

Steady state performance

CMP:	Rs.305
Target Price:	Rs.395
Recommendation:	BUY

Stock Info

BSE Group	B
BSE Code	513446
NSE Symbol	MONNETISPA
Bloomberg	MISP.IN
Reuters	MNET.BO
BSE Sensex	17657
NSE Nifty	5363

Market Info

Market Capital	₹ 1959 cr
Equity Capital	₹ 65 cr
Avg. Trading Vol	375074
52 Wk High/ Low	561/300
Face Value	10

Shareholding Pattern (%) (31st March 2012)

Promoters	49.4
Domestic Institutions	3.0
Foreign Institutions	35.8
Non Promoters Corp.	8.4
Public & Others	3.4
Govt. Holdings	-

Monnet Ispat (MIEL) reported 1QFY13 numbers, which were marginally below our estimates. Company delivered profit after tax of Rs 69cr, implying 6.4% yoy and 17.6% qoq decline. Decline in profitability was largely due to fall in realization of sponge iron and power. MIEL reported 22% yoy jump in net sales largely aided by higher sales volumes in steel business.

MIEL reported volume growth across the segments with DRI volume growth of 8% yoy and 3% qoq. Billet volumes grew 34% yoy and structural steel volumes grew 29% yoy and 5% qoq. Even, ferro alloys fared well with 44% yoy and 3% qoq volume growth during the quarter. Merchant power sales, however, were weak and declined 1% yoy and 4% qoq.

DRI realizations risen 15% yoy and declined 6% qoq, while billets realizations jumped 10% yoy and declined 1% qoq. Structural steel business reported 5% qoq jump in realizations. Power realizations, however, were weak due to lower demand and declined 15% yoy and 18% qoq.

Monnet continues to face decline in margins, however at lower rate. EBITDA margins dropped 220bps yoy and 60bps qoq to 25%. We attribute fall in margin was largely due to falling power realizations and volumes. Higher sales volumes and realization at steel business arrested significant margin fall. Raw material cost incidence during the quarter was 62% compared to 58% during 1QFY12 and 59% during 4QFY12.

Valuations:

MIEL has consistently been delivering stable operating performance on the back of its fungible business model and captive coal mine, which allows it to adjust to changing business dynamics in power and steel sector. Going forward, next phase of growth is likely to come from 1.5mtpa steel expansion and 1050MW merchant power project. We are not building in significant contribution from said units and expect their benefits start to flow from FY14E. We have valued company's standalone business at 6.0x FY13E EBITDA to arrive at a fair value of Rs 305 per share and have valued MIEL investment in power unit at book value and have arrived at fair value of Rs 90 per share. We have arrived at SOTP based target price of Rs 395 per share for Monnet Ispat. **We recommend Buy rating on the stock.**

Financials:

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net sales	1573	1901	2118	3274
EBITDA	450	496	525	938
PAT	281	306	230	435
EPS (Rs)	44	47	35	67
EPS Growth (%)	(11.6)	7.6	(24.8)	88.8
RoE (%)	14.9	14.4	10.2	17.1
P/E (x)	7.0	6.5	8.6	4.6
EV/EBITDA(x)	8.8	8.0	8.4	4.6

Source: Aриhant Research.



Date: 16-Aug-2012



Exhibit: Operating performance

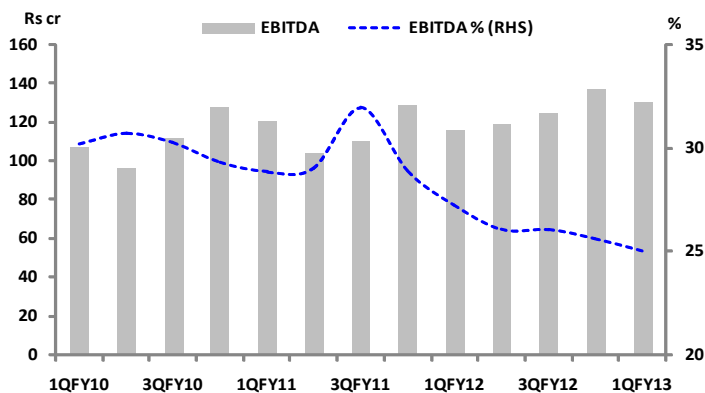
Volumes (tonne)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	yoy%	qoq%
Sponge Iron	1,69,597	1,57,026	1,48,242	1,55,196	1,50,578	1,59,906	160521	157998	162726	8.1	3.0
Billets	218	499	82	-	-	664	2680	2476	3317	-	34.0
Structural	1,8796	4,665	544	16,756	17,086	17,255	19862	21065	22059	29.1	4.7
Ferro Alloys	939	2,099	1,796	2,604	1,542	2049	2034	2147	2220	43.9	3.4
Power (mn units)	220	198	210	235	175	176	172	180	173	-1.3	-3.7

