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INITIATING COVERAGE

MAN INDUSTRIES (INDIA) LTD

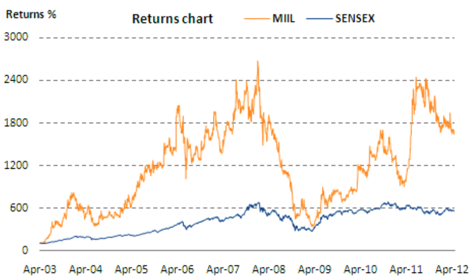
Pipe business to come back in focus

CMP:	**Rs.105**
Target Price:	**Rs.137**
Recommendation:	**Buy**

Stock Info	
BSE Group	B
BSE Code	513269
NSE Symbol	MANINDS
Bloomberg	MAN IN
Reuters	MIND.BO
BSE Sensex	16968
NSE Nifty	5142

Market Info	
Market Capital	₹ 580cr
Equity Capital	₹ 29.0 cr
Avg. Trading Vol.	88506
52 Wk High/ Low	162/91
Face Value	5

Shareholding Pattern (%)	(31st Mar. 2012)
Promoters	52.8
Domestic Institutions	4.0
Foreign Institutions	-
Non Promoters Corp.	27.8
Public & Others	15.4
Govt. Holdings	-



June 28, 2012

Key Investment Positives

▪ **Well positioned to cater both export and domestic markets.**
Man Ind's (MIIL) production facilities are situated at strategic locations from where it can cater to both export and domestic market efficiently. It has manufacturing facilities at Anjar, Gujarat, which is very close to Kandla and Mundra ports thereby giving it logistic advantage to save on inland transportation cost and delivery time. MIIL generates 75-80% of its revenues from export markets as investment related to oil and gas sector has remained fairly stable world over resulting into good demand for pipes. We expect, going forward, with continued investment in global oil and gas E&P activities, demand for line pipes to remain strong and expect export continue to contribute 75-80% of its total sales.

▪ **Strong clientele base**
MIIL has over the years has supplied pipes to top clients in oil and gas sector globally. The company has all the necessary approvals and certifications required to supply desired quality of pipes to end users.

▪ **Strategic tie up with Kobe steel- A step in right direction**
MIIL has signed a MoU with Kobe steel of Japan for commercial and technical cooperation. Both MIIL and Kobe will jointly explore prospective business opportunities in the global steel pipe market and conduct joint research and development of products. The companies will continue to explore areas to further strengthen the long-term strategic partnership.

▪ **Valuations:**
We have valued MIIL using sum of the parts valuation methodology by using PE(x) for standalone operation and book value approach for real estate project. We have ascribed 1-year forward P/E(x) of 5.0x *(20% discount to average of last ten year's 1-year forward multiple)* to FY13E earning and have arrived at fair value of Rs 102 per share. To value real estate project we have used book value approach and have come out with fair value of Rs 35 per share. Our SOTP based target price comes at Rs 137 per share. The stock is currently trading at 6.6(x) and 6.5(x) its FY13E and FY14E EPS and 3.6(x) and 3.2(x) its FY13E and FY14E EBITDA. **We initiate on MAN Industries with Buy recommendation and target price of Rs 137 per share providing 30% upside from current levels.**

Financials

Y/E March, (₹ in Cr)	FY11	FY12	FY13E	FY14E
Net Revenue	1588	1702	1796	1793
EBITDA	115	182	199	208
Adj PAT	92	102	117	120
EPS	17	18	20	21
EPS Growth (%)	33	11	11	3
RONW (%)	17	16	17	15
P/E (x)	8.2	7.4	6.6	6.5
EV/EBITDA (x)	3.3	3.9	3.6	3.2

Source: Arihant Research

Company Profile

Man Industries (India) Ltd. (MIIL), flagship Company of the MAN GROUP promoted by Mansukhani family. It is a widely held public company, incorporated in 1988. The company is the leading manufacturer and exporter of large diameter carbon steel line pipes. It has state of art manufacturing facilities and dedicated to highest operating and quality standards, environment protection, occupational health & safety Standards and accredited with ISO 9001, ISO 14001 and ISO18001 certifications.

