

Sales volume surprises positively....

Maharashtra Seamless reported steady operational numbers for Q4FY19. However, on the back of exceptional item relating to impairment of mining asset (worth ~₹ 146 crore), the company reported a loss at the net level. Standalone operations reported a topline of ₹ 964.8 crore (up 52.8% YoY, 22.8% QoQ, higher than our estimate of ₹ 879.1 crore). EBITDA came in at ₹ 235.3 crore (up 89.3% YoY, 49.7% QoQ, higher than our estimate of ₹ 163.6 crore). EBITDA margin came in at 24.4% (up 440 bps QoQ, 470 bps YoY, higher than our estimate of 18.6%). The company reported exceptional item relating to the impairment of mining asset (of ~₹ 146 crore). MSL had made an investment in a mining asset through its foreign subsidiaries. The subsidiary holding the mining investment has partly impaired the investment. Accordingly, the company & its other subsidiaries have also impaired their investment and loans provided. Hence, on account of exceptional item, the company reported a net loss of ₹ 19.2 crore.

Overall volume to grow at ~10% CAGR in FY19-21E

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 of giving 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 ~10% in FY19-21E while the ERW segment is likely to grow at a CAGR of 8% in the same period. Thus, the overall sales pipe volume is likely to grow at a CAGR of ~10% in FY19-21E.

Order books declines sequentially...

On a QoQ basis, Maharashtra Seamless has been witnessing a declining trend. The order book declined from ~₹ 1300 crore at the end of December 2019, to ~₹ 810 crore as on date.

Valuation & Outlook

Maharashtra Seamless reported healthy EBITDA margins during Q4FY19. However, going forward, we expect consolidated EBITDA margins to moderate to ~17.6% in FY20E and ~19.5% during FY21E (21.8% in FY19). We value the stock on an SoTP basis and arrive at a target price of ₹ 500. We have a **HOLD** recommendation on the stock.



MAHARASHTRA SEAMLESS LIMITED

Particulars

Particulars

Market Capitalization	₹ 3149 crore
Total Debt (FY19 Consol)	₹ 1059 crore
Cash & cash eq. (FY19 Consol)	₹ 150 crore
EV (₹ Crore)	₹ 4057 crore
52 week H/L	₹ 532 / ₹ 407
Equity capital	₹ 33.5 crore
Face value	₹ 5

Key Highlights

- Seamless pipe sales volume came in at 95000 tonnes (up 16.2% YoY, 25% QoQ) higher than our estimate of 85000 tonnes
- ERW pipe sales volume came in at 21000 tonnes (up 46.3% YoY, 10.5% QoQ) higher than our estimate of 17500 tonnes
- Order book at ₹ 810 crore as on date
- Maintain our HOLD rating

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E
Total Operating Income	1,434.2	2,149.7	3,072.7	3,322.2	3,599.2
EBITDA	224.9	311.0	668.6	584.5	702.7
EBITDA Margin (%)	15.7	14.5	21.8	17.6	19.5
Reported PAT	115.8	200.1	201.9	362.0	450.0
Adjusted PAT	115.8	200.1	412.4	362.0	450.0
Adjusted EPS (₹)	17.3	29.9	61.6	54.0	67.2
EV/EBITDA (x)	14.6	11.0	5.8	6.9	5.5
RoCE (%)	4.5	6.6	14.3	11.1	12.9
RoE (%)	4.2	6.8	6.6	10.7	11.9

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Operating Income	964.8	766.0	563.7	71.2	703.0	37.2	Topline came in higher than our estimate on the back of better-than-expected sales volume
Other Income	(3.8)	30.0	19.1	-119.7	29.4	-112.8	
Employee Expenses	19.8	19.2	14.8	34.1	17.2	15.3	
Raw Material Expenses	560.8	505.6	399.9	40.2	467.9	19.9	
Other Expenses	148.8	93.8	88.0	69.2	89.9	65.6	
EBITDA	235.3	147.5	61.0	285.7	128.0	83.8	EBITDA came in higher than our estimate
EBITDA Margin (%)	24.4	19.3	10.8	1357 bps	18.2	618 bps	EBITDA margin came in higher than our estimate
Depreciation	19.1	20.0	18.6	2.5	19.6	-2.6	
Finance cost	9.7	2.0	4.6	109.9	2.1	NA	
Exceptional Item	146.0	-	-	-	-	-	Reported exceptional item relating to the impairment of mining asset amounting to ~₹ 146 crore)
PBT	56.7	155.5	56.8	-0.2	135.7	-58.2	
Total Tax	76.0	51.3	18.1	320.9	47.2	61.0	
PAT	(19.2)	104.2	38.8	-149.6	88.5	-121.7	On the back of exceptional expense, the company reported a loss against our expectation of profit
Key Metrics							
Seamless sales Volume (in tonne)	95,000	85,000	81,782	16.2	76,000	25.0	Seamless sales volume came in higher than our estimate
ERW sales volume (in tonne)	21,000	17,500	14,353	46.3	19,000	10.5	ERW sales volume came in higher than our estimate

