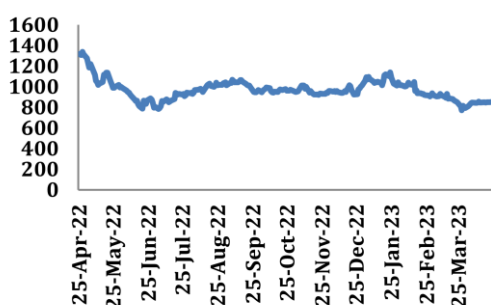


April 25, 2023
MAITHAN ALLOYS LTD.

Industry	Ferro & Silica Manganese
No. of Shares (Crore)	2.91
Face value (Rs.)	10.00
Mkt. Cap (Rs. Crore)	2478.99
Price (24/04/2023)	851.55
Book Value (Rs)	929.32
P/BV	0.92
BSE Code	590078
NSE Code	MAITHANALL
Bloomberg	MAIT IN
Reuters	MAIT.BO
Avg. Weekly Volume (NSE)	23,426
52 W H/L (Rs)	1412.50 / 766.00
Shareholding Pattern	%
Indian Promoters	74.99
Institutions	2.07
Non- Institutions	22.95
Total	100.00

(As on March 31, 2023)
Recommendation
BUY

Company Background

Maithan Alloys Ltd (MAL) was set up in the year 1995 and over the period of time has gone itself to become India's leading manufacturers and exporters of niche value-added manganese alloys. It has been recognized as the best manufacturers & exporters of ferro silicon manganese alloys in India & abroad by emerging as a reputed provider of customized manganese alloys to large and growing steel companies.

Rationale for Investment

- The Government of India's thrust on the infrastructure development of the country is expected to drive the demand for steel which in turn is expected to benefit ferro silicon manganese producers like MAL.
- Maithan Alloys Production has grown at a CAGR of 16% since 2017 while in contrast Indian Crude Steel Production grew by a CAGR of 4%-5% during the same period.
- National Steel Policy 2017 and the Production Linked Incentive scheme brought about by the Government of India shall prove to be beneficial for companies like Maithan Alloys in the long run.
- The global manganese market is expected to witness growth at a considerable rate in future. The major factor responsible for the global manganese market's growth would be increasing lithium-ion batteries' demand and rising global shift towards electric vehicles (EV) running on them.
- MAL has a long standing bond with its customers and being a low cost producer gives it ample opportunity for growth.
- SAIL, Jindal Steel & Power, Jindal Stainless, Arcelor Mittal, Tata Steel are some of its renowned clientele. It exports its products to 35 countries. 75% of its customers are repeat clients.
- MAL has a diversified products basket and customized manganese alloys which is expected to aid in increasing its market share going ahead globally.
- MAL's acquisition of Impex Metals & Ferro Alloys in FY22 had led to an increase in production volumes as well as well as improvement in financials. After infusing Rs 200 Cr in IMPEX, it generated cash flows to the tune of Rs 236 Cr. The cost of acquisition was Rs 74.22 Cr as directed by NCLAT.
- Installation of another Ferro Alloys Plant of 4x16.5 MVA Submerged Arc Furnaces along with Sinter & Briquette Plant at District Bankura, West Bengal by its subsidiary Maithan Ferrous is expected to boost production volumes further.
- Debt free company with Cash and Liquid Investments worth Rs 1,400 Crs at the end of September 2022.

Recommendation

Maithan Alloys's long standing relationships with leading steel manufacturers make it a supplier of choice. The domestic steel industry is gradually showing signs of improvement with an increase in prices and demand after a subdued 2022. The National Steel policy outlay is expected to provide an impetus to the Indian steel industry which in turn shall prove beneficial for companies like Maithan Alloys which supplies critical elements. The Chinese economy has also opened up post Covid and international coal and coking coal prices have also tapered off from the 2022 highs. An improved operating performance as well as realization prices for the steel sector shall be the key trigger for Maithan Alloys Ltd. We would recommend a BUY with a target price of Rs 1,032 in the next 9-12 months' time period, thus implying a rise of 21% from current levels.

