

Result Update

Stock Details

Market cap (Rs mn)	:	32502
52-wk Hi/Lo (Rs)	:	552 / 375
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	79,472
Shares o/s (mn)	:	67

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	21,497	27,845	33,438
Growth (%)	49.9	29.5	20.1
EBITDA	3,110	6,404	7,524
EBITDA margin (%)	14.5	23.0	22.5
PAT	2,001	4,136	4,829
EPS	29.9	61.7	72.1
EPS Growth (%)	73.1	106.7	16.8
BV (Rs/share)	447	505	573
Dividend/share (Rs)	2.8	3.0	3.3
ROE (%)	7.0	13.0	13.4
ROCE (%)	5.5	11.2	11.7
P/E (x)	16.2	7.9	6.7
EV/EBITDA (x)	11.0	5.3	4.6
P/BV (x)	1.1	1.0	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	61.2	60.6	60.3
FII	2.4	3.3	4.4
DII	7.6	7.9	7.4
Others	28.2	28.3	28.0

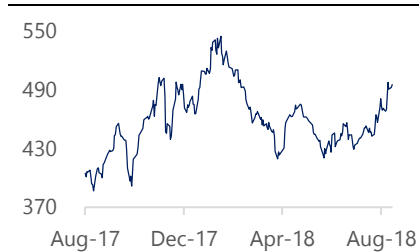
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mah Seamless	9.6	12.3	2.7
Nifty	4.9	9.0	11.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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MAHARASHTRA SEAMLESS LTD (MSL)

PRICE Rs.485

TARGET Rs.805

BUY

MSL Q1FY19 result significantly outperformed our estimates; sales grew on back of improved realizations in Seamless as well as ERW pipe division. Margins expanded significantly on y/y and sequential basis demonstrating the pricing power. We note that Q1FY19 (and so the Q4FY18 quarter) signals sustainable recovery in company's financials in foreseeable future, supporting our investment thesis.

Key Highlights

- MSL revenue reported at Rs 6 Bn in Q1FY19 (+34.9% y/y; Q1FY18 sales adjusted for excise) driven by steel pipes & tubes (seamless pipes & ERW pipes) sales, reported at Rs 5.9 Bn (+25% y/y).
- Seamless pipe division significant jump in EBITDA per MT to Rs 18567 in Q1FY19 vis-à-vis Rs 7056 in Q1FY18 and Rs 16545 in Q4FY18.

Valuation & outlook

Post Q1FY19 result and interacting with the company's management, we reiterate our positive view on MSL stock. **We sharply revise our FY20 earnings estimate upwards (revise FY20 PAT by 40%);** believe that MSL valuations can get further rerated on back of strong growth in company's estimated consolidated profits through FY19-20E driven by recovery in demand for seamless pipes in the domestic/international market and 2) company's leadership positioning in Indian market.

MSL stock continues to trade at attractive valuations at 4.6 FY20 EV/EBITDA. We value MSL stock at 7.5x EV/EBITDA FY20E earnings and maintain BUY with revised target price of Rs 805 per share (Rs 615 earlier).

Standalone Result

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Sales	6074	4503	34.9	6313	(3.8)
Decrease/ (Increase) in stock	(728.4)	-267.2	172.6	-303	140.3
Material consumed	4233	3193	32.6	4045	
Purchase of traded goods	0	4		19	
Employee expenses	154	154	0.2	157	(1.9)
Other expenses	979	811	20.7	1152	(15.0)
Total expenditure	4638	3895	19.1	5070	(8.5)
EBITDA	1437	608	136.3	1243	15.5
Other income	351	176	99.9	156	124.9
Depreciation	196	180	8.7	192	
EBIT	1592	604		1208	
Finance cost	13	21	(35.9)	-2	(760.0)
PBT	1579	583	170.8	1210	30.5
Exceptional items	0	0		0	
Reported PBT	1579	583	170.8	1210	30.5
Total tax	576	211	173.4	326	76.8
PAT	1003	372	169.4	884	13.5
Adjusted PAT	1003	372	169.4	884	13.5
EPS Adjusted	15.0	5.6	169.4	13.2	13.5
EBITDA%	23.7	13.5		19.7	
Tax Rate %	36.5	36.1		26.9	
RM/Sales	57.7	65.1		59.6	

