Sandur Manganese

Discussion for VP Group

What does company do?

- Produces iron ore (EC clearance upto 1.6 MTPA), manganese ore (EC clearance upto 0.6 MTPA) and ferro alloys (using 32 MW captive power source); Ores are sold through e-auction
- Iron ore extraction fully mechanized; manganese semi-mechanized (resulting in lower EBITDA margins because of higher manpower cost); Manganese extraction limited to 0.25 MTPA because of high manual labor demand
- Large capex (1500 cr.) to make steel plant (in 3 phases)
    - First phase (600 cr.) to be funded by debt (400 cr.) + internal accruals (200 cr.). Setup integrated 1 MTPA steel plant. Can generate stable state EBITDA of 220-250 cr. (Focus on operational excellence by reusing energy making them cost competitive)
    - Subsequent phases to commence after stabilization of Phase 1

Rich heritage (rare honest company in an otherwise dirty industry)

- Was the only mining lessee to be awarded 5-star rating in Karnataka and one of the only three of 5-star rated lessee in India
- Have given up land twice to the government which had proven reserves
- CSR activities

- Huge asset base. 3200 ha of mining rights. 1200 ha still unused.

Rating Rationale

October 29, 2020 | Mumbai

The Sandur Manganese And Iron Ores Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.470 Crore**
Long Term Rating	**CRISIL A-/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A2+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its rating on bank facilities of The Sandur Manganese and Iron Ores Limited at 'CRISIL A-/Stable/CRISIL A2'.

The ratings continue to reflect a strong market position as the fifth-largest iron ore miner in Karnataka and the largest private miner of manganese ore in India, supported by a track record of more than six decades with large mining reserves and a long tenure of mining licences and strong financial risk profile. These strengths are offset by project risk related to large ongoing debt funded capital expenditure plan, susceptibility to heightened regulatory risks and vulnerability of operating margin to commodity prices.

Analytical Approach

CRISIL had earlier taken a consolidated view on the business and financial risk profiles of SMIORE and its subsidiary, Star Metallics and Power Private Limited (SMPPL). However, CRISIL is now taking a standalone view on the business and financial risk profiles of SMIORE due to amalgamation of SMPPL with SMIORE as on 1st April 2019.

Key Rating Drivers & Detailed Description

Strengths:

*** Long track record and extensive mining reserves:**

SMIORE was set up in 1954 when Mr Y R Ghorpade, the former Maharaja of Sandur, transferred the lease awarded to him in the company's name. Currently, it has two mining leases valid up to 2033, with estimated reserves of almost 118.5 million tonne of iron ore and around 14.7 million tonne of manganese with production capacity of 1.6 million tonne per annum (TPA) for the former and 0.289 million TPA for the later. The company is among the few entities with category 'A' iron ore mining leases with production capacity of more than 1 million TPA. The extensive reserves, long validity of the mining licence, and presence of more than six decades in the industry are expected to continue benefiting the group in the near term.

*** Strong financial risk profile; likely to be maintained despite planned capex:**

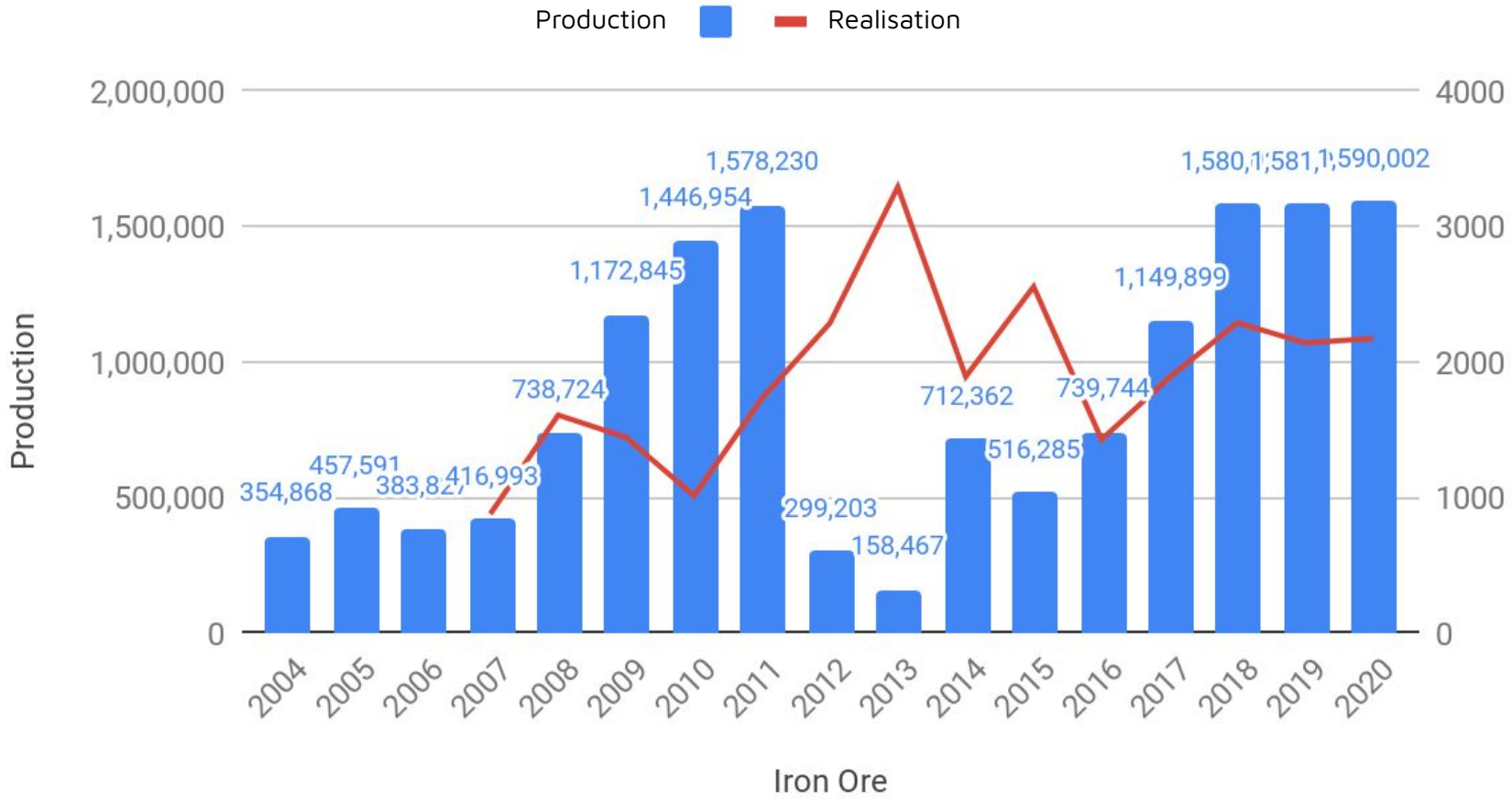
The group had a combined networth of more than Rs 838 crore as on March 31, 2020, on account of steady accretion to reserves over the years. Despite the planned debt-funded capex, the capital structure is expected to remain sound, with total outside liabilities to tangible networth ratio at less than 1 time in the next two fiscals. Interest outlay will increased sharply, owing to the term debt raised for funding the capex, in fiscal 2020. Nevertheless, the Sandur group's interest coverage and net cash accruals to total debt (NCATD) ratios are expected to remain in the range of 15 - 20 times, and 0.4 - 0.6 times respectively, over the next two fiscals.

