

25th November, 2010

Issue Details

Offer Price Band	Rs. 340-375*
Face Value	10
Shares Offered	3,36,00,000
Employee Reserved Portion	6,72,000
Net Issue to the Public	3,29,28,000
Type	Offer for sale
Promoters	President of India
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	26 th Nov, 2010
Offer Close Date	01 st Dec, 2010

Website: www.moil.nic.in

* 5% discount to retail & employees to the offer price adjusted at the time of allotment

Scrip Estimates

Market Cap (Rs Crores)	5712-6300
EPS – FY11E (Rs)	39.4
P/E(x) – FY11E (fully diluted)	8.6-9.5
Market Cap/Sales(x) FY11E	4.5-5.0

Share Holding Pattern (%)	Pre Offer	Post Offer
President of India	100	80
Public & others	Nil	20

Financials (Rs Crores)	FY09	FY10	H1FY11
Sales	1293.3	969.4	635.0
Expenditure	373.6	367.3	188.3
EBITDA	919.7	602.1	446.7
EBITDA (%)	71.1	62.1	70.4
PAT	663.8	466.3	330.7
Equity	28.0	168.0	168.0
EPS (Rs)	39.5	27.8	39.4#

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

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A “Mini-Ratna” company, Manganese Ore India Ltd. (MOIL), is the largest producer of manganese ore by volume in India and is one of the largest in the world. Its manganese ore production has increased from 864,890 ton in FY06 to 1,093,363 ton in FY10. They currently operate 7 underground mines (Kandri, Munsar, Beldongri, Gumgaon, Chikla, Balaghat and Ukwa mines) 3 opencast mines (Dongri Buzurg, Sitapatore/Sukli, and Tirodi).

Investment Rationale

- **Largest producer of manganese ore in India with access to significant reserves:** MOIL has over four decades of experience in manganese ore mining operations. It has access to 21.7 mn ton of proved and probable reserves and a total of 69.5 mn ton of measured, indicated and inferred mineral resources of manganese ore. 55% of its proved and probable manganese ore reserves, as of October 1, 2010, have average manganese content of 40% or higher.
- It enjoys a near monopoly with a dominant 50% share in the domestic manganese production and is also one of the **lowest cost producers** of manganese ore in the world.
- **Well positioned to capture the growth potential of the Indian steel industry:** Demand for manganese ore and Ferro alloys has increased considerably due to the increase in the production of steel. The Indian steel industry has continued to advance on a growth trajectory and it is anticipated that by FY11-12, the crude steel production capacity in India will be nearly 124 mn ton (Source: Ministry of Steel, Annual Report 2009-2010).
- **Healthy financials:** It is completely debt free and has a healthy balance sheet with strong cash flows. As on H1FY11, its cash balance stood at Rs 1762.8 cr, which is ~ Rs 105/share. Its revenue and PAT have grown at a CAGR of 31% and 42% respectively over FY06-10. Operating and PAT margin as of H1FY11 stands at impressive 70.4% and 52.1% respectively.
- They intend to **expand their value added production capacity** and have entered into joint ventures SAIL and Rashtriya Ispat Nigam Limited to set up ferro alloy plants in Chhattisgarh and Andhra Pradesh, respectively, which are collectively expected to produce ferro manganese (with a proposed installed capacity of 51,000 TPA) and silico manganese (with a proposed installed capacity of 112,500 TPA).
- The products are sold through their sales and marketing division to their customers primarily pursuant to **quarterly sales contracts**. All of their production is sold in the domestic market due to the large demand from the Indian manufacturers.
- Their **key customers include Maharashtra Elektros melt Limited and Bhilai Steel Plant** are a subsidiary and a division of SAIL respectively and which together accounted for 22.1% of their manganese ore sales in FY10. Top ten customers represented approximately 51.5% of their sales of manganese ore for FY10.

Valuation and Investment Argument: At the offer price bands, the issue is quoting at a P/E of 8.6-9.5 its annualized H1FY11 earnings. Robust demand for manganese ore resulting from healthy growth in the domestic steel production gives clear and sustainable revenue visibility. Being the largest and lowest cost producer of manganese ore in India along with its low cost competitive advantage puts the Company in a sweet spot. Robust cash flows, debt free status and high return ratios makes the issue attractive. We thus recommend a **SUBSCRIBE** for the issue for a longer term perspective.

Financials

(YE March 31) Rs crores	FY08	FY09	FY10	H1FY11
Net Sales	977.5	1293.3	969.4	635.0
Ore raising & operating expenses	178.3	288.1	25552.3	125.8
Total Expenditure	273.2	373.6	367.3	188.3
EBIDTA	704.3	919.7	602.1	446.7
Depreciation	16.1	24.7	25.3	13.3
Interest	0	0	0	0
PBT	734.9	1006.8	706.8	494.8
PAT	479.8	663.8	466.3	330.7
Equity Paid Up	28.0	28.0	168.0	168.0
EPS (Rs)*	28.6	39.5	27.8	39.4#
EBIDTA (%)	72.1	71.1	62.1	70.4
PBT (%)	75.2	77.9	72.9	77.9
PAT (%)	49.1	51.3	48.1	52.1
Capital Employed	803.1	133.9	1689.5	2019.0
Gross Block	302.5	342.0	357.0	380.2
Networth	786.3	1320.9	1676.7	2008.2
Book Value*	46.8	78.6	99.8	119.5
Dividend (%)*	40.8	79.2	56.0	-
Debt: Equity (times)	-	-	-	-
RoCE (%)	91.5	214.9	77.5	53.4#
RoNW (%)	61.0	63.0	31.1	35.8#

annualized

* based on equity capital of Rs 168 cr

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