Source: Arihant Research, Company

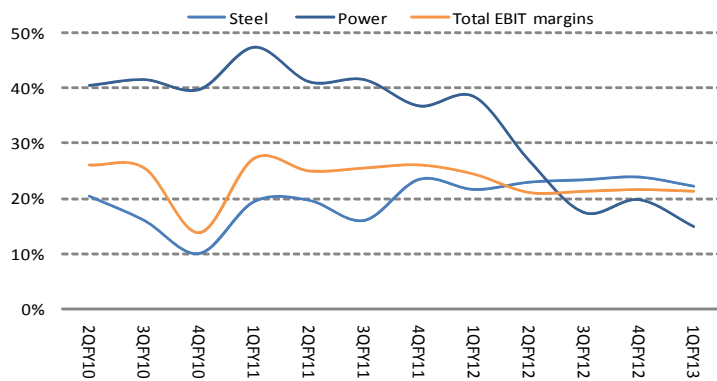
Realizations (Rs/t)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	yoy%	qoq%
Sponge Iron	14,807	16,059	17,831	19,617	19,776	21001	21004	24159	22648	8.1	3.0
Billets	29,330	23,836	28,694	-	-	25871	30741	30845	32243	-	34.0
Structural	28,814	22,399	9443	31,357	31,692	32177	33197	35174	34955	29.1	4.7
Ferro Alloys	56,047	52,747	56,829	54,729	52,273	63398	39503	49539	57219	43.9	3.4
Power(Rs/unit)	4.9	4.3	3.4	3.1	3.4	2.9	3.5	3.6	2.9	-1.3	-3.7

Source: Arihant Research, Company

EBITDA Margin Trend



Segmental EBIT margins



Source: Arihant Capital, Company



Project status:

1.5MTPA expansion:

1.5mtpa steel expansion project at its Raigarh facility is going as per schedule. The project is likely to get commissioned this fiscal, with major facilities coming up over next couple of quarters.

1050MW of Merchant power plant:

Project after facing some delays is now expected to get commissioned by 3QFY14. Of total land requirement of 990acres, the company is in possession of 636 acres and process for acquisition of balance land in advance stages. All the major approvals are in place and project is at advance stages of commissioning.

PROJECT COMPLETION SCHEDULE

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14E	2QFY14E	3QFY14E	4QFY14E
1.5mtpa steel expansion project									
80MW	Commissioned								
<i>Blast Furnace</i>				Nov-12					
<i>Oxygen plant</i>		Commissioned							
<i>SMS</i>					Feb-13				
<i>Plate Mill</i>					Feb-13				
<i>Rounds and TMT Bar</i>				Nov-12					
<i>Pellet Plant</i>							Q2		
<i>Coke Oven</i>							Q2		
<i>Sinter Plant</i>				Nov-12					
1050MW Merchant Power plant									
Unit-I- 525 MW								Sep-13	
Unit-II- 525 MW								Dec-13	

Source: Company, Arihant research

Mines development plan:

Utkal B2 coal block: Monnet has obtained environmental clearance, consent to establish and stage 1&2 forest clearance for the mine. Mining lease and consent to operate expected to be received by November-2012. Permission to open mine is expected to come by December-2012.

Mandakini coal block: Monnet has obtained environmental clearance, consent to establish for mine. Received mining plan approval for 7.5mtpa and the process to take it to 15mtpa is underway. Coal production is likely to start from June 2013.

Jharkhand mining license cancellation issue:

The honorable Supreme Court of India, during the month of July-12, had cancelled iron ore mining lease of Monnet Ispat, along with other companies, in the state of Jharkhand post which the stock has corrected significantly. We believe this was unwarranted given the fact that the company has never been allocated iron ore mine in the state. For that matter the company does not have any operations the state and rely upon open market purchase of iron ore for its Chhattisgarh unit.



