

Key data

Sector	Steel Pipes
Market Cap	Rs6bn/US\$0.1bn
52 Wk H/L (Rs)	166/85.65
Avg. daily vol. (6 month)	299,542

BSE Code	513269
NSE Code	MANINDS
Bloomberg	MAN IN
Reuters	MIND.BO

Sensex	19,035
Nifty	5,695

Shareholding pattern (%)

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	18.4	21.1
MFs and institutions	18.6	17.2
Promoters	40.5	40.5
Others	22.5	21.2

Absolute returns (%)

	1mth	3mth	12mth
Man Inds	(16.3)	(10.5)	10.9
Sensex	3.3	26.8	42.1
BSE Metals	14.9	54.8	87.4

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Man Industries

Accumulate
Current Price: Rs120
Target price: Rs162

PAT is in line but sales & EBITDA are below our estimates.

Figure 1: Actual Vs Religare Estimates

	Q2FY08A	Q2FY08E	Difference (%)
Net sales	3,547	3,804	(6.8)
EBITDA	428	457	(6.4)
EBITDA margins (%)	12.1	12.0	4bps
PAT	189	188	0.7
PAT margins (%)	5.3	4.9	40bps

Source: Religare Institutional Equity Research

Financial highlights

- Net Sales** have risen by 21.2% YoY to Rs3.6bn due to higher utilization at its Anjar plant.
- EBITDA** has increased by 29.7% YoY to Rs428mn. EBITDA margins have improved by 80bps to 12.1% because of decline in staff cost as a percentage of sales by 35bps YoY to 2.0%.
- Adjusted PAT** has risen by 27.6% YoY to Rs189mn. Adj PAT margins have improved to 5.3%, an increase of 20bps YoY because of a decline in interest expenses by 38.9% YoY to Rs62mn.

Valuations and Recommendation

The stock currently trades at 8.8x 1-year forward diluted earnings. Our target price stands revised downwards from Rs192 to Rs162 to reflect the downward revision in our earnings estimate. Hence, we are downgrading our rating from **Buy** to **Accumulate** on the stock.

Figure 2: Quarterly Performance

	(Rs mn)							
	FY07				FY08E		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Net Sales	2,083	2,926	3,271	3,051	3,210	3,547	11,331	15,694
Change %	72.4	60.5	58.4	(15.3)	54.1	21.2	30.3	38.9
EBITDA	239	330	326	424	383	428	1,318	1,888
EBITDA margin (%)	11.4	11.3	10.0	13.9	11.9	12.1	11.6	12.0
Change (%)	51.4	74.2	38.3	19.4	60.4	29.7	40.6	43.2
Depreciation	37	44	46	42	52	53	169	268
Other Income	0	0	0	0	3	0	0	10
Interest exp/(inc)	60	101	75	74	93	62	309	405
PBT	141	185	206	308	240	313	840	1,224
PBT margin (%)	6.8	6.3	6.3	10.1	7.5	8.8	7.4	7.8
PBT growth (%)	35.2	52.5	71.0	83.7	69.7	69.6	63.6	45.8
Extraordinary exp/(Inc)	0	0	0	0	0	0	0	0
Tax	37	36	41	172	64	124	287	435
Effective tax rate (%)	26.3	19.7	19.9	55.9	26.7	39.6	34.1	35.5
PAT reported	104	148	165	136	176	189	553	789
Adjusted PAT *	104	148	165	136	176	189	553	789
Adj PAT margin (%)	5.0	5.1	5.0	4.5	5.5	5.3	4.9	5.0
Change (%)	43.9	85.8	110.3	12.7	68.9	27.6	57.5	42.7
Equity Capital (Rs mn)	257	266	266	266	266	266	266	266
Adj EPS	2.0	2.8	3.1	2.5	3.3	3.6	10.4	14.8

* Excluding extraordinary

Other business highlights

- The current order book at Rs20bn is 1.8x FY07 sales and will be executed over the next 12-15 months. The company has also participated in various tenders valued at US\$1bn and expects to win a decent share of it.
- During the current quarter the company has commissioned its 200,000 MT HSAW capacity in its Anjar plant the remaining 200,000 MT will be commissioned by Q4FY08. The company's 300,000 MT HSAW plant in USA, is expected to be commissioned by the end of FY09.

