Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

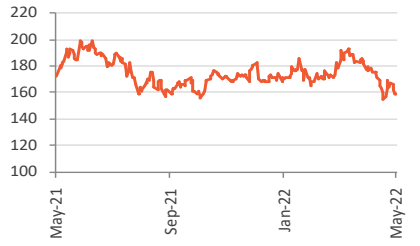
Company details

Market cap:	Rs. 3,239 cr
52-week high/low:	Rs. 208/154
NSE volume: (No of shares)	4.6 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	64.7
FII	5.6
DII	12.2
Others	17.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.4	-5.6	-5.7	-7.8
Relative to Sensex	-5.8	-3.2	-1.5	-14.5

Sharekhan Research, Bloomberg

MOIL Ltd

In-line Q4; Price hikes bode well for margin

Metal & Mining		Sharekhan code: MOIL	
Reco/View: Buy	↔	CMP: **Rs. 159**	Price Target: **Rs. 188** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q4FY2022 operating profit of Rs. 124 crore, up 32% q-o-q, meets our estimate as beat in margin gets offset by miss in volumes. PAT of Rs. 127 crore missed our estimate due to lower other income and higher tax rate.
- EBITDA margin of Rs. 5,645/tonne, up 6.6% q-o-q, was above our estimates, led by higher blended realisation and lower employee cost. Volumes stood at 0.38 mt, down 8% q-o-q and lower than our estimate of 0.4 mt.
- MOIL has also implemented price hike of 10-15%/5-20% in March/April followed price cut of 5-10% in May and international manganese ore price is strong at $8.5/dmtu. This bodes well for better realisation/margin, although near-term volume may get impacted due to seasonal factors (monsoon).
- The recent steel sector policy changes would result in uncertainties in India metal space; thus, we have cut our valuation multiple to 4x its FY2024E EV/EBITDA and lowered our PT to Rs. 188, while maintaining Buy on MOIL. The stock trades at 3x its FY2024E EV/EBITDA and offers healthy dividend yield of 4%.

MOIL Limited's Q4FY2022 operating profit of Rs. 214 crore (up 37.3% y-o-y; 31.6% q-o-q) was broadly in-line with our estimate of Rs. 214 crore, as beat in EBITDA margin and lower employee cost (down 11% y-o-y) was offset by lower-than-expected volumes. EBITDA margin increased sharply by 49.6% y-o-y/6.6% q-o-q to Rs. 5,645/tonne, led by benefit of price hikes, while volume at 0.38 million tonne (up 23.5% q-o-q) missed our estimate by 5%. However, adjusted PAT of Rs. 127 crore (up 9.3% y-o-y; up 2.4% q-o-q) was 19.6% below our estimate of Rs. 158 crore, as strong margin was offset by a sharp 74% y-o-y decline in other income and significantly higher tax rate of 35.6% (versus assumption of 25.2%). We have adjusted reported PAT of Rs. 131 crore for an exceptional item of Rs. 6.4 crore related to write-back of earlier litigation liability.

Key positives

- Beat in blended EBITDA at Rs. 5,645/tonne, up 50% y-o-y/7% q-o-q, led by price hike and lower cost.

Key negatives

- Lower-than-expected manganese ore sales volume of 0.38 mt, down 8.2% y-o-y.

Revision in estimates – We have fine-tuned our FY23-24 earnings estimate to factor in FY22 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on MOIL with a revised PT of Rs. 188: Stable international manganese ore price bodes well for higher realisation/margin and volumes are likely to remain steady, given large demand-supply gap (India imported 3.95 mt of manganese ore in FY2021). Having said that, the recent imposition of 15% steel export duty creates uncertainties for the metal space; thus, we have cut our valuation multiple to 4x its FY2024E EV/EBITDA and lowered our price target (PT) to Rs. 188, while maintaining Buy on MOIL, as the stock trades at attractive valuation of 3x its FY2024E EV/EBITDA, net cash position of Rs. 1,072 crore (lower versus Rs. 1,905 crore in FY2021, given share buyback of Rs. 694 crore) or 33% of current market capitalisation and decent dividend yield of 4%.

Key Risks

Lower steel production amid recent policy changes could impact manganese ore demand. Lower-than-expected manganese ore prices could affect the company's profitability and our view on the stock.

