

## Improved operating performance

<b>CMP:</b>	Rs. 175
<b>Target Price:</b>	Rs. 159
<b>Rating:</b>	Reduce

### Stock Info

BSE Group	B
BSE Code	533047
NSE Symbol	IMFA
Bloomberg	IMFA.IN
Reuters	IMFA.BO
BSE Sensex	19577
NSE Nifty	5899

### Market Info

Market Capital	₹ 460cr
Equity Capital	₹ 26.3r
Avg. Trading Vol.	4282
52 Wk High/ Low	334/173
Face Value	10

### Shareholding Pattern (%) (30<sup>th</sup> June 2013)

Promoters	55.7
Domestic Institutions	10.6
Foreign Institutions	0.1
Non Promoters Corp.	4.1
Public & Others	29.5



IMFA's 1QFY14 result was better than estimates. Revenues increased by 2.8% yoy to Rs 307cr on the back of higher realisations. Ferro chrome realisations jumped 10% qoq, while they remain flat yoy at Rs 68526 per tonne. Ferro chrome production declined qoq at ~45993 tonnes, implying 67% capacity utilisations compared to 72% during 4QFY13. Sales volumes dipped 25% qoq to ~42800 tonnes. On yoy basis volumes were 1.9% higher.

Core operating margins improved sequentially by ~1300bps to 25%, while on yoy basis margins dipped by 290bps. Besides sequential improvement in realisation decline in raw material cost per tonne assisted margin improvement. Raw material cost per tonne declined 15% qoq primarily due to decline in coke cost.

After reporting loss during 4QFY13, IMFA reported profit of Rs 10 cr during the quarter. Notably, during 4QFY13 higher loss was largely on account of Rs 12cr of exceptional items pertaining to transfer of 30MVA furnace at book value to JV with POSCO.

### Valuations

IMFA continues to post stable operating performance despite faced with challenging operating environment. Going forward, we believe IMFA's earnings growth is hinging upon timely commissioning of captive coal mine. We forecast ferro chrome prices to average lower over FY14 and FY15 as compared to FY13. We believe commissioning of captive coal mine gives significant operating leverage to IMFA, thereby aiding margins through lower power generation cost and incremental power sales. **However, we believe even if captive coal mine became operational by 2HFY14, full benefits will only be visible from FY15. We now lower our EV/EBITDA(x) multiple from 6x to 5.5x and arrive at a fair value of Rs 159 per share and assume no benefits flowing from captive coal. However, in the event of commissioning of coal mine fair value would increase to Rs 435 per share.**

Y/E March, (₹ in Cr)	FY12	FY13	FY14E	FY15E
Net Revenue	1145	1208	1303	1374
EBIDTA	182	209	206	196
PAT	64	63	53	52
EPS	24	24	21	20
EPS Growth (%)	(61)	(1)	(16)	(3)
RONW (%)	8.1	7.7	6.2	5.8
P/E (X)	7.1	7.1	8.4	8.7
EV/EBITDA(X)	6.3	6.5	6.0	5.9

Date: 29-07-2013

**Valuation table-(Base case)**

No captive coal	FY15E
EV/EBITDA	5.5
EBITDA	196
EV	1077
Net Debt (Cons)	705
Market Cap	372
No of shares	2.6
<b>Fair Value</b>	<b>143</b>
<b>BV of Investment @50% discount</b>	<b>16</b>
<b>Target Price</b>	<b>159</b>
<b>CMP</b>	<b>173</b>
<b>Upside</b>	<b>-8%</b>

**Valuation table-(Bull case)**

With captive coal	FY15E
EV/EBITDA	6.0
EBITDA	319
EV	1912
Net Debt (Cons)	784
Market Cap	1129
No of shares	2.6
<b>Fair Value</b>	<b>435</b>
<b>BV of Investment</b>	<b>-</b>
<b>Target Price</b>	<b>435</b>
<b>CMP</b>	<b>173</b>
<b>Upside</b>	<b>151%</b>

