STEEL TUBES & PIPES SECTOR REPORT

OCTOBER 23, 2010

SPA SECURITIES LIMITED

Contents

Executive Summary

As we draw near to the close of the first decade of twenty first century a clear anomaly has emerged between the Indian steel sector and its downstream product industries. The evidence gets starker on comparing the performance of steel sector with that of the Indian steel pipes and tubes Industry. Indian steel industry, at the dusk of twentieth century was highly unorganized and heavily dependent on the domestic demand. The level of competition was limited to domestic players, however there were consistent initiatives required to ward off dumping of cheaper imports in few downstream products like flats and some categories of pipes.

The last decade of twentieth century witnessed an evolution for the Indian steel industry players, in wake of huge raw material reserves and infusion of funds for capacity creation and modernisation. As a result, mainstream steel producers and iron ore producers have successfully scaled their operations to global scale. Amidst the sustained growth of the steel industry, Indian steel pipe industry continued to grow at snail's pace.

However, a large growth potential was waiting to be unearthed and the 'thrust' came in wake of two important events – one, the great Indian Infrastructure initiative by the Government of India to support the GDP Growth roadmap; and second, the surge in the global oil prices to USD140 levels, resulting in increased demand from oil and gas exploration industry.

The steel tubes and pipes industry witnessed robust demand from various domestic industries like real estate, construction, telecom, power, energy, entertainment zones, metros, airports and ports, etc. Key policy-led initiatives such as the urban infrastructure programme under Public Private Partnership also proved to be a shot in the arm.

Oil and Natural Gas industry, however continues to offer larger opportunity for the industry. During the first five years (2000-05), the global spend on exploration & production of oil & gas to satiate the demand for energy consumption was USD100 bn. The global demand for energy is estimated to grow at a CAGR of 1.4% to reach 738.7qbtu (quadrillion british thermal units) by 2035. Due to limited reserves in crude (present production of 80mn barrels per day), demand switch to natural gas has risen to present levels of 3tcm (trillion cubic metres).

As more than 70% of oil & gas reserves are found in Middle East and Eurasia, transportation of gas to deficit regions of Asia and Europe entails huge demand for steel pipes. China is expected to be the largest consumer of energy in the coming years with demand of 181qbtu, followed by U.S. (114.5qbtu) and India (37qbtu).

In India till date 17,576km of pipeline was laid with an investment of more than Rs 300bn. However, things are no longer the same. Recently, in India, sizeable investments in oil & exploration in wake of awarding oil blocks in NELP VIII in eastern coast is expected to witness extensive roll out gas of distribution networks by steel pipe companies (LSAW and HSAW). The constitution of PGNRB, paving way for implementation of National Gas Grid will act as an additional booster to the industry. The next five years more than 18,000km of pipeline are planned to be laid with investments of more than Rs 400bn.

Perceiving the onward demand opportunity, Indian companies have aggressively built up capacities to match global economic size. Over the last five years Welspun Corp has expanded from 730,000tpa to 1.6mtpa, Man Industries from 375,000tpa to 1.0mtpa, PSL from 1.02mtpa to 1.8mtpa, Maharashtra Seamless from 425,000tpa to 550,000tpa. In the next five years 18,000km of pipeline is envisaged in the domestic market and 368,244km globally. Total investments in the sector are expected to be around USD97bn.

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For ERW steel pipe manufacturers, the opportunity in domestic market has recently opened up with thrust on urban infrastructure. New airports, metro lines, new age buses (used as frame for bus bodies), telecom towers and entertainment malls provide huge untapped potential to the ERW Pipe industry. The industry, sensing the opportunity, has responded in equal measures – through capacity expansion and wider reach. Large producers like APL Apollo Tubes, Zenith Birla and Welspun Corp are in midst of expansion plans. APL Apollo has more than doubled steel tube capacity to 490,000tpa through India's largest Greenfield facility of 200,000tpa in Hosur, Tamil Nadu. Recently company has acquired Murbad facility of Lloyds Metals with capacity of 90,000tpa. In next two years, company is planning to enhance to 600,000tpa through brownfield additions. Similalry, Zenith is expanding its ERW and HSAW capacity by 150,000tpa and 75,000tpa respectively.

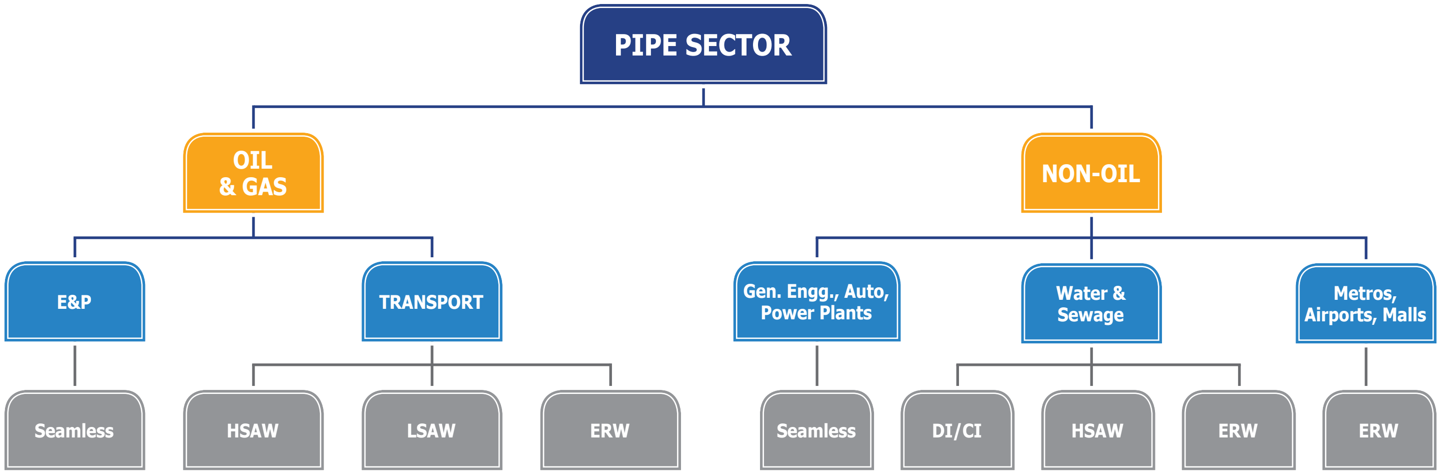
The domestic opportunity in the new applications is said to cross one million tones, equivalent to the existing demand. In the oil & gas sector, the demand for pipeline network is estimated to cross 15,000km by 2015.

Valuations

We have a positive outlook on steel tubes and pipes sector on back of investment plans in gas distribution, oil drilling and power projects. Our top picks in the sector are Welspun Corp, Man Industries and APL Apollo Tubes.

			Revnues			EBIDTA			PAT			EPS			P/E			EV/EBIDTA		
Company	CMP	Reco.	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Welspun Corp	250.9	BUY	76,287.7	92,806.1	105,962.1	13,371.6	14,305.9	16,436.4	6,104.2	6,906.2	8,099.6	29.9	33.8	39.6	8.4	7.4	6.3	4.3	4.1	3.2
Maharashtra Seamless	434.8	BUY	16,912.2	20,347.1	24,530.0	4,528.4	5,018.8	6,196.6	2,846.1	3,070.8	3,723.9	36.6	40.3	43.5	10.8	10.0	8.2	6.9	6.1	4.7
PSL	116.0	BUY	39,410.5	44,410.7	47,440.5	3,550.9	4,310.4	4,733.7	1,226.6	1,406.3	1,691.7	25.5	26.3	31.6	4.5	4.4	3.7	8.0	6.0	5.1
Man Industries	85.6	BUY	15,054.3	18,278.1	20,460.1	1,743.4	2,179.4	2,352.1	670.9	968.0	1,053.6	12.5	17.4	18.9	6.8	4.9	4.5	2.2	1.6	1.4
APL Apollo Tubes	157.9	BUY	6,659.5	11,028.8	19,617.2	643.1	1,053.6	1,902.0	293.1	523.9	988.8	14.4	24.0	42.1	11.0	6.6	3.8	7.0	4.9	3.3
Ratnamani	142.3	BUY	8,847.9	10,792.9	12,582.5	1,690.1	1,697.6	2,037.7	814.3	836.3	1,011.6	17.9	18.2	22.0	7.9	7.8	6.5	5.6	5.1	4.1
Zenith Birla	12.0	HOLD	5,039.3	5,884.9	7,754.9	442.3	596.4	788.7	442.3	596.4	788.7	2.2	1.7	2.3	5.4	7.1	5.3	3.4	3.8	3.6

Structure of the Industry



Product Summary

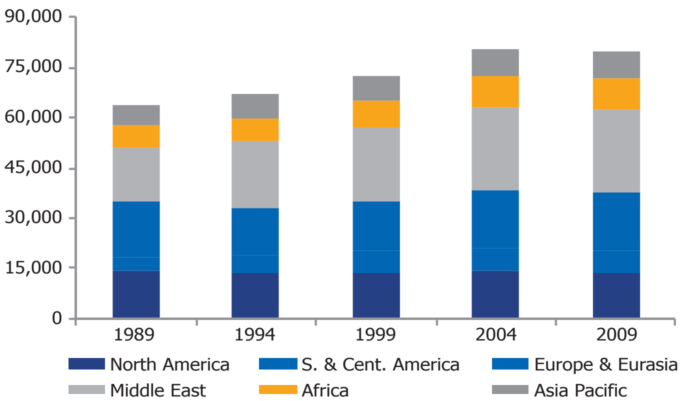
	LSAW	HSAW	ERW	Seamless
Size	16" to 50" diameter	18" to 120" diameter	0.5″ to 22" diameter	0.5″ to 14" diameter
Key Raw Material	Steel Plates	HR Coils	HR Coils	Steel Billets
Manufacturing Process	Longitudunally submerged arc welding of steel plates	Spirally Welding HR Coils	Hot Rolled steel coils using electrical resistance welding process	Piercing ingots/ billets of steel at high temperatures
Key Difference	High Pressure conditions	Low Pressure conditions	Limitations in size, thickness and grade	High Pressure conditions
	Demand is directly related to Oil & Gas Sector	Demand is directly related to Oil & Gas Sector, Water and Sanitation Sector	Suitable for branch lines in oil & gas distribution	Application in oil and non-oil related industries
Application	Oil & Gas Transportation	Oil & Gas/Water Transportation	Oil & Gas/Water Distribution, Metros, Airports, Malls	Petroleum , Exploration, General Engg., Boilers
Key Players	Jindal Saw, Welspun Corp, Man Industries	PSL, Jindal Saw, Welspun Corp, Man Industries	Welspun Corp, Maharashtra Seamless, Apl Apollo, Zenith Birla	Jindal Saw, Maharashtra Seamless, Ratnamani

International Demand Drivers

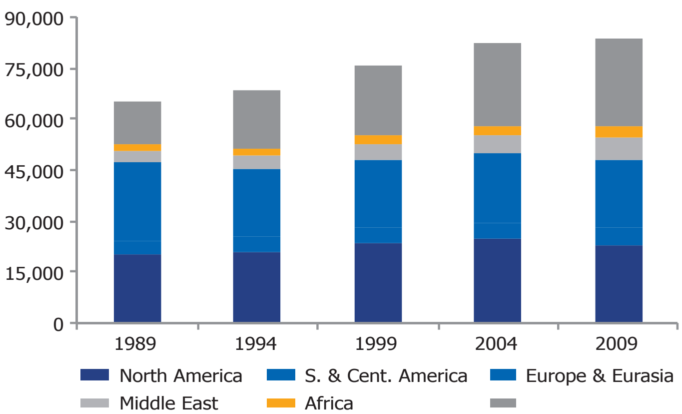
The growth constituents of global economy had a face change in last two decades. Asian economies excluding Japan started having a fair share. However, the scorching pace of China from late nineties has upped GDP growth rates. China with double digit GDP growth, it has become a net consumer of minerals and energy. To cope up with the demand for increasing energy sources, exploration & production activities are also growing at a robust pace. With crude prices presently hovering over USD80/barrel exploration activities have become feasible and huge investments are being made to search for new sources of fuel. As a corollary, the demand for pipelines is directly related to the investments in the oil & gas sector.

Over the past 10 years, oil production and consumption have been increasing at a CAGR of 1.0% and 1.1% respectively. As of 2009, the global oil production stands close to 80mn barrels/day and consumption stands over 84mn barrels/day.

Global Oil Production ('000 BPD)



Global Oil Consumption ('000 BPD)

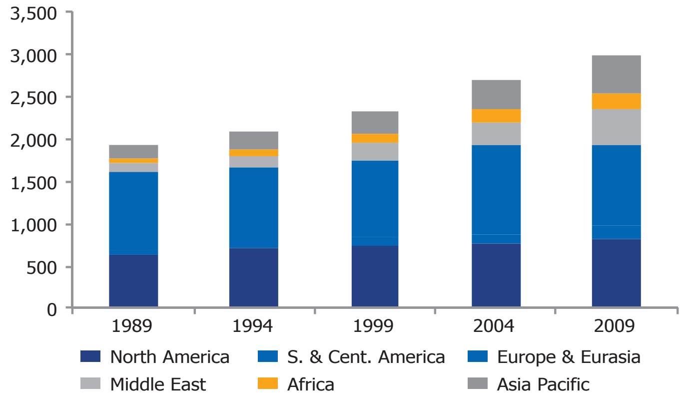


Source: BP Statistical Review, 2010, SPA Research

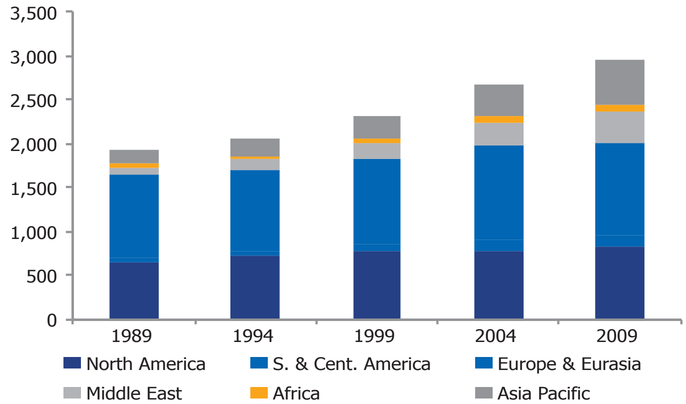
Increasing Share of Natural Gas

Over the last 10 years, gas production across the globe other than North America and Europe has been growing at a robust CAGR of over 5%. Gas production and consumption have been increasing at a CAGR of 2.5% and 2.4% respectively. As of 2009, the total gas production stands close to 3.0tcm (trillion cubic meters) and consumption stands over 2.9tcm.

Global Gas Production (BCM)



Global Gas Consumption (BCM)



Source: BP Statistical Review, 2010, SPA Research

With oil consumption outstripping oil production, the need for alternative sources of fuel is pressing. Natural Gas is the preferable option as it is cleaner and cheaper than oil.

As of 2009, oil and gas reserves stand at 1.3tn barrels and 187.5tcm respectively. However, more than 70% of these reserves are found in Middle East and Eurasia making it imperative to transport the fuel to gas deficit regions of Europe and Asia. SAW pipe companies stand to benefit from the increasing need to transport oil & gas through cross country pipelines. Further, huge reserves of shale gas are found in the north eastern parts of U.S. The production of shale gas is expected to increase at a CAGR of 10% to reach 4.8tcf (trillion cubic feet) by 2020.

As per International Energy Outlook (IEO), energy consumption is expected to grow at a CAGR of 1.4% to reach 738.7qbtu by 2035. The highest demand is expected to come from China (181.9qbtu) followed by USA (114.5qbtu) and then India (37.6qbtu).

The increasing crude prices have led to increasing E&P activities across the globe. Rig counts are one of the best indicators to gauge the ongoing exploration & production activities. From 1,829 rig-counts in 2002, the exploration activity reached its peak in 2008 as rig count rose to all time high of 3,336 following a blow out in crude prices. Though economic slowdown in following year resulted in a slump in rig count of 2,304, post the financial crisis, average numbers of rigs deployed have increased. The average number of rigs deployed till September 2010 is 2,911 registering a 28.1% rise as compared to the corresponding period in the previous year. Another positive for the exploration activities is the likely lifting of ban on deep sea drilling in U.S. following oil spill episode of BP. The renewal of exploration activities will augur well for the seamless pipe companies as they are used in upstream oil & gas activities.

Worldwide demand for the pipe industry continues to be robust for the next 3-5 years as USD180bn will be spent on onshore pipeline projects through 2012, according to a Douglas-Westwood report titled 'The World Onshore Pipelines Report 2008-2012'. The report also estimates a 16% increase in the pipeline mileage installed from 2008-12 as compared to the five year period of 2003-07. Nearly, three quarters of this expenditure is expected to come from Asia, FSU, Eastern Europe and North America.

According to the latest update by Simdex, more than 350,000km of pipeline is expected over the next five years, presenting opportunities of more than USD88bn.

Future Pipeline Projects - September 2010 Update

			Total Length		Total Investments	
Region	**No. of Projects**		**(Km)**	**(%)**	**Mn T**	**(USD Bn)**
North America	244	26.8%	79,758	21.7%	16.0	19.1
Latin America	62	6.8%	34,466	9.4%	6.9	8.3
Europe	139	15.3%	48,778	13.2%	9.8	11.7
Africa	68	7.5%	28,213	7.7%	5.6	6.8
Middle East	145	16.0%	49,953	13.6%	10.0	12.0
Asia	192	21.1%	108,761	29.5%	21.8	26.1
Australasia	59	6.5%	18,315	5.0%	3.7	4.4
Total	**909**	**100.0%**	**368,244**	**100.0%**	**73.6**	**88.4**

Source: Simdex Sep 10 Update, SPA Research; Conversion: 200 tonnes/km and USD1,200/tonne

North America and Asia to be the Volume Drivers

North America is one of the largest consumers of the Indian pipes. 244 projects involving 16.0mn tonnes of pipes expected to come up over the next five years providing opportunities worth USD19.1bn.

In USA more than 1.5mn km of pipes had been laid prior to 1975. These pipes have outlived their economic lives of 30 years and due to few accidents there has been a pressing need to replace these pipes. This provides with a business opportunity of more than USD500bn. The demand arising due to replacement of old pipes in USA is also expected to increase the opportunities for Indian players.

While in Asia 192 projects are expected to come up involving 21.8mn tonnes of pipes over the next five years, representing investments worth USD26.1bn.

Investments worth USD12.0bn in the pipe industry are expected over the next five years in the Middle East. Being in close proximity to the Middle East, Indian companies have competitive edge over Japan and Europe as they are able to save on freight costs.

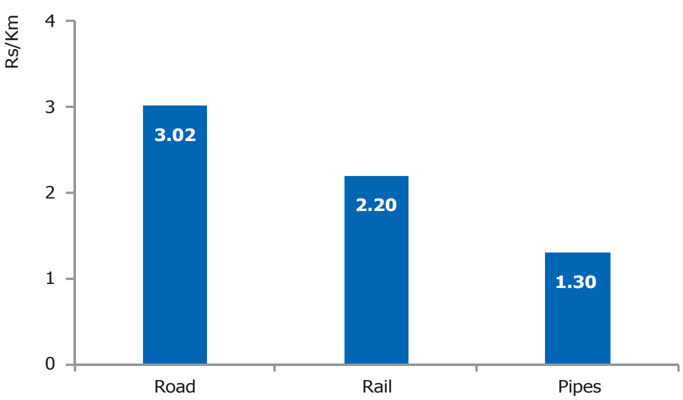
We believe that these huge investments in the Middle East and North America will benefit SAW pipe players like Welspun Corp, Man Industries and PSL as exports form a huge part of their revenues. Further, Welspun Corp and PSL also have their manufacturing facilities in U.S. and Middle East.

Domestic Demand Drivers

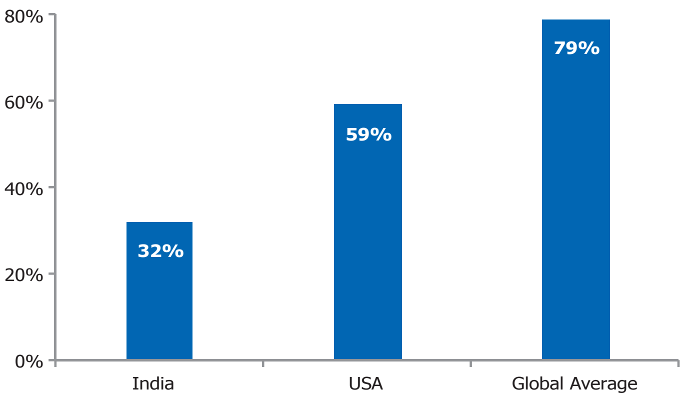
The Indian Pipe Industry is among the top three manufacturing hubs after Japan and Europe. However, the penetration level of pipelines in oil & gas transportation is quite low at 32% in India as compared to 59% in USA and 79% globally. The low penetration of pipes in the domestic market provides a huge business opportunity. The Indian line pipe industry is around Rs 235bn.

Pipelines are also the economical mode of transport as compared to roads and rail. The Indian government is encouraging the use of pipes as this will reduce the costs of transportation and assist the Oil Marketing Companies (OMCs) like HPCL, BPCL, IOC etc. to trim their under recoveries and the government will save in the form of lesser subsidy outgo.

Cost of Transport (Rs Per Km)



Pipe Penetration Level



Source: Industry, SPA Research

Capacity expansion by domestic players

The current pipeline network is quite narrow and is just above 17,500km indicating a low level of penetration.

