

November 24, 2010

SUBSCRIBE

Issue Details	
Date	26-Nov — 01-Dec
Price Band (Rs)	340- 375
Offer size (Rs)	12,380 mn
Offer size (shares)	33.6 mn
Post issue (shares)	168.0 mn
M.Cap (Rs)	61,900 mn

Offer composition (mn shares)	Pre Issue	Post Issue
Govt of India	137.0	120.3
Govt of Maharashtra	16.2	7.7
Gov of M P	14.8	6.4
Public	0	33.6
Total shareholding	168.0	168.0
Offer composition (%)	Pre Issue	Post Issue
Govt of India	81.6	71.6
Govt of Maharashtra	9.6	4.6
Gov of M P	8.8	3.8
Public	0.0	20.0
Total shareholding	100.0	100.0
Issue Composition (shares)	mn	
Total No of shares on offer	33.6	
QIB	16.5	
NIB	4.9	
Retail and Employee	12.2	

Attractive valuation; 'SUBSCRIBE'

- **MOIL is the largest manganese ore producer in India, contributing 50% of the total domestic production. Globally it ranks fifth among all the manganese producers**
- **The company is among the lowest cost manganese ore producers with an EBITDA margin of ~70% during H1FY11. It has ~22 mt of good quality manganese ore reserves**
- **MOIL is a debt free company with net cash of Rs 105 per share during H1FY11. The company has a planned capex of Rs 7680 million to ramp up its capacity to 1.5 mtpa by FY16**
- **At the upper band of Rs 375, the stock looks attractively valued with potential upside of 40% on 6x FY12E EV/ EBITDA basis - Recommend SUBSCRIBE**

Company description

MOIL Ltd is the largest manganese ore producing company in India and ranks fifth in the world. In 1896, a British company by the name of Central Provinces Prospecting Syndicate was set up. In 1924, it changed its name to the Central Provinces Manganese Ore Company Limited (CPMO). Pursuant to an agreement between the Government of India (GoI) and CPMO, a company in the name of Manganese Ore (India) Ltd was incorporated on June 22, 1962, with 51% capital held between the GoI and the State Governments of Maharashtra and Madhya Pradesh and the balance 49% by CPMO. CPMO sold all its shareholding and certain other properties and assets to GoI in 1977 and subsequently, GoI transferred all its assets to the company and it became a 100% Government Company under the administrative control of the Ministry of Steel. Finally in August 17, 2010 the name of the company was changed to MOIL limited. The product portfolio of MOIL consists of manganese ore (1.1 mtpa capacity), high carbon ferro manganese (HCFM, 10000 tpa capacity), electrolytic manganese di- oxide (EMD, 1000 tpa capacity) and wind power (20 MW capacity).

Exhibit 1: Operational metrics

Segment	Capacity	Production (tonne)		Sales (tonne)	
		FY10	H1FY11	FY10	H1FY11
Manganese ore	1.1 mtpa	1093363	516749	1175230	500770
HCFM	10000 tpa	9555	4771	7479	5233
EMD	1000 tpa	1150	390	856	511
Wind Power*	20 MW	33.1	NA	24.1	NA

* Wind power production and sales volume in million units; Source: RHP, Annual report 2009-10, Emkay research

Valuation: At the higher band of Rs 375/ share the stock discounts its FY12E earnings by 8x and EV/ EBITDA by 3.5x. Considering its dominance in business with virtually no competitor and strong growth prospect of domestic steel industry, our fair value for the stock comes at Rs 526/ share by giving a multiple of 6x to its FY12E EV/ EBITDA, which suggests a gain of 40% on the upper band of the offer price. We recommend **SUBSCRIBE** to the issue.

Exhibit 2: Financials

(Rs mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	9,694.0	6,021.1	62.1	4,656.2	27.7	27.8	13.5	8.0	3.8
H1FY11	6,350.5	4,467.2	70.3	3315.0	19.7	16.5	NA	NA	NA
FY11E	13,759.5	9,502.6	69.1	7,162.4	42.6	31.3	8.8	4.4	2.8
FY12E	14,665.4	10,173.4	69.4	7,916.6	47.1	26.7	8.0	3.5	2.1
FY13E	15,404.6	10,687.2	69.4	8,585.5	51.1	23.1	7.3	2.7	1.7

