

CMP: INR 230

Rating: BUY

Target Price: INR 403

Stock Info

BSE	543517
NSE	HARIOMPIPE
Sector	Steel
Face Value (Rs)	10
Equity Capital (Rs cr)	25
Mkt Cap (Rs cr)	586
52w H/L (INR)	248 / 169

Shareholding Pattern %

(As on Jun, 2022)

Promoters	66.03
DII	0.43
FII	2.18
Public & Others	31.35

Abhishek Jain

abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A

balasubramanian@arihantcapital.com

Hariom Pipe Industries Ltd (HPIL) reported strong numbers, Q1FY23 revenue grew by 63.9% YoY (+14.6% QoQ) to INR 142cr vs our estimates of INR 146cr. Gross profit stood at INR 39cr (+28.9% YoY/-2.6% QoQ) vs our estimates of INR 47cr. Margin contracted by 745 bps to 27.5% vs 34.9% in Q1FY22. The margin contraction mainly due to increase in raw material cost in terms of sales. The raw material cost in terms of sales stood at 72.5% vs 65.1% in Q1FY22. EBITDA stood at INR 16cr (+42.4% YoY/-6.7% QoQ) vs our estimates of INR 20cr. EBITDA Margin contracted by 170 bps to 11.2% vs 12.9% in Q1FY22. The employee cost and power & fuel cost reduced in terms of sales. The employee cost in terms of sales stood at 3.7% vs 5.2% in Q1FY22. The power cost in terms of sales stood at 11.5% vs 15.3% in Q1FY22. PAT stood at INR 9.6cr (+68.3% YoY/-1.5% QoQ), PAT Margin expanded by 18bps to 6.7% vs 6.5% in Q1FY22.

Key Highlights

Expanded footprint in southern India: The dealer network comprises around 250 distributors with more than 1,500 selling points in south India. The company has been carrying out a vigorous brand building program in South India and has started to witness a very positive outcome of the same. The growth momentum continued and expanded footprint further in southern India.

Commodity prices remains turbulent which resulted margin pressures:

Commodity prices remain turbulent, especially Iron ore and coal prices. The increase in coal prices kept energy costs high for the quarter. However, steel prices and other commodities are cooling down slowly. The cooling down of commodities leads to margin improvement going forward. The plants are backward integrated which stand out within the industry and continue to deliver healthy margins.

Strong performance in ERW steel pipes and Capex:

The company has witnessed strong performance and ERW Steel Pipes volume grew by 49% YoY and 28% QoQ. EBITDA per ton for the ERW Steel Pipes remains healthiest in the industry. The company is in the midst of executing its ERW Steel pipe mills expansion, modernization, implementing the cold rolled steel mill and galvanized pipe mill projects.

Infrastructure and construction activity is expected to pick up:

Monsoon season has slowed down construction and infra sector activity which resulted in lower demand for pipes. Post monsoon, vibrant infrastructure and construction activity is expected to pick up.

Outlook & Valuation:

HPIL has witnessed strong revenue growth with good volumes in ERW steel pipes, strategically located plants with integration, competitive pricing of the products, cost effectiveness, expanding network, experienced management and capacity expansion would drive the growth going forward. At the CMP of INR 230 per share, the stock is trading at a EV/EBITDA multiple of 7.2x/4.3x/3.1x its FY23E/FY24E/FY25E EBITDA of INR 93cr/167cr/266cr respectively. We have a BUY rating at a TP of INR 403 per share; valued at EV/EBITDA multiple 4.6x and its FY24E EBITDA of INR 167cr; an upside of 75.2%.

Q1FY23 Result update

Income statement summary

Particular (INR cr)	Q1FY22	Q4FY22	Q1FY23	YoY (%)	QoQ(%)
Revenue	87	124	142	63.9%	14.6%
Net Raw Materials	57	84	103	82.7%	22.8%
Employee Cost	5	6	5	14.2%	-15.5%
Power & Fuel Cost	13	15	16	22.8%	7.3%
Other Expenses	1.2	1.6	1.6	27.2%	-2.8%
EBITDA	11	17	16	42.4%	-6.7%
EBITDA Margin (%)	12.9%	13.8%	11.2%	-170 bps	-257 bps
Depreciation	1.9	2.1	1.7		
Interest expense	2.0	2.0	1.8		
Other income	0.3	0.0	0.3		
Profit before tax	7.6	13.1	12.8	68.1%	-2.5%
Taxes	1.9	3.3	3.2		
PAT	5.7	9.8	9.5	67.9%	-2.4%
PAT Margin (%)	6.5%	7.9%	6.7%	16 bps	-117 bps
Other Comprehensive income	(0.0)	(0.1)	0.0		
Net profit	5.7	9.7	9.6	68.3%	-1.5%
Net Profit Margin (%)	6.5%	7.8%	6.7%	18 bps	-110 bps
EPS (INR)	3	6	4		

