COMPANY UPDATE

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MOIL LTD

PRICE: RS.208 **RECOMMENDATION: BUY**
TARGET PRICE: RS.260 **FY20E PE: 10.8X**

Driven by tight supply and restocking of the inventories, international prices of manganese ore has rebounded to multi-year high of over $7.5/dmtu (CNF India is at $8.5/dmtu). Backed by the firm international price, MOIL has further increased manganese ore price in April 2018 by 5-12% across all the grades, in addition to the 5-10% hike taken in the month of March 2018. Besides, firm international prices, lower supply from the domestic miners also supported the recent increase in the domestic manganese ore prices. The company reported highest ever turnover of Rs13 bn (provisional number) in FY18, supported by higher volume and strong realisation. In FY18, the company achieved a record production volume of 1.2MT (highest in last 10 years), up 19% YoY. The company is setting up 75,000 tonnes of Ferro alloy plants at an estimated capex of Rs 4.2bn. We have tweaked estimates, factoring buy back of 8.8 mn shares (3.3% of outstanding equity) and increased capex. Our revised earnings stands at Rs16.3 (earlier Rs15.6), Rs16.9 (earlier Rs16.7) and Rs19.6 (earlier Rs19.3) for FY18E, FY19E and FY20E, respectively. Given its strong business model, robust balance sheet with strong liquidity positions and its dominant position in the domestic market and further improvement likely in the manganese ore realisation, supports our positive stance on the stock. The stock is trading at attractive valuation of 4.6x FY20E EV/EBITDA. We reiterate our BUY rating, with a target price of Rs260.

Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	12,490	13,379	14,737
Growth (%)	27.2	7.1	10.1
EBITDA	4,908	5,694	6,624
EBITDA margin (%)	39.3	42.6	44.9
PBT	6,389	6,500	7,378
Net profit	4,198	4,355	4,944
Adj EPS (Rs)	16.3	16.9	19.2
Growth (%)	36.5	3.8	13.5
CEPS (Rs)	18.7	19.6	22.3
BV (Rs/share)	111	122	136
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	14.6	13.8	14.1
ROCE (%)	14.9	15.8	16.6
Net cash (debt)	19,943	20,690	23,155
EV/EBITDA (x)	6.9	5.8	4.6
EV/Sales (x)	2.7	2.5	2.1
P/E (x)	12.8	12.3	10.8
P/CEPS (x)	11.1	10.6	9.3
P/BV (x)	1.9	1.7	1.5

Source: Company, Kotak Securities – Private Client Research

On track to achieve target

MoIL recorded highest ever production of 1.2MT manganese ore in FY18, up ~19% YoY. In order to maintain its market share and meet the growing demand, the company has prepared the strategic plan to produce 2MT by FY21E and 2.5MT by end of FY25E. In order, to achieve the target, MOIL has taken up various mine development and expansion projects which include setting up of the high speed shaft at Balaghat and Gumgaon Mines with total investment of about Rs 4.6bn. The company is having total mining leases over an area of 1743.77 Ha as on Mar'17 out of which 704.22 Ha is in Maharashtra and 1039.55 Ha is in Madhya Pradesh. MOIL has also got new manganese ore leases over an area of 988.181 hectares under various categories. These include 311.593 hectares under mining leases in the State of Maharashtra and Madhya Pradesh, 464.98 hectares under PL and 211.608 hectares under reservation in the State of Maharashtra. In addition, Government of Madhya Pradesh has also reserved a new area of 372.701 hectares in favour of MOIL which is adjacent to its Balaghat mine.

Well placed to capitalize on domestic steel demand growth

Given its 81.5 MT high grade reserves and resources, low cost mining operations and its dominant position, we believe MOIL is well placed to capitalize on domestic steel demand growth. The company is the largest producer of manganese ore in the country with a share of about 45%. Domestic steel consumption grew 7.6% YoY during Apr-Feb FY18. Steel production during the same period was up 2.8% YoY and the momentum is expected to remain strong, with the ramp-up of existing capacities and commissioning of new capacities. Besides this, imposition of anti-dumping duty on steel products till FY21 will aid the demand for manganese ore. The performance of manganese ore industry, mainly depends on the performance of the steel industry. As per latest National Steel Policy-2017, India has set capacity target of 300MT of steel by 2030-31, this will create domestic demand of manganese ore to the tune of around 10MT, which will provide a good opportunity for MOIL to increase its production and also increase its market share. In addition to the increase in domestic steel production, India imports ~1.91MT of high grade manganese ore, this also provides an opportunity for MoIL to increase its production.

From ore to Alloy

In order to diversify its revenue stream, the company has approved setting up ferro-alloy plants at Balaghat and Gumgaon mines with a total capacity of 75,000 tonnes, at an estimated capex of Rs 4.2bn. The facilities are expected to come on stream in FY21.

