

CMP: INR 284

Rating: BUY

Target Price: INR 462

Stock Info

BSE	543517
NSE	HARIOMPIPE
Sector	Steel
Face Value (INR)	10
Equity Capital (INR cr)	25
Mkt Cap (INR cr)	723
52w H/L (INR)	318 / 169
Avg Yearly Volume (in 000')	310.7

Shareholding Pattern %

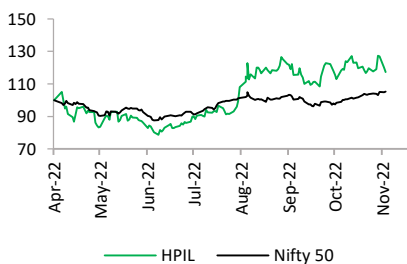
(As on Sep, 2022)

Promoters	66.03
DII	0.37
FII	2.70
Public & Others	30.90

Stock Performance (%) 3m 6m YTD

HPIL	13.7	38.0	22.8
NIFTY	3.6	15.8	5.0

HPIL Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A

bala@arihantcapital.com

Hariom Pipe Industries Ltd (HPIL) reported numbers, Q2FY23 revenue grew by 11.4% YoY (-10.7% QoQ) to INR 127cr vs our estimates of INR 151cr. Gross profit stood at INR 41cr (+16.4% YoY/+4.9% QoQ) vs our estimates of INR 48cr. Margin expanded by 138 bps to 32.3% vs 30.9% in Q2FY22. The margin expansion is mainly due to a softening in the raw material cost in terms of sales. The raw material cost in terms of sales stood at 67.7% vs 69.1% in Q2FY22. EBITDA stood at INR 16cr (+12% YoY/+0.3% QoQ) vs our estimates of INR 19cr. EBITDA Margins remain flat to 12.6% in Q2FY23. The employee cost in terms of sales stood at 4.2% vs 4.7% in Q2FY22. The power cost in terms of sales stood at 13.9% vs 12.2% in Q2FY22. PAT stood at INR 9.3cr (+28.9% YoY/-2.8% QoQ) vs our estimates of INR 10.4, PAT Margin expanded by 99bps to 7.3% vs 6.3% in Q2FY22.

Key Highlights

Highest-ever sales volume achieved in ERW steel pipes: In Q2FY23, the company focused to sell ERW steel pipes and Scaffoldings. The ERW steel pipes volume stood at 15,675 tonnes which are highest sales volume and Scaffolding sales stood at 748 tonnes. ERW steel pipes revenue share accounts for 77% of sales.

Remain on track with Capex: The company is in the progress of implementing the Capex plans for expanding the pipe mill capacities. The company got the sanction of INR 94.02cr from Canara Bank and the amount will be utilized to set up a modern cold-rolled steel mill and a galvanized pipe manufacturing plant. The Capex benefits are expected to be visible from FY24 onwards.

The installation of solar would lead to a reduction in power cost: The company has initiated the process to install rooftop solar power generating units in the upcoming expansion plants. The pipe mill power requirements will be met through solar and are expected to save 4.5 mn units of electricity annually.

Softening of raw material prices led to margin improvements: The raw material prices remain elevated and volatile in 1st half of the quarter and started softening, especially coal, energy, and iron ore prices.

Evaluating acquisitions and contribution towards environments: The company is in the process of evaluating the acquisition of an operating manufacturing unit located in south India. Around 30% of end products contain recycled steel which implies a contribution to the environment.

Outlook & Valuation: HPIL has witnessed strong revenue growth with good volumes in ERW steel pipes. Strategically located plants with integration, competitive pricing, cost effectiveness, expanding network, experienced management, and capacity expansion will drive growth going forward. At the CMP of INR 284 per share, the stock is trading at an EV/EBITDA multiple of 10.2x/6.3x/4.2x its FY23E/FY24E/FY25E EBITDA of INR 86cr/152cr/266cr respectively. We maintain our "BUY" rating at a TP of INR 462 per share; valued at EV/EBITDA multiple 6.3x and its FY24E EBITDA of INR 152cr; an upside of 62.8%.

