February 07, 2012

REDUCE

MOIL

Target Price (INR)	249

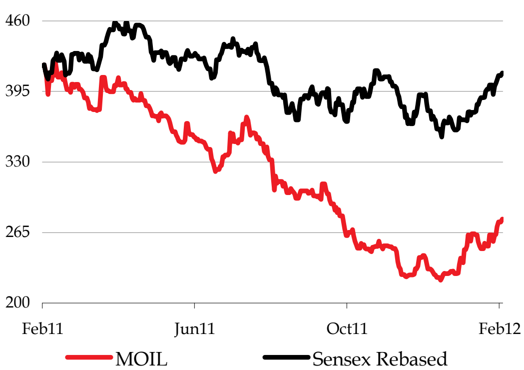
Downgrade to Reduce due to recent out performance

Rating ↓

Last Price (INR)	277.3
Bloomberg code	MOIL IN
Reuters code	MOIL.BO
Avg. Vol. (3m)	177,139
Avg. Val.(3m)(INRmn)	44.1
52-wk H/L (INR)	423 / 216
Sensex	17,707
MCAP (INRbn/USDmn)	46.59 / 950

Shareholding (%)	09/11	12/11
Promoters	80.0	80.0
MFs, FIs, Banks	2.8	3.3
FIIs	4.1	4.1
Public	9.6	9.8
Others	3.5	2.8

Stock Chart (Relative to Sensex)



Stock Perfm. (%)	1m	3m	1yr
Absolute	16.9	9.8	-33.8
Rel. to Sensex	5.3	8.9	-32.1

Financials (INRmn)	03/11	03/12f	03/13f
Sales	11,400	9,124	8,888
YoY (%)	18	-20	-3
EBITDA (%)	67.3	50.6	46.9
A.PAT	5,881	4,067	3,882
Sh o/s (diluted)	168	168	168
A.EPS (INR)	35.0	24.2	23.1
YoY (%)	26	-31	-5
D/E (x)	-0.9	-0.9	-0.9
P/E (x)	7.9	11.5	12.0
EV/E (x)	3.5	5.3	5.5
RoCE (%)	31	18	15
RoE (%)	31	18	15

Quarterly Trends	03/11	06/11	09/11	12/11
Sales (INRmn)	2,517	2,101	2,483	2,395
PAT (INRmn)	1,324	1,089	1,010	1,015

MOIL's operational performance in the Dec11 quarter was lower than estimates due to 7.3% decline in realizations and increase in other expenditure. Other expenditure increased by 45.9% q-o-q to INR481.9mn. Net profit increased by 0.5% q-o-q to INR1bn (against our estimates of INR1.3bn). We lower our net profit forecast for FY12-FY14 by up to 22.3% as we cut our realization estimates by 12.5% and raise other expenditure by up to 10.0%. We lower our target to INR249, after a rollover to Dec12 and downgrade rating on the stock to Reduce due to 25.5% increase in stock price since Dec11.

Net sales declined by 3.5% q-o-q to INR2.4bn due to lower realizations

Net sales declined by 3.5% q-o-q to INR2.4bn (against our estimate of INR2.7bn) due to 2.3% decline in manganese ore sales and 7.3% decline in sales of electro manganese oxide. The decline in sales of manganese ore is due to 7.3% decline in realizations due to sales of low grade manganese ore and fines. Sales volume increased by 5.4% q-o-q to 285,500 tonnes. Downward revision of prices starting Jan12 for various grades of manganese ore has led us to lower our realization estimate for FY12f-FY14f by up to 12.5%. Our revenue estimates for FY12f – FY13f are lowered by up to 13.2%.

EBITDA declined by 1.5% q-o-q to INR1.1bn

EBITDA declined by 1.5% q-o-q to INR1.1bn due to higher other expenditure. Other expenditure increased 45.9% q-o-q to INR482mn. Royalty and cess payment declined by 2.3% q-o-q with lower revenues. Staff cost declined by 7.4% q-o-q to INR567.2mn. We raise our estimates for other expenditure for FY12f – FY14f by up to 10% to account for the increase in cost during 3QFY12. This along with the decline in revenue estimates has led us to cut our FY12f – FY14f EBITDA by up to 31.6%.

