MOIL Ltd

Reading the leaves: Mn ore price recovery?

Overweight

MOIL.BO, MOIL IN

Price: Rs298.85

▼ **Price Target: Rs410.00**
Previous: Rs450.00

Investor concerns about MOIL given the steep price correction in global manganese ore (down 60% from Aug-10 peak) and threat from cheaper imports has led to the decline in share price. Weak domestic steel demand (4.5%/7% in FY12E/FY13E, in our view) could keep volumes muted in the near term. We are cutting our EPS by 30%/27% in FY12E/13E as we assume a 22% lower realizations y/y in FY12E (vs. -10% previously) given a slower than expected improvement in Mn ore market and possible pricing recovery likely in 2012 (flat prices in 3QFY12E and modest improvement in 4QFY12E).

- **Waiting for Mn ore price recovery:** Global miners have kept Mn ore prices unchanged over the last 4-5 months stabilizing at $5.4/dmtu. Inventories at Chinese ports have steadily declined from the peak of 4MT in May to ~3.5MT as inquiries have increased recently. Chinese domestic ferro-alloy market has shown an upward trend with prices of FeMn up ~10% since July. However, lower production due to power restriction in Southern China has led to lower import offers in this sub region. On supply side, the current price levels have reduced production from higher cost mines (smaller Australian and South African mines have avg cash cost of $5-5.5/dmtu).

- **Volume- Late steel cycle play:** Sales volume in 1QFY12 was impacted by price differential between domestic and imported ore. In our view, the weak end market demand could keep volumes muted in the near-term despite prices at par with imported Mn ore. We expect steel demand growth to remain anemic (YTD +1.3% y/y) and given the exiting inventory, expect flat volumes y/y in FY12E (1HFY12 volumes likely -10%y/y).

- **Mn ore price recovery - A key catalyst:** The stock has declined ~20% since mid-Jul and at 3.7x FY13E EV/EBITDA, we believe MOIL remains attractive given its low cost of production and a robust balance sheet (FY11 net cash ~40% of Mcap). We see upside in MOIL from two key catalysts: a) signs of Mn ore price increase (1% change in Mn ore realization impacts EBITDA by 1.4%) and b) improvement steel demand and therefore, MOIL's offtakes. Key risks are slow recovery in Chinese demand and delay in improvement of Mn ore prices; and lower volume trend in a weak domestic steel environment.

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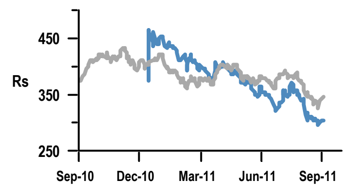
Price Performance



— MOIL.BO share price (Rs)
— BSE30 (rebased)

	YTD	1m	3m	12m
Abs	-33.2%	-10.2%	-15.2%	-19.1%
Rel	-15.0%	-3.1%	-6.2%	-11.3%

MOIL Ltd (Reuters: MOIL.BO, Bloomberg: MOIL IN)

Rs in mn, year-end Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Net Sales (Rs mn)	9,734	11,498	8,976	10,531	-
Net Profit (Rs mn)	4,663.5	5,880.6	4,552.7	5,437.5	-
EPS (Rs)	27.76	35.00	27.10	32.37	-
Net profit growth (%)	-29.8%	26.1%	-22.6%	19.4%	-
ROE	31.1%	30.9%	19.8%	20.3%	-
P/E (x)	10.8	8.5	11.0	9.2	-
P/BV (x)	3.0	2.4	2.0	1.7	-
EV/EBITDA (x)	5.8	4.0	5.1	3.7	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
52-week Range (Rs)	591.05 - 294.10
Market cap (Rs mn)	50,207
Market cap ($ mn)	1,063
Price (Rs)	298.85
Date Of Price	13-Sep-11
3-mth trading volume (mn)	-
3-mth trading value ($ mn)	-
Shares O/S (mn)	168
BSE30	16,502

See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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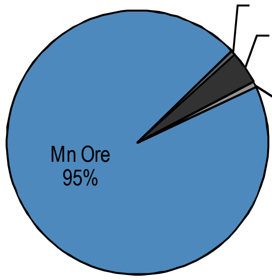
Company description

MOIL is India's largest producer of manganese ore (5th largest globally), accounting for 50% of India's total production volume and producing solely for the domestic market. MOIL is also one of the lowest cost producers of Mn ore in the world. MOIL has reserves of 22MT (accounting for 16% of India's manganese reserves) with the average mine life of reserves at ~20 years (based on current production). The reserves of the company have an average Mn grade of 37% with some mines having Mn content of ~40-42%.