Weaknesses:

*** Exposure to project risk related to large ongoing debt funded capital expenditure plan:**

The group has commenced a major debt-funded capex programme, budgeted at over Rs 650 crore. This is to be funded through term debt of Rs 400 crore and internal cash accrual parked mainly in debt mutual funds. The capex is multi-pronged, wherein the group plans to set up a 0.4 million TPA coke oven facility, a 30 megawatt (MW) waste heat recovery-based (WHRB) power plant, and also upgrade the existing ferroalloy plant apart from establishing additional evacuation infrastructure for its mines. The group would be adding another furnace and would be upgrading the existing furnace

Production and realization trend

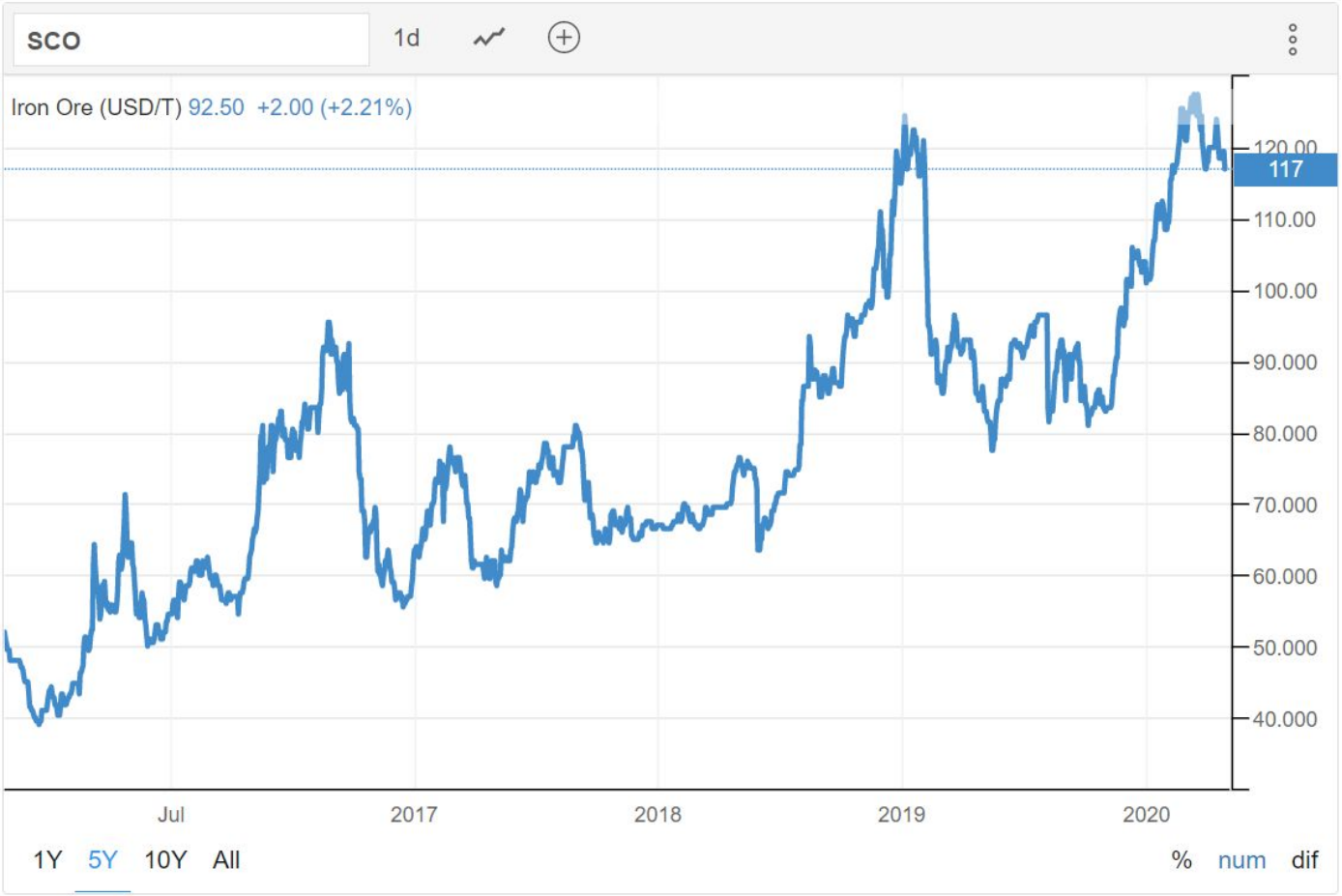


Is it really very cyclical like the usual opinion?

