May 25, 2017

# Maithan Alloys (MAIALL) ₹ 412

## Poised to grow with rising steel production

### Rating matrix

| | | |
|---|---|---|
| Rating | : | Unrated |
| Target | : | NA |
| Target Period | : | NA |
| Potential Upside | : | NA |

### Key Financials

| ₹ Crore | FY14 | FY15 | FY16 | FY17 P |
|---|---|---|---|---|
| Net Revenues | 962.3 | 1106.5 | 1150.8 | 1342.1 |
| EBITDA | 50.8 | 109.4 | 127.2 | 272.8 |
| PAT | 11.3 | 52.6 | 78.8 | 191.4 |
| EPS (₹) | 7.7 | 36.1 | 27.0 | 65.8 |

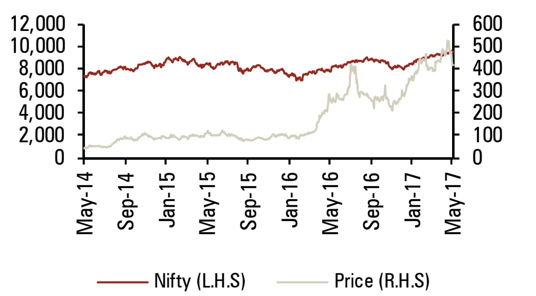
### Valuation Summary

| | FY14 | FY15 | FY16 | FY17 P |
|---|---|---|---|---|
| P/E | 53.5 | 11.4 | 15.2 | 6.3 |
| EV/EBITDA | 15.6 | 6.8 | 9.8 | 4.2 |
| P/BV | 2.2 | 1.9 | 3.1 | 2.1 |
| ROCE (%) | 6.1 | 16.7 | 21.9 | 43.6 |
| RONW (%) | 4.1 | 16.3 | 20.0 | 33.2 |

### Stock Data

| Particulars | Amount |
|---|---|
| Market Capitalisation (₹ crore) | 1,222.7 |
| Total Debt (FY17 P) (₹ crore) | 33.0 |
| Cash and Investments (FY17 P) (₹ crore) | 158.2 |
| EV (₹ crore) | 1,097.6 |
| 52 Week H / L (₹) | 544 / 201 |
| Equity Capital (₹ crore) | 29.1 |
| Face Value (₹) | 10.0 |

### Stock Price Movement




*Source: Bloomberg, ICICIdirect.com Research*

### Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.coms

We recently met the management of Maithan Alloys (MAL) to understand its business model and long term prospects. The company was incorporated in 1985 while production commenced in 1997. MAL is a leading manufacturer and exporter of niche value added manganese alloys such as ferro manganese, silico manganese and ferro silicon largely used in manufacturing steel. The company has an installed capacity of 137.25 MVA as on March 31, 2017 spread across three locations at Kalyaneshwari, Vishakhapatnam and Byrnihat. The company also operates three wind turbine generators (one in Maharashtra and two in Rajasthan) with a cumulative capacity of 3.8 MW.

### Posts 16% CAGR in production during FY15-17…

The demand for ferro alloys is expected to move in tandem with growth in end-user steel industry. Ferro alloy is used as an input, which acts as de-oxidant and an alloying agent. With the National Steel Policy (NSP) 2017 being announced, the growth prospects in the domestic steel industry seem promising. The policy aims to enhance domestic steel production to 300 MT and per capita consumption to ~160 kg from current level of ~120 MT and 58 kg, respectively. The increase in steel production has boosted MAL's production, which grew at 16.1% CAGR in FY15-17. In the aforementioned period, revenues grew at 10.1% CAGR.

### Established clientele, low gearing….

MAL has an established downstream client base. The company has a long standing relationship with prominent domestic steel players like SAIL, JSW Steel, Jindal Steel & Power (JSPL) and Jindal Stainless (JSL). Further MAL also has a presence in the international market and derives ~50% of its revenues from exports. The company's use of finer grade manganese ore and ability to fulfil client requirement with a thrust on quality has resulted in repeat orders from its client. MAL also has a low gearing ratio (0.1x as on March 31, 2017), auguring well.

