Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

MOIL

Stellar Q3 on margin beat; improving earnings outlook

Metal & Mining		Sharekhan code: MOIL		
Reco/View: Buy	↔	CMP: **Rs. 177**	Price Target: **Rs. 220**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

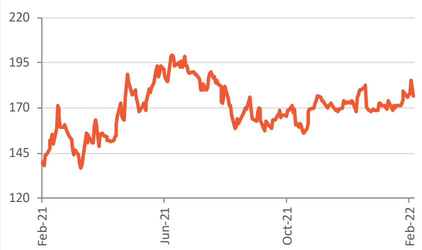
Company details

Market cap:	Rs. 4,189 cr
52-week high/low:	Rs. 208 / 135
NSE volume: (No of shares)	5.0 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	64.4
FII	4.9
DII	12.6
Others	18.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3	0	1	27
Relative to Sensex	11	7	-1	19

Sharekhan Research, Bloomberg

Summary

- Q3FY22 PAT of Rs. 124 crore, up 106% q-o-q was significantly above our estimate led by a sharp recovery in margin, inventory gains, higher other income and lower tax rate.
- EBITDA margin of Rs. 5,295/tonne, up 73% q-o-q was 29% above our estimates reflecting better blended realisations (up 2.8% q-o-q) and strong revenue growth helps absorb fixed overheads. Volume also increased by 15.8% q-o-q to 0.31 mt.
- International manganese ore prices remain stable at $6.6/dmtu and sustained volume recovery on expectation of higher steel production improves earnings growth visibility. A potential rise in share of high-grade manganese ore to aid margin improvement.
- We maintain a Buy on MOIL with a revised PT of Rs. 220 as valuation of 3.3x FY23E EV/EBITDA is attractive, and MOIL has strong cash balance and offers healthy dividend yield of 4-5%.

MOIL Limited posted stellar Q3FY22 results with a beat of 2%/28%/31% in revenue/ operating profit/adjusted PAT at Rs. 363 crore/Rs. 163 crore/Rs. 124 crore; up 17%/100%/106% q-o-q led by stronger-than-expected margins, inventory gain, higher other income (up 106% q-o-q) and marginally lower tax rate. EBITDA margin was robust, rising by 120%/73% y-o-y/q-o-q to Rs. 5,295/tonne led by benefit of improved manganese ore realisations (MOIL hiked prices by 2.5-5% in November 2022) and higher operating leverage as strong revenue growth absorbs fixed overheads.

Key positives

- Sharp beat in blended EBITDA at Rs. 5,295/tonne, up 120%/73% y-o-y/q-o-q led by price hike and lower cost.
- Manganese ore sales volume increased by 16% q-o-q to 0.31 mt.

Key negatives

- MOIL lowered manganese ore prices by 2.5-5% in January 2022 which offsets benefit of price hike in Q3FY22.

Revision in estimates – We increase our FY22-24 earnings estimates to factor higher margin assumption.

Our Call

Valuation – Maintain Buy on MOIL with a revised PT of Rs. 220: The stock is attractively valued at 3.3x its FY2023E EV/EBITDA, considering expectation of a strong volume/margin led by an earnings recovery given expectations of higher steel production and stable international manganese ore prices. Moreover, MOIL has a strong balance sheet with high cash & cash equivalents of Rs. 1,725 crore (41% of market capitalization) as of September 2021 and offers healthy dividend of 4-5%. Hence, we maintain a Buy rating on MOIL with a revised 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)	23.7	11.8	9.9	9.1
P/B (x)	1.5	1.4	1.3	1.2
EV/EBITDA (x)	8.0	4.3	3.3	2.6
RoNW (%)	8.1	12.1	13.3	13.3
RoCE (%)	10.4	16.1	17.7	17.7

Source: Company; Sharekhan estimates

Robust Q3 led by volume and margin recovery

Standalone Q3FY22 revenues increased by 35.7% y-o-y and 16.6% q-o-q to Rs. 363 crore, which was marginally above our estimates of Rs. 356 crore led by better-than-expected blended realisations (up 40.1% y-o-y) while manganese ore sales volume at 0.31 million tonnes are in-line with our estimates. Operating profit stood at Rs. 163 crore (up 114% y-o-y; up 100% q-o-q) was 28% above our estimate of Rs. 127 crore led by substantially higher-than-expected EBITDA margin of Rs. 5,295/tonne (up 120% y-o-y; up 73% q-o-q) reflecting benefit of improved manganese ore price and higher operating leverage as strong revenue growth absorbs fixed overheads. PAT came in at Rs. 124 crore (up 141% y-o-y; up 106% q-o-q) was 31% above our estimate of Rs. 95 crore due to sharp beat in margin, higher other income, and a marginally lower tax rate.

