

# Maharashtra Seamless

BSE Code: 500265

CMP : ₹469

Face Value : ₹5

Target price: ₹705

HP\* : Two years

Our Pearl Pick for the month of October is Maharashtra Seamless Limited. The company is engaged in the manufacturing of different types of steel pipes and tubes. It is positioned as India's no.1 producer of seamless pipes having total capacity of 550KTPA. Also, it is a major producer of ERW (electric resistance welding) pipes with total capacity of 200KTPA. The company's products are primarily used in oil and gas industry. The product-wise revenue break-up stood at: seamless pipes (84%), ERW (15%) and power (1%).

## Why to invest

### Capacity expansion through acquisition

The company has been the lowest bidder for United Seamless Tubular Private Limited (USPL), which has a total capacity of 350,000 MT. This acquisition would take Maharashtra Seamless' total capacity to 550,000 MT. The management expects this acquisition to be finished by H1FY19.

### Ramping up current facility

The company is in the process of ramping up its current seamless pipe facility at Mangaon, which was restarted in Q3FY18. It is planning to expand the capacity by ~67% to 10,000 tonnes p.m. from 6,000 tonnes p.m. This ramp up is likely to be completed by Q4FY19, which would further aid growth in the coming years.

### Strong order book

The company's order book as on June 2018 stood at Rs. 1,021 crore and comprised of domestic (91%) and exports (9%). The product-wise order book comprises of seamless (87%) and ERW (13%). These orders are likely to be executed within the next four months. Further, the robust order flows from ONGC during the last three quarters provides further push to the revenue growth going ahead.

### Foray into renewable power sector

The company has forayed into renewable energy sector and has currently enhanced the capacity to 43MW. In Q1FY19, it has generated renewable power equal to 70% of the total electric consumption. The captive powers generated have helped the company to cut down power costs, which would further help in rationalisation of costs.

### Industry and market outlook

International outlook for Indian manufactured pipes is looking up as North America, South America, and EU have imposed anti-dumping duty on Chinese pipes. The domestic outlook is also strong, led by replacement of the old oil and gas pipelines in Mumbai High and Gujarat, government's focus on pan-India pipeline connectivity for gas, revival of city gas projects in various cities and increased emphasis on North-East India for oil drilling and cross-country pipeline connection.

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\* HP : Holding Period

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## Significantly improved financial performance

On the financial front, looking at the recently concluded quarter Q1FY19, the standalone revenue came in at Rs. 607.43 crore, as against Rs. 450.29 crore in the corresponding quarter last year, registering an increase of 34.9% YoY. This was mainly due to the jump in the revenue from steel pipes & tubes and power by 25% YoY and 133% YoY, respectively. The EBITDA for the quarter jumped by 136.3% YoY to Rs. 143.67 crore as against Rs. 60.8 crore in the corresponding quarter last year, with a corresponding margin expansion of 1015 bps. The EBITDA margin for the quarter stood at 23.7%. This margin expansion was aided by favourable movements in inventories. The PAT for the quarter came in at Rs. 100.35 crore as against Rs. 37.25 crore in the corresponding quarter last year, an increase of 169.4% YoY. This was due to the decline in interest expenses by 35.9% YoY.

## Investing in the stock

The company has a share capital of Rs. 33.50 crore, with promoters' holdings at 61.18 per cent. Therefore, the available free float comes to 2.6 crore shares. The two-week average traded quantity comes to around 3962 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
435-455	40 per cent
400-435	20 per cent
380-400	20 per cent
<380	20 per cent

## Valuation and outlook

The company is trading at a TTM P/E of 12.14x with TTM EPS of Rs. 39.03. Going ahead, acquisition of USPL and ramping up of existing facilities, coupled with strong order book, provides healthy revenue visibility. Also, cost rationalising measures and favourable industry outlook, domestically as well as globally, would aid the growth going ahead. Moreover, strong balance sheet (cash and cash equivalents of Rs. 730 crore) and healthy financials, coupled with healthy dividend payout ratio of 20%, has positioned the company in a sweet spot. Considering all these aspects, we see an upside of 50 per cent with a target price of Rs 705 over the next two years.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	2129.27	1428.24	1014.55	1355.16	1205.76
Total Income	2196.57	1513.25	1109.18	1437.98	1268.97
Total Expenditure	1823.03	1207.85	978.93	1245.52	1117.93
PBIDT	373.54	305.40	130.26	192.46	151.04
PAT	198.43	145.52	31.48	122.56	97.11
Dividend %	120.00	100.00	50.00	100.00	120.00
Adj. EPS(Rs)	29.62	21.72	4.70	18.29	14.22

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	607.43	630.12	-3.60	479.71	26.62
Total Expenditure	463.76	506.98	-8.52	420.72	10.23
PBIDT (Excl OI)	143.67	124.36	15.53	60.80	136.30
PAT	100.35	88.42	13.49	37.25	169.40
PBIDTM% (Excl OI)	23.65	19.70	20.05	12.63	87.25
PBIDTM%	29.44	22.17	32.79	16.27	80.95
PATM%	16.52	14.01	17.92	7.74	113.44
Adj. EPS(Rs)	14.98	13.20	13.48	5.56	169.42

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