

Maithan Alloys

BUY

Cash machine

Maithan Alloys is India's largest producer & exporter of Mn Alloys with over two decades of experience. Manganese alloys are critical for steel manufacturing translating into a large globally addressable market for Maithan. Co's customers include marquee domestic/global steel majors, with most of them being repeat customers.

Co produces ~1% of total global Mn alloy supply, which means there is little offtake risk. This, coupled with the fact that Maithan is amongst the lowest cost producers in the world, makes them amongst the last men standing in case of any global commodity downturn, esp steel. It is also noteworthy that China discourages export of Mn alloys (seen as energy intensive).

We initiate coverage on Maithan Alloys with a BUY rating and a TP of Rs 900 (base case) based on conservative assumptions. Our upside (and downside) cases yield TPs of Rs 1,500 (and 375).

Investment Arguments

- Manganese alloys are critical input for steel manufacturing:** Steel production requires Mn alloys as a raw material input. Mn enhances the strength of steel and also acts as a de-oxidizing, alloying agent. Global Mn Alloy production is ~20 mn t with CIS, Africa, Oceania, Asia being major exporters.
- Last man standing:** Maithan's cost of production is amongst the lowest in the world, learnt over years of optimizing production process. In the event of a global economic downturn, Maithan will be amongst the last men standing. Co is net cash surplus with Rs

6.7bn (~40% of current Mcap) in C&CE at end-FY19E, which adds to its ability to withstand downturns.

- Capital discipline:** Maithan's management has diligently resisted temptation to deviate from its core competence, despite sitting on huge cash reserves. After careful consideration, Maithan is setting up a 120ktpa (~50% of existing capacity) green-field ferro alloys plant at an outlay of Rs 2.75bn, using a part of the incremental accruals over the next 2 years.
- Strong FCF generation:** A large addressable market, superior product quality, low cash costs, capital discipline enable Maithan to generate significant FCF (Rs 7.7bn over FY16-19, ~40% of current Mcap).
- Pessimistic valuation provides entry point:** We believe global commodity market pessimism is priced into Maithan stock price, despite good fundamentals. Maithan currently trades at 2.4x FY21E EV/EBITDA which in our view provides an attractive entry point for investors.

Financial Summary

(Rs mn)	FY18	FY19E	FY20E	FY21E	FY22E
Net Sales	18,790	19,879	20,223	20,794	26,961
EBITDA	3,767	3,222	3,488	3,400	4,211
PAT	2,918	2,552	2,728	2,510	3,125
Diluted EPS (Rs)	100.2	87.7	93.7	86.2	107.3
P/E (x)	6.2	6.6	6.2	6.8	5.4
EV / EBITDA (x)	3.9	3.3	2.8	2.4	1.3
RoE (%)	34%	23%	20%	16%	16%

Source: Company data, HDFC sec Inst Research

INDUSTRY METALS & MINING

CMP (as on 27 May 2019) Rs 582

Target Price Rs 900

Nifty 11,925

Sensex 39,683

KEY STOCK DATA

Bloomberg MAIT IN

No. of Shares (mn) 29

MCap (Rs bn) / (\$ mn) 17/245

6m avg traded value (Rs mn) 19

STOCK PERFORMANCE (%)

52 Week high / low Rs 744/340

3M 6M 12M

Absolute (%) 22.4 13.7 (13.5)

Relative (%) 11.9 2.0 (27.1)

SHAREHOLDING PATTERN (%)

Dec-18 Mar-19

Promoters 74.99 74.99

FIs & Local MFs 0.04 0.29

FPIs 2.96 2.72

Public & Others 22.01 22.00

Pledged Shares * - -

Source : BSE *as % of total shares o/s

Prashanth KP Kota

prashanthkumar.kota@hdfcsec.com

+91-22-6171-7346

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Maithan has better production/ raw material purchase efficiency & low manpower costs vs. its peers, which gives it an edge in terms of lower operating costs.

Maithan predominantly sources Manganese ore from Africa & Australia to ensure quality of ore grade to able to generate higher output & consistent quality that delights their customers.

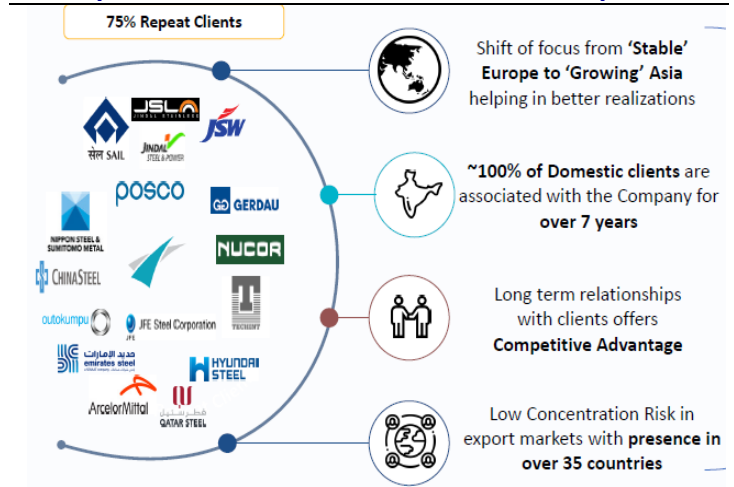
Although India's flagship Manganese mining company MOIL can supply Mn ore, Maithan only sources about 10% of annual requirement from them for quality consistency related reasons.

Company Overview: An Impeccable track record

- Established by Mr. S.C.Agarwalla (Chairman & MD), Maithan Alloys set up its first Manganese alloy plant with a 10 MVA (~17ktpa) capacity in Kalyaneshwari, West Bengal ~20 years ago. Maithan progressively increased its capacity in strategic locations over the years & now has a capacity of 137 MVA (~235 ktpa) spread across West Bengal, Meghalaya & Visakhapatnam. Maithan is adding another 120ktpa Ferroalloy capacity (fungible between Ferro chrome & Mn alloys) with an outlay of Rs 2.75bn in West Bengal that is expected to be commissioned by 2021.
- Maithan's vision is to be India's premier alloy company that is built on the solid foundation of shareholder trust, customer commitment, employee satisfaction and sustainable communities by consistently delivering on the promises by meticulous hard work. The promoter management's core value system of commitment, loyalty, integrity, rigor and teamwork is impressive. They aspire for excellent shareholder value creation by generating high RoCE & lower than market debt ratios.
- Maithan's CEO is Mr. Subodh Agarwalla & the CFO is Mr. Sudhanshu Agarwalla, both well qualified & sons of the founder Mr. S.C. Agarwalla.

- Maithan is now India's largest producer (225ktpa in FY19) & exporter (~50% of 2019 production) of Manganese alloys. Maithan's principal export market is emerging Asia ex-China. Maithan supplies to the marquee names of Asian steel industry.
- Maithan has an impeccable track record as the Revenue/EBITDA/PAT grew at a 16/45/86% CAGR over the last 5 years. As of FY19 Maithan's operating RoCE is ~50%.

