

**CMP: INR 104**

**Rating: BUY**

**Target Price: INR 176**

**Stock Info**

BSE	543874
NSE	--
Bloomberg	MAIDEN IN
Sector	Iron & Steel
Face Value (INR)	10
Mkt Cap (INR Mn)	1,479
52w H/L (INR)	137/54
Avg Daily Volume (in 000')	143--

**Shareholding Pattern %**

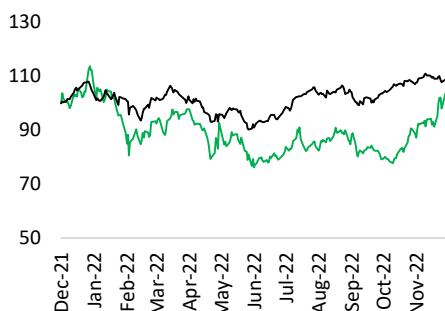
(As on Sept, 2023)

Promoters	60.71%
Public & Others	39.29%

**Stock Performance (%) 1m 6m 12m**

MAIDEN	2.1	63	74
NIFTY	2.1	7.5	8.5

**Maiden Forging Vs Nifty**



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**Investment Rationale**

**1. Margin expansion due to high value add products:**

Company is entering into higher margin products (specialized steel, stainless steel, collated nail, tempered wire, wire mesh etc). Margins in these products are significantly higher than FY23 consolidated margins. Company recently put up its first capacity for collated nails of 250 tonnes per month which is going to be doubled in FY24. H1FY24 utilization was ~35% which will also be boosted to 90% by FY24. Stainless steel is an import substitution play which is very lucrative as realisations are 5x of carbon steel and margins are significantly higher too.

**2. Exports posing a significant opportunity:**

The high value added products are majorly for exports (collated steel). Company has state-of-the-art plant (Taiwanese machinery) which is performing well in exports (recently signed a big NYSE listed client with revenue potential of INR 20-30 Mn per month). The margins are much better in exports and the demand is significant. Company is selling under their own brand name as well as in white labelling.

**3. Strong pedigree of clients:**

Company has strong T1 and T2 clients. 25% of revenues come from Auto clients while the remainder 75% include engineering and consumer durables. Company has received approvals from certain international clients for its new products. Current clientele include Maruti, Hyundai, Toyota, Denso, Everest, Hero (end users) while company also sells directly to TTK Prestige, Everest, UM Auto, Hawkins (among many). Current client base stands at 450+ which was 250+ in FY20.

**4. Stronger cash accruals with minimal capex:**

Majority of the capex is over. Only INR 80 Mn of capex is remaining which will be concluded in FY24. Post that, company does not have any significant capex. With higher margin products coming in, the cash accrual will be significant. With the IPO proceeds being used for capex, the cash accruals can be used for repaying the debt. This will put the company on stronger footings.

**Outlook:**

Company saw strong customer additions in H1. This should reflect well in H2. **Company expects 20-25% CAGR growth in topline between FY24-26 but we believe the target will be missed in FY24.** Moving from carbon and alloyed steel to higher margin products like specialized steel, stainless steel, collated nail, tempered wire, wire mesh etc. **This will increase the gross margins by 25-30% (from current 12-13% to 16-18% range). EBITDA Margins should move from 10% to 12-13% in 2-3 years.** Company also seeing increase in monthly sales run-rate. This will reflect well in H2. From current capacity, company can generate INR 4.5-5 Bn of revenues at full capacity. In 2-3 years, company should be able to reach around 7-8% PAT margins. The export sales are progressing well (in USA, Europe and Canada). Company has added a significant number of customers whose sales will reflect in H2. **Cash accrual from selling land/plant will provide cushioning to balance sheet.** At CMP, company trades 5.9x FY26EEPS, We have been positive on the company since its fall on listing (~INR 58) and continue to remain bullish over long term. **We maintain our BUY rating but revise our target downwards to INR 176 (from INR 187) valuing 10x FY26EEPS**

