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		↔	

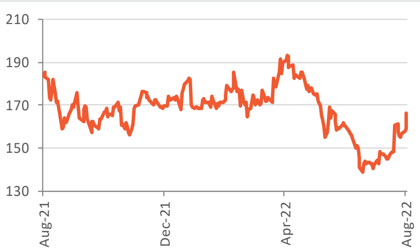
Company details

Market cap:	Rs. 3,386 cr
52-week high/low:	Rs. 199 / 137
NSE volume: (No of shares)	3.8 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	64.7
FII	5.8
DII	12.0
Others	17.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.0	-4.9	-7.0	-9.4
Relative to Sensex	6.3	-9.7	-6.5	-16.7

Sharekhan Research, Bloomberg

Stock Update

Result Update

MOIL Ltd

Strong Q1; firm manganese ore prices bode well

Metal & Mining	Sharekhan code: MOIL
Reco/View: Buy ↔	CMP: Rs. 166
Price Target: Rs. 195 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q1FY23 operating profit/PAT of Rs. 148 crore/Rs. 103 crore, up 77%/66% y-o-y was above our estimate as beat in margins more than offset the miss in volumes and lower other income.
- EBITDA margin of Rs. 5,229/tonne, up 63% y-o-y was 20% above our estimate, supported by price hikes and a lower-than-expected cost. Volumes stood of 0.28 mt (up 8% y-o-y; down 25% q-o-q) missed our estimate of 0.31mt as steel demand got affected by export duty.
- MOIL took a net price cut of 5% in Q1FY23 given softness in international manganese ore prices in August, yet current price remains healthy at $7.4/dmtu (above Q2 level of $6.6/dmtu). This bode well for sustained strong margins.
- We maintain a Buy rating on MOIL with a revised PT of Rs. 195 given reasonable valuations of 3.2x FY24E EV/EBITDA (despite a rally of 16% in MOIL's stock price in last one month), dividend yield of 4% and high cash on the books. Likely removal of steel export tax could improve sentiments for the sector.

MOIL Limited's Q1FY2023 operating profit of Rs. 148 crore (up 76.7% y-o-y; down 30.8% q-o-q) was 10% above our estimate of Rs. 135 crore as a stronger-than-expected EBITDA margin of Rs. 5,229/tonne (up 62.9% y-o-y and 20% above estimate) offsets 9% miss in volumes at 0.28 million tonnes (up 8.4% y-o-y; down 25.3% q-o-q) as domestic steel demand got impacted due to steel export duty. Robust margins were driven by 1) improvement of 16.6%/8.3% y-o-y/q-o-q in blended realisations to Rs. 12,023/tonne led by price hike of 5-20% across products in April. This was partially offset by price cut in May/June and 2) lower-than-expected overall operating cost (down 10.4% q-o-q as a sharp decline in other expenses was offset by steep rise in employee cost during the quarter). PAT of Rs. 103 crore (up 66.3% y-o-y; down 19% q-o-q) was 4% above our estimate of Rs. 99 crore, reflecting a beat in margins that was partially offset by lower other income (down 27% y-o-y).

Key positives

- Beat in blended EBITDA at Rs. 5,229/tonne, up 63% y-o-y led by price hike and lower cost.
- Blended realisation rise by 16.6%/8.3% y-o-y/q-o-q to Rs. 12,023/tonne.

Key negatives

- Lower-than-expected manganese ore sales volume of 0.28 mt, down 25% q-o-q.
- Employee costs rose 42% q-o-q to Rs. 147 crore.

Revision in estimates – We maintain our FY2023-FY2024 earnings estimates.

Our Call

Valuation – Maintain Buy on MOIL with a revised PT of Rs. 195: Stable international manganese ore price bode well for higher realisation/margin and volumes are likely to remain steady, given a large demand-supply gap (India imported 3.95 mt of manganese ore in FY2021). MOIL trades at attractive valuation of 3.2x its FY2024E EV/EBITDA, has a net cash position of Rs. 1,072 crore (or 32% of current market capitalisation) and offers decent dividend yield of 4%. Thus, we maintain a Buy rating on MOIL with a revised PT of Rs. 195.

