



<b>Target</b>	<b>₹270-280</b>
<b>Recommendation</b>	<b>BUY</b>
<b>Highlights</b>	<ul style="list-style-type: none"> <li>○ MIDHANI Q4FY23 EBITDA declined ~28% YoY to ₹883.9mn with raw material cost as a percentage of value of production rose to 35.4% in Q4FY23 (Q4FY22 - 21.4%) owing to higher price of alloying elements.</li> <li>○ Revenues grew ~3% YoY to ₹3.33bn due to contribution from the newly commissioned Rohtak armour plant and wide plate mill. Revenue contribution in FY23 from Rohtak armour plant and wide plate mill at Hyderabad was at ₹320mn and ₹2.19bn respectively.</li> <li>○ Scrap utilisation sustained at 60% v/s 45% in 1HFY23, resulting in lower consumption rate and better yields, and EBITDA margin of 26.6% (FY23 margins at 27.7%).</li> <li>○ Going ahead, additional revenue from the wide plate mill and armour factory at Rohtak to result in sales growth of 15-17% through to FY25. In Pipe extrusion, the company recorded ₹50mn of revenue in FY23 and further orders are expected from this stream. Rethinking on NALCO JV venture.</li> <li>○ Out of the current order book of ~₹13.3bn, 90% orders are short-cycle in nature (less than 6 months). The orderbook for direct exports (ex-deemed exports) at ₹390mn. ISRO has outsourced 5 PSLV to Private firm and the company is expecting an order any time with order value of ₹1.bn (L&amp;T is supplier). Midhani has a pending order for 1,500 axles to be supplied to the Railways.</li> <li>○ In the domestic market, Midhani is working on a number of upcoming programmes such as AMCA, Kaveri derivative engines, unmanned air combat vehicles. Currently, the company is also working on Sukhoi aircraft engine. Midhani is also making a special alloy which finds use in biomedical applications. Company has made bullet-proof jackets for Indian Airforce (Garuda), in a first of its kind in India. Expects to be in Pratt &amp; Whitney's approved supplier list soon.</li> <li>○ 8 tonne 'vacuum induction melting' (VIM) furnace got commissioned in Q4FY23 and has crossed 100 heats. This equipment has enabled the company to produce an alloy, E- 276, which is currently imported. There is a potential to substitute almost ₹2.5- 3bn worth of imported sheets.</li> <li>○ In FY24, the company plans to develop new products by using plate mill; however, operating margin might not be maintained at 30% due to competitive products. Revenue growth targets are in line with India's defence spend. Midhani targets at least 20% revenue growth in FY24.</li> </ul>

**Q4FY23 Result Highlights**

- **Margin strength continues despite cost inflation** – Mishra Dhatu Nigam's (MIDHANI) Q4FY23 EBITDA declined ~28% YoY to ₹883.9mn with raw material cost as a percentage of value of production rose to 35.4% in Q4FY23 (Q4FY22 - 21.4%) owing to higher price of alloying elements. Revenues grew ~3% YoY to ₹3.33bn due to contribution from the newly commissioned Rohtak armour plant and wide plate mill. Revenue contribution in FY23 from Rohtak armour plant and wide plate mill at Hyderabad were at ₹320mn and ₹2.19bn respectively. Scrap utilisation sustained at 60% v/s 45% in 1HFY23, resulting in lower consumption rate and better yields, and EBITDA margin of 26.6% (FY23 margins at 27.7%). Going ahead, additional revenue from the wide plate mill and armour factory at Rohtak to result in sales growth of 15-17% through to FY25. In Pipe extrusion, the company recorded ₹50mn of revenue in FY23 and further orders are expected from this stream. Board of directors declared final dividend of ₹1.67/- per share taking the total dividend for the year to ₹3.35/-per share.
- **Segmental split of revenue** – Space: 40%; Defence: 24%; PSUs (defence PSUs): 21%; Balance: 6% energy, etc; Axles: 400 nos. supplied to the Railways for new coaches (ICF).
- **Order inflow in FY23 → ₹9bn. Defence** – 60-70%; aero: 10%; space: 30%; export: 7-10%; Railways: 2-3%. Expecting order inflow of ₹5.5bn in Q1FY24.
- Out of the current order book of ~₹13.3bn, 90% orders are short-cycle in nature (less than 6 months). The orderbook for direct exports (ex-deemed exports) at ₹390mn. Management mentioned that orders from the space segment is going to pick up again. ISRO has outsourced 5 PSLV to Private firm and the company is expecting an order any time with order value of ₹1.bn (L&T is supplier). Midhani has a pending order for 1,500 axles to be supplied to the Railways.
- **NALCO JV (for 60ktpa of specialised flat products)** – Company appointed a consultant for conducting the market survey. However, the findings indicated that the market potential is only 10% of what was initially envisaged. Company is rethinking this venture.
- Company faced a number of challenges in FY23 such as: higher cost of power, increase in fuel cost by 1.5x YoY, and surge in alloying elements' cost. Despite these challenges, company has maintained its EBITDA margin at 27.7% due to operational efficiencies and lower power and fuel consumption. Besides, outsourcing has also declined.
- In the domestic market, Midhani is working on a number of upcoming programmes such as AMCA, Kaveri derivative engines, unmanned air combat vehicles. Currently, the company is also working on Sukhoi aircraft engine. Midhani is also making a special alloy which finds use in biomedical applications. Company has made bullet-proof jackets for Indian Airforce (Garuda), in a first of its kind in India.
- 8 tonne 'vacuum induction melting' (VIM) furnace got commissioned in Q4FY23 and has crossed 100 heats. This equipment has enabled the company to produce an alloy, E-276, which is currently imported. There is a potential to substitute almost ₹2.5- 3bn worth of imported sheets.
- In FY24, the company plans to develop new products by using plate mill; however, operating margin might not be maintained at 30% due to competitive products. Revenue growth targets are in line with India's defence spend. Midhani targets at least 20% revenue growth in FY24.
- **New opportunities emerging across segments** – The management mentioned that order inflow by Q1FY24-end is expected to be about ₹5.5bn. Besides, 90% of the orders, as of now, are of short-cycle nature, hence execution is likely to gather pace. The company's highest-ever booking of ₹1.3bn in aerospace sector and ₹1.38bn in super alloys segment; commissioning of vacuum induction melting furnace and wide plate mill, which provide an opportunity to replace imported alloys to the extent of ₹2.5bn-3bn.

