

CMP: INR 73

Rating: BUY

Target Price: INR 187

Stock Info

BSE 543874

NSE --

Bloomberg MAIDEN

IN

Sector Iron & Steel

Face Value (INR) 10

Mkt Cap (INR Mn) 1,033

52w H/L (INR) 76/66

Avg Daily Volume (in 000') --

Shareholding Pattern %

(As on Mar, 2023)

Promoters

Public & Others

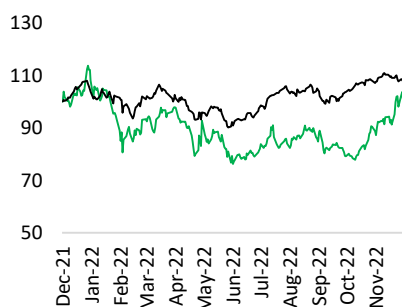
Stock Performance (%)

1m 6m 12m

MAIDEN 22 23 -

NIFTY 2.6 -0.2 12.3

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. The current utilization is around 10-15% which will also be boosted to 90% (70% in H1). Stainless steel is an import substitution play which is very lucrative as realizations 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 put up state-of-the-art plant (Taiwanese machinery) which has received some approvals for exports. Phase 1 of exports are to US and Europe, Phase II will be to Australia and Africa. The margins are much better in exports and the demand is significant. Company will be selling under their own brand name as well as in white labelling. The sales will be B2C focused which will work towards building a brand and generate higher margins also. The sales visibility is strong as the product will help replace high cost labour in developed countries.

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. The current cost of debt is also competitive at 9%.

Outlook:

Company expects 20-25% CAGR growth in topline between FY24-26. This will be driven by increase in VAP sales and exports. 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. In FY24 focus will be on profitability, focus and transiting towards sales of collated and pneumatic nails which is B2C product. Company aims to achieve 20-25% exports (contribution in revenues) in FY24.

Cash accrual from selling land/plant will provide cushioning to balance sheet and introduction of oil tempered wires will provide additional visibility for future growth (20-25% margin product)

At CMP, company trades 3.1x FY26EPS, We have been positive on the company since its fall on listing (~INR 58) and continue to remain bullish over long term. **We assign 8x rating for FY26 numbers with BUY rating and arrive at a target price of INR 187.**

Q4FY23 Conference Call KTAs**Collated Nails:**

- Focus on exports (US, Europe, Australia, Africa) trials done. Company has started commercial production. Currently the product is running at 10-15% capacity utilization which the company aims to take to 90% which will give 20% revenue growth itself for FY24.
- Pneumatic nail sales 2% of FY23 sales, which the company expects to reach to 15-20% in FY24
- Taiwanese plant machinery installed which is approved by US clients. Plant is inspected by clients in some cases.
- In exports, the sales will be white labelling (products in the clients' packaging) and online sales (own brand). Rented warehouses to push own brands too.
- Domestically will push in own brand and through Hippo stores chain, Shankara Building product chain
- At full utilisation of current capacity, company can do INR 300 Mn annually at peak capacity

RM:

- Entire RM required for all products are booked immediately so no loss due to RM pricing change. For OEMs, rates are decided on 28th/29th of preceding month. RM required are booked as per requirement from Tata Steel, JSW Steel etc

Consolidating Plants:

- Planning to convert two plants into one which will be cash accretive for the company. Expecting INR 150-200 Mn of cash accruals through this process. The combined plant will be larger than the two individual plants

Other KTAs:

- Inventory days at 35-40 days, NWC days at 60-65 days
- Order delivery time of 1-3 days for all products
- Fastest delivery model – carbon and alloyed steel products – 48hours compared to 1 week for other players
- Sector wise revenue contribution (FY23): Auto sector-25%, Engineering Sector- 50%, Home hardware & Modular kitchen- 20% and Miscellaneous- 5%.
- Exposure in FY20, Auto was 60-70%

Performance Overview:

- Earlier the company was producing carbon and alloy steel which transitioned towards stainless and specialised steel (contri of 15% in rev).
- Specialised and stainless steel will contribute of 25% of revenues in FY24
- EBITDA Margins: Stainless Steel: 20-25%, Specialised Steel: up to 30% and beyond for some products, Collated nails (not own brands) White labelling: 25-30%, Own branded collated nails: >30%

IPO Funds and capex:

- INR 80-90 Mn in capex for purchasing machinery for expanding capacity from 250 tonnes pm to 500 tonnes pm
- Next capex in H2 for Oil tempered wires (after achieving certain targets first)
- Oil tempered wire capex will be done after collated nails business reaches 70-80% capacity utilization. Oil tempered wires have 25-30% margins and also has 8-9% PLI.
- Current utilization of 65-70% (total capacity of 50,000 tonnes) which can increase by 1.3-1.4x (not intended)

Outlook:

- Company expects 20-25% CAGR growth in topline between FY24-26. This will be driven by increase in VAP sales and exports.
- 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.
- In FY24 focus will be on profitability, focus and transiting towards sales of collated and pneumatic nails which is B2C product. Company aims to achieve 20-25% exports in FY24.
- Cash accrual from selling land/plant will provide cushioning to balance sheet and introduction of oil tempered wires will provide additional visibility for future growth (20-25% margin product)
- At CMP, company trades 3.1x FY26EEPS

