

APRIL 8, 2019

	5-Apr	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	38,862	0.5	6.0	8.0
NIFTY Index	11,666	0.6	5.7	8.0
NSEBANK Index	30,085	0.6	8.4	9.4
NIFTY 500 Index	9,685	0.6	5.1	6.4
CNXMcap Index	18,246	0.8	5.0	3.5
BSESMCAP Index	15,046	0.7	3.6	2.9
<b>World Indices</b>				
Dow Jones	26,425	0.2	3.8	11.1
Nasdaq	7,939	0.6	7.2	15.1
FTSE	7,447	0.6	4.8	8.5
NIKKEI	21,808	0.4	3.6	7.8
Hangseng	29,936	(0.2)	3.8	17.3
Shanghai	3,247	0.9	6.9	29.9

Value traded (Rs cr)	5-Apr	% Chg Day
	Cash BSE	2,570
Cash NSE	30,164	(15.3)
Derivatives	623,820	(72.1)

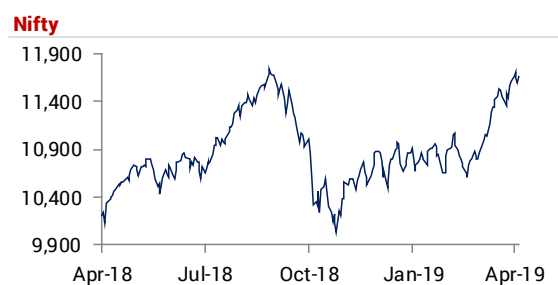
Net inflows (Rs cr)	4-Apr	MTD	YTD
	FII	(204)	(563)
Mutual Fund	179	(557)	1,112

Nifty Gainers & Losers	Price	Chg	Vol
<b>Gainers</b>			
Tata Steel	549	3.5	10.0
Ultratech Cement	4,190	2.7	0.7
Bajaj Finance	3,114	2.5	1.2
<b>Losers</b>			
Britannia Ind	2,994	(1.6)	0.3
Power Grid Corp	196	(1.5)	5.6
State Bank of India	317	(1.5)	23.1

Advances / Declines (BSE)	5-Apr				
	A	B	T	Total	% total
Advances	294	583	55	932	100
Declines	163	371	45	579	62
Unchanged	3	37	5	45	5

Commodity	5-Apr	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	70.8	0.6	7.7	20.5
Gold (US\$/OZ)	1,291.8	(0.0)	(0.2)	0.9
Silver (US\$/OZ)	15.1	(0.3)	(1.1)	(3.1)

Debt / Forex Market	5-Apr	1 Day	1 Mth	3 Mths
	10 yr G-Sec yield %	7.4	7.3	7.4
Re/US\$	69.2	69.2	70.5	69.7