Earnings revised downwards

Figure 3: Table for earnings revision

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/ (downgrade) (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Net Sales	17,116	21,298	25,657	15,694	20,018	25,657	(8.3)	(6.0)	(0.0)
EBITDA	2,059	2,655	3,211	1,888	2,375	3,057	(8.3)	(10.5)	(4.8)
EBITDA margin (%)	12.0	12.5	12.5	12.0	11.9	11.9	0bps	-60bps	-60bps
PBT	1,394	1,844	2,248	1,224	1,549	2,076	(12.2)	(16.0)	(7.6)
Adj PAT	917	1,216	1,481	789	1,003	1,332	(13.9)	(17.5)	(10.0)
Adj PAT margin (%)	5.4	5.7	5.8	5.0	5.0	5.2	-33bps	-70bps	-58bps
Adj EPS	17.2	22.8	27.8	14.8	18.8	25.0	(13.9)	(17.4)	(10.1)

Source: Religare Institutional Equity Research

We have revised our FY08 & FY09 net sales estimates downwards by 8.3% and 6.0% respectively, because of lower average realizations due to the rupee appreciation and a downward revision in our volume estimate by 4.2% and 3.9% for FY08 and FY09 respectively.

We have revised our volume estimate downwards because of lower order intake in FY08 (fresh order of Rs2.8bn against net sales of Rs6.8bn in H1FY08, a net reduction of Rs4bn in order book). Our volume estimate for FY08 and FY09 hasn't changed significantly as a large percentage of our FY08 and FY09 sales estimate was expected to be achieved from the existing order book. In our earlier estimate we were conservative in our FY10 volume assumption; hence we have not downgraded our FY10 volume estimate. Despite the net reduction in the order book in H1FY08, we remain bullish on the prospect of the SAW pipe industry as a whole and MAN Industries in particular because of continued robust investments in creating oil and gas pipeline networks. In the current high oil price environment we expect investments in the oil and gas sector to further escalate. There are large numbers of pending international tenders for supply the of SAW pipes and the company has participated in tenders worth US\$1bn. The commissioning of the 300,000 MT HSAW plant in the USA by the end of FY09 will enhance the company ability to win large orders from the US market.

Import of raw material provides a natural hedge (to the extent of 75% of total sales) for the company's export sales, and hence forward forex transactions are minimal. Exports contribute 90% to total sales; hence the impact from exchange rate movement is maximum for MAN Industries amongst all the pipe companies.

Our EBITDA margin estimate stands revised downwards for FY09 & FY10 by 60bps based on the margins on the current order book, which ranges between

11-13%. In the new tenders, the company has built in EBITDA margin of around 12%.

We have revised our earning estimates downwards by 13.9%, 17.5% and 10.1% for FY08, FY09 and FY10 respectively because of lower sales and higher capex projected by the company in the initial years of its capex plan. So our depreciation & interest cost stands revised upwards for these years.

Valuations and Recommendation

The stock currently trades at 8.8x 1-year forward diluted earnings. We are revising our one year target price from Rs192 to Rs162 because of a downward revision in our earnings estimate. To reflect this we are downgrading our rating from **Buy** to **Accumulate**.

Despite the downward revision in our earnings and price target we remain bullish on the company's prospects as the outlook for the SAW pipe industry is still positive. The sharp correction in the stock price reflects the worst. Hence any positive trigger including increase in order book position will lead to a spurt in the stock price.

Figure 4: Valuation summary – Steel Pipes

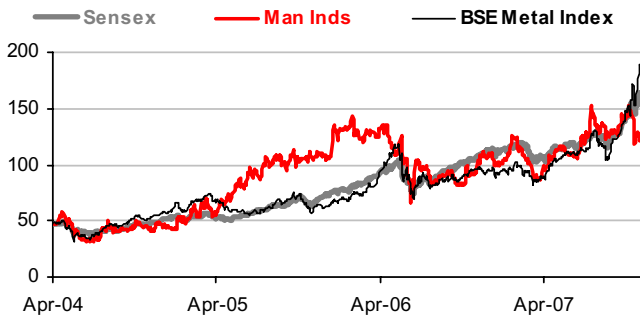
Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs mn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Man Ind	120	Accumulate	162	6,396	3,547	21.2	428	29.7	189	27.6	3.6	28.6	13.0	9.3	14.7	8.2
Jindal Saw Maharashtra Seamless	747	Accumulate	808	36,155	14,286	27.2	1,699	70.3	901	89.1	18.6	89.7	58.4	12.8	86.3	8.7
PSL	493	Accumulate	610	34,776	3,856	11.3	834	(9.4)	582	(6.3)	8.2	18.8	35.4	13.9	42.5	11.6
Welspun	488	Accumulate	456	16,641	4,965	60.9	499	43.8	191	41.5	4.4	41.9	27.3	17.9	42.2	11.6
Welspun	409	Buy	445	70,180	9,276	37.5	1,533	92.8	825	146.3	4.8	92.0	19.0	21.6	31.0	13.2