The MAN GROUP, established in 1970, has diversified business interests in manufacturing and coating of large diameter pipes, infrastructure, realty and trading. Group consists of following major companies:

-Man Industries (India) Ltd. (MIIL)

-Man Infraprojects Ltd. (MIPL)

Products and manufacturing facilities

Company manufactures Longitudinal submerged arc welded (LSAW) and helical submerged arc welded (HSAW) pipes that are used extensively in high pressure fluid transport application. Company's plants are spread over 200 acres of land at prime locations in Anjar, Gujarat and in Pithampur, Madhya Pradesh. It has also installed 7MW windmills in Gujarat. Total capacities of LSAW and HSAW at both the plants put together are 1mn tonnes. MIIL facilities also hold internationally accepted quality standards laid down by the American Petroleum Institute which is a mandatory requirement for the production of high pressure line pipes for hydro carbon applications.

Production facilities

Tonne per annum	Pithampur	Anjar
LSAW	2,00,000	5,00,000
HSAW	50,000	2,50,000
Total	2,50,000	7,50,000

Source: Company, Arihant Research

Applications:

Typically pipes and allied products are classified in three categories:

- Oil country tabular goods (OCTG) seamless and ERW
- Line pipes
- Flat rolled steel feedstock.

Of the above mentioned categories MIIL caters to line pipe segments that includes longitudinal submerged arc welded (LSAW) and helically submerged arc welded (HSAW) pipes. Both pipes are used in transportation of oil and gas at high pressure. There are some basic difference between the two as LSAW pipes are used both for offshore and on shore application and HSAW pipes are used only for onshore applications due to relatively lower pressure bearing capacity compared to LSAW pipes. Further, since HSAW pipes are of larger diameter they are also used in water transportation purpose.

Real Estate venture

Company has entered into real estate business through subsidiary MAN Infraprojects Ltd. MIPL is a 100% subsidiary of MIIL. It was incorporated in 2008 to enter Real Estate, Hospitality and Infrastructure Sector. MIPL is engaged in the development of IT Parks, Residential, Commercial Complexes and High end Hotels. At present it is developing four projects in and around Mumbai.

Project	Nature	Projected saleable area (sq ft)
MAN Valley Vista	Residential	163760
MAN Valley Vista	Commercial	659914
MAN Dune	Residential	27467
MAN Excellenza	Commercial	90222

Source: Company, Arihant Research

Investment Rationale

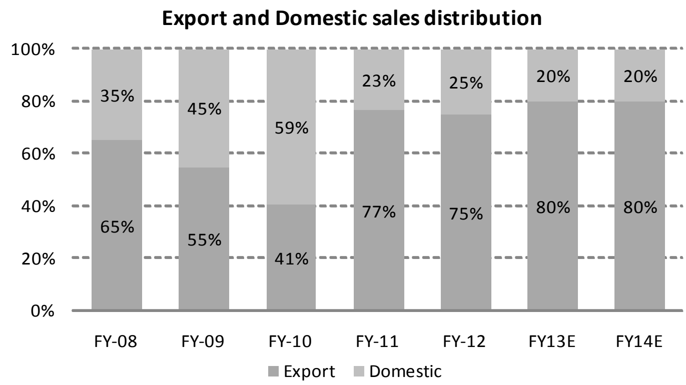
Well positioned to cater both export and domestic markets

MIIL's production facilities are situated at strategic locations from where it can cater to both export and domestic market efficiently. It has manufacturing facilities at Anjar, Gujarat, which is very close to Kandla and Mundra ports thereby giving it logistic advantage to save on inland transportation cost and delivery time. Its second unit is located at Pithampur, Madhya Pradesh can handle both export as well as domestic orders. The company's strategic location also aide in sourcing raw material at cheaper cost as majority of raw material i.e HR plates & coil are imported.

Source: Company, Arihant Research

Exports continue drive volumes

MIIL generates 75-80% of its revenues from export markets as investment related to oil and gas sector has remained fairly stable world over resulting into good demand for pipes. MIIL has strong presence in Middle East countries and substantial chunk of its volumes goes in that region. The company has also been exporting to regions like USA, Europe, Africa and South East Asia. We expect, going forward, with continued investment in global oil and gas E&P activities, demand for line pipes to remain strong and expect exports continue to contribute 75-80% of its total sales.