Source: Company Reports, Aриhant Capital Research

Capex Plan would lead better business Visibility

Particular	FY20	FY21	FY22	FY23E	FY24E
Installed Capacity (MT)					
MS BILLETS	74,400	95,832	95,832	1,04,232	2,49,744
HR STRIPS	84,000	84,000	84,000	1,24,000	2,50,000
MS TUBES	84,000	84,000	84,000	1,32,000	2,50,000
SPONGE IRON	-	36,000	36,000	36,000	1,26,000
SCAFFOLDING	1,000	1,000	1,000	1,000	1,000
GP PIPE	-	-	-	1,00,000	1,00,000
Total Installed Capacity	2,43,400	3,00,832	3,00,832	4,97,232	9,76,744

Capacity Utilization (MT)

MS BILLETS	46,276	45,339	88,309	93,809	2,30,139
HR STRIPS	34,280	45,070	77,406	1,14,266	2,12,262
MS TUBES	24,183	32,403	55,967	81,797	1,44,191
SPONGE IRON	-	22,578	25,200	28,800	1,07,100
SCAFFOLDING	980	315	650	657	664
GP PIPE	-	-	-	30,249	45,373

Capacity Utilization (%)

MS BILLETS	62%	47%	92%	90%	92%
HR STRIPS	41%	54%	92%	92%	85%
MS TUBES	29%	39%	67%	62%	58%
SPONGE IRON	0%	63%	70%	80%	85%
SCAFFOLDING	98%	32%	65%	66%	66%
GP PIPE	-	-	-	30%	45%

Sales (MT)

Sponge	-	20,551	-	-	-
Furnace	9,972	1,590	1,500	-	-
Rolling	11,008	11,518	24,600	20,000	20,000
Pipe	22,896	26,896	57,060	75,000	1,42,000
Scaffolding	1,012	185	642	641	648
GP Unit	-	-	-	30,000	38,000
Total Sales (MT)	44,888	60,740	83,802	1,25,641	2,00,648
Average Selling Price per MT (INR)	35,818	41,841	51,378	55,863	56,274
Total Revenue from operations (INR cr)	161	254	431	702	1,129

Source: Company, Aриhant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	134	161	254	431	702	1,129
Net Raw Materials	84	91	173	291	477	762
Employee Cost	6	8	10	21	32	45
Other Expenses	27	38	37	62	100	155
EBITDA	17	23	34	56	93	167
EBITDA (%)	12.7%	14.6%	13.5%	13.0%	13.3%	14.8%
Depreciation	(2)	(5)	(6)	(8)	(9)	(17)
Interest expense	(4)	(7)	(8)	(8)	(9)	(12)
Other income	0	0	1	3	3	4
Profit before tax	12	11	21	43	78	143
Taxes	(4)	(3)	(6)	(11)	(22)	(40)
Net profit	8	8	15	32	56	103
Reported Netprofit Margin (%)	6.0%	4.9%	6.0%	7.4%	8.0%	9.1%
Other Comprehensive income	(0)	0	0	(0)	-	-
Net profit	8	8	15	32	56	103
EPS (INR)	6	6	9	19	22	40

Source: Company Reports, Arianant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	13	13	17	17	25	25
Reserves	23	35	54	84	140	235
Net worth	36	48	71	101	166	260
Provisions	0	0	0	0	0	1
Debt	57	71	90	91	91	156
Other non-current liabilities	1	2	4	3	11	17
Total Liabilities	94	122	164	196	268	434
Fixed assets	43	49	59	54	57	129
Capital Work In Progress	-	0	8	10	9	16
Investments	0	0	0	1	2	3
Other non current assets	0	0	0	1	1	2
Net working capital	47	70	95	131	190	266
Inventories	39	60	80	115	157	215
Sundry debtors	10	23	20	27	58	93
Other current assets	7	5	5	9	23	37
Sundry creditors	(8)	(15)	(4)	(10)	(33)	(53)
Other current liabilities & Prov	(2)	(3)	(5)	(9)	(14)	(26)
Cash	4	2	1	0	7	15
Other Financial Assets	0	0	0	-	1	2
Total Assets	94	122	165	196	268	434

