

## Srikalahasthi Pipes Ltd. (SPL)

INDUSTRY	Steel/Sponge Iron/Pig Iron
No. of Shares (Cr.)	3.98
Face value (Rs)	10.00
Mkt. Cap (Rs. Crore)	972.02
Price (31/05/2016)	244.45
Book Value (Rs)	107.68
P/BV	2.27
BSE Code	513605
NSE Code	SRIPIPES
Bloomberg	SRIK IN
Reuters	SRIK.BO
Avg. Weekly Volume	32394
52 W H/L (Rs)	349.00/159.80
<b>Shareholding Pattern</b>	
	<b>%</b>
Promoters	50.78
DIIs	0.23
FIIIs	1.49
Body Corporate	7.30
Total Public	40.20
<b>Total</b>	<b>100.00</b>
<b>(As on March 31, 2016)</b>	
<b>Recommendation</b>	
BUY	



### Company Background

Srikalahasthi Pipes Ltd (SPL), formerly known as Lanco Industries Ltd, is one of the leading manufacturers of Ductile Iron Pipes (DI Pipes). It was incorporated in 1991 and has its manufacturing facility in Rachagunneri, Chittoor Dist AP. In 2002 it entered into a strategic alliance with Electrosteel castings Ltd (ECL), one of the largest manufacturers of DI pipes. SPL's marquee client list includes L&T, NCC, Indian Hume Pipes, VA Tech Wabag Ltd, Sriram EPC Ltd etc.

### Investment Rationale

- SPL reported net sales growth of 4.52% YoY in Q4FY16 at Rs.315.05 crores, backed by 100% capacity utilization in DI pipes segment. The top-line break up of SPL net revenue of Rs 1145.61 crs for FY16 includes 74.0% contribution from DI pipes.
- SPL is amongst the top 10 players in the DI pipe industry in India, and commands around 15% market share across India and around 75% in South and Western Zone. The DI pipe market is growing at CAGR of 12% in India, and is expected to grow at a CAGR of 15-17%.
- The company continues to deleverage its balance sheet by reducing its long term debt by 39% YoY to Rs 109.02 crores in FY16. The debt to equity ratio stands at 0.94x in FY16 as against 2.15x in FY12. The total debt has come down from Rs 445.19 crores in FY12 to Rs 401.53 crores in FY16.
- The ongoing expansion project of Rs 100 crores for upgradation and modification of blast furnace and capacity expansion of DI Pipe plant is on progress, which will increase the capacity from 2.25 lakh MTPA to 3 lakh MTPA and would be completed by September 16.
- The company has also approved a capital expenditure of Rs 55 crores to put 2 x 9MVA Ferro Alloys units each in same complex & DWC (double walled corrugated) pipe plant at a cost of Rs 25 crores to meet the demand for Sewerage and Drainage.
- Government of India have allotted over rupees one lakh Crores for its ambitious water supply projects both for drinking and sewage on priority through Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart Cities Mission.
- At the CMP of Rs 244, the stock is trading at 4.8x FY18E EPS. We recommend a BUY on the stock with a Price Target of Rs.307 (6x FY18E EPS) with an upside potential of ~25.4% from the current level with an investment horizon of 12-18 months.

Particulars (Rs. Crs)	Q4FY16	Q4FY15	Variance	FY14	FY15	FY16	FY17E	FY18E
Net Sales	315.05	301.43	4.52	989.40	1083.55	1145.61	1252.64	1418.19
EBIDT (Inc OI)	74.31	60.94	21.94	124.26	194.28	283.81	326.94	361.64
Net Profit	46.12	29.61	55.76	38.70	82.98	158.79	177.38	203.14
EBIDT margin (%)	23.59	20.22	16.67	12.56	17.93	24.77	26.10	25.50
Net Profit Margin (%)	14.64	9.82	49.02	3.91	7.66	13.86	14.16	14.32
EPS (Rs)	11.60	7.45	55.70	9.73	20.87	39.94	44.61	51.10