Source: Company, Arihant Research

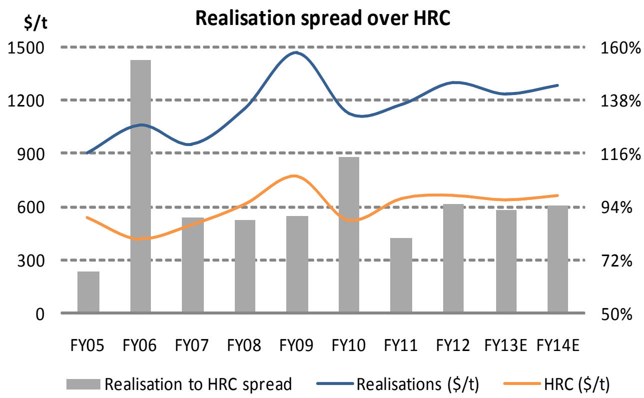
Strong clientele base

MIIL over the years has supplied pipes to top clients in oil and gas sector globally. The company has all the necessary approvals and certifications required to supply desired quality of pipes to end users. Few of the major clients as serviced by MIIL are as follows.

Source: Company, Arihant Research

HR coil/plates prices easing out…………….

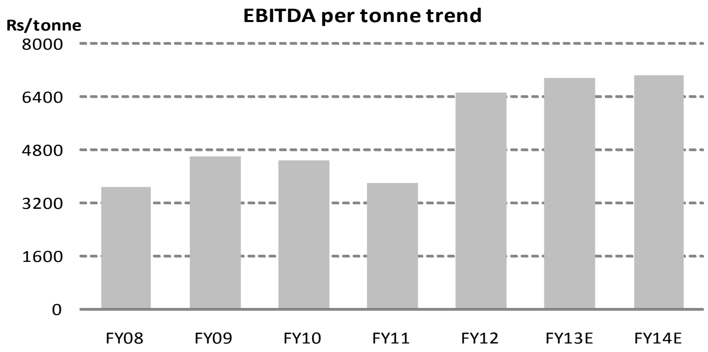
Major raw material used in manufacturing of pipes is HR pipes and coils and it forms ~90% of its total raw material cost and ~74% of its total operating cost. Company imports major chunk of HR coil/plate requirement due to non availability of specific grade in domestic markets. The company does not enter into any long term or short term contracts for supply of feed stock, rather its procurements are based on ongoing supply contracts. Recent times have seen prices of HR steel coming down as demand for the same has been sluggish world over most likely due to excess production. With global economy expected to remain under pressure, we expect demand for steel to remain muted world over and expect steel prices to remain weak current levels and should benefit MIIL improve its operating margins.



Source: Company, Arihant Research

……will result into stable margins

We expect company to witness stable margins as raw material prices are expected to remain suppressed and realisation continue to remain stable. We expect EBITDA margins that averaged 9% over FY2005-11 should average 11% over FY12-FY14E. Further, 75-80% exposure to exports and depreciation of rupee should help MIIL to post healthy realizations and thus margins.



Source: IEA, Arihant Research

Strategic tie up with Kobe steel- A step in right direction

MIIL has signed a MoU with Kobe steel of Japan for commercial and technical cooperation. Both MIIL and Kobe will jointly explore prospective business opportunities in the global steel pipe market and conduct joint research and development of products. The companies will continue to explore areas to further strengthen the long-term strategic partnership.

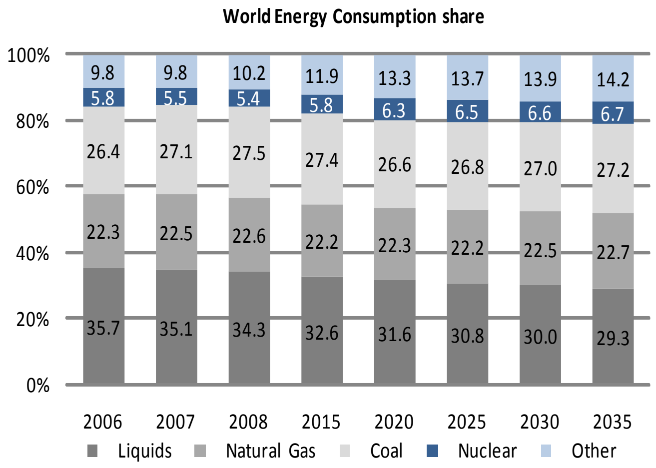
Under the agreement, Kobe will invest Rs 30cr in MIIL by subscribing 1.82mn equity shares at a consideration of Rs 165 per share, which is at 62% premium to current market price of Rs 102 per share. Partnership with Kobe will not only give access to high quality HR steel but also can help it to increase its presence in countries like Australia where they are not present at this point in time.

