maithan alloys ltd

Scientific Investing

Company Analysis

Quality or Commodity??

Maithan Alloy Company Analysis

Quality or Commodity??

Scientific Investing

What is a Quality Business

Sustainable Growth

Decent Return on Capital Employed

Low Leverage

Ethical and Able Management

What is a Commodity Business

- Volatile Growth and Margins
- Low Return on Capital Employed
- High Leverage
- Unethical and non-performing management

How about these numbers

- 7 YEAR SALES CAGR: 17%
- 7 YEAR PAT CAGR: 28%
- 7 YEAR RETURN ON EQUITY: 27%
- DEBT/EQUITY: 0.0
- 10 YEAR CFO/PAT: >1
- 10 YEAR FCF/CFO: 76%

0% Promoter Pledge

75% Promoter Holding

>3x of Industry Growth

>40% of Market Cap as Cash

26% CAGR for last 10 years

Trades at 5.28 EV/EBITDA

One of biggest dilemma, curiosity and learning while studying this stock for me has been the small nuisances between market perception to quality, value, commodity, outliers, cycles and valuation. Will have my view at end of discussion

So, again, the question is

Is Maithan a quality or commodity stock?


Let us try to understand
from the beginning

Scientific Investing

Maithan Alloys- Quality or Commodity?

- Company and Business Introduction
- Financial Analysis
- Business Analysis
- Valuation Analysis
- Risk Analysis
- Summary and Key Insights

Maithan Alloys- Quality or Commodity?

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- **Company and Business Introduction**
- Financial Analysis
- Business Analysis
- Valuation Analysis
- Risk Analysis
- Summary and Key Insights

Company Introduction

Ferro alloys enhance steel strength, durability, anti-corrosion and anti-stain properties and acts as de-oxidant for Steel Manufacturing

Ferro Manganese - An alloy of iron and manganese

- Used in steel products wherein silicon content needs to be controlled at low levels
- Used in flat steel, manganese-rich steel and stainless-steel manufacturing

Silicon Manganese- An alloy of silicon and manganese

- Cost-effective blend of silicon and manganese
- Consumed in all steel products. Used in higher quantities in 200 series stainless steel, alloy steel and manganese steel

Ferro Silicon - An alloy of iron and silicon

- Silicon acts as a steel oxidant
- Used primarily in special steels and in small quantities in mild steel

Revenue is evenly spread b/w domestic and export with major export to Asia pacific except China. Also, evenly spread across ferro and silico manganese

Out of the total variable cost about 50% would be Manganese ore cost, 30% of the cost would be power cost, 15%

Ferro Alloys

One of major producers of ferro alloys with 10% domestic market share and 2% international market share

Manganese Alloy

Chrome Alloy

Ferro Manganese
An alloy of iron and manganese

Silico Manganese
An alloy of silicon and manganese

Ferro Silicon
An alloy of iron and silicon

New capacity to be built

Vishakhapatnam (E)
72 MVA (1.2L Tonn)
50% Revenue

Briyhat
16 MVA (26K Ton)
10% Revenue

Kalyaneshwari (D)
49 MVA (81K Tonn)
40% Revenue

Company Introduction

- Management is mix of old and young but experienced management
- Good education background
- Though management salary is on higher side, it is variable and linked to performance. Further, management has not shied away from taking lesser pay

201903:Name	201903:Designation	201903:Reported Designation	201903:Annual Remuneration
S C Agarwalla	Managing Director	Chairman and Managing Director	9.46
Subodh Agarwalla	Whole Time Director	Whole Time Director and CEO	7.57
PK Venkatramani	Independent Non-Executive Director	Independent Non-Executive Director	0.01
Kalpana Biswas Kundu	Independent Non-Executive Director	Independent Non-Executive Director	0.01
Nand Kishore Agarwal	Independent Non-Executive Director	Independent Non-Executive Director	0.01
Ashok Bhandari	Independent Non-Executive Director	Independent Non-Executive Director	0.01
Vivek Kaul	Additional Director	Additional Director	
Parasanta Chattopadyay	Non Executive Director	Non Executive Director	0.00
Rajesh K Shah	Company Secretary	Company Secretary	

Mr. Subodh Agarwalla

Whole Time Director and CEO

- A B. Tech from IIT Varanasi and M.B.A from IIM Bangalore
- At age of 39 years is the Whole Time Director and CEO and strengthens the operational activities of the Company

Mr. S. C. Agarwalla

Chairman and Managing Director

- Over 25 years of rich experience in Ferro Alloys industry
- Has a strong understanding of business processes and excellent communication and people management skills
- Focuses on project setup, corporate planning and business development, human resource development, planning & budgeting and related functions

Mr. Sudhanshu Agarwalla

President and CFO

- A M.B.A from XLRI Jamshedpur.
- Over 13 Years of experience in Finance, Marketing and Procurement in the Ferro Alloys Industry

Mr. Nand Kishore Agarwal

Independent Director

Experienced in the field of Accounts, Finance and Tax Laws

Mr. Biswajit Choudhuri

Independent Director

Experienced in the field of Engineering, Banking, Finance and Management

Mr. Vikash Kumar Jewrajka

Independent Director

Experienced in the field of Monolithic Ceramics, Promotions of Residential Property & Fly Ash Bricks Machine Manufacturer

Mr. Ashok Bhandari

Independent Director

Experienced in the field of Finance and Negotiation with Banks, Governments and Technology & Equipment suppliers

Mr. Palghat Krishnan Venkatramani

Independent Director

Experienced in the field of Banking with specialty in Industrial Finance and staff training and Foreign Exchange and Management Accountancy

Ms. Kalpana Biswas Kundu

Independent Director

Experienced in the field of Banking, Accounts and Finance

Scientific Investing

Maithan Alloys- Quality or Commodity?

2

Company Introduction

- Respectable growth rates and topline, bottom-line and cashflow level
- Asset light balance sheet with lot of cash on books
- Excellent free cash flow to sales ratio over 10-year history covering both up and down cycle
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- Lower tax rates (one of plant in SEZ zone)
- Volatile raw material and power cost. What is normalized raw material and power cost?
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Scientific Investing

Stock Analysis Summary

Growth Summary

Duration	Sales	EBITDA	EBIT	PBT	PAT	EPS	Dividend	CFO	GFA	Debt	WC	MarketCap	Net Worth
8 YR	13%	17%	21%	21%	22%	22%	25%	26%	6%	-31%	30%	28%	24%
5 YR	10%	16%	27%	33%	33%	33%	43%	42%	2%	-45%	38%	28%	32%
3 YR	11%	-5%	4%	5%	7%	7%	34%	21%	2%	-50%	45%	-6%	30%
1 YR	-8%	-28%	-15%	-15%	-13%	-13%	0%	-114%	1%	47%	311%	-30%	16%

Consolidated Summary

Duration	Sales	EBITDA	PAT	CFO	DIVIDEND	CAPEX	FCF	CFO/PAT	FCF/CFO	IVIDEND/CF	CAPEX/CFO	eceivables/Sal	Inventory/Sales
8 YR	11160	1603	1136	912	66	91	820	80%	90%	7%	10%	15%	15%
5 YR	8152	1350	1028	816	57	32	784	79%	96%	7%	4%	15%	14%
3 YR	5669	945	769	554	44	23	531	72%	96%	8%	4%	14%	14%
1 YR	1816	235	222	-45	17	5	-50	-20%	110%	-39%	-10%	15%	15%

KPIs Summary

Duration	GM%	EBITDA%	PAT%	terest Covera	Current ratio	WC/Sales	Inventory Days	Debtor Days	Asset turns	NFA Turns	ROA	ROE	ROCE
Min	36%	6%	1%	2	1.4	12%	48	27	1.0	3.0	1%	4%	6%
Max	50%	21%	16%	49	6.1	59%	87	27	1.5	8.6	24%	39%	42%
Average	44%	13%	9%	21	2.2	22%	60	27	1.3	5.3	12%	22%	24%
Current	42%	13%	12%	48	6.1	59%	56	56	1.2	8.4	15%	17%	22%
Discount	-3%	-4%	35%	136%	171%	-166%	7%	-107%	-10%	58%	19%	-22%	-10%

Valuation Summary

Duration	PE	PB	EV/EBITDA	MCAP/SALES	EV/SALES
Min	2.4	0.3	1.7	0.1	0.2
Max	10.1	2.6	6.3	1.4	1.0
Average	5.6	1.1	3.7	0.6	0.5
Current	10.1	1.6	6.3	1.4	1.0
Discount	-82%	-44%	-72%	-150%	-95%

Business Summary

Gross Margin	PAT Margin	Tax Rate	Receibales/ Sales	Inventory as a % of Sales	WC/Sales	Interest Coverage	Current Ratio	CFO/PAT	FCF/CFO
42%	12%	20%	15%	15%	59%	48	6.1	-20%	110%
Sales Growth	**pbt Growth**	**PAT Growth**	**Asset Turns**	**ROA**	**ROE**	**ROCE**	**P/E**	**EV/EBITDA**	**DIVIDEND YIELD**
-23%	-8%	-8%	1.2	15%	17%	22%	10.1	6.3	0.8%

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Operations Analysis	8 Year	5 Year	3 Year
Asset Turnover(x)	1.4	1.4	1.3
Fixed Asset Turnover (x)	5.6	6.9	8.3
Working Capital (x)/Sales	24%	27%	30%
Receivable days	56	55	50
Inventory Days	57	50	51

Leverage Analysis	8 Year	5 Year	3 Year
Total Debt/Equity(x)	0.4	0.1	0.0
Current Ratio(x)	2.4	2.8	3.3
Quick Ratio(x)	1.6	2.0	2.3
Interest Cover(x)	21.9	33.2	46.1

Return Ratio Analysis	8 Year	5 Year	3 Year
ROA (%)	12%	17%	18%
Asset Turnover	1.4	1.4	1.3
Leverage	1.9	1.5	1.3
ROE (%)	20%	25%	25%
ROCE (%)	24%	31%	31%

Operations Analysis	8 Year	5 Year	3 Year
Asset Turnover(x)	1.4	1.4	1.3
Fixed Asset Turnover (x)	5.6	6.9	8.3
Working Capital (x)/Sales	24%	27%	30%
Receivable days	56	55	50
Inventory Days	57	50	51

Cashflow Analysis	8 Year	5 Year	3 Year
CFO/EBITDA	57%	60%	59%
CFO	912	816	554
Free Cash Flow	820	784	531
FCF/EBITDA	51%	58%	56%
FCF/Sales	7%	10%	9%
% DIV/CFO	7%	7%	8%
%CAPEX/CFO	10%	4%	4%
Use of CFO	17%	11%	12%

