Initiating Coverage

SAW and seamless pipes

Piped piper

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Growing oil and gas demand across the world and the zeal with which oil companies are investing on adding pipeline infrastructure promise higher revenues for Indian steel pipes makers. Indian pipe manufacturers are well-positioned to capitalize on the booming demand of pipes with a US$118 billion global opportunity likely to unfold over the next five years. Rising crude prices and the depletion of global crude reserves has lead to massive investments in creating oil & gas transportation infrastructure. This has stimulated a huge demand for submerged arc welded (SAW) pipes and seamless pipes, which are used in oil & gas exploration. The participation of Indian manufacturers is already visible form their expanding order book. We believe tight supply situation for FY08 and FY09E is expected to keep realizations firm.

- **Global demand-supply scenario favours Indian manufacturers**

We believe the US, Middle East and the domestic market would be key volume drivers for Indian pipe manufacturers. The three geographies account for over 40% of the total global demand of around 75 million tonne of SAW pipes. Indian pipe companies are expected to corner around 19% of total demand. The current US$ 3.85 billion order book lends credence to our views.

- **Depleting crude reserves stimulating demand for seamless pipes**

Depleting oil reserves have led to increased exploration efforts, resulting in more wells in the same rig. Demand for seamless pipes is directly proportional to the increase in digging of wells. Additional demand for about 35 million tonne of seamless pipes is expected to emerge in the next 5 years.

- **Risk to our call….**

Capacity expansion by players worldwide, or by new entrants, may put pressure on realizations. In a rising steel prices scenario, a large number of players or oversupply could increase the bargaining power of buyers and the manufacturers may not be able to pass on increased costs to the buyer. These factors could put pressure on margins.

Valuations

Among pipe manufacturers, we prefer the companies that are diversified in terms of product offering, have higher RoNW and RoCE and are trading at a lower P/E multiple. Our picks are **Jindal SAW**, **Man Industries, PSL** and **Maharashtra Seamless**. Man Industries' capex is almost over and its capacity would have equal proportion of LSAW and HSAW pipes by December 2007. Jindal SAW is diversified in terms of product offering. Going forward, margins of Jindal SAW are likely to move up. Maharashtra Seamless offers a good long-term investment option with high RoNW of 27% and RoCE of 37% in FY09E. PSL is likely to move up with the demand of HSAW pipes, which is bullish in the short term. Though **Welspun Gujarat Stahl Rohren** is also a diversified player, we perceive its higher debt as a risk and recommend hold at current levels or switch to other players mentioned.

Our universe

Jindal SAW (SAWPIP)
Price: Rs 605
Target Price: Rs 738
Upside: 22%
Rating: OUTPERFORMER

Maharashtra Seamless (MAHSEA)
Price: Rs 606
Target Price: Rs 727
Upside: 20%
Rating: OUTPERFORMER

Man Industries (MANIN)
Price: Rs 255
Target Price: Rs 306
Upside: 20%
Rating: OUTPERFORMER

PSL (PSLHOL)
Price: Rs 323
Target Price: Rs 388
Upside: 20%
Rating: OUTPERFORMER

Welspun Gujarat (WELGUJ)
Price: Rs 240
Target Price: Rs 264
Upside: 10%
Rating: HOLD

Indian pipe sector is set to capitalize on the booming global demand for pipes. Around US$118 billion global opportunity is likely to unfold in next five years. Urgency to create oil & gas transportation infrastructure due to burgeoning crude oil prices and rising depletion of global crude reserves is stimulating global demand for SAW (submerged arc welded pipes used in oil & gas transportation) and seamless pipes (used in oil & gas exploration). Indian pipe manufacturers are set to benefit from the global demand-supply imbalance and their participation in the global demand boom is visible from their expanding order book. We believe tight supply situation for FY08 & FY09E would keep realizations firm.

Global demand – supply set to remain in favor of India…

We believe USA, Middle East and domestic market would be key volume driver for Indian pipe players. The three geographies account for over 40% of the total global demand of around 75 million tonne of SAW pipes. Globally, we expect Indian pipe companies to corner around 19% of total demand. Current order book position of industry players of US$4.15bn suggests that Indian companies are well on course to garner the share.

Depleting reserves stimulating seamless pipes' demand …

Depleting oil reserves has led to an increase in exploration efforts resulting in more wells. Demand for seamless pipes is directly proportional to the increase in number of wells. As per estimates, about 35 million tonne of seamless pipes demand is likely to come up in next 5 years.

Risk to our call…

Capacity expansion by existing players around the world or by new entrant may put pressure on realizations. In rising steel prices scenario, large number of players or oversupply may increase the bargaining power of buyers and the producer would not be able to pass on the raw material led rise in cost to buyer. Both the situations would put pressure on margins.

Valuations

Among pipe manufacturers, we prefer the companies that are diversified in terms of product offering, have higher RoNW and RoCE and whose stock is trading at a lower P/E multiple. Our picks are **Jindal SAW**, **Man Industries, PSL** and **Maharashtra Seamless**. Though **Welspun Gujarat Stahl Rohren** is also a diversified player, we perceive its equity dilution as a risk. Man Industries' capex is almost over and its capacity would have equal proportion of LSAW and HSAW pipes by December 2007. Jindal SAW is diversified in terms of product offering. Going forward, margins of Jindal SAW are likely to move up. Maharashtra Seamless offers a good long-term investment option with high RoNW of 27% and RoCE of 37% in FY09E. PSL is likely to move up with the demand of HSAW pipes, which is bullish in the short term.

Exhibit 1: Key Financials

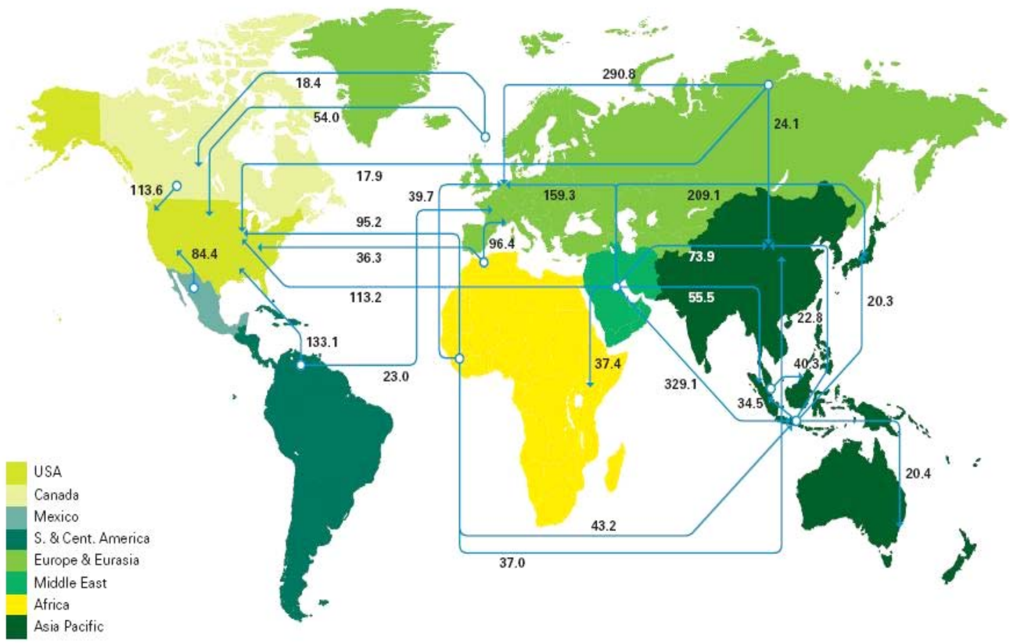
Company	Price (Rs)	Market cap (Rs Crore)	PE (x)		EV/EBIDTA (x)		RoNW (%)		RoCE (%)	
			FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Welspun Gujarat	240	3355.68	7.34	7.24	9.35	7.83	**25%**	**18%**	**17%**	**17%**
Jindal SAW	605	3243.52	9.45	6.27	4.55	2.70	**12%**	**16%**	**18%**	**22%**
Maharashtra Seamless	606	4292.90	16.12	10.83	10.23	6.95	**24%**	**27%**	**32%**	**37%**
PSL Limited	323	1270.95	12.18	7.79	8.08	5.30	19%	23%	18%	21%
Man Industries	255	679.32	6.52	4.42	7.59	4.55	26%	29%	28%	32%

Global dynamics

▪ Global demand likely to remain firm

Global demand for SAW and seamless pipes is likely to remain firm over the next five years due to rising crude prices and depleting oil reserves. Developed world's rising energy requirements and emergence of industrial powerhouses in developing countries like China and India are the major catalysts of growth in the oil country tubular goods (OTCG) and line pipe (SAW pipes) markets. The expectation of a long-term bull market in oil and gas prices has resulted in an extended upturn in demand for SAW and seamless pipes. We expect global demand to be around 67 million tonne, with around 66% flowing from the Middle East, Asia and the US. Although we see demand in Europe and Russia to be met from the internal supplies, demand in Middle East and the US are likely to be met through imports due to supply constraints. We expect the supply constraints and higher demand to keep the prices firm for at least two years through CY08 and CY09 escalating to mid 2010, where after it may start softening due to improved supplies.

Exhibit 2: Trade flows in oil & gas in world (in million tonne)



Source: BP World energy review June 2007

▪ Booming oil economy to boost pipe demand

Booming oil & gas exploration and production (E&P) activities have lead to a surge in demand for line pipes and tubular products. With expectation of a long bull market in oil and gas prices, previously unviable oil fields are being explored. We believe increased demand for steel pipes would continue in the medium term on account of increased exploration activities and thrust on setting up infrastructure to transport oil and gas. In India, rapid economic growth faces an urgent need to develop and improve water supply, which would also increase demand for SAW pipes.

US to be the largest consumer

According to Simdex data, 189 line pipe projects involving 17.55 million tonne of SAW pipe are coming up in next 5 years in North America, which accounts for 23% of total global demand. We believe inadequate supply would increase in ipports to the US markets. US imports will rise till new capacities go onstream. Indian pipe manufacturers are foraying into the US markets to give them a local presence. After ending its joint venture with Loan Star, Welspun Gujarat is putting up its own manufacturing facilities at a cost of US$ 100 million. PSL is also putting up a 300,000 tonne plant as a joint venture. Man Industries is scouting for JV partners. We believe exports to the US would be one of the major revenue drivers for Indian pipe manufacturers.

Exhibit 3: Global demand scenario for next 5 years

Geographical region	Total length (km)	Equivalent (Million Tonne)	Demand distribution	Equivalent (US $ Billion)	Assumed market share	Addressable market (US $ Billion)
North America	57920	17.55	23%	18.43	5%	0.92
Latin America	34278	10.39	14%	10.91	5%	0.55
Europe	33822	10.25	14%	10.76	2%	0.22
Africa	11610	3.52	5%	3.69	10%	0.37
Middle East	21541	6.53	9%	6.85	50%	3.42
Asia	81736	24.77	33%	26.00	33%	8.58
Australasia	5566	1.69	2%	1.77	2%	0.04
Total		74.68		78.42		14.10

Source: Simdex

Assumptions: 1km=303.50 tonne, Average realization=US$1050 per tonne

Asia to lead pipe demand with strong growth in energy consumption

We believe demand for line pipes will be the highest in Asia. Simdex data shows that 33% of the global pipeline projects will come up in Asia. This is due to the stupendous energy requirement growth in the region. As per Energy Information Administration, growth in energy demand in the non-OECD Asia region is projected to grow at an average rate of 3.2% per year over the 2004-30. In 2004, energy consumption in non-OECD Asia countries made up just over 48% of the total non-OECD while in 2030, its share is projected to be more than 56%. Increase in energy consumption is set to push the line pipe demand. China and India are likely to lead the line pipe consumption. China is expected to be the major player in planned pipeline projects. Internal manufacturers would meet Chinese demand, while that in India would be shared among domestic manufacturers, with virtually no imports.

Middle East – an important destination for Indian players

The Middle East is one of the important destinations for Indian pipe manufacturers. With high crude prices, we believe oil companies are flush with funds and they are increasing their capacities. As per Simdex, 9% of global planned projects are coming up in Middle East. Indian players have competitive advantage of being closer to the region vis-à-vis players in Europe and Japan. We expect Indian players would be supplying at least 50% of the total demand. In other markets such as Russia, China, Europe and Japan, internal supplies are expected to be sufficient.

Domestic scenario

We expect domestic demand for line pipes to grow faster with increasing cross-country creation of oil & gas transportation netwrok. One of the major factors to increase the demand is the creation of gas transportation infrastructure. We believe most of the demand would emerge from the natural gas segment. Pipeline infrastructure in India is likely to almost double in next 5 years to 39,000 km from existing around 20,000 km. We estimate the total demand for SAW pipes to be around 12mn tonnes in next 5 years.

Exhibit 4: Domestic demand statistics for next 5 years

	Expected global demand in km	Conversion Factor	Expected demand in million tonne	Average realization ($ per tonne)	Revenue generation in 5 years (billion, $)
SAW Pipes	39000	303.50 tonne / km	11.84	1050	12.43
Seamless Pipes			2.50	1205	3.01
DI/CI Pipes			2.5	771	1.9
Total opportunity					**17.37**

Source: ICICIdirect Research estimates, Industry data

- **Gas transportation pipelines – a major boost**

Worldwide, consumption of natural gas rose from 19% of global primary energy in 1980 to 24% in 2002. Demand for natural gas is expected to grow at 3.9% per year between 2001 and 2025. The Indian natural gas market is relatively underdeveloped compared to other regions of the world. By 2024-2025, the share of natural gas would increase to 20% of total primary energy consumption, according to Hydrocarbon Vision 2025. With growth in consumption, we believe that the transportation infrastructure would also see traction. Higher usage of natural gas requires better & economical transportation medium and thus more pipelines.

Exhibit 5: Gas consumption to grow at a CAGR of 3.75% in next 18 years

(in MMSCMD)	2006-07	2011-12	2024-25
Power			
Conservative Scenario	67	90	153
Optimistic Scenario	119	168	208
Fertilizers			
Conservative Scenario	66	83	105
Other sectors			
Conservative Scenario	33	43	64
Optimistic Scenario	46	63	78
Total			
Conservative Scenario	**166**	**216**	**322**
Optimistic Scenario	**231**	**314**	**391**

Source: ICRA

The major gas pipeline companies such as Gail (India) and GSPL plans to put up major gas pipelines. Gail is setting up a national gas grid and has planned 5,052 km of pipelines.

Exhibit 6: Proposed projects by GAIL

GAIL Planned projects	Length in Km	States covered
Up-gradation of DVPL pipelines	610	Gujarat and MP
Up-gradation of GREP pipelines	505	MP and UP
Up-gradation of Vijaipur- Jagdishpur pipeline	571	MP and UP
Dadri-Bawana-Nangal pipeline	610	UP, Haryana and Punjab
Chainsa-Gurgaon- Jhajjar- Hissar pipeline	310	Haryana and Rajashthan
Jagdishpur-Haldia pipeline	876	UP, Bihar, Jharkhand and WB
Dhabol-Bangalore pipeline	730	Maharashtra and Karnataka
Kochi-Kanjirkkod- Mangalore / Bangalore	840	Kerala and Karnataka

Source: GAIL presentation

- **Water resources management – another key area**

Water resource management is another major area where huge demand is likely to kick in. Rapid economic growth in India has thrown up an urgent need to develop and improve water supply systems in urban areas. Water resources management has been one of the major focus areas of the government in the last few budgets. According to the World Bank, projects worth around US$5.20 billion are either under execution or in the pipeline. Assuming a price realization of US$1,000 per tonne (mostly HSAW pipes are used in water management), we believe that there is an opportunity of 5.2 million tonnes (US$2.41 billion).

