



Manganese Ore India Ltd. (MOIL)

Company background and business model

Manganese Ore India Ltd. (MOIL), a Government of India (GOI) enterprise, is India's largest manganese ore miner based on production. In FY10, MOIL produced 1.09mn tonnes of manganese ore, accounting for more than 40% of India's manganese ore production. It has currently 7 underground mines and 3 open cast mines currently in operation. MOIL's underground mines roughly contribute 65% of its production whereas the rest is contributed by its open cast mines. As per JORC norms, MOIL's total manganese ore resources and reserves amount to 69.5mn tonnes and 21.7mn tonnes respectively. Manganese ore is primarily used to make ferro alloys for steel production. Thus, manganese ore's demand is derived from the steel industry and is dependent on the outlook of the global steel industry.

MOIL's large size of manganese ore production and reserves, and having a market share of more than 40% in India makes it well positioned to capitalise on the wide demand-supply gap for manganese ore in India and strong global manganese ore pricing.

MOIL has high quality manganese ore reserves. 55% of MOIL's manganese ore reserves have an average manganese content of above 40%, which is considered high grade while the rest 45% have an average manganese ore content of not less than 30%. Also, unlike other PSU's, MOIL enjoys complete autonomy in pricing and gets the full benefit of soaring international manganese ore prices on account of high demand from China. Also, most of MOIL's reserves are deposited in areas with favourable geological and mining conditions and are of regular shape, and its mines benefit from well-developed road and rail infrastructure. This leads to low capex and low extraction cost for MOIL. High realisations and low operational costs combined have enabled MOIL to earn **strong EBITDA margins of above 60% and an RoE of above 30% over the last 3 years**. With low capex and strong operating cash flows, MOIL has been a zero debt company and accumulated net cash of ₹17.6bn (cash per share of ₹104.9) as on 30/09/2010.

Key Strengths

Largest manganese ore producer in India and high quality manganese ore reserves: In FY10, MOIL produced 1.09mn tonnes of manganese ore, accounting for more than 40% of India's manganese ore production. As per JORC norms, MOIL's total manganese ore resources and reserves amount to 69.5mn tonnes and 21.7mn tonnes respectively. 55% of MOIL's manganese ore reserves have an average manganese content of above 40%, which is considered high grade. **The current production / reserve ratio at ~5% leaves room for MOIL to grow its volumes and profitability further.**

Well positioned to capitalize on the high demand for manganese ore in India: The relatively low per capita consumption of steel in India and continuing steel deficit in India will enable strong demand for ferro alloys and manganese ore in India. **MOIL's pre-eminent position in the manganese ore industry in India, and its long standing relationship with significant customers such as SAIL make it well placed to capitalize on the high demand for manganese ore in India.**

Strong pricing, and track record of growth and cost-efficient operations: MOIL enjoys complete autonomy in manganese ore pricing and benefits fully from the soaring international manganese ore prices. MOIL has steadily grown its manganese ore production at a CAGR of 6.0% over FY06-FY10 to 1.09mn tonnes. MOIL will continue to grow its volumes through capacity expansion from existing mines and accretion of reserves through exploration. Also, MOIL has continuously increased mechanization of its mines and upgraded its technology and equipment leading to higher recovery rates and achieved cost-efficient operations. **Going forward, volume growth and continued cost efficiencies should enable MOIL to continue to grow its earnings.**

Strong track record of financial performance and high cash reserves: Soaring global prices of manganese ore on account of strong demand from China, MOIL's low cost of mining and low investment expenditure have enabled MOIL to earn steady cash flows. Through price increases, volume growth and cost efficiencies from upgrading of technologies and equipment, MOIL has grown its revenues and PAT over FY06-FY10 at a CAGR of 30.8% and 40.0% to ₹9.7bn and ₹4.7bn respectively. **As on 30th June, 2010, MOIL has accumulated net cash reserves of ₹ 17.6bn, i.e. ₹ 104.9/share.**