Q2FY23 Result update

Income statement summary

Particular (INR cr)	Q2FY22	Q1FY23	Q2FY23	YoY (%)	QoQ(%)
Revenue	114	142	127	11.4%	-10.7%
Net Raw Materials	79	103	86	9.2%	-16.6%
Employee Cost	5	5	5	-0.5%	2.2%
Power & Fuel Cost	14	16	18	26.0%	7.9%
Other Expenses	1.6	1.6	2.0	27.7%	29.4%
EBITDA	14	16	16	12.0%	0.3%
EBITDA Margin (%)	12.6%	11.2%	12.6%	+7 bps	+138 bps
Depreciation	2.1	1.7	1.8		
Interest expense	2.2	1.8	2.0		
Other income	0.0	0.3	0.2		
Profit before tax	10.1	12.8	12.4	23.0%	-2.8%
Taxes	2.9	3.2	3.2		
PAT	7.2	9.5	9.3	28.9%	-2.8%
PAT Margin (%)	6.3%	6.7%	7.3%	+99 bps	+59 bps
Other Comprehensive income	0.0	(0.0)	(0.0)		
Net profit	7.2	9.5	9.3	28.6%	-2.8%
Net Profit Margin (%)	6.3%	6.7%	7.3%	+98 bps	+59 bps
EPS (INR)	4	4	4		

Source: Company Reports, Arihant 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	88,597	2,24,770
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%	85%	90%
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	70,000	1,30,000
Scaffolding	1,012	185	642	641	648
GP Unit	-	-	-	30,000	38,000
Total Sales (MT)	44,888	60,740	83,802	1,20,641	1,88,648
Average Selling Price per MT (INR)	35,818	41,841	51,378	55,857	56,291
Total Revenue from operations (INR cr)	161	254	431	674	1,062

Source: Company, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Revenue	161	254	431	674	1,062
Net Raw Materials	91	173	291	462	722
Employee Cost	8	10	21	30	42
Other Expenses	38	37	62	96	145
EBITDA	23	34	56	86	152
EBITDA Margin (%)	14.6%	13.5%	13.0%	12.8%	14.3%
Depreciation	(5)	(6)	(8)	(12)	(18)
Interest expense	(7)	(8)	(8)	(13)	(20)
Other income	0	1	3	3	4
Profit before tax	11	21	43	64	118
Taxes	(3)	(6)	(11)	(18)	(33)
PAT	8	15	32	46	85
PAT Margin (%)	4.9%	6.0%	7.4%	6.9%	8.0%
Other Comprehensive income	0	0	(0)	-	-
Net profit	8	15	32	46	85
EPS (INR)	6	9	19	18	33

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	13	17	17	25	25
Reserves	35	54	84	130	207
Net worth	48	71	101	156	232
Provisions	0	0	0	0	1
Debt	71	90	91	180	245
Other non-current liabilities	2	4	3	10	16
Total Liabilities	122	164	196	347	494
Fixed assets	49	59	54	122	198
Capital Work In Progress	0	8	10	14	22
Investments	0	0	1	2	3
Other non current assets	0	0	1	1	2
Net working capital	70	95	131	184	252
Inventories	60	80	115	152	204
Sundry debtors	23	20	27	55	87
Other current assets	5	5	9	22	35
Sundry creditors	(15)	(4)	(10)	(32)	(50)
Other current liabilities & Prov	(3)	(5)	(9)	(13)	(24)
Cash	2	1	0	22	15
Other Financial Assets	0	0	-	1	2
Total Assets	122	165	196	347	494

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	11	21	43	64	118
Depreciation	5	6	8	12	18
Tax paid	(3)	(6)	(11)	(18)	(33)
Working capital Δ	(23)	(26)	(35)	(53)	(68)
Operating cashflow	(10)	(4)	5	5	35
Capital expenditure	(12)	(24)	(4)	(84)	(102)
Free cash flow	(22)	(28)	0	(79)	(67)
Equity raised	4	7	(2)	9	-
Investments	(0)	(0)	(0)	(1)	(1)
Others	0	(0)	(0)	(2)	(2)
Debt financing/disposal	14	19	2	89	65
Dividends paid	-	-	-	-	(9)
Other items	1	1	(0)	7	6
Net Δ in cash	(2)	(1)	(0)	22	(7)
Opening Cash Flow	4	2	1	0	22
Closing Cash Flow	2	1	0	22	15

