



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	✓	↔	✓

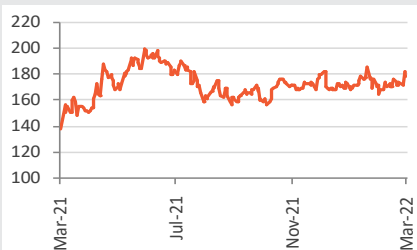
Company details

Market cap:	Rs. 3,635 cr
52-week high/low:	Rs. 208/135
NSE volume: (No of shares)	5.2 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	64.7
FII	5.4
DII	12.3
Others	17.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6	-1	12	29
Relative to Sensex	4	-1	17	12

Sharekhan Research, Bloomberg

Metal & Mining

Sharekhan code: MOIL

Reco/View: Buy



Upgrade



CMP: Rs. 179



Maintain

Price Target: Rs. 220



Downgrade

Summary

- Improved pricing environment with 10-15% price hike by MOIL Limited (MOIL) in March 2022 to drive margin expansion going ahead. Sharp 36% rally in international manganese ore price in CY2022 YTD to support realisation and profitability.
- MOIL is well placed to grow its sales volume and management's production target of 3mt by CY2030E implies robust 11% CAGR over FY2021-FY2024E. The optimism stems from India's target to grow steel production by 2.5x to 300mt over CY2021-CY2030E. We conservatively model a 4% volume CAGR over FY2021-FY2024E.
- Strong cash position and healthy dividend yield of 4-5% provide comfort to investors.
- We maintain Buy on MOIL with an unchanged PT of Rs. 220, noting inexpensive valuation of 2.3x its FY2023E EV/EBITDA and strong earnings growth outlook.

MOIL Limited's (MOIL) earnings outlook has improved considerably with sharp rally in international manganese ore price by 36% in CY2022YTD to \$8.6/dmtu and the same would drive margin improvement in a seasonally strong Q4 in terms of volumes. Long-term growth outlook also remains robust, as we see strong demand for manganese ore, given India National Steel Policy envisages 2.5x rise in India's steel production to 300 mt over CY2021-2030E. Robust earnings growth outlook (expect 27% PAT CAGR over FY2021-FY2024E), high cash on books, and healthy dividend yield of 4-5% make valuation attractive at 2.4x its FY2023E EV/EBITDA. We maintain Buy with an unchanged PT of Rs. 220.

- Sharp recovery in international manganese ore price to support realisation and margins:** The international manganese ore price has witnessed a sharp rally of 36% in CY2022YTD to \$8.6/dmtu due to supply concerns amid rising global geopolitical tensions. MOIL has taken net price increase of 5-12.5% (January price cut of 2.5-5% and March price hike of 10-15%) in Q4FY2022 for different grades of manganese ore. Thus, we expect MOIL to sustain improvement in its realisation (grew by 2.8% q-o-q in Q3FY2022) and margin (increased by 73% q-o-q to Rs. 5,295/tonne in Q3FY2022) in the coming quarters.
- Strong production growth outlook:** MOIL has prepared a strategic plan to enhance its production to 2.5 mtpa by 2025 and 3 mtpa by 2030, which implies an impressive 11% CAGR over FY2021-FY2024E. MOIL has registered a strong 16% y-o-y increase in volume to 0.9 mt in 9MFY2022 and Q4 is seasonally strong in terms of demand and would drive strong volume growth for MOIL.
- Strong balance and decent dividend yield provide comfort:** MOIL has a strong balance with cash and cash equivalent of ~Rs. 1,725 crore as on September 2021, which is 47% of its current market capitalisation. Strong balance sheet and healthy dividend yield of 4-5% provide comfort to investors.

Our Call

Valuation – Maintain Buy on MOIL with an unchanged PT of Rs. 220: The stock is attractively valued at 2.3x its FY2023E EV/EBITDA, considering expectation of a strong volume/margin led earnings recovery (expect a 27% PAT CAGR over FY2021-FY2024E), given expectations of higher steel production and improving international manganese ore prices. Hence, we maintain a Buy rating on MOIL with an unchanged price target (PT) of Rs. 220.