Category	Capacity	Length (Km)
Product Pipeline	63.7	9,893
LPG Pipelines	4.5	2,124
Crude Pipelines	45.9	5,559
Total	**114.1**	**17,576**

Source: MoPNG, SPA Research, Capacity mmpta

Many domestic players such as GAIL, GSPL and RGTIL have planned a large number of pipeline networks to be commissioned over the next 4-5 years.

The prospects of GAIL, India's largest gas transmission and marketing company are better as the country's energy consumption pattern is shifting towards Natural Gas.

GAIL Existing Network

Pipeline	Capacity	Length (Km)
HVJ/DVPL	57	4,233
Mumbai	24	125
DUPL/DPPL	12	793
Others	49	2,069
Total	**142**	**7,220**

Source: Company, SPA Research; Capacity mmscmd

The company plans to add further 6,663 km of pipeline to its existing network of 7,220 km by FY13 through an investment of Rs 303.1bn. GAIL has a retail presence in 15 cities and it plans to expand its reach to 50 cities by 2012-13.

GAIL - New Pipeline Capacity Build Up

Pipeline	Length (Km)	Capacity	Project Cost (Rs Bn)
Vijaipur Dadri Pipelines	505	80	51.6
Dahej-Vijaipur Upgradation	610	78	56.7
Chainsa-Jhajjhar-Hissar	349	47	23.5
Dadri-Bawana-Nangal	646	31	12.6
Dabhol Bangalore	1,389	16	76.0
Kochi-Mangalore-Bangalaore	1,114	16	50.1
Jagdishpur Haldia	2,050	32	32.6
Total	**6,663**	**300**	**303.1**

Source: Company, SPA Research, Capacity mmscmd

Other than the expansion of trunk lines, GAIL is also expanding its distribution network of pipelines by increasing its spur line capacity.

GAIL - New Spur Pipeline Capacity Build Up

Pipeline	Length (Km)	Capacity	Cost (Rs Bn)
KMKR Pipeline	185	2.5	2.5
Focus Energy Consortium Ramgarh Terminal	90	1.2	1.0
Capacity Augmentation - Agra & Ferozadabad	71	2.0	2.0
Vijaipur Kota Pipeline Upgradation	290	2.0	4.6
Bawana Nangal Spurlines	270	4.0	5.4
Total	**906**	**12**	**15.6**

Source: Company, SPA Research, Capacity mmscmd

GSPL is also planning to add 5,675 km of additional pipelines.

GSPL Proposed Pipelines

Pipeline	Length (Km)	Tonnage (MT)	Cost (Rs Bn)
Mehsana-Bhatinda	1,670	334,000	16.7
Bhatinda-Jammu-Srinagar	740	148,000	7.4
Surat-Paradip	1,680	336,000	16.8
Mallavaram-Vijapur-Bhilwara	1,585	317,000	15.9
Total	**5,675**	**1,135,000**	**56.8**

Source: Company, SPA Research

Reliance Gas Transportation Infrastructure Ltd. is a new entrant in the oil & gas distribution segment. However, on the back of huge finds by Reliance Industries in the KG basin, RGTIL has plans of laying more than 2,500km of pipelines along the east and south coast of India.

RGTIL Proposed Pipelines

Pipeline	Length (Km)	Tonnage (MT)	Cost (Rs Bn)
Kakinada-Haldia	928	185,600	9.3
Kakinada-Chennai	577	115,400	5.8
Chennai-Tuticorin	585	117,000	5.9
Chennai-Mangalore-Bangalore	538	107,600	5.4
Total	**2,628**	**525,600**	**26.3**

Source: Company, SPA Research

With huge investments over Rs 400bn expected to come on stream over the next 5 years by domestic companies, we believe the pipe companies are well placed to tap the buoyed demand for pipelines.

Huge investments in the South/East India

Large finds in the KG basin along the east coast of India have triggered huge investments by the oil & gas companies. A vast network of more than 8,700km is planned and to be executed over the next five years.

Pipelines in South/East India

Pipeline	Company	Length (Km)	MT	Cost (Rs Bn)
Dabhol Bangalore	GAIL	1,389	277,800	13.1
Kochi-Mangalore-Bangalaore	GAIL	1,114	222,800	10.5
Jagdishpur Haldia	GAIL	2,050	410,000	19.3
Kakinada-Haldia	RGTIL	928	185,600	8.7
Kakinada-Chennai	RGTIL	577	115,400	5.4
Chennai-Tuticorin	RGTIL	585	117,000	5.5
Chennai-Mangalore-Bangalore	RGTIL	538	107,600	5.1
Mallavaram-Bhilwara	GSPL	1,585	317,000	0.3
Total		**8,766**	**1,753,200**	**67.8**

Source: Company, SPA Research

With the government's increased thrust on Oil & Gas sector, improved water supply & sanitation infrastructure and irrigation, the line pipe demand is expected to remain robust in the coming 3-5 years. The XI planning commission has allocated investments worth Rs 168.6bn and Rs 1,437.3bn towards Gas and Water supply & sanitation sector respectively.

Schemes	Rs Bn
Rajiv Gandhi Drinking Water Mission	73
Addition to irrigation facilities	1,580
National Gas Grid	210
City Gas Distribution	100-150
Total	**~2,000**

Source: Planning Commission, SPA Research

In India, the capacity addition in the pipeline network had been slow due to the absence of any regulatory body. However, with the formation of Petroleum & Natural Gas Regulatory Board (PNGRB) in 2007, the pipeline projects are likely to be rolled out at a faster pace.

Currently, Natural Gas contributes to 10% of the total energy requirement and the demand for the same is expected to increase from 35bcm (billion cubic meters) to 142bcm by 2025. Rapid growth in the development and energy consumption has led to a pressing need for the use of a cleaner fuel. The government of India has setup the National Gas Grid project with an investment of more than Rs 200bn. PNGRB has earmarked investments of Rs 500bn. and has identified 250 cities to be covered by the City Gas Distribution network.

Following are the water supply, sanitation and irrigation projects undertaken by the government.

Water Projects

Project	Cost (Rs Mn)
Gujarat Urban Development Program	8,460.0
Bihar Kosi Flood Recovery Project	12,173.0
Water Supply Scheme (Patna)	4,270.0
Storm Water Drainage Scheme (Ludhiana)	239.8
Water Supply Scheme (East Godavari)	162.3
Irrigation (Limbdi) Project	128.4
Others	335.0
Total	**25,768.5**

Source: World Bank, Projects Today, SPA Research

These projects are beneficial to the HSAW, ERW pipe players as these pipes are used in water distribution.

We believe that with increasing discoveries of new fields, investments in oil & gas transportation and water transportation are expected to remain robust over the coming years.

Seamless Pipes

Seamless pipes find their applications in variety of industries such as Oil & Gas, Power, Automobiles, Fertilisers, etc. Power and fertiliser sectors are the important sectors after oil & gas for demand for pipelines as they together contribute for more than 50% of the total demand.

The GoI's increasing efforts to reduce dependence on import of Oil and Gas has led to increased E&P activities in the past few years. The government through the past seven rounds of NELP has offered 227 blocks for exploration and plans to offer 70 blocks comprising of more than 160,000sq. km. of area under exploration for the eighth round.

In a power plant, seamless tubes & pipes are used in boilers and heat exchangers. Central Electricity Authority has estimated that steel requirement in the power sector during the 11th and 12th plan is about 25mn tonnes.

Plan	Target (MW)	Mn T	Rs Bn
11	62,374	6.2	374.2
12	100,000	10.0	600.0
Total	**162,374**	**16.2**	**974.2**

Source: SPA Research

Steelworld estimates that the seamless tubes/pipes consumption is expected to grow at CAGR of 9.9% till FY12 and thereafter moderate to 8% till FY17. By 2012, the total capacity of seamless pipes is expected to be around 1.2mn tonnes, however this is only the name plate capacity, the actual capacity is would be 0.9mn tones. The consumption is expected to be around 1mn tones resulting in a deficit of 60,000MT.

Year	Capacity	Consumption	Deficit
2011-12	930	989	59
2016-17	992	1453	461

Source: Steelworld, SPA Research, Capacity ('000 tonnes)

The growing deficit is indicative of high prospects in the seamless pipe and tube industry.

ERW Tubes & Pipes - Eyeing Newer Markets

Apart from the traditional markets, steel pipes & tubes manufacturers are now targeting newer markets such as construction, urban infrastructure – airports, malls, metros, piped gas distribution, fire safety segments and commercial passenger vehicles. These markets are finding newer applications for steel pipes and tubes like scaffolding, fencing, cabling, bus body parts, fire safety, etc.

Infrastructure & Real Estate

Government is keen on developing India's infrastructure and continues to put more thrust on investments in its core sectors such as power, ports, roads, airports, etc. The government has increased its budgetary allocation towards infrastructure to Rs 1,735.5bn.

The rise in demand for housing and commercial spaces in the urban region has led to a huge demand in hollow section and ERW pipes.

In the infrastructure space, the company has already started supplying to prestigious projects like the Delhi and Bengaluru airports and metros. Each airport and metro station requires 15,000MT and 400MT of branded steel pipes and tubes.

With the real estate growing at a robust rate, the demand for steel pipes and tubes is also expected to grow as it is used in scaffolding, fire safety and cabling. Increasing numbers of malls and high rise buildings have led to an increased demand for structural/hollow steel products as they are stronger and also have better aesthetic sense.

Automobiles

In Automobile sector, the bus body parts segment is coming up as a huge segment. The government has also increased the budgetary allocation under JNNURM to Rs 128.9bn. With ~100,000 buses to be manufactured over the next few years, steel pipes and tube companies see a huge opportunity in this segment. The automobile sector has shown robust growth in FY10. The sales of Passenger and Commercial Vehicles grew by 26.9% and 35.0% respectively over FY09. With the domestic economy on a strong growth track, we expect this sector to post robust growth.

Welspun Corp

CMP: **Rs 251** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 351**

Welspun Corp is one of the largest line pipe companies in India and among the top 3 line pipe (Large diameter) manufacturer in the world. Its ~1.6mtpa line pipe capacity offers major variants of pipe i.e. LSAW, HSAW and ERW. WCL has integrated backward and forward and has a significant presence across various stages of pipeline value chain.

Investment Arguments

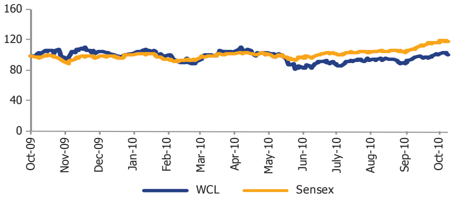
- WCL's is expanding its LSAW capacity by 350,000MT and HSAW capacity by 100,000MT at a cost of Rs 5,600mn. These capacities are expected to come on stream by the end of FY11, taking the total capacity to 2.0mtpa. We expect revenues to grow at a CAGR of 17.9% from Rs 76,287.7mn to Rs 105,962.1mn during FY10-12E
- WCL has recently integrated backwards to manufacture plates and coils through its 1.5mn tonnes capacity. The backward integration will improve EBIDTA margins and allowing the company to execute shorter lead time orders.
- WCL acquired close to 57% stake in MSK Projects through its wholly owned subsidiary Welspun Infratel for Rs 2,733mn. This acquisition will make WCL a complete pipe solution provider having presence across the linepipe value chain from pipe manufacturing to laying of pipes and also gain a foothold in the infrastructure space.
- WCL recently bagged orders to supply 120,000MT of pipes worth Rs 7bn taking the total order book to supply 0.8mn tonnes of pipes worth Rs 57bn. This order book is slated to be executed over the next 9-12 months.
- The company is targeting to produce 1mn tonnes of pipes and 0.6mn tonnes of plates and coils in FY11.

Valuation

At the CMP of Rs 250.9, the stock is available at a P/E of 6.0x based on consolidated FY12E EPS of Rs 41.8 and EV/EBIDTA of 3.2x. With the improvement in demand for pipes and more than 50 accreditations from major oil & gas companies, we believe that WCL will capture the larger share of line pipe demand both globally and domestically. We initiate coverage on the stock with a 'Buy' recommendation. At current P/E multiple of 8.4x based on consolidated FY12E EPS of Rs 41.8 we arrive at a one year target price of Rs 351/share.

Share Holding, June '10	% Holding
Promoter	40.8
FII	19.5
DII	18.0
Others	21.6
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	532144
NSE Code	WELCORP
Bloomberg Code	WLCO:IN
Reuters Code	WGSR.BO
Sensex	20,260.6
No. of Shares (Mn)	204.6
Face Value (Rs)	5.0
M-Cap (Rs Mn)	51,325.4
52 week H/L	296.4/212.1
2Wk Avg. Daily Vol. BSE	198,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Gross Sales	59,709.0	76,287.7	92,806.1	105,962.1
Growth	43.6%	27.8%	21.7%	14.2%
EBIDTA	6,534.6	13,371.6	14,305.9	16,436.4
EBIDTA Margin	11.1%	17.9%	15.7%	15.8%
PAT	2,135.1	6,104.2	6,906.2	8,099.6
Growth	-37.3%	185.9%	13.1%	17.3%
EPS (Rs)	11.4	29.9	33.8	39.6
P/E (x)	21.9	8.4	7.4	6.3
EV/EBIDTA (x)	9.6	4.3	4.1	3.2
RoE	13.7%	21.0%	20.3%	19.4%
RoCE	11.4%	19.5%	19.2%	20.2%

Company Background

Welspun Corp is one of largest line pipe companies in India. It produces high-grade submerged arc welded pipes, both Spiral and Longitudinal pipes (HSAW and LSAW pipes respectively) and Electric Resistance Welded (ERW) pipes with a current capacity of close to 1.6mtpa. The company's manufacturing facilities are located across Gujarat, Karnataka and USA. The manufacturing facility at Anjar, Gujarat also has a capacity to produce 1.5mtpa of plates and coils.

Company manufactures pipes size ranging from 0.5" to 100" diameter of upto 40mm wall thickness. This enables it to be a one-stop solution to its clients. WCL over the years has supplied pipes for some of the most critical and prestigious projects around the globe including the world's deepest pipeline project in the Gulf of Mexico, which makes it the most preferred line pipe supplier. Further, it has also received approval from more than 50 leading oil & gas companies such as TransCanada, Exxon Mobil, Shell, British Petroleum and Chevron.

Plant Details

Location	Unit	LSAW	HSAW	ERW	Total
Anjar	TPA	-	500,000	200,000	750,000
Dahej	TPA	350,000	50,000	-	400,000
Mandya	TPA	-	100,000	-	100,000
Little Rock, USA	TPA	-	350,000	-	350,000
Total		**350,000**	**1,000,000**	**200,000**	**1,550,000**

Source: Company, SPA Research

Investment Rationale

Pipe capacity to increase to 2.0 million tonnes

The increase in the global demand for pipes has led WCL to embark upon an expansion plan to add another 0.45mn tonnes of line pipe to its existing capacity of 1.55mtpa. The total outlay for the expansion has been marked at Rs 5.6bn. Post expansion, LSAW capacity will increase to 0.7mtpa from the current 0.35mtpa and similarly HSAW capacity will increase to 1.1mtpa from the current 1.0mtpa. Commercial production is expected to commence by the end of FY11.

Expansion Plans

Product	Unit	Current	Expansion	Total Capacity	Cost (Rs Mn)
LSAW	TPA	350,000	350,000	700,000	4,600
HSAW	TPA	1,000,000	100,000	1,100,000	1,000
ERW	TPA	200,000	-	200,000	-
Total		**1,550,000**	**450,000**	**2,000,000**	**5,600**

Source: Company, SPA Research

Entering new markets in India

In lieu of the surge in domestic demand, WCL has started expanding its HSAW capacity by 200,000MT by setting up two manufacturing facilities each of 100,000MT at a total cost of Rs 2.0bn. These mills are located at Mandya in Karnataka and in Central India.

The spiral mill in Mandya, Karnataka was commissioned in Q1FY11. The other spiral mill in Central India is expected to become operational by the end of FY11. These mobile spiral plants will cater to the Water/Sewage segment.

The mobile spiral plants in Mandya and Central India will prove advantageous to WCL as they can be relocated as per the requirements of the customer. Many companies have chalked out plans of laying pipelines in the southern parts of India. These projects require close to 1.8mn tonnes of pipelines over the next 3-4 years.

We expect the commissioning of new plants to drive up the volumes from FY12 onwards.

Foray into the Infrastructure Sector

WCL acquired close to 57% stake in MSK Projects through its wholly owned subsidiary Welspun Infratel for Rs 2,733mn. This acquisition will make WCL a complete pipe solution provider having presence across the linepipe value chain from pipe manufacturing to laying of pipes and it will also help to gain a foothold in the infrastructure space.

MSK has an order book of around Rs 4bn with 9 BOOT (Build Own Operate Transfer) projects. The management expects Rs 100bn in BOT assets under creation and scale up the EPC turnover business to Rs 25-30bn by FY16. MSK is expected to report a topline of Rs 5.3bn in FY11 and Rs 10bn by FY12.

Stronger Foothold in Middle East

In addition to its expansion plans in India, WCL has also forayed into the Middle East by acquiring a controlling stake in the Saudi Arabia based Aziz Pipe Company. WCL is planning a brownfield expansion to enhance this capacity from the current 270,000tpa to 350,000tpa. WCL's total investment outlay in the company is pegged at Rs 3,500mn and the same will be financed by 75% through debt and 25% through internal accruals. The acquisition will enable WCL to provide complete solution to oil & gas majors and water companies in the Gulf region.

We have not factored contribution from Aziz Pipe in our estimates, as we wait for further clarity.

Backward integration into Plates and Coils

Company by setting up Plate and CoilMill (PCM) at its Anjar facility has de-risked its supplies for its SAW pipe production. This division has already stabilised and have started ramping up its plates and coils production. We expect WCL to produce 561,750MT of plates and 240,750MT of Coils by FY12E as against 387,223MT of Plates and Coils in FY10.

WCL imports more than 75% of its raw material requirements. Going ahead the management expects the total production of this division to reach 0.6mn tonnes by the end of FY11 and 0.8mn tonnes by FY12E. It is expected that 50% of the produce will be consumed internally and balance sold in the market. The commissioning of coil production will not only help the company to bid for short gestation orders but will also result in savings in raw materials thereby being margin accretive.

Strong order book Rs 57bn 0.8x FY10 sales

With more than 50 accreditations from major oil and gas companies, WCL is in a strong position, to capture market share in the SAW pipes market. Given that WCL has moved higher up the value chain with its niche products we expect it to capture a larger share of the high-margin niche pipe segment. It currently has order book of Rs 57bn translating to 0.8x FY10 sales.

Order Book Break Up

	Break Up as on 2-Sep-10			
Product	**Tonnage (MT)**	**Value (Rs Mn)**	**(%)**	**Realisation (Rs)**
LSAW	200,000	12,000	18%	60,000
HSAW	550,000	37,000	56%	67,273
ERW	50,000	2,500	4%	50,000
External Plates	15,000	550	1%	36,667
Other Services		4,950	8%	
Total	**815,000**	**57,000**	**100%**	

Source: Company, SPA Research

Enhanced visibility for new orders

We believe there will be improvement in demand for pipes from the US, Europe, Africa and the Middle East. The company last month won orders to supply 120,000MT of HSAW and ERW pipes worth Rs 7bn. WCL has entered in several bids to supply 2.0mn tonnes of pipes over the next 12-15 months both globally and domestically. WCL has a strong presence in the international markets and exports form 87% of its order book. It expects at least a million tonne of pipe orders to be awarded by March 2011.

Expanding international footprint

WCL derives more than 85% of its revenues from exports. With capacity of 2.35mtpa by FY12, we believe WCL is well poised to capture global opportunities to supply close to 74mn tonnes of pipes worth USD88bn over the next 5 years.

TransCanada's Alaska Pipeline Project

TransCanada and Exxon Mobil are working together to advance on the Alaska Pipeline Project. Depending on the option selected, the demand exists to setup more than 1,300km length of pipes resulting an opportunity of more than USD360mn. The project being critical in nature only 3-4 players are expected to be invited to submit their bids. WCL being on the preferred list of suppliers for both the TransCanada and Exxon Mobil is expected to be one of the bidders for the project.

TransCanada's Alaska Pipeline Project	
Total Length - Alberta Option (Km)	2,737
Point Thomson Transmission Pipeline	93
Total Tonnes Required (Mn. MT)	0.6
Business Opportunity (USD Mn.)	735.8

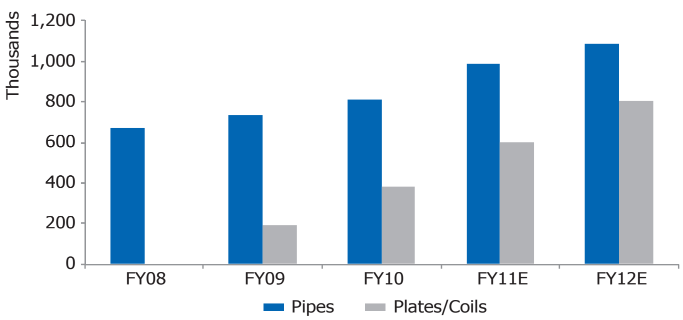
TransCanada's Alaska Pipeline Project	
Total Length - Valdez Option (Km)	1,293
Point Thomson Transmission Pipeline	93
Total Tonnes Required (Mn. MT)	0.3
Business Opportunity (USD Mn.)	360.4

Source: TransCanada Project; SPA Research

SAW Pipes to mark 1 million tonnes by FY11E

The management has indicated SAW pipes division to produce 1mn tonne in FY11. With the ongoing capex plans, the company's SAW pipes production capacity is expected to increase by 25% in next 6-9 months to 2.0mtpa. We estimate WCL's Pipes division to produce close to 1.0mn tonnes in FY11E and 1.1mn tonnes in FY12E against 0.8mn produced in FY10.

