Emkay

Private Client Research

12 October 2007

Man Industries (India) Ltd.

Initiating Coverage

Orders in pipline

BUY

Price	Target
Rs 146	**Rs 190**

Sensex - 18,814

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	7	40	61
Rel. to Sensex	21	25	41	52

Source: Capitaline

Stock Details

Sector	Steel Pipes
Reuters	MIND.BO
Bloomberg	MAN IN
Equity Capital (Rs mn)	266.4
Face value Rs	5
52 week H/L Rs	166/85
Market Cap (Rs bn)	7.8
Daily Avg Volume (No of shares)	57712
Daily Avg Turnover (Rs mn)	8.4

Shareholding Pattern (%)

Promoters	40.49
FII/NRI	18.42
Institutions	18.63
Private Corp.	9.98
Public	12.48

Souce (30th June '07)
Source: Capitaline

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Man Industries (India) Ltd (MIIL) is one of the leading players in the manufacturing and supply of steel pipes and is expected to be one of the biggest beneficiaries from the large scale investment in oil & gas pipeline projects and water supply projects. The company is raising its capacity and has recently commissioned the first phase of its expansion at Anjar (Gujarat) by setting up HSAW pipe mill with the annual capacity of 2 lakh tonne. Another HSAW mill with the similar capacity is expected to be commissioned by the end of 2007. In addition the company is expected to set up manufacturing base in the USA and China. These expansion plans give decent earning visibility for the company in the next three years. It has a strong order book position of Rs 22000 mn which is 1.95x FY07 sales and is to be executed in the next 14-15 months. We expect sales and net profit of the company to grow at a CAGR of 42% and 63% between FY07A-FY10E. At current market price the scrip discounts FY09E EPS of Rs 19.3 by 7.6x and looks attractive for long term investment. We believe that the stock is currently trading at a discount to its peers. We initiate our coverage on the company with a BUY and a target price of Rs 190.

Strong order book position

MIIL has strong order book position of Rs 22000 mn which is to be executed in the next 14-15 months. Its order book includes large size orders from USA. Besides this the company has bid for projects worth USD 1 bn globally. Hence the order book position is expected to remain strong in future.

Completion of expansion project at Anjar

The Company has successfully commissioned 2 lakh tonne per annum (TPA) HSAW pipes mill at Anjar in July 2007 which would strengthen Q4FY08 financials. Besides the third mill for manufacturing HSAW pipes with 2 lakh TPA capacity at Anjar is expected to come on stream by the end of 2007 and would strengthen the FY09E financials.

Expansion in overseas

The company is planning to expand its manufacturing facility in the overseas market. It is looking at the larger markets like USA and China with the expected investment of USD 30 mn. The expansion in the overseas market like US would result into faster delivery of order and would also save the transportation cost.

Positive demand outlook

According to Simdex data, over 2.46 lakh km of global line pipe demand is expected to come from 511 projects. As per our estimation the demand visibility in value terms from these projects is expected be around USD 78 bn in the next five years.

Attractive valuation

We estimate FY09E EPS to be at Rs19.3. The stock discounts FY09E EPS by 7.6x and thus trades at a discount to its peers trading at 9x to11x FY09E EPS. At our target price the stock discounts FY09E EPS by 9.8 times.

Key financials (Rs mn)

Y/E, Mar (Rs. m)	Sales	EBIDTA	EBIDTA (%)	APAT	EPS (Rs.)	EPS GRTH (%)	ROE (%)	P/E (x)	EV/EBITDA (x)
FY06	8688	925	10.7	350	6.7	42.5	12.8	21.9	9.1
FY07	11296	1283	11.4	553	10.1	51.6	18.0	14.4	7.9
FY08E	16538	1933	11.7	941	13.9	37.6	16.1	10.5	5.0
FY09E	22481	2615	11.6	1334	19.3	38.8	18.9	7.6	3.5

Source: Company, Emkay PCG Research

Company background

MIIL is adding new mills of HSAW pipes near its existing facility at Anjar of which 2 lakh TPA is recently commissioned and another 2lakh TPA of manufacturing facility is expected to come on stream by the end of 2007.

