



# Quick Insight Update

**MISHRA DHATU NIGAM LTD.**

<b>Industry</b>	Aerospace & Defence
<b>CMP</b>	₹192.8
<b>M Cap</b>	₹36.12bn
<b>Target</b>	₹270-280
<b>Recommendation</b>	BUY

- MIDHANI Q3FY23 EBITDA of ₹656.8mn rose 4.2% YoY despite sustained raw material pressures. Revenues fell 1% YoY to ₹2.32bn as order inflow slowed down by 5% YoY to ₹20.3bn. Gross margin was lower QoQ as raw material costs stayed firm. Additional revenues are expected from the Hyderabad wide plate mill and Rohtak armour factory in 2HFY23.
- Higher scrap utilisation (60% compared to 45% in past few quarters), lower consumption rate and better yields resulted in robust EBITDA margin of 28.4% (Q3FY22- 26.9%) despite firm raw material prices. Despite input material disruption, the 9MFY23 turnover is almost similar to last year.
- Management expressed confidence of performance to improve in Q4FY23 as it is traditionally the strongest quarter. Depreciation rose 93% YoY to ₹136mn as Hyderabad plate mill and Rohtak armour factory commenced operations.
- In Q3FY23, the company started making hot extrusions from vacuum induction melting furnace, super alloys (nickel-based) for plates, and product development has taken place in other applications as well.
- VOP increased QoQ, but declined YoY as the company is focused on clearing the inventory. 9MFY23 VOP at ₹6.4bn +16.3% YoY.
- Orderbook position stayed static at the level last year at ₹14.72bn. Orderbook split: 50% space; 30-35% defence, rest: exports and others. As per the management the decrease in allocation for space sector in the Union Budget is not a concern for the company as the spending is focused on R&D and not product development Order inflow is expected from diverse sectors like energy, defence, aerospace, Railways and commercial domain.
- Business from Rohtak armour facility has started. Of the initial order of 100 nos. vehicles armoring, 65 will be rolled out by Mar'23. Besides, the company is expecting fresh (and bigger) orders for vehicle armoring.
- Company has also enhanced its titanium super alloy manufacturing capability by 2x with commissioning of 10t VAR (vacuum arc re-melting) furnace.
- Company has supplied 500 nos. axles to Indian Railways. There is a pending order for another 1,000 nos. Besides, the company is participating in one of the tenders floated by CONCOR.

**Highlights**

### Q3FY23 Result Highlights

- **Margin continues to be strong even as revenues were flat YoY** – Mishra Dhatu Nigam's (MIDHANI) Q3FY23 EBITDA of ₹656.8mn rose 4.2% YoY despite sustained raw material pressures. Revenues fell 1% YoY to ₹2.32bn as order inflow slowed down by 5% YoY to ₹20.3bn. Gross margin was lower QoQ as raw material costs stayed firm. Higher scrap utilisation (60% compared to 45% in past few quarters), lower consumption rate and better yields resulted in robust EBITDA margin of 28.4% (Q3FY22- 26.9%) despite firm raw material prices. Despite input material disruption, the 9MFY23 turnover is almost similar to last year. Management expressed confidence of performance to improve in Q4FY23 as it is traditionally the strongest quarter. Depreciation rose 93% YoY to ₹136mn as Hyderabad plate mill and Rohtak armour factory commenced operations. In Q3FY23, the company started making hot extrusions from vacuum induction melting furnace, super alloys (nickel-based) for plates, and product development has taken place in other applications as well. Additional revenues are expected from the wide plate mill and Rohtak armour factory in 2HFY23. Besides, there is opportunity in import substitution of nickel- and titanium-based super alloys. VOP increased QoQ, but declined YoY as the company is focused on clearing the inventory. 9MFY23 VOP at ₹6.4bn +16.3% YoY.
- **Growth opportunities across segments exist with order inflows being critical** – Company has visibility of ₹6bn worth of orders from both defence and non-defence sectors in the near to medium term. Management expects steady-state revenue rate of ₹5bn each from Hyderabad wide plate mill and armour factory in Rohtak. Ex-defence, opportunities are seen in super alloy-276 plate (currently being imported) used in oxygen plants (this presents a ₹20bn opportunity for the future) and supply of axles to Indian Railways (1,000 nos. pending).
- Orderbook position stayed static at the level last year at ₹14.72bn. Orderbook split: 50% space; 30-35% defence, rest: exports and others. As per the management the decrease in allocation for space sector in the Union Budget is not a concern for the company as the spending is focused on R&D and not product development. The management expects order inflow from diverse sectors like energy, defence, aerospace, Railways and commercial domain.
- Business from Rohtak armour facility has started. Of the initial order of 100 nos. vehicles armouring, 65 will be rolled out by Mar'23. Besides, the company is expecting fresh (and bigger) orders for vehicle armouring.
- Company can utilise 100% scrap in vacuum induction melting facility for nickel-based alloys, hence it get cost advantage.
- Indications are good for plate mill orders. Company has achieved certification for nickel-based wide plate (3m wide) for oxygen plants from a reputed company. This plate is currently being completely imported and presents an opportunity size of ₹20bn.
- Company has also enhanced its titanium super alloy manufacturing capability by 2x with commissioning of 10t VAR (vacuum arc re-melting) furnace.
- Russia-Ukraine conflict has affected some of the RM supplies such as titanium. However, the company has managed the risk of supply chain disruption through efficient sourcing.
- Company has supplied 500 nos. axles to Indian Railways. There is a pending order for another 1,000 nos. Besides, the company is participating in one of the tenders floated by CONCOR.
- The proposed JV with NALCO is for 60ktpa of specialised flat products and entails substantial investment. Company is in the process of reassessing the market potential.

