



Quick Insight Update

MISHRA DHATU NIGAM LTD.

Industry	Aerospace & Defence
CMP	₹220.6
M Cap	₹41.32bn
Target	₹270-280
Recommendation	BUY

Highlights

- MidhaniQ2FY23 EBITDA of ₹587mn rose 13.1% YoY despite sustained raw material pressure. Raw material cost stayed firm as alloying elements' prices did not decline; higher scrap utilisation, lower consumption rate and better yields resulted in robust EBITDA margin of 32.4% (Q2FY22 -27.6%; Q1FY23 - 28.7%). Value of production (VoP) increased 41.8% YoY to ₹4.8bn. Inventory rose 20% compared to Mar'22 level of ₹12.8bn owing to elevated raw material prices. Cashflow from operations was impacted by working capital accretion in 1HFY23. Margin pressure to sustain in 2HFY23 as most contracts of Midhani are fixed priced in nature.
- The management has guided for steady state revenue rate of ₹5bn each from wide plate mill and armour factory in Rohtak, with both these revenue streams to further increase revenue in 2HFY23. Besides, management is awaiting LCA-related certifications and traction from nuclear/space programmes in the ensuing quarters.
- Orderbook as on 30 September 2022 was at ₹15bn. The management expects it to remain broadly unchanged despite likely revenue of ₹10bn. Orderbook composition- Defence: 55%; space: 35%; balance: others. Future volume depends on how domestic defence industry pans out. However, next 4-5 year horizon looks good. Encouraging prospects from wide plate mill- seeing export opportunities in nickel based super alloy plates. Developing nickel based super alloy plates for desulphurisation units for power plants. This can lead to substitution of the entire quantity of plates for this purpose being currently imported.
- LCA orders' certifications are awaited for a couple of items. By mid-FY24, the management expects to get certification from exports.
- Launched six new products in the recently concluded Def-Expo 22- Bio implants for orthopedics, dentistry etc, titanium valves and filters (application in nuclear submarine), materials supplied for PSLV and GSLV MK III, nickel alloy and titanium alloy casting (application in space and naval), forging facilities, composite armour panels for helicopter. 8tonne vacuum induction melting has fully started. Armour steel has been developed for vehicle armouring. Of the initial order of 100 vehicles, 15 have been rolled out. The management views good potential from space sector. Almost 300 satellites are awaiting launch. Projects are getting fast tracked in nuclear sector as well as in materials such as lattice tubes.

