

Better times ahead...

Mishra Dhatu Nigam (Midhani) reported a subdued set of Q4FY20 numbers. Topline was at ₹ 203.1 crore (down 39% YoY) while EBITDA was at ₹ 50.1 crore (down 55% YoY). The EBITDA margin was at 24.6% compared to 32.9% in Q4FY19. PAT was at ₹ 40.4 crore (down 50% YoY). In its provisional numbers declared in April 2020, Midhani had already indicated that Covid-19 lockdown has affected the final testing, certification and shipment during March 2020. In its provisional numbers itself, it had indicated that the topline for FY20 would remain flattish YoY, thereby implying a muted Q4FY20. For FY20, Midhani reported a topline of ₹ 712.9 crore (flattish YoY), EBITDA of ₹ 197.7 crore (up 8% YoY), EBITDA margin of 27.7% (25.8% in FY19) and PAT of ₹ 159.7 crore (up 22% YoY).

FY21E order intake likely to be ~₹ 750 crore...

With regard to the space sector, the management has highlighted that Isro launches could be delayed by a few months. While the order placed with Midhani will be executed, there is likely to be a minor delay on the delivery timeline. On the other hand, defence order booking is likely to pick up in FY21, as select programmes related to missile development and air platforms indicate prospective ordering for Midhani. Also, HAL's order for 83 LCA-MK1A will have corresponding requirement for titanium castings that will be provided by Midhani. Order booking during Q1FY21 was at ₹ 150 crore. Order booking for FY21 is expected to be ~ ₹ 750 crore of which 70% is likely to be from the defence sector.

Current order book at ~2.4x FY20 of topline...

After registering a flattish trend in FY17, FY18, Midhani's order book witnessed a remarkable increase in FY19 and 9MFY20, auguring well for the company. The order book was at ₹ 651 crore end of FY17 and ₹ 569 crore at the end of FY18. However, since March 2018, on the back of receipt of healthy orders from the space segment, Midhani's order book increased to ₹ 1660 crore at the end of FY19 and to ₹ 1687 crore as on April 2020. Currently, it is ~2.4x FY20 topline, thereby providing healthy revenue visibility (Midhani's FY20 topline was at ₹ 713 crore).

Valuation & Outlook

Midhani's Q4FY20 performance was impacted by Covid-19 related concerns. Even in FY21, due to Covid-19, there was a disruption in production activity for 45 days. Subsequently, normal production activities have resumed from May 20, 2020. Despatch of finished materials has already started in May 2020. Backed by a strong order book position, we expect Midhani to report healthy performance, going forward. We value the stock at 22x FY22E EPS with a target price of ₹ 260.



Particulars	
Particulars	Amount
Market Capitalisation (in ₹ crore)	3,967.0
Debt in ₹ crore (FY20)	134.0
Cash & Cash Eq. in ₹ crore (FY20)	111.0
EV (in ₹ crore)	3,990.0
52 Week H / L (₹)	₹278/₹109
Equity Capital (₹ crore)	187.3
Face Value (₹)	10.0

Key Highlights

- As on April 1, 2020 Midhani's order book was at ₹ 1687 crore. Of the total order book, ~70% orders are from space segment, ~20% from defence segment and balance 10% from nuclear, oil and gas, etc
- Maintain BUY rating on stock with target price of ₹ 260

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E
Total Operating income	661.7	710.8	712.9	768.8	1,017.1
EBITDA	190.9	183.7	197.7	209.5	305.1
EBITDA Margin (%)	28.8	25.8	27.7	27.3	30.0
Net Profit	131.3	130.6	159.7	157.3	221.6
Diluted EPS (₹)	7.0	7.0	8.5	8.4	11.8
P/E	30.1	30.3	24.7	25.1	17.8
RoE (%)	16.6	15.6	16.7	15.3	19.0
RoCE (%)	19.4	17.1	15.7	15.3	20.2