A snapshot of MAITHAN'S client relationships



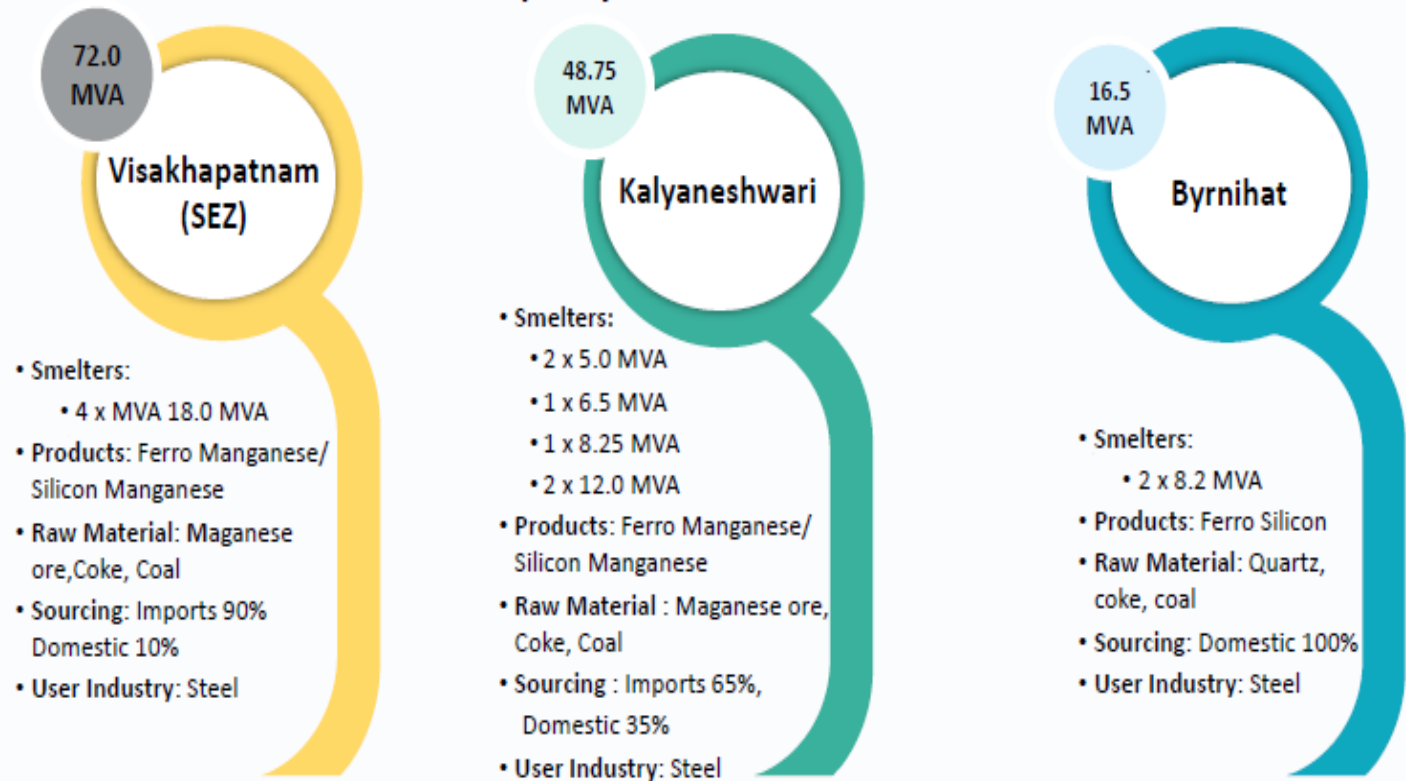
Source: Company data, HDFC sec Inst Research

Plant-wise Configuration

Installed Capacity of 137.25 MVA

Visakhapatnam unit is the largest amongst the 3 units that is based out of an SEZ. This plant is primarily used for exports.

Byrnihat plant at Meghalaya primarily produces Ferro Silicon, but the capacity is fungible to produce other Mn alloys.



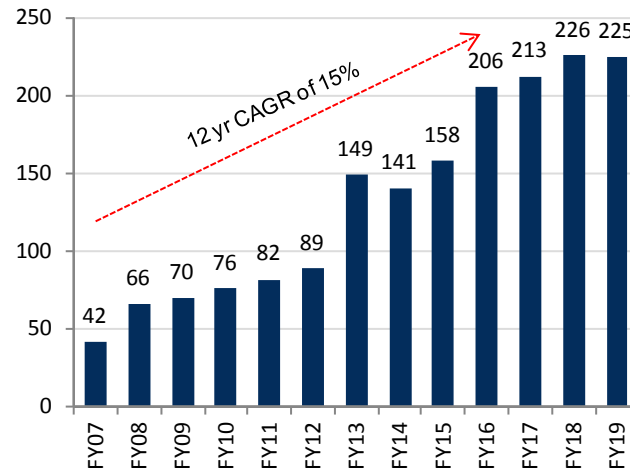
- Kalyaneshwari and Byrnihat source Coke & Coal from Domestic Market, because it is logistically feasible
- Vishakhapatnam and Kalyaneshwari imports Manganese Ore.
- Advantage of importing are
 1. Quality Product
 2. Variety of Grades Leading to better Product Mix
 3. Logistic Advantage

Source: Company data, HDFC sec Inst Research

Maithan's track record on production/Revenue/EBITDA/PAT progression has been impeccable.

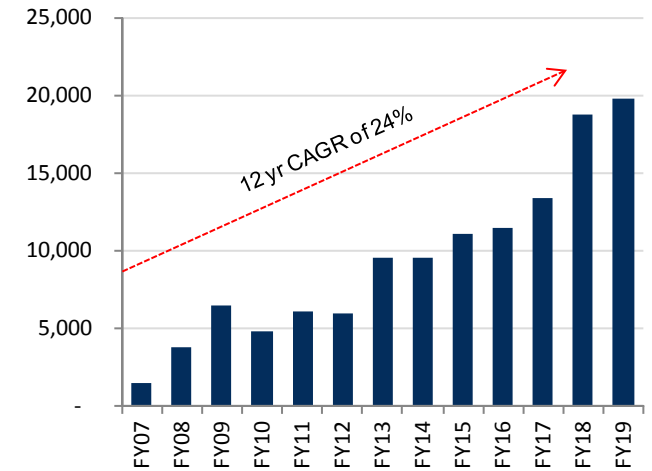
Impeccable track record

Maithan's Production progression (kt)



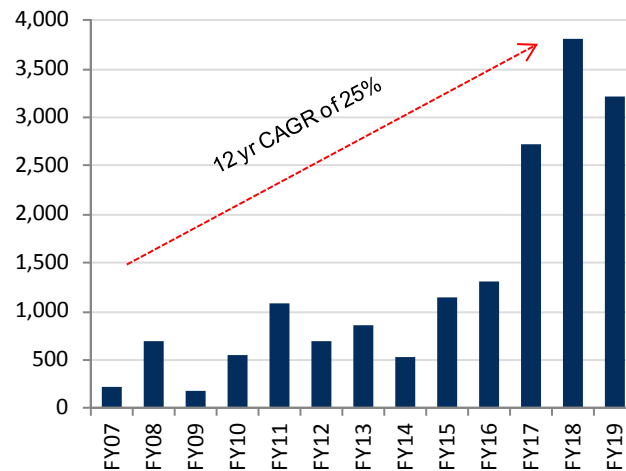
Source: Company data, HDFC sec Inst Research; Consolidated nos.

Maithan's Revenue progression (Rs mn)



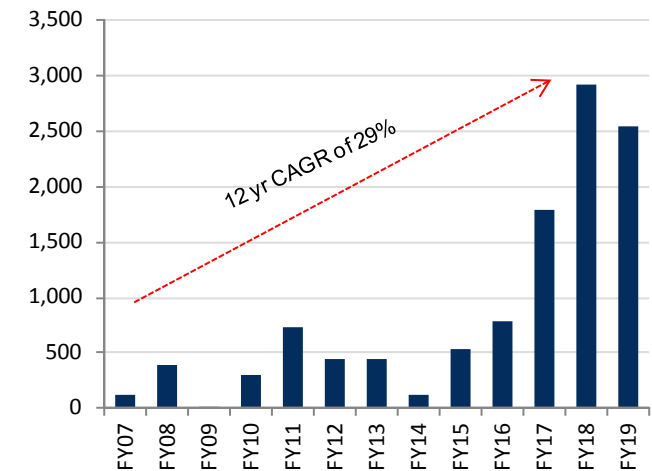
Source: HDFC sec Inst Research; Consolidated nos.

Maithan's EBITDA progression (Rs mn)



Source: Company data, HDFC sec Inst Research; Consolidated nos.

