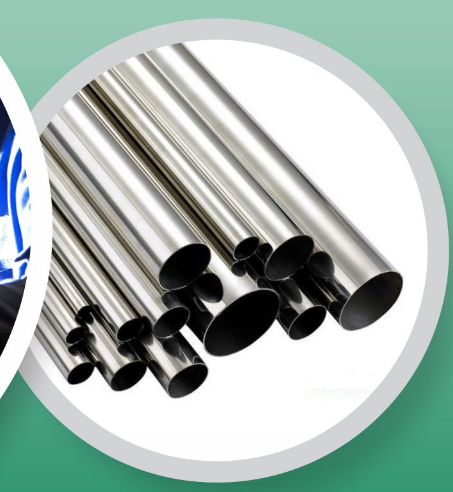
09 Feb 2018

TOP INVESTMENT IDEAS

FEB 2018



STEWART & MACKERTICH
LEGACY | TRUST | GROWTH

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Top Investment Ideas - Feb 2018					
Company Name	Sector	Market Cap (INR Cr.)	CMP (INR)*	Target (INR)	Upside (%)
Filatex India Limited	Textile	861.73	198.10	259.00	30%
GMM Pfaudler Limited	Capital Goods	1033.75	707.20	872.00	23%
Maharashtra Seamless Limited	Iron and Steel	3,379.80	500.35	647.00	29%

* Price as on 8th Feb 2018

Filatex India Ltd.

Sector : Textile

CMP (INR) (As on 8 Feb 2018)	198.1
Target (INR)	259
Upside(%)	30%
Recommendation	Strong Buy

BSE Code	526227
NSE Code	FILATEX
Reuters Ticker	FLTX.BO
Bloomberg Ticker	FLTX IN

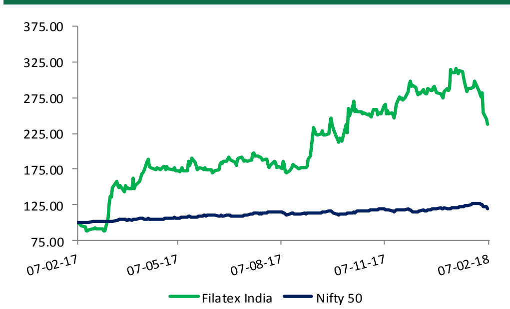
Stock Scan

Market cap (INR Cr.)	861.73
Outstanding Shares (Cr.)	4.35
Face Value (INR)	10.00
Dividend Yield(%)	0.00
P/E (x)	18.5
Industry P/E (x)	11.55
Debt/Equity	1.87
Beta vs. Sensex	0.9
52 Week High/ Low (INR)	251.3/62
Avg. Daily Vol (NSE)/1 Yr	256150

Shareholding Pattern (%)

	Dec-2017	Sept-2017	June-2017
Promoters	57.99	57.99	57.99
Institutions	6.58	6.14	5.00
Non-Institution	35.43	35.87	37.01

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst:
Pratim Roy
Pratim.roy@smifs.co.in

Company Overview

Filatex India Limited (FIL), is engaged in manufacturing Monofilament Yarns for Zippers, Tooth Brush Bristles, Velcro, Magic Fasteners and Forming Fabrics in India. All these products are import substitutes and are helping the country in saving precious foreign exchange. FIL is in the business of manufacturing Polyester, Nylon, FDY, POY, and DTY. The Company commenced with the manufacture of Monofilament Yarn and has now extended to Bright FDY. Their portfolio comprises intermediary products to multiple yarn varieties.

Investment Rationale

New Capacity Expansion: FIL is almost at the end of completion of their brownfield expansion for bright polyester fully drawn yarn and bright chips at Dahej which will help them to increase their top line significantly.

Diversified Product Portfolio: FIL has diversified product portfolio to meet the domestic as well as export demand. The Company has global market reach across the globe to 28 countries.

Government Initiatives: Indian government reduced GST rate on manmade fiber from 18% to 12% and increase in import duty on all fabrics to 20% will act as demand accelerators for this company.

Cost Competitiveness: Due to improvement in India's cost competitiveness vs. China in Polyester Yarns, exports saw healthy growth of 30-40% YoY in Q3FY18.

Demand for MMF: Polyester now has become the yarn for the masses, as per reports 5% decline in India's cotton yarn production and easy ...

(Rationale contd…)

Valuation: Considering robust demand in the domestic as well as international market for man made fiber, we arrive at a Target Price of INR259 based of different multiples.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1288	1562	1814	2318	2365
Growth(%)	-18.6%	21.2%	16.1%	27.8%	2.0%
EBITDA	94	129	149	249	289
EBITDA Margin (%)	6.7%	7.6%	7.6%	9.9%	11.3%
Adjusted PAT	26	41	47	100	120
Net Profit Margin (%)	2.0%	2.7%	2.6%	4.3%	5.1%
EPS	8.1	9.4	10.8	22.9	27.6
BVPS	64.4	66.4	77.2	100.2	127.7
P / E (x)	4.8	12.7	17.5	8.3	6.9
P / BV (x)	0.6	1.8	2.5	1.9	1.5
ROE (%)	12.3%	14.2%	14.0%	22.9%	21.6%
ROCE (%)	12.9%	14.6%	13.6%	16.7%	16.5%
EV / EBITDA (x)	6.1	7.3	9.2	5.5	4.8

Source: Company Data, Ace Equity, Bloomberg

Investment Rationale Continued

availability of man-made fiber at competitive rates has led to the slower growth of cotton yarn production.