Figure 1: MOIL- Revenue Break up [FY11]



Source: Company reports.

Table 2: EPS estimates—J.P. Morgan vs. consensus

Rs	J.P. Morgan	Consensus
FY12E	27.1	30.9
FY13E	32.4	34.1

Source: Bloomberg, J.P. Morgan estimates.

Table 1: MOIL—P&L sensitivity metrics

FY12E	EBITDA impact (%)	EPS impact (%)
Mn ore volume growth		
Impact of each 1%	+/-1.0%	+/-0.9%
Mn ore prices		
Impact of each 1%	+/-1.4%	+/-1.3%
Employee cost/MT		
Impact of each 5%	+/-0.2%	+/-0.2%

Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Sep-12 PT of Rs410 (Rs450 previously) is based on 6.5x FY13E EV/EBITDA given the trough Mn ore pricing environment. This is at a premium to the global mining peers (those with Mn ore exposure) given its low cost of production, robust balance sheet and domestic market focus. Key risks are slow recovery in Chinese demand delaying improvement in Mn ore prices and lower volume trend in a weak domestic steel environment. The potential changes in the mining law in India could also impact mining companies across the board.

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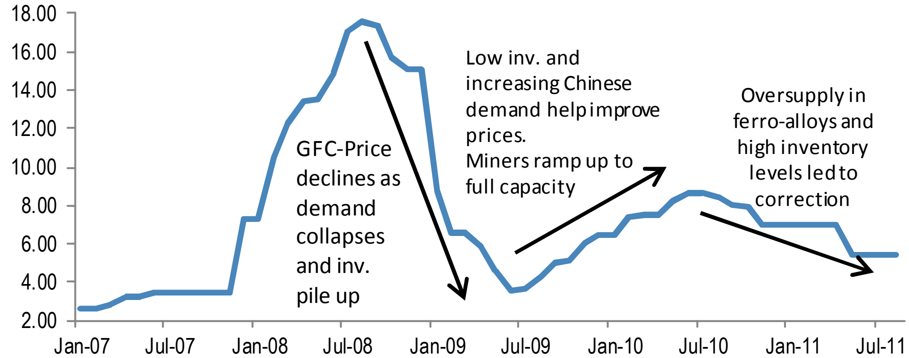
Tracking Mn ore pricing trends

Price recovery in Mn ore from 2HCY09 post the GFC (prices had bottomed at \$3.5/dmtu in Jun-09, peaking at \$8.63/dtmu in Aug-09) through 2010, led to manganese ore production increasing back to full capacity and stock piling at the producers and end-users (primarily Chinese ports). The oversupply situation (especially in Mn ferro-alloys) and the lagged supply response from miners restarted the price correction in Mn ore in 2HCY10. Chinese turned net importers of Mn ferro-alloys, despite the large overcapacity in the country, given the cheaper imports due to oversupply in the global market. Prices declined sharply over 1HCY11 bottoming at \$5.4/dmtu in May-11 (down 60% from Aug-10 levels). Inventories at Chinese ports increased from ~2MT in early-2010 to 4MT in May-11.

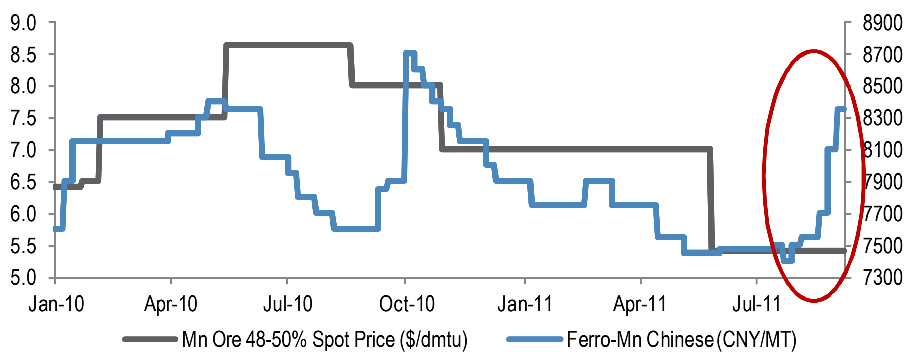
Figure 2: Mn ore pricing cycles: The tops and bottoms



Source: Bloomberg.