Source: Bloomberg

## News Highlights

- ▶ Barings PE will acquire 56% stake in **NIIT Tech** for Rs. 48.9 bn (\$709 mn). Barings Asia is buying about 30% stake in NIIT tech and other promoter entity for about Rs. 26.3 bn. Baring will also make an open offer to NIIT Tech shareholders for purchasing additional 26% stake for as much as Rs. 22.6 bn. Barings offer price of Rs.1,394 is 3.3% higher from Friday's close of Rs.1,350 on BSE. (ET)
- ▶ Private lender **Lakshmi Vilas Bank** on Friday said its board has approved a scheme of amalgamation with **Indiabulls Housing Finance**. In a share swap deal, Lakshmi Vilas Bank (LVB) shareholders will get 14 shares of Indiabulls Housing Finance for every 100 held. (ET)
- ▶ **Tata Steel** on April 6 said its output rose 23 percent to 7.70 mn tonne (MT) during the last quarter of 2018-19. The company had produced 6.26 MT of steel during the same quarter a year ago, Tata Steel said in a statement. Its India production stood at 4.47 MT during the January-March 2019 quarter as against 3.07 MT in the year-ago period. (ET)
- ▶ **Wockhardt** plans to de-merge its India formulations business and sell a significant minority stake as a last attempt to repay its mounting debt. (MC)
- ▶ **GVK Infra** is in advanced negotiations with a combination of National Investment and Infrastructure Fund (NIIF) and Abu Dhabi Investment Authority (ADIA) for a Rs.65 bn funding in its flagship airport in Mumbai to counter advances by Gautam Adani to buy into it. (MC)
- ▶ ICRA re-affirmed A1+ rating to the commercial paper programme of **Edelweiss Financial Services** Rs 63.5 bn and short-term NCDs of Rs 1 bn. It also re-affirmed the credit rating of AA to the NCDs of Rs 4.66 bn. (MC)
- ▶ Foreign investors are likely to invest around Rs. 180 bn in **Vodafone Idea's** rights issue of which includes a major chunk from promoter Vodafone Group, sources said. (MC)
- ▶ The telecom operator, **Reliance Communication**, missed its second straight spectrum payment, this time of about Rs.2.8 bn, which fell due on April 5. (MC)
- ▶ Drug firm **Lupin** is recalling over 12,000 cartons of Fayosim tablets, used to prevent pregnancy, from the American market, as per a report of the US health regulator. (MC)
- ▶ **Future Consumer** Board approved issuing of up to \$10 million worth Compulsorily Convertible Debentures to Verinvest SA, and Rs 2.5 bn worth to International Finance Corporation on a preferential basis. The board also approved issuing of warrants to promoter/promoter group entities, for an amount of Rs 700 mn on a preferential basis. (MC)
- ▶ Post amalgamation of **Vijaya Bank** and **Dena Bank** with **Bank of Baroda**, the Government of India's stake increased to 65.37 percent. (MC)

## What's Inside

- ▶ **Company Update: MOIL Ltd**

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Company Update

### Stock Details

Market cap (Rs mn)	:	41166
52-wk Hi/Lo (Rs)	:	221 / 140
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	194,131
Shares o/s (mn)	:	258

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19E	FY20E	FY21E
Sales	12,540	14,539	14,624
Growth (%)	(5.3)	15.9	0.6
EBITDA	5,014	6,420	6,398
EBITDA margin (%)	40.0	44.2	43.7
PAT	3,974	4,837	4,867
Adj EPS (Rs)	15.4	18.8	18.9
Growth (%)	(5.8)	21.7	0.6
BV (Rs/share)	117	130	142
Dividend / share (Rs)	5.5	5.5	5.5
ROE (%)	13.1	14.5	13.3
ROCE (%)	14.2	16.8	15.0
EV/EBITDA (x)	4.0	2.7	2.3
P/E (x)	10.4	8.5	8.5
P/BV (x)	1.4	1.2	1.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	65.7	65.7	65.6
FII	4.3	3.7	3.6
DII	13.6	13.7	10.2
Others	16.4	16.9	20.6

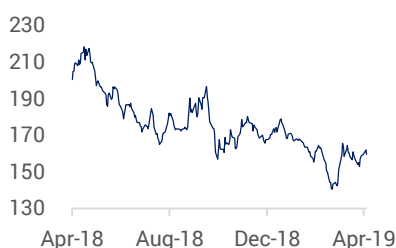
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
MOIL Ltd	0.2	(4.3)	(1.6)
Nifty	5.7	8.0	13.1

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## MOIL LTD

PRICE RS.160

TARGET RS.200

BUY

As per the press release, MOIL has achieved highest ever turnover in FY19 of Rs14.4 bn (unaudited and provisional), up 9% YoY, which is higher than our estimates of Rs12.5 bn. The outperformance was driven by record sales of non-fines (high grade ore) to ~1.1 MT, up 13% YoY. Average realisation during the quarter was also higher during the year (in 9MFY19, non-fines realisation was up 7.8% YoY). During the year, the company has opened a new mine Parsoda, in Nagpur district, with an annual production of 40,000 tonnes, which will support the volume growth (marginally) in FY20E.