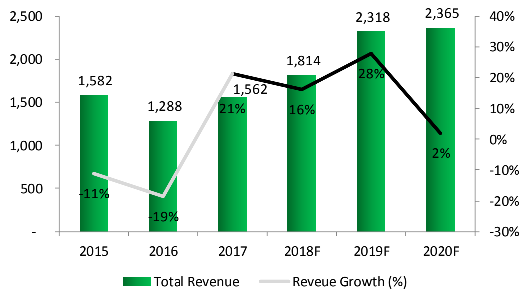
Behavioral Change in Apparel Industry: Demand for new applications such as sportswear, underwear, and bedding will enhance demand. Cost and other advantages could also help PFY substitute cotton and other fibers to mark their presence in the landscape of the apparel industry.

Affordability: In terms of affordability, Polyester is a wrinkle-free material with wide use in formal wear within the apparel industry. The fiber does not shrink and is often blended with other fibers to make it water-resistant.

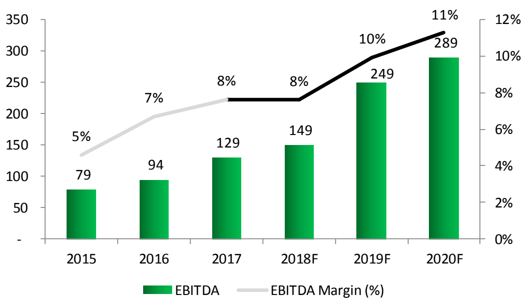
Jump In Disposable Income: Increasing disposable income shift in employment patterns, exposure to global trends and increase in discretionary spending resulted in changing consumer aspirations, that drives the demand for value-added products like demand for premium apparel is likely to increase adding to the 'look good' factor, catalyzing polyester demand. The Company is expecting an increase in volume for value-added product led to an EBITDA growth in near-term and expecting a strong profitability along with free cash flow in FY19.

Boost In Urbanization: Urbanization is expected to result in a growing demand for fashionable products, durable garments and fabric that meet appealing requirements.

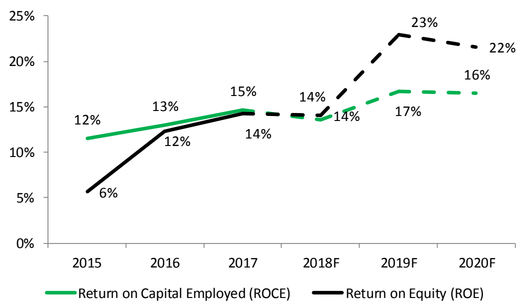
Revenue vs Revenue Growth (%)



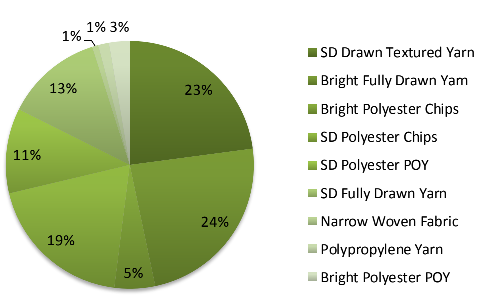
EBITDA vs EBITDA Margin(%)



ROE vs ROCE (%)



Net Capacity (Post Expansion)



Source: Company Data, SMIFS Research

Key Risks

- Adverse instability in raw material prices can affect the performance.
- Bargaining power is low against large suppliers of key raw materials.
- High price of PTA on domestic market on account of anti-dumping duty.
- Cotton price movement inversely impact the MMF business, like if cotton price shoot up then its good for MMF business and vice versa.

Quarterly Financial Performance at a glance

Particulars (In Cr.)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18(F)
Total Revenue	448	477	415	504	515
QoQ Growth(%)	10.5%	6.6%	-13.1%	21.6%	2.0%
Total Expenses	411	441	378	466	466
QOQ Expense(%)	9.5%	7.3%	-14.2%	23.3%	-0.2%
EBITDA	38	36	36	38	39
EBITDA Margin(%)	8.4%	7.6%	8.7%	7.5%	7.6%
PAT	13	14	14	14	15
PAT Margin(%)	2.9%	3.0%	3.3%	2.9%	2.9%
Paid Up Capital	32	33	44	44	44
EPS(INR)	4.1	4.4	3.1	3.3	3.4

Source: Company Data, SMIFS Research

Industry Outlook

The Company commenced with the manufacture of Monofilament Yarn and has now extended to Bright FDY

- Indian Textile Industry continues to be the second largest employer in the economy, the first being agriculture. Textile sector is one of the largest contributors to Indian exports with approximately 11% of total export. Indian Textile Industry contributes around 14% to an overall Index of Industrial Production.

- The textile and apparel industry can be broadly divided into two segments - yarn & fiber and processed fabric including garments/made-ups. The major applications of polyester fibers are the production of fabric which further used in apparel, home furnishing, technical textile, kids wear and women wear. Technical textile can be considered as emerging demand for polyester fibers.

High value yarns generated export demand and higher realizations

Exports are likely to increase to 25% of the Company's revenues by FY2020-21

- The textile industry, by its diverge nature, is labor intensive. Currently, Indian labor costs are around one third to that of Chinese labor. This has resulted in Indian products being price competitive in international market. The export of texturizing yarn has grown significantly and as a consequence, the demand and prices in domestic market have also firmed. India, as a country, is in strong position to capture increasing share in the yarn market.

Valuation

We arrive at a Target Price of INR259 based of different multiples. We have assigned equal weightage each of the multiple to come out for the target price.

Nearly 61% of the Company's revenues were derived from value-added segments

The Company intends to raise the proportion of niche value-added products.