### Exhibit 1: Key Financial

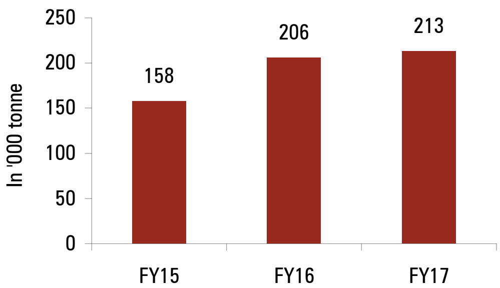
| (₹ Crore) | FY13 | FY14 | FY15 | FY16 | FY17 P |
|---|---|---|---|---|---|
| Total Operating Income | 952.1 | 962.3 | 1106.5 | 1150.8 | 1342.1 |
| EBITDA | 83.6 | 50.8 | 109.4 | 127.2 | 272.8 |
| EBITDA Margin (%) | 8.8 | 5.3 | 9.9 | 11.1 | 20.3 |
| Net Profit | 44.0 | 11.3 | 52.6 | 78.8 | 191.4 |
| EPS (₹) | 30.0 | 7.7 | 36.1 | 27.0 | 65.8 |
| P/E (x) | 13.8 | 53.5 | 11.4 | 15.2 | 6.3 |
| Price / Book (x) | 11.2 | 2.2 | 1.9 | 3.1 | 2.1 |
| EV/EBITDA (x) | 9.2 | 15.6 | 6.8 | 9.8 | 4.2 |
| ROCE (%) | 14.8 | 6.1 | 16.7 | 21.9 | 43.6 |
| ROE (%) | 16.4 | 4.1 | 16.3 | 20.0 | 33.2 |

*Source: Company, ICICIdirect.com Research, P: Provisional*

## Management Meet Highlights…

- During the year, the company achieved growth of 4% in volume terms and 17% in value terms. The substantial increase in EBITDA and PAT was due to a rebound in the metal industry in Q3FY17, power subsidies announced by various state governments and stabilisation of raw material prices in Q4FY17
- The Vizag and Kalyaneshwari plants manufacture ferro manganese and silicon manganese while the Meghalaya unit manufactures only ferro silicon. The Vizag plant contributes ~50% to the topline while the Kalyaneshwari plant contributes 40% and the remaining 10% of the topline comes from the Meghalaya plant
- Operations of the Meghalaya plant are supported by government incentives and income tax holiday. Due to absence of manganese ore and a saleable market, the company has no intent to grow the unit further
- The company sources its raw material (manganese ore) through imports from South Africa and Australia, as domestically the high grade manganese ore is unavailable. MAL imports from companies like BHP Billiton and Assmang
- In India, the current requirement of manganese ore is ~5 MT, of which 2 MT is met domestically while the remaining 3 MT is imported (implying 0.25 MT/month of imports).
- Another key raw material is metallurgical coke (however, the input is not high enough to impact materially). The company uses a blend of coal and coke. Coal buying is more of a techno commercial decision
- Manpower cost is another significant cost in the cost structure. The company's manpower cost is 2-2.5%, lower than the normal industry benchmark of ~5%
- Currently, manganese alloy prices are ~₹ 60000/tonne
- The company prefers an order size of 500-1000 tonne as it lowers the order execution cost. Contracts for three months are made on spot prices while ones for more than six months are made on index based pricing
- SAIL is the largest customer of the company domestically contributing >75% of total domestic sales
- The company enjoys similar kind of EBITDA margins in both domestic sales as well as exports. The management has set a conservative target of achieving an EBITDA of 15-17% for FY18
- The company has no client concentration or geographic concentration. MAL's exports are to countries wherein there is no or marginal manganese alloy production
- The company is also looking at acquisition opportunities and will invest at the right time and at the right price. The focus is on acquiring a ferro alloy furnace