Exit from non-core real estate ventures

Company has entered into real estate business through subsidiary MAN Infraprojects Ltd. MIPL is a 100% subsidiary of MIIL. It was incorporated in 2008 to enter Real Estate, Hospitality and Infrastructure Sector. MIPL is engaged in the development of IT Parks, Residential, Commercial Complexes and High end Hotels. At present it is developing four projects in and around Mumbai. As a part of its long term strategy to focus on its core pipe manufacturing operations the company will sell off the project in next 18-24 months. This will help company to deleverage its consolidated balance sheet will make it debt free company over next 2-3 years,

Global energy demand to remain firm

Demand for line pipes is linked to investment in energy sector which is in turn linked to crude oil prices and global economy. As per industry estimates world energy consumption between years 2008-2035 is expected to grow at a cagr of 1.6%. Within total energy consumption, liquid and natural gas demand is likely grow by 1% and 1.6% during the same period. We believe continued consumption growth will keep demand for line pipes robust. Also world over around 711 pipe line projects totaling 266959km are being laid out. Of this total length ~41% is happening in Asia.



Source: IEA, Arihant Research

Future pipe line projects

	No of projects	% of Total	Total length (km)	% of total
North America	186	26	51662	19
Latin America	50	7	35124	13
Europe	129	18	36646	14
Africa	50	7	23933	9
Middle East	123	17	39794	15
Asia	116	16	68394	26
Australia	57	8	11406	4

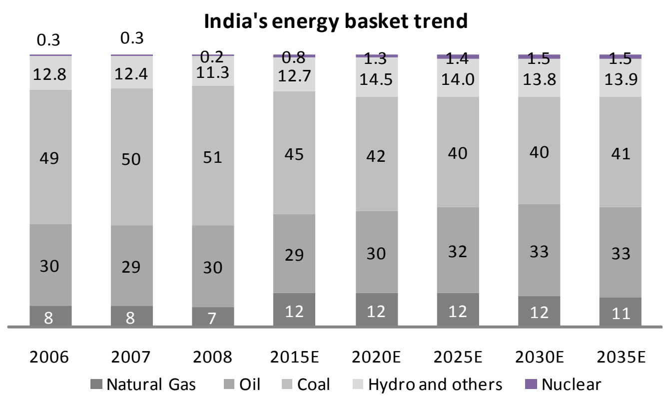
Source: Simdex, Arihant Research

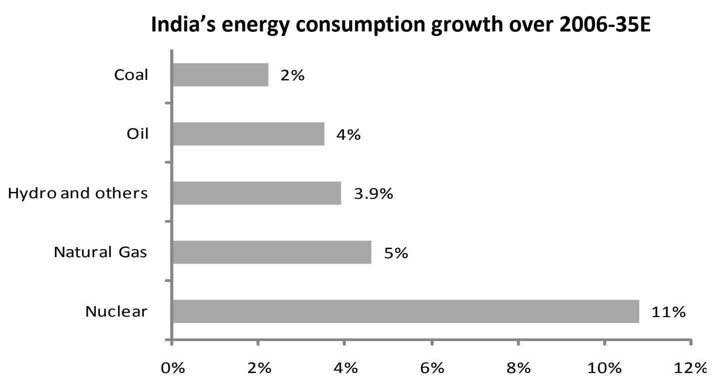
Assuming a tonnage of 200 tonne per km we expect total demand for pipe would be around 55mn tonne that translates into investment opportunity of $68-70bn.

India’s energy demand to remain strong

India expected to see significant investment in domestic pipe line infrastructure due to increased usage of natural gas as source of energy and government’s continued thrust to increase production of crude oil and natural gas through New exploration and licensing policy. Also increased investment in water related infrastructure to increase demand for HSAW pipes.

According to IEA estimates India’s energy demand is likely to grow at a cagr of 3.2% over years 2008-35. Within energy sources, natural gas consumption has the potential to double from existing level and it is expected to grow at a cagr of 4.6% over 2008-35.