Key Risks

Lower steel output amid recent policy changes could affect 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	37.4
Adjusted PAT	227	371	407	416
% YoY growth	*-8.7*	*63.5*	*9.8*	*2.1*
Adjusted EPS (Rs)	11.1	18.2	20.0	20.4
P/E (x)	14.9	9.1	8.3	8.1
P/B (x)	1.2	1.6	1.4	1.3
EV/EBITDA (x)	5.2	4.3	3.6	3.2
RoNW (%)	8.1	14.9	17.9	16.4
RoCE (%)	10.4	20.8	23.9	21.8

Source: Company; Sharekhan estimates

Strong Q1 led by margin beat; volume disappoint

Q1FY2023 operating profit of Rs. 148 crore (up 76.7% y-o-y; down 30.8% q-o-q) was 10% above our estimate of Rs. 135 crore as stronger-than-expected EBITDA margins of Rs. 5,229/tonne (up 62.9% y-o-y and 20% above estimate) offsets 9% miss in the volume at 0.28 million tonnes (up 8.4% y-o-y; down 25.3% q-o-q) as domestic steel demand was affected due to steel export duty. The robust margin performance was driven by 1) improvement in blended realisation by 16.6%/8.3% y-o-y/q-o-q to Rs. 12,023/tonne led by a price hike of 5-20% across products in April partially offset by price cut in May/June and 3) lower-than-expected overall operating cost (down 10.4% q-o-q as a sharp decline in other expenses offset by steep rise in employee cost during the quarter). PAT of Rs. 103 crore (up 66.3% y-o-y; down 19% q-o-q) was 4% above our estimate of Rs. 99 crore reflecting beat in margin partially offset by lower other income (down 27% y-o-y).

Results Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Revenue	**376**	**293**	**28.0**	**468**	**-19.7**
Total Expenditure	228	210	8.6	254	-10.4
Reported operating profit	**148**	**84**	**76.7**	**214**	**-30.8**
Other Income	15	21	-27.1	8	85.6
Interest	0	0		1	
Depreciation	26	24	8.2	28	-8.2
Exceptional income/(expense)	0	0	NA	6	NA
Reported PBT	137	81	70.0	200	-31.2
Adjusted PBT	**137**	**81**	**70.0**	**193**	**-28.9**
Tax	35	19	81.9	69	-49.5
Reported PAT	103	62	66.3	131	-21.6
Adjusted PAT	**103**	**62**	**66.3**	**127**	**-19.0**
Equity Cap (cr)	20	20		20	
Reported EPS (Rs)	5.1	3.0	66.3	6.4	-21.6
Adjusted EPS (Rs)	5.1	3.0	66.3	6.2	-19.0
Margins(%)			**BPS**		**BPS**
OPM	39.4	28.6	1084.5	45.7	-632.7
Adjusted NPM	27.4	21.1	629.8	27.1	25.2
Tax rate	25.2	23.6	165.6	35.6	-1,031.2

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Manganese ore sales volume (million tonnes)	0.28	0.26	8.4	0.38	-25.3
Manganese ore realisation (Rs/tonne)	12,023	10,315	16.6	11,104	8.3
Blended EBITDA (Rs/tonne)	5,229	3,209	62.9	5,645	-7.4

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

The National Steel Policy of India, 2017, aspires to achieve 300 million tonnes of steelmaking capacity by 2030. This would translate into additional consumption of steelmaking raw materials such as iron ore and manganese ore. However, near-term uncertainties may prevail due to the recent 15% export duty on steel. In addition, international manganese ore price is stable-to-improving at ~$8.4/dmtu in Q2FY23QTD versus $6.6/dmtu in Q1FY23.

