

Company Overview

Established in 1973 as a Government of India Enterprise under the administrative control of the Ministry of Defence, Mishra Dhatu Nigam Ltd. (Midhani) began its commercial production in Hyderabad in 1982. The company is involved in the manufacturing of special steels, superalloys, and titanium alloys (sole manufacturer) in India catering to strategic customers in industries such as space (40% revenue mix), defense (43% revenue mix) and energy (8% revenue mix) along with supplying special alloys and products to the commercial sector (9% revenue mix). The company is equipped with two state-of-the-art facilities, with its Hyderabad plant responsible for producing a wide variety of special metals and alloys in various mill forms such as forged bars/ flats, rings; near net shapes, and closed die forgings, hot rolled bars/ sheets, cold rolled sheets, strips and foils, wires, castings, tubes, and fasteners. The company has also set up a Wide Plate Mill (WPM) - capable of accommodating thicknesses of up to 9mm and a Springs Project to manufacture springs indigenously with a capacity of 60,000 springs per year, thereby making inroads in the railway sector as well. Meanwhile, its armor facility at Rohtak, Haryana is responsible for catering to the demand for high-end armor products like body armor, vehicle armoring, bullet-proof morcha, bullet-resistant jackets, etc.

Investment Rationale

Robust growth in topline and order book

Midhani had reported a muted topline CAGR growth of about 7% and 6% over 3-year and 5-year periods, respectively. However, in the last two quarters i.e. Q1FY24 and Q2FY24, the business registered a stellar 63.3% and 25.7% growth on a YoY basis, supported by a strong order book, higher value of production, and increasing contribution from its Rohtak facility. In H1FY24, the Value of Production (VoP) stood at Rs. 586.5 crores, compared to (VoP) of Rs. 484.0 crores in the corresponding period of the previous year. As of 1st October 2023, the company had a robust order book of Rs. 1,501.2 crores which is slated to get executed within the next 1-1.5 years, with ~50% mix of short cycle projects having healthy near-term revenue visibility. One of the key highlights of this fiscal is the business's increasing focus on its export segment wherein it expects to clock Rs. 100 crores in revenue by the fiscal. Additionally, the company is receiving orders from big players like Rolls Royce, and GE Aerospace, whereas on the domestic side, the company received a Rs. 95 crores order from L&T for manufacturing PSLV steps in the June quarter.

Increasing focus on the defense and aerospace segment

Through favourable government schemes on enhancing domestic infrastructure, the Aerospace and Defence (A&D) market in India is estimated to be worth about USD 70 billion by 2030. Presently, in comparison to developed western countries, the Indian aerospace industry is relatively small (USD 250 million) in terms of component manufacturing. The company has emphasized receiving substantial interest from international aerospace companies for its materials and is also exploring opportunities to get included in the supply chain process of Tata Boeing. Further, the company is also addressing the demand for smaller-size fasteners in the aerospace sector by acquiring specialized equipment dedicated to aerospace fastener manufacturing to reduce the dependence on imports. This will help in fulfilling the specific requirements of indigenous projects like LCA-Tejas and HAL-IAF Repair & Maintenance of aircraft.

Valuation and Outlook

The company has outlined various strategies it aims to accomplish in the next two years which include the commissioning of a new titanium shop to enable an additional supply of 500T of titanium alloy annually. Along with this, the business is also augmenting its Bar & Wire facility and enhancing the production capabilities of the Wide Plate Mill. This year, the business projects to make Rs. 150 crores in revenue from the mill compared to Rs. 45 crores in the previous fiscal. Midhani is also taking active measures to control its high inventory level build-up by recycling more and making zero-wastage policies. Coming to the margin side, the business has maintained on sustaining its EBITDA levels in the 20-30% range. **On the valuation front, we value the company at a FY25E P/E multiple of 35.5x to arrive at a target price of Rs. 412 (15% upside from CMP) with an investment horizon of 12 months.**

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

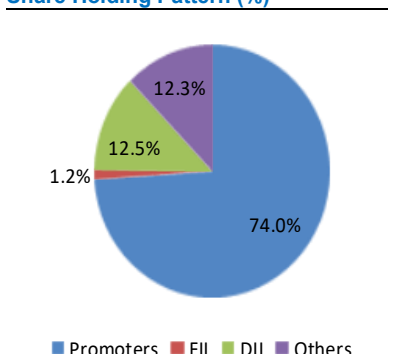
Stock

CMP (INR)	357
Target Price (INR)	412
NSE Symbol	MIDHANI
BSE Code	541195
Bloomberg	MIDHANI IN
Reuters	MISR.BO

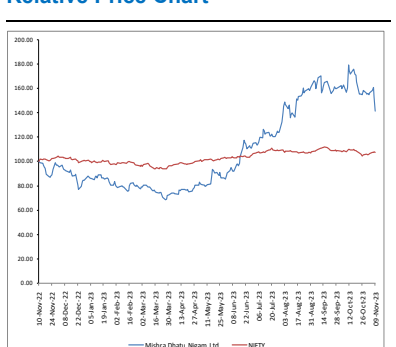
Key Data

Nifty	
52WeekH/L(INR)	477 / 172
O/s Shares (Mn)	187
Market Cap (INR bn)	67
Face Value (INR)	10
Average volume	
3 months	1,597,540
6 months	1,601,540
1 year	1,121,400

Share Holding Pattern (%)



Relative Price Chart



Mishra Dhatu Nigam Ltd. (Midhani)

Key Financials					
YE March (INR. Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	8,044	8,370	8,499	10,768	13,488
Revenue Growth (Y-o-Y)		4.1%	1.5%	26.7%	25.3%
EBIDTA	2,454	2,619	2,575	2,964	3,753
EBIDTA Growth (Y-o-Y)		6.7%	(1.7%)	15.1%	26.6%
Net Profit	1,665	1,767	1,563	1,788	2,327
Net Profit Growth (Y-o-Y)		6.1%	(11.5%)	14.4%	30.1%
Diluted EPS	8.9	9.4	8.3	9.5	11.6
Diluted EPS Growth (Y-o-Y)		5.6%	(11.7%)	14.5%	22.1%
Key Ratios					
EBIDTA margin (%)	30.5%	31.3%	30.3%	27.5%	27.8%
NPM (%)	20.7%	21.1%	18.4%	16.6%	17.3%
RoE (%)	16.4%	15.6%	12.6%	12.6%	14.8%
Valuation Ratios					
P/E (x)	40.3x	38.1x	43.2x	37.7x	30.9x
EV/EBITDA	13.8x	13.0x	15.3x	24.3x	19.2x
Market Cap. / Sales (x)	8.4x	8.0x	7.9x	6.2x	5.0x

Source: Company, BP Equities Research

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