

## Mishra Dhatu Nigam Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs182	Rs123	Rs240	32%	BUY	34.1

*\*as on 18th Aug, 2021*

### About the Company:

Established in 1973, Mishra Dhatu Nigam Limited (Midhani) is a Public Sector undertaking involved in manufacturing special steels & superalloys and is the only manufacturer of titanium alloys in India. The company comes directly under the administrative control of Department of Defence Production- Ministry of Defence, GOI. Midhani has emerged as a National Centre for Excellence in advanced metallurgical production of special metals and superalloys in India. It has also achieved the status of Mini Ratna, category-I in 2008. Midhani mainly caters to the needs of critical materials and alloys requirement of strategic sectors of India like Defence, Space, Atomic Energy, Aeronautics, Ordnance Factories (OFB), DRDO; while it also sees many applications in Air, Naval, Land Forces; ISRO, Department of Atomic Energy (DAE), etc. Midhani is reputed as the only company in India which is capable of carrying out vacuum based melting and refining through a world-class vacuum melting furnace.

### Results: Quick Glance

- The net revenue for the quarter under review grew by 0.5% to Rs1141mn as compared to Rs1135mn in the same quarter last year
- The EBITDA margins for the quarter under review stood at 22.38% as compared to 5.15% in the same quarter last year
- The net profit came in at Rs188mn as against a loss of Rs9mn in the comparative quarter.
- EPS for the quarter under review stood at Rs1.0 as compared to Rs(-0.05) in the corresponding period last year

### Other Highlights:

- The quarter under review has been a mixed bag of events with April and May seeing the second wave disruptions while the operations of the plant were affected at Hyderabad and Telangana. However, the understanding of the first wave has helped the company sail through with a protocol to follow to continue operations but not to the fullest extent. Logistics were not available coupled with delayed contract activities, job work, issues with supply chain, and inability to handle some products which were processed outside and to be shipped to Hyderabad had some issues. However, the company has done reasonably well.
- On the VoP front which was ~Rs870-Rs880mn has been enhanced to Rs1240mn in this quarter which translate into a 40% jump in the VoP and thus, the fixed cost could be absorbed. In addition to this, the advantage of reducing the raw material consumption with strict measures to improve the cost efficiency has enabled substantial amount of savings; while indications for Q2FY22 are also good and the operations are moving smoothly. Order book position has picked up this year; with good visibility of exports and growth in project is expected. The internal domestic orders too are anticipated to increase. Order Book position target for space is 6-8 quarters, and some of the projects are of short to medium cycle of 6-12 months.
- As per the Management commentary, the project activities of the 2-3 initiatives seeded earlier have been going on satisfactorily, 2 of the project i.e. white plate mill (Hyderabad campus) and armour plant (Rohtak) have progressed very well. White plate plant has come to the stage of commissioning and the equipment is giving good output. The armour facility is also on the verge of getting operation very soon, once the permissions from the authorities is given. So, in all, the facilities at Tumkur, KanchanBaugh, Rohtak (armour plate) are all anticipated to be commissioned by the end of Q3FY22 or early Q4FY22.
- A number of products have been indigenised in the FY20-21, which will give revenue in the current and upcoming years with better volumes and quantity. In defence and aerospace, new projects are expected by the company. In space segment, Midhani has a good order book position, and some more orders are anticipated. The PPP model will also benefit with private players entering the space program and Midhani has lot of opportunities for the same, and materials will be supplied by Midhani. LCA orders for indigenisation is still under planning process by GOI and Midhani is anticipated to get orders for the alloy's requirement in batch supplies. Order by nomination is ~70% and 30% is competition, however in coming days, the proportion of nomination will reduce with time. In the upcoming quarter, the company is anticipating 50-55% of order from space segment (anticipated to pick up), and the rest of 50% will be via the defence; as and when white plate mill picks up, the company is looking at projects from the railways and other industries (LNG pipelines etc.).
- Midhani has been working on growth projects since last 3-4 years, and the same will be commissioned one by one in FY22. White plate mill is one of the biggest projects with a value of Rs5500mn, Rohtak plant and 2-3 capacity augmentation projects. White plate mill has ~30000 tonne capacity and the important aspect here is to get the right product mix and value mix. Since the initial indications are good, it is anticipated that these will run at full capacities in FY23.
- Future prospects are to enhance the core melting capacities for the titanium alloys where the national requirement too have increased and there is a need to improve the production. Midhani has decided to set up new titanium facility and is already working for the same. Titanium alloys is a high value product with smaller volumes also. In addition to this, in the domain for special steel and super alloys, the company intends to set an 8 tonne vacuum induction melting plant and the project is working well.
- In India, titanium alloys manufacturing capabilities is only with Midhani today. Requirement for Titanium alloy, the company is looking at order book position of 500 tonnes of titanium alloys in the current year and requirement in the future is bound to increase in the next couple of years to 1500-2000 tonnes. Midhani is trying to fill the gap for the import by increasing their production capacity. Capex will be for melting furnace and welding unit to the tune of Rs1000mn-1500mn.

**Financials:**

Performance (Q1FY22)							
Q1FY22 Result (Rs mn)	June-21	June-20	y-o-y	Mar-21	q-o-q	FY21	FY22E
Total Revenue	1141	1135	0.5%	3459	(67.0%)	8132	9137
EBITDA	255	58	-	1031	(75.3%)	2453	2741
Other Income	82	35	-	80	3.0%	198	199
Interest	18	31	(42.9%)	27	(34.5%)	120	131
Depreciation	69	66	3.2%	68	0.7%	270	305
Exceptional item	0	0	-	0	-	0	0
Tax	63	5	-	269	(76.8%)	598	664
Net Profit	188	(9)	-	746	(74.8%)	1663	1840

**Outlook and Recommendations:**

The company has managed to report good numbers for the quarter under review despite loss of some operational days. Management is ambitious to scale up the production in the second half of the year or at the earliest. The company works with hi-tech methods for various processes & services for which they see some challenging times at the initial stage, but once the stability and quality standard is maintained, the orders continue to flow as per the requirements from the client. The company has a proactive R&D team which continues to work on certain grades and tries to be future ready for developing new products. Midhani is also trying to diversify the business to fetch value addition for the railway who are bulk consumers of flat products like steel used for coaches and going forward the company will supply white plate to railways; in addition to that the company will be looking at stainless steel plates. Management anticipates the share of diversification to increase over time, in addition to supply to export customers in the oil & gas segments. Investment or capital expenditures (~Rs8-10bn) of the past are anticipated to begin to bear fruits very soon and the company also intends to align with market dynamics. Midhani has been working for some of the unique products under the Atmanirbhar Bharat programme as an import substitute. The company is looking at enhancing the production, looking at export opportunities, trying to meet the domestic demand, restrictions from the GOI for buying the material (less than Rs2000mn tender to be purchased from domestic vendor only) from global market is an added booster, production at higher competitive prices, once the projects in hand are stabilized, the same will have good growth prospects, the company works in a domain where there is a lot of vacuum and Midhani is one of the potential supplier to fill the gap, upcoming requirement coming in the future, order book of Rs15bn. Midhani has a visibility of increasing the turnover by ~17%-20% in the current financial year. Midhani continues to have a good foothold in defence and aerospace sectors, the OFS as and when commenced will be an opportunity to add; however, with the prospects available, we continue to maintain our target price of Rs240.

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