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Issue Details

Issue Opens	Nov 26, 2010
Issue Closes	Dec 01, 2010
Equity Offering (In mn shares)	33.6
Face Value	10.0
Price Band	₹340-375
Retail discount	5%
Issue Size (in ₹ Bn)	11.4-12.6
Minimum Application Lot	17
Maximum Application(Retail)	527
Issue Type	100% Book Building
Post Issue Market Cap – (in ₹ bn)	63.0
Listing	NSE & BSE
IPO Grading	5/5 – CARE
BRLMs	Edelweiss, IDBI Capital, J.P. Morgan,

Source: RHP

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	100.0	80.0
MF/Banks/FI's/FII's/Public & Others	0.0	20.0

Source: RHP

Issue Structure (In No Shares)

Issue size	
of which Fresh issue by the company	NIL
of which net offer for sale (mn)	32.9
Break-up of net issue to public:	
QIB's portion (minimum)	50%
Non-institutional portion (minimum)	15%
Retail Portion (minimum)	35%

Source: RHP

Analyst Details

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Object of the Issue

The objects of the fresh issue are:

- To carry out the divestment of 33.6mn equity shares by the Government of India, State of Maharashtra and Madhya Pradesh and to achieve the benefits of listing the equity shares on the stock exchanges

Company's strategy going forward

- **To increase production to capitalize on the significant demand-supply gap for manganese ore in India:** MOIL plans to expand its manganese ore capacity at its existing mines by 460kt by 2016 at an estimated cost of ₹7.7bn. It has committed a capex of ₹839.8mn and ₹1.08bn for FY11 and FY12 respectively
- **To enhance profitability and cost competitiveness by improving operating and cost efficiencies:** MOIL plans to implement advanced mechanised production technologies and equipment to increase productivity and reduce per unit production costs
- **To continue to increase its reserve base in India:** MOIL plans to undertake add to its current reserves and resources by undertaking exploration in and around its existing lease areas. In addition, an area of 814.71 hectares in the state of Maharashtra has been reserved for MOIL by a notification from the Ministry of Mines in October 2009. It has applied for prospecting licenses with respect to this area. MOIL intends to pursue exploration in portions of its ~1798.9 hectares of land already held under long-term mining leases in relation to its existing mine areas to prove additional reserves in the future
- **To achieve higher forward integration to capture additional margin:** In light of increasing demand from the domestic steel industry, MOIL has entered into joint ventures with SAIL and RINL for setting up ferro alloy plants that will use manganese ore produced at its mines. This will also enable it to capture a substantial portion of the manganese value chain. MOIL further intends to build on its experience in mining manganese ore and its successful expansion into value added products, such as high carbon ferro manganese (HCFM) and electrolytic manganese dioxide (EMD), to further diversify the product offering by mining for other types of minerals. In light of the positive trends in the Indian power generation market, MOIL is also in the process of evaluating potential forays into coal block mining

Industry Overview

Manganese ore is primarily used to make ferro alloys for steel production. Thus, manganese ore's demand is derived from the steel industry and is dependent on the outlook of the global steel industry.

On account of strong domestic steel production growth, demand for manganese ore and ferro alloys has increased considerably whereas development of new manganese ore mines has proceeded at a slower pace. This has resulted in India becoming a net importer of manganese ore in the last 3 years. In FY09, India produced about 2.6mn tonnes of manganese ore while domestic demand for manganese ore was at about 3.2mn tonnes, leading to a net import of ~600,000 tonnes. According to CARE Research, strong demand for ferro alloys (and thus manganese ore) from the steel sector is likely to lead to demand for manganese ore growing at a CAGR of 9% to 4.1mn tonnes over the next 2-3 years. This is likely to lead to India continuing to be a net importer of manganese ore.

Manganese ore pricing is expected to continue to be strong as China produces about 45-50% of global manganese alloy production, depends on imports of manganese ore for it and global production of manganese ore is not widely distributed.