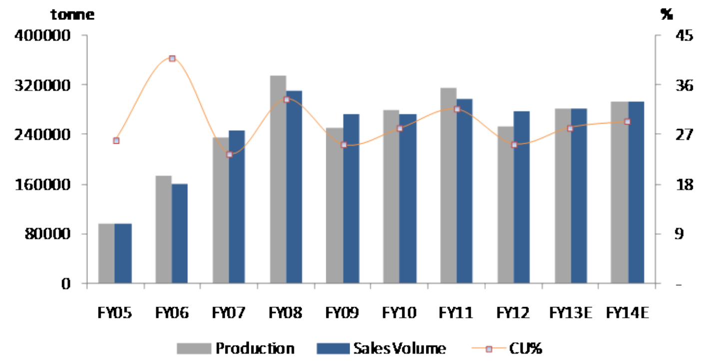
Source: IEA, Arihant Research

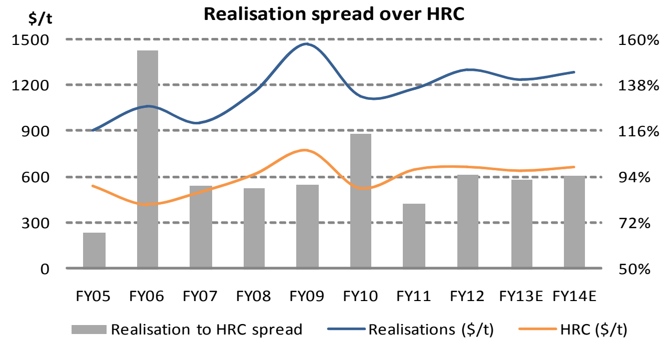
Financials

Net Sales to grow at a cagr of 2.6% over FY12-14E

MIIL's current order book stands at Rs 1800cr and will be executed over next 9-12 months there by providing earnings visibility for next one year. Further company has participated in bid worth of $ 2bn. Based on a historical success ratio of 25-30%, the company could see order book accretion to the tune of Rs 2500-3000cr from current levels.

We estimate MIIL's standalone revenues to register 2.6% cagr over FY12-FY14E largely driven by growth in realizations due to sharp depreciation in rupee against dollar. We estimate MIIL's net realisations to increase 4% yoy in FY13E to Rs 63354 per tonne followed by decline of Rs 60,985 per tonne during FY14E respectively. We expect volume growth to remain muted over FY13-FY14E and expect it to grow by 2% yoy and 4% yoy during the same period.

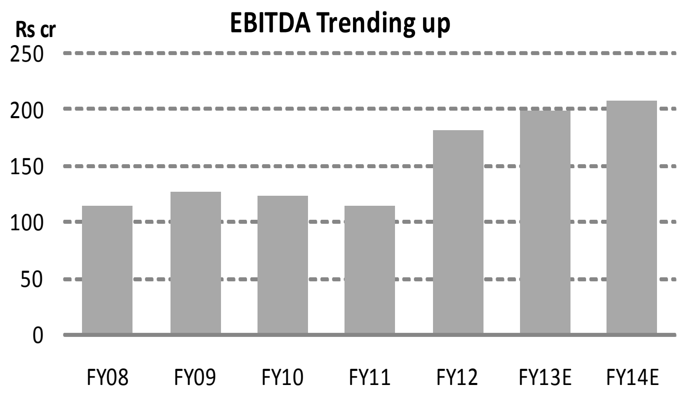


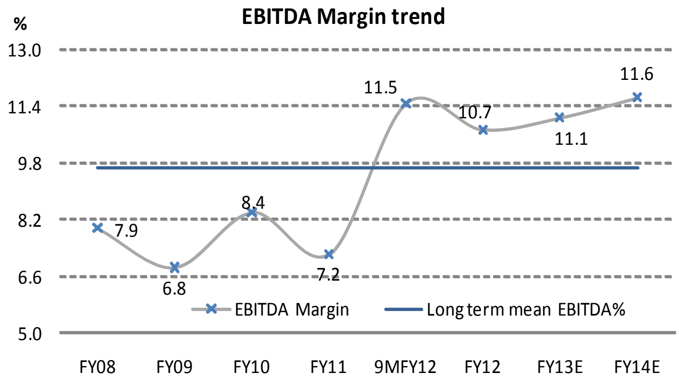


Source: Company, Arihant Research

Higher realizations and lower costs to improve margins

MIIL's EBITDA margin have averaged at 7% over FY2005-2012 and during FY12margins improved significantly by 350bps yoy to 11%. Going forward we expect margins to remain flat on account of stable material cost and realizations. We expect EBITDA margins to stabilize at 11-12% during FY13E and FY14E.

