Robust Q4FY15 Results

BUY

MAN INDUSTRIES (INDIA)

BRIGHT PROSPECTS AHEAD

Sunidhi
"In your prosperity lies our success"

13 May 2015

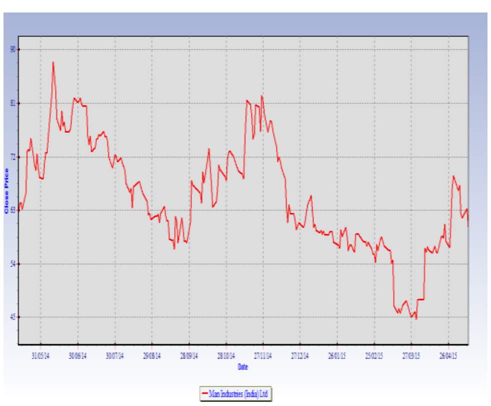
Rating	Buy
CMP (₹)	60
Target Price (₹)	100
Upside (%)	67

Key Data	
BSE Code	513269
NSE Code	MANINDS
Reuters code	MIND.BO
Bloomberg Code	MAN IN
Sensex	27251
Face Value (₹)	5
Mcap (₹ Cr.)	345
52 week H/L (₹)10	94/44
2 Wk Avg Qty	344000

Share holding, March'15	Holding %
Promoters	54.2
Foreign	10.8
DIs	1.7
Corporates	11.7
Public	21.6

Performance (%)	3M	6M	12M
Stock-SIL	1.7	-24.4	-9.5
BSE 200	-5.4	0.6	20.8
BSE 500	-5.3	0.4	19.7

Price Chart: (One-Year)



http://www.mangroup.com

Vijay Dave
vijaydave@sunidhi.com

Ph: 91-22-6760 7700

Company Description:

Incorporated in 1988, the flagship of Mansukhanis, MAN Industries (India) Ltd (MIIL) is a leading manufacturer and exporter of large diameter Carbon Steel Line Pipes along with coating systems for various high pressure transmission applications for gas, crude oil, petrochemical products and potable water. MANIIL's operations are spread across globally with offices in U.K. and U.A.E. besides India. Man Overseas Metal DMCC, Man USA Inc., Merino Shelters Private Ltd & Man Infraprojects Ltd are subsidiaries of MIIL.

MIIL has state-of-the-art manufacturing facilities located at Anjar in Gujarat and Pithampur in Madhya Pradesh spread over 200 acres of land for Longitudinal Submerged Arc Welded (LSAW) & Helically Submerged Arc Welded (HSAW) Line Pipes and also for various types of Anti-Corrosion Coating Systems.

The total installed capacity is upto 1 million tonne - 50% in LSAW and balance 50% in HSAW are located at Anjar in Gujarat and Pithampur in Madhya Pradesh. The plants are situated at prime strategic locations in the vicinity of the ports. MIIL has 7 MW windmills in Gujarat.

Q4FY15 & FY15 Results:

During Q4FY15, standalone net profit rose 1559% to ₹44.8 crore on 80% higher revenue of ₹655 crore. Q4FY15 EPS stands at ₹7.8. OPM and NPM stood at 20.7% and 9.1% against 14.8% and 8.1% respectively in Q4FY14. During FY15, net profit went up by 460% to ₹50.4 crore on 36% higher sales of ₹1364 crore. FY15 consolidated EPS is ₹8.8 against ₹1.6 in FY14. OPM and NPM stood at 10.9% and 3.7% against 8.6% and 0.9% respectively in FY14. FY15 consolidated EPS stands at ₹12.5. A dividend of 30% has been declared.

Exports:

MIIL generates about 50% of its revenues from export markets and 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. MIL has also been exporting to regions like USA, Europe, Africa and South East Asia. MIIL expects going forward with continued investment in global oil and gas E & P activities, demand for line pipes to remain strong and expects exports to increase contribution of 60% of total sales going forward.

Key Financial: (Consolidated) (₹ crore)

Year-March	Q4FY15A	Q4FY14A	FY14A	FY15A	FY16E	FY17E
Sales/OP Inc	654.8	364.2	1005.3	1364.0	1800.0	2240.0
PBIDT	85.68	24.41	86.0	148.9	221.1	271.0
Interest	17.38	12.76	41.8	45.9	68.0	69.0
PBDT	68.30	11.65	44.2	103.0	153.1	202.0
Depreciation	14.04	8.00	31.8	42.6	55.1	56.5
PBT	54.26	3.65	12.4	60.4	98.0	145.5
Tax	9.47	0.95	3.4	10.0	18.0	30.0
PAT	44.79	2.70	9.0	50.4	80.0	115.5
Equity			28.6	28.6	28.6	28.6
Reserves			632.1	*453.9	533.9	649.4
Book Value (₹)			115.5	84.3	98.3	118.5
EPS (₹)	7.8	0.5	1.6	8.8	14.0	20.2
OP Margin (%)	13.1	6.7	8.6	10.9	12.3	12.1
NP Margin (%)	6.8	0.7	0.9	3.7	4.4	5.2
P/E					4.3	3.0

Quarterly results are on standalone basis. * Reserves for FY15 are after considering the effect of demerger of Man Infraprojects.

Demerger of Real Estate & Construction Biz

A strategic call by the management to restructure the business verticals of the Man Group was taken after considering the risks, competition and distinctiveness of its core business with regard to real estate construction business, in order to attain the growth, unlock the values and thereby achieve the potential profitability in the respective businesses. A scheme of arrangement to that effect has been floated, which is pending before Hon'ble High Court of Bombay judicature for its approval.

