IndiaNivesh™
TRUST, WE EARN IT

INSTITUTIONAL EQUITIES

Initiating Coverage
18 January 2018

Maharashtra Seamless Ltd.

Cruising Seamlessly

Current

CMP	**: Rs 516**
Rating	**: BUY**
Target	**: Rs 645**

(CMP as on January 18, 2018 closing)

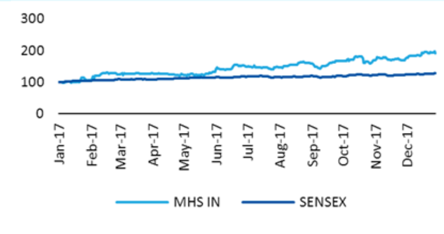
STOCK INFO	
INDEX	
BSE	500265
NSE	MAHSEAMLES
Bloomberg	MHS IN
Reuters	MHSM.BO
Sector	Metal / Pipes
Face Value (Rs)	5
Equity Capital (Rs mn)	335
Mkt Cap (Rs mn)	34,552
52w H/L (Rs)	552 / 262
Avg Daily Vol (BSE+NSE)	94,655

SHAREHOLDING PATTERN	%
(as on Sep, 2017)	
Promoters	59.84
Public & Others	40.16

STOCK PERFORMANCE(%)	3m	6m	12m
Maharashtra Seamless	12.1	25.8	86.1
SENSEX	8.2	11.2	29.4

Source: Bloomberg, IndiaNivesh Institutional Research

Maharashtra Seamless v/s SENSEX



Source: Bloomberg, IndiaNivesh Institutional Research

Saurabh Kapadia
Tel: +91 22 62406459
saurabh.kapadia@indianivesh.in

Anshuman Ashit
Tel: +91 22 62406461
anshuman.ashit@indianivesh.in

Anti-Dumping duty levied on Chinese pipes and significant improvement in oil & gas capex will continue to boost the demand for seamless pipes produced domestically. Demand for ERW pipes is also on the rise, primarily driven by its usage in city-gas distribution (CGD) apart from water & sewage transport. Maharashtra Seamless Ltd (MSL), which has the largest domestic seamless pipes capacity (550,000MT) and a large ERW capacity (200,000MT), continues to be amongst the major beneficiaries of these developments. Riding on the upswing, MSL's revenue is expected to grow at a CAGR of ~26% over FY17-20E.

Investment Rationale

- **Anti-Dumping duty levied on Chinese imports to aid domestic demand:** Government of India imposed anti-dumping duty on imports of seamless pipes from China in February 2017. The duties, which range between $961-$1,611/MT, provided much needed relief to the domestic industry, restricting Chinese imports only to such pipes which are not produced in India. MSL, being the largest domestic seamless pipes player, continues to gain the most due to this development. We expect MSL's to regain its market share in the oil segment from ~40% in FY17 to over 60% by FY20.
- **Investment cycle uptick in global oil & gas to drive seamless pipes demand:** With oil prices now exceeding $65 levels, the E&P investment cycle globally is projected to grow by ~5% in 2018. On the domestic front too, policies including NELP/HELP, BS-VI upgradation etc. and energy demand growth are expected to boost seamless pipes demand.
- **Restart of 200,000MT seamless unit, higher overall utilization, operating leverage to drive growth:** To cater to the increasing domestic demand, MSL has restarted its 200,000MT seamless unit in Dec 2017, which would help improve overall seamless pipes utilization from 38% in FY17 to ~75% by FY20 and EBITDA margin by 230 bps. This will be supported by an improved pricing environment and operating leverage benefits on account of yield improvement and savings due to captive solar power production.
- **Increasing focus on production of value-added API grade ERW pipes to fetch higher margins:** MSL is shifting its focus to produce API grade ERW pipes which are mainly used in CGD. With government focus on widening the CGD network to over 228 cities in the next few years, we expect continuous demand for ERW pipes. Though utilization is expected to gradually reach ~38% by FY20 from 27% in H1FY18, however, margins are expected to improve to ~Rs 5,000/MT from ~Rs 4,500/MT in FY17.

Valuation

With the abovementioned developments providing a hugely favourable environment for the seamless pipes industry, we expect MSL to be one of the foremost beneficiaries and its strong order book as of Q2FY18 indicates the same. On back of the same, we expect the EBITDA margin and ROCE to improve to 18% & 12.5% by FY20E, from 15.7% & 6.5% in FY17. We initiate MSL with a BUY rating with a target price of Rs 645, valuing the stock at 8x FY20E EV/EBITDA.

Fig. 1: Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY16	10,187	384	(243)	(3.6)	3.8	(0.9)	(62.4)	43.9
FY17	14,342	2,249	1,158	17.3	15.7	4.3	22.6	12.8
FY18E	19,392	2,983	1,798	26.8	15.4	6.4	19.2	12.1
FY19E	24,453	4,248	2,631	39.3	17.4	8.7	13.1	8.1
FY20E	28,508	5,141	3,207	47.9	18.0	9.8	10.8	6.3

Source: Company, IndiaNivesh Institutional Research

Anti-Dumping Duty on Chinese Pipes to continue aiding industry recovery

Government of India had extended anti-dumping duty on import of certain steel products from China for five years in February 2017. This was the continuation of the provisional anti-dumping duties levied in 2016 on steel pipes from China used in oil and gas exploration. The duties range from $961/MT to $1,611/MT (which is ~100% of the CIF value of Chinese pipes in India), depending on the pipe category and applicable to all pipes less than 14" outer diameter. Prior to this duty imposition, seamless pipes dumping from China had adversely impacted the domestic seamless pipes industry, dragging down utilization and margins for all the companies. Chinese companies captured over 90% of market share in oil sector and ~50% in boiler sector during that era. Currently, Chinese imports are restricted to such pipes which are not manufactured in India (cylinder pipes, bearing pipes etc.).

Details of domestic demand and imports for seamless pipes/tubes/hollow profiles not exceeding 14" outer diameter (OD) are provided in the table below:

Fig. 2: Seamless Pipes Demand and Chinese imports (FY11-14) for OD<14"

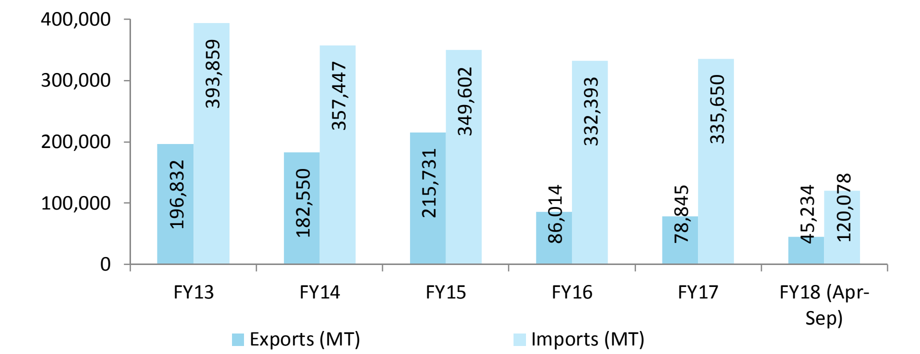
Particulars (Volumes in MT)	2011-12	2012-13	2013-14	Jan-Dec 2014
Domestic Demand	7,95,915	6,73,141	6,26,818	5,35,264
Imports from China	3,02,452	2,52,802	2,81,931	2,30,850
Import from other countries	1,13,544	1,15,823	61,802	45,416
Domestic Companies' Market share in total domestic demand	52%	55%	55%	52%

Source: Government of India, IndiaNivesh Institutional Research

Earlier, the landed value of the pipes imported from China were ~10-20% lower than that of domestic players due to which they captured the majority of the domestic market. With the duty in place till May 2021, the market has almost completely shifted back to the domestic players.

