

Monnet Ispat & Energy

Performance highlights

Particulars (Rs cr)	1QFY2011	1QFY2010	% chg (yoy)	4QFY2010	% chg (qoq)
Net Sales	420	356	18.0	438	(4.1)
EBITDA	121	108	12.7	128	(5.5)
EBITDA margin (%)	28.8	30.2	(138bp)	29.3	(43bp)
Net Profit	73	61	18.7	72	0.3

Source: Company, Angel Research

Top-line growth led by higher realisations: Net revenue grew 18.0% yoy to Rs420cr on higher realisations in the steel division. The steel segment contributed 71.8% (64.9% in 1QFY2010) to top-line in 1QFY2011. While sponge iron sales volume grew 34.5% yoy to 169,597 tonnes, billets and structural steel sales volume decreased 97.6% and 22.6% yoy to 218 tonnes and 18,796 tonnes, respectively. However, average realisations for sponge iron, billet and structural steel were higher by 20.4%, 31.5% and 12.7% yoy, respectively. Lower steel production led to power sales volume increasing 12.5% yoy to 221mn tonnes, although realisations fell 16.2% yoy to Rs4.9/unit.

EBITDA margins dip slightly: Despite a healthy increase in realisations, EBITDA margins dipped by 138bp yoy to 28.8% due to higher raw materials costs. Iron ore cost increased 33% yoy to Rs4,449/tonne leading to a 27.5% yoy rise in raw material costs to Rs232cr. This was negated by 11% yoy fall in other expenses to Rs36cr.

Bottom-line growth in line with top-line increase: Despite margin pressure, bottom-line grew 18.7% yoy to Rs73cr as interest expense declined by 27.2% yoy to Rs14.4cr. Tax rate for the quarter stood at 19.9% (16.7% in 1QFY2010).

Outlook and Valuation: We believe timely execution of Monnet Ispat's (MIEL) steel and power projects can provide significant upside from current levels. **We recommend an Accumulate on the stock, with a SOTP Target Price of Rs534,** valuing the steel business at 6x FY2012E EV/EBITDA and its investment in Monnet Power at 1.4xP/BV.

Key Financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	1,549	1,481	1,743	2,304
% chg	33.6	(4.4)	17.7	32.2
Adj. Net Profit	232	266	270	389
% chg	39.4	14.8	1.4	44.2
EPS (Rs)	45.4	44.3	44.9	64.8
EBITDA margin (%)	24.2	30.1	29.8	32.1
P/E (x)	10.4	10.7	10.6	7.3
P/BV (x)	1.8	1.5	1.4	1.2
RoE (%)	18.2	18.3	14.8	17.6
RoCE (%)	12.4	12.6	11.7	12.7
EV/Sales (x)	2.1	2.5	2.8	2.5
EV/EBITDA (x)	8.7	8.4	9.3	7.6

Source: Company, Angel Research

ACCUMULATE

CMP	Rs475
Target Price	Rs534

Investment Period	12 months
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Stock Info

Sector	Steel
Market Cap (Rs cr)	2,523
Beta	0.7
52 Week High / Low	504/270
Avg. Daily Volume	49234
Face Value (Rs)	10
BSE Sensex	18,288
Nifty	5,486
Reuters Code	MNET.BO
Bloomberg Code	MISP@IN

Shareholding Pattern (%)

Promoters	44.3
MF / Banks / Indian Fls	6.9
FII / NRIs / OCBs	32.1
Indian Public / Others	16.7

