

May 11, 2010

Rating	Accumulate
Price	Rs414
Target Price	Rs672
Implied Upside	62.4%
Sensex	17,142

(Prices as on May 11, 2010)

Trading Data

Market Cap. (Rs bn)	23.5
Shares o/s (m)	57.0
Free Float	55.69%
3M Avg. Daily Vol ('000)	189.0
3M Avg. Daily Value (Rs m)	79.8

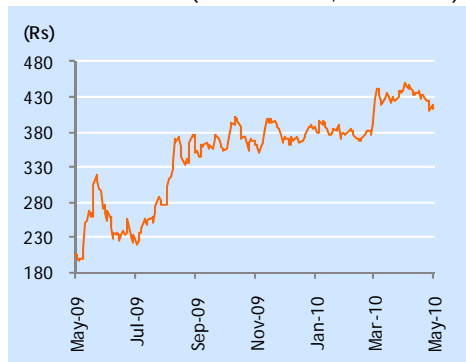
Major Shareholders

Promoters	44.31%
Foreign	31.74%
Domestic Inst.	7.21%
Public & Others	16.74%

Stock Performance

(%)	1M	6M	12M
Absolute	(8.1)	15.5	102.7
Relative	(3.6)	13.8	56.0

Price Performance (RIC: MNET.BO, BB: MISP IN)



Source: Bloomberg

■ **Results in line with expectation:** Monnet Ispat (Monnet) reported PAT of Rs725m below our expectation of Rs837m, primarily on account of lower-than-expected tax rate (Actual 23% v/s expected 17%). Net sales grew by 18.4% YoY to Rs.4.38bn on the back of strong volume growth in the sponge iron business. EBITDA grew by 63% to Rs1.28bn, in line with our expectation of Rs1.31bn.

■ **Pressure on power front:** Monnet's revenue from the steel business (Sponge iron and steel) increased by 33% on the back of 24% volume growth and 7% rise in realization. Benefited by the increased availability of power, coupled with reduced steel production and excess power capacity, power volumes increased by 28% to 222m units. However, the realisations in the power business declined sharply by 25% YoY (12% QoQ) to Rs4.3 per unit.

■ **Expansion of steel capacity and IPP of 1050MW on track:** Company's 1.4mtpa steel expansion is progressing as per the schedule with progressive commissioning commencing from Q1FY12 and integrated commissioning by Q3FY12. Company's 1050MW (2*525MW) IPP under 100% owned subsidiary, Monnet Power, is likely to get fully commissioned by Q3FY13 end along with the allotted captive Mandakini coal mines.

■ **Valuation:** At CMP, stock trades at P/E of 8.0x and 5.7x FY11E and FY12E, respectively, while on EV/EBITDA, it trades at 8.6x and 5.6x FY11E and FY12E, respectively. We value the steel business at Rs434 based on P/E of 6x on FY12E earnings, while its 100% owned power venture (1050MW) is valued at Rs238 per share after incorporating discount of 60% to the valued derived through DCF approach. This provides an upside of 62% from the current levels. We reiterate 'Accumulate' on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	15,487	14,807	16,675	26,393
Growth (%)	33.6	(4.4)	19.9	58.3
EBITDA (Rs m)	3,747	4,450	4,873	8,807
PAT (Rs m)	2,317	2,660	2,955	4,122
EPS (Rs)	45.0	46.7	51.9	72.4
Growth (%)	33.4	3.7	28.2	39.5
Net DPS (Rs)	5.0	-	6.0	7.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	24.2	30.1	29.2	33.4
RoE (%)	19.5	16.2	16.8	19.3
RoCE (%)	11.5	10.1	10.1	13.6
EV / sales (x)	2.0	2.6	2.5	1.9
EV / EBITDA (x)	8.1	9.0	8.6	5.6
PE (x)	9.2	8.9	8.0	5.7
P / BV (x)	1.6	1.5	1.2	1.0
Net dividend yield (%)	1.2	0.0	1.5	1.7

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	4,384	3,701	18.4	3,722	14,807	15,487	(4.4)
Raw Material	2,486	2,349	5.8	2,018	7,952	9,604	(17.2)
<i>% of Net Sales</i>	<i>56.7</i>	<i>63.5</i>		<i>54.2</i>	<i>53.7</i>	<i>62.0</i>	
Staff Costs	197	158	24.6	183	729	608	19.9
<i>% of Net Sales</i>	<i>4.5</i>	<i>4.3</i>		<i>4.9</i>	<i>4.9</i>	<i>3.9</i>	
Power & Fuel	97	86	13.4	77	352	435	(19.0)
<i>% of Net Sales</i>	<i>2.2</i>	<i>2.3</i>		<i>2.1</i>	<i>2.4</i>	<i>2.8</i>	
Other Expenses	320	322	(0.3)	318	1,323	1,168	13.3
<i>% of Net Sales</i>	<i>7.3</i>	<i>8.7</i>		<i>8.6</i>	<i>8.9</i>	<i>7.5</i>	
Total Expenditure	3,100	2,914	6.4	2,597	10,357	11,815	(12.3)
EBITDA	1,284	787	63.1	1,125	4,450	3,672	21.2
<i>Margin (%)</i>	<i>29.3</i>	<i>21.3</i>		<i>30.2</i>	<i>30.1</i>	<i>23.7</i>	
Depreciation	178	175	1.8	181	713	653	9.1
Other income	12	301	(96.1)	51	215	349	(38.5)
EBIT	1,117	913	22.4	995	3,952	3,369	17.3
Interest	175	200	(12.3)	160	666	662	0.6
PBT	942	713	32.1	835	3,287	2,707	21.4
Tax	217	212	2.8	155	627	547	14.5
<i>% PBT</i>	<i>23.1</i>	<i>29.7</i>		<i>18.5</i>	<i>19.1</i>	<i>20.2</i>	
Reported PAT	725	502	44.4	680	2,660	2,160	23.2
Adjusted PAT	725	502	44.4	680	2,660	2,160	23.2

Operating Parameters

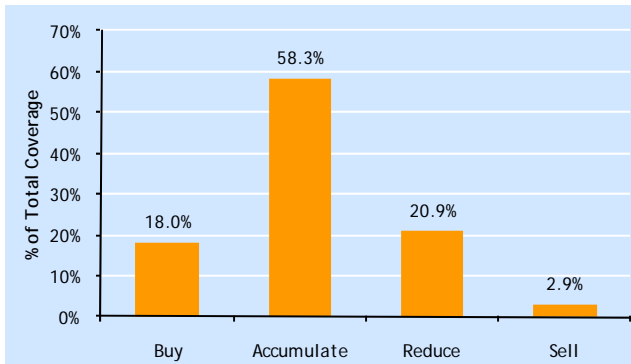
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Sales volume							
Sponge iron (Tonnes)	164,291	116,839	40.6	140,271	572,689	456,292	25.5
Steel (Tonnes)	28,479	38,194	(25.4)	27,054	111,410	130,852	(14.9)
Power (m Kwh)	222	174	27.7	242	852	454	87.9
Realisation							
Sponge iron (Rs/Tonne)	15,720	13,406	17.3	13,366	13,467	17,144	(21.4)
Steel (Rs/Tonne)	25,784	24,512	5.2	24,304	24,310	28,187	(13.8)
Power (Rs/unit)	4.3	5.7	(24.7)	4.9	4.8	5.5	(12.5)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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