Key Risks

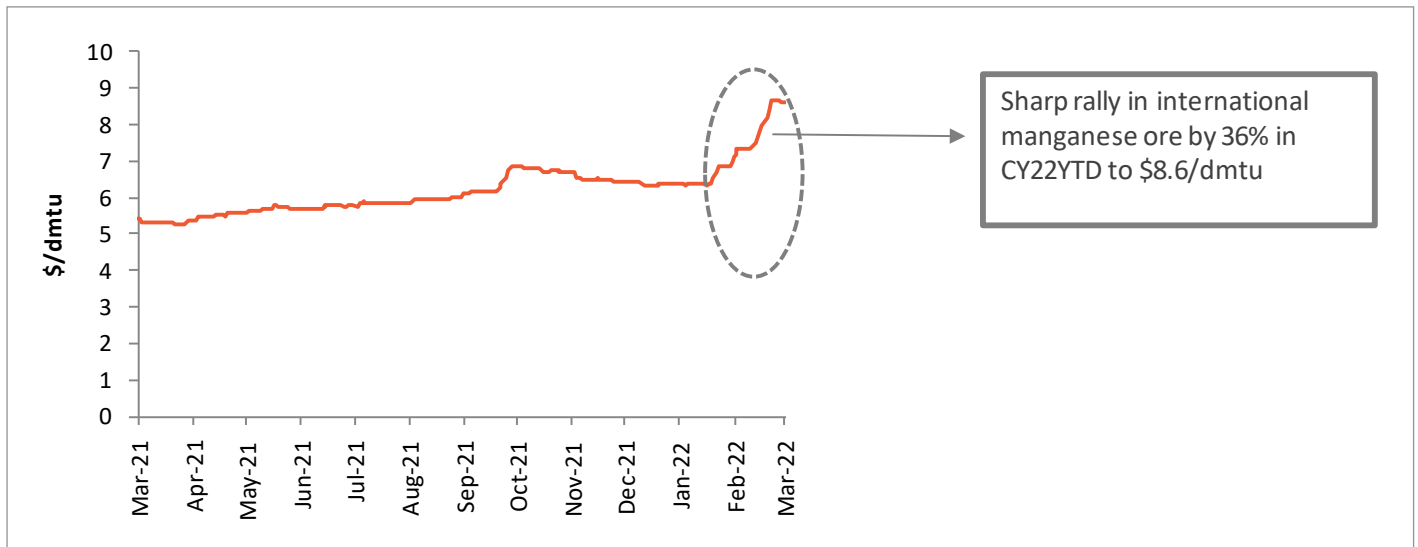
Lower steel production amid COVID-19 could impact manganese ore demand. Lower-than-expected manganese ore prices could affect the company's profitability and our view on the stock.

Valuation

	Rs cr			
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,177	1,339	1,469	1,584
OPM (%)	24.4	35.9	38.7	39.4
Adjusted PAT	227	354	424	461
% YoY growth	-8.7	56.2	19.8	8.7
Adjusted EPS (Rs)	7.4	14.9	17.9	19.4
P/E (x)	24.0	12.0	10.0	9.2
P/B (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	6.0	3.2	2.3	1.7
RoNW (%)	8.1	12.1	13.3	13.3
RoCE (%)	10.4	16.1	17.7	17.7

