

29 Sept 2017

Initiating Coverage (BUY)

MAITHAN ALLOYS LTD

CMP

INR 465

Target Price

INR 545

Stock Details

| | |
|-----------------------------------|---------------|
| Industry | Iron & Steel |
| Bloomberg Code | MAIT:IN |
| BSE Code | 590078 |
| Face Value (Rs.) | 10.00 |
| Market Cap. (Rs. mn) | 13507.0 |
| 52wk. Low/High (Adjusted) ((Rs.) | 201.00/550.00 |

Shareholding Pattern June '17

| | |
|-------------------------------|-------|
| Promoter (%) | 70.69 |
| FII (%) | 0.00 |
| DII (%) | 0.00 |
| Public - Other (%) | 29.31 |
| No. of Share Outstanding (mn) | 29.11 |

Valuation Summary

| | FY 16A | FY 17A | FY 18P | FY 19P |
|---------------|--------|--------|--------|--------|
| P/E (x)* | 04.24 | 07.19 | 07.00 | 07.00 |
| EV/EBITDA (x) | 2.90 | 4.49 | 4.56 | 4.24 |
| P/BV (x) | 0.85 | 2.36 | 1.95 | 1.59 |

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

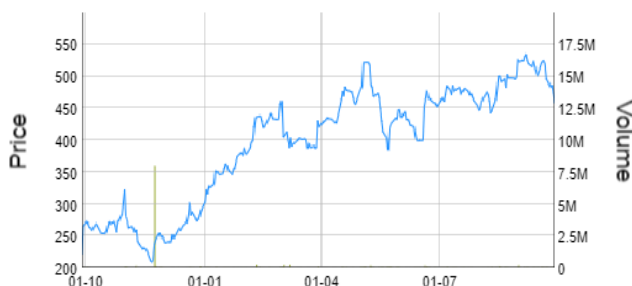
| Rs. Mn | FY 16A | FY 17A | FY 18P | FY 19P |
|------------|--------|--------|--------|--------|
| Net Sales | 11,508 | 13,421 | 15,568 | 18,371 |
| EBITDA | 1,313 | 2,934 | 3,341 | 3,456 |
| Net Profit | 788 | 1,915 | 2,192 | 2,266 |
| EPS (Rs.)* | 27.1 | 65.8 | 75.3 | 77.9 |

*Un adjusted

Key Ratios

| | FY 16A | FY 17A | FY 18P | FY 19P |
|---------------------|--------|--------|--------|--------|
| EBITDA Margin (%) | 11.4 | 21.5 | 21.3 | 18.7 |
| EBIT Margin (%) | 9.3 | 19.5 | 19.4 | 17.1 |
| Net Pro. Margin (%) | 6.8 | 14.1 | 13.9 | 12.2 |
| Debt/Equity (x) | 0.21 | 0.03 | 0.02 | 0.02 |
| RoNW (%) | 22.0 | 39.2 | 31.9 | 25.4 |
| RoCE (%) | 16.7 | 34.0 | 30.0 | 24.1 |

One Year Price / Volume



We recommend 'BUY' on MAITHAN ALLOYS LTD for a target of INR 545 - valuing the company at P/E 07x of FY19E Earning.

INVESTMENT RATIONALE:

- Poised to grow with rising steel production.
- Posts 16% CAGR in production during FY15-17.
- The company has a long standing relationship with prominent domestic steel players like SAIL, JSW Steel, Jindal Steel & Power (JSPL) and Jindal Stainless (JSL).
- MAL has an established downstream client base.
- It is one of the most competitive manganese alloys producer in the world.
- Investing in cutting-edge manufacturing and testing equipment.
- Working with quality-respecting customers.
- Internationally competitive amidst a weak downstream sector and rising power costs.
- Generating adequate cash to grow its business.

VALUATIONS AND VIEW:

Maithan Alloys is one of the fastest growing ferro-alloy manufacturers in India. The Company caters to a number of reputed Indian downstream manganese alloy customers as well an increasing number of global buyers. Maithan Alloys is among the largest Indian manufacturers and exporters of ferro-alloys – a primary ingredient in the manufacture of steel. We value the business at 07x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 545 per share.

RISK & CONCERNS:

- **Industry risk:** An industry downturn could impact profitability.
- **Quality risk:** A decline in product quality could affect the brand, resulting in product returns and customer attrition.
- **Competition risk:** Growing competition could affect revenues.
- **Currency risk:** Currency volatility, due to large-scale raw material imports, can affect profitability.
- **Geographic risk:** A wrong manufacturing location could impact profitability
- **Liquidity risk:** The inadequate availability of funds could affect operations.
- **Operational risk:** Interrupted power supply could affect operations and production.

COMPANY BACKGROUND:

Maithan Alloys (incorporated in 1985) is one of the fastest growing ferro-alloy manufacturers in India. The Company caters to a number of reputed Indian downstream manganese alloy customers as well as an increasing number of global buyers. Maithan Alloys has established a reputation for the manufacture of quality customised products, resulting in enduring and growing customer relationships, Maithan Alloys' market capitalisation was Rs. 93.81 crore (as on 31st March 2014) with a promoter holding of 74.36%. The Company is listed on the National Stock Exchange and Calcutta Stock Exchange. It has trading permission on Bombay Stock Exchange.