Source: Company Reports, Arianth Capital Research

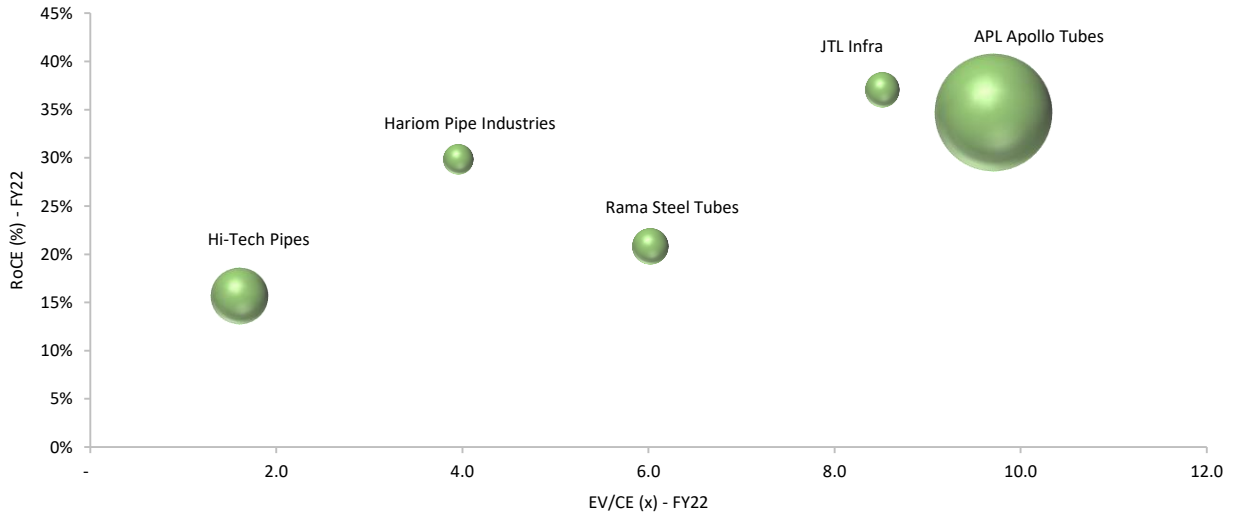
Ratio analysis

Particular	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	20.3%	58.1%	69.4%	56.5%	57.6%
Op profit growth	37.9%	46.0%	63.7%	53.7%	76.1%
Profitability ratios (%)					
OPM	14.6%	13.5%	13.0%	12.8%	14.3%
Net profit margin	4.9%	6.0%	7.4%	6.9%	8.0%
RoCE	12.3%	14.6%	21.5%	21.0%	24.4%
RoNW	18.7%	25.4%	37.2%	36.1%	43.8%
RoA	6.5%	9.2%	16.3%	13.4%	17.2%
Per share ratios (INR)					
EPS	6.0	8.9	18.8	18.2	33.4
Dividend per share	-	-	-	-	3.5
Cash EPS	9.9	12.6	23.6	22.8	40.4
Book value per share	36.5	41.7	59.5	61.2	91.1
Valuation ratios (x)					
P/E	47.1	31.8	15.1	15.6	8.5
P/CEPS	28.7	22.5	12.0	12.5	7.0
P/B	7.8	6.8	4.8	4.6	3.1
EV/EBITDA	18.9	16.6	10.2	10.2	6.3
Payout (%)					
Dividend payout	0.0%	0.0%	0.0%	0.0%	10.4%
Tax payout	30.2%	28.6%	24.9%	28.0%	28.0%
Liquidity ratios					
Debtor days	38	30	20	22	25
Inventory days	198	147	122	105	90
Creditor days	30	16	7	13	16
WC Days	206	162	135	114	98
Leverage ratios (x)					
Interest coverage	2.5	3.7	5.9	5.8	6.7
Net debt / equity	1.4	1.3	0.9	1.0	1.0
Net debt / op. profit	2.9	2.6	1.6	1.8	1.5