Results Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Revenue	**363**	**268**	**35.7**	**312**	**16.6**
Total Expenditure	201	192	4.8	231	-12.9
Operating profit	**163**	**76**	**113.8**	**81**	**100.3**
Other Income	28	19	44.1	22	24.6
Interest	0	0	NA	0	NA
Depreciation	26	25	4.0	25	5.7
PBT	**164**	**70**	**134.4**	**79**	**108.8**
Tax	40	19	115.8	18	119.2
PAT	124	51.4	141.1	60	105.7
Equity Cap (cr)	24	24		24	
Reported EPS (Rs.)	5.2	2.2	141.1	2.5	105.7
Margins (%)			**BPS**		**BPS**
OPM	44.7	28.4	1633.6	26.0	1,869.8
NPM	34.1	19.2	1490.0	19.3	1,477.1
Tax rate	24.5	26.6	-210.6	23.3	115.9

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Manganese ore sales volume (million tonnes)	0.31	0.32	-2.8	0.27	15.8
Manganese ore realisation (Rs. /tonne)	10,819	7,725	40.1	10,527	2.8
Blended EBITDA (Rs. /tonne)	5,295	2,406	120.1	3,063	72.9

Source: Company; Sharekhan Research

Outlook and Valuation

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

Domestic steel demand remains strong and is expected to further improve in CY2021 with an overall economic recovery and an 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 stable-to-improving with an average of ~$6.3/dmtu in Q3FY2022 QTD versus $6.5/dmtu in Q2FY2022.

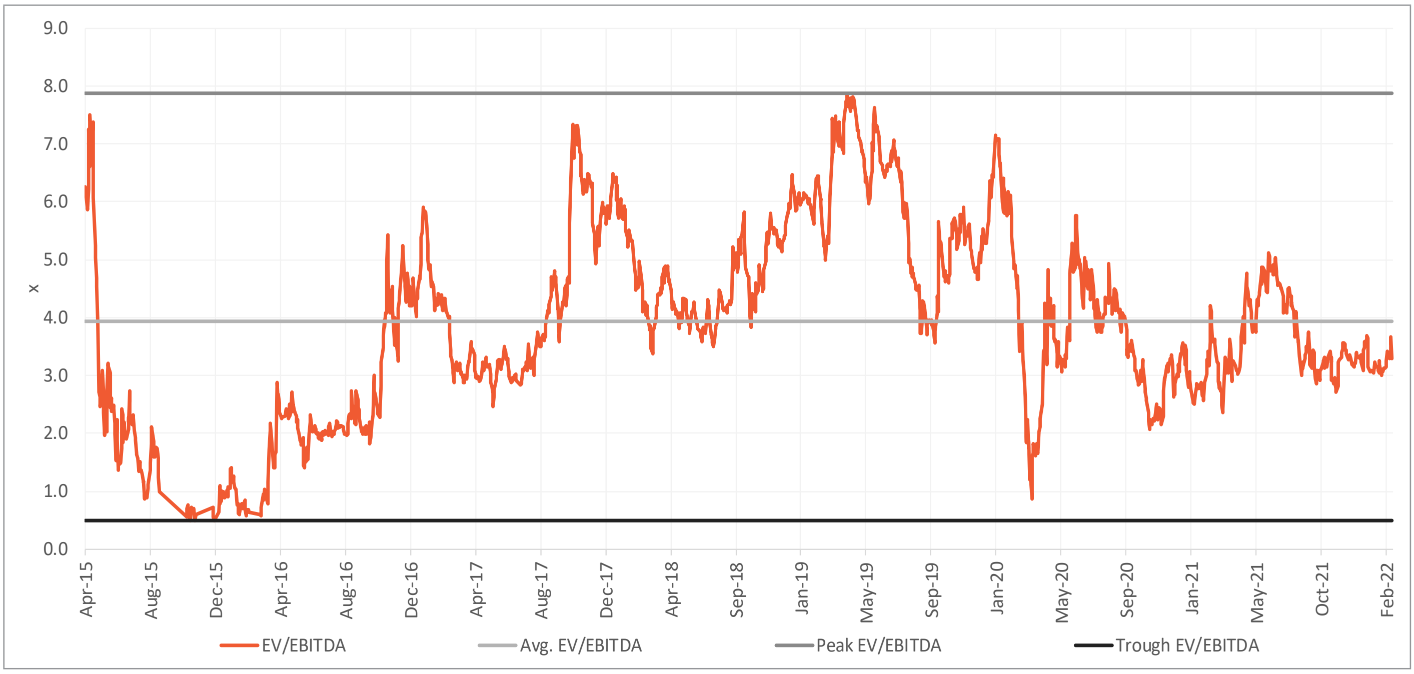
■ Company outlook – Volume recovery and stable-to-improving realisation to revive earnings

MOIL lowered prices by 2.5-5% in January 2022 which offset price hike taken in Q3FY22 and thus we expect realisations to remain stable in Q4FY22. Manganese ore demand is likely to improve given expectation of higher domestic steel production over CY2022-2023. This bodes well for higher manganese ore volumes for MOIL in FY2023. We thus 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 a revival in volumes.

■ Valuation – Maintain Buy on MOIL with a revised PT of 220

The stock is attractively valued at 3.3x its FY2023E EV/EBITDA, considering expectation of a strong volume/ margin led by an earnings recovery given expectations of higher steel production and stable international manganese ore prices. Moreover, MOIL has a strong balance sheet with high cash & cash equivalents of Rs. 1,725 crore (41% of market capitalization) as of September 2021 and offers healthy dividend of 4-5%. Hence, we maintain a Buy rating on MOIL with a revised PT of Rs. 220.

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 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 bode 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.9
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	0.6
6	BNP Paribas Asset Management India Pvt. Ltd	0.5
7	Aditya Birla Sun Life Asset Management Co. Ltd	0.2
8	VALIC Co I	0.1
9	State Street Corp	0.04
10	GAM Holding AG	0.02

Source: Bloomberg; Note: Shareholding pattern as on November 12, 2021

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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