

# Maharashtra Seamless (MAHSEA) ₹ 470

## Good operational performance...

- Maharashtra Seamless reported a good set of operational numbers for Q3FY19 wherein topline and EBITDA came in higher than our expectations. However, reported PAT came in lower than our estimate on the back of muted other income
- Topline came in at ₹ 785.9 crore (up 39% YoY, 12% QoQ) higher than our estimate of ₹ 766 crore
- EBITDA was at ₹ 157.2 crore (up 158% YoY, 23% QoQ vs. our estimate of: ₹ 147.5 crore). The corresponding EBITDA margin was at 20.0% (vs. Q3FY18: 10.8%, Q2FY19: 18.2%, our estimate: 19.3%)
- Other income for the period was at ₹ 8.3 crore (down 56% YoY, 72% QoQ, lower than our estimate of ₹ 30 crore). Hence, PAT came in at ₹ 92.8 crore (up 139% YoY, 5% QoQ vs. our estimate of ₹ 104.2 crore)

### Overall volume to grow ~16% in FY18-20E

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. The government policy for providing preference to domestically manufactured iron and steel products for government procurements also augurs well for domestic pipe manufacturers. Maharashtra Seamless being a formidable player is well placed to cater to such demand. Going forward, we expect the company's seamless pipe volumes to grow at a CAGR of ~17% in FY18-20E while the ERW segment is likely to grow at a CAGR of 12% in the same period. Thus, the overall sales pipe volume is likely to grow at a CAGR of ~16% in FY18-20E.

### Performs well in 9MFY19...

Maharashtra Seamless reported a healthy performance for 9MFY19. The topline for the period was at ₹ 2096.4 crore, up 37%. EBITDA came in at ₹ 428.9 crore, up 131% YoY, implying an EBITDA margin of 20.5%, up 860 bps YoY (vs. 11.9% in 9MFY18). For 9MFY19, the company reported healthy PAT growth of 156% YoY to ₹ 281.6 crore.

### Sequential increase in order books augurs well....

At the end of Q2FY19, Maharashtra Seamless' order book was at ₹ 950 crore, which increased to ₹ 1300 crore at the end of Q3FY19. The increase in order book augurs well for the company. The 350 KT Nagothane and 200 KT Mangaon plants are expected to reach full capacity by June 2019. However, going forward, we expect EBITDA margins to moderate from 9MFY19 level. We continue to value the stock on an SOTP basis and arrive at a target price of ₹ 500. We assign **HOLD** rating to the stock.

### Rating matrix

Rating	: Hold
Target	: ₹ 500
Target Period	: 12 months
Potential Upside	: 6%

### What's Changed?

Target	Changed from ₹570 to ₹500
EPS FY19E	Changed from ₹49.6 to ₹ 57.1
EPS FY20E	Changed from ₹53.1 to ₹ 54.0
Rating	Changed from Buy to Hold

### Quarterly Performance

	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	785.9	563.7	39.4	703.0	11.8
EBITDA	157.2	61.0	157.7	128.0	22.8
EBITDA (%)	20.0	10.8	918 bps	18.2	180 bps
PAT	92.8	38.8	139.2	88.5	4.8

### Key Financials (Consolidated)

₹ Crore	FY17	FY18	FY19E	FY20E
Total Op. Income	1,434	2,150	3,172	3,451
EBITDA	225	311	573	525
Net Profit	116	200	383	362
EPS (₹)	17.3	29.9	57.1	54.0

### Valuation summary

	FY17	FY18	FY19E	FY20E
P/E	27.0	15.6	8.2	8.6
Target P/E	28.9	16.7	8.7	9.2
EV / EBITDA	15.1	11.4	6.1	6.6
P/BV	1.1	1.1	1.0	0.9
RoNW (%)	4.2	6.8	11.7	10.1
RoCE (%)	4.5	6.6	12.7	10.6

