INITIATING COVERAGE

PRIVATE CLIENT RESEARCH

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MAHARASHTRA SEAMLESS LTD (MSL)

PRICE: RS.472 | **RECOMMENDATION: BUY**
TARGET PRICE: RS.560 | **FY19E PE: 12.0X**

We initiate coverage on Maharashtra Seamless MSL (MSL) with 'BUY' rating and a target price of Rs 560 based on 9x EV/EBITDA FY19E earnings. We believe that MSL valuations can get rerated on back of strong growth in company's consolidated profits through FY17-19E driven by 1) recovery in demand for seamless pipes in the domestic/international market 2) imposition of anti-dumping duty on Chinese imports would lead to demand shifting towards domestic industry and 3) limited competition from domestic players who are struggling with their highly leveraged balance sheets. We project 49% CAGR between FY17-19 in consolidated profits from Rs.1.15 Bn in FY17 to Rs 2.6 Bn in FY19E. At current price of Rs 472, MSL stock is trading attractive at 7.4x EV/EBITDA and 12x P/E on FY19E earnings.

Key Investment argument

- **Anti-dumping duty levied on Chinese imports along with fading competition from other Indian players offers competitive advantage to the company.** MSL business suffered severely between FY12-16 due to dumping of cheap products by Chinese players into Indian markets. Earlier, MSL used to command nearly 70% market share in India until FY12. Due to dumping of cheap products, MSL suffered heavy loss as almost entire market shifted towards the Chinese players.

  In FY16, in a bid to protect the domestic industry from cheap Chinese imports, Directorate General for Anti-dumping and Allied Duties (DGAD) had recommended to impose provisional anti-dumping duty on import of certain types of iron and steel pipes from China used in oil and gas exploration including seamless pipes.

  This move favoured MSL in two ways. 1/Company earnings exploded in FY17 (revenue up c.41%YY at Rs 14.3 Bn, EBITDA margin reported at 15.7% vis-à-vis 3.8% in FY16) due to market shifting back to domestic manufacturers and 2/ company faced limited competition from other domestic players as most them are struggling with their stretched balance sheets, severed between FY12-16. As a result, MSL has started to regain its lost market share and leadership positioning, leading to a significant growth in earning.

- **MSL is well positioned to benefit from recovery in increasing capex in domestic hydrocarbon industry.** New Exploration Licensing policy (NELP) and Hydrocarbon Exploration Policy (HELP), has emphasized on maximizing the domestic exploration of oil and gas to attain self-sufficiency by 2022. We believe that this augers well for company's business as it would entail huge capital expenditure of over Rs 2.3 trillion through FY17-20 by major Hydrocarbon companies. This is expected to generate meaningful demand for company's products. Seamless pipes constitutes to nearly 8-11% of overall capex incurred by upstream/downstream companies.

  Further, we note that the penetration level of pipelines in oil and gas transportation and other sectors is very low in India as compared to the global benchmark. This provides a huge scope for growth of the pipe industry. We believe that, MSL is well placed to cater to the increased domestic demand due to these factors.

- **International footage offers geographical diversification to take advantage of the growing demand in Europe/US market.** MSL has presence in Europe, USA and is also exploring business opportunities in Canada and Turkey. MSL has also registered itself with British petroleum. Exports constitutes to nearly 25% of MSL's revenue pie currently.

Stock details

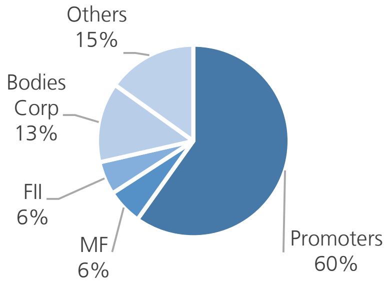
BSE code	:	500265
NSE code	:	MAHSEAMLES
Market cap (Rs.bn)	:	31.15
Free float (%)	:	40.2
52-wk Hi/Lo (Rs)	:	474/212
Avg. Dly Vol (BSE+ NSE)	:	95286
Shares o/s (mn)	:	67

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	14,342	20,056	25,590
Growth (%)	41	40	28
EBITDA	2,249	3,269	4,453
EBITDA margin (%)	15.7	16.3	17.4
PBT	1200	2169	3293
Net profit	1,156	1,865	2,595
EPS (Rs)	17.3	27.8	38.7
Growth (%)	(575.8)	61.3	39.2
CEPS (Rs)	27.8	39.0	50.5
BV (Rs/share)	409.9	434.4	469.5
DPS (Rs)	2.5	2.8	3.0
ROE (%)	4.3	6.6	8.6
ROCE (%)	2.1	4.1	5.8
Net cash (debt)	2,478	2,390	2,035
NW Capital (Days)	210.6	189.6	174.2
EV/Sales (x)	2.3	1.6	1.3
EV/EBITDA (x)	14.7	10.1	7.4
P/E (x)	26.9	16.7	12.0
P/Cash Earnings (x)	16.7	11.9	9.2
P/BV (x)	1.1	1.1	1.0