Source: RHP, Emkay research

Goutam Chakraborty
Goutam.chakraborty@emkayglobal.com
+91 22 6612 1275

Manganese ore resources and reserves of MOIL

MOIL currently operates seven underground mines (Kandri, Munsar, Beldongri, Gumgaon, Chikla, Balaghat and Ukwa mines) and three opencast mines (Dongri Buzurg, Sitapatore/ Sukli, and Tirodi) located in the states of Maharashtra and Madhya Pradesh. As per the latest JORC report prepared by IMC MOIL has 21.7 million tonnes of proved and probable reserves and a total of 69.5 million tonnes of measured, indicated and inferred mineral resources of manganese ore. An area of approximately 814.71 hectares in the State of Maharashtra has been allocated to MOIL by the Ministry of Mines in October 2009. The company has applied for a prospecting license for that. Among the total current manganese ore reserves, 55.0% have an average manganese content of 40.0% or higher, 27.5% of manganese ore reserves have an average manganese content ranging from 36.0% to 39.9%.

Exhibit 3: Resources and reserves in mines (under JORC code)

Mine/ State	Mine type	Total Resources (mn tonne)	Reserves (mn tonne)		
			Type ore	Avg grade	Total
Balaghat (Madhy Pradesh)	Underground	21.3	Oxide	40%	9.0
Dongri Buzung (Maharashtra)	Open cast	11.0	Dioxide	42%	3.0
Chikla (Maharashtra)	Underground	4.2	Oxide	36%	1.1
Tirodi (Madhya Pradesh)	Open cast	1.7	Oxide	32%	0.9
Kandri (Maharashtra)	Underground	3.3	Oxide	38%	0.4
Beldongri (Maharashtra)	Underground	0.5	Oxide	30%	0.2
Ukwa (Madhya Pradesh)	Underground	8.8	Oxide	38%	2.8
Munsar (Maharashtra)	Underground	4.7	Oxide	32%	1.3
Gumgaon (Maharashtra)	Underground	3.9	Oxide	36%	1.6
Sitapatore/ Sukli (Madhya Pradesh)	Open cast	0.4	Oxide	30%- 32%	0.0
Dumps		9.7			1.4
Total		69.5			21.7

Source: RHP, Emkay research

Production of manganese ore by MOIL

MOIL has produced ~1.09 mt of manganese ore in FY10 and during H1FY11 it has produced 0.52 mt indicating an improvement on YoY. We have assumed 5% YoY volume growth on an average basis till FY13E. Production from underground mines constitutes ~65% of the total production with Balaghat mine being the largest contributor.

Exhibit 4: Production details of different mines (tonne)

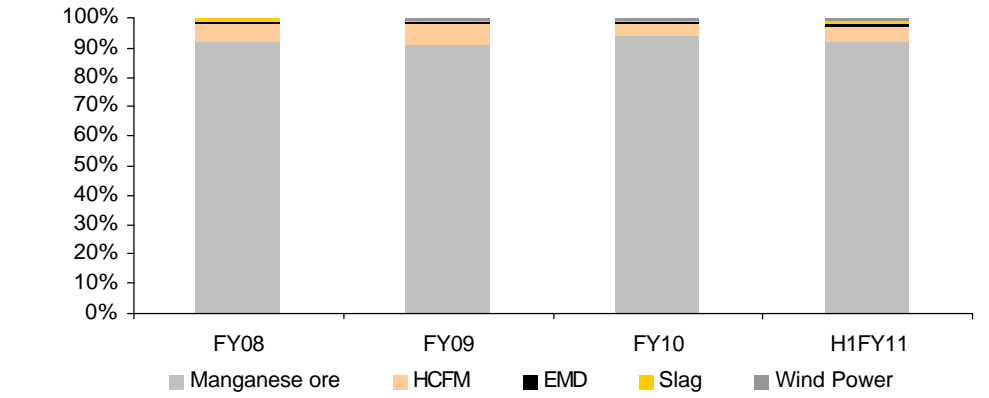
Mine/ State	FY10		H1FY11	
	Production	% of total	Production	% of total
Underground				
Balaghat (Madhy Pradesh)	300,000	27.4	151,452	29.3
Chikla (Maharashtra)	150,047	13.7	79,049	15.3
Kandri (Maharashtra)	65,619	6.0	29,492	5.7
Munsar (Maharashtra)	60,760	5.6	23,713	4.6
Ukwa (Madhya Pradesh)	50,751	4.6	25,929	5.0
Gumgaon (Maharashtra)	41,001	3.7	24,634	4.8
Beldongri (Maharashtra)	32,598	3.0	14,637	2.8
Sub total	700,776	64.1	348,906	67.5
Open cast				
Dongri Buzung (Maharashtra)	282,758	25.9	115,328	22.3
Tirodi (Madhya Pradesh)	106,764	9.8	47,435	9.2
Sitapatore/ Sukli (Madhya Pradesh)	3,065	0.3	5,080	1.0
Sub total	392,587	35.9	167,843	32.5
Total	1,093,363	100.0	516,749	100.0