Growth Analysis	8 Year	5 Year	3 Year
Net Sales Growth(%)	13%	10%	11%
Core EBITDA Growth(%)	17%	16%	-5%
EBIT Growth(%)	21%	27%	4%
PBT Growth(%)	21%	33%	5%
PAT Growth(%)	22%	33%	7%
Adj. EPS Growth(%)	22%	33%	7%
CFO Growth	26%	42%	21%
Dividend Growth	25%	43%	34%
Gross Asset Growth	6%	2%	2%
Debt Growth	-31%	-45%	-50%
WC Growth	30%	38%	45%
Market Cap Growth	28%	28%	-6%
Net Worth growth	24%	32%	30%

Margin Analysis	8 Year	5 Year	3 Year
Core EBITM (%)	13%	16%	17%
EBIT%	13%	16%	18%
PBT %	11%	16%	17%
PATM (%)	9%	12%	14%
CPM(%)	7%	10%	10%
Raw material/Sales	55%	53%	55%
Power & Fuel Cost/Sales	24%	21%	19%
Employee Cost/Sales	2%	2%	2%
Other Manufacturing Expenses/Sales	2%	2%	2%
General and Administration Expenses/Sales	4%	4%	4%
Selling and Distribution Expenses/Sales	1%	1%	0%
Miscellaneous Expenses/Sales	1%	1%	2%
Gross Margin	45%	47%	45%

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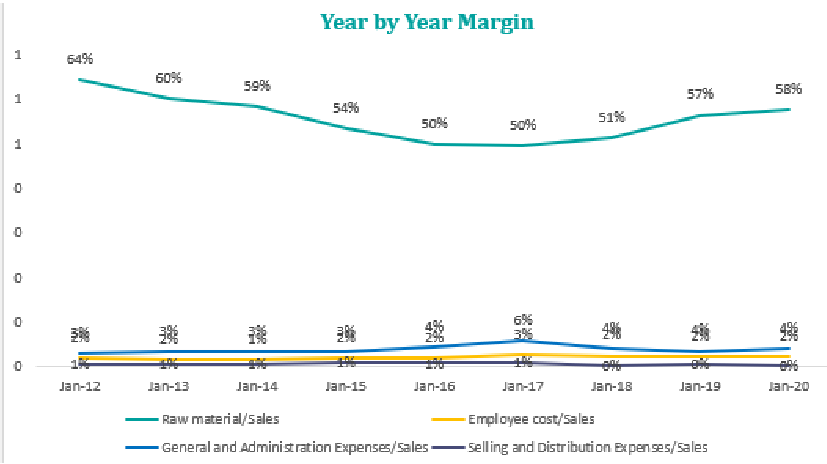

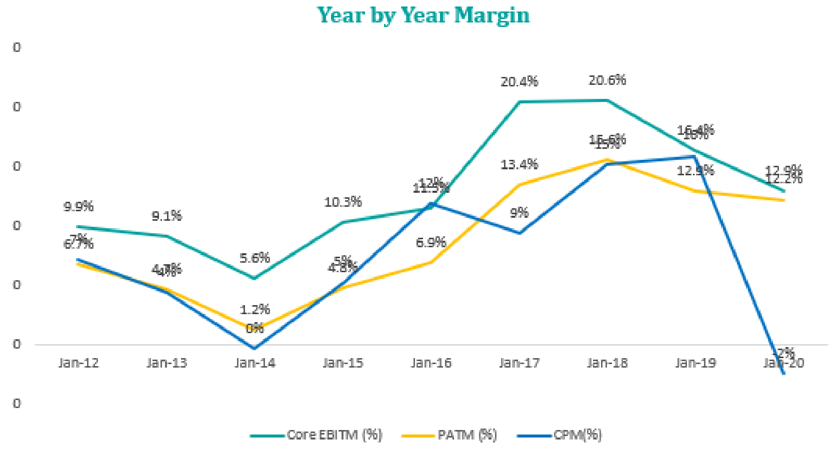

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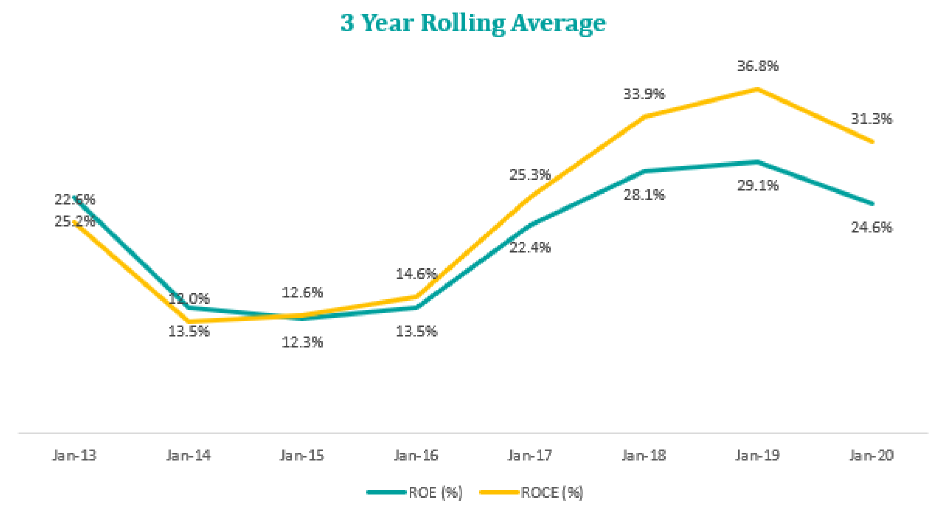
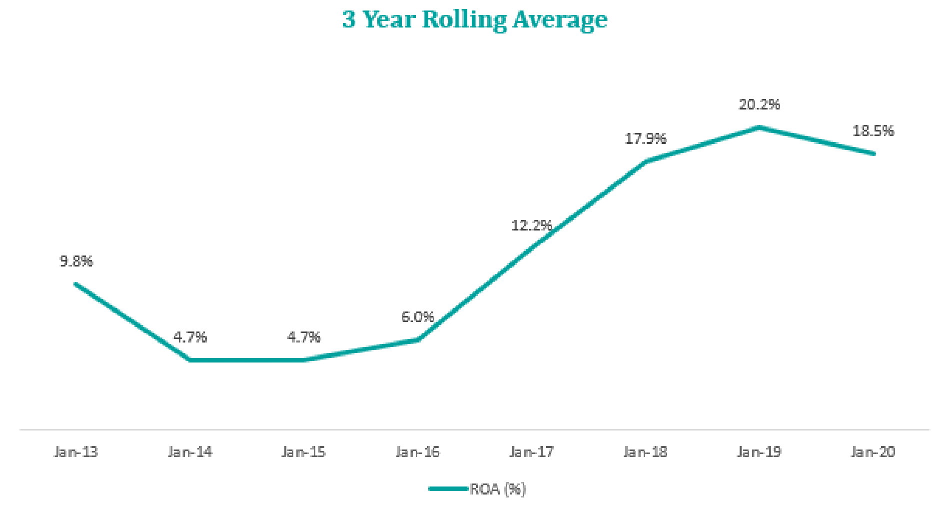




Scientific Investing

Company Introduction

- 19% production share for ferro manganese
- 33% production share for silico manganese
- 14% share for ferro silicon
- Yet to start on ferro chrome
- 5x capacity expansion in last 13 years and working at 90% capacity utilization
- Lowest cost produce due to higher efficiencies in employee productivity, SGA efficiency, other cost control, strong balance sheet and asset light model

Company	State	Location	Type	Capacity Ton
Facor	AP	Garividi	FM-SM	72500
Anjaneya Alloys	AP	Vishakhapatnam	Ferro Alloys	120000
Sarda Energy	MP	Raipur	FM-SM	66000
Sal Steel	GJ	Gandhidham		61890
Anjaneya Alloys	JH	Jamtada	Ferro Alloys	41850
Chandrapur Ferro Alloys	MH	Chandrapur	FM	50000
Chandrapur Ferro Alloys	MH	Chandrapur	SM	32765
Maithan Alloys	MEG	Rio bhoi	FM	28000
Tata steel	ORI	Joda	FM	50000
Nava Bharat Ventures	TEL	Khammam	FM-SM	125000
Maithan Alloys	WB	WB	FM	94600
Shyam Ferro Alloys	WB	WB	SM	104957
Indian Metals & Ferro Alloys Ltd	ORI	Rayagada	Ferro Chrome	275000

Item	Last 3 Years		Last 5 Years		Last 7 Years	
	IMFA	Maithan	IMFA	Maithan	IMFA	Maithan
Raw Material Cost	45.1%	51.7%	48.9%	54.7%	49.3%	58.0%
Power Cost	2.6%	19.7%	2.5%	21.0%	2.2%	20.9%
Employee Cost	10.3%	1.4%	10.3%	1.3%	9.8%	1.2%
SGA Cost	9.5%	5.6%	9.1%	5.2%	8.7%	4.7%
Other Manufacturing Cost	6.7%	1.8%	7.1%	1.8%	7.3%	1.7%
Other Cost	2.3%	0.6%	2.5%	0.6%	2.6%	0.7%
Interest to Sales	4.7%	0.6%	5.7%	0.8%	6.0%	0.8%
Depreciation to Sales	6.1%	1.2%	7.3%	1.2%	7.8%	1.1%

KPIs Summary

Duration	Asset turns	NFA Turns	ROA	ROE	ROCE
Min	0.5	0.9	-3%	-6%	0%
Max	0.7	1.9	10%	23%	23%
Average	0.6	1.3	3%	7%	10%
Current	0.7	1.3	-3%	-6%	0%
Discount	14%	3%	-198%	-190%	-97%

BENCHMARKING

	MAITHAN ALLOYS	SARDA ENERGY&...	INDIAN METAL & FERRO	NAVA BHARAT VENTURES
Financial Metrics -				
5yr Net Profit (CAGR)	49.37 %	19.07 %	-19.01 %	-2.47 %
P/E	5.24	2.53	0.00	3.68
5yr Average Debt to Equity	0.12	0.33	0.97	0.11
5yr Average Debt to Operating Profit +	0.25	1.55	2.98	1.68
5yr Average Other Income vs Net Profit +	0.06	0.58	0.30	0.40
5yr Average Return on Assets	17.72 %	6.69 %	3.36 %	4.35 %
5yr Average ROE +	28.23 %	10.01 %	8.14 %	5.02 %
5yr Average ROCE	33.98 %	13.64 %	11.03 %	6.95 %
Sales vs Receivables +	16.13	8.98	5.15	4.94
5yr Average Net Profit Margin	10.98 %	9.24 %	4.68 %	11.28 %
Contingent Liabilities vs Profit +	1.23	1.96	1.83	1.77
5yr Average Operating Profit Margin	15.38 %	18.38 %	19.80 %	15.54 %
Cash Conversion Cycle +	60.11	56.29	57.14	110.41

