

Mr. M.A.V. Goutham  
Director Finance  
MOIL Limited  
MOIL Bhawan, 1A, Katol Road,  
Nagpur - 440 013

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October 14, 2010

**Confidential**

Dear Sir,

**IPO Grading**

Please refer to your request for grading of the Initial Public Offering (IPO) MOIL Limited (MOIL) for 336 lakh equity shares of face value of Rs.10 each.

2. CARE has assigned a '**CARE IPO Grade 5' [Grade Five]** to the proposed IPO issue of MOIL. **CARE IPO Grade 5** indicates **strong fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 5' [Grade Five]** appears, it should invariably be followed by the definition '**CARE IPO Grade 5 [Grade Five]** indicates 'strong fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.

7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.
8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,



**[Rushabh Doshi]  
Deputy Manager**



**[Puneet Bhatia]  
Senior Manager**

Encl : As above

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure 1

**CARE IPO grading Scale**

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

RD

**Mr. M.A.V. Goutham**  
**Director Finance**  
MOIL Limited  
MOIL Bhawan, 1A, Katol Road,  
Nagpur – 440 013

October 15, 2010

Dear Sir,

### IPO Grading

Please refer to our letter dated October 14, 2010 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.

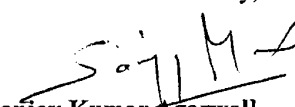
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.

4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 20, 2010 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

  
[Sanjay Kumar Agarwal]  
General Manager

Encl: As above

**Annexure I**

**Grading Rationale**

**MOIL Limited**

**Grading Assigned**

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	33,600,000 equity shares of face value of Rs. 10 each	'CARE IPO Grade 5' [Five]	Assigned

CARE has assigned a 'CARE IPO Grade 5' to the proposed IPO of MOIL Limited (MOIL). 'CARE IPO Grade 5' indicates **Strong Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

MOIL proposes an initial public offering of 33,600,000 equity shares of face value of Rs.10 each through 100% book building process, representing 20% of the existing issued and paid-up equity share capital of the company.

**Grading Rationale**

The assigned grading reflects MOIL's dominant position in the Indian manganese ore industry with over four decades of experience in manganese mining and its significant reserves of measured mineral resources of manganese ore. MOIL is currently a market leader in domestic manganese ore market commanding around 50% of the domestic market share. MOIL's strong parentage, with a 'mini-ratna' public sector company status which provides it with functional autonomy, the company's healthy operational performance backed by high profit margins, a strong financial position with cash balances of about Rs.1,500 crore, and a zero debt status are factors which add further strength to the grading. The company's current

<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE

operational and financial position provides MOIL with flexibility to fund its on-going and planned expansion projects.

CARE Research foresees demand for the domestic manganese ore industry to be mainly driven by the augmentation in requirements from the steel companies. With increasing domestic steel capacities, the demand for manganese ore is expected to be strong.

However, being a mining company, MOIL's operations are affected to some extent by socio-environmental concerns. Changes in pricing regulations, delays in obtaining clearances and regulatory approvals continue to pose a threat to the company's operations. Renewal of the mining leases in a timely manner, volatility in the revenues and profitability and inherent risk associated to the underground mining are some of the major operational risks the company is exposed to. Despite these factors, the company possess strong fundamentals, given its significant experience in the industry and its healthy operating and financial profile.

#### **Background**

Incorporated in 1962, MOIL was formed as a result of an agreement between the Government of India (GOI) and the Central Provinces Manganese Ore Company Ltd. (CPMO) pursuant to which GOI took over assets of CPMO. At that time, 51% of capital was held between GOI and the State Governments of Maharashtra and Madhya Pradesh and the balance 49% by CPMO. Later in 1977, the balance 49% shareholding was acquired from CPMO and MOIL became a 100% GOI undertaking under the administrative control of the Ministry of Steel.

At present, MOIL operates 10 mines, six of which are located in the Nagpur and Bhandara districts of Maharashtra while the remaining four are located in the Balaghat district of Madhya Pradesh. MOIL's production of manganese ore increased from 864,890 tonnes in FY06 to 1,093,363 tonnes in FY10. As of September 30, 2010, MOIL has access to approximately 22.0 million tonnes of proven and probable reserves and 37.2 million tonnes of measured mineral resources of manganese ore. MOIL accounts for about 50% of the total requirement of manganese ore in India, with an annual production of around 1,093,363 tonnes.

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MOIL has set up an electrolytic manganese dioxide (EMD) plant (1,000 tonnes per year) in the year 1991 and ferro manganese plant (10,000 tonnes per year) in the year 1998 as per its forward integration plan for value addition to manganese ore. MOIL has also set up a captive power plant in the year 2006 and 2008, and is further considering expanding the capacity of ferro manganese plant and setting up a new silico manganese plant by means of joint ventures with Rashtriya Ispat Nigam Limited (RINL) and Steel Authority of India Limited (SAIL).

