
52-Week Range	710/145
1,6,12 Rel. Perf. (%)	-29/-21/-4
M.Cap. (Rs b)	7.7
M.Cap. (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	6,378	1,348	39.3	20.5	4.0	1.0	25.1	8.6	2.0	7.2
3/08A	11,591	1,662	34.6	-11.8	4.5	0.7	16.0	9.0	1.3	5.9
3/09E	17,301	2,630	53.4	54.2	2.9	0.6	20.0	14.9	1.0	3.7
3/10E	19,499	3,113	63.2	18.4	2.5	0.5	19.4	17.0	0.8	2.6

Consolidated

- Monnet's 2QFY09 PAT increased 78.4% YoY to Rs656m, mainly due to higher realization of sponge iron and steel and a lower tax rate of 11.4% as compared to 20.4% in the corresponding quarter last year.
- Net sales increased 54.7% YoY to Rs4b. Sales of sponge iron increased 24% YoY to 98,000tons and sales of steel products declined 36% YoY to 30,000tons. Sponge iron realization increased 96% YoY to Rs 22,641/tonne (+ Rs2,875/ton QoQ). Dispatches of sponge iron lagged behind production of 143,000tons resulting in accumulation of inventories.
- EBITDA increased 94% YoY to Rs1b, while margins improved 530bp to 26% due to higher realizations on sponge iron and steel. The company sold 74m kwh of power during the quarter at an average realization of Rs4.6/unit.
- The company has recently approved two new projects - setting up a pelletization / beneficiation plant for iron ore of 1.2mtpa and additional power capacity of 75MW at Raigarh along with the ongoing steel project - at a total Capex of Rs6b.
- The company has approved proposal to buy back a minimum of 500,000 shares at a maximum of Rs300/share. Share capital will now comprise 4.92m shares (earlier 5.86m) assuming that FCCB and warrants will not be converted. Monnet is currently selling surplus power of 70-80MW. We have revised our FY10 PAT down to Rs3.1b (earlier Rs4.5b) and FY10 EPS down to Rs63.2 (earlier Rs76.7) to factor in fall in sponge iron prices to Rs13,000/ton. Costs of iron ore and steel scrap too will come down. On P/BV, the stock is trading at 0.6x FY09 (RoE of 20%). Maintain **Buy**.

Y/E MARCH	QUARTERLY PERFORMANCE (RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,345	2,583	2,882	3,806	3,788	3,997	4,292	5,224	11,591	17,301
Change (%)	71.0	92.4	59.9	104.2	61.5	54.7	48.9	37.2	81.7	49.3
EBITDA	619	536	558	774	1,048	1,039	1,116	1,276	2,503	4,479
Change (YoY %)	67.2	45.2	2.0	49.8	69.2	94.0	100.1	65.0	43.7	78.9
As % of Net Sales	26.4	20.7	19.4	20.3	27.7	26.0	26.0	24.4	21.6	25.9
Interest	0	16	8	47	125	158	118	219	163	620
Depreciation	106	109	112	115	135	161	177	177	445	650
Other Income	36	50	48	134	45	20	99	133	297	297
PBT (after EO Inc.)	549	462	486	745	833	740	920	1,013	2,192	3,506
Total Tax	88	94	149	173	97	84	276	420	530	877
% Tax	16.1	20.4	30.7	23.2	11.6	11.4	30.0	41.4	24.2	25.0
Reported PAT	460	368	337	572	737	656	644	593	1,662	2,630
Adjusted PAT	460	368	337	572	737	656	644	593	1,662	2,630
Change (YoY %)	79.2	36.2	-22.0	33.7	60.0	78.4	91.3	3.7	23.3	58.2

E: MOST Estimates

Monnet Ispat: an investment profile

Company description

Monnet will deliver strong volume growth during FY09-FY10 on the back of capacity expansion to 800,000tpa. Cost of sponge iron production is low due to high quality coal from captive mines despite purchase of iron ore at market prices. The company has increased its captive power capacity from 60MW to 150MW recently. Steel making capacity will increase to 1.3mtpa at a capex of Rs8b to produce rails and structural products with an objective to capitalize on the construction boom in India.