Q2FY23 Result Highlights

- **Margin pressure to sustain in 2HFY23 as per the management** – Mishra Dhatu Nigam's (Midhani) Q2FY23 EBITDA of ₹587mn rose 13.1% YoY despite sustained raw material pressure. Raw material cost stayed firm as alloying elements' prices did not decline; higher scrap utilisation, lower consumption rate and better yields resulted in robust EBITDA margin of 32.4% (Q2FY22 -27.6%; Q1FY23 - 28.7%). Value of production (VoP) increased 41.8% YoY to ₹4.8bn. Inventory rose 20% compared to Mar'22 level of ₹12.8bn owing to elevated raw material prices. Cashflow from operations was impacted by working capital accretion in 1HFY23. Margin pressure to sustain in 2HFY23 as most contracts of Midhani are fixed priced in nature. We are likely to witness additional revenue from wide plate mill and armour factory at Rohtak in 2HFY23. Going by 1HFY23 revenue of ₹2.9bn, the management's guidance of ₹10bn for FY23 is of higher expectations.
- **Despite cost headwinds** high power and raw material costs, the company maintained similar profit level in 1HFY23 as 1HFY22. Raw material prices as per the management is yet to come off. Owing to the orders being fixed price in nature, the management expects margins to come under pressure in future. That said, a number of steps in sourcing efficiency/consumption rate/ scrap recycling/yield optimisation are being taken to reduce cost.
- **Value creation in near term constrained due to long gestation period for products even as growth opportunities exist** – The management has guided for steady state revenue rate of ₹5bn each from wide plate mill and armour factory in Rohtak, with both these revenue streams to further increase revenue in 2HFY23. Besides, management is awaiting LCA-related certifications and traction from nuclear/space programmes in the ensuing quarters. We are likely to witness long gestation period of 7-8months and bill/book ratio of 1.5x might keep meaningful earnings growth constrained in near term.
- **Orderbook as on 30 September 2022 was at ₹15bn.** The management expects it to remain broadly unchanged despite likely revenue of ₹10bn. Orderbook composition - Defence: 55%; space: 35%; balance: others. Future volume depends on how domestic defence industry pans out. However, next 4-5 year horizon looks good. Encouraging prospects from wide plate mill- seeing export opportunities in nickel based super alloy plates. Developing nickel based super alloy plates for desulphurisation units for power plants. This can lead to substitution of the entire quantity of plates for this purpose being currently imported. Once wide plate mill is ramped up fully, the management expects revenue of ₹5bn. The mill is still on trial. Management expects improvement in coming quarters. 2HFY23 is likely to see additional revenue from wide plate mill with expected revenue rate of 5bn from FY24 onwards from wide plate mill. Rohtak armour plant has the potential of ₹5bn per annum in steady state. LCA orders' certifications are awaited for a couple of items. By mid-FY24, the management expects to get certification from exports.
- **Launched six new products in the recently concluded Def-Expo 22** – Bio implants for orthopedics, dentistry etc, titanium valves and filters (application in nuclear submarine), materials supplied for PSLV and GSLV MK III, nickel alloy and titanium alloy casting (application in space and naval), forging facilities, composite armour panels for helicopter. 8tonne vacuum induction melting has fully started. Armour steel has been developed for vehicle armouring. Of the initial order of 100 vehicles, 15 have been rolled out. The management views good potential from space sector. Almost 300 satellites are awaiting launch. Projects are getting fast tracked in nuclear sector as well as in materials such as lattice tubes. Do not see much opportunity from Rafael in near term. However, progressive indigenisation is likely to usher new opportunities for the company. NALCO JV- not derailed. Being a high value-added product, the company needs to be assured of returns. Key clearances such as pollution control approval, consent to operate, forest clearance

Nifty	18,244
Sensex	61,419
Key Stock Data	
CMP	₹220.6
Market Cap (₹)	₹41.32bn
52W High/Low	₹269/156
Shares o/s (mn)	187.34
Daily Vol. (3M NSE Avg.)	5,303,849
Shareholding Pattern (%) Sep'22	
Promoter	74.0
DII's	15.6
FII's	0.5
Public	9.9

Source: Company, Way2Wealth

(₹ mn)

Particulars	FY19	FY20	FY21	FY22
Operating Revenue	7,108	7,129	8,132	8,595
EBITDA	1,837	1,977	2,453	2,623
EBITDA Margin (%)	25.8	27.7	30.2	30.5
Net Profit	1,306	1,581	1,664	1,766
EPS (₹)	7.0	8.4	8.9	9.4
DPS (₹)	2.2	2.6	2.8	3.1
RoE (%)	15.6	16.5	15.5	14.8
RoCE (%)	8.8	7.2	8.9	8.3
P/E (x)	31.6	26.1	24.8	23.4
EV/EBITDA (x)	24.0	24.5	19.9	17.8
P/BV (x)	4.9	4.3	3.9	3.5

Particulars	FY23E	FY24E
Operating Revenue	10,981	12,873
EBITDA	2,921	3,498
EBITDA Margin (%)	26.6	27.2
Net Profit	4,488	5,189
EPS (₹)	9.7	11.1
DPS (₹)	3.5	4
RoE (%)	13.3	14.2
RoCE (%)	10.6	11.9
P/E (x)	22.8	19.8
EV/EBITDA (x)	13.4	10.9
P/BV (x)	3.1	2.8

Source: Company, Way2Wealth

have already been taken. The company has appointed a consultant for EPCM. Phase-1 is over. For phase-2, all tender documents are ready.