Source: Company Reports, Arianant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	12	11	21	43	78	143
Depreciation	2	5	6	8	9	17
Tax paid	(4)	(3)	(6)	(11)	(22)	(40)
Working capital Δ	(47)	(23)	(26)	(35)	(59)	(76)
Operating cashflow	(37)	(10)	(4)	5	6	44
Capital expenditure	(45)	(12)	(24)	(4)	(12)	(96)
Free cash flow	(82)	(22)	(28)	0	(6)	(52)
Equity raised	28	4	7	(2)	9	-
Investments	(0)	(0)	(0)	(0)	(2)	(1)
Others	(0)	0	(0)	(0)	(2)	(2)
Debt financing/disposal	57	14	19	2	-	65
Dividends paid	-	-	-	-	-	(9)
Other items	1	1	1	(0)	7	7
Net Δ in cash	4	(2)	(1)	(0)	6	8
Opening Cash Flow	-	4	2	1	0	7
Closing Cash Flow	4	2	1	0	7	15

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)						
Revenue growth	20.3%	58.1%	69.4%	63.0%	60.9%	60.9%
Op profit growth	37.9%	46.0%	63.7%	66.3%	79.0%	79.0%
Profitability ratios (%)						
OPM	12.7%	14.6%	13.5%	13.0%	13.3%	14.8%
Net profit margin	6.0%	4.9%	6.0%	7.4%	8.0%	9.1%
RoCE	11.2%	12.3%	14.6%	21.5%	27.8%	33.0%
RoNW	22.2%	18.7%	25.4%	37.2%	42.2%	48.4%
RoA	8.5%	6.5%	9.2%	16.3%	21.0%	23.7%
Per share ratios (INR)						
EPS	6.0	6.0	8.9	18.8	22.1	40.5
Dividend per share	-	-	-	-	-	3.5
Cash EPS	7.7	9.9	12.6	23.6	25.7	47.0
Book value per share	27.3	36.5	41.7	59.5	65.1	102.1
Valuation ratios (x)						
P/E	38.1	38.2	25.7	12.2	10.4	5.7
P/CEPS	29.9	23.3	18.2	9.7	8.9	4.9
P/B	8.4	6.3	5.5	3.9	3.5	2.3
EV/EBITDA	21.0	15.9	14.0	8.6	7.2	4.3
Payout (%)						
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%
Tax payout	31.1%	30.2%	28.6%	24.9%	28.0%	28.0%
Liquidity ratios						
Debtor days	29	38	30	20	22	24
Inventory days	169	198	147	122	104	89
Creditor days	24	30	16	7	13	16
WC Days	174	206	162	135	113	97
Leverage ratios (x)						
Interest coverage	4.2	2.5	3.7	5.9	9.8	12.9
Net debt / equity	1.5	1.4	1.3	0.9	0.5	0.5
Net debt / op. profit	3.1	2.9	2.6	1.6	0.9	0.8

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 1: Revenue growth momentum would continue.

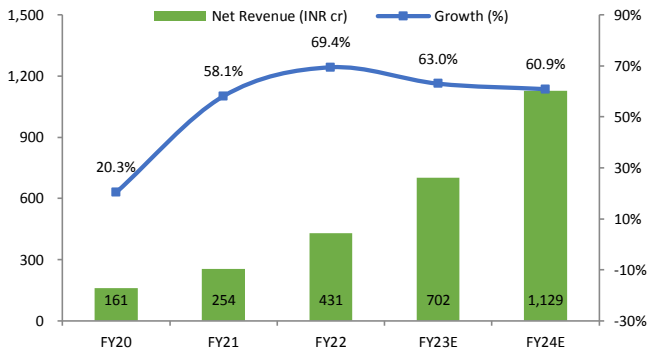


Exhibit 2: Power and Fuel cost is expected to moderate.