Pipes & Plates/Coils Production (MT)



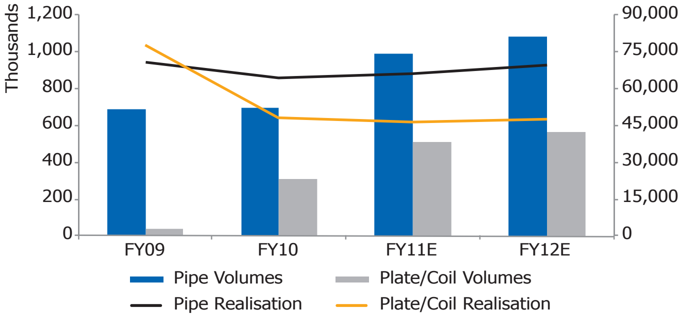
Source: Company, SPA Research

Financial Analysis

Revenues to grow at a CAGR of 17.9%

We estimate revenues to grow at a CAGR of 17.9% during FY10-12E, backed by rising pipe volumes, faster ramp up of PCM Division and better realisations. Revenues during the period are expected to increase from Rs 76.3bn to Rs 106.0bn in FY12E.

Pipes and Plates/Coils Volume (MT) and Realisation (Rs)



Source: Company, SPA Research

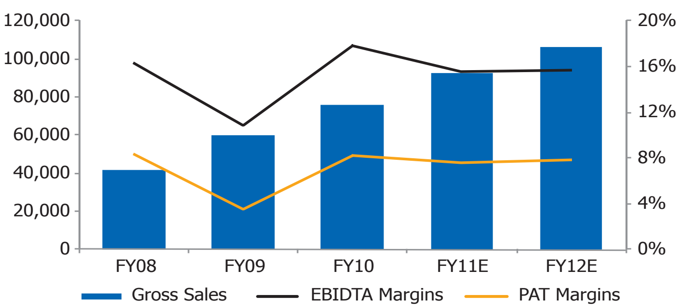
Sales from PCM division are expected to grow from 308,990MT in FY10 to 802,500MT by FY12E. The revenues from this division are expected to grow at a CAGR of 54.5% from Rs 15.1bn to Rs 36.1bn during FY10-12E. During the same period, share of PCM Division in the total revenues WCL is expected to increase from 19.8% to 34.1%.

PAT to grow at a CAGR of 15.2%

During FY10-12E we estimate PAT to grow by 15.2% annually from Rs 6.1bn in FY10 to Rs 8.1bn in FY12E. WCL recently raised Rs 5bn for a period of 15 years to repay its high cost debt and thereby save on higher interest outgo.

WCL commands premium pricing for its products, this makes us believe that WCL will not go for aggressive bids thereby lowering its margins. WCL bids in orders where it can get EBIDTA margins for the pipes in the range of Rs 10,000-11,000 per tonne and that for plates and coils in range of Rs 5,000-6,000 per tonne. EBITDA margins for the company have remained stable around past few quarters at 16% and we expect the company to report margins in this range through FY12E.

Sales (Rs Mn), EBIDTA & PAT Margins



Source: Company, SPA Research

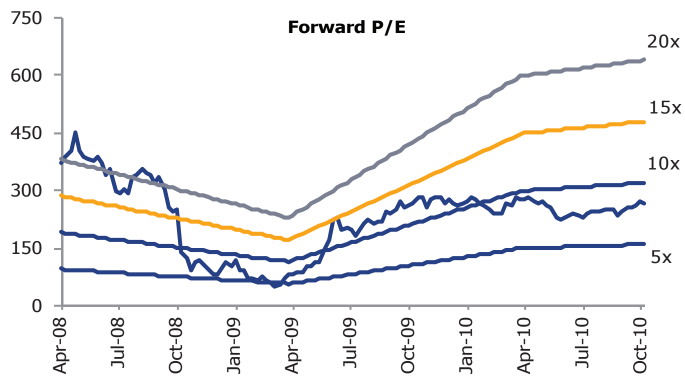
Valuation

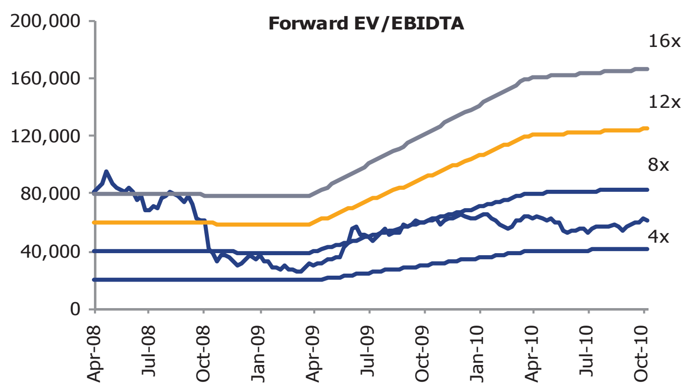
At the CMP of Rs 250.9, the stock is available at a P/E of 6.0x based consolidated on FY12E EPS of Rs 41.8 and EV/EBIDTA of 3.2x. With the improvement in demand for pipes and more than 50 accreditations from major oil & gas companies, we believe that WCL will capture the larger share of line pipe demand both globally and domestically. Recent backward and forward integration by the company will establish it across the line pipes entire value chain and improve margins. We initiate coverage on the stock with a 'Buy' recommendation. At current P/E multiple of 8.4x based on consolidated FY12E EPS of Rs 41.8 we arrive at a one year target price of Rs 351/share.

Contribution from MSK

MSK	FY12E
Revenues	10,000.0
Margins	8%
PAT	800.0
WCL's Share	57%
Cont. from MSK	456.0
WCL's PAT	8,099.6
Consol. PAT	8,555.6
WCL's FY12E EPS	39.6
Consol FY12E EPS	41.8
EPS Accretion	5.6%

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	41,570.3	59,709.0	76,287.7	92,806.1	105,962.1
Excise Duty	1,626.0	2,313.7	2,785.0	3,248.2	3,708.7
Net Sales	39,944.6	57,395.3	73,502.7	89,557.9	102,253.4
Other Income	107.4	187.0	185.3	223.9	255.6
Total Income	40,051.9	57,582.2	73,688.1	89,781.8	102,509.1
Raw Materials	25,939.3	38,700.6	45,802.6	58,581.2	66,893.6
Power Cost	350.1	1,332.1	1,681.6	2,045.7	2,225.2
Other Mfg. Exp.	1,508.4	4,743.1	3,972.5	5,104.3	5,827.9
Employee Cost	773.4	1,252.6	2,670.5	3,712.2	4,238.5
Admin & Other Exp.	2,607.1	3,121.4	4,872.5	4,640.3	5,298.1
Freight Charges	2,211.1	1,897.9	1,316.9	1,392.1	1,589.4
Total Expenditure	33,389.4	51,047.6	60,316.5	75,475.8	86,072.7
EBDITA	6,662.5	6,534.6	13,371.6	14,305.9	16,436.4
Depreciation	608.8	1,432.8	2,060.6	2,117.0	2,381.6
Interest	818.1	1,766.3	2,070.9	1,847.6	1,926.4
PBT	5,235.7	3,335.5	9,240.1	10,341.4	12,128.3
Tax Expense	1,827.9	1,200.4	3,135.9	3,435.1	4,028.7
Net Profits	3,407.8	2,135.1	6,104.2	6,906.2	8,099.6

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	888.8	932.5	1,021.6	1,022.6	1,022.6
Reserves & Surplus	14,783.1	14,663.9	28,064.1	33,075.1	40,815.5
NetWorth	15,671.9	15,596.3	29,085.7	34,097.7	41,838.0
Secured Loans	20,570.5	26,434.7	18,654.4	19,196.0	17,456.5
Unsecured Loans	106.5	103.4	6,821.5	6,818.5	6,818.5
Total Liabilities	38,086.7	44,622.4	57,914.0	63,464.4	69,465.3
Assets					
Fixed Assets (Net)	26,807.0	36,835.0	38,333.4	41,389.5	39,507.8
Investments	3,250.2	1,140.0	1,595.5	1,595.5	1,595.5
Current Assets	26,121.5	45,848.9	51,471.1	56,306.2	69,812.6
Current Liabilities	19,829.8	42,043.3	36,862.7	39,179.0	44,802.9
Preliminary Expenses	0.1	0.1	0.1	-	-
Total Assets	38,086.8	44,267.8	57,889.5	63,464.4	69,465.3

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from Ops.	3,684.9	13,746.9	5,661.5	11,571.1	13,892.2
Net Cash from Ops.	2,854.6	13,194.9	3,821.0	9,055.8	10,863.5
Cash from Inv.	(14,998.3)	(7,437.6)	(3,862.7)	(6,964.9)	(3,429.3)
Cash from Financing	11,273.5	1,009.6	2,766.6	(1,508.4)	(3,705.7)
Net Change	(870.3)	6,766.7	2,724.9	582.5	3,728.5
Op. Cash	3,573.6	2,703.6	9,470.3	17,028.1	17,610.7
Cl. Cash	2,703.3	9,470.3	17,028.1	17,610.7	21,339.1

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	19.2	11.4	29.9	33.8	39.6
Growth (%)	88.0%	-40.3%	160.9%	13.0%	17.3%
Cash EPS	22.6	19.1	40.0	44.1	51.2
Book Value	83.2	83.6	142.0	166.7	204.6
DPS	1.5	1.5	1.5	1.5	1.5
Payout (%)	9.2%	15.3%	7.8%	8.7%	4.4%
EBIDTA/Tonne	10,720.3	8,907.2	13,255.3	9,011.6	8,696.5
EV/Tonne	101,715.4	96,596.5	89,444.7	63,393.0	52,535.8

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	13.1	21.9	8.4	7.4	6.3
Cash P/E	11.1	13.1	6.3	5.7	4.9
P/ BV	3.0	3.0	1.8	1.5	1.2
EV/Sales	1.5	1.1	0.8	0.6	0.5
EV/EBDITA	8.9	9.6	4.3	4.1	3.2
ROE	23.0%	13.7%	21.0%	20.3%	19.4%
RoCE	15.9%	11.4%	19.5%	19.2%	20.2%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	16.4%	11.1%	17.9%	15.7%	15.8%
EBIT	15.2%	8.9%	15.4%	13.6%	13.7%
PBT	13.1%	5.8%	12.6%	11.5%	11.9%
PAT	8.5%	3.7%	8.3%	7.7%	7.9%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	1.8	1.8	2.0	2.2	2.5
Inventory T/o (x)	3.6	2.4	2.7	3.3	3.4
Debtors T/o (x)	6.1	9.7	11.6	10.8	9.5
Debtors (Days)	60	38	31	34	38
Inventory (Days)	102	152	134	111	108
Creditors (Days)	150	202	216	162	159

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	1.4	1.7	0.9	0.8	0.6
Int. Cov.	7.4	2.9	5.5	6.6	7.3

Growth Ratios

(%)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	49.1%	43.7%	28.1%	21.8%	14.2%
Expenses	39.9%	52.9%	18.2%	25.1%	14.0%
EBDITA	125.4%	-1.9%	104.6%	7.0%	14.9%
PBT	183.2%	115.9%	17.2%	-10.8%	4.3%
PAT	139.0%	-36.3%	177.0%	11.9%	17.3%
EPS	139.0%	-37.3%	185.9%	13.1%	17.3%
Cash EPS	88.0%	-40.3%	160.9%	13.0%	17.3%

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Maharashtra Seamless

CMP: **Rs 435** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 528**

Maharashtra Seamless is the flagship company of Rs 300bn D.P. Jindal Group. The company is a leading manufacturer of seamless pipes and tubes (350,000tpa) and ERW tubes (200,000tpa). MSL has also diversified into wind power generation with a capacity of 7MW. MSL's manufacturing and power generation facilities are located in Maharashtra.

Investment Arguments

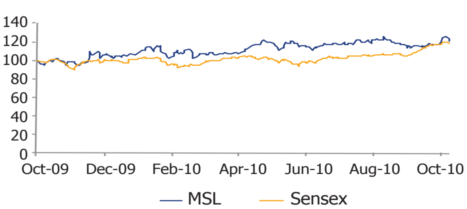
- Uptick in global and domestic E&P activities, robust growth in power (planned addition of 160,000MW in 11th and 12th plan) and auto sector are expected to drive the seamless volumes to 270,000MT by FY12E.
- We expect ERW volumes to increase to 150,000MT on the back of implementation of government programmes such as City Gas Distribution (Rs 100-150bn) and strengthening the water infrastructure (Rs 1,673bn).
- MSL is expanding its seamless manufacturing capacity by 200,000tpa by the end of FY11 at a capital outlay of Rs 3,250mn. Post expansion the company will undertake de-bottlenecking of its old plant to enhance the capacity by another 50,000tpa.
- Total Revenues are expected to grow by 20.4% annually during FY10-12E to touch Rs 24,530.0mn on the back of increased volumes and inclusion of value added products.
- As of Q1FY11, MSL's order book stands at Rs 4,470mn which translates to 0.3x its FY10 revenues.

Valuation

At CMP of Rs 434.8, MSL is trading at a P/E multiple of 8.2x based on its FY12E EPS of Rs 52.8 and at EV/EBIDTA multiple of 4.7x. Increase in global E&P activities and huge opportunities in the power, automobiles and water sector will keep the demand robust. We initiate coverage with a 'BUY' recommendation on the stock. We have assigned a P/E multiple of 10x on FY12E EPS of Rs 52.8 and have arrived at a one year target price of Rs 528/share.

Share Holding, Sep' 10	% Holding
Promoter	53.9
FII	13.6
DII	15.1
Others	17.5
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	500265
NSE Code	MAHSEAMLESS
Bloomberg Code	MHS:IN
Reuters Code	MHSM.BO
Sensex	20,260.6
No. of Shares (Mn)	70.5
Face Value (Rs)	5.0
M-Cap (Rs Mn)	30,667.9
52 week H/L	451.0/309.0
2Wk Avg. Daily Vol. BSE	12,339

(Rs Mn)	FY09	FY10	FY11E	FY12E
Total Income	21,835.1	16,912.2	20,347.1	24,530.0
Growth	41.7%	-19.9%	23.6%	22.9%
EBIDTA	4,145.2	4,528.4	5,018.8	6,196.6
EBIDTA Margin	19.0%	26.8%	24.7%	25.3%
PAT	2,599.2	2,846.1	3,070.8	3,723.9
Growth	33.1%	9.5%	7.9%	21.3%
EPS (Rs)	36.6	40.3	43.5	52.8
P/E (x)	11.9	10.8	10.0	8.2
EV/EBIDTA (x)	7.3	6.9	6.1	4.7
RoE	21.5%	15.8%	12.8%	14.1%
RoCE	29.7%	22.6%	18.4%	20.3%

Company Background

Corporate Profile

Maharashtra Seamless Ltd. is the flagship company of the Rs 300bn D.P, Jindal group. Incorporated in 1988, MSL is one of the largest seamless manufacturers in India with an installed capacity of 350,000tpa. The company is also engaged in manufacturing ERW pipes with an installed capacity of 200,000tpa respectively. The company's manufacturing facilities are located in Raigad, Maharashtra. MSL has a 7MW wind power facility at Satara, Maharashtra.

Plant Locations

Product	Unit	Location	Capacity
Seamless Pipes	TPA	Raigad	350,000
ERW Pipes	TPA	Raigad	200,000
Wind Power	TPA	Satara	7

Source: Company, SPA Research

MSL manufactures seamless pipes in the size range from 0.5" to 14" OD and wall thickness upto 40mm. The wide size range caters to various industries like E&P in the Oil & Gas sector, Boilers & Heat Exchangers in the Power Sector, Automotive, etc.

MSL to widen its product base set up an ERW pipe manufacturing facility in 2000. The company manufactures pipes in the size range from 8" to 20" OD and from 3.2mm to 12.7mm of wall thickness. ERW pipes are mainly used in transportation of oil & gas, drinking water and they are also used in sewage/water treatment.

The company set up wind power generation facility of 7MW in 2001 in Satara, Maharashtra.

Key Clientele

MSL boasts of wide and marquee clientele. Key clients in domestic market include ONGC, Engineers India and GAIL. The company has formed a JV with Tenaris for upstream premium threading connections.

Key Clientele

Domestic Clients	International Clients
Oil & Natural Gas Corpn.Ltd.	Sat Joint Operation, Saudi Arabia & Kuwait
Engineers India Ltd.	Kuwait Oil Company (KOC), Kuwait
Oil India Ltd.	Mobile Producing Nigeria,
Gas Authority of India Ltd.	Ministry of Oil & Gas, Oman
Indian Oil Corpn.Ltd.	Arabian Gulf Oil Company, Libya
Bharat Petroleum Corpn.Ltd.	Malaysian International Trading Corpn.
Steel Authority of India Ltd.	Saudi Aramco, Saudi Arabia
Bharat Heavy Electrical Ltd.	Occidental of Oman (OXY), Oman
National Thermal Power Corpn.	Chevron, USA
Indian Railways	Oxydental Petroleum, USA

Investment Rationale

Increased E&P activities to benefit MSL

Rise in crude prices (over USD80/barrel) and revival of global economy has led to a rise in global E&P activities. Global rig counts which are the barometer to judge the E&P activities show a rise of 28.1% to 2,911 in Jan-Sep 2010 as compared to the corresponding period in the previous year. Exports contribute more than 35% of the total revenues for FY10 and we expect MSL will be benefitted by the uptick in the global upstream activities.

Global Rig Counts

Region	Jan-Sep 2009	Jan-Sep 2010	Growth
Latin America	357	383	7.3%
Europe	83	92	10.8%
Africa	60	83	38.3%
Middle East	253	263	4.0%
Far East	239	267	11.7%
Canada	202	332	64.4%
U.S.	1,078	1,491	38.3%
Total	**2,272**	**2,911**	**28.1%**

Source: Baker Hughes, SPA Research

NELP rounds opened by the government have been a major success and have led to huge finds of oil & gas reserves across the country. Subsequently, the gas finds in the KG basin have led to increase in the E&P activities. NELP VIII also presents huge opportunities for the E&P players as the government plans to offer 70 blocks comprising of more than 160,000sq.km.

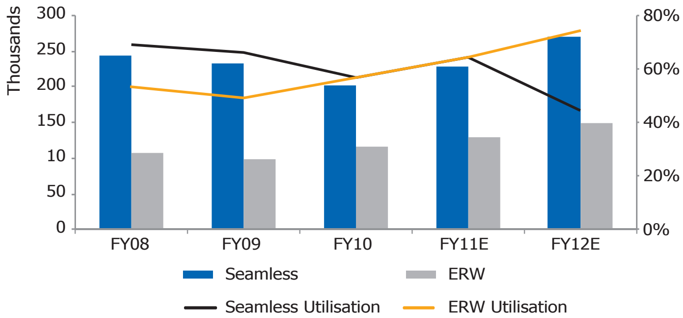
Power Sector – A huge opportunity

MSL supplies seamless pipes and tubes to the boilers and heat exchangers segment in the power plants. Typically, ~5% of the total capex in setting up a power plant is incurred towards seamless pipes & tubes. 160,000MW of planned capacity addition in the power sector during the 11th and 12th five year plan will provide an opportunity of more than Rs 400bn for seamless pipes.

Volumes to grow

We believe increase in global as well as domestic E&P activities, capacity addition in power sector and robust growth in automobiles will boost the volumes for seamless pipes to 270,000MT by FY12E from 206,242MT in FY10. Further, increase in water/sewage treatment projects across the country and government's thrust on water distribution and sanitation will keep the demand for ERW pipes robust. We expect ERW volumes to grow by 16.3% during FY10-12E from 110,939MT to 150,000MT.

Production (MT) and Realisation (Rs)



Source: Company, SPA Research

Integration Plans

Romanian Plant

In FY08, MSL had acquired a manufacturing plant from Romania with a capacity of 200,000tpa. The plant can manufacture seamless as well as drill pipes upto 6" and is being erected 35km away from the company's existing manufacturing site. This plant is expected to be commissioned by the end of FY11. Post commissioning, MSL will undertake de-bottlenecking of its existing facilities and enhance the capacity by 50,000MT. The total project cost is estimated around Rs 3,250mn. Post expansion/debottlenecking seamless pipe capacity will increase from 350,000tpa to 600,000tpa.

MSL is also looking at augmenting its product portfolio by increasing the share of value added products such as drill pipes and 13 Chrome pipes. These value added products will help MSL to boost its topline as well as bottomline as they yield higher realisations and better margins then the seamless pipes.

Steel Billet Plant

MSL plans to integrate backwards and secure raw material availability by setting up a steel billet plant with a capacity of 500,000tpa. The company has already acquired 50% of the total land required in Karnataka and is waiting for the remaining to be allocated. Till date the company has spent close to Rs 200mn for acquiring the land.

Coal Block

MSL has a 30% interest in a coal block near Nagpur having reserves of ~97mn tonnes.

Power Plant

MSL is planning to build up a 20MW power plant near its existing manufacturing sites in Maharashtra at a capital outlay of Rs 800-900mn to meet its power requirements.

Order Book @ 0.3x FY10 revenues

As of Q1FY11, MSL has an order book of Rs 4,470mn which is executable over the next four months. The order book translates to 0.3x its FY10 revenues. Seamless pipes form close to 70% of the order book. Exports also form close to 36% of the total order book.