Source: Company, Kotak Securities - Private Client Research

Result Highlights

Volume/Pricing outlook sustained; demand from hydrocarbon sector remains buoyant

MSL revenue reported at Rs 6 Bn in Q1FY19 (+34.9% y/y; Q1FY18 sales adjusted for excise) driven by steel pipes & tubes (seamless pipes & ERW pipes) sales, reported at Rs 5.9 Bn (+25% y/y). EBIT margins in Steel pipes & tubes division expanded sharply y/y to 19.5% in Q1FY19 vis-à-vis 8.4% in Q1FY18 due to improved profitability in the seamless pipe and ERW business.

Realization at Rs 78094/MT in Seamless pipe division increased 45.9% y/y driven by continued increase in demand from hydrocarbon sector. Seamless pipe division reported significant jump in EBITDA per MT to Rs 18567 in Q1FY19 vis-à-vis Rs 7056 in Q1FY18 and Rs 16545 in Q4FY18.

ERW division reported sharp y/y rise in realizations, reported at Rs 57512/MT in Q1FY19 vis-à-vis Rs 60114/MT in Q1FY18. EBITDA margin for the segment expanded to 13.1% in Q1FY19 vis-à-vis 11.6% in Q1FY18. Overall, MSL reported record EBITDA margin at 23.7% in Q1FY19 against 13.5% in Q1FY18. Dispatch declined y/y due to the maintenance shutdown taken by the company in the quarter (one of factor).

Order inflows remained strong driven by hydrocarbon sector. MSL reported order book at Rs 10 Bn. Other income, reported at Rs 351 mn vis-à-vis Rs 351 mn in Q1FY18. MSL reported PAT of Rs 1 Bn in Q1FY19 vis-à-vis Rs 176 mn in Q1FY18.

Segment reporting (Standalone)

	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Segment Revenues (Rs mn)					
Steel pipes & tubes	5957.9	4765.2	25.0	6233.2	(4.4)
Power-Electricity	116.4	50	132.8	80.2	45.1
Segment EBIT (Rs mn)					
Steel pipes & tubes	1160.5	400.8	189.5	1038.4	11.8
Power-Electricity	80.6	27.3	195.2	13.3	506.0
EBIT (%)					
Steel pipes & tubes	19.5	8.4		16.7	
Power-Electricity	69.2	54.6		16.6	

Source: Company, Kotak-PCG Research

Pipe Segment (Key metrics)

	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Dispatch (MT)					
Seamless	65114	71772	(9.3)	81782	(20.4)
ERW	16056	11960	34.2	14496	10.8
Realization per tonne Rs per MT					
Seamless	78094	53525	45.9	75369	3.6
ERW	57512	42415	35.6	60114	(4.3)
EBITDA / tonne (Rs per MT)					
Seamless	18567	7056	163.1	16545	12.2
ERW	7580	4941	53.4	1421	433.4

Source: Company, Kotak Securities – Private Client Research

Why we believe that our aggressive estimates are achievable and the company will be able to push price hikes

Management shared positive demand outlook for company's products, especially in seamless pipes division. In our view, MSL has demonstrated the ability of gaining market share (MSL commands more than 60% market share in India) at a rapid pace, post imposition of definitive anti-dumping duty on seamless pipes.

Further, management is confident of maintaining prices over the next two years (especially in seamless pipe division - over 70% of MSL business), which should reassure on company's ability to maintain margin going forward.

We maintain our view that MSL continues to benefit from 1/ the imposition of anti-dumping duty on Chinese imports restricting major competition and 2/ limited competition from domestic players who are struggling with their highly leveraged balance sheets.