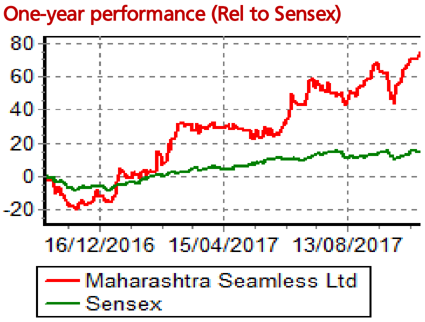
Source: Company, Kotak Securities – Private Client Research

Share holding pattern



Source: Capitaline

One-year performance (Rel to Sensex)



Source: Capitaline

Also, as per our understanding, the fall in crude oil price over past few years has led to diminished global spending on oil and gas exploration. However, meanwhile shale gas producers have reduced the operating costs and have turned profitable. We believe that the demand for OCTG (Oil country tubular goods) pipes from shale gas producers shall also improve going ahead.

- **High growth in revenue/PAT to flow into FY18/FY19; recovery in operating margins likely to aid to free cash flow generation**. We project 33.5% CAGR between FY17-19 in consolidated revenues from Rs.14.3 Bn in FY16 to Rs 25.6 Bn in FY19E on back of 1) recovery in demand for seamless pipes in the domestic/international market and 2) imposition of anti-dumping duty on Chinese imports would lead to demand shifting towards domestic industry and 3) limited competition from domestic players who are struggling with their highly leveraged balance sheets.

  We expect EBITDA margins to expand over FY18E and FY19E on back of improved pricing (aided by limited competition) and operating leverage. In our projections, we build EBITDA margin at 16.3% and 17.4% in FY18E and FY19E respectively.

  The company has net cash/investments worth Rs15.3 Bn (including equity/short & long term investments and preferential investments in related companies). Company has a consolidated debt of Rs 6.4 Bn. MSL operates at c.50% capacity utilization and does not have plans of setting up incremental capacity in near term.

  We project 49% CAGR between FY17-19 in consolidated profits from Rs.1.15 Bn in FY17 to Rs 2.6 Bn in FY19E.

- **Key Concerns**: 1/MSL revenues are heavily concentrated around capex made by the Hydrocarbon sector (both upstream and downstream players). Any delays in these spends pose downside risk to our estimates. 2/Sharp increase/volatility in input prices could bear downward pressure on operating margins 3/ Further Company has invested a major portion of its cash (c. Rs 11.71 Bn) in non-strategic assets- 6 oil rigs and a coal mine. These assets have not contributed much to cash flows so far.

Company Overview

Maharashtra Seamless Ltd. (MSL) (estd. 1988) part of DP Jindal group is market leader in Indian seamless pipe industry. The company was conceived after noticing huge demand and supply gap in the seamless pipe market, which was earlier met mostly through imports. Over the last three decades, MSL emerged as a market leader with over 50% market share in seamless and ERW pipes in India. Mr Saket Jindal, the elder son of Mr D.P Jindal is currently the 'Managing Director' of the company. Under his leadership, company has constantly moved up the value chain and has undergone incessant transition in terms of getting vertically & horizontally integrated.

MSL activities are spreads mainly across three areas-1/Seamless pipes 2/ ERW (Electric Resistant Welded) pipes and 3/ Renewable energy.

Seamless Pipes (80% of MSL business)

Seamless pipes are used where strength, resistance to corrosion and product life is crucial. Ultra high strength and corrosion-resistant properties make Seamless pipes perfect for oil and gas industry, steam boilers, chemical and other processing industries, pipelines, installation with high and supercritical steam and pressure conditions. Due to their varied uses, seamless pipes and tubes find their application in several industry sectors which include: refineries & petrochemical plants (major demand driver), fertilizer industry, steel plants, power plants, industry using boilers, sugar plants, chemical plants, industry using heat exchangers and condensers, automobile manufacturing plants, railways and defense (aircraft, missile, nuclear power plants).

Currently MSL total installed capacity of Seamless plant is 550000 TPA (product range upto 20 inch diameter). Through its state of the art manufacturing unit at Nagothane (near Mumbai), MSL manufacture seamless pipes & tubes and wide product range using critical technology, acquired through technical collaboration with Mannesmann Demag Huttentechnik Gmbh (MDH), Germany. Mannesmann Demag is a world leader in steel and seamless pipe industry. Company had acquired Seamless Plant from Romania having an installed capacity of 200000 TPA to manufacture Seamless Pipe upto 6"OD. The plant has been completely dismantled and relocated to India at Mangaon, Maharashtra near the existing plant.