Net profit up 0.5% q-o-q due to higher other income

Net profit increased 0.5% q-o-q to INR1bn (against our estimate of INR1.3bn) due to higher other income. Other income increased 5.3% q-o-q to INR498mn due to increase in cash and cash equivalents and higher yield on investments. Depreciation provisioning increased q-o-q by 1.3% to INR72.8mn. Tax/PBT of 33.2% was in line with estimates. We estimate cash and cash equivalents of INR128/share as on Mar12.

Cut net profit forecast by up to 22.3%; Downgrade to Reduce

We cut our net profit forecast for FY12-FY14 by up to 22.3% as we lower our realization estimates by 12.5% to account for the downward revision in prices with effect from Jan12 and raise other expenditure by up to 10.0%. We lower our target price to INR249, after a rollover to Dec12, as we discount the historical average (Dec10 – Feb12) EV/EBITDA and P/E by 30% to reflect the commodity cycle of the manganese ore business. The 25.5% increase in stock price since beginning Dec11 has led us to downgrade our rating on the stock to Reduce. Risk factors include an increase in international manganese ore prices and higher than estimated volumes.

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Exhibit 1: 3QFY12 result snapshot

(INRmn)	Dec10	Sep11	q-o-q (%)	Dec11	y-o-y (%)
Total operating income	2,532.0	2,483.3	-3.5	2,395.4	-5.4
Total operating expenses	923.8	1,372.4	-5.2	1,300.8	40.8
EBITDA	1,608.2	1,110.9	-1.5	1,094.6	-31.9
Other income	337.0	473.0	5.3	498.0	47.8
Depreciation	73.8	71.9	1.3	72.8	-1.4
EBIT	1,871.4	1,512.0	0.5	1,519.8	-18.8
Interest	0.0	0.0		0.0	
Recurring PBT	1,871.4	1,512.0	0.5	1,519.8	-18.8
Net extra ordinary items	0.0	0.0		0.0	
PBT (reported)	1,871.4	1,512.0	0.5	1,519.8	-18.8
Total taxes	621.5	502.2	0.5	504.8	-18.8
PAT (reported)	1,249.9	1,009.8	0.5	1,015.0	-18.8
(+) Share in assoc. earnings	0.0	0.0		0.0	
Less: Minority interest	0.0	0.0		0.0	
Prior period items	0.0	0.0		0.0	
Net income (reported)	1,249.9	1,009.8	0.5	1,015.0	-18.8
Shares outstanding (mn)	168.0	168.0		168.0	
EPS (INR)	7.4	6.0	0.5	6.0	-18.8
Operating ratios (%)					
EBITDA margin	63.5	44.7	1.0	45.7	-17.8
EBIT margin	65.2	51.1	1.4	52.5	-12.7
Net profit margin	43.6	34.2	0.9	35.1	-8.5

Source: Company, Avendus Research

Exhibit 2: Per tonne analysis

Volume and Realizations	Dec10	Sep11	q-o-q (%)	Dec11	y-o-y (%)
Sales volumes (tonnes)	239,000	270,856	5.4	285,500	19.5
Realizations (INR/tonne)	10,005	8,226	-7.3	7,624	-23.8
EBITDA (INR/tonne)	6,729	4,101	-6.5	3,834	-43.0

Source: Company, Avendus Research

Lower Dec12 target price to INR249; downgrade to Reduce

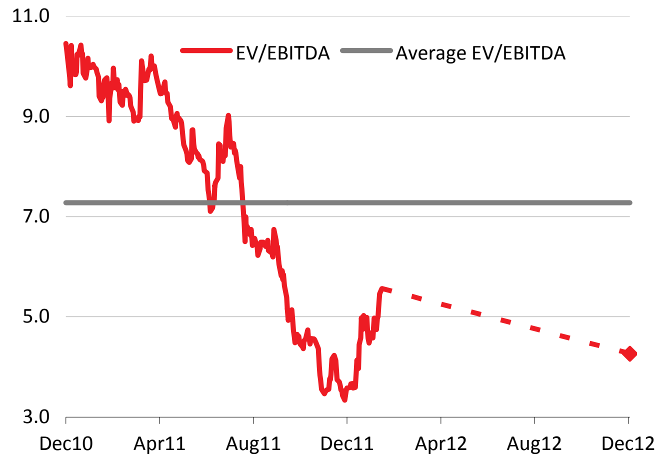
We discount the historical average (Dec10 - Feb12) EV/EBITDA of 7.3x and P/E of 13.6x by 30% to reflect the entire commodity cycle of the manganese ore business and current surplus situation in the global markets. Applying these multiples to our one-year forward EPS and EBITDA, we arrive at fair values of INR226/share and INR271/share, respectively. Our Dec12 target of INR249 is the average of the fair values based on the EV/EBITDA and P/E methods. We downgrade our rating to Reduce considering the 25.5% increase in stock price since Dec11.