Man Industries India Ltd is a leading player in the manufacturing of steel pipes for high and medium pressure applications and supplies to oil, gas, petrochemical and water transportation system. The company started its business in 1988 with the manufacturing of aluminium extrusion which has been demerged into a separate company recently. In 1995 it diversified its business by venturing into the manufacturing of LSAW pipes. Further it also added HSAW pipes into its product portfolio. Its manufacturing facilities are located at Pitampura (MP) and Anjar (Gujarat). Currently MIIL manufactures different range of LSAW and HSAW pipes from these manufacturing facilities. Besides this it has external and internal coating facilities located at pipe manufacturing facilities. Currently it has a manufacturing capacity of 5 lakh TPA of LSAW pipes and 3 lakh TPA of HSAW pipes (including recently commissioned mill at Anjar). It is adding new mills of HSAW pipes near its existing facility at Anjar of which 2 lakh TPA is recently commissioned and another 2 lakh TPA of manufacturing facility is expected to come on stream by the end of 2007. Its unit at Anjar is near Mundra and Kandla Sea-Ports and thus provides an edge to execute exports orders.

Products

MIIL has 5 lakh TPA capacity of LSAW pipes with diameter range from 16 inches (406 mm) to 60 inches (1524 mm) and length up to 12.2 meters. On the other hand it has 5 lakh TPA post expansion capacity of HSAW pipes with outside diameter ranging from 16 -100 inches and upto 18 meters length.

Both Longitudinal Seam Submerged Arc Welded (LSAW) and Helical Seam Submerged Arc Welded (HSAW) have different product specification and production processes. LSAW pipes are manufactured from steel plates and used in high pressure gas application. HSAW pipes are manufactured from HR coils and are used in crude pipelines, low pressure gas and water transportation. LSAW pipes are relatively expensive as against HSAW pipes by about USD 200-300 per tonne due to higher raw material cost. Due to lower cost, easily availability of raw materials, improving product quality, the demand of HSAW pipes has witnessed a rising trend.

Financial Performance

It is among one of the least leveraged steel pipe players with FY07 D/E ratio of 0.8x. This gives enough headroom for the company to meet the funding of future expansion without any major equity dilution.

The continuous capacity expansion and inflows of orders boosted the financials of the company. In the last four years (FY2003-2007) the sales and net profit of MIIL grew at a CAGR of 42.5% and 45% respectively. MIIL registered such a kind of growth despite a bad year during FY05 when the whole pipe industry did not perform well. In FY05 the company witnessed 44% decline in the EBITDA & 53% decline in net profit due to weak demand and higher raw material prices. But along with the pipe industry, MIIL also recovered smartly. Since then both PAT & EBITDA margins witnessed improving trend. Since FY05, the EBITDA & PAT margins of the company improved by 290 basis points and 120 basis points respectively.

The company drives over 95% of its revenue from oil & gas sector and rest comes from water supply and others. It is among one of the least leveraged steel pipe players with FY07 D/E ratio of 0.8x. This gives enough headroom for the company to meet future expansion without any major equity dilution.

MIIL maintained strong growth in Q1FY08 results by reporting 54% growth in net sales and 66.5% growth in the net profit over corresponding quarter of last year. Its Q1FY08 net sales and net profit stood at Rs 3210 mn and Rs 173.5 mn respectively with 40 basis points improvement in net profit as compared to corresponding quarter of last year.

Recent Quarterly Performance

Rs mn	Quarter Ended (Jun 07)	Quarter Ended (Jun 06)	Quarter Ended (% Var)
Net Sales	3209.9	2083	54.1%
Raw Material Consumed	2022.8	1999.3	1.2%
Stock Adjustment	287.7	-374.9	-
Employee Expenses	73.7	72.1	2.2%
Other Expenses	443.2	148	199.5%
EBITDA	382.5	238.5	60.4%
EBITDA %	11.9%	11.4%	-
Interest	93.3	60	55.5%
Depreciation	51.7	37.1	39.4%
PBT	237.5	141.4	68.0%
Tax	46.9	26.4	77.7%
Deferred Tax	17.1	10.8	58.3%
PAT	173.5	104.2	66.5%
Adjusted Profit After Extra-ordinary item	173.5	104.2	66.5%

Source: Company

Investment Rationale

Strong order book position

The company has bid for projects worth USD 1 bn globally. Hence the order book position is expected to remain strong in future.

MIIL has strong order book position of Rs 22,000 mn which is to be executed in the next 14-15 months. Its order book includes large size orders from USA. It has recently bagged order amounting to approximately USD 225 million from Kinder Morgan USA for the supply of 257 miles of 42 inch diameter LSAW and HSAW line pipes. The execution of orders of such size strengthens the base for the company to bag large size orders in future. Besides this the company has bid for projects worth USD 1 bn globally. Hence the order book position is expected to remain strong in future.