Global miners have maintained stable prices over the last 4-5 months. Port inventories at China have started to reduce and have come to 3.5MT levels from the peak of 4MT seen in May. There has also been a visible improvement in activity level among the Chinese traders and ferro-alloy manufacturers. Supplies from the small mines in Australia and even South Africa would also decline post the sharp price correction given the higher cash cost (\$5-5.5/dmtu, in our view) of the mines.

Figure 3: Ferro-alloy and Mn ore prices: Pointing to an improving trend

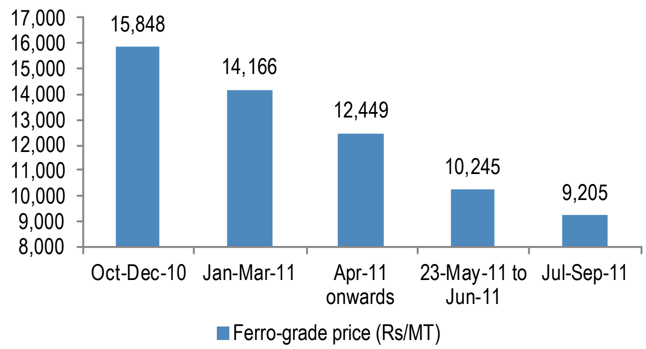


Source: Metal Bulletin.

Realization improvement likely in 2012

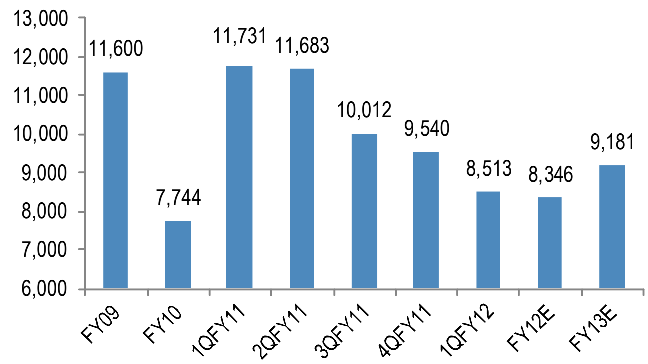
While the Mn ore price correction has been steep, the mix shift in its ore basket has helped offset some of the decline seen in base prices. MOIL's average realizations for manganese ore declined ~18% from 3QFY11 to 1QFY12 vs. the 35% correction in ferro grade prices. Further, the loss of volume over the 1HCY11 due to cheaper imports has hurt sales for MOIL. However, with the recent pricing action by the company, domestic prices are nearly at par with import prices. Some differential in prices in regions is primarily due to domestic freight (e.g Durgapur is marginally higher). We are assuming a price decline of 23% in FY12 (vs. -10% previously) as we account for the 5% realization decline sequentially in 2QFY12E and assume fairly flat prices in 3QFY12E followed by a modest increase in 4QFY12E. We expect 10% increase in realizations in FY13E.

Figure 4: MOIL's Ferro-Grade Mn ore prices (Rs/MT)



Source: Company reports.

Figure 5: MOIL Realizations Improvement likely in FY13 only



Source: Company reports and J.P. Morgan estimates.

Watching the domestic demand

While concerns on realizations is more than factored in the prices and the market is waiting for rebound in prices, we would watch the domestic steel market more closely for MOIL's near-term sales volume growth. Despite the 10% increase in steel production YTD, consumption has been soft up merely 1.3% y/y. We expect steel consumption to improve post the seasonally slow monsoon period however the inventory in the system (both in steel and in Mn ore) should keep volume growth muted for MOIL over the near-term. We expect sales volume to decline ~10% y/y in the 1HFY12 (reported 19% decline in 1QFY12) and then improve in the 2HFY12 (+18% in 2HFY12 vs. 1HFY12).

Valuations

We cut our EPS estimates by 30%/27% for FY12/FY13E and cut our Sep-12 PT to Rs410 (from Rs450 previously). The PT is based on 6.5x FY13E EV/EBITDA given the trough Mn ore pricing environment. The multiple is at a premium to the global mining peers (those with Mn ore exposure) given its low cost of production, robust balance sheet and domestic market focus. Key risks are slow recovery in Chinese demand delaying improvement in Mn ore prices, and restart of the marginal producers. The potential changes in the mining law in India could also impact mining companies across the board.

