Mishra Dhatu Nigam (MISDHA)

CMP: ₹ 338 | Target: ₹ 430 (+27%) | Target Period: 12 months | BUY

November 28, 2024

Execution set to pick-up…

About the stock: Mishra Dhatu Nigam (Midhani) is one of the key manufacturers of critical metals such as special steels, super alloys (nickel base, iron base and cobalt base), titanium alloys etc. The company primarily cater to the requirements of sectors like defence, space and energy

- Company has two state of the art manufacturing facilities – Hyderabad (Telangana) and Rohtak (Haryana)
- Company's order backlog stood at ₹ 1820 crore as of Sept 2024 end, of which 70-80% is contributed by defence segment, 10-15% by space segment and balance from exports and others

Investment Rationale:

- **Strong focus on increasing capacities & capabilities for wide-range of strategic materials; Execution expected to pick-up going forward:** After a muted H1FY25, execution is expected to pick-up substantially going ahead. Management also maintained its guidance of 20%+ revenue growth for FY25E, which implies ~30% YoY growth in H2FY25E (vs 2.5% in H1FY25). With state-of-the-art manufacturing facilities, Midhani has strong capabilities in terms of developing & producing a diverse range of special metals and alloys (like titanium alloys, steel alloys, super alloys based on nickel, iron & cobalt etc) for sectors like defence, space & energy. Moreover, company continues to focus on capacity expansions, new product developments and broadening its overall scope of opportunities
- **Orders inflow prospects remain robust:** The Company's order backlog stood at ₹ 1820 crore as of Sept 2024 end (~1.7x of TTM revenues), which gives healthy revenue growth visibility over the next 2 years given the short execution cycle for large part of this order book. Moreover, orders inflow prospects remain robust for company's products considering the strong pipeline in defence, space and other segments (like energy, railways, civil aviation etc). Defence remains the key sector for company's future orders considering the significant capex underway for various platforms (across air force, navy and army) like aircrafts, engines, missiles, tanks. Company guides for healthy order inflows of ~₹ 1600 crore in FY25E (~₹ 1000 crore worth of orders received in YTDFY25). We believe that company's operational performance is expected to improve substantially in the coming periods led by improvement in supply chain and inventory management

Rating and Target Price

- Midhani is expected to benefit substantially from further pick-up in execution, robust order prospects, new product developments. During the period FY24-26E, we estimate revenue CAGR at ~22% while EBITDA & PAT CAGR at ~32% & ~43% respectively as the margins are expected to improve in the coming periods
- We maintain Buy on Midhani with a revised TP of ₹ 430 (based on 30x P/E on FY27E)

Company Update

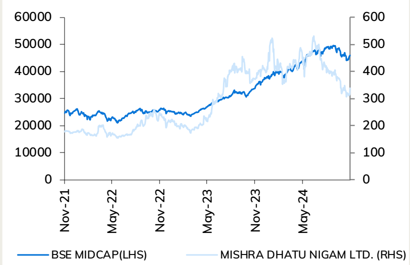
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	6,238
FY24 Gross Debt (Rs Crore)	324
FY24 Cash (Rs Crore)	17
EV (Rs Crore)	6,546
52 Week H/L (Rs)	548 / 305
Equity Capital	187.3
Face Value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	74.0	74.0	74.0	74.0
FII	1.0	1.1	1.3	1.4
DII	11.8	11.0	9.3	8.4
Others	13.2	13.9	15.4	16.1

Price Chart



Key risks

(i) Dependent on govt contracts

(ii) High working capital requirement

(iii)Availability of key raw materials/components

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ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	713	813	859	872	1,073	9.7	1,286	1,578	1,937	21.8
EBITDA	198	245	262	258	194	(7.5)	247	336	447	32.1
EBITDA margin (%)	27.7	30.2	30.5	29.5	18.1		19.2	21.3	23.1	
Net Profit	158	166	177	156	92	(18.0)	131	191	269	43.1
EPS (Rs)	8.4	8.9	9.4	8.3	4.9		7.0	10.2	14.4	
P/E (x)	40.0	38.0	35.9	40.5	69.0		48.3	33.2	23.5	
EV/EBITDA (x)	32.1	26.1	24.9	26.0	34.2		27.1	19.9	14.9	
RoCE (%)	19.1	19.3	17.9	14.5	10.1		11.7	15.4	19.1	
RoE (%)	16.5	15.5	14.8	12.2	7.0		8.8	11.8	14.9	