Source: RHP, Emkay research

Sales mix

MOIL sales portfolio consists of five products viz. manganese ore, HCFM, EMD, ferro manganese slags and wind power. Among these, manganese ore alone constitutes more than 90% of the total sales after meeting captive requirement to produce HCFM and EMD. In case of wind power, about 30% of the total unit generation is consumed internally and rest is sold to the Madhya Pradesh Energy Development Corporation Ltd (MPEDCL).

Exhibit 5: Manganese ore dominates sales mix

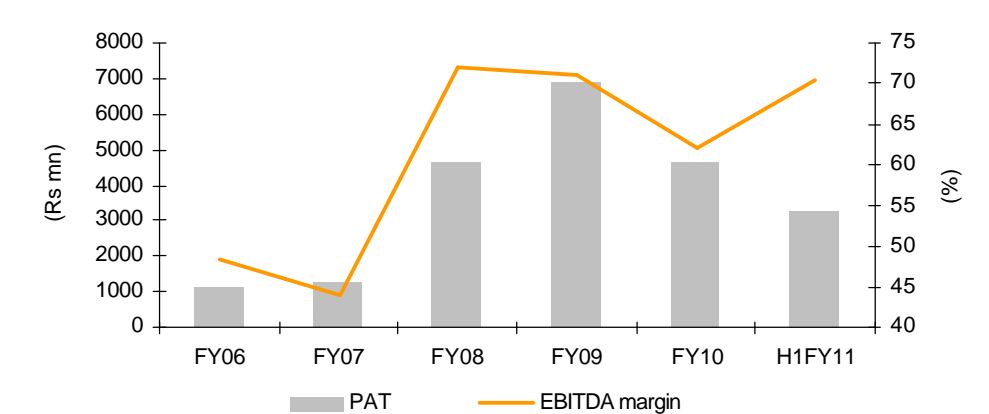


Source: RHP, Emkay research

Strong EBITDA margins helping robust earnings

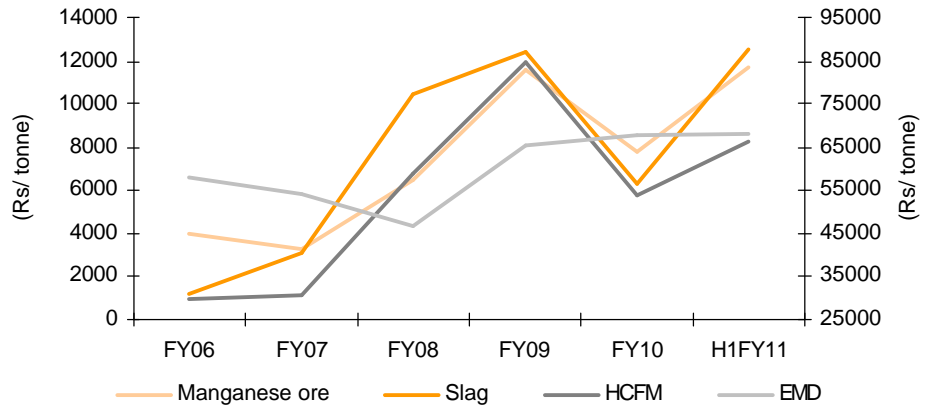
MOIL has been one of the lowest cost producers of manganese ore in the world. Along with this, better price realizations in India have been keeping well with the company as far as its margins are concerned. MOIL has posted ~70% EBITDA margin during H1FY11 after witnessing a dip in FY10 due to sudden fall in prices. We believe the company would maintain strong margins going forward also