Maithan's PAT progression (Rs mn)

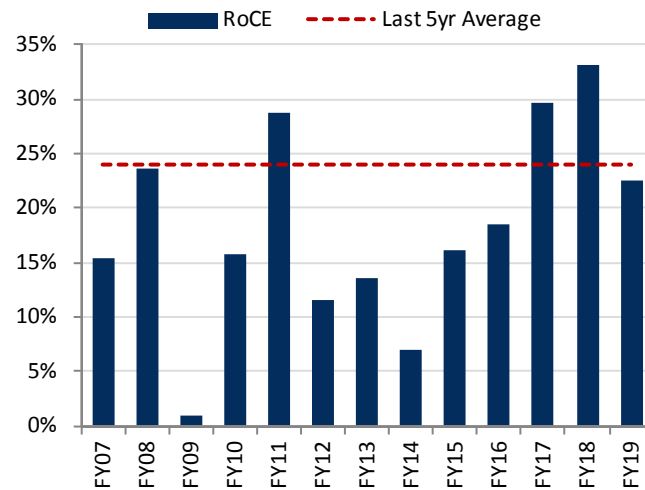


Source: Company data, HDFC sec Inst Research; Consolidated nos.

Strong business model, coupled with cost controls & capital discipline, meant Maithan generated strong returns & we expect they will continue to do so.

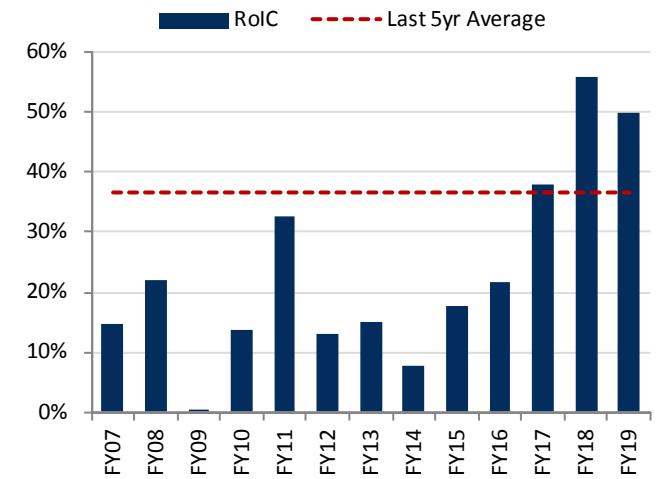
Superior returns & cash generation

Maithan's RoCE progression



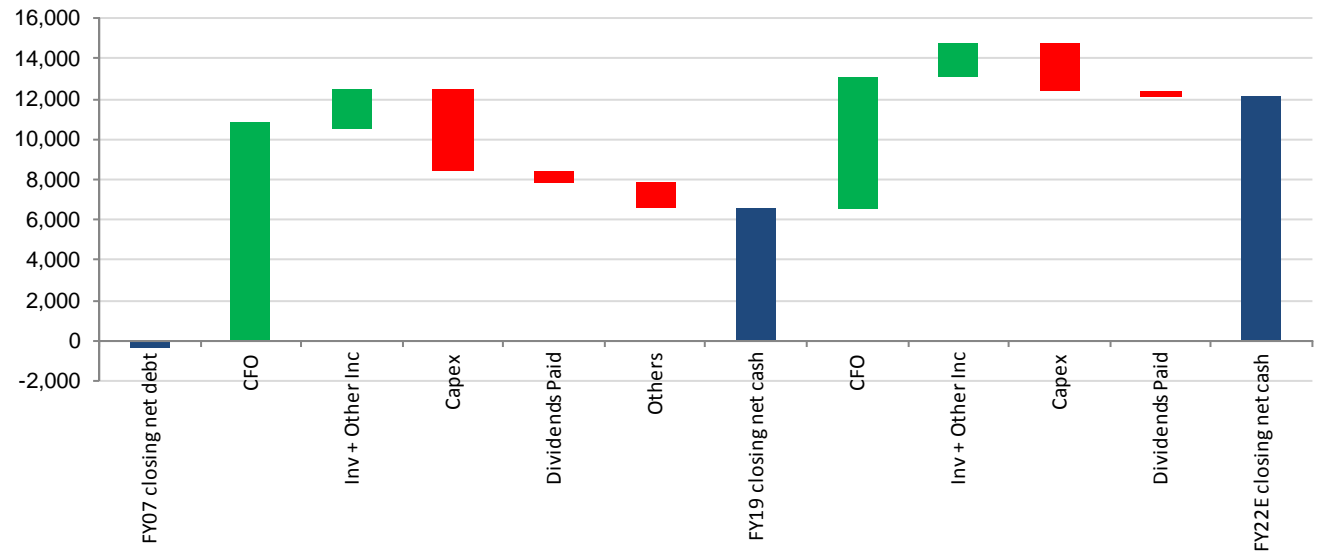
Source: Company data, HDFC sec Inst Research; Consolidated nos.

Maithan's core ROCE progression



Source: HDFC sec Inst Research; Consolidated nos.

Maithan's Cashflow bridge: FY07- FY19 & FY20E - FY22E (Rs mn)



Source: Company data, HDFC sec Inst Research; Consolidated nos.

~10kg of SiMn/FeMn are required/ton of steel.

SiMn is mainly used in long products while FeMn is used in flat products.

Use of Manganese Alloys

- Manganese is a critical input for steel manufacturing owing to its de-oxidating, sulphur fixing, and alloying properties. It enhances steel's mechanical properties - strength, hardness, toughness, stiffness.
 - Silicomanganese (SiMn) accounts for about 70% of all Mn alloys produced & mainly used in long products.
 - Ferromanganese (FeMn) accounts for ~30% of alloys, is mainly used in flat products.
 - Some Mn ore is used directly to make iron through BF route where it acts as a de-sulphuriser.
- In 2017, the global consumption of Mn alloys was ~20mn tons, with SiMn accounting for ~70% of the volumes.
- Mn is a consumable for steel industry as recovery from scrap is not possible. It is not recyclable.
- Other industrial applications include alloying in non-ferrous metals, zinc smelting, dry cell batteries and chemicals.

Types of steel & Manganese content

	Proportion of overall steel	Mn content
High Mn content steels		
High Mn non-magnetic steels	1%	11%
Hadfield Steel	1%	13%
Stainless (200-series)	0%	12%
Low Mn content steels		
Carbon steel	87%	0.5%
HSLA steel	7%	2%
Engineering/construction steel	3%	1%
Stainless Others	2%	1%
Mn content in steel		~0.9%

Source: IMnI, HDFC sec Inst Research

Maithan's business is not immune from the cyclical nature in the global commodity/steel cycle.

Being a cost leader coupled with a liquid balance sheet means Maithan will be amongst the last men standing in the event of a downturn.

Key Debate 1

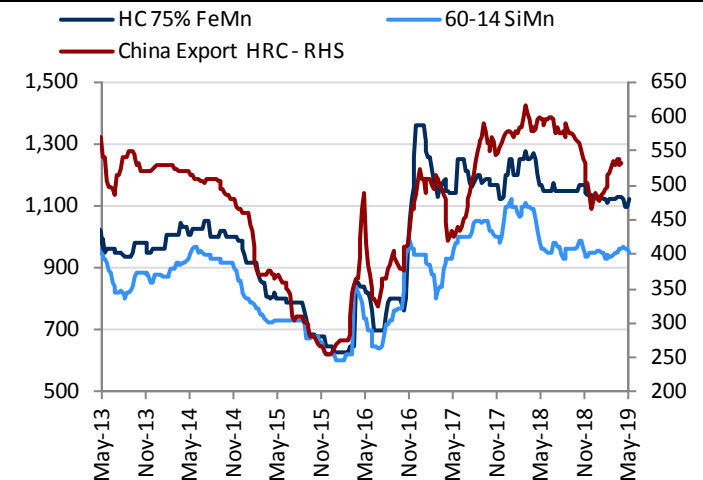
Q. Is Maithan Alloys' business immune from the global steel cycle?

