

# PIPES

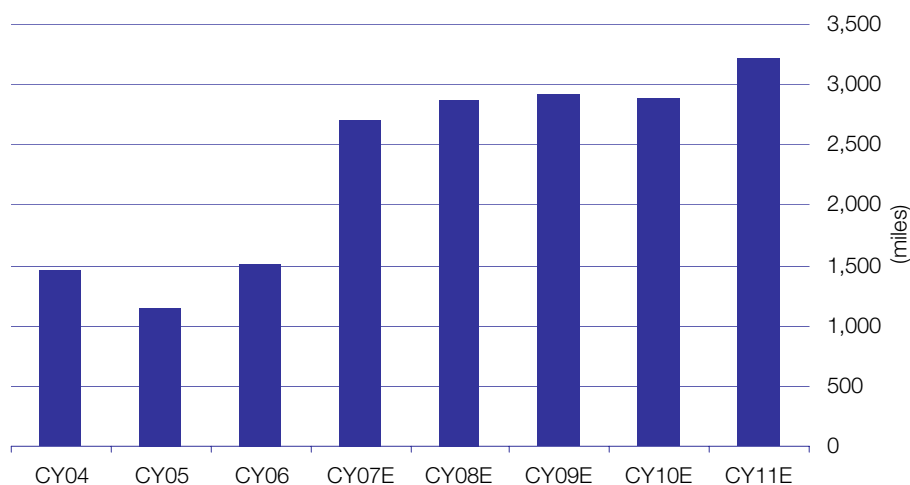
## US pipe margins to sustain buoyancy

We expect US demand for large-diameter SAW pipes to remain robust on the back of large number of new pipeline projects set to come on stream. Despite huge capacity addition plans, we estimate US will still be a net importer of large-diameter pipes, implying margins buoyancy for pipe manufacturers located in the US. Also, Indian pipe companies (PSL, Welspun, and Man Industries), which are putting up capacities in the US, are best placed to benefit from this rising demand.

### \* Demand from new projects likely to remain buoyant

We expect US demand for large-diameter SAW pipes to remain robust, atleast till CY11, driven by continuing proposals and approvals for new pipeline projects. Current pipeline project backlog of 11,769 miles (actual; including the Alaska pipeline) provides visibility to our estimates. Our estimates are based on assumptions of 18-month lag from pre-filing date till the approval followed by 9-month average time for pipeline construction (from approval date).

Chart 1: New pipeline addition in US



Source: Edelweiss research

Table 1: Prefiling, approval, construction of pipes (miles)

Year	Prefiling	Approval	Construction
CY04		1,300	1,459
CY05		2,400	1,152
CY06		2,600	1,512
CY07E	3,029	2,831	2,696
CY08E	5,240	3,015	2,877
CY09E	2,000	2,635	2,920
CY10E	2,000	3,620	2,881
CY11E	2,000	2,000	3,215

Source: FERC, Edelweiss research

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**Table 2: Major pipeline project**