Abs. (%)	3m	1yr	3yr
Sensex	9.1	20.6	21.1
MIEL	16.1	71.9	50.8

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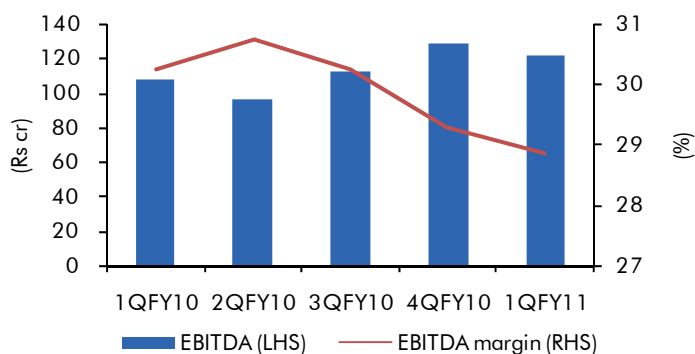
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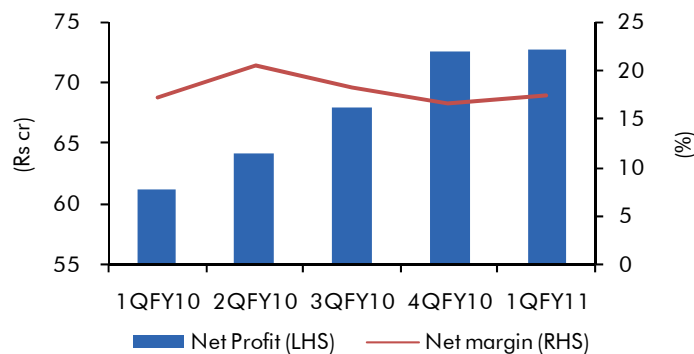
Exhibit 1: 1QFY2011 performance (Standalone)

Y/E March (Rs cr)	1QFY11	1QFY10	% yoy	FY2010	FY2009	yoy %
Net sales	420	356	18.0	1,481	1,549	(4.4)
Raw material	232	182	27.5	795	911	(12.7)
% of net sales	55.3	51.2		53.7	58.8	
Power & Fuel	11	9	28.1	35	92	(61.9)
% of net sales	2.6	2.4		2.4	6.0	
Staff cost	20	17	15.3	73	61	19.9
% of net sales	4.7	4.8		4.9	3.9	
Other expenditure	36	41	(11.0)	132	110	19.9
% of net sales	8.6	11.5		8.9	7.1	
Total expenditure	299	249	20.4	1,036	1,174	(11.8)
% of net sales	71.2	69.8		69.9	75.8	
Operating profit	121	108	12.7	445	375	18.8
OPM(%)	28.8	30.2		30.1	24.2	
Other operating income	-	-	-	-	-	-
EBIDTA	121	108	12.7	445	375	18.8
EBIDTA margins (%)	28.8	30.2		30.1	24.2	
Interest	14	20	(27.2)	67	71	(5.7)
Depreciation	18	17	4.0	71	65	9.1
Other income	2	3	(35.3)	21	48	(54.9)
Exceptional items	-	-	-	-	16	
Profit before tax	91	74	23.4	329	271	21.4
% of net sales	21.6	20.7		22.2	17.5	
Tax	18	12	46.4	63	55	14.1
% of PBT	19.9	16.7		19.1	20.3	
Adj. net profit	73	61	18.7	266	232	14.8
% of net sales	17.3	17.2		18.0	15.0	
EPS (Rs)	13.9	12.8	8.9	44.3	45.4	(2.4)

Source: Company, Angel Research

Exhibit 2: EBITDA margin trend


Source: Company, Angel Research

Exhibit 3: Net profit trend


Source: Company, Angel Research

Exhibit 4: Quarterly production volume

(tonnes)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	yoy %	qoq %
Sponge Iron	174,988	171,964	177,945	185,147	175,527	0.3	(5.2)
Steel (basic)	35,402	23,093	28,887	27,942	19,645	(44.5)	(29.7)
Steel (structural)	23,485	17,567	25,418	25,487	21,411	(8.8)	(16.0)
Ferro alloy	0	0	0	0	1,322	-	-
Power (mn units)	259	212	286	264	255	(1.8)	(3.4)

Source: Company, Angel Research

Exhibit 5: Quarterly sales volume

(tonnes)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	yoy %	qoq %
Sponge Iron	126,095	142,032	140,271	164,291	169,597	34.5	3.2
Steel (basic)	9,071	3,353	4,774	2,829	218	(97.6)	(92.3)
Steel (structural)	24,276	19,177	22,280	25,650	18,796	(22.6)	(26.7)
Ferro alloy	0	0	0	0	939	-	-
Power (mn units)	196	192	242	222	221	12.5	(0.8)

