

CMP: ₹ 187

Target: ₹ 200 (7%)

Target Period: 12 months

HOLD

August 22, 2022

## Steady operational performance....

**About the stock:** Mishra Dhatu Nigam (Midhani) is a leading manufacturer of special steel, super alloys and titanium alloys catering to niche end-user segments like space, defence, etc.

- Within the overall steel market, Midhani's area of focus is specialty steel
- Midhani's product range includes superalloys, titanium and titanium alloys, special purpose steels and other special alloys

**Q1FY23 Results:** Midhani reported a steady operational performance for Q1FY23.

- For Q1FY23, Midhani's consolidated operations posted a topline of ₹ 115 crore, up 1% YoY. Consolidated EBITDA for the quarter was at ₹ 33 crore, up 29% YoY
- Consolidated EBITDA margin for Q1FY23 was at 28.7% vs. 22.4% in Q1FY22
- Depreciation expense for the quarter was at ₹ 12 crore, up 80% YoY and 2% QoQ while finance costs for the quarter were at ₹ 5 crore, up 158% YoY
- Ensuing consolidated PAT for the quarter was at ₹ 18 crore, down 5% YoY

**What should investors do?** Midhani has given a return of ~67% in the last three years (from ~₹ 112 in August 2019 to ~₹ 187 levels in August 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value Midhani at ₹ 200, 18x FY24E EPS.

**Key triggers for future price performance:**

- As on July 1, 2022, Midhani's order book was at ₹ 1359 crore compared to ₹ 1317 crore as on April 1, 2022
- Over FY22-24E, we expect Midhani's consolidated topline to grow at 18% CAGR while EBITDA and PAT are expected to register a CAGR of 9% and 8%, respectively

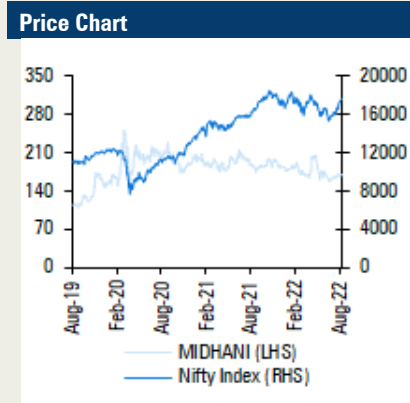
**Alternate Stock Idea:** Within our steel sector coverage we like Ratnamani Metals and Tubes (RMTL).

- RMTL is a niche player with superior capabilities in the industrial pipes and tubes segment
- BUY with a target price of ₹ 2000



Particulars	
Particulars	Amount
Market Capitalisation (in ₹ crore)	3,506
Debt in ₹ crore (FY22)	268
Cash & Cash Eq. in ₹ crore (FY22)	63
EV (in ₹ crore)	3,711
52 Week H / L (₹)	₹214/₹156
Equity Capital (₹ crore)	187.3
Face Value (₹)	10.0

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	74.0	74.0	74.0	74.0
FIs	0.2	0.3	0.3	0.5
DIs	13.7	14.3	14.7	14.6
Others	12.1	11.5	11.0	10.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



- Key Risks**
- Higher than expected increase in order book position
  - Higher than expected increase in operating costs

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## Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22) in %	FY23E	FY24E	CAGR (FY22-FY24E) in %
Total Operating income	711	713	813	859	2	1,079	1,187	18
EBITDA	184	198	245	262	7	280	311	9
EBITDA Margin (%)	25.8	27.7	30.2	30.5		26.0	26.2	
Net Profit	131	160	166	177	7	185	208	8
Diluted EPS (₹)	7.0	8.5	8.9	9.4		9.9	11.1	
P/E	26.8	21.9	21.1	19.8		18.9	16.9	
RoE (%)	15.6	16.7	15.5	14.8		14.1	14.2	
RoCE (%)	17.1	15.7	17.7	15.7		15.1	15.8	

