INVESTORS' PROTECTION FUND

Bihar Sponge Iron Ltd

14 December 2012

CMP: Rs.4.55
Industry: Iron & Steel/Sponge iron
BSE group: B

Promoters
Abhishek Kumar Modi
Umesh Kumar Modi
Bihar State Industrial Development Corporation

Year of incorporation
1982

Corporate office
Umesh Nagar, Chandil, Dist. Saraikela
Kharsawan - 832401
Jharkhand

Company website
http://umeshmodigroup.com/

Caution: The Company has been consistently reporting losses and has a negative net worth. This is on account of high operating expenses.

The government of Jharkhand has de-allocated coal block awarded to it. Before the iron ore mine get operational in 2015, the costs of production could be high.

Write to us at:
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Key Data *(as on 14 Dec '12)*

BSE	500058	ISIN	INE819C01011
Face Value	Rs.10	Mkt Cap (Rs. mn)	410.4
Current P/E	negative	Current P/BV	negative
52 week high-low	8.08-4.03	30 days avg daily trading volume (shares)	8,758
Equity capital (Rs mn)	902.5	Net worth (Rs mn)	-80.6

Company business
Bihar Sponge Iron Ltd (BSIL) manufactures sponge iron (direct reduced iron) in its plant located at Kharsawan, Jharkhand.

BSIL was incorporated in 1982 and was promoted by Bihar State Industrial Development Corporation Ltd (BSIDCL), Modi group, German Investment and Development Company and International Finance Corporation in technical collaboration with Lurgi Metallurgy, Germany. The plant with an installed capacity of 150,000 metric tonnes started producing sponge iron in 1989. As at 30 September 2012, BSIDCL held 7.5% equity in the company and 62.02% is held by Modi family.

Umesh Kumar Modi is the chairman and managing director and Abhishek Kumar Modi is non-executive director of the company.

Peer group analysis
BSIL has been consistently reporting net loss since FY09. When compared with its peers it has a high cost structure resulting in negative EBIDTA.

Financials (Standalone)

FY12, Rs in million	BSIL	Tata Sponge	Vaswani Inds
Total income	1,719.7	6,546.6	2,357.8
EBIDTA	(71.1)	1,360.5	178.4
EBIDTA margin	-4.1%	20.8%	7.6%
PBT	(207.1)	1,121.5	18.9
PAT	(207.1)	756.8	10.9
PAT margin	-12.0%	11.6%	0.5%
EPS	(0.9)	49.1	0.4
Cash accruals	(172.3)	940.5	62.7
Debt/EBIDTA	negative	-	1.8
Debt/Equity	negative	-	0.4
ROANW	negative	13.3%	10.1%
ROACE	negative	21.0%	1.2%
P/E	negative	6.0	19.8
P/BV	negative	0.8	0.2
Face Value (Rs.)	10	10	10

Source: Moneycontrol, Company

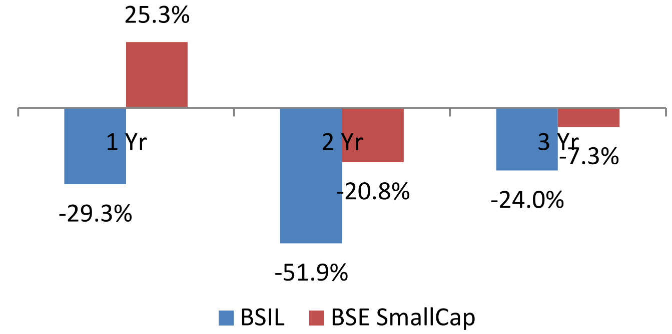
Business capacity

Division	Plant location	Annual Capacity (MT)
Sponge iron	Kharsawan, Jharkhand	210,000