Company Introduction

Open Questions:

- How can company maintain a strong balance sheet and decent return ratios even at worst of the cycle?
- How can company maintain above average industry growth?
- How company manages raw material price volatility?
- How new capex will play out and from where growth will come? What will happen to cash on books?
- Why High cash and low dividend yield?
- Family transactions in 2017 to shift business from one hand to other hand
- It is evident that business is cyclic with volatility in margins, what is expected sustainable margin?
- Significantly low margin in 2014, is company purely cyclic and will it also make losses sometime in future?
- Power tariff in the country is high compared to other ferro alloy producing countries
- Industry is bracing to tackle competition from Malaysia and Indonesia

We will address some of questions here in terms of what is management's response. Also, we will do our own analysis in next set of sections on some of those questions

Introducing Fundamental Analysis (30 Hrs. Comprehensive Course)

01 MOTIVATION & INTRODUCTION

Why Fundamental Analysis, Importance, Usage, What is fundamental analysis, What does it cover – Financials, Management, Market Size, Business Quality, Valuation

02 UNDERSTANDING FINANCIAL STATEMENT

Understanding Financial Statement – Balance Sheet, Profit and Loss Statement, Cashflow Statement, Understanding Financial Ratios – Profitability, Liquidity, Leverage, Efficiency, Growth, Due Diligence, Returns, Contribution, Valuation

03 UNDERSTANDING FINANCIAL RATIO

Understanding Financial Ratios – Profitability, Leverage, Operations, Growth, Due Diligence and Valuation, Connecting financial ratios and business operations

04 JOURNEY OF INDIAN STOCK MARKET

Market history through data and analysis, Wealth Creators and Wealth Destructors in last 20 years, Patterns of wealth creation and wealth destruction using financial ratios, Segmentation and profiling of wealth creators and wealth destructors, Industry benchmarking, Insights to build screen systems

05 UNDERSTANDING BUSINESS AND ITS LEVERS

Business and Value Creation, Drivers, Creating entry barriers, Delivering sustainable returns, Market Size Opportunity Identification, Business Analysis Frameworks – Porter's Five Force, Connecting financials and operations, Business Quality Checklist

06 UNDERSTANDING MANAGEMENT AND ITS LEVERS

Management Traits, Management Types, Management Due Diligence, Connecting Management Quality with Financials, Management Quality Checklist

07 RESEARCH RESOURCES, PROCESS AND METHODOLOGY

Research need and sources, SI Internal tools for company, competitive and market analysis, External tools for company, competitive and market analysis, Best Practices, Reading Resources and Methodology - ARs, Presentations, RHPs, Con calls etc.

08 ANALYSING COMPANIES: BOTTOM-UP & TOP-DOWN

Idea Identification, SI 5 Stage Analysis Approach, Financial Shenanigans and due diligence, Company Analysis Use Cases, Understanding and Managing Risk

09 UNDERSTANDING VALUATIONS

Understanding Valuation and its importance, Connection between Returns and Valuation, What drives Valuations, Valuation Types, Selection of Valuation Type – Pros/Cons, Valuation Use Cases, Valuation Checklist

10 MARKET CYCLES AND PORTFOLIO MANAGEMENT

Understanding market cycles, Directional tops and bottoms, Market Cycle Checklist, Portfolio Management and Allocation, When and how much to buy or sell, Managing behavior, greed and fear, Best practices, Do's and don'ts, SI Screens, Sectors and Stock watchlist, Concluding Remarks

Maithan Alloys- Quality or Commodity?

3

Understanding Business and it Journey

18%

Growth in ferro alloy production (CAGR over the last five years)

The result: Maithan Alloys grew export revenues from 4.29% of total sales in 2005-06 to 42.88% in 2010-11.

62%

Growth in exports (CAGR over the last five years)

The result: Realisations per tonne increased from Rs. 30,800 in 2005-06 to Rs. 61,800 in 2010-11.

The result: Maithan Alloys enlisted four of the top-five global steel producers as customers with repeat orders in the last few years.

4 | Annual Report 2010-11

Going ahead, the Company expects to double ferro silicon production from its current levels of 12000 TPA to 24000 TPA by 2014. Currently, India exports 25,000 TPA of ferro silicon which is expected to go up to 75000 TPA in the next two years. With increased capacity, Maithan intends to export 24,000 TPA in the next two years, thereby capturing a lion's share of the export market.

BIG LEAP

32%

Maithan's projected share of India's ferro silicon exports in the next two years

While manufacturing a critical downstream product, it is essential to achieve the highest quality standards. One tonne of steel requires only 12 kgs of manganese alloy constituting only 1% of the total manufacturing cost. Even a small percentage of impurity in the manganese alloy can potentially affect the quality of steel manufactured.

Maithan focused on reducing carbon, phosphorous, sulphur and other impurities by 40% over the past few years, thereby setting high-quality benchmarks. As a result, Maithan's poduct impurity levels are much lower than the industry average.

Q How would you assess the Company's performance in 2012-13?

A Maithan Alloys performed well during 2012-13, beating India's ferro-alloy sectoral growth. At a time when most downstream customers reported erosions in their topline, bottomline and margins, Maithan Alloys reported a 34 per cent growth in turnover. This indicates what we always emphasised: that we were engaged in building a relatively non-cyclical company in a fairly cyclical sector. Having said this, let me indicate that this does not mean that our revenues will not decline in line with the broad sectoral trend; it only means that the extent of our decline will be less than the sectoral decline on the one hand and the rebounds will be sharper than the sectoral revival on the otherhand.

- The Company manufactured niche products made by increasing desired elements like manganese and silicon and reducing undesired elements like carbon, phosphorous and sulphur.
- The Company generated higher realisations due to its ability to manufacture niche products, graded on the basis of the presence of manganese, silicon, carbon, phosphorous and sulphur.
- Owing to strict quality control, the Company enjoyed a near-zero product rejection.

Understanding Business and it Journey

MANGANESE ALLOY INDUSTRY

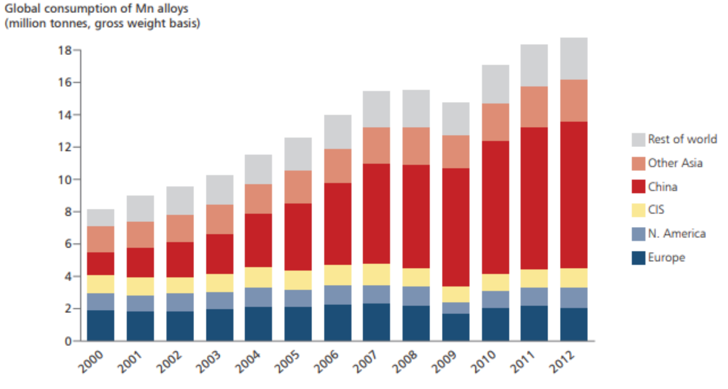
Manganese, in terms of tonnage, is the world's fourth most-used metal after iron, aluminum and copper. Of the total manganese produced across the world, 90 percent is used in steel manufacture (either to make steel or other metallurgical purposes). Manganese is added to improve strength, stiffness, hardness and wear resistance. The health of the steel industry is critical for the manganese and alloy sectors for three reasons: first, at least 90% of manganese produced is used in steel production; second, there is no suitable substitute for manganese in steel production; third, the presence of vertical integration in the manganese value chain means that leading steel firms are directly involved in manganese production. Consequently, world demand for manganese and ferro alloy products depends directly on the outlook of the steel industry.

FERRO ALLOYS

Ferro alloys represent vital additives in steel production for de-oxidation, grain size control, specific properties and improved mechanical properties. Depending on the steelmaking process, product quality and steel type, the requirement of ferro alloys varies widely. Ferro alloys account for less than one percent of steelmaking raw materials but play a vital steelmaking role. Ferro alloy production capacity is largely concentrated in Central and Eastern India, with a modest representation in Southern India and low representation in Western and Northern India.

Over the years, Chinese imports grabbed a growing share of the Indian market. Most ferro alloy realisations remained soft following higher production and a comparatively weak demand (from India and Europe). The result is that India's ferro alloy capacity utilisation remained around 65 percent. The projected 8-10% growth in stainless steel and carbon steel segments until 2015 augurs well for the growth of India's ferro alloys sector.

Global consumption of manganese alloy



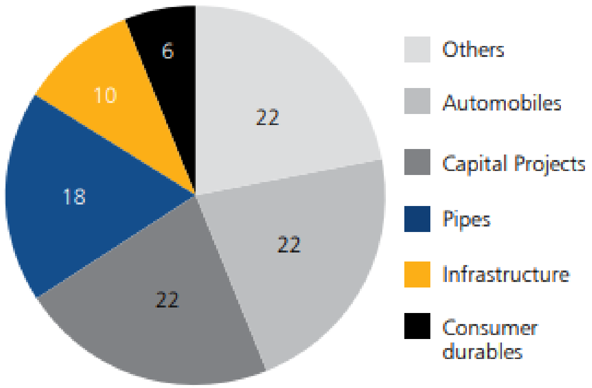
[Source: Metal Bulletin, 2012]

Top 10 steel-producing countries

Rank	Country	2012 (Mt)	2011(Mt)	2012/2011(%)
1	China	716.5	694.8	3.1
2	Japan	107.2	107.6	-0.3
3	United States	88.6	86.4	2.5
4	India	76.7	73.6	4.3
5	Russia	70.6	68.9	2.5
6	South Korea	69.3	68.5	1.2
7	Germany	42.7	44.3	-3.7
8	Turkey	35.9	34.1	5.2
9	Brazil	34.7	35.2	-1.5
10	Ukraine	32.9	35.3	-6.9

(http://www.worldsteel.org/media-centre/press-releases/2012/12-2012)

End users of steel in India *(in percentage tonnes)*



[Source: CII, Accenture: Indian steel industry report]

Understanding Business and it Journey

Q How would you review the performance of your Company during 2013-14?

A The fiscal gone by was one of the most challenging for the Indian ferro alloys industry, marked by declining profits and staggered offtake.

There were a number of reasons that contributed to this reality. The Indian steel sector grew by a mere 4% during 2013-14. The contraction in this multiplier was an index of the unusualness of the scenario; seldom has India seen such a weakness in its steel sector. This weakness was a result of slower infrastructure growth on the one hand and an iron ore mining ban in some states on the other, affecting production, costs and viability. The fact that our Company even reported a positive bottomline should be seen as a validation of its competitive positioning.

Q What were some of the challenges encountered by the Company?

A The slowdown in consumption appetite by the downstream sector affected the offtake, realisations and terms of trade for the ferro alloys industry. In such unfavourable market conditions, operating at usual production level was challenging. For instance, we encountered lower realisations in the first three quarters of the year under review. Besides, the extremely high volatility in rupee/dollar exchange rate proved challenging given that we have sizeable exports and imports.