Source: Religare Institutional Equity Research
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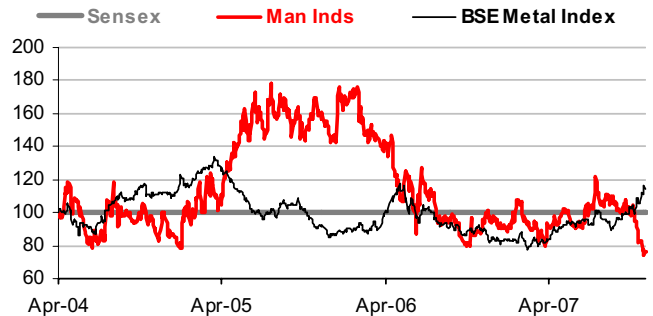
Stock performance

Man Industries

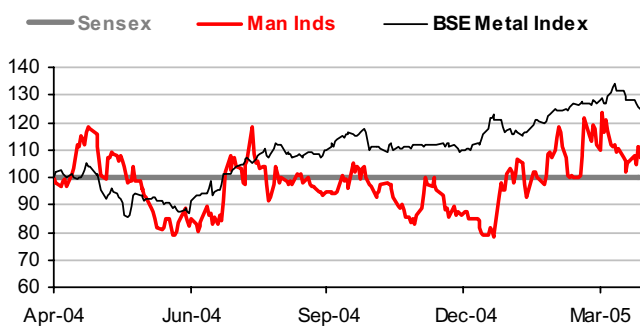
Absolute Perf. From Apr 04



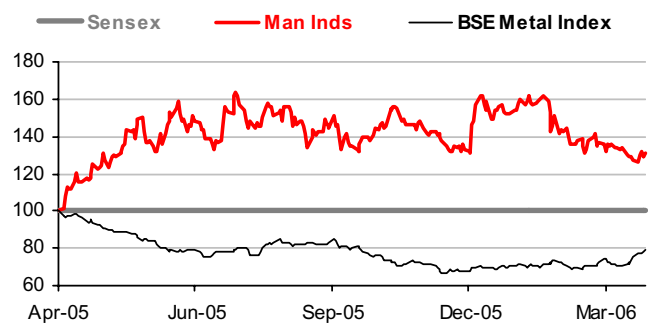
Relative Perf. From Apr 04



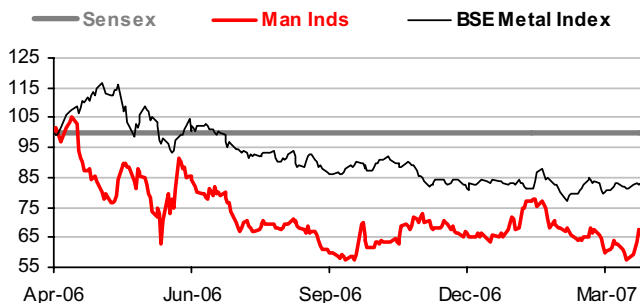
Relative Perf. From Apr 04 to Mar 05



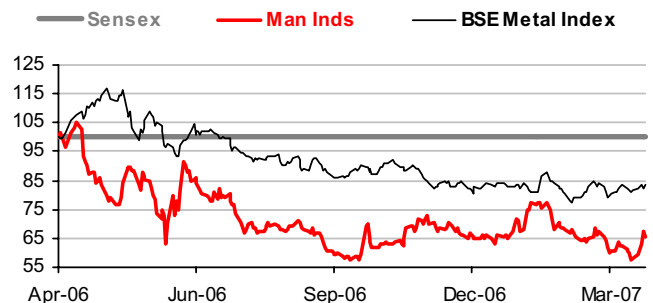
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From xxx xx to xxx xx