Exhibit 6: EBITDA margin to remain strong



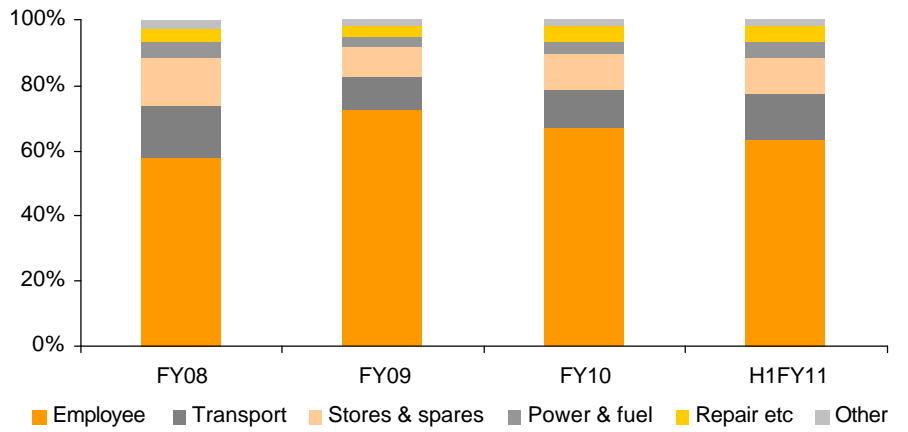
Source: RHP, Emkay research

Exhibit 7: Trend in realization



Source: RHP, Emkay research

Exhibit 8: Cost break up: Ore raising and operating expenses



Source: RHP, Emkay research

Key strengths of the company

Largest producer of manganese ore in India

- MOIL accounts for about 50% of the total manganese ore production in India as per the Indian Bureau of Mines Indian mineral Yearbook, 2008. The company has virtually no competitor in India
- With strong growth prospect of Indian steel industry, demand for manganese ore also is likely to remain robust, as manganese ore is primarily used to make ferro alloys for steel production. MOIL remains well placed to cater to this demand
- The company is in the process of expanding its capacity from 1.1 mtpa to 1.5 mtpa by FY16 with a total planned capex of Rs 7680 million. In connection with these expansion projects, MOIL has committed capex of Rs 839.8 million and Rs 1,077.1 million respectively for FY11 for FY12. The company has already spent Rs 241.8 million as of October 31, 2010.

Good quality of reserves

- Out of MOIL's total current manganese ore reserves, 55.0% have an average manganese content of 40.0% or higher, 27.5% of manganese ore reserves have an average manganese content ranging from 36.0% to 39.9%. Further the company does not have any reserve below 30% manganese content

Low cost – high margin structure

- As mentioned earlier, MOIL is one of the lowest cost producers of manganese ore in the world with average cost of production being ~US\$71/ tonne compared to US\$260/ tonne for BHP Billiton
- Backed by lower costs, MOIL enjoys one of the best margins in the business among all the players

Strategic location

- All the mines of MOIL are located in states of Maharashtra and Madhya Pradesh i.e. Central India. Due to this the transportation of the material becomes more feasible giving an edge over its competitors who are primarily located in Eastern India

Debt free company

- MOIL is a debt free company with cash reserves of ~Rs 1760 crore in H1FY11 or ~Rs 105/ share. This makes the company well positioned for any expansionary activities or acquisition of mines (in India or abroad) whenever such opportunity comes

Key concerns

Fluctuation in manganese ore prices

- Price of manganese ore have been volatile and any sharp fall in prices would put pressure on the margins and on the overall performance of the company, as in the coming 2-3 years there would not be any significant volume growth

Delay in reserve accretion

- MOILs mines are century old. Dip digging may start increasing costs. Also delay in getting new mines and slow addition to the reserve would raise concerns, as the company has only 10 years of reserve as per the current production levels

Valuation attractive: providing upside of 40%

At the higher band of Rs 450/ share the stock discounts its FY12E earnings by 8x and EV/ EBITDA by 3.5x. This suggests that the stock is quite attractively and provides room for substantial upside. There is no exact comparable peer of this company, as all other producers of manganese ore are diversified in nature in terms of their product portfolio. We have gone through valuation of some of these companies including Sesa Goa from India (though it does not produce manganese ore). We feel MOIL should get a premium over most of these players because of its scale of production with virtually no competitor, low cost- high margin structure and no debt on book. Considering these along with the strong growth prospect of domestic steel industry, our fair value for the stock comes at Rs 526/ share by giving a multiple of 6x to its FY12E EV/ EBITDA, which suggests a gain of 40% on the upper band of the offer price. **Recommend SUBSCRIBE**