**Important Data**

Nifty	18,515
Sensex	62,486

**Key Stock Data**

CMP	₹227.4
Market Cap (₹)	₹42.6bn
52W High/Low	₹269/156
Shares o/s (mn)	187.34
Daily Vol. (3M NSE Avg.)	1,971,999
BSE Code	541195
NSE Code	MIDHANI
Bloomberg Code	MIDHANI:IN

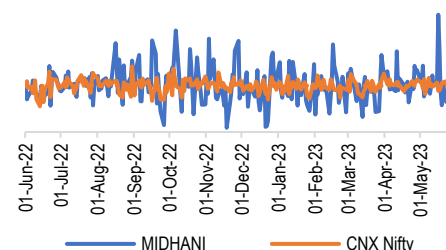
**Shareholding Pattern (%) – Mar'23**

Promoter	74.0
DIs	13.8
FIs	0.6
Public	11.6

**Financials & Valuations**

Particulars	FY20	FY21	FY22
Revenue	7,129	8,132	8,595
EBITDA	1,977	2,453	2,623
EBITDA Margin (%)	27.7	30.2	30.5
Net Profit	1,581	1,664	1,766
EPS (₹)	8.4	8.9	9.4
DPS (₹)	2.6	2.8	3.1
RoE (%)	16.5	15.5	14.8
RoCE (%)	7.2	8.9	8.3
P/E (x)	26.9	25.6	24.1
EV/EBITDA (x)	25.2	20.4	18.3
P/BV (x)	4.5	4.0	3.6

Particulars	FY23P	FY24E	FY25E
Revenue	8,499	10,016	11,794
EBITDA	2,354	2,916	3,459
EBITDA Margin (%)	27.7	29.1	29.3
Net Profit	1,342	1,775	2,159
EPS (₹)	7.2	9.5	11.5
DPS (₹)	3.4	4.0	4.5
RoE (%)	10.4	12.5	14.1
RoCE (%)	6.4	9.1	11.8
P/E (x)	31.7	24.0	19.7
EV/EBITDA (x)	20.1	16.2	11.6
P/BV (x)	3.3	3.0	2.7

**Relative performance**

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Approval from GE Healthcare for special alloy (909); enhanced opportunity for exports as Midhani has supplied alloys to the US and Canada, which are currently being tested. Midhani is already supplying martensitic steel to Israel. Received three orders from Pratt & Whitney (an American aerospace manufacturer) for Canada and other country requirements as well. It expects to be in Pratt & Whitney's approved supplier list soon. An audit in this respect is expected to be conducted next month.