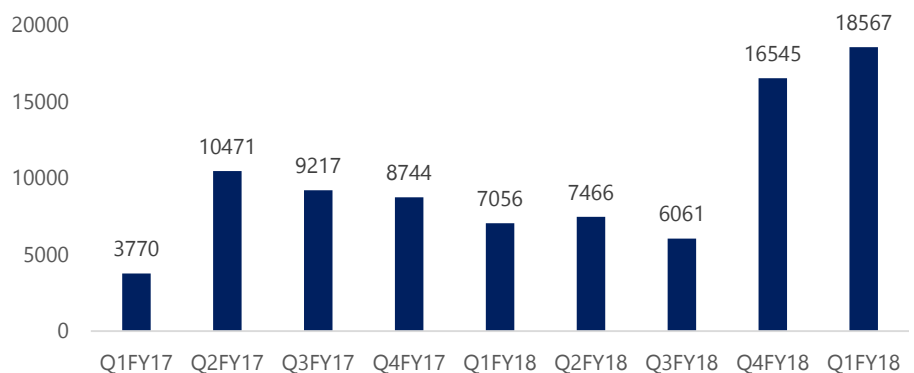
.... only player in domestic Seamless pipe Industry

MSL continues to disproportionately benefit going ahead as most of the other domestic players (viz. Jindal Saw and ISMT) are struggling with their stretched balance sheets, 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 further edge.

We take notable comfort from the latest lead indicators, which are pointing towards improving trends in the end markets. These include- strong order flows from Indian oil majors including ONGC, bounce back in energy prices, which could lead to recovery from oil producing (Middle East & Africa) countries, pick up in ordering from US/Europe (US/Europe have also imposed anti-dumping duty on Chinese seamless pipes).

Our forecasts might look demanding at first sight, however we note that the MSL has maintained EBITDA/tonne of over Rs 18000 in the last two quarters against the range of Rs 4000-9000 in the last eight quarters. Further, management is fairly confident of maintaining the margins at the elevated levels going ahead.

Seamless Pipes Quarterly EBITDA/tonne (Rs) Trend



Source: Company

.....high growth in revenue/PAT to flow into FY19/FY20; sharp recovery in operating margins likely to aid to free cash flow generation

Our positive outlook on MSL is predicated upon the increase in capex by major oil companies in India. We note that 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, thereby generating robust demand for company's products. Seamless pipes constitutes to nearly 8-11% of overall capex incurred by upstream/downstream companies.

.....Estimates Summary: Substantial revision to our forecasts

We update our earnings model and maintain revenue projections at 24.9% CAGR between FY18-20 from Rs.21.4 Bn in FY18 to Rs 33.5 Bn in FY20E. Within the revenue stream, we expect seamless pipes divisions to report growth at c.25% CAGR in the same period from Rs 17.8 Bn in FY14 to Rs 27.7 Bn in FY20E. We expect ERW division to grow at c.26% CAGR between FY18-20. Further, we assume that wage and input price inflation should get offset by company's higher volumes/pricing in seamless pipes (high margin business).

Following Q1FY19 result, we substantially increase our FY19/20 margin estimate on back of sustained high profitability in seamless pipe business. We feel more confident after interacting with MSL's management and other industry participants-including competitors and customers. ***We set in line our EBITDA per MT forecasts in line with the revised management's guidance (achieved in last two quarters) of c. Rs 18000-19000 per MT over FY19/20.***

Our prior assumptions were Rs 12000-12500 EBITDA /tonne in FY19/20 which the company has sizably outperformed in the last two quarters.

In our estimates we do not ignore the impact of increasing competition from international players, who are finding interest in the Indian market. Note that off late, even Chinese players have started to bid for Indian contracts, however the quoted price is in line with prevailing market price (over USD 900 per MT), unlike in pre anti-dumping era (when quoted price was less than 700 USD per MT). Our assumptions are presented in the table below.