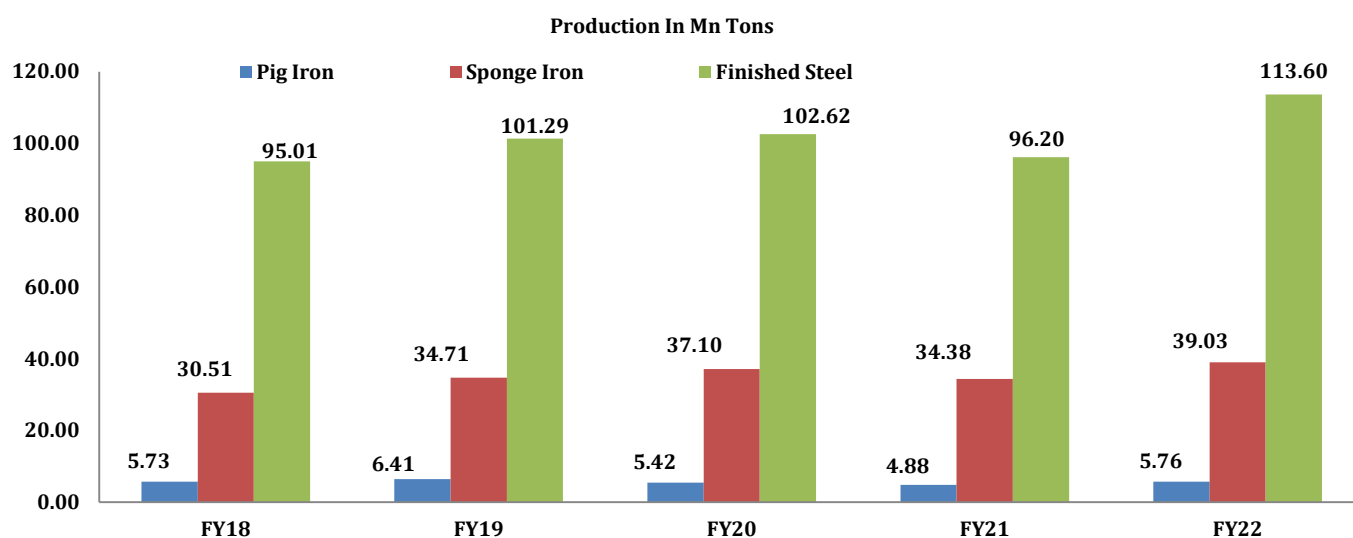
Particulars (In Rs. Crs)	Q3FY23	Q3FY22	Var%	9MFY23	9MFY22	Var%
Net Sales	685.23	923.32	-25.79	2,395.09	2,155.32	11.12
Operating Profit	97.10	399.03	-75.67	628.55	778.73	-19.29
Consolidated Net Profit	73.24	300.13	-75.60	400.93	576.12	-30.41
PBIDTM%	6.72	42.72	-84.27	21.17	35.13	-39.74
PATM%	10.62	32.50	-67.33	16.74	26.73	-37.37
Equity	29.11	29.11	-	29.11	29.11	-
EPS (Rs.)	25.00	103.09	-75.60	137.72	197.91	-30.41

*Source: Company, Ace Equity, AUM Research

Sectoral Overview

Indian Steel Industry

- 100% FDI has been allowed by the in the mining sector & exploration of metal & non-metal ores since the year 2000.
- The capital investment outlay of Rs 10 Lakh Crore is set to drive domestic steel consumption.
- Anti-dumping duty is expected to protect the domestic industry from cheap imports.
- National Steel Policy 2017 has laid down the road map for encouraging long term growth for the Indian steel industry, both on demand and supply sides, by 2030-31.
- The Government has also announced a policy for providing preference to domestically manufactured Iron & Steel products in Government procurement.
- The Production Linked Incentive (PLI) scheme for Specialty Steel is expected to boost specialty steel production to 42 Mn Tons by 2026-27.
- India was the largest producer of Sponge Iron or DRI in the world and the 2nd largest finished steel consumer in the world after China in 2021 (provisional), based on rankings released by the World Steel Association.



