MOIL Limited

Resilient Q4; Valuation remains attractive

Metal & Mining	Sharekhan code: MOIL	Result Update

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		⇔	

Reco/View	Change
Reco: **Buy**	⇔
CMP: **Rs. 191**	
Price Target: **Rs. 225**	↑

↑ Upgrade ⇔ Maintain ↓ Downgrade

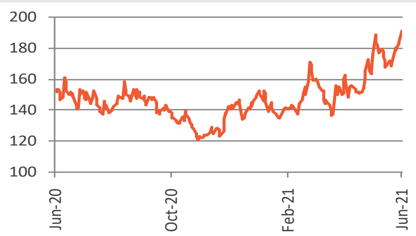
Company details

Market cap:	Rs. 4,539 cr
52-week high/low:	Rs. 201/119
NSE volume: (No of shares)	9.8 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	64.4
FII	4.7
DII	13.8
Others	17.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1	20	36	26
Relative to Sensex	-4	16	21	-26

Sharekhan Research, Bloomberg

Summary

- Q4FY2021 results were strong with PAT beating estimates by 54% at Rs.116 crore, rising 2.3x q-o-q led by a sharp turnaround in margin at Rs3,775/tonne (up 57% q-o-q) and stronger-than-expected recovery in volume at 0.41 mt (up 31% q-o-q).
- Improvement in margin was led by higher manganese ore realisation at Rs. 9,914/tonne (up 28.3% q-o-q) as MOIL implemented 15-20% price hike over January-February 2021.
- MOIL has underperformed the BSE Metal index by 132% in the last one year and we believe that this could reverse as its earnings outlook (expect 37% PAT CAGR over FY21-FY23E) has improved given volume growth visibility and turnaround in profitability.
- We maintain a Buy rating on MOIL with a revised PT of Rs225. Valuation of 4x FY23E EV/EBITDA is attractive and high cash & cash equivalents of Rs. 1,905 crore (42% of market capitalisation) provides scope for share buyback and high dividend payouts.

MOIL Limited's (MOIL) posted strong Q4FY2021 results with a 48%/54% beat in operating profit/PAT at Rs. 156 crore/Rs. 116 crore; rising 2.1x/2.3 q-o-q. Higher-than-expected earnings was primarily led by beat of 25%/18% in EBITDA margin at Rs3,775/tonne (up 57% q-o-q) and manganese ore sales volume of 0.41 million tonnes (up 39% y-o-y; up 31% q-o-q). The sharp improvement in the profitability was driven by higher manganese ore realization at Rs. Rs9,914/tonne (up 31.1% y-o-y; up 28.3% q-o-q and 8% above our estimate of Rs. 9,153/tonne) led by price hike of 15-20% over January-February 2021 across all grades of manganese ore. A higher domestic steel production bodes well for volume growth while recent price hike would aid sharp margin recovery and thus, we have increased our FY2022E-FY2023E earnings estimates and expect robust 38%/37% EBITDA/PAT CAGR over FY2021-FY2023E. Moreover, MOIL's strong cash & cash equivalents position (at Rs. 1,905 crore as of March 2021 or 42% current market capitalization) makes it a strong candidate for share buyback and higher dividend. Valuation is attractive at 4x its FY2023E EV/EBITDA (12% discount to its historical average one-year forward EV/EBITDA multiple of 4.5x) and the stock offers a healthy dividend yield of ~4%. Hence, we maintain our Buy rating on MOIL with a revised PT of Rs. 225.

Key positives

- Stronger-than-expected recovery in manganese ore sales volume at 0.41 mt (up 38.6% y-o-y; up 30.7% q-o-q).
- Higher-than-expected blended EBITDA at Rs. 3,775/tonne (up 57% q-o-q) led by better realization given price hikes.
- Board recommended a final dividend of Rs. 4.9/share and thus taking the total dividend to Rs7.4/share (implies a 4% dividend yield) for FY2021.

Key negatives

- Sharp rise of 29%/46% y-o-y in other expenses/depreciation cost in Q4FY2021.

Our Call

Valuation – Maintain Buy on MOIL with a revised PT of Rs. 225: MOIL has under-performed the BSE Metal Index by 132% in the last one year and we believe that under-performance could reverse as its earnings outlook has improved considerably given volume growth visibility (supported by higher domestic steel production) and turnaround in profitability (recent price hikes of 15-20%). Moreover, MOIL's valuation is attractive at 4x its FY2023E EV/EBITDA (12% discount to its historical average one-year forward EV/EBITDA multiple of 4.5x) and its high cash & cash equivalents of Rs. 1,905 crore (Rs. 80/share or 42% of market capitalization) provides room for share buyback (last buyback announced in November 2019 at a price of Rs. 152/share) and high dividend payout. Hence, we maintain a Buy rating on MOIL with a revised PT of Rs. 225 (increase reflects upward revision in earnings and higher EV/EBITDA multiple).