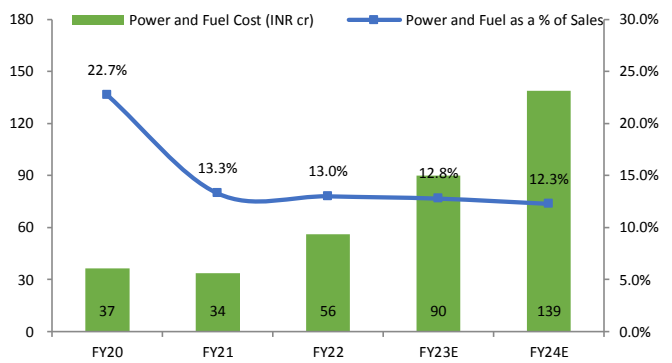


Exhibit 3: Cooling down RM costs would leads to better margins.

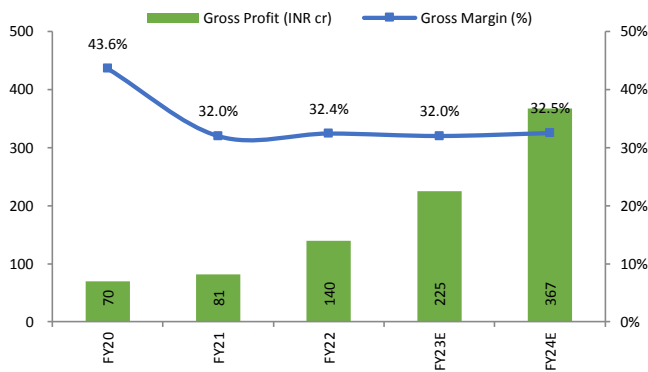


Exhibit 4: Growth in EBITDA & PAT levels.

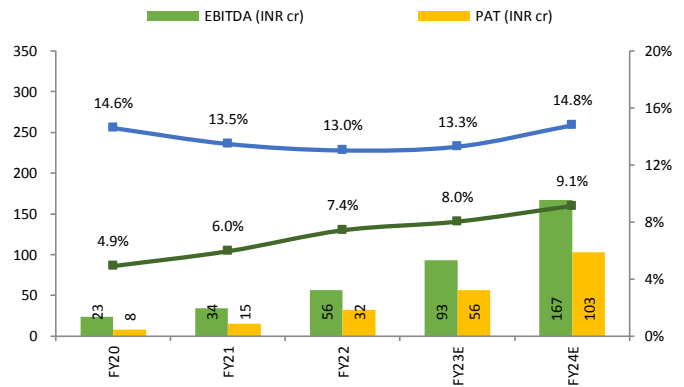


Exhibit 5: Working capital days to be improve

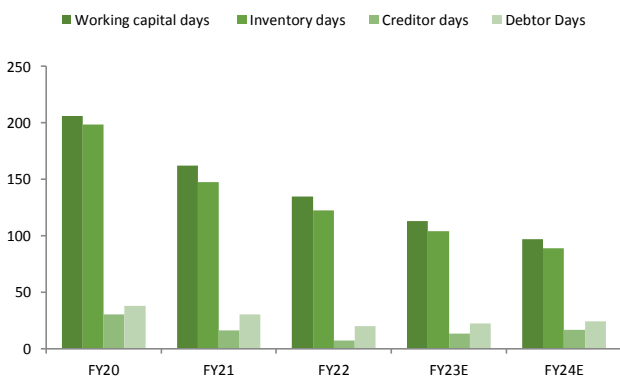
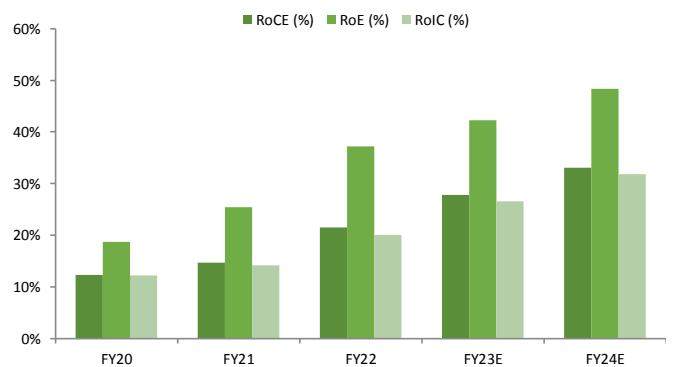


Exhibit 6: Return ratios to be improve



Source: Company Reports, Arianth Capital Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 Ratlam Kothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research Analyst
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.cominstresearch@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880