

Q3FY20 result review

Metals

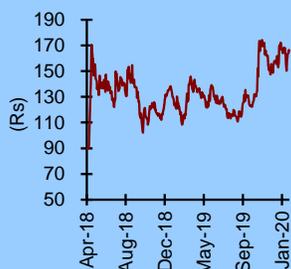
Target price: Rs242

Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	74.0	74.0	74.0
Institutional investors	20.1	20.1	19.2
MFs and others	10.0	11.5	13.3
Insurance Cos.	9.5	8.0	5.3
FII's	0.6	0.6	0.6
Others	5.9	5.9	6.8

Source: www.nseindia.com

Price chart



Mishra Dhatu Nigam

BUY
 Maintain
Rs166

Strong tidings

Stabilisation of 1500te Forge press and other recent capital investments coupled with a healthy order booking, particularly from space sector, has enabled Midhani to achieve topline of Rs 2.1bn, up 35% YoY. EBITDA margins, due to ramp up in supply to space sector has also moved up to 27% (from 11% YoY). EBITDA has increased nearly 234% YoY and PBT has increased ~ 155% YoY. Orderbook has seen accretion of Rs 2.1bn during the quarter and stays strong at Rs 17.8bn. Rampup in supply of maraging steel to the space sector will drive execution and margins for Midhani. We maintain BUY with a target of Rs 242/share.

- ▶ **What is driving topline and margin performance.** Given the strategic nature of the products used for ISRO, reluctance for imports and lack of global tender-based procurement for these products, Midhani enjoys a remarkable competitive advantage. Maraging steel contributed nearly 23% of the volume and ~ 55% value of Midhani's FY19 topline (currently mostly consumed by VSSC). The pricing is not tender based but on bilateral negotiations post nomination-based ordering -- for products that has been jointly developed with ISRO over the last 40 years. In 9MFY20, there has been a further increase in ISRO's share in the execution pie for Midhani which has driven the remarkable topline and margin performance.
- ▶ **Supplies to ISRO helps working capital and return ratios as well.** While defense business share in execution has reduced, shift in product mix towards space is allowing higher realization and better working capital for Midhani. What we like is that RoIC is ahead of its global peers (Aperam & Carpenter). Continued increase in ISRO budget is also helping Midhani's execution -- FY21 further witnessed nearly 33% YoY increase in allocation (budgeted to budgeted). Midhani's execution is directly linked to ISRO's capital budget increase and it has been increasing wallet share of the same.
- ▶ **Maintain BUY.** Low current utilisation and higher value blend through supplies to ISRO can help increase topline meaningfully over the next two to three years. We expect RoCE to cross 20% as topline accretion takes shape. Capex remains limited -- only material capex witnessed in Midhani is being undertaken by defence customers (BDL/HAL) wherein the output of the plate mill will be used by customers. With ISRO's share increasing in Midhani's execution, improvement in working capital and moderate capex will also help generate FCF.

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Market Cap	Rs31bn/US\$435mn	Year to March	FY19	FY20E	FY21E	FY22E
Reuter/Bloomberg	MISR.BO/MIDHANI IN	Revenue (Rs mn)	7,108	8,175	9,319	10,577
Shares Outstanding (mn)	187.3	Net Income (Rs mn)	1,306	1,626	1,830	2,057
52-week Range (Rs)	174/108	EPS (Rs)	7.0	8.7	9.8	11.0
Free Float (%)	26.0	% Chg YoY	(0.5)	24.6	12.5	12.4
FII (%)	0.6	P/E (x)	23.4	18.8	16.7	14.8
Daily Volume (US\$'000)	1,097	CEPS (Rs)	8.2	10.3	11.7	13.4
Absolute Return 3m (%)	(2.4)	EV/E (x)	16.1	13.7	12.0	10.4
Absolute Return 12m (%)	45.0	Dividend Yield (%)	2.2	2.6	2.9	3.3
Sensex Return 3m (%)	3.0	RoCE (%)	17.1	18.9	19.4	19.7
Sensex Return 12m (%)	16.2	RoE (%)	15.6	17.3	17.3	17.3