Key Risks

Lower 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.

Valuation Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	1,038	1,177	1,332	1,434
OPM (%)	24.6	24.4	37.4	38.1
Adjusted PAT	248	227	386	426
% YoY growth	-47.6	-8.7	70.2	10.5
Adjusted EPS (Rs)	10.5	7.4	16.3	18.0
P/E (x)	18.3	25.7	11.8	10.7
P/B (x)	1.6	1.6	1.5	1.4
EV/EBITDA (x)	10.6	9.2	4.8	4.0
RoNW (%)	8.5	8.1	13.1	13.3
RoCE (%)	11.6	10.4	17.4	17.7

Source: Company; Sharekhan estimates

Strong Q4 as volumes and margins sharply beat expectations; EBITDA/PAT surpass estimate by 48%/54%

Revenues increased by 81% y-o-y (up 68.1% q-o-q) to Rs450 crore, which was well above our estimates of Rs. 335crore due to sharply higher-than-expected manganese ore sales volume of 0.41 million tonnes (up 38.6% y-o-y; up 30.7% q-o-q) and higher blended realisation of Rs. 9,914/tonne (up 31.1% y-o-y; up 28.3%). The company reported an operating profit of Rs. 156 crore (up 2.1x y-o-y) as against just Rs. 6 crore in Q4FY2020 and sharp beat of 48% versus our estimate of Rs. 105 crore led by higher-than-expected EBITDA/tonne at Rs. 3,775/tonne. PAT came in at Rs. 116 crore (up 2.3% q-o-q) as compared to just Rs. 13 crore in Q4FY2020, a beat of 54% versus our estimate due to better-than-expected profitability and higher other income (up 63% q-o-q).

Results Rs cr

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net Sales	**450**	**249**	**81.0**	**268**	**68.1**
Total Expenditure	294	242	21.5	192	53.5
Reported operating profit	156	6	NA	76	105.0
Adjusted operating profit	**156**	**6**	**NA**	**76**	**105.0**
Other Income	31	34	-8.4	19	62.6
EBITDA	187	41	360.3	95	96.4
Interest	0	0		0	
Depreciation	28	19	46.5	25	10.1
Exceptional income/(expense)	0	0	NA	0	NA
Reported PBT	159	22	637.2	70	127.7
Adjusted PBT	**159**	**22**	**637.2**	**70**	**127.7**
Tax	43	8	432.0	19	133.0
Reported PAT	116	13	761.2	51	125.8
Adjusted PAT	**116**	**13**	**761.2**	**51**	**125.8**
Equity Cap (cr)	24	24		24	
Reported EPS (Rs)	4.9	0.6	761.2	2.2	125.8
Adjusted EPS (Rs)	4.9	0.6	761.2	2.2	125.8
Margins (%)			**BPS**		**BPS**
Adjusted OPM	34.6	2.6	NA	28.4	623.0
Adjusted NPM	25.8	5.4	NA	19.2	658.4

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Manganese ore sales volume (million tonnes)	0.41	0.30	38.6	0.32	30.7
Manganese ore realisation (Rs/tonne)	9,914	7,561	31.1	7,725	28.3
Blended EBITDA (Rs/tonne)	3,775	215	1,659.0	2,406	56.9

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Higher steel consumption to drive manganese ore demand; international manganese ore prices stabilising

India's domestic steel demand remains strong and is expected to further improve in CY2021 with a recovery in the overall economy and improvement in infrastructure/construction projects. Potential improvement in domestic production would also drive demand for manganese ore (largely used in steel manufacturing). Also, international manganese ore price have stabilised with average of ~$5.5/dmtu in CY2021 YTD.