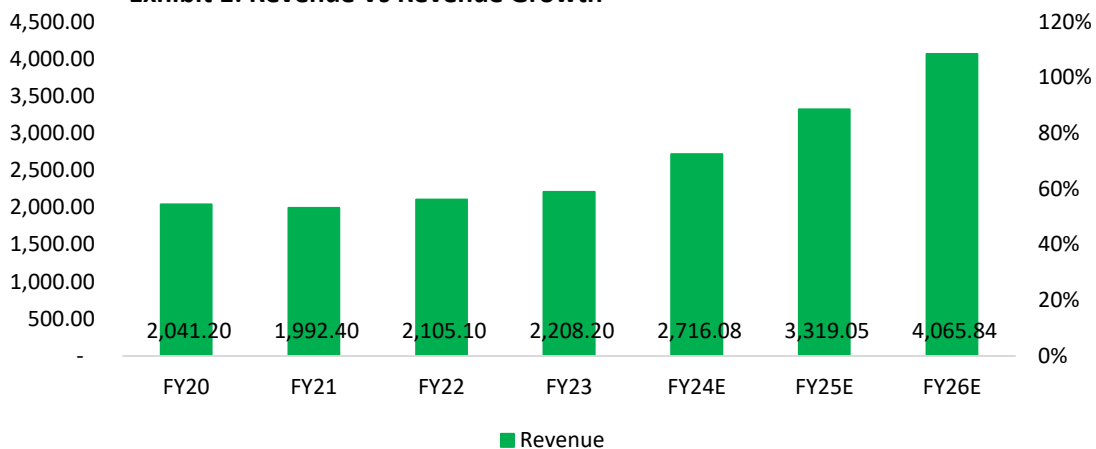
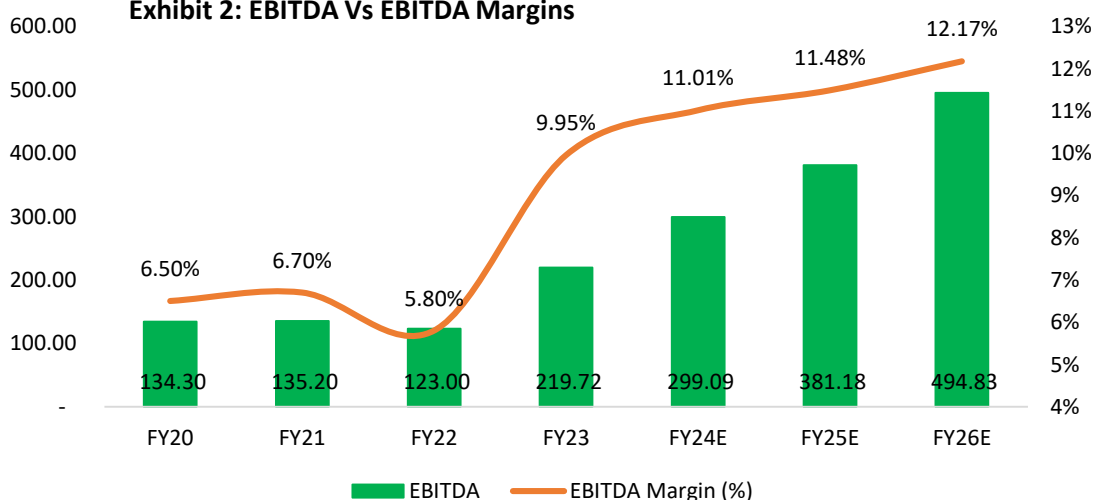
Exhibit 1: Revenue Vs Revenue Growth**Exhibit 2: EBITDA Vs EBITDA Margins**

Exhibit 3: Profit and Loss Statement

Consol (INR million)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,041.20	1,992.40	2,105.10	2,208.20	2,716.08	3,319.05	4,065.84
Net Raw Materials	1,877.10	1,825.40	1,931.10	1,851.61	2,249.70	2,733.39	3,321.07
Employee Cost	14.80	16.80	18.90	31.35	38.56	47.43	58.33
Other Expenses	17.80	16.40	35.40	105.52	128.73	157.05	191.60
EBITDA	134.30	135.20	123.00	219.72	299.09	381.18	494.83
EBITDA Margin (%)	6.50%	6.70%	5.80%	9.95%	11.01%	11.48%	12.17%
Depreciation	43.90	40.80	34.10	35.21	45.06	57.68	73.83
Other income	2.80	1.40	3.30	3.35	3.85	4.43	5.09
Interest Cost	43.92	40.83	34.10	54.78	66.83	81.54	99.48
Profit before tax	23.00	23.80	29.40	133.08	191.04	246.39	326.61
PBT Margins (%)	1.13%	1.19%	1.39%	6.02%	7.02%	7.41%	8.02%
Taxes	6.40	6.90	8.00	37.03	48.14	62.09	82.31
PAT	16.60	16.90	21.40	96.06	142.90	184.30	244.31
PAT Margin (%)	0.81%	0.85%	1.01%	4.34%	5.25%	5.55%	6.00%
EPS (INR)	3.57	3.24	4.10	9.22	13.70	17.67	23.43