**Srikalahasthi Pipes Ltd.(SPL)**

Description (Rs. Crores)	Q4FY16	Q4FY15	YoY%	FY16	FY15	YoY%
Net Sales	315.05	301.43	4.52	1145.61	1083.55	5.73
Total Expenditure	246.12	244.68	0.59	879.13	897.93	-2.09
Operating Profit (Excl OI)	68.93	56.75	21.46	266.48	185.62	43.56
Other Income	5.38	4.19	28.40	17.33	8.66	100.12
EBIDTA	74.31	60.94	21.94	283.81	194.28	46.08
Interest	7.33	7.56	-3.04	42.05	43.69	-3.75
Extraordinary item	0.00	0.00	0.00	0.00	0.00	0.00
EBDT	66.98	53.38	25.48	241.76	150.59	60.54
Depreciation	6.79	11.15	-39.10	27.09	31.17	-13.09
Tax	14.07	12.62	11.49	55.88	37.25	50.01
Reported PAT	46.12	29.61	55.76	158.79	82.17	93.25
Adjusted EPS (Rs)	11.60	7.45	55.70	39.94	20.66	93.32

**Income Statement (Rs. Crores)**

Y/E March	FY12	FY13	FY14	FY15	FY16
Net Sales	787.00	863.89	989.40	1083.55	1145.61
Total Expenditure	721.75	818.10	873.70	901.26	879.13
Operating Profit (Excl OI)	65.25	45.79	115.70	182.29	266.48
Other Income	8.43	15.48	8.56	11.99	17.33
EBIDTA	73.69	61.28	124.26	194.28	283.81
Interest	57.86	60.42	54.90	43.69	42.05
EBDT	15.83	0.86	69.36	150.59	241.76
Depreciation	19.99	22.18	27.94	31.17	27.09
Tax	-0.22	-8.23	2.72	36.44	55.88
Reported PAT	-3.95	-13.10	38.70	82.98	158.79
Adjusted EPS (Rs)	-0.99	-3.29	9.73	20.87	39.94

<b>Balance Sheet (Rs. Crores)</b>					
<b>Y/E March</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
Shareholders Fund					
Share Capital	39.76	39.76	39.76	39.76	39.76
Reserves and Surplus	167.10	154.01	185.72	253.53	388.40
<b>Net worth</b>	<b>206.86</b>	<b>193.77</b>	<b>225.48</b>	<b>293.29</b>	<b>428.16</b>
<b>Non-Current Liabilities</b>					
Long Term borrowings	124.07	150.04	174.62	179.97	109.02
Deferred tax liabilities	35.93	27.70	30.42	65.47	69.12
Long Term provisions	1.17	1.47	2.91	3.93	5.14
other non-current liabilities	58.69	74.65	49.47	13.12	12.43
<b>Total Non-Current liabilities</b>	<b>219.86</b>	<b>253.86</b>	<b>257.42</b>	<b>262.49</b>	<b>195.71</b>
<b>Current Liabilities</b>					
Short Term Borrowings	321.13	276.71	235.57	198.66	292.50
Trades payables	122.10	104.80	195.70	102.40	51.54
Other Current Liabilities	68.93	73.73	94.52	96.65	93.29
Short Term Provisions	2.23	2.74	9.46	17.69	30.10
<b>Total current liabilities</b>	<b>514.39</b>	<b>457.98</b>	<b>535.25</b>	<b>415.41</b>	<b>467.44</b>
<b>Total</b>	<b>941.11</b>	<b>905.61</b>	<b>1018.15</b>	<b>971.19</b>	<b>1091.31</b>
<b>Non-Current Fixed Assets</b>					
Fixed Assets	311.49	441.37	435.45	487.30	488.73
Capital work in progress	63.14	17.02	20.04	8.89	19.44
<b>Total Fixed Assets</b>	<b>374.63</b>	<b>458.39</b>	<b>455.50</b>	<b>496.19</b>	<b>508.17</b>
Non-Current Investments	0.00	0.00	0.00	0.00	0.00
Long Term Loan and Advances	70.32	65.20	55.86	5.61	9.07
Other Non-Current	0.00	0.00	0.00	0.00	0.00
<b>Investments</b>	<b>70.32</b>	<b>65.20</b>	<b>55.86</b>	<b>5.61</b>	<b>9.07</b>
<b>Current Assets</b>					
Current investments	0.00	0.00	0.00	0.00	146.02
Inventories	318.77	208.26	236.75	134.59	118.89
Trade Receivables	122.37	119.43	148.01	186.05	207.55
Cash and cash equivalents	10.24	10.21	57.35	59.25	21.54
Short Term loan and advances	36.68	32.40	50.05	81.99	29.65
Other current Assets	8.10	11.72	14.63	7.51	50.43
<b>Total</b>	<b>941.11</b>	<b>905.61</b>	<b>1018.15</b>	<b>971.19</b>	<b>1091.31</b>

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