Iron ore mine under consideration pertains to the time when Monnet Ispat along with other steel producers had applied for iron ore block to the Jharkhand Govt in 2004-05. The application, which initially favorably recommended by the state to the center, had been withdrawn subsequently by the state. Subsequently, steel players went to High court and then to Supreme Court against the Govt decision, which subsequently was upheld by the both the courts. **We would like to reiterate that the development was immaterial and does not have any material impact on current and future business plans of company.**

1QFY13 Results

Rs in Crore	1QFY13	1QFY12	YoY (%)	4QFY12	QoQ (%)
Net Sales	520.6	427.2	21.9	536.4	(2.9)
Expenditure	390.5	310.9	25.6	398.9	(2.1)
EBITDA	130.15	116.25	12.0	137.47	(5.3)
EBITDA Margins (%)	25%	27%		26%	
Other Income	11.4	11.2	1.4	13.5	(15.9)
Interest	30.5	13.2	130.9	24.3	25.6
Depreciation	22.0	18.6	18.2	18.8	16.6
Exceptional Items (Loss)	-	-	-	-	-
PBT after exceptional items	89.1	95.7	(6.9)	107.9	(17.4)
Tax	20.6	22.5	(8.7)	24.8	(17.0)
Tax rate (%)	23.1	23.5		23.0	
PAT after extraordinary items	68.5	73.1	(6.4)	83.1	(17.6)
Net Profit Margin (%)	13.2	17.1		15.5	
EPS (Rs)	10.6	11.4	(6.4)	12.9	(17.6)

Background

Incorporated in 1990, Monnet Ispat and Energy Limited (MIEL), promoted by Mr. Sandeep Jajodia, is second largest coal based sponge iron manufacturer in India having manufacturing facilities located at a resource rich state of Chhattisgarh. The company's operating activities spans across Mining, Steel, Ferro Alloys and Power. Post liberalization it was one of the few companies that was awarded coal mine for its captive consumption and was also one of the pioneer to setup waste heat recovery based captive power plant with installed capacity of 7.5MW.

The company has manufacturing facilities at Raipur and Raigarh in the state of Chhattisgarh, which houses Sponge iron, Semi finished steel, Structural steel, Ferro Alloys production facilities along with captive power plants. The company sources its entire power requirement through captive power plants at respective manufacturing facilities.



Balance sheet				
Y/E March, Fig in ₹ Cr	FY11	FY12E	FY13E	FY14E
Equity Capital	64	65	65	65
Reserve & Surplus	2026	2088	2280	2677
Total Loans	2672	3834	4043	4103
Deferred tax	141	141	151	151
Total Liabilities	4903	6138	6539	6995
Net Fixed Assets	2606	3401	3993	4145
Investments	550	591	591	591
Net Current Assets	1747	2146	1955	2176
Misc Exp	0	0	0	0
Total Asset	4903	6138	6539	6995

Profit & Loss Statement				
Y/E March, Fig in ₹ Cr	FY11	FY12E	FY13E	FY14E
Net Sales	1573	1901	2118	3274
% Chg	6.2	20.8	11.4	54.5
Total Expenditure	1123	1405	1593	2336
% chg	10.5	25.1	13.4	46.6
EBITDA	450	496	525	938
EBITDA Margin %	28.6	26.1	24.8	28.6
Other Income	29	44	42	49
Depreciation	74	75	108	165
EBIT	405	465	459	822
Interest	44	68	160	257
PBT bfr excep Items	362	397	299	565
Exceptional Items	-	-	-	-
PBT after EI	362	397	299	565
Tax Provisions	80	91	69	130
Adjusted PAT	281	306	230	435

Cash Flow Statement				
Y/E March (Rs Cr)	FY11	FY12E	FY13E	FY14E
PBT	362	397	299	565
Oper. Profit Before Work. Cap.	478	540	567	986
Changes in WC	(146)	111	(98)	(124)
Cash generated from Op	332	651	469	862
Direct Tax Paid	52	58	51	96
Int/Div received & Others	(2)	(1)	(1)	(1)
Net Cash From Oper. Activities	245	560	520	958
Net Cash From Investing Act	(920)	(911)	(899)	(599)
Cash flow from Fin Activity	1143	1095	48	-197
Net increase in cash & Equi	469	744	(332)	162
Opening Cash Balance	205	674	1418	1087
Closing Cash Balance	674	1418	1087	1248

Key Ratios				
Y/E March (Rs Cr)	FY11	FY12E	FY13E	FY14E
Per Share data (Rs)				
EPS	43.7	47.0	35.3	66.7
Cash EPS	55.2	58.5	51.9	92.1
DPS	6.2	5.9	5.9	5.9
Book value	325	330	360	421
Operating, Returns Ratio				
Debt/ Equity (X)	1.3	1.8	1.7	1.5
Current Ratio (X)	6.1	4.8	5.1	4.5
RoE (%)	14.9	14.4	10.2	17.1
RoCE (%)	9.9	8.4	7.2	12.1
Dividend Yield (%)	2.0	1.9	1.9	1.9
Valuation Ratio (X)				
P/E	7.0	6.5	8.6	4.6
P/BV	0.9	0.9	0.8	0.7
EV/ Sales	2.5	2.1	2.1	1.3
EV/EBITDA	8.8	8.0	8.4	4.6



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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