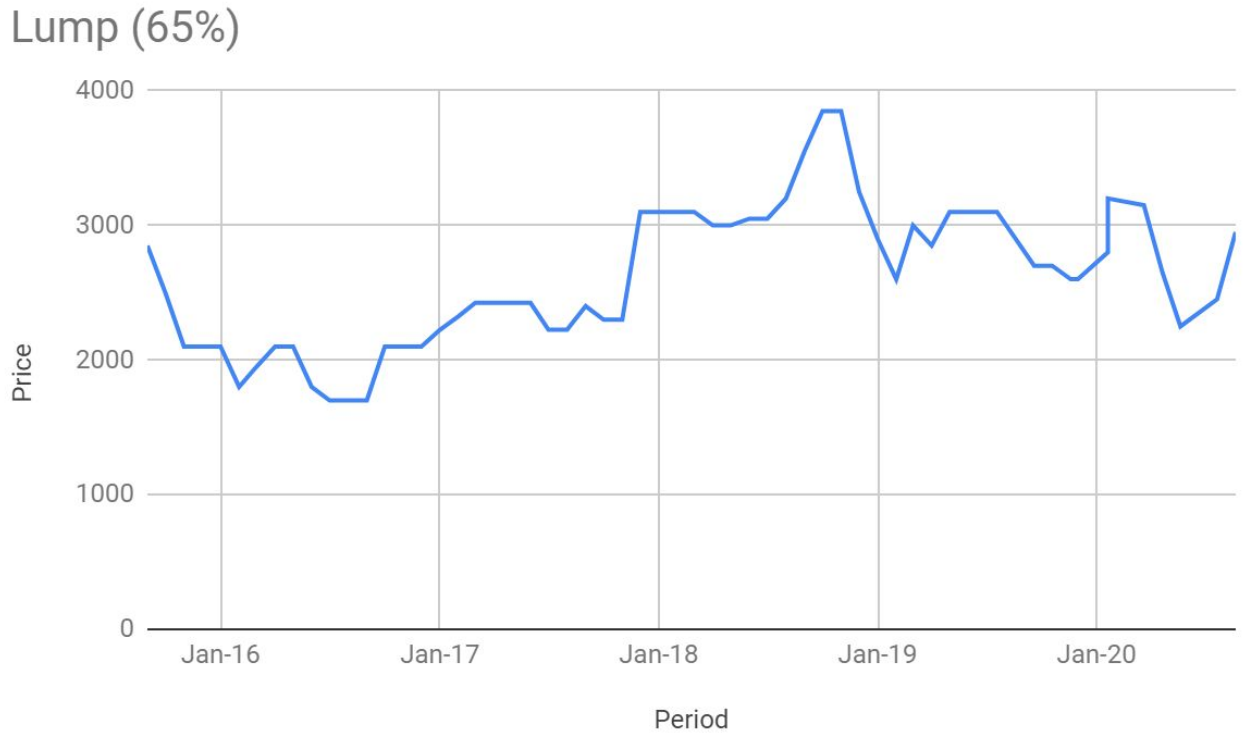
Iron Ore	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Production	1,578,230	299,203	158,467	712,362	516,285	739,744	1,149,899	1,580,021	1,581,000	1,590,002
Sales	1,107,680	514,791	233,813	909,956	568,592	884,292	1,193,615	1,332,386	1,491,016	1,545,000
Salvaged from Dumps	*	*	*	405856	81584	*	*	*	*	
Sales Value	192	118	77	172	145	126	225	305	319	335
Realisation	1730	2284	3289	1889	2554	1425	1884	2287	2138	2171

2013 was the year of ban.
2016 was the worst year for steel industry in more than a decade.

