

Q1FY22 result review

Metals

Target price: Rs274

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	74.0	74.0	74.0
Institutional investors	17.3	14.6	14.4
MFs and others	14.6	12.1	12.2
Insurance Cos.	2.1	2.0	1.9
FII	0.6	0.5	0.3
Others	8.7	11.4	11.6

Source: www.nseindia.com

Price chart



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INDIA

Mishra Dhatu Nigam

BUY
Maintain
Rs189

Expect ~20% revenue CAGR over FY21-23E

Mishra Dhatu Nigam (Midhani) recorded Q1FY22 Revenue and EBITDA of Rs1141mn (up 0.5%YoY) and Rs255mn (up 337% YoY). Gross margin has again surprised at 83%, leading to an EBITDA margin of 22.4% despite a weak topline. Higher EBITDA is due to various cost cutting measures undertaken by the company including reduction in employees cost. Also, the raw material cost has reduced considerably. However, going forward there might be pressure on the margins, as the market remains competitive and there is a change in product mix. As expected, order inflows have also started to pick up, with Rs1.6bn of inflows in Q1FY22, taking the orderbook to Rs14bn. The order inflows are expected to pick up in FY22 driven by already strong orderbook in defence PSUs and space budget coming back to normal post a weak FY21. We expect revenue, EBITDA and PAT CAGR of ~20% over FY21-23E. Maintain BUY.

- ▶ **Margins continue to remain healthy.** We believe that there are still significant triggers for EBITDA margin improvement as topline growth materialises over next two years. Thus we believe our assessment of ~20% PAT CAGR (FY21-23E) given ~20% revenue CAGR in the same period, is conservative.
- ▶ **Orderbook decline has bottomed out and should see improvement over next two years.** Current order is ~14bn, out of which defence (including sale to PSUs) is ~30-35%, space is ~60% and rest is others. Govt direction to float domestic tenders for order value of less than Rs2bn; is expected to be positive step for the company. This step can unlock revenue potential of ~Rs5-6bn. Company is targeting revenue of Rs9-9.5bn for FY22, out of which defence is likely to contribute ~35-36%, space 40-42%, export of about 2% and energy segment ~3%. Guided capex is ~Rs2.1bn for FY2022. The capex for FY21 has been curtailed due to Covid 19.
- ▶ **With improving budgetary outlook in defence, working capital dynamics will also improve.** Contrary to expectations, working capital management has been much better for the past three years. EBITDA to CFO conversion has been 91% for FY21 (175% in FY20). Capex seems to have been deferred – Rs 1.6bn spend in FY21. With a 14% topline and 24% EBITDA growth for FY21, the working capital management definitely looks commendable. FY22E RoCE can increase substantially with better working capital management.
- ▶ **Maintain BUY.** Low current utilisation and higher value blend through supplies to ISRO and defence can help increase Midhani's topline meaningfully over the next 2-3 years. We expect RoCE to cross 20% as topline accretion takes shape. Capex remains limited; improvement in working capital and moderate capex will also help generate FCF

Market Cap	Rs35.4bn/US\$476mn	Year to March	FY20	FY21	FY22E	FY23E
Reuter/Bloomberg	MISR.BO/MIDHANI IN	Revenue (Rs mn)	7,129	8,132	9,596	11,323
Shares Outstanding (mn)	187.3	Net Income (Rs mn)	1,581	1,664	2,073	2,404
52-week Range (Rs)	230/175	EPS (Rs)	8.4	8.9	11.1	12.8
Free Float (%)	26.0	% Chg YoY	21.1	5.3	24.6	16.0
FII (%)	0.3	P/E (x)	24.9	23.6	19.0	16.4
Daily Volume (US\$'000)	2,356	CEPS (Rs)	9.8	10.3	13.0	15.2
Absolute Return 3m (%)	(5.7)	EV/E (x)	20.0	16.3	13.3	11.7
Absolute Return 12m (%)	(9.9)	Dividend Yield (%)	1.6	1.5	3.3	3.8
Sensex Return 3m (%)	13.3	RoCE (%)	15.7	17.7	18.4	19.2
Sensex Return 12m (%)	44.5	RoE (%)	16.5	15.5	17.0	17.4

Table 1: Q1FY22 result review

(Rs mn)