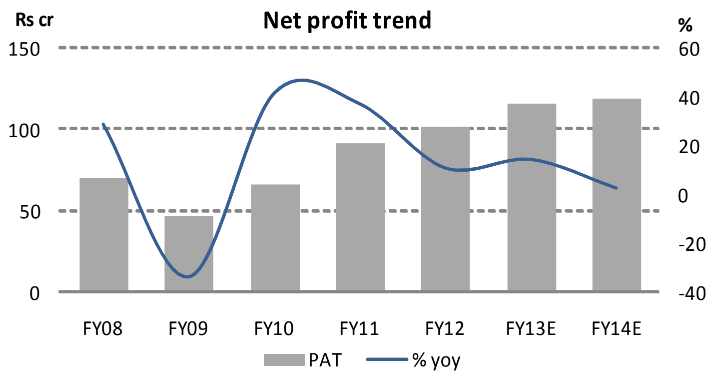




Source: Company, Arihant Research

FCCBs redeemed completely.

Company had $ 44mn worth of FCCBs due for redemption in May-2012, which it had repaid. In addition to redemption company has paid $ 20mn FCCB redemption premium, which we believe, will bypass the profit and loss account and will flow through share premium account resulting into smooth earnings. Notably, MIIL had raised $ 50mn of FCCBs during FY2008 to part fund its expansion plan. Initial conversion prices of FCCBs was Rs 143.5 per share which was reset downwards twice to Rs 109 per share. MIIL delivered 11% yoy jump in FY12 EPS at Rs 18.5 per share and expect FY13E and FY14E earnings to grow by 10.8% yoy and 2.8% yoy respectively. We expect MIL to post profit after tax of Rs 117cr and Rs 120cr during FY13E and FY14E.



Source: Company, Arihant Research

Risk and Concerns

- **Slowdown in investment of oil and gas sector:** Demand for line pipe is dependent on investment in oil and gas sector. Any significant drop in investment in this sector could lead to lower demand for company's product.

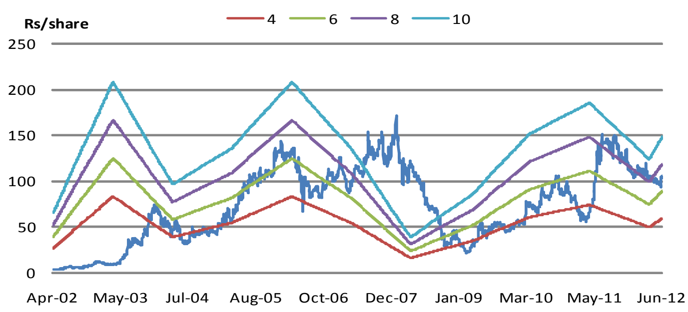
- **Significant jump in HR prices:** HR coils/plates forms around 90% of total raw material and 70% of total operating cost. Thus significant jump in the same can impact margins of MIIL**.**

- **Delay in order execution:** Company generates revenues by executing certain order of clients. Company typically holds 9-12 month of order book and timely completion of which is necessary for its profitability.

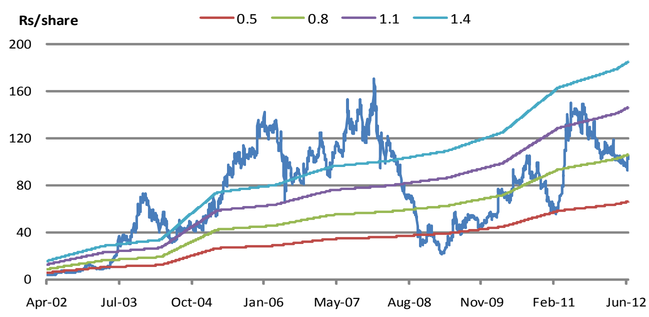
Valuation Bands

Rs/share

1- Year forward P/E (x) band



1-Year forward P/B(x) band



Source: C-Line, Arihant Research

Valuations

MIIL (Standalone) (Rs cr)	FY13E
PE(x)	5.0
EPS (Rs/share)-FY13E	20.4
Value of Standalone business(Rs/sh)	**102**
Value of real estate project(Rs cr)	260
BV of Real estate (Rs/sh)	**35**
Value (Rs/Share)	**137**