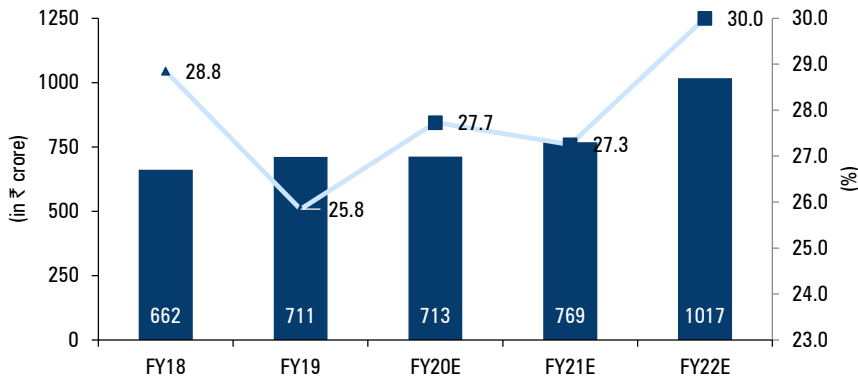
Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY	Q3FY20	QoQ	Comments
Total Operating Income	203.6	336.4	(39.5)	206.9	(1.6)	Topline was down 39% YoY & 1.6% QoQ
Other Income	14.2	12.4	14.8	9.4	51.3	
Employee Expense	33.5	31.4	6.8	29.8	12.6	
Raw Material Expense	45.5	107.0	(57.4)	44.1	3.3	
Other Operating Expense	74.4	87.3	(14.7)	75.8	(1.7)	
EBITDA	50.1	110.7	(54.7)	57.3	(12.5)	EBITDA was down 55% YoY & 13% QoQ
EBITDA Margin (%)	24.6	32.9	-829 bps	27.7	-307 bps	
Depreciation	6.6	6.0	11.0	7.1	(6.8)	
Interest	2.0	2.2	(11.5)	1.1	80.1	
PBT	55.7	114.9	(51.5)	58.4	(4.7)	
Tax Outgo	15.3	34.6	(55.7)	(2.1)	NA	
PAT	40.4	80.3	(49.7)	60.5	(33.2)	Ensuing PAT was down 50% YoY & 33% QoQ

Source: Company, ICICI Direct Research

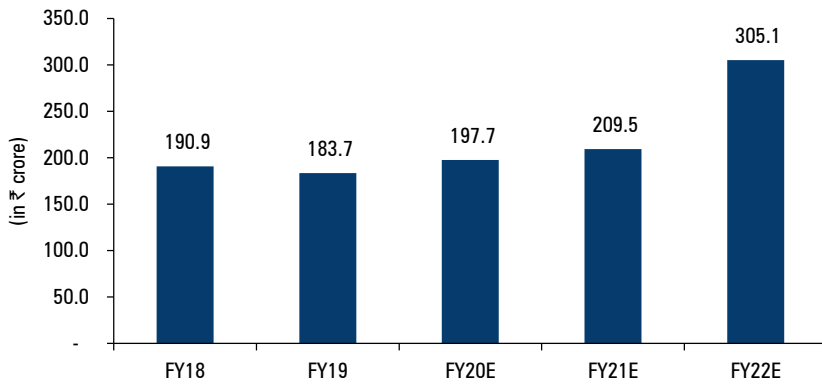
Financial story in charts

Exhibit 2: Topline trend...(in ₹ crore)



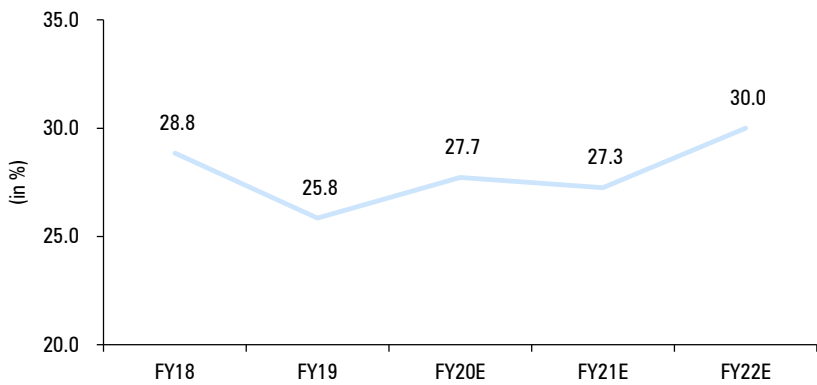
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA trend... (in ₹ crore)