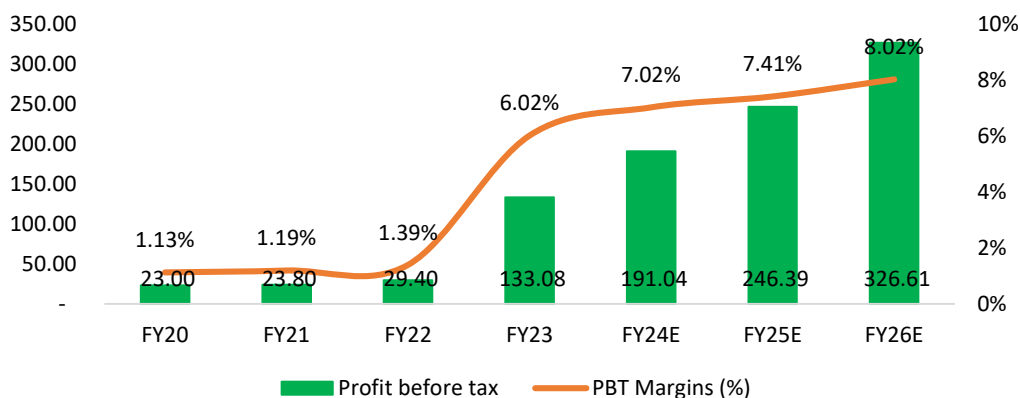


Exhibit 4: PBT VS PBT Margins

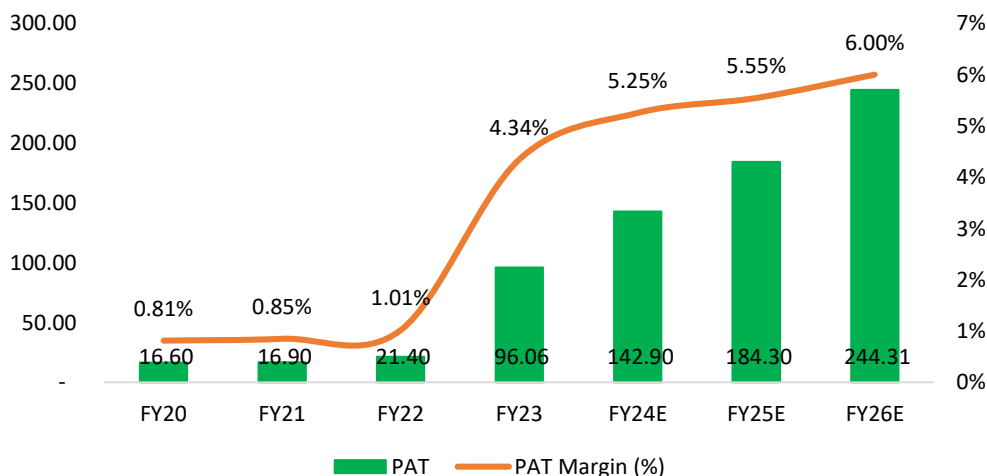


Exhibit 5: PAT VS PAT Margins

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
Net worth	213.70	289.90	311.30	407.1
Non-Current Liability				
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
Total Non-Current Liabilities	253.20	205.90	196.70	177.5
Current Liabilities				
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
Total Current Liabilities	522.20	552.60	593.50	683.4
Total Liabilities	989.10	1048.40	1101.50	1268.0
Non-Current Assets				
Fixed Assets	292.10	252.40	244.90	292.0
Other Non-Current Financial Assets	41.20	43.00	42.90	45.4
Total Non-Current Assets	333.30	298.40	287.70	344.8
Current Assets				
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
Total Current Assets	655.80	750.00	813.70	923.2
Total Assets	989.10	1048.40	1101.50	1268.0

Source: Company Reports, Arihant Capital Research

Exhibit 7: Cash Flow Statement

Particulars	FY22	FY21	FY20
Profit before tax	294.10	238.28	230.21
Adjustments for:			
Depreciation & amortization expense	340.36	407.59	438.77
Interest expense on borrowings	-	-	-
Foreign Exchange Gain	-	-	-
Operating Profit before working capital changes	634.46	645.87	668.98
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
Net cash flow from operations	(569.33)	(42.96)	264.29
Cash flow from investing activities			
Purchase of/Advances for property, plant & equipment	235.11	40.65	279.99
Purchase of Intangible assets	-	-	-
Net cash used in investing activities	235.11	40.65	279.99
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	-	-	-
Net cash flow from/ (used in) financing activities	741.82	234.05	(52.53)
Net increase/(decrease) in cash and cash equivalents (A+B+C)	(62.62)	150.44	(68.23)
Cash and cash equivalents at the beginning of the year	362.84	212.39	280.62
Cash and cash equivalents at the closing of the year	300.22	362.84	212.39

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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