The graph below depicts the import/export trend for iron/steel pipes in India [grouped under the description tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel]

Fig. 3: Total Seamless Products Export/Import trend (Excl. Stainless Steel)



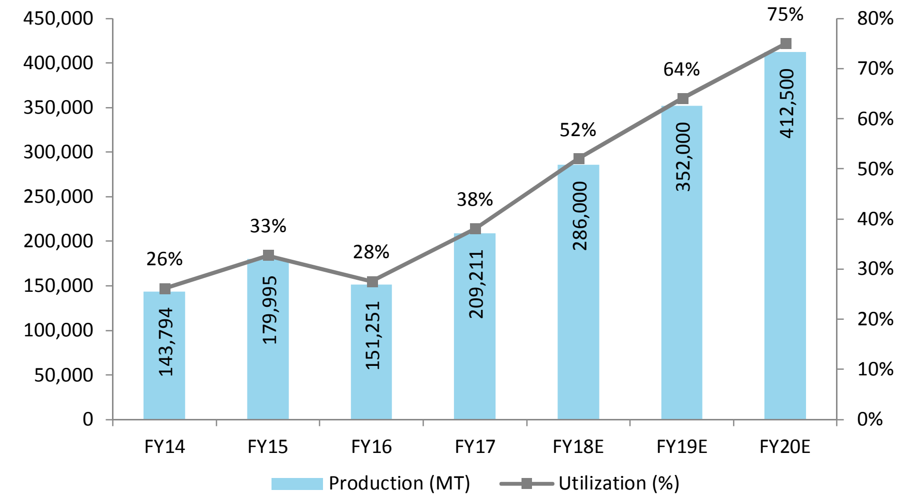
Source: Government of India, IndiaNivesh Institutional Research

In 2017, post the duty implementation, MSL has shown substantial improvement in its utilization and margins (from 3.8% in FY16 to 15.7% in FY17). We expect utilization for the seamless division to improve further from 28%/38% in FY16/FY17 to 64%/75% in FY19E/FY20E and EBITDA margin to grow by 230 bps largely due to market share gains and new orders, particularly from the oil & gas sector.

Restart of 200,000MT seamless unit to help cater to the increasing domestic demand

MSL had set up a 200,000MT seamless pipes plant at Mangaon, Maharashtra in FY12. But due to the difficult environment for the Indian seamless players on account of the Chinese competition, the plant had to shut down its operations. Now, with the anti-dumping duty leading to a significant improvement in demand, a trend which is expected to continue for the next two years, MSL has restarted the plant, commencing commercial production from Dec 2017. Subsequently, we expect seamless pipes sales volumes to improve to 352,000MT/ 412,500MT by FY19E/FY20E from 209,211MT in FY17. Since this facility has better yields than the existing facility, the company will benefit on the operating leverage front with increase in the utilization of this unit.

Fig. 4: Seamless Pipes Production & Utilization



Source: Company, IndiaNivesh Institutional Research

Other future capex plans of MSL

Apart from the capex on the seamless unit restart project done during FY18, there are a few other projects which the company is also undertaking currently. This includes a 1MW Solar Power "Roof Top" project at its factory for captive use and on the upcoming 15MW Solar Power Plant in Maharashtra which is to be used as a captive power plant. The payback period for the 15MW plant is 5 years and the IRR for the project is expected to be ~21%. These projects are also being funded through the company's investments and internal accruals and thus the company will continue maintaining its low debt status.

Further, we expect MSL to reach utilization level to ~75% by FY20E in seamless division and given the strong demand outlook for the seamless pipes; we expect that company will explore opportunities to set-up a new unit within its Nagothane facility, which has the requisite vacant land. It is important to note that MSL is renowned to possess the capability of setting up seamless plants at the lowest capital cost per tonne. Company has sufficient investments and free cash flows to fund such expansion.

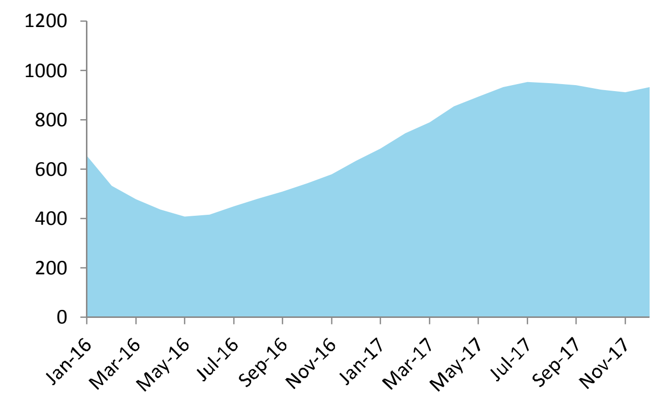
Oil & Gas investment cycle uptick to drive seamless pipes demand

Global Scenario

With oil prices now exceeding $65 levels, the investment cycle in exploration & production is expected to witness an uptick. According to Barclays E&P spending survey, global E&P spending will increase overall by ~9% in 2017 and preliminary estimates for 2018 show growth in spending to be in the tune of ~5%. However, oil above $65, which is the present scenario, will bring in more investment into E&P, and subsequently, demand for seamless pipes.

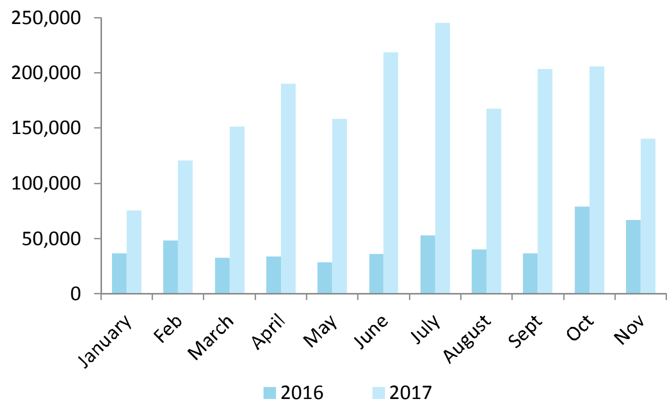
Baker Hughes Rig Count shows an increase in US rig count by ~47% in 2017. US OCTG imports in 2017 also increased substantially over 2016 (nearly four times), indicating an increase in drilling activities, which is a positive signal for seamless pipes manufacturers.

Fig. 5: U.S. Rig Count (Nos.)