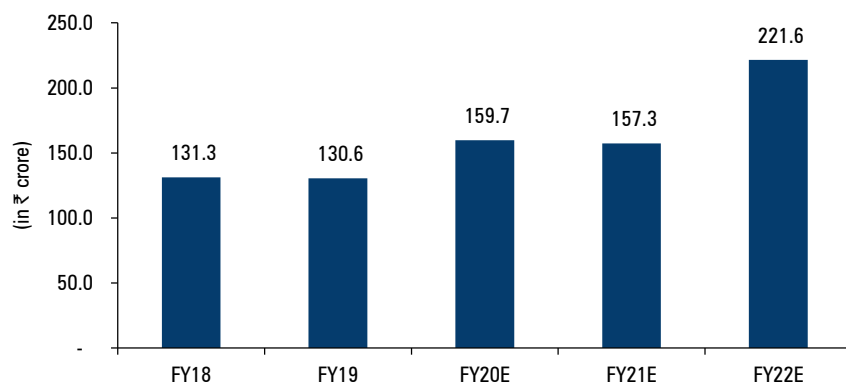
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins trend (in %)



Source: Company, ICICI Direct Research

Exhibit 5: PAT trend (in ₹ crore)



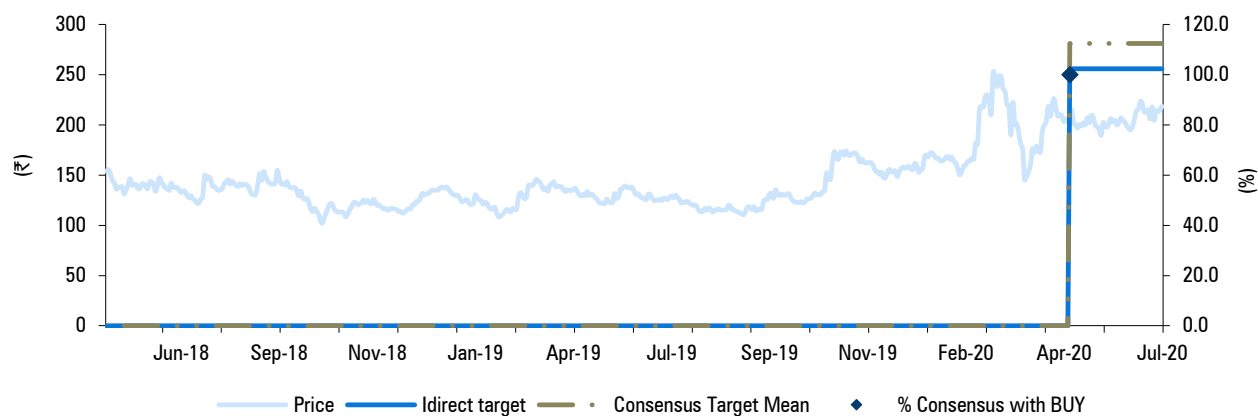
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Total Operating Income (₹Cr)	Growth (%)	EPS (₹)	Growth (%)	PE(x)	EV/EBIDTA(x)	P/BV(x)	RoE (%)	RoCE (%)
FY19	710.8	0.0	7.0	0.0	30.3	21.0	4.7	15.6	17.1
FY20	712.9	0.3	8.5	22.3	24.7	20.1	4.1	16.7	15.7
FY21E	768.8	7.8	8.4	-1.5	25.1	19.0	3.8	15.3	15.3
FY22E	1017.1	32.3	11.8	40.8	17.8	13.0	3.4	19.0	20.2