MOIL, being India's largest manganese ore producer and having sizeable manganese ore reserves and a market share of more than 40% in India is well positioned to capitalise on the demand-supply gap for manganese ore in India and expected strong prices of manganese ore.

Key Risks

- Delays in land acquisition and forest and environmental clearances
- Adverse policy changes by the government like implementation of proposal of sharing of 26% of mining profits with people displaced by mining activity



Outlook & Valuation

Manganese Ore India Ltd. (MOIL) is India's largest manganese ore miner based on manganese ore production. In FY10, MOIL produced 1.09mn tonnes of raw manganese ore, accounting for more than ~40% of India's manganese ore production. MOIL's total manganese ore resources and reserves as per JORC code amount to 69.5mn tonnes and 21.7mn respectively. MOIL has high quality manganese ore reserves. 55% of MOIL's manganese ore reserves have an average manganese content of above 40%, which is considered high grade; 27.5% of it have an average manganese ore content of between 36.0% and 39.9%; and the rest has an average manganese ore content of not less than 30%. Also, unlike other PSU's, MOIL enjoys complete autonomy in pricing and gets the full benefit of soaring international manganese ore prices on account of high demand from China (MOIL's average sales realisation per tonne of manganese ore was ₹11,709.4 in H1FY11 as compared to ₹6501.3 in FY08). As ferro alloys cost comprise a miniscule proportion of the total cost of steelmaking, pricing of manganese ore does not invite government interference. Also, most of MOIL's reserves are deposited in areas with favourable geological and mining conditions and are of regular shape, and its mines benefit from well-developed road and rail infrastructure. This leads to low capex and low extraction cost for MOIL. Strong global manganese ore prices and low operational costs combined have enabled MOIL to earn strong EBITDA margins of above 60%, annual profits between ₹4.7-₹6.7bn and an RoE of above 30% over the last 3 years. With low capex and strong operating cash flows, MOIL has been a zero debt company and accumulated net cash of ₹17.6bn (cash per share of ₹104.9) as on 30th September 2010. Its net cash translates into 28% of its market cap at the higher price band of ₹375. MOIL also has a good dividend paying track record with a consistent dividend payout of 20% over the years.

Going forward, MOIL is likely to grow its earnings and long term value through capacity expansion from existing mines, accretion of reserves through exploration, forward integration into ferro alloys, and cost efficiency improvements. Its large size of manganese ore production and reserves, and having a market share of more than 40% in India makes MOIL well positioned to capitalise on the wide demand-supply gap for manganese ore in India and strong global manganese ore pricing.

At the higher price band of ₹375, MOIL trades at an annualised P/E and EV/EBITDA of 9.5x and 4.7x FY11E. Net of cash (₹104.9/share), the core business is available at 6.4x annualised earnings for FY11. There is no pure play manganese ore domestic peer worthy of comparison. Major global manganese ore players are diversified miners, so wouldn't be strictly comparable. Other domestic mining companies like NMDC and Coal India trade are trading at 14-17x FY11 earnings. Given the favourable fundamentals of the manganese ore industry in terms of strong global pricing and India's net importer status, MOIL's large size in terms of production and reserves, its low capex requirements and low extraction cost and a strong balance sheet, we believe that MOIL's IPO has been **attractively priced**. We believe that MOIL is an excellent long term bet on the natural resources sector and should be part of the core portfolio of an investor. We **recommend SUBSCRIBE, both from a short and long term perspective**, to MOIL's IPO at the higher price band of ₹375. There is a retail discount of 5%, i.e. ~₹18.75/share as well which makes it even more attractive.



