

May 20, 2010

Man Industries (MANIN)

Rs 66

WHAT'S CHANGED...

PRICE TARGET Unchanged at Rs 76
 EPS (FY11E) Changed from Rs 12.6 to Rs 13.8
 RATING.....BUY

Order book strength to drive growth...

Man Industries reported a satisfactory performance for Q4FY10. The topline came at Rs 452.8 crore, lower than our expectation of Rs 484 crore despite higher sales volume in both LSAW and HSAW segments. This was due to lower realisation. Though the bottomline remained flat QoQ, it improved by ~56% YoY beating our estimates of Rs 24 crore. Though margins saw a dip of ~370 bps QoQ, they improved ~490 bps YoY to 12%. On the volume front, the company saw a good YoY jump in the LSAW segment, whereas HSAW witnessed an improvement QoQ. For the full year FY10, the company reported revenues of ~Rs 1524 crore and PAT of ~Rs 67 crore with a margin of ~11.4%. We believe the company will maintain a stable performance, going ahead. We are maintaining our target price of Rs 76 per share with a BUY rating on the stock.

■ Sales volumes improve

The company has witnessed a good jump in the sales volume of both LSAW and HSAW pipes. While LSAW sales remained flat QoQ, they rose ~134% YoY to 54,353 tonnes. On the other hand, HSAW sales, though they fell YoY by ~10%, rose sharply QoQ to 57,602 tonnes.

■ Order book improves to Rs 2,000 crore

The company's order book has shown an improvement to Rs 2000 crore, from Rs 1500 crore at the end of the Q3FY10. Out of the total order book size, LSAW pipes constitute about 60% while the remaining 40% is in HSAW.

Valuation

At the CMP of Rs 66, the stock is trading at 4.7x FY11E EPS of Rs 13.9. Though the company has a good order book position, concerns remain on the margin front, due to a fall in price realisation coupled with strength in raw material prices. We would like to remain cautious at this point. We value the stock at 5.5x FY11E EPS and maintain the target price of Rs 76 per share with a BUY rating.

Exhibit 1: Performance Highlights

(Rs Crore)	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY (Chg %)	QoQ (Chg %)
Net Sales	452.8	484.0	721.6	439.3	-37.2	3.1
EBITDA	54.4	50.8	50.9	69.0	7.0	-21.1
EBITDA Margin (%)	12.0	10.5	7.1	15.7	+490 bps	-370 bps
Depreciation	11.0	7.6	11.0	11.6	0.0	-5.3
Interest	-1.2	6.4	11.1	15.4	-110.5	-107.5
Reported PAT	30.2	24.3	19.4	30.9	55.7	-2.4
EPS (Rs)	5.6	4.5	3.6	5.8	55.7	-2.4

Source: Company, ICICIdirect.com Research

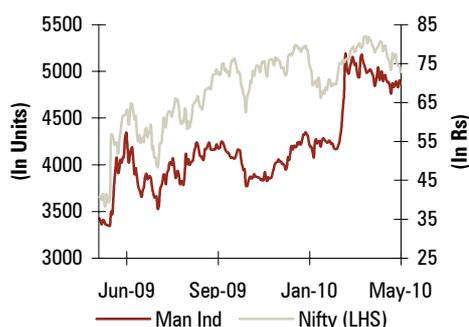
Rating matrix	
Rating	: Buy
Target	: Rs 76
Target Period	: 12-15 months
Potential Upside	: 15%

Annual performance				
(Rs Crore)	FY08	FY09	FY10	FY11E
Net Sales	1512.6	1883.4	1524.3	1470.0
EBITDA	171.9	147.9	174.4	169.8
Net Profit	77.2	20.4	67.1	74.1

Valuation summary				
	FY08	FY09	FY10	FY11E
PE (x)	4.5	17.2	5.2	4.7
Target PE (x)	5.2	19.8	6.1	5.5
EV/EBITDA (x)	3.0	4.5	3.0	2.7
P/BV (x)	1.0	0.9	0.8	0.7
RoNW (%)	22.9	5.4	15.7	14.8
RoCE (%)	24.3	14.3	17.1	18.3

Stock data	
Market Capitalisation	Rs 376.4 Crore
Debt (FY09)	Rs 506.4 Crore
Cash & Invst (FY09)	Rs 198.3 Crore
EV	Rs 539.7 Crore
52 week H/L	79/35
Equity capital	Rs 26.8 Crore
Face value	Rs 5
DII Holding (%)	7.5
FII Holding (%)	0.4

Price movement (Stock vs. Nifty)