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Table 3: Peer Group Valuation – Companies with Manganese Operations

	Rating	CMP LC	Mkt Cap $Mn	P/E 2011/FY12	P/E 2012/FY13	EV/EBITDA 2011/FY12	EV/EBITDA 2012/FY13	P/BV 2011/FY12	P/BV 2012/FY13
OM Holding	NR	0.695	360	38.6	7.6	12.1	4.2	1.2	1.1
Eramet	NR	125.1	4,517	10.9	8.7	2.3	2.2	1.0	0.9
Vale	OW	26.65	86,792	5.2	5.4	2.6	2.3	1.5	1.2
ENRC	UW	613	12,457	5.8	5.4	3.7	3.5	-	-
Citic Dameng	NR	1	465	7.3	4.7	4.9	4.2	1.0	0.8
BHP Billiton	OW	1,895	166,502	6.8	5.8	4.8	4.1	-	-
MOIL	**OW**	**298**	**1,055**	**11.0**	**9.2**	**5.1**	**3.7**	**2.0**	**1.7**

Source: Bloomberg, Company reports and J.P. Morgan estimates. NR=Not rated. Bloomberg consensus estimates used for NR companies.

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JPM Q-Profile

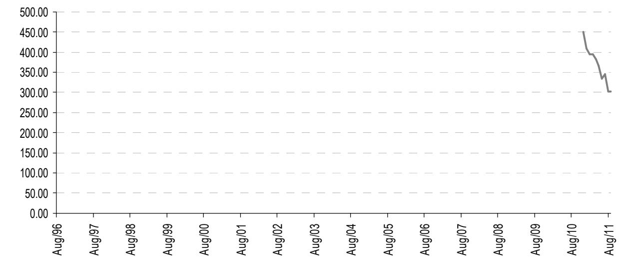
MOIL Ltd. (INDIA / Materials)

As Of: 07-Sep-2011

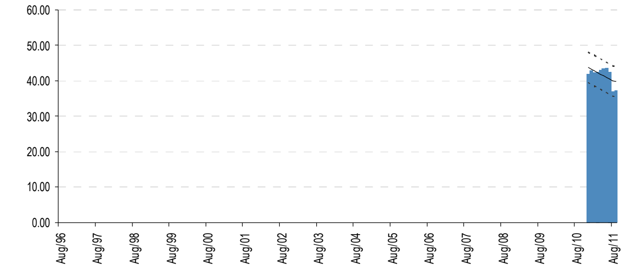
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

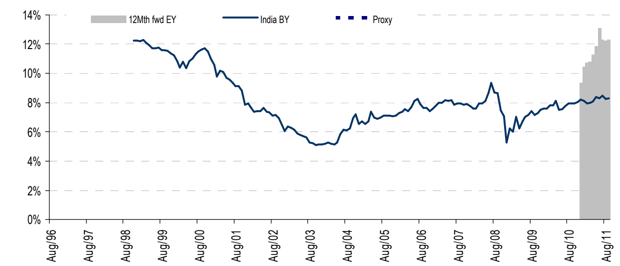
Local Share Price Current: **302.70**



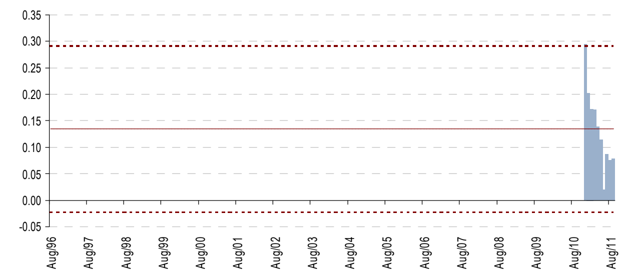
12 Mth Forward EPS Current: **37.17**



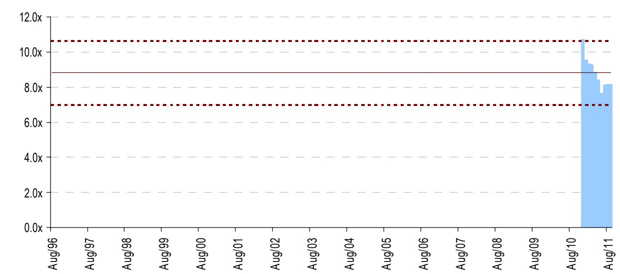
Earnings Yield (& local bond Yield) Current: **12%**