Source: Company, ICICI Direct Research

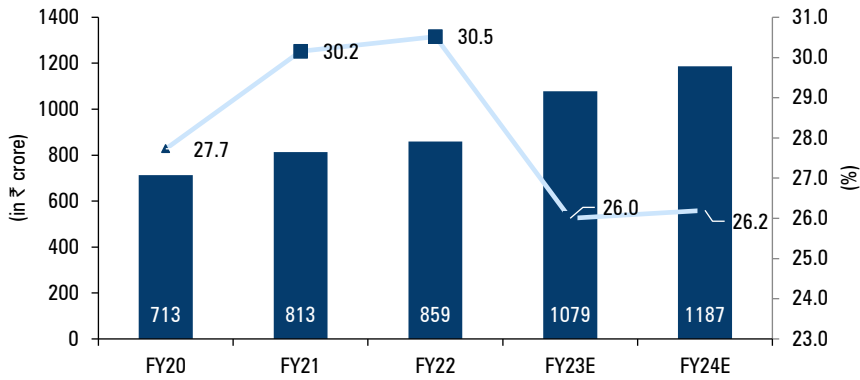
**Exhibit 1: Variance Analysis (Consolidated operations)**

	Q1FY23	Q1FY22	YoY (in %)	Q4FY22	QoQ (in %)	Comments
<b>Total Operating Income</b>	<b>115</b>	<b>114</b>	<b>1</b>	<b>323</b>	<b>(64)</b>	For Q1FY23, Midhani's consolidated topline increased 1% YoY
Other Income	7	8	(10)	16	(53)	
Raw Material Expense	(12)	19	LP	69	LP	
Employee Expense	27	29	(8)	32	(17)	
Other Operating Expense	67	40	66	100	(33)	
<b>EBITDA</b>	<b>33</b>	<b>26</b>	<b>29</b>	<b>122</b>	<b>(73)</b>	For the quarter, Midhani's consolidated EBITDA increased 29% YoY
EBITDA Margin (%)	28.7	22.4	635 bps	37.7	-898 bps	
Depreciation	12	7	80	12	2	For the quarter, Midhani's depreciation increased 80% YoY and 2% QoQ
Interest	5	2	158	15	(69)	For the quarter, Midhani's finance cost increased 158% YoY
Share of Profit	0	(0)	NA	0	NA	
<b>PBT</b>	<b>23</b>	<b>25</b>	<b>(6)</b>	<b>111</b>	<b>(79)</b>	
Tax Outgo	6	6	(9)	29	(81)	
<b>PAT</b>	<b>18</b>	<b>19</b>	<b>(5)</b>	<b>81</b>	<b>(78)</b>	For Q1FY23, Midhani's consolidated PAT declined 5% YoY

Source: Company, ICICI Direct Research

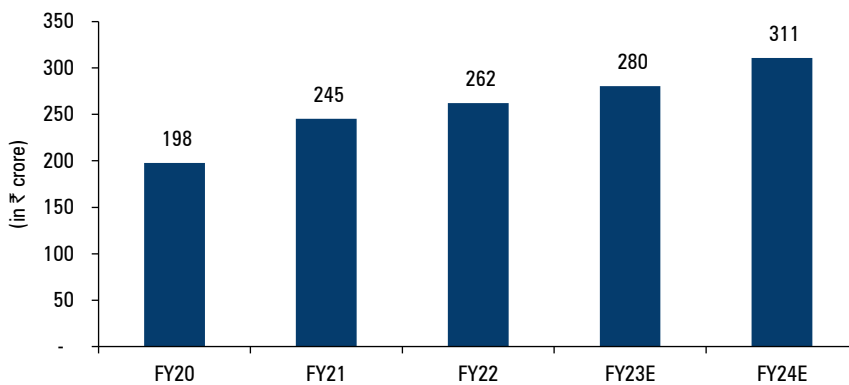
## Financial story in charts

Exhibit 2: Trend in topline, EBITDA margin (topline in ₹ crore, EBITDA margin in %)