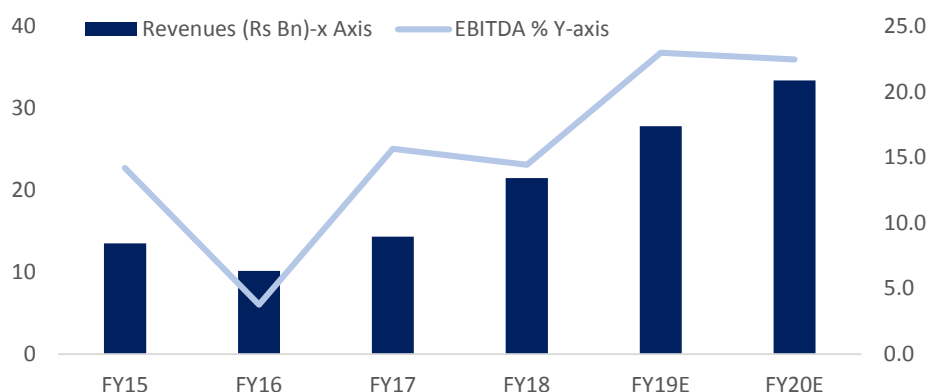
Assumptions

(Rs mn)	FY17	FY18	FY19E	FY20E
Production (MT)				
Seamless	209211	294035	308737	361222
y/y (%)	38.3	40.5	5.0	17.0
ERW	71433	57655	67456	80948
y/y (%)	17.4	-19.3	17.0	20.0
Dispatch (MT)				
Seamless	209746	294582	308737	361222
y/y (%)	40.1	40.4	4.8	17.0
ERW	72331	55744	67456	80948
y/y (%)	16.8	-22.9	21.0	20.0
Net Sales Realization (Rs per MT)				
Seamless	52940	60466	74373	76604
y/y (%)	3.7	14.2	23.0	3.0
ERW	40107	52232	56411	57539
y/y (%)	12.6	30.2	8.0	2.0
EBITDA (Rs per MT)				
Seamless	8171	9191.0	18000.0	18000.0
y/y (%)	480.3	12.5	95.8	0.0
ERW	4594	2800.0	6000.0	4000.0
YY (%)	5502.4	-39.1	114.3	(33.3)

Source: Kotak PCG-Research

Overall, we revise our EBITDA margin estimates upward to 23% and 22.5% in FY19 and FY20 respectively.

Revenue & Margin Trend



Source: Kotak Securities – Private Client Research

Change in Estimates

(Rs mn)	FY19E			FY20E		
	New	Old	% chg	New	Old	% chg
Revenues	27845	27905	-0.2	33438	33,821	-1.1
EBITDA	6404	4744	35.0	7524	5,919	27.1
PAT	4136	2731	51.4	4829	3,429	40.8
EPS (Rs)	61.7	40.8	51.3	72.1	51.2	40.8

Source: Kotak Securities – Private Client Research

Increase in oil prices could boost value of oil rigs

Oil prices have risen significantly in last three months. MSL has invested in six oil rigs, out of which 4 (3 until end of FY18) are currently deployed. Management shared optimism that increasing trend in crude price would likely find improved demand for its remaining three oil rigs. This could also lead to the increase in net asset value of these oil rigs (Note, we do not account for the value of these assets in our valuation model).

Valuation and Recommendation; Rs 805 TP implying 65% upside

Post Q1FY19 result and interacting with the company's management, we reiterate our positive view on MSL stock. We revise our FY20 earnings estimate upwards; believe that MSL valuations can get further rerated on back of strong growth in company's estimated consolidated profits through FY19-20E driven by recovery in demand for seamless pipes in the domestic/international market and 2) company's leadership positioning in Indian market.

MSL stock continues to trade at attractive valuations at 4.6 FY20 EV/EBITDA. We value MSL stock at 7.5x EV/EBITDA FY20E earnings and maintain BUY with revised target price of Rs 805 per share (Rs 615 earlier).

Valuation

EBITDA FY20	7524
EV/EBITDA (x)	7.5
Enterprise Value (E) mn	56426
Add: Investments, intercompany deposits, cash & FDs	3714
less Gross debt	6264
Target Market Cap	53876
Target Price (Rs)	805

Source: Kotak Securities – Private Client Research; Note: MSL has Rs 11.7 Bn worth of investments 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 oil rigs) could add to further upside to our target price.