Maithan is not completely immune from the global commodity/steel cycle. However, owing to an efficient conversion business model, it is well placed to withstand down-turns in cycle as compared to its peers.

- Maithan Alloys is primarily a manganese alloys producer. Mn alloys are used in the production of steel in varying quantities based on the grade/type of steel. Mn alloys are produced by smelting manganese ores in the presence of reductants (high carbon coal/charcoal etc) & flux material. Since the key end-user industry for Manganese alloys is steel sector, there is bound to be strong correlation between the steel cycle & manganese alloy prices. Manganese alloy producers are weaker in muscle power when compared to their customers (steel mills), many of which are large companies. Obviously, during times of pain, the steel mills would bargain harder and harder with their suppliers.
- While the above is generally true, the correlation is not close to 1 for Maithan. Maithan Alloys is a converter of Mn ore into Mn alloys, where Manganese prices are mostly pass-through.
- Maithan Alloys is an efficient converter and according to the management they are amongst the 1st quartile on the global cost curve. While Maithan is not completely immune to an overall down-turn in the commodities space, they would be amongst the last men standing in the event of a crisis.

- According to the management, the global Mn alloy cost curve is cash cost neutral at an EBITDA margin of ~8%. Hence over a medium term period, this would be sort of a bottom margin for the industry, below which companies start making cash losses & are thereby forced to shut down. Maithan being an efficient converter (much like JSW Steel in the steel sector), can make about 400bps additional margin as compared to most of its peers, which means over the medium term Maithan's EBITDA margin will bottom at about 12% (vs. 20/16% in FY18/19).

Steel price vs. Mn Alloy price

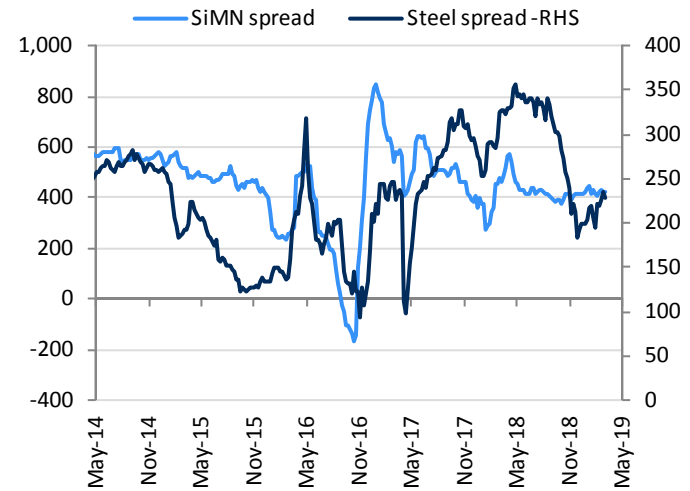


Source: IMnI, HDFC sec Inst Research

Mn alloy spreads do move in line with the steel spreads.

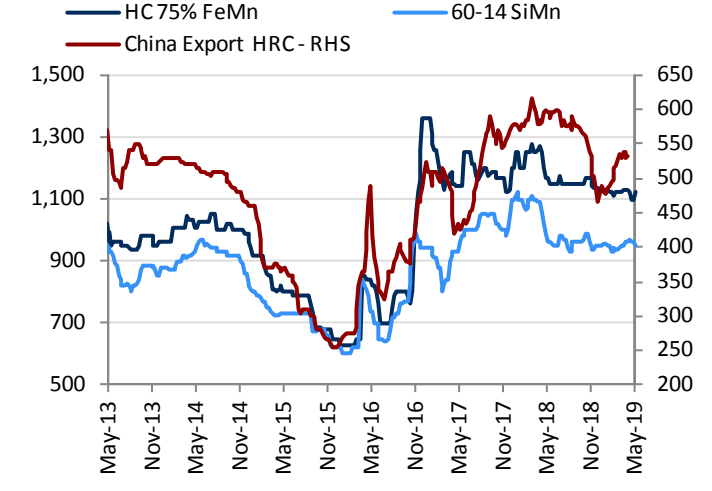
Steel prices & Mn alloy prices are also closely correlated.

Steel spread vs. Mn Alloy spread (\$/t)



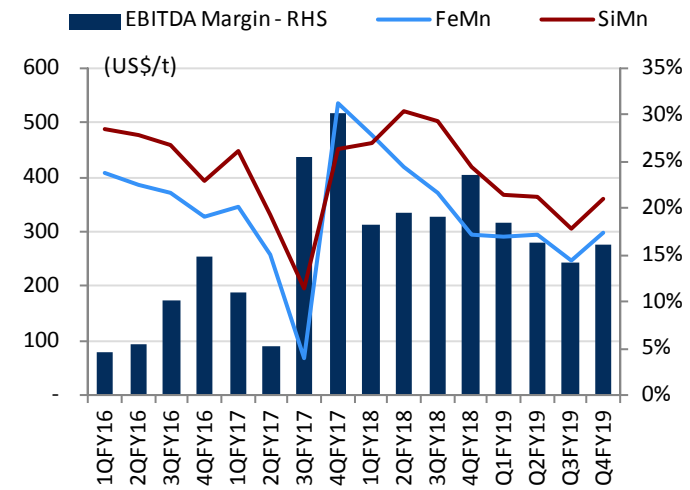
Source: Steelmint, Bloomberg, HDFC sec Inst Research

Steel price vs. Mn Alloy price (\$/t)



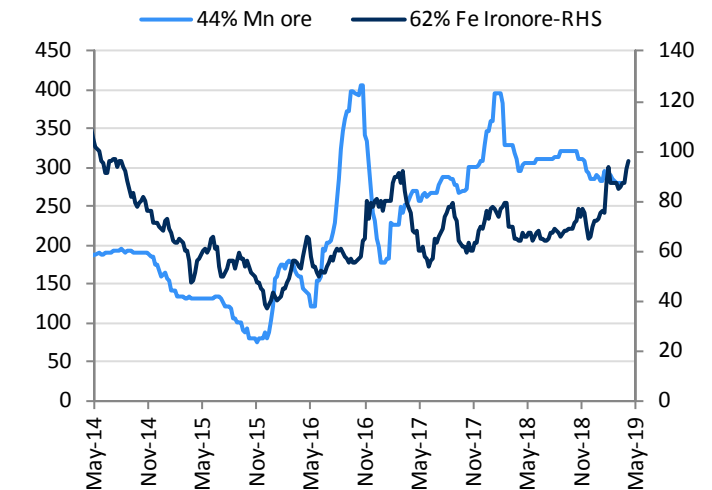
Source: Steelmint, Bloomberg, HDFC sec Inst Research

Maithan qtrly EBITDA margin (%) vs. Ferro Alloy Spreads (\$/t)



Source: Steelmint, Bloomberg, Company data, HDFC sec Inst Research

Iron ore vs. Mn ore (\$/t)



Source: Steelmint, Bloomberg, Company data, HDFC sec Inst Research

Maithan management have been well disciplined in terms of capital decisions.

After careful consideration, they have decided to grow capacity by adding a 120ktpa Greenfield Mn/Cr alloy plant in West Bengal with an outlay of Rs2.75bn.

All of the new plant's capex will be met from part of the next 2 yr internal accruals .

Key Debate 2

Q. How has Maithan's cash flow generation & capital discipline been?

Maithan has done a great job on both counts.

