Narnolia™

MISHRA DHATU NIGAM LIMITED

"SUBSCRIBE For Long Term"
21th Mar 2018

IPO Note

ISSUE DETAIL :

Type	100% Book Building
Issue Size	Rs. 438.38 Crore
Offer Price	*Rs (87 - 90) / Share
Min App Size	Shares
Issue Open	21-Mar-18
Issue Close	23-Mar-18
Shares Offer	4.87 Cr.
Face Value	Rs 10
Lead Mgrs	IDBI Capital Market Services Ltd, SBI Capital Markets Ltd
Listing	BSE, NSE
Registrar	Karvy Computershare Pvt Ltd
Market Cap (Post Issue)	1686.1

No of shares (Post & Pre Issue)

Noof Shares(Pre Issue)	187,340,000
Offer for Sale	48,708,400
Fresh Issue made	
No of Shares(Post Issue)	187,340,000

***Rs 3/ discount for Retail Client**

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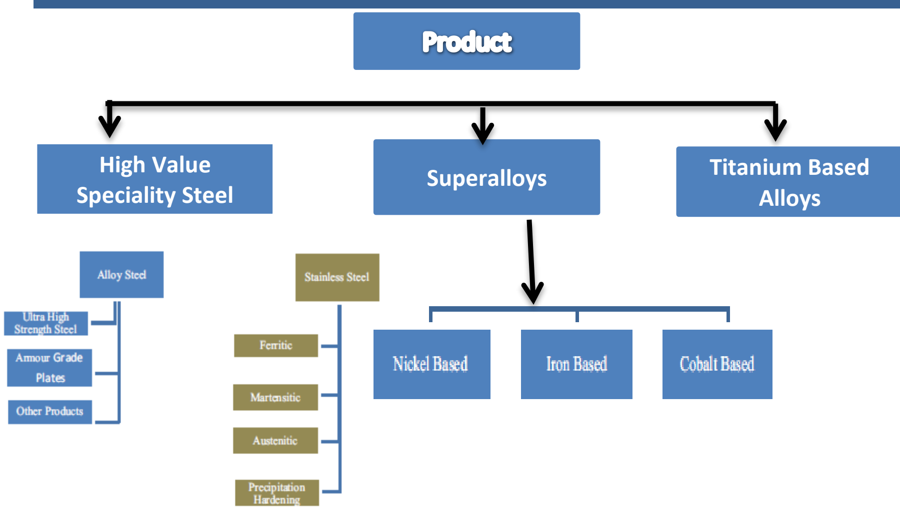
COMPANY OVERVIEW:

Mishra Dhatu Nigam Ltd is Hyderabad based PSU engaged in the business of manufacturering of special steels, superalloys and titanium alloys in India. These high value products cater to niche sectors including defense, space and power. Company is Mini Ratna, Category-I company since 2009.
Company manufacture special steels like martensitic steel, ultra high strength steel, austenitic steel and precipitation hardening steel.They manufacture three varieties of Superalloys – nickel base, iron base and cobalt base.Company also manufacture varieties of titanium alloys.
Mishra Dhatu Nigam has a manufacturing facility in Hyderabad. Compant is in the process of setting up two new manufacturing facilities in Rohtak and Nellore. Company has an in-house research and development team comprising of 14 officers. Company has 836 employees.
The Company indigenized various critical technologies, alloys and products which reduced dependence on imports of these critical materials. Company has been handling challenging developmental tasks, taking a lead position in indigenisation of critical technologies and products to render support to several programmes of national importance.

Products



OBJECTS OF ISSUE:

☑ To carry out the disinvestment of 46,835,000 Equity Shares by the Selling Shareholder constituting 25% of Company's pre-Offer paid up Equity Share capital

☑ To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

☑ Company will not receive any proceeds from the Offer and all proceeds shall go to the Selling Shareholder.