Source: Company Reports, Arianth Capital Research

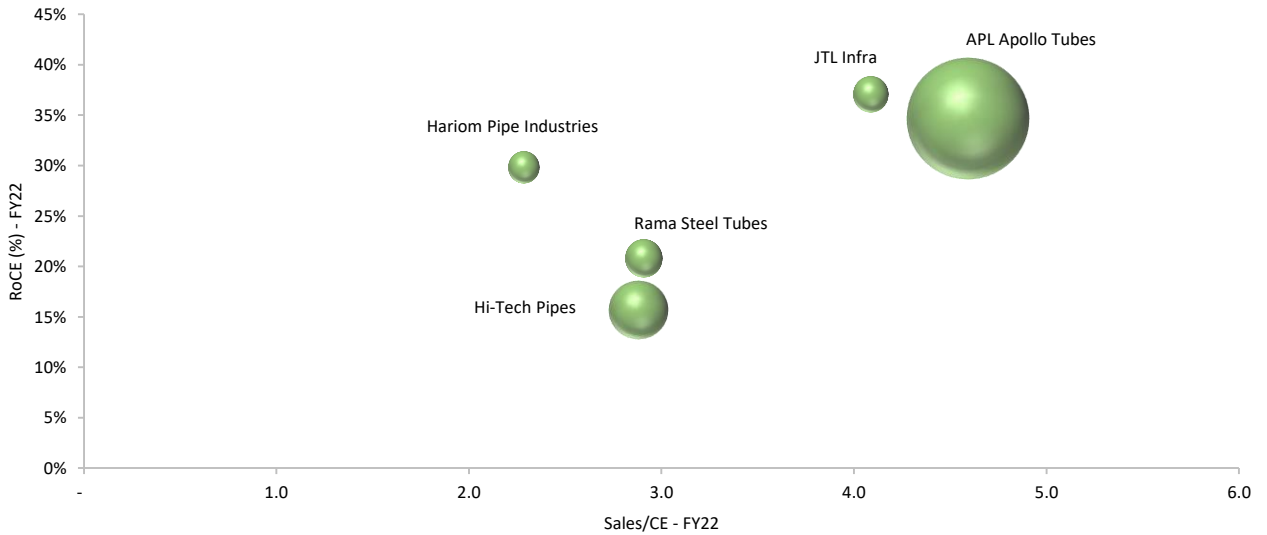
Story in Charts

Exhibit 1: Hariom Pipe Industries has deployed higher capital in terms of enterprise value and delivered 30% RoCE in FY22.



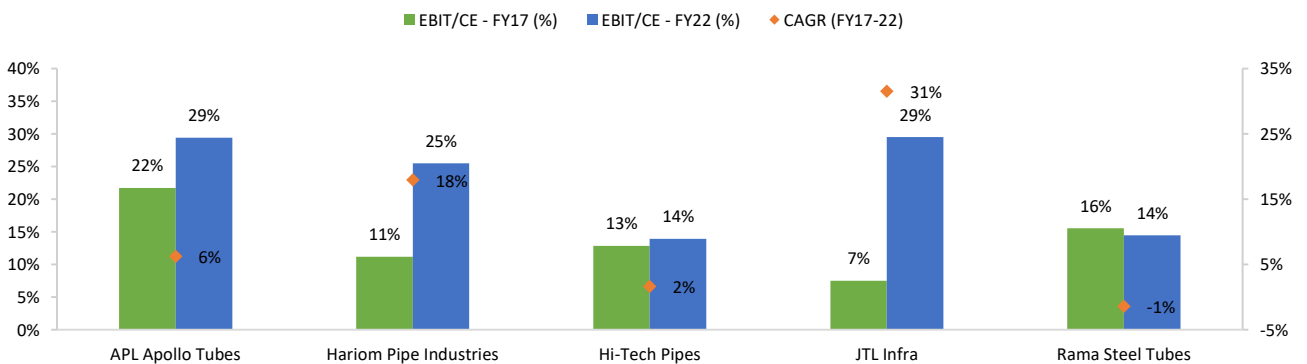
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 2: Hariom Pipe Industries earned INR 2.3 per Capital Employed of INR 1 in FY22.



Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

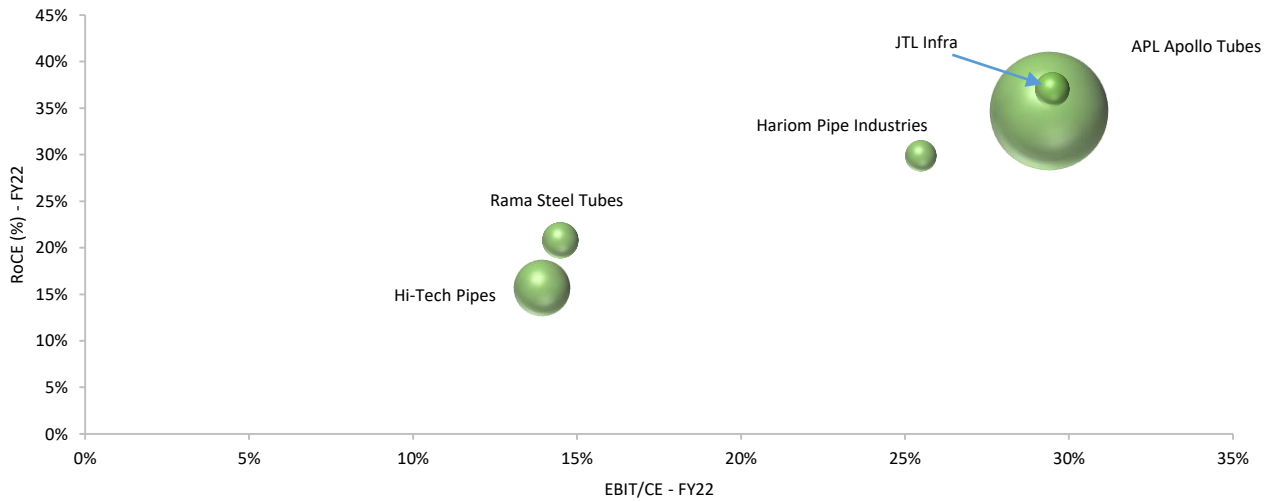
Exhibit 3: Hariom Pipe Industries has witnessed strong growth in EBIT/CE compared to peers.



