

# Mishra Dhatu Nigam

**BUY**  
Maintain  
**Rs204**

## Steady tidings

### Q1FY21 result review

## Metals

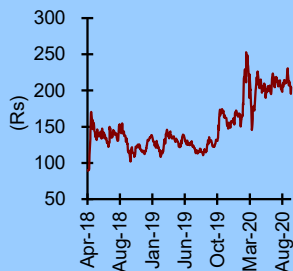
Target price: Rs281

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	74.0	74.0	74.0
Institutional investors	19.2	19.5	17.9
MFs and others	13.3	14.7	14.1
Insurance Cos.	5.3	3.9	3.0
FIs	0.6	0.7	0.8
Others	6.8	6.5	8.1

Source: www.nseindia.com

### Price chart



Mishra Dhatu Nigam (Midhani) has reported a decent topline performance in Q1FY21 at Rs1.14bn (down 14% YoY). The reduction in topline reflects 45 days of shutdown in Q1. There has been a meaningful compression in gross margins from the quarterly runrate of FY20 – perhaps due to order mix. Q1FY21 would have been defence heavy to result in gross margins declining from 91% to 64% YoY. Given the breakup in FY20-end orderbook, with ~80% of orderbook comprising of space orders – FY21 execution for Midhani will be space heavy. We have seen a new timeline for Chandrayan III – with lander and rover and no orbiter. Budget allocation across Gol ministries should expectantly come down in H2FY21 – defence, space irrespective. However, the relatively smaller size of the space budget may still allow it to see lower contraction. **We maintain BUY.**

- ▶ **Order book and order inflow.** Current orderbook is Rs17.3bn against Rs16.8bn QoQ. Q1FY21 saw Rs1.62bn of order booking. Midhani has previously guided for FY21 order inflow at Rs7.5bn, 70% of which would be from defence. A large part of the order inflow may accrue from Akash (allotted to BDL), the future expected order of Tejas (Titanium alloys – another high value order which can help maintain margins similar to space order) etc.
- ▶ **On Q1FY21 performance from FY20 annual report.** There was a disruption in production activities for about 45 days in Q1FY21. Subsequently, normal production activities resumed with effect from May 20, 2020. Despatch of finished materials also started in the month of May 2020. With improvement in supply chain efficiency post phase-wise easing of the lockdown, management hopes to neutralise the impact of Covid-19 on business for Q1FY21 to some extent.
- ▶ **Q1FY21 has seen more encouraging deliveries/ RM price movement for Midhani.** This includes bulletproof jackets (Rohtak factory is yet to commission), titanium metal for chambers of Gaganayan mission for Indian cosmonauts. The MDN 250 slabs were also supplied to SAIL to roll into plates for Gaganayan mission. Also, there's expectantly a significant surplus expected in nickel due to aggressive nickel pig iron expansion in Indonesia. This can also help surprise margins if procurement can be planned out effectively.
- ▶ **Maintain BUY.** Low current utilisation and higher value blend through supplies to ISRO can help increase topline meaningfully over the next 2-3 years. We expect RoCE to cross 20% as topline accretion takes shape. Capex remains limited with ISRO's share increasing in Midhani's execution, improvement in working capital and moderate capex will also help generate FCF. Budget allocation to space and defence by the Gol in the current environment remains the only point of concern for continued order visibility for Midhani.

Market Cap	Rs38.2bn/US\$520mn
Reuter/Bloomberg	MISR.BO/MIDHANI IN
Shares Outstanding (mn)	187.3
52-week Range (Rs)	253/111
Free Float (%)	26.0
FII (%)	0.8
Daily Volume (US\$'000)	4,701
Absolute Return 3m (%)	0.8
Absolute Return 12m (%)	59.4
Sensex Return 3m (%)	16.5
Sensex Return 12m (%)	5.4

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	7,108	7,129	7,825	10,173
Net Income (Rs mn)	1,306	1,581	1,820	2,311
EPS (Rs)	7.0	8.4	9.7	12.3
% Chg YoY	(0.5)	21.1	15.1	27.0
P/E (x)	30.1	24.9	21.6	17.0
CEPS (Rs)	8.2	9.8	11.7	14.8
EV/E (x)	20.9	20.0	15.6	11.5
Dividend Yield (%)	2.2	1.6	2.9	3.7
RoCE (%)	17.1	15.7	17.6	20.2
RoE (%)	15.6	16.5	16.8	18.5

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**Table 1: Q1FY21 result review**

	Q1FY21	Q1FY20	% Chg YoY	Q4FY20	% Chg QoQ
<b>Revenue</b>	<b>1,135</b>	<b>1,321</b>	(14.1)	<b>2,036</b>	(44.3)
Other Operating Income		17		5	
Operating revenue		1,305		2,031	
Raw Material	411	116		455	
<b>Gross Margin</b>	<b>724</b>	<b>1,205</b>	(39.9)	<b>1,581</b>	(54.2)
<i>Gross Margin (%)</i>	64	91		78	
Employee expenses	273	293	(6.7)	335	(18.6)
Other expenses	392	539	(27.2)	744	(47.3)
<i>% of topline</i>	35	41		37	
<b>EBITDA</b>	<b>58</b>	<b>374</b>	(84.4)	<b>501</b>	(88.3)
<i>EBITDA Margin (%)</i>	5.1	28.3		24.6	
Dep	66	61	9.2	66	0.3
Other income	35	64	(44.9)	142	(75.1)
EBIT	27	377	(92.8)	577	(95.3)
Interest	31	17	80.8	20	59.6
<b>PBT</b>	<b>(4)</b>	<b>360</b>	NM	<b>557</b>	NM
Tax	5	130	NM	153	NM
<b>PAT</b>	<b>(9)</b>	<b>230</b>	NM	<b>404</b>	NM
Tax Rate	NM	36.0%		27.5%	
Orderbook (Rs mn)	17,320			16,840	2.9

