

MISHRA DHATU NIGAM Ltd.

Incorporated in 1973, with an aim of achieving self-reliance in research and development, and supply of critical alloys and products of national security, Mishra Dhatu Nigam Ltd. (MIDHANI) is one of the leading manufacturers of special steels, super alloys 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.

Positives: (a) Modern and integrated metallurgical plant for manufacturing a wide spectrum of critical alloys in variety of forms for defence, space and thermal power (b) Strong long-term customer relationships (c) In-house R&D team aimed at latest development and improvement of product quality and processes innovation (d) Experienced Promoters supported by professionally qualified, experienced and entrepreneurial management team.

Investment concerns: (a) MIDHANI reported low top-line and bottom-line CAGR of 11% & 10% respectively over FY15-17 (b) Company has an order book of ₹517cr which works out to 0.64x compared to FY2017 revenue, reflecting low revenue visibility (c) During 1HFY18, the company has reported very low operating margin and profitability.

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 30.9x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is high considering MIDHANI's historical two year CAGR top-line & bottom-line growth. Further, MIDHANI has an undersized order book which lacks revenue visibility, coupled with lower return ratios. Considering the above factors, we recommend **NEUTRAL** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
Net Sales	656	761	810	208
% chg	-	16.1	6.3	-
Net Profit	104	119	126	27
% chg	-	15.2	5.8	-
OPM (%)	20.6	19.8	22.9	21.7
EPS (₹)	5.5	6.4	6.7	1.5
P/E (x)	16.3	14.1	13.3	-
P/BV (x)	3.1	2.7	2.4	-
RoE (%)	19.2	19.3	17.9	-
RoCE (%)	21.0	21.8	23.3	-
EV/Sales (x)	2.5	2.0	1.8	-
EV/EBITDA (x)	12.2	9.9	8.0	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: Mar 21, 2018

Issue Close: Mar 23, 2018

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹187.3cr

Fresh issue: Nil

Post Eq. Paid up Capital: ₹187.3cr

Issue size (amount): ₹438cr

Price Band: ₹87-90

Lot Size: 150 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1630cr - **₹1686cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 74.0%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	74.0%
Others	26.0%

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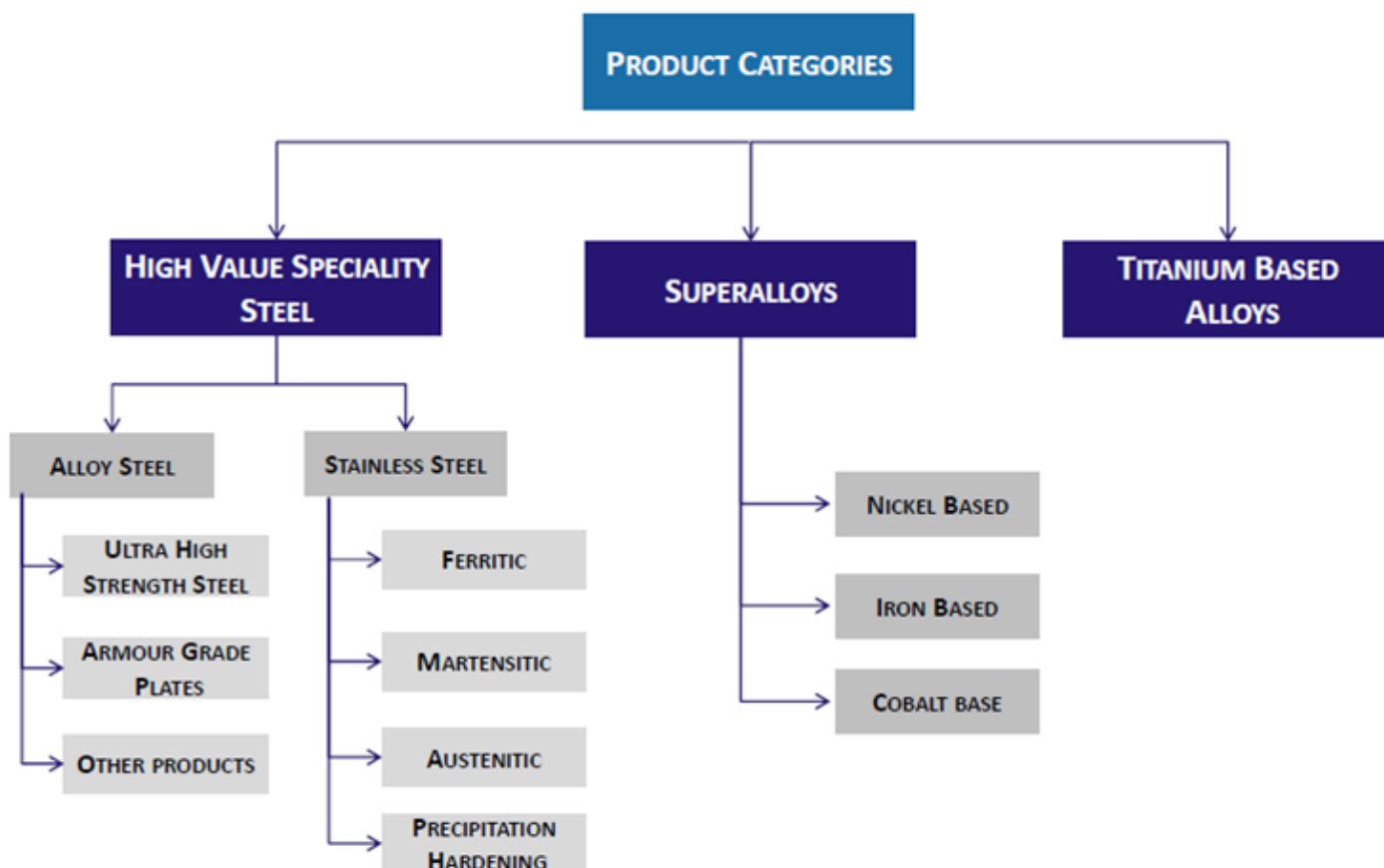
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Company background

