

Mishra Dhatu Nigam

CMP : ₹174.25

Target price: ₹270

HP* : Upto 3 years

The Vriddhi pick for the month of November 2019 is Mishra Dhatu Nigam Ltd (MIDHANI). It is a leading manufacturer of special steels, superalloys and the only manufacturer of titanium alloys in India. These are high value products which cater to niche end user segments such as defence, space and power. It is also the only company in India to carry out vacuum-based melting and refining through a world class vacuum melting furnace. In 2009, it achieved the status of Mini Ratna, Category-I company. The company got listed on the BSE and the NSE on April 4, 2018.

Strong Order book

As on October 31, 2019, the company's order book stood at Rs.1,776 crore. The book to bill ratio translates to 2.5x on FY19 revenue of Rs.711 crore. The strong order book gives revenue visibility for the next 2-3 years. Of the present order book, 70% comes from the space segment.

Growing business from space segment

Earlier, Midhani supplied crucial components for 'Chandrayaan 2'. It will now be supplying components for India's maiden human space flight program 'Gaganyaan Mission' to be executed by ISRO. Over the next 2-3 years, Midhani will be focusing on manufacturing space equipment. The objective of the project is to send human to space by 2022. This project will further boost company's order book.

Foray in Aircraft and AI segments

Midhani would be a part of a multi-million dollar project by supplying materials for the Advanced Medium Combat Aircraft (AMCA) engine being developed by Gas Turbine Research Establishment (GTRE) and Aeronautical Development Establishment (ADE), a laboratory of the Defence Research and Development Organisation (DRDO), located in Bengaluru. It is expected that AMCA would produce about 250 advanced aircrafts over the next 5 years. It has made inroads with 3D printing and Artificial Intelligence. The company is expecting work orders worth Rs. 500 crore.

Joint Venture with NALCO

Midhani has forged a major joint venture with NALCO to set up a Rs 4,000 crore aluminium alloy manufacturing plant in Nellore district of Andhra Pradesh. To establish a green field project of aluminium alloy production, the state government of Andhra Pradesh has allotted 110 acres of land to Midhani. The 50:50 joint venture with 30% equity and 70% debt will see an infusion of Rs 170 crore each by the partners. The rest will be raised through a combination of debt and convertible debentures. The joint

*HP : Holding Period

Company Details

Industry	Steel & Iron Products
Chairman	DK Likhri
Managing Director	DK Likhri
Company Secretary	
ISIN	INE099Z01011
Bloomberg Code	MIDHANI IN
BSE Code	541195

Key Market Indicators (Standalone)

Latest Date	14-Nov-2019
Latest Price (Rs)	174.25
Previous Close (Rs)	170.65
1 Day Price Var%	-1.16
1 Year Price Var%	39.31
52 Week High (Rs)	186.80
52 Week Low (Rs)	100.00
Beta	1.00
Face Value (Rs)	10.00
Industry PE	6.37
TTM Period	201909
TTM EPS(Rs)	8.33
TTM CEPS(Rs)	9.63
Price/TTM CEPS(x)	17.72
TTM PE (x)	20.49
Price/BV(x)	3.63
EV/TTM EBIDTA(x)	12.09
EV/TTM Sales(x)	3.96
Dividend Yield%	1.28
MCap/TTM Sales(x)	4.07
Latest Book Value (Rs)	47.03
Market Cap (Rs. In Crores)	3196.96
EV (Rs. In Crores)	3105.62
Latest no. of shares (In Crores)	18.73

Share Holding Pattern as on 201909

Promoter No of shares (In Crores)	13.86
Promoter %	74.00
FII No of Shares (In Crores)	0.11
FII %	0.58
Total No of Shares (In Crores)	18.73
Free Float %	26.00

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November 2019

venture company named Utkarsha Aluminium Dhatu Nigam Ltd has an office in Hyderabad. It will be ready in 4-5 years and produce sheets, plates, extrusions, forgings etc. It has also signed a joint venture with Hindustan Antibiotics Ltd to make bio-compatible implants.

Global expansion plans

Midhani is planning to enter new sectors such as oil and gas, mining, power, railways, chemical and fertilizers. It is planning to create its presence in Middle East with Dubai as a hub and in Europe with Netherlands office to begin with. As per the company, Titanium is one area of opportunity where it can continue to focus in global markets too. Midhani is hoping to reach the Rs.1,000 cr turnover mark in the near future with targeted exports of 10-15% by 2022.

Upcoming plants set up

The commercial production of vehicle and personnel armoured production at the Rohtak plant is likely to begin by early FY21. It has successfully completed its first commercial bullet proof vehicle order and handed over 15 of them to Central Armed Police Force (CAPF) in March this year.