Exhibit 7: Water resources management – generating billions of dollar domestic opportunity

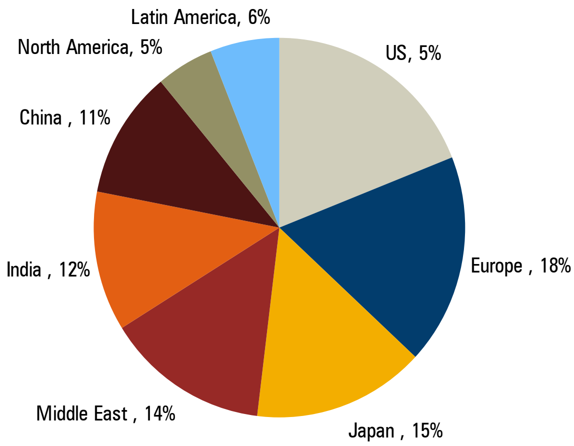
Project name	Approval date	Closing date	Cost (US$, million)	Project status
Second Karnataka Rural Water Supply and Sanitation Project	18-Dec-01	31-Dec-07	193.44	Active
Kerala Rural Water Supply and Environmental Sanitation Project	07-Nov-00	31-Dec-07	89.8	Active
Madhya Pradesh District Poverty Initiatives Project	07-Nov-00	30-Jun-08	134.7	Active
Maharashtra Rural Water Supply and Sanitation "Jalswarajya" Project	26-Aug-03	30-Sep-09	268.6	Active
Karnataka Municipal Reform Project	14-Mar-06	30-Apr-12	310	Active
Third Tamil Nadu Urban Development Project (	05-Jul-05	30-Mar-11	435	Active
Hydrology Project Phase II	24-Aug-04	30-Jun-12	135.05	Active
Punjab Rural Water Supply and Sanitation	14-Dec-06	31-Mar-12	261.4	Active
Karnataka Urban Water Sector Improvement Project	08-Apr-04	31-Dec-08	51.53	Active
Uttaranchal Rural Water Supply and Sanitation Project	05-Sep-06	30-Jun-12	224	Active
India: Emergency Tsunami Reconstruction Project	03-May-05	30-Apr-08	682.8	Active
Delhi Water Supply & Sewerage	N/A	N/A	250	In the pipeline
Tamil Nadu Rural Water Supply and Sanitation Project	N/A	N/A	625	In the pipeline
Andhra Pradesh Urban Reform & Municipal Services Project	N/A	N/A	303	In the pipeline
India - Capacity Buildng for Industrial Pollution Management	N/A	N/A	89	In the pipeline
Dam Rehabilitation & Improvement Project	N/A	N/A	400	In the pipeline
IN: National Urban Infrastructure Fund	N/A	N/A	200	In the pipeline
Capacity Building for Urban Local Bodies - NURM Capacity Building	N/A	N/A	40	In the pipeline
Gas Recovery and Reuse from Closure of Three Delhi Landfills (Carbon Finance)	N/A	N/A	15	In the pipeline
Gujarat Urban Development Program	N/A	N/A	130	In the pipeline
Integrated Coastal Zone Management Project	N/A	N/A	107	In the pipeline
Andhra Pradesh Rural Water Supply & Sanitation Project	N/A	N/A	250	In the pipeline

Source: World Bank

- **India set to benefit from global demand supply imbalance**

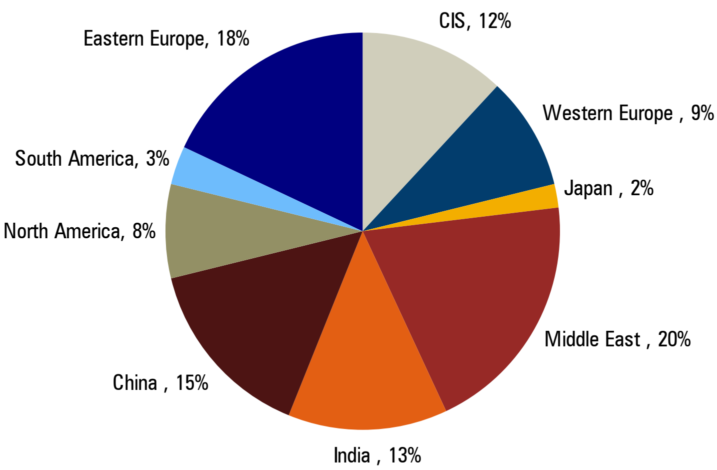
Global supply of SAW pipes is likely to remain tight in coming couple of years. India is set to benefit from the supply demand imbalance. We expect global demand for SAW pipes, including India, would be in the range of 16-17 million tonne per annum. On supply side, an estimated 16 million tonne of SAW pipes were produced, in which India accounted 12% for both LSAW and HSAW, ranking at number 5.

Exhibit 8: Share of different geographies in global production of LSAW pipe in 2006



Source: MBR presentation

Exhibit 9: Share of different geographies in global production of HSAW pipe in 2006



Source: MBR presentation

Order book suggests strong demand for Indian pipes in US, Middle East

All major Indian pipe manufacturers are supplying to North America and Middle East. About 70% of the order book is for exports.

Exhibit 10: Order book position of Indian companies

Company	Order book position (Rs, Crore)
Welspun Gujarat	5160
Jindal SAW	2900
Maharashtra Seamless	1000
PSL Limited	2200
Man Industries	2400
Total	**17170**

Source: Company

We prefer LSAW over HSAW

The margins are higher for LSAW pipes against HSAW on account of higher realizations and lower manufacturing cost (see exhibit). Efficiency is also better for LSAW pipes (see exhibit).

Exhibit 11: Qualitative comparison of LSAW vs. HSAW

	HSAW	LSAW	LSAW scores over HSAW
Yield	90-96%	99-100%	Less scrap
Speed	Slow	Fast	Higher capacity utilization
Welding length	Long	Comparatively lower	Less cost

Source: ICICIdirect Research

Long-term outlook is bullish for LSAW

We believe LSAW pipes would continue to score better than HSAW in terms of profitability. Currently, the difference between the price of plate (raw material for LSAW) and hot-rolled coil (raw material for HSAW) is about US$250-300 per tonne for different grades of steel. Globally, a large capacity expansion is happening in plates. In coming 1-3 years, these facilities would be commissioned. Increase in supply would lead the prices of plates to fall and the price differential between plate and coil will fall upto US$100. We believe lower raw material prices would lead the LSAW prices to decline without any erosion in margins.

Increase in plates capacity to boost margins on LSAW pipes

With global plate facilities going onstream, we believe margins on LSAW would improve, as the increase in supply of plates would lower plate prices. In the domestic market, no major capacity expansion is happening in LSAW. In India, most of the capacity addition is happening in HSAW. Currently, LSAW capacity in India is roughly 2 million tonne, which requires 2.08 million tonne of plates (assuming 4% process loss). About 4-million tonne plate capacity is likely to come up in 2-3 years. Though plates are also used in other industries, we believe there would be a comfortable supply of plates leading to decline in landed cost of plates.

Exhibit 12: Quantitative comparison of LSAW vs. HSAW (in US $ per tonne)

	HSAW	LSAW
Realization	10-1200	13-1500
Raw Material	770	900
Conversion cost	100-110	50-60
Gross contribution	130-320	350-540
Contribution margin	13-27%	27-36%

Source: ICICIdirect Research

- **Half the volume of sales in LSAW will earn the same profit as HSAW**

Industry experts suggest that out of total demand for pipes, HSAW pipes constitute roughly 65%. But we still believe LSAW is a good long-term business. We believe profits on sales volume of 50 million tonnes of LSAW pipes will be equal to the profit generated from the sales of 100 million HSAW pipes. From the above exhibit, it is evident that the gross margin is almost half in HSAW as compared to LSAW. This augurs well for the players, which are diversified in both LSAW and HSAW pipes. Going forward, we expect the margin differential to increase due to increase in supply of plates.

- **Indian players have more orders for LSAW pipes**

Globally, demand for HSAW pipes is higher against LSAW pipes for on-shore projects, although the 63% of order book of Indian companies is for LSAW pipe (see exhibit 13).

Exhibit 13: Order for LSAW score way ahead of HSAW

	Total	HSAW	LSAW
PSL	2200	2200	0
Jindal SAW (Rest orders are in Seamless Rs 205 crore & DI Rs 308 crore)	2900	308	2152
Welspun Gujarat	5160	600	4560
Man Industries	2400	1200	1200
Total	12660	4725	7935

Source: Company, ICICIdirect Research

Going forward, we believe orders for LSAW pipes would remain high due to its pressure bearing strength. Further, the decline in plate prices as a result of increased supply would lower realizations for LSAW pipes, which would further induce more demand.

- **Capacity additions in HSAW pipes - competition may intensify**

Currently, the Indian pipe sector has a total HSAW capacity of 1.75 million tonnes. By FY08, additional capacity addition of 0.8 million tonne is expected to be added. Indian players such as Welspun Gujarat, PSL and Man Industries are putting up around 0.8 million tonne HSAW capacity in the US. Increased supply of HSAW pipes is likely to increase the bargaining power of buyers. Increase in competition may put pressure on HSAW prices. On raw material front, we do not expect softening of HR coil prices.

- **Working capital cycle for LSAW manufacturers to shrink**

Currently, LSAW pipe manufacturers import plates mainly from Europe and other countries. This cycle takes about 45 days. Once plates are available domestically, the procurement cycle would decline to 15 days. Reduction in working capital cycle would improve the cash position of companies. We believe working capital cycle of LSAW pipes manufacturer would reduce by 1 month after the 2-3 million tonne per annum plate capacities in India gets commissioned. Four Indian players (JSW, Jindal Steel & Power, Essar Steel and Welspun Gujarat) are setting up plate plants in India. Jindal Steel plate plant has started production but is awaiting API grade approval. Other plate capacities are likely to be commissioned over the next two years.

Why the pipe sector?

The setting up of transportation infrastructure in the wake of burgeoning crude prices is increasing the demand for SAW pipes. SAW pipes' demand is likely to remain robust due to diverse point of uses of crude and concentration of source of crude in the Middle East. Indian pipes manufacturers have the advantage of being in the close proximity to Middle East vis-à-vis other major pipe manufacturers in Japan or Europe. Transportation cost is a major cost for the pipe manufacturers to ship the pipes to Middle East, which around half as compared to that from Japan. Moreover the domestic demand is also high with various organizations have put their plans to lay pipeline infrastructure for oil transportation. Seamless pipes' demand is also likely to take a leap on account of depleting reserves and rising complexity in the oil exploration and production (E&P) process.

SAW pipes – the energy carriers

SAW pipes are large diameter pipes, which are manufactured by welding the edges of plates or by spiral welding of hot rolled coil (HR coil). The SAW pipes manufactured from plates are called LSAW pipes as they are rolled and welded to form a pipes shape. There is longitudinal welding in LSAW pipes. HSAW pipes are made from HR coil, where in the coil is welded spirally to give a shape of pipe. In HSAW pipes the length of welding is larger as compared to that in LSAW. Depending on the length of welding, the HSAW pipes are perceived to be weaker as compared to the LSAW pipes. But now, due to substantial advancement in the welding technology, there is almost negligible difference in the pressure-bearing strength of the two types of pipes.

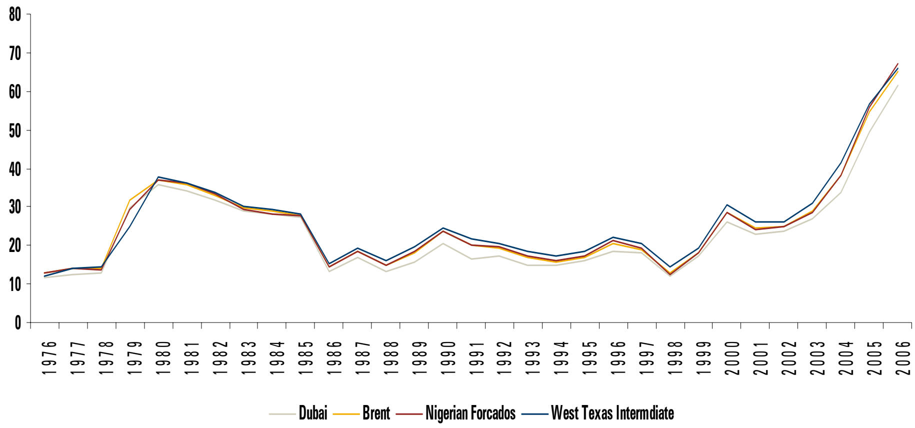
- **Factors driving domestic demand for SAW**

SAW pipes demand in India is likely to rise exponentially due to spiraling crude prices, regulated prices of petroleum products, lower penetration of pipeline in oil & gas transportation and high transportation cost via rail & road.

Rising crude prices

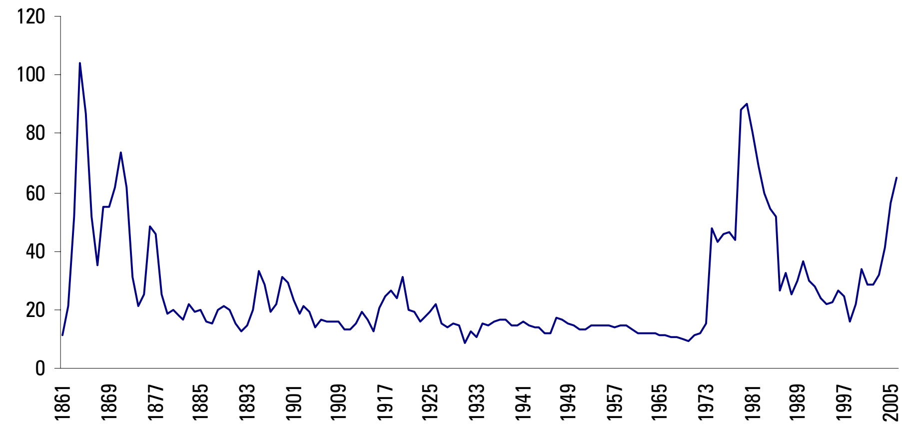
During last couple of years, crude prices have moved up substantially and are likely to stay firm at current levels and may even move up further from hereon. In nominal terms, prices are at the highest level since 1976. However, it terms of today's dollar (adjusted for inflation), prices are yet to reach the all-time high levels.

Exhibit 14: Price movement of different types of crude



Source: BP World energy review June 2007

Exhibit 15: Crude price in terms of today's dollar

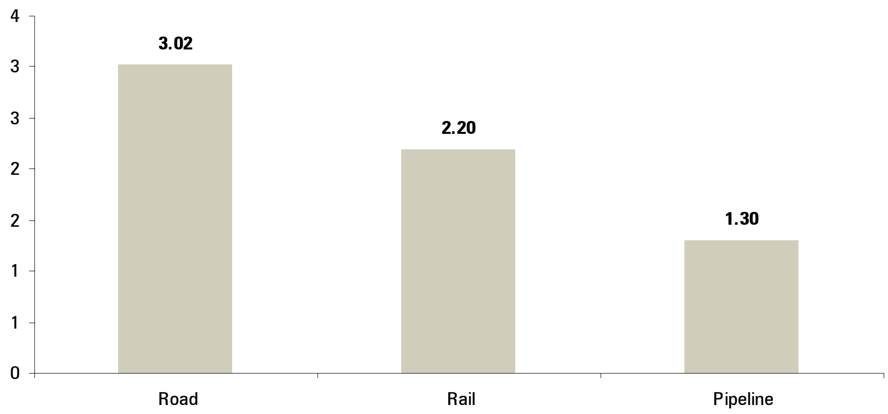


Source: BP World energy review June 2007

High transportation cost via rail & road

Prices of petroleum product such as diesel, petrol, kerosene and LPG are tightly regulated in India. When crude prices move up, ideally prices of these products should move up but due to highly regulated structure, it does not mirror the trend in crude prices leading to substantial under-recoveries for the oil marketing companies. Transportation cost via pipeline is 50% economical than by rail or road and would help the oil companies in pruning losses.

Exhibit 16: Transportation cost via different modes of transportation

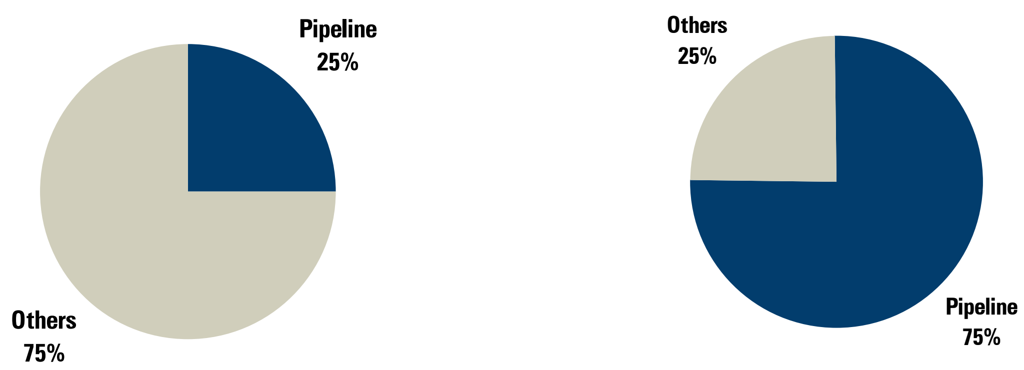


Source: Industry data

Lower penetration of pipeline in India

India has a very low pipeline penetration vis-à-vis the developed countries and global average of pipeline penetration. In India, pipeline has a 25% share in the oil & gas transportation, which is substantially lower than the global average 75%.

Exhibit 17: Pipeline share of total transportation of oil & gas



Source: Industry data

Pipes – An introduction

Our bullishness on the pipes sector stems from the growth anticipated in the energy & water infrastructure. Pipes used in oil & gas and water transportation (LSAW & HSAW) are witnessing buoyancy due to rising crude prices while those used in oil & gas exploration (seamless) are gathering momentum due to depleting global oil & gas reserves. Auto sector consumption of seamless pipes is also on growth path. (See exhibit 18).