ERW (Electric Resistant Welded)

Beside seamless pipes, company has ERW (electric resistant welded) pipe capacity of 200000 tpa. Company manufactures larger diameter ERW pipes for applications in the field of natural gas, crude oil, refineries and other core sector industry like fertilizers etc.

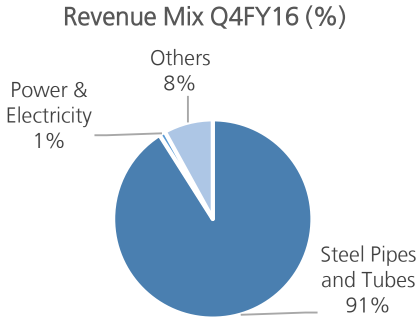
MSL follows a hybrid selling model-both for Seamless and ERW pipes, comprising of 65% of direct sales to oil majors like ONGC (through tendering) and c.35% of sales through its distribution network spread across India. Company's sales efforts involves frequent channel partners meets and maintains a healthy relations with its actual users/buyers by providing after sales service through dedicated team of marketing professionals. Over the past few years, it has also increased its reach to the entire globe through its digital platform.

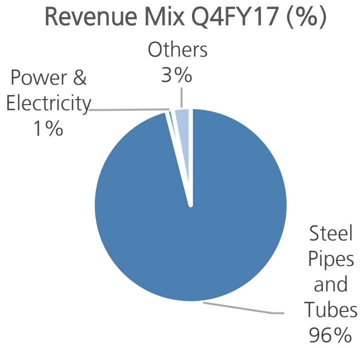
Others

Further, the company has also diversified into renewable power generation primarily to neutralize the rising power cost in the state of Maharashtra. Nearly 14% of MSL power cost is met through these renewable assets. Additional benefits flows from 100% income tax depreciation, capital subsidy etc.

MSL owns 7 MW wind power capacity in Satara, Maharashtra (commissioned with total cost of c.Rs 360 mn in 2001). Further, the company has also set up a 5MW solar Power Plant in Pokaran, District Jaisalmer Rajasthan. The project was allotted to the company under Jawaharlal Nehru National Solar Mission (JNNSM) of the Govt. of India (in total MSL commissioned 20 MW solar power plant in Rajasthan).

Revenue Mix





Source: Company

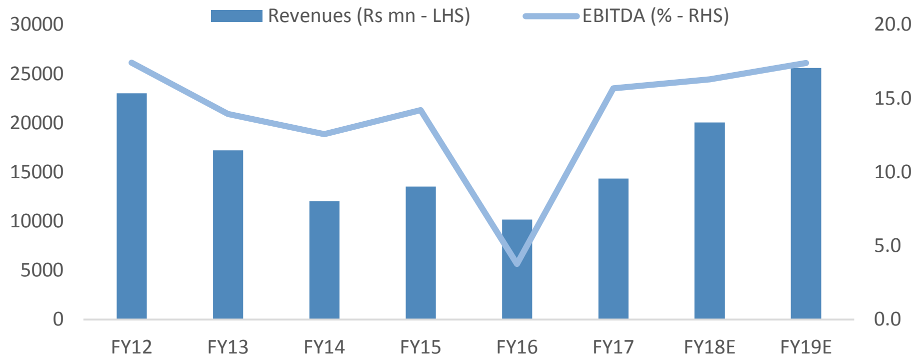
KEY INVESTMENT ARGUMENTS

Anti-dumping duty levied on Chinese imports along with fading competition from other Indian players offers advantageous position to the company

Background

MSL business suffered between FY12-16 due to dumping of cheap products by Chinese players into Indian markets. Earlier until FY12, MSL used to command nearly 70% market share in India. However, due to dumping of cheap products, MSL suffered heavy losses as almost entire market shifted towards Chinese players. MSL seamless pipes volume had shrunk to c.144000 mtpa in FY14 from c.267000 mtpa in FY12.

EBITDA trend



Source: Company, Kotak Securities – Private Client Research

Imposition of anti-dumping duty provided relief to MSL

In FY16, in a bid to protect the domestic industry from cheap Chinese imports, Directorate General for Anti-dumping and Allied Duties (DGAD) had recommended to impose provisional anti-dumping duty on import of certain types of iron and steel pipes from China used in oil and gas exploration including seamless pipes. This act of the government led to restricted Chinese imports and diverted the demand back towards local players.