Source: Ace Equity, Arihant Capital Research

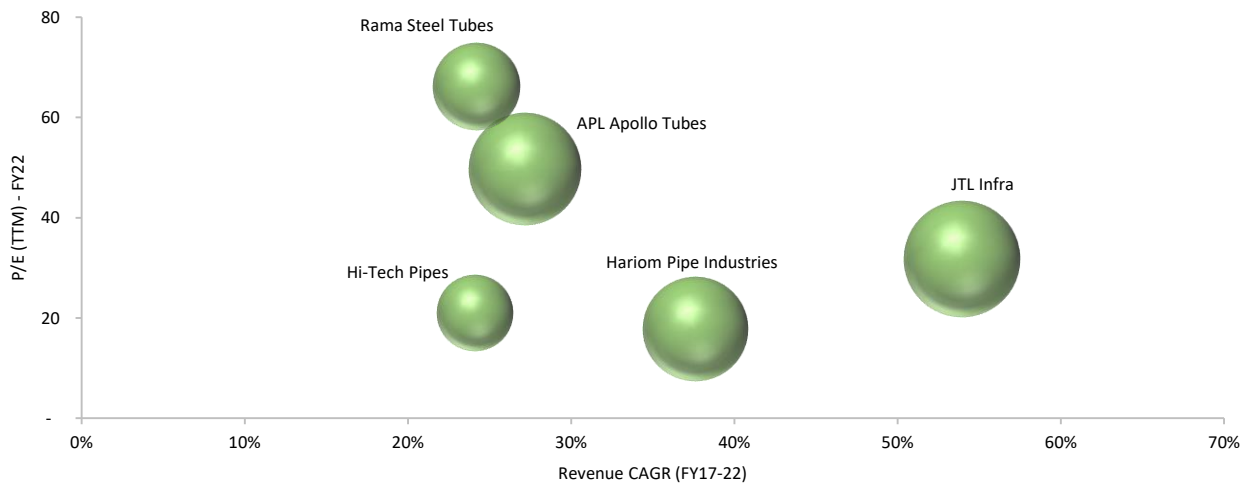
Story in Charts

Exhibit 4: Hariom Pipe Industries has generated 25% of EBIT/CE which is healthy operating profit in the industry.



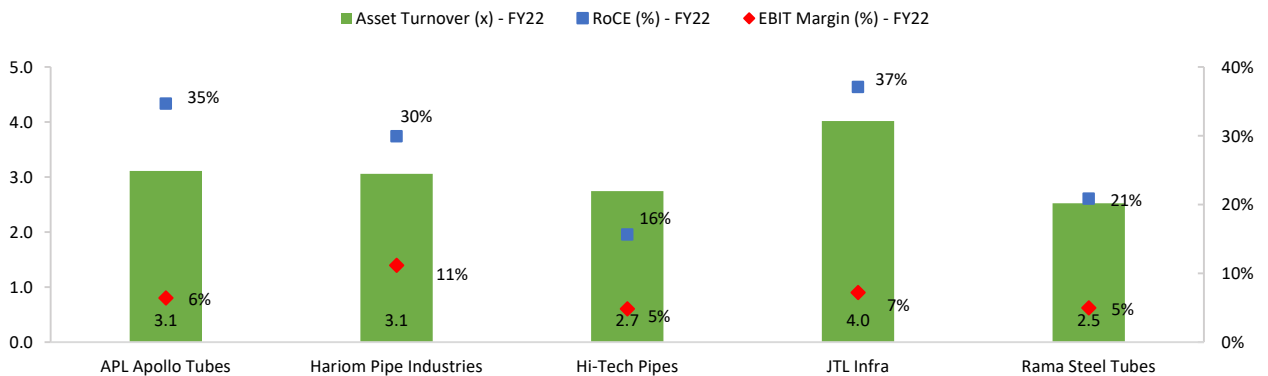
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 5: Hariom Pipe Industries has delivered 38% CAGR revenue growth over the period of FY17-22 and valued PE of 17.8x in FY22.



Source: Ace Equity, Arihant Capital Research; Bubble size represents RoCE

Exhibit 6: Hariom Pipe Industries has efficiently used its assets to generate sales compared to peers.



Source: Ace Equity, Arihant Capital Research

Story in Charts

Exhibit 7: Revenue growth momentum would continue.