### Key Highlights

- Core production (non-fines, i.e., production excluding fines) jumped 15% YoY. Total production crossed 1.3 MT in FY'19, up ~ 9% YoY, which is the highest in the last ten years. The company has also achieved the highest-ever production of non-fines manganese ore. Higher production helped the company to achieve highest ever non-fines sales volume of ~1.1 MT, up 13% YoY.
- The company commenced production activities in the month of Mar'19 at its new mine Parsoda, Nagpur district (11th mine). The benefit of the same will flow in FY20E, though marginally. Management expects annual production from Parsoda to be 40,000 tonnes, which will be gradually ramped up.
- Focus on an expansion activity and modernization of mines will help the company to sustain enhanced level of production in the coming years also. In addition, the company is also actively pursuing cases of prospecting (PL) and mining leases (PL) in Maharashtra and Madhya Pradesh, mostly in areas adjacent to its existing mines. This will enable MOIL to move towards its ambitious targets of 2.5MT by end of FY25.
- MOIL holds ~ 34% of manganese ore reserves of the country and is contributing ~ 50% of the domestic production.
- MOIL has revised the prices up by 5% for Ferro Grade and Chemical grade and withdrawn the discount on non-moving low grade manganese ore, from 1st April, 2019, the benefit of the same will come in 1QFY20E, but the sustainability of the higher prices, would be a key, given the limited recovery in steel demand globally.
- We will be revisiting our numbers, post the Q4FY19 results. Introducing FY21E with an EPS of Rs18.9

### Outlook

Backed by the firm international price and strong demand at the beginning of FY19, MOIL had increased manganese ore prices across all the grades. The uptick in the prices was also supported by lower supply from the domestic miners. But, due to weak demand and subdued international prices in 2HFY19, the manganese ore prices were muted in the domestic market. The company had revised its prices downwards in 3QFY19 and the impact of same will be reflected in Q4FY19 numbers, in our view, but the same has been negated by higher volume of non-fines, implies from the provisional revenue number, reported by the company. Given its strong business model, robust balance sheet with strong liquidity positions and its dominant position in the domestic market,

supports our positive stance on the stock. At CMP, the stock trades at 10.4x/8.5x/8.5x FY19E/FY20E/FY21E earnings and on EV/EBITDA, it trades at 4.0x/2.7x/2.3x FY19E/FY20E/FY21E EBITDA, and trading at a discount to its historical average. We reiterate our BUY rating, with an unchanged target price of Rs200.

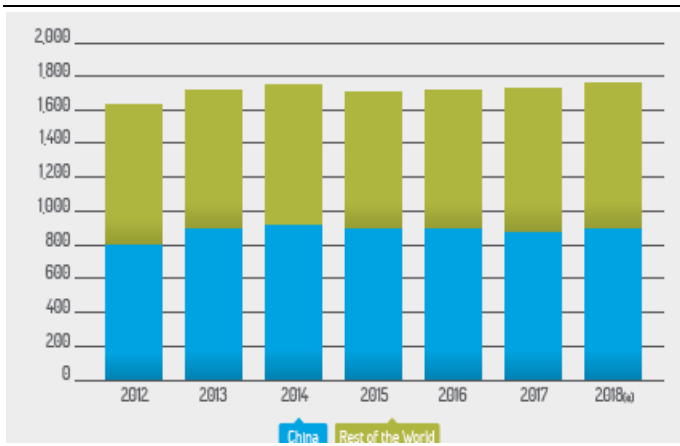
**Key Risks**

Delay in getting mining approvals for various mining projects, land acquisitions for new projects; delay in capex implementation and decline in global manganese ore prices would put pressure on company’s realization there by impacting EBITDA margins