In Q4FY17, the Government of India further imposed a "definitive" anti-dumping duty on the imports of seamless tubes and pipes from China for five years (from the date of imposition of provisional anti-dumping duty, that is, May 17, 2016). The anti-dumping duty imposed ranges from USD961-1611 per tonne.

Anti-dumping duty levied by Government of India has resulted in opportunity for domestic industry in the below mentioned segments which were catered by Chinese players earlier.

- Upstream (ONGC, OIL and Other Pvt. Explorers).
- Power Sector, Projects of Green Field Process Industries, General Engineering and Dealer Segment.
- Down stream – Refineries need to go in for expansion of Sulphur recovery plants to meet the Euro-6 norms.

MSL stands healthier than other domestic players

Further, MSL gained disproportionately as most of the other domestic players (viz. Jindal Saw and ISMT) are struggling with their stretched balance sheets, further severed between FY12-16. MSL presence in the high value added large-diameter seamless pipes segment (outer diameter >10 inch), where other domestic manufacturers are not present, offers it further edge to the company.

Industry players

Company	Revenues (FY17 Rs bn)	EBITDA (%) FY17	Installed Capacity TPA	Net D/E (including investments) FY17
Maharashtra Seamless	14.3	15.7	550000.00	0.00
Jindal Saw *	59.3	11.0	2500000.00	1.00
ISMT	11.0	(22.7)	na	Negative net worth

*Source: Company, Kotak Securities – Private Client Research; * Jindal Saw Seamless pipes capacity stands at c.250000 TPA, D/E reduced from 2 in FY15 to 1 in FY17 post financial restructuring*

MSL has started to regain its lost market share and leadership positioning. Current domestic market size of Seamless pipes stands at 700,000 tpa. As per management, company has already been commanding c.40% market share and expects to strengthen it further.

The imposition of anti-dumping duty on Chinese imports and fading competition from domestic players augurs well for the company. We note that MSL has already reported increase in capacity utilization to c.50% from C.25% along with improved EBITDA margin from mere 3.2% in FY16 to 15.4% in FY17. Seamless pipes volume grew to c. 210000 tpa in FY17 and is further expected to reach 289000 tpa in FY19.

Given above factors, we believe that MSL could excessively benefit from recovery in capex momentum in the Indian hydrocarbon sector.

MSL is well positioned to benefit from recovery in increasing capex in domestic hydrocarbon industry

New Exploration Licensing policy (NELP) and Hydrocarbon Exploration Policy (HELP), has emphasized on maximizing the domestic exploration of oil and gas to attain self-sufficiency. We believe that this augers well for company's business as it would entail huge capital expenditure of over Rs 2.3 trillion through FY17-20 by major Hydrocarbon companies thereby generating amplified demand for company's products. Seamless pipes constitutes to nearly 8-11% of overall capex incurred by upstream/downstream companies.

In view of increasing pollution levels in major Indian cities and keeping track with the European emission standards (Euro standards), government has decided to upgrade current fuel norms to BS VI (equivalent of Euro VI) skipping BS V. Transition to BS–VI emission standards by year 2020 is also expected to generate demand for seamless/ERW pipes. As per our industry interactions, a majority of orders in BS-VI (expected investment by existing refineries of c. Rs 650 Bn) would get implemented over the next two years.

Other factors that could drive the demand for steel pipes & tubes going ahead are mentioned beloe.

- Government emphasis on North-Eastern part of India and cross country pipe line connection planned by PNGR.
- Replacement of the old Oil / Gas pipelines in Mumbai high / Gujarat is going on and will continue for a few years.
- Prime importance from the government given to pan India pipe line connectivity for gas.
- Government has re-started the City-Gas projects in a numbers of Cities, which will give a push to the demand of pipes & tubes mainly in ERW coated pipes.

- Government's "Make in India" initiative has displayed a lot of interest among both domestic & foreign investors. Large capex investments have been committed by prominent industrial houses. Most of investments to be in infrastructure sectors and will give a boost on demand of Steel Pipes & Tubes.
- In the 1st stage of the "Smart Cities Mission" the Govt. has selected 20 cities for implementation. These cities will have assured water & electricity supply, efficient public transport system, waste management and e-governance. This will give a push to the demand of pipes in these projects.