RECOMMENDATION :

Company makes high value speciality steel, superalloys and titanium alloys for niche sectors including defense, space and its products are such that which cannot be imported from other countries due to national security related concerns. Also, we believe Indigenious companies should grow considering that India is promoting itself as a defence hub. By 2027 the government plans to achieve approximately 70% indigenization in defence purchase. H1FY18 financials cannot be annualised due to seasonality and also due to a plant shutdown after 32 years for maintenance going onstream by Apr 2018. The ebdita margin for the company is 22% , Roe ~18%, P/E at 13 times FY17earnings. For FY18, we expect the company to record 12% Roe and asking PE for FY18E is at 19 times. We recommend SUBSCRIBE for Long Term. Retail investors will get a discount of Rs 3/- on the offer price

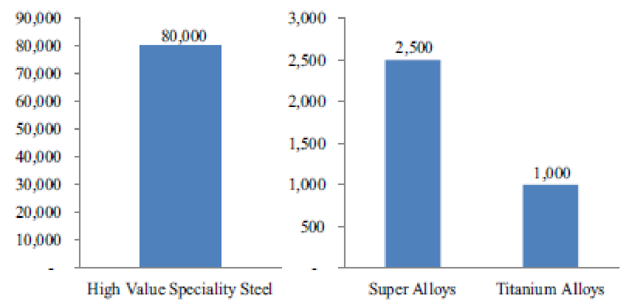
Industry Outlook :

The demand for high value speciality steel, Superalloys and titanium alloy is estimated to be around 83,500 MT with speciality steel having the maximum contribution of around 96% followed by Superalloys with 3% demand contribution and titanium accounting for 1% during 2016. The market for special metals and alloys is mainly driven by growth in aerospace and defence sectors that are expected to grow at a CAGR of around 8% during 2016-2021. The categories requirement for special metals and alloys are expected to witness a cumulative demand growth of around 9% owing to major investments proposed in aerospace, defence and other industrial manufacturing sectors during 2016-2021.

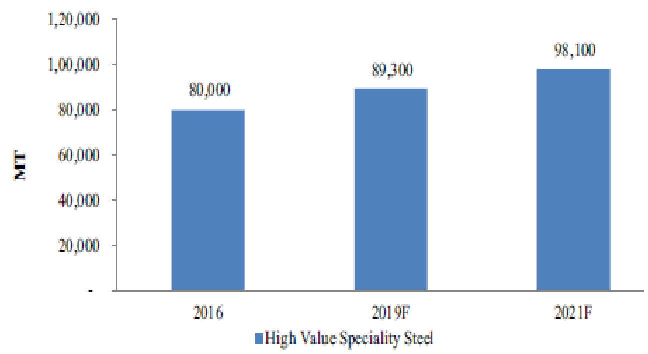
The Indian aviation sector is likely to see investments of around USD 15 billion during 2016-2020 of which USD 10 billion is expected to come from the private sector. These investments include addition of 300 business jets, 300 small aircrafts and 250 helicopters to the existing fleet of Indian carriers, which, in turn, will fuel the demand for high value speciality steel, superalloys and titanium alloys.

India is expected to emerge as the third biggest country in terms of defence-related expenditure from its current eighth position by 2020, especially through indigenously designed, developed and manufactured under the 'Make in India' initiative to encourage domestic manufacturers to produce high value specialty steel and superalloy grades and supply them to defence and aerospace.

Mkt size for High Value Speciality Steel Mkt, 2016 MT



Mkt size for High Value Speciality Steel Mkt, 2016 -21 MT



Company Strength

☑ **Most advanced and unique facilities :** The Company is the only facility in India to carry out vacuum based melting and refining through world class vacuum melting furnace such as vacuum induction melting, vacuum arc remelting, vacuum degassing/ vacuum oxygen 41 decarburisation, electro slag remelting and electron- beam melting. It enables Company to venture new markets with innovative and advanced products. Company has successfully produced Hafnium metal having vital application in the space sector for the first time in the country using state of the art electron beam melting furnace . Company has manufactured large nickel superalloy based casting through air induction melting route.