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	GOVERNMENT OF INDIA	31-03-2020	74.0	138.6	0.0
2	HDFC ASSET MANAGEMEN	31-05-2020	7.5	14.0	0.0
3	RELIANCE CAPITAL TRU	31-05-2020	2.9	5.5	-1.3
4	LIFE INSURANCE CORP	31-03-2020	2.1	4.0	-2.2
5	L&T MUTUAL FUND	31-05-2020	1.8	3.3	0.0
6	INVESCO INDIA ASSET	31-05-2020	1.4	2.7	0.0
7	NEW INDIA ASSURANCE	31-03-2020	1.2	2.3	0.1
8	GENERAL INSURANCE CO	30-06-2019	1.1	2.1	0.0
9	EDELWEISS ASSET MANA	30-04-2020	0.2	0.3	0.0
10	BLACKROCK	06-07-2020	0.1	0.2	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20
Promoter	74.0	74.0	74.0
Public	26.0	26.0	26.0
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	711	713	769	1,017
Growth (%)	7%	0%	8%	32%
Total Operating Expenditure	527	515	559	712
EBITDA	184	198	210	305
Growth (%)	-4%	8%	6%	46%
Interest & Finance Cost	6	6	6	5
Depreciation	23	26	31	42
Other Income	37	36	37	38
PBT before Exceptional I	191	202	210	296
Less: Exceptional Items	0	0	0	0
PBT	191	202	210	296
Total Tax	60	42	53	75
PAT	131	160	157	222
Growth (%)	-1%	22%	-1%	41%
EPS	7.0	8.5	8.4	11.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	187	187	187	187
Reserve and Surplus	647	771	844	981
Total Shareholders funds	835	958	1031	1169
Total Debt	107	134	134	134
Other Non-Current Liabilities	416	711	836	936
Deferred Tax Liability (net)	40	31	36	41
Source of Funds	1397	1835	2037	2280
Gross Block - Fixed Assets	499	541	616	841
Accumulated Depreciation	74	101	131	173
Net Block	425	441	485	668
Capital WIP	175	405	530	505
Net Fixed Assets	600	846	1015	1173
Investments	2	22	22	22
Inventory	509	911	948	975
Cash	198	111	103	113
Debtors	352	297	316	390
Loans & Advances & Other C/	105	195	211	236
Total Current Assets	1164	1514	1578	1715
Creditors	129	129	137	181
Provisions & Other CL	299	435	457	467
Total Current Liabilities	427	563	594	649
Net Current Assets	736	951	984	1067
Other Non-current assets	59	16	17	19
Application of Funds	1397	1835	2037	2280

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	131	160	157	222
Add: Dep. & Amortization	23	26	31	42
Net (Inc) / dec.in Current Asset	47	(117)	(72)	(127)
Net Inc / (dec) in Current Liab.	95	136	30	55
CF from Operating Actv.	296	204	147	191
(Inc)/dec in Investments	-	(20)	-	-
(Inc)/dec in Fixed Assets	(214)	(272)	(200)	(200)
Others	-	-	-	-
CF from Investing Actv.	(214)	(292)	(200)	(200)
Inc / (Dec) in Equity Capital	-	-	-	-
Inc / (Dec) in Loans	14	27	-	-
Dividend & Dividend Tax	(85)	(58)	(84)	(84)
Others	8	31	129	104
CF from Financing Actv.	(64)	0	45	19
Net Cash flow	18	(87)	(8)	11
Opening Cash	180	198	111	103
Closing Cash	198	111	103	113

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	7.0	8.5	8.4	11.8
BV	44.6	51.2	55.1	62.4
DPS	3.8	2.6	3.8	3.8
Cash Per Share	10.6	5.9	5.5	6.1
Operating Ratios (%)				
EBITDA margins	25.8	27.7	27.3	30.0
PBT margins	26.9	28.3	27.3	29.1
Net Profit margins	18.4	22.4	20.5	21.8
Inventory days	261	466	450	350
Debtor days	181	152	150	140
Creditor days	66	66	65	65
Return Ratios (%)				
RoE	15.6	16.7	15.3	19.0
RoCE	17.1	15.7	15.3	20.2
RoIC	21.6	17.5	16.8	22.1
Valuation Ratios (x)				
P/E	30.3	24.7	25.1	17.8
EV / EBITDA	21.0	20.1	19.0	13.0
EV / Revenues	5.4	5.6	5.2	3.9
Market Cap / Revenues	5.6	5.5	5.1	3.9
Price to Book Value	4.7	4.1	3.8	3.4
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Debt/EBITDA	0.6	0.7	0.6	0.4
Current Ratio	2.7	2.7	2.7	2.6
Quick Ratio	1.5	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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