Valuation

Multiples (X)	Price	Weightage	Final Price
EV/EBITDA	271	33.33%	91
EV/MT	292	33.33%	97
P/E	213	33.33%	71
Target (INR)			**259**

Source: Company Data, SMIFS Research

GMM Pfaudler Ltd

Sector : Capital Goods

CMP (INR) (As on 8 Feb 2018)	707.20
Target (INR)	872.00
Upside(%)	23%
Recommendation	STRONG BUY

BSE Code	505255
Reuters Ticker	GMMP.BO
Bloomberg Ticker	GMM IN

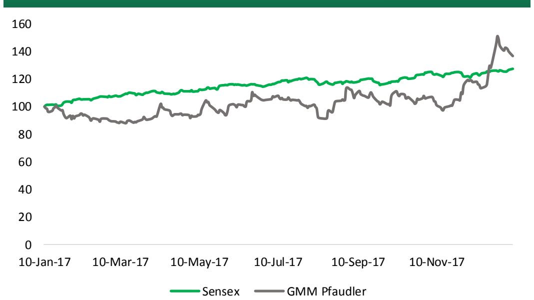
Stock Scan

Market cap (INR Cr.)	1033.75
Outstanding Shares (Cr.)	1.46
Face Value (INR)	2.00
Dividend Yield(%)	0.57
P/E (x)	31.07
Industry P/E (x)	31.90
Debt/Equity	0.00
Beta vs. Sensex	0.54
52 Week High/ Low (INR)	884.80/501.85
Avg. Daily Vol (NSE)/1 Yr	8,860

Shareholding Pattern (%)

	Dec-17	Sept-2017	June-2017
Promoters	75	75	75
Institutions	0.65	0.43	0.42
Non-Institution	24.35	24.57	24.58

Stock vs. Sensex (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst:

Anupam Goswami

Anupam.goswami@smifs.com

Company Overview

GMM Pfaudler Limited is a leading supplier of engineered equipment and systems for critical applications in the global chemical and pharmaceutical markets. GMM Pfaudler was established under the name Gujarat Machinery Manufacturers and formed a Joint Venture with Pfaudler Inc, the world leader in glass lined equipment, where in Pfaudler subscribed to 40% equity. Pfaudler further increased its stake to 51% in 1999 and consequently, name of the company was changed to GMM Pfaudler. It also has a Switzerland based subsidiary by the name of Mavag, which was acquired in 2008. Key clients include Sun Pharma, Lupin, Cipla, Piramal, Ranbaxy, Glenmark, Jubilant Lifesciences (Pharmaceuticals), Bayer, Rallis, UPL, (Agrochemicals), Clariant, Thermax, Ion exchange, Auchtel, Croda (Speciality Chemicals) etc.

Investment Rationale

Market Leader in Glassline Equipment (GLE): The GMM Pfaudler's product quality and large production capacities have made it the market leader in the domestic GLE industry, with a market share more than 50%. In Q3FY18, GLE business grew by 7.14% YoY and contributed almost 61% to total revenue. The main demand drivers are from Pharma, Agro chemicals and Specialty chemicals companies. Although Pharma has been under sluggish growth in the past, however on account of enhanced Regulatory requirement for Good Manufacturing Practices, Indian pharmaceutical companies are likely to spend more on their infrastructure and thus higher Capex; which has already begun in some major pharma companies.

(Rationale contd…)

Valuation: Strong leadership position and pricing power along with strong demand from export as well as from domestic market and improvement in operational efficiency compel us to believe a good visibility of earnings in both Glassline and Non-Glassline business. Hence, we expect topline and EPS of the company in the next three years to grow at a CAGR of 18% and 24% respectively . We assign a PE multiple of 20x to FY20E EPS, to arrive at a price target of INR872.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	2920.8	3530.3	4067.6	4827.4	5804.3
Growth(%)	-5%	21%	15%	19%	20%
EBITDA	349.6	477.4	615.4	793.0	1014.6
EBITDA Margin (%)	12%	14%	15%	16%	17%
Adjusted PAT	201.1	332.7	373.5	481.2	637.0
Net Profit Margin (%)	7%	9%	9%	10%	11%
EPS	13.8	22.8	25.6	32.9	43.6
BVPS	174.9	218.3	246.8	286.4	337.0
P / E (x)	51.4	31.1	27.7	21.5	16.2
P / BV (x)	4.0	3.2	2.9	2.5	2.1
ROE (%)	13%	18%	18%	20%	23%
ROCE(%)	13%	18%	18%	20%	23%
EV / EBITDA (x)	29.6	21.7	16.8	13.0	10.2

Source: Company Data, Ace Equity, Bloomberg

Investment Rationale Continued

In Agro and Specialty chemicals the company is witnessing a strong traction in growth partly due to hike in domestic demand & partly due to clamp down in China. We expect this current trend is likely to continue in the coming quarters yielding a healthy growth of 12-15%.

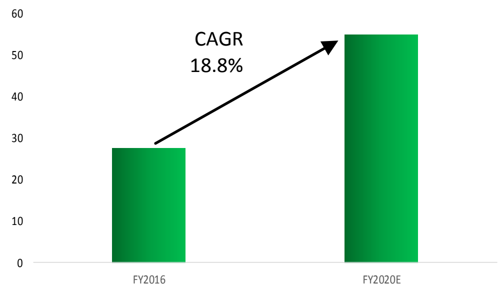
Improvement in efficiency and margin: The company is undergoing debottlenecking to improve its efficiency and capacity utilization and targets to achieve 1800 vessels by FY18 in Glassline Equipment from 1400 vessels in FY17. It is in the process to install an additional natural gas furnace, post the installation of which, the electric furnaces will be stopped and as a result, the company will save power cost (New Gas furnace to get commissioned within next two months). Also, the company has hired external consultants to improve its margin and throughput efficiency. All these benefits are to be reaped in the coming quarters.

Increasing Focus in Non-Glassline business: In this new segment the company has shown massive growth, comprising of Heavy Engineering and Proprietary Product, growing at 29.43% in the 9 months ended December 2017 against same period last year. The Non-Glassline business finds application in larger pool of industry (Chemicals, Petro chemicals, Oil & Gas, Fertilizers) and thus has a huge potential for growth. Mavag AG, a subsidiary of GMM Pfaudler is also leveraging its technological expertise to produce high end Filtration, Mixing and Drying Equipments in India. Currently, the Non-Glassline segment now contributes 30% of total revenue and the management targets to ramp this up to 50%. On the back of all these factors, we expect the Non-Glassline business to continue to growth at around 20-22% in the next coming quarters.