☑ **Capability to manufacture wide range of advanced products :** Company is a manufacturer of special steels and stainless steels, Superalloys , titanium alloys, soft magnetic alloys, controlled expansion alloys, heat resistance alloys, special purpose alloys, refractory metals and other alloys in different shapes, properties and sizes

☑ **Strong long term customer relationships :** Company has a strong and an established relationship with customers. Company has partnered with many of key customers in the product development process, enabling our products to meet the exact specifications provided by the customers and to ensure repeat orders. The relationships with major customers, especially in core strategic sectors, have existed for more than three decades

☑ **Research and development based technology development :** The business requires to keep abreast with the latest developments in related fields of science and technology . Company place strong emphasis on technology of products, technology of process and technology of equipment . In-house research and development team works towards improvement of product quality and processes innovation. Company has a dedicated technology advisory board which guides to the required technology for the development of new products

Application Areas for High Value Specialty Grades

Select High Value Specialty Steel Grades	Key End User Segments	Illustration of Application Areas
Ni Alloy	• Aeronautical • Defence	• Landing gears • Suspension systems • Breaking systems
	• Auto Components • Industrial Machinery	• Crankshafts • Gears • Casings for motors • Die casting
High Strength Armour grades	• Defence Vehicles for combat	• Ceilings • Walls • Doors
	• Armoured Commercial Vehicles for VIPs and SWAT vehicles	• Ceilings • Walls • Doors
Martensitic Stainless Steel	• Aerospace	• Valve Parts
	• Consumer Durables • Medical • Oil & Gas • Chemical • Tools & Machineries	• Multi-Purpose tools • Valve Parts • Surgical Instruments • Shears
Ferritic Stainless Steel	• Aerospace	• Exhaust Systems
	• Automotive • Oil & Gas • Chemical Plants • Power Plants • Processing Industries	• Automotive exhaust systems • Heat Exchangers • Furnace combustion chamber • Chemical and oil refinery equipment
Austenitic Stainless Steel	• Automotive • Food Processing • Chemical • Pharmaceutical	• Automotive trim • Food & Beverage Equipment • Process Equipment
Precipitation Hardening Steel (PH)	• Aerospace	• Exhaust systems • Oil Patch
	• Oil & Gas • Power Plants • Chemical Plants	• Pump Shaft • Oil Patch • Mechanical Seal

COMPETITIVE RISKS

☑ The Company operates in strategic sectors such as defence and space. The primary customers, defence and space accounted for 71.56% and 22.43%, respectively of total revenue from operations in Fiscal 2017 . A decline or reprioritization on the focus on strategic sectors or change in policies relating to the strategic sectors in the future will have a material adverse impact on business, financial condition, and results of operations, growth prospects and cash flows.

☑ The primary raw materials used by Company for manufacturing our products are: (a) nickel metal to various specifications; (b) cobalt metal to various specifications; (c) various master alloys; (d) pure iron; (e) titanium sponge of various grades; (f) chromium metal to various specifications; (g) mild steel scrap/stainless steel scrap; (h) high carbon/low carbon ferro chrome; (i) aluminium metal in various forms; (j) manganese metals; and (k) different ferroalloys. Company exposed to the risk of increase in the price of raw materials and dependence on suppliers for supply of the raw materials. Further, if Company is unable to source quality raw materials required for business at competitive prices, business, results of operations and profitability may be adversely affected

☑ The manufacturing processes depend on critical alloy making equipments for melting, remelting and forging . They may not operate on the same level of efficiency as newer production units . Continuing technological changes in the market for products could make products less competitive or obsolete, either generally or for particular applications . The manufacturing processes depend on critical alloy making equipments any interruption in production capability may require to make significant and unanticipated capital expenditures to effect repairs, which could have a negative effect on profitability and cash flows.

☑ Company design, develop and manufacture technologically advanced and innovative products applied by customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labour, learning curve assumptions or materials and components could prevent from achieving contractual requirements. Many of contracts contain performance obligations that require innovative design capabilities, are technologically complex. The introduction of new products and technologies involves risks and company may not realize the degree or timings of benefits initially anticipated.

Financials Snap Shot

Income Statement

Y/E March (Rs in Crores)	FY15	FY16	FY17	H1FY18
Revenue from Operation	**656**	**761**	**810**	**208**
Change (%)		16%	6%	
Total Operating Expense	528	610	624	163
EBITDA	**128**	**151**	**185**	**45**
Change (%)		18%	23%	
Margin (%)	**20%**	**20%**	**23%**	**22%**
Dep & Amortization	10	14	18	9
EBIT	**118**	**137**	**168**	**36**
Interest & other finance co:	7	4	5	2
Other Income	23	29	23	13
EBT	**134**	**162**	**186**	**47**
Tax	35	42	60	20
Reported PAT	**99**	**119**	**126**	**27**
Change (%)		20%	6%	
Margin(%)	15.1%	15.7%	15.6%	13.1%