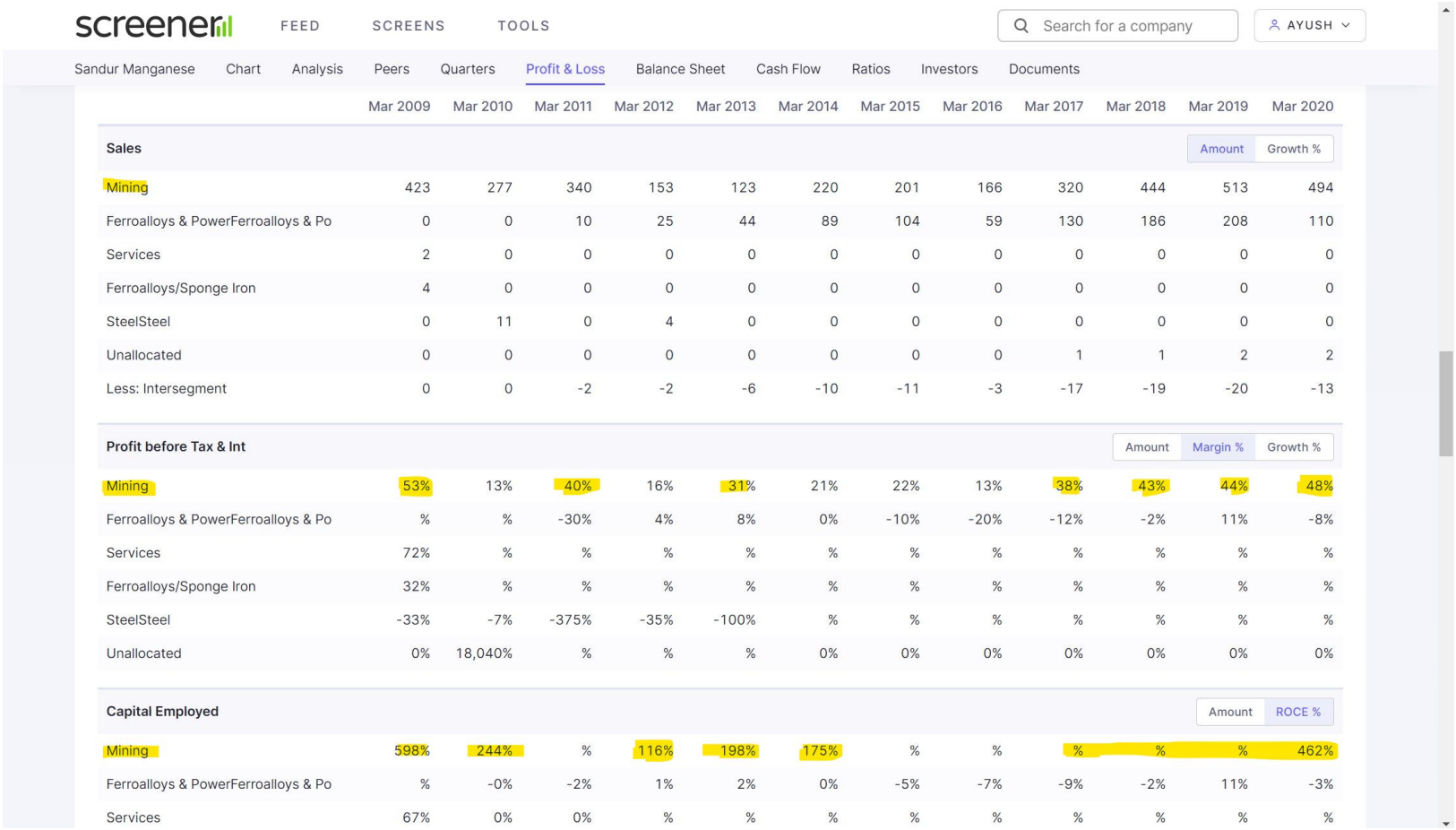
Iron Ore price trend - international



NMDC Iron Ore price trend - domestic



Iron Ore business is a cash cow!



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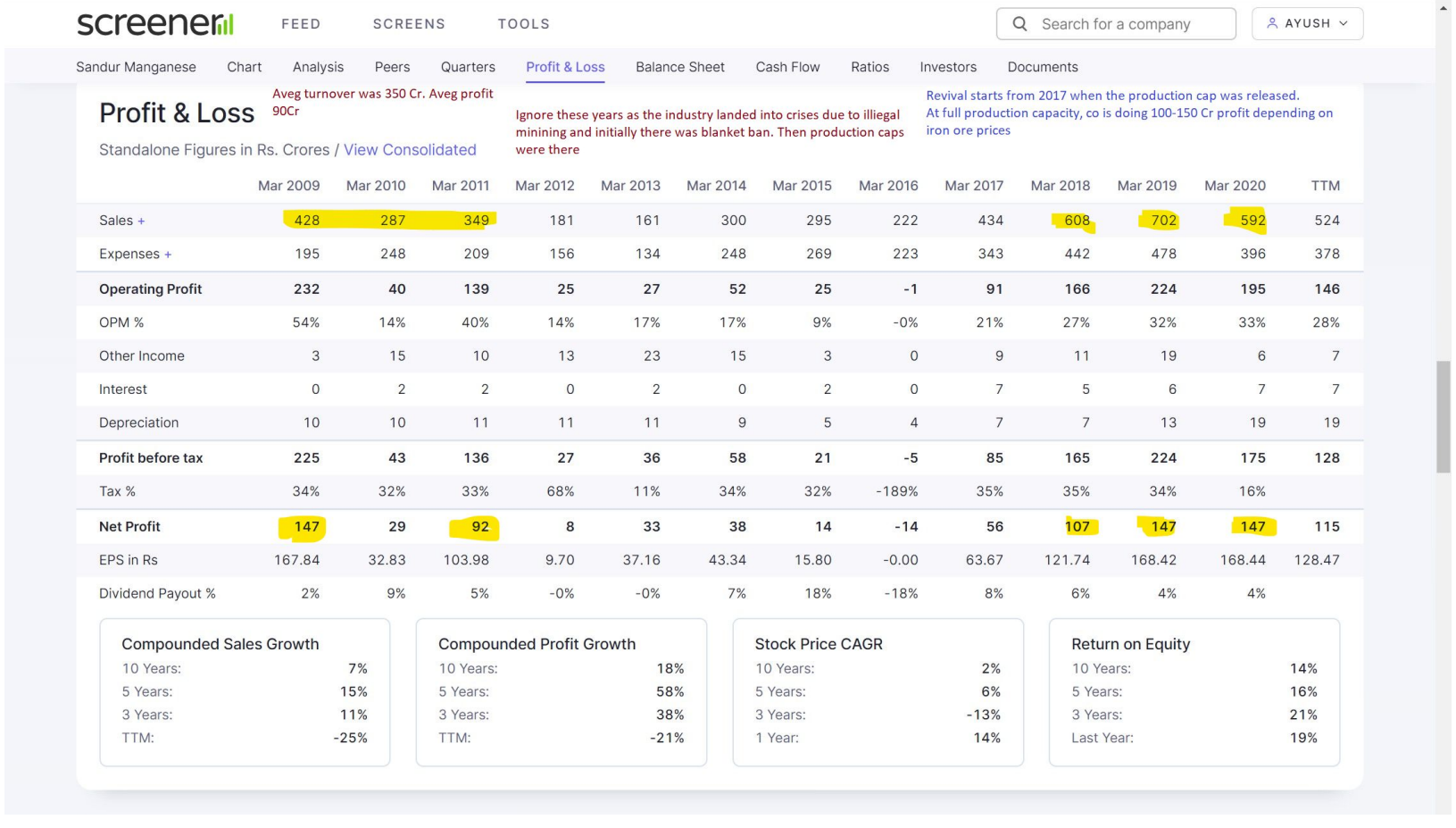
Sandur Manganese | Chart | Analysis | Peers | Quarters | Profit & Loss | Balance Sheet | Cash Flow | Ratios | Investors | Documents