Expansion project at Anjar

The Company has successfully commissioned its second mill for HSAW pipes at Anjar in July 2007. The capacity of the mill is 2 lakh tonne per annum (TPA) and would contribute to the fourth quarter of FY08E. MIIL would be executing a part of its Kinder Morgan order from this newly commissioned mill. Besides the third mill for manufacturing HSAW pipes with 2 lakh TPA capacity at Anjar is expected to come on stream by the end of 2007 and would strengthen the FY09E financials. The company incurred a total capital expenditure of Rs 1000 mn for setting up these two new mills at Anjar. The project was financed by raising USD 50 mn through FCCB. The conversion of FCCB would take place at Rs 287 per share and would result into the issuance of over 7.1 mn equity shares.

Expansion in overseas

The company is planning to expand its manufacturing facility in the overseas market markets like USA and China.

The company is planning to expand its manufacturing facility in the overseas market. It is looking at the larger markets like USA and China. The company is expected to invest about USD 30 mn for the overseas expansion which would be financed from the FCCB raised by it recently. The expansion in the overseas market like US would result into faster delivery of order. Besides this it would also save the transportation cost that is one of the major cost components (10% of total cost) for the export orders.

Diversification Strategy

Diversification of product mix- Before the recent expansion, MIIL had 5 lakh TPA of LSAW and 1 lakh TPA of HSAW capacity. Thus it was largely catering to the LSAW orders. With the completion of this expansion the capacity of LSAW and HSAW pipes would be 5 lakh TPA each and thus is able to bag orders for both of these types of pipes.

Diversification through IT SEZ – The company has got in principal approval for setting up IT SEZ at Indore. Currently the SEZ project is at initial phase. Owing to land acquisition related issues the project is going at a slower pace.

Risks & concerns

Raw material cost as a percentage of sales is around 75%; hence any sharp rise in raw material price may affect the margins of the company if it is not able to pass on the rise to its customers. 40% of its orders come from US, hence any sharp rise in freight may affect the margin of the company. Some of its competitors like Welspun Gujarat Stahl Rohren are going for backward integration; But MIIL does not have any such plan at present. Hence these competitors would command better margins against MIIL. Sharp appreciation in rupee may impact the exports margin of the company in future.

Pipe Industry

In the next five years we expect USD 78 bn of global line pipe demand which gives positive outlook for the future order book position of the company

Globally the demand of steel pipes are driven by oil & gas sector, water & sewage transport and industrial segment like power, engineering and automotive. Increasing focus on oil drilling, exploration and transportation due to rising crude oil prices has resulted oil & gas players as a major demand driver for the steel pipes specially line pipes. The cost of transportation of oil & gas by steel pipes is nearly 50% lower than other modes like roads and railways. This gives strong reason for the firm demand outlook for line pipes (LSAW and HSAW) in the next five years. According to Simdex data, over 2.46 lakh km of global line pipe demand is expected to come from 511 projects. As per our estimation the demand visibility in value terms from these projects is expected be around USD 78 bn in the next five years. As per Simdex data about 42% of the line pipe demand (in volume terms) is expected to come in from Asia and Middle East followed by 23.5% from North America in the next five years. Majority of natural gas pipes in USA is about 30 years old and requires replacement. Replacement of old pipes by new ones has created huge demand of SAW pipes from North America. Thus more order inflows are expected to come from North America.

Future pipeline demand globally

Geographical Zone	Total Length	No. of projects	% share of total length
Middle East	21541	92	8.7%
Asia	81736	90	33.2%
North America	57920	189	23.5%
Latin America	34278	39	13.9%
Europe	33822	62	13.7%
Australia	5566	11	2.3%
Africa	11610	28	4.7%
Total	246473	511	100.0%

Source: Simdex

Domestic Scenario

The domestic line pipe demand is estimated to be at over 21000 km in the next five years.

Domestic scenario is also expected to remain firm in the years to come. In India, the oil and gas transportation through pipe is at 30-32% which is lower than the world average of over 60%. The pipeline network in India is at a lower level of 12200 km and is currently at a growing stage. With larger investment by both pubic and private players, the share of transportation of oil and gas through pipeline is expected to increase in future. As per company, the domestic demand is estimated to be at over 21000 km in the next five years. With positive demand outlook from both global and domestic market we expect that the order book position of LSAW and HSAW players like MIIL to remain firm for the next five years.