Improving Exports: Currently, export contributes around 7% to total revenue. However, the company is aiming for an 20% share from export revenues. Parent Pfaudler has now started to put orders to GMM in India. The first export order was shipped in Q3FY17 and recently they shipped a 2nd order with more orders in the pipeline to be executed in the next quarters. This is in line with their strategies to solidify its share in European and US market through a win-win situation for both parent Pfaudler and GMM - low manufacturing cost of India and high quality of Germany. Pfaudler has revenue of around USD170-200mn and is the largest suppliers of Glass Lined vessel in the world with market share of 40-50%. The company is also trying to build an export business on heavy engineering and proprietary products side by participating in exhibitions in Gulf areas, looking for opportunities in Sweden and some parts of Europe. This would improve the margins for GMM going forward as export revenues constitutes around 20% margins. We expect GMM to receive more orders for export market and adding more revenues along with improving margins.

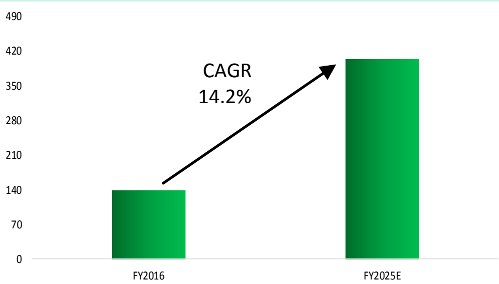
Turnaround in Mavag Ag: GMM acquired MAVAG AG, Switzerland in Jan 2008. Mavag’s high end technology has complemented the Company’s position as a complete process solution provider for pharmaceuticals, bio pharmaceuticals, chemicals and allied segments. MAVAG financial had shown volatility in last three years but from FY17 the trend has reversed with revenue of 8.82 crores

Indian Pharmaceutical industry to grow at a CAGR of 18.8% to USD55 bn by 2020 offering huge scope for GMM Pfaudler to capitalise this opportunity.



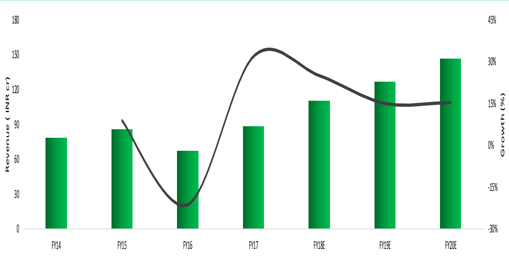
Source: IBEF

Indian Chemical Industry is already riding the growth story on the back of huge demand which is expected to grow at a CAGR of 14.2%



Source: IBEF

MAVAG's revenue has shown growth and is expected to continue the momentum going forward



Source: Company Data, SMIFS Research

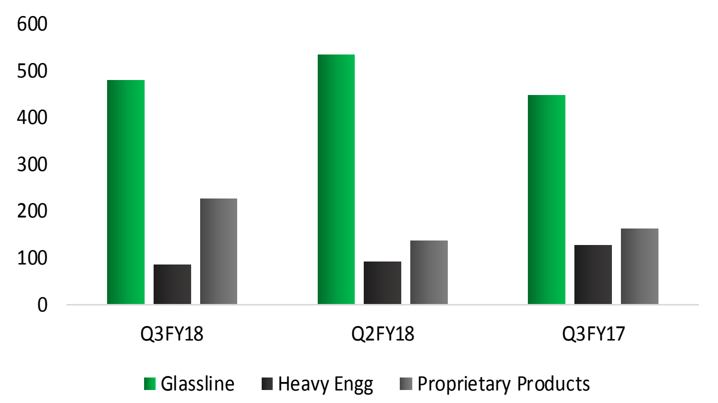
Outsourcing to GMM would bring down their production cost and boost up their margins and profitability

and PAT of 6.05 crores in FY17. Initiatives are being taken to reduce the operational cost in Mavag such as cut down in employee cost which is significantly high considering only 37 employees out of consolidated GMM's 327 employees and yet cost is almost half consolidated employee cost. Moreover, outsourcing to GMM would bring down their production cost and boost up their margins. These measures along with a strong order backlog, should help Mavag in posting good numbers in the coming future.

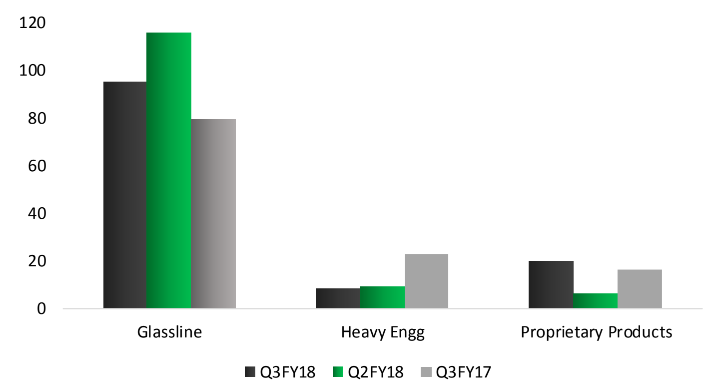
PE firm to assign strict operational control: Pfaudler Inc is held by Pfaudler Holding S.a.r.l Luxembourg which in turn is held by Deutsche Beteiligungs AG (DBAG), a Private Equity fund, listed on German Stock Exchange. In the board of GMM Pfaudler 2 directors are there representing the private equity owners. DBAG a Pvt Equity Firm has a strong track record of improving the operational performance of its investee companies by managing and optimizing its cost like changes in the company's locations in order to grow the business profitable. PE firms, generally, have an investment horizon of 5-7 years for its investments. In these years, they try to squeeze as much synergies as possible, improve processes, remove inefficiencies and then they cash out.