**Oversupply and overcapacity in the Manganese industry offset the positive development**

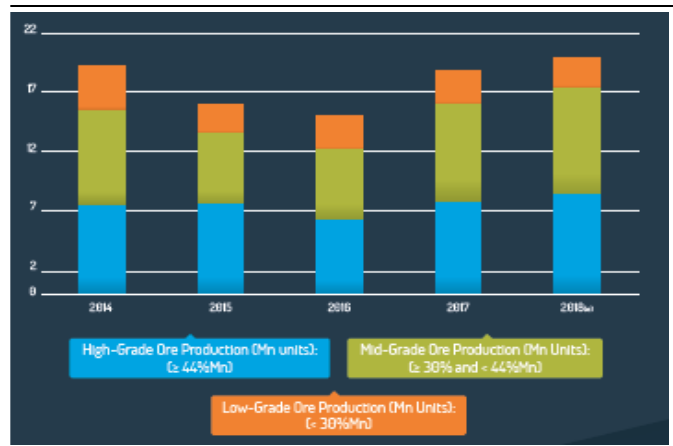
The Manganese industry benefited from rising demand in 2018 for both manganese ore and manganese ferro alloys. The growing steel production was the primary reason behind this healthy manganese demand, especially in Asia, Eastern Europe, Middle East and the Americas. However, the rising demand has been offset by higher supply. The performance of manganese ore industry, mainly depends on the performance of the steel industry. As per IMNI, The global output of Manganese ore reached 21 MT in 2018, up by 13% YoY from 18.6 million. Low grade supply grew faster (+27%) than mid-grade (+12%) and high grade (+9%). The major contributor to this increase was Australia (+25% in 2018), followed by Ghana (+77%), India (+29%), Brazil (+12%) and Gabon (+6%). Production contracted in China, Kazakhstan and in North America.

**Global Steel Production (MT)**



Source: IMNI

**Global Manganese ore production (MT)**



Source: IMNI

**Mine List**

**District: Nagpur; State: Maharashtra**

- Chikla Mine
- Dongri Buzurg Mine
- Beldongri Mine
- Kandri Mine
- Munsar Mine
- Gumgaon Mine
- Parsoda Mine\*

**District: Balaghat; State: Madhya Pradesh**

- Balaghat Mine
- Ukwa Mine
- Tirodi Mine
- Sitapatore Mine

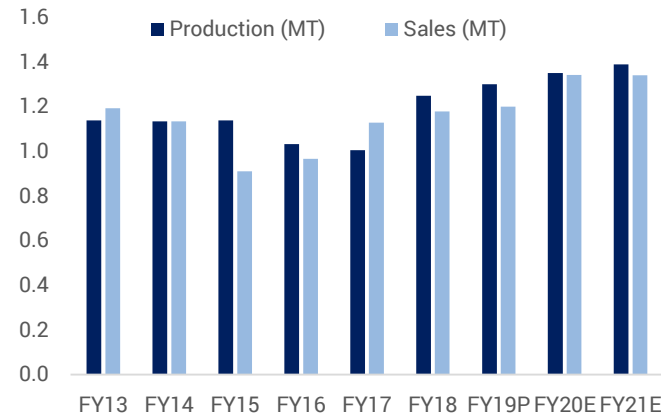
\* New Mine; Source: Company

**On track to achieve its target:**

MoIL recorded highest ever production of 1.3MT manganese ore in FY19, up ~9% YoY. In order to maintain its market share and meet the growing demand, the company has prepared the strategic plan to produce 2MT by FY21E and 2.5MT by end of FY25E. In order, to achieve the target, MOIL has taken up various mine development and expansion projects which include setting up of the high speed shaft at Balaghat and Gumgaon Mines, these projects are expected to double the production of these mines from 370kt to 740kt by end of FY25. The company recently commissioned operations at its new mine, Parsoda (11th mine), Nagpur district, and the benefit of the same would come in FY20E, though marginally. The projects of shaft sinking at Ukwa and Munsar mines and high speed shafts at Balaghat and Gumgaon mines are progressing as per schedule. Focus on an expansion activity and modernization of mines