Source: Baker Hughes, IndiaNivesh Institutional Research

Fig. 6: U.S. Imports of Oil Country Tubular Goods (in MT)



Source: US Census Bureau, IndiaNivesh Institutional Research

Anti-Dumping on Chinese seamless pipes in several countries to improve MSL's export dynamics

MSL earns ~25% of its revenues through exports primarily to the Americas and Middle East. Anti-dumping duty had been imposed in the US on OCTG pipes imported from India, which MSL has been able to successfully defend. Subsequently, the US Department of Commerce has withdrawn the anti-dumping duty order in case of India. This development, along with anti-dumping duty still being levied for seamless pipes from China, opens up a huge opportunity for MSL, in the US oil & gas industry.

Similar to the US' decision, other nations, including Brazil, Colombia & Canada, have also imposed anti-dumping duty on Chinese seamless pipes. Europe too is considering re-imposition of anti-dumping duty on China. There isn't much difference in the margins between domestically sold and exported pipes.

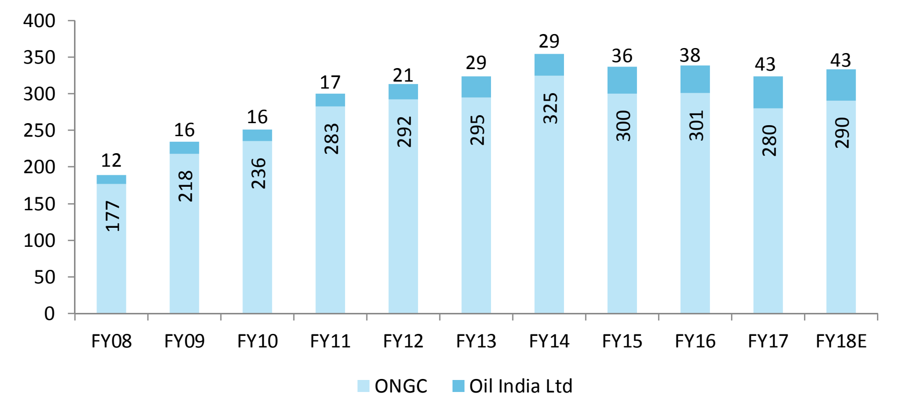
This development is expected to further increase export opportunities for Indian seamless pipes manufacturers, and particularly MSL, which has the largest seamless pipes capacity in India and a strong presence in the American and Middle East markets. With OCTG pipes import in the US in 2017 witnessing nearly four-fold increase over 2016 to 1,878,000MT and oil prices at a two-year high, export opportunities for Indian seamless pipes manufacturers will improve further.

Domestic Scenario

The Government is striving to attract investments in oil & gas exploration in India by bringing out policies to boost domestic oil exploration and thereby save on imports and precious foreign exchange subsequently. In this context, the implementation of Hydrocarbon Exploration Policy (HELP) will especially necessitate capital expenditure by oil exploration companies, primarily ONGC & Oil India, resulting in generation of good demand for Oil & Gas pipes over the next few years.

MSL currently supplies more than 60% of its pipes to the oil sector and is also expected to bid in their upcoming tenders. The market growth for seamless pipes domestically is expected to grow at a rate of >10% annually.

Fig. 7: Total Annual ONGC, OIL Capex over the years (Rs bn)



Source: ONGC, OIL, IndiaNivesh Institutional Research

It is important to note here that ~10% of the total capex for a green-field exploration/refinery/petrochemicals project is on seamless pipes, which reduces to 1-2% of the annual maintenance cost post commissioning.

Additionally, increase in energy demand is expected to push public sector OMCs to expand their capacities and replace existing inefficient refineries, in order to cater to the increasing energy demand. Apart from the above, compliance with Euro VI norms for the existing refineries by the year 2020 will further fuel seamless pipes demand. The capex required for the same is estimated at ~Rs 400bn which would result into Rs 30-40bn opportunity for the steel pipes industry. Demand from other industries such as Power, Chemicals, Nuclear and other process industries will further add on the above.

Government of India, in its push for the “Make in India” programme, has introduced a policy for providing preference to domestically manufactured iron & steel products. This is applicable for every ministry/department of the government as well as for PSUs procuring iron & steel products for government projects. This policy has provided a safeguard for domestic manufacturers, including MSL, and subsequently, its focus has now shifted to primarily serving the domestic requirements. This will lead to a reduction in MSL’s exports to ~20% by FY19 from ~25% currently.

The total domestic demand for seamless pipes has remained in the range of 600,000-700,000MT in the past few years and with the above investments lined up, it is expected to witness a growth of >10% p.a. Since all of the demand is to be catered by the domestic companies, we believe that MSL stands to benefit the most in terms of volume growth, as it has the largest capacity and its utilization during FY17 was only 38%.

Fig. 8: Some of the upcoming investments in India by various companies

S. No	Company(s) Involved	Investment Quantum	Investment Horizon	Additional Information
1	ONGC	$ 11bn	Next 3-4 years	For exploration and development of blocks in the KG basin
2	IOCL, BPCL, HPCL	$ 40bn	By 2022	To build an integrated refinery-cum-petrochemicals complex (60MMTPA)
3	BPCL	$ 16.88bn	Next 5 years	For expansion of operations across business segments; of this US$ 7.03bn is to be invested in the petrochemicals segment
4	RIL, BP	$ 6bn	Next 3-5 years	For the development of new R-series gas fields in the KG-D6 block
5	IOCL	$ 3.1bn	Next 4 years	Investment would cover 20 projects adding 25 MMT pipeline to its existing pipeline capacity of 93.7 MMT
6	Various OMCs	$ 13.95bn	By 2020	Investment on fuel up-gradation program (up-gradation to BS VI)
7	IOCL	$ 5.9bn		To expand the 1 MMTPA refinery at Nagapattinam, Tamil Nadu, phase-wise up to 15 MMTPA; In-principle approval has been given by the board for setting up a new 9 MMTPA refinery at an estimated cost of Rs 274.60bn
8	IOCL	$ 7.64bn	Next 5-7 Years	For expanding its existing brownfield refineries
9	Saudi Aramco	NA		Planning to invest in refineries and petrochemicals in India
10	Vedanta	$ 2.5bn	Next 3 years	Investment in oil; part of the $ 8bn overall capex lined up
11	HPCL, Govt of Rajasthan	$6.78bn	By 2022	9 MMTPA Refinery at Barmer, Rajasthan; project commencement in January 2018

Source: GoI, Companies, IndiaNivesh Institutional Research

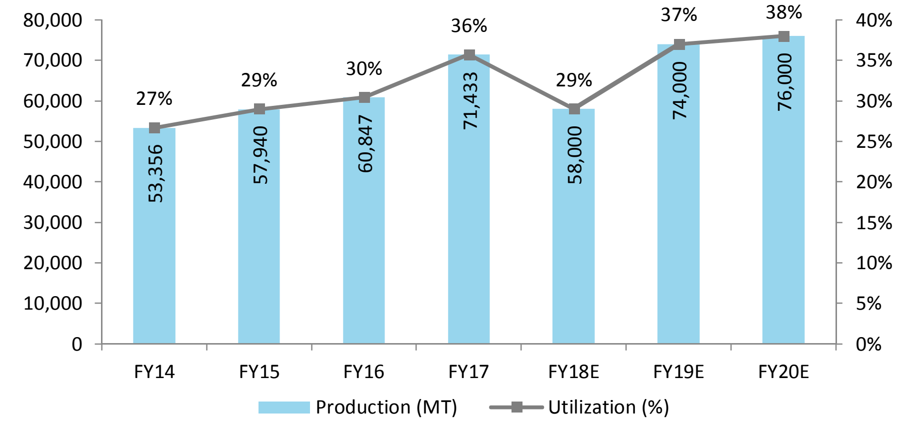
Increasing focus on production of value-added API grade ERW pipes

MSL is one of the leading producers of ERW pipes with a capacity of 200,000MT. ERW Pipes are witnessing significant demand from city-gas distribution apart from the water & sewage sector. The company is presently focusing more on the production of value-added API grade of ERW pipes which would improve its margins significantly from the current levels. Though this move has led to a subdued H1FY18 in terms of production, however the realizations, and subsequently margins are expected to improve in the coming years.