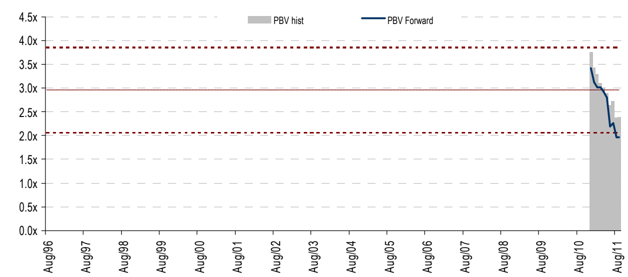
Implied Value Of Growth* Current: **7.78%**



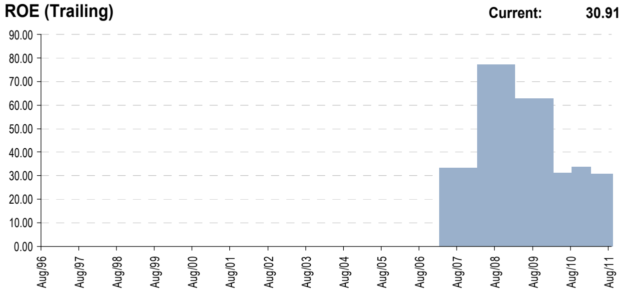
PE (1Yr Forward) Current: **8.2x**



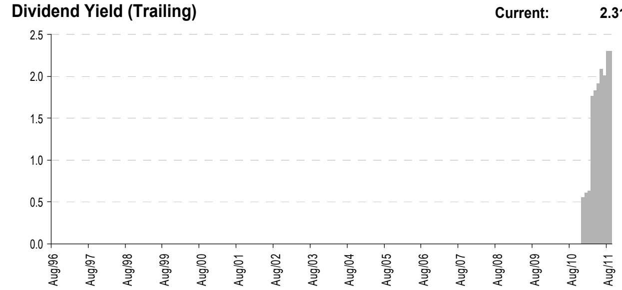
Price/Book Value Current: **2.4x**



ROE (Trailing) Current: **30.91**



Dividend Yield (Trailing) Current: **2.31**



Summary

MOIL Ltd.								**As Of:**			7-Sep-11
INDIA	**SEDOL**	**B4NRBT1**						**Local Price:**			302.70
Materials								**EPS:**			37.17
	Latest	**Min**	**Max**	**Median**	**Average**	**2 S.D.+**	**2 S.D. -**	**% to Min**	**% to Max**	**% to Med**	**% to Avg**
12mth Forward PE	**8.15x**	7.66	10.72	8.66	8.83	10.65	7.01	-6%	31%	6%	8%
P/BV (Trailing)	**2.39x**	2.38	3.76	2.95	2.97	3.87	2.06	0%	57%	23%	24%
Dividend Yield (Trailing)	**2.31**	0.56	2.31	1.87	1.60	3.04	0.17	-76%	0%	-19%	-30%
ROE (Trailing)	**30.91**	30.91	77.42	33.78	48.90	87.99	9.82	0%	150%	9%	58%
Implied Value of Growth	**7.8%**	0.02	0.29	0.13	0.14	0.29	-0.02	-74%	278%	62%	74%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs ** Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity =Bond Yield + 5.0% (ERP)*

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MOIL Ltd: Summary of Financials

Income Statement

Rs in millions, year end Mar	FY11	FY12E	FY13E	FY14E
Revenues	11,498	8,976	10,531	-
% change Y/Y	18.1%	(21.9%)	17.3%	-
EBITDA	7,773	5,442	6,593	-
% change Y/Y	28.2%	-30.0%	21.1%	-
EBITDA Margin	67.6%	60.6%	62.6%	-
EBIT	7,448	5,045	6,116	-
% change Y/Y	28.2%	NM	21.2%	-
EBIT Margin	64.8%	56.2%	58.1%	-
Net Interest	1,354	1,750	2,000	-
Earnings before tax	8,802	6,795	8,116	-
% change Y/Y	24.5%	-22.8%	19.4%	-
Tax	2,921	2,242	2,678	-
as % of EBT	33.2%	33.0%	33.0%	-
Net Income (Pre exceptionals)	5,880.6	4,552.7	5,437.5	-
% change Y/Y	26.1%	-22.6%	19.4%	-
Shares outstanding	168	168	168	-
EPS (reported)	35.00	27.10	32.37	-
% change Y/Y	26.1%	(22.6%)	19.4%	-

