Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

MOIL Ltd

Weak Q2 as margin/volume disappoints, valuation attractive

Metal & Mining	Sharekhan code: MOIL
Reco/View: Buy ↔	CMP: **Rs. 153** Price Target: **Rs. 185** ↓

↑ 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		↔	

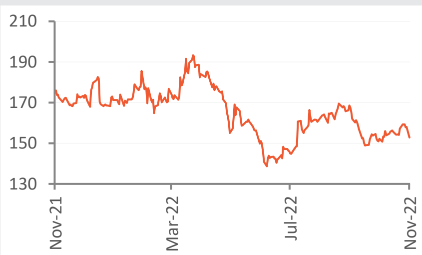
Company details

Market cap:	Rs. 3,108 cr
52-week high/low:	Rs. 199/137
NSE volume: (No of shares)	2.2 lakh
BSE code:	533286
NSE code:	MOIL
Free float: (No of shares)	7.2 cr

Shareholding (%)

Promoters	64.7
FII	5.8
DII	12.1
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	-5.2	-1.4	-13.2
Relative to Sensex	-6.1	-8.9	-18.1	-14.7

Sharekhan Research, Bloomberg

Summary

- MOIL Limited's (MOIL) Q2FY2023 results disappointed as PAT of Rs. 25 crores (down 59% y-o-y/76% q-o-q) sharply missed our estimate on account of lower-than-expected volume/margin and lower other income which got partially offset by lower tax rate.
- Manganese ore sales volume declined by 22% y-o-y/27% q-o-q to 0.21 mt, as Q2 is a seasonally weak quarter because mine production gets impacted during monsoon season. Weak EBITDA margin of Rs. 1,606/tonne (down 69% q-o-q) missed our estimate as realisation was impacted by price cuts.
- MOIL has taken net price cut of 20% in Q2FY2023 and has further reduced its manganese ore price by 10%/7.5% in October/November to reflect weak international manganese ore price, given subdued global steel demand environment. We expect volumes to improve in H2FY23 post the monsoon season.
- We maintain our Buy rating on MOIL with a revised PT of Rs. 185, given reasonable valuations of 3.1x its FY2024E EV/EBITDA, dividend yield of 5%, and high cash on books. Likely removal of steel export tax could improve sentiments for the sector.

MOIL Limited's (MOIL) Q2FY2023 operating profit of Rs. 33 crores (down 59% y-o-y; down 77.5% q-o-q) was 73% below our estimate of Rs. 122 crores due to sharply lower-than-expected manganese ore sales/realisation at 0.21 mt/Rs. 10,419 per tonne, down 27%/13% q-o-q. Sharp sales volume can be attributed to lower production, given seasonally weak quarter due to the monsoon season, while realisation decline reflects price cuts of 10%/15% in August/September, offsetting 5% hike in July. Lower realisation and weak volumes impacted EBITDA margin, which declined sharply by 48% y-o-y/69% q-o-q to Rs. 1,606/tonne. Adjusted PAT (adjusted for Rs. 3 crores related to writeback of earlier liability for arbitration award) of Rs. 25 crores (down 58.9% y-o-y; down 75.9% q-o-q) was sharply below our estimate of Rs. 89 crores due to weak volume/margin performance and lower other income, partially offset by lower tax rate of 9.1% (versus our estimate of 25%).

Key positives

- Strong cash and cash equivalents of Rs. 1,031 crore (33% of current mcap).

Key negatives

- Sharp miss in EBITDA margin at Rs. 1,606/tonne (down 69% q-o-q) due to weak realisation, given 20% price cut in Q2FY2023.
- Lower-than-expected manganese ore sales volume of 0.21 mt, down 26.9% q-o-q.

Revision in estimates – We have cut our FY2023-FY2024 earnings estimates to factor in lower margin assumption.

Our Call

Valuation – Maintain Buy on MOIL with a revised PT of Rs. 185: MOIL trades at attractive valuation of 3.1x its FY2024E EV/EBITDA, has net cash position of Rs. 1,030 crores (or 33% of current market capitalisation) and offers a decent dividend yield of 5%. Thus, we maintain our Buy rating on MOIL with a revised price target (PT) of Rs. 185.

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	1,374	1,548
Operating profit	287	541	438	553
OPM (%)	24.4	37.7	31.9	35.7
Adjusted PAT	*227*	*371*	*295*	*384*
% YoY growth	-8.7	63.5	-20.4	30.2
Adjusted EPS (Rs)	11.1	18.2	14.5	18.9
P/E (x)	13.7	8.4	10.5	8.1
P/B (x)	1.1	1.5	1.3	1.2
EV/EBITDA (x)	4.2	3.8	4.4	3.1
RoNW (%)	8.1	14.9	13.2	15.7
RoCE (%)	10.4	20.8	17.6	20.9

Source: Company; Sharekhan estimates

Weak Q2 due to margin miss; Volumes/prices disappoint

Q2FY2023 operating profit of Rs. 33 crores (down 59% y-o-y; down 77.5% q-o-q) was 73% below our estimate of Rs. 122 crores due to sharply lower-than-expected manganese ore sales/realisation at 0.21 mt/Rs. 10,419 per tonne, down 27%/13% q-o-q. Sharp sales volume can be attributed to lower production, given seasonally weak quarter due to the monsoon season, while realisation decline reflects price cuts of 10%/15% in August/September, offsetting 5% hike in July. Lower realisation and weak volumes impacted EBITDA margin, which declined sharply by 48% y-o-y/69% q-o-q to Rs. 1,606/tonne. Adjusted PAT (adjusted for Rs. 3 crores related to writeback of earlier liability for arbitration award) of Rs. 25 crores (down 58.9% y-o-y; down 75.9% q-o-q) was sharply below our estimate of Rs. 89 crores due to weak volume/margin performance and lower other income, partially offset by lower tax rate of 9.1% (versus our estimate of 25%).

