

Sensex	19,035
Nifty	5,695

Steel Pipes

Positive

Sector summary

The Steel Pipes sector reported good numbers for Q2FY08 on the back of (a) improved realizations due to a demand supply gap in the overseas markets (b) volume growth due to increased utilization. Flat depreciation & interest costs helped companies report better profit growth.

Key highlights of the results:

- Net sales for Q2FY08 of the Steel Pipe sector (7 companies) rose by 29.4% YoY to Rs41.1bn on the back of higher average realization & increased volume.
- EBITDA grew by 38.7% YoY to Rs6.0bn. EBITDA margin expanded by 98 bps YoY to 14.5% in Q2FY08 (against 13.6% in Q2FY07).
- Adj. PAT increased by 50.6% YoY to Rs3.2bn. Adj. PAT margin expanded by 109bps YoY to 7.8% in Q2FY08 because of flat growth in depreciation & interest cost, which as a percentage of sales for the sector have declined by 30bps & 100bps respectively.
- Welspun Gujarat has seen a 474bps improvement in its EBITDA margin to 16.5% on the back of 27.1% YoY growth in the average realization per tonne which is the highest in the industry.
- Maharashtra Seamless & ISMT continues to face margin pressure in this quarter due to a sharp decline in the margins of their seamless segment.
- Other companies including Jindal Saw & Man Industries have seen moderate (about 100-300bps) improvement in their margin due to higher capacity utilization.
- The order book/sales ratio for the pipe companies ranges between 1.0x - 2.0x their FY07 gross sales.
- We have downgraded our numbers for Maharashtra Seamless and Man industries and have downgraded our rating from **Buy to Accumulate** on both these companies.

Our top picks are:

- Welspun Gujarat
- Jindal Saw
- Maharashtra Seamless

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Figure 1: Valuation summary

Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs mn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08 (Rs mn)	YoY (%)	Q2FY08 (Rs mn)	YoY (%)	Q2FY08 (Rs mn)	YoY (%)	Q1FY08 (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Man Ind	120	Accumulate	162	6,396	3,547	21.2	428	29.7	189	27.6	3.6	28.6	13.0	9.3	14.7	8.2
Jindal Saw	747	Accumulate	808	36,155	14,286	27.2	1,699	70.3	901	89.1	18.6	89.7	58.4	12.8	86.3	8.7
Maharashtra Seamless	493	Accumulate	610	34,776	3,856	11.3	834	(9.4)	582	(6.3)	8.2	18.8	35.4	13.9	42.5	11.6
PSL	488	Accumulate	456	16,641	4,965	60.9	499	43.8	191	41.5	4.4	41.9	27.3	17.9	42.2	11.6
Welspun Ratnamani Metals	409	Buy	445	70,180	9,276	37.5	1,533	92.8	825	146.3	4.8	92.0	19.0	21.6	31.0	13.2
ISMT Ltd	1174	NR	NA	10,566	2,091	46.1	449	38.2	268	59.7	29.8	59.7	-	-	-	-
	82	NR	NA	11,841	3,057	6.6	528	(10.3)	228	(1.1)	1.6	(1.1)	-	-	-	-
Sector				186,554	41,077	29.4	5,970	38.7	3184	50.6						

Source: Religare Institutional Equity Research

Note: Jindal Saw is Dec ending company; NR: Not Rated

Q2FY08 sector summary

- PSL reported strong sales growth of 61% YoY because of higher volume growth & realizations followed by Ratnamani and Welspun

- Maharashtra Seamless & ISMT reported lower growth due to sluggishness in their seamless pipe segment

Figure 2: Net Sales - up 29.4% YoY

Rs mn	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Change, YoY (%)
PSL	3,086	4,988	4,013	4,101	4,965	60.9
Ratnamani Metals	1,431	1,875	1,525	1,900	2,091	46.1
Welspun	6,744	7,400	7,281	8,067	9,276	37.5
Jindal Saw	11,234	11,928	12,691	12,855	14,286	27.2
Man Ind	2,926	3,271	3,051	3,210	3,547	21.2
Maharashtra Seamless	3,465	3,426	3,668	3,519	3,856	11.3
ISMT Ltd	2,868	2,892	3,474	2,707	3,057	6.6
Sector	31,755	35,781	35,703	36,359	41,077	29.4

Source: Religare Institutional Equity Research,
 Note: Jindal Saw is Dec ending company.