View

Midhani Q2FY23 performance was steady led by higher scrap utilisation. Going ahead, we are likely to witness good prospects from wide plate mill and Rohtak plant, at '5bn each in steady state, near-term margin pressure is likely to keep stock performance constrained to be impacted in the face of stubbornly high raw material prices. Besides, the revenue target of ₹10bn for FY23 looks at a higher end. **We continue our BUY view with target price of ₹270-280.**

FINANCIAL PERFORMANCE

								(₹mn)
Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY22	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	1,809.5	1,879.2	(3.7)	1,149.3	57.4	2,958.8	3,019.8	(2.0)
Cost of Matl	812.7	626.3	29.7	1,066.4	(23.8)	1,879.0	895.2	109.9
Inventory Changes	(693.9)	(312.9)	121.7	(1,187.5)	(41.6)	(1,881.4)	(392.9)	378.9
Employee Exps	331.7	312.4	6.2	268.8	23.4	600.5	604.7	(0.7)
Other Exps	772.4	734.8	5.1	671.4	15.0	1,443.8	1,138.9	26.8
EBITDA	586.6	518.7	13.1	330.2	77.7	916.8	773.9	18.5
EBITDA Margin (%)	32.4	27.6	482	28.7	369	31.0	25.6	536
Other Income	94.1	21.0	348.3	73.9	27.3	168.1	102.9	63.3
Depreciation Exps	133.5	70.2	90.2	123.7	7.9	257.2	138.8	85.4
Finance Cost	58.5	16.0	264.6	46.3	26.4	104.8	34.0	208.1
Exceptional Item	-	-	NM	-	NM	-	-	NM
JV Profit /(Loss)	0.5	3.1	(85.2)	0.6	(29.0)	1.1	1.9	(42.4)
PBT	489.2	456.5	7.2	234.7	108.4	723.9	705.9	2.5
Tax	153.1	117.1	30.8	57.0	168.5	210.2	179.6	17.0
Net Profit	336.1	339.4	(1.0)	177.7	89.1	513.8	526.3	(2.4)
EPS (₹)	1.8	1.8	(1.0)	0.9	89.1	2.7	2.8	(2.4)

Source - Company, Way2Wealth

As % of Sales	Q2FY23	Q2FY22	YoY(bps)	Q1FY23	QoQ(bps)	1HFY23	1HFY22	YoY(bps)
Matl Cost	6.6	16.7	(1,011)	(10.5)	1,710	(0.1)	16.6	(1,671)
Gross margin	93.4	83.3	1,011	110.5	(1,710)	100.1	83.4	1,671
Employee Exp	18.3	16.6	171	23.4	(506)	20.3	20.0	27
Other Exps	42.7	39.1	359	58.4	(1,574)	48.8	37.7	1,108

Source - Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹mn)

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
Order Book	16,600	16,870	13,720	13,177	17,916	22,864
Revenue	7,108	7,129	8,132	8,595	10,464	12,308
EBITDA	1,837	1,977	2,453	2,623	3,012	3,817
EBITDA Margin (%)	25.8	27.7	30.2	30.5	28.8	31.0
Net Profit	1,306	1,581	1,664	1,766	1,956	2,478
EPS (₹)	7.0	8.4	8.9	9.4	10.4	13.2
DPS (₹)	2.2	2.6	2.8	3.1	3.5	4.0
RoE (%)	15.6	16.5	15.5	14.8	15.1	16.2
RoCE (%)	8.8	7.2	8.9	8.3	9.1	11.3
P/E (x)	31.6	26.1	24.8	23.4	22.8	19.8
EV/ EBITDA (x)	24.0	24.5	19.9	17.8	13.4	10.9
P/BV (x)	4.9	4.3	3.9	3.5	3.1	2.8
Net Debt/ Equity (x)	0.3	0.7	0.7	0.4	0.4	0.4
Debtors Days	181	152	173	130	130	130
Inventory Days	634	466	359	464	385	355
Creditor Days	160	125	184	186	180	175
Cash Balances	1,980	1,109	939	626	1,323	1,482
FCFF	823	(672)	168	(736)	1,015	1,108

Source - Company, Way2Wealth

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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
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