MOIL Limited

Ferrous — Manganese Ore

Initiating Coverage

Accumulate

MOIL.IN, MOIL.BO

CMP: ₹252

Price Target: ₹295

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ULJK Financial Services Private Limited

Mn Ore Prices Bottomed; Reasonable Valuation; Initiating with Accumulate

We initiate coverage on MOIL Limited (MOIL) with Accumulate rating and 12 month target price of ₹295, implying ~17% upside potential from current levels. Our Accumulate rating on the stock is based on reasonable valuation, bottoming of manganese ore (Mn) prices and strong asset base *(mining and financial assets)*.

Investment Rationale

Current Valuation Fully Discounts Near Term Concerns: MOIL's stock price declined ~45% since its IPO in December 2010 *(underperforming Nifty by ~32%)* due to weak manganese ore demand outlook and uncertain domestic regulatory environment. Based on our conservative stand on the company's near term outlook *(both on pricing and volume front)*, we believe the decline in the stock price is overdone. Our estimate suggest that company's current stock price reflects ~3% and 32% y-o-y decline in FY12 sales volume and realisation respectively. This is significantly lower than the company's FY12 guidance of 20% growth in sales volume and ~25% decline in pricing.

Expanding Capacity in High Grade Mine: MOIL plans to increase its ore production capacity to 1.5 million ton by FY16 from 1.1 million ton in FY11, representing a 5.4% CAGR. Majority of the expansion is expected to come from its high quality *(average ore grade of +40%)*, low cost Dongri Buzurg and Balaghat mines. Based on the expansion plan, we expect MOIL's earnings and profit margin to improve from FY13.

Strong Assets Base: MOIL has ~22 million tons of ore reserves with an average ore grade of ~38%, representing mine life of ~20 years at current production rate. The company also owns ~69 million tons of mineral resources, which will extend the mine life way beyond 16 years. Considering the high quality mineral reserves, we expect MOIL to generate an attractive EBITDA margins of ~55% in FY12-14, despite low Mn ore prices. MOIL is a cash rich company having ~₹20,000 million worth of liquid assets at the end of Q1 FY12, providing opportunity for inorganic growth.

Outlook & Valuation: We expect MOIL to report weak earnings in FY12 due to declining ore pricing. However, we estimate its earnings to grow at a robust rate of 9.4% CAGR in FY12-15 due to expansion in output from high quality, low cost mines. At CMP of ₹252, MOIL's stock is trading at 3.6x FY13 EBITDA estimate, which looks reasonable considering its quality mining assets and excellent balance sheet position. Despite weak market condition, the company is expected to generate attractive RoCE of~27%. We initiate the coverage on MOIL with a Accumulate rating with a price target of ₹295.

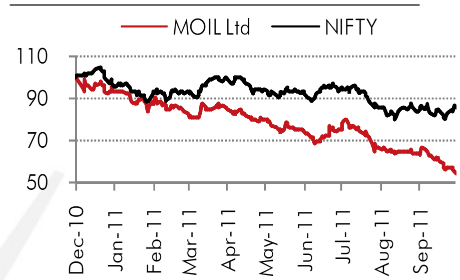
Market Data

Market Cap. (₹ Mn)	42,380
Outstanding Shares (Mn)	168
52 Week High/Low (₹)	591/245
Avg. Volume	66,641
Face Value	10

Shareholding

Promoter	80.00
MF/ Banks/ Indian Fis	2.74
FII/ NRIs/ OCB	4.15
Indian Public/ Others	13.11

Nifty and Stock Movement



Financial Performance

Particulars (₹ Million)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	12,933	9,694	11,400	8,885	9,484
Growth (Y-o-Y)	*32.3%*	*-25.0%*	*17.6%*	*-22.1%*	*6.7%*
EBITDA	9,197	6,022	7,674	5,073	5,176
EBIDTA Margins (%)	*71.1%*	*62.1%*	*67.3%*	*57.1%*	*54.6%*
PAT	6,638	4,663	5,881	4,365	4,644
PAT Margins (%)	*51.3%*	*48.1%*	*51.6%*	*49.1%*	*49.0%*
EPS	39.5	27.8	35.0	26.0	27.6
P/E (x)	6.4	9.1	7.2	9.7	9.1
EV/EBIDTA (x)	2.6	3.9	3.1	4.1	3.6

Source: Company, ULJK Research

Please refer to the important disclosures and analyst certifications at the end of the document

Investment Thesis

Current Valuation Fully Discounts Near Term Concerns: MOIL's stock price declined ~45% since its IPO in December 2010 *(underperforming Nifty by ~32%)* due to weak manganese ore demand outlook and uncertain domestic regulatory environment. Considering our conservative stand on the company's near term outlook *(See Exhibit 1, below)*, we believe the decline in the stock price is overdone.

"MOIL's Stock Price Underperformed Nifty by 32% since its IPO"

Based on MOIL's weak Q1 FY12 results and current soft domestic steel demand, we believe the company's production and sales guidance of 1.2 million tons each for FY12 is aggressive. We estimate the company to report 1.1 million tons of production and 1.0 million tons of sales volume in FY12, which is 5.6% and 15% lower than the company's guidance, respectively. Though we believe that the global manganese ore prices have bottomed out, we do not see any meaningful recovery in the pricing over the next two years due to oversupply scenario in the global market.

"FY12 Production and Sales guidance looks aggressive considering weak demand outlook"

Exhibit 1: MOIL's Guidance Vs ULJK Est.