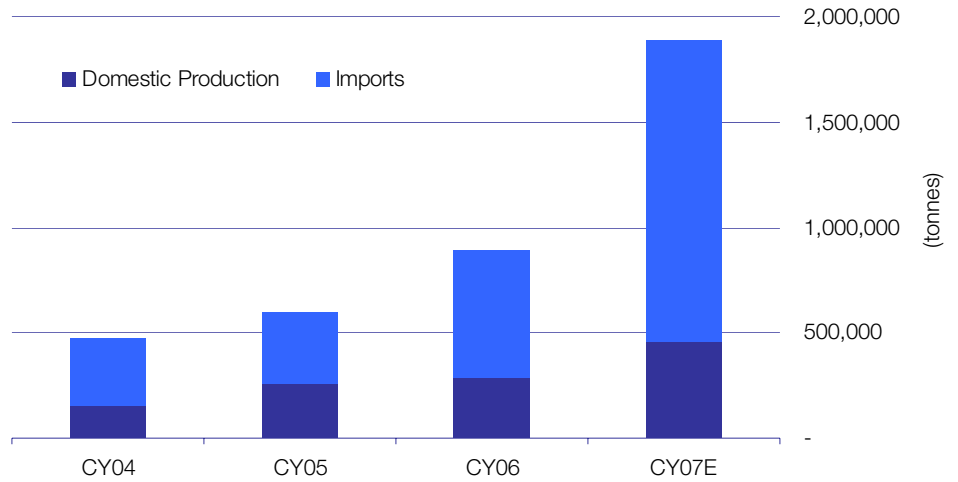
<b>Project Name</b>	<b>Company Name</b>	<b>Miles</b>	<b>Status</b>
G-II project	Guardian Pipeline, L.L.C.	110	Approved(CY07)
Southeast Expansion Project	Gulf South Pipeline Company, LP	112	Approved(CY07)
Kanda Lateral & Mainline	Wyoming Interstate Company	123	Approved(CY07)
Elba III Project	Elba Express Company, LLC	191	Approved(CY07)
Kinder Morgan Louisiana Pipeline	Jinder Morgan Louisiana Pipeline LLC	140	Approved(CY07)
Northern Light Project	Northern Natural Gas Company	109	Approved(CY07)
Pacific Connector Gas pipeline Project	Williams, PG&E, Fort Chicago	223	Approved(CY07)
Palomar Pipeline	Palomar Gas Transmission, LLC	213	Approval Pending
Oregon LNG Terminal	LNG Development Company, LLC	223	Approval Pending
East End Expansion Project	Ozark Gas Transmission, LLC	198	Approval Pending
Midcontinent Express Pipeline Project	Midcontinent Express Pipeline LLC	500	Approval Pending
Jordan Cove Gas pipeline	Jordan Cove Energy Project, L.P.	223	Approval Pending
Fayetteville/Greenville Expansion	Texas Gas Transmission, LLC	165	Approval Pending
Gulf Crossing Project	Boardwalk Pipeline Partners, L.P.	335	Approval Pending
Rockie Express Pipeline - East	Rockies Express Pipeline, LLC	638	Approval Pending
High Plains Expansion Project	Colorado Interstate Gas Company	170	Approval Pending
Alaskan Pipeline Project	Alaska (6 Companies)	3,500	On Horizon
Ruby Pipeline Project	El Paso Natural Gas Co./Bear Energy	680	On Horizon
Pipeline Project	Spectra Energy Bronco	650	On Horizon
Wasach Mountains, Las Vegas	Kern River Gas Transmission Company	111	On Horizon
Piceance Basin Lateral Expansion	Wyoming Interstate Company, Ltd.	150	On Horizon
Northern Express Project	Rockies Express Pipeline, LLC	375	On Horizon
	Seminole Energy Services	200	On Horizon
Northeast Express Project	Rockies Express Pipeline, LLC	375	On Horizon
Northeast Passage Project	Tennessee Gas Pipeline Company	471	On Horizon
Rockies Connector Pipeline Project	Transcontinental Gas Pipe Line Corp.	250	On Horizon
West-to-East Project	National Fuel Gas Supply Corporation	324	On Horizon
A/G Line Expansion	Natural Gas Pipeline Co. of America	800	On Horizon
Highland Trails Pipeline Project	Southern Star Gas Central Pipeline, Inc.	346	On Horizon
<b>Total Miles (including other small projects)</b>		<b>13,269</b>	

Source: FERC, Edelweiss research

**\* Under invested pipeline capacity led to higher imports.**

Historically, US domestic large-diameter SAW pipe production capacity has remained lower. Consequently, US demand is largely met through imports.

Chart 2: Domestic production versus imports



Source: Edelweiss research

Lower capacity utilisation of various SAW pipe facilities also resulted in higher dependence on imports. We estimate CY07 capacity utilization at ~31% on total capacity of 1.48 mn tonnes/year.

Table 3: SAW pipe capacity in US

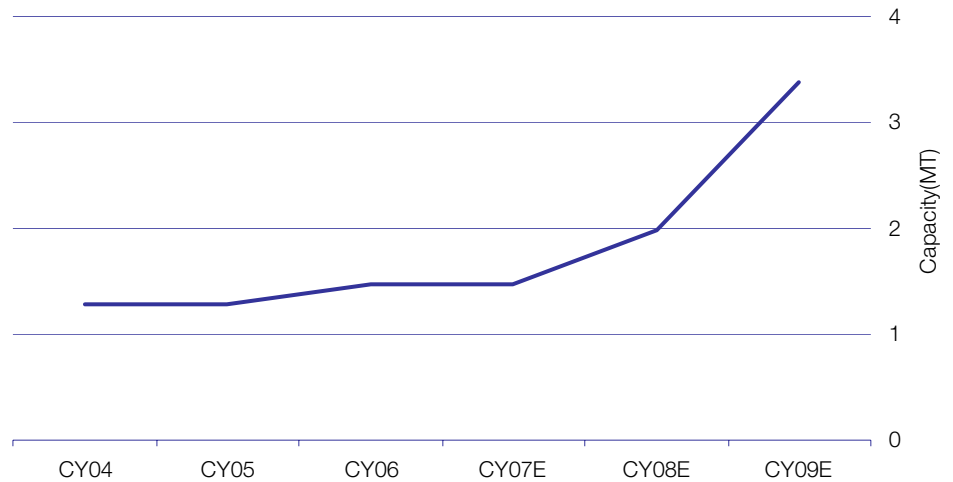
Company, Location	CY04	CY05	CY06	CY07E
Evrax Oregon Steel Mills, Portland			0.2	0.2
Berg, Panama City, Florida	0.2	0.2	0.2	0.2
Dura Bond, Steelton, PA	0.3	0.3	0.3	0.3
Saw Pipes, Baytown, TX	0.5	0.5	0.5	0.5
IPSCO, Regina, Saskatchewan	0.3	0.3	0.3	0.3
<b>US domestic capacity</b>	<b>1.3</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>
<b>US capacity utilisation</b>	<b>11.6%</b>	<b>19.6%</b>	<b>19.2%</b>	<b>30.7%</b>