	FY13E
P/B(x)	**0.8**
BV (Rs/share)	120
Value per share (Rs/share)	**96**
Investment in real estate project(Rs cr)	260
BV of investment (Rs/sh)	**35**
Value (Rs/share)	**131**

We have valued MIIL using sum of the parts valuation methodology by using PE(x) for standalone operation and book value approach for real estate project. We believe P/E(x) methodology is justified for valuing MIIL due to its fairly stable earning trajectory. We have ascribed 1-year forward P/E(x) of 5.0x *(20% discount to average of last ten year's 1-year forward multiple)* to FY13E earning and have arrived at fair value of Rs 102 per share. To value real estate project we have used book value approach and have come out with fair value of Rs 35 per share. Our SOTP based target price comes at Rs 137 per share. The stock is currently trading at 6.6(x) and 6.5(x) its FY13E and FY14E EPS and 3.6(x) and 3.2(x) its FY13E and FY14E EBITDA. **We initiate on MAN Industries with Buy recommendation and target price of Rs 137 per share providing 30% upside from current levels.**

Profit & Loss Statement (Standalone)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Net Sales	**1588**	**1702**	**1796**	**1793**
% Chg	*7.8*	*7.1*	*5.5*	*-0.2*
Total Expenditure	1474	1519	1597	1585
% chg	*9.2*	*3.1*	*5.1*	*-0.8*
EBITDA	**115**	**182**	**199**	**208**
EBITDA Margin %	7	11	11	12
Other Income	43	34	32	32
Depreciation	39	40	43	46
EBIT	**119**	**176**	**188**	**194**
Interest	19	27	14	15
PBT	**99**	**149**	**174**	**179**
Tax Provisions	**7**	**47**	**57**	**59**
Adjusted PAT	**92**	**102**	**117**	**120**
Adj PAT Margins (%)	*6*	*6*	*6*	*7*

Cash Flow Statement (Standalone)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
PBT	99	149	174	179
Oper. Profit Before Work.	**116**	**182**	**199**	**208**
Changes in WC	**31**	**(186)**	**(75)**	**(49)**
Cash generated from	**147**	**(4)**	**124**	**160**
Direct Tax Paid	**(10)**	**(51)**	**(57)**	**(59)**
Net Cash From Oper.	**138**	**(54)**	**67**	**101**
Net Cash From Investing	**39**	**(237)**	**12**	**(18)**
Cash flow from Financing	**(152)**	**18**	**(98)**	**(58)**
Net increase in cash & cash	**24**	**(274)**	**(19)**	**26**
Opening Cash Balance	**357**	**381**	**108**	**88**
Closing Cash Balance	**381**	**108**	**88**	**114**

Balance sheet (Standalone)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Equity Capital	**28**	**28**	**29**	**29**
Reserve & Surplus	**522**	**617**	**653***	**760**
Total Loans	**183**	**233**	**228**	**200**
Deferred tax	**52**	**49**	**49**	**49**
Total Liabilities	**785**	**927**	**960**	**1038**
Gross Block	**591**	**593**	**613**	**663**
Less Acc.	**204**	**245**	**287**	**334**
Net Block	**386**	**349**	**326**	**330**
Capital Work In	-	-	-	-
Investments	**34**	**302**	**302**	**302**
Net Current Assets	**363**	**276**	**331**	**405**
Misc Exp	**1.3**	-	-	-
Total Asset	**785**	**927**	**960**	**1038**

**Note: Includes adjustment for FCCB redemption premium.*

Key Ratios (Standalone)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Per Share data (Rs)				
EPS	16.6	18.5	20.4	21.0
Cash EPS	24	26	28	29
DPS	2.0	2.0	2.0	2.0
Book value	99	117	120	138
Operating, Returns				
Debt/ Equity (X)	0.3	0.4	0.3	0.3
Current Ratio (X)	1.3	1.5	1.6	1.8
RoE (%)	16.7	15.8	17.1	15.2
RoCE (%)	*15.1*	*19.0*	*19.6*	*18.7*
Dividend Yield (%)	1.9	1.9	1.9	1.9
Valuation Ratio (X)				
P/E	8.2	7.4	6.6	6.5
P/BV	1.1	0.9	0.9	0.8
EV/ Sales	0.2	0.4	0.4	0.4
EV/EBITDA	3.3	3.9	3.6	3.2

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254827

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

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

Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5