#### **Management**

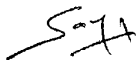
MOIL has a strong management team having significant experience in the mining industry. Its key management personnel have an average experience of over 20 years. Over the years, the management of the company has developed strong expertise in exploration and mining, which is demonstrated by MOIL's operational efficiencies and prudent financial management. In addition to the top management, MOIL has qualified personnel at various functional level of operations with relevant industry experience. With the improvement in operational and financial performance over the years, MOIL was granted "Mini Ratna" status in 2008, providing it with greater functional autonomy.

#### **Corporate Governance**

Currently, the Board consists of 10 directors, where the chairman of the Board is a non-independent and executive director. In all, there are 4 whole-time directors, 3 nominee directors and 3 independent directors. Additionally, appointments for 4 independent directors have been approved in order to comply with the listing agreement pursuant to which the independent directors should form 50% of the board of directors. MOIL has constituted prescribed committees such as Audit Committee, the Remuneration and the Shareholders / Investors Grievance Committee.

#### **Litigations**

There are various outstanding litigations involving MOIL before different courts / authorities. The probable financial liability / losses in many of such litigations are not quantifiable. In the cases where the amount is quantified, the same does not prima-facie seem significant in relation to the size (net worth) of the company.

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## **IPO Details**

### ***Size of the Issue***

The Offer comprises an offer for sale of 33,600,000 Equity Shares of the face value of Rs. 10 each by the President of India, acting through the Ministry of Steel (MOS), GOI, Government of Maharashtra (GOMH) and Government of Madhya Pradesh (GOMP). The Government of India & state governments are planning to divest 20 percent of its equity through the public issue of shares.

### ***Terms of the issue***

The offer comprises an offer to public of 33,600,000 equity shares of Rs.10/- each for cash. Of this, 672,000 (2% of total shares on offer) equity shares will be reserved for allocation to eligible employees. The offer shall constitute 20% of the post offer paid-up equity share capital of MOIL.

### ***Purpose of the issue***

- Offer for sale by the President of India acting through the Ministry of Steel, Government of India (10%), the State Government of Madhya Pradesh acting through the Governor of Madhya Pradesh (5%) and the State Government of Maharashtra acting through the Governor of Maharashtra (5%).
- The objects of the Offer are to carry out the divestment of 33,600,000 equity Shares by the Selling Shareholders (GOI, GOMH & GOMP) and to achieve the benefits of listing the equity Shares on the Stock Exchanges.
- The Company will not receive any proceeds from the Offer and all proceeds shall go to the Selling Shareholders.

### **Shareholding Pattern Pre-issue and Post-issue:**

	Pre-Issue (%)	Post-Issue (%)
President of India acting through MOS	81.60	71.60
Non-Promoter (Institution)	18.40	8.40
Others/ Retail	-	20.00

S-11



### **Financial Analysis**

MOIL generates more than 80% of its revenues from its manganese ore business the end user industry for which is steel. Hence, demand from the steel industry has significant impact on sale prices as well as volumes of MOIL. Revenues at MOIL have been volatile in nature in the past due to cyclicalities in the steel industry and volatility witnessed in global manganese prices. Nevertheless, on account of low operating cost, MOIL has consistently posted robust operating margins of over 65% and PAT margin of over 40% in the past three years upto FY10. The company's current ratio was comfortable at 6.2x as at end of FY10 mainly due to cash held in the form of unencumbered fixed deposits. With debt free capital structure and strong cash reserves, the company's financial position is very sound.

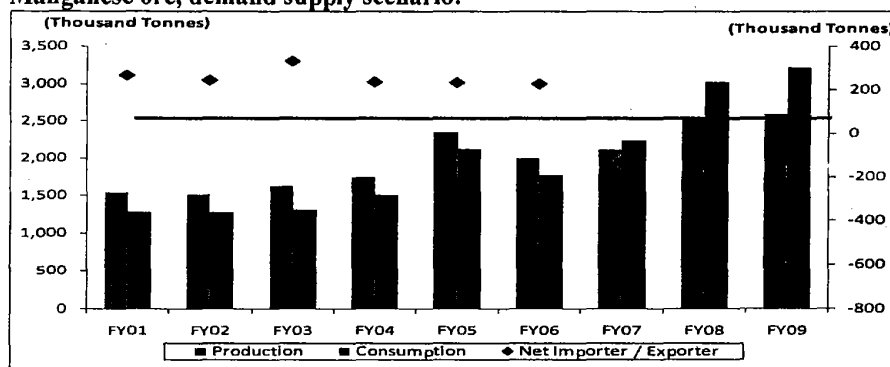
### **Industry Review**

Over 90% of the world's production of manganese is utilized in the desulphurization and strengthening of steel. Hence manganese is directly exposed to the volatility and cyclicalities of the global steel industry. Typically each tonne of steel manufactured translates into approximately 30 kg of manganese ore requirement. The performance of the manganese alloy & steel industry is the key determinant of the manganese ore demand.

In line with the movements in the steel production cycle, manganese ore and alloy demand remained subdued in the first half of the CY09. However, demand for manganese ore and ferro alloys has increased recently due to the increase in the production of steel.

