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India | Equity Research | Q1FY25 Concall Update

Mishra Dhatu Nigam

Defence

All priced in

Key highlights from MIDHANI's concall: i) Q1FY25 performance was impacted by a) inventory adjustments, b) annual maintenance shutdown for certain equipment and c) negative operating leverage. ii) Exports contributed ~10% in Q1FY25. iii) O/s orderbook stood at 17.6bn (Defence: 80%; space: 6-7%; exports: 5% and others). iv) Rohtak armour factory booked revenue of INR 1.6bn while wide plate mill booked revenue of INR 2bn in FY24, and v) management has guided for a) revenue growth of >20%, b) order inflow of INR 11bn, c) exports of INR 1.5bn and d) improvement in EBITDA margin, in FY25. Despite factoring in revenue growth and improved EBITDA margin, we see unfavourable risk reward at CMP. Maintain **SELL**, TP of INR 360 based on 20x FY26E EBITDA.

MIDHANI Q1FY25 concall takeaways

- Its Q1FY25 performance was impacted by i) inventory adjustments and ii) annual maintenance shutdown for revamping and modernisation of certain equipment. Margins were also impacted by negative operating leverage. Inventory adjustment: Normally, company counts at the end of financial year but now it is counting and monitoring it on quarterly basis as well. The inventory build up for is INR 470mn as against INR 1,070mn.
- It has built base in Q1FY25 and the management is confident of good growth in Q2FY25.
- The management has guided for i) revenue growth of >20%, ii) order inflow of INR 11bn and iii) exports of INR 1.5bn, in FY25.
- Exports are gaining momentum; during Q1FY24, exports were ~10% of revenue and the same trend is likely to continue for the remaining period. Exports were mainly to Israel (supplied scope model) and Turkey.
- The company expects good demand for its defence portfolio, and apart from this it expects demand from: i) Advanced Ultra-Supercritical Thermal Power Plant (AUSC), ii) small size of modular reactor (SME) in nuclear power plant, iii) SSLVs (third launch has been quite successful). Additionally, export markets provide good growth opportunities.

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Pritish Urumkar

Pritish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	83bn
Market Cap (USD)	988mn
Bloomberg Code	MIDHANI IN
Reuters Code	MISR BO
52-week Range (INR)	548 /340
Free Float (%)	26.0
ADTV-3M (mn) (USD)	10.5

Price Performance (%)	3m	6m	12m
Absolute	8.2	(3.8)	27.9
Relative to Sensex	(1.9)	(15.1)	7.1

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	8,719	10,727	12,872	16,090
EBITDA	2,575	1,942	2,703	3,540
EBITDA Margin (%)	29.5	18.1	21.0	22.0
Net Profit	1,563	918	1,913	2,177
EPS (INR)	8.3	4.9	10.2	11.6
EPS % Chg YoY	(11.6)	(41.5)	109.6	13.8
P/E (x)	53.2	90.9	43.3	38.1
EV/EBITDA (x)	33.6	44.2	30.8	23.3
RoCE (%)	10.1	5.9	8.9	11.7
RoE (%)	13.2	7.3	14.1	14.9

Previous Reports

12-08-2024: [Q1FY25 results review](#)

31-05-2024: [Q4FY24 results review](#)

MIDHANI Q1FY25 concall takeaways (cont.)