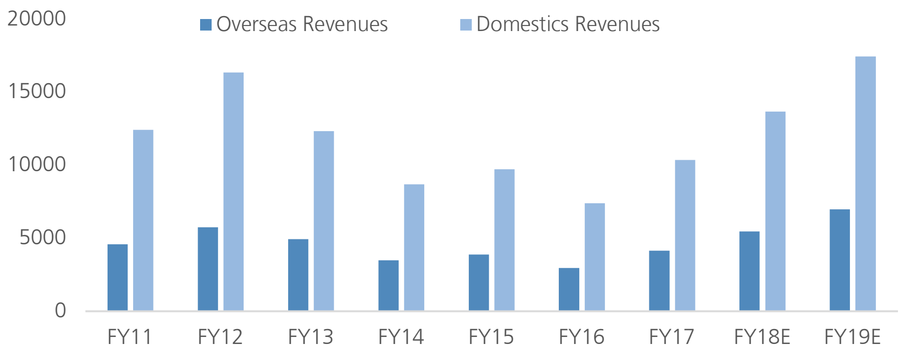
We note that the penetration level of pipelines in oil and gas transportation and other sectors is very low in India as compared to the global benchmark. This provides a huge scope for growth of the domestic pipe industry. MSL is well placed to cater to the increased domestic demand due to above factors.

International footage offers geographical diversification to take advantage of the growing demand in Europe/US market

Company has presence in Europe, USA and is also exploring business opportunities in Canada and Turkey. MSL has also registered itself with British petroleum. Exports constitutes to nearly 25% of MSL's revenue pie. We expect export revenues to rise further on back of recently imposed anti-dumping duty on Chinese pipes by USA, Brazil, Latin America, Columbia and Canada. Europe is also considering re-imposition of anti-dumping duty on Chinese pipes imports.

Also, as per our understanding, the fall in crude oil price over past few years has led to diminished global spending on oil and gas exploration. However, meanwhile shale gas producers have reduced the operating costs and have turned profitable. We believe that the demand for OCTG (Oil country tubular goods) pipes from shale gas producers shall also improve going ahead.

Domestic / Overseas mix (Rs mn)



Source: Company, Kotak Securities – Private Client Research

High growth in revenue/PAT to flow into FY18/FY19; recovery in operating margins likely to aid to free cash flow generation

We project 33.5% CAGR between FY17-19 in consolidated revenues from Rs.14.3 Bn in FY16 to Rs 25.5 Bn in FY19E on back of 1) recovery in demand for seamless pipes in the domestic/international market and 2) imposition of anti-dumping duty on Chinese imports would lead to demand shifting towards domestic industry and 3) limited competition from domestic players who are struggling with their highly leveraged balance sheets. We note that Seamless pipes sales volume has gained traction in the last few quarters. In FY17, the seamless pipes sales volume reported a meaningful growth of c.38% YY to 209211 MT.

Key Trends/Assumptions

	FY14	FY15	FY16	FY17	FY18E	FY19E
Sales (MT)						
Seamless	152629	172479	149679	209746	271974	339968
YY (%)	(23.1)	13.0	(13.2)	40.1	29.7	25.0
ERW	53184	57272	61942	72331	80005	96006
YY (%)	(36.5)	7.7	8.2	16.8	10.6	20.0
Net Sales Realization (Rs per MT)						
Seamless	59292	60627	51033	52179	54788	56432
YY (%)	(7.3)	2.3	(15.8)	2.2	5.0	3.0
ERW	47893	43700	35622	39667	41650	42483
YY (%)	6.4	-8.8	-18.5	11.4	5.0	2.0
EBITDA (Rs per MT)						
Seamless	3447	5009	1408	8171	9040	10440
YY (%)	(47.3)	45.3	(71.9)	480.3	10.6	15.5
ERW	3849	1566	82	4594	4582	4673
YY (%)	36.1	(59.3)	(94.8)	5502.4	(0.3)	2.0

Source: Company, Kotak Securities – Private Client Research

We expect that the company is likely to maintain its revenue mix at current levels with seamless pipes contributing c.80% and ERW c.20% to the revenue pie.

Within the revenue stream, we expect seamless pipes divisions to report growth at 32.3% CAGR between FY17-19 from Rs 10.9 Bn in FY17 to Rs 19.1 Bn in FY19E. We expect ERW division to grow at 19% CAGR in the same period from Rs 2.9 Bn in FY17 to Rs 4.07 Bn in FY19E.