Maithan Alloys is among the largest Indian manufacturers and exporters of Ferro-alloys – a primary ingredient in the manufacture of steel – with a cumulative production capacity of 2, 35,600MT. The three core alloys manufactured by the Company comprise ferromanganese, Ferro-silicon and silicon manganese. Maithan Alloys accounts for a sizeable share of the country's manganese alloys segment. The Company has invested in a 15-MW power plant in Meghalaya for captive consumption besides 3.75 MW wind turbines located in Rajasthan and Maharashtra. The Company has invested in another Ferro alloys unit located in an SEZ in Visakhapatnam through the subsidiary Anjaney Alloys Ltd. The unit enjoys a tax exemption till 2017.

Segments-

- Ferro Manganese
- Silicon Manganese
- Ferro Silicon

INDUSTRY OVERVIEW:

India's steel production is expected to reach 200 million tonnes by 2020 compared to 81 million tonnes in the previous year following capacity increases (Greenfield and brownfield). The result is that India is expected to emerge as the world's third largest steel producer. A number of factors can catalyse India's per capita steel consumption: a projected infrastructure investment of nearly a trillion dollars, projected growth in the country's manufacturing sector from 8% to 11-12%, urban population increase from 400 million to 600 million by 2030, growth of a rural steel market currently consuming around 10 kilograms per annum (following the growth of projects like Bharat Nirman, Pradhan Mantri Gram Sadak Yojana and Rajiv Gandhi Awaas Yojana, among others.)

PEER COMPARISON

| Company | CMP (Rs) | P/E* | Mcap (Rs Cr) | Div Yld (%) | NP Qtr. (Rs Cr) | Qtr. Profit Var (%) | Sales Qtr. (Rs Cr) | Qtr. Sales Var (%) | CMP/BV |
|-----------------------|------------|------------|-----------------|-------------|-----------------|---------------------|--------------------|--------------------|-------------|
| Vedanta | 318 | 10.8 | 1,18,299.71 | 4.87 | 2,270.0 | 67.16 | 18,285.0 | 26.64 | 1.88 |
| Tata Steel | 166 | 20.3 | 63,099.90 | 1.53 | 921.1 | 148.88 | 29,556.8 | 19.21 | 5.24 |
| JSW Steel | 242 | 20.1 | 58,581.3 | 0.93 | 419.0 | (61.28) | 13,837.0 | 26.72 | 2.39 |
| Indian Metals | 644 | 4.6 | 1,737.6 | 3.11 | 99.9 | 429.23 | 422.7 | 68.75 | 1.52 |
| Kalyani Steels | 403 | 12.9 | 1,761.5 | - | 27.4 | (41.47) | 335.7 | 9.96 | 2.28 |
| Jindal Stain. | 115 | 33.1 | 5,302.0 | - | 41.5 | 185.57 | 2,015.2 | 0.75 | 2.98 |
| Maithan Alloys | 485 | 7.0 | 1,534.43 | 0.52 | 59.2 | 212.18 | 430.9 | 68.68 | 2.31 |

*TTM

FINANCIAL OVERVIEW

| Q2 FY17 Performance Highlight | | | | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|---------|---------|
| (in Million) | 2Q FY16 | 3Q FY16 | 4Q FY16 | 1Q FY17 | 2Q FY17 | YoY (%) | QoQ (%) |
| Revenue | 2,554.33 | 2,939.03 | 3,181.22 | 4,746.38 | 4,445.82 | 74.05% | -6.33% |
| Other Income | 12.37 | 12.27 | 160.76 | 19.96 | 18.84 | | |
| Total Income | 2,566.70 | 2,951.30 | 3,341.98 | 4,766.34 | 4,464.66 | 73.95% | -6.33% |
| Expenditure | -2,241.32 | -2,748.59 | -1,667.57 | -3,317.61 | -3,665.83 | | |
| As a % of Sales | 87.75% | 93.52% | 52.42% | 69.90% | 82.46% | | |
| Interest | -26.77 | -30.29 | -13.98 | -23.3 | -7.71 | -71.20% | -66.91% |
| PBDT | 298.61 | 172.42 | 1660.43 | 1448.73 | 798.83 | | |
| As a % of Sales | 11.69% | 5.87% | 52.19% | 30.52% | 17.97% | | |
| Depreciation | -65.55 | -58.95 | -769.25 | -63.69 | -37.59 | | |
| PBT | 233.06 | 113.47 | 891.18 | 1385.04 | 761.24 | 226.63% | -45.04% |
| As a % of Sales | 9.12% | 3.86% | 28.01% | 29.18% | 17.12% | | |
| Tax | -50.23 | -25.47 | -209.2 | -360.98 | -169.36 | 237.17% | -53.08% |
| Net Profit | 182.83 | 88 | 681.98 | 1024.06 | 591.88 | 223.73% | -42.20% |
| As a % of Sales | 7.16% | 2.99% | 21.44% | 21.58% | 13.31% | | |
| Equity | 291.12 | 291.12 | 291.12 | 291.12 | 291.12 | 0.00% | 0.00% |
| EPS (Rs) | -- | -- | 23.43 | 35.18 | 20.33 | #VALUE! | -42.21% |
| CEPS (Rs) | 8.53 | 5.05 | 49.85 | 37.36 | 21.62 | | |
| OPM % | 12.74 | 6.9 | 52.63 | 30.52 | 17.97 | | |
| NPM % | 7.16 | 2.99 | 21.44 | 21.58 | 13.31 | | |