ERW demand is also boosted from the fact that the government is targeting $100bn worth of investments in gas infrastructure by 2022, which will include adding another 228 cities throughout the country to the CGD network. These investments would also include setting up of RLNG terminals, pipeline projects, completion of the gas grid and expanding the existing CGD networks. The demand for ERW pipes from water & sewage transportation segment continues to remain steady.

MSL's ERW pipes utilization has improved significantly in the recent years from 27% in FY14 to 36% in FY17 on the back of demand from both the abovementioned sectors and we estimate it to reach ~38% by FY20E.

Fig. 9: ERW Pipes Production & Utilization Trend



Source: Company, IndiaNivesh Institutional Research

National Gas Grid project to provide the next leg of growth domestically

The next leg of growth for both seamless and ERW pipes, is expected to come from gas pipelines which will be set-up primarily under the National Gas Grid project, which aims to remove regional imbalances with regards to access of natural gas, and provide clean and green fuel throughout the country. With the current gas grid network at ~13,000km, the government plans to take it to 28,000km in the next five to six years. 13,821km of pipeline projects have already been announced. Another scheme, viz., Hydrocarbon Vision 2030 for North East India which is currently under the feasibility phase with an investment of over Rs 80bn, entails setting up 6,894km of pipeline network. This takes the government's total capital outlay for midstream segment in North East India to Rs 200bn, to be invested by 2030.

Additionally, with increase in domestic gas production and imported LNG, supply of natural gas is also likely to increase. If all planned terminals in India materialize, the capacity of Regassified LNG terminals in India will increase from the current 41MMTPA to 83MMTPA by 2030. The total supply of natural gas is expected to grow at a CAGR of 7.2%, reaching a 474MMSCMD by 2030.

Volume growth to be supported by improvement in EBITDA margins

On the back of demand arising from domestic and global investment activities, we expect seamless pipe segment to witness significant volume growth in the next two years, the figure doubling compared to FY17. ERW segment volumes will witness de-growth in FY18 due to the company's focus on production of higher margin API grade pipes. However, the volumes in this segment are expected to reach ~76,000MT by FY20E.

Fig. 10: Pipe Sales Volume Trend

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Seamless (MT)	152,629	172,479	149,679	209,746	286,000	352,000	412,500
ERW (MT)	53,184	57,272	61,941	72,331	58,000	74,000	76,000

Source: Company, IndiaNivesh Institutional Research

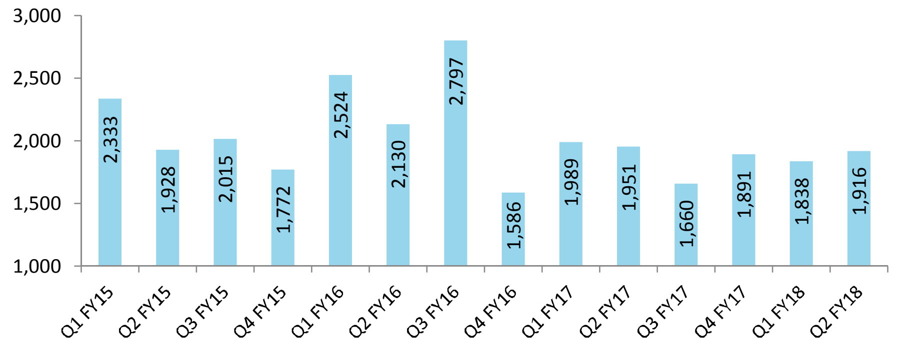
This growth will be supplemented by an improvement in the blended EBITDA margin from 15.7% in FY17 to 18% by FY20E on account of benefit of operating leverage after restart of the 200,000MT facility (which will have better yields than the existing facility), higher margins for API grade ERW pipes, and cost savings from the 15MW Solar Power Plant which will be used for captive purpose. MSL has also developed a technology which will reduce the scrap produced due to end cuts by 30%, thereby improving the overall yield further.

The 15 MW solar plant would help the company reduce its electricity input cost substantially which currently stands at Rs 7.85/unit. We estimate the electricity cost for MSL from the solar plant will be ~Rs 4.50/Unit, thereby providing savings of more than Rs 3/Unit.

Increase in raw material prices does not have much impact on the margins as the company is able to pass through any increase in raw material cost in the new order. MSL secures raw material supplies as soon as it wins the order, thereby de-risking itself from any adverse movement on the cost front. MSL is impacted the most when raw material prices increase sharply between order bidding and order win. However, with increased production and better product mix, we expect MSL to improve its gross margin to 36.7% FY20E.

Volume increase due to anti-dumping has also helped reduce MSL's employee cost/MT, which depicts a declining trend. With restart of the new plant and further increase in the volumes, we expect the figure to remain at ~Q2FY18 levels in the next two years, thereby reducing the overall employee cost as a percentage of sales to 3.3% in FY20 from 3.7% in FY17. This will aid in improving EBITDA margin as well.