**Assumptions**

	FY15E	
	Without captive coal	Captive coal @ 90%
<b>Ferro Chrome volumes (tonne)</b>	201465	209633
<b>Realisations (Rs/tonne)</b>	64432	64432
<b>Power Generation cost (Rs/unit)</b>	4.5	3.1
<b>Power generation-net (mn units)</b>	858	1648
<b>Power sales (mn units)</b>	21	663
<b>Power Realisation (Rs/unit)</b>	2.4	3.3
<b>EBITDA%</b>	16.0%	20.1%
<b>EPS (Rs/share)</b>	20	51.5
<b>Fair Value (Rs/share)</b>	<b>159</b>	<b>435</b>

**1QFY14 Results (Standalone)**

Rs in Crore	1QFY14	1QFY13	YOY (%)	4QFY13	QoQ (%)
Net Sales	307	299	2.8	379	-19
Expenditure	220	208	6	315	-30
EBITDA	87	91	-4	64	36
EBITDA Margins (%)	25	28	-	12	-
Other Income	3	1	346	3	-10
Interest	32	32	1	21	51
Depreciation	31	14	121	35	-11
Exceptional Items (Loss)	-	-	-	-12	-100
PBT after exceptional items	26	45	-42	1	3737
Tax	16	17	-4	12	33
Tax rate (%)	61	37	-	-	-
Reported PAT	10	28	-65	-11	-
Adjusted PAT	10	28	-65	-3	-
Net Profit Margin (%)	3	10	-66	-1	-

**Background**

Indian metals and ferro alloys ltd (IMFA) is the largest and backward integrated ferro alloy producer in India. IMFA's production facility is spread over Choudwar and Therubali units in Orissa and comprises of six furnaces with combined production capacity of 187MVA that translates into tonnage capacity of 2,75,000 tonne. IMFA has capability of producing Ferrosilicon, Ferromanganese and Ferrochrome. At present the company has stopped production of ferrosilicon and ferromanganese and is producing only ferrochrome.

In terms of power the company is 100% self sufficient with present captive power generation capacity of 138MW located at Choudwar. Power is supplied to Therubali unit, which is ~500Km away from Choudwar unit, through a grid.



**Profit & Loss Statement (Standalone)**

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
<b>Net Sales</b>	<b>1145</b>	<b>1208</b>	<b>1303</b>	<b>1374</b>
% Chg	10.1	5.4	7.9	5.5
<b>Total Expenditure</b>	<b>964</b>	<b>999</b>	<b>1097</b>	<b>1178</b>
<b>EBITDA</b>	<b>182</b>	<b>209</b>	<b>206</b>	<b>196</b>
EBITDA Margin %	16	17	16	14
<b>Other Income</b>	<b>53</b>	<b>73</b>	<b>78</b>	<b>82</b>
<b>Depreciation</b>	<b>55</b>	<b>82</b>	<b>106</b>	<b>112</b>
<b>EBIT</b>	<b>179</b>	<b>200</b>	<b>178</b>	<b>166</b>
<b>Interest</b>	<b>83</b>	<b>87</b>	<b>98</b>	<b>89</b>
<b>PBT after EI</b>	<b>96</b>	<b>103</b>	<b>80</b>	<b>77</b>
<b>Tax Provisions</b>	<b>32</b>	<b>49</b>	<b>26</b>	<b>26</b>
<b>PAT</b>	<b>64</b>	<b>63</b>	<b>53</b>	<b>52</b>
PAT %	6	5	4	4