- The o/s orderbook as on Q1FY25-end stood at INR 17.4bn and management expects order inflow of INR 11bn in FY25. These orders have execution cycle of maximum 1.5 years.
- **Garuda:** It was done in last year only and it is occupying good space. Company has orderbook of almost INR 300mn from Garuda. Certain modifications have to be done in its supply, which are already underway. This will be processed and completed by FY25 end. It has already supplied 100 with modifications, and the rest are in pipeline.
- **Titanium plant:** MIDHANI has one new furnace, which is already under commissioning and with this commissioning, its capacity will zoom 2x to 1,000te and there is space for another 500te capacity. There was a problem in the initial stage - titanium melting was not getting sterilised, work on sterilisation process is ongoing and the plant is near completion. Around 700te could be the production level on capacity of 1,000te. It has better margins in this product category.
- **Revenue break-up for Q1FY25:** Titanium is ~8%; superalloys is ~19%; maraging steel is ~25%; and speciality steel is ~39%.
- **Orderbook break-up:** Defence is ~80% (including ~10% of armour); space is ~6-7%; export is ~5% and remaining from others.
- **Product wise orderbook break-up:** Special steel is >INR 7bn; Titanium is ~INR 3.45bn; super alloys is ~INR 3.14bn and maraging steel is INR ~1.5bn. Speciality sheet has the highest orderbook share.
- In Rohtak armour factory, the company has booked revenue of ~INR 1.58bn; in wide plate mill, it has booked revenue of ~INR 2bn; in titanium, it has booked revenue of INR 800mn.
- MIDHANI is also providing titanium for LCA Tejas programme, and is anticipating further requirement from the upcoming 97 LCA order. It has also received orders for material requirement for HAL's others strategic programmes. In addition to that it is also anticipating titanium orders for requirement of materials for Indian Navy's strategic programmes.
- It has also received orders worth INR 380mn from BrahMos.
- MIDHANI is in the process of getting its materials certified from GE and P&W, but that is only for the stage of certification. The orders will flow once your material gets qualified and you are in that range.
- **Fastener plant:** Majority of the work in the plant has been done and tested. Company is expecting 2-3 equipment from domestic market. Meanwhile, without that equipment, company has taken some trials and is trying to see how it can meet the requirement of imported fasteners for HAL. Its target is to do fasteners that platform, for LCA and AMCA. Full phase plan will be coming from Oct/Nov'24.
- **Armour steel of low thickness:** MIDHANI has developed the armour steel of very low thickness of 4.5 mm (recent development). Normally, in the market, 6mm thickness plate is being used. It is expecting some initial orders from domestic market.

Outlook: Risk reward seems unfavourable at CMP

We have factored in 20%/25% revenue growth for FY25/26E, in line with the management's guidance of 20-25% revenue growth for FY25. Also, we have factored in improved EBITDA margin of 21%/22% for FY25/26E, respectively (18.1% in FY24). It has already received orders worth INR 3.4bn during Q1FY25 as against the guidance of INR 11bn for FY25. Though we are positive on MIDHANI's prospects as both order inflow and orderbook are continuously expanding, we believe, much of this has already been priced in the stock price. Further, we believe MIDHANI might not be able to achieve its historical margin of 25%-plus of past six years due to the higher proportion of super alloys and increasing competitive intensity. Given the unfavourable risk reward at this price, we maintain **SELL** with an unchanged TP of INR 360/share based on 20x FY26E EBITDA.

Key risks

- Better-than-expected margins owing to lower price of alloying elements.
- Higher-than-expected traction from space sector leading to improved margins.
- Higher recycling leading to inventory depleting faster than expected.

Exhibit 1: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	74.0	74.0	74.0
Institutional investors	12.8	12.1	10.6
MFs and others	10.1	9.3	7.6
FIs/Banks	0.0	0.0	0.1
Insurance	1.7	1.6	1.6
FIIIs	1.0	1.2	1.3
Others	13.2	13.9	15.4

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	8,719	10,727	12,872	16,090
Operating Expenses	6,144	8,785	10,169	12,550
EBITDA	2,575	1,942	2,703	3,540
EBITDA Margin (%)	29.5	18.1	21.0	22.0
Depreciation & Amortization	530	586	612	650
EBIT	2,045	1,356	2,091	2,890
Interest expenditure	257	346	315	315
Other Non-operating Income	378	299	882	450
Recurring PBT	2,165	1,310	2,658	3,025
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	607	397	745	847
PAT	1,559	913	1,913	2,177
Less: Minority Interest	(4)	(5)	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,559	913	1,913	2,177
Net Income (Adjusted)	1,563	918	1,913	2,177