Exhibit 9: Peer comparison (valuation)

Company	P/E		EV/EBITDA		ROE		P/BV CY10/ FY11
	CY10/ FY11	CY11/ FY12	CY10/ FY11	CY11/ FY12	CY10/ FY11	CY11/ FY12	
Vale	10.6	7.1	7.6	5.4	22.7	29.0	2.2
BHP	11.8	10.4	6.3	5.7	36.8	32.2	4.8
ENRC	9.0	7.3	5.8	4.8	22.7	24.5	2.1
Eramet	17.0	12.4	7.3	5.6	13.3	16.1	2.4
OM Holdings	14.9	9.5	8.8	5.6	16.2	23.5	2.5
Sesa goa	6.9	6.0	5.4	4.8	38.6	30.7	3.4
Average	11.7	8.8	6.9	5.3	25.0	26.0	2.9

Source: Bloomberg, Emkay research

Financial tables

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	9,694.0	13,759.5	14,665.4	15,404.6
Growth (%)	-25.0	41.9	6.6	5.0
Expenditure	3,672.8	4,256.9	4,491.9	4,717.4
Ore raising & operating exp	2,638.5	2,889.5	3,079.7	3,235.0
Mfg & elec generation exp	371.9	550.4	586.6	616.2
Sell. & Adm.Exp	615.2	756.8	762.6	801.0
Other exp	47.3	60.3	63.0	65.2
EBITDA	6,021.1	9,502.6	10,173.4	10,687.2
Growth (%)	-34.5	57.8	7.1	5.1
EBITDA margin (%)	62.1	69.1	69.4	69.4
Depreciation	253.0	273.0	295.8	333.3
EBIT	5,768	9,230	9,878	10,354
EBIT margin (%)	59.5	67.1	67.4	67.2
Other Income	1299.8	1622.491	2117.341	2654.502
Interest expenses	0.0	0.0	0.0	0.0
PBT	7,067.9	10,852.0	11,994.9	13,008.4
Tax	2411.7	3689.7	4078.3	4422.9
Effective tax rate (%)	34.1	34.0	34.0	34.0
Adjusted PAT	4,656.2	7,162.4	7,916.6	8,585.5
(Profit)/loss from JV's/Ass/MI	0.0	0.0	0.0	0.0
Adjusted PAT after MI	4,656.2	7,162.4	7,916.6	8,585.5
Growth (%)	-32.5	53.8	10.5	8.4
Net Margin (%)	48.0	52.1	54.0	55.7
E/O items	0.0	0.0	0.0	0.0
Reported PAT	4,656.2	7,162.4	7,916.6	8,585.5
Growth (%)	-32.5	53.8	10.5	8.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	7,067.9	10,852.0	11,994.9	13,008.4
Depreciation	253.0	273.0	295.8	333.3
Interest Provided	-1,242.0	-1,647.7	-2,142.6	-2,679.8
Other Non-Cash items	1.2	1.2	1.2	1.2
Chg in working cap	-1,031.2	-77.7	-38.9	-30.8
Tax paid	-2,377.8	-3,689.7	-4,078.3	-4,422.9
Operating Cashflow	2,637.2	5,711.2	6,032.3	6,209.5
Capital expenditure	-230.5	-374.8	-527.8	-680.8
Free Cash Flow	2,406.7	5,336.4	5,504.5	5,528.8
Other income	1,242.0	1,647.7	2,142.6	2,679.8
Investments	-1.0	-1.0	-1.0	-1.0
Investing Cashflow	1,241.0	1,646.7	2,141.6	2,678.8
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0
Dividend paid (incl tax)	-1,098.5	-1,100.7	-1,100.7	-1,100.7
Income from investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing Cashflow	-1,098.5	-1,100.7	-1,100.7	-1,100.7
Net chg in cash	2,549.3	5,882.4	6,545.4	7,106.8
Opening cash position	12,321.7	14,871.0	20,753.4	27,298.7
Closing cash position	14871.0	20753.4	27298.7	34405.5