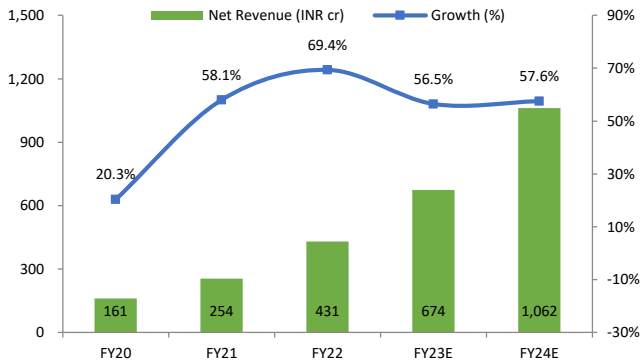


Exhibit 8: Power and Fuel cost is expected to moderate.

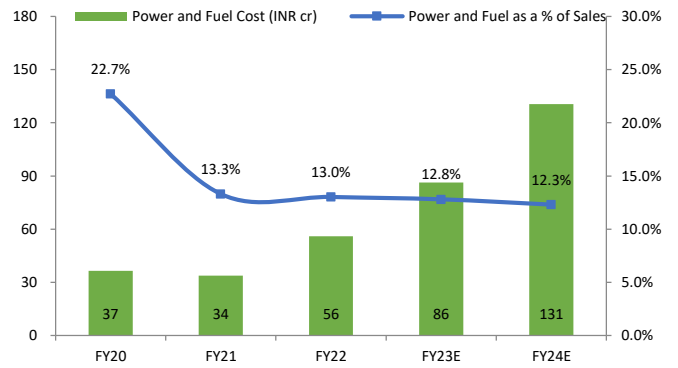


Exhibit 9: Cooling down RM costs would leads to better margins.

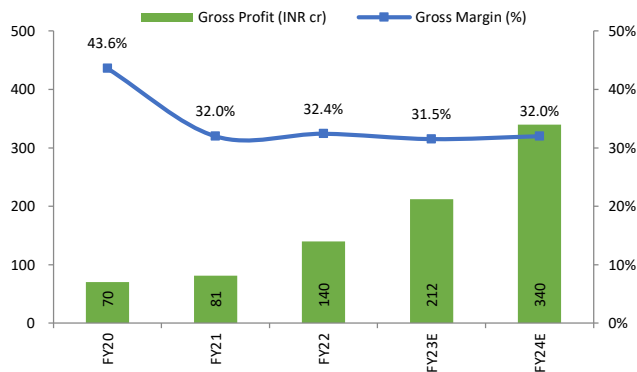


Exhibit 10: Growth in EBITDA & PAT levels.

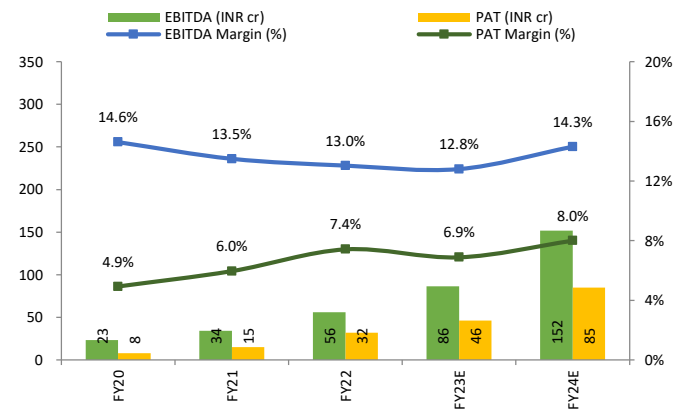


Exhibit 11: Working capital days to be improve

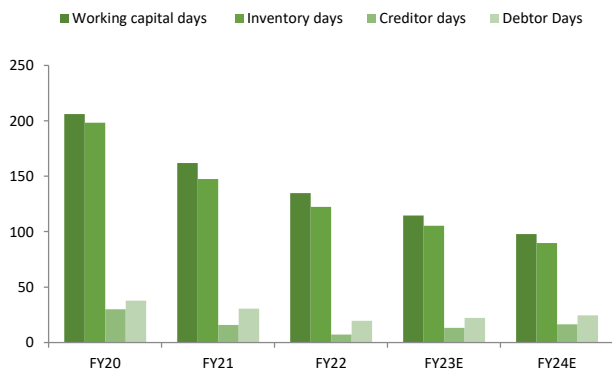
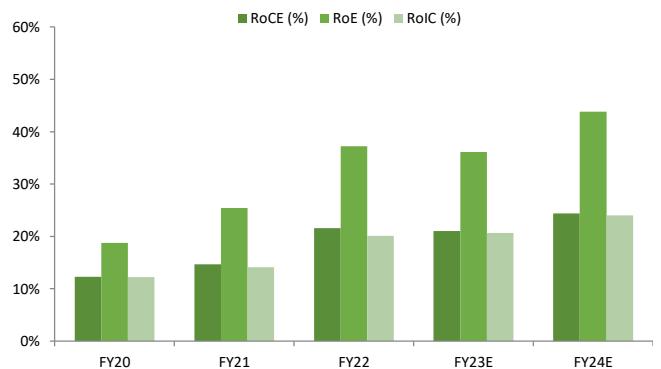