	Q1FY22	Q1FY21	% Chg YoY	Q4FY21	% Chg QoQ
Revenue	1,141	1,135	0.5	3,459	(67.0)
Other Operating Income	11			59	
Operating revenue	1,152			3,400	
Raw Material	189	411		1,096	
Gross Margin	952	724	31.4	2,362	(59.7)
<i>Gross Margin (%)</i>	83	64		68	
Employee expenses	292	273	7.0	341	(14.3)
Other expenses	404	392	3.0	990	(59.2)
EBITDA	255	58	336.9	1,031	(75.3)
<i>EBITDA Margin (%)</i>	22.4	5.1		29.8	
Dep	69	66		68	
Other income	82	35		80	
EBIT	269	27	885.6	1,043	(74.2)
Interest	18	31		27	
PBT	251	(4)	NM	1,015	(75.3)
Tax	63	5		269	
PAT	188	(9)	NM	746	(74.8)
Tax Rate	24.9%	-116.4%		26.5%	
Orderbook (Rs cr)	14,023	17,320	(19.0)	13530	3.6
Order Inflow (Rs mn)	1,633	1,615		979	66.9

Source: Company data, I-Sec research

Valuation methodology and key risks

We maintain **BUY** on Midhani with a target price of Rs274/share (FY23E P/E of 21x).

Sensitivity: If Midhani can reclaim ~Rs1bn of postponed revenues, FY22E EBITDA and PAT would increase by 10% and so would our target price.

Key upside risks are higher defence budget for FY22E accruing to Midhani and allowing execution to surprise. Key downside risks are slowing space execution and higher raw material prices starts to drag down margins and profitability disappoints.

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	7,129	8,132	9,596	11,323
Operating Expenses	5,152	5,680	6,698	7,904
EBITDA	1,977	2,453	2,898	3,420
% margins	27.7	30.2	30.2	30.2
Depreciation & Amortisation	261	270	370	450
Gross Interest	59	120	120	120
Other Income	364	198	356	356
Recurring PBT	2,021	2,261	2,764	3,206
Add: Extra ordinaries				
Less: Taxes	424	598	691	801
Less: Minority Interest				
Add: Share of profit from associates				
Net Income	1,581	1,664	2,073	2,404
Recurring Net Income	1,581	1,664	2,073	2,404

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	15,149	14,514	15,746	16,893
of which cash & cash equiv.	1,109	939	2,343	1,010
Total Current Liabilities & Provisions				
Net Current Assets	9,515	9,693	10,059	10,192
Investments	205	206	206	206
Net Fixed Assets	4,407	4,289	7,606	9,156
Capital Work-in-Progress	4,048	5,487	3,800	3,800
Other non-current assets	154	95	95	95
Total Assets	18,329	19,770	21,767	23,450
Liabilities				
Borrowings	1,336	1,604	1,604	1,604
Deferred Tax Liability				
Other long term liabilities	7,426	7,455	8,000	8,000
Minority Interest	-	-	-	-
Equity Share Capital	1,873	1,873	1,873	1,873
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	7,694	8,838	10,289	11,972
Net Worth	9,568	10,711	12,162	13,845
Total Liabilities	18,329	19,770	21,767	23,450

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,715	2,127	2,207	2,618
Working Capital Changes	314	(368)	1,037	(1,467)
Capital Commitments	(2,917)	(1,593)	(2,000)	(2,000)
Free Cashflow	(888)	166	1,244	(848)
Investing Cashflow	964	443	356	356
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	270	268	545	-
Dividend paid	(341)	(517)	(622)	(721)
Others	(59)	(120)	(120)	(120)
Extraordinary Items	-	-	-	-
Chg. in Cash	(55)	240	1,404	(1,333)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	8.4	8.9	11.1	12.8
Diluted Recurring EPS	8.4	8.9	11.1	12.8
Recurring Cash EPS	9.8	10.3	13.0	15.2
Book Value per share (BV)	51.1	57.2	64.9	73.9
Growth Ratios (%)				
Operating Income	0.3	14.1	18.0	18.0
EBITDA	7.6	24.1	18.2	18.0
Recurring Net Income	21.1	5.3	24.6	16.0
Valuation Ratios (x)				
P/E	24.9	23.6	19.0	16.4
P/CEPS	21.4	20.3	16.1	13.8
P/BV	4.1	3.7	3.2	2.8
EV / EBITDA	20.0	16.3	13.3	11.7
EV / FCF	(45.4)	240.6	31.0	(47.1)
Operating Ratios (%)				
Raw Material/Sales	-	-	-	-
Other Income / PBT	18.0	8.8	12.9	11.1
Effective Tax Rate	21.0	26.5	25.0	25.0
NWC / Total Assets	34.1	32.9	30.8	28.5
Inventory Turnover	3.0	2.3	1.6	1.6
Asset Turnover	0.3	0.3	0.3	0.4
Net D/E Ratio (x)	0.0	0.1	(0.1)	0.0
Profitability Ratios (%)				
Rec. Net Income Margins	22.2	20.5	21.6	21.2
RoCE	15.7	17.7	18.4	19.2
RoNW	16.5	15.5	17.0	17.4
EBITDA Margins	27.7	30.2	30.2	30.2

Source: Company data, I-Sec research

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