

MAN INDUSTRIES

INR 126

*Margins fall; Valuations cheap*

BUY

Man Industries' (MIL) Q2FY08 results were lackluster, in line with our expectations. Revenues were up 14.6% Y-o-Y and 4.5% Q-o-Q to INR 3.3 bn, backed by higher volume of pipe sales. EBITDA margins fell by 5.8% Y-o-Y and 21.9% Q-o-Q. EPS increased by 27.6% Y-o-Y to INR 3.6 (post split 1:1).

We understand that MIL has already firmed a plan to put a 300,000 MTPA SAW plant in Houston which will start production in Q4CY08/Q1CY09.

The management has reduced FY08 revenue guidance by 11.1% (in line with our earlier estimates). We have reduced our FY08E and FY09E PAT by 1.5% and 1.0%, respectively, to incorporate the annual report numbers and increase in working capital assumptions.

At INR 126, the stock is trading at 11.0x and 7.9x FY08E and FY09E EPS, respectively. It trades at 5.5x and 4.2x FY08E and FY09E EV/EBITDA, respectively. MIL trades at cheap valuations; therefore we maintain our 'BUY' recommendation on the stock.

* **Q2FY08 revenues grew 14.6% Y-o-Y due to increase in pipe sales**

MIL's Q2FY08 revenues grew 14.6% Y-o-Y and 4.5% Q-o-Q to INR 3.3 bn backed by higher pipe sales, up 37.7% Y-o-Y and 43.1% Q-o-Q, offset by fall in realisation of 2.6% Y-o-Y and 24.0% Q-o-Q.

* **EBITDA margins fell by 5.8% Y-o-Y and 21.9% Q-o-Q**

MIL's EBITDA for the quarter increased by 29.7% Y-o-Y and 11.8% Q-o-Q to INR 428 mn backed by higher sales. EBITDA margin, at INR 5,585/mt, was down 5.8% Y-o-Y and 21.9% sequentially. The dip in EBITDA margins is possibly an impact of MIL's aggression in bidding for large projects. The management indicated (during the conference call) that lead time for steel plates has increased. This may result in increase in working capital, leading to higher interest burden in the future.

* **Net profit increased by 27.6% Y-o-Y and 9.1% Q-o-Q**

Net profit increased 27.6% Y-o-Y and 9.1% Q-o-Q to INR 189 mn. The company reported Q2FY08 EPS of INR 3.6 against INR 2.8 in Q2FY08 (post split 1:1). Interest costs decreased 38.9% Y-o-Y, primarily due to release of working capital from a US customer and repayment of ~INR 400 mn debt. The tax rate increased by 93.8% Q-o-Q, as there was less provision for tax in the last quarter.

Financials

Year to March	Q2FY08	Q2FY07	Growth %	Q1FY08	Growth %	FY07	FY08E
Net Rev. (INR mn)	2,926	1,823	60.5	1,823	60.5	3,271	3,051
EBITDA (INR mn)	330	189	74.2	189	74.2	326	422
Net profit (INR mn)	148	80	85.8	80	85.8	165	136
EPS (INR)	2.8	2.1	32.6	2.1	32.6	3.1	2.5
EPS growth (%)	37.5	10.2	267.0	10.2	267.0	11.1	(17.5)
P/E (x)						12.1	11.0

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Niraj Mansingka
+91-22-2286 4304
niraj.mansingka@edelcap.com

Reuters : MIND.BO
Bloomberg : MAN IN

Market Data

52-week range (INR) : 332 / 111
Share in issue (mn) : 26.6
M cap (INR bn/USD mn) : 3.3 / 84.8
Avg. Daily Vol. BSE/NSE ('000) : 108.6

Share Holding Pattern (%)

Promoters : 40.5
MFs, FIs & Banks : 17.2
FIs : 11.2
Others : 31.1

* **Strong order book of INR 20 bn continues to support earnings visibility**

MIL currently has an order book of INR 20 bn (400,000 MT) which includes an INR 10 bn order from Kinder Morgan. Exports constitute ~90% of the order book.

* **Updates in capacity expansion**

Status of expansion in HSAW by 0.32 MMTPA at Anjar:

- First mill already commissioned (in September 2007) and full impact of capacity will come from Q3FY08E.
- Second mill is likely to come on stream in early Q4FY08E.

Post expansion, MIL's total capacity will increase to 1.0 MMTPA.