*Source: Company Annual Report, AUM Research

Ferro Alloys

- Manganese alloy are the largest produced ferro-alloys in the world with a share of about 41% of the global production of ferro alloys.
- Silico Manganese is an essential component as an ingredient in the process of manufacturing various grades of steels.
- 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.
- The domestic capacity of the ferro alloys industry is estimated to be around 5.15 Mn Tons
- 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.

Sl No	Ferro Alloys	India Capacity TPA
1	Manganese Alloys	31,60,000
2	Chrome Alloys	16,90,000
3	Ferro Silicon	2,50,000
4	Noble Ferro Alloys	50,000
Total		51,50,000

*Source: Indian Mineral Yearbook, AUM Research

Company Overview

Products

Sl No	Products	Composition	Description	Use
1	Ferro Manganese	Alloy of Iron & Manganese	Steel Products where silicon needs to be at low levels	Flat Steel, Manganese Steel, Stainless Steel
2	Ferro Silicon	Alloy of Iron & Silicon	Silicon acts as a steel oxidant	Special steels & small quantities of mild steel.
3	Silicon Manganese	Alloy of silicon & manganese	Cost effective blend of silicon and manganese	Steel Products, 200 Series Stainless Steel, Alloy & Manganese Steel

Manufacturing Plants

Sl No	Plant	Products	Raw Material	Sourcing
1	Visakhapatnam	Ferro & Silicon Manganese	Manganese Ore, Coke, Coal	90% Imports, 10% Domestic
2	Kalyaneshwari	Ferro & Silicon Manganese	Manganese Ore, Coke, Coal	65% Imports, 35% Domestic
3	Byrnihat	Ferro Silicon	Quartz, Coke, Coal	100% Domestic

Clients



*Source: Company, AUM Research

- India's largest Manganese Alloy Producer and Exporter
- Around 15 Kgs of Manganese Alloy is said to be required to produce one tonne of Steel
- It acquired Impex Metals and Ferro Alloys (IMPEX) through NCLT/IBC- Liquidation proceedings in February 2022. IMPEX has a production capacity of 46,900 TPA and is now running at optimal capacity.
- It completed the acquisition of Ramagiri Renewable Energy Ltd in January 2023 which has a 25 Year old non-operational Wind Turbines in the State of Andhra Pradesh which is suitable for further renewable energy installation i.e. both wind and solar.
- In August 2022, Maithan's subsidiary Maithan Ferrous has submitted a proposal for installation of a Ferro Alloy Plant of 4x16.5 MVA Submerged Arc Furnaces along with Sinter & Briquette Plant at District Bankura, West Bengal. Clearance for the same has already been obtained.

Rationale for Investment

Business expansions only after careful evaluations

- MAL has selected to judiciously invest in business expansions and has resisted the temptation for any hurried acquisitions or diversify itself in to non-core businesses.
- MAL has maintained its core domain and refrained itself into extending its business upstream (owning of mining assets) or downstream (foraying in to steel manufacturing).
- These initiatives have given rich dividends to MAL as they are focused on long term success rather than short term opportunities. As a result of this Economies of Scale of MAL has strengthened over a period of time.
- MAL's acquisition of Impex Metals and Ferro Alloys (IMPEX) in FY22 boosted its production volumes and it reported better financials.
- After infusing Rs 200 Cr in IMPEX, it generated cash flows to the tune of Rs 236 Cr. The cost of acquisition was Rs 74.22 Cr as directed by NCLAT.

Preferred choice of large steel companies

- MAL's manufacturing strengths has enabled it to be a reputed provider of customized manganese alloy to large steel companies.
- Embarking upon its maiden journey from Kalyaneshwari in West Bengal, MAL over the last two decades has grown to become one of the top manufacturers and exporters of manganese alloys.
- The industry is fragmented with about 80 players, mostly small unlisted producers and a few large companies. MAL with a differentiated business model and a strong product portfolio, enjoys the position of preferred supplier in this competitive market with a market share of 8%.
- MAL has already achieved an operational run rate some 400 basis points (bps) higher than its competitors.
- SAIL, Jindal Steel & Power, Jindal Stainless, Arcelor Mittal, Tata Steel are some of its renowned clientele. It exports its products to 35 countries. 75% of its customers are repeat clients.
- MAL has no exposure to China and hence remains itself insulated from any adverse event occurring over there. China has faced a lot of headwinds on the economic front after the outbreak of the Covid-19 pandemic.