Company background

Maharashtra Seamless Ltd. (MSL) is a 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 is market leader with over 60% 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.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	14,342	21,497	27,845	33,438
% change yoy	40.8	49.9	29.5	20.1
EBITDA	2,249	3,110	6,404	7,524
% change yoy	15.7	14.5	23.0	22.5
Depreciation	710	762	790	810
EBIT	2,303	2,998	6,514	7,514
% change yoy	304.9	30.2	117.3	15.3
Net Interest	339	417	430	410
Earnings Before Tax	1,961	2,921	6,082	7,102
% change yoy	536.4	31.5	135.7	16.8
Tax	805	920	1,946	2,272
Effective tax rate (%)	41.0	31.5	32.0	32.0
XO Items	-	-	-	-
Recurring PAT	1,156	2,001	4,136	4,829
% change yoy	nm	73.1	106.7	16.8
Shares outstanding (m)	67	67	67	67
EPS (Rs)	17.3	29.9	61.7	72.1
DPS (Rs)	2.5	2.8	3.0	3.3
CEPS	27.8	41.2	73.5	84.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,961	2,921	6,082	7,102
Depreciation	710	762	790	810
Current liabilities incl provisions	135	(124)	696	480
Inc in inventory	147	(254)	(1,484)	(1,656)
Inc in sundry Debtors	(420)	(891)	(1,745)	(1,241)
Inc in advances	(637)	(484)	614	(1)
Tax Paid	(805)	(920)	(1,946)	(2,272)
Other Adjustments	455	177	-	-
Net cash from operations	1,547	1,188	3,008	3,221
Purchase of fixed Assets	(450)	(2,151)	(1,490)	(1,510)
Net investments	(718)	-	-	-
Other investment activities	(857)	2,053	(340)	2
Net cash from investing	(2,025)	(98)	(1,830)	(1,508)
Borrowings	692	(135)	-	(500)
Dividend Paid	(202)	(224)	(246)	(271)
Net Cash from financing	490	(359)	(246)	(771)
Net Cash Flow	12	731	932	942
Cash at the end of year	70	801	1,732	2,675

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	70	801	1,732	2,675
Accounts receivable	3,086	3,977	5,722	6,962
Loans & advances	2,230	2,714	2,100	2,101
Inventories	4,842	5,096	6,580	8,236
Other current Assets	553.5	1048.8	1048.8	1048.8
Current Assets	10,712	12,836	15,450	18,348
Net fixed assets	10,949	12,337	13,037	13,737
WIP	1190.3	174	174	174
Investments	2,722	1,496	1,496	1,496
Other non-current assets	12,918	13,448	13,448	13,448
Total Assets	38,560	41,092	45,338	49,878
Debt	6,400	6,264	6,264	5,764
Equity & reserves	27,464	29,926	33,816	38,374
Other non-current liabilities	2,532	2,862	2,522	2,524
Current Liabilities	2,164	2,041	2,737	3,216
Total Liabilities	38,560	41,092	45,338	49,878
BVPS (Rs)	410	447	505	573

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.7	14.5	23.0	22.5
EBIT margin (%)	16.1	13.9	23.4	22.5
Net profit margin (%)	8.1	9.3	14.9	14.4
Adjusted EPS growth (%)	nm	73.1	106.7	16.8
Receivables (days)	79	68	75	76
Inventory (days)	192	133	150	155
Sales / Net Fixed Assets (x)	1.3	1.8	2.2	2.5
Interest coverage (x)	6.8	7.2	15.1	18.3
Debt/ equity ratio	0.2	0.2	0.2	0.2
ROE (%)	4.3	7.0	13.0	13.4
ROCE (%)	4.2	5.5	11.2	11.7
EV/ Sales	2.4	1.6	1.2	1.0
EV/EBITDA	15.2	11.0	5.3	4.6
Price to earnings (P/E)	28.1	16.2	7.9	6.7
Price to book value (P/B)	1.2	1.1	1.0	0.8
Price to cash earnings	17.4	11.8	6.6	5.8

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 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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