Order Book (Rs Mn)

	Order Book as on Q1FY11				
Seamless	3,100	69.4%	Domestic	2,870	64.2%
ERW	1,370	30.6%	Exports	1,600	35.8%
Total	4,470	100.0%		4,470	100.0%

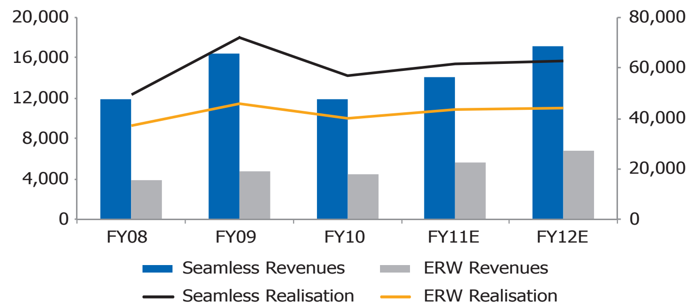
Source: Company, SPA Research

Financial Analysis

Revenues to grow at a CAGR of 20.2%

In FY10, the company witnessed a dip in its realisations. Volumes were subdued because of decrease in global E&P activities leading to decreasing pace of order flows. Further, fall in steel prices led to decline in average realisation/tonne from Rs 64,537.7 in FY09 to Rs 51,915.5. Going ahead we expect average realisation/tonne to reach Rs 56,980.2 by FY12E.

Revenues (Rs Mn) and Realisations (Rs)



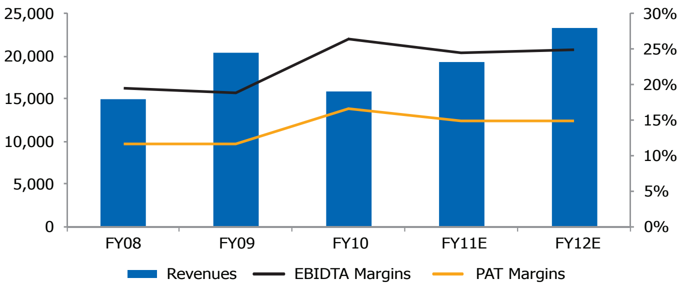
Source: Company, SPA Research

The recovery in the upstream activities (NELP VIII), government's thrust on power (Rs 400bn) and water sectors (Rs 1,673bn) augur well for MSL. We expect revenues to grow by a CAGR of 20.4% during FY10-12E to reach Rs 24,530.0mn from Rs 16,912.2mn. The growth in revenues can be attributed to the growth in seamless division as post FY11, MSL will ramp up its Romanian facility and also increase the share of value added products such as 13 chrome pipe in its product portfolio.

MSL is focusing on its strategy of pushing up value added products in its product mix. However, we believe the company will be able to scale up its niche products volumes post FY12. We expect the EBIDTA to grow by 17.0% annually from Rs 4,528.4mn to Rs 6,169.6mn during FY10-FY12E.

We don't expect PAT to grow at the same pace as EBIDTA margins because of increase in depreciation costs due to capitalisation of Romanian plant. PAT is expected to grow at a CAGR of 14.4% during FY10-12E from Rs 2,846.1mn to Rs 3,723.9mn.

Revenues (Rs Mn), EBIDTA and PAT Margins

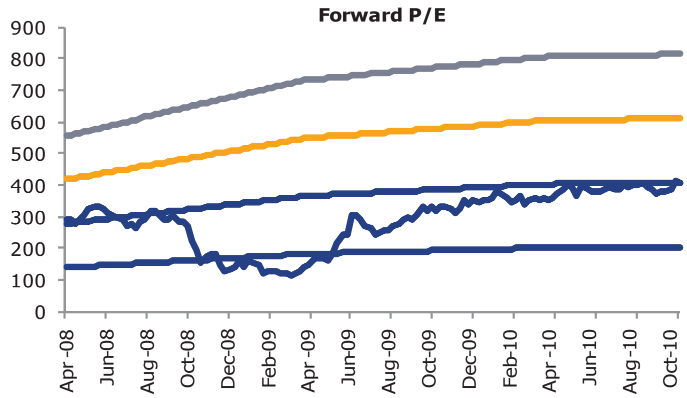


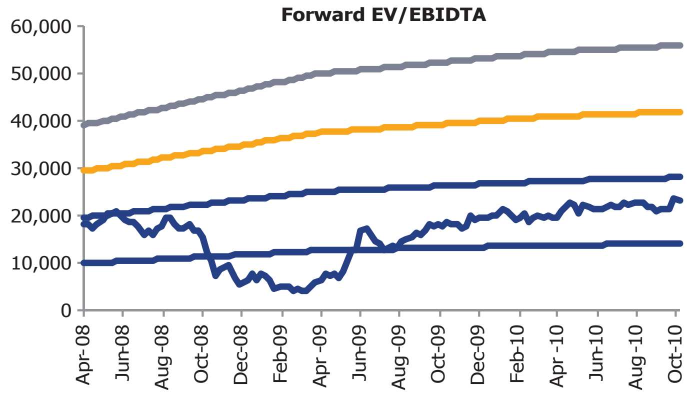
Source: Company, SPA Research

Valuation

At CMP of Rs 434.8, MSL is trading at a P/E multiple of 8.2x based on its FY12E EPS of Rs 52.8 and at EV/EBIDTA multiple of 4.7x. Increase in global as well as domestic E&P activities and huge opportunities in the power, automobiles and water sector will keep the demand robust. We initiate coverage with a 'BUY' recommendation on the stock. We have assigned a P/E multiple of 10x on FY12E EPS of Rs 52.8 and have arrived at a one year target price of Rs 528/share.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	16,403.7	21,835.1	16,912.2	20,347.1	24,530.0
Excise duty	1,427.1	1,446.5	980.5	1,096.8	1,220.5
Net Sales	14,976.5	20,388.6	15,931.7	19,250.3	23,309.5
Other Income	437.1	720.8	529.4	712.1	735.9
Total Income	15,413.6	21,109.4	16,461.1	19,962.5	24,045.4
Raw Materials	9,549.5	13,327.9	9,502.1	12,146.0	14,475.9
Power & Fuel	1,082.8	1,293.9	1,090.3	1,191.0	1,435.9
Manufacturing Exp.	714.2	1,029.6	668.5	1,047.1	1,262.4
Admin. & Selling Exp.	606.8	1,074.2	398.9	305.2	367.9
Personnel Expenses	230.0	238.6	272.9	254.3	306.6
Op Expenditure	12,183.1	16,964.2	11,932.7	14,943.7	17,848.7
EBIDTA	3,230.5	4,145.2	4,528.4	5,018.8	6,196.6
Depreciation	174.0	179.3	183.4	381.8	583.0
Interest	37.5	115.6	34.0	38.8	37.5
PBT	3,018.9	3,850.3	4,310.9	4,598.2	5,576.2
Tax	1,066.7	1,251.2	1,464.9	1,527.4	1,852.3
PAT	1,952.3	2,599.2	2,846.1	3,070.8	3,723.9

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	352.7	352.7	352.7	352.7	352.7
Reserves & Surplus	10,581.3	12,747.1	22,523.1	24,709.0	27,485.9
NetWorth	10,934.0	13,099.8	22,875.7	25,061.6	27,838.6
Loaned Funds	1,021.6	823.6	801.0	750.0	750.0
Total Liabilities	12,375.4	14,350.8	24,111.1	26,246.0	29,023.0
Assets					
Fixed Assets (Net)	3,374.6	3,906.4	12,078.3	12,946.5	12,863.5
Investments	893.8	4,198.7	6,284.0	6,284.0	6,284.0
Current Assets	10,031.5	8,032.0	7,478.0	8,986.9	12,343.1
Current Liabilities	2,344.3	2,213.7	2,163.6	2,405.8	2,902.0
Total Assets	12,375.4	14,350.8	24,111.1	26,246.0	29,023.0

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from operations	1,244.4	4,189.8	3,819.0	4,273.4	4,784.3
Net Cash from Oper.	185.6	3,024.7	2,301.5	2,419.1	2,708.1
Cash from Invstment	(814.4)	(3,777.2)	(2,880.0)	(1,250.0)	(500.0)
Cash from Financing	(54.8)	(689.8)	(444.1)	(584.9)	(615.2)
Net Change	(683.6)	(1,442.3)	(1,022.5)	584.2	1,593.0
Op. Cash	3,232.1	2,548.5	1,106.3	83.8	668.0
Cl. Cash	2,548.5	1,106.2	83.8	668.0	2,260.9

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	27.7	36.6	40.3	43.5	52.8
Growth (%)	-17.2%	32.1%	10.4%	7.9%	21.3%
Cash EPS	30.1	39.1	42.9	48.9	61.1
Book Value	155.0	185.7	324.3	355.3	394.7
DPS	5.0	5.0	6.0	6.0	7.0
Payout (%)	18.1%	13.7%	14.9%	13.8%	13.3%
EBIDTA/Tonne	9,407.4	12,685.8	14,277.0	14,038.5	14,753.9
EV/Tonne	77,312.2	85,056.4	90,777.9	78,763.2	63,249.7

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	15.7	11.9	10.8	10.0	8.2
Cash P/E	14.4	11.1	10.1	8.9	7.1
P/ BV	2.8	2.3	1.3	1.2	1.1
EV/EBDITA	9.0	7.3	6.9	6.1	4.7
ROE	19.4%	21.5%	15.8%	12.8%	14.1%
RoCE	26.5%	29.7%	22.6%	18.4%	20.3%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	19.7%	19.0%	26.8%	24.7%	25.3%
EBIT	18.6%	18.2%	25.7%	22.8%	22.9%
PBT	18.4%	17.6%	25.5%	22.6%	22.7%
PAT	11.9%	11.9%	16.8%	15.1%	15.2%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	5.3	6.0	2.1	1.6	1.9
Inventory T/o (x)	3.9	4.6	2.8	3.0	3.3
Debtors T/o (x)	7.0	8.0	7.3	9.1	8.7
Debtors (Days)	52	46	50	45	45
Inventory (Days)	114	76	157	120	120
Creditors (Days)	37	37	45	45	45

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	0.1	0.1	0.0	0.0	0.0
Int. Coverage Ratio	81.5	34.3	127.7	119.6	149.7

Growth Ratios

(%)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	7.9%	33.1%	-22.5%	20.3%	20.6%
Expenses	15.4%	39.2%	-29.7%	25.2%	19.4%
EBDITA	-13.3%	28.3%	9.2%	10.8%	23.5%
PBT	-14.4%	27.5%	12.0%	6.7%	21.3%
PAT	-16.5%	33.1%	9.5%	7.9%	21.3%
EPS	-17.2%	32.1%	10.4%	7.9%	21.3%
Cash EPS	-15.7%	29.7%	9.9%	14.0%	24.7%

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PSL

CMP: **Rs 116** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 142**

PSL Ltd. is one of the largest HSAW pipe manufacturers across the globe. It has an installed capacity of close to 1.8mtpa, with manufacturing facilities at 5 locations across India and one each at USA and Sharjah. PSL also provides ancillary products and services such as bending, rebar coating besides undertaking turnkey pipe projects.

Investment Arguments

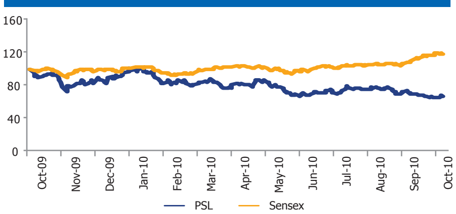
- PSL has a huge presence in the domestic markets and it is well positioned to take advantage of the domestic gas distributors' massive expansion plans of Rs ~330bn over the next five years.
- The company is expanding its facility in Middle East by adding 75,000MT at a capital outlay of USD30mn. This capacity is expected to be commissioned by FY12.
- Revenues are expected to grow by 9.7% annually from FY10-12E to touch Rs 47,440.5mn.
- Huge gas reserves have been found in the KG basin across the south/east India and the need to setup the necessary infrastructure for its transportation will require investments of more than Rs 65.0bn. We expect the company to benefit from this demand as it has 450,000MT of capacity in that region.
- PSL's plants are mobile which enables it to relocate its plants near the customer's site. This helps in reducing freight costs and being margin acrretive.

Valuation

At CMP of Rs 116.0, PSL is trading at a P/E multiple of 3.7x based on its FY12E EPS of Rs 31.6 and at EV/EBIDTA multiple of 5.1x. PSL's presence in key international markets and huge domestic share coupled with robust domestic opportunities augur well for the company. Strategically located mobile plants help the company to bid for larger orders with short gestation time and save on freight costs also. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 4.5x we have arrived at a one year target price of Rs 142/share based on FY12E EPS of Rs 31.6.

Share Holding, June '10	% Holding
Promoter	39.3
FII	11.6
DII	15.8
Others	33.4
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	526801
NSE Code	PSL
Bloomberg Code	PSLL:IN
Reuters Code	PSLH.BO
Sensex	20,260.6
No. of Shares (Mn)	53.5
Face Value (Rs)	10.0
M-Cap (Rs Mn)	6,198.8
52 week H/L	188.4/115.0
2Wk Avg. Daily Vol. BSE	155,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Gross Sales	35,599.5	39,410.5	44,410.7	47,440.5
Growth	58.3%	10.7%	12.7%	6.8%
EBIDTA	3,100.7	3,550.9	4,310.4	4,733.7
EBIDTA Margin	8.7%	9.0%	9.7%	10.0%
PAT	948.7	1,226.6	1,406.3	1,691.7
Growth	12.3%	29.3%	14.7%	20.3%
EPS (Rs)	22.2	25.5	26.3	31.6
P/E (x)	5.2	4.5	4.4	3.7
EV/EBIDTA (x)	4.6	8.0	6.0	5.1
RoE	15.1%	15.2%	14.5%	15.6%
RoCE	14.3%	10.3%	9.9%	11.3%

Company Background

Corporate Profile

PSL is one of the largest manufacturers of high grade large diameter helical submerged arc welded (HSAW) pipes in the world. It has an annual installed capacity of 1,775,000tpa. Incorporated in 1987, PSL started out as pipe coating company and later started manufacturing pipes from 1995. The company manufactures pipe using both conventional process (825,000MT) and through a two-step process (950,000MT).

PSL has 11 HSAW pipe and pipe coating mills spread across India in Ahmedabad, Chennai, Jaipur, Kandla and Vizag. The company has also established its presence out of India through its subsidiaries with pipe mills located at Sharjah, UAE and Mississippi, USA.

Plant Locations

Location	No. of Pipe Mills	Capacity (tpa)
Chennai	1	75,000
Kandla	6	725,000
Vizag	2	375,000
Ahnmedabad	1	75,000
Jaipur	2	150,000
Sharjah	1	75,000
Mississippi	1	300,000
Total	**14**	**1,775,000**

Source: Company

PSL can manufacture pipes from 18-120" in diameter with wall thickness of 5mm to 25mm. Other than pipe manufacturing, the company also provides ancillary products and services such as induction bending, rebar coating, sacrificial anodes and undertaking turnkey pipe projects.

PSL develops equipment for pipe manufacturing and pipe coating in house and most of PSL's mills have been developed by the company itself. These capabilities have helped to control costs. PSL has also executed orders to design and setup pipe mills.

Investment Rationale

Established presence in India

PSL has a pan India presence with capacity of 1.4mtpa. Domestic markets contribute majority of PSL's order book. PSL is bound to be benefited with domestic gas distribution players massive expansion plans to lay close to 15,000km of pipeline over the next five years.

Buoyed Demand in south to benefit PSL

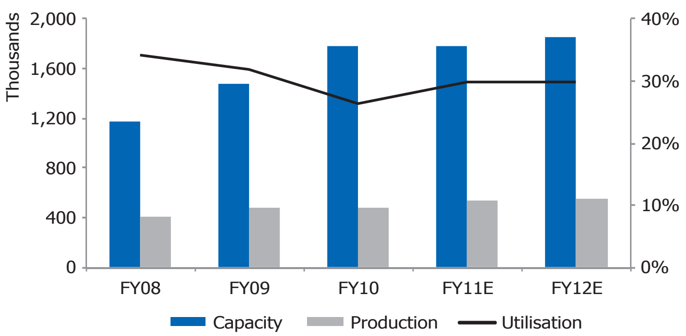
KG basin in the eastern coast of India has become the largest base for gas reserves in the country. Domestic gas distribution players such as GAIL, GSPL and RGTIL have plans to lay 8,766km of pipelines entailing investments of more than Rs 65bn over the next five years for transporting the fuel across the country. GAIL alone has plans to lay 6,663km of pipeline by FY13. PSL which has a 450,000tpa capacity in the south/east India is expected to be the major beneficiary of this upcoming opportunity.

The other segments from where demand is picking up are the water and sewage treatment projects which are coming up in the southern region. World Bank and government of India have allocated Rs 1,673bn towards water, sanitation, irrigation and sewage treatment projects. HSAW pipes due to their large outer diameters and lower cost score over other pipes.

Volumes to grow at a CAGR of 12.0% during FY10-12E

Domestic demand is expected to continue on a strong trajectory on the back of planned investments by the domestic players We expect the volume growth for PSL to be 12.0% over FY10-12E which is higher than the 3.5% CAGR volume growth achieved during the past two years. Volumes are expected to increase to 555,000MT by FY12E from 442,452MT in FY10. GAIL is one of the largest customers for PSL and we expect PSL to contract a huge share of GAIL's upcoming orders.

Pipe Production (MT)



Source: Company, SPA Research

Order Book

PSL recently bagged several orders to supply 119,000MT of pipes worth Rs 5,650mn of which IOC has awarded the company order worth Rs 2,000mn. As on Q2FY11, PSL has an order book to supply close to 300,000MT of pipes worth Rs 15.4bn. This roughly translates to ~0.4x its FY10 revenues and is expected to be executed over the next 9-12 months.

Expansion in Middle East

PSL is also expanding its existing capacities in the middle east by 75,000MT at a capital outlay of USD30mn. The facility is expected to be commissioned by FY12 and post expansion the company will have a capacity of 150,000MT. As per the latest Simdex data, 49,953km of pipelines are planned in Middle East over the next five years, with investments of USD12.0bn. We believe PSL is well placed to take advantage of this opportunity.

Pan India Presence

PSL has 11 pipe mills across India in locations such as Chennai, Kandla, Jaipur, Ahmedabad and Vizag. Further, as spiral mills uses lighter equipment, these mills can be relocated near the project site and help save freight costs.

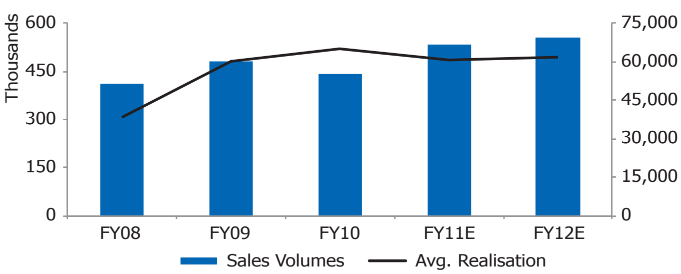
HSAW pipes are best suited for onshore transportation as they have cost advantages over LSAW pipes. The other segments from where demand is arising are the water and sewage treatment projects which are coming up in the southern region.

Financial Analysis

Revenues

PSL volumes have grown moderately from FY08-10 at a CAGR of 3.5%. Going ahead we expect volumes to drive revenues from Rs 39,410.5mn in FY10 to reach Rs 47,440.5mn by FY12E, registering CAGR of 9.7% during FY10-12E.

Volumes (MT) and Realisation (Rs)

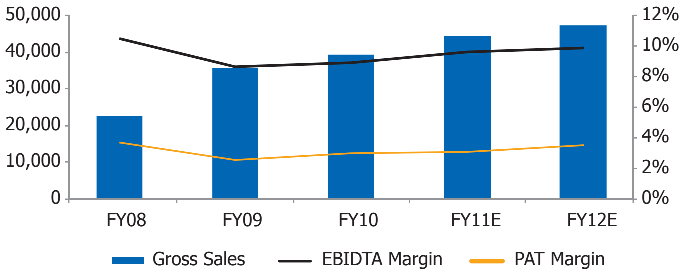


Source: Company, SPA Research

EBIDTA margins in FY12E are expected at 10.0%, an increase of 100bps from FY10 margins. On an absolute basis, EBIDTA is expected to grow at 15.5% annually from Rs 3,550.9mn to Rs 4,733.7mn during FY10-12E.

PAT is expected to grow by 17.4% annually from Rs 1,226.6mn in FY10 to Rs 1,691.7mn in FY12E.