Source: Edelweiss research

**\* Aggressive capacity addition to boost production by CY09E**

Aggressive expansion plans of various players will result in increase in the US large-diameter SAW pipe capacity from 1.48 mn tonnes/year in CY07 end to 3.38 mn tonnes/year by CY09 (increase of 128%) at a capital expenditure of ~USD 550 mn.

Chart 3: Saw pipe capacity expansion in US



Source: Edelweiss research

Table 4: SAW pipe capacity in US

Company, Location	Start Date	Capex(USD mn)	(mn tonnes)	
			CY08E	CY09E
CY07 year end capacity			1.5	1.5
Berg, Mobile, AL	H2 CY08	75.0		0.3
IPSCO, Regina, Saskatchewan	H1 CY08	52.5	0.2	0.2
Welspun Gujarat, Arkansas	Jul-08	100.0	0.15*	0.3
PSL Ltd, Mississippi	Jun-08	75.0	0.15*	0.3
United Spiral Pipe, Pittsburg, CA	Nov-08	93.0		0.3
Stupp Corporation, Baton Rouge, LA	Q1CY09	60.0		0.2
Man Incls, Huston	Q1CY09	100.0		0.3
<b>US domestic capacity</b>		<b>555.5</b>	<b>2.0</b>	<b>3.4</b>

Source: Edelweiss research [\* weighted average - effect given for 6 months utilisation]

#### \* Imports to rise in CY08E and dip from CY09E onwards

Imports of large-diameter SAW pipes into the US are likely to increase in CY08. However, increase in domestic capacity will lead to decline in imports from CY09 onwards, which is likely to impact Indian pipe manufacturers from H2FY10 onwards (based on visibility on current projects). However, we do not expect imports into the US to reduce to zero. This will sustain high margins for the domestic large-diameter SAW pipe manufacturers due to large freight cost incurred by imports into the US.

#### \* What does it mean for Indian large-diameter SAW pipe manufacturers?

We expect margins for large-diameter SAW pipes to increase further in FY09 on top of a handsome increase in FY08 (Welspun Gujarat's H1FY08 pipe margins are ~70% higher over FY07). Higher US imports and increased penetration of Indian manufacturers will result in this increase. India's market share of large-diameter SAW pipe imports into the US at ~22% is expected to increase to ~25% in CY08 and CY09, due to capacity shortage in Europe and reducing imports from Japan & Mexico (due to anti-dumping duty imposed by the US on Japanese and Mexican manufacturers).

Margins in the US are expected to remain firm which will benefit Indian players. Indian companies are well placed to capitalise the same with their well-timed capacity expansions and experience in the pipes business. Welspun Gujarat, PSL, and Man Industries have planned capacities in the US (see table).

**Table 5: New capacity by Indian companies in US**

<b>Company</b>	<b>Location</b>	<b>Capex (USD mn)</b>	<b>Capacity (tonnes)</b>	<b>Start Date</b>
Welspun Gujarat	Arkansas	100	300,000	Jul-08
PSL	Mississippi	75	300,000	Jun-08
Man Industries	Huston	100	300,000	Q1CY09
<b>Total</b>		<b>275</b>	<b>900,000</b>	

*Source: Edelweiss research*

We estimate FY09 and FY10 to be good years for Indian pipe companies.

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**Coverage group(s) of stocks by primary analyst(s): Pipes**

Jindal Saw, Maharashtra Seamless, Man Industries, PSL. Welspun Guj. Stahl Rohren

### Recent Research

Date	Company	Title	Price (INR)	Recos
6-Dec-07	<b>Pipes</b>	Alaska pipe project; <i>Sector Update</i>		
2-Nov-07	<b>Man Industries</b>	Margins fall; Valuations cheap <i>Result Update</i>	126	Buy
2-Nov-07	<b>Maharashtra Seamless</b>	Slow speed <i>Result Update</i>	488	Accum.
1-Nov-07	<b>Engineers India</b>	Record high order book of INR 40 bn; <i>Result Update</i>	822	Accum.

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	107	45	18	3	193

\* 13 stocks under review / 7 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	104	69	20

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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