These are some of the ways in which we strengthened our responsiveness:

- We entered new geographies during the year under review, widening our geographic footprint; we maintained the proportion of exports to 30% of our revenues during the year under review.
- We worked with a de-leveraged Balance Sheet even during the most challenging of times.

The result: The Company's average realisations improved from Rs. 58,900 per tonne in 2012-13 to Rs. 59,626 in 2013-14 despite a general erosion in realisations.

AR 2013-14

CLIENTS

Maithan Alloys has established a downstream client base across the length and breadth of the country. The Company established long-term relationships with prominent steel manufacturing clients like SAIL, JSW, JSPL and JSL. Almost 100% of its domestic sales were to clients associated with the Company for over seven years. The Company also catered to international clients across five continents.

A number of international clients are recent as the Company shifted focus from 'stable' Europe to 'growing' Asia following the global meltdown in 2008.

The ferro alloys industry continued to undergo consolidation, as supply continued to outstrip the demand. The rise in competition as well as cost of production led to closure of companies, resulting in poor operational efficiencies in the Indian ferro alloys industry. However we continued unabated at full steam.

Maithan Alloys's performance for the year should be appraised in the above industry context. We are pleased to report a revenue of Rs. 887.82 Crore for the year 2014-15, rising 8.5% against Rs. 818.29 Crore in 2013-14. Our net profit stood at Rs. 51.53 Crore, rising 124% against Rs.22.98 Crore. The increased profitability resulted in higher return for stakeholders, with EPS being Rs. 35.40 per share for 2014-15 against Rs. 15.79 per share in the previous year.

Being in a business dominated by macro economic factors, we realised we could not restrict ourselves to domestic markets. As a de-risk measure, we drew a blueprint to expand our presence across global markets.

Today, we export our products to more than 29 countries, adding new geographies at regular intervals. We derive 31% of our revenues from exports, largely concentrated into four regions. Going ahead, we intend to further strengthen our geographic presence with more qualitative products for a sustainable future.

AR 2014-15

Understanding Business and it Journey

THE COMPANY'S CONSOLIDATED REVENUES GREW AT A COMPOUNDED 15% PER YEAR ACROSS THE LAST SIX YEARS, PROFIT BEFORE TAX BY 14% WITH STABLE MARGINS DURING THIS PERIOD.

What was a challenging 2015-16 for the ferro alloys industry was a profitable growth year at Maithan Alloys.

Revenues grew 4% (consolidated); profit after tax strengthened 50% (consolidated).

The five factors that contributed to our 2015-16 outperformance

- We produced more (2,06,178 tonnes compared to 1,57,920 tonnes in 2014-15)
- We turned our Vizag operations around – from a PBT of ₹2.15 crore in 2014-15 to a PBT of ₹48.31 crore
- We marketed more by acquiring a larger share of the customer's wallet
- We did not lose a single customer
- We did not trade raw materials; we focused on product manufacture

Q What factors will drive Maithan's growth from this point onwards?

A This is possibly the biggest challenge that we are facing. We have two options: expand our capacities or acquire distressed assets. As far as the latter approach is concerned, we will continued to selectively appraise assets based on the realisation that a greenfield plant can take around four years to commission and stabilise whereas we have demonstrated the competence to transform sub-efficient operations within a year.

Q How did Maithan Alloys manage to remain profitable?

A I have two words to explain this phenomenon - 'discipline' and 'efficiency'. Let me start with the word 'discipline'. The manganese alloys sector is marked by resource volatility where there is always a temptation to play the raw material oscillation game. This is especially tempting because of the extensive profits that can be generated with even a reasonably open position. This is usually larger than the quantum of profits that can be generated from core manufacturing activities during a short period. However, there is a drawback as well; if prices begin to decline, there is a possibility that one can be virtually driven out of business in no time.

Most alloy companies would have invested in captive power generation capacity and reduced production costs.

We minimised investment in captive power generation (except in one unit located in power-starved north-eastern India) and buy uninterrupted grid power at competitive rates (through long-term PPA).

We are not in business to capture market share.

We are driven by the prospect of finding new applications for our products (expanding the market instead).

Most companies tend to focus on the entire eco-system.

We have selected to focus on the highest global conversion efficiencies.

Most manganese alloy companies find it tempting to play the ore markets.

We neither take positions on manganese ore prices nor do we keep our sales positions open.

Most companies first secure their resource needs through direct mine ownership.

We have remained asset-light, widened our flexibility to mobilise the best resource mix at the best trade terms.

We are not a revenue-focused manganese alloys company.

We are a margins-driven company instead.

We are not in business to mass-market.

We are excited by the prospect of manufacturing products fetching the highest margins.

Understanding Business and it Journey

General industry preference: There have been a number of instances of manganese alloy manufacturers reneging on sales contracts when prices move sharply.

Maithan positioning: Maithan has honoured contracts irrespective of price movements, strengthening stakeholder trust.

Result: The Company has emerged as a preferred partner irrespective of surplus and deficit supply scenarios.

Most companies in the manganese alloys space attempt to capitalise on resource arbitrage opportunities.

Maithan positioning: Maithan has focused on improving manufacturing efficiencies, avoiding arbitrage opportunities.

Result: The Company has not reported inventory gains or losses in the last seven years.

General industry preference: Most companies in the alloys sector engage in a mix of spot and institutional sales.

Maithan positioning: Maithan has generally worked directly with large steel manufacturers across the long-term.

Result: Nearly 75% of the Company's 2015-16 orders were derived from customers of more than five years.

General industry preference: Most companies take a make-to-stock approach.

Maithan positioning: The Company enjoys a make-to-order approach.

Result: The Company works with a comfortable order book at all times.

General industry preference: Most large companies secure their manganese ore resource

Maithan positioning: Maithan has selected to work with dependable mine owners, providing them with onsistent orders in exchange for any-time ore availability.

Result: The Company's asset lightness and access to a diverse ore mix has translated into a superior price-value proposition.

General industry preference: Most medium and large companies secure their power needs

Maithan positioning: The Company has minimised investment in captive power generation (except for the small Byrnihat unit where captive power plant was a necessity due to insufficient grid power availability.

Result: The Company's efficiency focus has helped strengthen margins.

Understanding Business and it Journey

Maithan Alloys is possibly the lowest cost manganese alloy manufacturer in the world. Maithan Alloys is also consistently one of the highest-margin ferro alloy manufacturers (EBITDA margin 22% in FY2016-17).

From 10 MVA in 1997	**136 MVA today**
From a cycle-influenced company	**An assured margin driven company**
From product-driven	**Efficiency-driven**
From debt-driven	**Net cash-positive**
From good-market profitability	**Any-market sustainability**

The context of our sector

Sectoral growth
Infrastructure is a key focus for driving the economy and a number of developing economies including India are investing heavily in infrastructure.

Relevance
A minimum of 1% alloy is required for producing 1 tonne of mild steel. On an weighted average basis of all the steel production in the world, 1.0-1.5% manganese alloy is required (currently the global steel capacity is about 1600 million tonnes)

Consumption potential
India is possibly the most exciting market for steel in the world for a reason that extends beyond mere under-consumption. Steel is imperative for the country's growth, catalysing prospects of the ferro-alloys industry.

Proxy
It would be simplistic seeing ferro alloys as just a commodity. The Company is a faithful proxy of the Indian infrastructure sector.

Government focus
The Government is allocating a massive part of its budget towards infrastructure creation.

Q. Please evaluate the performance of the Company in FY2016-2017.

A. I am happy to present the performance of the Company for FY17. The year under review was the best ever at Maithan Alloys even as the downstream sector (steel) continued to be affected by low offtake and weak realisations.

The Company reported profitable growth - 17% growth in revenues from ₹1151 crore in 2015-16 to ₹1342 crore in 2016-17 even as EBITDA grew 126% from ₹131 crore in 2015-16 to ₹297 crore in 2016-17 and PAT strengthened by 150% from ₹79 crore in 2015-16 to ₹198 crore in 2016-17.

The operative point that one may miss is that of profitability. Our EBITDA margin strengthened by 1100 bps from 11% in 2015-16 to 22% in 2016-17. This indicates that even as the external environment continued to be challenging, we enhanced value-addition arising from a superior product mix and moderated costs. Our ability to report profitable growth in a challenging business environment showcases what we have been professing over the last few years: relatively non-cyclical business model in a cyclical sector.

Q. How does the Company plan to grow?

A. We have reached near optimum capacity; volumes will increase only marginally. The weakness in the commodities market has forced a number of capacities out of production; we intend to capitalise through prudent acquisitions. We believe that a new asset needs to generate an asset-turnover of at least 2x to achieve the desired EBITDA; for an older asset the corresponding number is 3x or 4x,which provides us with clarity that only when the offered assets measure favourably with this benchmark will we seriously examine them.

Q. What is your message to stakeholders?

A. We will continue to achieve an EBDITA margin of around 15% that keeps us sustainably profitable across time. All our stakeholders are confident that none of our 12 furnaces will ever be shut on account of adverse market conditions. In view of this unusual perspective, we are confident of enhancing stakeholder value across the foreseeable future.

The effectiveness of our business model

Capacity utilisation
The Company achieved 95% capacity utilisation (92% in FY2015-16) through an effective product mix, better maintenance and enhanced efficiencies.

Understanding Business and it Journey

THIS IS WHERE WE COME FROM

We were a ₹30 crore profit after tax company in 2009-10; we are a ₹255 crore profit after tax company today (2018-19).

We have grown over the years by not changing our product, not changing our people, not changing our vendors and not changing our process.

All we changed is ourselves.

TO UNDERSTAND WHERE WE COME FROM, IT WOULD BE IMPORTANT TO UNDERSTAND WHERE OUR PROFITS CAME FROM...

During that momentous 2008-09, something remarkable transpired.

A sharp increase in manganese ore prices and alloy realisations at the beginning of 2008.

A time when in every successive month, the cost of our resource kept rising. And the value of our purchased inventory kept growing. And the company reported considerably larger profits merely sitting on its raw material stock than engaging in active manufacturing.

It was a time – those few months – when we were making in a few weeks profits larger than we had made in the previous quarters. Aggregated.

AND THEN...

Lehman Brothers filed for bankruptcy. The world panicked. Commodities, equities, real estate... crashed virtually overnight.

So did the price of manganese ore. And so did the realisation for manganese alloys.

We now reported inventory losses. And were now compelled to take the delivery of contracted manganese ore at prices considerably higher than the prevailing market.

In those few days – days! - when we virtually lost all the profits we had generated in the first half of the financial year, we re-learnt painfully the wisdom cautioned by our elders and teachers.