	MOIL Guidance		ULJK Est.		Variance	
Million Tons	FY12	FY13	FY12	FY13	FY12	FY13
Production	1.2	1.3	1.1	1.2	-5.6%	-8.5%
Sales	1.2	NA	1.0	1.1	-15.0%	NA

Source: Company Reports, ULJK Research

Considering the weak near term demand outlook, we prefer to remain conservative on our earnings and valuation estimate *(See Exhibit 2, below)*. Our earnings estimates are considerably lower than consensus estimate due to our conservative stand on sales volume and average realization.

"MOIL's stock price is trading at 3.5x our FY13 EBITDA estimate"

Exhibit 2: Consensus Est. Vs ULJK Est.

	ULJK Est.		Consensus Est.		Variance	
Amount in ₹ Million	FY12	FY13	FY12	FY13	FY12	FY13
Net Revenue	8,885	9,484	10,558	11,366	-15.8%	-16.6%
EBITDA	5,073	5,176	6,505	7,004	-22.0%	-26.1%
EPS	26.0	27.6	33.4	36.3	-22.3%	-23.9%

Source: Company Reports, ULJK Research

Valuation:

We value MOIL by using discounted cash flow (DCF) method to reflect its long term asset base and accordingly, arrive at a fair value of ₹328. However, considering the current weak pricing environment and regulatory overhang relating to MMDR bill, we believe the stock will trade at a discount to its fair value. Hence, we apply a 10% discount on our fair value to get a 12 month price target of ₹295 on the shares of MOIL. Our 12M price target reflects a 5.0x our FY13 EBITDA estimate, which we believe a reasonable valuation multiple for cash rich company generating attractive RoCE of ~28%.

"Our DCF value on the shares of MOIL is ₹328"

Owns Large Quantity of Mineral Resources:

MOIL is the largest manganese ore producer in India having a market share of ~50% in FY11. The company owns 21.7 million tons of mineral reserves *(2P reserves)* representing a mine life of 20 years at current production rate *(See Exhibit 3, below)*. Its mineral reserves account for 16% of total mineral reserves in India. Additionally, MOIL has ~70 million tons of mineral resources base and active exploration in these property is expected to increase its 2P reserve base going forward. MOIL is also applied for prospecting license for 814 hectares of land in Maharashtra, development of which will further increase to its reserve base.

"Owns ~22 million tons of mineral reserves indicating mine life of 20 years at current production rate "

"MOIL has access to best quality Mn mines in India"

Exhibit 3: Mineral Property Details

		Mining	Type of	Reserves (Mt)				Resources (Mt)			
Mine Name	State	Method	Ore	Grade	Proved	Probable	Total	Measured	Indicated	Inferred	Total
Balaghat	Madhya Pradesh	UG	Oxide	40.0%	6.9	2.1	9.0	12.7	7.1	1.5	21.3
Dongri Buzurg	Maharashtra	OC	Dioxide	42.0%	3.0	0.0	3.0	3.3	7.5	0.2	11.0
Chikla	Maharashtra	UG	Oxide	36.0%	0.5	0.6	1.1	1.2	2.4	0.6	4.2
Tirodi	Madhya Pradesh	OC	Oxide	32.0%	0.1	0.8	0.9	1.2	0.0	0.5	1.7
Kandri	Maharashtra	UG	Oxide	38.0%	0.4	0.0	0.4	0.6	2.7	0.0	3.3
Beldongri	Maharashtra	UG	Oxide	30.0%	0.2	0.0	0.2	0.4	0.1	0.0	0.5
Ukwa	Madhya Pradesh	UG	Oxide	38.0%	1.4	1.4	2.8	4.4	1.4	3.0	8.8
Munsar	Maharashtra	UG	Oxide	32.0%	0.1	1.2	1.3	0.7	2.5	1.5	4.7
Gumgaon	Maharashtra	UG	Oxide	36.0%	1.6	0.0	1.6	2.6	0.6	0.7	3.9
Sitapatore/Sukli	Madhya Pradesh	OC	Oxide	31.0%	0.0	0.0	0.0	0.0	0.2	0.2	0.4
Dumps					1.4	0.0	1.4	9.7	0.0	0.0	9.7
Total				36.0%	15.6	6.1	21.7	36.8	24.5	8.2	69.5

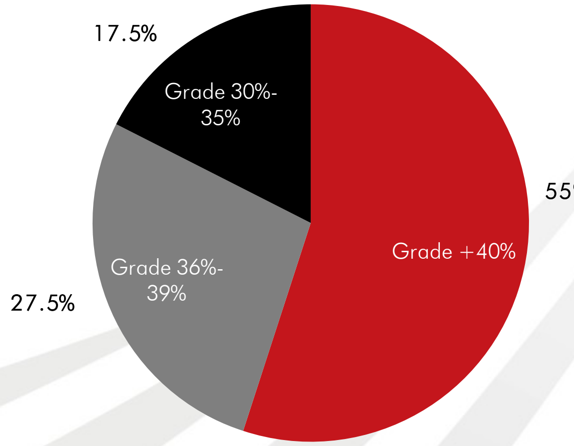
Source: Company Reports, ULJK Research

Majority of 2P Reserve Contains Medium Grade Ore:

MOIL's 55% of 2P reserves contains an average ore grade of +40% followed by ~28% of reserves containing 36-40% ore grade and rest is 30-35% grade ore *(See Chart 1, below)*. Accordingly, the company's majority of the production consist of medium grade ore *(highest grade in India)*, which fetches better realizations thereby resulting in higher profit margins for the company.

