

Q4FY20 conference call  
takeaways

## Metals

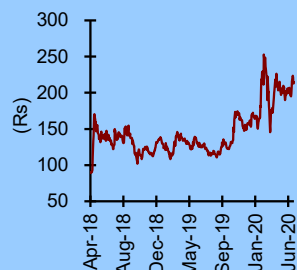
Target price: Rs281

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	74.0	74.0	74.0
Institutional investors	20.1	19.2	19.25
MFs and others	11.5	13.3	14.7
Insurance Cos.	8.0	5.3	3.9
FII's	0.6	0.6	0.7
Others	5.9	6.8	6.5

Source: www.nseindia.com

### Price chart



# Mishra Dhatu Nigam

**BUY**  
Maintain  
**Rs218**

## Space order inflow may slow down in FY21

Midhani's new chairman and managing director, Dr. S.K. Jha's commentary highlights that FY20 execution was tilted >60% towards the space sector. Capex for modernisation has led to 60-70% YoY increase in FY20 volumes. Order inflow for FY20 was Rs7.5bn and the orderbook stood at Rs16.8bn with >70% contribution from space. However, space-related orders and execution is expected to slow down over the next few months. >70% of order inflow expected in FY21 would be from the defence sector as select programs on missile development and air platforms indicate prospective ordering for Midhani. Management is striving to cross the MoU revenue target previously placed with the ministry of defence at Rs7.5bn. **Maintain BUY.**

- ▶ **Orderbook and order inflow.** Current orderbook is worth Rs16.87bn against Rs16.67bn YoY. 70% of it is in space segment, 20% in defence and the rest is a mix of nuclear, oil and gas, etc. Q1FY21 saw Rs1.5bn of order booking. Company expects FY21 order inflow at Rs7.5bn, 70% of which would be from defence.
- ▶ **Outlook on ISRO program.** CMD highlighted that ISRO launches may be delayed by a few months. Orders placed on Midhani need to be executed, but the growing expectation is that there can be a slight delay in terms of delivery timeline.
- ▶ **Defence order/execution will increase.** Midhani highlighted that for any missile order, the corresponding material placement order will accrue to Midhani. Also, HAL's order for 83 LCA Mk 1A will have a corresponding requirement of titanium castings to be provided by Midhani. Company has indigenised a considerable number of components for the Russian marine platforms, but not much for the French.
- ▶ **Utilisation of assets and peak revenues.** Current gross block of Rs5bn can generate >Rs10bn at the topline. Management looks forward to the customer-funded wide plate mill commissioning in FY22. As the (customer-funded) capex of Rs5bn on the same approaches completion, management would expect further revenue uptick from the same in FY22/FY23. Capex for FY21 has been guided at Rs2.1bn.
- ▶ **Cost-saving programs initiated.** Modernisation of equipment has reduced energy consumption from 7% of Value of Production (VoP) to 6% YoY. Utilisation of new equipment has also led to reduction in LPG consumption. Better internal collection of scrap is being focused on reduction in external purchases. Raw material inventory covering 5-6 months has helped Midhani withstand the supply chain shock from the current pandemic. Company remains well diversified in sourcing of raw materials and maintains adequate headroom in negotiated contracts for any possible increase in procurement prices.

Market Cap	Rs40.9bn/US\$547mn
Reuter/Bloomberg	MISR.BO/MIDHANI IN
Shares Outstanding (mn)	187.3
52-week Range (Rs)	253/111
Free Float (%)	26.0
FII (%)	0.7
Daily Volume (US\$'000)	4,701
Absolute Return 3m (%)	13.2
Absolute Return 12m (%)	75.8
Sensex Return 3m (%)	22.5
Sensex Return 12m (%)	(6.0)

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	7,108	7,128	7,825	10,173
Net Income (Rs mn)	1,306	1,581	1,848	2,354
EPS (Rs)	7.0	8.4	9.9	12.6
% Chg YoY	(0.5)	21.1	16.9	27.4
P/E (x)	31.3	25.8	22.1	17.4
CEPS (Rs)	8.2	9.8	11.7	14.8
EV/E (x)	21.7	20.8	16.2	12.3
Dividend Yield (%)	2.2	1.6	3.0	3.8
RoCE (%)	17.1	15.7	17.8	20.5
RoE (%)	15.6	16.5	17.0	18.8

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- **NALCO JV.** This JV is set to hire an EC consultant and to award the contract for execution of the project. Each JV partner has contributed Rs200mn as equity till date. FY21E will not witness any additional equity contribution. FY22E may see additional equity contribution of Rs100mn.
- **Other capital projects.** Phase-1 construction of the Rohtak plant (armoured vehicles) is over. All equipments have been ordered. Over the next 2-3 months, the company will take deliveries of the same. Wide plate mill facility, material for railway coaches, augmenting vacuum induction melting, higher capacity for titanium casting, melting furnaces in the forge area, adding new facilities where the push towards product integration and component manufacture can be implemented – are some of the key projects Midhani is currently executing.
- **Product development achieved in FY20.** CMD acknowledged the continuous need of developing new products, and highlighted the development of titanium castings – another import replacement effort. Super alloys and nickel-based alloys have been exported to Spain, Middle East and Germany. Midhani has also been able to supply steam generator tubes for nuclear reactors. It has supplied compressor discs for aero engines. The same has been provided to Jaguar Arour engines. Management wants to branch it out for other engines as well. CMD also highlighted that the armour facility in Hyderabad has been able to develop special products for bulletproof jackets.