**Key Ratios (Standalone)**

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
<b>Per Share data (Rs)</b>				
<b>EPS</b>	24.3	24.4	20.6	20.0
<b>Cash EPS</b>	45	56	61	63
<b>DPS</b>	4.9	5.0	5.0	5.0
<b>Book value</b>	299	318	333	347
<b>Operating, Returns</b>				
<b>Debt/ Equity (X)</b>	0.9	1.1	0.9	0.8
<b>Current Ratio (X)</b>	1.2	1.2	1.2	1.1
<b>RoE (%)</b>	8.1	7.7	6.2	5.8
<b>RoCE (%)</b>	8.6	9.0	8.1	7.6
<b>Dividend Yield (%)</b>	2.9	2.9	2.9	2.9
<b>Valuation Ratio (X)</b>				
<b>P/E</b>	7.1	7.1	8.4	8.7
<b>P/BV</b>	0.6	0.5	0.5	0.5
<b>EV/ Sales</b>	1.0	1.1	0.9	0.8
<b>EV/EBITDA</b>	6.3	6.5	6.0	5.9

**Balance sheet**

Y/E Mar. (Rs. in cr)	FY12	FY13	FY14E	FY15E
<b>Equity</b>	<b>787</b>	<b>826</b>	<b>864</b>	<b>901</b>
Share capital	26	26	26	26
Reserves and surplus	761	800	838	875
Minority Int	-	-	-	-
<b>Noncurrent Liab</b>	<b>702</b>	<b>772</b>	<b>695</b>	<b>617</b>
Long term borrowings	579	629	544	459
Deferred tax liabilities	20	20	20	20
Other long term	102	123	131	138
<b>Current liabilities</b>	<b>601</b>	<b>641</b>	<b>640</b>	<b>659</b>
Short term borrowings	133	193	190	196
Trade payables	157	164	165	178
Other current liab	310	284	285	285
<b>Equity + Liability</b>	<b>2,090</b>	<b>2,239</b>	<b>2,199</b>	<b>2,176</b>
<b>Noncurrent assets</b>	<b>1,377</b>	<b>1,490</b>	<b>1,463</b>	<b>1,430</b>
Fixed assets	1,111	1,223	1,196	1,163
LT Investments	139	139	139	139
Long term loans and	127	127	127	127
<b>Current assets</b>	<b>712</b>	<b>749</b>	<b>736</b>	<b>746</b>
Current investments	-	-	-	-
Inventories	330	380	339	358
Trade receivables	36	33	36	38
Cash and cash	19	8	35	24
Short term loans and	326	326	326	326
Other current assets	1	1	1	1
<b>Total Assets</b>	<b>2,090</b>	<b>2,239</b>	<b>2,199</b>	<b>2,176</b>

**Cash Flow Statement**

Y/E Mar. (Rs. in cr)	FY12	FY13	FY14E	FY15E
<b>Profit Before tax</b>	<b>96</b>	<b>113</b>	<b>80</b>	<b>77</b>
<b>Depreciation</b>	<b>55</b>	<b>82</b>	<b>106</b>	<b>112</b>
<b>OPAT before WC change</b>	<b>182</b>	<b>209</b>	<b>206</b>	<b>196</b>
<b>WC change</b>	<b>-14</b>	<b>-67</b>	<b>41</b>	<b>-8</b>
<b>Cash from Operating activity</b>	<b>168</b>	<b>142</b>	<b>247</b>	<b>188</b>
<b>Tax Paid</b>	<b>-53</b>	<b>-49</b>	<b>-26</b>	<b>-26</b>
<b>Cash flow from Operating</b>	<b>115</b>	<b>92</b>	<b>220</b>	<b>162</b>
<b>Cash flow from investing</b>	<b>-372</b>	<b>-102</b>	<b>-2</b>	<b>2</b>
<b>Cash flow from financing</b>	<b>251</b>	<b>-1</b>	<b>-192</b>	<b>-175</b>
<b>increase/ decrease in cash</b>	<b>-5</b>	<b>-11</b>	<b>26</b>	<b>-11</b>
<b>Opening cash</b>	<b>25</b>	<b>19</b>	<b>8</b>	<b>35</b>
<b>Closing cash</b>	<b>19</b>	<b>8</b>	<b>35</b>	<b>24</b>



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**Stock Rating Scale****Absolute Return**

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
NEUTRAL	:	0-5%
REDUCE	:	< 0%

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