Dividend payout will never be high (assume 5% payout), but it is very stable even in down cycles, dividend yield in worse times was 6.2% (tells how much market can punish these companies). It was 1.19% in FY19

In case cycle has not turned yet, sell when P/B > 2 (for FY20 end, book value: 1292 cr., sell at Mcap > 2584 cr. i.e. share price > 890)

When cycle has turned, look at peak earnings and use the projections at the end to sell

Price projections at the end

Revenue mix is 50:50 between domestic and exports. In domestic, ~80% revenues come from SAIL which is also planning to put up its own ferro chrome capacity.

Raw material as % of sales has gone up to 80%, range -> [48%, 80%], average is ~55%

Power & fuel as % of sales has gone up to 29%, range -> [12%, 29%], average is ~24%

Employee cost as % of sales has varied -> [1.3%, 2.5%], average is ~2%

Other costs as % of sales have varied -> [4.5%, 9.3%], average is ~6.3%

Total average costs as % of sales -> 55+24+2+6.3 ~ 87.3% (EBITDA margin ~ 12%)







Can pay up to 2 times peak earnings of the last cycle (~300 cr. in FY18), so market capitalization < 600 + 600 (cash) cr. < 1200 cr. can be considered. When market cap will be ~1200cr. the trailing and 1 & 2 year forward earnings will look really bad.

Company is able to generate revenues which are >3 times its CAPEX, i.e. it has net fixed asset turnover > 3.

Other income has typically been <1% of sales

Inventory as % of sales -> [12%, 22%], average is ~16%

Receivables as % of sales -> [7%, 19%], average is ~14%

Cashflows (clean)

* Operating cashflow > Net profits for trailing 10 year period
* Operating cashflow > 70% EBITDA for trailing 10 year period

**Can assume conservative EBITDA margins of 9% during bear cycle, management says it should be assumed as 12% (in-line with my calculations). For industry to show losses, EBITDA margins will be below 8%.**

*Visakhapatnam* plant is located in a SEZ (until 2021) & can only export, normalized tax rates for the consolidated entity can be assumed as 22%

Company doesn’t own its own mines (i.e. it doesn’t have backward integration) and has to rely on external power sourcing (except for its Byrnihat plant where it has captive power source.

Company is the lowest cost producer with 6% domestic and 1.2% international market share

| **FY(\*\* estimates)** | **Production (MT)** | **Capacity** | **Utilization** | **EBITDA** | **PAT** | **EBITDA / MT** | **PAT / MT** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Mar-07 | 42 |  |  |  |  |  |  |
| Mar-08 | 66 | 81 | 81% | 77 | 39 | 1.17 | 0.59 |
| Mar-09 | 70 | 107 | 65% | 27 | 0 | 0.38 | 0.00 |
| Mar-10 | 76 | 107 | 71% | 71 | 30 | 0.93 | 0.40 |
| Mar-11 | 82 | 107 | 77% | 114 | 73 | 1.39 | 0.89 |
| Mar-12 | 89 | 167 | 53% | 73 | 45 | 0.82 | 0.51 |
| Mar-13 | 149 | 226 | 66% | 91 | 45 | 0.61 | 0.30 |
| Mar-14 | 141 | 226 | 62% | 56 | 11 | 0.40 | 0.08 |
| Mar-15 | 158 | 226 | 70% | 115 | 55 | 0.73 | 0.35 |
| Mar-16 | 206 | 226 | 92% | 136 | 79 | 0.65 | 0.38 |
| Mar-17 | 213 | 226 | 94% | 296 | 180 | 1.39 | 0.84 |
| Mar-18 | 226 | 226 | 100% | 399 | 294 | 1.77 | 1.31 |
| Mar-19 | 225 |  |  |  |  |  |  |
| Mar-20 |  |  |  |  |  |  |  |

CEO is Subodh Agarwalla who is still very young (40 years), well educated (B.tech IIT BHU, MBA IIM Bangalore)

Major cost contributors:

* 1. Raw Material prices
     + Maithan imports 90% of ore from outside India and 10% domestically
     + However, the Company sources raw material when it gets sales contracts, helping optimize inventory costs.
     + It has a captive mining lease in India through Anjaneya Minerals(a subsidiary)
  2. Power & Fuel charges
     + Advantage may be due to owning captive power plants(long term advantage) and Power subsidies from state Govts.(short term advantage)
  3. Logistics

**Business risk:**

* **A supplier (Maithan Alloys Ltd) of a commodity product (Ferro alloys) to very large customers (steel producers), who themselves produce commodity output (steel), would find it difficult to get favorable pricing terms from its customers.**
* Sales to SAIL accounted for 80% of domestic revenues in FY19 and 60% of their domestic sales in FY20; SAIL is also planning to put up its own ferro chrome capacity

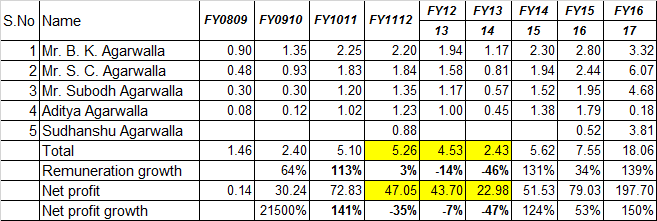
**Potential red flags:**

* Management compensation is on the higher side, a large part of compensation is in the form of commission (close to upper limit). However, the salaries have (de)-grown according to net profits which makes it okay.
* BMA Advisors name is brokerage frauds which was led from extended family members. Business was divested from one part of the family to the other in 2017 which led to change in promoter shareholding structure.
* Related party transactions look clean with an exception of CSR to BMA foundation. However, it is not clear who owns BMA foundation – SC Agarwalla family or his brother who have been charged in brokerage fraud cases.
* Company has history of trading in stock market (eg: buying HPCL shares and harnessing short term losses for lowering taxes using dividend stripping).
* Lots of insider trading happens in this scrip

