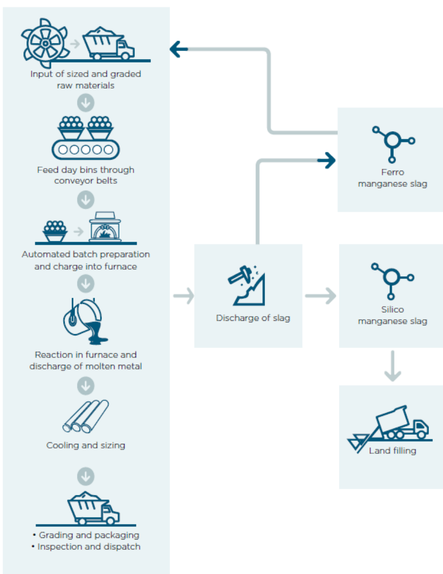
Maithan Alloys

Company Profile

Maithan Alloys Ltd. is a manganese-based ferro alloy manufacturing company and is one of the best run ferro alloy manufacturers in the country in terms of operating margins and is the largest manganese alloy manufacturer as well. They manage this by being one of the lowest cost ferro alloy manufacturer in the world. The company was incorporated in 1997 and has a capacity of 136 Mega volt amp (MVA) with presence in Kalyaneshawri, West Bengal (48.75), Vishakhapatnam (72.0) and Byrnihat, Meghalaya (16.5). Total ferro alloy capacity is approximately 2.3 lakh tonnes. It has prominent clients such as SAIL, JSW, JSPL, JSL with whom the company enjoys a long term relationship. The company manufactures the following products:

- Ferro-manganese
- Silico-manganese
- Ferro-silicon

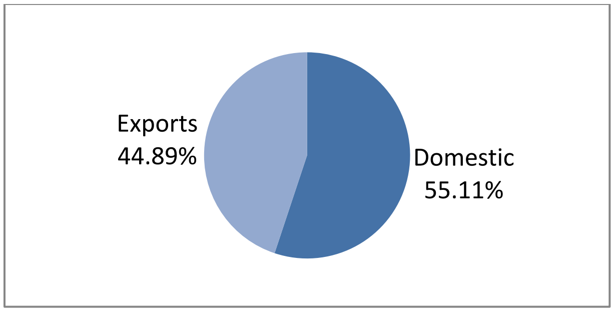


Financial Snapshot (Standalone)

MARKET CAP (RS CR)	1,899
P/E	8.71
BOOK VALUE (RS)	444.07
INDUSTRY P/E	7.51
EPS (TTM)	74.90
P/C	8.12
PRICE/BOOK	1.47
DIV YIELD.(%)	0.92%

Source: Moneycontrol

Sales Breakup by Region



SWOT Analysis

Strengths

- Superior process control and enhanced automation helps the Company in being one of the lowest cost manufacturers of ferro alloys, globally
- Manganese alloy makes up ~1.5% of the total input for manufacturing 1 tonne of steel
- Does not take long-term ownership of raw materials and purchases as per the order book which reduces scope for speculation and pressure on cash flows
- Management believes operations will remain sustainable despite a drop in finished product prices
- Operates on an asset light model as it does not own any mining rights nor has captive power supply
- Client base is strong as 100% of the customers are associated for more than 7 years
    - 75% of overall clients are repeat clients
- Company is able to maintain a 2-3 month order book and remain virtually debt free despite testing times
- Has been able to manage an average ROE of 25% over the past 5 years (below average at 17% in FY20)
- Average Net Profit to FCF convertibility of 84% in the past 5 years

Weaknesses

- Operations have reached full capacity and Company has not come up with a concrete plan on expansion
- Non-ownership of mining rights and captive power and purchase of raw materials without any hedges could create volatility in overall input prices
- ROCE has been gradually reducing on the back of rising cash reserves with limited opportunity to reinvest
- Highly cyclical business and exposed to business cycles
- Having locations in various parts of the country may reduce logistical efficiencies
- Long term sustainable EBIT margin is only 14%

Opportunities

- Focus shifting from stable European and North American markets to higher growth markets in Asia
- Large debt, low demand and inefficient operations in other companies within the industry may provide the Company with an attractive opportunity to acquire assets at a good price

Threats

- Global steel demand could take longer than expected to recover
- Dependence on suppliers for raw materials and its concentration could increase the volatility of costs
    - 33% of global manganese comes from South Africa and ~15% from Australia

- Indian Steel industry has seen a lot of volatility and stress in the recent past and adverse events can cause considerable pressure on the Company
- Government spending on infrastructure could reduce given stretched budgets which would in turn reduce the demand for steel

Porter's 5 Forces (Score: 6/10)