"MOIL does not produce low grade ore"

Chart 1: 2P Reserve Grade Mix



Source: Company Reports, ULJK Research

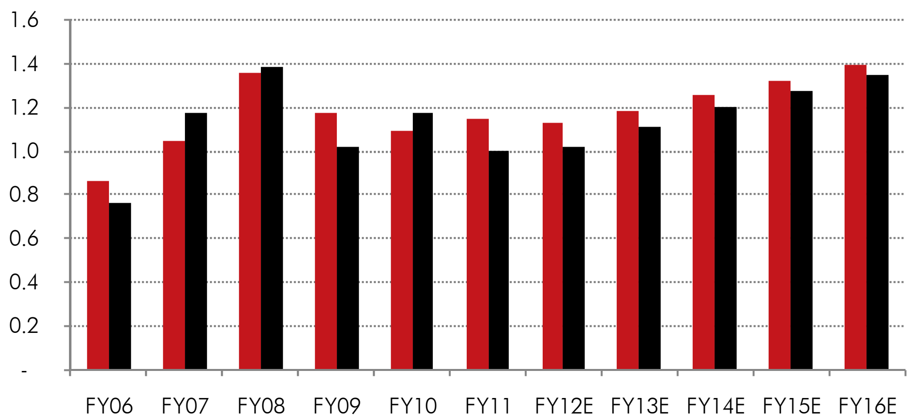
"55% of the total reserves contains an average grade of +40%"

Expanding Ore Production Capacity To Drive Medium Earnings:

MOIL plans to expand its ore production capacity to 1.50 million tons per annum (mtpa) by FY16 with an investment outlay of ~₹7,700 million *(See Chart 2, below)*. The company's 1.50 mtpa production plan is expected to come from the development of existing mine *(brown field expansion)* and already has required environmental approvals. Accordingly, we do not see any regulatory delays in achieving its expansion objective. Since the expansion is expected to be gradual, incremental production is expected to drive the company's medium term earnings growth.

"MOIL has environmental clearance for 1.6 million ton ore production"

Chart 2: Production Trend



Source: Company Reports, ULJK Research

"Our production growth estimate of 5.5% CAGR in FY11-16 is lower than MOIL's guidance of 6.5%"

Much of the Expansion is Expected to Come From High Quality Mines:

MOIL is pursuing number of growth projects to achieve its 1.5 mtpa production target by 2015-16 *(See Exhibit 4, below)*. Much of the company's expansion is expected to come from its Balaghat and Dongri Buzurg mine, both of which produce higher grade ore and accounts for ~50% of the company's production. In addition to higher quality ore, Dongri Buzurg mine *(open cast mine)* is also the lowest cost mine for MOIL due to its fully modernized operations. Given the company's plan to increase the output from its low cost, better quality mines, we expect its profit margins to improve *(better realizations and lower costs)* in the medium term.

"Majority of Expansion is expected to come from high quality mines"

Exhibit 4: Arrangements for Capacity Expansion

Projects	Incremental Capacity (Tons)	Capex (₹ Mn)	Timeline	Arrangements
Balaghat Mine	135,000	3,255	2016	High Speed Shaft for Mining at Deeper Levels
Gumgaon Mine	40,000	160	Apr-11	Sinking of Vertical Shaft
Munsar Mine	30,000	252	Apr-14	Sinking of Vertical Shaft
Ukwa Mine	45,000	181	Apr-14	Sinking of Vertical Shaft
Dongri Buzurg Opencast Mine	210,000	1,800	Mar-14	Development
Total	**460,000**	**5,648**		

Source: Company Reports, ULJK Research

Pipeline of Long Term Growth Projects:

In addition to brown field ore production expansion projects, MOIL is also pursuing green field mining projects to expand its ore production capacity and entered into JVs to increase its exposure to value added production.

Green Field Mining Project in Maharashtra: MOIL has been allotted 814 hectares of land in the state of Maharashtra for the green field exploration. Recently, the company has been allowed prospecting license (PL) for ~50% of the property and it expects to receive the PL for remaining 50% of property in next few months. Based on the this project, MOIL plans to achieve an annual production target of 2.2 to 2.5 mtpa by 2020. We expect the mining activity at this project to start in 4-5 years. Considering long gestation period, we have not incorporated any output from these mines in our earnings estimate.

"Recently received PL for 50% of property and expected to get the remaining in next few months"

JVs to Increase Exposure to Value Added Products: MOIL entered into two separate joint venture (50:50) agreements with Steel Authority of India (SAIL) and Rashtriya Ispat Nigam Limited (RINL) to increase its exposure to value added products. These projects, once completed, is expected to increase the company's share of value added production to 92,750 tons from the current level of 11,000 tons *(See Exhibit 5, below)*. The company plans to fund the projects with debt equity ratio of 1:1 and expects to complete the project by FY14. As per the terms of agreement, SAIL & RINL agreed to enter into a purchases agreement with JV companies and MOIL will provide the required ore. MOIL has witnessed 4-5 months delay in the progress on these projects and now expects to commission the projects in H1 FY13.

"Expanding value added production capacities via Joint Ventures but will take 2-3 years to complete"

Exhibit 5: Mineral Property Details:

	JV Partner		
Project Details	**SAIL**	**RINL**	**Total**
Capacities			
Ferro Manganese (Tons)	31,000	20,000	51,000
Silico Manganese (Tons)	75,000	37,500	112,500
Total Capacity	106,000	57,500	163,500
Capex (₹ Million)	₹3,920	₹2,062	₹5,982
Debt to Equity	1:1	1:1	-
Commencement	Sep-13	Jul-13	-
Location	Chhattisgarh	Andhra Pradesh	-

Source: Company Reports, ULJK Research

Current Capacity (11,000 tpa) + 50% of SAIL JV (53,000 tpa) + 50% of RINL JV (28,750 tpa) = 92,750 tpa Capacity by FY14

Strong Balance Sheet Position: Looking for Acquisitions

MOIL is a debt free company with cash reserves of ~₹20,000 million at the end of Q1 FY12. We estimate the company to generate an average free cash flow *(after capex and dividend)* of ~₹2,800 million each year over the next five years, which will further strengthen its balance sheet position.