- Maithan management has been well disciplined on the balance sheet side of things too. Maithan has been a strong free cash flow generating business which meant increasing cash over time, yet management has been disciplined in terms of using this cash and resisted any temptation to deviate from the core competence of ferro alloy manufacturing.
- After a careful consideration, Maithan has last year (in FY18) announced a green field Fecr/FeMn/SiMn plant in West Bengal with a capacity of 120ktpa with a capex outlay of ~Rs2.75 bn. The plant is expected to be commissioned by FY22E, which is when Maithan's

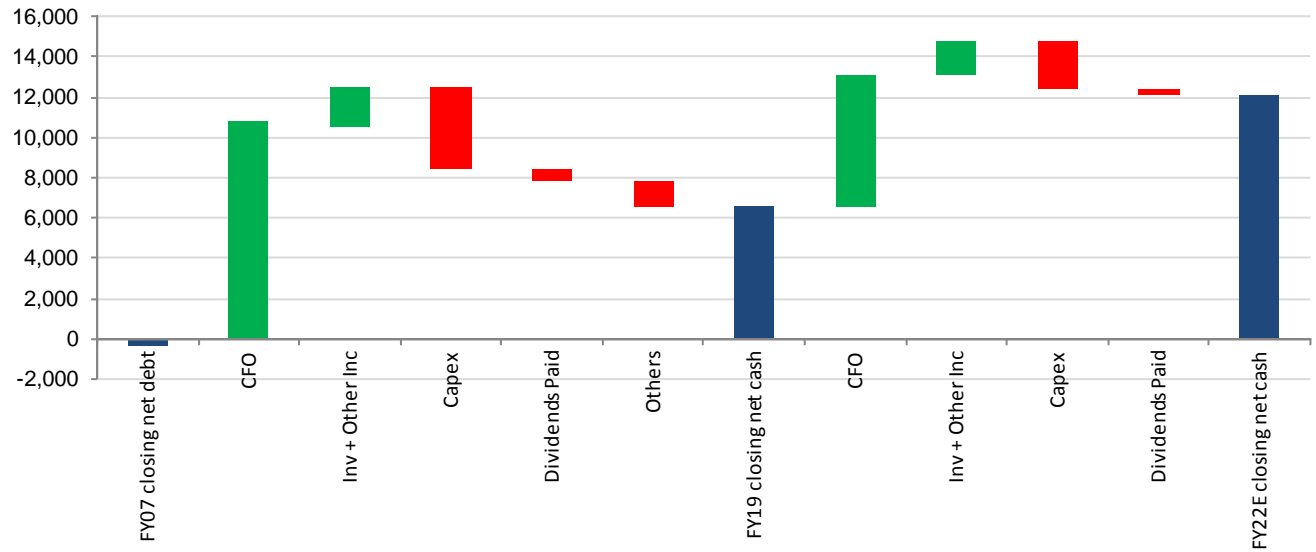
earnings trajectory will start moving higher as it is currently operating at close to full capacity. All of the capital expenditure of this plant will be met by a part of the internal accruals over next 2 years, which still leaves Maithan with a cash balance of Rs 12.1bn by the end of FY22E (~72% of current Mcap) as per our financial projections.

- Management does acknowledge that such a large pile of cash on the balance sheet would dent the return ratios. Management is open to acquiring stressed ferro alloy plants that may come up in the IBC-NCLT, and might also participate in the upcoming Chrome mining block auctions in Odisha in 2020.
- Eventually, if Maithan doesn't find a prudent use of cash to build/acquire assets at a reasonable price, the company is not unwilling to return cash to the shareholders.

Maithan management has done a phenomenal job of cash generation & conservation.

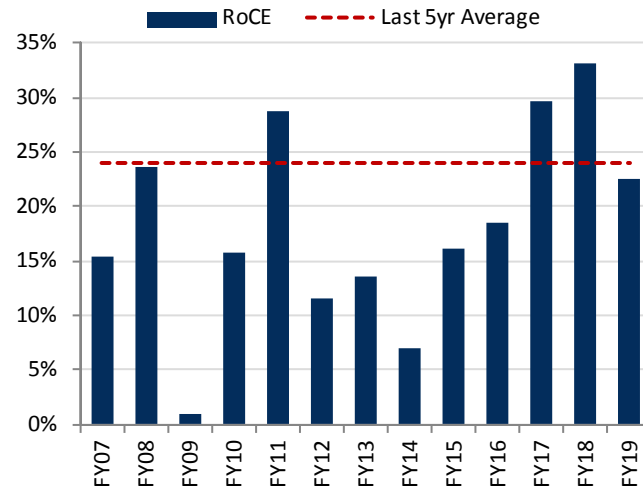
Maithan generates Metals sector leading return metrics.

FY07-19 & FY20-22E cumulative cash flow bridge (Rs mn)



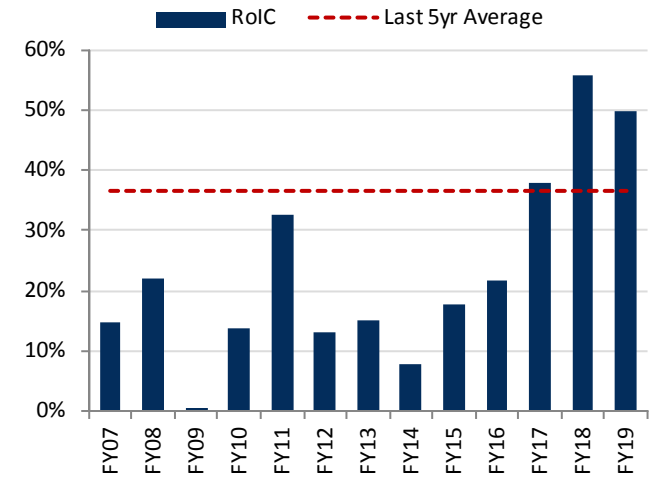
Source: Company data, HDFC sec Inst Research

Maithan's RoCE progression



Source: Company data, HDFC sec Inst Research; Consolidated nos.

Maithan's core ROCE progression



Source: HDFC sec Inst Research; Consolidated nos.

We have a scenario based approach to capture the broad range of potential outcomes.

Key Debate 3 : Do we have a scenario based approach or point estimate of valuation?

We use a scenario based approach to capture the broad range of potential outcomes. Our base case TP is Rs 900/sh. Our upside/downside cases have a TP of Rs1500/375 respectively.

Base case:

This is a more reasonable and balanced view on the company's performance vs the rest of the 2 scenarios.

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Net Sales	13,421	18,790	19,879	20,223	20,794	26,961
EBITDA	2,705	3,767	3,222	3,488	3,400	4,211
PAT	1,797	2,918	2,552	2,728	2,510	3,125
Diluted EPS (Rs)	61.7	100.2	87.7	93.7	86.2	107.3
P/E (x)	4.8	6.2	6.6	6.2	6.8	5.4
EV / EBITDA (x)	2.9	3.9	3.3	2.8	2.4	1.3
RoE (%)	31%	34%	23%	20%	16%	16%
Per ton workings (Rs/t)						
Volume (kt)	213	226	225	236	236	296
Realizations	63,009	83,140	88,352	85,776	88,200	91,156
Raw Materials	29,463	42,902	50,055	45,776	48,200	51,156
Raw Material Spread	33,546	40,238	38,297	40,000	40,000	40,000
Power & Fuel	13,156.4	16,218.8	16,595.5	17,564.5	17,564.5	17,855.7
Employee expenses	1,567.8	2,004.2	1,964.3	2,062.1	2,268.3	1,988.9
Manufacturing expenses	1,485.4	1,537.4	1,552.2	1,598.8	1,646.8	1,696.2
Selling & Admin expenses	2,284	2,827	2,911	2,999	3,089	3,181
Other Expenses	2,354	981	952	981	1,010	1,041
TOTAL OPERATING EXPENSES	50,310	66,470	74,031	70,982	73,778	76,919
EBITDA	12,699	16,670	14,321	14,795	14,421	14,237
FCF Workings (Rs mn)						
EBITDA	2,705	3,767	3,222	3,488	3,400	4,211
Other Income	1,192	163	262	461	558	664
Interest	(101)	(37)	(59)	(46)	(46)	(46)
Tax	(262)	(884)	(717)	(1,009)	(1,236)	(1,539)
Wc changes	(1,287)	(71)	61	(355)	3	(295)
Capex (net)	(41)	(111)	(100)	(1,050)	(1,050)	(300)
Misc	(29)	0	0	0	0	0
FCF	2,177	2,827	2,669	1,489	1,629	2,696
Dividends	0	(88)	(105)	(105)	(105)	(105)
FCF post Dividends	2,177	2,740	2,564	1,384	1,524	2,591

Source: HDFC sec Inst Research

Our base TP is Rs 900/sh.