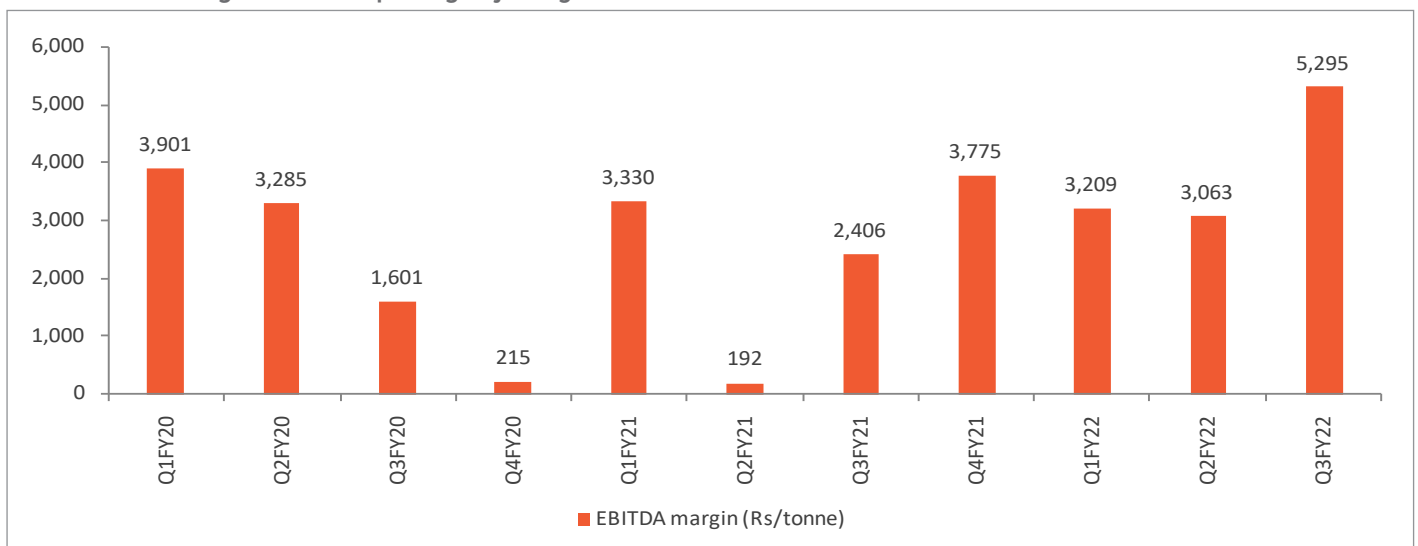
Source: Company; Sharekhan estimates

Sharp rally in international manganese ore price bodes well for margin improvement