"Debt free company with ₹20,000 million cash in hand"

Recently, MOIL stated that it received 7-8 expression of interest for mine acquisition, of which 2 offers *(located in South Africa and Turkey)* had been shortlisted. However, both the offers were rejected due to rich valuations. Currently, the company is evaluating the remaining 5-6 offers and may acquire assets depending upon the valuations. The company has also shown interest in acquiring thermal & metallurgical coal and chromite mines. Given the company's strong balance sheet position, we believe acquisition of good quality assets at reasonable valuation would create shareholder value in the long term

"Looking for acquisition of Manganese, Chromite and coal mines"

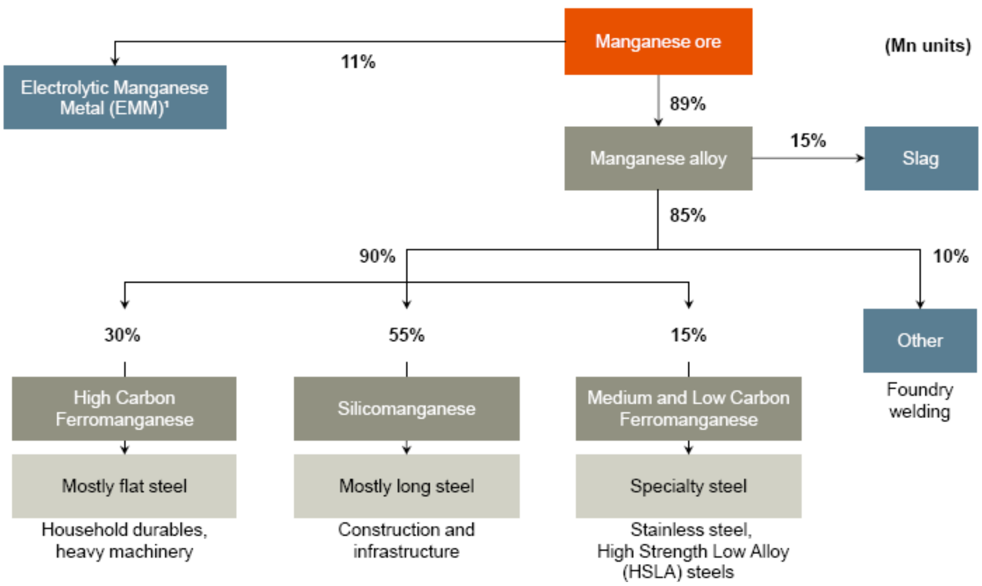
Robust Steel Demand to Drive Mn Ore Consumption in Medium Term:

Since ~90% of manganese ore is consumed in steel production, demand for manganese ore largely depends upon the health of steel industry *(See Chart 3, below)*. Following the surge in steel demand in India in the recent past, India has become a net importer of manganese ore since FY07. According to MOIL, India currently consumes ~2.7 million tons Mn ore of which imports accounts ~33% *(or ~0.9 million tons)* of the requirement. Considering the expected growth in domestic steel manufacturing capacity, we expect the demand for manganese ore to remain robust in the medium term. Accordingly, MOIL is expected to capitalize on the growth domestic demand due to its dominating position in domestic manganese ore market.

"India imports 0.9 million tons (or ~33% of requirement) of high grade Mn Ore"

"Expanding Steel making capacities to drive medium term manganese ore demand"

Chart 3: Manganese Ore Usage



Source: BHP Billiton, ULJK Research

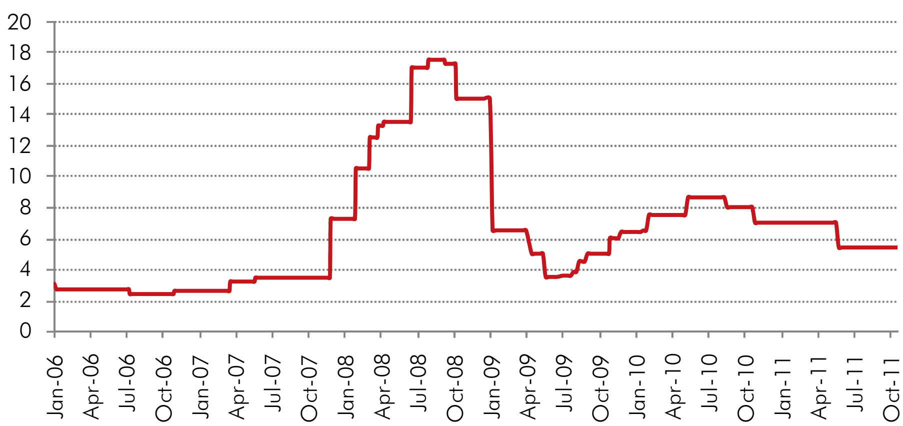
Key Downside Risks:

Weakness in Mn Ore Prices:

Since last one year, the global Mn ore prices continue to decline on account of moderation in steel demand and rising ore inventory levels in China *(See Chart 4, below)*. MOIL stated that the current spot prices are close to the marginal cost of production, hence the company is not expecting any further decline in Mn ore prices without production curtailments. Accordingly, we do not see any meaningful downside to the current prices without production curtailments. At the same time, we are also not expecting any meaningful recovery in Mn ore prices in the next two years due to surplus market environment.