Similarly, it is setting up a dedicated facility for manufacturing helical compression springs at its existing plant in Hyderabad to cater to requirements of the Indian Railways, metro coaches and earth moving equipment.

It is planning to set up a metal powder production unit capable of producing high quality output for a variety of special alloys like Titanium alloys, Nickel & Copper alloys and refractory metal and alloys for application in aerospace and bio-medical sectors. It plans to explore the feasibility for production of cobalt in India using material from secondary sources. Towards this, Midhani plans to set up a cobalt recovery plant through public private partnership under an indigenization program from internal plant reverts. Also, Tungsten powder is the main ingredient material for production of High Kinetic Energy Penetrators and Pre-fragments for Defence applications and presently these requirements are fulfilled through imports. For indigenization of such strategic material, it is exploring to set up a facility to produce 500TPA tungsten powder.

Financial Performance

Mishra Dhatu's standalone revenue for Q2FY20 came in at Rs.169.21 crore as against Rs.113.9 crore in the corresponding quarter last year, registering a 48.6% yoy increase. The EBITDA for the quarter grew by 45.4% yoy to Rs.51.92 crore as against Rs.35.71 crore in the corresponding quarter last year, with a corresponding margin contraction of 67 bps. The EBITDA margin for the quarter stood at 30.7%. The PAT for the quarter came in at Rs.35.84 crore as against Rs.20.54 crore in the corresponding quarter last year, a yoy increase of 74.5%.

Looking at the half yearly numbers (H1FY20), the revenue jumped by 38% yoy to Rs.299.68 crore while it reported a net profit of Rs.58.84 crore, up by 76% yoy. The company is expecting to generate a top-line of Rs.850-900 crore in FY20. The debt equity ratio for FY19 was 0.06x. It is a cash rich company with cash of Rs. 196 crore as of end-FY19.

It has declared its highest dividend of Rs. 41.03 crore on equity shares for FY19. Total dividend is Rs 2.19 per equity share.



Strong order book giving revenue visibility for next 2-3 years



To supply equipment to ISRO for the upcoming 'Gaganyaan mission'



Part of multi-million dollar project by AMCA to further boost order book

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	710.85	661.69	773.28	716.75	647.38
Total Income	747.74	690.89	797.28	744.29	670.06
Total Expenditure	526.30	470.29	587.86	567.57	514.67
PBIDT	221.44	220.60	209.41	176.72	155.39
PAT	130.56	131.26	126.31	118.03	102.13
Dividend %	21.90	21.00	18.90	18.90	20.00
Adj. EPS(Rs)	6.97	7.01	674.24	630.04	545.15

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	169.21	130.48	29.69	113.90	48.56
Total Expenditure	117.30	94.77	23.77	80.36	45.97
PBIDT (Excl OI)	52.91	37.38	41.55	34.81	52.01
PAT	35.85	23.00	55.88	20.54	74.52
PBIDTM% (Excl OI)	31.09	28.29	9.90	30.23	2.84
PBIDTM%	34.89	33.13	5.31	34.08	2.38
PATM%	21.06	17.40	21.03	17.84	18.05
Adj. EPS(Rs)	1.91	1.23	55.28	1.10	73.64

Valuation

The company is trading at TTM P/E of 20.49x with TTM EPS of Rs.8.33. For FY19, it delivered ROE and ROCE of 16.08% and 21.75% respectively. The strong order book has given good revenue visibility to the company. The new projects from ISRO like the Gaganyaan mission is giving the company opportunities to bag new orders from the space segment. As the company is part of the multi-million dollar project with AMCA, the order book is expected to get stronger and further trigger its top-line. The joint venture with NALCO will be one of the major growth drivers for the company in the years to come. Its foray into new fields by setting up new plants would contribute to its growth going forward. Also, the company is strengthening its position in the international market with its exports growing gradually. Considering all these factors, we see a huge growth potential in the company and expect an upside of 55% with target price of Rs 270 over a period of three years.

About the Company

Mishra Dhatu Nigam Limited (MIDHANI) was established in the year 1973 under Ministry of Defence as Government of India Enterprise. The production unit of Midhani, located at Kancharbagh, Hyderabad, was commissioned in the year 1982. Presently, more than 70% of Midhani's products cater to strategic customers viz. Ordnance Factory Board (OFB), Defence Research & Development Organisation (DRDO), Indian Space Research Organisation (ISRO), Hindustan Aeronautics Ltd. (HAL), and Department of Atomic Energy (DAE) etc. In addition, Midhani also supplies special alloys and products to commercial sectors including Larsen & Toubro, BHEL, Titanium equipment etc.



*Joint venture
with NALCO to be
one of the
growth drivers*



*Targeting exports
of 10-15%
by 2022*

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