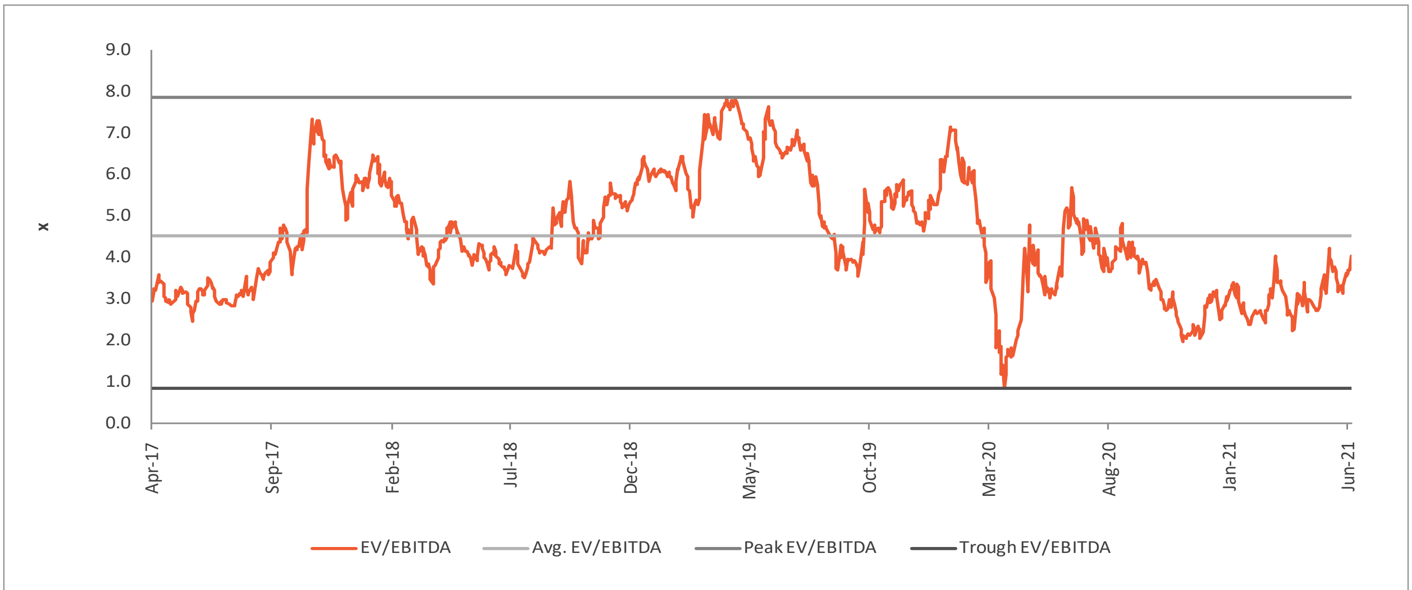
■ Company outlook - Improving volume and margin bodes well for earnings recovery

MOIL has largely maintained its manganese ore price for Q1FY2022 as price hike of 5% in April gets negated by a price cut of 5% in May. Manganese ore demand is likely to witness improving trend given expectation of higher domestic steel production over CY2021-2022. This bodes well for higher manganese ore volume for MOIL in FY2022. We thus expect a strong earnings recovery for MOIL over FY2022-FY2023 led by higher margins and a revival in volumes.

■ Valuation - Maintain Buy on MOIL with a revised PT of 225

MOIL has under-performed the BSE Metal Index by 132% in the last one year and we believe that under-performance could reverse as its earnings outlook has improved considerably given volume growth visibility (supported by higher domestic steel production) and turnaround in profitability (recent price hikes of 15-20%). Moreover, MOIL's valuation is attractive at 4x its FY2023E EV/EBITDA (12% discount to its historical average one-year forward EV/EBITDA multiple of 4.5x) and its high cash & cash equivalents of Rs. 1,905 crore (Rs. 80/share or 42% of market capitalization) provides room for share buyback (last buyback announced in November 2019 at a price of Rs. 152/share) and high dividend payout. Hence, we maintain a Buy rating on MOIL with a revised PT of Rs. 225 (increase reflects upward revision in earnings and higher EV/EBITDA multiple).

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 1.1 million tonne (mt) in FY2021. 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 that MOIL is well placed to capitalise on potential recovery in the domestic steel demand growth as it holds strong reserves and a resource base of 92.6 mt (million tonnes). Recent price hikes bodes well for recovery in margins. 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 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 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	8.1
2	Massachusetts Financial Services Co.	2.6
3	UTI Asset Management Co. Ltd.	1.8
4	United India Insurance Co. Ltd.	1.1
5	Dimensional Fund Advisors LP	0.7
6	BNP Paribas Asset Management India Pvt. Ltd	0.6
7	Wisdom Tree Investments Inc.	0.3
8	Aditya Birla Sun Life Asset Management Co. Ltd	0.2
9	Alternate Investment Funds	0.2
10	India First Life Insurance Co. Ltd.	0.1

Source: Bloomberg

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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