	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020
Sales											Amount / Growth %	
Mining	423	277	340	153	123	220	201	166	320	444	513	494
Ferroalloys & PowerFerroalloys & Po	0	0	10	25	44	89	104	59	130	186	208	110
Services	2	0	0	0	0	0	0	0	0	0	0	0
Ferroalloys/Sponge Iron	4	0	0	0	0	0	0	0	0	0	0	0
SteelSteel	0	11	0	4	0	0	0	0	0	0	0	0
Unallocated	0	0	0	0	0	0	0	0	1	1	2	2
Less: Intersegment	0	0	-2	-2	-6	-10	-11	-3	-17	-19	-20	-13
Profit before Tax & Int											Amount / Margin % / Growth %	
Mining	53%	13%	40%	16%	31%	21%	22%	13%	38%	43%	44%	48%
Ferroalloys & PowerFerroalloys & Po	%	%	-30%	4%	8%	0%	-10%	-20%	-12%	-2%	11%	-8%
Services	72%	%	%	%	%	%	%	%	%	%	%	%
Ferroalloys/Sponge Iron	32%	%	%	%	%	%	%	%	%	%	%	%
SteelSteel	-33%	-7%	-375%	-35%	-100%	%	%	%	%	%	%	%
Unallocated	0%	18,040%	%	%	%	0%	0%	0%	0%	0%	0%	0%
Capital Employed											Amount / ROCE %	
Mining	598%	244%	%	116%	198%	175%	%	%	%	%	%	462%
Ferroalloys & PowerFerroalloys & Po	%	-0%	-2%	1%	2%	0%	-5%	-7%	-9%	-2%	11%	-3%
Services	67%	0%	0%	%	%	%	%	%	%	%	%	%

Quick Financials



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Sandur Manganese Chart Analysis Peers Quarters Profit & Loss Balance Sheet Cash Flow Ratios Investors Documents

Profit & Loss

Aveg turnover was 350 Cr. Aveg profit 90Cr

Ignore these years as the industry landed into crises due to illiegal mininng and initially there was blanket ban. Then production caps were there

Revival starts from 2017 when the production cap was released. At full production capacity, co is doing 100-150 Cr profit depending on iron ore prices

Standalone Figures in Rs. Crores / View Consolidated

	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	TTM
Sales +	428	287	349	181	161	300	295	222	434	608	702	592	524
Expenses +	195	248	209	156	134	248	269	223	343	442	478	396	378
Operating Profit	**232**	**40**	**139**	**25**	**27**	**52**	**25**	**-1**	**91**	**166**	**224**	**195**	**146**
OPM %	54%	14%	40%	14%	17%	17%	9%	-0%	21%	27%	32%	33%	28%
Other Income	3	15	10	13	23	15	3	0	9	11	19	6	7
Interest	0	2	2	0	2	0	2	0	7	5	6	7	7
Depreciation	10	10	11	11	11	9	5	4	7	7	13	19	19
Profit before tax	**225**	**43**	**136**	**27**	**36**	**58**	**21**	**-5**	**85**	**165**	**224**	**175**	**128**
Tax %	34%	32%	33%	68%	11%	34%	32%	-189%	35%	35%	34%	16%	
Net Profit	**147**	**29**	**92**	**8**	**33**	**38**	**14**	**-14**	**56**	**107**	**147**	**147**	**115**
EPS in Rs	167.84	32.83	103.98	9.70	37.16	43.34	15.80	-0.00	63.67	121.74	168.42	168.44	128.47
Dividend Payout %	2%	9%	5%	-0%	-0%	7%	18%	-18%	8%	6%	4%	4%	

Compounded Sales Growth	
10 Years:	7%
5 Years:	15%
3 Years:	11%
TTM:	-25%

Compounded Profit Growth	
10 Years:	18%
5 Years:	58%
3 Years:	38%
TTM:	-21%

Stock Price CAGR	
10 Years:	2%
5 Years:	6%
3 Years:	-13%
1 Year:	14%

Return on Equity	
10 Years:	14%
5 Years:	16%
3 Years:	21%
Last Year:	19%

Massive Capex

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Balance Sheet

CORPORATE ACTIONS

Standalone Figures in Rs. Crores / View Consolidated

	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020
Share Capital +	9	9	9	9	9	9	9	9	9	9	9	9
Reserves	179	205	292	300	333	368	379	362	423	521	695	831
Borrowings	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	400
Other Liabilities +	136	158	180	149	119	109	115	106	136	127	159	223
Total Liabilities	**324**	**372**	**481**	**458**	**461**	**486**	**503**	**476**	**568**	**657**	**862**	**1,462**
Fixed Assets +	80	73	86	81	75	67	74	78	83	123	260	306
CWIP	4	7	8	5	18	4	4	1	3	12	202	557
Investments	89	111	148	169	191	196	209	175	247	303	65	57
Other Assets +	150	181	239	203	177	220	216	222	235	220	335	541
Total Assets	**324**	**372**	**481**	**458**	**461**	**486**	**503**	**476**	**568**	**657**	**862**	**1,462**

SMIORE NEXT – Why?