- Company is cognisant of this issue. Higher inventory is mainly due to increase in price of raw materials and higher production. This year, it is expected to come down further as RM has come down. WIP has increased on QoQ basis.
- Incurred capex of ₹760mn in FY23 and is targeting capex of ₹1bn in FY24 and expects to repay long-term debt of ₹200mn every year

## VIEW

Midhani Q4FY23 performance was impacted by higher raw material costs and power costs with margins remaining strong owing to higher scrap utilisation. Orderbook was at ₹13.3bn, aided by order inflow of ₹9bn. The newly commissioned wide plate mill at Hyderabad and armour factory at Rohtak having commenced operations enabled further topline growth. The company has enhanced its focus on exports with direct exports (ex-deemed exports) order book at ₹390mn and has made tremendous progress in new alloys with supply to various overseas customers. Going ahead, while we see exciting prospects from the wide plate mill and Rohtak plant, at likely revenues of ₹5bn from each in steady state, their ramp-up remains critical. **We continue our BUY view with target price of ₹270-280.**

## FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY22	QoQ (%)	FY23	FY22	YoY (%)
Revenue	3,328.1	3,232.9	2.9	2,315.0	43.8	8,498.8	8,594.9	(1.1)
Cost of Matl	1,321.3	1,221.5	8.2	711.4	85.7	3,911.8	3,449.0	13.4
Inventory Changes	(142.1)	(528.8)	(73.1)	(259.7)	(45.3)	(2,283.2)	(1,541.0)	48.2
Employee Exps	325.0	322.0	0.9	332.7	(2.3)	1,258.2	1,225.4	2.7
Other Exps	940.0	999.1	(5.9)	873.9	7.6	3,257.7	2,838.3	14.8
EBITDA	883.9	1,219.1	(27.5)	656.8	34.6	2,354.4	2,623.1	(10.2)
EBITDA Margin (%)	26.6	37.7	(1,115)	28.4	(181)	27.7	30.5	(282)
Other Income	121.0	156.9	(22.9)	88.7	36.4	377.8	313.1	20.7
Depreciation Exps	137.0	121.0	13.3	135.8	0.9	530.0	330.0	60.6
Finance Cost	80.9	150.4	(46.2)	71.6	13.0	257.3	215.0	19.7
Exceptional Item	-	-	-	-	-	-	-	-
JV Profit/(Loss)	1.5	0.74	96.9	1.3	9.2	3.9	3.1	25.5
PBT	788.4	1,105.3	(28.7)	539.4	46.2	1,948.7	2,394.3	(18.6)
Tax	243.5	294.7	(17.4)	153.1	59.0	606.7	628.1	(3.4)
Net Profit	544.9	810.6	(32.8)	386.3	41.1	1,342.0	1,766.2	(24.0)
EPS (₹)	2.9	4.3	(32.8)	2.1	41.1	7.2	9.4	(24.0)

Source – Company, Way2Wealth

As % of Sales	Q4FY23	Q4FY22	YoY(bps)	Q3FY23	QoQ(bps)	FY23	FY22	YoY(bps)
Matl Cost	35.4	21.4	1,401	19.5	1,592	19.2	22.2	(304)
Gross margin	64.6	78.6	(1,401)	80.5	(1,592)	80.8	77.8	304
Employee Exp	9.8	10.0	(19)	14.4	(461)	14.8	14.3	55
Other Exps	28.2	30.9	(266)	37.7	(951)	38.3	33.0	531

Source – Company, Way2Wealth

## FINANCIALS &amp; VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
Order Book	16,600	16,870	13,720	13,177	13,310	17,027	21,229
Revenue	7,108	7,129	8,132	8,595	8,499	10,016	11,794
EBITDA	1,837	1,977	2,453	2,623	2,354	2,916	3,459
EBITDA Margin (%)	25.8	27.7	30.2	30.5	27.7	29.1	29.3
Net Profit	1,306	1,581	1,664	1,766	1,342	1,775	2,159
EPS (₹)	7.0	8.4	8.9	9.4	7.2	9.5	11.5
DPS (₹)	2.2	2.6	2.8	3.1	3.4	4.0	4.5
RoE (%)	15.6	16.5	15.5	14.8	10.4	12.5	14.1
RoCE (%)	8.8	7.2	8.9	8.3	6.4	9.1	11.8
P/E (x)	32.6	26.9	25.6	24.1	31.7	24.0	19.7
EV/ EBITDA (x)	24.7	25.2	20.4	18.3	20.1	16.2	11.6
P/BV (x)	5.1	4.5	4.0	3.6	3.3	3.0	2.7
Net Debt/ Equity (x)	0.3	0.7	0.7	0.4	0.4	0.3	0.2
Debtors Days	181	152	173	130	136	130	125
Inventory Days	634	466	359	464	1143	555	475
Creditor Days	160	125	184	186	149	160	180
Cash Balances	1,980	1,109	939	626	144	6,172	7,849
FCFF	823	(672)	168	(736)	(1,083)	2,917	1,379

Source – Company, Way2Wealth

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## Disclosure of Interest Statement MISHRA DHATU NIGAM LTD (MIDHANI) as on 02<sup>nd</sup> June 2023

Name of the Security	MISHRA DHATU NIGAM LTD (MIDHANI)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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