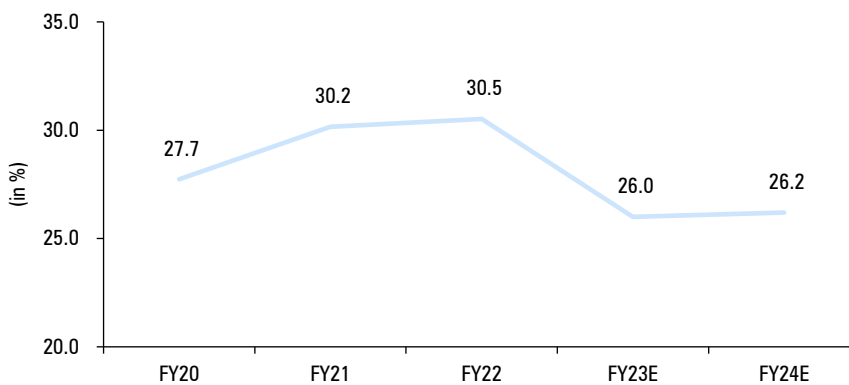
Source: Company, ICICI Direct Research

Exhibit 3: Trend in EBITDA (in ₹ crore)



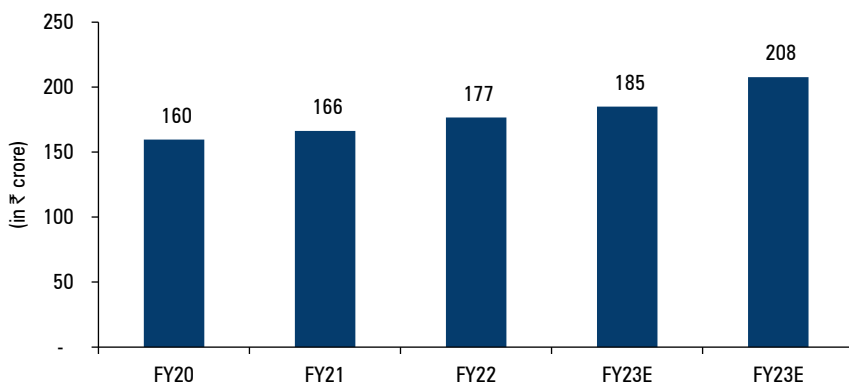
Source: Company, ICICI Direct Research

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(%)
FY20	713	0.3	8.5	22.3	21.9	17.8	3.7	16.7	15.7
FY21	813	14.1	8.9	4.2	21.1	14.6	3.3	15.5	17.7
FY22	859	5.7	9.4	6.1	19.8	14.1	2.9	14.8	15.7
FY23E	1079	25.5	9.9	4.7	18.9	13.1	2.7	14.1	15.1
FY24E	1187	10.0	11.1	12.3	16.9	11.5	2.4	14.2	15.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Total Operating Income</b>	<b>813</b>	<b>859</b>	<b>1,079</b>	<b>1,187</b>	
Growth (%)	14%	6%	25%	10%	
Total Operating Expenditure	568	597	798	876	
<b>EBITDA</b>	<b>245</b>	<b>262</b>	<b>280</b>	<b>311</b>	
Growth (%)	24%	7%	7%	11%	
Interest & Finance Cost	12	21	18	16	
Depreciation	27	33	49	53	
Other Income	20	31	34	36	
<b>PBT before Exceptional Item</b>	<b>226</b>	<b>239</b>	<b>247</b>	<b>278</b>	
Less: Exceptional Items	0	0	0	0	
<b>PBT</b>	<b>226</b>	<b>239</b>	<b>247</b>	<b>278</b>	
Total Tax	60	63	62	70	
<b>PAT</b>	<b>166</b>	<b>177</b>	<b>185</b>	<b>208</b>	
Growth (%)	4%	6%	5%	12%	
<b>EPS</b>	<b>8.9</b>	<b>9.4</b>	<b>9.9</b>	<b>11.1</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	166	177	185	208	
Add: Dep. & Amortization	27	33	49	53	
Net (Inc) / dec.in Current Asset	46	(259)	(91)	(58)	
Net Inc / (dec) in Current Liab.	(81)	80	73	37	
<b>CF from Operating Actv.</b>	<b>158</b>	<b>31</b>	<b>216</b>	<b>240</b>	
(Inc)/dec in Investments	-	1	-	-	
(Inc)/dec in Fixed Assets	(159)	(126)	(131)	(131)	
Others	-	-	-	-	
<b>CF from Investing Actv.</b>	<b>(159)</b>	<b>(125)</b>	<b>(131)</b>	<b>(131)</b>	
Inc / (Dec) in Equity Capital	-	-	-	-	
Inc / (Dec) in Loans	27	107	(50)	(50)	
Dividend & Dividend Tax	(52)	(58)	(58)	(58)	
Others	9	13	20	21	
<b>CF from Financing Actv.</b>	<b>(16)</b>	<b>62</b>	<b>(88)</b>	<b>(87)</b>	
Net Cash flow	(17)	(31)	(3)	22	
Opening Cash	111	94	63	60	