Slower pace in the development of new mines as against the robust demand from the steel industry has already pushed India in becoming a net importer of manganese ore. Going forward also, there is likely to be a huge demand gap between the availability and requirement of manganese ore & ferro manganese products.

## Manganese ore, demand supply scenario:



Source: IBM (Indian Bureau of Mines), CARE Research

The global demand for steel is expected to increase at a CAGR of about 5.3% by FY12 with China accounting for 50% of global demand as well as the production of the metal. At the same time, the domestic steel demand is expected to grow at a CAGR of about 9.2% from 59.4 million tonnes in FY10 to about 92 million tonnes by FY15. With the expectations of robust growth in the domestic steel production, CARE Research expects the demand for manganese ore to grow at a CAGR of about 9% during the next 2-3 years to 4.1 million tpa by FY12.

## Financials

(Rs. Crore)

For the period ended / as at Mar.31,	2008	2009	2010
	(12 m, A)	(12 m, A)	(12 m, A)
Income from Operations	1,015.48	1,439.41	1,087.85
PBILDT	750.98	1,031.42	732.09
Interest	0.00	0.00	0.00
Depreciation	16.08	24.67	25.30
PBT	734.91	1,006.76	706.79
PAT (After def. Tax)	461.56	690.29	465.62
Gross Cash Accruals	509.86	690.19	485.98
<b>Financial Position</b>			
Equity Share capital	28.00	28.00	168.00
Net Worth	786.25	1,320.94	1,676.72
<b>Key Ratios</b>			
<b>Profitability (%)</b>			
PBILDT / Total Income	73.95	71.66	67.30
PAT / Total Income	45.45	47.96	42.80
ROCE	118.57	95.55	47.16
RONW	74.47	65.52	31.07
EPS (Rs.)	164.84	246.53	27.72
<b>Solvency</b>			
<b>Long Term</b>			
Debt Equity Ratio	-	-	-
Overall Gearing	-	-	-
Interest coverage (times)	-	-	-
Term Debt/GCA	-	-	-
<b>Liquidity</b>			
Current ratio	3.61	4.42	6.42
Quick ratio	3.50	4.25	6.25
Avg. Collection Period (days)	38	31	27
Average Inventory (days)	41	44	58
Average Creditors (days)	83	112	135
Operating cycle (days)	(4)	(37)	(49)

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**Annexure II**

**PRESS RELEASE**

**CARE ASSIGNS 'CARE IPO GRADE 5' GRADING TO THE IPO OF MOIL LIMITED**

**Grading Assigned**

Particulars	Number of equity shares	Grading <sup>2</sup>	Remarks
IPO Grade	33,600,000 equity shares of face value of Rs. 10 each	'CARE IPO Grade 5' [Five]	Assigned

**Grading Rationale**

The assigned grading reflects MOIL's dominant position in the Indian manganese ore industry with over four decades of experience in manganese mining and its significant reserves of measured mineral resources of manganese ore. MOIL is currently a market leader in domestic manganese ore market commanding around 50% of the domestic market share. MOIL's strong parentage, with a 'mini-ratna' public sector company status which provides it with functional autonomy, the company's healthy operational performance backed by high profit margins, a strong financial position with cash balances of about Rs.1,500 crore, and a zero debt status are factors which add further strength to the grading. The company's current operational and financial position provides MOIL with flexibility to fund its on-going and planned expansion projects.

CARE Research foresees demand for the domestic manganese ore industry to be mainly driven by the augmentation in requirements from the steel companies. With increasing domestic steel capacities, the demand for manganese ore is expected to be strong.

However, being a mining company, MOIL's operations are affected to some extent by socio-environmental concerns. Changes in pricing regulations, delays in obtaining clearances and regulatory approvals continue to pose a threat to the company's operations. Renewal of the mining leases in a timely manner, volatility in the revenues and profitability and inherent risk associated to the underground mining are some of the major operational risks the company is

<sup>1</sup>Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE

exposed to. Despite these factors, the company possess strong fundamentals, given its significant experience in the industry and its healthy operating and financial profile.

#### **Company Profile**

MOIL is a wholly Government of India (GOI) owned company and enjoys 'Mini ratna' status. MOIL is currently a market leader in domestic manganese ore market with around 50% of the domestic market share. MOIL has a strong experienced management team having significant experience in the mining industry. Its key management personnel have developed strong expertise in exploration and mining, which is demonstrated by MOIL's operational efficiencies and prudent financial management. As of October 1, 2010, MOIL has access to approximately 22.0 million tonnes of proven and probable reserves and 37.2 million tonnes of measured mineral resources of manganese ore.

MOIL reported a PAT of Rs.466 crore on total income of Rs.1,088 crore in FY10. MOIL is a debt free company and healthy profit margins. However, the prices of manganese, being a commodity, are volatile in nature. Hence the profit margins too are volatile for the company. Nevertheless, on account of low operating cost and strong cash reserves, the financial soundness of the company is excellent.

#### **Analyst Contact**

Name: Puneet Bhatia

Tel # 6754 3453

Mobile # 9820466876

Email: [puneet.bhatia@careratings.com](mailto:puneet.bhatia@careratings.com)

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