Source: Company, ICICI Direct Research

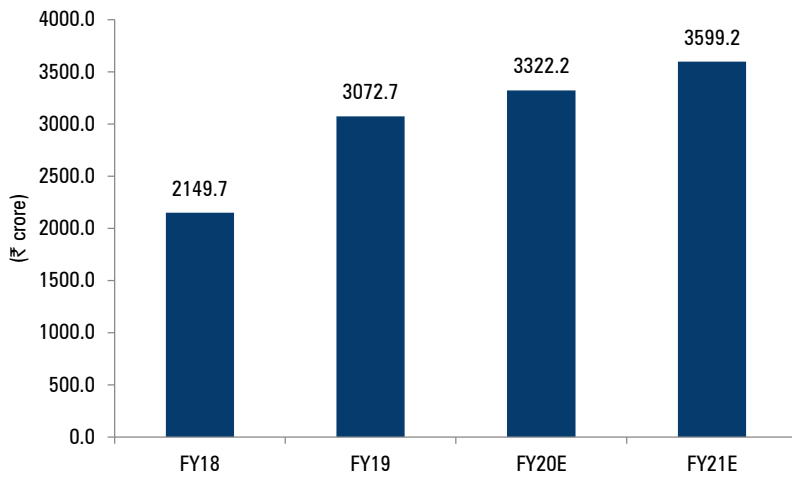
Exhibit 2: Change in Estimates

	FY18	FY20E		FY21E		
(₹ Crore)		New	Old	% Change	Introduced	
Total Op. Income	2,149.7	3,322.2	3,451.0	(3.7)	3,599.2	Introduce FY21E estimate
EBITDA	311.0	584.5	525.0	11.3	702.7	
EBITDA Margin (%)	14.5	17.6	15.2	238 bps	19.5	
PAT	200.1	362.0	362.0	(0.0)	450.0	
EPS (₹)	29.9	54.0	54.0	0.0	67.2	

Source: Company, ICICI Direct Research

Financial story in charts

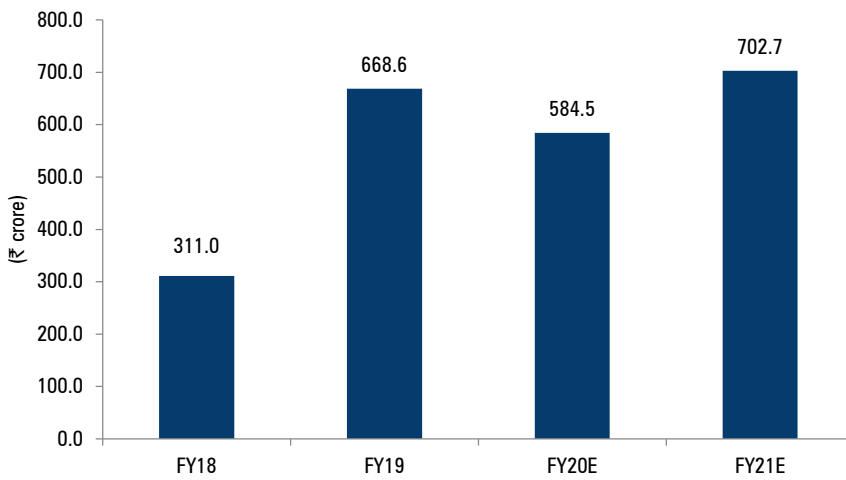
Exhibit 3: Trend in consolidated topline



We expect topline to grow at a CAGR of 8% during FY19-21E

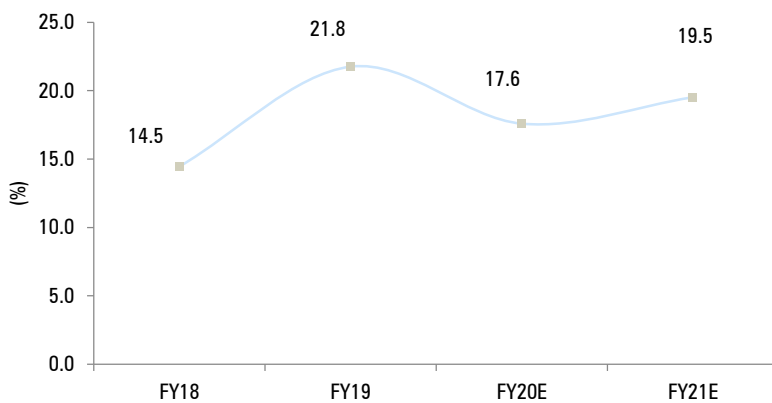
Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated EBITDA



Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported consolidated EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to hover at ~18-20%

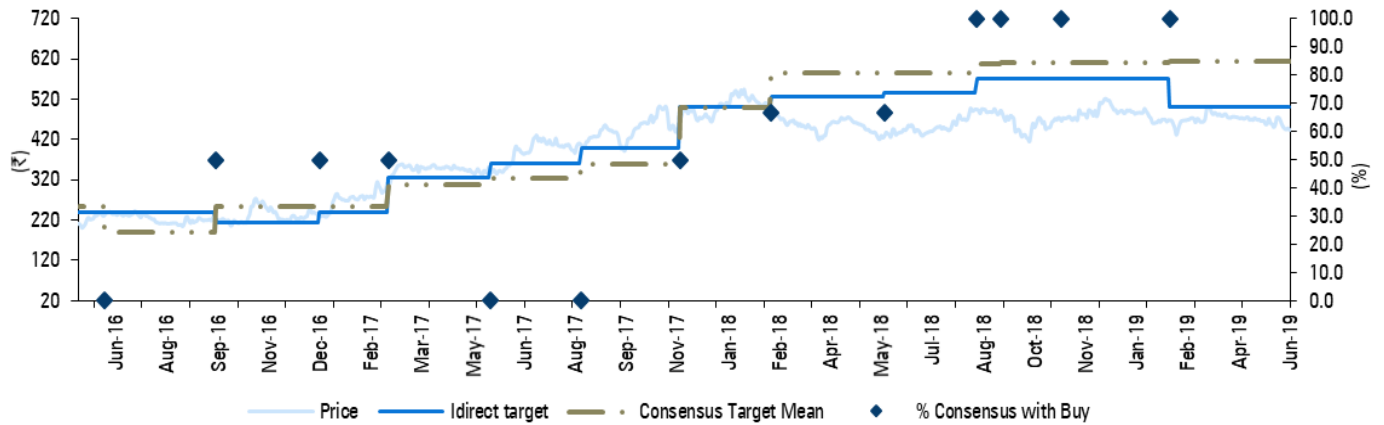
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

Year	Sales (₹ Crore)	Growth (%)	EPS (₹)	EPS Growth (%)	PE EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	2149.7	49.9	29.9	72.7	1.0	11.0	6.6
FY19	3072.7	42.9	61.6	106.1	1.0	5.8	14.3
FY20E	3322.2	8.1	54.0	-12.2	0.9	6.9	11.1
FY21E	3599.2	8.3	67.2	24.3	0.8	5.5	12.9

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, Reuters

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Odd & Even Trades & Finance Pvt. Ltd.	31-03-2019	17.5	11.69M	0
2	Stable Trading Co., Ltd.	31-03-2019	17.3	11.58M	0
3	Brahmadev Holding & Trading, Ltd.	31-03-2019	8.6	5.76M	0
4	Global Jindal Fin-Invest, Ltd.	31-03-2019	8.1	5.42M	0
5	L&T Investment Management Limited	31-03-2019	5.2	3.49M	+0.06M
6	Haryana Capfin Ltd	31-03-2019	4.3	2.85M	0
7	Jindal (Saket)	31-03-2019	3.2	2.14M	0
8	GVN Fuels, Ltd.	31-03-2019	2.6	1.75M	+0.02M
9	Jhanjhari Holdings Pvt. Ltd.	31-03-2019	2.1	1.34M	0
10	Bhanshali (Aksh)	31-03-2019	1.9	1.24M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Pushpanjali Investrade, Ltd.	0.9M	0.1M	Templeton Asset Management Ltd.	-4.8M	-0.7M
Jindal (Dharam Pal & Sons) HUF	0.7M	0.1M	Quant Money Managers Ltd	-0.0M	-0.0M
Sudha Apparels, Ltd.	0.7M	0.1M			
L&T Investment Management Limited	0.4M	0.1M			
Dimensional Fund Advisors, Ltd.	0.3M	0.1M			