Exhibit 3: Earnings revision summary

(INRmn)	-------------- FY12f --------------			-------------- FY13f --------------			------------- FY14f -------------		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	9,481	9,124	-3.8	10,235	8,888	-13.2	10,413	9,378	-9.9
EBITDA	5,611	4,615	-17.7	6,092	4,166	-31.6	6,042	4,410	-27.0
EBIT	7,065	6,069	-14.1	7,457	5,794	-22.3	7,485	5,957	-20.4
PBT	7,065	6,069	-14.1	7,457	5,794	-22.3	7,485	5,957	-20.4
PAT	4,734	4,067	-14.1	4,996	3,882	-22.3	5,015	3,991	-20.4
EPS	28.2	24.2	-14.1	29.7	23.1	-22.3	29.9	23.8	-20.4

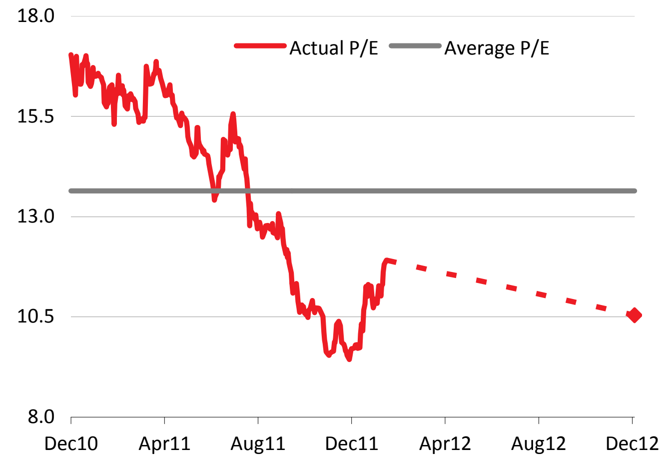
Source: Avendus Research

Exhibit 4: One-year forward rolling EV/EBITDA (x)



Source: Bloomberg, Avendus Research

Exhibit 5: One-year forward rolling P/E (x)



Source: Bloomberg, Avendus Research

Financials and valuations

Income statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Total operating income	**11,400**	**9,124**	**8,888**	**9,378**
Total operating expenses	**3,728**	**4,509**	**4,722**	**4,968**
EBITDA	**7,672**	**4,615**	**4,166**	**4,410**
Other income	1,455	1,819	2,091	2,196
Depreciation	325	365	464	649
EBIT	**8,802**	**6,069**	**5,794**	**5,957**
Interest	-	-	-	-
Recurring PBT	8,802	6,069	5,794	5,957
Net extra ordinary items	-	-	-	-
PBT (reported)	8,802	6,069	5,794	5,957
Total taxes	2,921	2,003	1,912	1,966
PAT (reported)	5,881	4,067	3,882	3,991
(+) Share in assoc. earnings	-	-	-	-
Less: Minority interest	-	-	-	-
Prior period items	-	-	-	-
Net income (reported)	5,881	4,067	3,882	3,991
Avendus net income	**5,881**	**4,067**	**3,882**	**3,991**
Shares outstanding (mn)	168.0	168.0	168.0	168.0
Avendus dil. shares (mn)	168.0	168.0	168.0	168.0
Avendus EPS (INR)	**35.0**	**24.2**	**23.1**	**23.8**

Growth ratios (%)

Total operating income	17.6	(20.0)	(2.6)	5.5
EBITDA	27.4	(39.8)	(9.7)	5.8
EBIT	24.5	(31.0)	(4.5)	2.8
Recurring PBT	24.5	(31.0)	(4.5)	2.8
Avendus net income	26.1	(30.8)	(4.5)	2.8
Avendus EPS	26.1	(30.8)	(4.5)	2.8

Operating ratios (%)

EBITDA margin	67.3	50.6	46.9	47.0
EBIT margin	77.2	66.5	65.2	63.5
Net profit margin	45.7	37.2	35.4	34.5
Other income/PBT	16.5	30.0	36.1	36.9
Effective Tax rate	33.2	33.0	33.0	33.0