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	17,435	17,671	19,033	20,896
of which cash & cash eqv.	144	166	2,773	3,529
Total Current Liabilities & Provisions	4,819	5,112	5,314	5,793
Net Current Assets	12,617	12,558	13,719	15,103
Investments	213	218	218	218
Net Fixed Assets	10,155	10,315	10,296	10,239
ROU Assets	-	-	-	-
Capital Work-in-Progress	796	831	1,028	1,226
Total Intangible Assets	-	-	-	-
Other assets	28	20	20	20
Deferred Tax Assets	-	-	-	-
Total Assets	23,809	23,942	25,281	26,805
Liabilities				
Borrowings	3,874	3,241	3,241	3,241
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	7,082	7,509	7,509	7,509
Equity Share Capital	1,873	1,873	1,873	1,873
Reserves & Surplus	10,981	11,318	12,657	14,182
Total Net Worth	12,854	13,192	14,531	16,055
Minority Interest	-	-	-	-
Total Liabilities	23,809	23,942	25,281	26,805

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	2,275	2,520	4,055	1,635
% growth (YOY)	25.7	8.8	17.7	(12.9)
EBITDA	364	359	804	233
Margin %	16.0	14.2	19.8	14.3
Other Income	76	62	81	78
Extraordinaries	-	-	-	-
Adjusted Net Profit	140	125	464	51

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	(354)	2,156	3,405	2,065
Working Capital Changes	(2,633)	397	1,446	(628)
Capital Commitments	(729)	(791)	(791)	(791)
Free Cashflow	(1,083)	1,366	2,614	1,274
Other investing cashflow	699	139	882	450
Cashflow from Investing Activities	(29)	(652)	91	(341)
Issue of Share Capital	-	-	-	-
Interest Cost	(167)	(274)	(315)	(315)
Inc (Dec) in Borrowings	1,198	(632)	-	-
Dividend paid	(603)	(577)	(574)	(653)
Others	-	-	-	-
Cash flow from Financing Activities	428	(1,483)	(889)	(968)
Chg. in Cash & Bank balance	44	22	2,607	756
Closing cash & balance	44	22	2,607	756

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	8.3	4.9	10.2	11.6
Adjusted EPS (Diluted)	8.3	4.9	10.2	11.6
Cash EPS	11.2	8.0	13.5	15.1
Dividend per share (DPS)	3.3	1.5	3.1	-
Book Value per share (BV)	68.6	70.4	77.6	85.7
Dividend Payout (%)	39.7	30.2	30.0	-
Growth (%)				
Net Sales	1.4	23.0	20.0	25.0
EBITDA	(1.8)	(24.6)	39.2	31.0
EPS (INR)	(11.6)	(41.5)	109.6	13.8
Valuation Ratios (x)				
P/E	53.2	90.9	43.3	38.1
P/CEPS	39.6	55.2	32.8	29.3
P/BV	6.5	6.3	5.7	5.2
EV / EBITDA	33.6	44.2	30.8	23.3
P / Sales	9.5	7.7	6.4	5.2
Dividend Yield (%)	0.0	0.0	0.0	-
Operating Ratios				
Gross Profit Margins (%)	81.3	58.2	60.3	57.3
EBITDA Margins (%)	29.5	18.1	21.0	22.0
Effective Tax Rate (%)	28.0	30.3	28.0	28.0
Net Profit Margins (%)	17.9	8.5	14.9	13.5
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.3	0.2	0.0	0.0
Net Debt / EBITDA (x)	1.4	1.5	0.1	(0.1)
Profitability Ratios				
RoCE (%)	10.1	5.9	8.9	11.7
RoE (%)	13.2	7.3	14.1	14.9
RoIC (%)	10.7	6.1	9.6	13.5
Fixed Asset Turnover (x)	0.9	0.9	1.0	1.2
Inventory Turnover Days	527	511	403	337
Receivables Days	136	126	108	109
Payables Days	69	47	47	52

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