"Global Mn ore production of 47 million tons in CY10 is substantially higher than global consumption of 35 million tons"

Chart 4: Manganese Ore Usage



Source: Bloomberg, ULJK Research

"Large Mn ore surplus globally to weigh on Mn ore prices in next one to two years"

New MMDR Bill to Put Margins Under Pressure:

Recently, the Cabinet approved the New MMDR bill, which includes much debated profit sharing provisions, which states that non-coal miners in India have to share an amount equal to the royalty, with the people affected by mining operations. The provision, once implemented, is applicable to both existing and new mines. The bill is expected to be tabled in the Parliament in forthcoming winter session for final approval. Assuming the bill will be effective from FY13 in current form and profit sharing as tax deductable, our DCF value on MOIL will reduce by 5.2% to ₹311 from ₹328 without draft bill provisions.

"Profit Sharing Provision in new MMDR bill to put margins under pressure"

Royalty Rates Due for Revision in August 2012:

As per the terms of existing MMDR bill, the mining companies in India have to pay royalties on minerals removed or consumed from a lease area at a specified rate or the dead rent, which ever is higher. Currently, MOIL pays 4.2% of selling prices as royalty for all grades of manganese ore. The royalty rates are subject to revision every three years and the next revision is due in August 2012. Hence, we believe any unfavorable revision in royalty rates, in addition to profit sharing clause in new MMDR bill, would negatively impact MOIL's profitability.

"GoI revises royalty rates every three years and next revision is due in August 2012"

Fixed Nature of Operating Costs:

Employee related expenses accounts for ~54% of MOIL's total operating expenses, which tend to be stable irrespective of sales volume and realizations. Due to fixed nature of the company's cost structure, changes in realization is expected to have multiplying effect on the company's profitability. Due to the same, we expect the company's EBITDA margins to decline to 55% in FY13 from 72% in FY09.

"Employee cost accounts for ~54% of company's total operating cost"

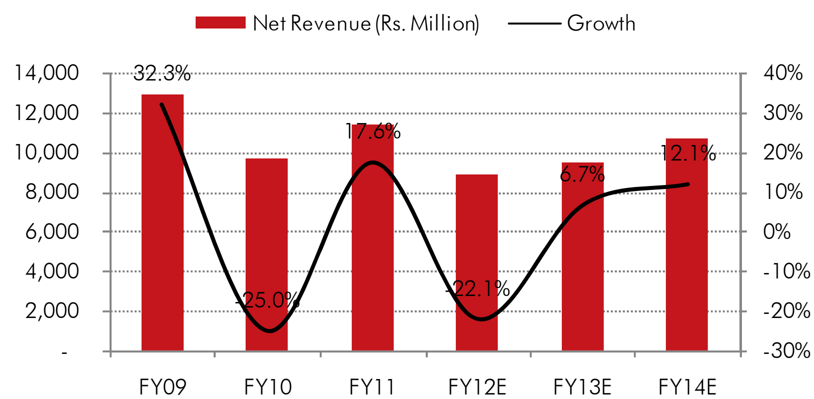
Financial Outlook

Ore Production Growth & Stable Mn Ore Prices To Drive Top-line:

We estimate MOIL's net revenue to decline by ~21% in FY12 due to weak pricing environment, partly offset by higher Mn ore sales volume *(See Chart 5, below)*. However, we expect the net revenue to grow at a robust rate of 9.3% CAGR in FY12-15 due to increase in sales volume and stable prices. MOIL plans to increase its ore production capacity to 1.5 mtpa by 2015-16 from 1.15 mtpa in FY11, representing a 5.4% CAGR. Considering the growth plans and quality asset base, we believe that MOIL is better placed to take advantage of growing domestic steel production capacity.

"Growth in sales volume to drive medium term revenue growth"

Chart 5: Net Revenue Estimate



Source: Company Reports, ULJK Research

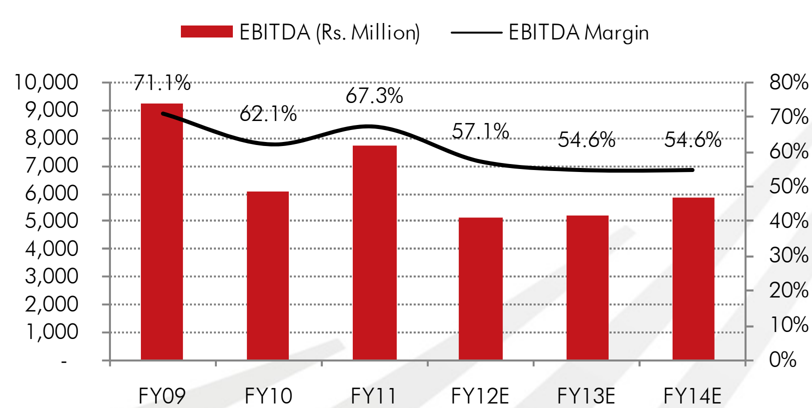
"Net revenues in FY12 to decline on account of weak pricing"

EBITDA Margins to Stabilize at 55%:

Due to fixed nature of mining costs, MOIL's profit margin largely depends upon changes in average realization. As a result, the company's EBITDA margins are expected to decline to ~57% in FY12 from ~67% in FY11 due to ~25% decline in average realization. Since we forecast a stable Mn ore pricing outlook, we expect the company's EBITDA margins to stabilize at ~55% in FY12-15. Accordingly, the growth in the company's top-line is expected to drive the company's EBITDA growth rate in FY12-15.

"Mining costs are largely fixed in nature, hence profit margins are sensitive to changes in Mn ore pricing"

Chart 6: EBITDA Estimate



Source: Company Reports, ULJK Research

"EBITDA margins to stabilize at ~55% in FY12-15 due to stable Mn Ore price outlook"

Key Assumptions:

Based on soft global/domestic steel demand outlook, we expect the demand for Mn ore to remain soft in the near term. Accordingly, we expect MOIL to report a modest sales volume growth of 6.6% CAGR in FY11-14 *(See Exhibit 6, below)*. Due to lack of detailed information, we assumed sales mix of 60% ferro grade, 20% silico grade and 20% fines in our estimates. Accordingly, any favourable changes in sales mix would provide upside to our near term earnings estimate. Since, the current global Mn ore prices are trading close to its marginal cost of production, we assumed flat Mn ore prices for FY12-13.