Valuation — Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,177	1,436	1,533	1,592
OPM (%)	24.4	37.7	38.3	37.3
Adjusted PAT	227	371	407	415
% YoY growth	-8.7	63.5	9.7	2.1
Adjusted EPS (Rs)	11.1	18.2	20.0	20.4
P/E (x)	14.3	8.7	8.0	7.8
P/B (x)	1.1	1.5	1.3	1.2
EV/EBITDA (x)	4.6	4.0	3.4	3.0
RoNW (%)	8.1	14.9	17.9	16.4
RoCE (%)	10.4	20.8	23.8	21.8

Source: Company; Sharekhan estimates

In-line operating performance; PAT missed estimate on lower other income and higher tax rate

Q4FY2022 operating profit of Rs. 214 crore (up 37.3% y-o-y; 31.6% q-o-q) was broadly in-line with our estimate of Rs. 214 crore as beat in EBITDA margin and lower employee cost (down 11% y-o-y) was offset by lower-than-expected volumes. EBITDA margin increased sharply by 49.6% y-o-y/6.6% q-o-q to Rs. 5,645/tonne, led by benefit of price hikes, while volume at 0.38 million tonne (up 23.5% q-o-q) missed our estimate by 5%. However, adjusted PAT of Rs. 127 crore (up 9.3% y-o-y; up 2.4% q-o-q) was 19.6% below our estimate of Rs. 158 crore as strong margin was offset by sharp 74% y-o-y decline in other income and significantly higher tax rate of 35.6% (versus assumption of 25.2%). We have adjusted reported PAT of Rs. 131 crore for an exception item of Rs. 6.4 crore related to write-back of earlier litigation liability.

Results (Standalone) **Rs cr**

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	468	450	3.9	363	28.8
Total Expenditure	254	294	-13.7	201	26.5
Reported operating profit	214	156	37.3	163	31.6
Other Income	8	31	-74.0	28	-70.6
Interest	1	0		0	
Depreciation	28	28	0.1	26	5.9
Exceptional income/(expense)	6	0	NA	0	NA
Reported PBT	200	159	25.4	164	21.9
Adjusted PBT	**193**	**159**	**21.4**	**164**	**17.9**
Tax	69	43	58.7	40	71.4
Reported PAT	131	116	13.0	124	5.8
Adjusted PAT	**127**	**116**	**9.3**	**124**	**2.4**
Equity Cap (cr)	20	24		24	
Reported EPS (Rs.)	6.4	4.9	31.7	5.2	23.4
Adjusted EPS (Rs.)	6.2	4.9	27.5	5.2	19.4
Margins (%)			**BPS**		**BPS**
OPM	45.7	34.6	1109.9	44.7	99.2
Adjusted NPM	27.1	25.8	133.6	34.1	-698.0
Tax rate	35.6	27.2	836.9	24.5	1,109.0

Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Manganese ore sales volume (million tonne)	0.38	0.41	-8.2	0.31	23.5
Manganese ore realisation (Rs./tonne)	11,104	9,914	12.0	10,819	2.6
Blended EBITDA (Rs./tonne)	5,645	3,775	49.6	5,295	6.6

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term rise in steel consumption to drive manganese ore demand; International manganese ore prices stabilising

National Steel Policy of India, 2017, aspires to achieve 300 million tonne of steel-making capacity by 2030. This would translate into additional consumption of steel making raw material such as iron ore and manganese ore. However, near-term uncertainties may prevail due to recent policy change of 15% export duty on steel. In addition, international manganese ore price is stable-to-improving with strong international manganese ore price of ~$8.5/dmtu currently.

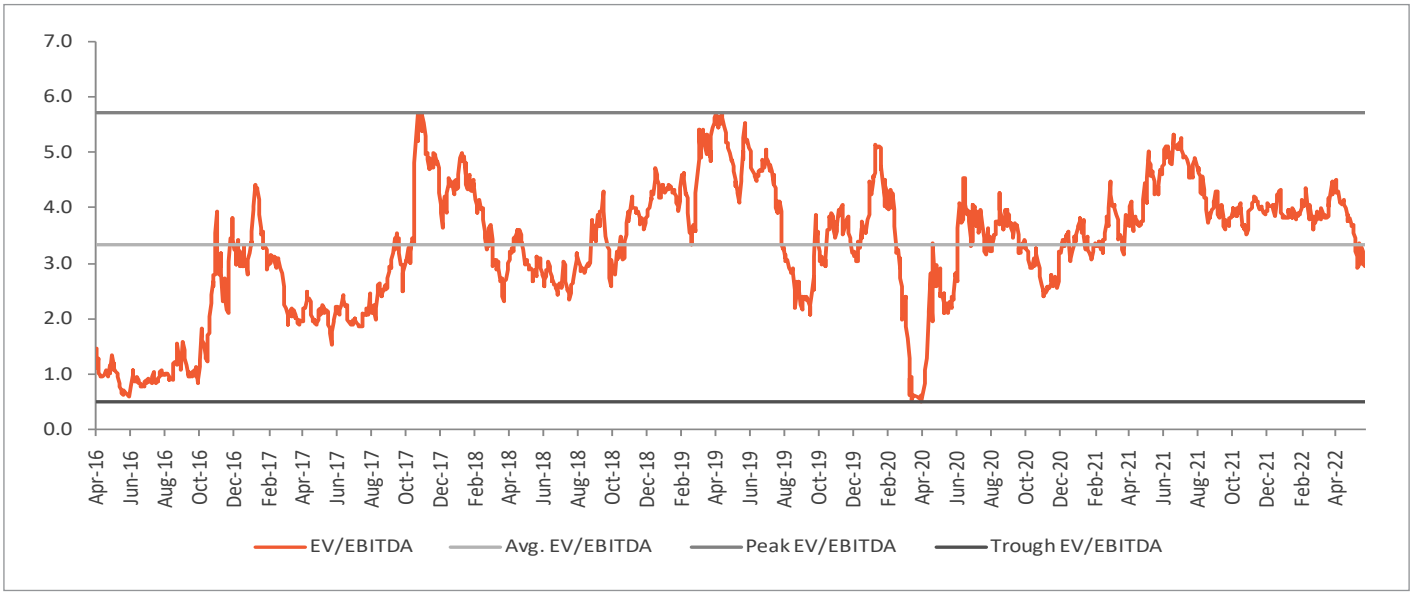
■ Company outlook - Stable-to-improving realisation to sustain earnings