Sales (Rs Mn), EBIDTA and PAT Margins

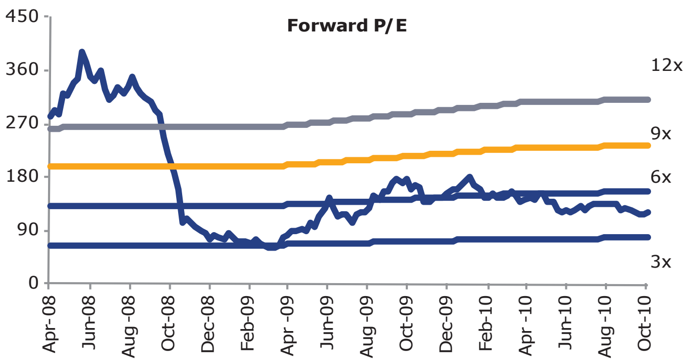


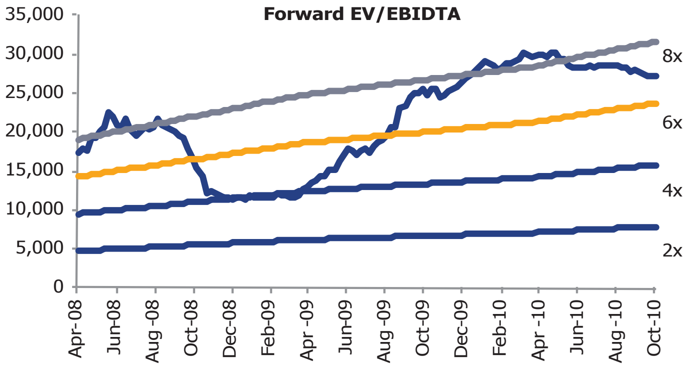
Source: Company, SPA Research

Valuation

At CMP of Rs 116.0, PSL is trading at a P/E multiple of 3.7x based on its FY12E EPS of Rs 31.6 and at EV/EBIDTA multiple of 5.1x. PSL's presence in key international markets and huge domestic share coupled with robust domestic opportunities augur well for the company. Strategically located mobile plants help the company to bid for larger orders with short gestation time and save on freight costs also. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 4.5x we have arrived at a one year target price of Rs 142/share based on FY12E EPS of Rs 31.6.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	22,483.3	35,599.5	39,410.5	44,410.7	47,440.5
Excise Duty	1,749.3	3,294.3	1,721.4	2,220.5	2,372.0
Net Sales	20,734.0	32,305.2	37,689.2	42,190.2	45,068.5
Other Income	448.2	889.9	524.9	777.2	830.2
Total Income	21,182.2	33,195.1	38,214.0	42,967.4	45,898.7
Raw Materials	15,493.2	25,724.7	31,501.2	32,550.5	34,641.9
Mfg. Expenses	1,762.5	2,481.2	1,447.1	3,330.8	3,558.0
Selling & Admin. Exp.	1,555.3	1,888.5	1,714.9	2,775.7	2,965.0
Total Expenditure	18,810.9	30,094.4	34,663.1	38,657.0	41,165.0
EBIDTA	2,371.2	3,100.7	3,550.9	4,310.4	4,733.7
Interest	578.6	1,027.5	1,169.3	1,153.1	1,049.4
Depreciation	539.4	687.7	816.1	1,051.5	1,151.1
PBT	1,253.3	1,385.6	1,565.6	2,105.9	2,533.2
Tax Expense	408.9	436.9	339.0	699.5	841.5
Net Profits	844.4	948.7	1,226.6	1,406.3	1,691.7

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	425.8	425.8	533.3	533.3	533.3
Reserves & Surplus	5,450.7	6,752.8	8,888.1	9,647.0	11,007.4
Networth	5,698.6	6,905.6	9,205.9	10,130.5	11,540.8
Secured Loans	9,216.9	11,295.6	24,521.2	20,357.4	20,622.1
Unsecured Loans	99.9	127.4	612.9	500.0	500.0
Total Liabilities	15,208.9	18,454.7	34,521.4	31,037.8	32,574.8
Assets					
Fixed Assets (Net)	6,391.2	12,973.4	16,011.3	16,209.8	15,808.7
Investments	42.6	42.6	45.0	45.0	45.0
Current Assets	16,973.1	47,901.4	31,739.9	31,863.2	35,006.0
Current Liabilities	8,380.8	42,315.9	13,240.7	17,080.2	18,196.9
Total Assets	15,208.9	18,454.7	34,521.4	31,037.8	32,574.8

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from Ops.	1,347.8	4,730.1	(8,777.9)	6,095.3	4,487.1
Net Cash from Ops.	1,095.3	4,339.8	(9,229.9)	5,395.8	3,645.6
Cash from Inv.	(1,748.9)	(7,235.2)	(3,808.7)	(1,250.0)	(750.0)
Cash from Financing	3,396.1	1,023.1	13,711.2	(5,643.5)	(1,025.3)
Net Change	2,742.5	(1,872.3)	672.6	(1,497.8)	1,870.3
Op. Cash	1,264.3	4,005.1	2,132.6	2,805.2	1,307.5
Cl. Cash	4,006.8	2,132.7	2,805.2	1,307.5	3,177.8

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	22.0	22.2	25.5	26.3	31.6
Cash EPS	36.0	38.3	42.5	46.0	53.2
Book Value	133.4	161.7	172.2	189.5	215.9
DPS	5.2	5.0	4.0	4.0	4.5
Payout (%)	30.9%	26.2%	20.3%	17.8%	16.6%
EBIDTA/Tonne	5,746	6,478	8,025	8,095	8,529
EV/Tonne	25,009	29,877	64,639	48,509	43,659

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	5.3	5.2	4.5	4.4	3.7
Cash P/E	3.2	3.0	2.7	2.5	2.2
P/BV	0.9	0.7	0.7	0.6	0.5
EV/Sales	0.5	0.4	0.8	0.6	0.5
EV/EBDITA	4.3	4.6	8.0	6.0	5.1
ROE	18.3%	15.1%	15.2%	14.5%	15.6%
RoCE	14.4%	14.3%	10.3%	9.9%	11.3%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	10.5%	8.7%	9.0%	9.7%	10.0%
EBIT	8.8%	7.5%	7.3%	7.7%	7.9%
PBT	5.6%	3.9%	4.0%	4.7%	5.3%
PAT	3.8%	2.7%	3.1%	3.2%	3.6%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	2.9	2.8	2.2	2.2	2.2
Inventory T/o (x)	2.8	1.4	1.3	2.1	2.1
Debtors T/o (x)	6.5	6.6	7.6	7.8	8.1
Debtors (Days)	46	46	49	45	45
Inventory (Days)	133	256	274	180	180
Creditors (Days)	146	308	315	180	180

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	1.6	1.7	2.7	2.1	1.8
Int. Coverage Ratio	3.2	2.3	2.3	2.8	3.4

Growth Ratios

(%)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	40.5%	58.3%	10.7%	12.7%	6.8%
Expenses	45.6%	60.0%	15.2%	11.5%	6.5%
EBDITA	32.6%	30.8%	14.5%	21.4%	9.8%
PBT	37.9%	10.6%	13.0%	34.5%	20.3%
PAT	29.2%	12.3%	29.3%	14.7%	20.3%
EPS	11.4%	1.2%	14.8%	3.1%	20.3%
Cash EPS	8.6%	6.5%	10.9%	8.2%	15.7%

Man Industries

CMP: **Rs 86** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 128**

SPA
THE FINANCIAL ADVISORS

Man Industries (India) Ltd. was incorporated in 1988 as an aluminium extrusion company, the company diversified its operations to SAW pipes segment in 1994. MIL is one of the established manufacturers of large diameter carbon steel pipes in India. The company's total installed capacity is 1mtpa, with plants located at Anjar and Pithampur in Gujarat and Madhya Pradesh.

Investment Arguments

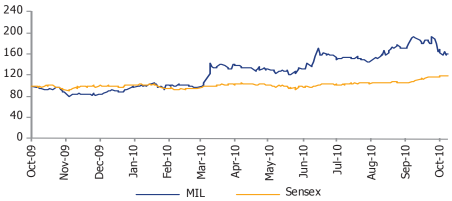
- Revenues are expected to grow by 16.6% annually from FY10-12E to touch Rs 20,460.1mn.
- Higher margin orders are expected to drive up the EBDITA and PAT margins by 40bps to 8.6% and 5.1% respectively. EBIDTA and PAT are expected at Rs 2,352.1mn and Rs 1,053.6mn respectively for FY12E.
- MIL has an order book of Rs 25.0bn which translates to ~1.7x its FY10 revenues. This provides the company with long term visibility in revenues.
- MIL has diversified its operations into Real Estate, and related sectors through its subsidiary. The company holds more than 1.5mn sq.ft. of prime area in and around Mumbai and Indore.

Valuation

At CMP of Rs 85.6, MIL is trading at a P/E multiple of 4.5x based on its FY12E EPS of Rs 18.9 and at EV/EBIDTA multiple of 1.4x. MIL's global presence and huge domestic opportunities along with strategically located plants augur well for the company. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 6.8x and FY12E EPS of Rs 18.9 we arrive at a one year target price of Rs 128/share.

Share Holding, June '10	% Holding
Promoter	53.4
FII	0.2
DII	7.4
Others	39.0
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	513269
NSE Code	MANINDS
Bloomberg Code	MAN:IN
Reuters Code	MIND.BO
Sensex	20,260.6
No. of Shares (Mn)	53.5
Face Value (Rs)	5.0
M-Cap (Rs Mn)	4,579.9
52 week H/L	110.0/42.0
2Wk Avg. Daily Vol. BSE	103,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Total Income	18,948.0	15,054.3	18,278.1	20,460.1
Growth	30.3%	-20.5%	21.4%	11.9%
EBIDTA	1,510.9	1,743.4	2,179.4	2,352.1
EBIDTA Margin	6.7%	8.2%	9.0%	8.6%
PAT	474.3	670.9	968.0	1,053.6
Growth	78.0%	151.8%	263.3%	295.5%
EPS (Rs)	8.9	12.5	17.4	18.9
P/E (x)	9.6	6.8	4.9	4.5
EV/EBIDTA (x)	3.9	2.2	1.6	1.4
RoE	11.6%	16.4%	20.8%	19.1%
RoCE	14.1%	16.7%	21.1%	20.6%

Company Background

Corporate Profile

Man Industries (India) Ltd., company started its operations in 1988 as an aluminium extrusion company. In 1994, the company diversified its operations to SAW pipes segment. MIL is one of the established manufacturers of large diameter carbon steel pipes in India with its own coating facility. The company's SAW pipes manufacturing facilities are located at Anjar and Pithampur with a combined capacity of 1mtpa.

MIL has two broad categories of products

- HSAW Pipes
- LSAW Pipes

Plant Locations

Location	Unit	LSAW	HSAW	Total
Anjar	TPA	365,000	435,000	800,000
Pithampur	TPA	135,000	65,000	200,000
Total		**500,000**	**500,000**	**1,000,000**

Source: Company, SPA Research

Foray into Real Estate

In 2008, MIL established Man Infraprojects, a subsidiary to enter Real Estate, Hospitality and Infrastructure sector. The company has more than 1.5 million sq.ft of saleable land in Mumbai and Indore.

Investment Rationale

Robust Order Book

MIL recently bagged orders worth Rs 12,000mn taking the total order book to Rs 25,000mn roughly translating to ~1.7x its FY10 revenues. LSAW comprises close to 70% of the total. MIL has established its presence in the international markets such as Middle East, Brazil and Africa leading to higher export orders worth Rs 23,650mn. MIL has currently bid for projects worth more than Rs 50,000mn. The robust order book provides the company with revenue visibility in the longer term.

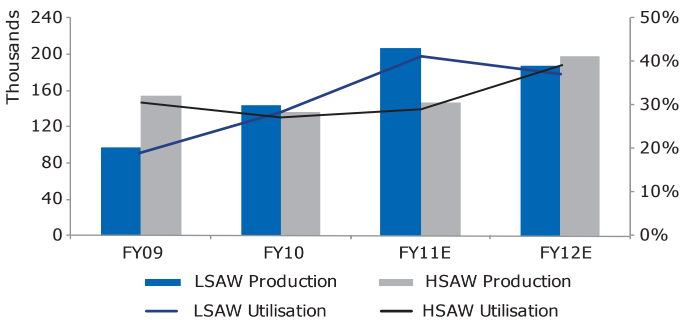
Order Book as on Sep - 2010

Order Book	Rs Mn	Pipes	MT
Exports	23,650	LSAW	336,200
Domestic	1,350	HSAW	147,850
Total	**25,000**		**484,050**

LSAW Volumes to Dominate in FY11

MIL's 25,000mn order book consists of LSAW orders worth ~70%. We believe LSAW volumes to significantly outgrow HSAW in FY11. However, going forward, with huge opportunities in the domestic market for HSAW pipes we expect the HSAW production to grow from 137,227MT to 197,500MT in FY10-12E as compared to LSAW's volume growth of 144,278MT to 187,500MT during FY10-12E.

LSAW and HSAW Production (MT)



Source: Company, SPA Research

Established presence in domestic markets

The company is one of the leading pipe producers in India, and it has its manufacturing facilities located in western and central India. The massive expansion plans of GAIL, GSPL and RGTIL which entails pipeline projects of close to 15,000km are sure to benefit MIL.

Man Infraprojects

MIL has diversified its operations to enter into Real Estate, Hospitality and Infrastructure sector through its subsidiary Man Infraprojects Ltd. in 2008.

Man Infraprojects possesses more than 900,000sq.ft. of saleable land in the prime areas in and around Mumbai. The company's ongoing projects are located at Bandra and Vile Parle in Mumbai and at Nerul in Navi Mumbai. The Mumbai projects are of commercial in nature and are expected to be completed by Q4FY11.

The company's flagship project in Nerul which is commercial and residential in nature is expected to be completed by FY12-13.

MIL also has more than 600,000sq.ft. of saleable land in Indore.

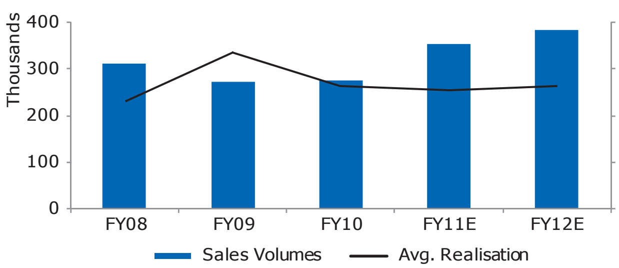
However, due to lack of clarity, we have not built in any revenues flowing from this subsidiary in our estimates. Also, any value unlocking of Man Infraprojects in the future will be an upside to our estimates.

Financial Analysis

Rising Demand and Stable Prices to lead revenue growth

MIL has orders to supply 336,200MT of LSAW pipes over the next 12-15 months. In FY11E, we expect LSAW volumes to rise by 51.7% to 207,500MT and then fall by 9.6% to 187,500MT by FY12E. HSAW volumes are expected to rise by a modest 6.7% to 147,500MT in FY11E and by 33.9% to 197,500MT by FY12E. Total volumes expected to grow at a CAGR of 18.3% during FY10-12E. Stable steel prices will fuel topline growth of 16.6% annually over FY10-12E from Rs 15,054.3mn to Rs 20,460.1mn.

Volumes (MT) and Realisations (Rs)



Source: Company, SPA Research

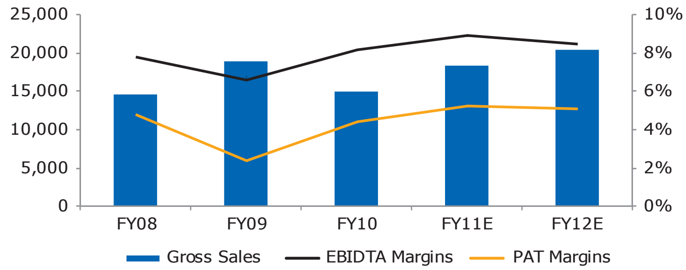
PAT to grow at a CAGR of 25.3% during FY10-12E

EBIDTA margins in FY12E are expected at 8.6%, an increase of 40bps from FY10 margins. On an absolute basis, EBIDTA is expected to grow at 16.2% annually from FY10-12E from Rs 1,743.4mn to Rs 2,352.1mn. One of the major reasons for increase in operating margins is because of increase in share of LSAW pipes.

On the back of increasing HSAW orders and rising share of revenues from domestic markets, we believe EBIDTA margins will fall from 9.0% in FY11E to 8.6% in FY12E.

Falling interest costs are expected to drive up PAT margins from 4.5% in FY10 to 5.1% in FY12E. On an absolute basis, PAT is expected to grow by 25.3% from Rs 670.9mn to Rs 1,053.6mn.

Sales (Rs Mn), EBIDTA & PAT Margins



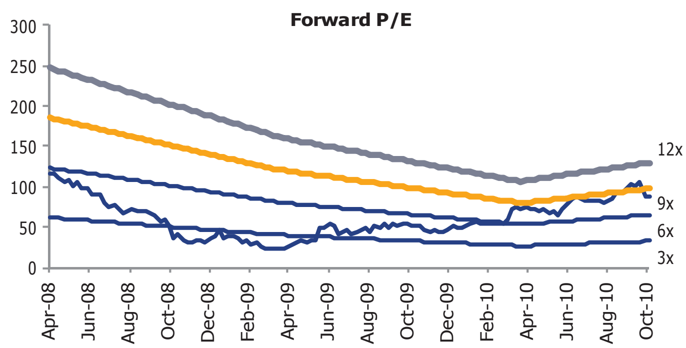
Source: Company, SPA Research

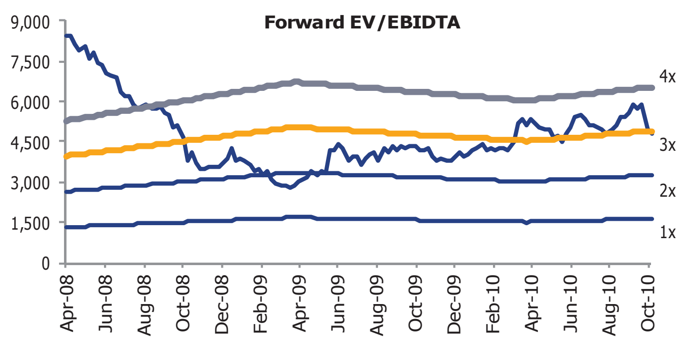
Valuation

At CMP of Rs 85.6, MIL is trading at a P/E multiple of 4.5x based on its FY12E EPS of Rs 18.9 and at EV/EBIDTA multiple of 1.4x. Exports form 70% of the MIL's order book. With LSAW forming a huge share in the revenues, margins are expected to grow at a faster pace than revenues. MIL's global presence and huge domestic opportunities along with strategically located plants augur well for the company. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 6.8x and FY12E EPS of Rs 18.9 we arrive at a one year target price of Rs 128/share.

We have not built in any revenues generating from MIL's subsidiary. Any significant uptick may pose an upside risk to our estimates.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	14,545.5	18,948.0	15,054.3	18,278.1	20,460.1
Excise Duty	77.7	359.2	317.3	457.0	511.5
Net Sales	14,467.9	18,588.7	14,736.9	17,821.2	19,948.6
Other Income	532.9	240.5	506.0	534.6	598.5
Total Income	15,000.8	18,829.3	15,242.9	18,355.8	20,547.1
Raw Materials	10,997.6	14,733.1	11,306.1	13,590.3	15,380.5
Power Cost	129.0	156.0	135.9	201.1	225.1
Other Mfg. Exp.	459.9	465.4	408.4	462.5	490.0
Employee Cost	327.3	401.0	365.7	420.4	470.6
Admin & Selling Exp.	355.4	578.7	892.1	967.5	1,030.4
Freight Charges	1,048.9	984.2	391.3	534.6	598.5
Total Expenditure	13,318.1	17,318.4	13,499.5	16,176.4	18,194.9
EBDITA	1,682.6	1,510.9	1,743.4	2,179.4	2,352.1
Depreciation	281.7	349.9	368.2	429.0	437.8
Interest	314.2	449.5	369.8	300.9	336.7
PBT	1,086.7	711.5	1,005.5	1,449.4	1,577.7
Tax Expense	374.6	237.2	334.6	481.5	524.1
Net Profits	712.1	474.3	670.9	968.0	1,053.6

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	266.4	266.4	287.4	278.9	278.9
Reserves & Surplus	3,395.5	3,812.3	4,365.1	5,228.9	6,119.4
NetWorth	3,662.0	4,078.7	4,652.5	5,507.9	6,398.3
Secured Loans	1,026.8	1,614.7	1,247.2	1,374.4	1,556.9
Unsecured Loans	2,068.2	2,030.0	1,836.9	1,790.5	1,790.5
Total Liabilities	7,178.3	8,250.5	8,282.0	9,288.5	10,451.7
Assets					
Fixed Assets (Net)	2,825.5	4,353.1	4,146.4	3,792.9	3,605.2
Capital WIP	1,052.1	126.7	75.5	250.0	250.0
Investments	333.8	426.6	338.2	338.2	338.2
Current Assets	8,746.3	12,238.9	10,509.5	12,905.8	14,869.3
Current Liabilities	6,250.9	9,459.7	7,358.2	8,626.7	9,316.9
Miscellaneous Expenditure	50.3	37.8	25.0	12.5	-
Total Assets	7,178.3	8,250.5	8,282.0	9,288.5	10,451.7

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from operations	2,262.0	1,639.0	2,524.4	917.3	912.9
Net Cash from Oper.	1,940.4	1,507.5	2,208.1	518.8	479.1
Cash from Invstment	(1,110.5)	(816.7)	489.7	297.1	360.9
Cash from Financing	186.6	42.7	(1,027.4)	(345.2)	(317.3)
Net Change	1,016.5	733.4	1,670.4	470.6	522.7
Op. Cash	145.8	1,162.3	1,895.7	3,566.2	4,036.8
Cl. Cash	1,162.3	1,895.7	3,566.2	4,036.8	4,559.5

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	13.4	8.9	12.5	17.4	18.9
Growth (%)	-35.6%	-33.4%	-6.2%	38.5%	8.9%
Cash EPS	18.7	15.5	19.4	25.0	26.7
Book Value	68.7	76.5	86.9	98.7	114.7
DPS	1.5	1.5	1.8	2.5	2.5
Payout (%)	13.1%	19.7%	16.3%	16.9%	15.5%
EBIDTA/Tonne	5,388	5,515	6,338	6,139	6,109
EV/Tonne	19,750	21,504	13,708	10,066	8,398

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	6.4	9.6	6.8	4.9	4.5
Cash P/E	4.6	5.5	4.4	3.4	3.2
P/ BV	1.2	1.1	1.0	0.9	0.7
EV/Sales	0.4	0.3	0.2	0.2	0.2
EV/EBDITA	3.7	3.9	2.2	1.6	1.4
ROE	19.4%	11.6%	16.4%	20.8%	19.1%
RoCE	19.5%	14.1%	16.7%	21.1%	20.6%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBIDTA	7.9%	6.7%	8.2%	9.0%	8.6%
EBIT	9.6%	6.1%	9.1%	9.6%	9.4%
PBT	7.5%	3.8%	6.7%	7.9%	7.7%
PAT	4.9%	2.5%	4.5%	5.3%	5.1%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	3.8	4.2	3.6	4.5	5.3
Inventory T/o (x)	4.3	6.7	4.5	5.2	5.1
Debtors T/o (x)	5.3	5.2	4.5	7.7	5.9
Debtors (Days)	69	71	82	47	62
Inventory (Days)	85	54	81	71	72
Creditors (Days)	133	154	211	165	164

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E %	0.8	0.9	0.7	0.6	0.5
Int. Cov. Ratio	4.5	2.6	3.7	5.8	5.7

Growth Ratios

(%)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	28.4%	30.3%	-20.5%	21.4%	11.9%
Expenses	33.0%	30.0%	-22.1%	19.8%	12.5%
EBDITA	27.7%	-10.2%	15.4%	25.0%	7.9%
PBT	29.4%	-34.5%	41.3%	44.2%	8.9%
PAT	28.8%	-33.4%	41.5%	44.3%	8.9%
EPS	-35.6%	-33.4%	40.8%	38.5%	8.9%
Cash EPS	-31.2%	-17.1%	25.5%	29.0%	6.8%

APL Apollo Tubes

CMP: **Rs 158** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 253**

APL Apollo Tubes Ltd. is a leading manufacturer of steel pipes and tubes. The company along with its subsidiaries has a current installed capacity of 490,000tpa. APL manufactures more than 250 variants of tubes (0.5" to 12" outer diameter) through its four plants located in India.