Relative Perf. From Apl 06 to Mar 07

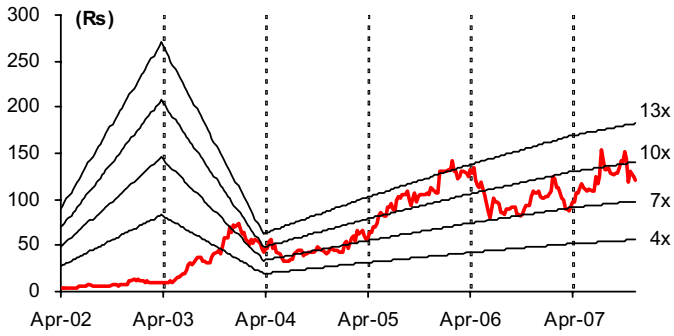


Source: Bloomberg, Religare Institutional Equity Research

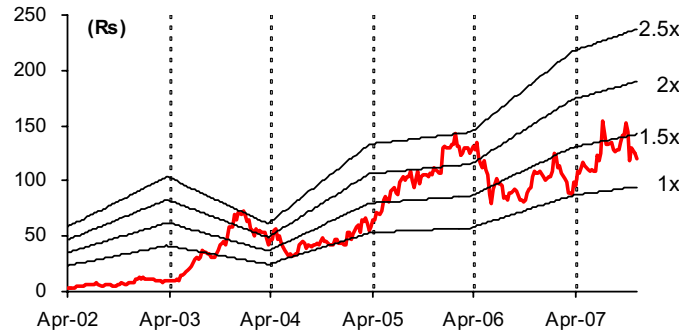
12 month forward rolling band charts

Man Industries

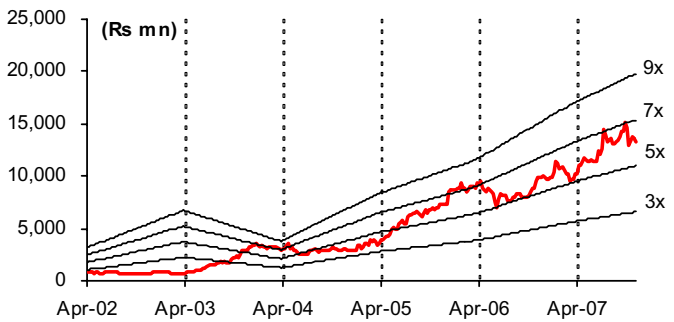
P/E Band



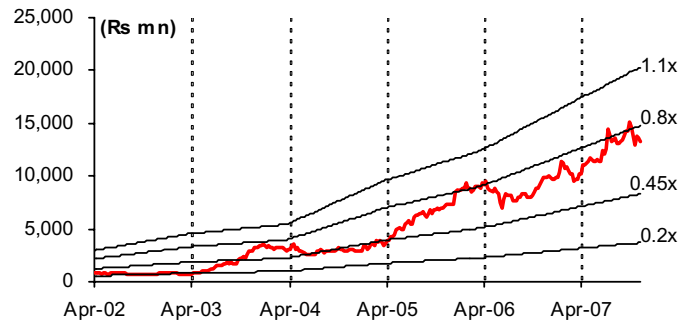
P/BV Band



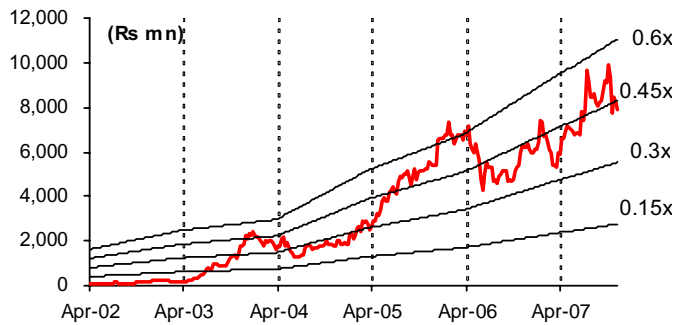
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	8,687	11,296	15,693	20,018	25,657
EBITDA	925	1,283	1,888	2,375	3,057
EBITDA margin (%)	10.7	11.4	12.0	11.9	11.9
Depreciation	156	169	268	381	456
EBIT	770	1,114	1,619	1,994	2,601
Other income	12	35	10	10	10
Interest Exp/(Inc)	268	309	405	455	535
PBT (Operating)	513	840	1,224	1,549	2,076
PBT margin (%)	5.9	7.4	7.8	7.7	8.1
Extra ord (inc)/exp	0.0	0.0	0.0	0.0	0.0
Taxes	163	287	435	545	744
Minority interest	0	0	0	0	0
PAT(Reported)	350	553	789	1,003	1,332
Less: Extra ordinary income / Others	0	0	0	0	0
Adj PAT	350	553	789	1,003	1,332
Adj PAT margin (%)	4.0	4.9	5.0	5.0	5.2

Quarterly – Financials

(Rs mn)

(Rs mn)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	2,926	3,271	3,051	3,210	3,547
Changes (%)	60.5	58.4	(15.3)	54.1	21.2
EBITDA	330	326	424	383	428
Changes (%)	74.2	38.3	19.4	60.4	29.7
Margin (%)	11.3	10.0	13.9	11.9	12.1
PAT	148	165	136	176	189
PAT adj	148	165	136	176	189
Changes (%)	85.8	110.3	12.7	68.9	27.6
Margin (%)	5.1	5.0	4.5	5.5	5.3
EPS adj (Rs)	2.8	3.1	2.5	3.3	3.6
EPS dil (Rs)	2.8	3.1	2.5	3.3	3.6

