

Mishra Dhatu Nigam Ltd. (MIDHANI) – Investment BUY Call Thesis

Dear Bajaj Capital Investors,

New Stock Recommendations for BUY on 17 Sept 2026

CMP -> 408

Buying Range -> up to 416

Upside Potential-> 15%

Investment Horizon -> 6 to 9 Months

Target price -> 469

1. Business Model, Core Business Segments & End-User Application Footprint

- **Integrated Strategic Metallurgy Platform:** Incorporated in 1973 under the Ministry of Defence, Mishra Dhatu Nigam Limited (MIDHANI) operates as India's premier strategic specialty alloy enterprise, running a fully integrated manufacturing plant in Hyderabad equipped with advanced vacuum melting furnaces (VIM, VAR, ESR and Electron Beam) to manufacture custom high-performance alloys that eliminate foreign dependence.
- **Core Business Segments & Product Portfolio:** The company operates through three distinct product engines: Specialty Alloys & Mill Products (titanium alloys, superalloys and special steels supplied as forged bars, rings, sheets, strips, tubes and plates via its INR 500 crore Wide Plate Mill), Armour Systems (bulletproof jackets, vehicle protection and patka headgear from its 10-acre Rohtak plant) and Aerospace Components & Fasteners (aero-engine rings and superalloy fasteners from its INR 40 crore facility).
- **Geographies & Application Sectors:** Operating domestically and expanding internationally across global OEM supply chains, MIDHANI serves high-barrier proxy sectors essential to national security and space programs, with an order book mix comprising Defence (66% to 79%), Space/ISRO (21%), Energy (9%) and Others/PSUs (4%), delivering mission-critical materials for fighter aircraft engines, space launch vehicles, nuclear submarines and tactical forces.

2. Latest Financial Performance Snapshot (Q1FY27, Q4FY26 & FY26)

- **Q1FY27 Top-Line Growth and Production Dynamics:** MIDHANI achieved robust top-line execution in Q1FY27, reporting turnover of INR 239.49 crore, up +40.46% YoY compared to Q1FY26, while value of production reached INR 260.36 crore (+7.9% YoY), indicating production growth lagging sales growth due to product mix and conversion timing effects.
- **Record Financial Results in Q4FY26 and Full-Year FY26:** In Q4FY26, the company recorded its highest-ever quarterly turnover of INR 552.70 crore (+34.63% YoY) with value of production at INR 392.19 crore (+19.15% YoY), driving Q4 PBT to INR 107.00 crore (+38.67% YoY) and PAT to INR 77.75 crore (+38.49% YoY); full-year FY26 turnover reached a record INR 1,208.63 crore (+12.52% YoY) and PAT reached INR 130.79 crore (+18.82% YoY).
- **Q1FY27 Profitability and Transitory Margin Compression:** Q1FY27 EBITDA grew +12.89% YoY to INR 46.60 crore, while PBT reached INR 23.92 crore (+25.89% YoY) and PAT expanded +27.42% YoY to INR 16.31 crore, demonstrating bottom-line resilience despite severe external cost shocks in energy and raw materials.

3. Management Guidance, Official Commentary & Strategic Outlook

- **Revenue Targets & Order Book Visibility:** Management has reiterated a top-line growth target of ~15% YoY for FY27 with an ambition to reach 20% growth as energy and supply chain constraints stabilize, backed by a strong multi-sector order book standing at ~INR 2,300 to INR 2,329 crore as of July 1, 2026 (and ~INR 2,290 crore as of April 1, 2026) alongside expected order inflows of ~INR 1,500 crore across FY26-27.
- **Margin Stabilization and Recovery Path:** Addressing transient Q1 margin pressure, the Chairman and Managing Director (CMD) and Director (Production & Marketing) confirmed that operating margins will stabilize starting Q3FY27 back toward historical EBITDA margin levels of ~20–21%, with Director (P&M) pointing to full-year EBITDA margin potential of 23–25% as revenue scales and high-margin product mix expands.
- **Long-Term Scaling Vision & Footprint Ambition:** The CMD highlighted that a top-line of INR 2,000 crore is achievable using the existing plant footprint through efficiency capex, while long-term sustained growth of 15–20% annually is realistic by systematically capturing domestic import-substitution opportunities.

4. Primary Growth Catalysts & Strategic Certifications

- **INR 8,000 Crore Import Substitution Opportunity:** Approximately INR 8,000 crore worth of titanium alloys, superalloys and specialty steels are imported into India annually, with almost all of these grades available within MIDHANI's 500-grade catalog, establishing massive addressable headroom to drive the company's INR 2,000 crore revenue ambition.
- **Landmark GE S400 Testing Accreditation:** On August 13, 2026, MIDHANI secured the prestigious GE S400 certification from General Electric USA for room/elevated temperature mechanical testing, chemical analysis and metallography, enabling it to act as an independent testing hub in India and conservatively adding 10% incremental testing revenue.
- **Aerospace Certifications and Export Qualification Flywheel:** The company secured CEMILAC airworthiness certification for 10 critical superalloys and steels (enabling supply of >700 ring-rolled aero-engine rings), achieved NADCAP certification for heat treatment and qualified NDT personnel to NAS410 standards targeting NADCAP NDT accreditation by end-FY27 to scale export revenues from INR 85 crore / INR 78 crore in FY26 to at least INR 100 crore in FY27 (with long-term potential of INR 100–150 crore annually).