Source: Company data, I-Sec research

## Valuation methodology and key risks

We maintain **BUY** on Midhani with a target price of Rs281/share (FY22E P/E of 22x). Effectively, we have assumed a postponement of Rs2bn worth of revenues on account of Covid-19 pandemic.

**Sensitivity:** If Midhani can reclaim ~Rs1bn of postponed revenues, FY22E EBITDA and PAT would increase by 10% and so would our target price.

## Financial summary

Table 2: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	7,108	7,128	7,825	10,173
Operating Expenses	5,271	5,151	5,321	6,917
<b>EBITDA</b>	<b>1,837</b>	<b>1,977</b>	<b>2,504</b>	<b>3,255</b>
% margins	25.8	27.7	32.0	32.0
Depreciation & Amortisation	232	261	365	471
Gross Interest	64	59	59	59
Other Income	369	364	346	356
<b>Recurring PBT</b>	<b>1,910</b>	<b>2,021</b>	<b>2,426</b>	<b>3,081</b>
Add: Extra ordinaries				
Less: Taxes	605	424	607	770
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	-	-	-	-
<b>Net Income</b>	<b>1,306</b>	<b>1,581</b>	<b>1,820</b>	<b>2,311</b>
<b>Recurring Net Income</b>	<b>1,306</b>	<b>1,581</b>	<b>1,820</b>	<b>2,311</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	11,657	15,149	14,307	17,437
of which cash & cash eqv.	1,980	1,109	1,585	3,228
Total Current Liabilities & Provisions	4,274	5,634	5,679	7,721
Net Current Assets	7,383	9,515	8,628	9,716
Investments	21	205	205	205
Net Fixed Assets	4,249	4,407	6,191	7,920
Capital Work-in-Progress	1,751	4,048	4,000	3,800
Other non-current assets	569	154	154	154
<b>Total Assets</b>	<b>13,973</b>	<b>18,329</b>	<b>19,178</b>	<b>21,795</b>
<b>Liabilities</b>				
Borrowings	1,067	1,336	1,336	1,336
Deferred Tax Liability				
Other long term liabilities	4,559	7,426	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	7,694	8,968	10,586
Net Worth	8,347	9,568	10,841	12,459
<b>Total Liabilities</b>	<b>13,973</b>	<b>18,329</b>	<b>19,178</b>	<b>21,795</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,562	1,730	1,897	2,485
Working Capital Changes	1,398	314	1,363	555
Capital Commitments	(2,138)	(2,717)	(2,100)	(2,000)
<b>Free Cashflow</b>	<b>759</b>	<b>(732)</b>	<b>1,160</b>	<b>1,040</b>
Investing Cashflow	84	764	346	356
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	138	270	(426)	1,000
Dividend paid	(854)	(341)	(546)	(693)
Others	(64)	(59)	(59)	(59)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash</b>	<b>63</b>	<b>(98)</b>	<b>476</b>	<b>1,643</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	7.0	8.4	9.7	12.3
Diluted Recurring EPS	7.0	8.4	9.7	12.3
Recurring Cash EPS	8.2	9.8	11.7	14.8
Book Value per share (BV)	44.6	51.1	57.9	66.5
<b>Growth Ratios (%)</b>				
Operating Income	7.4	0.3	9.8	30.0
EBITDA	(3.8)	7.6	26.7	30.0
Recurring Net Income	(0.5)	21.1	15.1	27.0
<b>Valuation Ratios (x)</b>				
P/E	31.3	25.8	21.6	17.0
P/CEPS	26.6	22.2	18.0	14.1
P/BV	4.9	4.3	3.6	3.2
EV / EBITDA	21.7	20.8	15.6	11.5
EV / FCF	52.6	(56.1)	33.7	36.0
<b>Operating Ratios (%)</b>				
Raw Material/Sales	-	-	-	-
Other Income / PBT	19.3	18.0	14.3	11.6
Effective Tax Rate	31.7	21.0	25.0	25.0
NWC / Total Assets	34.6	34.1	29.3	28.4
Inventory Turnover	1.4	3.0	2.2	1.6
Asset Turnover	0.4	0.3	0.3	0.3
Net D/E Ratio (x)	(0.1)	0.0	(0.0)	(0.2)
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	18.4	22.2	23.3	22.7
RoCE	17.1	15.7	17.6	20.2
RoNW	15.6	16.5	16.8	18.5
EBITDA Margins	25.8	27.7	32.0	32.0

Source: Company data, I-Sec research

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