Incorporated in 1973, with an aim of achieving self-reliance in research and development, and supply of critical alloys and products of national security, MIDHANI is one of the leading manufacturers of special steels, super alloys 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 has emerged as a 'National Centre for Excellence' in advanced metallurgical production of special metals and super alloys in India. MIDHANI has the technological ability to manufacture a wide range of advanced metals and alloys under one roof. With the growth of MIDHANI business and operations, it has achieved the status of a Mini Ratna, Category-I company in 2009.

Exhibit 1: Product Portfolio



Source: Company, Angel Research

Issue details

MIDHANI is raising ~₹438cr through offer for sale of equity shares in the price band of ₹87-₹90. The company will dilute 26.0% (at upper price band) of its post-offer paid-up equity share capital.

Exhibit 2: Pre and Post IPO shareholding pattern

	No of shares (Pre-issue)		No of shares (Post-issue)	
		%		%
Promoters	18,73,40,000	100.0%	13,86,31,600	74.0%
Others	-	-	4,87,08,400	26.0%
	18,73,40,000	100.0%	18,73,40,000	100.0%

Source: RHP, Note: Calculated on upper price band

Note: A discount of ₹3 per equity share is offered to Retail Investors & Employees.

Objectives of the Offer

Company's objectives of the offer are:

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges
- Raising funds for general corporate purposes

Outlook & Valuation

In terms of valuations, the pre-issue P/E works out to 30.9x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is high considering MIDHANI's historical two year CAGR top-line & bottom-line growth. Further, MIDHANI has an undersized order book which lacks revenue visibility, coupled with lower return ratios. Considering the above factors, we recommend **NEUTRAL** rating on the issue.

Key Risks

- Strong order inflow and improvement in execution cycle of current order book could improve the company's profitability. It will pose an upside risk to our view.
- Increase in competition from other players can impact the business of MIDHANI.