Why venturing into manufacturing led business from mining led?

- To reduce power cost
- To create captive use of iron ore

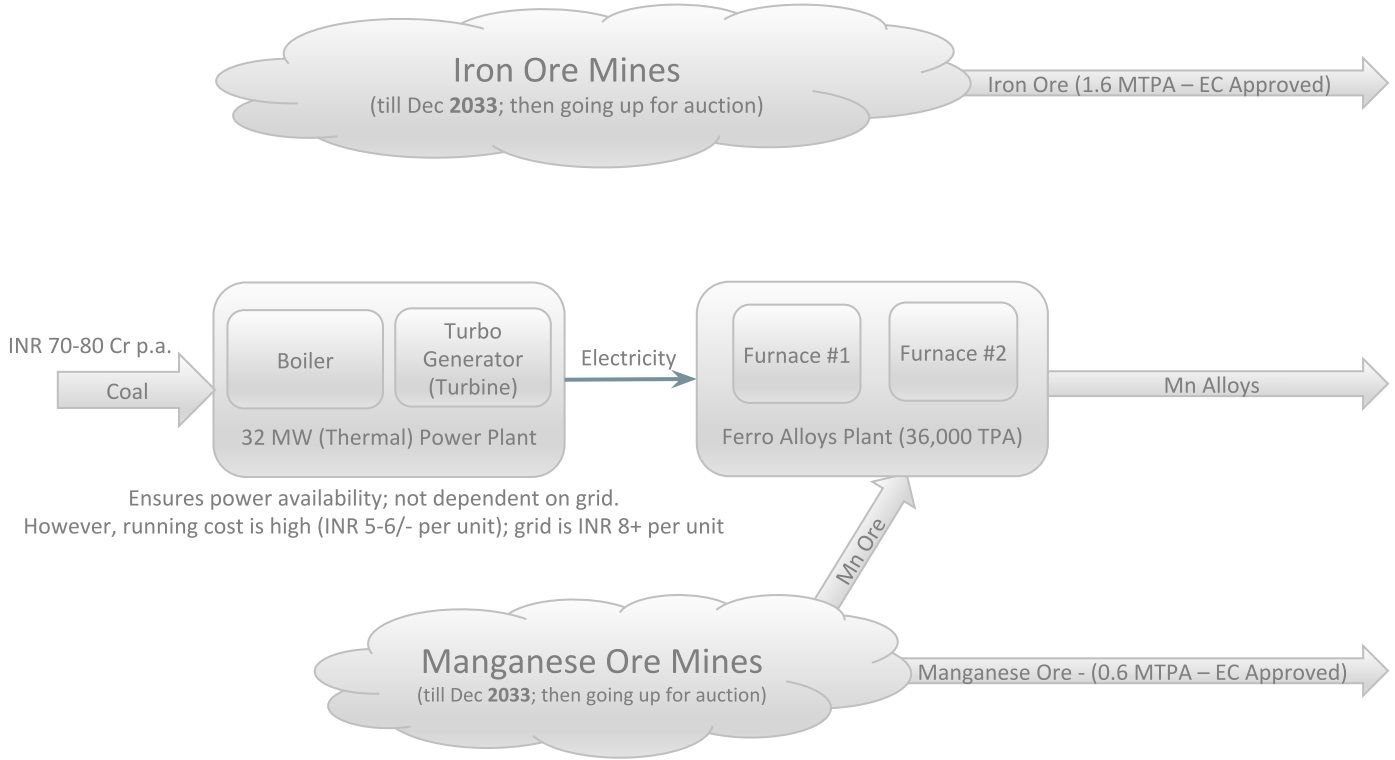
Create captive use of iron ore

- Mines are going to go up for auction in Dec 2033
- Premium will be paid for these mines in future, going by history data of mine auctioning in KN
- View that preference will be given to cos who has captive consumption
- Reserves are not going to get over in 2033 the way the co has been mining
- Co know these mines well