Exhibit 18: Pipes & their uses

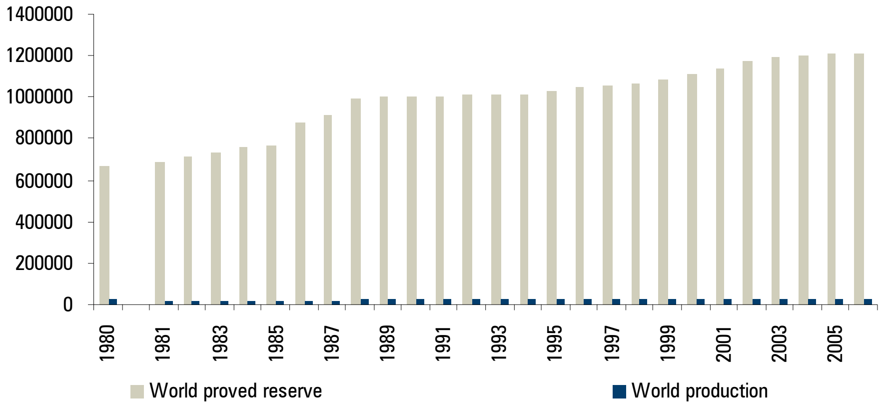
	Longitudinal Saw Pipes (LSAW)	**Spiral/Helical Saw Pipes (HSAW)**	**Seamless Pipes**	**Ductile/Cast Iron (DI/CI Pipes)**	**Electric Resistance Welded (ERW)**
Application	Oil & Gas Transportation	Oil & Gas Transportation, Water transportation	Petroleum , Exploration, general engineering, Boilers, Automotive	Water transportation, sanitation & housing	Oil & Gas/ Water Distribution
Size	16' to 50" diameter	18' to 100" diameter	½" to 14" diameter	3' to 39" diameter	½" to 22" diameter
Major player	Welspun Gujarat Stahl Rohren	Jindal SAW	Jindal SAW	Jindal SAW, Electrosteel Casting, Lanco Kalahsti, Kesoram Industries	Welspun Gujarat Stahl Rohren
	Man Industries	Welspun Gujarat Stahl Rohren	Maharashtra Seamless		Maharashtra Seamless
	Jindal Saw	Man Industries	ISMT, BHEL		
		PSL	Remy Metals Gujarat		
Key differentiator	Used under high pressure conditions	Used under low pressure conditions	Wide application in oil related and non-oil industries	Ductile is rapidly replacing Cast Iron steel pipes	Limitation on size, thickness and grade
	Demand directly related to investments in Oil & Gas sector	Demand directly related to investments in Oil & Gas sector and water projects			SAW/DI/Seamless are the replacement

Seamless Pipes

- **Depleting reserves to push seamless pipes demand**

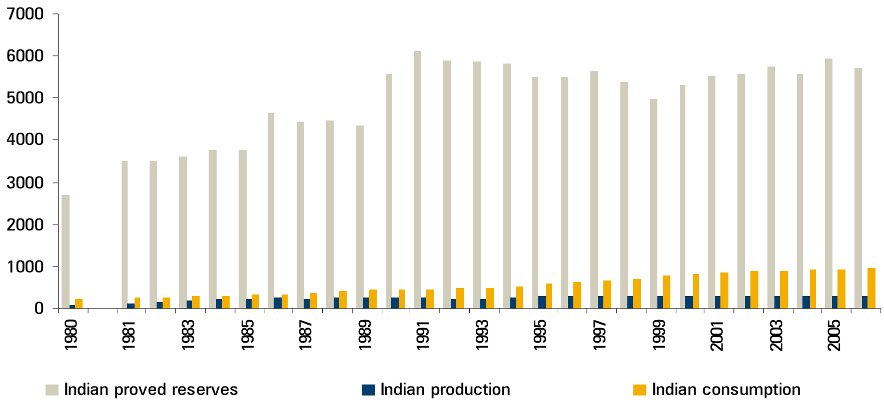
Seamless pipes demand depends upon exploration activity. Both internationally and domestically, consumption of crude oil & gas is increasing. The gap between the proved reserve and production is rising indicating the buoyancy to sustain.

Exhibit 19: Gap between proved reserve & production is rising



Source: BP World energy review June 2007

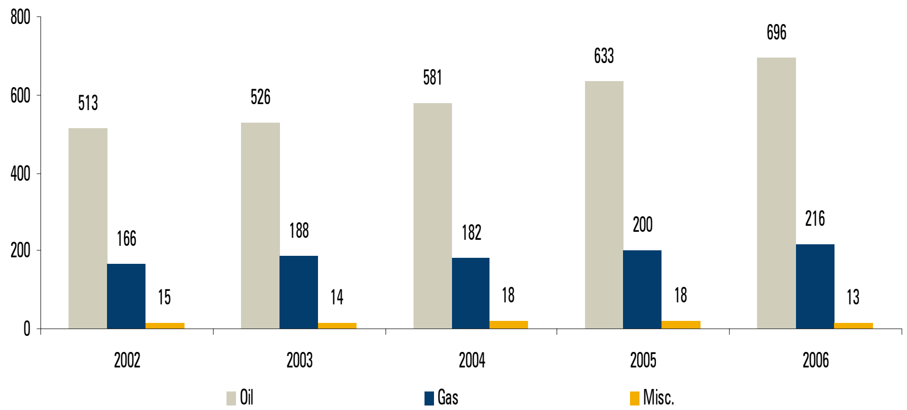
Exhibit 20: Gap between Indian proven reserve and production



Source: BP World energy review June 2007

Moreover, depleting reserves and rising rig counts are likely to increase the demand for seamless pipes. As per estimates of Tenaris, global consumption of OCTG (Oil Country Tubular Goods) is pegged at 11 million tonnes out of which seamless pipes constitute the major chunk of 70%. Currently, seamless pipes sell at Rs 50,000 per tonne (US$771 per tonne), we estimate the global demand is pegged at around US$46 billion in the next 5 years. We believe that most of the demand would be concentrated in Middle East and North America.

Exhibit 21: Rising counts for both Oil & Gas



Source: Tenaris

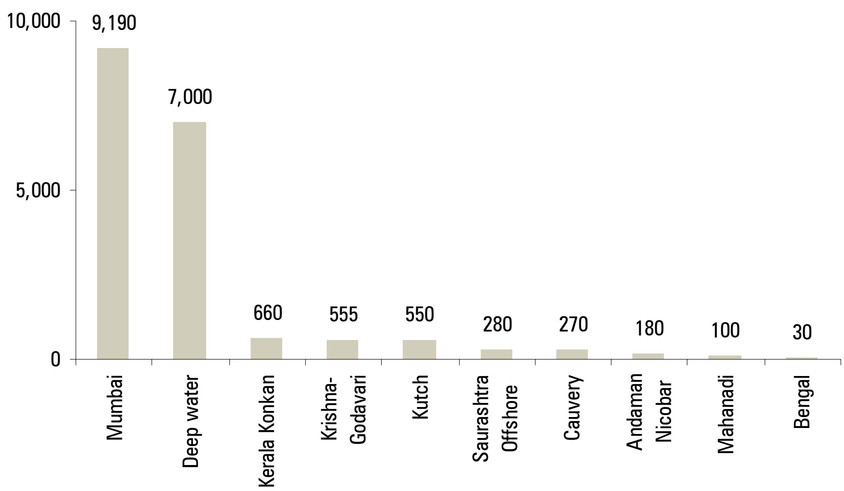
Rising complexity in exploration and migration of drilling activity from onshore to offshore wells is likely to drive consumption of OCTG.

Exhibit 22: Rising offshore drilling wells in India

	2003-04		2004-05		2005-06 P	
	Wells (No)	**Meter (in '000)**	**Wells (No)**	**Meter (in '000)**	**Wells (No)**	**Meter (in '000)**
Exploratory	137	374	117	329	114	342
- Onshore	107	287	84	217	82	236
- Offshore	30	87	33	112	32	106
Development	217	472	216	510	187	459
- Onshore	158	330	180	399	145	322
- Offshore	59	142	36	111	42	137
Total	**354**	**846**	**333**	**839**	**301**	**801**

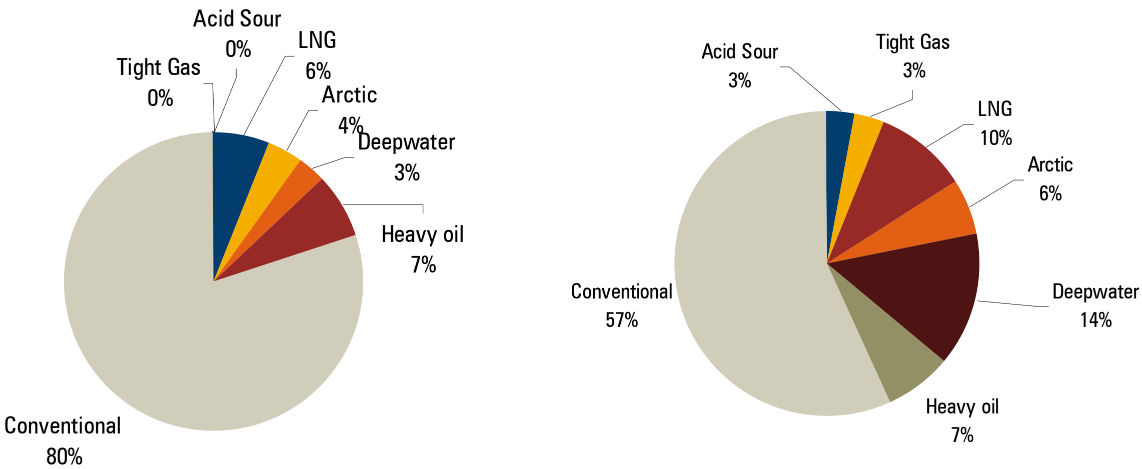
Source: MoPNG

Exhibit 23: Offshore basins as on April 1, 2006 (in million tonne)



Source: CRISINFAC

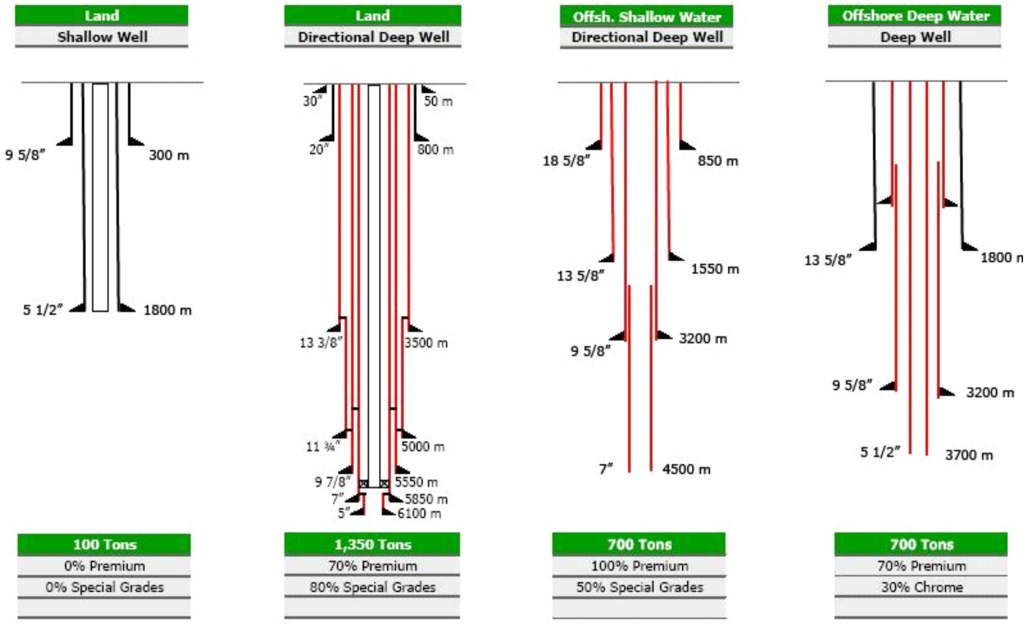
Exhibit 24: Rising rig counts for both Oil & Gas



Source: Tenaris

Generally, the exploration and development costs of an offshore field is 2-5 times higher than those of an onshore oil field. On-shore exploration may range from single well fields to those fields covering substantial areas. In a commercially viable onshore field, well-head equipment consisting of the casing head, casing hangers, tubing hangers, and a Christmas tree are installed on the surface. In off-shore operations, depending upon the amount of reserves and the water depth, different production facilities are used. Some rigs are built on ships or barges for work on inland water, where there is no foundation to support a rig. The best facility is a platform that is driven deep into the seabed. There are two types of platforms – well platforms and process platforms. Well platforms are used for drilling development wells. Process platforms have the capability to separate oil, gas and water. The technology for offshore fixed platforms has improved remarkably in recent years, because of the requirement for drilling in deeper waters. Once the rig is set up, the drilling operations commence.

Exhibit 25: Pipe requirement in different drilling wells



Source: Tenaris

Risks to our call

We have assumed that when plate capacities come up, prices of plates would decline. Any delay in commissioning of the new capacities may decrease the benefits that could have accrued to the LSAW pipe manufacturers on their commissioning. This may impact the valuations of Jindal SAW, Man Industries, Welspun Gujarat and Man Industries. The delayed commissioning of plate capacities will impact negatively Jindal SAW and Man Industries whole it would impact positively PSL. For Welspun Gujarat, it would have neutral impact as the company is foraying into the plate manufacturing and also manufactures HSAW pipes. Welspun Gujarat's plate plant is likely to come up by December 2007. So any delay by others will benefit it.

Entry of new players into the industry may increase supply, impacting realizations. This will have a bearing on the numbers and valuation.

We foresee an adverse risk-reward ratio in Welspun Gujarat. The company is going to manufacture plates as a backward integration initiative. It would utilize around 3 lakh tonne of plates in-house while the rest 7 lakh tonne would be sold in the markets. If the plate price falls, the company will have lower realization on plates that is available for sale in the market. In such a scenario, the debt on the books generated for the plant would lead to a pressure on the RoNW and RoCE. If plate prices do not fall even after the commissioning of new capacities, the company would be a prime beneficiary of the higher plate prices.

Valuation

We prefer companies that are diversified in terms of the kind of pipe they manufacture. We expect the price differential between the HSAW and LSAW pipes to contract in medium to long run. Our interaction with industry participants suggests that demand for HSAW pipes is comparatively higher. We expect demand for HSAW pipes to remain bullish in the short to medium-term due to lower prices, while that of LSAW to pick up in medium to long term with decline in prices. Further we believe LSAW pipes would continue to command better margins over HSAW pipes due to lower manufacturing cost. We prefer the diversified players, which have de-risked themselves from swinging of demand in the two scenarios. In our universe of pipes companies, we believe all companies are attractively valued and we rate them OUTPERFORMER for two years investment horizon. But our order of preference would be Jindal SAW, Man Industries, PSL Limited, Maharashtra Seamless and Welspun Gujarat.

Jindal SAW's manufacturing capabilities are skewed towards LSAW pipes, but it has a diversified exposure to other pipes such as HSAW, ERW, Ductile Iron and Seamless pipes. Being the most diversified pipe manufacturer in India, the company is vertically integrated for DI pipes from the level of iron ore. More importantly, the exposure of group companies of Jindal SAW to the main raw materials for LSAW and HSAW pipes would provide it a raw material security.

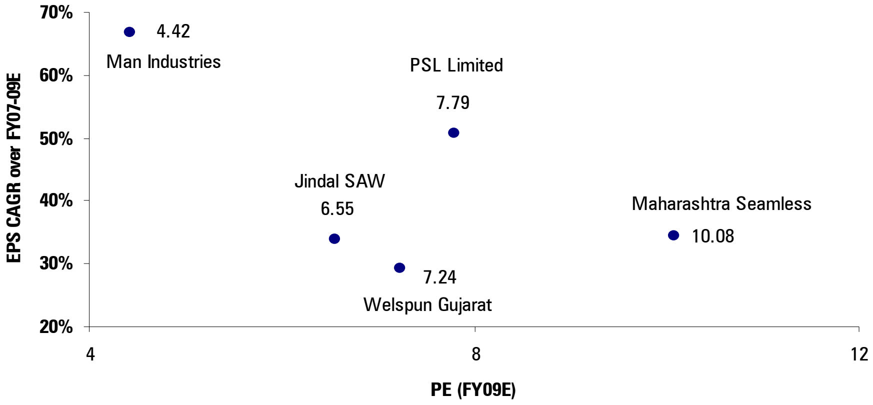
Our second preference is Man Industries as its total capacity of 1 million tonnes is equally divided between the LSAW and HSAW pipes. It also has a good international presence with 90% of its Rs 2,400 crore order book coming from export markets. But there may be a risk in the long-term if the rupee continues to appreciate. As of now, the company has natural hedge against rupee appreciation to the extent of 75% of revenue because of imports of raw material. The risk may emanate if the revenue mix is tilted towards international market and the plates are available in the domestic markets.

PSL falls on the third level of our preference. It is a good bet in the short run because it manufactures only HSAW pipes, which is high in demand from the domestic markets. It has an order book of Rs 2200 crore out of which 80% is from the domestic markets.

Welspun Gujarat is well diversified in HSAW, LSAW and ERW, the company is in expansion phase and we expect the benefits of expansion would be visible from FY09E.

We expect the EPS of Maharashtra Seamless to grow at a CAGR of around 35% over FY07-09E on the back of increased demand of seamless pipes and phased capacity expansion. We believe the P/E multiple would mirror the growth in the future. Strong fundamentals of the company are likely to support PE multiples. The return on capital employed (RoCE) is likely to be over 37% in FY09E due to lower cost of expansion and continued demand of seamless pipes. Return on net worth (RoNW) is also likely to be over 27% in FY09E. The company is valued at a PE of 10.08x FY09E EPS of Rs 60.10 and 15x the FY08E EPS of Rs 40.39.

Exhibit 26: Valuation matrix vis-à-vis EPS



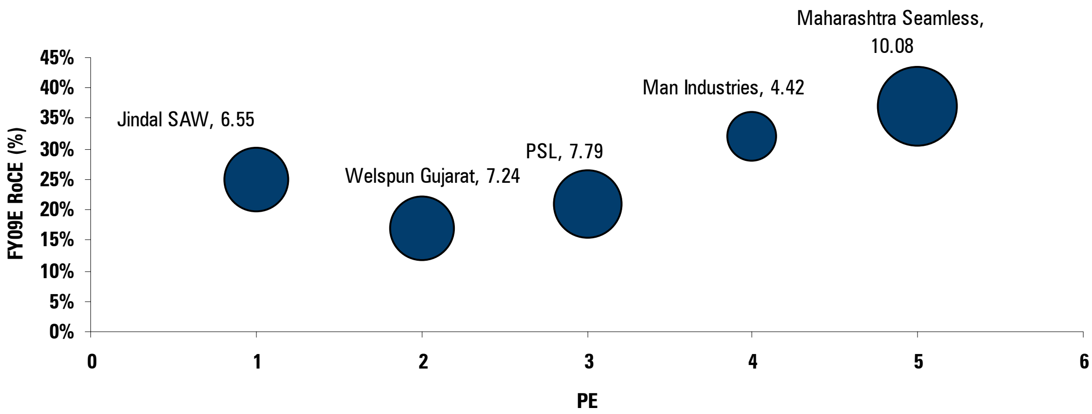
Source: ICICIdirect Research

Man Industries is trading at a lower P/E multiple despite higher EPS growth CAGR while Jindal SAW follows up on the same parameter.