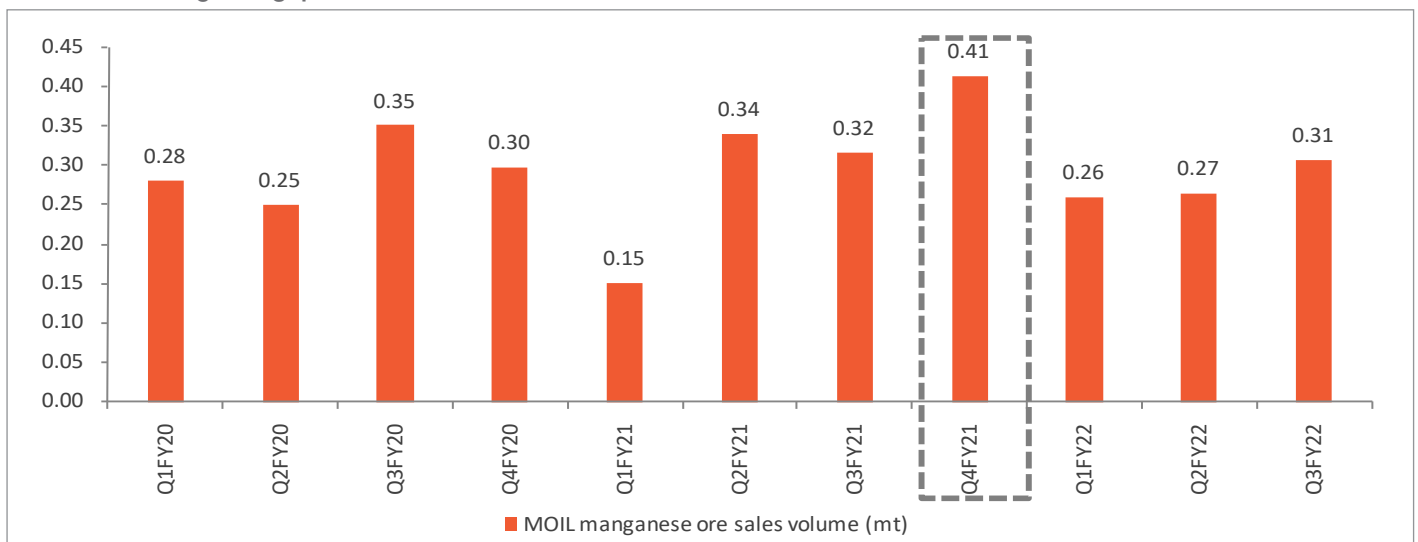
Source: Bloomberg; Sharekhan Research

MOIL's EBITDA margin is on an improving trajectory



Source: Company; Sharekhan Research

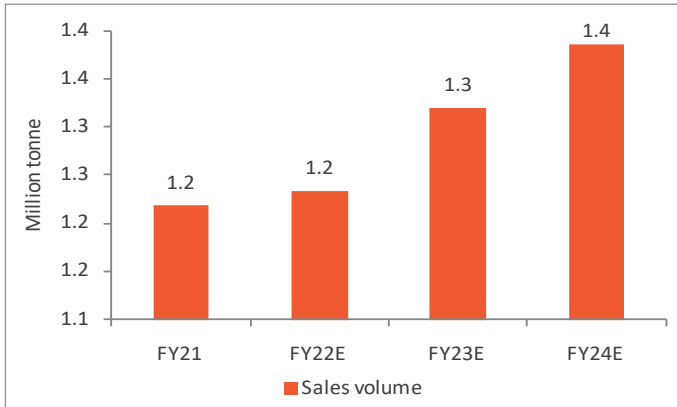
Q4 is a seasonally strong quarter in terms of volume



Source: Company; Sharekhan Research; Note: Q4FY2020 volume was impacted by COVID-19 lockdown