Investment Arguments

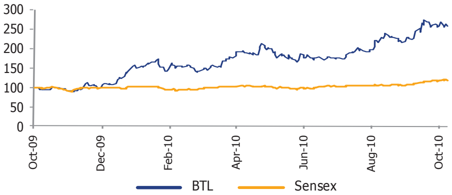
- We expect an exponential growth in volumes from 166,260MT in FY10 to 450,000MT by FY12E supported by increasing pipes and tubes capacity from 250,000tpa in FY10 to 600,000tpa by FY12E.
- Sales to grow at a CAGR of 71.6% from Rs 6,659.5mn to Rs 19,617.2mn during FY10-12E. We expect higher volumes and increase in share of value added products to drive topline and fuel operating margins. EBIDTA is expected to grow from Rs 643.1mn in FY10 to 1,902.0mn by FY12E, registering a CAGR of 72.0%.
- The new user industries such as real estate, infrastructure, telecom, commercial vehicles are expected to grow exponentially. These segments present a market of more than 1mn tonnes over the next five years.
- APL is a pioneer in manufacturing pre-galvanised pipes. Being the first mover in this segment, we expect APL to command premium pricing.
- Post the commissioning of Hosur plant and acquisition of Lloyds Pipes, the company has significant presence in North as well as South and Western India. APL due to its pan India presence will be able to save on the freight costs and working capital requirements.

Valuation

At the CMP of Rs 157.9, APL is trading at a P/E multiple of 3.8x based on its FY12E EPS of Rs 42.1 and at EV/EBIDTA multiple of 3.3x. With the improvement in demand for pipes and robust growth in the new user industries, we believe that APL is poised to do well. We initiate coverage with a 'BUY' recommendation on the stock. We have assigned a P/E of 6x on FY12E EPS of Rs 42.1 and arrived at a one-year target price of Rs 253/share.

Share Holding, Sep' 10	% Holding
Promoter	40.7
FII	0.1
DII	2.6
Others	56.6
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	590059
NSE Code	NA
Bloomberg Code	APAT:IN
Reuters Code	BIHR.BO
Sensex	20,260.6
No. of Shares (Mn)	20.3
Face Value (Rs)	10.0
M-Cap (Rs Mn)	3,204.8
52 week H/L	170.3/52.2
2Wk Avg. Daily Vol. BSE	160,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Gross Sales	5,729.2	6,659.5	11,028.8	19,617.2
Growth	81.3%	16.2%	65.6%	77.9%
EBIDTA	340.9	643.1	1,053.6	1,902.0
EBIDTA Margin	4.0%	8.6%	8.7%	8.9%
PAT	25.4	293.1	523.9	988.8
Growth	-84.2%	1054.2%	78.7%	88.7%
EPS (Rs)	1.3	14.4	24.0	42.1
P/E (x)	126.3	11.0	6.6	3.8
EV/EBIDTA (x)	11.9	7.0	4.9	3.3
RoE	1.5%	15.3%	19.2%	25.1%
RoCE	9.1%	17.0%	19.9%	24.9%

Company Background

Corporate Profile

APL Apollo Tubes Ltd. is a leading manufacturer of steel pipes and tubes. APL along with its subsidiaries has a current installed capacity of 490,000tpa. The company manufactures more than 250 variants of tubes (0.5" to 12" outer diameter) through its five plants located in India – two in Uttar Pradesh and one each in Karnataka, Tamil Nadu and Maharashtra. APL has installed high speed mills based on the technology supplied by Kusakabe, Japan.

APL's product portfolio includes ERW Black Pipes, Galvanised Pipes, Pre-Galvanised Pipes and Hollow Section Pipes.

Plant Details

Company	Location	Capacity (tpa)
Bihar Tubes Ltd. - Unit I	Sikandarabad	125,000
Bihar Tubes Ltd. - Unit II	Hosur	200,000
Apollo Metalex Ltd. (100% Subsidiary)	Sikandarabad	25,000
Shri Lakshmi Metal Udyog Ltd. (100% Subsidiary)	Bengaluru	50,000
Lloyd Pipes (Subsidiary)	Maharashtra	90,000
Total		490,000

Source: Company, SPA Research

Wide Distribution Network

APL has a strong distribution network to push its sales. It has a Pan-India presence with a direct marketing team in over 15 states and more than 10,000 retail network. The company also has plans to open 10 branches in the next one year, of which 6 are already opened. APL has an export presence in 35 countries, which is supported by distribution networks in USA, UK, France, Germany, Ireland, UAE and Sri Lanka.

The company sells its products under the APL Apollo brand which is very well perceived in the market.

Product Profile

Product	Use	Major Clients
Galvanised	Water, Gas, Oil Transportation	BSNL, BHEL, UP Jal Nigam, Gujarat Gas, HPCL, IGL, Era Infra
Pre Galvanised	Fencing, Cabling & Ducting, Automobiles, Green Houses	Tata Marcopolo, Ashok Leyland, Jain Irrigation, ACGL
ERW Black	Fire Fighting, Conveyor Systems, Scaffolding, Transmission Towers, Power Projects and Industrial Uses	DMRC, BMRC, BHEL, HPCL, BPCL, L&T, Gammon, Airtel
Hollow Section	Infrastructure, Metro, Airports, Stadiums and Industrial Applications	Suzlon, Adani, L&T, B. L. Kashyap, Moser Baer, Simplex

Investment Rationale

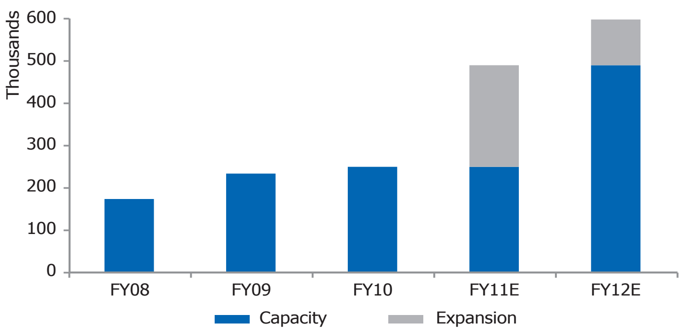
Installed Capacity to reach 0.6mtpa

APL is aggressively expanding its production facilities through organic and inorganic route. The company fully commissioned its 200,000tpa manufacturing facility at Hosur with a capital outlay of Rs 1,000mn during Q2FY11.

The company acquired Lloyds Pipes based in Maharashtra for Rs 400mn. Current capacity of Lloyd Pipes is 90,000tpa which will be enhanced to 100,000tpa by FY12E. This acquisition was funded through cash and stake sale of close to 1.6mn shares to share holders of Lloyd Pipes and strategic sale to Shankara Pipes at Rs 176/share.

Subsequent to the company's strategy to widen its product mix, APL recently acquired a 100,000tpa capacity steel tube mill in Germany for Rs 300mn and the same will be erected in India. Through this plant the company will enter the range of high diameter pipes of upto 14". We expect this plant to come online by FY12. Post the company's acquisition and enhancement plans the total installed capacity will increase to 0.6mtpa.

Expansion Plans (MT)



Source: Company, SPA Research

APL has also preferentially allotted close to 1.7mn shares to the promoters at Rs 176/share to shore up their holding in the company.

Emerging Newer Markets

Apart from the traditional markets, the company is now targeting newer markets such as construction, urban infrastructure – airports, metros and piped gas distribution, real estate – commercial and residential, fire safety segments and commercial passenger vehicles.

Urban Infrastructure – Metros and Airports

Urban infrastructure presents a huge opportunity especially in metros, Tier I and II cities. APL has already started supplying to prestigious projects like the Delhi and Bengaluru airports and metros. Under the 11th Five Year Plan, the government has a target to 4 metro and 35 non-metro airports resulting an opportunity to supply more than 0.5mn tonnes of steel tubes and pipes.

Water and Piped Gas Distribution

The XI planning commission has allocated investments worth Rs 168.6bn and Rs 1,437.3bn towards Gas and Water supply & sanitation sector respectively. This is expected to push the volumes of galvanised and pre-galvanised pipes.

Bus Body

APL entered the bus body segment and is supplying more than 1,000 tonnes of hollow sections to bus body manufacturers for models of low rise and JNNURM buses manufactured by TATA Marcopolo and Ashok Leyland. The government has increased the budgetary allocation under JNNURM to Rs 128.9bn. With ~100,000 buses to be manufactured over the next few years, the company sees a huge opportunity in this segment.

Malls, High Rise Buildings, Green Houses and Fire Safety

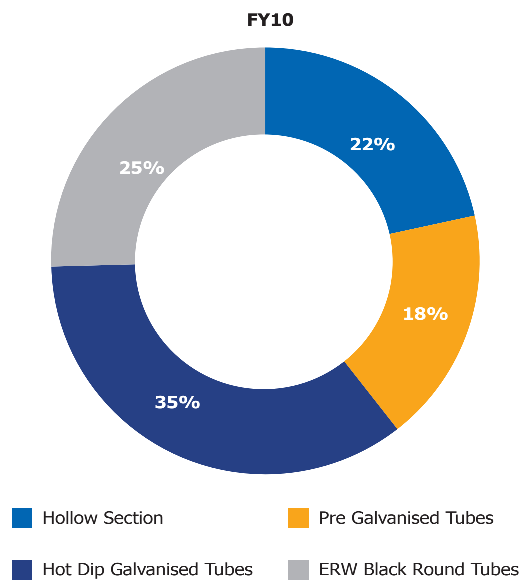
With real estate growing at a robust rate, the demand for steel pipes and tubes is also expected to grow as it is used in scaffolding, fire safety and cabling. Advent of malls in metros and Tier I & II cities have led to an increased demand for structural/hollow steel products as they are stronger and also have better aesthetic sense. High rise buildings, malls and greenhouses require water pipes and sprinklers to be spread across the buildings and flats. Increasing number of these buildings is expected to push the demand for steel tubes & pipes significantly.

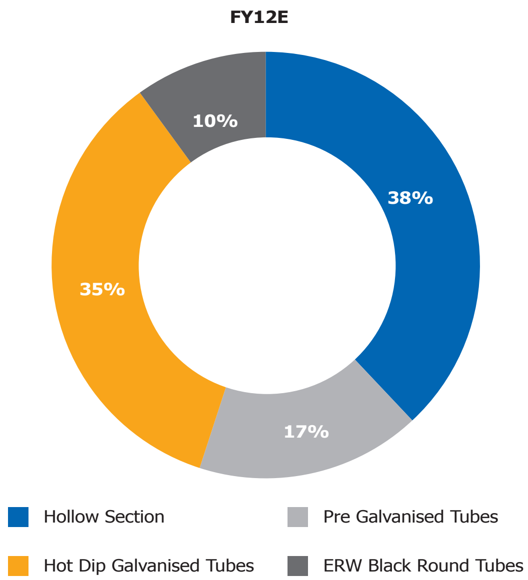
Apart from the normal growth of 5-10% in the traditional markets, the newer markets are expected to grow exponentially over the next few years. These segments present a market for more than 1 million tonnes demand over the next five years.

Augmenting the Product Portfolio

APL plans to foray into the manufacturing of high thickness – low diameter tubes and widen its product mix. The acquisition of the German plant will also catapult the company into manufacturing high diameter pipes of upto 14”. Inclusion of value added products will give a boost to APL’s topline and improve its EBIDTA margins.

Product Mix





Only organised player in Pre-Galvanised segment

Galvanised pipes find applications in water infrastructure related projects. Pre galvanised pipes are quickly replacing the galvanised pipe segment, as they have uniform and smoother zinc coating. It also helps in saving raw material costs as zinc consumption is reduced by ~70%. The company being a pioneer in this segment commands premium pricing.

Pan-India presence to provide better operational efficiencies

With 25 years in existence, APL has a well established network in North India. In South India, the Hosur plant is the largest steel tubes plant and is located in close proximity to its suppliers as well as customers.

With its manufacturing facilities strategically located in North and South India and now in Western India through recent acquisition, APL will be able to capture the opportunities arising in the nearby regions and help to penetrate the market more effectively.

The pan India presence of company's manufacturing locations, well established distribution network and close proximity to suppliers and customers will help save freight costs and reduce working capital requirement.

Diverse base of customers

Steel pipes & tubes are used in various industries such as agriculture, oil & gas, telecom, infrastructure, real estate, automobiles, etc. APL's user industries are doing well and expected to outpace the GDP growth over the next few years.

The company exports to 35 countries such as USA, France, UK, UAE, Germany, Jamaica, Bangladesh, etc. APL is not dependent on any industry/country and hence this provides a scalable and de-risked model for future growth.

Customer Base

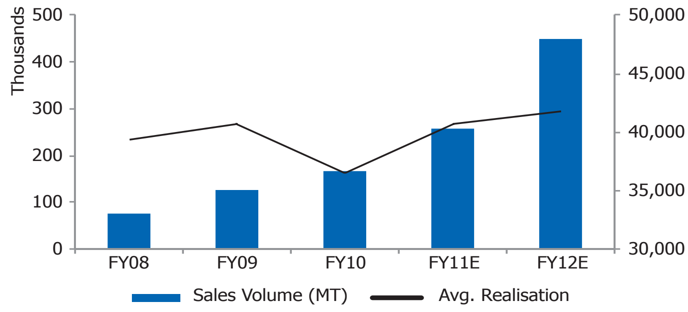
Industry	Share
Agriculture, Irrigation & Water Supply	24%
Real Estate & Construction	8%
Urban Infrastructure	7%
Automobiles	4%
Metal Engineering & Fabrication	11%
Exports	11%
Dealers	35%
Total	**100%**

Financial Analysis

Volumes to drive Revenues

Sales volumes are expected to rise from 167,986MT in FY10 to 450,000MT by FY12E on the back of capacity addition and robust growth in user industries. Increase in share of value added products and stable steel prices will drive the average realisation/ tonne from Rs 36,761.1 to Rs 41,924.4. On the back of rising volumes and realisations we expect, APL's revenues to grow at a CAGR of 71.6% during FY10-12E from Rs 6,659.5mn in FY10 to Rs 19,617.2mn in FY12E.

Volumes (MT), Realisation (Rs)



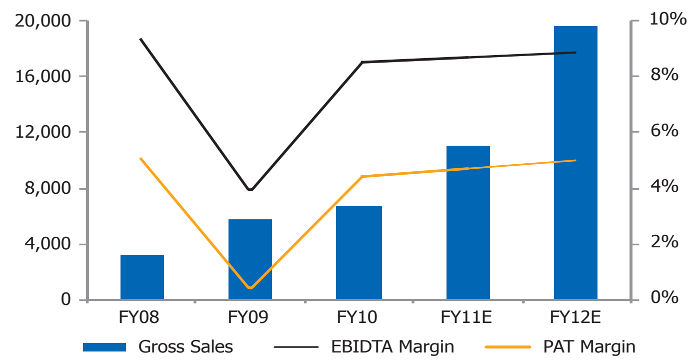
Source: Company, SPA Research

Net Profit to grow at a CAGR of 83.7% in FY10-12E

Net Profits are estimated to increase by 83.7% annually during FY10-12E, backed by rising sales volume, inclusion of value added products and lower freight costs. Net profits during the period are expected to increase from Rs 316.9mn to Rs 988.8mn in FY12E.

During the same period we estimate EBIDTA to grow by 72.0% annually from Rs 643.1mn in FY10 to Rs 1,902.0mn in FY12E. EBITDA margins for the company have remained quite volatile over the past few quarters. However, we expect EBIDTA margins to stabilise around 8-10% as APL's EBIDTA/tonne is expected to increase with the increase in share of value added products in its product portfolio.

Sales (Rs Mn), EBIDTA and PAT Margins



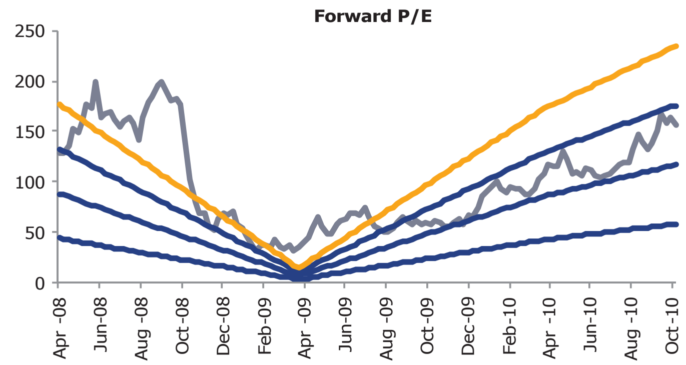
Source: Company, SPA Research

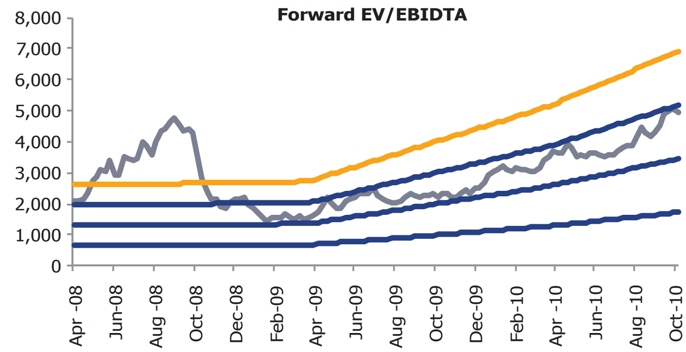
Valuation & Recommendation

Valuation

At the CMP of Rs 157.9, APL is trading at a P/E multiple of 3.8x based on its FY12E EPS of Rs 42.1 and at EV/EBIDTA multiple of 3.3x. The company has de-risked itself from any single user industry and has created a scalable model to expand and enter into new markets. With the improvement in demand for pipes and robust growth in the new user industries, we believe that APL is poised to do well. We initiate coverage with a 'BUY' recommendation on the stock. The company is trading at a P/E multiple of 10.9x based on FY10 EPS of Rs 14.4. Considering the huge expansion plan we feel this P/E is justified. We have assigned a P/E of 6x on FY12E EPS of Rs 42.1 and arrived at a one-year target price of Rs 253/share.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	3,159.8	5,729.2	6,659.5	11,028.8	19,617.2
Excise Duty	423.2	535.6	479.4	937.5	1,667.5
Net Sales	2,736.6	5,193.6	6,180.1	10,091.4	17,949.7
Other Income	29.5	112.7	68.9	91.0	147.1
Total Income	2,766.1	5,306.3	6,249.0	10,182.4	18,096.8
Raw Materials	2,206.9	4,511.7	5,072.0	8,356.8	14,802.0
Power & Fuel	47.2	86.6	116.4	187.5	333.5
Manufacturing Exp.	41.2	89.8	111.2	145.4	281.3
Gen., Selling & Other Exp.	34.3	85.3	105.1	143.4	313.9
Freight Charges	110.9	192.1	201.1	295.8	464.1
Total Expenditure	2,440.5	4,965.4	5,605.9	9,128.8	16,194.8
EBDITA	325.7	340.9	643.1	1,053.6	1,902.0
Depreciation	11.2	21.0	36.1	76.5	128.0
Interest	65.6	186.4	172.2	192.6	293.3
Extraordinary Items	(0.7)	(55.6)	21.5	-	-
PBT	248.1	77.9	456.3	784.5	1,480.7
Tax Expense	87.5	52.5	163.2	260.6	491.8
Net Profits	160.6	25.4	293.1	523.9	988.8

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	106.8	203.0	203.0	218.6	235.0
Reserves & Surplus	508.6	1,457.3	1,707.6	2,511.8	3,706.1
NetWorth	615.4	1,660.3	1,910.5	2,730.4	3,941.1
Secured Loans	661.8	1,788.8	1,567.5	2,081.9	3,087.3
Unsecured Loans	130.6	0.2	-	-	-
Total Liabilities	1,433.2	3,506.0	3,587.1	4,921.2	7,137.4
Assets					
Fixed Assets (Net)	307.1	649.3	1,209.4	1,832.9	2,954.9
Investments	17.6	20.4	-	-	-
Current Assets	1,478.1	3,038.6	2,765.5	3,649.7	5,213.4
Current Liabilities	330.6	259.0	503.8	675.6	1,143.4
Total Assets	1,497.7	3,506.0	3,580.1	4,916.0	7,133.9