- **Strong fundamentals reflect in P/E**

Maharashtra Seamless has the highest return on net worth due to lower dilution and appears most attractive in return ratio terms. It has also very high return on capital employed due to its ability to expand capacity at one fourth of the cost of similar expansion by others which we feel is commendable. Welspun Gujarat has one of the lowest return ratios as the expansion is likely to fetch growth beyond FY09E. (In the following charts, size of the bubble indicates the PE of the company. In terms of RoNW and RoCE, Maharashtra Seamless is the best option.)

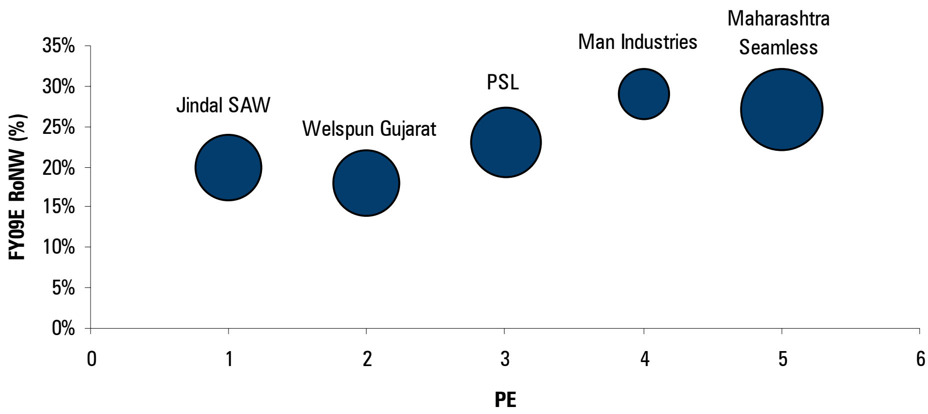
Exhibit 27: RoCE Vs. PE



Source: ICICIdirect Research

In terms of RoCE, Jindal SAW and Man Industries are the best plays as they are trading at lower PE (which is depicted by the size of the bubble) vis-à-vis other players.

Exhibit 28: RoNW Vs PE



Source: ICICIdirect Research

In terms RoNW, Jindal SAW and Man Industries are the best buys as they are trading at lower PE (which is depicted by the size of the bubble) vis-à-vis other players.

Exhibit 29: Valuation at a glance

			PE			EV to EBIDTA		
Company	**Market cap (Diluted)**	**CMP**	**FY07**	**FY08E**	**FY09E**	**FY07**	**FY08E**	**FY09E**
Jindal SAW	3243	605	11.20	9.88	6.55	6.11	4.79	2.87
Welspun Gujarat	3356	240	12.07	7.34	7.24	13.73	9.35	7.83
PSL	1271	323	19.34	12.18	7.79	12.30	8.08	5.30
Man Industries	679	255	12.28	6.52	4.42	6.22	7.59	4.55
Maharashtra Seamless	4293	606	18.24	15.00	10.08	12.52	9.52	6.46

Source: ICICIdirect Research
**Jindal Saw year ending September 2006*

Initiating Coverage

Jindal SAW (SAWPIP)

Current price	Target price
Rs 605	Rs 738
Potential upside	Time Frame
22%	12-15 months

OUTPERFORMER

Raghvendra Kumar
raghvendra.kumar@icicidirect.com

Jindal SAW (JSL) remains our top pick despite the divestment of its US operations. We believe the divestment is earning accretive, as the company will now have a focused approach towards its robust high-margin Indian operations, wherein it follows an integrated and diversified business model. Further, de-bottlenecking and capacity additions would yield healthy EPS growth due to improved product mix. With all the business drivers in full throttle, lower P/E multiple of 6.5x FY09E EPS makes the stock risk-reward favorable.

- **Divestment of US business – EPS accretive**

We believe divestment of US operation, which contributed about 44% to FY06 turnover, is earnings accretive. EBIDTA margin is set to improve FY08 onwards due to the following reasons: (1) US operations had low EBIDTA margin; (2) parking of the proceeds in high-margin Indian operations; and (3) reduction in interest cost on account of de-leveraging of business.

- **Ramping up seamless pipe capacity by 2.5x**

JSL is expanding its seamless pipes capacity from 1 lakh tpa to 2.5 lakh tpa by the end of FY08 at an investment of Rs 300 crore. With the expansion, JSL is setting up PQF mill, which would improve the seamless pipe's yield from 78% to 88%. We believe gross contribution (sales less raw material cost) would rise and seamless pipe's sales contribution would be doubled.

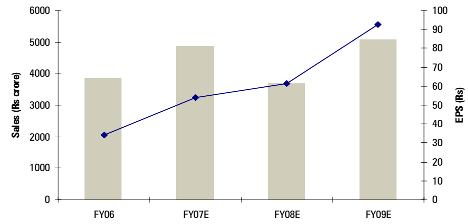
- **Favourable risk reward**

It is the only company in Indian pipe sector that provides total large DI pipe solution to the water management and oil & gas sector. Being the most diversified, it is also integrated for DI. Intra group, it is integrated for its entire offering.

Valuations

We expect the EPS to grow at a CAGR of more than 39% over FY06-09E. Historically, the stock has traded in the P/E band of 4x-12x against the EPS CAGR of 24% over FY02-05. Currently the stock trades at 6.55x FY09E EPS of Rs 92.37. At the P/E of 8x FY09E EPS, the 12-15 month target price works out to 738.

Sales & EPS trend



Stock matrix

Promoters holding	42.22%
Market Cap	Rs 3243 crore
52 Week H/L	Rs 728 /300
Sensex	15590
Average volume	64070

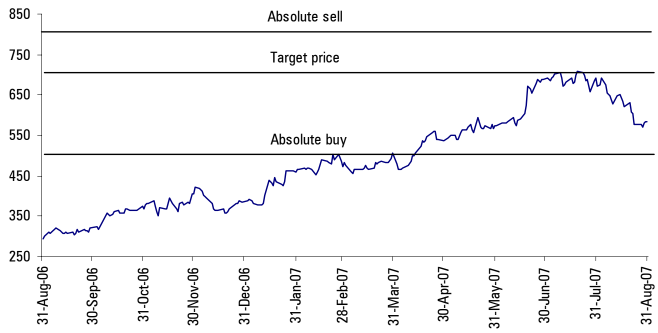
Comparative return metrics

Stock return	3M	6M	12M
PSL Limited	37%	53%	61%
Welspun Gujarat	36%	134%	236%
Man Industries	16%	29%	39%
Jindal SAW	2%	22%	95%
Maharashtra Seamless	-4.34%	21%	60%

Exhibit 30: Key Financials

Year to September 30	FY05	FY06	FY07E	FY08E	FY09E
Net Profit (Rs crore)	99.45	165.08	289.63	328.44	495.22
Shares in issue (in crore)	9.42	9.67	10.72	10.72	10.72
EPS (Rs)	21.11	34.13	54.02	61.26	92.37
% Growth		61.70%	58.26%	13.40%	50.78%
P/E (x)	28.66	17.72	11.20	9.88	6.55
Price / Book (x)		3.44	2.08	1.23	1.06
EV/EBIDTA (x)	14.36	10.08	6.11	4.79	2.87
RoE (%)	14%	19%	19%	12%	16%
RoCE (%)	12%	14%	22%	18%	22%

Source: ICICIdirect Research



Company Background

Jinsal SAW (JSL) is India's one of the largest producers of SAW pipes. It is integrated for DI pipes and seamless pipes. JSL has a diversified product portfolio. It produces SAW pipes, carbon, alloy and stainless steel seamless tubes, which are manufactured by conical piercing process and used for industrial application & ductile iron (DI) pipes for water and sewage transportation. JSL is a market leader and a global major in providing total pipe solutions. Its business operations are structured with three strategic business units (SBUs) – SAW pipes, seamless tubes and DI (Ductile Iron) Spun Pipes. Every SBU has its own dedicated sales marketing targets and operations. The company recently sold its fourth SBU in the American market. The sale of the SBU in US is likely to fetch post tax US$200 million, which the company plans to utilize for de-leveraging the balance sheet and in enhancing the capacity in LSAW and HSAW pipes. Besides these, JSL also provides various value added products and services like anti-corrosion coatings for pipe and bends, bends and connector casings.

Share holding pattern

Shareholder	Percentage holding (%)
Promoters	42.22
Institutional investors	35.66
Other investors	16.01
General public	06.11

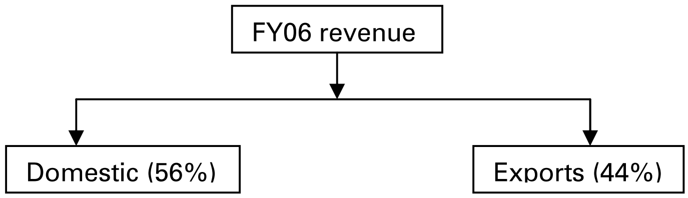
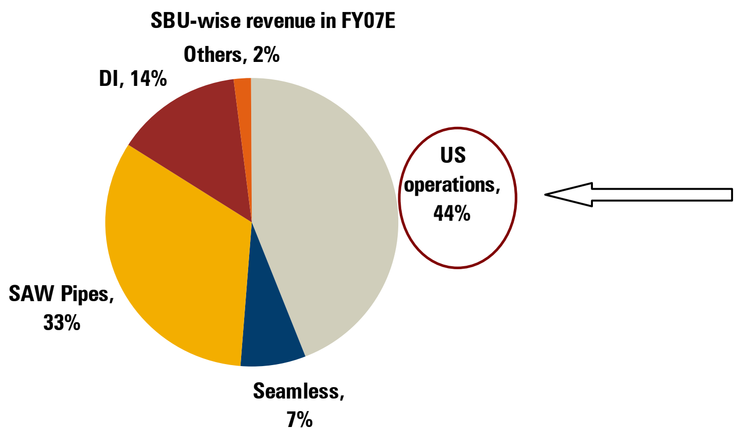


Exhibit 31: Business model



The company sold this business and is likely to get US$200 million post tax, which it plans to utilize for capacity addition in other business segments

INVESTMENT RATIONALE

Divestment of US business – EPS accretive

We believe divestment of US operation, which contributed about 44% to FY06 turnover, is earnings accretive as EBIDTA margin are set to improve FY08 onwards. The reasons being 1) US operations low EBIDTA margin; 2) parking of the proceeds in high margin Indian operations; and 3) reduction in interest cost on account of de-leveraging of business.

1) US operations had low EBIDTA margin

We believe post divestment of US operations, EBIDTA margin would improve as 45% of total turnover (which was coming from US operations) was generating EBIDTA margin of 8-9% while the 55% (from Indian operations) was generating EBIDTA margin of 16-18%. With divestment of US operations in FY07 (year ending Sept 30), we expect a combined EBIDTA margin of 11.60% for FY07E. From FY08 onwards we expect EBIDTA margin to expand to 15% in FY08E & 17.72% in FY09E.

2) Parking proceeds in high-margin Indian operations

With the proceeds of the sale of US operations of US$200 million (post tax), the company plans to enhance its LSAW as well as HSAW capacity. The company has already 800,000 tonne LSAW capacity and it plans to ramp it up to 1 million tonne. Looking at the rising demand of HSAW pipe in the domestic markets the company decided to ramp up the HSAW capacity as well. Its 200,000 tonne capacity is coming in March 2008. With the proceeds of the sale, the company plans to set up another HSAW capacity of 200,000 tonne, taking the total HSAW capacity to 0.55 million tonne. We believe the strategy to secure the short to medium term business through HSAW pipes and grow in long term with good margins is praiseworthy.

3) Reduction in interest cost on account of de-leveraging of business

With the proceeds of the sale of US operations, the company plans to de-leverage the business by paying off the short-term loans. We believe interest expenses would decline from Rs 129 crore in FY06 to Rs 81 crore in FY08E. However with the commissioning of new capacities, we expect leverage to increase due to higher working capital requirement on expanded capacity base.

Largest LSAW pipe manufacturer

We believe JSL would be one of the prime beneficiaries of the drive for creating oil & gas transportation infrastructure as it is the largest LSAW pipe manufacturer in the country. The company plans to expand LSAW capacity by 200,000 tonne with proceeds from the sale of US operations. With higher exposure to LSAW pipes, we expect margins to expand. As the company already has a presence in seamless and DI (ductile iron) pipes segment, it would cater to the rising demand from oil exploration segment as well as water resources management.

Exhibit 32: JSL capacities in various segments of pipes

(in tonne per annum)	FY09E	FY08E	FY07E	FY06
LSAW	1000000	1000000	800000	800000
HSAW	500000	500000	150000	150000
Seamless	250000	125000	100000	100000
DI Pipes	200000	200000	200000	
Total	**1950000**	**1825000**	**1250000**	**1050000**

Source: Company & ICICIdirect Research

Strong order book position to drive growth

After the sale of US operations, JSL has an order book of US$0.7 billion to be executed in next 12-15 months. Execution of these projects gives visibility to turnover for FY08E and FY09E. We expect JSL to report net sales growth at a CAGR of 7% over FY06-09E to Rs 4691.81 crore.

Capex in seamless pipe – margins to expand & capacity to be doubled

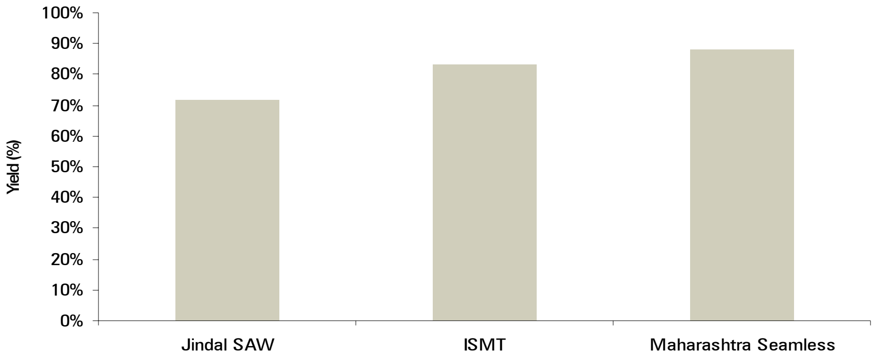
JSL is expanding its seamless pipe manufacturing capacity from 1 lakh tpa to 2.5 lakh tpa at an investment of Rs 300 crore. The new capacity would be operational by the end of FY08. It is also installing balancing equipment, whereby the yield of the seamless pipe plant is likely to improve from current 78% to 88% by FY09E.

Exhibit 33: PQF mill installation set to improve margin on seamless pipes

	With PQF mill	Without PQF mill
Billet used	100	100
Cost (per tonne)	23825	23825
Raw material cost	2382500	2382500
Seamless pipe yield	88%	78%
Production of seamless pipe	88	78
Price of seamless pipe per tonne	50000	50000
Seamless pipe revenue	4400000	3900000
Scrap	12%	28%
Scrap production	12	28
Price of scrap per tonne	12000	12000
Revenue from scrap	144000	336000
Total revenue	4544000	4236000
Raw material cost	2382500	2382500
Gross contribution	2161500	1853500
Gross contribution margin (%)	48%	44%

Source: ICICIdirect Research & company

Exhibit 34: Industry wide Yield comparison



Source: Industry data, ICICIdirect research

De-bottlenecking to increase margins

At the DI pipe manufacturing facility at Mundra, the company is making investment of Rs 70 crore to install a captive power plant of capacity of 15 MW, which will go onstream this financial year. The power plant is likely to save power cost by Rs 30 crore per year. The company has invested Rs 35 crore in setting up sinter plant. With installation of the sinter plant, the company can use iron ore fines also. Along with that the company made capex of Rs 80 crore for de-bottlenecking. We believe that these steps would lead to an increase in conversion of hot metal to DI pipes as compared to pig iron on which the realization is lower. We believe the proportion of pig iron from the hot metal to pipes to decline from 58% in FY06 to 32% in FY07E and 20% in FY08E. Realization on pig iron is around 40% lower as compared to DI pipes while the cost is same.

Exhibit 35: De-bottlenecking to improve margins from DI pipes' segment

DI PIPES	FY09E	FY08E	FY07E
Installed capacity (hot metal)	200000.00	200000.00	200000.00
Capacity utilization	131%	126%	120%
Hot metal Production	262000.00	252000.00	240000.00
Scrap volume per month	10000.00	10000.00	10000.00
Hot metal	252000.00	242000.00	230000.00
Pig iron production (% of hot metal)	20%	32%	58%
Pig iron	50400.00	77440.00	133400.00
DI pipes	211600.00	174560.00	106600.00
Realization pig iron	20000.00	20000.00	20000.00
Realization DI Pipes	32000.00	32000.00	32000.00
Realization on scrap	10000.00	10000.00	10000.00
Revenue pig iron	100.80	154.88	266.80
Revenue DI Pipes	677.12	558.59	341.12
Scrap revenue	10.00	10.00	10.00
Total DI Pipes revenue	787.92	723.47	617.92
Iron ore required	419200.00	403200.00	384000.00
Coke required	157200.00	151200.00	144000.00
Landed price of Iron ore	3600.00	3600.00	3600.00

Price of Coke	8000.00	8000.00	8000.00
Iron ore cost	150.91	145.15	138.24
Coke cost	125.76	120.96	115.20
Total Raw material cost from DI pipes	276.67	266.11	253.44
Gross contribution	**511.25**	**457.36**	**364.48**
Gross contribution margin	**65%**	**63%**	**59%**

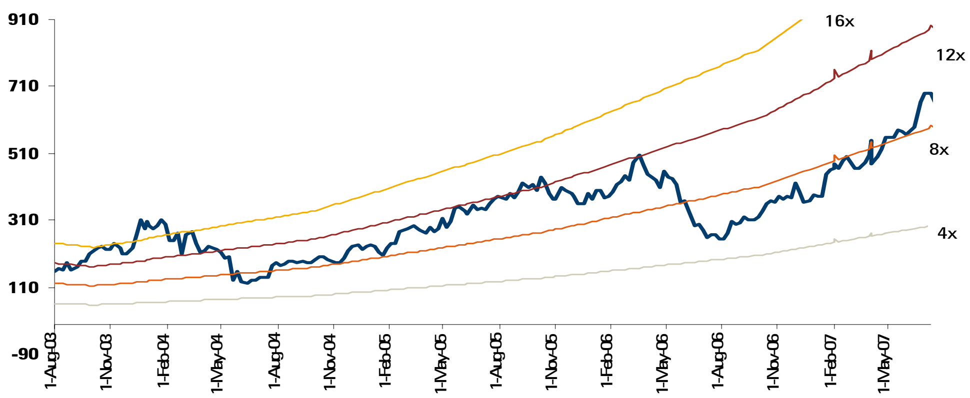
Source: ICICIdirect Research & company

Note: The production process for the DI pipe involves the iron ore to be converted into hot metal. Hot metal when goes into dice, DI pipe is manufactured but when it is left and cooled pig iron is manufactured. So there is no cost involved in further processing from hot metal to DI pipes.