Proposed Projects

Gas pipeline	Investment USD billion
GTICL (RIL) Pipeline	1.56
GAIL Pipeline	4.44
LNG	
Petronet at Dahej	0.2
Petronet at Kochi	0.35
Shell at Hazira	0.2
Dhabol (Commissioning)	0.2
Mangalore LNG	1
Refinery and Retail Expansion	
Downstream projects by PSUs	9.78
Downstreamprojects by Private sector Upstream	4.89
RIL at KG Basin	2.5
Upstream Exploration (Private)	4
Total	29.12

Source: Industry

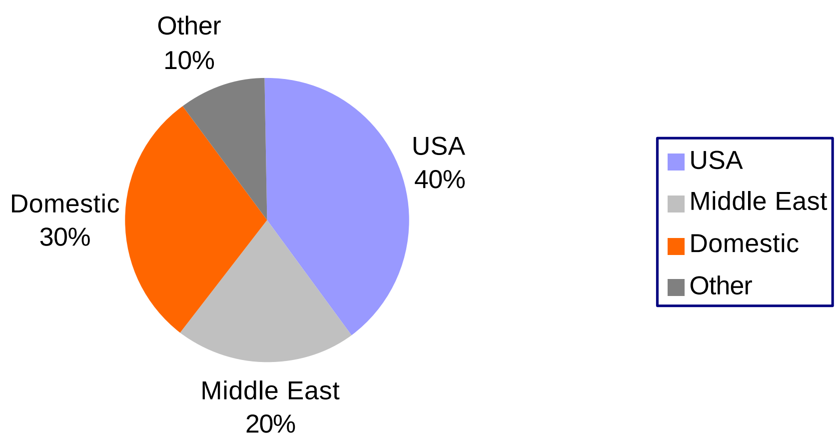
Financial Outlook

Revenue expected to grow at CAGR of 42% between FY07A-FY10E

We expect that the capacity utilization level of the company would improve to 51% in FY09E from 41% in FY07A due to firm order book position.

In the next three years FY07A-FY10E we estimate 41.7% CAGR in the sales and 63% CAGR in the net profit of the company. We expect that the average realization of the company would remain firm during FY08E and would decline by about 8% in FY09E due to increasing contribution of cheaper HSAW pipes manufactured from the newly commissioned plant at Anjar. We expect that the capacity utilization level of the company would improve to 51% in FY09E from 41% in FY07A due to firm order book position. Exports would continue to drive the future financials of the company with over 70% contribution to the topline.

Future revenue mix



Source: Company

Improving operating performance

We believe that the ROE and ROCE of the company would improve by FY09E to 19.2% and 16.9% respectively.

We expect a decline in the raw material cost as a percentage of sales from 77.3% in FY07A to 72.6% by FY09E due to higher economies of scale. But the total freight cost is expected to increase due to larger contribution of orders from US. The EBITDA margin of the company is expected to improve marginally from 11.4% to 11.6%. Lower composition of debt would result into lower interest cost and in turn better net profit margins which is expected to be at 6.1% by FY09E. We believe that the ROE and ROCE of the company would improve by FY09E to 19.2% and 16.9% respectively.

Valuation

Comparative Table

Peers	CMP	FY09E EPS	FY09E P/E	FY07A Mcap/ Sales	FY07A PBDIT Margin%	FY07A PAT Margin %
Man Ind	146	19.3	7.6	0.34	11.75	4.93
Welspun Gujarat	318	27.0	11.8	1.76	12.51	5.23
Jindal Saw	616	67.0	9.2	0.75	11.56	4.43
PSL	380	35.0	10.9	0.82	11.77	3.93

Source: Emkay PCG Research

As per our estimation MIIL is expected to report respective growth of 37.6% and 38.8% in FY08E & FY09E fully diluted EPS.

We estimate a robust growth in the earnings of the company even after equity dilution resulted from the conversion of FCCB. As per our estimation MIIL is expected to report respective growth of 37.6% and 38.8% in FY08E and FY09E fully diluted EPS. In the next three years we don't expect any further equity dilution. We estimate FY08E & FY09E EPS to be at Rs 13.9 & Rs 19.3 respectively. Currently the stock discounts FY08E EPS by 10.5x and FY09E EPS by 7.6x. We estimate FY09E EV/EBITDA to be at 3.5x which looks attractive for a company engaged in the line pipe business. We have valued the stock on relative basis with respect to its peers. Currently most of its peers trade at a P/E band of 9-12x on the basis of FY09E EPS. We believe that MIIL should also command similar valuation and requires re-rating. Hence we give a BUY recommendation on the stock with a one year target price of Rs 190. At our target price the stock discounts FY09E EPS by 9.8x and looks attractive for investment.