Income Statement

Y/E March (₹cr)	FY2015	FY2016	FY2017	1HFY18
Total operating income	656	761	810	208
% chg	-	16.1	6.3	-
Total Expenditure	521	610	624	163
Raw Material	228	328	308	18
Personnel	99	91	109	49
Others Expenses	194	192	207	95
EBITDA	135	151	185	45
% chg	-	12.0	22.6	-
(% of Net Sales)	20.6	19.8	22.9	21.7
Depreciation & Amortisation	10	14	18	9
EBIT	125	137	168	36
% chg	-	9.5	22.3	-
(% of Net Sales)	19.1	18.0	20.7	17.2
Interest & other Charges	7	4	5	2
Other Income	23	29	23	13
(% of PBT)	16.1	17.9	12.5	26.8
Share in profit of Associates	-	-	-	-
Recurring PBT	141	162	186	47
% chg	-	15.0	15.1	-
Tax	37	42	60	20
(% of PBT)	26.4	26.2	32.2	41.9
PAT (reported)	104	119	126	27
% chg	-	15.2	5.8	-
(% of Net Sales)	15.8	15.7	15.6	13.1
Basic EPS (₹)	5.5	6.4	6.7	1.5
Fully Diluted EPS (₹)	5.5	6.4	6.7	1.5
% chg	-	15.2	5.8	-

Source: Company, Angel Research

Exhibit 3: Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
SOURCES OF FUNDS				
Equity Share Capital	187	187	187	187
Reserves & Surplus	353	432	517	546
Shareholders' Funds	540	620	704	733
Total Loans	55	9	14	66
Deferred Tax Liability	13	23	20	24
Total Liabilities	608	651	739	823
APPLICATION OF FUNDS				
Net Block	298	327	357	363
Capital Work-in-Progress	9	7	6	54
Investments	2	2	2	2
Current Assets	854	785	736	810
Inventories	423	289	206	251
Sundry Debtors	220	209	289	222
Cash	89	196	208	261
Loans & Advances	0	0	0	0
Other Assets	121	92	34	77
Current liabilities	555	470	362	407
Net Current Assets	298	316	374	404
Deferred Tax Asset	-	-	-	-
Total Assets	608	651	739	823

Source: Company, Angel Research

Exhibit 4: Cash Flow Statement

Y/E March (₹cr)	FY2015	FY2016	FY2017	1HFY18
Profit before tax	143	163	188	50
Depreciation	10	14	18	9
Change in Working Capital	(64)	84	(13)	22
Interest / Dividend (Net)	7	4	5	2
Direct taxes paid	(38)	(38)	(61)	(26)
Others	(11)	(11)	(17)	(9)
Cash Flow from Operations	47	216	119	47
(Inc.)/ Dec. in Fixed Assets	(20)	(19)	(64)	(45)
(Inc.)/ Dec. in Investments	11	(87)	(0)	(85)
Cash Flow from Investing	(9)	(107)	(65)	(130)
Issue of Equity				
Inc./(Dec.) in loans	9	(46)	5	52
Dividend Paid (Incl. Tax)	(45)	(40)	(43)	0
Interest / Dividend (Net)	(7)	(4)	(5)	(2)
Cash Flow from Financing	(43)	(90)	(43)	50
Inc./(Dec.) in Cash	(5)	19	12	(32)
Opening Cash balances	9	3	22	34
Closing Cash balances	3	22	34	2

Source: Company, Angel Research

Exhibit 5: Key Ratios

Y/E March	FY2015	FY2016	FY2017
Valuation Ratio (x)			
P/E (on FDEPS)	16.3	14.1	13.3
P/CEPS	14.9	12.6	11.7
P/BV	3.1	2.7	2.4
Dividend yield (%)	0.0	0.0	0.0
EV/Sales	2.5	2.0	1.8
EV/EBITDA	12.2	9.9	8.0
EV / Total Assets	2.7	2.3	2.0
Per Share Data (₹)			
EPS (Basic)	5.5	6.4	6.7
EPS (fully diluted)	5.5	6.4	6.7
Cash EPS	6.1	7.1	7.7
Book Value	28.8	33.1	37.6
Returns (%)			
ROCE	21.0	21.8	23.3
Angel ROIC (Pre-tax)	24.9	31.8	33.0
ROE	19.2	19.3	17.9
Turnover ratios (x)			
Inventory / Sales (days)	235	138	93
Receivables (days)	123	100	130
Payables (days)	53	25	30
Working capital cycle (ex-cash) (days)	305	213	193

Source: Company, Angel Research

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