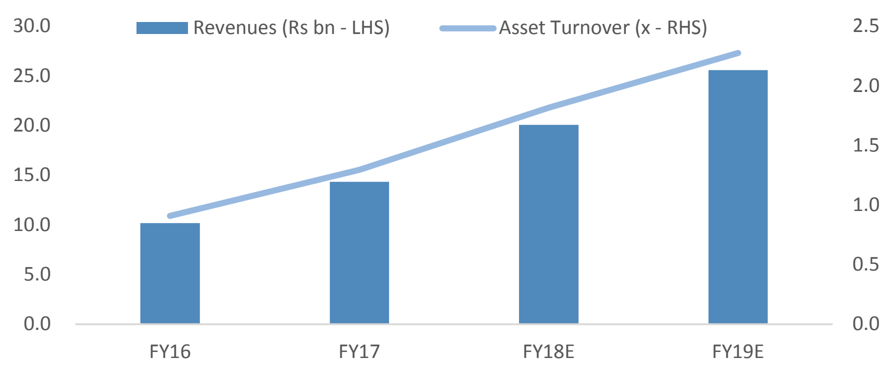
We highlight that the overseas business constitutes to nearly 25% of company's revenue pie. We do not anticipate major shift in the revenue mix going ahead, however operating profits could substantially come in from exports, given favorable industry dynamics in the international market.

We also expect sharp margin improvement in international business going forward on back of operating leverage and stable cost structure.

Domestic operating margins likely to sustain over the next two years on back of improved pricing and operating leverage

We expect EBITDA margins to expand in FY18E and in FY19E on back of improved pricing (aided by limited competition) and operating leverage. In our projections, we build EBITDA margin at 16.3% and 17.4% in FY18E and FY19E respectively. We project ROE to improve to 8.3% in FY19 from 4.3% in FY17. Note that ROE appears to be depressed due to higher level of investments (c.35% of total assets currently) held by the company. Adjusted for this, ROE would stand at 9.6%/16.1% in FY17/FY19.

EBITDA Trend Chart



Source: Company, Kotak Securities – Private Client Research

MSL has a strong balance sheet with low debt and working capital requirement

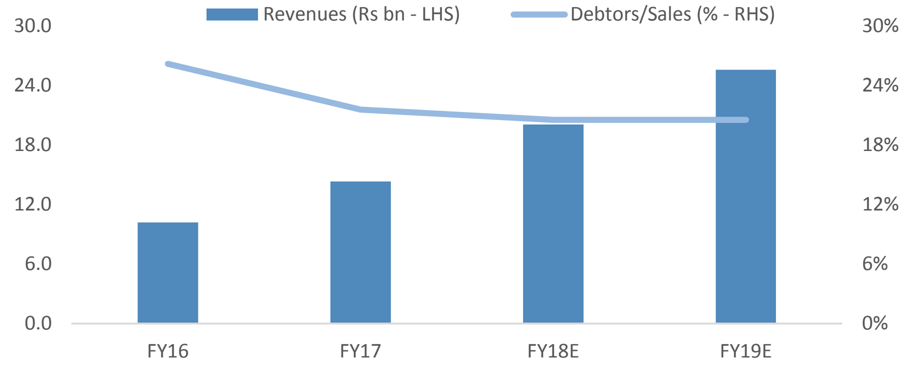
We project working capital to improve form 217 days to 178 days in FY18 with inventory/debtors at c.123/79 days in FY17 to 115/75 days in FY19.

Working capital

	FY17	FY18E	FY19E
Net Working capital (non cash)	8536	10679	12473
Net Working capital (non cash) in days	217.2	194.4	177.9
Current Assets	10716	13464	16069
Inventory	4842	6594	8063
inventory days	123.2	120	115
Sundry Debtors	3091	4121	5258
Debtors days	78.7	75	75
Other current assets	649	649	649
Loans and advances	2134	2100	2100
Cash	71	159	515
Current liabilities	2180	2784	3597
Acceptances			
Sundry creditors	1391.7	1868	2454
in days	35.4	34	35
other current liabilities	387	495	701
in days	9.8	9.0	10.0
provisions	402	422	442

Source: Kotak Securities – Private Client Research

Debtor/Sales



Source: Company, Kotak PCG-Research

We believe that the MSL will be able to support its future growth on back of its improved balance sheet

The company has net cash/investments worth Rs3.6 Bn (including equity/short & long term investments and preferential investments in related companies). Company has a consolidated debt of Rs 6.4 Bn.

Investments

	FY17 Rs mn
Cash & Current Investments	3660
Equity investments in JV/Associates includes investment in 6 oil rigs (3 deployed currently) and in coal mine	11710

Source: Company, Kotak Securities – Private Client Research

MSL through its subsidiary own 6 oil rigs, out of which 3 are deployed as of now. Company had also invested c. Rs 1.2 Bn in coal mines which has been non-operational so far.

MSL operates c.50% capacity utilization and does not have plans of setting up incremental capacity in near term. Major capex for next two years includes setting up of 2MW rooftop solar power facility at company's Nagothane factory. This would significantly reduce cost of power and make pricing more competitive. In FY17, company generated 27% of power through renewable energy initiatives.

