Sector: Aerospace & Defence | **RESULT REVIEW Q1FY24** | **Declared On: 08 Aug 2023**

Mishra Dhatu Nigam Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs408	76.5	Hold	Rs440	8%

as on 23rd Aug, 2023

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, Ordinance 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 sales for the quarter grew by 63.3% to Rs1877mn as compared to Rs1149mn in Q1FY23
- The Ebitda margins for the quarter under review stood at 22.1% as compared to 28.7% in Q1FY23
- The company reported profit of Rs185mn as compared to Rs177mn in the same quarter last year
- The EPS for the quarter stood at Rs0.99 as compared to Rs0.94 in the corresponding period of last year
- Value of Production (VoP) during Q1FY24 stood at Rs2957mn as against VoP of Rs2334mn recorded in Q1FY23
- The order book position of the company as on 1st July 2023 stood at Rs14.08bn

Conference Call Highlights:

- The quarter under review has seen a sharp growth in the topline coupled with increase in the VOP as well. In addition to that the sales from the Rohtak facility (~25-30%) is also propelling the topline. The investments in the project which was done in the past has started bearing fruits for the company
- The order booking too has been growing with more than ~Rs5240mn order booking in the quarter under review. This order book is a blend of orders from defence, aerospace, exports, oil & gas etc.
- The company is also seeing healthy enquiries from the export front as well. The company is looking at opportunities from players in the GE, aerospace segment as well as from players like Rolls Royce, etc. In the long run, the company is looking at executing export orders worth ~Rs1000mn over the next 5-7 quarters. On the domestic front, the company is looking at orders for PSLV orders from L&T
- The company is also in process to get certification and approvals for many of these high end and technologically advanced products. The company is consistently trying to introduce and induct newer products
- The company has started focussing on short cycle projects which is also beneficial for the working capital cycle; however, with volumes coming up, the Management has lowered their guidance on the Ebitda margin front. The difference in the margin profile varies and depends a lot on the sector for which the products and customers catered to is involved. Thus with the change in the product mix, the cost of raw material is anticipated to increase which can put a dent on the margins front due to higher cost of these strategic materials. In addition to this, the cost of materials like nickel, molybdenum, titanium etc. are seen increasing in the market as there are some issues still persisting due to supply chain
- The Management is aware of the issues related to the high inventory level and are working on controlling the same. The issues with the strategic material lying in the inventory still exists as this material is of high value, pure in nature and can be liquidated only if the orders related to that segment of the aerospace segment arise. Apart from that wherever possible, the company tries to recycle and reuse the scrap material without compromising the quality and standard of the product or material supplied
- The company is looking at opportunities where there is quick conversion or quick realization of the sales by investing in the previous capex or spends done in the past 2-3 years
- As far as the Nalco JV is concerned, the team is evaluating the feasibility and viability of this project
- Strong indigenization efforts are made by the company and has sufficient capacities to handle the requirement coming from the indigenization part. In addition to this, in terms of the orders for the superalloys and titanium side, the company has sufficient capacities and are constantly improving their equipment capability
- The company has ~50% of short cycle projects while the rest is long cycle order book

Financials:

Performance (Q1FY24)							
Q1FY24 Result (Rs mn)	**Jun-23**	**Jun-22**	**y-o-y**	**Mar-23**	**q-o-q**	**FY23**	**FY24E**
Total Revenue	1877	1149	63.3%	3446	(45.5%)	8719	10213
EBITDA	415	330	25.8%	1001	(58.5%)	2575	2655
Other Income	80	74	8.4%	121	(33.8%)	378	389
Interest	86	46	86.3%	81	6.8%	257	338
Depreciation	142	124	14.7%	137	3.6%	530	565
Exceptional Items	0	0	-	0	-	0	0
Tax	82	57	43.6%	243	(66.4%)	607	611
Net Profit	**185**	**177**	**4.8%**	**661**	**(72.0%)**	**1559**	**1530**

Outlook and Recommendations:

The company has reported a very strong performance on the topline (growth of 63.3%) with a drop in the margins from 28.7% to 22.1%. Midhani is one of the key suppliers of niche products in niche domains where the quality and performance of products is already approved by many international players. The focus of the Management has been on cost optimization measures including indigenisation of various components. The consistent efforts put by the company over the last three years has started yielding results for special steel, superalloy and titanium alloys being supplied to end use customers in Europe. Midhani is looking at a lot of enquiries and opportunities from railways, aerospace, defence and exports. The company has ambitious vision to move in a big way towards aerospace and exports with many projects which are anticipated to be announced in the near future. The company is working on obtaining NADCAP & PED approval during the year and post the approval of the same or client approvals, Management anticipates a quantum jump in export performance in the coming years. Midhani is gradually and diligently try to widen the product base offerings, entering new business areas, adding new clients and trying to reduce the dependency on 1-2 business. As far as the margins are concerned the growth will not come in percentage terms, however, the Management believes the same will be in absolute terms. Some of the key triggers which favour Midhani include the availability of advanced and unique facilities, capability to manufacture a wide range of advanced products, focus on product indigenisation, strong long term customer relationships, R&D based technology development, highly qualified and experienced management and management systems. One of the biggest beneficiaries of GOI programmes like Atmanirbhar Bharat and Make in India provide ample of opportunities to Midhani. The stock has already breached our target price of Rs295 and has appreciated more than 230% since our recommendation/initiating price of Rs123 in July 2019; currently we recommend our long term shareholders to book partial profits to the tune of ~50%. As a long term story and considering the positive developments on the anticipated topline (but with revised/lowering of guidance on the margins front) we cautiously upgrade our target price to Rs440.

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