



(Investment Idea)

MAHARASHTRA SEAMLESS LTD (MSL).

Maharashtra Seamless, the flagship company of D.P.Jindal Group is market leader in higher diameter Seamless pipes catering specifically to Oil & Gas sector & ERW Pipes in India. Company has put up an impressive performance in Q4 FY07 despite month long shutdown of 7” Seamless Mill on account of annual preventive maintenance.

Net Sales increased by 25.6% to Rs.366.83 crore. Seamless Pipes business reported 26.8% rise in sales to Rs.272.04 crore (accounts for 72% of turnover), while ERW pipes business reported 21.9% increase in sales to Rs.93.71 crore (accounts for 24.8% of turnover). However OPM% was subdued at 20.1% (21.4%) as spurt in raw material cost to 63.9% of Net Sales (59.5%) more than offset savings in other heads of expenses. PBIT% of Seamless Pipes business spurted to 30.3% (26.1%) however PBIT% of ERW Pipes declined to 6.1% (22%). After accounting for higher other income of Rs.10.89 crore (Rs.6.01 crore), PBT rose by 27.7% to Rs.80.09 crore. PAT was up by 26.3% to Rs.53.07 crore.

During FY 2007, Net Sales was up by 44.4% to Rs. 1394.73 crore. OPM% enhanced to 24.5% (21.5%). Higher Net Sales coupled with enhanced margins and higher other income of Rs.31.72 crore (Rs.18.08 crore) led to spurt of 70.8% in PBT to Rs. 235.30 crore and 68.6% jump in PAT to Rs. 235.30 crore. Presently, company’s order book position stands at Rs.1100 crore. Company has cash surplus of \$100 million (~ Rs.420 crore) as against debt of Rs.100 crore as on March 31, 2007.

In March 2007, company has commissioned coating plant facility. Coated Pipe is value added product that finds application in Oil & Gas transportation pipelines. There has been significant demand trend of coated pipes owing to increased activities in the sector and it will lead to an improvement in capacity utilization of ERW Mill.

MSL is setting up a backward integration billet plant with capacity of 5 lakh tpa which will meet complete requirement of its seamless pipes division and reduce raw material price volatility. Moreover, company is expanding its seamless capacity in a phased manner through debottlenecking with a minimal capex of ~50 crore p.a. During Q4 FY07, there has been some technical up-gradation and improvement, which has increased its total seamless capacity from 3,25,000 tpa to 3,50,000 tpa.

In India, demand for high diameter seamless pipes is 5 lakh tpa and is expected to grow @ CAGR of 25% for next 4-5 years. MSL is one of the most cost efficient and established player in industry with 60-70% of revenues coming from supply to Oil & Gas sector. With spurt in Oil & Gas Exploration and Drilling activities, demand for high margin seamless pipes will continue to be robust which in turn will improve profitability. Moreover, there has been consolidation in Global seamless industry which will reduce price competition.

At CMP of Rs.573.85, share (F.V Rs.5/-) is trading at 17.2 times FY 2007 fully diluted EPS of Rs. 33.37 and 11.7 times FY 2008 expected fully diluted EPS of Rs.49 In view of excellent future prospects, we recommend to “BUY” the share at CMP.

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