Investment in R&D and latest technology

- MAL has a diversified products basket and customized manganese alloys which is expected to aid in increasing its market share going ahead globally.
- MAL consistently invests itself in R&D to bring out quality products and meet client expectations.
- Over the years, MAL has brought in the latest equipment and technology to determine the material chemistry.

An efficient converter of manganese ore

- MAL is a converter of manganese ore into manganese alloys, where Manganese prices are mostly pass-through. It is an efficient converter, a low cost producer as they are counted amongst the 1st quartile of the global cost curve.
- Even though MAL cannot remain immune to any downturn in the steel industry as they are their main customers, yet a healthy cash balance of more than Rs 1,400 Cr acts as a cushion in case of any adverse economic scenario.

Proper risk management procedures in place

- MAL maintains an order book of 2-3 months and thus is able to offer itself a clear cut visibility of its revenue stream and thereby avoiding any unnecessary overhead expenses.
- Raw materials are procured by having contracted negotiations with vendors in line with the order book.
- Forex risk is mitigated by having covered a similar value of exports and imports and hedging the balance open position.
- Even in times of a slowdown or a down cycle in the commodities market, when other players are forced to reduce their capacity by 20%-30%, MAL has continued to operate normally.
- MAL follows an integrated approach to its manufacturing operations. It designs its furnaces and auxiliary equipment in-house where the same team designs, modifies and operates the plant. This is in sharp contrast to its competitors who have a separate design team, project team and the operational team. The end result is achievement of a 10% lower project cost as well as a 10% higher capacity utilization levels.

Q3 & 9MFY23 Results Update & Analysis

Result Update

- Top Line posted a decline by 26% YoY to Rs 685 Crs in Q3FY23. EBIDTA during the quarter was reported at Rs 46 Crs down by 88% YoY. PAT came in Rs 73 Crs, down 75% YoY. EBIDTA margins for the quarter were 6.72% as against 42.72% in Q3FY22.
- The top line for 9MFY23 exhibited an 11% YoY growth to Rs 2,385 Crs. EBIDTA was reported at Rs 507 Crs down 33% YoY. PAT for the same came in at Rs 400 Crs, down 30% YoY. EBIDTA margins for 9MFY23 were at 21.17% as against 35.13% in 9MFY22. An exceptional item of Rs 101 Crs pertaining to electricity charges of previous years has been accounted for. The company has filed an appeal in the Appellate Tribunal and has got a stay on the same.

Analysis

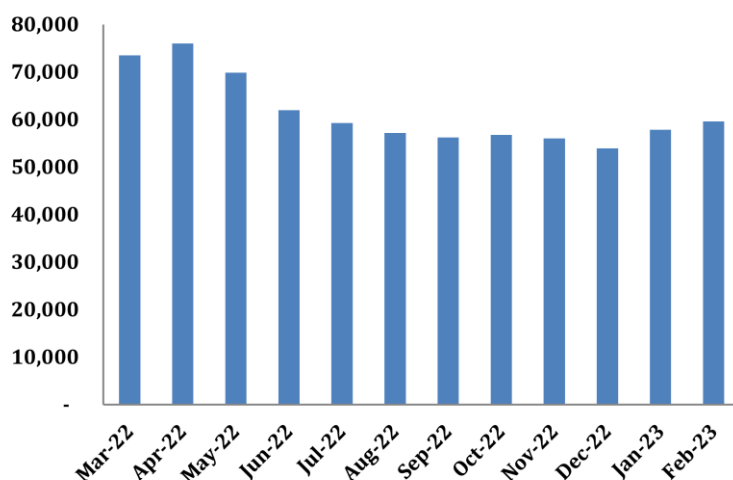
Domestic factors:-

- a) Silico Manganese being a key raw material for the steel manufacturing process witnessed subdued prices as the domestic steel industry faced headwinds on account of global geo political tensions as well as the export ban by the Union Government in 2022 to rein in inflation.
- b) 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. During hard times, the steel mills would bargain harder with their suppliers.