- In our coverage universe Welspun has reported the highest growth in EBITDA of 92.8% because of higher volumes and higher average realization

- Maharashtra Seamless' EBITDA degrew on account of the decline in the margins of the seamless segment

Figure 3: EBITDA – up 38.7% YoY

Rs mn	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Change, YoY, (%)
Welspun	795	953	908	1,333	1,533	92.8
Jindal Saw	998	1,366	1,460	1,606	1,699	70.3
PSL	347	479	337	406	499	43.8
Ratnamani Metals	324	423	340	423	449	38.2
Man Ind	330	326	424	383	428	29.7
Maharashtra Seamless	920	862	740	820	834	(9.4)
ISMT Ltd	589	669	814	519	528	(10.3)
Sector	4,303	5,077	5,022	5,490	5,970	38.7

Source: Religare Institutional Equity Research,
 Note: Jindal Saw is Dec ending company.

- Welspun reported the highest margin expansion because of higher margins from the export markets followed by Jindal Saw

- Maharashtra Seamless' margins have declined by 493bps because of the margin erosion in the seamless and ERW segments

Figure 4: EBITDA margin – up 98bps YoY

%	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Change, YoY, (%)
Welspun	11.8	12.9	12.5	16.5	16.5	474bps
Jindal Saw	8.9	11.4	11.5	12.5	11.9	301bps
Man Ind	11.3	10.0	13.9	11.9	12.1	79bps
Ratnamani Metals	22.7	22.5	22.3	22.3	21.4	-122bps
PSL	11.2	9.6	8.4	9.9	10.1	-119bps
ISMT Ltd	20.5	23.1	23.4	19.2	17.3	-326bps
Maharashtra Seamless	26.6	25.2	20.2	23.3	21.6	-493bps
Sector	13.6	14.2	14.1	15.1	14.5	98bps

Source: Religare Institutional Equity Research,
 Note: Jindal Saw is Dec ending company.

- Welspuns' PAT growth is higher than its EBITDA growth
- Maharashtra Seamless' PAT declined by 6.3% YoY on account of the decline in its EBITDA

Figure 5: Adj. PAT – up 50.6% YoY

Rs mn	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Change, YoY, (%)
Welspun	335	412	415	693	825	146.3
Jindal Saw	476	601	703	720	901	89.1
Ratnamani Metals	168	217	175	226	268	59.7
PSL	135	208	158	171	191	41.5
Man Ind	148	165	136	176	189	27.6
ISMT Ltd	231	373	498	225	228	(1.3)
Maharashtra Seamless	621	600	533	581	582	(6.3)
Sector	2,115	2,575	2,617	2,793	3,184	50.6

Source: Religare Institutional Equity Research,
 Note: Jindal Saw is Dec ending company.

Figure 6: Adj. PAT margin – up 109bps YoY

%	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	change, YoY
Welspun	5.0	5.6	5.7	8.6	8.9	391bps
Jindal Saw	4.2	5.0	5.5	5.6	6.3	212bps
Ratnamani Metals	11.7	11.6	11.1	11.7	12.5	77bps
Man Ind	5.1	5.0	4.5	5.5	5.3	27bps
Maharashtra Seamless	17.9	17.5	14.5	16.5	15.1	-284bps
ISMT Ltd	8.0	12.8	14.3	8.3	7.4	-56bps
PSL	4.3	4.1	3.1	4.1	3.8	-49bps
Sector	6.7	7.2	7.3	7.7	7.8	109bps

Source: Religare Institutional Equity Research,
 Note: Jindal Saw is Dec ending company.

Figure 7: Order Book Position – supporting Sales growth

Company	Order size	Execution period	% of FY07 sales
Welspun Gujarat	Rs55 bn	12 Months	2.0x
Maharashtra Seamless	Rs8 bn	6 Months	0.5x
Jindal Saw	\$715mn	12 months	0.7x
PSL	Rs.23 bn	12 months	1.5x
Man Industries	Rs20 bn	15 months	1.8x
Ratnamani Metals	Rs4.3bn	12 months	0.7x

Source: Religare Institutional Equity Research,

Quarterly performance

Figure 8: Sector - Net Sales – trending upwards!