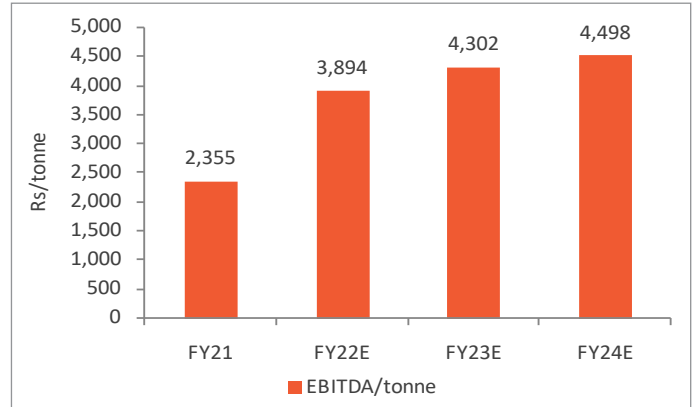
Financials in charts

Decent sales volume growth outlook



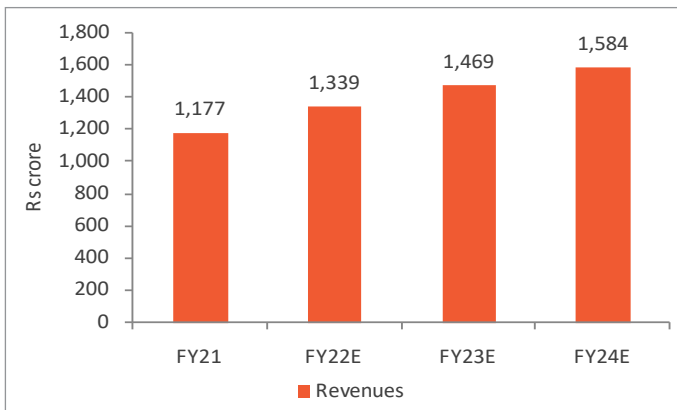
Source: Company, Sharekhan Research

EBITDA/tonne likely to improve over FY22-24



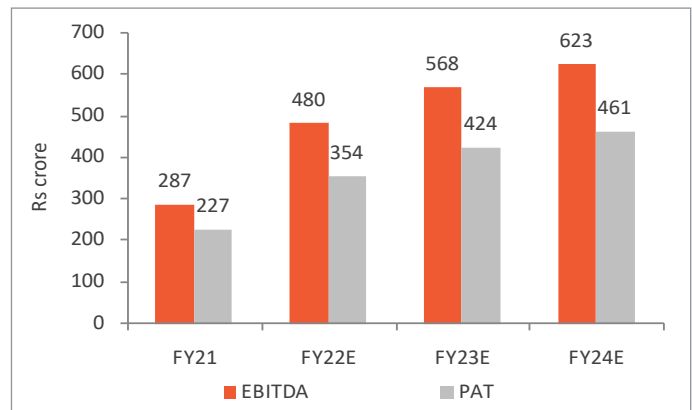
Source: Company, Sharekhan Research

Revenue trend



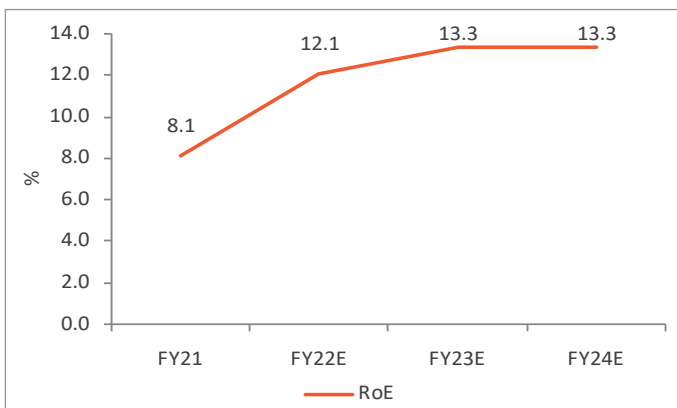
Source: Company, Sharekhan Research

EBITDA/PAT to clock 30%/27% CAGR over FY21-24E



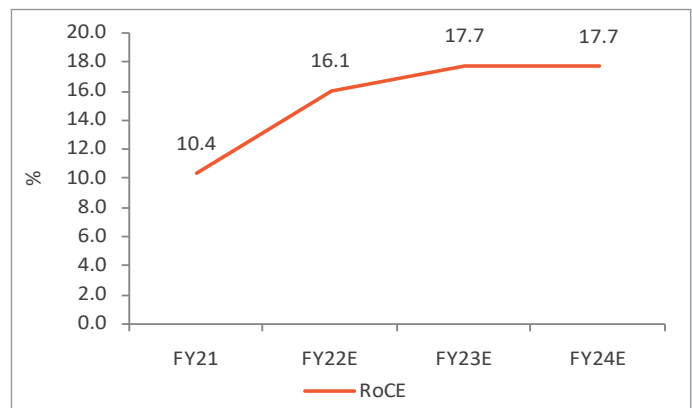
Source: Company, Sharekhan Research

RoE to decline



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Higher steel consumption to drive manganese ore demand; International manganese ore price improving

Domestic steel demand remains strong and is expected to further improve over CY2022-CY2023 with overall economic recovery and improvement in infrastructure/construction projects. A potential improvement in domestic production would also drive demand for manganese ore (largely used in steel manufacturing). In addition, international manganese ore price is improving with an average of ~\$7.1/dmtu in Q4FY2022 QTD versus \$6.6/dmtu in Q3FY2022.