Balance sheet (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Equity capital	1,680	1,680	1,680	1,680
Preference capital	-	-	-	-
Reserves and surplus	19,603	22,294	24,799	27,415
Net worth	**21,283**	**23,974**	**26,479**	**29,095**
Minority interest	-	-	-	-
Total debt	-	-	-	-
Deferred tax liability	15	15	15	15
Total liabilities	**21,298**	**23,989**	**26,494**	**29,110**
Gross block	3,965	5,152	6,455	9,772
less: Acc. depreciation	1,905	2,269	2,734	3,383
Net block	2,060	2,883	3,721	6,389
CWIP	288	302	317	333
Goodwill	-	-	-	-
Investments	22	22	22	22
Cash	18,797	21,480	23,312	23,302
Inventories	974	500	487	514
Debtors	680	625	609	642
Loans and advances	1,592	1,364	1,356	1,396
less: Current liabilities	1,544	1,610	1,677	1,751
less: Provisions	1,570	1,578	1,653	1,739
Net working capital	18,928	20,781	22,434	22,365
Total assets	**21,298**	**23,989**	**26,494**	**29,110**

Cash flow statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Net profit	5,881	4,067	3,882	3,991
Depreciation	325	365	464	649
Deferred tax	0	0	0	0
Working capital changes	-88	595	164	91
Less: Other income	1,455	1,819	2,091	2,196
Cash flow from operations	**4,663**	**3,208**	**2,418**	**2,535**
Capital expenditure	-460	-1,202	-1,317	-3,333
Strategic investments	(20.00)	-	-	-
Marketable investments	0	0	0	0
Change in other loans & adv.	(202.16)	235.37	15.33	(31.84)
Goodwill paid	-	-	-	-
Other income	1,455	1,819	2,091	2,196
Cash flow from investing	**772**	**852**	**789**	**-1,169**
Equity raised	-	-	-	-
Change in borrowings	0	0	0	0
Dividends paid (incl. tax)	-1,371	-1,376	-1,376	-1,376
Others	-139	0	0	0
Cash flow from financing	**-1,510**	**-1,376**	**-1,376**	**-1,376**
Net change in cash	**3,926**	**2,683**	**1,832**	**-10**

Key Ratios

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Valuation ratios (x)				
P/E (on Avendus EPS)	7.9	11.5	12.0	11.7
P/E (on basic, reported EPS)	7.9	11.5	12.0	11.7
P/CEPS	7.5	10.5	10.7	10.0
P/BV	2.2	1.9	1.8	1.6
Dividend yield (%)	2.5	2.5	2.5	2.5
Market cap. / Sales	4.1	5.1	5.2	5.0
EV/Sales	2.4	2.7	2.6	2.4
EV/EBITDA	3.5	5.3	5.5	5.1
Net Cash / Market cap.	42.1	47.4	51.3	51.3
Per share ratios (INR)				
Avendus EPS	35.0	24.2	23.1	23.8
EPS (Basic, reported)	35.0	24.2	23.1	23.8
Cash EPS	36.9	26.4	25.9	27.6
Book Value	126.7	142.7	157.6	173.2
Dividend per share	7.0	7.0	7.0	7.0
Total assets / equity (x)	1.0	1.0	1.0	1.0
Return ratios (%)				
ROCE	30.8	18.0	15.4	14.4
ROIC	292.4	184.0	153.1	95.7
ROE	30.9	18.0	15.4	14.4
ROA	30.8	18.0	15.4	14.4
OCF/Sales	40.9	35.2	27.2	27.0
FCF/Sales	36.9	22.0	12.4	-8.5
Turnover ratios (x)				
Asset turnover (x)	0.6	0.4	0.4	0.3
Gross asset turnover	2.9	1.8	1.4	1.0
Inventory / Sales (days)	23.2	29.5	20.3	19.5
Receivables (days)	24.6	26.1	25.3	24.3
Payables (days)	534.0	359.9	359.9	356.2
Working capital cycle (days)	-23.7	-39.8	-56.4	-58.4
Solvency ratios (x)				
Gross debt to equity	0.0	0.0	0.0	0.0
Net debt to equity	-0.9	-0.9	-0.9	-0.8
Net debt to EBITDA	0.0	0.0	0.0	0.0
Interest Coverage (on EBIT)				

Analyst Certification

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	Analyst ownership of the stock	Avendus or its associate company’s ownership of the stock	Investment Banking mandate with associate companies of Avendus
MOIL	No	No	No

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