Source: RHP, Emkay research

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	1680.0	1680.0	1680.0	1680.0
Reserves & surplus	15087.2	21186.2	28002.1	35486.9
Net worth	16767.2	22866.2	29682.1	37166.9
Minority Interest	0.0	0.0	0.0	0.0
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	0.0	0.0	0.0	0.0
Loan Funds	0.0	0.0	0.0	0.0
Net deferred tax liability	128.33	128.33	128.33	128.33
Total Liabilities	16,895.5	22,994.5	29,810.4	37,295.2
Gross Block	3,570.3	3,792.1	4,166.8	4,694.6
Less: Depreciation	1,604.9	1,877.9	2,173.7	2,507.0
Net block	1,965.4	1,914.2	1,993.1	2,187.6
Capital work in progress	221.8	374.8	527.8	680.8
Investment	2.1	3.1	4.1	5.1
Current Assets	17,421.3	23,668.1	30,348.9	37,579.1
Inventories	463.8	581.8	614.0	644.9
Sundry debtors	857.5	1,047.2	1,105.1	1,160.7
Cash & bank balance	14,871.0	20,753.4	27,298.7	34,405.5
Loans & advances	631.3	688.0	733.3	770.2
Other current assets	597.8	597.8	597.8	597.8
Current lia & Prov	2,715.2	3,001.8	3,098.4	3,191.1
Current liabilities	1,458.7	1,745.3	1,841.9	1,934.6
Provisions	1,256.5	1,256.5	1,256.5	1,256.5
Net current assets	14,706.2	20,666.3	27,250.5	34,388.0
Total Assets	16,895.5	22,994.5	29,810.4	37,295.2

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	62.1	69.1	69.4	69.4
Net Margin	48.0	52.1	54.0	55.7
ROCE	34.1	40.1	33.1	27.8
ROE	27.8	31.3	26.7	23.1
RoIC	37.1	42.5	35.1	29.5
Per Share Data (Rs)				
EPS	27.7	42.6	47.1	51.1
CEPS	29.2	44.3	48.9	53.1
BVPS	99.8	136.1	176.7	221.2
DPS	5.6	5.6	5.6	5.6
Valuations (x)				
PER	13.5	8.8	8.0	7.3
P/CEPS	12.8	8.5	7.7	7.1
P/BV	3.8	2.8	2.1	1.7
EV / resource (Rs/ tonne)	691.5	607.0	512.9	410.8
EV / EBITDA	8.0	4.4	3.5	2.7
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.0	0.0
Cash per share	88.5	123.5	162.5	204.8

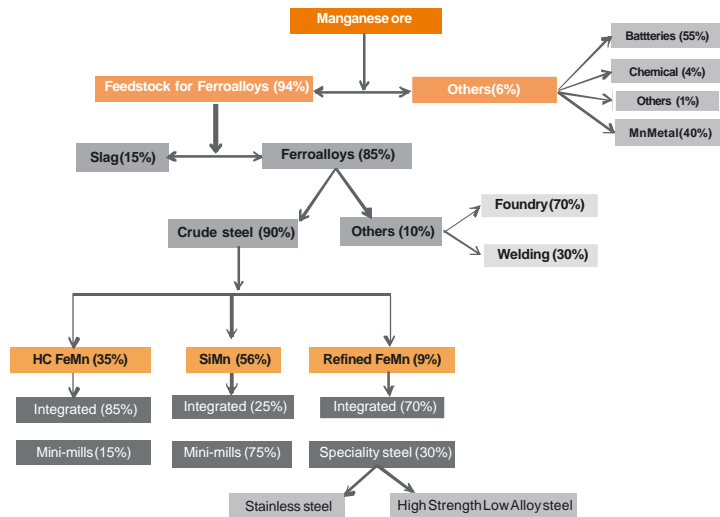
Annexure 1: Facts about Manganese (Mn) ore

Exhibit 10: Grade specification

Grade	Specification
High	with \geq 44% Mn content
Medium	with $>$ 30% and $<$ 44% Mn content
Low	with \leq 30% Mn Content

