



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Metal
Offer for sale (Shares)	48,708,400
Employee reservation	1,873,400
Net Offer to the Public	46,835,000
Issue Size (Rs. Cr.)	423-439
Price Band (Rs.)	87-90
Offer Date	21-Mar-18
Close Date	23-Mar-18
Face Value	10
Lot Size	150

Discount offered to Retail & Employee investors Rs. 3

Issue Composition

	In shares
Total Issue for Sale	46,835,000
QIB	23,417,500
NIB	7,025,250
Retail	16,392,250

About the Company

Established in 1973, Mishra Dhatu Nigam (Midhani) is a leading manufacturer of special steels, superalloys 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. Its products are key ingredients for strategic sectors in India, which typically cannot be imported from other countries due to its national security related concerns. As on January 31, 2018, it has an order book position of Rs. 517 Crore comprising of Rs. 283 crore for defence, Rs. 168 Crore for space and Rs. 66 Crore for other sectors.

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 decarburisation, electro slag remelting and electron- beam melting. It enables the Company to venture new markets with innovative and advanced products. It 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. Also, it has manufactured large nickel superalloy based casting through air induction melting route. Thus, the wide spectrum of advanced melting facilities enables the company with the flexibility to provide its customers with high quality products which meet their stringent quality requirements.

Capability to manufacture wide range of advanced products: The Company is in a unique position to leverage both economies of scale and scope as it is capable of processing different alloys. Some of the alloys that it manufactures have properties higher than international standards to meet specific requirements of its customers. Its wide range of products and ability to meet the specific customer needs enable the company to successfully service core strategic sectors such as defence, nuclear/ power and aerospace.

Strong long term customer relationships: The Company has a strong and an established relationship with its customers especially in core strategic sectors, have existed for more than three decades. The company intends to continue to leverage these long standing relationships and continue to grow its business operations in line with these expectations. The trust of its customers is manifested through customer funded capital investments at the Company. As on September 30, 2017, customer funded assets constitute Rs 66 Crore out of the total gross block of its Company of ₹ 365.39 Crore.

Research and development based technology development: The Company places strong emphasis on research and development to enhance its product range and improving its manufacturing processes. Its in-house research and development team works towards improvement of product quality and processes innovation for meeting the expected demands at acceptable costs. Being a manufacturer of advanced metals and alloys, the company undertakes extensive quality control tests of its products as well as of the raw materials to ensure only products of desired quality are supplied to them.

Strategy

Growth and modernisation: The Company seeks growth (through both greenfield and brownfield) and is based on the development of technology for customer and product. Some of its new projects planned in the next three years include: (a) proposal for construction of spring manufacturing plant for manufacture and supply of helical

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.00%
QIB	0.00%	12.50%
NIB	0.00%	3.75%
Employee reservation	0.00%	1.00%
Retail	0.00%	8.75%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the 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; and
- 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.

Book Running Lead Manager

- IDBI Capital Markets & Securities Limited
- SBI Capital Markets Limited

Name of the registrar Alankit Assignments Limited

compression springs for supply to the Railways; and (b) development of aero quality carbon fibers. The company also aims for its geographical expansion and to operate from multiple locations. At present, it intends to start two new manufacturing units based at Rohtak (in Haryana) and Nellore (in Andhra Pradesh). It has signed a memorandum of understanding for setting up a joint venture with National Aluminum Company (NALCO) for production of high-end value-added products at aluminum alloy plant at Nellore. The manufacturing unit at Rohtak will be set up by the company for manufacturing of armor products. The company is also in the process of upgrading and modernizing its existing manufacturing equipments and facilities. The company is also seeking to enter into the new markets of oil and gas, mining, power, railways and chemical and fertilizers. It is also making efforts to enter into export market which it believes will enable it to achieve higher targets.

Increased focus on research and development: The Company believes that innovation in its production processes coupled with enhanced efficiency and utilisation of resources is the key to reduce production costs. It intends to leverage its design, engineering and manufacturing capabilities to increase its focus on advanced technology products. It has entered into collaborations with Indian and international research institutions and organisations to gain access to the required know-how for developing certain key advanced technology products. The Company aims for forward and backward integration by manufacturing components/ value added products.

Strengthen its human capital: The human capital contributes significantly to its business operations and it believes that its employees and workers are its invaluable asset essential for its success. It intends to develop entrepreneurship skills and further strengthen its workforce through more comprehensive training programs, creating a core of skilled workers for its future growth by providing them with a conducive, safer and healthier working environment.

Risk Factors

Business operation is based out of its single manufacturing unit: Its business operation is based out of its single manufacturing unit in Telangana. The loss of, or shutdown of, its operations at its unit in Telangana will have a material adverse effect on its business, financial condition and results of operations.

Requires extensive research, design and development expenses: The business environment in many of principal operating segments requires extensive research, design and development expenses to keep pace with rapid technological and market changes in the strategic sectors.

Dependence on suppliers for supply of the raw materials: The Company is exposed to the risk of increase in the price of its raw materials and dependence on suppliers for supply of the raw materials. Further, if it is unable to source quality raw materials required for its business at competitive prices, its business, results of operations and profitability may be adversely affected.