* **MIL plans new 300,000 MT capacity in US**

MIL's management has indicated that its new SAW plant at US will be announced in next two weeks. Further, their plan to expand in China has got delayed. We understand that MIL has already firming a plan to put a 300,000 MTPA SAW plant in Houston, which will start production in Q4CY08/Q1CY09.

* **FY08 revenue guidance reduced by 11.1% (in line with our earlier estimates); reducing FY08 PAT by 1.5%**

During the Q2FY08 earnings conference call, the management reduced its FY08 revenue guidance from INR 18 bn to INR 16 bn. The revenue guidance is in line with our earlier FY08 revenue estimate of INR 15.5 bn. Further, we have incorporated MIL's FY07 balance sheet numbers and have increased working capital assumptions. This has led to reduction in FY08E and FY09E PAT by 1.5% and 1.0%, respectively.

* **Outlook and valuations: Cheap valuations; maintain 'BUY'**

At INR 126, the stock is trading at 11.0x and 7.9x FY08E and FY09E EPS, respectively. It trades at 5.5x and 4.2x FY08E and FY09E EV/EBITDA, respectively. MIL trades at cheap valuations; therefore we maintain our BUY recommendation on the stock. We maintain our 'BUY' recommendation on the stock.

Financials snapshot								(INR mn)
Year to March	Q2FY08	Q2FY07	Growth %	Q1FY08	Growth %	FY07	FY08E	FY09E
Net revenues	3,354	2,926	14.6	3,210	4.5	10,706	15,511	19,090
Other income (mostly operational)	193	0		0		625	176	296
Adjusted revenues	3,547	2,926		3,210		11,331	15,686	19,386
Raw material cost	2,385	2,430	(1.9)	2,023	17.9			
Increase/Decrease in stock	228	(56)	(507.1)	288	(20.6)			
COGS	2,613	2,374	10.1	2,311	13.1	8,933	12,470	15,380
Gross profit	934	553	69.0	899	3.8	2,398	3,216	4,006
Employee expenses	70	67	3.6	74	(5.3)	265	305	335
Other expenses	437	156	180.6	443	(1.5)	815	1,206	1,492
Operating expenses	506	223	127.1	517	(2.0)	1,080	1,511	1,828
EBIDTA	428	330	29.7	383	11.8	1,318	1,705	2,179
Interest	62	101	(38.9)	93	(33.9)	309	297	267
Depreciation	53	44	19.8	52	1.7	169	207	242
Profit before tax	313	185	69.6	238	31.9	840	1,201	1,669
Current taxes	107	25	321.3	47	127.3	177	308	552
Deferred taxes	17	11	52.3	17	(1.2)	106	100	15
Fringe benefit tax	1	0		0		3	3	3
Total tax	124	36	240.7	64	93.8	287	411	571
Profit after tax (PAT)	189	148	27.6	174	9.1	553	790	1,098
Extra / Non-recurring income	0	0	NA	0	NA	0	0	0
Net profit	189	148	27.6	174	9.1	553	790	1,098
Equity capital (FV INR 10)	266	266	-	266	-	266	343	343
No. of shares (mn)	53.3	53.3	-	53.3	-	53.3	68.7	68.7
EPS (INR)	3.6	2.8	27.6	3.3	9.1	10.4	11.5	16.0
PE (x) (annualised)	8.9	11.3	-	9.7	-	12.1	11.0	7.9
as % of net revenues								
Direct costs	81.1	84.9	NA	78.0	NA	83.4	80.4	80.6
Gross profit	18.9	15.1	NA	22.0	NA	22.4	20.7	21.0
Other expenses	5.3	4.0	NA	7.1	NA	7.6	7.8	7.8
EBITDA	11.3	10.4	NA	11.4	NA	12.3	11.0	11.4
Profit before tax	6.3	6.6	NA	6.8	NA	7.8	7.7	8.7
Net profit	5.1	4.4	NA	5.0	NA	5.2	5.1	5.8
Tax rate	19.7	34.1	NA	26.3	NA	34.1	34.2	34.2

Company Description

Promoted by Mr. R C Mansukhani in 1988, the company manufactures SAW pipes (both spiral and longitudinal) and various types of anti-corrosion coating systems. Man Industries has two plants located in Prithampur, Madhya Pradesh (central India) and Anjar, Gujarat (western India). It has a total existing capacity of 0.68 mmtpa (HSAW = 0.14 mmtpa, LSAW = 0.54 mmtpa) and is expanding its HSAW capacity by 0.32 mmtpa.