Rs mn	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	1,823	2,065	3,603	2,083	2,926	3,271	3,051	3,210	3,547
Jindal Saw	5,647	8,198	9,532	9,593	11,234	11,928	12,691	12,855	14,286
Maharashtra Seamless	2,070	2,708	2,921	3,388	3,465	3,426	3,668	3,519	3,856
PSL	2,283	4,081	4,688	3,745	3,086	4,988	4,013	4,101	4,965
Welspun	4,035	4,556	6,440	5,360	6,744	7,400	7,281	8,067	9,276
Ratnamani Metals	753	1,114	773	881	1,431	1,875	1,525	1,900	2,091
ISMT Ltd	2,016	2,744	2,783	2,692	2,868	2,892	3,474	2,707	3,057
Sector	18,628	25,466	30,740	27,741	31,755	35,781	35,703	36,359	41,077

Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- Net sales for the sector (7 companies) increased by 29.4% YoY to Rs41.1bn

Figure 9: Sector - Net Sales growth – has remained strong over the last 9 quarters

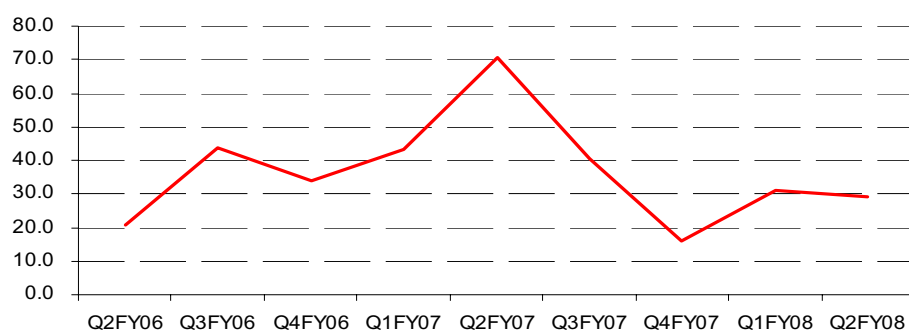
%	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	67	55	66	72	60	58	(15)	54	21
Jindal Saw	11	74	38	64	99	46	33	34	27
Maharashtra Seamless	6	27	30	67	67	27	26	4	11
PSL	2	(9)	(18)	(14)	35	22	(14)	10	61
Welspun	42	63	86	60	67	62	13	51	38
Ratnamani Metals	79	137	50	60	90	68	97	116	46
ISMT Ltd	14	51	41	35	42	5	25	1	7
Sector	20.7	43.6	33.8	43.5	70.5	40.5	16.1	31.1	29.4

Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- Companies in the seamless segment like Maharashtra Seamless and ISMT have shown single digit growth due to postponment of capex in the E&P activity

Figure 10: Sector - Net Sales growth – on the lower side due to high base effect



Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- Over the past couple of quarters net sales growth has moderated to 20-30% . This is expected to reverse because of high order book/sales ratio

Figure 11: Sector – EBITDA growth - has remained strong!

%	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	95.1	155.1	130.6	51.4	74.2	38.3	19.4	60.4	29.7
Jindal Saw	47.2	84.3	51.2	46.2	42.0	49.3	35.2	45.0	70.3
Maharashtra Seamless	43.4	112.8	54.3	120.7	114.4	36.5	18.4	(8.9)	(9.4)
PSL	31.5	157.9	(27.9)	12.6	5.4	9.6	32.7	11.3	43.8
Welspun	18.5	34.2	18,300.0	71.5	92.5	199.7	64.5	97.8	92.8
Ratnamani Metals	123.5	168.6	104.8	107.5	116.0	111.1	77.6	122.9	38.2
ISMT Ltd	12.7	154.8	139.8	64.4	69.7	1.8	24.9	(4.9)	(10.3)
Sector	38.6	109.0	86.1	63.2	68.0	49.6	35.4	36.6	38.7

Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- Most of the companies reported high double digit growth in EBITDA except Maharashtra Seamless & ISMT who have witnessed a sharp margin erosion in their seamless segment