Easy come. Easy go.

DISTANCE FROM GREED

Those bleak days of 2008 and 2009 were the most challenging in our existence.

We kept asking ourselves: What if we had liquidated our raw material inventory at the first sign of trouble? What if we had not made those fresh orders? What if we had stayed out of the market for three months? What if we had not second-guessed each increasing crest?

What if. What if.

Until one day we resolved.

We would not manage our business in a manner where we would never be able to safely estimate whether the profits we had reported in the preceding quarter would remain protected in the following quarter.

We would not manage our business in a manner that only focused on our profitability of the day but not our sustainability across the future.

And that brought us to our second learning as has been painstaking repeated by every single one of our elders and family members.

Distance from greed.

SLOW AND STEADY WINS THE...

It might sound awkward to a number of people but when we resolved to repair our business, we engaged in something even more fundamental.

We realised that the business was alright.

We weren't.

The business did not need repair.

We did.

The slowdown did not require expensive management consultants to look into our business.

It required us to look within.

The business did not warrant complex theories.

As much as it warranted one question.

What am I doing here?

SUSTAINABILITY GREATER THAN ERRATIC

We had now decided that we would rather be content with a reasonable but sustainable return on employed capital than erratic profits.

This required a completely different mindset.

Not a new pair of glasses, but a new pair of eyes.

Not about managing our business as much as managing ourselves.

Discipline of resisting the temptation to play to the gallery (read market).

Discipline of resisting excitement-based decisions.

Discipline of resisting investments in peaking market cycles.

Discipline of resisting the temptation to become the biggest.

Discipline of resisting the temptation to announce multi-thousand crore capital expenditures.

Our discipline then had more to do with 'resisting the temptation to' than 'embracing the opportunity to.'

More difficult.

The next growth phase

In a commoditised sector like ferro alloys, the luxury of standing still does not exist.

Companies that need to enhance their competitiveness need to keep growing all the time, either by enhancing their manufacturing capacity, or investing in cutting-edge technologies that enhance product quality or by integrating backwards or by manufacturing a superior product mix.

Considering that the Company has been achieving a capacity utilisation of around 95% in the last three years and therefore has a limited headroom, the only alternative available if we need to keep growing is to invest in additional manufacturing capacity.

In view of this, the management at Maithan Alloys allocated ₹600 crore towards capacity expansion across the next 4

Maithan's preparedness

At Maithan Alloys, we will not only increase our manufacturing capacities to address the markets of the future, but also reinforce our position as one of the lowest-cost sectoral players through a sustained focus on enhanced operating efficiency derived from prudent and relatively limited investments on the one hand and aggressive training on the other.

We intend to finance our capex requirements through accruals (₹660 crore of cash in hand and liquid investments at the end of FY2018-19), protecting our position as a debt-free company, the larger manufacturing capacity notwithstanding.

Overview

At Maithan Alloys, we believe we stand at an exciting juncture.

Our corporate strategy has been to report an EBITDA margin of more than 15% across market cycles. When this is combined with the convergence of positive macroeconomic developments and proposed capacity expansion, we believe we are attractively placed to enhance revenues, surpluses and shareholder value in a sustainable way across the foreseeable future.

Understanding Business and it Journey

Responses to some of them:

On High cash and low dividend yield: We are earning about 7% post tax return on our surplus cash. The company is supposed to use cash judiciously for its own growth. Now we have seen three years of good growth in margins

and cash flows which is why we have that kind of money. So, we became net cash 2.5 years. ago and in these 2.5 years we have been able to build a war chest of around Rs. 650 crores or so. Now we have been constantly looking at growth and looking for only the last 2.5 years because prior to that the entire industry was in doldrums and we could not think of growth. So, 2.5 years ago is when we started looking at growth and we have a very long-term view on the business and therefore follow very conservative and prudent financial policy as our sector has seen ups and downs throughout.

In the past let us say to support our history of 20 years we have always been taking loans for one expansion project. We have been repaying that and in many cases prepaying the loan and only after the old loan is on the verge of getting totally prepaid is when the next project is planned, and the next term loan is taken. With this strategy we were able to grow from 10 MVA in 1997 to 137 MVA by the end of 2012 - that is in 15 years we were able to grow by 14 times. So, this has proved to be successful recipe and despite it being a low-risk thing growth has been high. So, we would tend to continue with the success recipe, and we are constantly evaluating inorganic growth opportunities along with the announcement of a Greenfield CAPEX of about Rs. 275

Understanding Business and it Journey

crores. We need to conserve cash for the short-term because we are uncertain how much money we will be spending on the inorganic growth front. We totally appreciate that keeping this cash has a negative carry and we have been debt averse, but we would still want to carry this money for another 12 months because we would hate to lose out on opportunities which come our way. And because we have been able to do a good job of expanding and operating, so we have a request to our various stakeholders to just be patient and give us another 9 to 12 months and we are hoping to put that cash to use.

If we are unable to put the cash to good use, then we would consider to return the money to the shareholders. But growth is our priority and if we can achieve better returns with the money, we would prefer that only.

Export vs Domestic: India is the largest exporter of Silico manganese and hence export earnings and domestic earnings are typically almost at par. For us, we have Vizag plant where it is in SEZ, so we have to export. Most of the plants which are not in the SEZ they have the flexibility. So, if any plant is able to generate a higher EBITDA by exporting, they would export and if they are generating higher EBITDA for domestic sales, they will do that. So it is a self-alignment which automatically happens and say maybe half a percent difference sometimes but on an average it evens out.

Understanding Business and it Journey

Malaysia being a bigger threat in terms of the import scenario: I would say during second part of calendar year ‘16 and the calendar year ‘17, Malaysia ramped up their capacity significantly. Because of that there was pressure on prices and the prices remained in check otherwise they would have gone up much faster. It means for the last 15 months Malaysia has been producing to capacity so whatever disturbance they were to create that they have already created. There is no additional threat left They don’t intend to add more capacities there because the cost of CAPEX in Malaysia has been proved to be about 2.5 times that of India. Nobody is interested in putting up more capacities there; they will continue to produce what they are producing, and they will not be part of any growth or degrowth

On power cost being contributor in our being a low-cost manufacturer: I don’t think so anybody who sets up the unit at any place where the power cost is higher, they would be forced to shut down. So, I would say it is a necessary evil or a necessary hygiene but that does not give you a competitive advantage but if not attended correctly it would result in competitive disadvantage

On commodity business, cycles, sustainable margin and competitive advantage:

Sarvesh Gupta: One more question is sir could you let us know what can be the bottom or the bear case for EBITDA margins, although 15% to 17% is the long-term guidance. What can be the bear case in any 12-month period that we can hit in terms of EBITDA?

Subodh Agarwalla: I had done some figures. We have a 4% headroom over competition on the EBITDA front, so when the industry or our competition is making 8% EBITDA beyond that figure, they enter into a cash loss type of scenario. So, I would assume that the industry can go to that EBITDA margin which means at that particular juncture our margins would be 12%.

Understanding Business and it Journey

On poor financial performance in 2014:

On the EBITDA metrics in the 13 quarters from September 2012 EBITDA margin was around 5% on an average. So now what has changed now is that our EBITDA margin would be in the 15% to 17% range as opposed to the 5% in those three years?

Subodh Agarwalla: Basically, are you referring to the standalone figures or are you referring to the consolidated figures?

Sarvesh Gupta: Standalone.

Subodh Agarwalla: So basically, what was happening in FY12 or by the end of FY12 is that we had commissioned the Visakhapatnam plant which at that time was in our 100% subsidiary. That subsidiary got merged into the parent company from the start of FY16. So, till the end of FY15 it was a subsidiary.
Now that plant in the first three years that is in FY13, 14 and 15 was not operating well. We were wanting to operate it in a hands-off approach thinking that things would automatically happen but that was not to be. When the plant did not perform even in the third year let us say about July 2015, I was given the mandate of taking over control of the plant and do whatever is required to ensure that that plant would perform at a level at which Kalyaneshwari plant was operating.

Now if you want to separate the performance and really understand what I'm saying you can take the standalone performance of the company and to get a sense of the Vizag plant working, you deduct the standalone from the consol. So consol minus standalone is the subsidiary. So, from that perspective you can see what was the EBITDA which was coming from the subsidiary and what was the EBITDA which was coming from the parent which was the Kalyaneshwari and Meghalaya plant.
The performance of the subsidiary was not so good in spite of the fact that it was not having to spend any money for its working capital needs. So, the parent company was buying raw material and selling it at cost and buying the finished product from the

Understanding Business and it Journey

subsidiary and selling it outside at cost as well. This was essential because the raw material and finished goods tie-up was there with the parent company because overseas suppliers were comfortable with Maithan Alloys and not with this new subsidiary which had come up. Because of the poor performance of the subsidiary, it really dragged the performance of the parent company. So, if you're referring to EBITDA, the EBITDA which reflects on the standalone is the right figure. However, in the revenues you have a lot of trading revenues also figuring in which is the purchase and sales to and from the subsidiary which resulted in a zero margin. In the cost metrics you have a figure called purchases for sales. So, if you deduct the purchases for sales from the revenue of the standalone portion you would get an idea of the real manufacturing revenue of the standalone portion which is the Kalyaneshwari and Meghalaya units and you would have an EBITDA figure against that.

So, this is a little bit complicated but if you want to have a better understanding you can go deep into it and you will understand that the Vizag unit was not doing well, the other units were still doing reasonably well.

When we made a shift from private sector into the public sector in domestic market in that one year also, we had a hit on EBITDA because we had to grab market share and push people out. This was something which we had done consciously because we could see that steel was entering into a bad phase and we wanted to ensure that we would have no bad debts and we would not be losing money.

Understanding Business and it Journey

How company manages raw material price volatility

What kind of contracts do you enter into with clients? Are the contracts monthly? When do we negotiate prices, in what frequency?

We are negotiating prices all the time. We would always want to maintain typically an order book of about 3 months' time. So, we can't wait till the end of the 3 months. If all the orders expired let us say in the month of March, then sitting on the 1st of April we will be having a zero-order book; that is something we would hate.

We have 3 different types of the contracts. One is a Spot contract. That is something that we are not very keen on and which would be let us say one-time contract for maybe 500 tonnes or 300 tonnes. Anything that is less than 200 tonnes is something that does not interest us.

Second is the contract for 3-4 months which is at a fixed price and it gives a certain amount of visibility to us. For any contract which is 6 to 12 months, these contracts are fewer in numbers, but these contracts are not fixed price in nature. They are linked to the index. There are publications which are publishing prices of Manganese ore and Manganese alloy every week. The published price of Manganese alloy at time of making the shipment would be applicable plus or minus any discount or a premium, decided at the time of the contract. It means if the prices of alloy move up by $ 10 (from contract date to shipment date), then we also charge $ 10 higher (compared to price prevailing on contract date) However this is applicable only for monthly contracts which are of the periods of 6 months or more. For contracts which are up to 3-4 months we have fixed price contracts.