MT – Metric tonnes

Source: Company

Price Performance



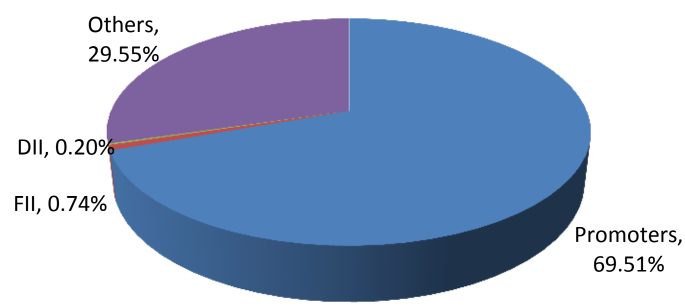
Source: BSE, Moneycontrol

Change in Shareholding Pattern (%)

Year	Promoters	FII	DII	Others
Sep-12	69.51	0.74	0.20	29.55
Jun-12	69.51	0.74	0.20	29.55
Mar-12	69.34	0.74	0.20	29.72
Dec-11	69.34	0.96	0.20	29.50
Mar-11	69.34	1.87	0.20	28.59
Mar-10	69.34	1.66	0.20	28.80
Mar-09	69.34	1.66	0.65	28.35
Mar-08	70.35	1.66	0.94	27.05

Source: BSE, Company

Shareholding Pattern



Source: BSE, as at 30 September 2012

Key concerns

Restriction on mining in Odisha

BSIL procures iron ore mainly from Odisha. In November 2012, the state government of Odisha issued notices to over 100 iron ore mining lease holders claiming a compensation of Rs.68 bn for violations and 60% of the mines were closed down. This ban is expected to impact iron ore production by ~25 mn MT and have an impact on its price.

Karnataka and Goa also have restrictions on mining leading to an overall fall in production

Karnataka and Goa also have restriction on mining leading to a fall in production and increase in prices of iron ore domestically. Increase in the price of iron ore impacts the profit of the company. Iron ore accounts for 71% of the total raw material costs in FY12 (73% in FY11).

Government of Jharkhand de-allocated 395 acres of coal block

In November 2012, the Government of Jharkhand **de-allocated 395 acres of coal block** allocated to the company due to failure to develop the mine. This coal block was estimated to have 'A' and 'B' grade coal reserves of 24 mn MT and was expected to be operational in 2015. This was expected to bring down the cost of production significantly.

Cancellation of coal block is a great loss to the company as cost of production of a manufacturer with no access to captive resources is approximately 2.5 times higher than a fully integrated player. Coal accounts for 29% of the total raw material cost in FY12 (26.8% in FY11).

Company has defaulted on soft loan given for rehabilitation

The company was declared a 'sick' company in December 1996. In 2004, BIFR sanctioned a rehabilitation scheme to the company with a revival amount of Rs.1,350 mn plus a 'soft loan' of Rs.325 mn. The rehabilitation period was between 29 July 2004 and 30 September 2011.

The company defaulted on 'soft loan' obligation. As at 31 March 2012, the defaulted amount of principal and interest is Rs.325 mn and Rs.185 mn respectively. On an aggregate, for FY12, it has Rs.215 mn of interest accrued and due to its lenders.

Industry overview

India is the largest producer of sponge iron

According to Sponge Iron Manufacturers Association (SIMA), India is the largest manufacturer of sponge iron. The production of sponge iron has increased from nil in 1980 to 33.3 mn MT recently. Further, SIMA estimates the domestic sponge manufacturing capacity to increase to 38.3 mn MT by March 2013.

Growth in sponge iron industry is led by growth in secondary steel making

The growth in sponge iron demand is led by the growth in secondary steel making route. The crude steel manufactured by secondary steel makers increased from 26 mn MT in FY 2000 to 54 mn MT recently.

Iron ore production is expected to fall to 140 mn MT from 240 mn MT in FY11

Iron ore production for 2012-13 is expected to fall to ~140 mn MT from ~240 mn MT in 2010-11. The shortage is on account of violation of statutory clearances and producing excessive iron ore by the mining companies in Karnataka, Goa and Odisha in the last couple of years. To meet the demand of steel producers India is expected to import ~15 mn MT of iron ore in the current financial year.