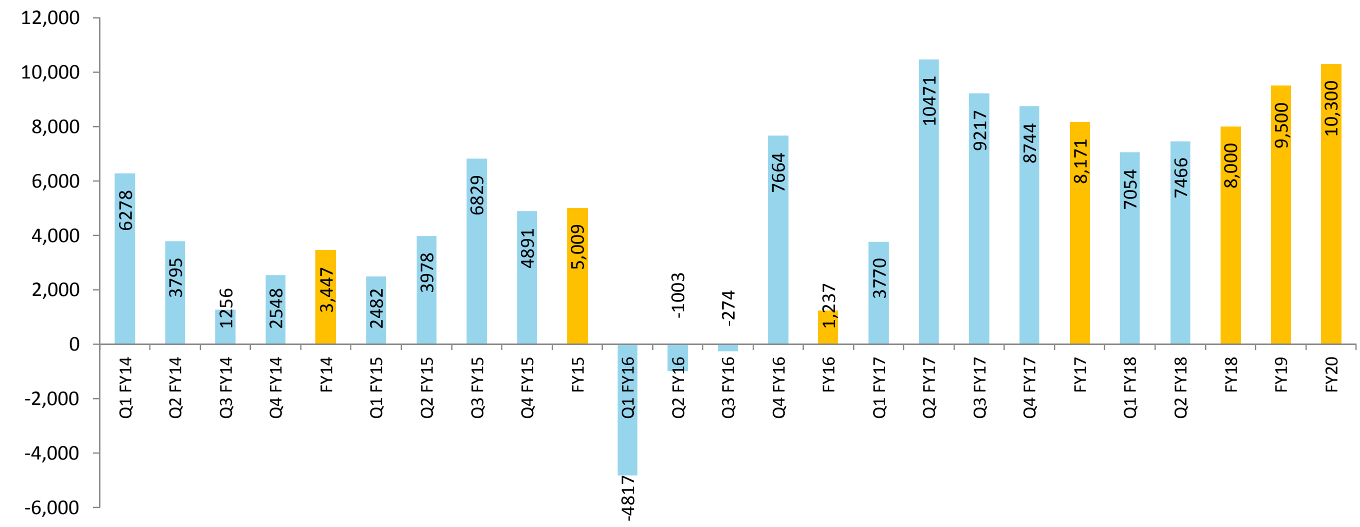
Fig. 11: Employee Cost/MT Trend



Source: Company, IndiaNivesh Institutional Research

The graph below depicts the EBITDA/MT for seamless pipes. As is evident, EBITDA/MT figures for seamless pipes prior to the anti-dumping duty was volatile, even moving into the negative territory in FY16. Post anti-dumping, it has become more consistent on account of better realization and higher volumes, and has not fallen below Rs 7,000/MT. We expect the EBITDA/MT for the seamless pipes unit to gradually improve to ~Rs 10,300/MT by FY20.

Fig. 12: Seamless Pipes EBITDA/MT Trend



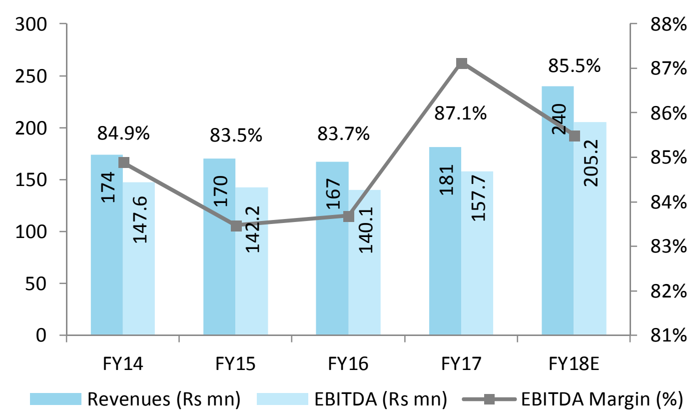
Source: Company, IndiaNivesh Institutional Research

Revenues and margins from the renewable energy segment to remain stable

Apart from its core business of pipes manufacturing, MSL is also involved in the renewable energy business, with a 7MW wind energy plant at Satara, Maharashtra and two solar power plants in Rajasthan with capacity of 5MW and 20MW (commissioned in May 2017). It is also setting up another 15MW solar power plant in Maharashtra, which it intends to use as a captive power plant.

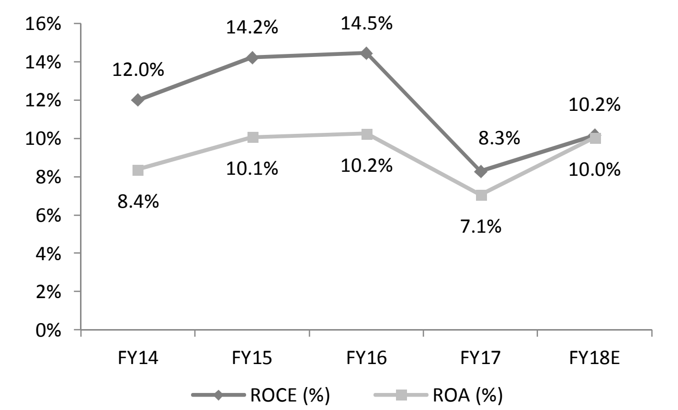
The 20MW solar plant commissioned in May 2017 incurred a capex of Rs 1200mn. The company has entered into a power purchase agreement (PPA) with NTPC at Rs 5.07/Unit for 25 years, which is expected to provide it constant revenues of ~Rs 150-160mn. For the 5MW solar plant also, MSL had signed a PPA at Rs 12.24/Unit for 25 years during FY12.

Fig. 13: Renewable Energy - Blended Revenues, EBITDA & EBITDA Margin



Source: Company, IndiaNivesh Institutional Research

Fig. 14: Renewable Energy - Blended ROCE & ROA



Source: Company, IndiaNivesh Institutional Research

MSL's non-core activities remain a grey area

MSL is involved in a few non-core activities many of which have been a drag on its consolidated P&L in the last few years. Also, large amount of corporate guarantees provided by MSL to some of these loss making entities remain a cause for concern. Some of the important non-core areas in which MSL is active are discussed below.

Oil Rigs

MSL, at the group level, owns a total of six rigs out of which it has given out contracts for three to ONGC and is in process of discussing contracts for two more rigs which were built during 2014-15. Currently, the Jack-up rig market is in oversupply due to which, completing the contract for the two rigs will be challenging for MSL. Until now, oil drilling business has remained a drag on MSL's profitability due to subdued demand. However, drag on the profit by these subsidiaries has reduced in FY17 to Rs 334mn vs Rs 626mn in FY16. Recovery in oil price and subsequent improvement in drilling activities are likely to benefit these subsidiaries.

Iron ore mines

MSL, through its step down subsidiary Internovia, owns 32% stake in an iron ore mine situated in Brazil. Currently, the mine has a reserve of over 200mn MT and the company has the capacity of mining 6mn MTPA. Since the mine has a dedicated railway line connected to the port, the cost at the port comes to ~$40/MT, which with current iron ore prices at ~$ 65, could add to the company's earnings. The mine is currently closed due to which Internovia reported a loss In FY17 dragging MSL's profit by Rs 17.5mn. The company is in the process of restarting the operations.

Coal Mines

MSL had invested equity in Gondkhari Coal Mining Ltd, whose mining licence was cancelled by Supreme Court in 2014. The company thus stopped mining operations and took a hit due to impairment of the assets. However, if these mines are auctioned by the government, MSL is likely to recover its investment.

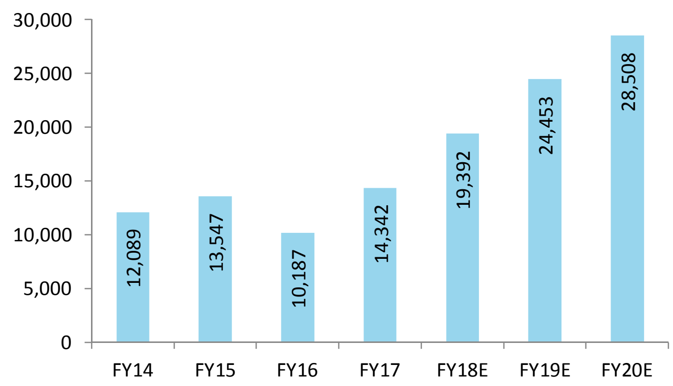
Financials and Outlook

Strong Revenue Growth; EBITDA to grow at a CAGR of 32% over FY17-20E aided by margin improvement and higher utilization

MSL's consolidated revenues grew at a CAGR of 5.8% over FY14-17 to Rs 14,324mn in FY17. Utilization during FY14-17 was muted primarily due to the impact of Chinese players in the domestic market.