"Favourable change in sales mix would provide upside to our earnings estimate"

Exhibit 6: Key Assumptions

Particulars	FY10	FY11	FY12E	FY13E	FY14E	CAGR FY11-14
Sales (tons)						
Mn Ore	1,175,230	999,249	1,020,077	1,115,655	1,209,010	6.6%
EMD	857	911	928	944	950	1.4%
Ferro Manganese	7,479	6,903	7,633	8,323	9,225	10.1%
Realizations (₹/ton)						
Mn Ore	7,744	10,701	8,059	7,847	8,125	-8.8%
EMD	67,631	68,142	57,920	59,079	61,147	-3.5%
Ferro Manganese	53,842	65,631	55,787	56,902	58,894	-3.5%
EBITDA/ton	5,001	7,477	4,854	4,526	4,690	-14.4%
Spot Mn Ore Prices - Europe ($/dmtu)	5.4	7.7	5.6	5.4	5.6	-10.1%

Source: Company Reports, Bloomberg, ULJK Research

Valuation Assumption:

We used discounted cash flow method to value MOIL to capture its long life assets base *(See Exhibit 7, below)*. Considering the long gestation period, we have not factored any output from the company's green field Maharashtra ore production project and JV's relating to expansion in Value added products. We discounted the estimated free cash flows with our discount rate estimate of 12%, which is based on Beta of 1.0x, a risk free rate of 8% and market risk premium of 400 bps, whereas, we assumed a 3% growth rate to calculate the terminal value.

"Used DCF method to value MOIL to capture long life mineral property"

Exhibit 7: Discounted Cash Flow Model

Amount in ₹ Million	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net Income	4,365	4,644	5,210	5,718	6,257	6,901	7,478	8,025	8,612	9,239
Add: Depreciation	325	346	371	397	425	455	462	468	476	483
Less: Non-Operating Income	1,784	2,122	2,365	2,607	2,848	3,197	3,693	4,240	4,837	5,484
Operating Cashflows Before WC	2,905	2,869	3,216	3,508	3,834	4,159	4,246	4,253	4,250	4,238
Working Capital Consumption	184	(171)	(155)	(107)	(113)	(120)	(55)	(18)	(18)	(19)
Operating Cash Flows	3,090	2,697	3,061	3,400	3,721	4,039	4,191	4,236	4,232	4,219
Less: Capex	1,170	1,500	1,800	2,500	552	568	554	515	476	483
Operating Cash Flows After Capex	1,920	1,197	1,261	900	3,168	3,471	3,637	3,720	3,757	3,736
Discounting Factor (12% WACC)	1.00	0.88	0.78	0.70	0.62	0.56	0.50	0.44	0.40	0.35
Present Value of Future Cash Flows	1,920	1,060	988	630	1,978	1,935	1,810	1,653	1,490	1,323
Sum of PV of Future Cash Flows	16,995									
Terminal Value	19,336									
Asset Value	36,331									
Add: Cash + Investments	18,819									
Equity Value	55,150									
O/s	168									
Fair Value (₹/Share)	328									

Source: Company Reports, ULJK Research

Outlook & Valuation

We estimate MOIL to report weak earnings in FY12 due to soft Mn ore pricing. However, we expect the company's earnings to grow by 9.4% CAGR in FY12-15 due to higher sales volume and modest growth in realization. Given the fixed nature of mining cost, we estimate the company's EBITDA margins to decline to 55% in FY13 and stabilize thereafter. Our stable medium term EBITDA margin estimate is based on stable Mn ore price outlook.

"MOIL's stock price would trade at a discount to its fair value due to weak market

We have used DCF method to value MOIL and arrived at a fair value of ₹328. However, considering the current weakness in end markets and soft Mn ore prices, we believe the company's stock would trade at discount to its fair value estimate. Accordingly, we set a 12M price target of **₹295** on the shares of MOIL, a discount of 10% on our DCF value. Our 12M price target reflects 5.0x our FY13 EBITDA estimate, which we believe is reasonable for a cash rich company having large quantity of mineral reserves and generates attractive RoCE of ~27%.

"Incremental production to drive medium term earnings growth; EBITDA margins to stabilize at 55%"

Exhibit 8: Peer Group Comparison

			P/E		EV/EBITDA		EBITDA Margin (%)		ROE (%)	
Companies	Location	P/B	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
Adhunik Metalik *	India	0.6x	4.2x	2.7x	6.6x	4.7x	30.2	33.2	15.3	20.0
Assore Ltd	South Africa	1.7	6.1	5.1	4.0	3.3	50.9	52.3	46.2	33.8
Eramet	France	0.9	11.0	9.1	3.5	3.5	24.5	23.6	7.4	9.5
ENRC	Kazakhstan	1.2	5.9	5.6	3.5	3.4	47.9	46.7	20.9	18.4
OM Holdings	Australia	1.0	40.0	10.3	16.0	6.3	7.8	14.6	2.6	10.3
MOIL	India	1.7	9.9	9.3	4.2	3.7	5,709.9	5,457.2	1,901.3	1,758.5
Average		1.2x	12.9x	7.0x	6.3x	4.2x	978.5x	937.9x	332.3x	308.4x
Median		1.1x	8.0x	7.3x	4.1x	3.6x	39.0x	40.0x	18.1x	19.2x

Source: Bloomberg, ULJK Research
Note: Adhunik Metalik estimates include earnings from its steel business
Adhunik Metalik operates Mn ore business through wholly owned subsidiary Orissa Manganese & Minerals Limited