Source: Company, Angel Research

Exhibit 6: Quarterly average realisation

(Rs/tonne)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	yoy %	qoq %
Sponge Iron	12,301	11,994	13,366	15,720	14,807	20.4	(5.8)
Steel (basic)	22,309	20,236	20,803	22,906	29,330	31.5	28.0
Steel (structural)	25,562	22,207	25,054	26,101	28,814	12.7	10.4
Ferro alloy	0	0	0	0	56,047	-	-
Power (Rs/unit)	5.8	4.2	4.9	4.3	4.9	(16.2)	14.2

Source: Company, Angel Research

Investment Rationale

- **Expanding power capacity by 80MW in 4QFY2011E:** MIEL is expanding its power capacity at Raigarh by 80MW. The power plant, which is based on coal and midlings, is expected to be operational by 4QFY2011E. We expect the plant to contribute ~Rs95cr to the company's bottom-line in FY2012E.
- **Steel expansion of 1.5mn tonne:** MIEL is setting up a 1.5mn steel plant through the BF-EAF route. Total capex for the project is pegged at Rs2,400cr, with Rs1,400cr expected to be funded through debt and the balance through equity. MIEL has tied up US \$162mn of foreign currency loan and is negotiating with banks for the balance amount. The plant is expected to begin progressive commissioning in FY2012E. The pig iron and sinter plants are expected to be commissioned in 1QFY2012E, while the sponge iron, SMS and finished steel plants are expected to be commissioned in 3QFY2012E. The pellet and coke oven plants are likely to go on-stream post FY2012E.
- **Significant value unlocking lies ahead in Monnet Power:** MIEL is setting up a 1,050MW (2x525) power plant through Monnet Power. The plant is being set up at a cost of Rs5,000cr, with equity contribution of Rs1,200cr and the balance being funded through debt. MIEL recently diluted 12.5% stake to Blackstone for a consideration of Rs275cr. While the first unit is expected to be operational by 1QFY2013E, the second unit is likely to come on-stream by 2QFY2013E.
- **Mineral portfolio being further enriched:** MIEL has been operating the Milupara coal mine since FY2005. The company has also been granted the Utkal B-2 coal mine, with reserves of 83mn tonnes. It has the capacity to mine 1.5mtpa of coal and is expected to be operational from 4QFY2011E.

Outlook and Valuation

We believe timely execution of MIEL's steel and power projects can provide significant upside from current levels. While the 80MW power capacity expansion will drive the earnings momentum in the near term, long-term stock performance will be determined by timely expansion of the company's 1.5mtpa steel plant and unlocking of value in Monnet Power, which is implementing the 1,050MW power project. **We recommend an Accumulate on the stock, with an SOTP Target Price of Rs534. Our best-case scenario indicates a Target Price of Rs687, implying a potential upside of 45% from current levels.**

Exhibit 7: SOTP valuation – Base-case scenario

Steel Business	6x FY2012E EV/EBITDA	405
Investment in Monnet Power	1.4x P/BV	129
Target Price (Rs)		534

Source: Company, Angel Research

Exhibit 8: SOTP valuation – Bull-case scenario

Steel Business	6x FY2012E EV/EBITDA	405
Stake in Monnet Power	1.8x P/BV	282
Target Price (Rs)		687