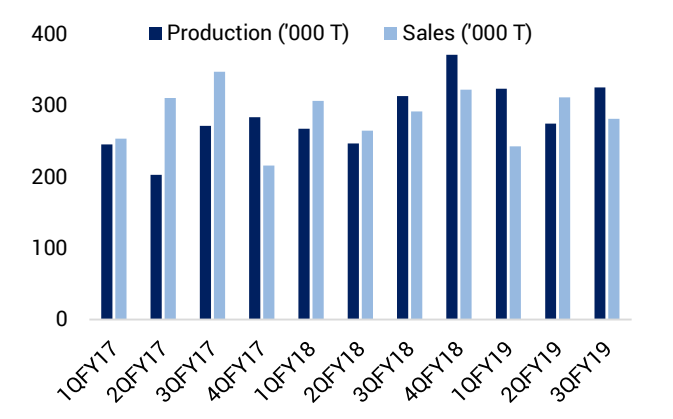
will help the company to sustain enhanced level of production in the coming years also. In addition, the company is also actively pursuing cases of prospecting (PL) and mining leases (PL) in Maharashtra and Madhya Pradesh, mostly in areas adjacent to its existing mines. This will enable the company to move ahead towards its aggressive target of 2.5MT by end of FY25.

**Annual volume trend**



Source: Kotak Securities - Private Client Research

**Quarterly trend**



Source: Kotak Securities - Private Client Research

**Higher volume and strong realisation supported revenue**

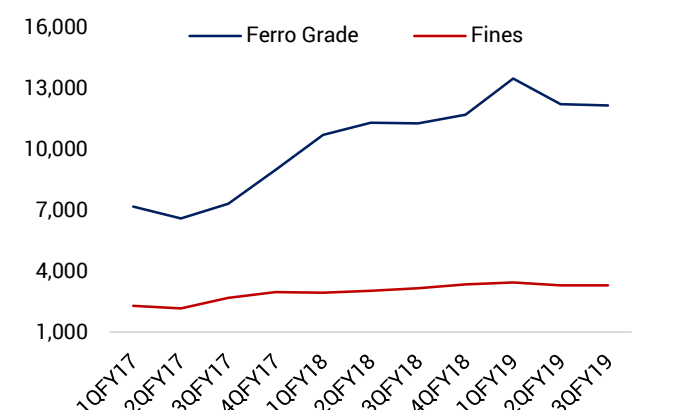
Higher volume coupled with the firm realisation (supported by higher sales of non-fines ore), helped the company to report highest ever turnover of ~Rs14.4 bn (unaudited and provisional), up 9% YoY and higher than our estimates of Rs12.5 bn. The outperformance is backed by higher sales of non-fines ore (up 13% YoY), which garner higher realisation. In the coming years, we expect manganese ore prices to remain subdued due to the weak steel price outlook in 2HFY20 and the same would reflect on the demand of the manganese ore in the near term. MOIL has revised the prices up by 5% for Ferro Grade and Chemical grade and withdraw the discount on non-moving low grade manganese ore, from 1st April, 2019, sustainability of the same for the longer term is the key. We expect revenue of Rs14.5 bn and Rs14.6 bn for FY20E and FY21E, respectively, factoring average realisation of Rs10,500/tonne. There is an upside risk to the realisation, if the volume of non-fines grades continues to remain at the elevated levels.

**Chinese Manganese ore prices 38 %(\$/dmu)**



Source: Bloomberg, Kotak Securities - Private Client Research

**MOIL realisation trend (Rs/T)**



Source: Bloomberg, Kotak Securities - Private Client Research

### **Well placed to capitalize on domestic steel demand growth**

Given its 90.7 MT reserves and resources, low cost mining operations and its dominant position, we believe MOIL is well placed to capitalize on domestic steel demand growth. The company is the largest producer of manganese ore in the country with a share of about 50% in the domestic market. Domestic steel production grew +7% YoY YTD FY19 and the momentum is expected to continue (or likely to remain strong), with the ramp-up of existing capacities and commissioning of new capacities. The performance of manganese ore industry, mainly depends on the performance of the steel industry. As per latest National Steel Policy-2017, India has set capacity target of 300MT of steel by 2030-31, this will create domestic demand of manganese ore to the tune of around 10MT, which will provide a very good opportunity for MOIL to increase its production and also increase its market share. In addition to the increase in domestic steel production, India imports over 1.5 MT of high grade manganese ore, this provides an opportunity for MOIL to increase its production.