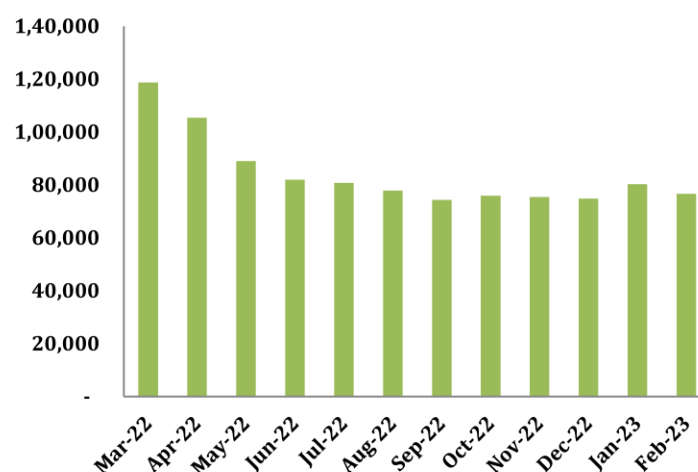
International factors:-

- a) Ukraine has been a very significant supplier of manganese ferroalloys to Europe, Turkey, the Middle East and North Africa. Indirectly, the higher power prices, especially in Europe, have affected both demand and supply of manganese alloys, with reductions in both and broader slowing in the macroeconomy.
- b) In the first half of 2021, ferro alloy prices rose sharply as buyers were very concerned about risks to continuity of supply immediately after the Russian invasion of Ukraine and bought to cover potential shortfalls.
- c) Towards the end of 2021, the resurgence of COVID-19 in China kept steel demand and production relatively subdued, with manganese ore and alloy demand following the same pattern.
- d) While ferroalloy prices rose to cover the increased costs of ore in the first half of the year, they have fallen back since, and silicomanganese prices finished the year 7.5% lower than at the beginning of January 2022.