## Q2FY24 Concall KTAs

**Key Highlights:**

- Performance for the quarter was muted but strong customer additions seen in H1. This should reflect well in H2. **Company also seeing increase in monthly sales runrate.** This will reflect well in H2.
- Company doesn't foresee any significant uptick in new strategic and marketing expenses moving forward. Instead expects a boost in profitability due to increasing contribution from VAP.
- Excluding the IPO costs, H1 PAT would have been higher by 10%
- Average monthly sales stood at INR 170-180 Mn which has seen an uptick. **Company has been delivering INR 210 Mn from Sept and expects to touch INR 250-260 Mn by January.** Goal is to increase sales MoM
- For the new client (NYSE Listed), the topline potential is INR 20-30 Mn per month. Recently, company **completed 2 consignments of ~INR 9 Mn and has already received orders for future deliveries worth more than already delivered.**
- Company added 50-60 clients in the past month. This includes 3-4 big clients. **Orderbook at INR 350 Mn (executable in 30-60 days).** One of the big clients recently added in domestics is in industrial construction (linked to engineering sector)
- Pneumatic nails contribution to sales at 5-6% in H1 (**guidance to take it to 15-20% in FY24**). Current utilization at 35%
- Inventories up currently because of deliveries in SS segment and for future orders. Currently company has sizable recurring orders because of which the inventory is built up
- Company has built up a sales team to strategize their future growth and increase branding & sales
- Company is spending INR 80-90 Mn in capex from IPO proceeds for purchasing machinery to expand capacity from 250 tonnes pm to 500 tonnes pm in collated nails
- **Company is not facing any issues from Chinese players in exports.** Export contri currently at 10-12% which company wants to take to 25-30% in 2-3 years.
- Receivables range from advances to 90 days
- USA imports 300-400 containers of pneumatic nails per month. Per container is worth INR 3-3.5 Mn
- Going ahead, **company aims to add 1 product every 6 months.**
- Overall capacity utilization in H1 was 68%. Post H1 is 75% (sept onwards)
- In USA, company does not have own brand sales currently because they are receiving good orders from customers owning large number of warehouses. To avoid conflict or order disruption, company is not adding own brand there. Although, company has own brand sales in Europe and Canada.
- Oil tempered wires is a product which company was earlier planning to get into but since the sales queries from existing products are ample. To keep the smooth transition and not incur high running costs, company has decided to not start it in H2.
- **On the plant consolidation, company has made decent progress (just before Diwali) and the terms are in agreement as per the company. There should be some affirmation in 1 month if things go well.**
- Debt levels shall go down from here.
- Margins: Stainless Steel: 20-25%, Specialised Steel: 30% and beyond for some products, Collated nails (not own brands) White labelling: 25-30%, Own branded collated nails: >30%
- Fastest delivery model – carbon and alloyed steel products – 48hours compared to 1 week for other players

**Outlook:** Company saw strong customer additions in H1. This should reflect well in H2. Company also seeing increase in monthly sales runrate. This will reflect well in H2. From current capacity, company can generate INR 4.5-5 Bn of revenues at full capacity. In 2-3 years, company should be able to reach around 7-8% PAT margins. The export sales are progressing well (in USA, Europe and Canada). Company has added a significant number of customers whose sales will reflect in H2. At CMP, company trades 5.9x FY26EEPS, We have been positive on the company since its fall on listing (~INR 58) and continue to remain bullish over long term. **We maintain our BUY rating but revise our target downwards to INR 176 (from INR 187) valuing 10x FY26EEPS**

## Exhibit 3: Profit and Loss Statement

Y/e 31 Mar (INR million)	H1FY23	H1FY24	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,084.53	1,155.00	2,041.20	1,992.40	2,105.10	2,208.20	2,550.47	3,116.67	3,817.92
Net Raw Materials	915.57	983.56	1,877.10	1,825.40	1,931.10	1,851.61	2,110.83	2,564.66	3,116.06
Employee Cost	17.78	15.30	14.80	16.80	18.90	31.35	36.05	44.34	54.54
Other Expenses	52.05	51.15	17.80	16.40	35.40	105.52	121.35	148.04	180.61
<b>EBITDA</b>	<b>99.13</b>	<b>104.99</b>	<b>134.30</b>	<b>135.20</b>	<b>123.00</b>	<b>219.72</b>	<b>282.24</b>	<b>359.63</b>	<b>466.71</b>
<b>EBITDA Margin (%)</b>	<b>9.14%</b>	<b>9.09%</b>	<b>6.50%</b>	<b>6.70%</b>	<b>5.80%</b>	<b>9.95%</b>	<b>11.07%</b>	<b>11.54%</b>	<b>12.22%</b>
Depreciation	15.43	20.90	43.90	40.80	34.10	35.21	45.06	54.08	64.89
Other income	1.92	7.90	2.80	1.40	3.30	3.35	3.85	4.43	5.09
Interest Cost	28.15	29.81	43.92	40.83	34.10	54.78	60.26	66.29	72.91
<b>Profit before tax</b>	<b>57.47</b>	<b>62.17</b>	<b>23.00</b>	<b>23.80</b>	<b>29.40</b>	<b>133.08</b>	<b>180.76</b>	<b>243.69</b>	<b>333.99</b>
Taxes	16.20	20.41	6.40	6.90	8.00	37.03	45.55	61.41	84.17
<b>PAT</b>	<b>41.27</b>	<b>41.76</b>	<b>16.60</b>	<b>16.90</b>	<b>21.40</b>	<b>96.06</b>	<b>135.21</b>	<b>182.28</b>	<b>249.82</b>
<b>PAT Margin (%)</b>	<b>3.80%</b>	<b>3.59%</b>	<b>0.81%</b>	<b>0.85%</b>	<b>1.01%</b>	<b>4.34%</b>	<b>5.29%</b>	<b>5.84%</b>	<b>6.53%</b>
EPS (INR)	7.92	2.94	3.57	3.24	4.10	9.22	9.51	12.83	17.58