Profit & loss statement (Rs mn)

Year	FY06A	FY07A	FY08E	FY09E
Sales	8,688	11,296	16,538	22,481
% Growth	76%	30%	46%	36%
Other Income	12	35	1	1
Raw Materials Cons.	7,152	8,733	12,071	16,320
Employee Exp.	173	239	331	382
Other Exp.	1,040	1,121	2,203	3,164
Total Operating Exp	8,367	10,093	14,605	19,866
EBIDTA	925	1,283	1,933	2,615
% Growth	120%	39%	51%	35%
Depreciation	156	169	280	400
EBIT	770	1,113	1,653	2,215
Interest	268	309	310	310
PBT	513	840	1,345	1,906
Tax	160	284	403	572
PAT	350	553	941	1,334
% Growth	91%	58%	70%	42%
EPS (Rs)	6.7	10.1	13.9	19.3
BVPS (Rs)	53	58	87	102

Source: Company, Emkay PCG Research

Balance sheet (Rs mn)

Year	FY06A	FY07A	FY08E	FY09E
Equity Cap	257	266	338	345
Reserves	2,486	2,802	5,508	6,726
Networth	2,743	3,069	5,846	7,071
Secured loans	2,486	2,454	2,454	2,454
Unsecured loans	24	19	19	19
Total loans	2,510	2,472	2,472	2,472
Deffered Tax Liab	262	368	368	368
Total Liability	**5,515**	**5,909**	**8,687**	**9,911**
Net Block	2,454	2,647	3,367	4,167
Investments	3	12	20	23
Inventory	1,154	1,797	2,363	2,810
Debtors	1,006	3,326	3,675	3,747
Cash balance	1,567	146	2,629	3,301
Other Current Assets	1,230	1,814	1,362	2,053
Total Current Assets	4,957	7,083	10,029	11,911
Current Liabilities	1,208	2,656	2,921	3,311
Provisions	702	1,415	2,500	2,880
Total Current Liabilities	1,910	4,072	5,421	6,191
NCA	3,047	3,011	4,608	5,721
Total Assets	**5,515**	**5,909**	**8,687**	**9,911**

Source: Company, Emkay PCG Research

Ratio Analysis

Year	FY06A	FY07A	FY08E	FY09E
EBITDA %	10.7%	11.4%	11.7%	11.6%
NPM %	4.0%	4.9%	5.7%	5.9%
ROE %	12.8%	18.0%	16.1%	18.9%
ROCE %	11.1%	14.0%	14.4%	16.6%
Int. Cover (x)	2.9	3.6	5.3	7.1
D/E (x)	0.9	0.8	0.4	0.3
Asset Turnover (x)	3.5	4.3	4.9	5.4
Debtors Days	45.4	70.0	81.1	60.8
Inventory Days	38.9	53.4	52.1	45.6
Valuation ratios				
P/E (x)	21.9	14.4	10.5	7.6
P/CEPS (x)	14.9	10.8	8.1	5.8
EV/EBITDA (x)	9.1	7.9	5.0	3.5
EV/Sales (x)	1.0	0.9	0.6	0.4
Mcap/Sales(x)	0.9	0.7	0.6	0.4
Adjusted EPS (Rs)	6.7	10.1	13.9	19.3
CEPS (Rs)	9.8	13.6	18.1	25.1
P/BV (x)	2.7	2.5	1.7	1.4

Source: Company, Emkay PCG Research

Cash Flow Statement (Rs mn)

Year to Mar	FY06A	FY07A	FY08E	FY09E
PBT	513.2	839.5	1,344.5	1,906.0
Depreciation	155.7	169.3	280.0	400.0
Tax	(102.0)	(177.4)	(403.4)	(571.8)
Change in WC	(1,220.6)	(1,627.9)	434.8	250.5
Operating CF	**(683.6)**	**(1,112.8)**	**1,966.0**	**2,294.7**
Capex	(431.7)	(696.1)	(1,000.0)	(1,200.0)
Others	299.1	624.9	-	-
Investing CF	**(132.2)**	**(79.8)**	**(1,008.5)**	**(1,203.3)**
Dividends	(39.2)	(44.4)	(114.0)	(116.4)
Issuance of Equity capital	1,518.8	81.0	1,950.0	7.2
Debt	881.4	43.4	-	-
Dividends	(39.2)	(44.4)	(114.0)	(116.4)
Interest	(268.3)	(309.1)	(310.0)	(310.0)
Financing CF	**2,092.7**	**(229.1)**	**1,526.0**	**(419.3)**
Net Change	1,276.9	(1,421.7)	2,483.5	672.1
Opening Cash	290.5	1,567.4	145.7	2,629.2
Closing Cash	**1,567.4**	**145.7**	**2,629.2**	**3,301.3**

Source: Company, Emkay PCG Research

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