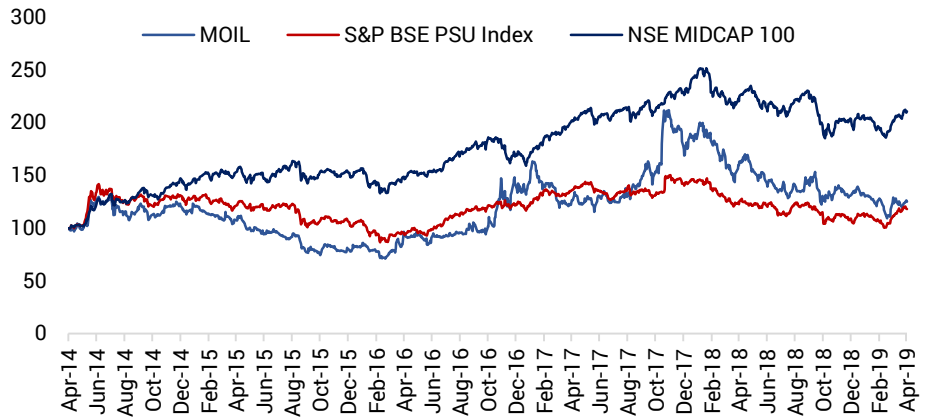
### **Robust balance sheet with healthy liquidity position**

Robust balance sheet with healthy liquidity position MOIL is a debt free company with a robust balance sheet and a healthy liquidity position. The strong balance sheet, makes the company better placed to expand its mining capacity and to acquire other mines. The company is well placed to fund its capex of Rs15-20 bn till FY21, backed by its strong cash flow. It has a healthy operating cash flow of ~Rs4bn every year, which would further add up to the cash balance. Besides this, dividend yield is likely to remain in the range of 2-3% in the coming years. Higher liquidity and attractive dividend yield provide a high margin of safety.

### **Reiterate BUY**

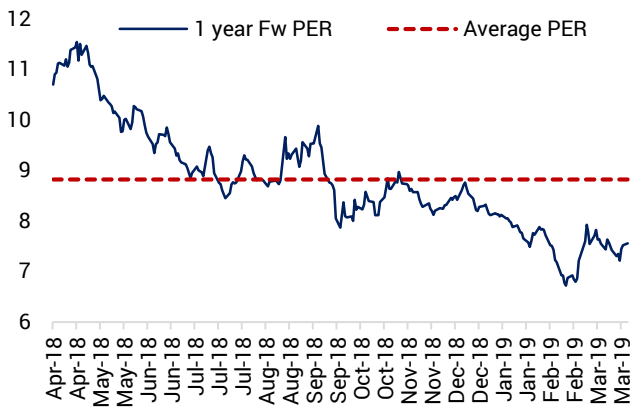
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**MOIL Performance compared with Index (Indexed to 100)**