Base case valuation:

Multiple Based

Target price Derivation	FY21E	FY22E
EBITDA applicable	3,400	4,211
Multiple	4.00	4.00
EV	13,600	16,843
Net Debt	(8,951)	(11,542)
CWIP	2,200	1,250
Long term Provisions	19	19
Market value	24,732	29,616
Equity Value per Share	Rs 850	Rs 1,017
TP		900

Source: HDFC sec Inst Research

In our upside case we assume an expansion in spreads & a rerating in the valuation multiples.

Upside case:

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Net Sales	13,421	18,790	19,879	21,402	21,973	31,379
EBITDA	2,705	3,767	3,222	4,667	4,579	6,292
PAT	1,797	2,918	2,552	3,589	3,333	4,591
Diluted EPS (Rs)	61.7	100.2	87.7	123.3	114.5	157.7
P/E (x)	4.8	6.2	6.6	4.3	4.7	3.4
EV / EBITDA (x)	2.9	3.9	3.3	1.6	1.1	0.2
RoE (%)	31%	34%	23%	25%	19%	21%
Per ton workings (Rs/t)						
Volume (kt)	213	226	225	236	236	326
Realizations	63,009	83,140	88,352	90,776	93,200	96,322
Raw Materials	29,463	42,902	50,055	45,776	48,200	51,322
Raw Material Spread	33,546	40,238	38,297	45,000	45,000	45,000
Power & Fuel	13,156.4	16,218.8	16,595.5	17,564.5	17,564.5	17,961.1
Employee expenses	1,567.8	2,004.2	1,964.3	2,062.1	2,268.3	1,805.8
Manufacturing expenses	1,485.4	1,537.4	1,552.2	1,598.8	1,646.8	1,696.2
Selling & Admin expenses	2,284	2,827	2,911	2,999	3,089	3,181
Other Expenses	2,354	981	952	981	1,010	1,041
TOTAL OPERATING EXPENSES	50,310	66,470	74,031	70,982	73,778	77,008
EBITDA	12,699	16,670	14,321	19,795	19,421	19,315
FCF Workings (Rs mn)						
EBITDA	2,705	3,767	3,222	4,667	4,579	6,292
Other Income	1,192	163	262	461	607	771
Interest	(101)	(37)	(59)	(46)	(46)	(46)
Tax	(262)	(884)	(717)	(1,327)	(1,641)	(2,261)
Wc changes	(1,287)	(71)	61	(510)	3	(503)
Capex (net)	(41)	(111)	(100)	(1,050)	(1,050)	(300)
Misc	(29)	0	0	0	0	0
FCF	2,177	2,827	2,669	2,194	2,452	3,953
Dividends	0	(88)	(105)	(105)	(105)	(105)
FCF post Dividends	2,177	2,740	2,564	2,090	2,347	3,849

Source: HDFC sec Inst Research

Our upside case TP is Rs 1,500/sh.

In our upside case we assume an expansion in spreads & a rerating in the valuation multiples.

Upside case valuation:

Multiple Based

Target price Derivation	FY21E	FY22E
EBITDA applicable	4,579	6,292
Multiple	6.00	6.00
EV	27,473	37,752
Net Debt	(10,480)	(14,328)
CWIP	2,200	625
Long term Provisions	19	19
Market value	40,134	52,687
Equity Value per Share	Rs 1,379	Rs 1,810
TP		1,500

Source: HDFC sec Inst Res

In our downside case we assume a compression in spreads & lackluster valuation multiples.

Downside case:

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Net Sales	13,421	18,790	19,879	19,044	19,615	20,204
EBITDA	2,705	3,767	3,222	1,130	1,042	948
PAT	1,797	2,918	2,552	1,007	865	796
Diluted EPS (Rs)	61.7	100.2	87.7	34.6	29.7	27.3
P/E (x)	4.8	6.2	6.6	15.4	18.0	19.5
EV / EBITDA (x)	2.9	3.9	3.3	8.4	9.3	9.6
RoE (%)	31%	34%	23%	8%	7%	6%
Per ton workings (Rs/t)						
Volume (kt)	213	226	225	236	236	236
Realizations	63,009	83,140	88,352	80,776	83,200	85,696
Raw Materials	29,463	42,902	50,055	50,776	53,200	55,696
Raw Material Spread	33,546	40,238	38,297	30,000	30,000	30,000
Power & Fuel	13,156.4	16,218.8	16,595.5	17,564.5	17,564.5	17,564.5
Employee expenses	1,567.8	2,004.2	1,964.3	2,062.1	2,268.3	2,495.1
Manufacturing expenses	1,485.4	1,537.4	1,552.2	1,598.8	1,646.8	1,696.2
Selling & Admin expenses	2,284	2,827	2,911	2,999	3,089	3,181
Other Expenses	2,354	981	952	981	1,010	1,041
TOTAL OPERATING EXPENSES	50,310	66,470	74,031	75,982	78,778	81,674
EBITDA	12,699	16,670	14,321	4,795	4,421	4,022
FCF Workings (Rs mn)						
EBITDA	2,705	3,767	3,222	1,130	1,042	948
Other Income	1,192	163	262	461	459	451
Interest	(101)	(37)	(59)	(46)	(46)	(46)
Tax	(262)	(884)	(717)	(372)	(425)	(392)
Wc changes	(1,287)	(71)	61	(39)	3	3
Capex (net)	(41)	(111)	(100)	(1,050)	(1,050)	(300)
Misc	(29)	0	0	0	0	0
FCF	2,177	2,827	2,669	84	(16)	665
Dividends	0	(88)	(105)	(105)	(105)	(105)
FCF post Dividends	2,177	2,740	2,564	(20)	(121)	560

Source: HDFC sec Inst Res

Our downside case TP is Rs 375/sh.

In our downside case we assume a compression in spreads & lackluster valuation multiples.

Downside case valuation:

Multiple Based

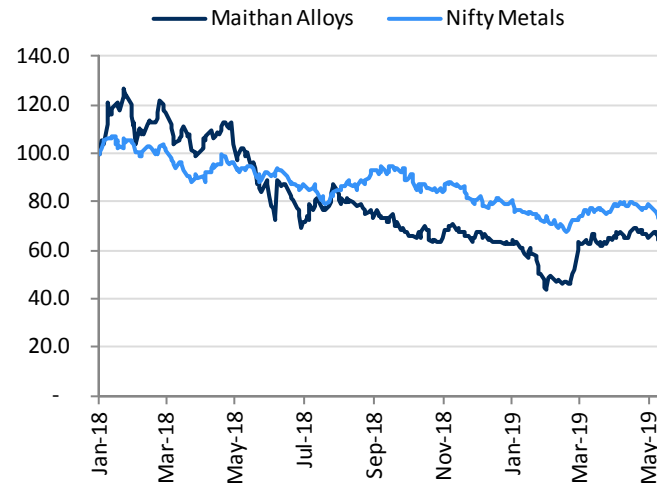
Target price Derivation	FY21E	FY22E
EBITDA applicable	1,042	948
Multiple	2.50	2.50
EV	2,606	2,371
Net Debt	(5,901)	(6,461)
CWIP	2,200	2,500
Long term Provisions	19	19
Market value	10,688	11,313
Equity Value per Share	Rs 367	Rs 389
TP		375

Source: HDFC sec Inst Research

Maithan share price has underperformed NSE metals & NIFTY indices since Jan 2018 meltdown.