Initiate coverage on the MSL stock with BUY rating and a target price of Rs 560 based on 9 x EV/EBITDA FY19E earnings

Current valuations appear attractive vis-à-vis the potential growth in revenues driven by 1) rise in domestic demand for seamless pipes and other company's products on back of increased public spending on infrastructure and increased capex by major oil companies both upstream and downstream 2) imposition of anti-dumping duty on cheap Chinese products would lead to significant market share gains in India and several other countries like USA, Brazil, Columbia and Canada, leading to sharp recovery in EPS form Rs 17.3 in FY17 to Rs 38.7 in FY19.

At current price of Rs 472, MSL stock is trading at 12 x P/E and 7.4x EV/EBITDA on FY19E earnings. We believe that company's stock can re-rate further to capture significant improvement in company's margin profile and strong presence in Indian/overseas market. We value MSL stock at 9x EV/EBITDA FY19E earnings and arrive at a target price of Rs 560 per share. In view of adequate upside to our target price we ascribe 'BUY' rating on company's stock.

MSL has Rs 11.7 Bn worth of investments in JVs/associate companies which are not contributing to cash flows as of now. We are not taking value of these investments into our valuation model. Monetization/deployment of these assets (mainly coal mines and 6 oil rigs) could add to further upside to our target price.

Valuation	
EBITDA FY19	4,453
EV/EBITDA (x)	9
Enterprise Value (E) mn	40,074
Add: Investments, intercompany deposits, cash & FDs	3,922
Less Gross debt	6,400
Target Market Cap	37,595
Target Price (Rs)	**560**

Source: Kotak Securities – Private Client Research

Business review Q1FY18; revenue growth exploded on back of increased volumes and pricing

Company's revenue for Q1FY18 grew by 56.1% YoY to Rs 4.5 Bn & EBITDA stood at Rs.607 mn. EBITDA margins expanded to 13.5% in the quarter against 10.1% last year driven by better pricing and operating leverage. EBIT margins in steel & pipe business stood at 8.4% in the quarter.

MSL order book at the end of Q1FY18, stood at Rs 9 Bn including Rs 6.8 Bn of seamless pipes and Rs 2.2 Bn of ERW orders. In Q1FY18, company has successfully bagged Rs 4.2 Bn order for supply of Seamless Casings to ONGC against stiff competition from domestic as well as foreign manufactures from China, Russia, Ukraine, Romania, Argentina and Others.

Company reported tax expense at Rs 210 mn in the quarter resulting in PAT at Rs 372 mn in Q1FY18 vis-à-vis Rs 239 mn in Q1FY17.

MSL Result for Q1FY18

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Income from Operations	**4502.9**	**2884.1**	**56.1**	**4526.5**	**(0.5)**
Decrease/ (Increase) in stock	(267.2)	113.9	(334.6)	59.6	(548.3)
Material consumed	3192.7	1868.0	70.9	2842.1	
Purchase of traded goods	4.4	0.0		0.0	#DIV/0!
Employee expenses	153.9	115.8	32.9	162.3	(5.2)
Other expenses	811.2	494.1	64.2	740.4	9.6
Total expenditure	3895.0	2591.8	50.3	3804.4	2.4
EBITDA	**607.9**	**292.3**	**108.0**	**722.1**	**(15.8)**
Other income	175.6	242.7	(27.6)	160.4	9.5
Depreciation	179.9	173.7	3.6	171.1	
EBIT	**603.6**	**361.3**		**711.4**	
Finance cost	20.6	11.1	85.6	56.6	(63.6)
PBT	**583.0**	**350.2**	**66.5**	**654.8**	**(11.0)**
Exceptional items	0.0	0.0		0.0	
Reported PBT	**583.0**	**350.2**	**66.5**	**654.8**	**(11.0)**
Total tax	210.6	111.2	89.4	262.7	(19.8)
PAT	372.4	239.0	55.8	392.1	(5.0)
Adjusted PAT	**372.4**	**239.0**	**55.8**	**392.1**	**(5.0)**
EPS Adjusted	**5.6**	**3.6**	**55.8**	**5.9**	**(5.0)**
EBITDA%	13.5	10.1		16.0	
Tax Rate %	36.1	31.8		40.1	
RM/Sales	65.1	68.7		64.1	

Source: Company

Segment Revenues

(Rs mn)	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ
Steel pipes & tubes	4765.2	3122.4	52.6	4908	(2.9)
Power-Electricity	50	54	(7.4)	30.1	66.1
Segment EBIT (Rs mn)					
Steel pipes & tubes	400.8	79.2	406.1	535	(25.1)
Power-Electricity	27.3	39.4	(30.7)	15.5	76.1
EBIT (%)					
Steel pipes & tubes	8.4	2.5		10.9	
Power-Electricity	54.6	73.0		51.5	

Source: Company

KEY CONCERNS

Delayed recovery in Indian Hydrocarbon industry

MSL revenues are heavily concentrated around capex made by the Hydrocarbon sector (both upstream and downstream players). Any delays/deferments in these spends pose downside risk to our estimates.