Exhibit 12: Return ratios to be improve



Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 13: Working capital in-terms of sales is expected to reduce going forward.

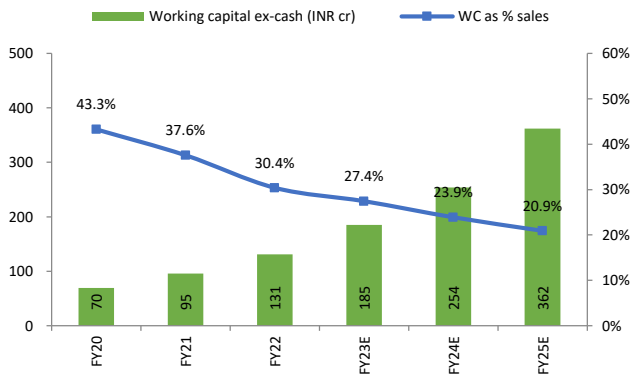


Exhibit 14: Interest cost in-terms of EBIT is expected to reduce going forward.

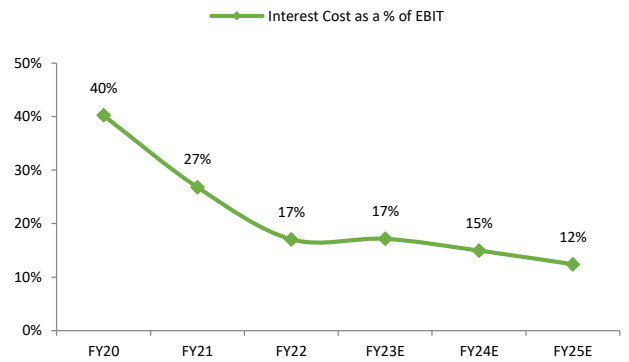


Exhibit 15: Cash conversion cycle is expected to improve going forward.

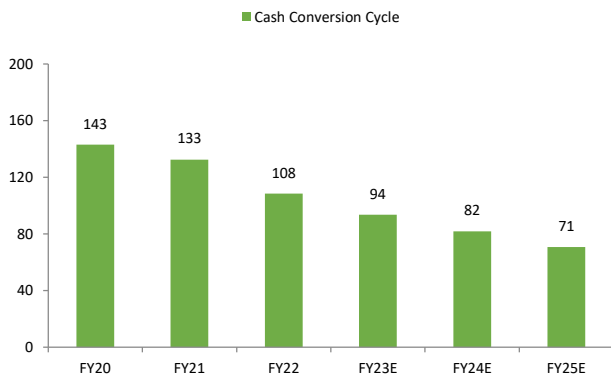


Exhibit 16: Hariom Pipe Industries was delivered 22% RoCE over the period of FY17-22.

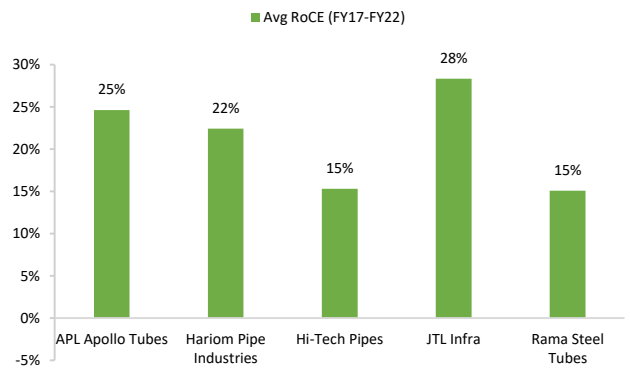


Exhibit 17: Hariom Pipe Industries was delivered 28% RoE over the period of FY17-22.