Valuations

The company is the most diversified in terms of product offering and is vertically integrated for DI pipes. Intra group, the company is vertically integrated for its entire product offering, including LSAW, HSAW and Seamless pipes and tubes. The integration and diversification de-risks its business model. Moreover, JSL' 50% market share in the domestic market provides a comfort on revenue front. On the back of the de-bottlenecking and capacity expansion, we expect the EPS to grow at a CAGR of over 39% over FY06-09E. Currently, the stock trades at 6.55x FY09E EPS of Rs 92.37. We rate the stock an OUTPERFORMER with a target price of 738, 8x FY09E EPS for the investment horizon of 12-15 month.

Exhibit 36: P/E Band



Source: ICICIdirect Research & company

Historically, the stock has traded consistently around 8x one year forward EPS and no P/E re-rating has been seen. Our one-year target price of 8x FY09E EPS is justified on this ground.

In terms of EV to EBIDTA, the stock is trading at a multiple of 2.87x FY09E EBIDTA. Our DCF method fetches a value of Rs 738.

Exhibit 37: DCF Valuations (in Rs Cr.)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIDTA	555.30	864.09	779.76	857.74	864.60	867.07	848.40	824.36	779.39	810.57
Interest	88.65	126.08	90.08	102.18	112.83	124.33	133.64	143.52	150.49	157.75
Depreciation	71.80	101.31	98.17	107.98	116.62	125.95	133.51	141.52	147.18	153.07
PBT	416.35	636.71	591.52	647.58	635.15	616.79	581.25	539.32	481.72	499.75
Tax	145.72	236.50	207.03	226.65	222.30	215.88	203.44	188.76	168.60	174.91
PAT	270.63	400.21	384.49	420.93	412.85	400.92	377.81	350.56	313.12	324.84
FCF	409.58	507.76	649.96	433.55	468.46	463.45	492.89	474.40	496.88	517.19
NPV	4690.41									
Equity Share Value	737.70									

Financial Summary

Profit & Loss Account

Year ending Sept 30	FY06	FY07E	FY08E	FY09E
Sales	3873.14	4882.99	3686.26	5073.28
% Growth	61.85%	26.07%	-24.51%	37.63%
Operating Profit	406.54	558.31	579.16	856.22
% Growth	52.19%	37.33%	3.73%	47.84%
Other Income	28.12	44.00	79.00	94.00
Depreciation	53.70	64.90	71.80	101.31
EBIT	380.96	537.41	586.36	848.91
% Growth	53.24%	41.07%	9.11%	44.78%
Interest	129.04	105.13	81.07	87.03
Profit before Tax	251.92	432.28	505.29	761.88
% Growth	67.79%	71.60%	16.89%	50.78%
Taxation	86.84	142.65	176.85	266.66
Tax as % of PBT	34.47%	33.00%	35.00%	35.00%
Net Profit	165.08	289.63	328.44	495.22
% Change YoY	66.0%	75.5%	13.4%	50.8%
Shares O/S	4.84	5.36	5.36	5.36
EPS (Rs)	34.13	54.02	61.26	92.37
CEPS (Rs)	45.24	66.13	74.66	111.27
DPS	5.00	8.10	9.19	13.86

Balance Sheet

Year ending Sept 30	FY06	FY07E	FY08E	FY09E
Sources of Funds				
Share Capital	160.01	153.61	153.61	153.61
Reserves & Surplus	818.24	1508.47	2583.45	3000.19
Secured Loans	867.86	601.86	401.34	451.04
Unsecured Loans	753.87	133.59	133.59	133.59
Deferred Tax Liability	76.31	79.40	76.00	76.00
Current Liabilities & Provisions	1230.32	1485.15	1270.40	1753.12
Liability	3906.61	3962.09	4618.39	5567.55
Application of Funds				
Net Block	855.00	947.13	1413.03	1341.23
Capital Work-in-progress	170.39	0.00	0.00	0.00
Investments	83.56	500.00	1200.00	1500.00
Cash	392.17	216.65	164.24	323.57
Trade Receivables	760.82	954.38	715.70	985.00
Loans & Advances	248.00	246.79	246.79	246.79
Inventory- Other	1396.67	1097.15	878.64	1170.97
Total Asset	3906.61	3962.10	4618.39	5567.55

Cash flow statement

Year ending Sept 30	FY06	FY07E	FY08E	FY09E
Profit after Tax	165.08	289.63	328.44	495.22
Miscellaneous expenses written off	0.00	0.00	0.00	0.00
Dividend Paid	-24.18	-43.44	-49.27	-74.28
Depreciation	53.70	64.90	71.80	101.31
Provision for Deferred tax	16.43	3.09	-3.40	0.00
Cash Flow before Working Capital Changes	211.03	314.17	347.58	522.25
Net Increase in Current Liabilities	729.16	254.83	-214.75	482.73
Net Increase in Current Assets	879.93	-107.17	-457.19	561.63
Cash Flow after Working Capital Changes	60.26	676.17	590.01	443.34
Purchase of Fixed Assets	292.89	-13.36	537.70	29.51
(Increase) / Decrease in Investment	-3.20	416.44	700.00	300.00
Increase / (Decrease) in Loan Funds	423.82	-886.28	-200.52	49.70
Increase / (Decrease) in Equity Capital	45.12	437.65	795.80	-4.20
Opening Cash & Cash equivalents	152.66	392.17	216.65	164.24
Closing Cash & Cash Equivalent	392.17	216.65	164.24	323.57

Ratio analysis

Year ending Sept 30	FY06E	FY07E	FY08E	FY09E
EPS	34.13	54.02	61.26	92.37
Book Value Per Share	176.07	291.37	491.88	569.61
Enterprise Value	3971.11	3272.93	2634.82	2315.19
EV/Sales	1.03	0.67	0.71	0.46
EV/EBIDTA	9.77	5.86	4.55	2.70
Market Cap to sales	0.69	0.60	0.78	0.57
Price to Book Value	3.29	1.99	1.18	1.02
Operating Margin (%)	10.50	11.43	15.71	16.88
Net Profit Margin (%)	4.23	5.88	8.72	9.58
Return on Net-worth	19.39	18.54	12.45	16.22
Return on Capital employed	14.23	21.70	17.51	22.26
Debt / Equity	1.90	0.47	0.20	0.19
Current Ratio	2.27	1.69	1.58	1.56
Quick Ratio	1.14	0.95	0.89	0.89
Fixed Asset Turnover Ratio	4.77	5.45	2.80	4.06
Debtors Turnover Ratio	5.09	5.12	5.15	5.15
Inventory Turnover Ratio	2.92	4.70	4.50	4.65
Cash EPS	45.24	66.13	74.66	111.27

Update

Man Industries (MANIN)

Current price	Target price
Rs 255	Rs 306
Potential upside	Time Frame
20%	12 – 15 months

OUTPERFORMER

Raghvendra Kumar
raghvendra.kumar@icicidirect.com

We have coverage on Man Industries and as the stock reached the target, we are revisiting the company with fresh targets. Man Industries (MIL) is among the country's leading manufacturers of large diameter SAW pipes and coating systems for high pressure applications. The company is sitting on a slew of orders that gives visibility to its earnings. The capacity additions in LSAW and HSAW pipes, will help it ride the demand boom emanating from energy and water segment. We expect the topline to grow at a CAGR over 35% and bottom line at around 67% during FY07-09E.

- **Diversification – the key attraction**

Man Industries' business would be split equally between LSAW and HSAW pipes from December 2007. Equal distribution between the two de-risks its business model and earnings more robust.

- **Timely capex – to ride well the demand boom**

Having already expanded its LSAW capacity, Man Industries is expanding its capacity for HSAW pipe to capture the booming demand emanating from domestic and US markets. The company is also looking out for a joint venture partner in the US for setting up a HSAW plant.

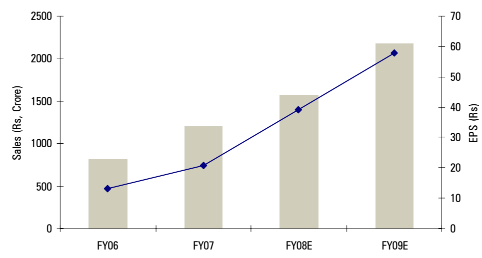
- **Strong order book**

MIL has projects worth Rs 2,400 crore on hand, which are to be executed in next 12-15 months. The execution of these contracts would give visibility to earnings for the couple of years. We believe top line would grow at a CAGR of 35% to Rs 2,183 crore in FY09E and bottom line at a CAGR of 67% to 154 crore.

Valuations

Man Industries' diversified business model de-risks it from product specific risks. Its good presence in Middle East and US increases the revenue visibility, although at lower margins (because of higher transportation cost). Domestically, HSAW pipes demand is likely to be high and sensing this, the company is setting up HSAW unit. We believe the stock is available at an attractive valuation of 4.42x FY09E EPS. We rate the stock an Outperformer

Sales & EPS trend



Stock matrix

Promoters holding	40.49%
Market Cap	Rs 679 crore
52 Week H/L	Rs 332 /161
Sensex	15590
Average volume	95929

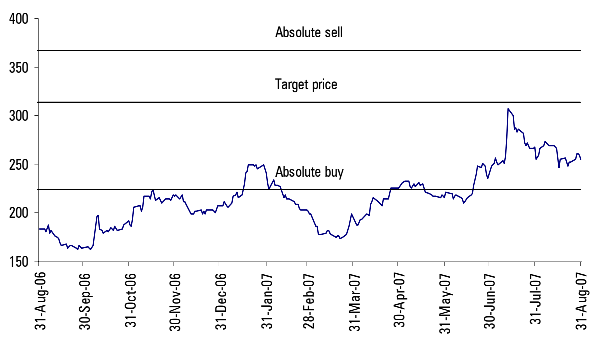
Comparative return metrics

Stock return	3M	6M	12M
PSL Limited	37%	53%	61%
Welspun Gujarat	36%	134%	236%
Man Industries	16%	29%	39%
Jindal SAW	2%	22%	95%
Maharashtra Seamless	-4.34%	21%	60%

Exhibit 38: Key Financials

Year to March 31	FY05	FY06	FY07	FY08E	FY09E
Net Profit (Rs crore)	18.32	35.04	55.30	104.13	153.71
Shares in issue (in crore)	1.901	2.664	2.664	2.664	2.664
EPS (Rs)	9.64	13.15	20.76	39.09	57.70
% Growth		36.49%	57.82%	88.30%	47.62%
P/E (x)	26.46	19.39	12.28	6.52	4.42
Price / Book (x)	5.21	2.48	2.13	1.68	1.29
EV/EBIDTA (x)	14.54	33.41	6.22	7.59	4.55
RoE (%)	20%	13%	17%	26%	29%
RoCE (%)	13%	14%	21%	28%	32%

Source: ICICIdirect Research

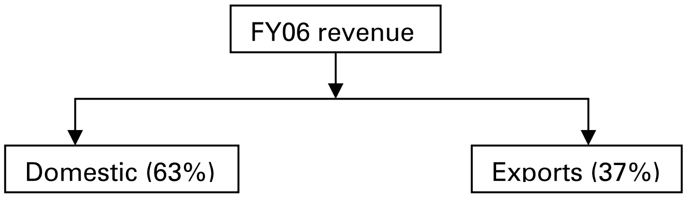


Company Background

Man Industries (India) Ltd, the flagship company of the Man Group, UK, manufactures steel line pipes for high and medium pressure applications such as oil & gas, petrochemical and water transportation, anti-corrosion coating systems. The company started operations in 1989 as an aluminium extrusion company with an installed capacity of 4,000 tonne per annum (TPA). In 1994, it diversified into SAW pipes, by setting up a plant in Pithampur, Madhya Pradesh. Later in 1998, it forward integrated to become an integrated SAW pipe manufacturer with its own polyethylene-coating facility. It also set up a spiral pipe-making mill. In FY05, the company expanded capacity by setting up another plant in Anjar, Gujarat. In order to focus more on pipes sector, the company hived off and sold its aluminium extrusion business. Currently, the company has the capacity to manufacture 500,000 tonne of LSAW. Looking at the increasing demand of HSAW pipes, the company is in the process of expanding capacity in HSAW pipes. Post expansion, Man Industries will have capacity to manufacture 1 million tonne per annum wherein the LSAW and HSAW capacity would 500000 lakh tonne each.

Shareholding pattern

Shareholder	Percentage holding (%)
Promoters	40.49
Institutional investors	24.96
Other investors	22.55
General public	12.01



INVESTMENT RATIONALE

Resilient business model

We like the de-risked & robust business model of the company and expansion initiatives taken by the company to capture growth in the sector. The company is expanding its HSAW capacity from 1.5 lakh tonne to 5 lakh tonne by December 2007. Post expansion, it will have total pipe manufacturing capacity of 1 million tonne, equally split between LSAW and HSAW, making the business more resilient going forward. Demand for HSAW pipes would be higher in the short- to medium-term as they are preferred in the US and domestic markets for on-shore pipeline due to the large price differential between them and LSAW pipes. On the other hand, LSAW pipes offer higher margins and are preferred due to lower manufacturing cost and better strength. Migration to offshore exploration would boost demand of LSAW pipe. Man Industries is also planning a 3 lakh tonne HSAW pipe capacity in the US.

Order book twice the FY07 revenue gives higher visibility

Man Industries has an order book position of Rs 2,400 crore against FY07 revenue of Rs 1,196 crore. These orders are to be executed in next 12-15 months. With execution of these orders, we expect top line growth at a CAGR of 35% over FY07-09E to Rs 2,183 and bottom at a CAGR of 67% to Rs 154 crore.

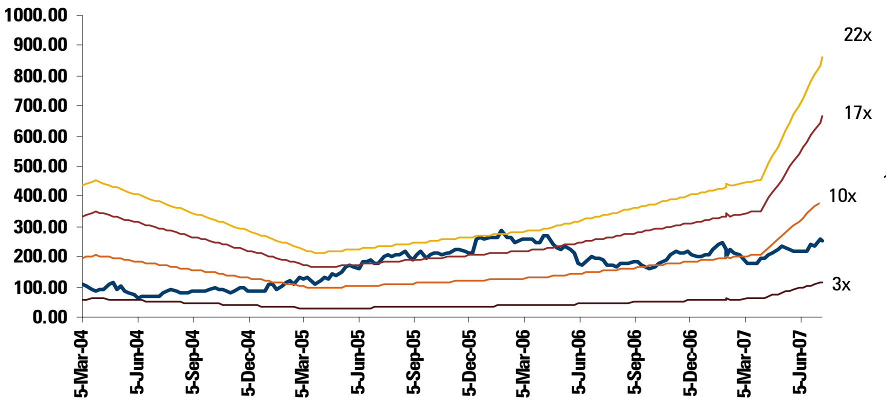
Timely capex to help company ride demand boom

North America and India would see huge investments of US$30 billion in pipelines over the next five years. Our interaction with industry participants suggests that the demand of HSAW pipes could be 65% of the total demand. In order to take advantage of the opportunity, the company is expanding its HSAW capacity. It has already expanded LSAW capacity. In July 2007, its 2 lakh tonne HSAW capacity went onstream and another 2 lakh tonne capacity is going onstream by December 2007. These expansions are well timed to capture the entire demand growth phase.

VALUATION

Man Industries' diversified business model de-risks it from product specific risks. Its good presence in Middle East and US increases the revenue visibility, albeit at lower margins (higher transportation cost). As in India, HSAW pipes demand is likely to be higher and sensing this, the company is setting up HSAW unit. We believe the risk-reward is favorable and the stock is available at an attractive valuation of 4.42x FY09E EPS. We rate the stock an OUTPERFORMER with a price target of Rs 306 in 12-15 months.