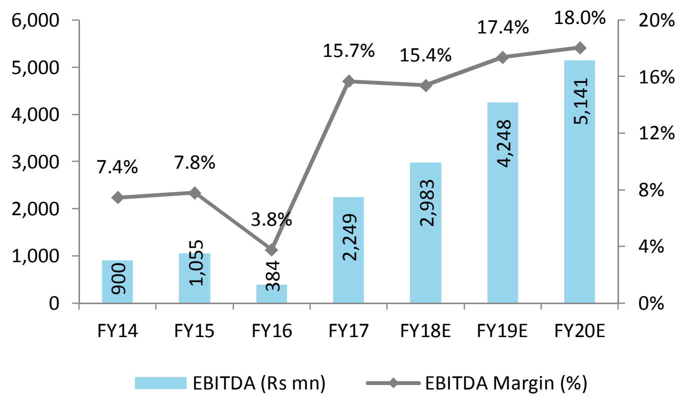
Following the imposition of an anti-dumping duty on imports of seamless pipes from China, there has been marked improvement in the operating environment for the domestic players. This has and will continue to support MSL's sales volumes and pricing ability and in turn it's EBITDA and margins. The company will witness strong growth in revenues at a CAGR of ~26% over FY17-FY20E to reach Rs 28,508mn, led by volume increases.

Fig. 15: MSL Consolidated Net Revenue (Rs mn)



Source: Company, IndiaNivesh Institutional Research

Fig. 16: MSL EBITDA & EBITDA Margin



Source: Company, IndiaNivesh Institutional Research

EBITDA during the period FY14-17 grew at 36% CAGR to Rs 2,249mn in FY17 from Rs 900mn in FY14. The EBITDA margin over the same period has improved from 7.4% to 15.7%. Majority of the recovery in EBITDA margin came in FY17 post anti-dumping duty on the Chinese pipes. We expect further improvement to 18% by FY20 on account of benefit from operating leverage due to higher volumes, overall yield improvement, better margins from ERW and cost saving from the 15MW Solar Power Plant which will be used for captive purpose. Also MSL's leadership position in the seamless market and its presence in large diameter segment which has relatively low competition will also support EBITDA margin improvement.

MSL's strong balance sheet and liquidity position will support future growth; Return Ratios to improve

The strength of MSL lies in its balance sheet with low gearing and strong liquidity position characterised by a large portfolio of liquid investments and sizeable unutilised working capital limits. Although MSL has marginal outstanding debt on its standalone balance sheet, it has extended credit support in the form of corporate guarantees and stand-by letters of credit (SBLCs) towards its subsidiaries and associates. The major portion of debt is in the UAE step-down subsidiary (Internovia) through which MSL has invested in an iron ore mine in Brazil. Total outstanding consolidated debt & total investment stood at Rs 8,197mn & Rs 15,294mn respectively, at end of FY17.

Fig. 17: Details of MSL's investments as on 31.03.2017

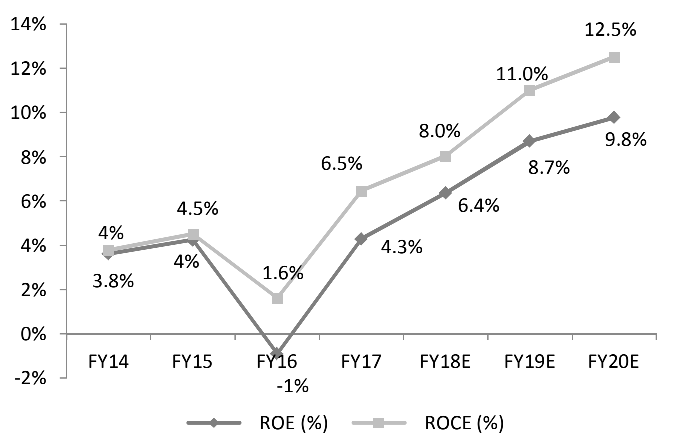
Investment Description	Investments (Rs mn)
Carrying Amount of Interest in Associates	
Jindal Pipes Singapore Pte. Ltd	1,153
Star Drilling Pte. Ltd	1,568
Non - Current (Un-Quoted)	
Equity Share of Other Companies	
Discovery Drilling Pte. Ltd.	636
Virtue Drilling Pte. Ltd.	802
Zamin Amapa Ltd.	5,946
Venus Drilling Pte. Ltd.	13
4% Perpetual Preference Shares of Discovery Oil And Mines Pte. Ltd	648
Perpetual Preference Shares of Dev Drilling (Singapore) Pte Ltd	731
Debentures	12
Bonds	10
Religare Credit Opportunities Fund	84
Others	6
Non - Current (Quoted)	
Equity Shares	96
Current (Quoted)	
Mutual Funds	3589
Total Investments	15,294

Source: Company, IndiaNivesh Institutional Research

The strong liquidity position along with improving operating environment for MSL will support future growth for the company. MSL's operating cash flows is expected to add ~Rs 6.6bn over the next three years, helping fund the capex requirement for the 15MW solar power plant and likely expansion of seamless pipe capacity. MSL's investment would come in handy in case of any cash deficit.

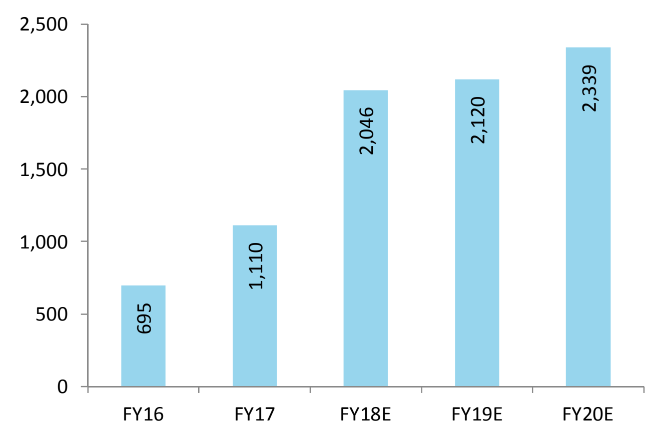
MSL's ROE during FY17 was 4.3% and we expect ROE to improve to 9.8% in FY20. ROE appears to be depressed due to higher level of investments held by the company. Adjusted for this, ROE would stand at 7.1%/15.2% in FY17/FY20E. It has been able to generate an average ROCE of 4.1% between FY14-17. We expect the ROCE to improve to over 12.5% by FY20E.