Financial Statements

₹ in Millions

Income Statement

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net Sales	12,933	9,694	11,400	8,885	9,484
Growth (%)	*32.3%*	*-25.0%*	*17.6%*	*-22.1%*	*6.7%*
Total Expenditure	3,736	3,672	3,726	3,812	4,308
EBIDTA	9,197	6,022	7,674	5,073	5,176
EBIDTA Margins	*71.1%*	*62.1%*	*67.3%*	*57.1%*	*54.6%*
Depreciation	247	253	325	325	346
EBIT	8,951	5,769	7,349	4,748	4,829
EBIT Margins	*69.2%*	*59.5%*	*64.5%*	*53.4%*	*50.9%*
Other Income	1,117	1,299	1,453	1,784	2,122
PBT	10,068	7,068	8,802	6,533	6,951
Tax Provisions	3,430	2,404	2,921	2,168	2,307
PAT	6,638	4,663	5,881	4,365	4,644
PAT Margins	*51.3%*	*48.1%*	*51.6%*	*49.1%*	*49.0%*
Basic EPS	39.5	27.8	35.0	26.0	27.6

Cash Flow Statement

Particulars	FY09	FY10	FY11	FY12E	FY13E
PBT	10,068	7,068	8,802	6,533	6,951
Depreciation	247	253	325	325	346
Other Income	(322)	(55)	(165)	0	0
Working Capital	1,698	(925)	(122)	184	(171)
Direct Tax	(3,412)	(2,461)	(3,034)	(2,168)	(2,307)
CF from Operations	**8,278**	**3,879**	**5,805**	**4,874**	**4,819**
Capital Expenditure	(485)	(231)	(488)	(1,170)	(1,500)
Purchase/Sale of Investments	(1)	(1)	(20)	0	0
CF from Investing	**(486)**	**(232)**	**(508)**	**(1,170)**	**(1,500)**
Dividend Paid	(1,556)	(1,098)	(1,371)	(1,018)	(1,083)
CF from Financing	**(1,556)**	**(1,098)**	**(1,371)**	**(1,018)**	**(1,083)**
Net Change in Cash	6,236	2,549	3,926	2,686	2,236
Opening Cash & Cash Eq	**6,086**	**12,322**	**14,871**	**18,797**	**21,482**
Closing Cash & Cash Eq	**12,322**	**14,871**	**18,797**	**21,482**	**23,719**

Balance Sheet

Particulars	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Equity Share Capital	280	1,680	1,680	1,680	1,680
Reseves & Surplus	12,929	15,094	19,603	22,950	26,511
Shareholder's Funds	13,209	16,774	21,283	24,630	28,191
Deferred Tax liability (net)	185	128	15	15	15
Total Liabilities	13,394	16,902	21,298	24,645	28,206
APPLICATION OF FUNDS					
Gross Block	3,420	3,570	3,965	5,135	6,635
Less: Acc Depreciation	1,364	1,605	1,905	2,230	2,576
Net Block	2,056	1,965	2,060	2,905	4,059
Capital WIP	155	222	288	288	288
Investments	1	2	22	22	22
Current Assets	14,451	17,428	22,042	24,558	27,111
Less: Current Liabilities	3,269	2,715	3,114	3,129	3,274
Net Current Assets	11,182	14,713	18,928	21,430	23,837
Total Assets	13,394	16,902	21,298	24,645	28,206

Key Ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
Leverage Ratio					
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Per Share Data					
Basic EPS	39.5	27.8	35.0	26.0	27.6
Cash EPS	41.0	29.3	36.9	27.9	29.7
DPS	7.9	5.6	7.0	7.0	7.0
BVPS	78.6	99.8	126.7	146.6	167.8
Valuation Ratios					
P/E	6.4	9.1	7.2	9.7	9.1
P/BV	3.2	2.5	2.0	1.7	1.5
EV/EBIDTA	2.6	3.9	3.1	4.1	3.6
EV/Sales	1.8	2.4	2.1	2.4	2.0
Profitability Ratios (%)					
EBIDTA Margins	71.1	62.1	67.3	57.1	54.6
PAT Margins	51.3	48.1	51.6	49.1	49.0
RoCE	95.6	47.1	46.3	28.5	26.3
RoE	63.0	31.1	30.9	19.0	17.6
Growth Ratios (%)					
Sales	32.3	(25.0)	17.6	(22.1)	6.7
PAT	38.3	(29.7)	26.1	(25.8)	6.4

Source: Company Reports, ULJK Research

Company Overview

MOIL Limited, formerly known as Manganese Ore (India) Limited, is the largest manganese ore producer in India accounting for ~50% of the country's production. It produced ~1.1 million tons of ore in FY11 and has ~22 million tons of reserve base, representing ~16% of India's reserve base. Around 55% of MOIL's reserves have average manganese content of 40%+ and 27.5% an average manganese content ranging from 36-39.9%. None of its mines produces low grade manganese (i.e. below 30% manganese content). MOIL was established in 1962, and currently 71.6% of its shares are held by the Central Government, 4.6% by the Maharashtra government and 3.8% by the Madhya Pradesh government. The company operates ten mines, 4 in Madhya Pradesh and 6 in Maharashtra. Seven of its mines are underground (UG) and 3 opencast (OC).