Investments in non-core activities

MSL has invested a major portion of its cash (c. Rs 11.71 Bn) in non-strategic assets- 6 oil rigs and a coal mine. These assets have not contributed much to cash flows so far. As per management the value of oil rigs have appreciated and company could even consider monetizing the coal mines in future. We believe that it is vital to ascertain the economic value added from these assets.

Increased volatility in input prices

Company’s profitability remains exposed to volatility in steel prices due to fixed-price contracts. To mitigate this risk, company takes orders with shorter delivery cycle. However, we believe that increased volatility in input prices could pose threat to company’s operations.

FINANCIALS

Profit and Loss Statement

(Rs mn)	FY17	FY18E	FY19E
Revenues	**14,342**	**20,056**	**25,590**
% change yoy	40.8	39.8	27.6
EBITDA	**2,249**	**3,269**	**4,453**
% change yoy	15.7	16.3	17.4
Depreciation	710	750	790
EBIT	**1,539**	**2,519**	**3,663**
% change yoy	-	63.7	45.4
Net Interest	339	350	370
Earnings Before Tax	1,961	2,869	3,993
% change yoy	(304.5)	80.7	51.8
Tax	805	1,004	1,397
Effective tax rate (%)	41.0	35.0	35.0
XO Items	0	0	0
Recurring PAT	1,156	1,865	2,595
% change yoy	(575.8)	61.3	39.2
Shares outstanding (m)	67.0	67.0	67.0
EPS (Rs)	**17.3**	**27.8**	**38.7**
DPS (Rs)	2.5	2.8	3.0
CEPS	27.8	39.0	50.5

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY17	FY18E	FY19E
Profit Before Tax	1,961	2,869	3,993
Add:			
Depreciation	710	750	790
Current liabilities incl provisions	151	604	812
inc in inventory	(147)	1,752	1,469
inc in sundry Debtors	425	1,030	1,137
inc in advances	541	(34)	-
Tax Paid	805	1,004	1,397
Other Adjustments	(567)	-	-
Net cash from operations	**1,766**	**471**	**1,592**
less:			
Purchase of fixed Assets	(451)	(950)	(990)
Net investments	(983)	-	-
Net cash from investing	**(2,242)**	**(160)**	**(990)**
Borrowings			
Short Term	1,614	-	-
Long Term	(922)	-	-
Dividend Paid	(202)	(224)	(246)
Net Cash from financing activities	**490**	**(224)**	**(246)**
Net Cash Flow	13	88	356
Cash at the end of year	71	159	515

Source: Company, Kotak Securities - Private Client Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E
Cash and cash equivalents	71	159	515
Accounts receivable	3,091	4,121	5,258
Loans & advances	2,134	2,100	2,100
Inventories	4,842	6,594	8,063
Current Assets	10,716	13,464	16,069
Investments	11,710	11,710	11,710
Net fixed assets	10,949	11,149	11,349
Total Assets	**36,386**	**38,027**	**40,377**
Provisions	402	422	442
Current Liabilities	2,180	2,784	3,597
Minority Interest	-	-	-
Debt	6,400	6,400	6,400
Other liabilities(deferred tax)	2,522	2,522	2,522
Equity & reserves	27,464	29,105	31,454
Total Liabilities	**36,386**	**38,027**	**40,377**
BVPS (Rs)	410	434	469

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Rs mn)	FY17	FY18E	FY19E
EBITDA margin (%)	15.7	16.3	17.4
EBIT margin (%)	10.7	12.6	14.3
Net profit margin (%)	8.1	9.3	10.1
Adjusted EPS growth (%)	8.1	9.3	10.1
Receivables (days)	78.7	75.0	75.0
Inventory (days)	123.2	120.0	115.0
Sales / Net Fixed Assets (x)	1.3	1.8	2.3
Interest coverage (x)	4.5	7.2	9.9
Debt/ equity ratio	0.2	0.2	0.2
ROE (%)	4.3	6.6	8.6
ROCE (%)	2.1	4.1	5.8
EV/ Sales	2.3	1.7	1.3
EV/EBITDA	14.8	10.2	7.5
Price to earnings (P/E)	26.9	16.7	12.0
Price to book value (P/B)	1.1	1.1	1.0
Price to cash earnings	16.7	11.9	9.2

Source: Company, Kotak Securities - Private Client Research

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
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NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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