Reduce power cost

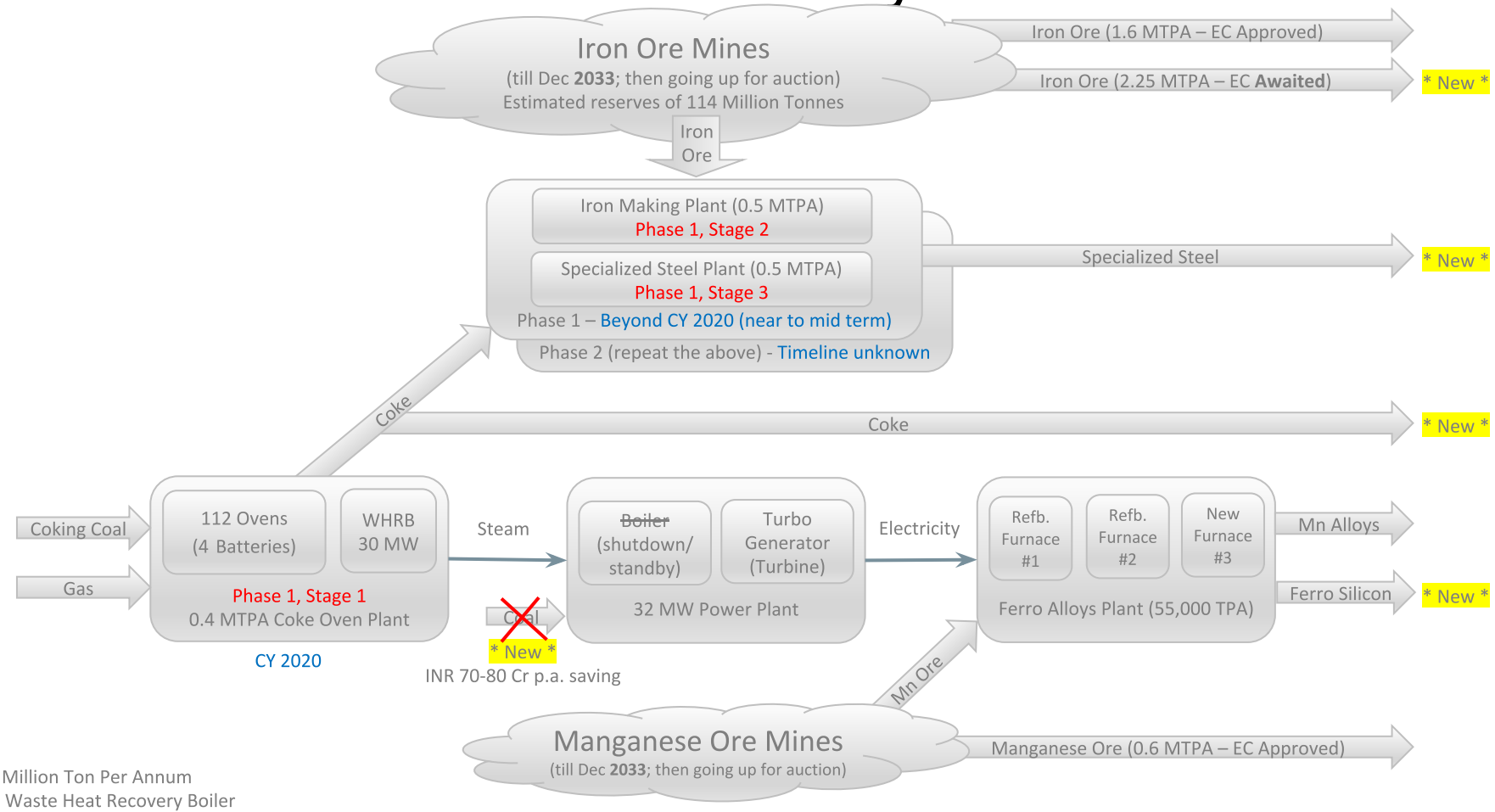
- Thinking: Set up a business which in worst case can sustain on its own
- Decided to go with non-recovery coke own plant as it can support 30 MW power generation
- Running cost of power will be down to 50p vs INR 5-6/- per unit currently
- Post 2033, even if co has to end up buying manganese ore to run ferro alloys plant, co will be cost effective

SMIORE - In 2019



MTPA : Million Ton Per

SMIORE NEXT - 2020 & beyond



MTPA : Million Ton Per Annum
WHRB : Waste Heat Recovery Boiler

Potential triggers

- Approval of iron mining upto 3.85 MTPA (current clearance: 1.6 MTPA) - Required for the 1 MTPA steel plant. Can track progress at http://environmentclearance.nic.in/timelineA.aspx?pid=IA/KA/MIN/90857/2019&type=TOR&proposal_id=19614
- Coke oven plant- setting up 2 waste heat recovery-based (WHRB) power plant which should make their ferro alloy business profitable.
  - Heat is the main product
  - Coke is the by-product. Can generate 8-10% EBITDA.
- Increased Ferro Alloy Production- producing around 30,000 MT of Silico Manganese for the last two years, they plan to increase this to 55,000 MT.
- Increased Mn Ore Production- mining around 0.29 MTPA of Mn Ore for the last 2 years, the company plans to take this up to 0.5 MTPA.

Source- https://www.bseindia.com/xml-data/corpfiling/AttachLive/cf5c3ee4-f060-4d31-8535-f0453ca679fd.pdf

Risks

1. Is not backward integrated and has to procure coking coal which exposes it to foreign currency exchange risk
2. Very large debt funded CAPEX in a cyclical downturn can kill the company
3. Too young a MD - can he mess up? Will this deter interest amongst investors?
4. Political interference (was congress affiliated in the past);
5. Large contingent liabilities because of disputed income tax and forest development tax claims (Paid 113 cr. to forest department in 2005)
6. Karnataka iron ore prices can sometimes be de-linked from international prices because exports are/were not allowed
7. Promoter pledge for the term loans (non-market linked pledge)


Coal (USD/T) 58.52
110.00
100.00
90.000
80.000
70.000
58.52
50.000
Jul
2017
2018
2019
2020
1Y
5Y
10Y
All
%
num
dif

Possible nos in FY22?

	FY19	FY20	FY22E
Sales	687	580	**1580**
EBITDA	224	195	**400-500**
PBT	224	175	**300-400**
PAT	147	147	**220-300**
Break-up			
Iron Ore			
Volume (MT)	1.49	1.54	3
Sales (cr)	319	335	630
Mn Ore			
Volume (MT)	0.26	0.22	0.35
Sales (cr)	165	137	210
Ferro Alloy			
Volume ('000 Tonne)	32.7	19.3	50.0
Sales (cr)	203	108	285
Coke Oven			
Volume (MT)	nil	nil	0.35
Sales (cr)	nil	nil	665

*Sales realisation may vary and with that, so will the revenues and profitability. Estimates are taken based on last 3-4 year average figures.