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from Ops.	(249.5)	226.3	146.7	422.5	890.3
Net Cash from Ops.	(326.7)	(61.0)	138.8	108.3	390.5
Cash from Inv.	(311.9)	(644.7)	(364.7)	(623.5)	(1,250.0)
Cash from Financing	680.2	1,592.9	(441.2)	596.6	943.6
Net Change	41.6	887.2	(667.1)	81.4	84.1
Op. Cash	8.6	50.2	938.9	271.9	353.2
Cl. Cash	50.2	937.5	271.9	353.2	437.3

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	15.0	1.3	14.4	24.0	42.1
Growth (%)	-28.7%	-91.7%	1048.4%	67.0%	75.5%
Cash EPS	16.1	2.3	16.1	27.5	47.5
Book Value	63.7	81.8	94.1	124.9	167.7
EBIDTA/Tonne	4,292	2,669	3,883	4,099	4,227
EV/Tonne	31,955	32,871	26,843	19,041	13,500

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	10.5	126.3	11.0	6.6	3.8
Cash P/E	9.8	69.1	9.8	5.7	3.3
P/BV	2.5	1.9	1.7	1.3	0.9
EV/Sales	0.8	0.7	0.7	0.5	0.3
EV/EBDITA	7.5	11.9	7.0	4.9	3.3
ROE	23.6%	1.5%	15.3%	19.2%	25.1%
RoCE	21.0%	9.1%	17.0%	19.9%	24.9%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	9.4%	4.0%	8.6%	8.7%	8.9%
PBT	7.9%	1.4%	6.8%	7.1%	7.5%
PAT	5.1%	0.4%	4.5%	4.8%	5.0%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	13.2	12.0	7.2	7.3	8.2
Inventory T/o (x)	5.3	9.6	9.0	9.8	12.1
Debtors T/o (x)	10.0	10.0	8.6	10.9	11.7
Debtors (Days)	53	33	34	35	30
Inventory (Days)	36	36	42	40	40
Creditors (Days)	21	13	13	10	10

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	1.2	1.1	0.8	0.8	0.8
Int. Cov.	5.0	1.8	3.7	5.5	6.5

Growth Ratios

(%)	FY08	FY09	FY10	FY11E	FY12E
Net Sales	35.8%	89.8%	19.0%	63.3%	77.9%
Op. Expenses	29.3%	103.5%	12.9%	62.8%	77.4%
EBDITA	134.5%	4.7%	88.2%	64.3%	80.5%
PBT	140.7%	-68.6%	483.8%	72.6%	88.7%
PAT	138.0%	-84.2%	1073.5%	76.0%	88.7%
EPS	-28.7%	-91.7%	1048.4%	67.0%	75.5%
Cash EPS	-30.8%	-85.8%	606.1%	70.2%	73.0%

Ratnamani Metals & Tubes

CMP: **Rs 142** RECOMMENDATION: **BUY** TARGET PRICE: **Rs 174**

Ratnamani Metals & Tubes Ltd. is one of leading manufacturers and exporters of Stainless Steel Welded/ Seamless Tubes & Pipes and Carbon Steel Welded Pipes with an installed capacity of 21,900tpa and 350,000tpa respectively. RML's plants are located at Chhatral and Kutch in Gujarat.

Investment Highlights

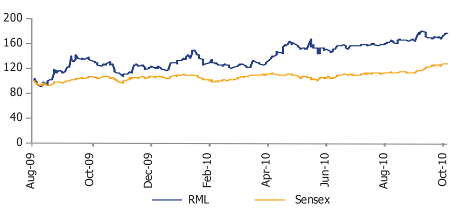
- RML is a dominant player in the Stainless Steel segment with 40% domestic share in niche market applications. Stainless Steel Tubes being a matured industry, we expect the share of carbon steel pipes to increase gradually.
- Higher stainless steel prices and higher volumes of carbon steel pipes will annually push revenues of respective segments by 17.7% and 19.7%. We expect the total revenues to reach Rs 12,582.5mn by FY12E.
- RML has lined up a capex of Rs 130mn to set up a Titanium Tube manufacturing capacity with an installed capacity of 300 tonnes. The company has already started trial runs from this line.
- RML is expanding its Stainless Steel Heater Tubes capacity with a projected cost of Rs 350mn. This project is expected to be commissioned by Q3FY11.
- The company has close to 20.5MW of wind power generation capacity, of which it has entered into a PPA for 20 years to sell 10.5MW to GEB. This arrangement is adding Rs 150mn to the company's EBIDTA in terms of savings in power cost.

Valuation

At CMP of Rs 142.3, RML is trading at a P/E multiple of 6.5x based on its FY12E EPS of Rs 22.0 and at EV/EBIDTA multiple of 4.1x. It is a dominant player in the stainless steel tubes & pipes segment. The company also has the advantage of first mover in titanium tubes segment. We believe RML is poised well to exploit any opportunities in this sector. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 7.9x and FY12E EPS of Rs 22.0 we estimate one year target price of Rs 174 /share.

Share Holding, June '10	% Holding
Promoter	57.7
FII	7.2
DII	2.7
Others	32.4
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	520111
NSE Code	RATNAMANI
Bloomberg Code	RMT:IN
Reuters Code	RMT.BO
Sensex	20,260.6
No. of Shares (Mn)	46.3
Face Value (Rs)	2.0
M-Cap (Rs Mn)	6,587.9
52 week H/L	148.6/85.0
2Wk Avg. Daily Vol. BSE	42,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Gross Sales	10,027.6	8,847.9	10,792.9	12,582.5
Growth	14.2%	-11.8%	22.0%	16.6%
EBIDTA	1,564.2	1,690.1	1,697.6	2,037.7
EBIDTA Margin	15.2%	16.9%	15.3%	15.8%
PAT	712.0	814.3	836.3	1,011.6
Growth	-20.9%	14.4%	2.7%	21.0%
EPS (Rs)	15.8	17.9	18.2	22.0
P/E (x)	9.0	7.9	7.8	6.5
EV/EBIDTA (x)	5.0	5.6	5.1	4.1
RoE	27.5%	24.9%	20.9%	21.1%
RoCE	26.4%	20.7%	17.7%	20.7%

Company Background

Corporate Profile

Ratnamani Metals & Tubes Ltd. is a leading manufacturer and exporter of Stainless Steel Seamless and Welded Tubes & Pipes with an installed capacity of 21,900tpa. RML also has presence in Carbon Steel Welded Pipes segment with an installed capacity of 350,000tpa. Company's manufacturing facilities are located at Kutch and Chhatral in Gujarat.

RML manufactures Stainless Steel Tubes & Pipes in the range of 0.25" to 60" OD. It also manufactures Carbon Steel pipes in the range of 6" to 110" NB.

RML manufactures circumferential LSAW pipes which have the diameter of upto 147". These pipes are used in water, sewage & power project segments.

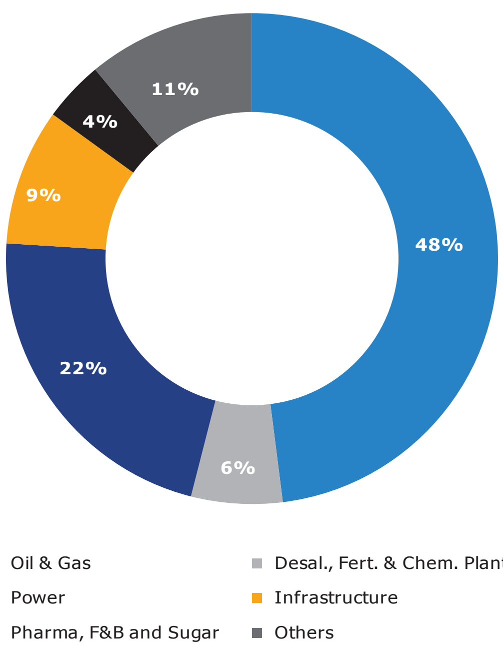
RML's power requirement is largely met through its captive wind power plant with an installed capacity of 20.5MW.

Wide base of User Industries

Oil & Gas and Power sector are the core revenue generators for RML as these sectors contribute around 70% of the total revenues. Refineries, Petrochemicals and Oil & Gas segments altogether account for 48% and Power Sector account for 22% of the total revenues.

RML has also supplied tubes & pipes to critical sectors such as Space and Nuclear Power.

Revenue Break Up



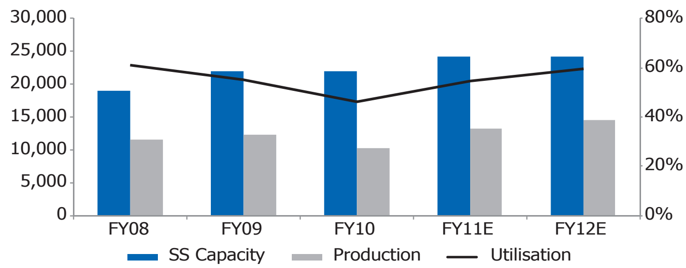
Source: Company, SPA Research

Investment Rationale

Dominant Player in Stainless Steel Tubes & Pipes Segment

RML is a dominant player in Stainless Steel tubes and pipes segment with close to 40% domestic market share in niche applications.

Stainless Steel Pipes & Tubes Production (MT)



Source: Company, SPA Research

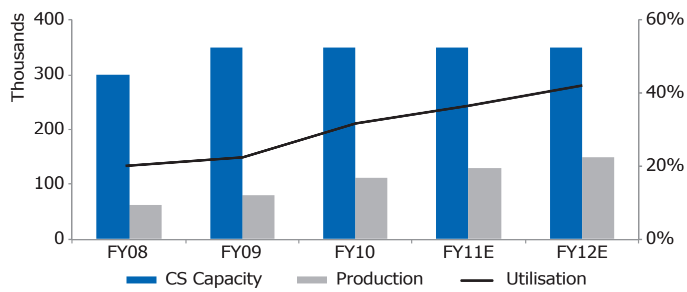
Robust growth in Oil & Gas, Refineries, Petrochemicals and Power sector to increase the demand for stainless steel tubes & pipes. We expect volumes from stainless steel division to reach 14,520MT by FY12E from 10,190MT in FY10.

RML is spending Rs 350mn on the expansion of Stainless Steel Heater Tubes. Post commissioning of this project RML's stainless steel tubes capacity will increase by 2,300MT to 24,200tpa.

Rising opportunities in Carbon Steel Pipe segment

RML has been supplying Carbon Steel pipes to plant and process applications which yield better margins. It has been catering to the water sector. Since last 4 years, it has also started supplying pipes to oil & gas for cross country line pipes and gas distribution networks.

Carbon Steel Pipes Production (MT)



Source: Company, SPA Research

RML plans to tap the increasing opportunities in the oil & gas sector and water segments in the domestic markets. We expect Carbon Steel pipes volumes to register a CAGR of 14.6% to reach 148,750MT by FY12E.

Order Book @ 0.4x FY10 revenues

90% of RML's revenues are driven through its order book and the remaining 10% are off the shelf sales. As of Q1FY11, RML has an order book of Rs 4,510mn, which translates to 0.4x its FY10 revenues. This order book is executable over a period of 4-5 months.

Order Book as on June 2010

Product	Rs Mn
Stainless Steel Pipes & Tubes	3,130
Carbon Steel Pipes	1,380
Total	**4,510**

Source: Company, SPA Research

New Project - Titanium Tubes

RML is currently manufacturing titanium tubes on its Stainless Steel tubes manufacturing line. In view of increasing demand it has set up a dedicated titanium tube manufacturing line. The project with an installed capacity of 300MT has been commissioned with a capital outlay of Rs 130mn.

The company imports 100% of raw material requirements as titanium sheets are not available in India. As on date there are no organised players present in India in this segment which gives the company the advantage of being the first mover.

In terms of cost, titanium is competitive with higher-end specialty steels and alloys. Titanium's exceptional corrosion resistance often allows a zero corrosion allowance, which means that thinner-walled titanium tube or pipe may be substituted for other materials with heavier walls.

Capacity Enhancement Plans

The company had lined up expansion plans of Rs 600mn which were to be funded through internal accruals. These projects are expected to be completed by the end of FY11.

RML is spending Rs 350mn on the expansion of Stainless Steel Heater Tubes. It has already incurred Rs 250mn on the project and the balance will be incurred in the current fiscal. This project is expected to be commissioned by Q3FY11. Post commissioning of this project RML's stainless steel tubes capacity will increase by 2,300MT to 24,200tpa.

RML is enhancing the size range of ERW pipes from existing 16" OD to 18" OD and adding certain balancing equipments at a capex of Rs. 250mn. This expansion is expected to be completed by the end of FY11.

The company also has plans to expand its Carbon Steel pipe capacities through the Greenfield route with a capex of Rs 400mn. The same is still at a planning stage and hence, we don't expect any incremental capacity by FY12.

RML has plans to expand its capacity in Stainless Steel tubes capacity for power plants. It is also scouting opportunities to enter manufacturing hot extrusion nickel alloy tubes and Super Duplex mother pipes via the Greenfield route.

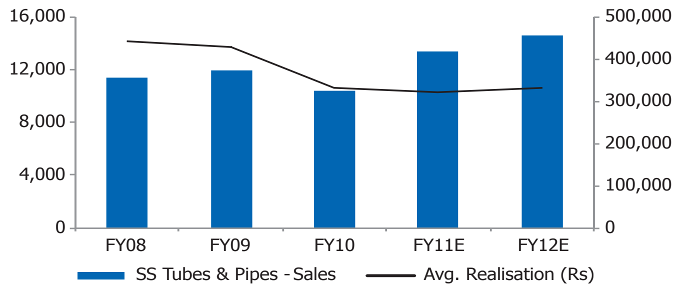
Green Energy

RML has wind power generation capacity of 20.5MW, of which 10MW is used for captive consumption. RML has entered into a PPA in 2007 with the Gujarat Electricity Board to sell the remaining 10.5MW to the state grid at the rate of Rs 3.37 per unit. This 20-year PPA is slated to expire in 2027. The company earned Rs 74.9mn in FY10. We expect the company to earn Rs 69.6mn each year from the state electricity board.

Financial Analysis

Stainless Steel Tubes & Pipes

Stainless Steel Pipes – Sales (MT)



Source: Company, SPA Research

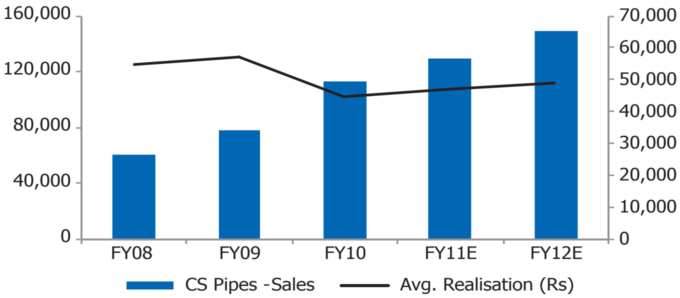
Investments in the oil & gas sector over the next five years are expected to be over Rs 400bn. Power sector which accounts for 22% of RML's revenues is also expected to add capacity of more than 120GW in the next 5-7 years. With robust growth in user industries, volumes are expected to touch 14,520MT, an annual growth of 19.3% during FY10-12E. Though Stainless Steel prices have come down from their peak of Rs 250,000/MT in FY08, we expect them to stay firm around current levels of Rs 160,000-170,000/MT.

We expect revenues from Stainless Steel tubes & pipes division to grow at a CAGR of 17.7% during FY10-FY12E and reach Rs 4,886.3mn in FY12E.

Carbon Steel Pipes

RML is expecting Carbon Steel pipe segment to gain traction in the coming years. This segment currently contributes 60% of the total revenues.

Carbon Steel Pipes – Sales (MT)



Source: Company, SPA Research

Setting up of National Gas Grid and Government's increased thrust on water infrastructure presents an opportunity over Rs 1,800bn. On the back of buoyed demand, the company has witnessed steady rise in the sales volume of carbon steel pipes over the past three years. The volumes have grown by 37.0% annually from 60,373MT to 113,305MT during FY08-10. Going ahead we expect the volumes to grow at a CAGR of 14.6% during FY10-12E to touch 148,750MT. We expect revenues from Carbon Steel pipes division to grow at a CAGR of 19.7% during FY10-FY12E and reach 7,626.5mn.

Continued focus on Stainless Steel segment

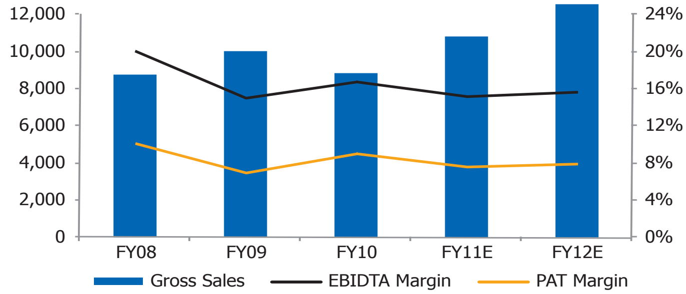
RML will continue its focus on the Stainless Steel tubes & pipes segment as it yields better margins as compared to Carbon Steel pipes. However, we expect with better demand for Carbon Steel pipes across the country, its share in the company's revenue mix will gradually increase.

EBIDTA levels to stay between 15-16%

As revenues from carbon Steel division are expected to grow at a faster pace than those from stainless steel division, EBIDTA margins are expected to fall 90bps from 16.9% in FY10 to 15.8% in FY12E. EBIDTA is expected to reach Rs 2,037.7mn by FY12E from Rs 1,690.1mn in FY10, registering a growth of 9.8% annually.

PAT margins are however, expected to grow at a faster pace than EBIDTA on the back of lower interest costs. PAT is expected to increase at a CAGR of 11.5% from Rs 814.3mn in FY10 to Rs 1,011.6mn in FY12E.

Gross Sales (Rs Mn), EBIDTA & PAT Margins

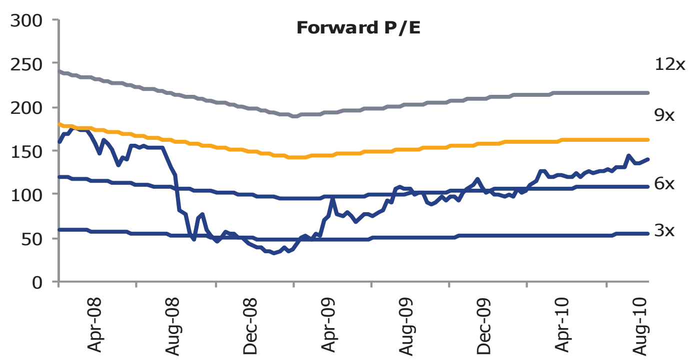


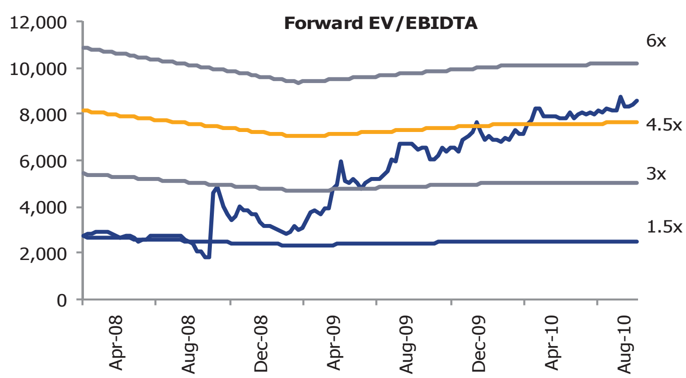
Source: Company, SPA Research

Valuation & Recommendation

At CMP of Rs 142.3, RML is trading at a P/E multiple of 6.5x based on its FY12E EPS of Rs 22.0 and at EV/EBIDTA multiple of 4.1x. The company is a dominant player in the stainless steel tubes & pipes segment, robust demand in user industries are expected to drive the company's revenues. The company also has the advantage of first mover in titanium tubes segment. We believe RML is poised well to exploit any opportunities in this sector. We initiate coverage with a 'BUY' recommendation on the stock. At current P/E multiple of 7.9x and FY12E EPS of Rs 22.0 we estimate one year target price of Rs 174 /share.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	8,780.4	10,027.6	8,847.9	10,792.9	12,582.5
Excise Duty	444.1	636.0	479.3	647.6	754.9
Net Sales	8,336.4	9,391.6	8,368.6	10,145.3	11,827.5
Windmill Income	114.5	160.5	150.9	150.0	150.0
Other Income	19.4	14.2	168.4	21.6	25.2
Total Income	8,470.3	9,566.3	8,687.9	10,316.9	12,002.7
Raw Materials	5,368.5	6,298.2	5,662.7	6,995.0	8,071.3
Power & Fuel	171.5	221.8	176.4	215.9	251.6
Manufacturing Exp.	508.6	565.2	539.0	620.6	723.5
Gen., Selling & Other Exp.	243.8	533.9	145.6	302.2	352.3
Personnel Expenses	361.7	383.0	474.1	485.7	566.2
Total Expenditure	6,654.1	8,002.1	6,997.8	8,619.3	9,965.0
EBDITA	1,816.2	1,564.2	1,690.1	1,697.6	2,037.7
Depreciation	238.3	297.2	368.8	390.9	400.2
Interest	184.0	167.2	17.5	58.5	97.9
PBT	1,393.9	1,099.7	1,303.7	1,248.2	1,539.7
Tax Expense	493.7	387.6	489.5	411.9	528.1
Net Profits	900.3	712.0	814.3	836.3	1,011.6