Domestic HRC Prices/Ton

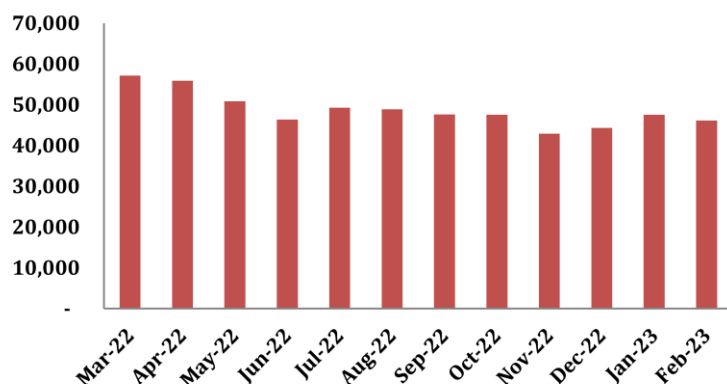


Domestic SiMn Prices/Ton

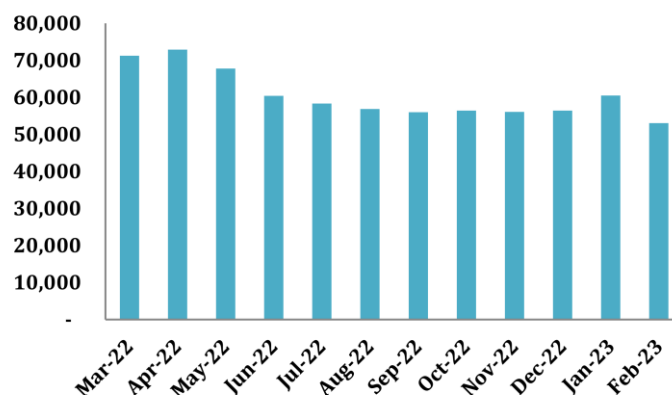


*Source: Steelmint, AUM Research

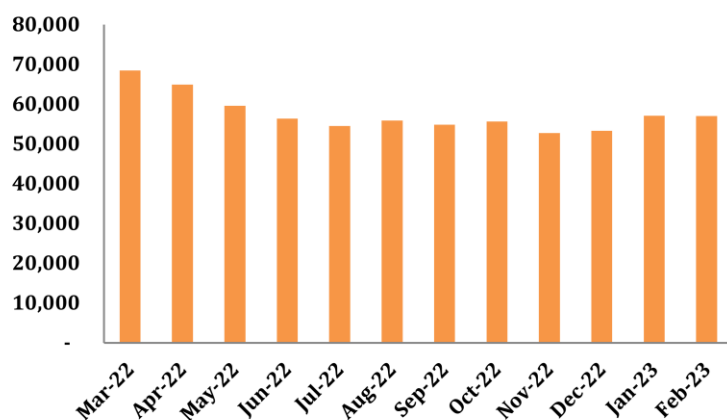
Billet Index Prices/Ton



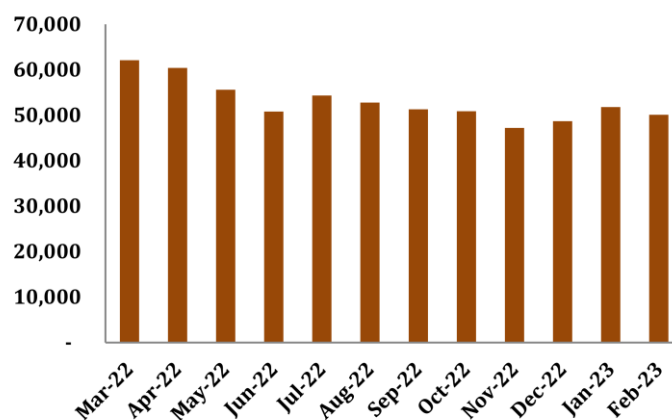
Rebar Prices/Ton



Rebar (Fe 500) Prices/Ton



Wire Rod Prices/Ton



*Source: Steelmint, AUM Research

Domestic steel industry in 2022 and outlook for 2023

- The domestic steel prices had crashed to 20 month low towards the end of 2022 after peaking in Feb-March 2022 at the onset of the Russia-Ukraine war.
- Russia and Ukraine were major providers of steel and raw material to the world. In 2021, steel exports from the two countries stood at about 48 million tonnes (MT), accounting for around 10 per cent of global steel trade. On the input side – from iron ore and pellets to coal and metalics – both countries control a fair share of the flow of raw materials. Russia exported around 32 MT of coking coal in 2021.
- As Europe refused to buy coal from Russia, the country redirected its exports to China, leading to a sharp rise in exports to around 46-48 MT in 2022. The supply chain disruption caused a sharp rally in both coking coal and steel prices across the globe, which in turn impacted demand.
- As demand fell led by global headwinds, steel mills had to keep up with high-cost raw material inventory which ultimately impacted performance.
- International and domestic sentiments are improving gradually in 2023. The war has been factored in; the bearish story of demand contraction in Europe is tapering off and people have resumed buying.
- China has opened up its economy post Covid-19 restrictions from January 2023 and raw material prices like coking coal and coke have also corrected from their peak levels.
- Globally, steel prices have increased considerably since December 2022. In India, prices started increasing from the same time, after touching the lowest in November 2022 since March 2021.
- **With the Union Government laying thrust on the infrastructure through a capital outlay of Rs 10 Lakh Crore in the Union Budget of 2023-24, things are expected to look positive for the steel industry which in turn shall benefit ferro alloy manufacturers like Maithan Alloys.**