Quarterly Financial Performance

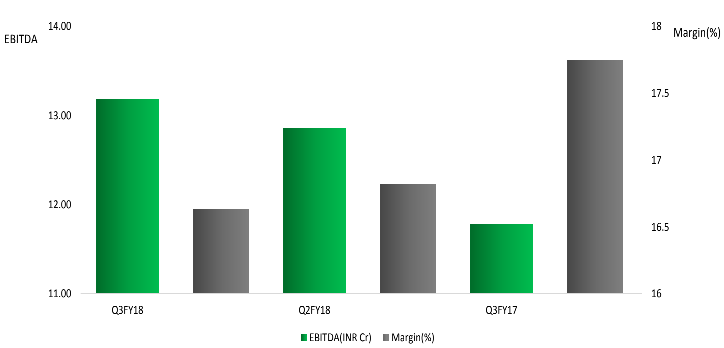
Segmental Revenue



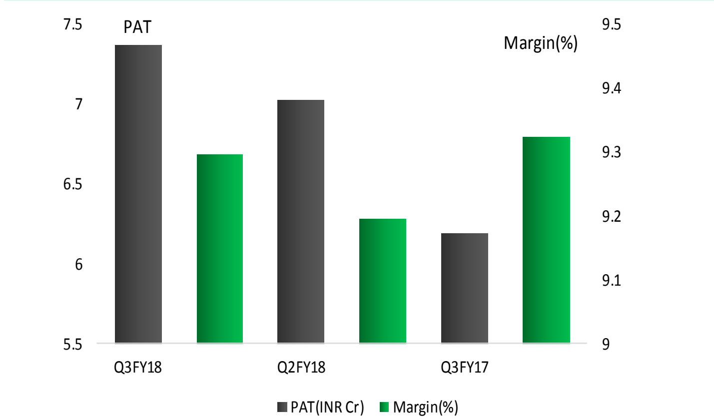
Segmental PBT



EBITDA



PAT



Source: Company Data, SMIFS Research

Key Risks

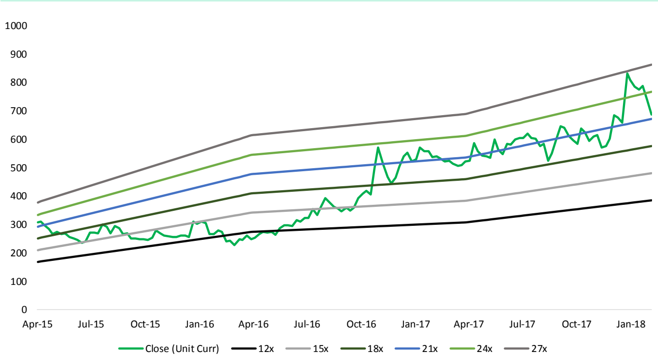
- GMM has market exposure to foreign exchange rates mainly on account of exports, imports and investments in foreign subsidiary Companies, and therefore, they are subjected to the exchange rate fluctuations.
- The Glass Line segment is running at 80% currently and the management aims to take up to 95% which will create capacity constraint for further demand and could lose out potential market share.
- Longer Replacement Cycle: GMM Pfaudler products generally have long shelf life (7-10yrs). Hence, the company may face risk of less replacement demand.
- The slowdown in growth of end user industries such as Chemical and Pharmaceutical industry in domestic market could impact overall performance of the company.
- The Company's primary raw material is steel; any fluctuation in pricing will impact profitability of the Company.
- Certain orders with long manufacturing cycle time may be exposed to the risk of material price volatility.

Outlook and Valuation

Pharmaceuticals, Agrochemicals and Specialty Chemicals. All these industries are growing at a CAGR of 12-17%

China has been making its pollution norms stricter, which is making India as the new hub for Chemical Industry.

PE Band



GMM is largest manufacturer of Glassline Equipment in India and commands a leading position with strong pricing power. The business is tied to fortunes of its customer industries- Pharmaceuticals, Agrochemicals and Specialty Chemicals. All these industries are growing at a CAGR of 12-17% Moreover, most chemical players in expansion mode looking at the surge in demand in upcoming future. Certain factors which can trigger growth in these industries and as a result surge in GMM's products are:

- In India, cost of production is lower than US or European countries which gives the advantage of outsourcing work to India.
- With FDA approval norms becoming stricter, Indian Pharma companies are in the process of upgrading & replacing their infrastructure and equipments. Hence, the Pharma sector has to indulge in huge Capex.
- Drugs with market size running in several billion dollars are to go off-patent in next 3 years, resulting in increased production of generic drugs and India is among the leaders in generic drugs.
- India has among the world's lowest usage of Agrochemicals and initiatives from the government and agrochemical companies is increasing the awareness in farmers, thereby boosting the agrochemical usage.
- 100% FDI is allowed in the Chemical industry. Also, China has been making its pollution norms stricter and clamp down in production is making India as the new hub for Chemical Industry.

Strong leadership position and pricing power along with strong demand from export as well as from domestic market and improvement in operational efficiency compel us to believe a good visibility of earnings in both Glassline and Non-Glassline business. Hence, we expect topline and EPS of the company in the next three years to grow at a CAGR of 18% and 24% respectively . We assign a PE multiple of 20x to FY20E EPS, to arrive at a price target of INR872.