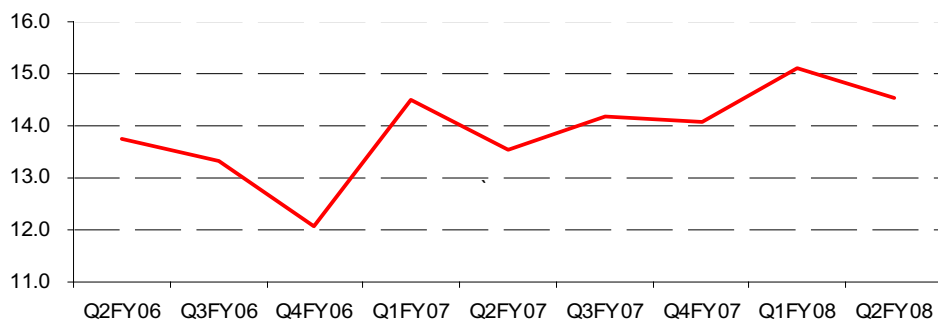
Figure 12: Sector - EBITDA margin – will plateau from here on

%	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	10.4	11.4	9.9	11.4	11.3	10.0	13.9	11.9	12.1
Jindal Saw	12.4	11.2	11.3	11.5	8.9	11.4	11.5	12.5	11.9
Maharashtra Seamless	20.7	23.3	21.4	26.6	26.6	25.2	20.2	23.3	21.6
PSL	14.4	10.7	5.4	9.7	11.2	9.6	8.4	9.9	10.1
Welspun	10.2	7.0	8.6	12.6	11.8	12.9	12.5	16.5	16.5
Ratnamani Metals	19.9	18.0	24.8	21.6	22.7	22.5	22.3	22.3	21.4
ISMT Ltd	17.2	23.9	23.4	20.3	20.5	23.1	23.4	19.2	17.3
Sector	13.7	13.3	12.1	14.5	13.6	14.2	14.1	15.1	14.5

Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- The EBITDA margin improvement was driven by higher realizations and increase in capacity utilization
- EBITDA margin expanded by 90bps YoY to 14.5%. We expect margins to plateau from here on

Figure 13: Sector - EBITDA margin, % - all time high!!!


Source: Religare Institutional Equity Research,

Note: Jindal Saw is Dec ending company.

- Margins are expected to remain at these levels for the next few quarters

Figure 14: Sector - Adj. PAT growth – remain strong

%	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	47.8	38.8	269.6	43.9	85.8	110.3	12.7	68.9	27.6
Jindal Saw	(5.6)	76.9	75.2	37.6	99.4	74.0	49.1	74.5	89.1
Maharashtra Seamless	41.3	152.5	34.3	143.0	119.2	43.7	26.9	(3.2)	(6.3)
PSL	8.6	6.7	43.8	23.8	69.8	54.5	(10.3)	15.2	41.5
Welspun	19.9	(35.5)	977.8	66.5	85.1	415.0	113.9	163.5	146.3
Ratnamani Metals	119.9	146.7	196.7	103.2	138.8	119.6	38.4	173.5	59.7
ISMT Ltd	100.3	165.7	162.4	(42.8)	14.8	28.3	60.8	19.4	(1.1)
Sector	31.2	77.0	98.6	42.0	86.4	78.2	43.9	55.1	50.6

Source: Religare Institutional Equity Research,
Note: Jindal Saw is Dec ending company.

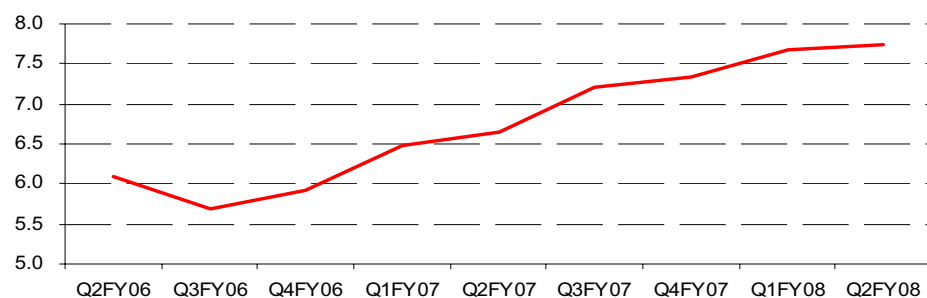
- The high Adj PAT growth was driven by stable depreciation & interest cost across all the companies