### Stock data

Particulars	
Market Capitalization	₹ 3149 crore
Total Debt (FY18 Consol)	₹ 626 crore
Cash & cash eq. (FY18 Consol)	₹ 192 crore
EV (₹ Crore)	₹ 3584 crore
52 week H/L	₹ 550 / 406
Equity capital	₹ 33.5 crore
Face value	₹ 5

### Price performance (%)

Return %	1M	3M	6M	12M
Maharashtra Seamless	-5.7	-1.3	-2.0	-8.4

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Operating Income	785.9	766.0	563.7	39.4	703.0	11.8	Topline marginally higher than our estimate
Other Income	8.3	30.0	19.1	-56.4	29.4	-71.7	
Employee Expenses	18.0	19.2	14.8	21.5	17.2	4.5	
Raw Material Expenses	498.1	505.6	399.9	24.5	467.9	6.4	
Other Expenses	112.6	93.8	88.0	28.1	89.9	25.3	
EBITDA	157.2	147.5	61.0	157.7	128.0	22.8	EBITDA came in higher than our estimate
EBITDA Margin (%)	20.0	19.3	10.8	918 bps	18.2	180 bps	EBITDA margin came in marginally higher than our estimate
Depreciation	19.6	20.0	18.6	5.0	19.6	-0.1	
Finance cost	3.3	2.0	4.6	-29.7	2.1	NA	
Exceptional Item	-	-	-	-	-	-	
PBT	142.7	155.5	56.8	151.1	135.7	5.1	
Total Tax	49.9	51.3	18.1	176.6	47.2	5.8	
PAT	92.8	104.2	38.8	139.2	88.5	4.8	PAT came in lower than our estimate on the back of muted other income.
<b>Key Metrics</b>							
Seamless Production Volume (in tonne)	80,123	85,000	81,782	-2.0	76,000	5.4	
ERW Production volume (in tonne)	16,933	17,500	14,353	18.0	19,000	-10.9	
Blended EBITDA/tonne	16,198	14,386	6,346	155.2	13,474	20.2	

Source: Company, ICICI Direct Research

### Change in estimates

(` Crore)	FY18		FY19E		FY20E			
		New	Old	% Change	New	Old	% Change	
Total Op. Income	2,149.7	3,172.1	2,918.6	8.7	3,451.1	3,188.7	8.2	FY19E and FY20E numbers revised upwards
EBITDA	311.0	572.9	475.4	20.5	525.2	500.8	4.9	
EBITDA Margin (%)	14.5	18.1	16.3	177 bps	15.2	15.7	-49 bps	
PAT	200.1	382.5	332.3	15.1	361.9	355.7	1.7	
EPS (`)	29.9	57.1	49.6	15.1	54.0	53.1	1.7	

Source: Company, ICICI Direct Research

### Assumptions

	Current		Earlier		Comments
	FY19E	FY20E	FY19E	FY20E	
Pipe sales volume ( Seamless + ERW )	455,000	482,500	436,000	455,000	Upward revised estimates

Source: Company, ICICI Direct Research

## Company Analysis

Maharashtra Seamless (MSL) is a leading manufacturer of seamless and ERW carbon & alloy steel pipes and tubes in India. Both seamless & ERW plants are a first of their kind in India and have a technical tie-up with SMS MEER (earlier known as Mannesmann Demag) of Germany. The plant is strategically located in Nagothane, about 100 km from Mumbai Port. MSL has also set up a new state-of-the-art facility for manufacturing both drill pipes as well as casing, tubing and line pipes at Mangaon.

### Overall volume to grow ~16% in FY18-20E

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. The government policy for providing preference to domestically manufactured iron & steel products for government procurements also augurs well for domestic pipe manufacturers. Maharashtra Seamless being a formidable player is well placed to cater to such demand. Going forward, we expect the company's seamless pipe volumes to grow at a CAGR of ~17% in FY18-20E while the ERW segment is likely to grow at a CAGR of 12% in the same period. The overall sales pipe volume is thus likely to grow at a CAGR of ~16% in FY18-20E.