Maharashtra Seamless Ltd

Sector : Iron and Steel

CMP (INR) (As on 8 Feb 2018)	500.35
Target (INR)	647.00
Upside(%)	29%
Recommendation	Strong Buy

BSE Code	500265
NSE Code	MAHSEAMLES
Reuters Ticker	MHSM.NS
Bloomberg Ticker	MHS IN

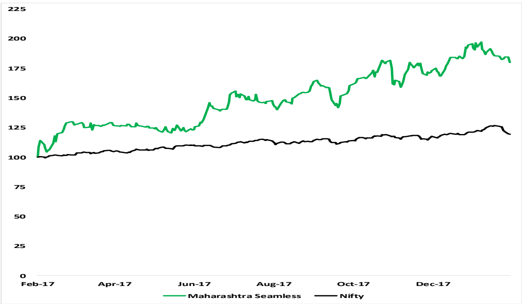
Stock Scan

Market cap (INR Cr.)	3,379.80
Outstanding Shares (Cr.)	6.69
Face Value (INR)	5.00
Dividend Yield(%)	1.01
P/E (x)	22.66
Industry P/E (x)	25.28
Debt/Equity	0.29
Beta vs. Sensex	1.06
52 Week High/ Low (INR)	550/276
Avg. Daily Vol (NSE)/1 Yr	87221

Shareholding Pattern (%)

	Dec-2017	Sept-2017	June-2017
Promoters	60.28	59.84	59.80
Institutions	12.62	11.91	13.41
Non-Institution	27.09	28.25	26.80

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst: **Anmol Das**
anmol.das@smifs.co.in

Company Overview

Maharashtra Seamless Ltd is one of the leading and pioneer manufacturers of Seamless and ERW (Electric Resistance Welded) Pipes with its core operations based in India. The Company supplies Seamless Pipes to domestic clients as well as exports them. Seamless Pipes are used for domestic water transportation, Oil and Gas operations and industrial uses where requirement is for smaller diameter pipes with greater strength and resilience.

The Company also has subsidiaries including in Singapore. Maharashtra Seamless is one of the companies from D. P. Jindal Group, who are well into different kinds of Iron and Steel Products.

Investment Rationale

Major Player in Domestic Water Segment: The Company is well established in the Seamless and ERW Pipes (smaller diameter requirement) business. The core business for the company is well positioned domestically with ever stronger demand.

Government backed reforms in Infrastructure Sector: The Governments ambitious plan of Housing for all by 2022 is expected to generate huge demand of Housing and Building materials benefitting the company being in the directly related business.

Anti-dumping duties on cheaper Chinese Pipes: The Government imposed custom duties last year on several grades of steel products mostly imported from China earlier. This has created a huge supply gap of 2-3 lakh tonnes of steel pipes in India, where the company enjoys an upper hand in the Seamless & ERW Pipe business.

(Rationale contd…)

Valuation: We estimate the topline of the company to grow more in next fiscal on the back of ongoing revival in the economy. Hence, on the back of improving ROCE, we have assigned an EV/EBITDA (x) of 9 for FY20E and arrive at a Target Price of INR647.

Financial Performance at a glance (Standalone)

Particulars (INR Cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,109	1,570	2,179	2,491	2,949
Growth %	-18%	42%	39%	14%	18%
EBITDA	36	220	275	391	483
EBITDA Margin (%)	3.21%	14.04%	12.62%	15.72%	16.37%
Adj. Net Profit	31	146	185	256	314
Net Profit Margin	2.84%	9.27%	8.49%	10.27%	10.63%
EPS	4.70	21.72	27.62	38.17	46.81
BVPS	401.14	419.83	442.45	475.63	517.43
P / E (x)	36.08	11.29	18.04	13.05	10.65
P / BV (x)	0.42	0.58	1.13	1.05	0.96
ROE (%)	1.17%	5.17%	6.24%	8.03%	9.05%
ROCE (%)	-1.25%	5.3%	7.0%	9.9%	11.7%
EV / EBITDA (x)	31.87	7.49	12.18	8.56	6.94

Source: Company Data, Ace Equity, Bloomberg

Investment Rationale Continued

Major reforms and investments in Agriculture sector: The agricultural sector is one of the most happening sector where there will be huge demand of Pipes in the coming years. Outlaying and replacement of Canals to save cost as well as bringing more land under irrigation projects will push the demand for Seamless Pipes higher.

Major Investments in Subsidiary: The Company has large investments in MS (Singapore) PTE Ltd made in 2015-17 of over INR350 Cr which is expected to be operational in FY19 and will generate more business for them.

Almost no Long Term Debt: The Company has hardly any long term debt and meets its working capital requirements with short term Bank Guarantees and Working Capital Credits extended from Banks. This unique kind of business model along with large reserves benefits them in keeping a healthy Balance Sheet as well as reduces the cost of capital overall.

Logistical Advantage of the Company: The Company's plants are based in Raigad, Maharashtra. This gives them ample advantage of being close to major industrial zones of the country as well as near to Mumbai Port for its exports.

Healthy Orderbook and Export Orders: The Company has a healthy order book of INR567 Cr by the end of Q2 FY18 with export orders of seamless pipes more than INR100 Cr. They also bagged an order recently from ONGC for INR522 Cr.

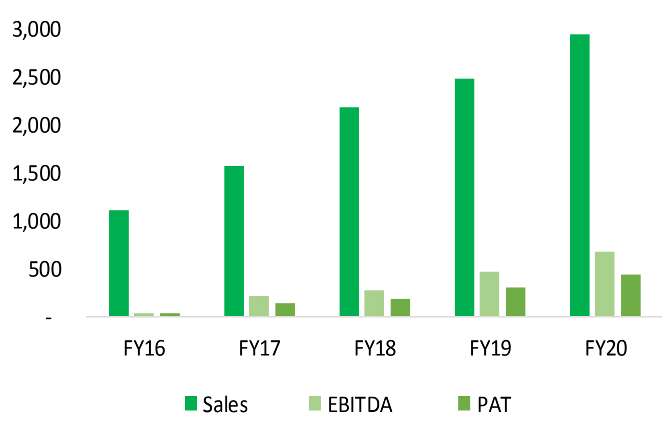
Industry Outlook

The Global outlook for Pipe Industry is expected to grow over the next few years on the back of growth revival globally. The demand for Pipes, which are used in supply of water, industrial effluents, utility and Oil & Gas pipeline are expected to go up rapidly.