Source: Company, ICICI Direct Research

Q2FY25 and H1FY25 Result Summary

- Revenue increased by 15.2% YoY (+60.4% QoQ) to ₹ 262.1 crore in Q2FY25
- Operational performance during the quarter improved significantly, led by pick-up in execution. This was largely in-line with expectations as management also guided for improvement in execution after a muted Q1FY25. Margins also improved led by positive operating leverage
- EBITDA margin during the quarter stands at 18.7% (+272 bps YoY). EBITDA was up 34.9% YoY to ₹ 49 crore
- PAT was up 70.3% YoY to ₹ 23.7 crore (vs ₹ 13.9 crores in Q2FY24)
- The H1FY25 revenue is up 2.5% YoY to ₹ 425.6 crore while EBITDA margin stands at 17% (vs 18.7% in H1FY24). H1FY25 PAT declined by 11.1% YoY to ₹ 29 crore (vs ₹ 32.6 crores in H1FY24)

Q2FY25 Earnings call highlights

- Management guides FY25E revenue growth of 20%+ YoY, as orders from titanium segment (higher margin product) have gradually increased its share in the order book
- The contribution from white plate mill contribution has reduced in this half as it was mostly consisting ISRO order which has been completed. However, they are trying develop some of the products which would be essential for BHEL turbine blades order. The company has tied-up with VSMPO for rolling plates and the revenue target for FY25 from wide plate mill is ₹ 150 crore
- Orders inflow stands at ₹ 1000 crore in YTDFY25, of which majority of orders (70%-80%) are from defence sector, with limited contributions (10%-15%) from space sector. The company expects a further inflow of around ₹ 600 crores in the second half and plans to end the year with an order book likely above ₹ 2000 crores
- The export book of the company currently comprises of 6% while the revenue earned in the first half stands at around 12% (₹49 crores). These orders are from Rolls Royce, Pratt and Whittney, and GE Aerospace. Management is pushing towards securing longer term contracts from them. They plan to take their exports order revenues to ₹ 100-110 crores for the year
- The management is focusing on taking up orders that have short delivery periods as they believe that the industry players are favouring suppliers having low lead time in order to maximise their operational efficiencies. This also benefits them in managing their inventory position
- Company has supplied materials for the Light Combat Aircraft Mark-2, facilitating timely project progress. They have also initiated supply of materials for Sukhoi aero engine. They have also started engaging in various national programs such as the DRDO program which includes ATDG Kaveri dry engine and STFE. They are also engaged in the armouring of MBT Arjun tanks and hence see an opportunity to participate in the FICV requirement through some modifications
- In terms of product developments, the company has commissioned a very high-capacity secondary melting furnace Vacuum Arc Remelting (VAR) of 500 tons which has completed its trials and is now at its sufficient load. They have also come up with high-end superalloy Inconel 718 of about 325mm diameter which is one of the most difficult alloys used in aero engine. They now have all varieties of titanium products available with them
- The company has 300kg in a single size melt that is used to make titanium forgings, up to 4-5 tonnes/month of about 1200mm diameter. For requirements of superalloys the casting capacity is very limited but so is the nature of product requirement in the segment
- On the outlook of the increasing titanium industry size in India, the company believes that there is significant demand to which all players can contribute domestically and internationally. Management mentioned that

the country requires a minimum of 3-4 more such companies as MIDHANI to meet the rising demands

- These global demands have significant importance to Indian countries as the world is shifting towards a China+1 factor. Currently, India is catering to less than 5% in aerospace nickel and titanium products, and less than 2% in mixed material products
- The management foresees an opportunity for titanium in naval platforms and nuclear power plants in the domestic market as titanium is used in its valves
- To meet these demands the management believes they are well equipped as they have the processes for converting ingots into rolling all under one roof. This provides them with an edge over their peers
- The management is working on its planned capex of ₹ 60 crores for the year and has plans for further modernization of old facilities from the 1980s to improve operational efficiency in the future

Exhibit 1: Q2 and H1FY25 result snapshot (₹ crore)