Results Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	**236**	**312**	**-24.3**	**376**	**-37.2**
Total Expenditure	203	231	-12.1	228	-10.9
Reported operating profit	**33**	**81**	**-59.0**	**148**	**-77.5**
Other Income	21	22	-6.8	15	37.1
Interest	0	0		0	
Depreciation	27	25	8.4	26	5.4
Exceptional income/(expense)	3	0	NA	0	NA
Reported PBT	30	79	-62.0	137	-78.3
Adjusted PBT	**27**	**79**	**-65.6**	**137**	**-80.4**
Tax	2	18	-86.6	35	-92.9
Reported PAT	27	60	-54.6	103	-73.4
Adjusted PAT	**25**	**60**	**-58.9**	**103**	**-75.9**
Equity Cap (cr)	20	20		20	
Reported EPS (Rs.)	1.3	3.0	-54.6	5.1	-73.4
Adjusted EPS (Rs.)	1.2	3.0	-58.9	5.1	-75.9
Margins(%)			**BPS**		**BPS**
Adjusted OPM	14.1	26.0	-1195.1	39.4	-2,531.4
Adjusted NPM	10.5	19.3	-883.0	27.4	-1,687.3
Tax rate	9.1	23.3	-1418.9	25.2	-1,612.6

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Manganese ore sales volume (million tonne)	0.21	0.27	-21.9	0.28	-26.9
Manganese ore realisation (Rs./tonne)	10,419	10,527	-1.0	12,023	-13.3
Blended EBITDA (Rs./tonne)	1,606	3,063	-47.6	5,229	-69.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Long-term rise in steel consumption to drive manganese ore demand**

The National Steel Policy of India, 2017, aspires to achieve 300 million tonne 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.

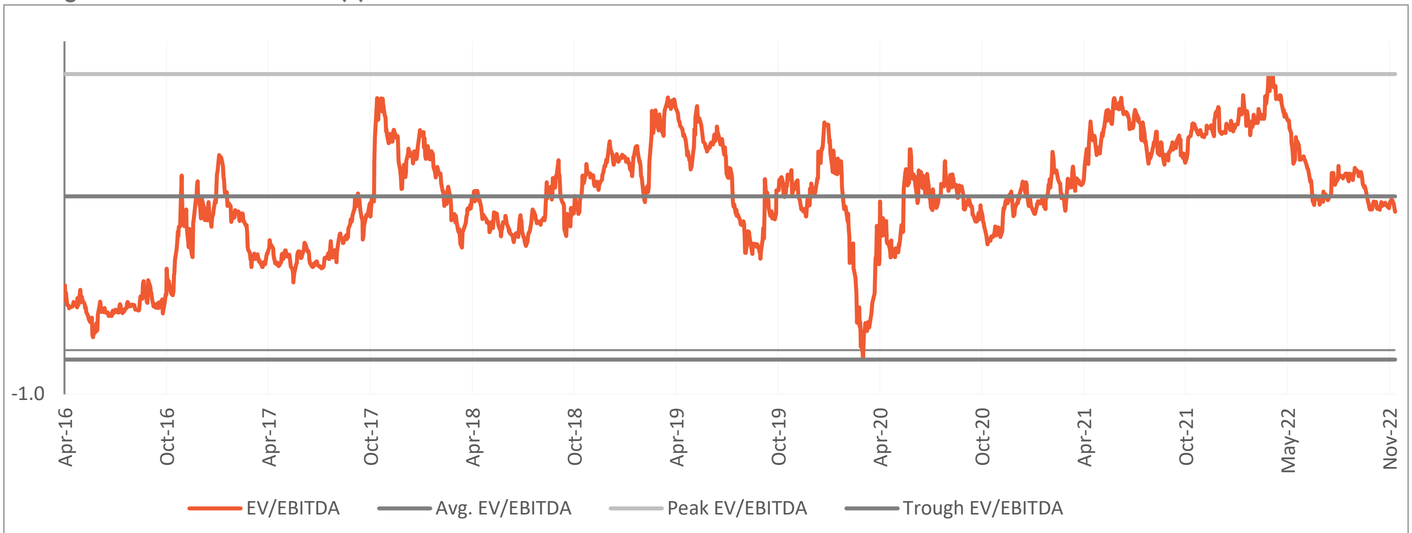
■ **Company Outlook – Near-term weak margin given price cuts**

MOIL has taken net price cut of 20% in Q2FY2023 and has further reduced its manganese ore price by 10%/7.5% in October/November to reflect weak international manganese ore price, given subdued global steel demand environment. We expect volumes to improve in H2FY2023 post the monsoon season, but weak manganese ore realisation is expected to impact earnings in FY2023, while a likely recovery in price/volume led by potentially better steel demand is expected to drive strong 26%/30% y-o-y growth in EBITDA/PAT in FY2024.

■ **Valuation – Maintain Buy on MOIL with a revised PT of Rs. 185**

MOIL trades at attractive valuation of 3.1x its FY2024E EV/EBITDA, has net cash position of Rs. 1,030 crores (or 33% of current market capitalisation) and offers a decent dividend yield of 5%. Thus, we maintain our Buy rating on MOIL with a revised PT of Rs. 185.

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 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 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.

Additional Data

Key management personnel

M.P. Chaudhari	Chairman and Managing Director
Rakesh Tumane	Director - Finance
D. S. Shome	Director - Production and 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 (Old data)

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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