Exhibit 39: P/E Band



Source: ICICIdirect research & company

Financial Summary

Profit & Loss account

Year to March 31	FY06	FY07	FY08E	FY09E
Sales	820.58	1195.55	1566.08	2182.60
% Growth	60.79%	45.70%	30.99%	39.37%
Operating Profit	23.18	131.80	96.07	137.98
% Growth	-45.50%	468.59%	-27.11%	43.63%
Other Income	70.54	0.00	103.96	142.06
Depreciation	15.57	16.93	19.27	19.55
EBIT	78.15	114.87	180.76	260.50
% Growth	118.78%	46.99%	57.36%	44.11%
Interest	26.83	30.91	20.56	24.01
Profit before Tax	51.32	83.96	160.20	236.48
% Growth	77.39%	63.60%	90.80%	47.62%
Taxation	16.28	28.66	56.07	82.77
Tax as % of PBT	31.72%	34.14%	35.00%	35.00%
Net Profit	35.04	55.30	104.13	153.71
% Change YoY	91.3%	57.8%	88.3%	47.6%
Shares O/S	2.66	2.66	2.66	2.66
EPS (Rs)	13.15	20.76	39.09	57.70
CEPS (Rs)	19.00	27.11	46.32	65.04
DPS	2.5	3.94	7.43	10.96

Balance Sheet

Year to March 31	FY06	FY07	FY08E	FY09E
Sources of Funds				
Share Capital	26.64	26.64	26.64	26.64
Reserves & Surplus	247.60	292.39	376.74	501.25
Secured Loans	248.56	215.17	220.35	258.73
Unsecured Loans	2.40	2.40	2.40	2.40
Deferred Tax Liability	26.19	20.37	20.37	20.37
Current Liabilities & Provisions	190.11	185.75	269.74	375.86
Liability	741.50	742.72	916.24	1185.24
Application of Funds				
Net Block	245.21	236.42	232.15	212.60
Capital Work-in-progress	1.01	10.00	10.00	10.00
Investments	0.27	0.27	0.27	0.27
Cash	155.93	76.87	172.60	312.36
Trade Receivables	100.57	213.22	261.01	363.77
Loans & Advances	123.09	123.00	123.00	123.00
Inventory- Other	115.42	82.94	117.22	163.25
Total Asset	741.50	742.72	916.24	1185.24

Cash flow statement

Year to March 31	FY06	FY07	FY08E	FY09E
Profit after Tax	35.04	55.30	104.13	153.71
Miscellaneous expenses written off	0.13	0.00	0.00	0.00
Dividend Paid	-6.66	-10.51	-19.78	-29.21
Depreciation	15.57	16.93	19.27	19.55
Provision for Deferred tax	5.82	-5.82	0.00	0.00
Cash Flow before Working Capital Changes	49.90	55.90	103.62	144.05
Net Increase in Current Liabilities	17.94	-4.36	84.00	106.11
Net Increase in Current Assets	138.81	80.08	82.07	148.78
Cash Flow after Working Capital Changes	-70.97	-28.54	105.54	101.39
Purchase of Fixed Assets	43.10	17.13	15.00	0.00
(Increase) / Decrease in Investment	-0.03	0.00	0.00	0.00
Increase / (Decrease) in Loan Funds	88.14	-33.39	5.19	38.38
Increase / (Decrease) in Equity Capital	152.78	0.00	0.00	0.00
Opening Cash & Cash equivalents	29.05	155.93	76.87	172.60
Closing Cash & Cash Equivalent	155.93	76.87	172.60	312.36

Ratio analysis

Year to March 31	FY06	FY07	FY08E	FY09E
EPS	13.15	20.76	39.09	57.70
Book Value Per Share	102.94	119.76	151.42	198.16
Enterprise Value	774.35	820.02	729.48	628.09
EV/Sales	0.97	0.72	0.48	0.30
EV/EBIDTA	33.41	6.22	7.59	4.55
Market Cap to sales	0.83	0.57	0.43	0.31
Price to Book Value	2.48	2.13	1.68	1.29
Operating Margin (%)	2.90	11.63	6.33	6.52
Net Profit Margin (%)	4.03	4.88	6.42	6.81
Return on Net-worth	12.78	17.33	25.81	29.12
Return on Capital employed	14.17	20.62	27.96	32.18
Debt / Equity	0.92	0.68	0.55	0.49
Current Ratio	2.60	2.67	2.50	2.56
Quick Ratio	2.00	2.22	2.06	2.13
Fixed Asset Turnover Ratio	3.35	5.06	6.75	10.27
Debtors Turnover Ratio	7.95	5.31	5.82	5.82
Inventory Turnover Ratio	7.11	14.41	13.36	13.37
Cash EPS	19.00	27.11	46.32	65.04

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On-line Share Trading

Initiating Coverage

PSL Limited (PSLHOL)

Current price Rs 323	Target price Rs 388
Potential upside 21%	Time Frame 12-15 months

OUTPERFORMER

Raghvendra Kumar
raghvendra.kumar@icicidirect.com

PSL Limited is the largest HSAW pipe manufacturer in India, accounting for about 60% of the domestic capacity. HSAW pipes are cost-effective and are preferred in the domestic market. LSAW pipes are preferred in Middle East. HSAW pipes are used for both water transportation and sewage. We expect the top line to grow at a CAGR of 22% over FY07-09E while bottom line at 46.07% driven by increased capacity utilization.

- **Lower capacity utilization leaves room for revenue scalability**

Out of the total demand for 11.84 million tonne of SAW pipes in domestic market over the next five years, 65% is expected to be of HSAW pipe. The company has the capacity to manufacture 1.1 million tonne of HSAW pipe and is operating at a utilization of around 30% which leaves a lot of headroom for further improvement.

- **Water transportation & sewage infrastructure brings additional demand**

HSAW pipes are also used in water transportation and sewage. Currently, water supply projects account for a substantial portion of the company's order book. In India, currently projects worth US$2.41 billion related to water management are under execution. There is a huge potential for pipe manufacturers in water management.

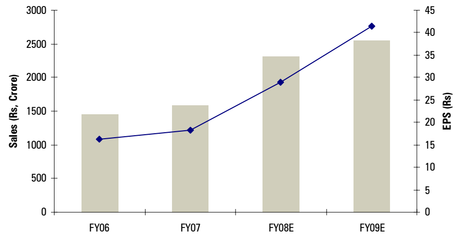
- **Healthy order book of Rs 2,400 crore against the sales of Rs 1,583 crore**

PSL has healthy order book position of Rs 2,400 crore to be executed in the 12-15 months. Robust order flow from domestic users gives higher visibility to its top & bottom line growth.

VALUATION

With the flow of orders and preference of HSAW over LSAW pipes by domestic players, we believe capacity utilization would increase leading to better margins. We expect operating margin to increase from 9.65% in FY07 to 12.53% in F09E. We expect top line to grow at a CAGR of 27% over FY07-09E to Rs 2551.95 crore and bottom line at CAGR of 62% to Rs 163.13 crore. The stock currently trades at 7.79x the FY09E EPS. Our base case DCF valuation gives us a fair value of Rs 388.

Sales & EPS trend



Stock matrix

Promoters holding	60.19%
Market Cap	Rs 1271 crore
52 Week H/L	Rs 401 /182
Sensex	15590
Average volume	79527

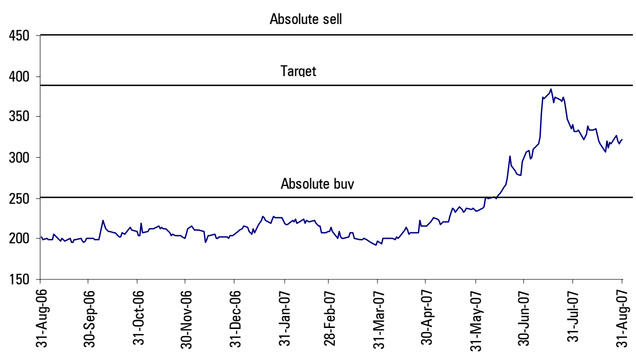
Comparative return metrics

Stock return	3M	6M	12M
PSL Limited	37%	53%	61%
Welspun Gujarat	36%	134%	236%
Man Industries	16%	29%	39%
Jindal SAW	2%	22%	95%
Maharashtra Seamless	-4.34%	21%	60%

Exhibit 40: Key Financials

Year to March 31	FY05	FY06	FY07	FY08E	FY09E
Net Profit (Rs crore)	33.33	51.91	62.16	113.99	163.13
Shares in issue (in crore)	5.81	6.42	6.81	7.87	7.87
EPS (Rs)	11.47	16.17	18.25	28.97	41.46
% Growth		41.04%	12.85%	58.74%	43.11%
P/E (x)	30.79	21.83	19.34	12.18	7.79
Price / Book (x)		4.10	2.74	2.37	1.81
EV/EBIDTA (x)	0.00	10.94	12.30	8.08	5.30
RoE (%)	18%	19%	12%	19%	23%
RoCE (%)	13%	15%	12%	18%	21%

Source: ICICIdirect Research

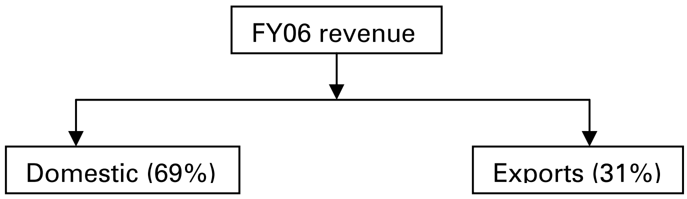


Company Background

PSL Limited is the flagship company of PSL group. The company has ten pipe mills at coast-based locations in Chennai, Kandla and Daman. It produces pipes in different size varying from 16 inches diameter to 120 inches with wall thickness from 5 mm to 25 mm. It manufactures and supplies HSAW for oil & gas and water transmission as well as structural and piling applications. The company's activities include protective coatings for steel pipes, epoxy coatings for reinforcement bars, manufacture of epoxy powder paint and galvalum range of aluminum sacrificial anodes and the processing of iron ore. The company has technical collaborations with Commercial Resins, US, Lilly Powder Coating, US, Oronzio De Nora, Switzerland and Abbey Resources, UK. To cater to the Reliance Petroleum's refinery project, the company has set up a new coating facility at Jamnagar and sourced new and diverse technologies to meet the RPL project's specifications. During 2000-02, it doubled its pipe mill capacity to 5.25 lakh million tonnes tpa, which is now ramped upto 11 lakh TPA. The company has various orders for GAIL's pipeline project. In FY06, the company established Two-Step Pipe Mill at Varsana in Gujarat. The pipe mill enhanced the total annual production capacity of the company from 7.50 lakh tonnes to 11 lakh tonnes. The company's production capacity of spiral arc welded pipes expanded from 10.25 lakh tonnes to 11 lakh tonnes.

Shareholding pattern

Shareholder	Percentage holding (%)
Promoters	60.19
Institutional investors	23.94
Other investors	9.03
General public	6.84



INVESTMENT RATIONALE

- **Healthy order book of Rs 2,400 crore**

PSL has healthy order book position of Rs 2,400 crore to be executed in the 12-15 months. The domestic market accounts for about 80% of its order book. Under the National Gas Grid plan, GAIL is putting up around 5000 km of pipeline. We believe the pipeline will require mostly HSAW pipes, which throws huge opportunity for the company. Robust order flow from domestic users would give higher visibility to its top and bottom line.

- **Lower capacity utilization leaves room for revenue scalability**

Out of the total demand for 11.84 million tonne of expected SAW pipe required in domestic market for next five years, 65% is expected to of HSAW pipe. The company has capacity to manufacture 1.1 million tonne per annum of HSAW pipe and is operating at a utilization of around 25%. Lower utilization leaves a lot of room for utilization scalability. Recently, PSL expanded its manufacturing capacity.

- **Increased capacity to start fetching revenue**

The company increased its HSWA capacity from 6.75 lakh tonne to 11.00 lakh tonne during FY05 and FY06. We believe the increased capacity would start fetching revenue now as the demand for HSAW pipe is increasing due to its cost effectiveness and lower supply of LSAW pipe. LSAW pipes are produced from steel plates, which are in limited supply and are priced at 29% premium to that of the raw material of HSAW pipes, HR coil. API grade steel plates manufacturing capacity in India is limited and most of the demand is met through imports from European players while API grade HR coil is available in domestic market.

- **Water, sewage infrastructure brings additional demand**

HSAW pipes are also used in water transportation and sewage. Currently, water supply projects account for a substantial portion of the company's order book. In India, water management projects worth US$2.41 billion are being implemented. There is a huge potential for pipe manufacturers in water management. For water transportation, pipes of large diameter, generally in the range of 70-75 inches, are used. Due to easy availability of HR coil in the country, the large diameter HSAW pipes can be produced. The company has established relationship with major contractors such as L&T and become a major supplier to this segment and getting repeat orders.

Note: *LSAW pipes are perceived to be high-pressure bearing due to lower length of welding as compared to HSAW pipes, where the length of welding is higher. Our meeting with company managements suggests that due to substantial improvement in the welding technology there is less chance of leakage from the welding site. Also in destructive tests, the pipe has been seen exploding from the site other than the welding site.*

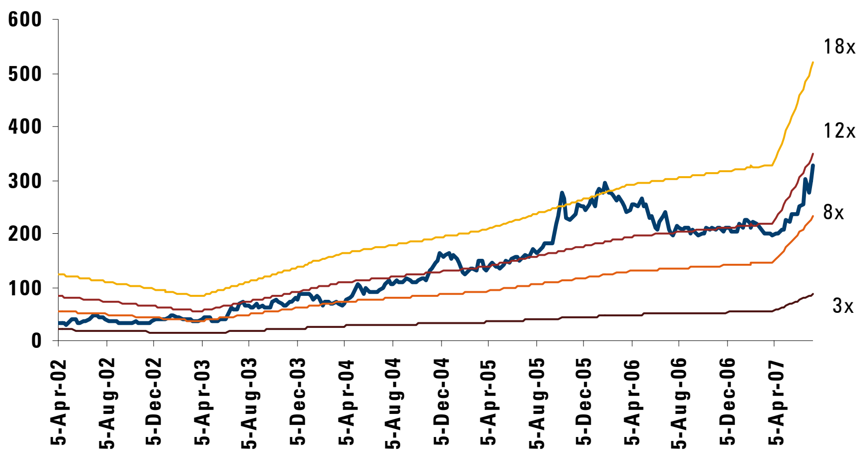
VALUATION

PSL has healthy order book position of Rs 2,400 crore to be executed in the 12-15 months. With the flow of orders and preference of HSAW pipes over LSAW pipes by domestic players, we believe that the capacity utilization would rise leading to better margins as well as top & bottom line. We expect the operating margin to increase from 9.65% in FY07 to 12.53% in FY09E. The top line is expected to grow at a CAGR of 27% to Rs 2551.95 crore in FY09E while the bottom line to grow at a CAGR of 62% to Rs 163.13 crore in FY09E during FY07-09E. The stock currently trades at 7.79x the FY09E EPS. Our base case DCF valuation fetches a fair value of Rs 388.

Exhibit 41: DCF Valuation

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIDTA	241.42	319.66	382.79	428.73	432.30	475.53	466.89	504.24	427.59	448.97
Interest	53.18	56.57	124.02	138.91	165.53	182.09	226.91	245.06	225.13	236.38
Deprn	39.19	39.76	52.06	58.31	64.14	70.55	76.20	82.29	87.23	91.59
PBT	175.37	250.97	234.36	259.16	230.28	250.54	191.43	204.54	142.89	148.65
Tax	57.87	82.82	77.34	85.52	75.99	82.68	63.17	67.50	47.15	49.05
PAT	117.50	168.15	157.02	173.64	154.29	167.86	128.26	137.04	95.73	99.59
FCF	183.55	88.80	-398.99	98.22	127.65	141.33	182.37	197.69	186.81	3730.74
NPV	2113.84									
Equity share value	388.19									

Exhibit 42: PE Band



The stock has traded most of the time at around the PE of 12x one year forward earnings. Applying PE of 12x the FY09E EPS, give a price of 497. Factoring in the HSAW capacity coming into the industry and a threat from the LSAW, when the price will decline, into our DCF valuation method, we calculate the fair value of Rs 388.