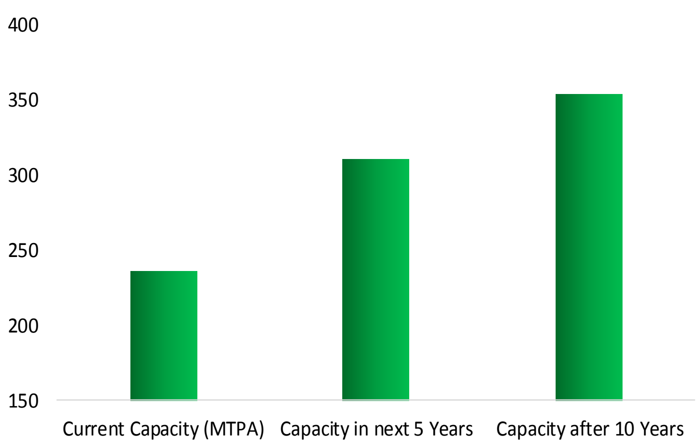
The rapid rate of urbanization in emerging and developing countries (like China, south-east and south Asia) will push the demand for water in the urbanized centres. Domestically, India alone has 53 cities (census 2011) with more than a million population and increased development of the economy and Government push to bring more of the population out of below poverty line (BPL) is expected to generate more demands of urban housing projects.

The FY18-19 budget push in the Agricultural sector will only add to the benefits for the Pipes Industry and other Agricultural goods manufacturing industries. The various plans including the likes of increasing the area under irrigational facilities will be a booster to the demand of Seamless Pipes (smaller diameter) for domestic sector. The Government's reform push along with injection of huge amount of capital is expected to bring a life to the agrarian economy and related businesses.

Financial Performance (INR Cr.)



Oil Capacity Expansion in India



Source: Company Data, SMIFS Research

Maharashtra Seamless bagged an order of INR522 Cr from ONGC for Seamless casings for their Oil & gas exploration activities

Domestic water sector and push for Infrastructure and Agriculture investments to generate the demand

The investments made in subsidiaries/ associates are expected to bring topline growth

Q3 & 9M FY18: Standalone Performance

- The Company reported Q3 FY18 sales at INR562 Cr, up by 34% Y-o-Y from INR420 Cr and 16.5% sequentially from INR483 Cr.
- The EBITDA grew from last quarter's INR60 Cr to INR61 Cr and marginally up by 2.5% from last years corresponding periods INR59 Cr.
- The PAT stood at INR39 Cr increasing by 14% from INR34 Cr over Q2 FY18 and declining by 11% from last years INR43 Cr.
- The standalone sales over 9 months stood at INR1524 Cr, up by 42% over last year's corresponding period sales of INR 1073 Cr. While its raw material cost also increased by 63% to INR1027 cr.
- Also, the other expenses for the company rose to INR247 Cr from INR160 Cr over last years comparable 9 months. However, it can be understood that the sales figures reported during this period consists of last 2 quarters sales net of GST.

Key Risks

- The Company's primary raw material is steel; any fluctuation in pricing will impact profitability of the Company.
- The Company is among market leaders in small diameter pipes (Seamless and ERW) and depends much on the economic conditions and investments in Agricultural, Infrastructure, Housing and Oil & Gas Industry. Any fluctuations in these sectors will adversely affect its performance.

Outlook and Valuation

Viewing the growth potential of Pipes Industry globally and the Company's position with Indian background, where they have stronghold in their line of business, we expect the Company's business to show robust performance in coming future.

The Company has large order from ONGC of INR522 Cr and is bidding for such orders from other Oil and Gas companies domestically as well. We also believe the Singapore subsidiary to come into operations in the next fiscal and generate more topline growth.

We estimate the topline of the company to grow more in next fiscal on the back of ongoing reforms in the economy and drastic increase in the topline of the company. Hence, on the back of improving ROCE, we have assigned an EV/ EBITDA (x) of 9 for FY20E and arrive at a Target Price of INR647.

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Research & Development Strategies

Mr. Rahul Kayan
Director
rahul.kayan@smifs.com
+91 33 30515419 / 40115419

Mr. Ashiwini Kumar Tripathi
Director
aswin.tripathi@smifs.com
+91 33 30515415 / 40115415
Mobile: +91 9831155058

Mr. Ajay Jaiswal
President: Strategies and Head Research
ajaiswal@smifs.com
+91 33 30515408 / 40115408
Mobile: +91 9836966900

Mr. Rajesh Basu Majumdar
Head Equities - Institutional
rajesh.majumdar@smifs.com
+91 33 30515400 / 40115400
Mobile: +91 9830267133

Research Team

Mr. Ajay Srivastava
Associate VP - Research
ajay.srivastava@smifs.co.in
+91 33 30515400

Mr. Saurabh Ginodia
Associate VP - Research & Strategies
saurabh.ginodia@smifs.com
+91 33 30515407

Mr. Dipanjan Basuthakur
Sr. Research Analyst
dipanjan.basuthakur@smifs.com
+91 33 30515486

Ms. Sutapa Biswas
Sr. Research Analyst
Economy
sutapa.biswas@smifs.com
+91 9836020612

Mr. Abhishek Roy
Research Analyst
FMCG/Retail/Consumer Durables
abhishek.roy@smifs.com
+91 33 40115468

Mr. Kapil Joshi
Research Analyst
Infrastructure/Power
kapil.joshi@smifs.com
+91 33 40115468

