

# Maharashtra Seamless (MAHSEA) ₹494

## On a strong footing...

We recently met Mr. Ashok Soni (CFO) of Maharashtra Seamless to gain industry insight and near term business prospects of the company.

### Healthy demand to boost pipes volume...

The Government of India's emphasis on initiatives like replacement of old oil & gas pipelines, pan-India gas pipeline connectivity, city gas distribution is likely to spur demand for pipes. First the anti-dumping duty levied in 2016, and later the National Steel Policy 2017 giving preference for use of domestically manufactured iron and steel for government procurements have aided the performance of the pipes industry as a whole in the last two years. The company expects a capex revival in the oil and gas sector in the near term to boost the demand for pipes. The management indicated overall the pipes industry is likely to clock a growth of ~7-8% annually going forward.

### United Seamless Tubular to complement current product offering...

Maharashtra Seamless has emerged as highest bidder for United Seamless Tubular Private Limited (USTPL). USTPL has a seamless pipes capacity of 350000 tonnes. The company's product profile includes Casing Pipe, Line Pipe, Drill Pipe, Coupling Stock, Mechanical Tube, Boiler Tube, Hydraulic Cylinder Tube and other seamless pipes for various sectors covering Oil & Gas, Automotive, Petrochemical Refineries and General Engineering. MSL's bid for USTPL amounted to ~₹477 crore enterprise value. The transaction is expected to complete by H1FY19.

### Healthy market share in seamless pipes to augur well, maintain BUY...

Maharashtra Seamless is a leading supplier of seamless pipes in the domestic market. With the demand revival for both seamless and ERW pipes on the back of government initiatives in the infrastructure sector and capex activities in the oil & gas sector, MSL being a formidable player is likely to be the natural beneficiary. We expect seamless pipe volumes to grow at a CAGR of ~14% in FY18-20E while overall pipe sales volume is likely to grow at a CAGR of ~13%. On the back of strong realisations, we expect the company's topline, EBITDA and PAT to increase 22%, 27% and 33% during FY18-20E. We value the company on SOTP basis arriving at a target price of ₹570. We have a **BUY** recommendation on the stock.

Rating Matrix	
Rating	: Buy
Target	: ₹ 570
Target Period	: 12 months
Potential Upside	: 15%

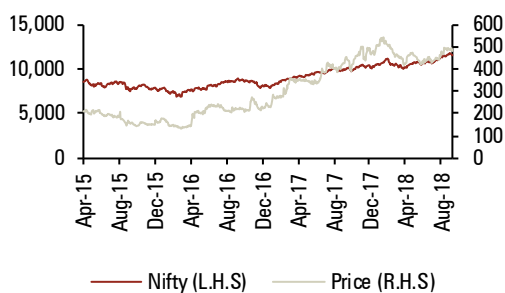
What's Changed?	
Target	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Total Op. Income	1,434	2,150	2,919	3,189
EBITDA	225	311	447	501
Net Profit	116	200	313	356
EPS (₹)	17.3	29.9	46.7	53.1

Valuation Summary				
	FY17	FY18	FY19E	FY20E
P/E	28.3	16.4	10.5	9.2
Target P/E	33.0	19.1	12.2	10.7
EV / EBITDA	15.8	11.9	8.1	6.9
P/BV	1.2	1.1	1.0	0.9
RoNW (%)	4.2	6.8	9.8	10.1
RoCE (%)	4.5	6.6	9.6	10.4

Stock Data	
Particulars	
Market Capitalization	₹ 3275 crore
Total Debt (FY18 Consol)	₹ 626 crore
Cash & cash eq. (FY18 Consol)	₹ 192 crore
EV (₹ Crore)	₹ 3709 crore
52 week H/L	₹ 552 / 380
Equity capital	₹ 33.5 crore
Face value	₹ 5

### Stock Price Movement



Source: Bloomberg, ICICI Direct Research

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

Akshay Kadam  
akshay.kadam@icicisecurities.com

### Management Meet Highlights

- The domestic size of the pipes industry is about 8 lakh tonne, MSL competes with players like Jindal Saw and ISMT
- The imposition of anti-dumping duty in 2016 and the New Steel Policy in 2017 (especially the preference for domestically manufactured iron and steel policy) has aided the company's performance over the last two years
- The management foresees ~7-8% demand growth going forward. For the current fiscal, the company expects the seamless pipes volume to grow ~16% YoY, the ERW pipes sales growth is expected to be stable at ~70000-80000 tonnes annually.
- The management indicated in the ERW pipes segment, the company focuses on value added products i.e. API grade pipes.
- The company currently procures billets (raw material for seamless pipes) from steel players like JSPL and JSW Steel
- For FY19, the management expects to clock an EBITDA/tonne of ₹15000-16000/tonne
- The company is currently ramping up its Mangaon facility. The current output stands at ~6000 tonnes/month. The management is targeting an output of 10000 tonnes/month by March 2019
- MSL's sustenance capex amounts to ~₹10-20 crore/year.
- Of the current ₹1000 crore order book ~ 4-5% of orders are from US.

## **RATING RATIONALE**

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

## ANALYST CERTIFICATION

We /I, Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Single Registration is INZ000183631 as stock broker. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.