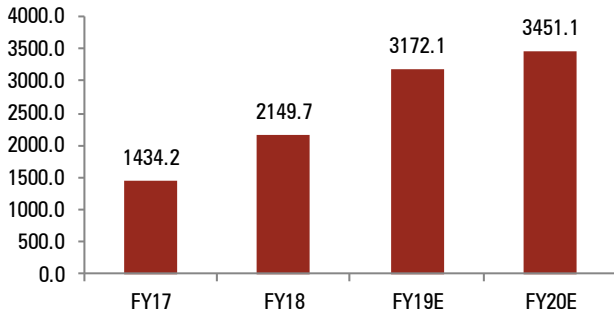
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Maharashtra Seamless reported a healthy performance for 9MFY19. The topline for the period was at ₹ 2096.4 crore, up 37%. EBITDA came in at ₹ 428.9 crore, up 131% YoY implying an EBITDA margin of 20.5%, up 860 bps YoY (vs. 11.9% in 9MFY18). For 9MFY19, the company reported healthy PAT growth of 156% YoY to ₹ 281.6 crore.

### NCLT approval for the USTPL...

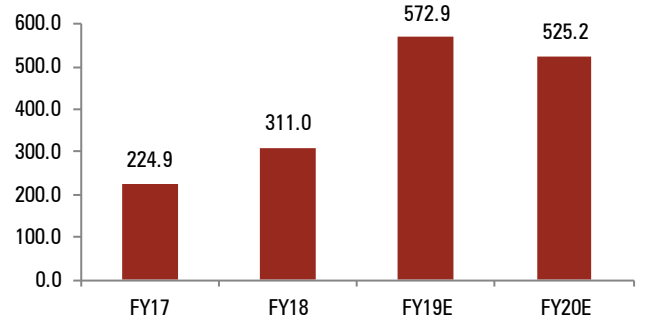
NCLT has approved MSL's resolution plan for United Seamless (USTPL) with capacity of 350 KT per annum. The acquisition is expected to be completed soon.