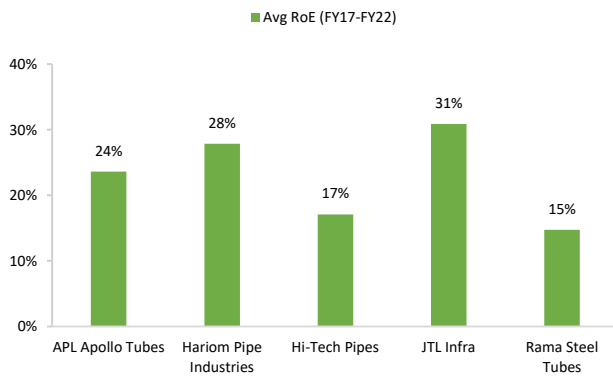
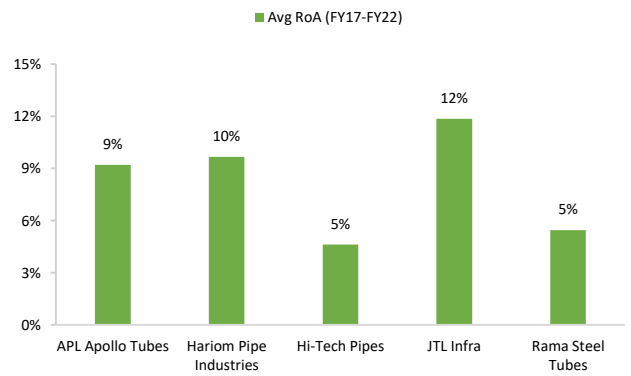
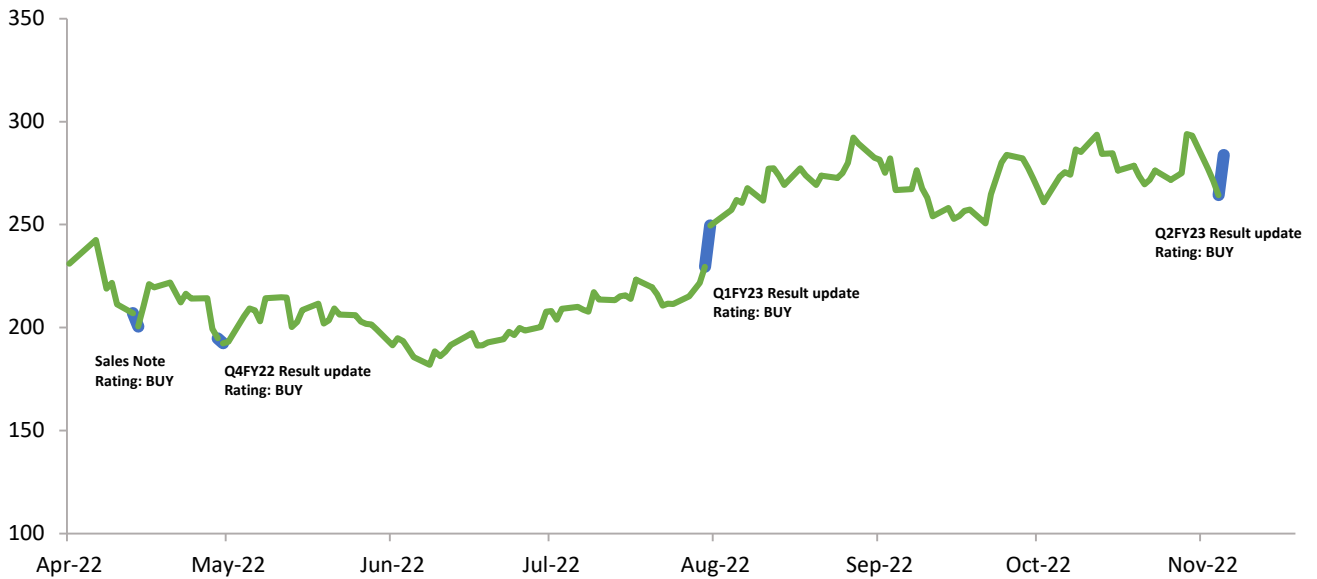


Exhibit 18: Hariom Pipe Industries was delivered 10% RoA over the period of FY17-22.



Source: Company Reports, Arianth Capital Research

Analyst Coverage



Date	Report Type	Recom Price (INR)	Target Price (INR)	Rating	Report
30-Mar-22	IPO Note	153	-	Subscribe for Long Term	https://bit.ly/3EbETUo
26-Apr-22	Sales Note	201	403	BUY	https://bit.ly/3vM7MT5
11-May-22	Q4FY23 Result update	199	403	BUY	https://bit.ly/3wccbic
12-Aug-22	Q1FY23 Result update	230	403	BUY	https://bit.ly/3QnB6s8

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House 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% 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.com	instresearch@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