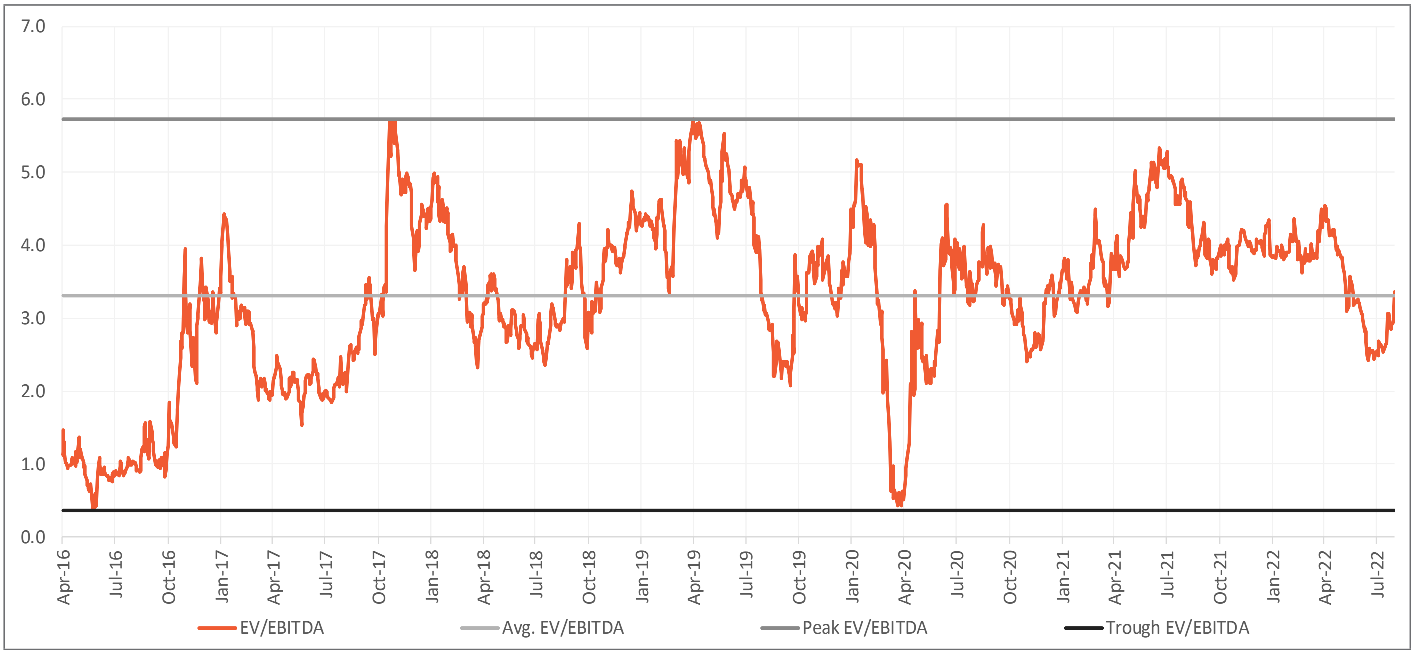
■ Company outlook – Largely stable realisation to sustain earnings

MOIL has implemented price hike of 5-20%/5% in April/July, followed by a price cut of 10% in August. Further, international manganese ore price is firm at $7.4-7.5/dmtu. This bodes well for better realisation/margin although near-term volume may get impacted due to seasonal factors (monsoon) and impact on steel production, given the export duty. 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 Rs. 195

Stable international manganese ore price bode well for higher realisation/margin and volumes are likely to remain steady, given a large demand-supply gap (India imported 3.95 mt of manganese ore in FY2021). MOIL trades at attractive valuation of 3.2x its FY2024E EV/EBITDA, has a net cash position of Rs. 1,072 crore (or 32% of current market capitalisation) and offers decent dividend yield of 4%. Thus, we maintain a Buy rating on MOIL with a revised PT of Rs. 195.

One-year forward EV/EBITDA (x) band



Source: Company, 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	7.48
2	Massachusetts Financial Services	2.99
3	UTI Asset Management	1.44
4	United India Insurance Company	1.14
5	Dimentional Fund Advisors	0.60
6	Aditya Birla Sun Life Asset Management	0.15
7	VALIC Company	0.10
8	Nationwide Fund Advisors	0.06
9	State Street Corp	0.03
10	American Century Cos	0.03

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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