Financial Summary

Profit & Loss Account

Year ending March 31	FY06	FY07	FY08E	FY09E
Sales	1450.26	1583.21	2318.91	2551.95
% Growth	2.91%	9.17%	46.47%	10.05%
Operating Profit	154.91	152.79	241.42	319.66
% Growth	32.05%	-1.37%	58.01%	32.41%
Other Income	19.26	25.08	26.33	27.65
Depreciation	34.44	43.93	39.19	39.76
EBIT	139.73	129.70	228.56	307.54
% Growth	26.69%	-7.18%	76.22%	34.56%
Interest	68.91	43.50	53.18	56.57
Profit before Tax	70.82	86.20	175.37	250.97
% Growth	55.72%	21.72%	103.45%	43.11%
Taxation	18.91	24.04	61.38	87.84
Tax as % of PBT	26.70%	27.89%	35.00%	35.00%
Net Profit	51.91	62.16	113.99	163.13
% Change YoY	55.7%	19.7%	83.4%	43.1%
Shares O/S	3.21	3.41	3.93	3.93
EPS (Rs)	16.17	18.25	28.97	41.46
CEPS (Rs)	26.90	31.15	38.93	51.56
DPS	4.65	5.48	8.69	12.44

Balance Sheet

Year ending March 31	FY06	FY07	FY08E	FY09E
Sources of Funds				
Share Capital	32.10	39.35	39.35	39.35
Reserves & Surplus	244.45	467.24	547.03	661.23
Secured Loans	510.95	559.06	682.71	716.55
Unsecured Loans	170.08	0.00	0.00	0.00
Deferred Tax Liability	3.21	3.21	20.00	20.00
Current Liabilities & Provisions	590.99	603.95	861.79	1004.16
Liability	1551.78	1672.80	2150.88	2441.28
Application of Funds				
Net Block	341.75	322.59	283.40	243.64
Capital Work-in-progress	14.61	0.00	0.00	0.00
Investments	10.16	100.00	100.00	100.00
Cash	119.75	68.03	121.93	294.53
Trade Receivables	422.94	527.74	772.97	850.65
Loans & Advances	121.83	124.02	124.02	124.02
Inventory- Other	520.59	530.42	748.55	828.44
Total Asset	1551.63	1672.80	2150.88	2441.28

Cash flow statement

Year ending March 31	FY06	FY07	FY08E	FY09E
Profit after Tax	51.91	62.16	113.99	163.13
Miscellaneous expenses written off	0.89	0.00	0.00	0.00
Dividend Paid	-14.94	-18.65	-34.20	-48.94
Depreciation	34.44	43.93	39.19	39.76
Provision for Deferred tax	-0.26	0.00	16.79	0.00
Cash Flow before Working Capital Changes	72.04	87.44	135.78	153.96
Net Increase in Current Liabilities	108.37	12.96	257.84	142.37
Net Increase in Current Assets	217.70	116.82	463.37	157.56
Cash Flow after Working Capital Changes	-37.29	-16.42	-69.75	138.76
Purchase of Fixed Assets	111.52	10.16	0.00	0.00
(Increase) / Decrease in Investment	0.00	89.84	0.00	0.00
Increase / (Decrease) in Loan Funds	31.99	-121.97	123.65	33.84
Increase / (Decrease) in Equity Capital	56.93	186.67	0.00	0.00
Opening Cash & Cash equivalents	179.64	119.75	68.03	121.93
Closing Cash & Cash Equivalent	119.75	68.03	121.93	294.53

Ratio Analysis

Year ending March 31	FY06	FY07	FY08E	FY09E
EPS	16.17	18.25	28.97	41.46
Book Value Per Share	86.15	128.74	149.02	178.04
Enterprise Value	1694.41	1880.02	1949.77	1692.96
EV/Sales	1.17	1.19	0.84	0.66
EV/EBIDTA	10.94	12.30	8.08	5.30
Market Cap to sales	0.73		0.56	0.47
Price to Book Value	4.10	2.74	2.37	1.81
Operating Margin (%)	10.68	9.65	10.41	12.53
Net Profit Margin (%)	3.53	3.86	4.86	6.32
Return on Net-worth	18.77	12.27	19.44	23.29
Return on Capital employed	14.55	12.13	17.73	21.40
Debt / Equity	2.46	1.10	1.16	1.02
Current Ratio	2.01	2.07	2.05	2.09
Quick Ratio	1.12	1.19	1.18	1.26
Fixed Asset Turnover Ratio	3.10	3.27	5.10	6.73
Debtors Turnover Ratio	3.43	3.00	3.00	3.00
Inventory Turnover Ratio	2.99	2.98	3.31	3.29
Cash EPS	26.90	31.15	38.93	51.56

Initiating Coverage

Welspun Gujarat Stahl Rohren (WELGUJ)

Current price Rs 240	Target price Rs 264
Potential upside 10%	Time Frame 12 – 15 months

HOLD

Raghvendra Kumar
raghvendra.kumar@icicidirect.com

Welspun Gujarat's net profit is expected to grow at a CAGR of 50% over FY07-09E. However, we believe the same may not get captured into EPS growth due to equity dilution. Our DCF model fetches a value of Rs 246 against the current price of Rs 240. RoNW is likely to decline from 21% in FY07 to 18% in FY09E. We expect the top line to grow at a CAGR of 31% to Rs 4,559 crore over FY07-09E. We rate the stock HOLD.

- **Robust order book of over 2x FY07 revenue**

The company is sitting on a robust order book of Rs 6,150 crore (US$1.5 billion converted at Rs 41/$), which is over twice its FY07 net revenue. The orders, to be executed in 12-15 months, give higher visibility to top and bottom line growth. We expect turnover to grow at a CAGR of 31% and bottom line to grow at a CAGR of 50% over FY07-09E.

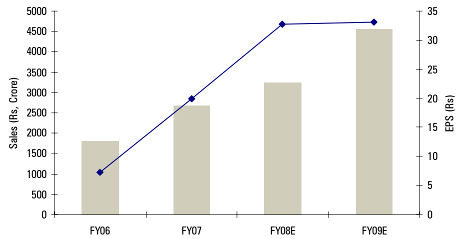
- **Backward integration to ensure raw material supply at lower cost**

Welspun Gujarat is integrating backward to manufacture steel plates and coil at an investment of Rs 1811 crore, which would go on stream in December 2007. We expect lower raw material cost to expand operating margin to 15% in FY09E from 12.32% in FY07.

Valuation

The company's RoCE is likely to rise from 13% in FY07 to 17% in FY09E while RoNW would decline from 21% in FY07 to 18% in FY09E on account of back ward integration and equity dilution. Though the backward integration is value accretive, we perceive a risk. We foresee increased competition in the steel plate segment as many plate mills are coming up in the country. Due to higher competition, we believe RoCE of plate mill might be lower and the break-even for it may get extended. However, the pipe business would thrive well. At the current price of Rs 240, the stock trades at 7.24x its diluted FY09E EPS of Rs 33.17 and 7.34x diluted FY08E EPS of Rs 32.69. Our optimistic DCF model gives a fair value of 297 while our base case scenario fetches the fair value to Rs 246 which is closer to the current levels. We rate the stock hold with price target of Rs 264.

Sales & EPS trend



Stock matrix

Promoters holding	42.68%
Market Cap	Rs 3356 crore
52 Week H/L	Rs 264 /65
Sensex	15590
Average volume	1310059

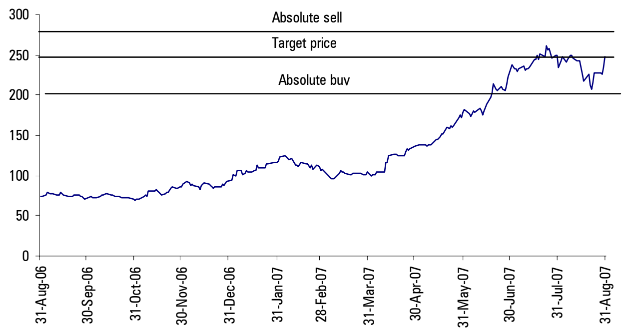
Comparative return metrics

Stock return	3M	6M	12M
PSL Limited	37%	53%	61%
Welspun Gujarat	36%	134%	236%
Man Industries	16%	29%	39%
Jindal SAW	2%	22%	95%
Maharashtra Seamless	-4.34%	21%	60%

Exhibit 43: Key Financials

Year to March 31	FY05	FY06	FY07	FY08E	FY09E
Net Profit (Rs crore)	15.22	47.20	139.00	260.01	311.52
Shares in issue (in crore)	10.71	12.88	13.98	15.91	18.78
EPS (Rs)	2.84	7.33	19.88	32.69	33.17
% Growth		157.74%	171.35%	64.40%	1.47%
P/E (x)	84.42	32.75	12.07	7.34	7.24
Price / Book (x)		3.56	2.82	1.81	1.28
EV/EBIDTA (x)	0.00	23.71	13.73	9.35	7.83
RoE (%)	6%	10%	21%	25%	18%
RoCE (%)	7%	9%	13%	17%	17%

Source: ICICIdirect Research

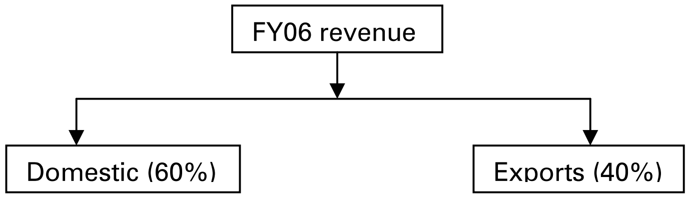


COMPANY BACKGROUD

Welspun Gujarat Stahl Rohren (WSGR) was established in 1995 to manufacture SAW pipes. The company manufactures longitudinal submerged arc welded Pipes (LSAW), helical submerged arc welded Pipes (HSAW) and electric resistant welded Pipes (ERW) pipes ranging from half an inch diameter to 100 inches in diameter, in varying qualities and grades. During the last 9 years, it has grown at a CAGR of 74% from a top line of Rs 18.7 crore in 1998 to Rs 2678.5 crore in 2007. Welspun Gujarat is one of the largest SAW Pipes companies in Asia and among top five companies in the world. The company has accreditations from every major Oil and Gas company from across the Globe like Shell, BP, Gazprom, Total, Gail, Reliance, etc. it has executed orders from the world's largest companies like Exxon Mobil, Kinder Morgan, Enterprise etc.

Shareholding pattern

Shareholder	Percentage holding (%)
Promoters	42.68
Institutional investors	24.28
Other investors	11.03
General public	22.01



INVESTMENT RATIONALE

Robust order book of over 2x its FY07 revenue

The company is sitting on a robust order book of Rs 6,150 crore (US$1.5bn converted at Rs 41/$), which is more than twice the FY07 total net revenue. These orders, to be executed in next 12-15 months, give higher visibility to its top and bottom line growth. We expect turnover to grow at a CAGR of 31% and bottom line at a CAGR of 50% over FY07-09E.

The company should be able to execute the orders on time, as it is well equipped with capacity. The order flow to Welspun is quite robust and we believe that the company would be able to maintain its target order book to sales ratio of 1.6x. With the order flows, we expect the top line to grow at a CAGR of 31% to Rs 4558.98 crore in FY09E while the bottom line to grow at a CAGR of 50% to Rs 311.52 crore in FY09E during FY07-09E.

Increased capacity to start fetching revenue

WGSR is set to start fetching revenue from the newly developed pipe capacities across the segment. The company has expanded the HSAW pipe capacity from 50000 tonne per annum to 4 lakh tonne per annum in FY07. The increased capacity has started fetching revenue from FY07. We expect traction in capacity utilization going forward.

Foraying into global markets through organic route

Welspun Gujarat is venturing into the US markets on its own. It had signed a joint venture with an US company, Loan Star, but another US steel company acquired Loan Star in April 2007. The Welspun management does not have the understanding with the new owners and has decided to go it alone in its plans to set up a $100-million facility in the US. The project will come up in Arkansas and will have a capacity of 300,000 tonne per annum of tubular steel pipes. The US is one of the largest markets for linear pipes.

Backward integration to ensure raw material supply at lower cost

The company is integrating backward to manufacture steel plates at an investment of Rs 1,811 crore, which it buys currently from European suppliers. The plate-making plant would go on stream in December 2007. The company would be buying steel slabs, convert them at to plates and coils and integrate backwards for its entire range of offering. Current plate price is pegged at US$900 per tonne, while the slabs will cost the company only US$ 550 per tonne at a conversion cost of US$50 per tonne to plates and US$70 per tonne to coils. On plates, the company would be saving US$ 300 per tonne while on coils it would save US$150 - 200 per tonne. The savings on raw material cost is set to improve the margins. We expect the operating margins to be 15% as in FY09E as against the FY07 operating margin of 12.44%.

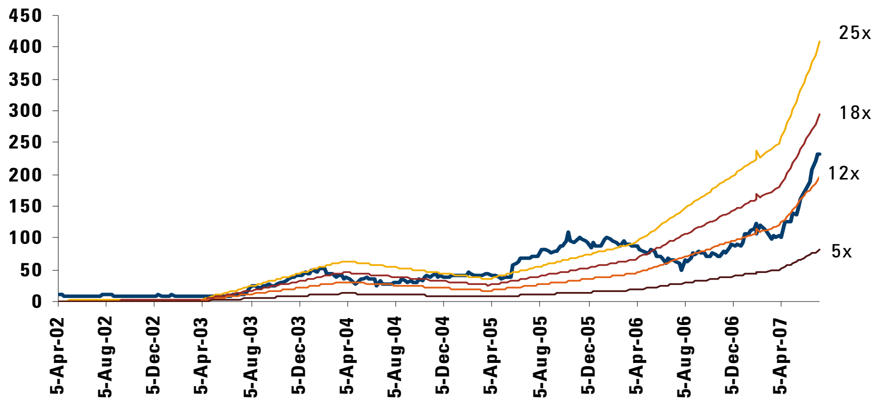
Valuation

RoCE is likely to rise from 13% in FY07 to 17% in FY09E while RoNW would decline from 21% in FY07 to 18% in FY09E on account of back ward integration and equity dilution for capex. Though the backward integration is value-accretive, we perceive a risk. Going forward, we believe competition in the steel plate segment would increase as many plate mills are coming up in the country. Due to higher competition, we believe the RoCE of plate mill would be lower and break-even for it may get extended, but the pipe business would thrive well. At the current price, the stock trade 7.24x diluted FY09E EPS of Rs 33.17 and 7.34x diluted FY08E EPS of Rs 32.69. Our optimistic DCF model gives a fair value of 297. In a more realistic environment of long-term operating margin of 10% and perpetual growth of 1%, fair value works out to Rs 246.

Exhibit 44: DCF valuations

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIDTA	574.47	683.73	524.28	602.93	651.16	703.25	759.51	820.27	885.90	956.77
Interest	95.38	88.34	240.66	270.41	288.67	308.38	329.67	352.66	377.49	404.31
Deprn	92.68	134.47	170.69	196.29	211.99	228.95	247.27	267.05	288.41	311.48
PBT	400.01	479.26	131.29	154.57	168.85	184.27	200.93	218.92	238.34	259.32
Tax	140.01	167.74	45.95	54.10	59.10	64.50	70.33	76.62	83.42	90.76
PAT	260.01	311.52	85.34	100.47	109.75	119.78	130.60	142.30	154.92	168.56
FCF	434.47	552.46	248.00	356.94	474.37	511.65	551.91	595.40	642.36	8676.41
NPV	6179.13									
Equity share value	246.80									

Exhibit 45: PE band



The scrip has been trading at around 12x the one-year forward earnings. At 12x FY09E EPS, the price works out to 398. Factoring the large capex, dilution and the probable price decline in plates, we have worked out the DCF value of Rs 246. We rate the stock hold with price target of 264.

Financial Summary

Profit & Loss Account

Year to March 31	FY06	FY07	FY08E	FY09E
Sales	1815.59	2674.90	3246.61	4558.98
% Growth	78.02%	47.33%	21.37%	40.42%
Operating Profit	151.35	329.60	574.47	683.73
% Growth	204.24%	117.77%	74.29%	19.02%
Other Income	1.91	4.30	13.60	18.35
Depreciation	1357.36	2022.40	92.68	134.47
EBIT	40.81	59.60	495.40	567.61
% Growth	-21.31%	46.04%	731.20%	14.58%
Interest	41.89	70.80	95.38	88.34
Profit before Tax	76.18	215.50	400.01	479.26
% Growth	141.69%	182.87%	85.62%	19.81%
Taxation	28.98	76.50	140.01	167.74
Tax as % of PBT	38.04%	35.50%	35.00%	35.00%
Net Profit	47.20	139.00	260.01	311.52
% Change YoY	210.1%	194.5%	87.1%	19.8%
Shares O/S	12.88	13.98	15.91	18.78
EPS (Rs)	7.33	19.88	32.69	33.17
CEPS (Rs)	12.79	26.69	44.34	47.49
DPS	1.00	0.99	1.00	3.00

Balance Sheet

Year to March 31	FY06	FY07	FY08E	FY09E
Sources of Funds				
Share Capital	93.33	76.70	79.55	93.92
Reserves & Surplus	408.27	576.80	978.10	1672.35
Secured Loans	393.46	1163.50	1509.60	1532.48
Unsecured Loans	180.63	409.42	351.10	336.63
Deferred Tax Liability	70.10	79.40	20.00	20.00
Current Liabilities & Provisions	915.60	1055.80	1190.29	1651.48
Liability	2290.18	3303.30	4114.17	4980.83
Application of Funds				
Net Block	649.10	723.50	2199.74	2065.27
Capital Work-in-progress	362.30	921.40	0.00	0.00
Investments	0.01	25.64	100.00	150.00
Cash	307.10	343.30	291.43	697.30
Trade Receivables	307.00	585.00	676.09	949.38
Loans & Advances	122.30	191.09	191.09	191.09
Inventory- Other	542.37	513.37	655.82	927.78
Total Asset	2290.18	3303.30	4114.17	4980.83

Cash flow statement

Year to March 31	FY06	FY07	FY08E	FY09E
Profit after Tax	47.20	139.00	260.01	311.52
Miscellaneous expenses written off	0.00	0.00	0.00	0.00
Dividend Paid	-6.44	-6.95	-13.00	-15.58
Depreciation	35.19	47.60	92.68	134.47
Provision for Deferred tax	16.25	9.30	-59.40	0.00
Cash Flow before Working Capital Changes	92.20	188.95	280.28	430.42
Net Increase in Current Liabilities	137.16	140.20	134.49	461.19
Net Increase in Current Assets	248.37	317.79	233.54	545.26
Cash Flow after Working Capital Changes	-19.01	11.36	181.24	346.35
Purchase of Fixed Assets	511.45	681.10	647.51	0.01
(Increase) / Decrease in Investment	-5.28	25.63	74.36	50.00
Increase / (Decrease) in Loan Funds	418.19	711.73	331.63	-303.15
Increase / (Decrease) in Equity Capital	167.98	19.85	157.14	412.69
Opening Cash & Cash equivalents	246.11	307.10	343.30	291.43
Closing Cash & Cash Equivalent	307.10	343.30	291.43	697.30

Ratio analysis

Year to March 31	FY06	FY07	FY08E	FY09E
EPS	7.33	19.88	32.69	33.17
Book Value Per Share	67.33	85.20	132.96	188.06
Enterprise Value	3587.94	4526.98	5373.00	5354.01
EV/Sales	1.98	1.69	1.65	1.17
EV/EBIDTA	23.71	13.73	9.35	7.83
Market Cap to sales	1.63	1.18	1.10	0.92
Price to Book Value	3.56	2.82	1.81	1.28
Operating Margin (%)	8.34	12.32	17.69	15.00
Net Profit Margin (%)	2.60	5.19	7.98	6.81
Return on Net-worth	9.84	21.27	24.58	17.64
Return on Capital employed	8.59	12.74	16.94	17.05
Debt / Equity	1.67	2.32	1.75	0.87
Current Ratio	1.40	1.55	1.52	1.67
Quick Ratio	0.80	1.06	0.97	1.11
Fixed Asset Turnover Ratio	2.92	3.94	1.58	2.36
Debtors Turnover Ratio	5.91	4.57	4.80	4.80
Inventory Turnover Ratio	3.50	5.55	5.30	5.26
Cash EPS	12.79	26.69	44.34	47.49

ICICI direct.com
On-line Share Trading

Initiating Coverage

Maharashtra Seamless (MAHSEA)

Current price	Target price
Rs 606	Rs 727
Potential upside 20%	Time Frame 15 – 18 months

OUTPERFORMER

Raghvendra Kumar
raghvendra.kumar@icicidirect.com

Maharashtra Seamless (MSL) manufactures seamless pipes and has cornered 50-52% market share in the domestic market. Seamless pipes are used in oil & gas exploration as well as in the automobile and other industries such as heat exchanger and boilers. It is the only player in India to manufacture 14-inch diameter seamless pipes. It recent JV with Hydril (one of the leading seamless pipe manufacturers in the world) for premium threading connectors, which is a high-margin business, is likely to make it globally competitive in this arena. The company also manufactures ERW pipes, which are mostly used in refineries.

