

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

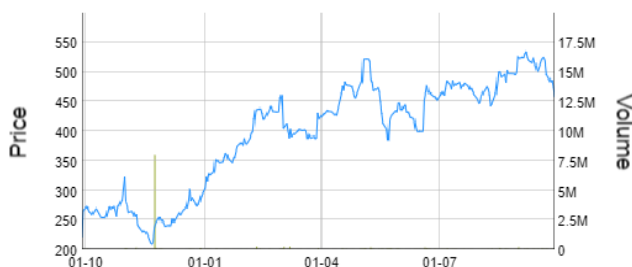
Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	11,508	13,421	15,568	18,371
EBITDA	1,313	2,934	3,341	3,456
Net Profit	788	1,915	2,192	2,266
EPS (Rs.)*	27.1	65.8	75.3	77.9

*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

Research Analyst Details

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