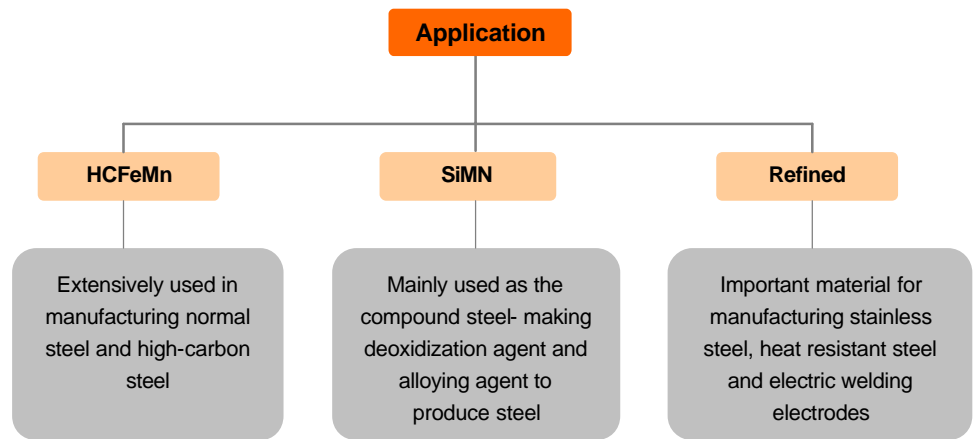
Source: RHP, Emkay research

Exhibit 11: Manganese ore industry and usage



Source: RHP, Emkay research

Exhibit 12: Application of manganese alloys



Source: RHP, Emkay research

Annexure 2: Manganese ore- Global scenario**Exhibit 12: Reserves in different countries**

Country	Reserves (mn tonne)	% age of total
South Africa	4000	77
Ukraine	520	10
Australia	160	3
India	150	3
China	100	2
Gabon	90	2
Brazil	57	1
Mexico	8	0
Others	115	2
Total	5200	100

Source: RHP, Emkay research

Exhibit 13: Production in different countries

Country	2008	2009*
South Africa	2900	1300
Ukraine*	490	310
Australia	2320	1600
India*	960	960
China*	2200	2400
Gabon	1600	810
Brazil	1380	990
Mexico	170	94
Others	1310	1200
Total	13330	9664

Unit- '000 metric tones gross weight; *Estimated

Source: USGS, Emkay research

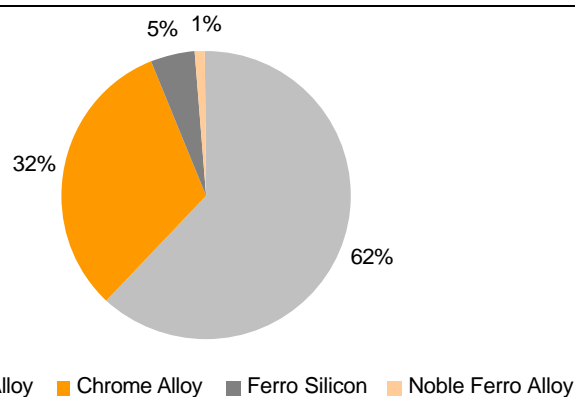
Exhibit 14: Major global producers

Company	Reserves (mn tonne)	Grade (%)	Annual production (mn tonne)	Mn ore as % of sales
BHP Billiton	267.6	37- 48	4.47	3.40
Assore/ Assmang	150.4	38- 45	3.14	60.00
Eramet	81.0	NA	2.00	48.00
Vale	73.9	37.9	1.70	0.01
ENRC	28.1	21.0	0.90	NA
OM Holdings	20.5	39.0	0.65	82.0

Source: RHP, Emkay research

Annexure 3: Indian ferro alloy scenario

Exhibit 14: Indian ferro alloy capacity mix



Source: RHP, Emkay research

Exhibit 14: Indian ferro alloy production, exports and imports

Ferro Alloys (^{'000 tonnes})	Production		Export		Import	
	FY08	FY09	FY08	FY09	FY08	FY09
HC Fe Mn	378.0	370.5	101.2	101.3	2.0	6.0
Refined Fe Mn	13.2	14.1	12.6	20.2	20.0	16.0
Si Mn	858.6	845.4	262.6	300.4	0.5	0.2
Fe Si	83.7	99.6	9.4	37.2	96.3	82.7
Hc Fe Cr	948.4	814.9	483.0	491.7	--	--
Others	82.7	75.9	9.3	9.3	37.4	27.8
Total	2364.6	2220.4	878.1	960.1	156.2	132.7

Source: RHP, Emkay research

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.