Table 1: Q3FY20 result review

	Q3FY20	Q3FY19	% Chg YoY	Q2FY20	% Chg QoQ	9MFY19	9MFY20	% Chg YoY
Revenue	2,069	1,532	35.0	1,702	21.5	3,744	5,092	36.0
Other Operating Income	9	18	(50.6)	10	(13.0)	52	35	(31.8)
Operating revenue	2,060	1,515	36.0	1,692	21.8	3,692	5,057	37.0
Raw Material	441	532	(17.1)	181	143.1	817	738	(9.7)
Gross Margin	1,628	1,000	62.7	1,521	7.1	2,927	4,354	48.8
<i>Gross Margin (%)</i>	79	65		89	(11.9)	239	259	
Employee expenses	298	310	(3.9)	309	(3.7)	770	899	16.8
Other expenses	758	519	45.9	682	11.0	1,426	1,979	38.7
EBITDA	573	171	234.4	529	8.3	730	1,476	102.1
<i>EBITDA Margin (%)</i>	28	11		31	(10.9)	61	87	
Dep	71	60	18.7	63	12.8	172	195	13.1
Other income	94	135	(30.7)	65	44.8	245	222	(9.3)
EBIT	595	247	141.4	531	12.2	803	1,503	87.1
Interest	11	18	(38.2)	11	(0.8)	41	39	(4.6)
PBT	585	229	155.3	520	12.4	762	1,464	92.1
Tax	(21)	60	(134.3)	161	(112.7)	259	270	4.3
PAT	605	169	258.0	358	68.8	503	1,194	137.5

Source: Company data, I-Sec research

Valuation methodology and key risks

We maintain our valuation multiple at 22x FY22E EPS and maintain **BUY** with a target price of Rs242/share. Sudden drop in space contract inflow/execution is the key risk to our call.

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Income (Sales)	7,108	8,175	9,319	10,577
Operating Expenses	5,271	5,886	6,710	7,563
EBITDA	1,837	2,289	2,609	3,015
% margins	25.8	28.0	28.0	28.5
Depreciation & Amortization	232	310	360	462
Gross Interest	64	70	70	70
Other Income	369	260	260	260
Recurring PBT	1,910	2,169	2,440	2,743
Add: Extra ordinaries				
Less: Taxes	605	542	610	686
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	-	-	-	-
Net Income	1,306	1,626	1,830	2,057
Recurring Net Income	1,306	1,626	1,830	2,057

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	11,639	11,002	12,591	13,922
of which cash & cash eqv.	1,980	216	379	221
Total Current Liabilities & Provisions	4,274	4,446	4,907	5,462
Net Current Assets	7,365	6,555	7,684	8,460
Investments	21	21	21	21
Net Fixed Assets	4,249	5,628	6,330	8,068
Capital Work-in-Progress	1,751	3,061	4,000	3,800
Other non current assets	587	587	587	587
Total Assets	13,973	15,853	18,622	20,936
Liabilities				
Borrowings	1,067	1,067	1,067	1,067
Deferred Tax Liability				
Other long term liabilities	4,559	5,400	7,000	8,000
Minority Interest	-	-	-	-
Equity Share Capital	1,873	1,873	1,873	1,873
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	6,474	7,513	8,682	9,996
Net Worth	8,347	9,386	10,555	11,870
Total Liabilities	13,973	15,853	18,622	20,936

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Cash flow	1,232	1,747	1,999	2,329
Working Capital Changes	1,398	(955)	(965)	(935)
Capital Commitments	(2,138)	(3,000)	(2,000)	(2,000)
Free Cash flow	493	(2,208)	(966)	(606)
Investing Cash flow	84	260	260	260
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	138	841	1,600	1,000
Dividend paid	(854)	(587)	(661)	(743)
Others	(64)	(70)	(70)	(70)
Extraordinary Items	-	-	-	-
Chg. in Cash	(203)	(1,764)	163	(158)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	7.0	8.7	9.8	11.0
Diluted Recurring EPS	7.0	8.7	9.8	11.0
Recurring Cash EPS	8.2	10.3	11.7	13.4
Book Value per share (BV)	44.6	50.1	56.3	63.4
Growth Ratios (%)				
Operating Income	7.4	15.0	14.0	13.5
EBITDA	(3.8)	24.6	14.0	15.5
Recurring Net Income	(0.5)	24.6	12.5	12.4
Valuation Ratios (x)				
P/E	23.4	18.8	16.7	14.8
P/CEPS	19.9	15.8	13.9	12.1
P/BV	3.7	3.3	2.9	2.6
EV / EBITDA	16.1	13.7	12.0	10.4
EV / FCF	36.0	(14.2)	(32.3)	(51.8)
Operating Ratios (%)				
Raw Material/Sales	-	-	-	-
Other Income / PBT	19.3	12.0	10.7	9.5
Effective Tax Rate	31.7	25.0	25.0	25.0
NWC / Total Assets	34.5	27.1	28.1	28.0
Inventory Turnover	1.4	1.4	1.4	1.4
Asset Turnover	0.4	0.4	0.4	0.4
Net D/E Ratio (x)	(0.1)	0.1	0.1	0.1
Profitability Ratios (%)				
Rec. Net Income Margins	18.4	19.9	19.6	19.4
RoCE	17.1	18.9	19.4	19.7
RoNW	15.6	17.3	17.3	17.3
EBITDA Margins	25.8	28.0	28.0	28.5

Source: Company data, I-Sec research

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