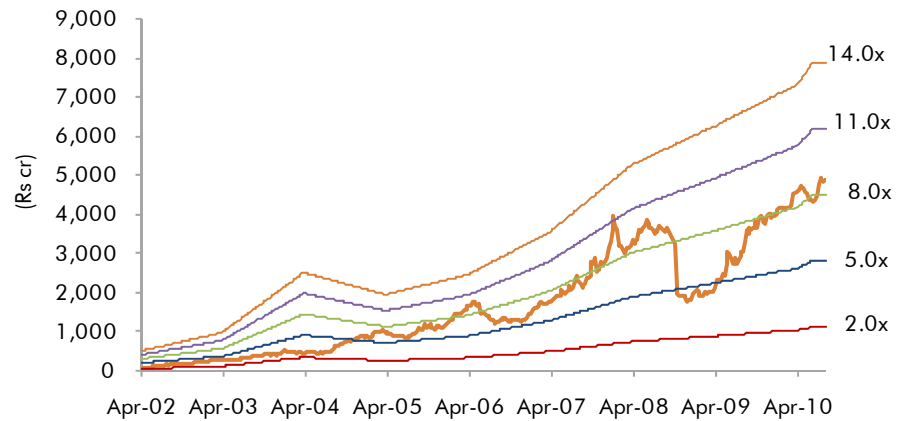
Source: Company, Angel Research

Exhibit 9: Key assumptions

	FY2011E	FY2012E
Sales Volume (tonnes)		
Sponge Iron	572,745	616,838
Ingots & Billets	28,047	32,830
Structural Steel	90,000	100,000
Pig Iron	0	75,000
Power (mn units)	847	1,324
Average Realisation (Rs/tonne)		
Sponge Iron	17,000	17,500
Ingots & Billets	24,272	24,772
Structural Steel	27,772	28,272
Pig Iron		22,500
Power	5.00	5.00
Cost (Rs/tonne)		
Iron ore	4,530	4,530
Purchased coal	4,600	4,700