Man Infraprojects Ltd will issue and allot, on a proportionate basis to the shareholders of MIIL as on the record date, its fully paid-up equity shares on the following basis; "For every 1 (One) fully paid-up equity share of ₹5 each held by the equity shareholders in MIIL, 1 (One) fully paid-up equity share of ₹5 each of Man Infraprojects Ltd", which will be a separately listed entity for real estate, infrastructure and construction activities. Man Industries will then continue to focus on its core business of pipes and coating systems.

Order Book

Roughly MIIL has an order worth over ₹1,300 crore, which is mostly from the export market with high value added products. Out of this ₹1,000 crore order to be completed within six months and ₹12,000 crore bid is already placed in export market as well as domestic market.

Financial

Equity capital is ₹28.6 crore. With reserves of ₹454 crore, the consolidated book value of the share works out to ₹84 (Considering post-demerger). The value of the gross block is ₹715 crore. Cash, loans given and investments etc stood at ₹267 crore as at FY14 (₹46.7/share). Debts of ₹437 crore gave the DER of 0.9:1 as at FY15.

Prospects

Pipelines are the backbone of a nation's infrastructure. Global pipe demand from 2014-19 is expected to reach $403 billion. Middle East, West Asia, Africa, South East Asia, Australia & the domestic market are key volume drivers for Indian pipe manufacturers. These geographies account for over 40% of the total global demand of over 75 million tonnes of SAW pipes.

Demand for steel pipes (such as HSAW, LSAW Pipes) is increasing as the need for oil & gas, water and waste water transportation is growing. World demand for oil and gas pipe is expected to increase 5.3% per year, reaching 51.8 million metric tonnes in 2017. US oil boom and Alaska Pipeline project expected to significantly boost demand. Global demand for water pipe is forecasted to increase 6.8 percent per year through 2017.

On India's demand scenario, the major oil & gas pipeline players like GAIL and GSPL plan to lay around 15,000 km of pipelines over the next 2 years. India is expected to invest US$11 billion in developing infrastructure in 63 of the largest cities, with an emphasis on water supply and sanitation.

The water sector provides an additional opportunity for the pipes sector. The Centre in its 12th Five Year Plan has indicated gross budgetary support for development of water resources to ₹1,096 billion as against ₹414 billion allocated in the 11th Plan. A total of 650 projects, at an approved cost of ₹748 billion for the 65 mission cities spread over 31 states /UTs have been sanctioned. Of the 650 projects, 391 were water supply and sanitation projects (including sewerage and solid waste management).

Opportunity

Strong demand expected from "New Markets" like South America, Africa and Australia will keep the sentiments buoyant. Indian pipe makers are best placed to win large projects thereby exploiting robust global demand due to low cost of manufacturing and high productivity. With robust economic recovery expected to continue in China, India, and other non-OECD nations, it is no surprise the Asia/ Pacific accounts for the highest number of new and planned pipelines. Middle East continues to see substantial increase in Oil & Gas production and demand which could lead to more pipeline projects.

As per MBR study 2014, over 38% of the World’s transmission pipeline network is less than 20 years old, a further 25% is between 20 and 40 years old and 37% is over 40 years old. In the USA, federal data indicates that over half the transmission pipe network for oil and gas is over 50 years old, with an estimated 80,000 kms of transmission pipelines built before 1970 suffering from faulty welds and posing a major safety risk. This reflects high potential for replacement demand.

Growth Triggers

Global pipe demand triggers are- Increasing E & P activity due to oil shortage, rising demand for gas (gas is considered as the future fuel), increase in refining capacity, need to connect marginal oil fields with main hubs, rise in need for oil & gas infrastructure due to demand supply mismatch, cost-effective, eco-friendly mode of transportation and strong demand expected from New Markets. Also the pipeline density in India is 3 km /1000 sq km as compared to 50 km /1000 sq km in USA, UK and China.

India is the sixth largest consumer of oil in the world and the ninth largest crude oil importer. India's oil and gas sector contributes over 15% to the Gross Domestic Product (GDP). Indian pipe demand triggers are - Proposed National Gas Highway Network (Gas Grid), Low cost of manufacturing and high productivity, Increase in exploration activity by E & P companies,

increase in gas finds & supply will require cross country pipeline, Infrastructure over the years to transport gas to consuming states, India's Pipeline infrastructure is under invested (Currently, only 1/3 of India's petroleum products move through pipelines), Domestic demand estimated at over 21,000 km over the next 5 years augurs well for pipe makers.

Valuation & Recommendation

With strategic investments and continuous growth, MIIL has emerged out as a prominent player in the league of world-class manufacturers of Line Pipes and Coating Systems in a short span of ten years of its foray into the Global market. MIIL caters to international clients in the oil & gas industry, petrochemicals, water, dredging & fertilizers. It has positioned itself to bid for almost all pipe projects across the globe.

Despite challenging markets, MIIL has been outperforming due to seasoned and conservative approach towards financial leveraging. There are bright indications that this global and domestic positive demand outlook will help it improve the performance further in the coming financial years. With the recent plant upgradation and demand uptick, MIIL looks forward for a robust performance going forward.

At the current market price of ₹60, the share is trading at a P/E of 4.3x on FY15E and 3.0x on FY17E. We recommend BUY with a target price of ₹100 in the medium-to-long term at which the share will trade at a P/E of 5.0x on FY17.

SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021
Tel: (+91-22) 6636 9669 *Fax*: (+91-22) 6631 8637 Web-site: http://www.sunidhi.com