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	75.7	30.0	38.9	27.6	28.2
EBITDA (%)	119.9	38.6	47.2	25.8	28.7
PAT adjusted (%)	91.3	57.8	42.8	27.1	32.8
EPS adjusted (%)	62.1	34.6	22.9	13.0	32.8
EPS diluted (%)	62.1	34.6	22.9	13.0	32.8

Valuations

P/E (x)	15.4	11.4	9.3	8.2	6.2
Price/BV (x)	2.3	2.1	1.4	1.2	1.0
EV/EBITDA (x)	7.7	6.8	5.7	5.2	4.1
EV/Sales (x)	0.8	0.8	0.7	0.6	0.5

Profitability

EBITDA margin (%)	10.7	11.4	12.0	11.9	11.9
Adj PAT margin (%)	4.0	4.9	5.0	5.0	5.2
RoE (%)	19.0	19.0	17.5	15.7	18.0
RoCE (%)	20.0	21.3	23.2	20.6	22.3
RoIC (%)	18.0	17.1	16.9	14.9	16.0

B/S ratios

Inventory days	64.3	75.8	70.0	70.0	70.0
Creditor days	67.4	112.0	95.0	95.0	95.0
Debtor days	42.3	107.5	95.0	95.0	95.0
Working Capital days	25.0	55.2	66.6	67.7	67.5
Net debt/equity	0.6	0.6	0.5	0.5	0.5

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	257	266	266	266	266
Total Res. & Surplus	2,486	2,802	3,498	4,364	5,541
Total Shareholders' fund	2,743	3,069	3,765	4,631	5,807
Convertible Debt	0	0	2,175	2,175	2,175
Others Debt	2,510	2,472	2,546	4,146	4,446
Total Loans	2,510	2,472	4,721	6,321	6,621
Deferred tax liability (net)	262	368	489	649	869
Total liabilities	5,515	5,910	8,975	11,602	13,298
Assets					
Net fixed assets & others	2,454	2,647	3,683	5,306	5,455
Capital WIP & others	11	240	800	500	50
Total non-current assets	2,465	2,887	4,483	5,806	5,505
Total investments - non current	3	11	3	3	3
Current assets					
Inventories	1,154	1,797	2,308	2,937	3,759
Sundry debtors	1,006	3,326	4,085	5,210	6,678
Cash & cash equivalents	1,567	146	461	301	354
Cash	1,567	146	461	301	354
Liquid investments	0	0	0	0	0
Other current assets	1,230	1,814	2,197	2,803	3,592
Total current assets	4,957	7,083	9,051	11,251	14,383
Total current liabilities	1,211	2,659	3,136	3,989	5,105
Total provisions	691	1,412	1,426	1,470	1,488
Net current assets	3,056	3,011	4,490	5,793	7,790
Misc. expenditure	0	0	0	0	0
Total assets	5,524	5,909	8,975	11,602	13,298

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from operations					
PBT	513	840	1,224	1,549	2,076
Tax paid	(102)	(177)	(305)	(385)	(524)
Dep & amortization	156	169	268	381	456
Working capital changes	(1,221)	(1,628)	(1,177)	(1,507)	(1,963)
Others	(298)	(625)	0	0	0
Net cash from operations	(952)	(1,421)	11	38	45
Cash from investments					
Capital expenditure	(431)	(691)	(1,865)	(1,704)	(154)
Sale/purchase of inv & others	299	611	0	0	0
Net cash from investments	(132)	(80)	(1,865)	(1,704)	(154)
Cash from financing					
Issue of shares & share premium	1,519	81	0	0	0
Dividend paid	(39)	(44)	(80)	(94)	(137)
Debt change	881	43	2,249	1,600	300
Others					
Net cash from financing	2,361	80	2,169	1,506	163
Net change in cash & cash equivalents	1,277	(1,421)	315	(160)	53

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	6.8	10.4	14.8	18.8	25.0
EPS diluted - wtd	7.8	10.6	13.0	14.7	19.5
CEPS	9.8	13.6	19.9	26.0	33.6
Book value	53.3	57.6	86.8	99.4	116.6
Dividend	1.1	1.8	1.5	2.2	2.5
O/s shs.-actual (mn)	51.5	53.3	53.3	53.3	53.3
O/s shs.-diluted (mn)	51.5	53.3	68.4	68.4	68.4

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Rating definition

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

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