Key investment arguments

- ☞ Sponge iron capacity has now been increased to 800ktpa. Monnet will be selling surplus power of ~80MW in 2HFY09.
- ☞ The company will meet all its coal requirements from captive mines in FY09 and has also increased its captive power capacity to 150MW.

Key investment risks

- ☞ Unexpected fall in sponge iron and steel prices would adversely impact the earnings.

Recent developments

- ☞ The company has approved proposal to buy back a minimum of 500,000 shares at a maximum of Rs300/share.

Valuation and view

- ☞ The stock trades at EV/EBITDA of 3.7x FY09E. We reiterate **Buy**.

Sector view

- ☞ Weakening demand and sharp fall in prices of scrap will force steel prices to trend lower until the beginning of 2009 as sharp production cuts, steps taken by central banks for normalization of credit market and end of destocking start bringing customers back to the market. The margins of steel producers will come under severe pressure from October 2008 until March 2009.

COMPARATIVE VALUATIONS

		MONNET	GODAWARI	SARDA
P/E (x)	FY09E	2.9	2.0	1.9
	FY10E	2.5	0.8	1.3
P/BV (x)	FY09E	0.6	0.5	0.4
	FY10E	0.5	0.3	0.3
EV/Sales (x)	FY09E	1.0	0.6	0.3
	FY10E	0.8	0.2	0.2
EV/EBITDA (x)	FY09E	3.7	2.6	2.3
	FY10E	2.6	0.4	1.0

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	38.3	39.3	54.9
Domestic Inst	9.3	6.5	8.7
Foreign	37.9	39.8	27.1
Others	14.5	14.5	9.3

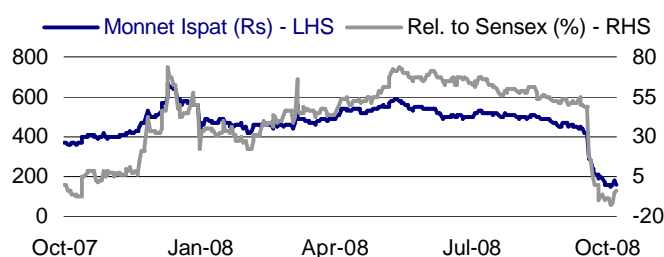
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	53.4	53.6	-0.4
FY10	63.2	74.4	-15.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
157	278	76.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net sales	5,325	6,378	11,591	17,301	19,499
Change (%)	2.8	19.8	81.7	49.3	2.7
Total Expenses	3,944	4,636	9,087	12,821	13,615
EBITDA	1,382	1,742	2,503	4,479	5,884
% of Net Sales	25.9	27.3	21.6	25.9	30.2
Deprn. & Amortization	249	331	445	650	894
EBIT	1,133	1,411	2,058	3,829	4,990
Net Interest	234	260	163	620	642
Other income	328	510	297	297	297
PBT before EO	1,227	1,661	2,192	3,506	4,646
EO income					
PBT after EO	1,227	1,661	2,192	3,506	4,646
Tax	168	313	530	877	1,533
Rate (%)	13.7	18.8	24.2	25.0	33.0
Reported PAT	1,059	1,348	1,662	2,630	3,113
Adjusted PAT	1,059	1,348	1,662	2,630	3,113
Change (%)	-13.3	27.3	23.3	58.2	18.4