Fig. 18: ROE & ROCE



Source: Company, IndiaNivesh Institutional Research

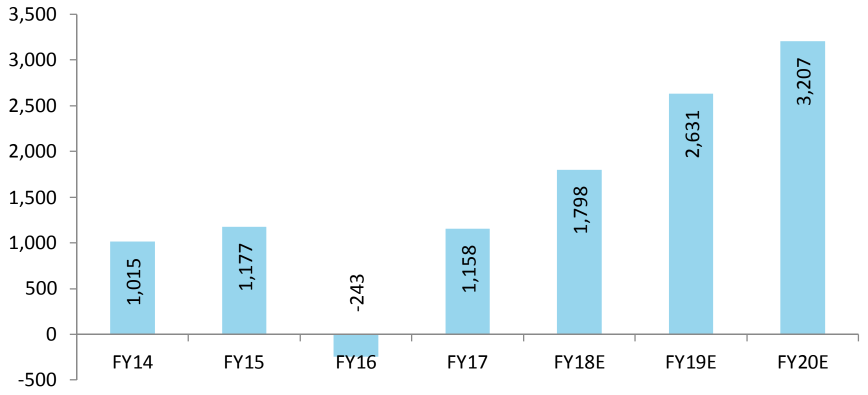
Fig. 19: Net Cash from Operating Activities (Rs mn)



Source: Company, IndiaNivesh Institutional Research

PAT is expected to grow at a CAGR of ~40% between FY17-20E to reach Rs 3,100mn by FY20. PAT margin will also improve to 11.2% by FY20E mainly on account of improvement in operating efficiencies and lower tax rates.

Fig. 20: PAT (Rs mn)



Source: Company, IndiaNivesh Institutional Research

Valuation

With the abovementioned developments providing a hugely favourable environment, we expect MSL to be the foremost beneficiary within the seamless pipes industry, and its strong domestic as well as export order book indicates the same. On back of the same, we expect the EBITDA margin and ROCE to improve to 18% & 12.5% by FY20E, from 15.7% & 6.5% in FY17. We initiate MSL with a BUY rating at a target price of Rs 645, valuing the stock at 8x FY20E EV/EBITDA.

Risks

- Increase in iron ore prices
- Decline in crude oil prices and E&P investments not rising as projected.
- Anti-Dumping duties in other countries on seamless pipes originating from India
- Continuation of drag from the subsidiaries

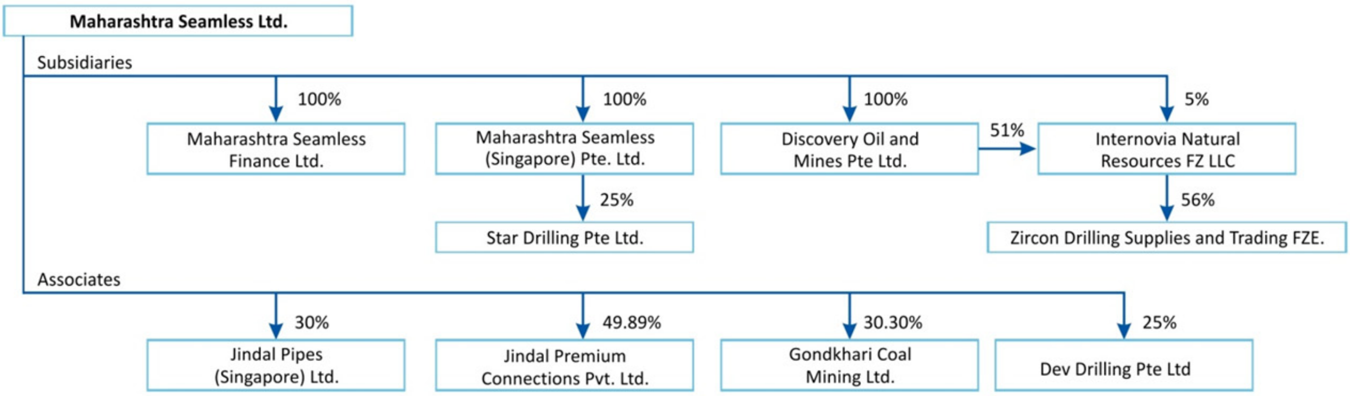
About the Company

Maharashtra Seamless Limited (MSL) is the leading supplier of seamless steel and ERW pipes, including API grade line pipes, OCTG and Coated Pipes, in India and globally. Its products are used in industries which include Oil & Gas, Hydrocarbon, Automobiles, Boilers, Railways, Fire-fighting and general engineering, among others. It entered business with the commissioning of its seamless unit at Nagothane, Maharashtra in 1992, which was also India's first OCTG seamless pipes manufacturing plant. Presently, with a capacity of 550,000MT & 200,000MT of seamless & ERW pipes respectively, it is the largest manufacturer of seamless tubes in the country. Apart from the pipes business, MSL is also involved in the renewable energy business, with a 7MW wind energy plant at Satara, Maharashtra and two solar power plants in Rajasthan with capacity of 5MW and 20MW. It is also setting up another 15MW solar power plant in Maharashtra, which it intends to use as a captive power plant. Through its subsidiaries, MSL also owns a total of six oil rigs, coal mines in India and iron ore mines in Brazil. It sells its seamless & ERW pipes under the brand names "MAHA" & "Jindal Star" respectively.

Key Managerial Personnel

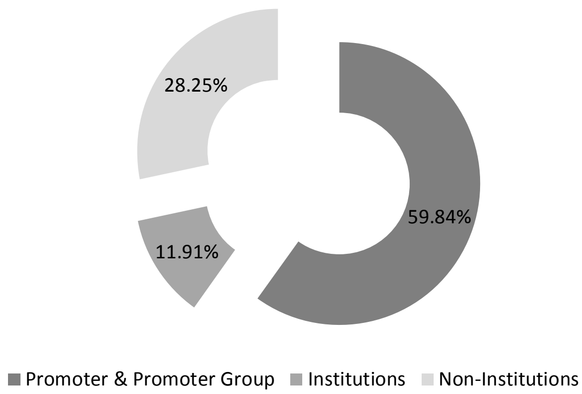
- Mr. Saket Jindal (Managing Director)
- Shri Shiv Kumar Singhal, Whole-time Director
- Shri Ashok Soni, Chief Financial Officer
- Mr. D. C. Gupta, V.P. & Company Secretary

Fig. 21: Subsidiary Structure



Source: Company, IndiaNivesh Institutional Research

Fig. 22: Shareholding Pattern



Source: Company, IndiaNivesh Institutional Research

Fig. 23: Income Statement (Consolidated)

Y E March (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	**10,187**	**14,342**	**19,392**	**24,453**	**28,508**
Growth (%)	*(25)*	*41*	*35*	*26*	*17*
Operating expenses	(9,802)	(12,093)	(16,410)	(20,205)	(23,368)
Operating profit	**384**	**2,249**	**2,983**	**4,248**	**5,141**
Other operating income	0	0	0	0	0
EBITDA	**384**	**2,249**	**2,983**	**4,248**	**5,141**
Growth (%)	*(63.6)*	*485.0*	*32.6*	*42.4*	*21.0*
Depreciation	(711)	(710)	(740)	(768)	(794)
Other income	895	763	723	728	733
EBIT	**569**	**2,303**	**2,966**	**4,207**	**5,079**
Finance cost	(260)	(339)	(242)	(221)	(221)
Exceptional item	0	0	0	0	0
Profit before tax	**308**	**1,963**	**2,724**	**3,987**	**4,859**
Tax (current + deferred)	(228)	(805)	(926)	(1,355)	(1,652)
Profit / (Loss) for the period	**80**	**1,158**	**1,798**	**2,631**	**3,207**
Associates, Min Int	(323)	0	0	0	0
Reported net profit	**(243)**	**1,158**	**1,798**	**2,631**	**3,207**
Extraordinary item	0	0	0	0	0
Adjusted net profit	**(243)**	**1,158**	**1,798**	**2,631**	**3,207**
Growth (%)	(121)	(576)	55	46	22