Ms. Mononita Mitra
Research Analyst
Agro/Chemicals
m.mitra@smifs.com
+91 33 40115468

Mr. Pratim Roy
Research Analyst
Oil & Gas/Textiles
pratim.roy@smifs.co.in
+91 33 40115400

Mr. Debjit Maji
Research Analyst
Auto & Auto Ancillary/Telecom
debjit.maji@smifs.co.in
+91 33 40115474

Mr. Anmol Das
Research Analyst
Metals and Mining
anmol.das@smifs.co.in
+91 33 40115474

Mr. Sarthak Mukherjee
Research Analyst
Aviation/Hospitality/Logistics
sarthak.mukherjee@smifs.co.in
+91 33 40115474

Mr. Anupam Goswami
Research Analyst
Building Products/Capital Goods/
Construction Equipment
anupam.goswami@smifs.co.in

Mr. Anik Mitra
Research Analyst
IT/ Pharmaceuticals
anik.mitra@smifs.com
+91 33 40115400

Mr. Rahul Agarwal
Research Associate
BFSI
rahul.agarwal@smifs.com
+91 33 40115400

Mr. Vivek Sethia
Research Analyst
vivek.sethia@smifs.com
+91 33 40115400

Mr. Jaydeb Dey
Technical Analyst Equities
jaydeb.dey@smifs.com
+91 33 30515433

Sales Leadership Team

Mr. Monal Desai
Sr. VP - Institutional Sales
monal.desai@smifs.co.in
+91 2242005555
Mobile: +91 9821137303

Mr. Shivaji Roy
Sr. VP - Retail Sales
shivaji.roy@smifs.co.in
+91 33 30515400/40115400
Mobile: +91 9830173200

Mr. Vishal Prabhakar
Sr. VP - PMS & PCG
vishal.prabhakar@smifs.com
+91 33 30515400 / 40115400
Mobile: +91 9831554477

Mr. Taj Mohammad
6th Floor, 654, Aggarwal Metro Heights,
Netaji Subhash Place, Pitampura,
New Delhi – 110034, India.
taj.mohammad@smifs.com
Phone: +91 9818754786

Mr. Jaydeep Pattanayak
Plot No. 15-B, Bapuji Nagar, Unit-I,
Ashok Nagar, **Bhubaneswar - 751009**,
Odissa, India.
jaydeep.pattanayak@smifs.co.in
Phone: +91 9583099025

Mr. Sohil I Khan
Office No. 5G, New Marine Lines, Court
Chamber, **Mumbai - 400 020**,
Maharashtra, India
Phone: +91 9930294893

Mr. Saurasanta Biswas
Vaibhav, 4 Lee Road,
Kolkata - 700020, India.
saurasanta.biswas@smifs.co.in
Phone: +91 9883604672

Investor Relations and Data Support

Ms. Debjani Sen
Officer – Investor Relations
debjani.sen@smifs.com
+91 33 30515401

Mr. Deepankar Saha
Research Assistant
deepankar.saha@smifs.co.in
+91 33 30515468

Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

Contact Details

REGISTERED OFFICE
Mr. Sandipan Chatterjee
Vaibhav, 4 Lee Road,
Kolkata 700020, India.
Phone: +91 33 30515400 / 40115400
Fax No: +91 9748899161

MUMBAI
Mr. Vaibhav Wadke
Office No. 5G, New Marine Lines, Court
Chamber, Mumbai - 400 020,
Maharashtra, India
Phone: +91-9967642795

NEW DELHI
Mr. Rajesh Kumar Jha
6th Floor, 654, Aggarwal Metro Heights,
Netaji Subhash Place, Pitampura,
New Delhi – 110034, India.
Phone: +91 9999243622

BANGALORE
Mr. S. Srikanth
No.153, 2nd Floor, Sheela Arcade, 7th Block
Koramangala, (Opp.—Sai Baba Mandir)
Bangalore - 560095, India.
Phone: +91 9845020017

CHENNAI
Mr. K.K.Raja Gopalan
New No.4/2, Bajaj Apartments,
Seethamal Colony, 1st Cross Corner, Alwarpet,
Chennai – 600018, India.
Phone: +91 9383931590

LUCKNOW
Mr. Ashish Verma
6 Park Road, UGF 4, Hazratganj,
Lucknow - 226001, Uttar Pradesh, India.
Phone: +91 9559378972

BHUBANESHWAR
Mr. Jeetendra Nath Sahoo
Plot No. 15-B, Bapuji Nagar,
Unit-I, Ashok Nagar,
Bhubaneswar - 751009, Odissa, India.
Phone: +91 9668257514

PATNA
Mr. Ram Singh
606/A, Ashiana Plaza, Budha Marg,
Patna – 800001, Bihar, India.
Phone: +91 9570507409

KANPUR
Mr. Amit Kumar Gupta
Office No.212 - 213, 2nd Floor, KAN Chamber,
Adjacent to UP Stock Exchange, 14/113, Civil
Lines, Kanpur - 208001, Uttar Pradesh, India.
Phone: +91 9151104767

NOIDA
Mr. Prakash Srivastava
1st, Floor, Wave Silver Tower, Sector-18,
Noida - 201301, Uttar Pradesh, India.
Phone: +91 9910497783

PATHANKOT
Ms. Anuradha Marwaha
SCO G - 69, Netaji Market,
Opp. Hindu Co.op. Bank, Dalhousie Road,
Pathankot - 145001, Punjab, India.
Phone: 0186 - 2222201/ 2222205

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Stewart & Mackertich Wealth Management Ltd.
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Tel.: +91 33 3051 5408 /, Fax: 91 33 22893401

Website: www.smifs.com

For queries related to compliance of the report, please contact:
- Sudipto Datta, Compliance Officer
Contact No.: +91 33 30515414 / 4011 5414
Email Id.: compliance@smifs.com / sudipta@smifs.com