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY23	Q3FY22	Var%	9MFY23	9MFY22	Var%
Net Sales & Other Operating Income	685.23	923.32	-25.79	2,395.09	2,155.32	11.12
Total Expenditure	639.17	528.84	20.86	1,887.94	1,398.11	35.04
PBIDT (Excl OI)	46.06	394.48	-88.32	507.15	757.21	-33.02
Other Income	51.04	4.55	-	121.40	21.52	464.13
Operating Profit	97.10	399.03	-75.67	628.55	778.73	-19.29
Interest	0.34	0.38	-10.53	0.86	0.96	-10.42
Exceptional Items	-	-	-	-101.92	-	-
PBDT	96.76	398.65	-75.73	525.77	777.77	-32.40
Depreciation	5.00	4.31	16.01	15.15	12.13	24.90
Tax	18.99	94.24	-79.85	109.71	189.53	-42.11
Net Profit	72.77	300.10	-75.75	400.91	576.11	-30.41
Minority Interest	0.01	0.01	-	0.02	0.01	-
Consolidated Net Profit	72.78	300.11	-75.75	400.93	576.12	-30.41
Other Comprehensive Income (Net Of Tax)	0.46	0.02	-	-	-	-
Adjusted Net Profit	73.24	300.13	-75.60	400.93	576.12	-30.41
Equity	29.11	29.11	-	29.11	29.11	-
EPS (Rs.)	25.00	103.09	-75.60	137.72	197.91	-30.41

Income Statement (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
Net sales	2,992.46	1,619.78	1,830.88
Total Expenditure	1,921.95	1,325.48	1,596.08
Operating Profit (Excl OI)	1,070.51	294.30	234.80
Other Income	32.11	23.97	66.16
Operating Profit	1,102.62	318.27	300.96
Interest	3.44	3.19	5.89
PBDT	1,099.18	315.08	295.07
Depreciation	16.91	15.62	15.81
Profit Before Tax and Exceptional Items	1,082.27	299.46	279.26
Provision for Tax	264.23	69.43	57.24
Net Profit	818.04	230.03	222.02
Minority Interest	0.02	0.81	0.01
Consolidated Net Profit	818.06	230.84	222.03
EPS (Rs.)	281.02	79.30	76.27

*Source: Company, Ace Equity, AUM Research

Balance Sheet (Value in Rs. Crs)			
Particulars	FY22	FY21	FY20
EQUITY AND LIABILITIES			
Share Capital	29.11	29.11	29.11
Total Reserves	2,293.95	1,492.49	1,263.11
Shareholder's Funds	2,323.06	1,521.60	1,292.22
Minority Interest	0.72	-0.26	0.53
Secured Loans	0.00	0.00	0.00
Unsecured Loans	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	26.47	31.57	29.52
Other Long Term Liabilities	3.54	4.37	4.55
Long Term Provisions	3.04	2.80	2.78
Total Non-Current Liabilities	33.05	38.74	36.85
Trade Payables	197.19	183.31	75.00
Other Current Liabilities	176.78	93.00	97.75
Short Term Borrowings	1.72	45.14	6.77
Short Term Provisions	18.22	16.35	6.81
Total Current Liabilities	393.91	337.80	186.33
Total Liabilities	2,750.74	1,897.88	1,515.93
ASSETS			
Gross Block	366.91	286.89	285.38
Less: Accumulated Depreciation	91.14	83.95	68.52
Net Block	275.77	202.94	216.86
Capital Work in Progress	0.33	0.00	1.10
Non Current Investments	5.82	5.07	4.11
Long Term Loans & Advances	79.31	40.20	39.49
Other Non Current Assets	0.00	0.00	3.14
Total Non-Current Assets	361.23	248.21	264.70
Currents Investments	818.04	790.22	1.71
Inventories	676.10	348.51	276.93
Sundry Debtors	688.86	436.27	280.59
Cash and Bank	102.39	27.45	638.74
Other Current Assets	19.10	16.81	20.68
Short Term Loans and Advances	85.02	30.41	32.58
Total Current Assets	2,389.51	1,649.67	1,251.23
Net Current Assets (Including Current Investments)	1,995.60	1,311.87	1,064.90
Total Current Assets Excluding Current Investments	1,571.47	859.45	1,249.52
Total Assets	2,750.74	1,897.88	1,515.93

*Source: Company, Ace Equity, AUM Research

April 25, 2023

Aum Capital RESEARCH DESK

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