**Exhibit 1: Consolidated revenue trend (₹ crore)**



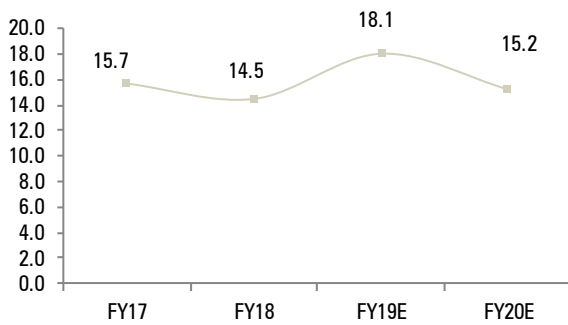
Source: Company, ICICI Direct Research

**Exhibit 2: Consolidated EBITDA (₹ crore)**



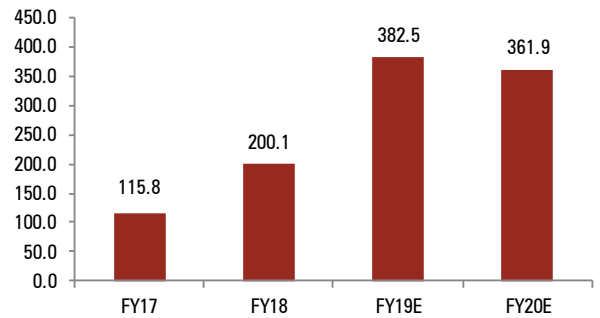
Source: Company, ICICI Direct Research

**Exhibit 3: Consolidated EBITDA margin (%)**



Source: Company, ICICIdirect.com, Research

**Exhibit 4: Consolidated PAT trend (₹ crore)**



Source: Company, ICICI Direct Research

## Valuation

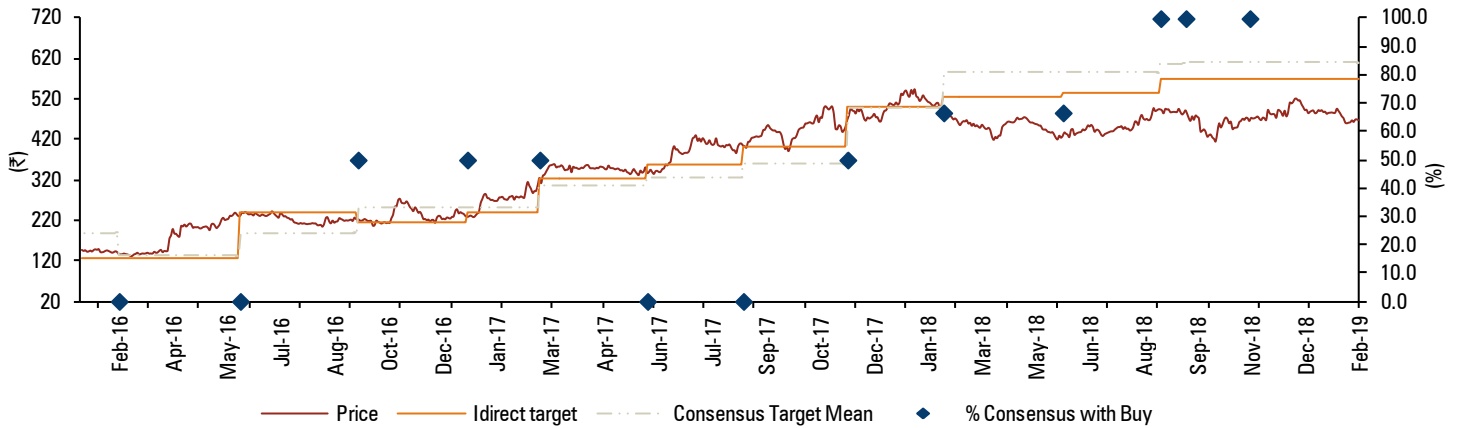
At the end of Q2FY19, Maharashtra Seamless' order book was at ₹ 950 crore, which increased to ₹ 1300 crore at the end of Q3FY19. The increase in order book augurs well for the company. The 350 KT Nagothane and 200 KT Manganon plants are expected to reach to full capacity by June 2019. However, going forward, we expect EBITDA margins to decline from 9MFY19 level. We continue to value the stock on an SOTP basis and arrive at a target price of ₹ 500. We assign **HOLD** rating to the stock.

**Exhibit 5: Valuation Matrix**

Year	Sales (₹ Crore)	Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1018.7	-24.8	-3.6	-119.8	NA	85.6	-0.9	-1.0
FY17	1434.2	40.8	17.3	-576.4	27.0	15.1	4.2	4.5
FY18	2149.7	49.9	29.9	72.8	15.6	11.4	6.8	6.6
FY19E	3172.1	47.6	57.1	91.1	8.2	6.1	11.7	12.7
FY20E	3451.1	8.8	54.0	-5.4	8.6	6.6	10.1	10.6

Source: Company, ICICIdirect.com, Research

### Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

### Key events

Date	Event
Nov-12	Accepting the recommendations of the IMG, the Gol de-allocates coal block awarded to Maharashtra Seamless (Gondkhari coal block; awarded in consortium to three firms along with MSL)
Apr-13	The board of directors of Maharashtra Seamless approve proposed buyback of equity shares of the company at a price not exceeding ₹ 300 per equity share, payable in cash and not exceeding an aggregate amount of ₹ 100 crore. The buyback shall be from the open market through stock exchange
May-13	Receives export order amounting to US\$22 million (~₹ 120 crore) for supply of seamless and ERW pipes for drilling programmes in the US
May-13	Net profit plunges 50% to ₹ 153 crore in FY13 vis-à-vis ₹ 311 crore in FY12. Turnover also plunges 25% to ₹ 1722 crore (₹ 2292 crore in FY12)
Apr-16	Icra downgrades the rating from AA to AA- assigned to company's bank limits
May-16	Gol imposes provisional anti dumping duty on on seamless tubes, steel pipes up to 14 inch outer diameter (OD) imported from China, the anti dumping duty will be in the range of US\$961.33-1610.67 per tonne
Feb-17	Bags orders of ₹ 421 crore (US\$61 million) for supply of seamless castings to a leading domestic oil & gas explorer
May-17	Commissions its 20 MW solar PV power plant in Jodhpur, Rajasthan and obtains commissioning certificate from Rajasthan Renewable Energy Corporation
Mar-18	The company has bagged orders worth ₹155 crore from a leading domestic oil and gas explorer
Apr-18	The company was declared as the successful resolution applicant by the committee of creditors of United Seamless Tubular Private Ltd subject to necessary approvals from Adjudicating Authority i.e. National Company Law Tribunal (NCLT)
May-18	The company declared a dividend of ₹6/share for FY18