Investment Theme

Man Industries is expected to benefit from the expansion in the global pipeline capacity (as Man's sales are export oriented). Additionally, increased supply of gas from new finds, LNG imports and international pipeline project proposals will lead to increased demand from the oil & gas sector. To cater to this growing demand, the company is consistently investing in capacity expansion projects like the HSAW capex project at Anjar. Furthermore, a strong order book worth INR 20 bn helps support future earnings visibility. With ~80% of its order book constituting exports, primarily to the Middle East and the US, supply from its Anjar facility is likely to aid lower freight costs due to its location advantage.

Key Risks

Decline in crude prices could hamper any potential pipeline capacity expansion and E&P projects denting demand for pipes.

As HR coils account for 70% of the total cost of raw materials, any volatility in steel prices may affect the company's profitability. Additionally, any decline in plate prices used to manufacture LSAW plates could erode the cost competitiveness of HSAW pipes, whose capacity has been expanded recently.

Any delay in order execution could affect Man Industries' earnings.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Net revenues	4,886	8,356	10,706	15,511	19,090
Cost of goods sold	4,195	6,900	8,933	12,470	15,380
Gross profit	691	1,457	1,773	3,040	3,710
Employee expenses	73	187	265	305	335
SG&A expenses	256	675	815	1,206	1,492
Operating expenses	329	862	1,080	1,511	1,828
EBITDA	362	594	693	1,529	1,882
Other income	62	343	625	176	296
Interest	68	268	309	297	267
Depreciation & amortisation	68	156	169	207	242
Profit before tax	288	513	840	1,201	1,669
Current tax	28	102	177	308	552
Deferred tax	78	58	106	100	15
Fringe tax benefit	0	3	3	3	3
Total tax	106	163	287	411	571
Profit after tax	182	350	553	790	1,098
Equity shares outstan. - Diluted (mn)	39	52	53	69	69
EPS - Diluted (INR)	4.7	6.7	10.4	11.5	16.0
Dividend per share (INR)	1.0	0.9	1.5	3.0	3.5
Dividend payout (%)	21.4	13.9	14.5	26.1	21.9

Common size metrics (% net revenues)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Cost of goods sold	85.9	82.6	83.4	80.4	80.6
Operating expenses	6.7	10.3	10.1	9.7	9.6
EBITDA	7.4	7.1	6.5	9.9	9.9
Depreciation & amortisation	1.4	1.9	1.6	1.3	1.3
Interest	1.4	3.2	2.9	1.9	1.4
Net profit	3.7	4.2	5.2	5.1	5.8

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Net revenues	22.0	71.0	28.1	44.9	23.1
EBITDA	(42.3)	64.2	16.6	120.7	23.1
PBT	(51.4)	78.1	63.6	43.1	38.9
Net profit	(53.7)	92.5	57.8	42.8	39.1
EPS	(55.0)	43.0	55.1	10.9	39.1

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Ope. cash flow before wkg. capital ct	334	566	829	1,097	1,356
(Incr)/Decr in working capital	207	(1,199)	(1,376)	429	(459)
Cash flow from operations (A)	541	(633)	(548)	1,526	896
Net purchase of fixed assets	(1,301)	(433)	(592)	(1,000)	(39)
Net purchase of investments	1	0	(9)	11	0
Cash flow from investing (B)	(1,300)	(433)	(600)	(989)	(39)
Net incr./((decr.) in equity capital	10	1,517	(143)	2,205	(0)
Net incr./((decr.) in debt	1,040	881	(37)	0	(491)
Dividends paid	(43)	(55)	(94)	(241)	(281)
Cash flow from financing (C)	1,007	2,343	(274)	1,964	(772)
Net incr./((decr.) in cash (A+B+C)	248	1,277	(1,422)	2,501	85