Source: BSE, NSE, Kotak Securities – Private Client Research

**1 year Forward PE**



Source: Bloomberg, Company, Kotak Securities – Private Client Research

**1 year Forward EV/EBITDA**



Source: Bloomberg, Company, Kotak Securities – Private Client Research



## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>13,235</b>	<b>12,540</b>	<b>14,539</b>	<b>14,624</b>
growth (%)	34.8	(5.3)	15.9	0.6
Operating expenses	7,908	7,526	8,119	8,226
<b>EBITDA</b>	<b>5,327</b>	<b>5,014</b>	<b>6,420</b>	<b>6,398</b>
growth (%)	79.2	(5.9)	28.1	(0.3)
Depreciation & amortisation	624	704	812	920
<b>EBIT</b>	<b>4,702</b>	<b>4,310</b>	<b>5,608</b>	<b>5,478</b>
Other income	1,777	1,622	1,611	1,786
Interest paid	0	0	0	0
Exceptional items	0	0	0	0
<b>PBT</b>	<b>6,479</b>	<b>5,932</b>	<b>7,220</b>	<b>7,264</b>
Tax	2,259	1,958	2,382	2,397
Effective tax rate (%)	34.9	33.0	33.0	33.0
<b>Net profit</b>	<b>4,220</b>	<b>3,974</b>	<b>4,837</b>	<b>4,867</b>
Minority interest	0	0	0	0
Reported Net profit	4,220	3,974	4,837	4,867
growth (%)	37.3	(5.8)	21.7	0.6

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
Pre-tax profit	6,479	5,932	7,220	7,264
Depreciation	624	704	812	920
Chg in working capital	1,608	497	(262)	(103)
Total tax paid	2,259	1,958	2,382	2,397
Other operating activities	0	0	0	0
<b>Operating CF</b>	<b>6,452</b>	<b>5,175</b>	<b>5,387</b>	<b>5,684</b>
Capital expenditure	(1,935)	(3,611)	(1,350)	(1,350)
Chg in investments	(235)	0	0	0
Other investing activities	0	0	0	0
<b>Investing CF</b>	<b>(2,170)</b>	<b>(3,611)</b>	<b>(1,350)</b>	<b>(1,350)</b>
Equity raised/(repaid)	(2,104)	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	1,707	1,707	1,707	1,707
Other financing activities	0	0	0	0
<b>Financing CF</b>	<b>(3,811)</b>	<b>(1,707)</b>	<b>(1,707)</b>	<b>(1,707)</b>
<b>Closing Cash balance</b>	<b>21,391</b>	<b>21,247</b>	<b>23,577</b>	<b>26,204</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
Cash & Bank balances	21,391	21,247	23,577	26,204
Other Current assets	4,437	4,736	5,543	5,722
Investments	235	235	235	235
Net fixed assets	5,863	8,770	9,309	9,739
Other non-current assets	480	480	480	480
<b>Total assets</b>	<b>32,405</b>	<b>35,469</b>	<b>39,144</b>	<b>42,379</b>
Current liabilities	4,390	5,186	5,732	5,807
Borrowings	0	0	0	0
Other non-current liabilities	23	23	23	23
<b>Total liabilities</b>	<b>4,413</b>	<b>5,209</b>	<b>5,755</b>	<b>5,830</b>
Share capital	2,576	2,576	2,576	2,576
Reserves & surplus	25,416	27,683	30,813	33,973
Shareholders' funds	27,992	30,259	33,389	36,549
Minority interest	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>32,405</b>	<b>35,469</b>	<b>39,144</b>	<b>42,379</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
<b>Profitability and return ratios (%)</b>				
EBITDAM	40.2	40.0	44.2	43.7
EBITM	35.5	34.4	38.6	37.5
NPM	31.9	31.7	33.3	33.3
RoE	15.1	13.1	14.5	13.3
RoCE	13.0	11.2	12.4	11.5
<b>Per share data (Rs)</b>				
EPS	16.4	15.4	18.8	18.9
CEPS	18.8	18.2	21.9	22.5
BV	108.7	117.5	129.6	141.9
DPS	5.5	5.5	5.5	5.5
<b>Valuation ratios (x)</b>				
PE	9.8	10.4	8.5	8.5
P/BV	1.5	1.4	1.2	1.1
EV/EBITDA	3.7	4.0	2.7	2.3
EV/Sales	1.5	1.6	1.2	1.1
<b>Other key ratios</b>				
D/E	0	0	0	0
DSO (days)	52	52	52	52

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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