"MOIL accounts 50% Mn ore production and 16% of Mn ore reserves in India"

Exhibit 9: Mineral Property Deatils

		Mining	Type of		Reserves (Mt)			Resources (Mt)			
Mine Name	State	Method	Ore	Grade	Proved	Probable	Total	Measured	Indicated	Inferred	Total
Balaghat	Madhya Pradesh	UG	Oxide	40.00%	6.9	2.1	9.0	12.7	7.1	1.5	21.3
Dongri Buzurg	Maharashtra	OC	Dioxide	42.00%	3.0	0.0	3.0	3.3	7.5	0.2	11.0
Chikla	Maharashtra	UG	Oxide	36.00%	0.5	0.6	1.1	1.2	2.4	0.6	4.2
Tirodi	Madhya Pradesh	OC	Oxide	32.00%	0.1	0.8	0.9	1.2	0.0	0.5	1.7
Kandri	Maharashtra	UG	Oxide	38.00%	0.4	0.0	0.4	0.6	2.7	0.0	3.3
Beldongri	Maharashtra	UG	Oxide	30.00%	0.2	0.0	0.2	0.4	0.1	0.0	0.5
Ukwa	Madhya Pradesh	UG	Oxide	38.00%	1.4	1.4	2.8	4.4	1.4	3.0	8.8
Munsar	Maharashtra	UG	Oxide	32.00%	0.1	1.2	1.3	0.7	2.5	1.5	4.7
Gumgaon	Maharashtra	UG	Oxide	36.00%	1.6	0.0	1.6	2.6	0.6	0.7	3.9
Sitapatore/Sukli	Madhya Pradesh	OC	Oxide	31.00%	0.0	0.0	0.0	0.0	0.2	0.2	0.4
Dumps					1.4	0.0	1.4	9.7	0.0	0.0	9.7
Total					15.6	6.1	21.7	36.8	24.5	8.2	69.5

Source: Company Reports, ULJK Research

Customer Base:

MOIL sell manganese ore to the domestic ferro alloy manufacturers that supply ferro alloys directly to steel plants. Approximately 99% of manganese ore production in FY10 was sold to manganese ore alloy manufacturers. MOIL's key customers include Maharashtra Elektrosmelt Limited and Bhilai Steel Plant (subsidiaries of SAIL) together accounting ~22% of the company's sales. The company's top ten customers represent ~52% of its total sales in FY10.

"Top ten customers represents 52% of its total sales"

Key Operating Cost:

Employee cost represents the largest component of MOIL's total expenditure accounting for ~54% of total operating costs in FY11. Compensation for company's non-executive employees is governed by a memorandum of settlement entered into on August 27, 2009 and is effective till August 1, 2017. Whereas, compensation for its executive employees is determined by the GoI and is fixed for a period of ten years. The current compensation level for is effective for a period of ten years from January 1, 2007.

"Employee cost represents 54% of MOIL's total operating costs"

Royalty Rate:

Currently, MOIL pays a 4.2% of the selling price as a royalty to the state government. The government of India sets the royalty rates every three years and it is due for revision in August 2012. In FY11 royalty and cess expenses represented ~3.8% of MOIL's net revenues.

"Current Royalty rates on Mn Ore is 4.2% of the selling price"

Competition:

MOIL completes with both domestic ore producers such as Tata Steel Limited, Mangilal Rungta, Sandur Manganese and Iron Ore Limited and Orissa Minerals Development Company Limited *(a subsidiary of Adhunik Metalik Limited)* as well as imports.

"India is a net importer of Mn Ore; hence demand is not a concern for the company"

Pricing:

MOIL fixes the prices for manganese ore on a quarterly basis *(similar to iron ore and coking coal pricing)*, which vary depending on the grade. Prices are determined by taking into consideration international prices for manganese ore as well as the demand and supply position in India prevailing at the time.

"Currently MOIL sales Mn ore on quarterly basis benchmarked to global prices"

Exports:

Currently, MOIL does not export any output due to strong domestic demand.

Dividend Policy:

As per the guidelines issued by the Ministry of Finance, MOIL has to pay a minimum amount of dividend i.e., higher of 20% of equity or 20% of PAT, to its shareholder.

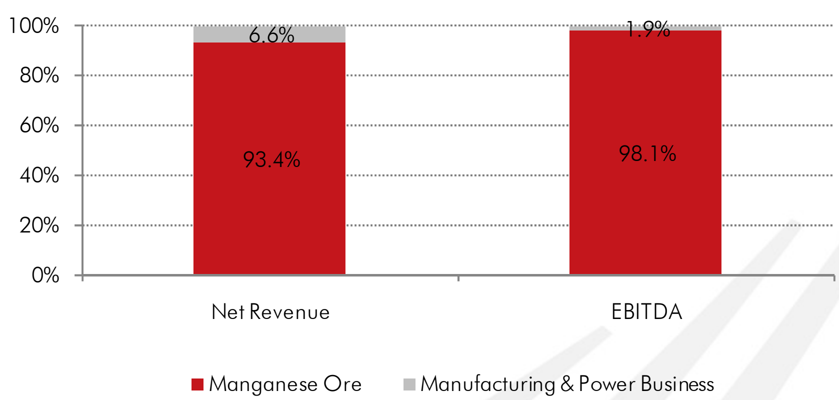
"Pays 20% of PAT as dividend"

Profitability Mix:

Sale of manganese ore accounts for ~93% and 98% of MOIL's net revenues and EBITDA respectively in FY11. In addition the company also sells value added products such as EMD & Ferro Manganese and Wind energy. However, the value added product and power business combined generated less 2% of its FY11 EBITDA.

"Sale of Mn ore accounts ~98% of consolidated EBITDA"

Chart 7: FY11 Revenue and EBITDA Mix



Source: Company Reports, ULJK Research

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Disclosure Appendix

ULJK Financial Services Pvt Ltd: (Time range– 12 months)
BUY: Returns>20%; ACCUMULATE: 5%<Returns<20% ; HOLD: -5%<Returns<5%, REDUCE -20%<Returns<-5% and SELL: Returns<-20%

Analyst (s) holding in the Stock : Nil

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