Company Fundamentals

In 2015, BSIL could have access to captive iron ore

BSIL is expected to have a captive access to iron ore by 2015. Availability of captive iron ore supply will potentially reduce the manufacturing cost of sponge iron. Government of Jharkhand in February 2007 allotted BSIL an iron ore mine spread across 406 hectares in Jharkhand. At the time of the allotment iron ore reserves were estimated at 35.65 mn MT. After visual survey by the company it approached the state government demanding for a geological survey. The Department of Geology concluded that the actual reserves in the area allotted to BSIL were 11.4 mn MT v/s 35.65 mn MT stated at the time of allotment. The company has requested government of Jharkhand to allot additional mine with 24.23 mn MT of ore reserves.

BSIL has 5 MW dolochar based power plant

BSIL has 5 MW dolochar (waste from the production process) based power plant. The power produced from this plant is used for captive consumption.

Surplus dolochar is supplied to G.S. Phambutor Pvt Ltd

It also has an agreement with G.S. Phambutor for the use of surplus dolochar (after serving the captive 5 MW plant). As per the agreement, G.S. Phambutor Pvt Ltd will install a 5 MW power plant and supply power to BSIL's sponge iron production unit whenever its captive power plant is in maintenance. This could be cost effective measure as the power produced from DG sets is expensive relative to power produced from dolochar.

BSIL has an agreement with Chandil Power Ltd to sell hot gases produced in sponge iron manufacturing process

As per section 4 (1) (a) of the Companies Act, Chandil Power Ltd (CPL) became a subsidiary of the company. The company does not have any operations. It has plans to use hot gasses produced from BSIL's sponge iron manufacturing process to generate electricity in its proposed 20 MW power plant. As at 31 March 2012, CPL was seeking permission for sub-leasing 22 acres of land for the project.

Key financial indicators

BSIL reported a net loss of Rs.238.6 mn on account of high raw material cost

The total income of the company increased by 6.7% to Rs.1,719.7 mn. EBIDTA was negative Rs.71.1 mn (Rs.114.4 mn in FY11). It reported a net loss of Rs.207.1 mn (Rs.238.6 mn in FY11).

It provided depreciation from reserves resulting in profits higher by equivalent amount

In FY11 and FY12, the company has provided depreciation of Rs.24.7 mn from the revaluation reserve. As a result the net profit of the company is higher by an equivalent amount.

BSIL has not provided for loss on foreign exchange fluctuation

The company has not provided for loss of Rs.214.2 mn on fluctuation in foreign currency on loans taken by the company (including interest) in 2004. If the company had expensed this liability in FY12 the net loss would have been higher to Rs.421.3 mn.

Company has negative FY12 net worth

BSIL has negative reserves & surplus and net worth for FY12. The FY10 and FY11 net worth is positive Rs.414.6 mn and Rs.151.2 mn respectively on account of revaluation of assets. The company had revalued its assets in FY03.

Current ratio fell to 0.5x due to threefold increase in current liabilities

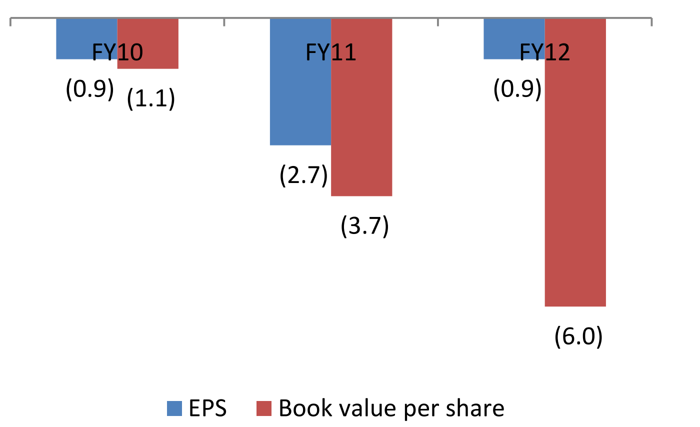
It should be noted that the current liabilities of the company increased from Rs.183.7 mn in FY11 to Rs.501.3 mn in FY12. This is on account of increase in acceptances taken (majorly from related parties) to Rs.265.9 mn in FY12 (Nil in FY11). This deteriorated the current ratio to 0.5 (1.3 in FY11). The increase in current liabilities could be due to the utilization of funds for the repayment of loans. It repaid borrowings of Rs.90.8 mn during the year.