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	Comments
Revenue	262.1	227.5	15.2	163.5	60.4	425.6	415.2	2.5	Execution improved significantly in the quarter
Other income	8.5	7.6		7.8		16.3	15.6		
Total Revenue	270.7	235.1		171.2		441.9	430.8		
Raw materials costs	110.5	85.3		47.0		157.5	135.0		
Employees Expenses	35.1	32.4		31.2		66.3	62.6		
Other Expenses	67.6	73.4		61.9		129.5	139.8		
Total Expenditure	213.2	191.2		140.2		353.3	337.4		
EBITDA	49.0	36.3	34.9	23.3	110.1	72.3	77.8	-7.2	
EBITDA margins (%)	18.7	16.0	272 bps	14.3	442 bps	17.0	18.7	-177 bps	Margin improved on a YoY basis during the quarter led by better execution and operational efficiencies
Interest	7.9	8.8		6.8		14.7	17.4		
Depreciation	15.7	14.4		15.3		31.0	28.6		
Tax	10.4	6.8		3.9		14.2	15.0		
PAT	23.7	13.9	70.3	5.3	348.4	29.0	32.6	-11.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	1,031	1,237	1,522	1,872
Other operating income	41	49	56	65
Revenue	1,073	1,286	1,578	1,937
% Growth	*23.0*	*19.9*	*22.7*	*22.7*
Other income	29.9	32.9	36.2	39.8
Total Revenue	1,073	1,286	1,578	1,937
% Growth	*23.0*	*19.9*	*22.7*	*22.7*
Total Raw Material Costs	449	552	673	824
Employee Expenses	134	144	157	171
other expenses	296	344	412	495
Total Operating Expenditure	879	1,039	1,242	1,489
Operating Profit (EBITDA)	194	247	336	447
% Growth	*(24.6)*	*27.2*	*36.2*	*33.0*
Interest	35	31	35	35
PBDT	190	249	337	452
Depreciation	59	62	66	71
PBT before Exceptional Items	131	187	271	381
Total Tax	40	56	81	114
PAT before MI	91	131	190	267
PAT	92	131	191	269
% Growth	*(41.3)*	*42.8*	*45.4*	*41.1*
EPS	4.9	7.0	10.2	14.4

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	92	131	191	269
Depreciation	59	62	66	71
Interest	35	31	35	35
Cash Flow before WC changes	185	224	292	375
Changes in inventory	(85)	(311)	(303)	(363)
Changes in debtors	(7)	(58)	(86)	(106)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	79	(15)	(26)	(32)
Net Increase in Current Assets	(21)	(377)	(416)	(501)
Changes in creditors	(39)	39	58	49
Changes in provisions	(1)	(7)	12	1
Net Inc in Current Liabilities	29	56	133	128
Net CF from Operating activities	193	(96)	9	2
Changes in deferred tax assets	1	-	-	-
(Purchase)/Sale of Fixed Assets	(78)	(70)	(90)	(90)
Net CF from Investing activities	(35)	49	80	118
Dividend and Dividend Tax	(26)	(37)	(56)	(79)
Net CF from Financing Activities	(156)	47	(91)	(113)
Net Cash flow	2	(0)	(2)	7
Opening Cash/Cash Equivalent	14	17	16	15
Closing Cash/ Cash Equivalent	17	16	15	22

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Equity Capital	187.3	187.3	187.3	187.3
Reserve and Surplus	1,132	1,296	1,431	1,622
Total Shareholders funds	1,319	1,483	1,618	1,810
Other Non Current Liabilities	623.1	747.3	916.9	1,125.1
Total Debt	324	369	369	369
Total Liabilities	2,395	2,724	3,029	3,428
Gross Block	1,296	1,409	1,499	1,589
Acc: Depreciation	268	331	397	468
Net Block	1,028	1,078	1,102	1,121
Capital WIP	83	40	40	40
Total Fixed Assets	1,115	1,122	1,146	1,165
Non Current Assets	2	2	2	2
Inventory	1,310	1,621	1,924	2,287
Debtors	323	381	467	573
Other Current Assets	101	116	142	174
Cash	17	16	15	22
Total Current Assets	1,767	2,144	2,558	3,066
Current Liabilities	120	159	216	265
Provisions	2	90	90	91
Total Current Liabilities	510	566	699	827
Net Current Assets	1,257	1,577	1,859	2,239
Total Assets	2,395	2,724	3,029	3,428

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
EPS	4.9	7.0	10.2	14.4
Cash per Share	0.9	0.9	0.8	1.2
BV	70.4	79.2	86.4	96.6
Dividend per share	1.4	2.0	3.0	4.2
Dividend payout ratio	29%	29%	29%	29%
EBITDA Margin	18.1	19.2	21.3	23.1
PAT Margin	8.9	10.6	12.5	14.4
RoE	7.0	8.8	11.8	14.9
RoCE	10.1	11.7	15.4	19.1
RoIC	8.3	10.1	13.7	17.5
EV / EBITDA	33.7	26.7	19.6	14.7
P/E	68.0	47.6	32.7	23.2
EV / Net Sales	6.1	5.1	4.2	3.4
Sales / Equity	0.8	0.9	1.0	1.1
Market Cap / Sales	5.8	4.8	4.0	3.2
Price to Book Value	4.7	4.2	3.9	3.4
Asset turnover	0.7	0.7	0.8	0.9
Debtors Turnover Ratio	3.4	3.7	3.7	3.7
Creditors Turnover Ratio	7.7	9.2	8.4	8.0
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	6.2	7.3	7.0	7.4
Quick Ratio	1.5	1.7	1.7	1.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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