

CMP: Rs.245
Target Price: Rs.273
Recommendation: HOLD

Stock Info

BSE Group	B
BSE Code	513446
NSE Symbol	MONNETISPA
Bloomberg	MISP.IN
Reuters	MNET.BO
BSE Sensex	19468
NSE Nifty	5887

Market Info

Market Capital	₹ 1543cr
Equity Capital	₹ 64 cr
Avg. Trading Vol	5625
52 Wk High/ Low	561/230
Face Value	10

Shareholding Pattern (%) (31st Dec 2012)

Promoters	49.4
Domestic Institutions	1.3
Foreign Institutions	38.5
Non Promoters Corp.	8.4
Public & Others	2.4
Govt. Holdings	-



Date: 18-Feb-2013

Monnet Ispat's (MIEL) 3QFY13 result was largely in line with estimates. Company delivered profit after tax of Rs 58cr, implying 15% yoy and 19% qoq decline. Decline in profitability was largely due to falling power realisation and volume.

Steel business continues to post stable operating performance with structural steel volumes going up by 8% yoy and 10.5% qoq. Structural steel realisations also saw 25% yoy and 24% qoq jump during the quarter. Billets and sponge iron performance was subdued both on volumes and realisation front. Power volumes, however, dipped 50% qoq and yoy due to lower generation. Also, power realisation was weak at Rs 2.6 per unit. Consequently, topline declined 5% yoy and 16% qoq to Rs 459cr.

EBITDA margin has dipped by 230bps yoy, while it remained flat qoq at 23.7%. Subdued EBITDA margin was primarily due to significant fall in power margins due to decline in realisations. Power EBIT margin during the quarter was at 1.6% compared to 14% during 2QFY13 and 17% during 3QFY12. Steel EBIT margin was at 20% compared to 22% during 2QFY13 and 23% during 3QFY12. Going forward, we expect steel margins to improve marginally as steel prices have been hiked by 2-3%.

Valuations:

MIEL's operating margins have been under pressure in recent times largely due to weak merchant power market. Going forward we expect, next phase of growth is likely to come from 1.5mtpa steel expansion and 1050MW merchant power project. MIEL's 1.5mtpa steel expansion is on the verge of getting commissioned and we expect it to start contributing to MIEL's cash flows from FY14. We have valued company's standalone business at 5.3x FY14E EV/EBITDA and have valued MIEL investment in power unit at book value and have arrived at combined fair value of Rs 273 per share. **We recommend Hold rating on the stock.**

Financials:

(Rs Cr)	FY12	FY13E	FY14E	FY15E
Net sales	1897	1989	2683	2859
EBITDA	475	472	622	703
PAT	289	248	222	266
EPS (Rs)	45	39	35	41
EPS Growth (%)	2.7	(14.1)	(10.5)	19.7
RoE (%)	12.2	9.7	8.0	8.8
P/E (x)	5.5	6.4	7.1	5.9
EV/EBITDA(x)	10.1	10.8	9.0	8.5

Source: Aриhant Research.



Exhibit: Operating performance

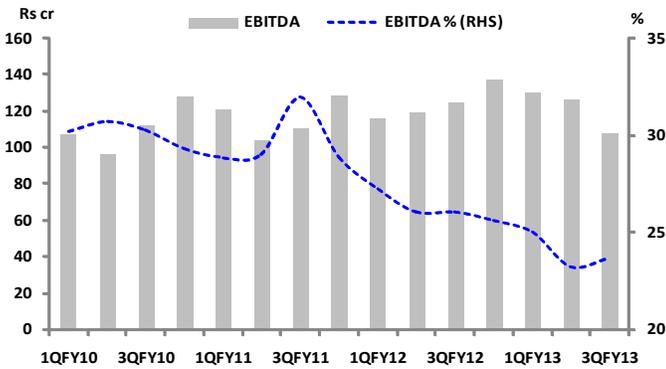
Volumes (tonne)	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	yoy%	qoq%
Sponge Iron	1,48,242	1,55,196	1,50,578	1,59,906	160521	157998	162726	184597	157136	-2.1	-14.9
Billets	82	-	-	664	2680	2476	3317	1689	17353	-	-
Structural	544	16,756	17,086	17,255	19862	21065	22059	19404	21441	8.0	10.5
Ferro Alloys	1,796	2,604	1,542	2049	2034	2147	2220	1710	1928	-5.2	12.7
Power (mn units)	210	235	175	176	172	180	173	166	82	-52.2	-50.3