Balance sheet					
(INR mn)					
As on March end	FY05	FY06	FY07	FY08E	FY09E
Common share capital	199	266	266	343	343
Total equity capital	199	266	266	343	343
Reserves & surplus	741	2,486	2,802	5,480	6,297
Shareholder's equity (A)	940	2,752	3,069	5,823	6,640
Secured loans	1,547	2,486	2,454	2,454	1,963
Unsecured loans	81	24	19	19	19
Total debt (B)	1,628	2,510	2,472	2,472	1,982
Deferred tax liability (C)	204	262	368	468	483
Capital employed (A+B+C)	2,772	5,524	5,910	8,763	9,105
Accounts payable	1,548	1,208	2,656	1,796	2,370
Other current liab. & provisions	165	693	1,415	539	711
Current liabilities & provisions (D)	1,713	1,901	4,072	2,334	3,081
Total liabilities (A+B+C+D)	4,484	7,425	9,981	11,098	12,186
Gross fixed assets	2,337	3,061	3,305	4,589	4,639
Depreciation	455	607	658	865	1,107
Net fixed assets	1,881	2,454	2,647	3,723	3,531
Capital WIP	306	11	240	(44)	(55)
Total fixed assets (A)	2,187	2,465	2,887	3,680	3,477
Investments (B)	3	3	11	0	0
Inventories	631	1,154	1,797	1,796	2,370
Accounts receivable	1,155	1,006	3,326	1,975	2,607
Cash and cash equivalents	291	1,567	146	2,647	2,733
Loans and advances	216	1,230	1,814	1,000	1,000
Current assets (C)	2,293	4,957	7,083	7,418	8,709
Other assets inclu. Misc. exp. (D)	1	0	0	0	0
Total assets (A+B+C+D)	4,484	7,425	9,981	11,098	12,186

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	4.7	6.7	10.4	11.5	16.0
EPS Y-o-Y growth (%)	(55.0)	43.0	55.1	10.9	39.1
CEPS (INR)	6.4	9.7	13.6	14.5	19.5
P/E (x)	26.9	18.8	12.1	11.0	7.9
Book value per share (INR)	24.1	52.5	57.6	84.8	96.7
P/BV (x)	5.2	2.4	2.2	1.5	1.3
EV/Sales (x)	1.3	0.9	0.8	0.5	0.4
EV/EBITDA (x)	17.2	12.7	13.0	5.5	4.2

Liquidity ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
Current ratio	1.3	2.6	1.7	3.2	2.8
Quick ratio	1.0	2.0	1.3	2.4	2.1
Cash ratio	0.2	0.8	0.0	1.1	0.9
Receivable turnover (x)	5.5	7.7	4.9	5.9	8.3
Inventory turnover (x)	11.1	7.7	6.1	6.9	7.4
Payables turnover (x)	4.9	5.0	4.6	5.6	7.4
Receivables (days)	66	47	74	62	44
Inventory (days)	33	47	60	53	49
Payables (days)	74	73	79	65	49
Cash conversion cycle (days)	25.2	21.5	55.2	49.8	43.8

Operating ratios (x)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Total asset turnover	1.6	1.4	1.2	1.5	1.6
Fixed asset turnover	3.5	3.9	4.2	4.9	5.3
Equity turnover	5.7	4.5	3.7	3.5	3.1

Profitability ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Gross profit margin	14.1	17.4	16.6	19.6	19.4
EBITDA margin	7.4	7.1	6.5	9.9	9.9
ROCE	10.6	12.7	13.3	13.4	14.3
ROE	21.1	19.0	19.0	17.8	17.6
ROA	5.8	5.9	6.4	7.5	9.4

Financial ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
Debt-equity (x)	1.7	0.9	0.8	0.4	0.3
Long term debt / Cap. emp. (%)	58.7	45.4	41.8	28.2	21.8
Total debt / Capital employed (%)	127.9	84.6	117.0	60.2	60.9
Interest coverage (x)	5.2	2.9	3.7	5.0	7.2

Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021, Board: (91-22) 2286 4400, Email: research@edelcap.com

Naresh Kothari	Co-Head Institutional Equities	naresh.kothari@edelcap.com	+91 22 2286 4246
Vikas Khemani	Co-Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Shriram Iyer	Head Research	shriram.iyer@edelcap.com	+91 22 2286 4256

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

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

Man Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
2-Nov-07	Maharashtra Seamless	Slow speed Result Update	488	Accum.
1-Nov-07	Engineers India	Record high order book of INR 40 bn; Result Update	822	Accum.
1-Nov-07	ONGC	A good quarter; Result Update	1,330	Buy
31-Oct-07	Indraprastha Gas	No surprises; Result Update	132	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	103	45	23	4	184

* 7 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	88	66	30

Rating Interpretation

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

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