Quarterly results

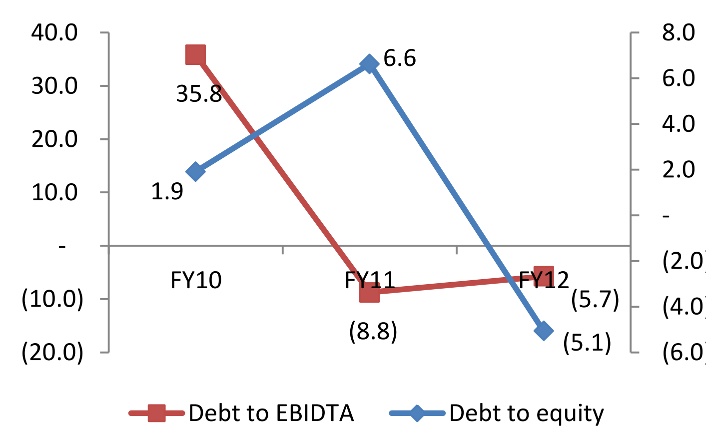
Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change[1]	Jan '12 to Mar '12	% Change[2]
Total income	412.9	488.0	(15.4%)	408.1	1.2%
Total expenditure (excl. depreciation)	446.6	497.7	(10.3%)	417.4	7.0%
EBIDTA	(33.7)	(9.7)	247.4%	(9.3)	262.4%
EBIDTA margin	(8.2%)	(-2.0%)		(2.3%)	
PBT	(39.4)	(41.1)	(4.1%)	(42.7)	(7.7%)
PAT	(39.4)	(41.1)	(4.1%)	(42.7)	(7.7%)
PAT margin	(9.5%)	(8.4%)		(10.5%)	
Cash accruals	(30.1)	(31.0)	(2.9%)	(35.8)	(15.9%)
EPS	(0.4)	(0.5)	(3.4%)	(0.5)	(6.4%)

[1] **compared to corresponding quarter in the previous year**
[2] **sequential comparisons**

Key ratios



Leverage ratios



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	1,735.5	1,612.2	1,719.7
EBIDTA	22.1	(114.4)	(71.1)
EBITDA Margin%	1.3%	-7.1%	-4.1%
Depreciation	57.6	50.8	34.8
EBIT	(35.5)	(165.2)	(105.9)
Interest	59.4	74.4	101.2
PBT (post extraordinary items)	(77.7)	(238.6)	(207.1)
Tax	-	-	-
PAT	(77.5)	(238.6)	(207.1)
PAT Margin %	-4.5%	-14.8%	-12.0%
Dividend (including dividend tax)	-	-	-

Valuation ratios	FY10	FY11	FY12
P/E	negative	negative	negative
P/BV	negative	negative	negative

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Equity Share Capital	902.5	902.5	902.5
Reserves & Surplus (incl. revaluation reserves)	(487.9)	(751.3)	(983.1)
Net worth	414.6	151.2	(80.6)
Borrowings	791.7	1,002.2	408.1
Current liabilities and provisions	523.0	432.8	1,276.9
Total liabilities	**1,729.3**	**1,586.2**	**1,604.4**
Net fixed assets (incl CWIP)	1,081.2	1,007.9	974.7
Loans and advances (Long term and short term)	94.7	81.7	168.8
Investments	-	-	-
Current assets	482.0	416.5	460.9
Other non-current assets	71.4	80.1	-
Total assets	**1,729.3**	**1,586.2**	**1,604.4**

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	(77.7)	(238.6)	(207.1)
CF from Operations	19.9	(148.9)	189.7
CF from Investment	0.6	1.4	(21.8)
CF from Financing	34.9	137.9	(131.5)
Inc/(dec) in Cash	55.4	(9.6)	36.4
Closing Balance	**99.8**	**90.2**	**126.6**