BALANCE SHEET					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	325	343	480	492	492
Reserves	3,776	5,366	10,408	13,163	16,016
Share holders funds	4,101	5,709	10,888	13,655	16,508
Loans	8,657	10,036	10,981	10,681	10,681
Secured	3,304	5,241	9,457	9,157	9,157
Unsecured	5,353	4,795	1,524	1,524	1,524
Deferred tax liability (net)	502	628	908	1,347	2,113
Capital Employed	13,260	16,374	22,777	25,683	29,302
Gross Block	5,984	8,303	12,121	17,121	20,121
Less: Accum. Deprn.	974	1,303	1,748	2,398	3,292
Net Fixed Assets	5,010	6,999	10,373	14,723	16,829
Capital WIP	1,811	3,589	2,661	2,661	2,661
Investments	185	448	1,384	1,384	1,384
Curr. Assets	6,992	6,407	10,353	10,071	11,885
Inventories	1,033	1,220	2,217	3,318	3,740
Sundry Debtors	351	463	1,051	1,422	1,603
Cash and Bank	4,542	2,897	3,708	1,954	3,166
Loans and Advances	1,066	1,828	3,377	3,377	3,377
Curr. Liability & Prov.	737	1,070	1,995	3,156	3,457
Sundry Creditors	574	883	1,208	2,370	2,671
Other Liabilities & prov.	164	187	786	786	786
Net Current Assets	6,255	5,337	8,359	6,914	8,428
Application of Funds	13,260	16,374	22,777	25,683	29,302

E: MOSL Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	32.6	39.3	34.6	53.4	63.2
Cash EPS	40.2	48.9	43.9	66.6	81.3
BV/Share	116.2	156.3	216.8	267.3	325.2
DPS	4.5	4.5	4.5	4.5	4.5
Payout (%)	15.7	13.4	15.2	9.9	8.3
Valuation (x) CMP @ 1!					
P/E		4.0	4.5	2.9	2.5
Cash P/E		3.2	3.6	2.4	1.9
P/BV		1.0	0.7	0.6	0.5
EV/Sales		2.0	1.3	1.0	0.8
EV/EBITDA		7.2	5.9	3.7	2.6
Dividend Yield (%)		2.9	2.9	2.9	2.9
Return Ratios (%)					
EBITDA Margins	25.9	27.3	21.6	25.9	30.2
Net Profit Margins	19.9	21.1	14.3	15.2	16.0
RoE	28.0	25.1	16.0	20.0	19.4
RoCE	8.5	8.6	9.0	14.9	17.0
RoIC	16.9	15.0	13.7	19.5	22.6
Working Capital Ratio					
Fixed Asset Turnover (x)	0.9	0.8	1.0	1.0	1.0
Asset Turnover (x)	0.4	0.4	0.5	0.7	0.7
Debtor (Days)	24	26	30	30	30
Inventory (Days)	71	70	70	70	70
Creditors (Days)	39	51	50	50	50
Growth (%)					
Sales	2.8	19.8	81.7	49.3	12.7
EBITDA	-22.4	26.0	43.7	78.9	31.4
PAT	-13.3	27.3	23.3	58.2	18.4
Leverage Ratio (x)					
Current Ratio	9.5	6.0	5.2	3.2	3.4
Interest Cover Ratio	4.8	5.4	12.6	6.2	7.8
Debt/Equity	1.1	1.3	0.7	0.7	0.5

CASHFLOW STATEMENT					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Pre-tax profit	1,227	1,661	2,192	3,506	4,646
Depreciation	248	329	445	650	894
(Inc)/Dec in Wkg. Cap.	-532	-727	-2,210	-310	-301
Tax paid	-108	-187	-250	-438	-767
Other operating activities	-47	423			
CF from Op. Activity	788	1,498	176	3,408	4,472
(Inc)/Dec in FA +CWIP	-2,582	-4,097	-2,890	-5,000	-3,000
(Pur)/Sale of Investments	-95	-264	-936		
CF from Inv. Activity	-2,677	-4,361	-3,826	-5,000	-3,000
Equity raised/(repaid)	10	18	5,178	397	
Debt raised/(repaid)	3,696	1,379	944	-300	
Dividend (incl. tax)	-167	-181	-253	-259	-259
Other financing activities	157.1		-1409		
CF from Fin. Activity	3,697	1,217	4,461	-162	-259
(Inc)/Dec in Cash	1,808	-1,645	812	-1,754	1,212
Add: opening Balance	2,735	4,542	2,897	3,708	1,954
Closing Balance	4,542	2,897	3,708	1,954	3,166



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Disclosure of Interest Statement	Monnet Ispat
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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