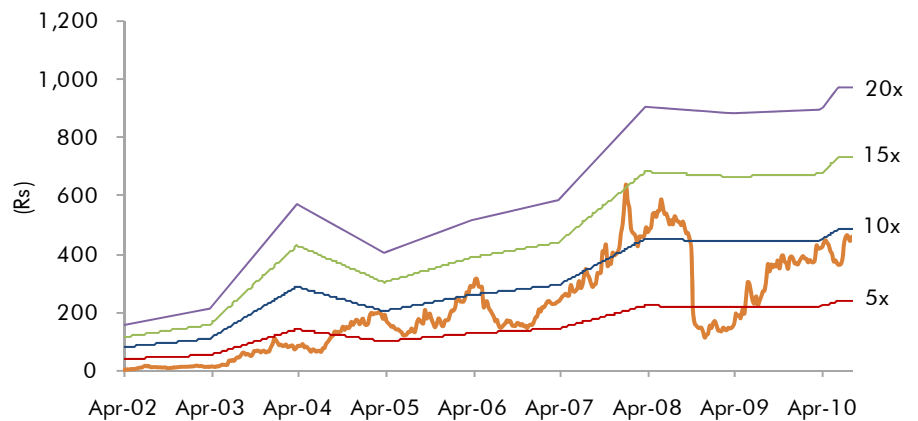
Source: Company, Angel Research

Exhibit 10: EV/EBITDA band



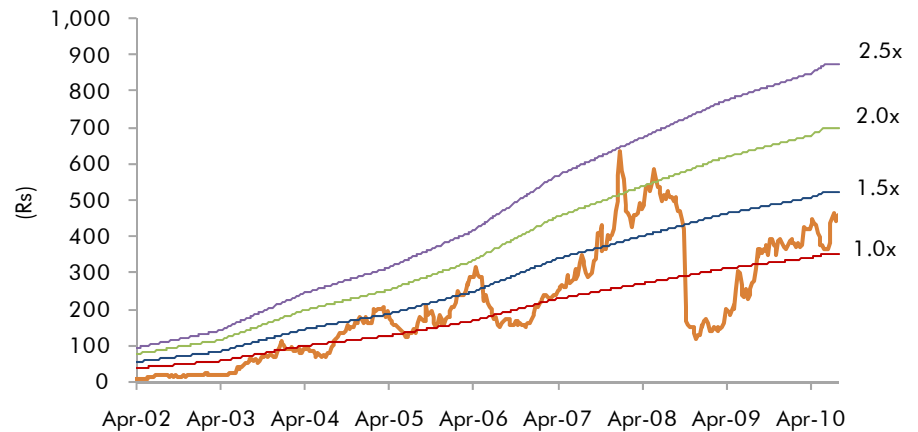
Source: Bloomberg, Angel Research

Exhibit 11: P/E band



Source: Bloomberg, Angel Research

Exhibit 12: P/BV band



Source: Bloomberg, Angel Research

Exhibit 13: Recommendation summary

Companies	CMP	Target Price	Reco.	Mcap	Upside	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(Rs)	(Rs)				(Rs cr)	(%)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
SAIL	196	-	Neutral	81,018	-	12.9	11.4	2.2	1.9	8.5	7.4	17.9	17.6	16.3	16.9
Tata Steel	539	697	Buy	47,789	29.3	8.8	9.4	1.5	1.3	6.8	6.2	17.9	14.7	11.8	11.7
JSW Steel	1,126	1,344	Buy	28,768	19.4	14.8	11.3	1.5	1.3	7.0	5.5	13.9	12.4	12.5	12.6
Bhushan Steel	1,645	1,979	Buy	0	20.3	7.2	5.5	1.7	1.3	4.5	3.7	26.0	26.1	12.6	14.0
Electrosteel	53	72	Buy	1,740	35.1	8.2	7.9	0.9	0.9	6.0	5.3	14.2	13.1	11.9	12.3
Godawari Power	232	313	Buy	625	34.9	5.2	3.3	1.0	0.8	3.8	2.2	22.2	27.5	18.4	24.0
Sarda Energy	277	290	Accumulate	943	4.7	7.9	6.3	1.4	1.2	5.7	4.3	19.4	20.2	15.1	16.5
Prakash Ind.	177	232	Buy	2,386	31.1	8.0	5.4	1.3	1.0	5.6	4.2	19.7	23.2	16.6	18.7
Monnet Ispat	474	534	Accumulate	2,523	12.7	10.6	7.3	1.4	1.2	9.3	7.6	14.8	17.6	11.7	12.7

Source: Company, Angel Research

Profit & Loss Statement (Standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Gross sales	738	1,319	1,711	1,567	1,936	2,561
Less: Excise duty	100	160	162	86	194	256
Net sales	638	1,159	1,549	1,481	1,743	2,304
Other operating income	-	-	-	-	-	-
Total operating income	638	1,159	1,549	1,481	1,743	2,304
% chg	19.8	81.7	33.6	(4.4)	17.7	32.2
Total expenditure	464	907	1,174	1,036	1,223	1,565
Net raw materials	314	679	911	795	927	1,226
Other mfg costs	91	135	136	72	105	127
Personnel	23	41	61	73	87	98
Other	36	52	66	96	105	115
EBITDA	174	252	375	445	519	739
% chg	26.1	44.6	48.7	18.8	16.7	42.3
(% of Net sales)	27.3	21.7	24.2	30.1	29.8	32.1
Depreciation	33	44	65	71	80	113
EBIT	141	207	309	374	440	626
% chg	24.6	47.0	49.1	20.8	17.7	42.4
(% of Net sales)	22.1	17.9	20.0	25.2	25.2	27.2
Interest charges	(0)	16	71	67	112	147
Other income	25	30	48	21	9	7
(% of PBT)	14.9	13.4	16.6	6.5	2.6	1.4
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	166	221	286	329	337	486
% chg	35.4	32.9	29.7	14.8	2.6	44.2
Extra. Inc/(Expense)	-	-	16	-	-	-
PBT (reported)	166	221	271	329	337	486
Tax	31.3	53.8	55.0	62.8	67.4	97.2
(% of PBT)	18.9	24.4	20.3	19.1	20.0	20.0
PAT (reported)	135	166	216	266	270	389
Add: Earnings of asso.	-	-	-	-	-	-
Less: Minority interest	-	-	-	-	-	-
Extra. Expense/(Inc.)	-	-	0	-	-	-
PAT after MI (reported)	135	166	216	266	270	389
ADJ. PAT	135	166	232	266	270	389
% chg	27.3	23.3	39.4	14.8	1.4	44.2
(% of Net sales)	21.1	14.3	15.0	18.0	15.5	16.9
Basic EPS (Rs)	39.4	43.0	47.4	53.1	48.0	64.8
Fully Diluted EPS (Rs)	25.9	29.4	45.4	44.3	44.9	64.8
% chg	27.3	13.4	54.5	(2.4)	1.4	44.2

Balance Sheet (Standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity share capital	34	48	48	52	60	60
Reserves & surplus	537	1,020	1,238	1,556	1,975	2,329
Shareholders' funds	571	1,068	1,286	1,608	2,035	2,389
Share warrants	-	21	-	9	-	-
Minority interest	0	0	0	0	0	0
Total loans	1,004	1,098	1,325	1,475	2,178	3,028
Deferred tax liability	63	91	114	114	114	114
Total liabilities	1,637	2,278	2,725	3,207	4,327	5,530
APPLICATION OF FUNDS						
Gross block	830	1,212	1,366	1,616	1,966	3,966
Less: Acc. depreciation	130	175	240	311	390	503
Net Block	700	1,037	1,127	1,306	1,576	3,463
Capital work-in-progress	359	266	310	460	1,110	110
Goodwill	-	-	-	-	-	-
Investments	45	138	216	516	716	916
Current assets	641	1,035	1,222	1,062	1,084	1,241
Cash	290	371	246	106	74	125
Loans & advances	183	338	683	683	683	683
Other	168	327	294	273	328	433
Current liabilities	107	199	232	219	241	282
Net current assets	534	836	991	843	843	959
Mis. exp. not written off	0	0	83	83	83	83
Total assets	1,637	2,278	2,725	3,207	4,327	5,530