Figure 15: Sector - Adj. PAT margin – has been expanding

%	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Man Ind	4.4	3.8	3.3	5.0	5.1	5.0	4.5	5.5	5.3
Jindal Saw	4.2	4.2	4.9	4.3	4.2	5.0	5.5	5.6	6.3
Maharashtra Seamless	13.7	15.4	14.4	17.7	17.9	17.5	14.5	16.5	15.1
PSL	3.4	3.3	3.7	3.9	4.3	4.1	3.8	4.1	3.8
Welspun	4.5	1.8	3.0	4.9	5.0	5.6	5.7	8.6	8.9
Ratnamani Metals	9.3	8.9	16.3	9.4	11.7	11.6	11.1	11.7	12.5
ISMT Ltd	10.0	10.5	11.0	6.9	8.0	12.8	14.3	8.3	7.4
Sector	6.1	5.7	5.9	6.5	6.7	7.2	7.3	7.7	7.8

Source: Religare Institutional Equity Research,
Note: Jindal Saw is Dec ending company.

- The trend in PAT margins has been consistently up!
- Q2FY08 was one of the best quarter in terms of PAT margins

Figure 16: Sector - Adj. PAT margin – consistent improvement


Source: Religare Institutional Equity Research,
Note: Jindal Saw is Dec ending company.

- Adj PAT margins have witnessed a constant improvement on the back of higher EBITDA growth and stable depreciation & interest cost
- Currently PAT margin is at its all time high at 7.8%

Figure 17: Valuation Matrix

Pipes	Price (Rs)	Rating	Target	Market Cap (Rsmn)	EPS (Rs)		P/E (x)		EV/EBITDA (x)		EV/Sales		EBITDA margins (%)		P/BV (x)		ROE (%)		ROCE (%)	
					FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Man Ind	120	Accumulate	162	6,396	13.0	14.7	9.3	8.2	5.6	5.2	0.7	0.6	12.0	11.9	1.4	1.2	17.5	15.7	23.2	20.6
Jindal Saw	747	Accumulate	808	36,155	58.4	86.3	12.8	8.7	6.7	4.9	1.0	0.8	15.5	16.0	1.5	1.3	12.3	15.7	14.7	20.6
Maharashtra Seamless	493	Accumulate	610	34,776	35.4	42.5	13.9	11.6	8.7	7.2	1.9	1.6	22.1	21.6	3.1	2.6	24.3	24.2	33.6	35.3
PSL	488	Accumulate	456	16,641	27.3	42.2	17.9	11.6	10.6	7.5	1.2	0.8	11.0	11.3	10.6	7.5	19.1	22.7	13.8	16.4
Welspun	409	Buy	445	70,180	19.0	31.0	21.6	13.2	12.2	7.2	2.0	1.4	16.6	19.0	4.8	3.6	27.1	32.1	23.6	29.0

Pipes	Price (Rs)	Rating	Target	Market Cap (Rsmn)	EPS (Rs)		P/E (x)		EV/EBITDA (x)		EV/Sales		EBITDA margins (%)		P/BV (x)		ROE (%)		ROCE (%)	
					FY06	FY07	FY06	FY07	FY06	FY07	FY06	FY07	FY06	FY07	FY06	FY07	FY06	FY07	FY06	FY07
Ratnamani Metals	1174	NR	NA	10,566	37.3	71.3	31.5	16.5	18.2	9.3	3.6	2.1	19.8	22.4	12.9	7.5	50.7	57.8	38.8	49.2
ISMT Ltd	82	NR	NA	11,841	8.0	8.9	10.3	9.2	8.1	6.4	1.8	1.4	22.6	22.2	2.8	2.1	29.3	26.1	18.0	18.4

Source: Religare Institutional Equity Research

Note: Jindal Saw is Dec ending company.

NR: Not Rated

So based on all the above parameters, the best performing companies in Q2FY08 were:

- Welspun Gujarat
- Jindal Saw

The companies which have been the laggards in this quarter were:

- Maharashtra Seamless
- ISMT

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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