

## Mining into future

20 June 2007

### Not Rated

Price	Target Price
<b>Rs359</b>	<b>NA</b>

**Sensex – 14,412**

### Price Performance

(%)	1M	3M	6M	12M
Absolute	57	69	68	91
Rel. to Sensex	56	49	55	30

Source: Bloomberg

### Stock Details

Sector	Metals
Reuters	ASHM.BO
Bloomberg	ASMN@IN
Equity Capital (Rs mn)	78
Face Value (Rs)	2
52 Week H/L (Rs)	359/165
Market Cap (Rs bn)	14
Daily Avg Vol (No of shares)	118831
Daily Avg Turnover (US\$ mn)	0.9

### Shareholding Pattern (%)

(31st Mar.'07)

Promoters	41.8
FII/NRI	40.2
Institutions	4.0
Private Corp.	2.6
Public	11.4

Source: Capitaline

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We attended the analyst meet of Ashapura Minechem Limited (AML) yesterday and return positive on the stock. Ashapura is a leading merchant producer of Bauxite, Bentonite and allied minerals. AML has bauxite reserves of 120mt and Bentonite reserves of 60mt and other mineral reserves of around 20mt. AML reported consolidated Net Sales of Rs12.72bn (yoy up 49%), core EBITDA of Rs2.0bn (yoy up 60%) and PAT of Rs1.3bn (yoy up 49%). AML had raised additional equity of Rs1.4bn recently resulting in dilution of equity to the tune of around 12% to part finance its expansion projects. The company reported FDEPS of Rs35.88 for FY07 (yoy up 49% post additional issue through QIB allotment). On the margins front, the company continued to expand its core EBITDA margin from 14.6% in FY06 to 15.7 in FY07 resulting in margin expansion of 109bps. With the outlook for demand for Bauxite, Bentonite and other minerals appearing strong due to sustained growth in production in China, we remain positive on the stock.

### Globally a leading player in merchant Bauxite and Bentonite business

AML is one of the leading players in the merchant bauxite business accounting for around 12% of the freely traded bauxite. The company plans to increase its global share from 12% to 20% by FY08. AML sold 3.8mt of Bauxite in FY07 (yoy up 37%) and plans to increase this to 6mt by FY08 representing a strong growth of 58% yoy. The company is the 6<sup>th</sup> largest player in Bentonite globally. It sold 0.6mt Bentonite and allied minerals in FY07. The Bentonite business is a fairly stable business with the company expecting similar volume in FY08 also. However, its other minerals portfolio has shown strong growth in sales volume. The company reported sales of 0.44mt of other minerals (yoy up 64%). Overall, the company has reported strong volume growth of 32% from 3.6mt in FY06 to 4.8mt in FY07. We expect the company to report strong volume growth in FY08 and FY09 also.

### Sales volumes over the last 4 years

	FY04	FY05	FY06	FY07	FY08E
Bentonite and Allied minerals	389,650	596,366	598,287	601,133	610,000
Yoy growth	-	53.1%	0.3%	0.5%	1.5%
Bauxite	1,406,317	1,333,977	2,789,768	3,818,570	6,000,000
Yoy growth	-	-5.1%	109.1%	36.9%	57.1%
Others	28,513	229,611	268,518	439,028	500,000
Yoy growth	-	705%	16.94%	64%	14%
<b>Total</b>	<b>1,824,480</b>	<b>2,159,954</b>	<b>3,656,573</b>	<b>4,858,731</b>	<b>7,110,000</b>

Source: Company, Emkay research estimates

### Diversified Portfolio and thrust on value added products

AML has a diversified portfolio of minerals that include Bauxite, Bentonite, Alumina, Calcined Bauxite, Iron Ore, Kaolin, Bleaching Earth, and Geosynthetic clay liners among other minerals. The company draws nearly 52% of its revenues from Bauxite sales, Alumina contributing 27% and Bentonite contributing 11%. Other minerals contribute balance 10% to the revenue. The company has now plans to further diversify into new products like Kaolin, Barytes and Geosynthetic Clay liners. The company has spent Rs800mn to set up a 0.2mtpa plant in Kerala for Kaolin. The plant is expected to start trial production from Dec 07 and expects 80% of the production to be pre-sold. Kaolin finds usage in paper, paints, ceramic etc. The company expects Kaolin to contribute to the top line from Jan 08.

### New JVs to boost revenues further and increase its minerals base

AML has entered into a JV in Nigeria to explore 3,500sq km area for Barytes and Kaolin reserves. It is setting up a processing plant for Barytes by Dec 07. The mineral finds use in oil drilling and should have a ready market in Nigeria as Nigeria is the sixth largest oil producing

country. It has recently added Geosynthetic Clay liners in its product offerings. The material is used primarily for containing waste dumping, land filling and such processes, which require waterproofing. It is a major supplier to Hindustan Zinc, which consumes about 100,000sq km of the material. The company has set up a capacity of 5mn sq km of the material. The product is patented by AMCOL and CETCO. AMCOL holds 20% stake in AML and has a major research tie-up with the company. The company expects additional capex of Rs2bn over the next 2 years apart from its Kutch 1mtpa alumina plant and does not expect any further equity dilution.

### 100,000tpa mineral processing complex at Antwerp

AML has setup a JV with AMCOL to process 100,000tpa of minerals at Antwerp and supply to the European markets on a Just-in-Time (JIT) basis. The plant will likely commence trial production from Aug 07. Semi-finished products will be shipped to Antwerp and will be process further and sent to the European markets. The company will mainly supply Bentonite, Kaolin and Bleaching clay from this facility.

### 1mtpa Alumina project in Kutch – next big thing for AML

AML is currently in the process of setting up a 1mtpa alumina refinery in Kutch in JV with a leading Chinese aluminium company Qingtongxia. The total project cost is estimated at Rs25bn (USD 613mn) with a Debt:Equity ratio of 70:30. The equity component of Rs8bn will be brought in by AML and Qingtongxia equally. AML will foot its share of Rs4bn through internal accruals over the next 2 years and through recently completed QIB offering. The company will raise Rs17bn through debt. Qingtongxia will bring its equity component through a mix of equipment, supplies and cash. The company does not foresee any further dilution at this point of time to fund the alumina project. The company has an off-take arrangement with Qingtongxia for 50% of the production up to 0.5mt and balance 50% will be sold in the spot market.

### Key Risks

The company is engaged in the production of non-ferrous minerals for which the demand is driven by China. Any material reduction in demand from China will substantially impact the earnings of the company. AML is setting up a 1mtpa alumina refinery in Kutch involving a total outlay of Rs25bn. This is the largest project to be executed by the company. The project has already been delayed for quite some time now. Any further delay will result in further cost overrun for the company impacting its margins.

### Valuations

The company is currently trading at a P/E of 10x FY07 FDEPS of Rs35.8. However, the company has a strong growth in the top line as well as in the bottom line. It has already increased its bauxite reserves from 100mt to 120mt. Further it plans to increase its bauxite sales by 57% during FY08. We do not have a rating on the stock; however, we remain positive on the company.

### Key financials (Rs bn)

	FY07	FY06	% yoy
Net Sales	12.70	8.50	49%
EBITDA (Core)	2.00	1.30	60%
EBITDA Margin	16%	15%	109bps
PAT	1.30	0.80	66%
Net Margin	10%	9%	109bps
FDEPS	35.90	24.20	49%

Source: Company, Emkay research estimates

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