Threat of new entrants – Low

- Steel industry has long gestation period and requires large capex investments
- New entrants may find it difficult to compete within the specific manganese alloy segment
- Company is already one of the lowest cost manufacturers of manganese alloys and competing with it is not an attractive proposition
- Large economies of scale involved in the business which gives the Company a competitive advantage
- Gaining share from the Company's strong clientele would be difficult without a strong brand and execution history
- Greatest threat would be from backward integration of steel manufacturers which would create competition as well as loss of clientele

Threat of substitutes – Low

- Manganese is considered, next to carbon, the most important elemental addition to steel which makes it very hard to substitute

Bargaining power of Suppliers – High

- South Africa is by far the largest producer of Manganese followed by China and Australia which would give the company limited bargaining power with its suppliers as it imports 75% of its raw material
- Substitution of raw material is also not easy and relationships are built over the long term

Bargaining power of Buyers – Medium

- Large proportion of buyers in the market are government companies
- Product makes up a very limited but important input quantity for manufacturing steel
- Product is not easily substitutable

Rivalry amongst competitors – Medium

- Limited number of listed competitors which are struggling to operate efficiently which limits tough competition
    - Industry is not very concentrated, however most other players have small capacities and operate less than optimally
- Strong relationship based business rather than transaction based which provides more customer loyalty
- Higher barriers to exit than usual which forces competitors to continue operations at a loss

Management Review

The Company is promoted and managed by the Asansol-based Agarwalla family with about 30 years of experience in India's ferro alloys industry. The Company has been built from scratch by the Chairman, Mr. SC Agarwalla and the family itself has a good number of years' experience within the industry. Promoter group owns 75% of the Company (Maximum permissible for any public company).

Management performance, when measured by return ratios has been obviously varying in nature due to the industry. ROE has ranged from 4% to 39% over 10 years, averaging 22%. This has improved to 25% in the last 3 years. On a 3-yr basis, the ROE is easily over and above any peer in the industry.

Low debt along with limited risk taking in the form of raw material stocking and trading (less than 10% of net profit comes from inventory valuation) makes the management dependable. Dividends are also disbursed diligently at ~7.5% payout ratio. This gives a 10-yr sustainable growth rate of ~20%.

Director / Management Remuneration	**Remuneration (₹ Cr)**	**% of Net Profit**
Subhas Chandra Agarwalla (Chairman & MD)	8.49	3.8%
Subodh Agarwalla (CEO)	6.79	3.1%

Overall remuneration paid in the financial year 2019-2020 is lower than the remuneration paid in the financial year 2018-2019.

Peer Comparison

Name	CMP Rs.	Mar Cap Rs.Cr.	EV / EBITDA	P/E	PEG	ROE 3Yr %	NPM Ann %	Asset Turnover	Debt / Eq	ROCE %	Sales Grw 5Yrs %	Profit Grw 5Yrs %	CMP / FCF	OPM %	WC Days
Maithan Alloys	**572**	**1,665**	**3.58x**	**7.6x**	**0.3x**	**25.0%**	**10.2%**	**1.39x**	**0.0x**	**19.7%**	**10.5%**	**27.4%**	**9.4x**	**14.2%**	**103**
Indian Metals	277	748	5.84x	32.9x		2.2%	(4.4%)	0.90x	0.5x	0.1%	3.7%	0.0%	5.4x	10.8%	32
Shyam Century	6	128	9.34x	12.3x	(0.5x)	8.2%	2.0%	0.57x	0.0x	0.2%	(5.5%)	(26.7%)	12.9x	10.6%	469
Balasore Alloys	9	88	(5.01x)			(1.3%)	(11.6%)	0.76x	0.2x	(7.5%)	(2.0%)	0.0%	2.9x	(9.4%)	(211)
Facor Alloys	3	58	(5.69x)			6.6%	3.1%	1.66x	0.1x	12.1%	136.0%	17.4%	1.6x	(11.5%)	(73)
Indsil Hydro	12	33	(11.29x)			0.1%	(12.4%)	0.93x	1.0x	(4.8%)	28.1%	0.0%	(0.3x)	(10.1%)	107
Impex Ferro Tech	1	9	(12.77x)			0.0%	(47.3%)	0.57x		(23.4%)	(36.3%)	9.8%	1.9x	(29.8%)	(1,964)

Source: Screener

Valuation

Initial Cash Flow (Rs Cr)	177

Years	**1-5**	**6-10**
FCF Growth Rate		**8%**
Discount Rate	**13%**	
Terminal Growth Rate	**4%**	

Net Debt Level (Rs Cr)	(617)

Year	FCF	Growth	Present Value
1	840		743
2	270		211
3	238		165
4	306		188
5	254		138
6	152	-40%	73
7	165	8%	70
8	177	8%	66
9	191	8%	63
10	207	9%	61

Final Calculations	
Terminal Year	216
PV of Year 1-10 Cash Flows	1,778
Terminal Value	701
Total PV of Cash Flows	2,479
Estimated Equity Value	3,096
Current Market Cap (Rs Cr)	1,636
Margin of Safety	89%