**Exhibit 1: Production Trend**



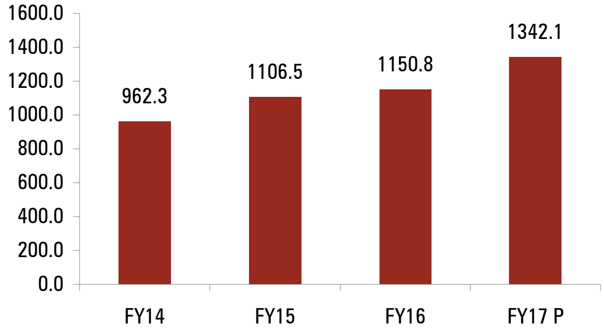

*Source: Company, ICICIdirect.com Research*

**Exhibit 2: Quarterly Performance (Standalone)**

| Particulars | Q1FY16 | Q2FY16 | Q3FY16 | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 |
|---|---|---|---|---|---|---|---|---|
| Total Operating Income | 187.8 | 277.4 | 164.0 | 521.6 | 255.4 | 293.9 | 318.1 | 474.6 |
| Cost of Raw Material Consumed | 123.8 | 202.5 | 91.7 | 178.5 | 120.1 | 144.5 | 127.3 | 235.7 |
| Employee Benefit Cost | 3.3 | 4.1 | 4.0 | 11.5 | 5.7 | 5.5 | 9.5 | 12.7 |
| Power & Fuel Cost | 39.2 | 39.5 | 43.5 | 192.3 | 71.9 | 85.1 | 76.9 | 46.4 |
| Other Expenses | 10.3 | 13.7 | 8.5 | 57.0 | 26.4 | 39.9 | 23.5 | 34.7 |
| Total Operating Expenses | 176.6 | 259.8 | 147.8 | 439.3 | 224.1 | 274.9 | 237.3 | 329.4 |
| EBITDA | 11.2 | 17.6 | 16.1 | 82.3 | 31.3 | 19.0 | 80.9 | 145.2 |
| EBITDA Margin | 6.0 | 6.3 | 9.8 | 15.8 | 12.3 | 6.5 | 25.4 | 30.6 |
| Depreciation | 1.0 | 1.1 | 1.0 | 20.3 | 6.6 | 5.9 | 6.4 | 6.4 |
| Interest & Finance Cost | 0.6 | 0.5 | 0.4 | 10.7 | 2.7 | 3.0 | 1.4 | 2.3 |
| Other Income | 0.4 | 0.5 | 0.3 | 2.8 | 1.2 | 1.2 | 16.1 | 2.0 |
| Exceptional Items | - | - | - | - | - | - | - | - |
| Profit before Tax | 10.0 | 16.6 | 15.0 | 54.2 | 23.3 | 11.3 | 89.1 | 138.5 |
| Tax | 2.2 | 3.6 | 3.2 | 7.8 | 5.0 | 2.5 | 20.9 | 36.1 |
| Net Profit (PAT) | 7.9 | 13.0 | 11.8 | 46.3 | 18.3 | 8.8 | 68.2 | 102.4 |

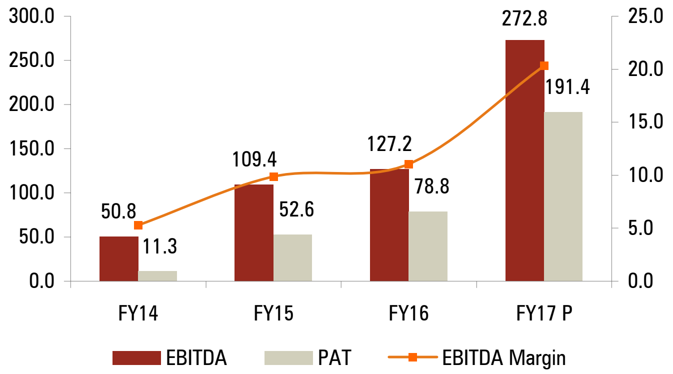
*Source: Company, ICICIdirect.com Research*

**Exhibit 3: Revenue trend (₹ crore)**



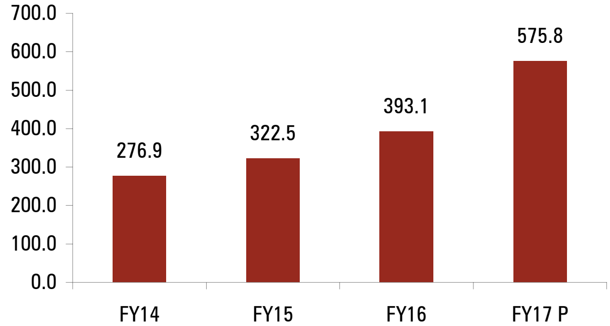

*Source: Company, ICICIdirect.com, Research*

**Exhibit 4: EBITDA, EBITDA margin and PAT trend**



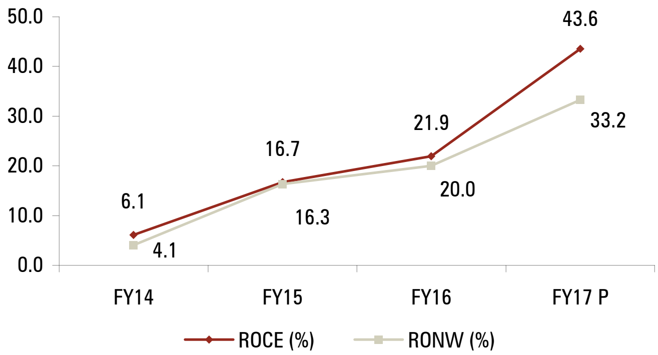

*Source: Company, ICICIdirect.com, Research*

**Exhibit 5: Networth trend**




*Source: Company, ICICIdirect.com, Research*

**Exhibit 6: RoCE & RoE trend**




*Source: Company, ICICIdirect.com, Research*

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,**
**ICICI Securities Limited,**
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

# Disclaimer

## ANALYST CERTIFICATION

We /I, Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.