Key Ratios

Y/E March	FY15	FY16	FY17
EPS	5.29	6.37	6.74
Book Value Per share	28.83	33.08	37.61
Valuation(x)			
P/E (Upper Band)	17.00	14.12	13.35
P/E (Lower Band)	16.43	13.65	12.90
Price / Book Value	3.12	2.72	2.39
EV	1666	1516	1509
EV/Sales	2.54	1.99	1.86
EV/EBITDA	13.00	10.03	8.14
Profitability Ratios			
RoE	18.4%	19.3%	17.9%
RoCE	21.91%	22.11%	23.80%
Liquidity Ratios			
Net Debt/Equity	0.13	0.04	0.04
Interest Coverage Ratio	16.80	32.74	35.85
Current Ratio	1.42	1.51	1.55

Balance Sheet

Y/E March (Rs in Crores)	FY15	FY16	FY17	H1FY18
Share Capital	187	187	187	187
Reserves	353	432	517	546
Networth	**540**	**620**	**704**	**733**
Non Current Liabilities				
Long term borrowing	28	25	19	48
Short term borrowing	*41*	*0*	*13*	*65*
Total Borrowing	**69**	**25**	**31**	**112**
Provisions	0.57	0.66	0.76	0.76
Deferred tax liabilities	13	23	20	24
Other non-current liabilities	129	147	109	111
Current Liabilities	-	-	-	-
Trade Payables	*95*	*53*	*66*	*90*
Other financial liabilities	*77*	*47*	*58*	*58*
Other current liabilities	*193*	*144*	*83*	*75*
Short-term provisions	*46*	*60*	*29*	*24*
Total Liabilities	***1,163***	***1,121***	***1,101***	***1,230***
Fixed Asset	*254*	*270*	*334*	*379*
Investments	*2*	*2*	*2*	*2*
Non-current tax assets	*53*	*64*	*29*	*39*
Other non-current assets	*3*	*2*	*9*	*16*
Non Current Assets				
Inventories	*423*	*289*	*206*	*251*
Trade receivables	220.1	209.1	288.5	222.3
Cash and bank balances	*89*	*196*	*208*	*261*
Other financial assets	*13.6*	*12.2*	*11.7*	*13.5*
Other current assets	*104.4*	*78.1*	*12.5*	*47.4*
Total Asset	***1,163***	***1,121***	***1,101***	***1,230***

Cash Flow Statement

Y/E March (Rs in Crores)	FY15	FY16	FY17	H1FY18
Net Profit before tax	136	163	188	50
Adjustments for:				
Depreciation and Amortisation exp	10	14	18	9
Finance costs	7	4	5	2
Interest income	(11)	(11)	(17)	(9)
Profit / Loss on sale of Fixed Asse	(0.06)	(0.00)	0.02	0.02
Operating Profit before Working	143	170	193	51
Changes in working capital				
Increase/decrease in inventories	29.77	134.47	82.50	(44.75)
Increase in trade receivables and	138	11	(79)	66
Increase in other financial assets	7	1	1	(2)
Increase in other non-current ass	(2)	2	(8)	(6)
Increase in other current assets	(36)	26	66	(35)
Increase in trade payables	(2)	(42)	13	*24*
Increase in other financial liabilitie	19	(27)	11	30
Increase in provisions	1	9	1	(4)
Increase in non-current liabilities	(116)	18	(39)	2
Increase in other current liabilities	(97)	(49)	(61)	(8)
Cash generated from operating	**85**	**254**	**180**	**74**
Tax Paid	38	38	61	26
Net Cash in OperatingActivities	**47**	**216**	**119**	**47**
Net Cash in Investing Activities	**(9)**	**(107)**	**(65)**	**(130)**
Net Cash in Financing Activities	**(42.89)**	**(90.27)**	**(42.52)**	**50.22**
Net Cash	**(5.25)**	**18.96**	**11.57**	**(32.29)**
Cash Beginning of Year	8.65	3.40	22.36	33.93
Cash End of Year	3.40	22.36	33.93	1.65

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