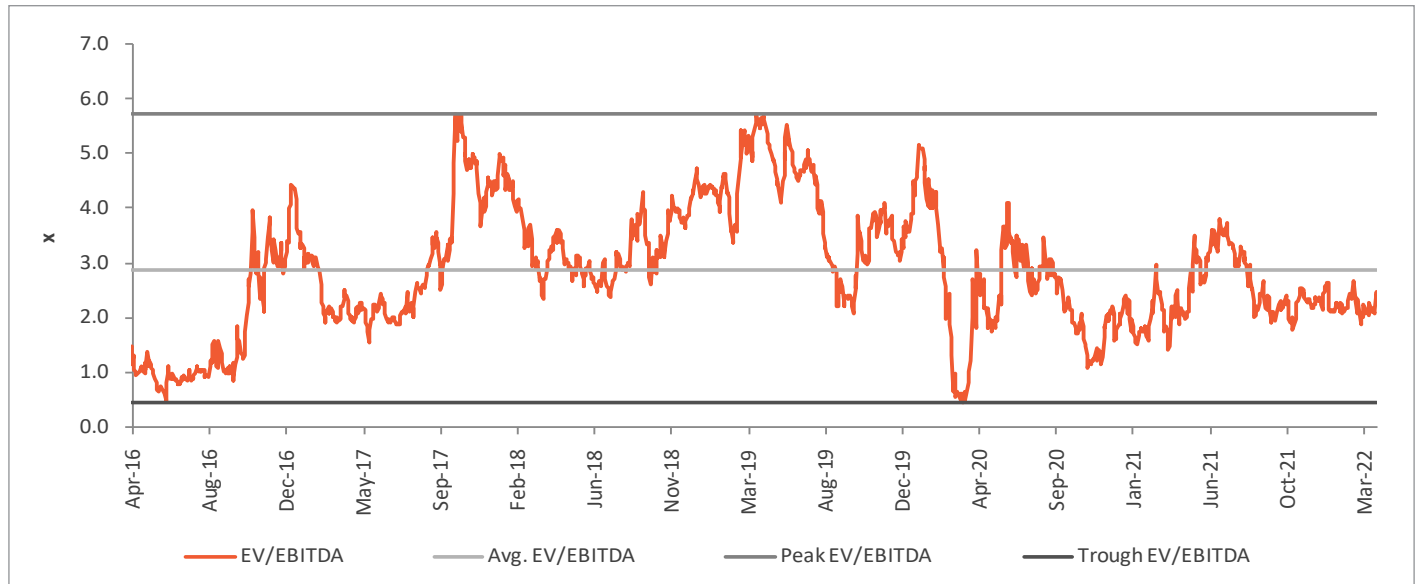
■ Company outlook - Volume recovery and improving realisation to revive earnings

MOIL has taken net price increase of 5.0-12.5% (January price cut of 2.5-5.0% and March price hike of 10-15%) in Q4FY2022 for different grades of manganese ore. Additionally, international manganese ore price has rallied by 36% in CY2022 YTD and the same would support MOIL's realisation and margin in the coming quarters. Manganese ore demand is likely to improve, given expectation of higher domestic steel production over CY2022-CY2023 and the same bodes well for volume growth of MOIL. Thus, we expect an EBITDA/PAT CAGR of 30%/27% over FY2021-FY2024E for MOIL, led by higher margins (rise in share of high-grade manganese ore) and revival in volumes.

■ Valuation - Maintain Buy on MOIL with an unchanged PT of Rs. 220

The stock is attractively valued at 2.3x its FY2023E EV/EBITDA, considering expectation of a strong volume/margin led by an earnings recovery (expect a 27% PAT CAGR over FY2021-FY2024E), given expectations of higher steel production and improving international manganese ore prices. Hence, we maintain a Buy rating on MOIL with an unchanged PT of Rs. 220.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

MOIL, 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 the 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 the Nagpur and Bhandara districts of Maharashtra and the state government of Madhya Pradesh has reserved 372.7 hectares in favour of MOIL in the 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 provides 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 & Managing Director
Rakesh Tumanne	Director - Finance
D. S. Shome	Director - Production & Planning

Source: Bloomberg

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

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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 deteriorating 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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