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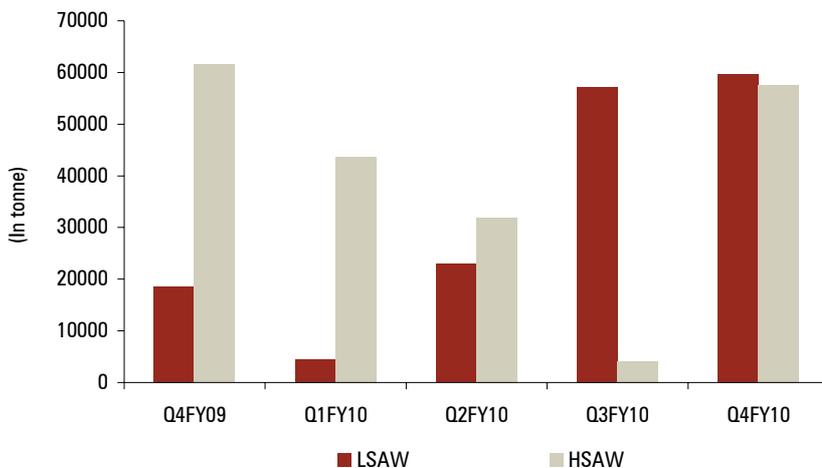
Production volumes for LSAW improved sharply during Q4FY10 on a YoY basis but remained flat QoQ as at the end of Q3 LSAW constituted 90% of the order book. The HSAW segment witnessed robust production growth QoQ

Sales volumes in LSAW followed the trend in production i.e. remaining flat QoQ, but improving YoY. Realisations, however, dipped both YoY and QoQ

Along with production, HSAW sales also rose sharply QoQ but remained subdued YoY. Price realisation, on the other hand, fell both YoY and QoQ

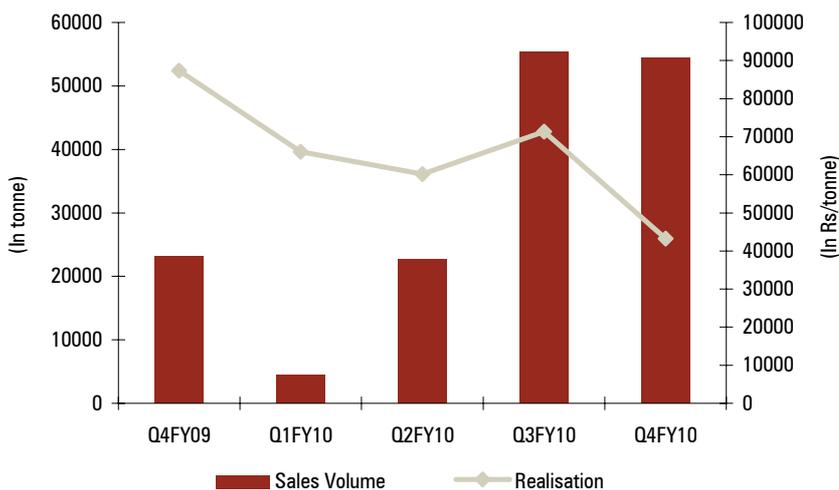
Result Analysis

Exhibit 2: Production volumes



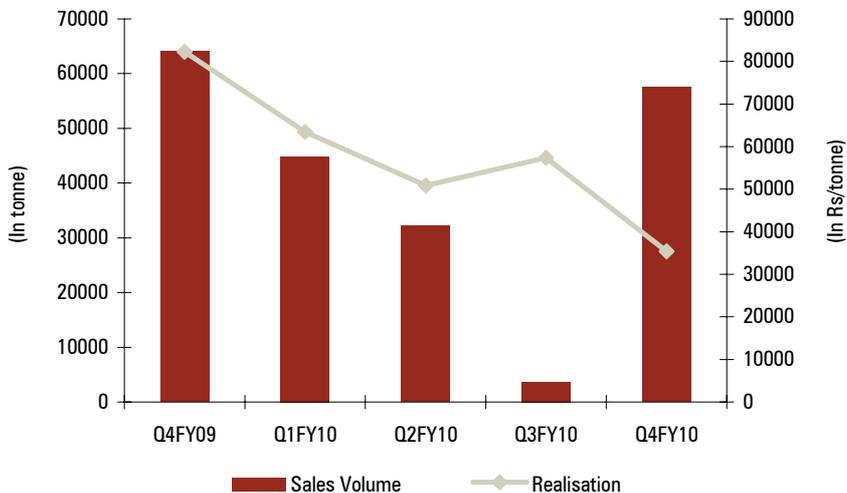
Source: Company, ICICIdirect.com Research