Table 1: Q4FY20 result review

(Rs mn)	Q4FY20	Q4FY19	% Chg YoY	Q3FY20	% Chg QoQ	FY20	FY19	% Chg YoY
<b>Revenue</b>	<b>2,036</b>	<b>3,364</b>	(39.5)	<b>2,069</b>	(1.6)	<b>7,129</b>	<b>7,108</b>	0.3
Other Operating Income	5	25		9		40	77	
Operating revenue	2,031	3,340		2,060		7,088	7,032	
Raw Material	455	1,070	(57.4)	441	3.3	1,194	1887.767	(36.8)
<b>Gross Margin</b>	<b>1,581</b>	<b>2,294</b>	(31.1)	<b>1,628</b>	(2.9)	<b>5,935</b>	<b>5,221</b>	13.7
<i>Gross Margin (%)</i>	77.6	68.2		79		83.3	73.4	
Employee expenses	335	314		298		1,235	1084	
Other expenses	744	873		758		2,723	2,300	
<b>EBITDA</b>	<b>501</b>	<b>1,107</b>	(54.7)	<b>573</b>	(12.5)	<b>1,977</b>	<b>1,837</b>	7.6
<i>EBITDA Margin (%)</i>	24.6	32.9		27.7		27.7	25.8	
Dep	66	60	11.0	71	(6.8)	261	232	12.6
Other income	142	124		94		364	369	
EBIT	577	1,171	(50.7)	595	(3.1)	2,080	1,974	5.4
Interest	20	22	(11.5)	11	80.1	59	64	(7.0)
PBT	557	1,149	(51.5)	585	(4.7)	2,021	1,910	5.8
Tax	153	346		(21)		424	605	
PAT	404	803	(49.7)	605	(33.3)	1,597	1,306	22.3
Tax Rate	27.5%	30.1%		-3.5%		21.0%	31.7%	
Share of Profit / (Loss) of Joint Venture						(16.3)		
<b>Net profit</b>						<b>1,581</b>	<b>1,306</b>	<b>21.1</b>

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	339	419
Gross Interest	64	59	59	59
Other Income	369	364	364	369
<b>Recurring PBT</b>	<b>1,910</b>	<b>2,021</b>	<b>2,471</b>	<b>3,147</b>
Add: Extra ordinaries				
Less: Taxes	605	424	623	793
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	-	-	-	-
<b>Net Income</b>	<b>1,306</b>	<b>1,581</b>	<b>1,848</b>	<b>2,354</b>
<b>Recurring Net Income</b>	<b>1,306</b>	<b>1,581</b>	<b>1,848</b>	<b>2,354</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	11,960	16,009
of which cash & cash eqv.	1,980	1,109	1,495	2,258
Total Current Liabilities & Provisions	4,274	5,634	5,680	7,722
Net Current Assets	7,383	9,515	6,280	8,287
Investments	21	205	205	205
Net Fixed Assets	4,249	4,407	7,117	8,699
Capital Work-in-Progress	1,751	4,048	3,000	2,000
Other non-current assets	569	154	154	154
<b>Total Assets</b>	<b>13,973</b>	<b>18,329</b>	<b>16,756</b>	<b>19,345</b>
<b>Liabilities</b>				
Borrowings	1,067	1,336	1,336	1,336
Deferred Tax Liability				
Other long term liabilities	4,559	7,426	4,559	5,500
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	8,988	10,635
Net Worth	8,347	9,568	10,861	12,509
<b>Total Liabilities</b>	<b>13,973</b>	<b>18,329</b>	<b>16,756</b>	<b>19,345</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	1,881	2,462
Working Capital Changes	1,398	314	3,621	(1,244)
Capital Commitments	(2,138)	(2,717)	(2,000)	(1,000)
<b>Free Cashflow</b>	<b>759</b>	<b>(732)</b>	<b>3,443</b>	<b>159</b>
Investing Cashflow	84	764	364	369
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	138	270	(2,867)	941
Dividend paid	(854)	(341)	(554)	(706)
Others	(64)	(59)	(59)	(59)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash</b>	<b>63</b>	<b>(98)</b>	<b>327</b>	<b>704</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	9.9	12.6
Diluted Recurring EPS	7.0	8.4	9.9	12.6
Recurring Cash EPS	8.2	9.8	11.7	14.8
Book Value per share (BV)	44.6	51.1	58.0	66.8
<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	16.9	27.4
<b>Valuation Ratios (x)</b>				
P/E	31.3	25.8	22.1	17.4
P/CEPS	26.6	22.2	18.7	14.7
P/BV	4.9	4.3	3.8	3.3
EV / EBITDA	21.7	20.8	16.2	12.3
EV / FCF	52.6	(56.1)	11.8	251.4
<b>Operating Ratios (%)</b>				
Raw Material/Sales	-	-	-	-
Other Income / PBT	19.3	18.0	14.7	11.7
Effective Tax Rate	31.7	21.0	25.2	25.2
NWC / Total Assets	34.6	34.1	22.0	25.7
Inventory Turnover	1.4	3.0	1.4	1.4
Asset Turnover	0.4	0.3	0.3	0.4
Net D/E Ratio (x)	(0.1)	0.0	(0.0)	(0.1)
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	18.4	22.2	23.6	23.1
RoCE	17.1	15.7	17.8	20.5
RoNW	15.6	16.5	17.0	18.8
EBITDA Margins	25.8	27.7	32.0	32.0

Source: Company data, I-Sec research

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