You mean to say up to 3 to 4 months contract the prices are totally fixed in those contracts?

Yes. If the contracts are 6 months or more, only then we have a price linked contract.

New Capex

In our new plant that would be coming up, you would be essentially doing Ferro manganese and also Ferro chrome?

Yes we would be doing Manganese Alloys and/or Chrome Alloys; we don't know right now. It depends on the market scenario prevailing once the plant is ready.

So, it's fungible, we can do whatever we want with the plant.

Yes, we can.

Some more business information

- Company has been paying continuous dividends
- Bonus issued in 2010 and 2015
- 74.99% held by promoter with some share change happening in 2018
- 3% by FII and AIFs
- 14% by individual with nominal share capital up to 1 Lakh
- No mutual fund holding

Year End	Dividend per Share(Rs)	Face Value(Rs)	Un.Adj.Close Price (Rs.)
31/Mar/2019	6.00	10.00	505.25
31/Mar/2018	3.00	10.00	783.80
31/Mar/2017	2.50	10.00	420.80
31/Mar/2016	2.00	10.00	116.50
31/Mar/2015	4.00	10.00	201.90
31/Mar/2014	2.00	10.00	64.45
31/Mar/2013	2.00	10.00	77.90
31/Mar/2012	2.00	10.00	94.90
31/Mar/2011	2.00	10.00	121.35
31/Mar/2010	1.00	10.00	154.45

Description	PERSHARES_201903	PERSHARES_201812	PERSHARES_201809	PERSHARES_201806	PERSHARES_201803
Total of Promoter and Promoter Group	74.99	74.99	74.99	74.99	70.57
Financial Institutions / Banks	0.06	0.05	0.13	0.17	0.23
Alternate Investment Funds	0.24				
Foreign Portfolio investors	2.72	2.96	2.96	2.75	2.12
Bodies Corporate	3.1	2.97	3.1	3.86	6.94
Individual shareholders holding nominal share capital up to Rs. 1 lakh	13.81	13.5	13.3	12.84	13.36
Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	3.36	3.34	3.28	3.01	3.04
Clearing Members	0.63	1.02	1.15	1.06	2.26
Non Resident Indians	1.1	1.16	1.05	1.04	1.18
Total of Promoter and Public Shareholding	100	100	100	100	100

Equity as on	No of Shares Subs	Equity Capital (Subs)	No of Shares added	No of Shares Subs(before)	Equity Capital-Subs (before)	Face Value	Price	Premium	Inc/Dec in Reserves	Reason
15/Jul/2015	29111550.00	29.11	14555775.00	14555775.00	14.56	10.00			0.00	Bonus
17/Jun/2010	14555775.00	14.56	4851925.00	9703850.00	9.70	10.00			0.00	Bonus

Some more business information

Year End	Transactions	Party	Direct Subsidiaries	Key Management Personnel	Enterprises Under Managements	Total
201903	Services Received	Sudhanshu Agarwalla				5.89
201903	Remuneration Paid	SC Agarwalla		9.46		9.46
201903	Remuneration Paid	Subodh Agarwalla		7.57		7.57
201903	Sitting Fees	Parasanta Chattopadyay		0.00		0.00
201903	CSR Expenses	BMA Foundation			3.95	3.95
201903	Loans / Advances Refund	BMA Foundation			0.71	0.71
201903	Loans / Advances Given	AXL Exploration Pvt Ltd.	0.05			0.05
201903	Reimbursement of Expenses	Anjaney Minerals Ltd.	0.05			0.05
201903	Reimbursement of Expenses	Salanpur Sinters Pvt Ltd.	0.26			0.26
201903	Closing Balance - Remuneration Payable	SC Agarwalla		1.42		1.42
201903	Closing Balance - Remuneration Payable	Subodh Agarwalla		1.15		1.15
201903	Closing Balance - Other Payables	Sudhanshu Agarwalla				0.69
201903	Closing Balance - Loans & Advances - Current	AXL Exploration Pvt Ltd.	0.99			0.99
201803	Services Received	Sudhanshu Agarwalla				5.71
201803	Remuneration Paid	SC Agarwalla		10.78		10.78
201803	Remuneration Paid	Subodh Agarwalla		8.62		8.62
201803	Sitting Fees	Parasanta Chattopadyay		0.00		0.00
201803	Purchase of Shares	Salanpur Sinters Pvt Ltd.	6.00			6.00
201803	Purchase of Shares	Subodh Agarwalla		0.01		0.01
201803	Purchase of Shares	Sudhanshu Agarwalla				0.01
201803	CSR Expenses	BMA Foundation			0.06	0.06
201803	Loans / Advances Given	Subodh Agarwalla		0.12		0.12
201803	Loans / Advances Given	BMA Foundation			0.71	0.71
201803	Loans / Advances Given	AXL Exploration Pvt Ltd.	0.03			0.03
201803	Reimbursement of Expenses	Anjaney Minerals Ltd.	0.00			0.00
201803	Reimbursement of Expenses	Salanpur Sinters Pvt Ltd.	0.00			0.00
201803	Closing Balance - Remuneration Payable	SC Agarwalla		1.90		1.90
201803	Closing Balance - Remuneration Payable	Subodh Agarwalla		1.51		1.51
201803	Closing Balance - Other Payable	Sudhanshu Agarwalla				0.69
201803	Closing Balance - Loans & Advances - Current	AXL Exploration Pvt Ltd.	0.94			0.94
201803	Closing Balance - Other Receivables	BMA Foundation			0.71	0.71

Company Name	No of Shares(A)	Face Value(A)	% of holdings	Cost of Invetmnets	Share Capital	Reserves & Surplus	Debts	Total Liabilities	Total Assets	Turnover	Profit after Taxation
Salanpur Sinters Pvt Ltd.	6040000.00	10.00	100.00	6.03	6.04	-0.07		5.97	5.97		-0.06
Anjaney Minerals Ltd.	11000000.00	10.00	100.00	10.62	11.00	-3.78		7.29	7.29	2.24	0.17
AXL Exploration Pvt Ltd.	242625.00	100.00	75.00	5.49	3.24	-1.02		3.17	3.17		-0.05

maithan alloys ltd

Company Analysis

Quality or Commodity??

Part - 2

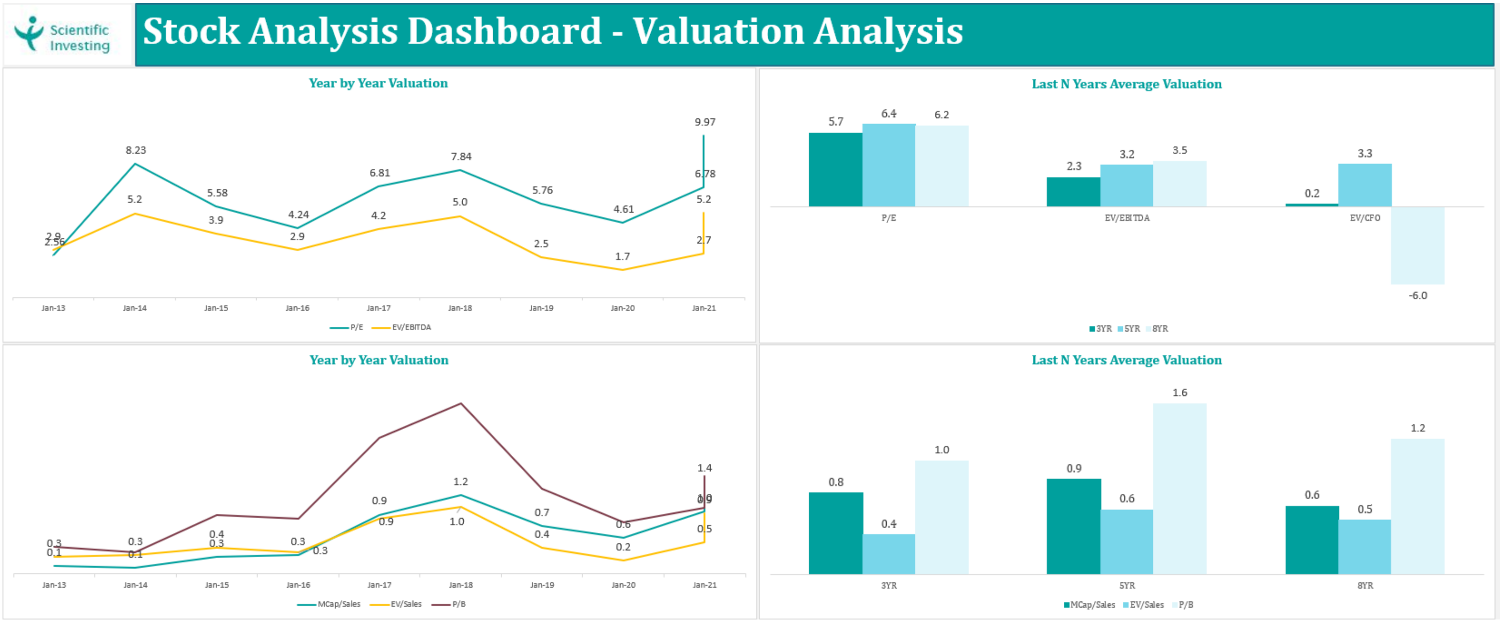
Scientific Investing

4

Maithan Alloys- Quality or Commodity?