MOIL has implemented price hike of 10-15%/5-20% in March/April, followed price cut of 5-10% in May. Further, international manganese ore price is steady at $8.5/dmtu. This bodes well for better realisation/margin in Q1FY2023, although near-term volume may get impacted due to seasonal factors (monsoon). We expect a moderate EBITDA/PAT CAGR of 5%/6% over FY2022-FY2024E with RoE of 16.4% in FY2022.

■ Valuation - Maintain Buy on MOIL with a revised PT of 188

Stable international manganese ore price bodes well for higher realisation/margin and volumes are likely to remain steady, given large demand-supply gap (India imported 3.95 mt of manganese ore in FY2021). Having said that, the recent imposition of 15% steel export duty creates uncertainties for the metal space; thus, we have cut our valuation multiple to 4x its FY2024E EV/EBITDA and lowered our price target (PT) to Rs. 188, while maintaining Buy on MOIL, as the stock trades at attractive valuation of 3x its FY2024E EV/EBITDA, net cash position of Rs. 1,072 crore (lower versus Rs. 1,905 crore in FY2021, given share buyback of Rs. 694 crore) or 33% of current market capitalisation and decent dividend yield of 4%.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

MOIL Limited, erstwhile Manganese Ore (India) Limited, is India's largest manganese ore producer with production of 1.28 million tonne (mt) in FY2020. MOIL operates 10 mines, of which six are located in Nagpur and Bhandara districts of Maharashtra and four in Balaghat district of Madhya Pradesh. The company holds strong manganese ore reserve base of 95.6 mt and holds a 50% market share in overall manganese ore production in India. MOIL has a prospecting license over a total of 1,743.8 hectares of leased area, of which 704.2 hectares are in Maharashtra and 1,039.6 hectares are in Madhya Pradesh. An area of 814.7 hectares has been reserved by the Maharashtra Government in favour of MOIL for prospecting manganese ore in Nagpur and Bhandara districts of Maharashtra and the state government of Madhya Pradesh has reserved 372.7 hectares in favour of MOIL in Balaghat district for prospecting of manganese ore.

Investment theme

We believe MOIL is well placed to capitalise on potential recovery in domestic steel demand growth as it holds strong reserves and a resource base of 92.6 mt. Recent price hikes bode well for margin recovery. To meet the rising demand of manganese ore for the steel industry, MOIL has set an aggressive manganese ore production target of 2 mt by 2021, 2.5 mt by 2025, and 3 mt by 2030. Moreover, the company is attractively valued, offers a healthy dividend yield, and has a strong cash position, which provide room for share buyback.

Key Risks

- Lower-than-expected steel production amid COVID-19 outbreak could impact manganese ore demand.
- Lower-than-expected manganese ore prices could affect the company's profitability and our view on the stock.

Additional Data

Key management personnel

M.P. Chaudhari	Chairman and Managing Director
Rakesh Tumane	Director - Finance
D. S. Shome	Director - Production & Planning

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.13
2	Massachusetts Financial Services	2.6
3	UTI Asset Management Co Ltd	1.2
4	United India Insurance Co Ltd	1.1
5	Dimensional Fund Advisors LP	0.5
6	VALIC Company I	0.2
7	Aditya Birla Sun Life Asset Manage	0.1
8	Investment Trust of India	0.04
9	Nationwide Fund Advisors	0.03
10	State Street Corp	0.03

Source: Bloomberg, old data

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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