Source: Company, ICICI Direct Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Odd & Even Trades & Finance Pvt. Ltd.	31-12-2018	17.5	11.69M	0
2	Stable Trading Co., Ltd.	31-12-2018	17.3	11.58M	0
3	Brahmadev Holding & Trading, Ltd.	31-12-2018	8.6	5.76M	0
4	Global Jindal Fin-Invest, Ltd.	31-12-2018	8.1	5.42M	0
5	L&T Investment Management Limited	31-12-2018	5.1	3.43M	+0.22M
6	Haryana Capfin Ltd	31-12-2018	4.3	2.85M	0
7	Jindal (Saket)	22-01-2019	3.2	2.14M	+0.02M
8	GVN Fuels, Ltd.	31-12-2018	2.6	1.73M	-0.06M
9	Jhanjhari Holdings Pvt. Ltd.	31-12-2018	2.0	1.34M	0
10	Bhanshali (Aksh)	30-09-2018	1.9	1.24M	0

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	60.3	60.6	61.2	61.8	61.8
Others	39.7	39.4	38.8	38.2	38.2

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
L&T Investment Management Limited	+1.54M	+0.22M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-0.48M	-0.08M
Pushpanjali Investrade, Ltd.	+0.47M	+0.07M	GVN Fuels, Ltd.	-0.45M	-0.06M
Taurus Asset Management Co. Ltd.	+0.14M	+0.02M	BNP Paribas Asset Management India Pvt. Ltd.	-0.23M	-0.03M
IDFC Asset Management Company Private Limited	+0.14M	+0.02M	Dimensional Fund Advisors, L.P.	-0.02M	-0.00M
Jindal (Saket)	+0.12M	+0.02M			

Source: Reuters, ICICI Direct Research

## Financial summary (Consolidated)

Profit and loss statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total Operating Income	1,434.2	2,149.7	3,172.1	3,451.1	
Growth (%)	40.8	49.9	47.6	8.8	
Raw Material & Mfg Expenses	920.9	1,411.4	2,011.9	2,308.3	
Employee Expenses	52.7	63.2	103.9	119.7	
Other Expenses	235.7	364.1	483.4	498.0	
Total Operating Expenses	1,209.3	1,838.6	2,599.2	2,925.9	
EBITDA	224.9	311.0	572.9	525.2	
Growth (%)	485.0	38.3	84.2	(8.3)	
Depreciation	71.0	76.2	80.0	81.4	
Interest & Finance Cost	33.9	41.7	30.3	29.0	
Other Income	76.3	65.0	93.3	110.4	
Share of Profit / (Loss) of Associate/JV	(0.0)	33.9	15.0	15.0	
Exceptional Items	-	-	-	-	
PBT	196.3	292.1	570.9	540.2	
Total Tax	80.5	92.0	188.4	178.3	
PAT	115.8	200.1	382.5	361.9	