- **Almost doubling capacity**

Maharashtra Seamless is almost doubling the capacity of seamless pipes capacity by 54% to 5 lakh tonne per annum (tpa) from the existing 3.25 lakh tpa over two years. Seamless pipes contribute around 77% to the top line. On account of this capacity expansion, MSL's revenue is likely to grow at a CAGR of around 31% to Rs 2388.99 crore over FY07-09E.

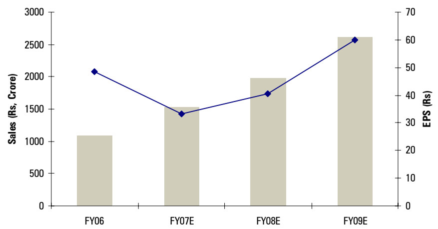
- **Getting into new alliances to boost product offerings**

Increasing complexity such as deep water, off shore drilling, directional drilling (such as horizontal drilling) is not only increasing the demand for the seamless pipes but the demand for premium connectors are also increasing. It has entered into a JV with Hydril, US, in FY07 for premium fittings (connectors) with capacity of 50,000 tpa.

Valuation

We expect EPS to grow at a CAGR of around 34% over FY07-09E on the back of increased demand of seamless pipes and phased capacity expansion. The company's strong fundamentals are likely to support the traction in P/E. The return on capital employed (RoCE) is likely to be over 37% in FY09E due to lower cost of expansion and continued demand of seamless pipes. Return on net worth (RoNW) is also likely to be over 27% in FY09E. The company is valued at a PE of 10x FY09E EPS of Rs 60.10. Our base case DCF valuation fetches a fair value of Rs 721. We have valued the company at a PE multiple of 12x due to its impressive return ratios & impressive historical performance.

Sales & EPS trend



Stock matrix

Promoters holding	41.71%
Market Cap	Rs 4293 crore
52 Week H/L	Rs 675 /351
Sensex	15590
Average volume	46205

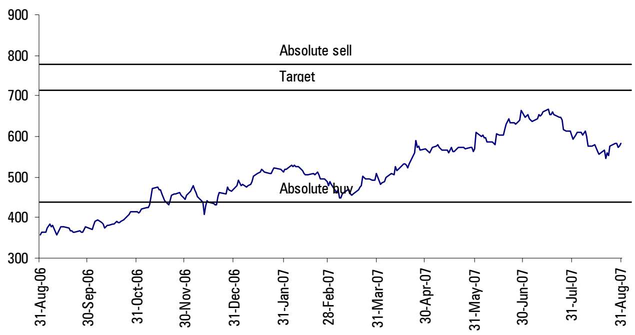
Comparative return metrics

Stock return	3M	6M	12M
PSL Limited	37%	53%	61%
Welspun Gujarat	36%	134%	236%
Man Industries	16%	29%	39%
Jindal SAW	2%	22%	95%
Maharashtra Seamless	-4.34%	21%	60%

Exhibit 46: Key Financials

Year to March 31	FY05	FY06	FY07P	FY08E	FY09E
Net Profit (Rs crore)	84.87	139.60	235.30	286.14	425.76
Shares in issue (in crore)	2.882	2.882	3.542	3.542	3.542
EPS (Rs)	29.45	48.44	33.22	40.39	60.10
% Growth		64.49%	-31.43%	21.61%	48.80%
P/E (x)	22.11	13.44	19.60	16.12	10.83
Price / Book (x)	6.00	4.53	4.87	3.85	2.90
EV/EBIDTA (x)	0.00	9.86	13.45	10.23	6.95
RoE (%)	27%	34%	25%	24%	27%
RoCE (%)	28%	22%	30%	32%	37%

Source: ICICIdirect Research



Company Background

Maharashtra Seamless (MSL), the flagship company of DP Jindal group, was incorporated in 1988. The company manufactures carbon and alloy steel seamless pipes at its plant in Roha, Maharashtra in technical collaboration with Mannesmann Demag, Germany. The major applications for seamless pipes are in oil exploration, boilers, ball bearings, roller bearings, automobiles, fertilizer, petrochemicals, etc. The company also manufactures ERW Pipes, sizes from 8 inches to 20 inches, wall thickness from 3.2 mm to 12.70 mm and the major applications for ERW pipes are in natural gas or oil, diesel, drinking water and sewage/water treatment. Further the company also has its presence in Power Division with 20 Wind Mills aggregating to 7 MW capacity for captive consumption. Recently, the company entered into a 50:50 joint venture with Hydril to form Hydril Jindal International Private Ltd to manufacture premium connections for the Indian and international markets. The company is the market leader of seamless and large diameter ERW pipe in India. Now with the boom in the oil & gas sector, the seamless pipe & tube industry is witnessing an unprecedented demand driven growth for both its plain-end and threaded seamless products. The company is implementing a strategic backward integration project in Orissa to manufacture Billets, the main raw material for seamless pipes with a capacity of 500,000 tpa at an estimated cost of Rs 550 crore. The project will get delayed due to some problem with the local authorities.

Shareholding pattern

Shareholder	Percentage holding (%)
Promoters	41.71
Institutional investors	28.57
Other investors	20.60
General public	9.13

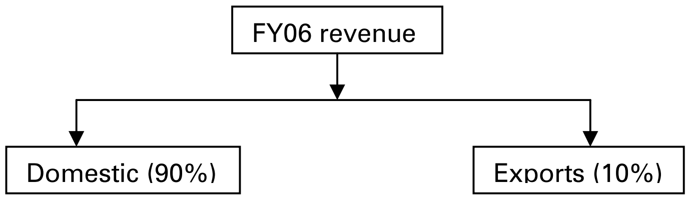
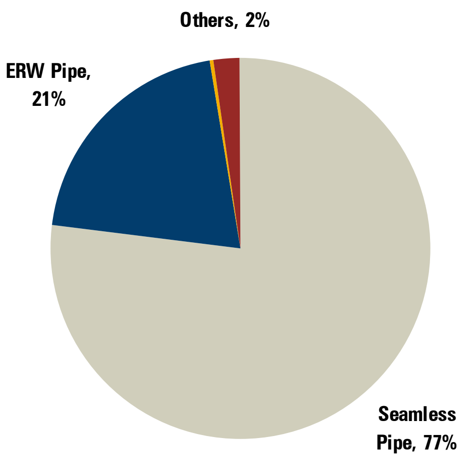


Exhibit 47: Business model



INVESTMENT RATIONALE

▪ Almost doubling its capacity

The increasing complexity of exploration is driving the demand for seamless pipes which would propel the company to sustain its growth going forward. Seamless pipes are the highest contributor to the top line of MSL, with around 77% share. We expect the contribution to increase as MSL plans to ramp up its seamless pipes capacity by 54% to 5 lakh tpa from the existing 3.25 lakh tpa over the next two years. In the category of up to 7 inches, the company plans to increase its capacity from existing 1.25 lakh tpa to 2 lakh tpa, while in the 7-14 inches category, it plans to increase the capacity from 200,000 tpa to 300,000 tpa. MSL's revenue is likely to grow at a CAGR of around 31% to Rs 2388.99 crore over FY07-09E.

Exhibit 48: Capacity ramp-up by Maharashtra Seamless

Capacity	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E
Seamless	100000	125000	225000	225000	325000	400000	500000
-Up to 7 inches	100000	125000	125000	125000	125000	125000	200000
-From 7 -14 inches			100000	100000	200000	200000	300000
ERW	100000	100000	200000	200000	200000	200000	200000
JV (Hydrill)					50000	50000	50000

▪ Depleting global oil reserves pushing up demand for seamless pipes

We believe MSL is well placed to capitalize on the buoyant seamless pipes demand worldwide. Demand for seamless pipes is directly proportional to the increase in oil drilling and exploration efforts. We believe that with depleting reserves, the complexity would increase and so the demand for seamless tubes. The company is well placed to capture this demand as it has the largest market share (50-52%) in the domestic market at 5 lakh tonnes. In the domestic market, the company is a niche player in certain segments such as the 14 inches diameter seamless pipes where it is the only player.

▪ Getting into new alliances to boost the product offerings

Increasing complexity such as deep water, off-shore drilling, directional drilling (such as horizontal drilling) is not only increasing the demand for the seamless pipes, but also demand for premium connectors. To cater to the needs of drilling requirements, the company entered into a JV with Hydril, USA in FY07 for premium fittings (connectors) with capacity of 50,000 tonnes per annum of connectors. Realizations on premium connectors are than those on normal connectors, while the incremental cost is only 10% of the realization.

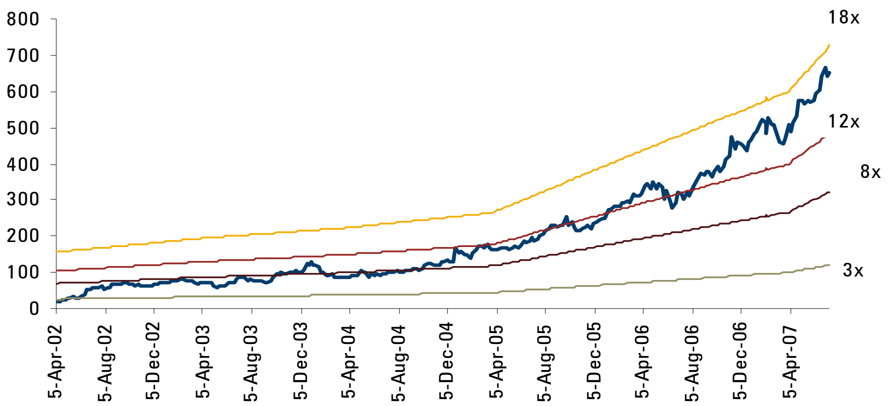
Valuation

The company has been re-rated thrice during last 5 years on the back of impressive growth shown by the company. We expect the EPS of MSL to grow at a CAGR of around 34% over FY07-09E on the back of increased demand of seamless pipes and phased capacity expansion. We believe the P/E multiple would mirror the growth in the future. Strong fundamentals of the company are likely to support valuations & would continue to help it command premium over its peers. We expect EPS to grow at a CAGR of more than 34% over FY07-09E on the back of increased demand of seamless pipes and phased capacity expansion. The company's strong fundamentals are likely to support the traction in P/E. The return on capital employed (RoCE) is likely to be over 37% in FY09E due to lower cost of expansion and continued demand of seamless pipes. Return on net worth (RoNW) is also likely to be over 27% in FY09E. The company is valued at a PE of 10.08x FY09E EPS of Rs 60.10. Our base case DCF valuation fetches a fair value of Rs 704. We initiate coverage on the company with a price target of Rs 727, 12x FY09 EPS due to its impressive return ratios & impressive historical performance.

Exhibit 49: DCF valuation

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIDTA	448.16	657.97	746.56	933.20	1119.84	1075.05	1290.06	1548.07	1219.10	1280.06
Interest	6.53	8.41	10.76	13.44	16.13	19.36	23.23	27.88	29.27	30.73
Depren	25.41	30.54	40.71	50.89	61.06	73.28	87.93	105.52	110.80	116.34
PBT	437.61	640.41	695.09	868.87	1042.64	982.41	1178.89	1414.67	1079.04	1132.99
Tax	144.41	211.34	229.38	286.73	344.07	324.20	389.03	466.84	356.08	373.89
PAT	293.20	429.08	465.71	582.14	698.57	658.21	789.86	947.83	722.95	759.10
FCF	303.75	342.39	117.56	283.49	412.78	315.27	378.32	453.98	674.85	8962.19
NPV	5192.75									
Equity share value	703.98									

Exhibit 50: PE band



The stock has been seen trading smoothly at a P/E multiple of 12x, one-year forward earnings. But around one year back the stock re-rated following a surge in demand of seamless pipes due to rise in crude prices. We believe its unmatched RoCE and RoNW make it the best buy. We believe the stock should trade in the P/E range of 12x FY09E earnings. We initiate coverage on the company, with a price target of 727 in next 15-18 months.

Financial Summary

Profit & Loss Account

Year to March 31	FY06	FY07P	FY08E	FY09E
Sales	966.18	1394.73	1810.79	2388.99
% Growth	11.41%	44.36%	29.83%	31.93%
Operating Profit	208.00	342.09	448.16	657.97
% Growth	61.86%	64.47%	31.01%	46.82%
Other Income	18.24	31.72	21.39	32.39
Depreciation	14.55	17.12	25.41	30.54
EBIT	211.68	356.69	465.52	692.21
% Growth	62.78%	68.50%	30.51%	48.70%
Interest	4.83	3.29	6.53	8.41
Profit before Tax	206.85	353.40	459.00	683.80
% Growth	63.87%	70.85%	29.88%	48.98%
Taxation	67.25	118.10	151.47	225.66
Tax as % of PBT	32.51%	33.42%	33.00%	33.00%
Net Profit	139.60	235.30	286.14	425.76
% Change YoY	64.5%	68.6%	21.6%	48.8%
Shares O/S	2.88	7.08	7.08	7.08
EPS (Rs)	48.44	33.22	40.39	60.10
CEPS (Rs)	53.49	35.63	43.98	64.41
DPS	7.40	9.87	9.87	9.87

Balance Sheet

Year to March 31	FY06	FY07P	FY08E	FY09E
Sources of Funds				
Share Capital	28.82	35.42	35.42	35.42
Reserves & Surplus	385.09	912.42	1163.58	1554.37
Secured Loans	38.11	63.58	86.03	106.93
Unsecured Loans	454.86	119.76	119.76	119.76
Deferred Tax Liability	38.79	40.00	40.00	40.00
Current Liabilities & Provisions	121.10	129.69	189.84	240.68
Liability	1066.77	1300.87	1634.63	2097.17
Application of Funds				
Net Block	264.44	391.64	446.23	545.70
Capital Work-in-progress	16.31	18.19	0.00	0.00
Investments	20.48	120.00	150.00	260.00
Cash	319.17	193.72	233.83	268.31
Trade Receivables	139.98	202.24	273.84	354.73
Loans & Advances	30.86	30.85	30.85	30.85
Inventory- Other	275.53	344.24	499.88	637.58
Total Asset	1066.77	1300.88	1634.63	2097.17

Cash flow statement

Year to March 31	FY06	FY07P	FY08E	FY09E
Profit after Tax	139.60	235.30	286.14	425.76
Miscellaneous expenses written off	0.00	0.00	0.00	0.00
Dividend Paid	-21.32	-34.97	-34.97	-34.97
Depreciation	14.55	17.12	25.41	30.54
Provision for Deferred tax	4.56	1.21	0.00	0.00
Cash Flow before Working Capital Changes	137.39	218.66	276.58	421.33
Net Increase in Current Liabilities	38.96	8.59	60.14	50.84
Net Increase in Current Assets	200.14	130.96	227.25	218.59
Cash Flow after Working Capital Changes	-23.79	96.29	109.48	253.58
Purchase of Fixed Assets	25.38	146.20	61.81	130.00
(Increase) / Decrease in Investment	1.18	99.52	30.00	110.00
Increase / (Decrease) in Loan Funds	382.42	-309.62	22.44	20.91
Increase / (Decrease) in Equity Capital	-17.18	333.60	0.00	0.00
Opening Cash & Cash equivalents	4.28	319.17	193.72	233.83
Closing Cash & Cash Equivalent	319.17	193.72	233.83	268.31

Ratio Analysis

Year to March 31	FY06	FY07P	FY08E	FY09E
EPS	48.44	33.22	40.39	60.10
Book Value Per Share	143.62	133.80	169.26	224.42
Enterprise Value	2049.98	4601.31	4583.64	4570.07
EV/Sales	2.12	3.30	2.53	1.91
EV/EBIDTA	9.86	13.45	10.23	6.95
Market Cap to sales	1.74	3.03	2.33	1.77
Price to Book Value	4.53	4.87	3.85	2.90
Operating Margin (%)	21.53	24.53	24.75	27.54
Net Profit Margin (%)	14.18	16.50	15.62	17.58
Return on Net-worth	33.73	24.82	23.86	26.78
Return on Capital employed	22.38	30.46	32.22	37.29
Debt / Equity	1.19	0.19	0.17	0.14
Current Ratio	6.32	5.95	5.47	5.37
Quick Ratio	4.05	3.29	2.84	2.72
Fixed Asset Turnover Ratio	4.07	3.89	4.43	4.78
Debtors Turnover Ratio	6.90	6.90	6.61	6.73
Inventory Turnover Ratio	3.91	4.43	3.96	4.10
Cash EPS	53.49	35.63	43.98	64.41

RATING RATIONALE

ICICIdirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: ±10% return;
Underperformer: -10% or more.

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