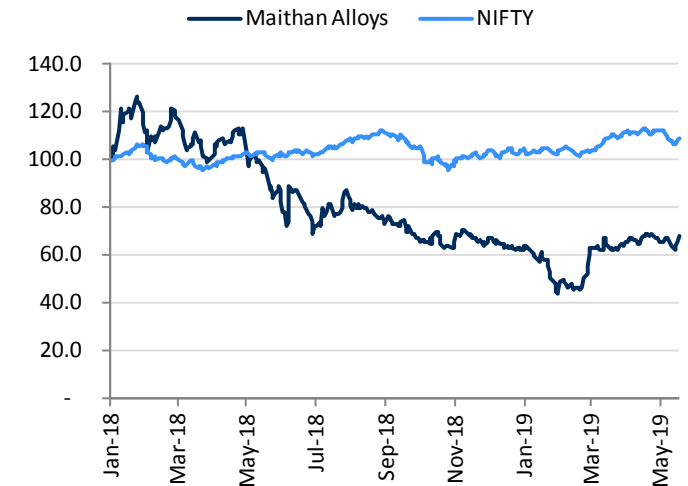
What's Priced In?

Maithan share price vs. NSE Metals indexed perf



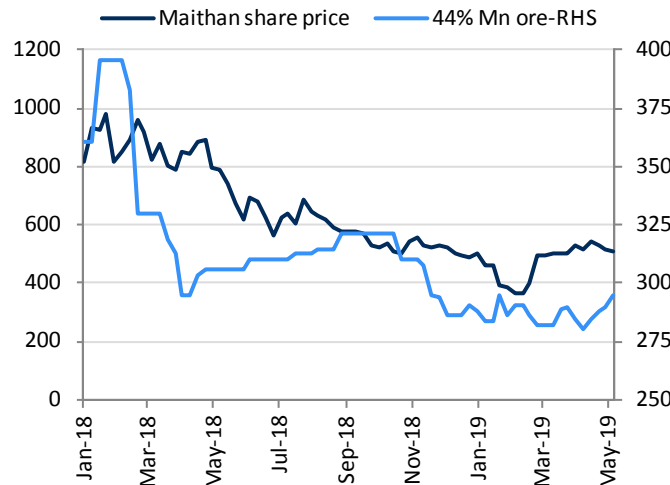
Source: Company data, Bloomberg, HDFC sec Inst Research

Maithan share price vs. NIFTY indexed perf



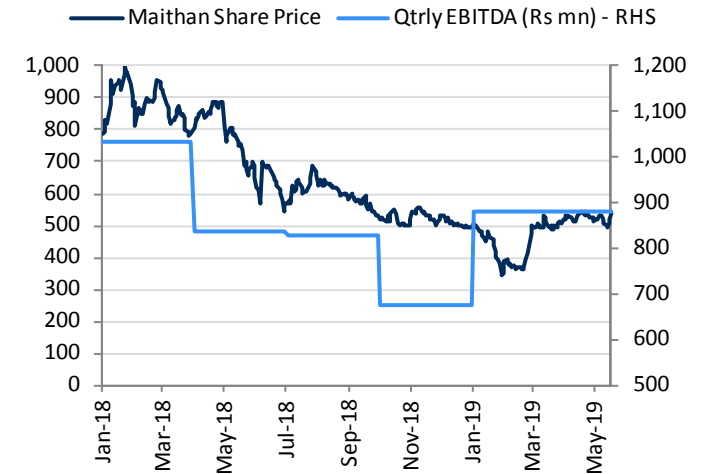
Source: Bloomberg, Ministry of Coal, HDFC sec Inst Research

Maithan share price vs. Mn ore (\$/t)



Source: Company data, HDFC sec Inst Research

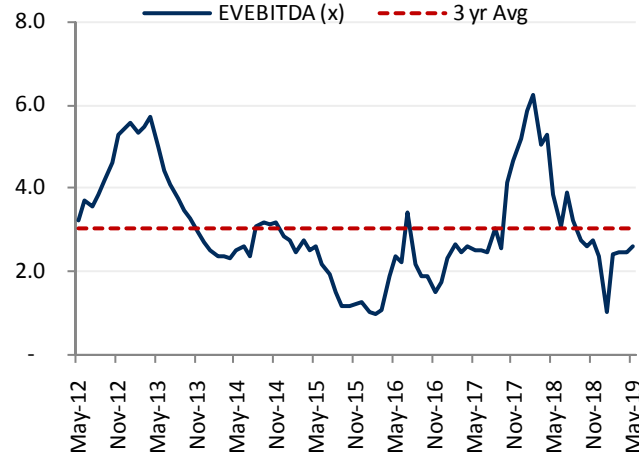
Maithan share price vs. Qtrly EBITDA



Source: Bloomberg, HDFC sec Inst Research

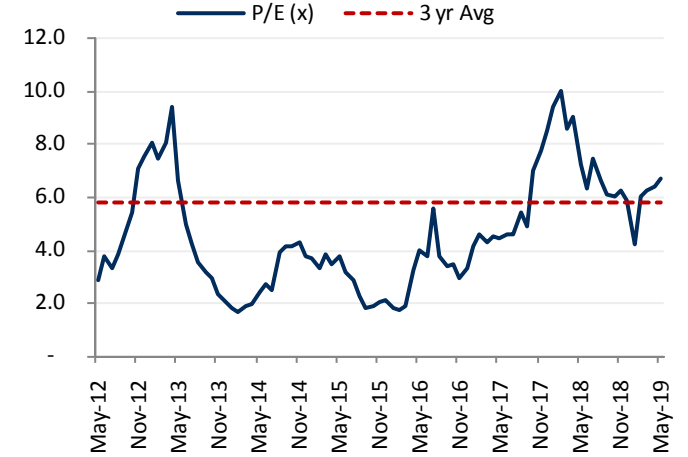
Global commodity market pessimism is priced into Maithan's stock price currently.

MAITHAN 12m fwd EVEBITDA Multiple Progression



Source: Company data, Bloomberg, HDFC sec Inst Research

MAITHAN 12m fwd PE Multiple Progression



Source: Company data, HDFC sec Inst Research

Maithan is a cost leader with a liquid balance sheet, we see no reason why the multiples have to be so low.

There is a strong case for Maithan's multiples to get rerated.

VALUATION COMPS TABLE

Company	CMP (LC)	PT (LC)	% Upside	Mcap (\$ mn)	EVEBITDA (x)		PB (x)		PE (x)	
					2019E	2020E	2019E	2020E	2019E	2020E
India										
Maithan Alloys	582	900	72%	242	2.8	2.4	1.11	0.93	6.6	5.7
JSW Steel	276	296	7%	9,500	5.4	5.3	1.54	1.49	9.2	9.0
Average					4.1	3.8	1.32	1.21	7.9	7.4
Asia/Global										
Eramet	52.32	87	67%	1,555	2.8	2.8	0.78	0.73	6.7	6.2
Merafe	1.27	2	34%	221	2.7	2.3	0.63	0.62	5.5	4.2
Outokumpu	2.821	3	22%	1,311	6.9	5.4	0.47	0.45	15.4	7.0
VALE	11.59	14.4	24%	61,468	4.4	4.7	1.17	1.06	8.2	7.9
SOUTH 32	3.52	3.9	11%	12,172	5.1	4.9	1.07	1.03	10.1	10.4
NMDC	93.9	133	42%	4,131	4.1	3.9	1.02	0.92	7.8	7.4
Rio Tinto	3714	4,180	13%	81,792	5.7	5.6	1.69	1.60	11.0	11.4
BHP Billiton	1610	1,741	8%	117,231	6.1	6.3	1.99	1.95	12.8	13.9
Glencore	289.4	394	36%	51,014	4.7	4.7	0.98	0.94	7.5	7.5
Average					4.7	4.5	1.1	1.0	9.4	8.4
Global Average					4.6	4.4	1.1	1.1	9.2	8.2