<b>Closing Cash</b>	<b>94</b>	<b>63</b>	<b>60</b>	<b>82</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	187	187	187	187	
Reserve and Surplus	885	1002	1129	1279	
Total Shareholders funds	1073	1190	1316	1466	
Total Debt	160	268	218	168	
Other Non-Current Liabilities	712	725	741	758	
Deferred Tax Liability (net)	34	35	40	47	
<b>Source of Funds</b>	<b>1979</b>	<b>2217</b>	<b>2316</b>	<b>2438</b>	
Gross Block - Fixed Assets	556	1099	1216	1329	
Accumulated Depreciation	127	160	160	160	
Net Block	429	939	1056	1169	
Capital WIP	549	132	97	62	
Net Fixed Assets	978	1070	1152	1230	
Investments	22	21	21	21	
Inventory	801	1091	1108	1138	
Cash	94	63	60	82	
Debtors	386	306	355	390	
Loans & Advances & Other C/	170	218	244	236	
Total Current Assets	1451	1678	1767	1847	
Creditors	86	176	236	260	
Provisions & Other CL	397	386	399	412	
Total Current Liabilities	482	562	635	672	
Net Current Assets	969	1116	1132	1175	
Other Non-current assets	10	10	11	12	
<b>Application of Funds</b>	<b>1979</b>	<b>2217</b>	<b>2316</b>	<b>2438</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		FY21	FY22	FY23E	FY24E
(Year-end March)					
<b>Per share data (₹)</b>					
EPS		8.9	9.4	9.9	11.1
BV		57.3	63.5	70.3	78.3
DPS		2.8	3.1	3.1	3.1
Cash Per Share		5.0	3.3	3.2	4.4
<b>Operating Ratios (%)</b>					
EBITDA margins		30.2	30.5	26.0	26.2
PBT margins		27.8	27.9	22.9	23.4
Net Profit margins		20.5	20.5	17.1	17.5
Inventory days		359	464	375	350
Debtor days		173	130	120	120
Creditor days		38	75	80	80
<b>Return Ratios (%)</b>					
RoE		15.5	14.8	14.1	14.2
RoCE		17.7	15.7	15.1	15.8
RoIC		19.2	16.4	15.7	16.6
<b>Valuation Ratios (x)</b>					
P/E		21.1	19.8	18.9	16.9
EV / EBITDA		14.6	14.1	13.1	11.5
EV / Revenues		4.4	4.3	3.4	3.0
Market Cap / Revenues		4.3	4.1	3.2	3.0
Price to Book Value		3.3	2.9	2.7	2.4
<b>Solvency Ratios</b>					
Debt / Equity		0.1	0.2	0.2	0.1
Debt/EBITDA		0.7	1.0	0.8	0.5
Current Ratio		3.0	3.0	2.8	2.7
Quick Ratio		1.3	1.0	1.0	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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