Update from AGM 2020

1m 3m 6m 1Yr 3Yr 5Yr Max

Price Price to Earning

Interesting facts

- Produces lower grade of manganese which is used to make ferro alloys that is used in making steel. This grade of steel is used in automobile. Higher-grade of manganese is used in dry cell which can be used in electric vehicles. High-grade manganese ores are exported to China, where they are used to produce manganese metal & dry cells.
- Demand for India in terms of manganese ore is ~3MT. 1/3rd to half the demand is mined locally in India whereas the rest of manganese ores are imported
- Iron ores are of lower grade (therefore lower price realization) in the form of fines used in blast furnace based steel plants and cannot be exported (NMDC has higher quality iron ores)
- Has ~2000 ha of mining land with overall estimated iron ore reserves of 114 MT
- Withdrawal of concessional power tariff by Karnataka government bankrupted the company in 1990s
- Peak earnings are 5-years apart (Sept 2009, Jan 2014, Feb 2019).
- Low cycle (ROE < 10%, PAT margins < 4%, Trailing sales growth is -ve); Peak cycle (ROE > 30%, PAT margins > 20%)

Family tree

Founders:
Y.R. Ghorpade (Yeshwantrao Hindurao Ghorpade) (1908 -1996) - Ruler of Sandur
M.Y. Ghorpade (Murarirao Yeshwantrao Ghorpade) (1931 - 2011) - Eldest son of Y.R. Ghorpade - Ruler of Sandur
==========
Ajaisinh Murarao Raje Ghorpade - Eldest son of M. Y. Ghorpade - Now Ruler of Sandur
Bahirji Ajaysinh Raje Ghorpade - Eldest son of Ajaisinh Murarao Raje Ghorpade - **became the new MD of SMIORE now**
He is the next eligible ruler from the royal family. Inducted on Board in 2015 at the age of 20 to gain experience.
Refer: https://www.royalark.net/India2/sandur5.htm 3

How can audience help?

- Do more work and share inputs that validate or break the hypothesis
- Do work around cos producing Coke - are there examples of substantial saving by way of WHR? Why haven’t others done this before?

For Offline Reading

Table 5.2: Details of various non-recovery coke oven batteries operating in India

Sl.No	Company Name	Place	Capacity in Million ton	No. of Batteries	No. of Ovens	Quenching	Type
1	Bhatia Coke	Chennai	0.20	4	157	Wet	Horizontal
2	Sathavana Ispat	Bellary	0.40	6	90	Wet	Horizontal
3	Visa Suncoke	Jajpur	0.40	8	88	Wet	Horizontal
4	Electrosteel	Bokaro	0.50	4	140	Wet	Vertical
5	Bhushan Steel & Power	Jhasruguda	0.50	8	96	Wet	Horizontal
6	Hoogly Met coke	Haldia	1.60	4	352	Wet	Horizontal
7	Bengal energy	Khragpur	0.60	4	160	Wet	Horizontal
8	Jindal saw ltd	Mundra	0.40	4	197	Wet	Horizontal
9	Gujarat NRE Coke ltd	Dharwad	0.59	32	320	Wet	Horizontal
10	Gujarat NRE Coke ltd	Bhachau	0.30	14	260	Wet	Horizontal
11	Jai Balaji	Durgapur	0.36	4	88	Wet	Horizontal
12	Tata Metaliks	Kharagpur	0.20	-	-	Wet	Horizontal
13	Usha Martin Ltd	Jamshedpur	0.40	2	96	Wet	Horizontal
14	JSPL	Raigarh	0.80	8	176	Wet	Horizontal
15	JSW Steel Ltd	Salem	0.50	3	120	Wet	Horizontal
16	JSW Steel Ltd	Bellary	1.20	-	-	Wet	Horizontal
17	Sesa Goa	Goa	0.6	-	-	Wet	Horizontal
18	Jaiswal Nicco	Raipur	0.2	-	-	Wet	Horizontal
19	Lanco Industries	Khalaghasi	0.20	4	162	Wet	Horizontal
20	Gerdau Steel	Tadipatri	0.2	2	44	Wet	Horizontal
21	Haldia coke & Power	West Bengal	0.12	-	-	Wet	Horizontal
22	Basudha Udyog	Chennai	0.12	-	-	Wet	Horizontal
23	BLA Industries	Mithapur	0.18	-	-	Wet	Horizontal
24	Maha Shakti Coke	Gujarat	0.85	-	-	Wet	Horizontal
25	Austral coke & projects ltd	Gujarat	0.24	-	-	Wet	Horizontal

Source: M/s The Sandur Manganese & Iron Ores Limited

Table 5.5: Details of Working Regime of Coke Oven with CDQ

Description	Unit	Coke Production Capacity	
		SMIORE	JSW
1	2	3	4
Coke Oven Capacity	MTPA	0.4	3.4
Total Nos. of Ovens	Nos.	112	512
Coking time	hours	36	24
Nos. of pushing per hour	Nos.	2.7	21
Nos. of Oven Pushed per day	Nos.	65	512
Weight of coal charge into one oven	tons	25	25
Coke produced from one Oven	tons	18	18
Coke Production / pushed per hour	tons	48	380
Hot coke charged in CDCP per hour	tons	48	380
Temperature of coke charged in the chamber	°C	1050	1050
Temperature of coke after cooling	°C	< 200	< 200
Temp. of inert gas at entry of cooling chamber	°C	< 180	< 180
Temp. of circulating gas before waste heat boiler	°C	750 – 800	870-950
Circulating gas flow rate	Nm^3/hr	81,000x1	1,80,000 x 4
Thermal efficiency	%	80 – 85	80 – 85
Pressure of steam generated	ata	66	80
Temperature of steam generated	°C	500	510
Generation of steam/ boiler	t/h	25	65 x 2 75 x 2
Capacity of cooling chamber	t/h	52 – 56	90 – 95
Time of coke cooling in chamber	h	2 – 2.5	2 – 2.5
SP Steam Consumption Per Mw	t	4	4
Power generation per hour	MW	6	70
Auxiliary power consumption per hour	MW	0.6	7
Net power generation	MW	5.4	63