Source: Company, IndiaNivesh Institutional Research

Fig. 24: Balance Sheet (Consolidated)

Y E March (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	335	335	335	335	335
Reserves & surplus	26,121	27,129	28,685	31,033	33,918
Net Worth	**26,456**	**27,464**	**29,020**	**31,368**	**34,253**
Minority Interest	0	0	0	0	0
Total Liabilities	**10,382**	**11,097**	**11,454**	**11,692**	**12,292**
Non-current liabilities	**5,365**	**4,320**	**4,320**	**4,320**	**4,320**
Long-term borrowings	2,720	1,798	1,798	1,798	1,798
Deferred tax liabilities	2,414	2,356	2,356	2,356	2,356
Other Long term liabilities	231	167	167	167	167
Long term provisions	0	0	0	0	0
Current Liabilities	**5,017**	**6,777**	**7,134**	**7,372**	**7,971**
Short term borrowings	2,988	4,602	3,955	3,455	3,455
Trade payables	1,320	1,392	2,125	2,680	3,124
Other current Liabilities	587	669	812	955	1,070
Short term provisions	122	114	242	282	323
Total Liabilities and Equity	**36,837**	**38,561**	**40,474**	**43,061**	**46,544**
Non Current Assets	**22,482**	**24,189**	**24,772**	**24,404**	**24,210**
Net Block	11,520	12,140	12,151	12,032	11,838
Goodwill	0	0	0	0	0
Non-current Investments	10,482	11,706	12,006	12,006	12,006
Long-term loans and advances	175	58	58	58	58
Deferred tax Assets	0	0	0	0	0
Other non current Assets	305	286	558	308	308
Current Assets	**14,355**	**14,371**	**15,702**	**18,657**	**22,335**
Inventories	4,989	4,842	5,566	6,750	7,869
Sundry Debtors	2,666	3,086	3,294	3,886	4,530
Cash & Bank Balances	28	44	633	1,828	3,757
Other current Assets	1,122	579	503	487	472
Loans & Advances	1,593	2,230	2,119	2,119	2,119
Current Investments	3,957	3,589	3,589	3,589	3,589
Total (Assets)	**36,837**	**38,560**	**40,474**	**43,061**	**46,545**

Source: Company, IndiaNivesh Institutional Research

Fig. 25: Cash Flow Statement (Consolidated)

Y E March (Rs m)	FY16	FY17	FY18E	FY19E	FY20E
Profit before tax	**-15**	**1,963**	**2,724**	**3,987**	**4,859**
Depreciation	711	710	740	768	794
Change in working capital	893	(351)	261	(1,022)	(1,149)
Total tax paid	(227)	(802)	(926)	(1,355)	(1,652)
Others	(667)	(410)	(754)	(257)	(512)
Cash flow from operations (a)	**695**	**1110**	**2046**	**2120**	**2339**
Capital expenditure	(132)	(1,330)	(750)	(650)	(600)
Change in investments	(765)	(855)	(300)	0	0
Others	895	763	723	728	733
Cash flow from investing (b)	**(2)**	**(1,422)**	**(327)**	**78**	**133**
Free cash flow (a+capex)	**563**	**(220)**	**1296**	**1470**	**1739**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	251	692	(647)	(500)	0
Dividend (incl. tax)	124	216	242	282	323
Others	(260)	(339)	(242)	(221)	(221)
Cash flow from financing (c)	**(134)**	**138**	**(1,130)**	**(1,003)**	**(543)**
Net change in cash (a+b+c)	**560**	**(175)**	**587**	**1,195**	**1,929**
Reconciliation of Other balances	0	0	0	0	0
Cash as per Balance Sheet	28	44	633	1,828	3,757

Source: Company, IndiaNivesh Institutional Research

Fig 26: Key Ratios (Consolidated)

Y E March	FY16	FY17	FY18E	FY19E	FY20E
Adjusted EPS (Rs)	(3.6)	17.3	26.8	39.3	47.9
Growth	*(120.7)*	*(576.4)*	*55.2*	*46.4*	*21.9*
Dividend/share (Rs)	1.3	2.5	3.0	3.5	4.0
Dividend payout ratio	(34.4)	14.5	11.2	8.9	8.4
EBITDA margin	3.8	15.7	15.4	17.4	18.0
EBIT margin	5.6	16.1	15.3	17.2	17.8
Net Margin	(2.4)	8.1	9.3	10.8	11.2
Tax rate (%)	74.0	41.0	34.0	34.0	34.0
Debt/Equity(x)	0.2	0.2	0.2	0.2	0.2
Inventory Days	179	123	105	101	101
Sundry Debtor Days	96	79	62	58	58
Trade Payable Days	47	35	40	40	40
Du Pont Analysis - ROE					
Net margin	(2.4)	8.1	9.3	10.8	11.2
Asset turnover (x)	0.3	0.4	0.5	0.6	0.6
Leverage factor (x)	1.4	1.4	1.4	1.4	1.4
ROE(%)	(0.9)	4.3	6.4	8.7	9.8
RoCE (%)	1.6	6.5	8.0	11.0	12.5
Valuation (x)					
PER	(62.4)	22.6	19.2	13.1	10.8
PCE	32.4	14.0	13.6	10.2	8.6
Price/Book	0.6	1.0	1.2	1.1	1.0
EV/EBITDA	43.9	12.8	12.1	8.1	6.3

Source: Company, IndiaNivesh Institutional Research

Disclosure of Interest Statement

1	Details of business activity of IndiaNivesh Securities Limited (INSL)	INSL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSL	No disciplinary action is / was running / initiated against INSL
3	Research analyst or INSL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSL or its relatives'/associates')
4	Whether Research analyst or INSL or its relatives'/associates' is holding the securities of the subject company	Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10).
5	Research analyst or INSL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6	Research analyst or INSL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7	Has research analyst or INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst or INSL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9	Has research analyst or INSL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10	Has research analyst or INSL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11	Has research analyst or INSL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	No
12	Has research analyst served as an officer, director or employee of the subject company	No
13	Has research analyst or INSL engaged in market making activity for the subject company	No
14	Other disclosures	No

Definitions of ratings

BUY. We expect this stock to deliver above 20% returns over the next 12 months.

ACCUMULATE. We expect this stock to deliver between 0 and 20% returns over the next 12 months.

REDUCE. We expect this stock to deliver between 0 and negative 20% over the next 12 months.

SELL. We expect this stock to deliver below negative 20% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSL

CS = Coverage Suspended. INSL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)

IndiaNivesh Securities Limited

Research Analyst SEBI Registration No. INH000000511

Corporate Office: Lodha Supremus, 17th Floor, Senapati Bapat Marg, Lower Parel (West), Mumbai - 400 013.

Registered Office: 601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai - 400 007.

Tel (Board): 022 6240 6240 | Fax: 022 6240 6241

e-mail: institutionalresearch@indianivesh.in | Website: www.indianivesh.in