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19
Promoter	61.8	61.8	61.9
Others	38.2	38.2	38.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Income	2,149.7	3,072.7	3,322.2	3,599.2
Growth (%)	49.9	42.9	8.1	8.3
Total Operating Expenses	1,838.6	2,404.1	2,737.7	2,896.5
EBITDA	311.0	668.6	584.5	702.7
Growth (%)	38.3	115.0	(12.6)	20.2
Depreciation	76.2	79.6	81.4	83.7
Interest & Finance Cost	41.7	38.9	57.9	52.1
Other Income	65.0	68.8	70.1	79.7
Share of Profit / (Loss) of Associate/JV	33.9	24.5	25.0	25.0
Exceptional Items	-	210.5	-	-
PBT	292.1	433.0	540.3	671.7
Total Tax	92.0	231.1	178.3	221.7
Reported PAT	200.1	201.9	362.0	450.0
Growth (%)	72.8	0.9	79.3	24.3
Adjusted PAT	200.1	412.4	362.0	450.0
Adjusted EPS	29.9	61.6	54.0	67.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Share Capital	33.5	33.5	33.5	33.5
Reserves & Surplus	2,896.5	3,036.6	3,355.4	3,762.2
Total Shareholders Fund	2,930.0	3,070.1	3,388.9	3,795.7
Total Debt	626.4	1,058.7	1,158.7	1,008.7
Deferred Tax Liability	256.8	259.5	264.7	270.0
Others	34.7	30.0	31.0	32.0
Total Liabilities	3,847.9	4,418.3	4,843.2	5,106.3
Assets				
Net Block	1,235.1	1,173.5	1,144.0	1,112.4
CWIP	17.4	22.9	8.0	8.0
Net Fixed Assets	1,252.5	1,196.4	1,152.0	1,120.4
Investments	1,461.4	1,294.9	1,419.9	1,544.9
Inventory	509.6	771.4	955.7	1,084.7
Debtors	397.7	492.3	591.6	641.0
Other Current Assets	376.3	974.4	1,047.5	1,126.0
Cash & Bank Balance	17.5	61.3	61.5	55.1
Total Current Assets	1,301.1	2,299.3	2,656.3	2,906.8
Current Liabilities	178.4	337.5	349.2	429.3
Provisions	20.4	39.1	39.9	40.6
Total Current Liabilities	198.7	376.6	389.0	470.0
Total Net Current Assets	1,102.3	1,922.8	2,267.3	2,436.8
Other Assets	31.7	4.2	4.0	4.2
Total Assets	3,847.9	4,418.3	4,843.2	5,106.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit/(Loss) After Taxation	200.1	201.9	362.0	450.0
Add: Depreciation & Amortisation	76.2	79.6	81.4	83.7
Net Increase in Current Assets	(212.5)	(954.5)	(356.8)	(256.9)
Net Increase in Current Liabilities	(18.8)	177.8	12.5	80.9
Cashflow from Operating Activities	45.1	(495.1)	99.1	357.7
Increase/(Decrease) in Investments	68.1	166.4	(125.0)	(125.0)
Increase/(Decrease) in Fixed Assets	(114.7)	(23.5)	(37.1)	(52.0)
Others	2.7	27.6	0.2	(0.2)
Cashflow from Investment Activities	(43.9)	170.5	(161.9)	(177.2)
Inc/(Dec) in Equity Capital	(62.6)	-	-	-
Inc/(Dec) in Loan	(13.5)	432.3	100.0	(150.0)
Dividend & Div Dist Tax	(39.3)	(39.3)	(43.2)	(43.2)
Others	124.6	(24.5)	6.2	6.3
Cashflow from Financing Activities	9.2	368.5	62.9	(186.9)
Net Cashflow	10.4	43.8	0.2	(6.4)
Opening Cash	7.1	17.5	61.3	61.5
Closing Cash	17.5	61.3	61.5	55.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	29.9	61.6	54.0	67.2
Cash EPS	41.2	42.0	66.2	79.7
BV	437.3	458.2	505.8	566.5
DPS	5.0	5.0	5.5	5.5
Cash Per Share	2.6	9.2	9.2	8.2
Operating Ratios (%)				
EBITDA Margin	14.5	21.8	17.6	19.5
PBT / Total Operating income	13.6	14.1	16.3	18.7
PAT Margin	9.3	6.6	10.9	12.5
Inventory days	87	92	105	110
Debtor days	68	58	65	65
Creditor days	22	33	30	35
Return Ratios (%)				
RoE	6.8	6.6	10.7	11.9
RoCE	6.6	14.3	11.1	12.9
RoIC	6.6	14.5	11.2	13.0
Valuation Ratios (x)				
P/E	2.2	1.1	1.2	1.0
EV / EBITDA	11.0	5.8	6.8	5.5
EV / Net Sales	1.7	1.3	1.2	1.1
Market Cap / Sales	1.4	1.0	0.9	0.8
Price to Book Value	1.0	1.0	0.9	0.8
Solvency Ratios				
Debt / EBITDA	2.0	1.6	2.0	1.4
Current Ratio	6.5	6.1	6.8	6.2
Quick Ratio	4.0	4.1	4.4	3.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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