Nifty	18,016
Sensex	61,275
<b>Key Stock Data</b>	
CMP	₹192.8
Market Cap (₹)	₹36.12bn
52W High/Low	₹269/156
Shares o/s (mn)	187.34
Daily Vol. (3M NSE Avg.)	1,000,719
<b>Shareholding Pattern (%) Dec'22</b>	
Promoter	74.0
DII's	13.8
FII's	0.5
Public	11.7

Source: Company, Way2Wealth

(₹ mn)

Particulars	FY20	FY21	FY22
Revenue	7,129	8,132	8,595
EBITDA	1,977	2,453	2,623
<b>EBITDA Margin (%)</b>	<b>27.7</b>	<b>30.2</b>	<b>30.5</b>
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)	22.8	21.7	20.5
EV/EBITDA (x)	21.9	17.7	15.8
P/BV (x)	3.8	3.4	3.0

Particulars	FY23E	FY24E	FY25E
Revenue	9,186	10,791	12,142
EBITDA	2,669	3,148	3,621
<b>EBITDA Margin (%)</b>	<b>29.1</b>	<b>29.2</b>	<b>29.8</b>
Net Profit	1,771	1,882	2,175
EPS (₹)	9.5	10.0	11.6
DPS (₹)	3.5	4.0	4.5
RoE (%)	13.1	13.9	14.4
RoCE (%)	14.5	12.8	13.9
P/E (x)	20.4	19.2	16.6
EV/EBITDA (x)	11.8	12.2	11.6
P/BV (x)	2.8	2.6	2.4

Source: Company, Way2Wealth

**VIEW**

Midhani Q3FY23 performance was steady led by higher scrap utilisation. Wide plate mill inaugurated at Hyderabad facility opens further opportunities in space, nuclear and defence applications. Going ahead, there are good prospects from the Hyderabad wide plate mill and Rohtak armour plant, with potential revenues of ₹5bn each in steady state, ramp-up of the facilities along with order inflows ex- defence remains critical. **We continue our BUY view with target price of ₹270-280.**