## Exhibit 6: Balance sheet summary

Y/e 31 Mar (INR million)	FY20	FY21	FY22	FY23
Equity capital	46.50	52.10	52.10	104.8
Reserves	167.20	237.80	259.20	302.8
<b>Net worth</b>	<b>213.70</b>	<b>289.90</b>	<b>311.30</b>	<b>407.1</b>
<b>Non-Current Liability</b>				
Long-term Borrowing	246.90	201.40	192.70	177.5
Deferred Tax Liabilities	6.00	4.30	3.00	3.4
Long-term provision	0.30	0.20	1.00	2.3
<b>Total Non-Current Liabilities</b>	<b>253.20</b>	<b>205.90</b>	<b>196.70</b>	<b>177.5</b>
<b>Current Liabilities</b>				
Short-term Borrowings	332.00	341.50	424.40	503.6
Trade Payables	131.50	126.60	73.10	126.4
Other Current Liabilities	54.80	75.80	86.70	16.5
Short-term Provision	3.90	8.70	9.30	36.7
<b>Total Current Liabilities</b>	<b>522.20</b>	<b>552.60</b>	<b>593.50</b>	<b>683.4</b>
<b>Total Liabilities</b>	<b>989.10</b>	<b>1048.40</b>	<b>1101.50</b>	<b>1268.0</b>
<b>Non-Current Assets</b>				
Fixed Assets	292.10	252.40	244.90	292.0
Other Non-Current Financial Assets	41.20	43.00	42.90	45.4
<b>Total Non-Current Assets</b>	<b>333.30</b>	<b>298.40</b>	<b>287.70</b>	<b>344.8</b>
<b>Current Assets</b>				
Inventories	238.10	365.40	414.30	503.8
Trade Receivables	308.60	330.60	271.50	249.9
Cash & Bank Balance	21.20	36.30	30.00	31.8
Other Current Financial Assets	76.10	5.70	89.20	130.2
Other Current Assets	11.80	12.00	8.70	7.3
<b>Total Current Assets</b>	<b>655.80</b>	<b>750.00</b>	<b>813.70</b>	<b>923.2</b>
<b>Total Assets</b>	<b>989.10</b>	<b>1048.40</b>	<b>1101.50</b>	<b>1268.0</b>

Source: Company Reports, Arihant Capital Research

## Exhibit 7: Cash Flow Statement

Particulars	FY22	FY21	FY20
<b>Profit before tax</b>	<b>294.10</b>	<b>238.28</b>	<b>230.21</b>
Adjustments for:			
Depreciation & amortization expense	340.36	407.59	438.77
Interest expense on borrowings	-	-	-
Foreign Exchange Gain	-	-	-
<b>Operating Profit before working capital changes</b>	<b>634.46</b>	<b>645.87</b>	<b>668.98</b>
Changes in operating assets and liabilities:			
Increase/(decrease) in trade payables	(535.59)	(49.15)	(1,171.31)
Increase/(decrease) in other current liabilities	108.65	210.52	130.63
Increase/(decrease) in other non-current liabilities	7.52	(0.60)	2.83
Decrease/(increase) in loans and advances and other current assets	(801.39)	701.05	154.94
Decrease/(increase) in trade receivables	591.03	(219.48)	727.35
Decrease/(increase) in inventories	(488.93)	(1,273.93)	(188.83)
Decrease/(increase) in other non-current assets	(3.00)	(18.34)	(11.58)
Cash generated from operations	(487.26)	(4.06)	313.02
Income taxes paid	82.07	38.90	48.73
<b>Net cash flow from operations</b>	<b>(569.33)</b>	<b>(42.96)</b>	<b>264.29</b>
Cash flow from investing activities			
Purchase of/Advances for property, plant & equipment	235.11	40.65	279.99
Purchase of Intangible assets	-	-	-
<b>Net cash used in investing activities</b>	<b>235.11</b>	<b>40.65</b>	<b>279.99</b>
Cash flow from financing activities			
Proceeds from issue of equity shares	-	593.25	-
Proceeds/(Repayment) of Long Term Borrowings	(86.83)	(454.69)	(203.14)
Proceeds/(Repayment) of Short Term Borrowings	828.65	95.49	150.60
Interest paid	-	-	-
<b>Net cash flow from/ (used in) financing activities</b>	<b>741.82</b>	<b>234.05</b>	<b>(52.53)</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(62.62)</b>	<b>150.44</b>	<b>(68.23)</b>
Cash and cash equivalents at the beginning of the year	362.84	212.39	280.62
<b>Cash and cash equivalents at the closing of the year</b>	<b>300.22</b>	<b>362.84</b>	<b>212.39</b>

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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