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	90.0	90.0	91.9	91.9	91.9
Reserves & Surplus	2,211.3	2,792.0	3,555.3	4,266.2	5,116.5
NetWorth	2,301.3	2,882.0	3,647.2	4,358.1	5,208.4
Secured Loans	1,262.2	1,272.5	2,705.0	2,299.2	2,675.9
Unsecured Loans	255.5	634.1	496.5	200.0	250.0
Total Liabilities	4,273.7	5,324.2	7,429.6	7,310.2	8,488.2
Assets					
Fixed Assets (Net)	2,852.4	3,858.5	3,629.1	3,718.2	3,568.0
Investments	0.1	0.1	500.5	500.5	500.5
Current Assets	3,134.6	3,290.1	4,396.0	4,833.0	6,475.0
Current Liabilities	2,168.0	2,360.0	1,676.9	2,194.4	2,409.3
Total Assets	4,273.7	5,324.2	7,429.6	7,310.2	8,488.2

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from Ops.	1,483.7	1,839.3	(478.8)	2,003.3	1,467.5
Net Cash from Ops.	923.1	1,361.1	(893.0)	1,425.3	748.4
Cash from Inv.	(502.2)	(1,179.9)	(784.9)	(539.4)	(250.0)
Cash from Financing	(335.6)	141.6	1,399.8	(820.5)	292.3
Net Change	85.3	322.8	(278.1)	65.4	790.7
Op. Cash	113.0	198.4	521.1	243.0	308.5
Cl. Cash	198.4	521.1	243.0	308.5	1,099.2

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	20.0	15.8	17.9	18.2	22.0
Growth (%)		-20.9%	13.2%	1.7%	21.0%
Cash EPS	25.3	22.4	26.0	26.7	30.7
Book Value	51.1	64.0	81.0	94.9	113.4
EBIDTA/tonne	24,005	16,533	12,994	11,445	12,016
EV/Tonne	100,674	81,211	72,179	58,120	48,696

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	7.1	9.0	7.9	7.8	6.5
Cash P/E	5.6	6.3	5.5	5.3	4.6
P/BV	2.8	2.2	1.8	1.5	1.3
EV/Sales	0.9	0.8	1.1	0.8	0.7
EV/EBIDTA	4.3	5.0	5.6	5.1	4.1
ROE	39.1%	27.5%	24.9%	20.9%	21.1%
RoCE	36.9%	26.4%	20.7%	17.7%	20.7%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	20.2%	15.2%	16.9%	15.3%	15.8%
PBT	15.9%	11.0%	14.7%	11.6%	12.2%
PAT	10.3%	7.1%	9.2%	7.7%	8.0%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o (x)	3.1	3.0	2.4	2.9	3.5
Inventory T/o (x)	4.4	6.4	5.2	4.9	4.9
Debtors T/o (x)	7.7	8.5	6.1	6.3	6.6
Debtors (Days)	47	43	60	60	60
Inventory (Days)	62	37	69	61	66
Creditors (Days)	86	78	72	75	75

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	0.7	0.7	0.9	0.6	0.6
Int. Cov.	9.9	9.4	96.6	29.0	20.8

Growth Ratios

(%)	FY09	FY10	FY11E	FY12E
Net Sales	12.7%	-10.9%	21.2%	16.6%
Op. Expenses	20.3%	-12.6%	23.2%	15.6%
EBDITA	-13.9%	8.1%	0.4%	20.0%
PBT	-21.1%	18.6%	-4.3%	23.3%
PAT	-20.9%	14.4%	2.7%	21.0%
EPS	-20.9%	13.2%	1.7%	21.0%
Cash EPS	-11.4%	16.0%	2.7%	15.0%

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Zenith Birla (India)

CMP: **Rs 12** RECOMMENDATION: **HOLD** TARGET PRICE: **Rs 12**

Zenith Birla (India) Ltd. is engaged in the business of manufacturing steel pipes. The company manufactures black pipes, galvanised pipes and tubular, square and rectangular hollow section pipes. Hollow sections form ~10% of the total sales. Zenith currently has an installed capacity of 210,000tpa. The company's manufacturing facilities are located at Khopoli, Murbad and Tarapur in Maharashtra.

Investment Arguments

- Zenith is expanding its capacity by setting up a 75,000MT HSAW plant and 150,000MT ERW pipe plant with a total capital outlay of Rs 1,300mn. These capacities are expected to commission by the end of FY11.
- Revenues are expected to grow at a CAGR of 24.1% during FY10-12E on the back of rising ERW volumes, commissioning of HSAW pipe plant and improvement in average realisation. Revenues are expected to reach Rs 7,754.9mn by FY12E.
- Inclusion of higher margin SAW pipes in the product offering will improve EBIDTA and PAT margins. EBIDTA and PAT are expected to post a CAGR of 33.5% and 58.1% to reach Rs 788.7mn and 294.1mn respectively by FY12E.
- As of Q1FY11, the company has an order book of Rs 900mn, translating to 0.2x of its FY10 revenues.

Investment Concerns

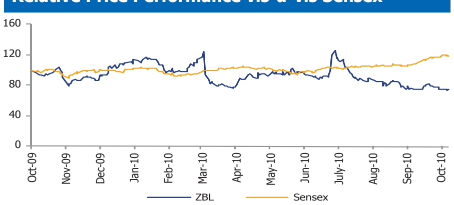
- We believe the company will face huge competition from the existing HSAW players and will find it difficult to scale up its production.
- The company's equity share capital has tripled in the past 2 years on the basis of amalgamation, fund raising and bonus issue. Zenith also has plans to further dilute its share capital, thereby limiting earnings upside.

Valuation

At CMP of Rs 12.0, Zenith is trading at a P/E multiple of 5.3x based on its FY12E EPS of Rs 2.3 and at EV/EBIDTA multiple of 3.6x. Expansion and new investments in increasing capacities along with geographical spread bodes well for the company. However, continuous fund raising and resulting equity dilution will limit the earnings upside. We recommend 'Hold'. At current P/E multiple of 5.4x and FY12E EPS of Rs 2.3 we estimate one year target price of Rs 12/share.

Share Holding, June '10	% Holding
Promoter	25.1
FII	2.2
DII	0.3
Custodians	47.8
Others	24.7
Total	100

Relative Price Performance vis-a-vis Sensex



KEY DATA	
BSE Code	531845
NSE Code	ZENITHBIR
Bloomberg Code	ZB:IN
Reuters Code	ZNTH.BO
Sensex	20,260.6
No. of Shares (Mn)	129.7
Face Value (Rs)	10.0
M-Cap (Rs Mn)	1,556.6
52 week H/L	27.7/11.9
2Wk Avg. Daily Vol. BSE	981,000

(Rs Mn)	FY09	FY10	FY11E	FY12E
Gross Sales	6,276.6	5,039.3	5,884.9	7,754.9
Growth	22.2%	-19.7%	16.8%	31.8%
EBIDTA	478.7	442.3	596.4	788.7
EBIDTA Margin	5.7%	3.9%	5.2%	5.9%
PAT	154.6	117.7	218.5	294.1
Growth	-19.5%	-23.9%	85.7%	34.6%
EPS (Rs)	3.9	2.2	1.7	2.3
P/E (x)	3.1	5.4	7.1	5.3
EV/EBIDTA (x)	2.9	3.4	3.8	3.6
RoE	7.0%	5.7%	9.3%	9.9%
RoCE	13.3%	12.0%	14.5%	15.6%

Company Background

Corporate Profile

Zenith Birla (India) Ltd. was incorporated in 1960 as a steel pipe manufacturing company. Zenith shifted its manufacturing process from ERW technology to HFIW technology in 1971. The company also manufactures tubular, square and rectangular hollow section pipes. Hollow sections form ~10% of the total sales. Zenith currently has an installed capacity of 210,000tpa.

Zenith's manufacturing facilities are located at Khopoli, Tarapur and Murbad in Maharashtra. It has 135 acres of land in Khopoli of which only 20 acres have been used by its plants. The plant is strategically located near Mumbai port and JNPT which helps the company is reducing its freight costs. Exports contribute ~40% of Zenith's total revenues. USA and Middle East are the major markets for the company.

Investment Rationale

Expansion Plans

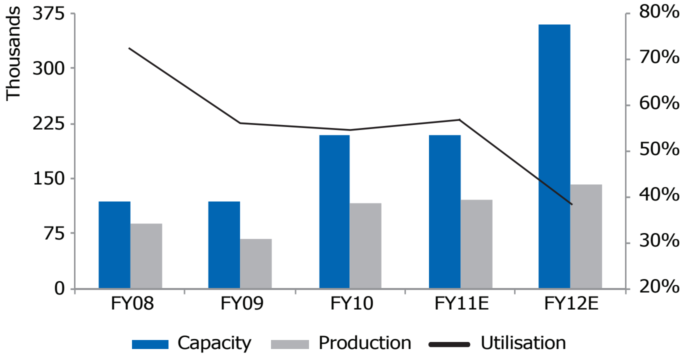
Zenith has laid down plans of Rs 1,300mn in order to enhance its manufacturing capacities. The company plans to setup an ERW plant at its existing manufacturing site in Khopoli with an installed capacity of 150,000tpa. This plant is being set up at an estimated cost of Rs 1,000mn and is expected to come online by the end of 2011. The company had raised Rs 1,030mn through a GDR issue in order to fund its expansion plans. Zenith is also setting up a 75,000tpa mobile SAW pipe plant in the southern or eastern part of India with an outlay of Rs 300mn. This plant is expected to be commissioned by Q3FY11.

The company is also considering to raise Rs 3,500mn through GDR issue to increase its total ERW capacity by almost 50% over the next three years and increase its product range. The new plants are expected to come in other geographical locations in order to achieve better geographical spread and save on freight and working capital costs.

ERW volumes to grow at a CAGR of 12.9% during FY10-12E

The user industries for ERW pipes are expected to grow at a rapid rate. We believe upcoming sectors like, infrastructure, real estate, automobiles and telecom will give a boost to the company's volumes other than the traditional industries such as oil & gas, water and agriculture.

ERW Volumes (MT)



Source: Company, SPA Research

GoI has also allocated Rs 1,653bn to improve the irrigation and water supply in the rural areas. Zenith's plants are API certified and are poised well to harness the rising demand led by City Gas Distribution.

On the back of huge demand expected especially for the distribution/branch pipelines, we expect Zenith to sell 141,000MT of ERW Pipes by FY12 from 115,949MT in FY10. On the HSAW front, volumes are expected to reach 15,000MT by FY12E.

Order Book

Zenith's revenues are derived from its order book as well as from off the shelf items. As of Q1FY11, Zenith has an order book of Rs 900mn, which translates to 0.2x of its FY10 revenues. This order book is executable over the next 3-4 months.

Established Brand Name

The company has over the 50 years have developed a strong brand name of 'Zenith Birla' in the domestic as well as international markets. On the back of established brand, goodwill of the Birla group and experience of 50 years, the company commands premium pricing over its peers.

Investment Concerns

Scaling up HSAW volumes to be a challenge

Zenith is foraying into the HSAW pipes segment with an installed capacity of 75,000tpa. However, with recently established and huge capacities coming up especially in southern and eastern India by established SAW pipe players, we expect Zenith to face intense competition while bidding for projects. We do not expect HSAW pipe division to ramp up volumes any faster.

Ballooning Equity Share Capital

The equity share capital of the company has more than tripled during the last 2 years from Rs 400.7mn in FY09 to current Rs 1,297.2mn on account of its amalgamation and fund raising plans.

The company in FY10 demerged its tooling business and amalgamated Tungabhadra Holdings with the company. Zenith allotted 19 shares for every 7 shares held by the shareholders of Tungabhadra Holdings, resulting in an increase of equity share capital by Rs 136.7mn.

Zenith had also raised Rs 1,030mn by the way of GDR to fund its expansion plans, resulting in increase in the share capital by Rs 543.6mn. The company also has plans to further raise Rs 3,500mn to expand its existing facilities and increase the product range.

The company is also considering a preferential allotment of 10.8mn shares to promoters to shore up promoters holding.

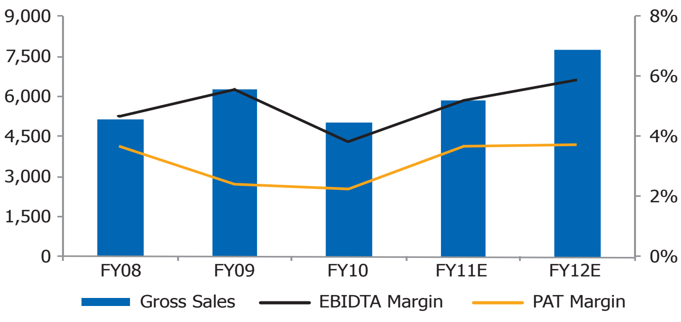
Zenith on the account of its Golden Jubilee celebration announced bonus issue of 1 share for every 5 shares held, taking the total equity capital to Rs 1,297.2mn.

Financial Analysis

PAT margins to grow at a CAGR of 62.2%

Zenith's revenues are expected to grow at a CAGR of 24.1% during FY10-12E on the back of rising ERW volumes and commissioning of SAW pipes plant by the end of 2011. We expect revenues from ERW division to grow by 20.0% annually from Rs 4,427.0mn to Rs 6,374.7mn during FY10-12E. The share from HSAW division is expected to be Rs 708.8mn by FY12E. Total revenues are expected to touch Rs 7,754.9mn by FY12E.

Sales (Rs Mn), EBIDTA & PAT Margins



Source: Company, SPA Research – Please write the source as done in Fig 2.

EBIDTA margins are expected to improve on the basis of improving realisations and inclusion of higher margin SAW pipes. We expect blended EBIDTA/tonne to increase from Rs 4,001.7 to Rs 5,056.0 by FY12E. EBIDTA is expected to grow at a robust CAGR of 30.8% from Rs 442.3mn to Rs 788.7mn during FY10-12E.

PAT margins are expected to report an improvement on back of falling cost of debt. On an absolute basis, PAT is expected to grow at a CAGR of 62.2% from Rs 117.7mn to Rs 309.5mn.

Fund Raising to cap valuations

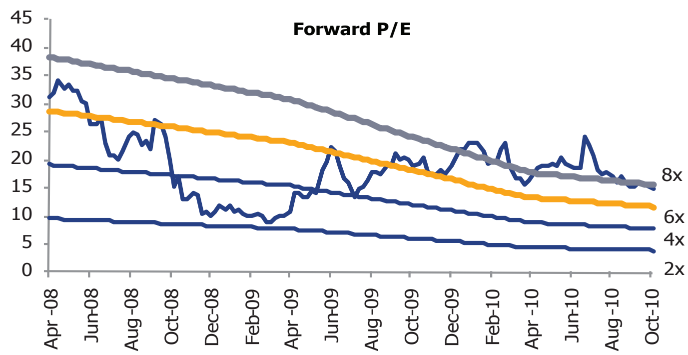
Over the past two years the company's share capital has tripled from Rs 400.7mn to Rs 1,297.2mn on the back of amalgamation with Tungabhadra Holdings, GDR issue and issue of bonus shares. Going ahead the company further plans to raise Rs 3,500mn through the GDR route for funding its future expansion plans and allot 10.8mn shares to promoters to increase their share holding. We believe huge equity dilution by the company will cap the valuations and limit the stocks upside.

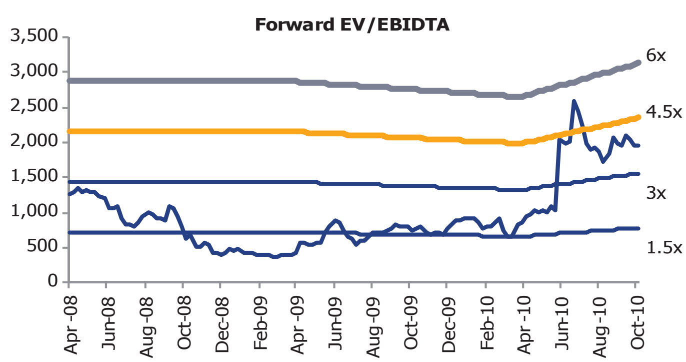
Valuation

Valuation & Recommendation

At CMP of Rs 12.0, Zenith is trading at a P/E multiple of 5.3x based on its FY12E EPS of Rs 2.3 and at EV/EBIDTA multiple of 3.6x. After a checkered past, Zenith has initiated several measures to achieve better operational efficiencies. Expansion and increasing the product range of ERW pipes and new investments in HSAW pipes along with geographical spread bodes well for the company. However, continuous fund raising and resulting equity dilution will limit the earnings upside. We recommend 'Hold'. At current P/E multiple of 5.4x and FY12E EPS of Rs 2.3 we estimate one year target price of Rs 12/share.

Forward Bands





Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Gross Sales	5,136.1	6,276.6	5,039.3	5,884.9	7,754.9
Excise Duty	516.4	447.0	237.7	323.4	442.4
Net Sales	4,619.6	5,829.6	4,801.6	5,561.5	7,312.5
Other Income	237.2	123.8	246.9	287.5	327.5
Total Income	4,856.9	5,953.4	5,048.5	5,849.0	7,640.0
Raw Materials	3,467.8	4,519.4	3,828.8	4,369.8	5,707.4
Power & Fuel	68.7	75.7	107.7	117.7	155.1
Manufacturing Exp.	261.1	214.7	154.0	191.3	252.0
Gen., Selling & Other Exp.	334.1	402.2	364.2	397.2	504.1
Personnel Charges	245.1	262.8	151.5	176.5	232.6
Total Expenditure	4,376.8	5,474.7	4,606.2	5,252.6	6,851.2
EBIDTA	480.1	478.7	442.3	596.4	788.7
Depreciation	46.6	50.1	52.6	67.0	83.5
Interest	204.1	220.8	190.0	202.2	264.8
PBT	229.4	207.7	199.7	327.2	440.4
Tax Expense	37.2	53.1	82.0	108.7	146.3
Net Profits	192.1	154.6	117.7	218.5	294.1

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Share Capital	400.7	400.7	537.4	1,297.2	1,297.2
Reserves & Surplus	1,749.5	1,853.0	1,310.4	1,546.5	1,787.6
NetWorth	2,150.3	2,253.7	1,847.8	2,843.7	3,084.8
Secured Loans	871.0	1,135.0	1,194.3	1,347.9	1,765.4
Total Liabilities	3,021.2	3,404.6	3,088.1	4,191.6	4,850.2
Assets					
Fixed Assets (Net)	1,031.6	1,195.7	1,226.3	1,259.3	2,175.8
Investments	26.0	76.0	26.1	26.1	26.1
Current Assets	3,749.0	3,958.1	4,427.8	5,306.6	5,746.8
Current Liabilities	1,785.3	1,841.1	2,638.1	2,400.3	3,098.5
Total Assets	3,021.2	3,404.6	3,088.1	4,191.6	4,850.2

Cash Flow Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Cash from Ops.	(19.0)	207.7	(232.6)	(40.3)	695.4
Net Cash from Ops.	(56.2)	182.2	(267.8)	(162.3)	583.6
Cash from Inv.	(13.1)	(265.6)	292.9	(100.0)	(1,000.0)
Cash from Financing	(310.6)	110.1	(138.4)	555.9	268.0
Net Change	(380.0)	26.7	(113.3)	293.6	(148.4)
Op. Cash	564.0	184.1	162.6	343.2	636.8
Cl. Cash	184.1	210.8	343.2	636.8	488.3

Basic

(Rs)	FY08	FY09	FY10	FY11E	FY12E
EPS	4.8	3.9	2.2	1.7	2.3
Cash EPS	6.0	5.1	3.2	2.2	2.9
Book Value	53.7	56.2	29.1	21.9	23.8
DPS	0.7	0.6	4.0	0.3	0.4
EBIDTA/tonne	5,110	5,504	4,002	4,790	5,056
EV/Tonne	13,687	17,515	14,970	21,289	20,618

Valuation Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
P/E	2.5	3.1	5.4	7.1	5.3
Cash P/E	2.0	2.3	3.7	5.5	4.1
P/BV	0.2	0.2	0.4	0.5	0.5
EV/Sales	0.2	0.2	0.3	0.4	0.4
EV/EBIDTA	2.4	2.9	3.4	3.8	3.6
RoE	8.9%	7.0%	5.7%	9.3%	9.9%
RoCE	14.3%	13.3%	12.0%	14.5%	15.6%

Margin

(%)	FY08	FY09	FY10	FY11E	FY12E
EBDITA	4.7%	5.7%	3.9%	5.2%	5.9%
PBT	4.5%	3.3%	4.0%	5.6%	5.7%
PAT	3.7%	2.5%	2.3%	3.7%	3.8%

Turnover Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
Asset T/o	5.0	5.6	4.2	4.7	4.5
Inventory T/o	4.2	5.0	3.9	4.2	4.7
Debtors T/o	7.8	10.5	7.0	6.9	8.2
Debtors (Days)	47	35	52	45	60
Inventory (Days)	73	64	86	75	75
Creditors (Days)	185	154	184	210	180

Leverage Ratios

(x)	FY08	FY09	FY10	FY11E	FY12E
D/E	0.4	0.5	0.6	0.5	0.6
Int. Cov. Ratio	2.1	1.9	2.1	2.6	2.7

Growth Ratios

(%)	FY09	FY10	FY11E	FY12E
Net Sales	26.2%	-17.6%	15.8%	31.5%
Op. Expenses	25.1%	-15.9%	14.0%	30.4%
EBDITA	-0.3%	-7.6%	34.8%	32.2%
PBT	-9.5%	-3.9%	63.9%	34.6%
PAT	-19.5%	-23.9%	85.7%	34.6%
EPS	-19.5%	-42.3%	-24.3%	34.6%
Cash EPS	-14.2%	-37.3%	-31.3%	32.3%

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