Valuation Analysis

- The standard metrics fail to explain the right way to valuate the company (cyclic industry)
- Not the best of valuation but Covid impact on topline needs to be normalized
- Also, steel cycle needs to be studied to understand any possibility of revival
- Company's position has only strengthened with time and growth on a longer-term basis has been good keeping short term cyclicity aside
- However, despite being cyclic, still, company has hardly given losses and even currently in worst fo years, company generated profit



Valuation Summary					
Duration	PE	PB	EV/EBITDA	MCAP/SALES	EV/SALES
Min	2.6	0.3	1.7	0.1	0.2
Max	10.0	2.6	5.2	1.4	1.0
Average	6.0	1.1	3.6	0.6	0.5
Current	10.0	1.5	5.2	1.4	0.9
Discount	-67%	-33%	-44%	-129%	-85%

Scientific Investing

Valuation Analysis

What drives valuations

- Growth
- Market size opportunity
- Return on capital
- Operating Leverage Possibilities
- Earnings visibility and consistency

- Count of risk levers and stress factor
- Perception, Regulation, Fund flow etc. etc.
- Float as derivative of above factors
- Management Premium for execution and integrity

Valuation Analysis

Growth: How did it happen and how can it happen

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	1Y CAGR	3Y CAGR	5Y CAGR	10Y CAGR	14Y CAGR
Capacity (MVA)		65			105	137													
Production (MT)	66000	70000	76000	82000	89000	149000	141000	158000	206000	213000	220000	225000	230400	199200		-3.3%	-0.7%	9.3%	11.8%
Capacity (MT)		107250	107250	107250	173250	226050	226050	226050	226050	226050	226050	240000	240000	240000		2.0%	1.2%	8.4%	8.1%
															1Y CAGR	3Y CAGR	5Y CAGR	10Y CAGR	14Y CAGR
Revenue	378.43	644.58	477.99	607.52	639.19	858.41	816.25	884.76	1150.8	1342.1	1878.97	1987.93	1831	1620	-11.5%	-4.8%	7.1%	10.3%	18.4%
															1Y CAGR	3Y CAGR	5Y CAGR	10Y CAGR	14Y CAGR
Revenue/MT in Rs	57338	92083	62893	74088	71819	57611	57890	55997	55864	63009	85408	88352	79470	81325	2.3%	-1.6%	7.8%	0.9%	5.9%
Total Expense	308.42	626.79	422.08	499.21	571.33	794.48	776.96	814.04	1019.26	1062.69	1496.72	1663.32	1598	1328	-16.9%	-3.9%	5.4%	10.3%	18.1%
Expense/MT	46730	89541	55537	60879	64194	53321	55104	51522	49479	49892	68033	73925	69358	66667	-3.9%	-0.7%	6.1%	0.9%	5.6%
Non Raw Material Expense	122	131	137	116	169	225	235	236	407	434	530	537	531	487	-8.3%	-2.8%	3.7%	15.5%	15.6%
Non Raw Material Expense/MT	18491	18769	17970	14095	18985	15130	16658	14912	19741	20358	24102	23870	23047	24448	6.1%	0.5%	4.4%	5.7%	3.5%

14 Year Behavior

- *Overall, 18% CAGR topline growth for 14 years out of which 12% came from expansion in production capacity and 6% came from pricing.*
- *Expense growth rate was same as revenue rate and hence operating profit also grew at similar growth rate.*
- *Though raw material cost growth rate was higher, it was compensated by controlled other expense items.*
- *So, 1x growth is by pricing and 2x growth is by expansion compared to industry growth rate of x*

5 Year Behavior

- *7% CAGR which has been totally achieved through pricing*
- *Again here, raw material cost increase has been compensated by other costs*
- *However, still overall and per capita consumption has grown at low single digit rate*
- *So, we can say to some extent, Maithan has recently failed to repeat its past performance*

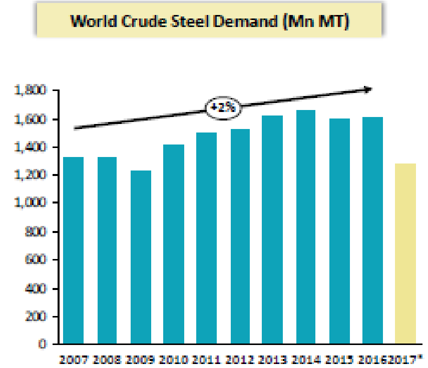
Domestic Steel	FY16	FY18	FY20	2030-31	CAGR projected	CAGR 4 Yrs
Consumption (Mn MT)	81	90	100	255	7%	5.4%
Per Capita Consumption (Kg)	63	68	75	158	7%	4.5%

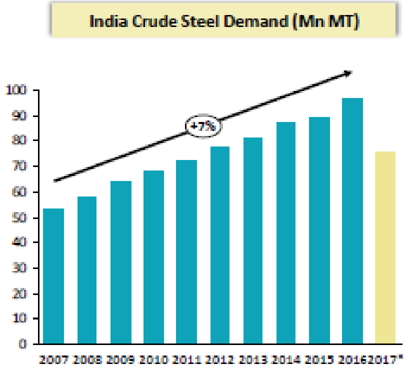
Still, given , last few years have been one of toughest years from volume, if not from pricing perspective and company could not grow as they did not scale capacity, given , cyclic nature of business and despite of that strong track record, a 10% kind of topline growth in positive cycle quite looks possible. Also, company has capability to drive price related growth which can not be neglected in a commodity-based industry

Valuation Analysis

Opportunity Size

Domestic Steel	2015-16	2030-31	CAGR
Capacity (Mn MT)	122	300	6%
Production (Mn MT)	92	255	7%
Per Capita Consumption (Kg)	61	158	7%





Operating Efficiency + Better Product Mix + Strong Customer Relationships = Gaining Market Share Globally and Domestically

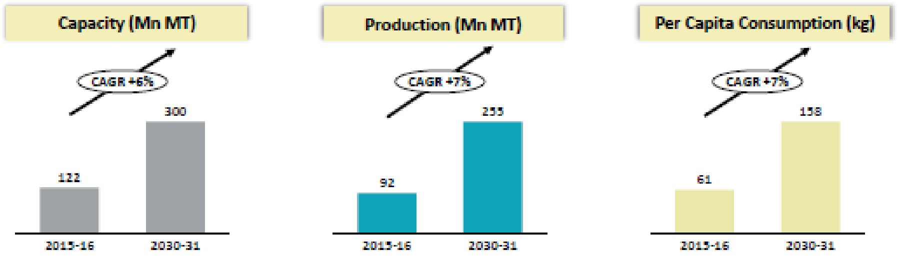
Maithan Alloys production has grown at CAGR of 18 % since 2007

*Data till Sept'17
Source: World Steel Association

Item	India	Maithan Share
Ferro Manganese + Silico Manganese	2.5 million ton	10%
Ferro Chrome	1 million ton	0%
Total	3.5 million tonn	

- *Industry utilizable capacity for Ferro manganese and Silico manganese: ~ 2.5 million ton*
- *Maithan Share : 10% (*For the year FY19 our production was 2.25 lakh ton, nearly at full capacity and similar as last year)
- Expected market growth rate: 6% (though recently has been low + import scenarios)
- Maithan is lowest cost player

Alloy Producers to benefit from NSP 2017

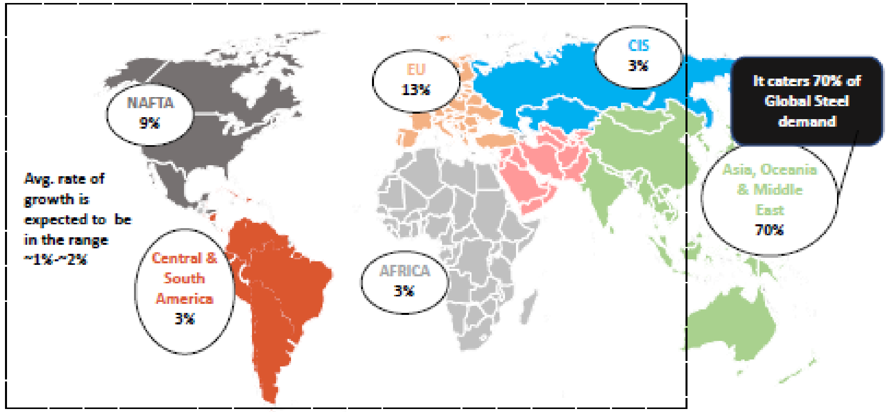


National Steel Policy (NSP) 2017 Highlights

- Reduce dependence on Steel imports and become self sufficient in Steel production
- Increase domestic availability of washed coking coal so as to reduce import dependence on coking coal to 50%
- Policy to increase consumption of Steel in Infrastructure, Automobiles & Housing sector
- Provide policy support & guidance to private manufacturers, MSME Steel producers, CPSEs
- Steel Ministry will facilitate R&D through the establishment of Steel Research and Technology Mission of India (SRTMI)

~1.5% of Manganese Alloy is required to produce each tonne of Steel

Global Steel Demand 2018 : 1,548.5 Mn T



Asia Ex-China Growth is expected to be ~5%
Maithan already has a strong foothold in the growing Asian economies with no exposure to China

Scientific Investing

Market size opportunity is there at an average scale but both market size opportunity growth and at company level growth, both are non-linear. However, it is not end of the road for growth

Valuation Analysis

Normalized Raw Material and Power Cost

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Raw Material	186.38	495.41	285.51	383.63	402.36	569.04	542.08	578.43	612.6	629.06	966.48	1126.25	1067	841
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
COGS	49.3%	76.9%	59.7%	63.1%	62.9%	66.3%	66.4%	65.4%	53.2%	46.9%	51.4%	56.7%	58.3%	51.9%
3 Y AVG		56.5%	61.9%	66.6%	61.9%	64.1%	65.2%	66.0%	61.7%	55.2%	50.5%	51.7%	55.5%	55.6%
5 Y AVG				58.5%	62.4%	65.8%	63.7%	64.8%	62.9%	59.6%	56.7%	54.7%	53.3%	53.0%
10 Y AVG									60.7%	61.0%	61.2%	59.2%	59.1%	57.9%
Power Cost	21.8%	12.5%	20.3%	12.2%	18.6%	19.6%	21.8%	20.1%	25.9%	20.9%	19.5%	18.8%	19.3%	20.5%
3 Y AVG		21.6%	18.2%	15.0%	17.1%	16.8%	20.0%	20.5%	22.6%	22.3%	22.1%	19.7%	19.2%	19.5%
5 Y AVG				19.5%	17.1%	16.7%	18.5%	18.5%	21.2%	21.7%	21.6%	21.0%	20.9%	19.8%
10 Y AVG									20.3%	19.4%	19.1%	19.8%	19.7%	20.5%

1Y CAGR	3Y CAGR	5Y CAGR	10Y CAGR	14Y CAGR
-21.2%	-4.5%	6.5%	8.2%	19.9%
	AVG	MAX	MIN	
	58.1%	76.9%	43.4%	
	59.4%	66.6%	50.5%	
	59.6%	65.8%	53.0%	
	59.9%	61.2%	57.9%	
	AVG	MAX	MIN	
	20.2%	30.6%	12.2%	
	19.6%	22.6%	15.0%	
	19.7%	21.7%	16.7%	
	19.8%	20.5%	19.1%	

Sustainable EBIT Margin

EBITM (%)	18.47	9.77	11.87	16.73	10.03	6.81	4.12	7.51	9.29	18.68	20.29	16.86	15.57	18.6
3 Y AVG		13.58	13.37	12.79	12.88	11.19	6.99	6.15	6.97	11.83	16.09	18.61	17.57	17.01
5 Y AVG				13.87	13.37	11.04	9.91	9.04	7.55	9.28	11.98	14.53	16.14	18.00
10 Y AVG									10.71	11.33	11.51	12.22	12.59	12.78