5. Commercial Growth Pipeline & Metallurgical Milestones

- **Isothermal Forging for Advanced Fighter Engines:** Utilizing its 6,000-tonne isothermal forge press—the second largest under the Ministry of Defence—MIDHANI successfully isothermally forged nickel-based superalloys for fighter aircraft engines and initiated FY27 orders across four superalloy and three titanium grades, converting R&D achievements into commercial order intake.
- **Single-Crystal Superalloy Blades & Titanium Ramp:** MIDHANI successfully developed cast superalloy single-crystal blade feedstock, passing all customer tests and establishing sole-melter status in India for advanced fighter programs (including AMCA and Kaveri); simultaneously, titanium output doubled to ~700 tons supported by an active titanium order pipeline exceeding INR 600 to INR 660 crore.
- **Downstream Monetization & Ballistic Protection:** The newly inaugurated INR 40 crore aerospace fastener facility is ready and operational (targeting INR 20–30 crore annual order intake and INR 25 crore stable annual revenue), the spring plant has commenced operations with sample orders from BEML and DRDO/IIT-Delhi 'ABHED' bulletproof jackets are undergoing final ballistic trials to compete for upcoming army and central police force tenders.

6. Operating Leverage & Margin Expansion Drivers

- **High-Margin Product Mix Shift:** Director (P&M) explicitly confirmed that titanium alloys and superalloys carry higher gross margins compared to special steels; as the revenue mix shifts increasingly toward titanium (INR 660+ crore order book) and aero-engine superalloys (~20% of revenue), overall blended operating margins are structured to expand.
- **Higher Capacity Utilization & Asset-Light Strategy:** Operating leverage will expand as capacity utilization increases at the newly commissioned Vacuum Arc Remelting titanium furnace and the Wide Plate Mill; furthermore, following the joint decision to close the Utkarsha Aluminium JV with NALCO, MIDHANI transitioned to an asset-light model, converting third-party cast ingots into 7000-series aerospace plates without locking up capital in primary melting infrastructure.
- **Scrap Optimization & Internal Efficiency Gains:** MIDHANI enhanced operational yields by incorporating internally generated scrap into melting recipes, saving ~INR 40–43 crore in a single year while monetizing excess scrap (reducing scrap inventory by INR 17 crore in Q1FY27 and INR 75 crore in FY26), directly benefiting operating profitability.

7. Capital Expenditure Trajectory & Capacity Modernization

- **Industry 4.0 Downstream Modernization Vision:** Management has outlined a ~INR 1,000 crore 3-year capex plan focused on replacing aging 1980s assets with Industry 4.0 automation, digitalization and automated machinery across bar rolling, wire drawing and forging lines to boost yield, productivity and competitiveness.
- **Near-Term Capex Budget & Approval Timelines:** FY27 capex is planned at a conservative INR 50 to INR 60 crore, representing routine maintenance expenditure, as the larger INR 1,000 crore modernization proposal remains under multi-layered Ministry evaluation, with tangible financial benefits expected from year 4 post-stabilization.
- **Funding Mix and Execution Track Record:** The expansion plan will be financed through internal accruals and long-term debt ("operate through OR and through term loans"), backed by management's track record in delivering key projects including the INR 40 crore aerospace fastener facility, the 6,000-ton isothermal forge and the new titanium melting furnace.

8. Balance Sheet Strength, Cash Flow Conversion & Capital Allocation

- **Exceptional CFO to PAT Conversion Stats:** MIDHANI exhibits superior earnings quality and cash conversion performance, with Cash Flow from Operations (CFO) to PAT percentages recorded at an impressive 235%, 196% and 118% over the last 3 financial years respectively.
- **Robust CFO to Operating Profit Conversion Stats:** The company demonstrated exceptional operating cash conversion relative to earnings, with CFO to Operating Profits reaching 128%, 116% and 84% over the last 3 financial years respectively, underscoring strong cash extraction despite lengthy defense manufacturing cycles.
- **Prudent Leverage Position & De-Risking Metal Bank:** MIDHANI maintains a low-leverage debt position and strong financial flexibility; to protect liquidity from volatile imported input costs (nickel, cobalt, moly, tungsten), MIDHANI signed an MoU for a customer-owned, MIDHANI-operated "Metal Bank," securing raw material supply without placing inventory assets onto MIDHANI's balance sheet.

9. Short-Term Headwinds, Macro Volatility & Geopolitical Risks

- **Energy Cost Shock & Raw Material Volatility:** Operating margins in Q1FY27 were squeezed by an almost doubling of LPG fuel prices for furnaces due to global war crises, along with a quantified INR 13 crore adverse raw material price variance (nickel, molybdenum, tungsten), headwinds that management expects to persist into Q2 before fully normalizing in Q3.
- **Competitive Bidding Margin Pressure:** Defense procurement has shifted from direct nomination to 100% competitive bidding ("everything is competition only"), which management acknowledged as a structural change that could constrain peak historical margins even as production volumes expand.
- **Geopolitical & Licensing Delays:** Unpredictable global geopolitics present near-term operational challenges, such as export licensing delays for dual-use equipment (e.g., the German BAFA clearance for metal powder equipment), pending Ministry approvals for the INR 1,000 crore capex and tender adoption timelines for new product lines like the ABHED bulletproof jackets.

Q1FY27 Financial Performance:

		YoY	QoQ	Jun 2026	Mar 2026	Jun 2025
Revenue Cr		40.5%	-56.7%	239	553	171
Operating Profit Cr	^	7.1%	-68.5%	37	116	34
OPM %				15.3	21.0	20.1
PAT Cr	^	27.0%	-78.9%	16	78	13
NPM %				6.9	14.1	7.6
EPS ₹		27.5%	-78.8%	0.9	4.2	0.7

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team