Cash flow statement

Rs in millions, year end Mar	FY11	FY12E	FY13E	FY14E
Net Income (Pre exceptionals)	5,880.6	4,552.7	5,437.5	-
Depr. & amortization	325	397	477	-
Change in working capital	-296	622	53	-
Cash flow from operations	5,909	5,572	5,968	-
Net Capex	-486	-1,062	-1,100	-
Free cash flow	5,424	4,510	4,868	-
Equity raised/(repaid)	7	0	0	-
Debt raised/(repaid)	0	0	0	-
Other	0	0	0	-
Dividends paid	-1,371	-1,065	-1,272	-
Beginning cash	14,871	18,797	22,241	-
Ending cash	18,797	22,241	25,836	-
DPS	8.16	6.34	7.57	-

Balance sheet

Rs in millions, year end Mar	FY11	FY12E	FY13E	FY14E
Cash and cash equivalents	18,797	22,241	25,836	-
Accounts receivable	680	600	704	-
Inventories	974	561	635	-
Others	1,592	1,592	1,592	-
Current assets	22,042	24,994	28,766	-
LT investments	22	22	22	-
Net fixed assets	2,348	3,013	3,635	-
Total Assets	24,412	28,028	32,424	-
Liabilities				
Short-term loans	0	0	0	-
Payables	258	203	226	-
Others	2,856	3,040	3,247	-
Total current liabilities	3,114	3,243	3,473	-
Long-term debt	0	0	0	-
Other liabilities	15	15	15	-
Total Liabilities	3,129	3,258	3,488	-
Shareholders' equity	21,283	24,770	28,935	-
BVPS	126.68	147.44	172.23	-

Ratio Analysis

Rs in millions, year end Mar	FY11	FY12E	FY13E	FY14E
EBITDA margin	67.6%	60.6%	62.6%	-
Operating margin	64.8%	56.2%	58.1%	-
Net margin	51.1%	50.7%	51.6%	-
Sales growth	18.1%	(21.9%)	17.3%	-
Net profit growth	26.1%	-22.6%	19.4%	-
EPS growth	26.1%	(22.6%)	19.4%	-
Interest coverage (x)	-	-	-	-
Net debt to total capital	-98.8%	-96.6%	-96.2%	-
Net debt to equity	-88.3%	-89.8%	-89.3%	-
Sales/assets	0.52	0.34	0.35	-
Assets/equity	1.15	1.13	1.12	-
ROE	30.9%	19.8%	20.3%	-
ROCE	39.2%	21.9%	22.8%	-

Source: Company reports and J.P. Morgan estimates.

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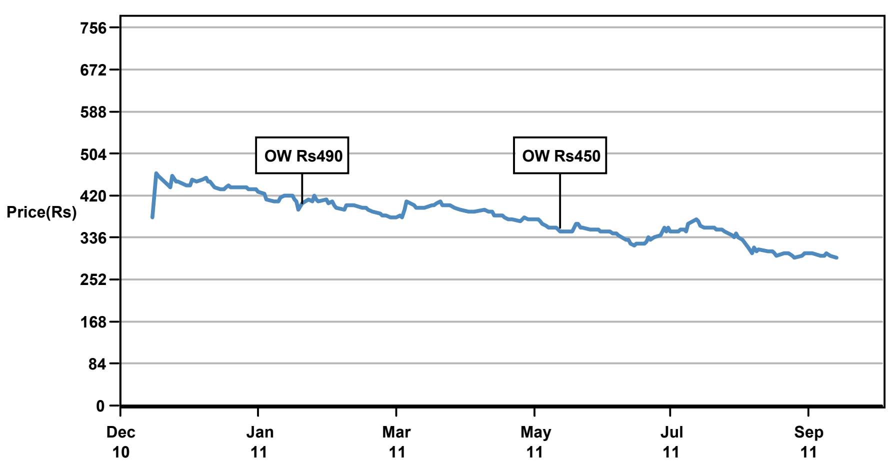
MOIL Ltd (MOIL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Feb-11	OW	405.05	490.00
25-May-11	OW	354.85	450.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Feb 11, 2011.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N= Neutral, UW = Underweight

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:
J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] The analyst or analyst's team's coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: Manpuria, Neha: MOIL Ltd (MOIL.BO)

J.P. Morgan Equity Research Ratings Distribution, as of June 30, 2011

	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	50%	46%	32%
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IB clients*	70%	64%	52%

*Percentage of investment banking clients in each rating category.
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