Income Statement (Consolidated)

| Y/E Mar (Rs mn) | FY 14A | FY 15A | FY 16A | FY 17A | FY 18E | FY 19P | FY 20P |
|-------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 8,163 | 11,065 | 11,508 | 13,421 | 15,568 | 18,371 | 21,126 |
| Other Operating Income | 20 | 48 | 41 | 206 | 147 | 150 | 192 |
| Expenditure | 7,782 | 9,971 | 10,236 | 10,693 | 12,374 | 15,064 | 17,530 |
| EBITDA | 401 | 1,142 | 1,313 | 2,934 | 3,341 | 3,456 | 3,788 |
| Depreciation | 58 | 269 | 233 | 280 | 286 | 298 | 311 |
| EBIT | 343 | 872 | 1,080 | 2,654 | 3,055 | 3,158 | 3,477 |
| Interest Expenses | 48 | 169 | 122 | 94 | 138 | 145 | 177 |
| PBT | 294 | 704 | 957 | 2,560 | 2,918 | 3,013 | 3,300 |
| Tax | 64 | 138 | 169 | 646 | 726 | 747 | 811 |
| Extraordinary Items | - | (40) | - | - | - | - | - |
| Net Income Before Adjustment | 230 | 526 | 788 | 1,914 | 2,192 | 2,266 | 2,489 |
| Minority Int./Income from Assoc. | - | 0 | (1) | (1) | - | - | - |
| Adjusted PAT | 230 | 526 | 788 | 1,915 | 2,192 | 2,266 | 2,489 |

Balance Sheet (Consolidated)

| Y/E Mar (Rs mn) | FY 14A | FY 15A | FY 16A | FY 17A | FY 18E | FY 19P | FY 20P |
|---|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Equity share capita | 146 | 146 | 291 | 291 | 291 | 291 | 291 |
| Reserves & surplus | 2,756 | 3,080 | 3,639 | 5,554 | 7,593 | 9,700 | 12,015 |
| Share Warrants | - | - | - | - | - | - | - |
| Net worth | 2,902 | 3,225 | 3,931 | 5,845 | 7,884 | 9,991 | 12,307 |
| Minority Interest | - | 36 | 36 | 6 | - | 27 | 24 |
| Share Application Money | - | - | - | - | - | - | - |
| Loan Funds | - | 1,213 | 817 | 160 | 162 | 160 | 158 |
| Net deferred tax liability | 52 | - | 182 | 258 | 258 | 258 | 258 |
| Other Long-term Liabilities | - | - | - | - | - | - | - |
| Long-term Provisions | 6 | 11 | 12 | 17 | 20 | 23 | 27 |
| Total Liabilities | 2,960 | 4,486 | 4,979 | 6,288 | 8,324 | 10,461 | 12,775 |
| Net block | 570 | 2,811 | 2,673 | 2,419 | 3,977 | 3,851 | 3,711 |
| Investment, Loan & Adv. | 915 | 85 | 193 | 279 | 323 | 382 | 439 |
| Total Current Assets | 3,580 | 4,917 | 5,124 | 6,267 | 6,594 | 8,944 | 11,463 |
| Current Liabilities & Provisions | 2,106 | 3,327 | 3,012 | 2,679 | 2,571 | 2,717 | 2,840 |
| Net Current Assets | 1,475 | 1,590 | 2,112 | 3,587 | 4,023 | 6,227 | 8,624 |
| Total Assets | 2,960 | 4,486 | 4,979 | 6,288 | 8,324 | 10,461 | 12,775 |

Cash Flow (Consolidated)

| Y/E Mar (Rs mn) | FY 17A | FY 18E | FY 19P | FY 20P |
|-----------------------------|------------|--------------|--------------|--------------|
| Operating Cash Flow | 1,258 | (37) | 1,616 | 2,124 |
| Cash Flow from Investments | (112) | (195) | (258) | (257) |
| Cash Flow from Financing | (739) | (262) | (270) | (318) |
| Net Changes in Cash | 407 | (493) | 1,087 | 1,549 |
| Opening Cash | 354 | 761 | 268 | 1,355 |
| Closing Cash Balance | 761 | 268 | 1,355 | 2,904 |

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| 1.Analyst ownership of the stocks mentioned above | No |
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