AVG	MAX	MIN
12.69	18.61	6.15
12.25	18.00	7.55
11.86	12.78	10.71

- Raw material cost as % of sales already touching based case scenario (unless it is totally value added driven)
- Power cost is also at historical average
- So, any possibility of margin expansion or operating leverage looks low, in fact, some caution is required around COGS%
- However, sales have been depressed due to various reasons
- We can safely consider 58-60% as COGS% and 19-20% as power cost % and these are two most significant expense items
- Average sustainable EBIT margin is 13% whereas currently it is around 18% and hence from a long-term valuation perspective, better to go with 12%

13% looks like a conservative sustainable EBIT margin for profit considerations

Valuation Analysis

Sustainable Return on Investment (pretax)

- New Greenfield capacity: 120000 Ton per annum (50% of current capacity to be funded through internal accrual)
- Project Cost: Rs 275 Crore
- Current Rates for product : Rs 60K -61K per ton post correction in last 2 years (post 15-20% correction from peak) with 5-10 year price CAGR around 7-8% and hence looks sustainable
- Revenue possibility: Rs 720 Cr
- EBIT at normalized margins of 11%: Rs 80 Crore
- Return on Investment: 29%

Though company did not go for above CAPEX due to certain reasons, it does highlight that company does not want to get into poor ROCE projects

Valuation Analysis

GROWTH & MARKET SHARE

High single to lower double-digit possibility on a 5–10-year long term CAGR basis with short term hiccups. Market is favorable for those who can gain market share

RETURN ON CAPITAL

Efficient based on current expansion plan and historical track record in worst case scenario

MANAGEMENT PREMIUM

Strong execution track record post 2008 learning, not serious hanky panky so far

RISK LEVERS, VISIBILITY, CONSISTENCY

Cyclic risk levers and maintaining visibility and consistency is difficult in earnings and hence need to be factored through sustainable estimates with enough margin of safety

PERCEPTION, FUND FLOW, FLOAT etc.

Cash on books and some family issues, lack on con calls etc. have led to not so positive perception with lower fund flow, float is favorable with 75% stake with promoter

Valuation Analysis

- Not taken typical cyclic invest at PE and exit at low PE logic as company does not have those financials even though company operates in similar industry. Competitors are already showing such behavior on TTM basis as they are in PAT losses and in next 2 quarters, this should be more visible
- Almost valued at fair levels for a long-term valuation perspective
- However, all the numbers considered are assumptions (though with a data driven logic) and any change in numbers either due to changing business condition or cyclic nature of business can have impact
- Further, in short run (up to 1-2 years), prices may get driven by factors other than earnings

Scientific Investing

MAITHAN ALLOYS LTD : DCF

Current FCF	125
Net Fixed Asset	203
Historical FCF Growth Rate	10%
Maintenance Capex	12%
Growth Capex	12%
Margin of Safety	10%

Current PAT Margin	14.3%
Average PAT Margin	9.3%
Current CFO/PAT	51%
Average CFO/PAT	75%
Depreciation	8%
Current Revenue Growtl	-10.8%
Average Revenue Growt	-4.7%

ITEM	VALUE
Terminal Year	186
PV of Year 1-10 Cash Flows	778
Terminal Value	599
Total PV of Cash Flows	1377
Number of Shares	3
DCF Value / Share (Rs)	**729**
PV Contribution	56%
TV Contribution	44%
Current Share Price	790
Discount Moderate	**-8%**

Years	1	2	3	4	5	6	7	8	9	10
Revenue Growth Rate	8%	8%	8%	8%	6%	6%	6%	6%	4%	4%
Revenue	1749	1889	2040	2204	2336	2476	2625	2782	2893	3009
PAT Margin	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
PAT	174.9	188.9	204.0	220.4	233.6	247.6	262.5	278.2	289.3	300.9
CFO	139.9	151.1	163.2	176.3	186.9	198.1	210.0	222.6	231.5	240.7
Net Fixed Asset	186.5	202.5	219.6	238.1	257.9	278.5	299.9	322.2	345.6	369.0
Maintenance Capex %	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Growth Capex Multiple	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Growth Capex %	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Total CAPEX as a % of CFO	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
CAPEX	33.8	36.5	39.5	42.6	45.2	47.9	50.8	53.8	55.9	58.2
FCF Normal	106.1	114.6	123.8	133.7	141.7	150.2	159.2	168.8	175.5	182.5
FCF Conservative	95.5	103.2	111.4	120.3	127.5	135.2	143.3	151.9	158.0	164.3
FCF Growth Rate Normal	-15%	8%	8%	8%	6%	6%	6%	6%	4%	4%
FCF Growth Rate Conservative	-23%	8%	8%	8%	6%	6%	6%	6%	4%	4%

Discount Rate Normal	12%
Terminal Growth Rate Normal	2%
Shares Outstanding (Crore)	2.91
Net Debt Level	-746.67

NORMAL

Year	FCF	Growth	Present Value
1	106	-15%	94.8
2	115	8%	91.4
3	124	8%	88.1
4	134	8%	85.0
5	142	6%	80.4
6	150	6%	76.1
7	159	6%	72.0
8	169	6%	68.2
9	176	4%	63.3
10	183	4%	58.8

CONSERVATIVE

Year	FCF	Growth	Present Value
1	96	-23%	83.8
2	103	8%	79.4
3	111	8%	75.2
4	120	8%	71.2
5	128	6%	66.2
6	135	6%	61.6
7	143	6%	57.3
8	152	6%	53.2
9	158	4%	48.6
10	164	4%	44.3

Technical Analysis

Monthly

- ✓ Encouraging bullish accumulation pattern on monthly level
- ✓ After 3.5 years again encouraging volume signs
- ✓ After a long time, monthly RSI has been consistently above 50
- ✓ Huge accumulation has happened around Rs 500
- ✓ Rs 1000 is next big resistance

Technical Analysis

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Weekly

- ✓ High volume on rise and low volume on fall
- ✓ Weekly RSI has been off late almost consistently above 50

Technical Analysis

Monthly

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Weekly

- ✓ High volume on rise and low volume on fall
- ✓ Weekly RSI has been off late almost consistently above 50

Daily

- ✓ 200D EMA recently acted as good support twice
- ✓ Rs 700 was key resistance crossed recently and should act as support

Scientific Investing

Scientific Investing

5

Maithan Alloys- Quality or Commodity?

Risk Analysis

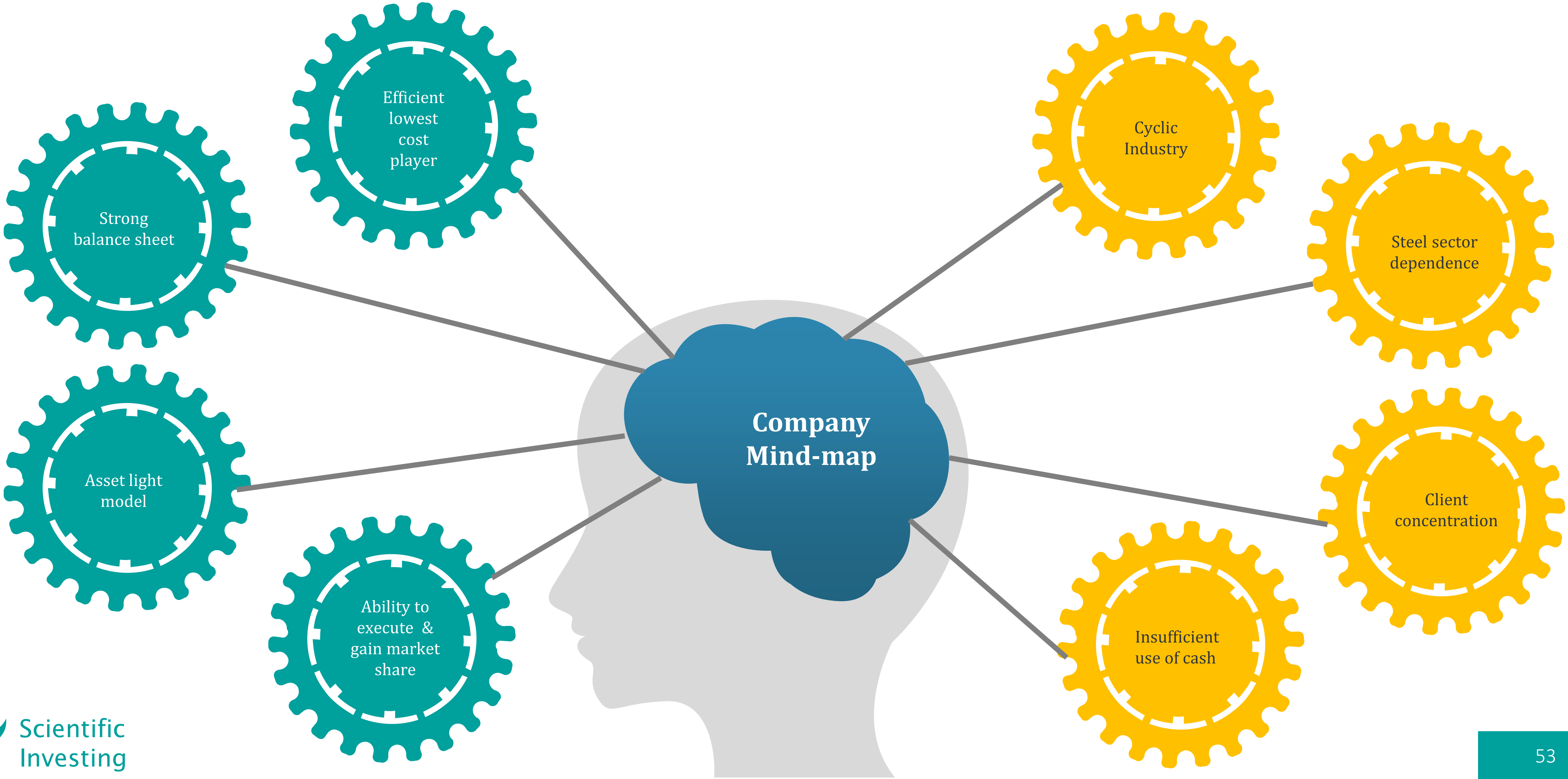
IMPACT \ LIKELIHOOD	LOW	MEDIUM	HIGH
HIGH	• Chances of fraud and poor treatment to minority shareholders	• Domestic and international competition	• Commodity based cyclic risks – product price, raw material price, oversupply etc. • Dependence on steel sector
MEDIUM	• Higher revenue concentration to few customers	• Our own ability to time the stock	Not a buy and forget investment. Valuation is key and execution uniqueness could create outlier (historically, has been one)
LOW	• Insufficient use of cash		

Scientific Investing

6

Maithan Alloys- Quality or Commodity?

Summary & Key Insights



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