Business is dependent on the delivery of an adequate and uninterrupted supply of infrastructure utilities: The business of the company is dependent on the delivery of an adequate and uninterrupted supply of infrastructure utilities at a reasonable cost and any supply insufficiency or interruption could adversely affect its business, financial condition and results of operations.

Its business is dependent on certain principal customers: Its products are key ingredients for strategic sectors in India. A majority of its revenue is derived from its top five customers. Sales to its top five customers contributed 64.75%, 70.29% and 65.80% of its revenues from operations during Fiscals 2017, 2016 and 2015 respectively. Since it is largely dependent on certain key customers for a significant portion of its sales, the loss of any one of its key customers or a significant reduction in demand from such customers could have a material adverse effect on its business, financial condition, results of operations and future prospects.

The GoI has significant influence over its actions: Given the importance of the defence industry to the Indian economy, the GoI could require the company to take actions designed to serve the public interest and not necessarily to maximise its profits. This could adversely affect its business and results of operations.

Peer comparison

There are no comparable listed companies in India engaged in the same line of business as the Company, hence comparison with industry peers is not applicable.

Valuation

Considering the P/E valuation on the upper price band of Rs.90 EPS and P/E of FY2017 are Rs.6.74 and 13.35 multiple respectively and at a lower price band of Rs. 87, P/E multiple is 12.90. Looking at the P/B ratio on the upper price band of Rs.90., book value and P/B of FY17 are Rs.37.60 and 2.39multiple respectively and at a lower price band of Rs. 87 P/B multiple is 2.31. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Overview

As per Frost & Sullivan analysis, the demand for the high value speciality steel, superalloy and titanium alloy is observed to be around 83,500 MT during 2016. The market for the select products has grown at a steady growth of around 5.8% during 2011-2016. The key end user segments that consume the selected products are aerospace, defence, automotive and energy sector that includes oil and gas and petrochemical segments. Aerospace and defence had the maximum demand contribution with over 70% of the overall demand for high value speciality, Superalloys and titanium alloy products during 2016. The growth in speciality material is mainly due to major investments in aerospace, defence and other industrial sectors in India. High value speciality steel grades have the highest demand among the select product category with over 80% demand contribution in 2016. The cumulative demand for high value speciality steel, superalloy and titanium is expected to witness a minimum growth of around 6.5% during 2016-2021, owing to the proposed investment plans of end user segments.

Outlook

Mishra Dhatu Nigam (Midhani) is a leading manufacturer of special steels, superalloys and the only manufacturer of titanium alloys in India. The Company enjoys virtual monopoly in its field. It has no listed peers to compare with. However, in Six month period ended September 30, 2017, its operations were adversely affected by delays in supplies from external sources, including receipt of outsourced production back from its sub-contractors. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 21, 2018
Bid/Offer Closing Date	March 23, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	March 28, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	April 02, 2018
Credit of Equity Shares to depository accounts of Allottees	April 03, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	April 04, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	208.06	809.71	761.45
management fees			
Total expenditure	162.83	624.40	610.35
Operating Profit	45.24	185.31	151.10
OPM%	21.74	22.89	19.84
Other Income	12.60	23.38	29.00
PBDIT	57.83	208.69	180.10
Depreciation	9.37	17.66	14.07
PBIT	48.47	191.03	166.03
Interest	1.52	4.68	4.19
PBT	46.95	186.35	161.85
Tax	19.65	60.04	42.48
Profit After Tax	27.30	126.31	119.37

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 30-Sep-16
Non-current assets			
Property, plant and equipment	323.65	326.44	261.46
Capital work-in-progress	54.24	6.21	6.69
Intangible assets	0.66	0.94	1.49
Financial Assets	0.00	0.00	0.00
Investments	2.10	2.10	2.10
Loans	0.00	0.00	0.01
Non-current tax assets (Net)	39.01	29.34	63.71
Other non-current assets	15.71	9.37	1.66
Total non-current assets	435.37	374.40	337.13
Current assets			
Inventories	250.80	206.04	288.55
Trade receivables	222.26	288.53	209.05
Cash and bank balances	260.53	207.93	195.86
Other financial assets	13.50	11.68	12.21
Other current assets	47.44	12.46	78.05
Total current assets	794.52	726.64	783.72
Total Assets	1229.89	1101.04	1120.85
Non-current liabilities			
Borrowings	0.83	1.24	9.02
Other Financial Liabilities	46.88	17.34	16.46
Provisions	0.76	0.76	0.66
Deferred tax liabilities (net)	24.39	20.44	22.65
Other non-current liabilities	110.87	108.91	147.48
Total non-current liabilities	183.72	148.68	196.26
Current liabilities			
Short term borrowings	64.70	12.55	0.00
Trade Payables	90.44	66.03	52.95
Other Financial Liabilities	57.84	57.64	47.25
Provisions	24.34	28.70	60.49
Other current liabilities	75.41	83.09	144.24
Total current liabilities	312.73	248.01	304.92
Total	496.46	396.69	501.18
NET Worth	733.43	704.34	619.67
Net worth represented by:			
Share capital	187.34	187.34	187.34
Other Equity	546.09	517.00	432.33
Net Worth	733.43	704.34	619.67

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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