Source: HDFC sec Inst Research

Income Statement

Year ending March (Rs mn)	FY18	FY19E	FY20E	FY21E	FY22E
Net Revenues	18,790	19,879	20,223	20,794	26,961
Growth %	40%	6%	2%	3%	30%
Material Expenses	9,696	11,262	10,792	11,364	15,130
Employee Expenses	453	442	486	535	588
Power and Fuel	3,665	3,734	4,141	4,141	5,281
Other operating expenses	1,208	1,219	1,315	1,355	1,750
Total Opex	15,022	16,657	16,735	17,394	22,750
EBITDA	3,767	3,222	3,488	3,400	4,211
EBITDA %	20.1%	16.2%	17.2%	16.4%	15.6%
EBITDA Growth %	39%	-14%	8%	-3%	24%
Depreciation	154	156	167	167	167
EBIT	3,613	3,066	3,321	3,233	4,044
Other Income (including EO)	187	262	461	558	664
Interest	41	59	46	46	46
PBT	3,760	3,269	3,736	3,745	4,662
Tax	842	717	1,009	1,236	1,539
RPAT	2,918	2,552	2,728	2,510	3,125
EPS (Rs.)	100.2	87.7	93.7	86.2	107.3
EPS Growth (%)	62%	-13%	7%	-8%	24%

Source: Company, HDFC sec Inst Research

Balance Sheet

As at March (Rs mn)	FY18	FY19E	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	291	291	291	291	291
Reserves	8,387	10,834	13,458	15,863	18,883
Total Shareholders' Funds	8,678	11,126	13,749	16,154	19,174
Minority Interest	6	6	5	4	3
Long Term Debt	197	197	197	197	197
Short Term Debt	250	250	250	250	250
Total Debt	447	447	447	447	447
Deferred Taxes	248	248	248	248	248
Long Term Provisions & Others	30	30	30	30	30
TOTAL SOURCES OF FUNDS	9,409	11,856	14,478	16,883	19,902
APPLICATION OF FUNDS					
Net Block	2,377	2,221	2,054	1,887	1,720
CWIP	0	100	1,150	2,200	2,500
Investments	74	74	74	74	74
LT Loans and Advances	315	315	315	315	315
Total Non-current Assets	2,766	2,710	3,593	4,476	4,609
Inventories	2,482	2,614	2,659	2,735	3,546
Debtors	2,437	2,560	2,560	2,560	2,560
Other Current Assets	509	509	509	509	509
Cash & Equivalents	3,926	6,490	7,874	9,398	11,989
Total Current Assets	9,354	12,173	13,602	15,202	18,603
Creditors	1,473	1,788	1,478	1,557	2,073
Other Current Liabilities & Provns	1,238	1,238	1,238	1,238	1,238
Total Current Liabilities	2,711	3,027	2,717	2,795	3,311
Net Current Assets	6,643	9,146	10,886	12,407	15,293
TOTAL APPLICATION OF FUNDS	9,409	11,856	14,478	16,883	19,902

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY18	FY19E	FY20E	FY21E	FY22E
Reported PBT	3,760	3,269	3,736	3,745	4,662
Non-operating & EO items	(153)	(262)	(461)	(558)	(664)
Interest expenses	37	59	46	46	46
Depreciation	154	156	167	167	167
Working Capital Change	(71)	61	(355)	3	(295)
Tax paid	(884)	(717)	(1,009)	(1,236)	(1,539)
OPERATING CASH FLOW (a)	2,843	2,566	2,124	2,167	2,377
Capex	(114)	(100)	(1,050)	(1,050)	(300)
Free cash flow (FCF)	2,730	2,466	1,074	1,117	2,077
Investments/Others	3	0	0	0	0
Non-operating Income	163	262	461	558	664
INVESTING CASH FLOW (b)	53	162	(589)	(492)	364
Debt Issuance/(Repaid)	(361)	0	0	0	0
Interest expenses	(37)	(59)	(46)	(46)	(46)
Others	0	0	0	0	0
FCFE	2,498	2,669	1,489	1,629	2,696
Share Capital Issuance	0	0	0	0	0
Dividend	(88)	(105)	(105)	(105)	(105)
FINANCING CASH FLOW (c)	(485)	(164)	(151)	(151)	(151)
NET CASH FLOW (a+b+c)	2,411	2,564	1,384	1,524	2,591
EO Items/Others					
Closing Cash	316	6,490	7,874	9,398	11,989

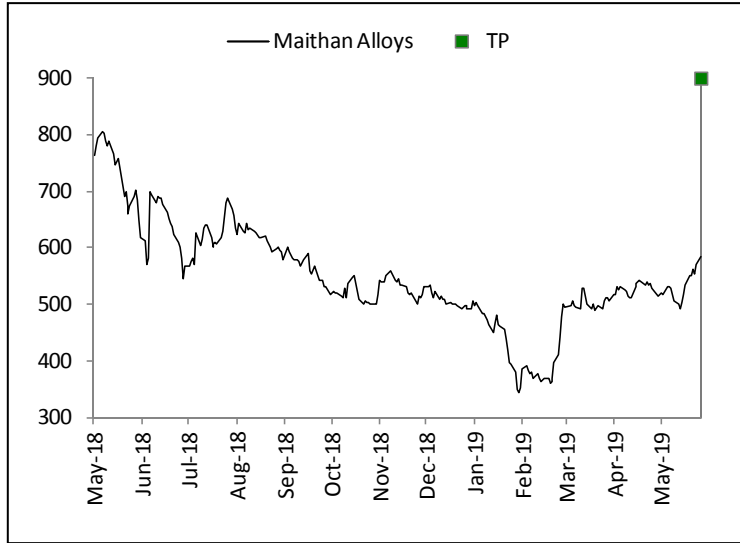
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19E	FY20E	FY21E	FY22E
PROFITABILITY (%)					
EBITDA Margin	20%	16%	17%	16%	16%
APAT Margin	16%	13%	13%	12%	12%
RoE	40%	26%	22%	17%	18%
Core RoCE	60%	51%	46%	34%	39%
RoCE	40%	26%	22%	17%	18%
EFFICIENCY					
Tax Rate (%)	0.2	0.2	0.3	0.3	0.3
Asset Turnover (x)	1.6	1.3	1.2	1.1	1.2
Inventory (days)	48	48	48	48	48
Debtors (days)	47	47	47	47	47
Payables (days)	55	58	50	50	50
Cash Conversion Cycle (days)	40	37	45	45	45
Debt/EBITDA (x)	(0.9)	(1.9)	(2.1)	(2.6)	(2.7)
Net D/E	(0.41)	(0.56)	(0.55)	(0.56)	(0.61)
Interest Coverage	93.8	56.3	82.2	82.4	102.3
PER SHARE DATA					
EPS (Rs/sh)	100.2	87.7	93.7	86.2	107.3
CEPS (Rs/sh)	105.5	93.0	99.4	91.9	113.0
DPS (Rs/sh)	3.0	3.0	3.0	3.0	3.0
BV (Rs/sh)	288.1	372.2	462.3	544.9	648.7
VALUATION					
P/E	6.2	6.6	6.2	6.8	5.4
P/BV	2.2	1.6	1.3	1.1	0.9
EV/EBITDA	3.9	3.3	2.8	2.4	1.3
OCF/EV (%)	19.3%	23.2%	21.6%	26.3%	42.5%
FCF/EV (%)	18.7%	22.9%	11.2%	13.8%	37.8%
FCFE/Market Cap (%)	13.8%	15.9%	8.7%	9.6%	15.8%
Dividend Yield (%)	0%	1%	1%	1%	1%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
27-May-19	582	BUY	900

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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