**FINANCIAL PERFORMANCE**

(₹mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY22	QoQ (%)	9MFY23	9MFY22	YoY (%)
<b>Revenue</b>	<b>2,315.0</b>	<b>2,342.2</b>	<b>(1.2)</b>	<b>1,809.5</b>	<b>27.9</b>	<b>5,273.7</b>	<b>5,362.0</b>	<b>(1.6)</b>
Cost of Matl	711.4	1,337.6	(46.8)	812.7	(12.5)	2,590.4	2,218.9	16.7
Inventory Changes	(259.7)	(624.5)	(58.4)	(693.9)	(62.6)	(2,141.1)	(1,003.6)	113.3
Employee Exps	332.7	298.8	11.3	331.7	0.3	933.2	903.4	3.3
Other Exps	873.9	700.2	24.8	772.4	13.1	2,317.7	1,839.2	26.0
<b>EBITDA</b>	<b>656.8</b>	<b>630.1</b>	<b>4.2</b>	<b>586.6</b>	<b>12.0</b>	<b>1,573.6</b>	<b>1,404.0</b>	<b>12.1</b>
<b>EBITDA Margin (%)</b>	<b>28.4</b>	<b>26.9</b>	<b>147</b>	<b>32.4</b>	<b>(405)</b>	<b>29.8</b>	<b>26.2</b>	<b>365</b>
Other Income	88.7	53.2	66.8	94.1	(5.7)	256.8	156.1	64.5
Depreciation Exps	135.8	70.2	93.3	133.5	1.7	393.0	209.0	88.1
Finance Cost	71.6	30.5	134.4	58.5	22.3	176.4	64.6	173.3
Exceptional Item	-	-	-	-	-	-	-	-
JV Profit /(Loss)	1.3	0.5	193.0	0.5	193.0	2.4	2.4	3.1
PBT	539.4	583.0	(7.5)	489.2	10.3	1,263.4	1,289.0	(2.0)
Tax	153.1	153.8	(0.5)	153.1	(0.0)	363.3	333.4	9.0
<b>Net Profit</b>	<b>386.3</b>	<b>429.2</b>	<b>(10.0)</b>	<b>336.1</b>	<b>15.0</b>	<b>900.1</b>	<b>955.6</b>	<b>(5.8)</b>
EPS (₹)	2.1	2.3	(10.0)	1.8	15.0	4.8	5.1	(5.8)

Source - Company, Way2Wealth

As % of Sales	Q3FY23	Q3FY22	YoY(bps)	Q2FY23	QoQ(bps)	9MFY23	9MFY22	YoY(bps)
Matl Cost	19.5	30.4	(1,093)	6.6	1,295	8.5	22.7	(1,415)
Gross margin	80.5	69.6	1,093	93.4	(1,295)	91.5	77.3	1,415
Employee Exp	14.4	12.8	161	18.3	(396)	17.7	16.8	85
Other Exps	37.7	29.9	785	42.7	(494)	43.9	34.3	965

Source - Company, Way2Wealth

## FINANCIALS &amp; VALUATIONS

(₹mn)

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Order Book	16,600	16,870	13,720	13,177	16,603	21,498	24,587
<b>Revenue</b>	<b>7,108</b>	<b>7,129</b>	<b>8,132</b>	<b>8,595</b>	<b>9,186</b>	<b>10,791</b>	<b>12,142</b>
<b>EBITDA</b>	<b>1,837</b>	<b>1,977</b>	<b>2,453</b>	<b>2,623</b>	<b>2,669</b>	<b>3,148</b>	<b>3,621</b>
<i>EBITDA Margin (%)</i>	<i>25.8</i>	<i>27.7</i>	<i>30.2</i>	<i>30.5</i>	<i>29.1</i>	<i>29.2</i>	<i>29.8</i>
<b>Net Profit</b>	<b>1,306</b>	<b>1,581</b>	<b>1,664</b>	<b>1,766</b>	<b>1,771</b>	<b>1,882</b>	<b>2,175</b>
EPS (₹)	7.0	8.4	8.9	9.4	9.5	10.0	11.6
DPS (₹)	2.2	2.6	2.8	3.1	3.5	4.0	4.5
RoE (%)	15.6	16.5	15.5	14.8	13.1	13.9	14.4
RoCE (%)	8.8	7.2	8.9	8.3	14.5	12.8	13.9
P/E (x)	27.7	22.8	21.7	20.5	20.4	19.2	16.6
EV/ EBITDA (x)	21.2	21.9	17.7	15.8	11.8	12.2	11.6
P/BV (x)	4.3	3.8	3.4	3.0	2.8	2.6	2.4
Net Debt/ Equity (x)	0.3	0.7	0.7	0.4	0.4	0.4	0.3
Debtors Days	181	152	173	130	130	130	128
Inventory Days	634	466	359	464	386	355	348
Creditor Days	160	125	184	186	181	179	175
Cash Balances	1,980	1,109	939	626	5,135	6,172	7,849
FCFF	823	(672)	168	(736)	4,198	5,108	7,264

Source - Company, Way2Wealth

**Disclaimer**

**Analyst Certification:** I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavourable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement in MISHRA DHATU NIGAM LTD (MIDHANI) as on 16 February 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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.