Cash flow statement (Standalone)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	166	221	271	329	337	486
Depreciation	33	44	65	71	80	113
Change in working capital	(71)	(246)	(280)	5	(36)	(65)
Less: Other income	(20)	(23)	45	0	0	0
Direct taxes paid	15	30	31	63	67	97
Cash flow from operations	94	(34)	70	342	313	437
(Inc.)/ Dec. in fixed assets	(410)	(289)	(199)	(400)	(1,000)	(1,000)
(Inc.)/ Dec. in investments	(26)	(94)	(77)	(300)	(200)	(200)
(Inc.)/ Dec. in loans and advances						
Other income	20	23	6	0	0	0
Cash flow from investing	(417)	(359)	(270)	(700)	(1,200)	(1,200)
Issue of equity	44	380	40	96	85	-
Inc./(Dec.) in loans	138	94	133	150	800	850
Dividend paid	23.5	-	28.4	28.1	30.6	35.1
Others	-	-	69	-	-	-
Cash flow from financing	158	475	75	218	855	815
Inc./(Dec.) in cash	(165)	81	(125)	(140)	(32)	51
Opening cash bal.	454	290	371	246	106	74
Closing cash bal.	290	371	246	106	74	125

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	18.3	16.1	10.4	10.7	10.6	7.3
P/CEPS	9.7	10.8	7.7	7.3	8.1	5.7
P/BV	2.9	2.1	1.8	1.5	1.4	1.2
Dividend yield (%)	0.9	1.1	1.1	1.1	1.1	1.1
EV/Sales	3.6	2.5	2.1	2.5	2.8	2.5
EV/EBITDA	13.2	11.5	8.7	8.4	9.3	7.6
EV/Total assets	1.4	1.3	1.2	1.2	1.1	1.0
Per share data (Rs)						
EPS (Basic)	39.4	43.0	47.4	53.1	48.0	64.8
EPS (fully diluted)	25.9	29.4	45.4	44.3	44.9	64.8
Cash EPS	48.9	43.9	61.9	64.5	58.2	83.5
DPS	4.5	5.0	5.0	5.0	5.0	5.0
Book value	166.3	226.8	268.2	309.5	338.9	397.8
DuPont analysis						
EBIT margin	22.1	17.9	20.0	25.2	25.2	27.2
Tax retention ratio (%)	81.1	75.6	79.7	80.9	80.0	80.0
Asset turnover (x)	0.6	0.7	0.7	0.5	0.5	0.5
RoC (Post-tax)	10.3	9.6	11.2	10.8	9.6	10.4
Cost of debt (post tax)	2.2	2.5	4.6	4.3	4.9	4.5
Leverage (x)	1.2	0.6	0.8	0.8	1.0	1.2
Operating RoE	19.8	13.8	16.3	15.9	14.2	17.2
Returns (%)						
RoCE (Pre-tax)	9.5	10.6	12.4	12.6	11.7	12.7
Angel RoC (pre-tax)	16.8	15.8	16.2	15.5	15.2	14.8
RoE	27.5	20.0	18.2	18.3	14.8	17.6
Turnover ratios (x)						
Asset turnover (gross block)	0.9	1.1	1.2	1.0	1.0	0.8
Inventory (days)	135	145	80	80	80	80
Receivables (days)	26	33	26	26	26	26
Payables (days)	52	43	50	50	50	50
WC cycle (days)	65	58	49	41	38	37
Solvency ratios (x)						
Net debt to equity	1.2	0.6	0.8	0.8	1.0	1.2
Net debt to EBITDA	3.8	2.5	2.6	2.8	3.9	3.8
Interest coverage	-	12.7	4.4	5.6	3.9	4.3

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Monnet Ispat & Energy

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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