<https://www.drvijaymalik.com/2017/09/maithan-alloys-limited-equity-research-report-analysis.html>

*The company is buying securities (either equities or mutual funds) before the dividend is paid by the issuer (i.e. before ex-date) and it sells these securities after the dividend is removed (i.e. after ex-date). As a result, the company got a lot of dividend in FY2017 and because the price of these securities falls when the dividend is removed (after ex-date), the company has to sell these securities at a loss, which seems to have led to a lot of short term losses in FY2017. This activity is called Dividend Stripping.*

**Remuneration from drvijaymalik post:**



All the furnaces of the company are compatible to manufacture any of the three products (ferro manganese, silicon manganese, ferro silicon) depending on market dynamics.

Do not do ferro chrome currently; Ferro silicon more energy intensive leading to lower tonnage

Have attained mastery in manganese alloys

Exports cater to Asian economies except China

**Ways to fulfill Growth:**

1. Greenfield expansion from Current capacity of 235’600 tonnes in FY20 to 345’000(=235’000 + 120’000 – Bankura (48% increase)) in FY24 – approx. 11% CAGR
2. Greenfield + Brownfield expansion from Current capacity of 235’600 tonnes in FY20 to 471’200 in FY24 – 19% CAGR

**Capacity:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Name* | *Smelters \* Capacity* | *Products* | *Sourcing* | *Raw material* |
| Visakhapatnam  Andhra Pradesh  SEZ facility UNTIL 2021 | 4 \* 18  **72 MVA** | Ferro manganese  Silicon manganese | 90% import  10% domestic | Manganese ore  Coke  Coal |
| *Kalyaneshwari*  West Bengal | 2 \* 5  1 \* 6.5  1 \* 8.25  2 \* 12  **48.75 MVA** | Ferro manganese  Silicon manganese | 65% import  35% domestic | Manganese ore  Coke  Coal |
| Byrnihat  Meghalaya  15MW captive power | 2\*8.25  **16.5 MVA** | Ferro silicon | 100% domestic | Quartz  Coke  Coal |
| Bankura  West Bengal  UPCOMING | **66MVA**  275 cr. capex  120’000 MTPA | Ferro chrome and manganese alloys (will be a fungible unit) |  |  |

*Bull cycle -> FY17 – FY19, 100% net profits converted into operating cashflows*

*Bear cycle -> FY12 – FY14, 85% net profits converted to operating cashflows, During the worse bear year (FY14), operating cashflows turned negative (only incident of negative operating cashflows during the last 10 years)*

During worse downcycle year (typically 3 years after peak upcycle year), ROCE becomes single digit

**As of FY20Q4 (20-06-2020)**

Mcap ~ 1265 cr. (as on 19-06-2020)

Cash: 638 cr.

Topline: 1830 cr.

EBITDA margins ~ 12.7%

Depreciation: 15.81 cr.

EBIT: 1830\*12.7% - 15.81 ~ 216.6

PBT: 216.6 + 66.16 (other income) – 3.71 (interest cost) ~ 279 cr.

PAT: 222 cr.

**FY21 will probably be the worse year because FY20 EBITDA margins are still at 12.7% (i.e. other companies might not have gone into losses yet)**

**Let’s see what happens when the next bull cycle comes (at time of peak earnings):**

Best year -> FY21 + 3 years ~ FY24

Topline ~ 3500 cr. (generally topline doubles from last top)

EBITDA margins ~ 18%

Depreciation ~ 50 cr. (putting a high number)

EBIT ~ 3500\*0.18 – 50 ~ 580 cr.

PBT ~ 550 cr. (let’s say for some reason there were other expenses of 30 cr.)

Tax ~ 25% \* 550 ~ 140 cr.

PAT ~ 410cr.

P/E ratio ~ 10

Market cap ~ 410\*10 ~ 4100 cr. (I am assuming that cash of 500 cr. was spent in growing topline)

**Company has cash of 630 cr. as of September 2019**

Investments: (company generated ~600 cr. in last bull phase). It invested the same in debentures of the following, and the maturity amounts have been realized now.

*CITICORP (170 cr.)*

*IIFL (150 cr.)*

*Piramal (150 cr.)*

**Current market cap (07.03.2020) ~1400 cr.**

**Let’s try to build a case for the next bear cycle and the worse earnings that the company will report:**

Worst year ~FY21

Topline ~ 2000 cr.

EBITDA margins ~9%

Depreciation ~ 20 cr.

EBIT ~ 2000\*0.09 – 20 ~ 160 cr.

Other income ~ 7% \* 500 cr. (cash and investments) ~ 35 cr.

Interest charges ~ 0 (no debt now)

PBT ~ 160 + 35 – 15 (miscellaneous expenses) ~ 180 cr.

Tax ~ 22% \* 180 ~ 40cr.

PAT ~ 140 cr. (peak PAT was ~292 cr.)

P/E ratio ~ 2

Cash & equivalents ~ 500 cr.

Market cap ~ 2\*140 + 500 ~ 780 cr.

Can buy this company at ~1000 cr. which will translate into a share price ~ 350