

# Electrosteel Castings Ltd

Iron ore mine receives stage one approval from MoEF

Fundamental Grade **3/5 (Good fundamentals)**  
Valuation Grade **5/5 (CMP has strong upside)**

Industry **Metals and Mining**

Electrosteel Castings Ltd (Electrosteel) has received the "In Principle" stage one clearance from the Ministry of Environment and Forests (MoEF) for its iron ore mines located at Kodolibad, West Singhbhum, Jharkhand. Considering the time required for securing additional approvals, we expect the company to commence mining operations in the next ~1-1.5 years. Once fully operational, we expect significant cost benefits to accrue to the company, besides catering to the iron ore requirements of Electrosteel as well as its steel venture, Electrosteel Steel Ltd. We will be releasing a detailed report post discussion with the management. We maintain the fundamental grade of **3/5**.

## Details of the approval

- The Kodolibad mine, which has received the stage one clearance from MoEF, was allotted to Electrosteel in 2006; it has geological reserves of 91.2 mn tonnes of iron ore. The clearance is subject to certain conditions like payment of NPV, transferring the compensatory afforestation land, payment towards eco development, submission of mining plan, submission of undertakings etc in favour of the forest department. According to the company, it will be able to fulfil these conditions in ~5-6 months and will submit the compliance report to the Divisional Forest Officer (DFO) as required. The DFO will ensure that the compliance norms have been adhered to and then forward this report to the state head office which in turn will send it to the MoEF for the stage two or final clearance.
- Post the receipt of the final clearance, which the company expects in the next 6-8 months, the company will start development work around the mine; it expects to start mining iron ore in the next 1-1.5 years. It will take ~2-3 years to ramp up mining operations to meet requirements of both Electrosteel Castings and Electrosteel Steel. The company expects to incur capex of Rs 3 bn for the development of this mine.
- This iron ore mine is an open cast mine and is expected to have higher grade of iron ore (~ 62% iron ore content) with minimal overburden (impurities associated with iron-ore). Also, the company does not expect any land acquisition issues as the mine is located in a forest area which is uninhabited.
- Electrosteel's DI (ductile iron) pipes' plant in Khardah, West Bengal, is ~300 kms and the steel plant at Bokaro, Jharkhand is ~240 kms from the mine. The company plans to transport iron ore to these plants by rail and has already secured railway wagons and has already set up one railway siding. The development of another railway siding is underway.

## Valuation: Current market price has strong upside

We continue to use sum-of-the-parts method to value Electrosteel and maintain our fair value estimate at Rs 35 per share.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	19,976	15,029	17,061	18,304	20,692
EBITDA	3,397	3,129	3,034	1,973	2,932
Adj PAT	1,058	1,570	1,463	1,009	1,092
Adj EPS-Rs	3.7	4.8	4.5	3.1	3.3
EPS growth (%)	339.6	30.4	(6.8)	(31.1)	8.2
Dividend yield (%)	9.2	2.4	5.1	5.7	5.6
RoCE (%)	13.4	10.0	8.3	4.2	5.8
RoE (%)	8.2	10.5	9.0	5.9	6.2
PE (x)	6.6	5.1	5.4	7.9	7.3
P/BV (x)	0.5	0.5	0.5	0.5	0.4
EV/EBITDA (x)	4.5	4.9	5.7	10.2	7.8

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

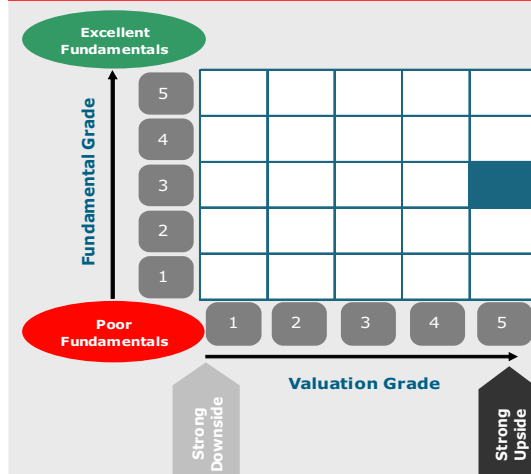


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Fair Value **Rs 35**

CMP **Rs 24**

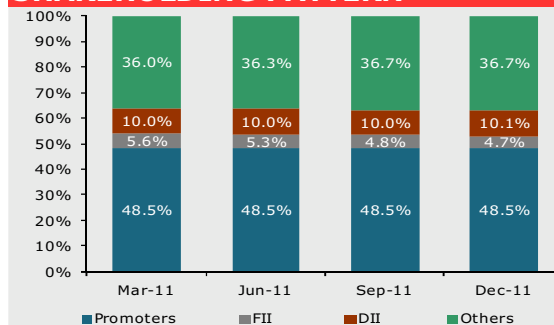
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY / SENSEX	5564/18289
NSE / BSE ticker	ELECTCAST/ ELECTROST
Face value (Rs per share)	1
Shares outstanding (mn)	327
Market cap (Rs mn)/(US\$ mn)	7,940/160
Enterprise value (Rs mn)/(US\$ mn)	20,027/403
52-week range (Rs) (H/L)	35/15
Beta	1.23
Free float (%)	51.5%
Avg daily volumes (30-days)	634,507
Avg daily value (30-days) (Rs mn)	13.1

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ELECTROSTEEL	27%	2%	-22%	-26%
NIFTY	12%	13%	10%	0%

## ANALYTICAL CONTACT

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