Source: Company, ICICI Direct Research

Balance sheet		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Liabilities</b>					
Share Capital	96.1	33.5	33.5	33.5	
Reserves & Surplus	2,650.3	2,896.5	3,132.3	3,393.5	
Total Shareholders Fund	2,746.4	2,930.0	3,165.8	3,427.0	
Total Debt	640.0	626.4	601.4	526.4	
Deferred Tax Liability	235.6	256.8	261.9	267.1	
Others	16.7	34.7	36.3	38.0	
Total Liabilities	3,638.6	3,847.9	4,065.5	4,258.6	
<b>Assets</b>					
Net Block	1,095.0	1,235.1	1,213.1	1,183.6	
CWIP	119.0	17.4	10.0	8.0	
Net Fixed Assets	1,214.0	1,252.5	1,223.1	1,191.6	
Investments	1,529.4	1,461.4	1,471.4	1,596.4	
Inventory	484.2	509.6	871.6	952.2	
Debtors	308.6	397.7	519.8	524.2	
Other Current Assets	278.3	376.3	385.7	395.4	
Cash & Bank Balance	7.1	17.5	16.5	67.6	
Total Current Assets	1,078.2	1,301.1	1,793.5	1,939.4	
Current Liabilities	206.1	178.4	433.9	480.3	
Provisions	11.4	20.4	20.8	21.2	
Total Current Liabilities	217.5	198.7	454.7	501.5	
Total Net Current Assets	860.7	1,102.3	1,338.9	1,437.9	
Other Assets	34.4	31.7	32.2	32.7	
Total Assets	3,638.6	3,847.9	4,065.5	4,258.6	

Source: Company, ICICI Direct Research

Cash flow statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit/(Loss) After Taxation	115.8	200.1	382.5	361.9	
Add: Depreciation & Amortisation	71.0	76.2	80.0	81.4	
Net Increase in Current Assets	(37.1)	(212.5)	(614.4)	(218.7)	
Net Increase in Current Liabilities	14.6	(18.8)	289.9	30.1	
Cashflow from Operating Activities	164.3	45.1	138.2	254.8	
Increase/(Decrease) in Investments	(85.5)	68.1	(10.0)	(125.0)	
Increase/(Decrease) in Fixed Assets	(133.0)	(114.7)	(50.6)	(50.0)	
Others	13.6	2.7	(0.5)	7.2	
Cashflow from Investment Activities	(204.9)	(43.9)	(61.1)	(167.8)	
Inc/(Dec) in Equity Capital	-	(62.6)	-	-	
Inc/(Dec) in Loan	69.2	(13.5)	(25.0)	(25.0)	
Dividend & Div Dist Tax	(39.3)	(39.3)	(39.3)	(43.2)	
Others	12.0	124.6	6.7	6.9	
Cashflow from Financing Activities	41.9	9.2	(57.6)	(61.3)	
Net Cashflow	1.3	10.4	19.5	25.7	
Opening Cash	5.8	7.1	17.5	37.0	
Closing Cash	7.1	17.5	37.0	62.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	17.3	29.9	57.1	54.0	
Cash EPS	27.9	41.2	69.0	66.2	
BV	409.9	437.3	488.5	536.1	
DPS	5.0	5.0	5.0	5.5	
Cash Per Share	1.1	2.6	5.5	9.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	15.7	14.5	18.1	15.2	
PBT / Total Operating income	13.7	13.6	18.0	15.7	
PAT Margin	8.1	9.3	12.1	10.5	
Inventory days	123	87	109	115	
Debtor days	79	68	65	65	
Creditor days	35	22	48	47	
<b>Return Ratios (%)</b>					
RoE	4.2	6.8	11.7	10.1	
RoCE	4.5	6.6	12.7	10.6	
RoIC	4.6	6.6	12.8	10.8	
<b>Valuation Ratios (x)</b>					
P/E	27.0	15.6	8.2	8.6	
EV / EBITDA	15.1	11.4	6.1	6.6	
EV / Net Sales	2.6	1.7	1.2	1.1	
Market Cap / Sales	2.2	1.5	1.0	0.9	
Price to Book Value	1.1	1.1	1.0	0.9	
<b>Solvency Ratios</b>					
Debt / EBITDA	2.8	2.0	1.0	1.1	
Current Ratio	5.0	6.5	4.0	4.2	
Quick Ratio	2.7	4.0	2.0	2.1	

Source: Company, ICICI Direct Research

## **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,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**



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