Income Statement

Profit & Loss (₹ in mn)	FY06	FY07	FY08	FY09	FY10	H1FY11
Net Sales	3313.2	4173.2	9775.4	12933.4	9694.0	6350.5
YoY (%)		26.0	134.2	32.3	(25.0)	
Total Expenses	1713.6	2337.8	2732.0	3736.3	3672.8	1883.3
Inc/dec in stock	-117.9	289.7	87.3	(343.6)	115.2	39.26
Ore raising and operating expenses	1377.5	1479.9	1782.8	2880.9	2523.3	1258.51
Manufacturing & electricity generation expenses	195.9	259.4	288.6	443.2	371.9	196.93
Administrative and selling expenses	196.8	224.2	476.0	721.7	615.2	369.52
Research and development expenses	12.8	20.8	27.9	16.7	28.8	11.89
Write offs & provisions	46.6	52.2	68.8	16.6	9.3	3.52
Expenses for diversion of forest land	1.9	11.6	0.5	0.7	9.2	3.69
EBITDA	1599.7	1835.4	7043.4	9197.2	6021.1	4467.2
YoY (%)		14.7	283.7	30.6	(34.5)	
EBITDA (%)	48.3	44.0	72.1	71.1	62.1	70.3
Depreciation	114.7	140.8	160.8	246.7	253.0	133.1
Non-operating Income	206.3	283.9	466.4	1117.1	1299.8	613.67
EBIT	1691.2	1978.6	7349.1	10067.6	7067.9	4947.8
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary expenses/(income)	1.2	-32.9	0.0	0.0	0.0	0.0
PBT	1690.1	2011.5	7349.1	10067.6	7067.9	4947.8
(-) Tax	544.9	669.4	2550.9	3429.6	2404.5	1640.5
Current Tax	547.0	600.9	2408.9	3409.6	2462.2	1661.07
Fringe Benefit tax	3.2	2.7	2.4	2.7	(1.0)	0
Deferred Tax	-5.3	65.8	139.7	17.3	(56.7)	-20.54
Tax / PBT (%)	32.2	33.3	34.7	34.1	34.0	33.2
PAT	1145.2	1342.1	4798.2	6637.9	4663.5	3307.2
Adj. PAT	1145.9	1320.1	4798.2	6637.9	4663.5	3307.2

Balance Sheet

Balance Sheet (₹ in mn)	FY06	FY07	FY08	FY09	FY10	H1FY11
Equity Capital	153.3	280.0	280.0	280.0	1680.0	1680.0
Reserves	3387.7	4253.1	7582.5	12929.4	15087.2	18402.1
Networth	3540.9	4533.1	7862.5	13209.4	16767.2	20082.1
Total borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	18.6	95.4	167.7	185.0	128.3	107.8
Total liabilities	3559.5	4628.5	8030.2	13394.5	16895.5	20189.9
Gross Block	1472.0	1833.1	3024.8	3420.0	3570.3	3802.2
Less: Depreciation	860.3	988.4	1136.0	1363.6	1604.9	1738.0
Net Block	611.7	844.7	1888.8	2056.4	1965.4	2064.2
Capital work in progress	125.6	411.3	85.5	154.5	221.8	225.2
Total Fixed assets	737.3	1256.1	1974.3	2210.9	2187.2	2289.4
Investments	0.2	0.1	0.1	1.1	2.1	22.1
Current assets	3488.4	4313.3	8379.4	14451.4	17421.3	19891.9
Inventories	593.4	312.7	235.2	570.7	463.8	454.2
Debtors	455.7	499.9	1589.3	610.9	857.5	897.0
Cash	2181.4	3214.9	6085.5	12321.7	14871.0	17628.8
Other current assets	62.4	114.3	215.1	541.4	597.8	543.9
Loans and advances	195.5	171.5	254.3	406.7	631.3	368.0
Current Liabilities	556.5	824.0	1332.8	1831.5	1458.7	1540.3
Provisions	109.8	117.0	990.8	1437.5	1256.5	473.2
Net current assets	2822.1	3372.4	6055.8	11182.4	14706.2	17878.4
Miscellaneous expenses	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	3559.5	4628.5	8030.2	13394.5	16895.5	20189.9

Source: Company, ABM Research



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