Source: Arihant Research, Company

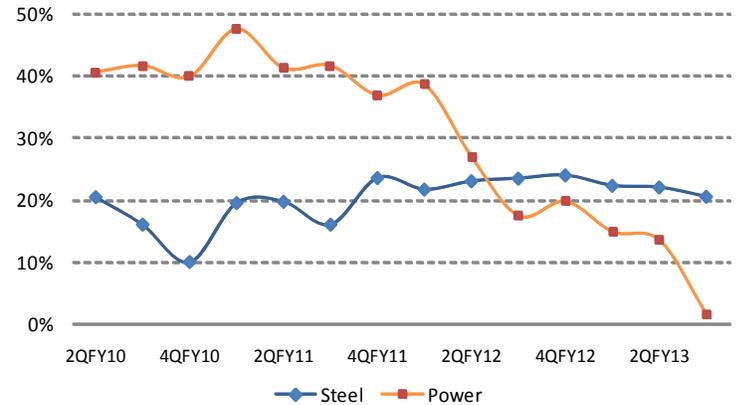
Realizations (Rs/t)	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	yoy%	qoq%
Sponge Iron	17,831	19,617	19,776	21001	21004	24159	22648	21301	20209	-3.8	-5.1
Billets	28,694	-	-	25871	30741	30845	32243	33861	15725	-48.8	-53.6
Structural	9443	31,357	31,692	32177	33197	35174	34955	33289	41421	24.8	24.4
Ferro Alloys	56,829	54,729	52,273	63398	39503	49539	57219	53570	51693	30.9	-3.5
Power(Rs/unit)	3.4	3.1	3.4	2.9	3.5	3.6	2.9	3.0	2.6	-25.3	-12.7

Source: Arihant Research, Company

EBITDA Margin Trend



Steel and Power segment EBIT margins



Source: Arihant Capital, Company



3QFY13 Results

Rs in Crore	3QFY13	3QFY12	YoY (%)	2QFY13	QoQ (%)
Net Sales	458.6	481.0	(4.7)	546.0	(16.0)
Expenditure	349.9	355.8	(1.7)	419.1	(16.5)
EBITDA	108.7	125.2	(13.2)	126.87	(14.3)
EBITDA Margins (%)	24%	26%		23%	
Other Income	19.1	10.8	77.7	8.5	124.2
Interest	28.9	18.8	53.7	20.1	44.2
Depreciation	22.2	19.0	16.7	22.1	0.3
Exceptional Items (Loss)	-	-	-	-	-
PBT after exceptional items	76.7	98.1	(21.8)	93.2	(17.7)
Tax	19.2	30.4	(36.9)	21.9	(12.4)
Tax rate (%)	25.0	31.0		23.5	
PAT after extraordinary items	57.5	67.7	(15.1)	71.3	(19.4)
Net Profit Margin (%)	12.5	14.1		13.1	
EPS (Rs)	8.9	10.5	(15.1)	11.1	(19.4)

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.



Profit & Loss Statement				
Y/E March, Fig in ₹ Cr	FY12	FY13E	FY14E	FY15E
Net Sales	1897	1989	2683	2859
% Chg	20.6	4.8	34.9	6.6
Total Expenditure	1423	1517	2061	2155
% chg	25.2	6.6	35.8	4.6
EBITDA	475	472	622	703
EBITDA Margin %	25.0	23.7	23.2	24.6
Other Income	63	50	54	57
Depreciation	74	90	227	240
EBIT	464	431	449	521
Interest	87	109	161	175
PBT bfr excep Items	377	322	289	345
Exceptional Items	-	-	-	-
PBT after EI	377	322	289	345
Tax Provisions	88	74	66	79
Adjusted PAT	289	248	222	266

Cash Flow Statement				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
PBT	377	322	289	345
Oper. Profit Before Work. Cap.	480	472	622	703
Changes in WC	(67)	(151)	(160)	(74)
Cash generated from Op	413	320	463	630
Direct Tax Paid	-75	-74	-66	-79
Int/Div received & Others	(37)	(19)	(19)	(19)
Net Cash From Oper. Activities	301	227	378	532
Net Cash From Investing Act	(1,300)	(1,004)	(171)	(1,148)
Cash flow from Fin Activity	1142	178	346	244
Net increase in cash & Equi	143	(598)	552	(372)
Opening Cash Balance	687	873	275	827
Closing Cash Balance	830	275	827	455

Balance sheet				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
Shareholders' funds	64	64	64	64
Reserves and Surplus	2296	2504	2708	2971
Non-current liabilities	3047	3447	3847	4247
LT borrowings	2890	3290	3690	4090
DTL (Net)	151	151	151	151
Long-term prov	6	6	6	6
Current liabilities	1501	1313	1472	1485
Equity+Liability	6909	7329	8091	8767
Net Fixed assets	1379	2789	4062	5322
Capital work-in-progress	2022	1522	522	222
Non-current investments	590	590	590	590
Long-term loans and advances	443	475	200	205
Other non-current assets	80	80	80	80
Current assets	2395	1873	2637	2348
Total Assets	6909	7329	8091	8767

Key Ratios				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
Per Share data (Rs)				
EPS	44.9	38.6	34.5	41.3
Cash EPS	56.4	52.5	69.7	78.6
DPS	2.9	2.9	2.9	0.4
Book value	367	403	435	476
Operating, Returns Ratio				
Debt/ Equity (X)	1.7	1.7	1.8	1.7
Current Ratio (X)	3.5	3.4	4.4	3.8
RoE (%)	12.2	9.7	8.0	8.8
RoCE (%)	8.3	6.6	6.6	7.5
Dividend Yield (%)	0.9	0.9	0.9	0.1
Valuation Ratio (X)				
P/E	5.5	6.4	7.1	5.9
P/BV	0.7	0.6	0.6	0.5
EV/ Sales	2.5	2.6	2.1	2.1
EV/EBITDA	10.1	10.8	9.0	8.5



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254834/32

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return(%)
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets Ltd.

3rd Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E) Mumbai - 400057
Tel. 022-42254800 Fax. 022-42254880

www.arihantcapital.com