Exhibit 3: Sales volumes & realisation - LSAW



Source: Company, ICICIdirect.com Research

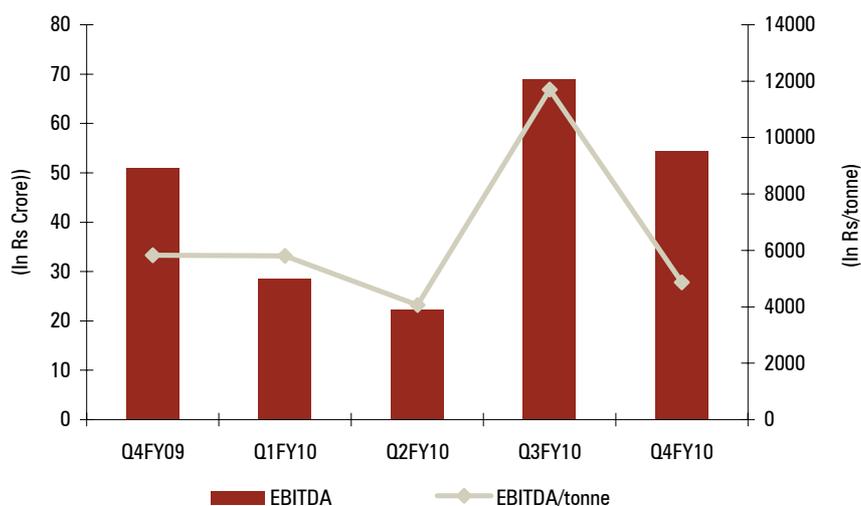
Exhibit 4: Sales volumes & realisation - HSAW



Source: Company, ICICIdirect.com Research

After improving sharply during Q3FY10, the blended EBITDA/tonne fell sharply to ~Rs 4864, near the average level that was seen in Q1 and Q2

Exhibit 5: EBITDA and EBITDA/tonne



Source: Company, ICICIdirect.com Research

Outlook & earnings revision

We expect the company to maintain a similar kind of sales volume in the coming fiscal year i.e. FY11E. Sales realisation, on the other hand, may remain subdued. On the margin front, we believe the company would not show any decent growth. We expect margins to remain between 11% and 12%. We are revising our earnings estimates higher by ~10% for FY11E.

Exhibit 6: Revised Financials

	FY11E		
	Current	Previous	% Change
Net Sales	1470.0	1320.0	11.4
EBITDA	169.8	158.8	6.9
EBITDA Margin (%)	11.5	12.0	
PAT	74.1	67.2	10.3
EPS (Rs)	13.8	12.5	10.3

Source: Company, ICICIdirect.com Research

Valuations

At the CMP of Rs 66, the stock is trading at 4.7x FY11E EPS of Rs 13.8. Though the company has a good order book position, concerns remain on the margin front, due to a fall in price realisation coupled with strength in raw material prices. We would like to remain cautious at this point. We value the stock at 5.5x FY11E EPS and maintain the target price of Rs 76 per share with a **BUY** rating.

Exhibit 7: Valuation matrix

	Sales (Rs)		EV/EBITDA				
	Crоре	EPS (Rs)	PE (x)	(x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY09	1883.4	3.8	17.2	4.5	0.9	5.4	14.3
FY10E	1524.3	12.5	5.2	3.0	0.8	15.7	17.1
FY11E	1470.0	13.8	4.7	2.7	0.7	14.8	18.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Pipes)

Jindal SAW				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SAWPIP CMP	183.9	CY08	5009.1	13.1	14.0	8.7	15.4	15.6
	Target	228.0	FY10*	6791.6	26.7	6.9	4.0	19.1	21.6
MCap	5030.1 Upside (%)	24.0	FY11E	5814.4	19.3	9.5	4.8	12.4	14.2

*FY10 represents 15 months data

Maharashtra Seamless				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MAHSEA CMP	396.6	FY09	2038.9	36.8	10.8	6.9	21.6	25.1
	Target	380.4	FY10E	1591.2	40.2	9.9	4.9	19.1	25.7
			FY11E	1756.7	44.4	8.9	4.5	17.5	22.6
MCap	1398.5 Upside (%)	-4.1	FY12E	2083.4	51.5	7.7	3.8	17.5	22.6

Man Industries				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MANIN CMP	65.7	FY09	1883.4	3.8	17.2	4.5	5.4	14.3
	Target	76.0	FY10E	1524.3	12.5	5.2	3.0	15.7	17.1
MCap	351.8 Upside (%)	15.7	FY11E	1470.0	13.8	4.7	2.7	14.8	18.3

PSL Limited				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	PSLHOL CMP	129.1	FY09	3559.9	22.3	5.8	4.8	15.1	14.5
	Target	186.0	FY10E	2727.1	17.4	7.4	5.2	11.5	12.5
MCap	688.2 Upside (%)	44.1	FY11E	3033.5	20.4	6.3	4.8	11.2	13.3

Welspun Gujarat*				Sales(Rs Cr.)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	WELGUJ CMP	229.1	FY09	5739.5	11.2	20.5	9.2	13.7	12.5
	Target	325.0	FY10	7350.2	29.9	7.7	4.9	29.4	23.7
MCap	4679.9 Upside (%)	41.9	FY11E	6702.7	27.7	8.3	4.8	20.0	19.0

* Financials not in consolidation with MSK projects

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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