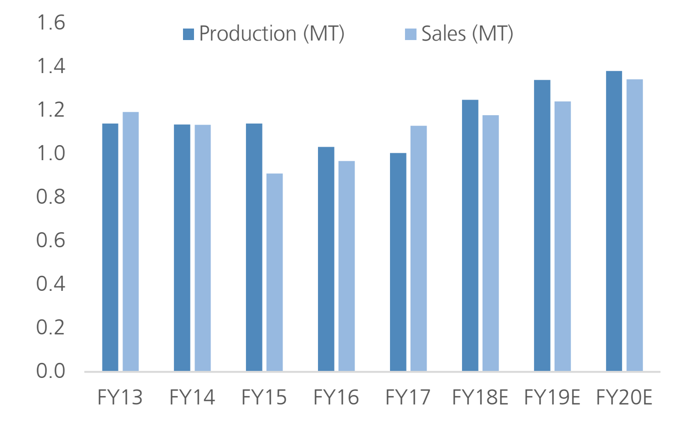
Robust balance sheet with healthy liquidity position

MOIL is a debt free company with a robust balance sheet and a healthy liquidity position. Despite the buyback of shares, we expect cash and cash equivalents to be Rs20bn at the end of FY18E which is ~37% of its current market cap. The strong balance sheet, makes the company better placed to expand its mining capacity and to acquire other mines. The company is well placed to fund its capex of Rs15-20 bn till FY21, backed by its strong cash flow. It has a healthy operating cash flow of ~Rs4bn every year, which would further add up to the cash balance. We expect cash and cash equivalents to rise up to Rs23.2bn at the end of FY19E. Besides this, dividend yield is likely to remain in the range of 2-3% in the coming years. Higher liquidity and attractive dividend yield provide a high margin of safety.

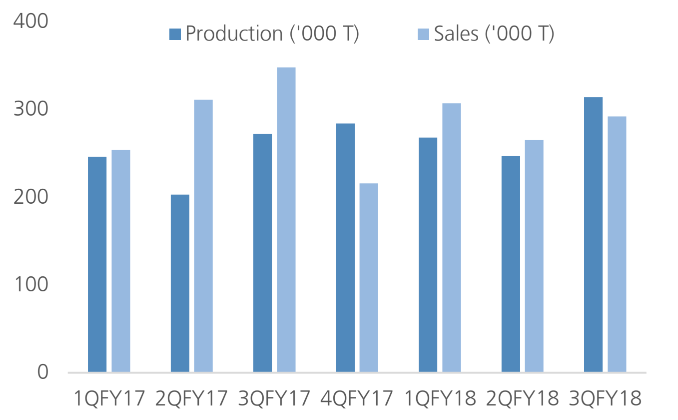
Maintain BUY

At current valuation of 4.6x FY20E EV/EBITDA, the stock is attractive compared to other mining companies. Given its strong business model backed by low cost operations, robust balance sheet and improvement in demand backed by rising steel production, we believe MOIL is well poised to capitalize on the opportunity. Besides this, firm global iron ore prices and visibility of improvement in domestic demand of high grade manganese ore, we believe manganese ore prices in the domestic market is likely to remain strong, which should support the earnings. We reiterate **BUY**, with a target price of Rs260.

Annual volume trend

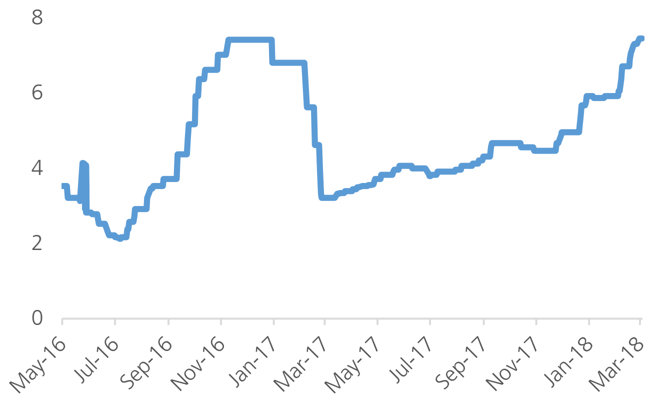


Quarterly trend

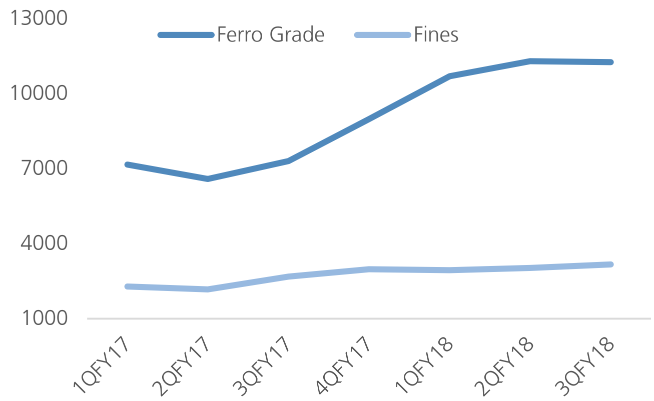


Source: Kotak Securities, Private Client Research

Chinese Manganese ore prices ($/dmtu)



MoIL realisation trend (Rs/T)



Source: Bloomberg, Kotak Securities – Private Client Research

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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