October 25, 2024

Man Industries (India) Ltd.

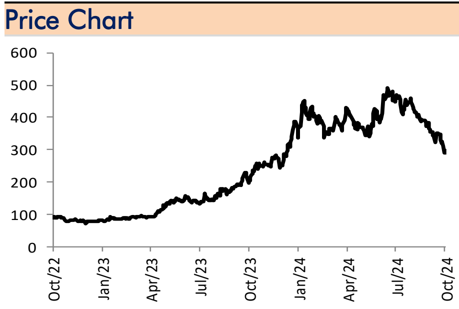
BUY	
Price	289
Target Price	437
BSE Sensex	79,402
NSE Nifty	24,181

Key Data	
Industry	Steel Tubes & Pipes
Reuters Code	MIND.BO
Bloomberg Code	MAN IN
Mkt Cap. (Rs bn/USD mn)	18.7/222.5
No of Shares o/s (mn)	64.7
Face Value (Rs)	5
BSE/NSE Code	513269/MANINDS
52 Week H/L (Rs)	513/195
Avg. Daily Traded Volume	3,66,084
Dividend per share (FY23)	-

Shareholding Pattern (%)	Mar-24	Jun-24	Sep-24
Promoters	46.2	46.1	46.1
Pledged shares	27.2	27.2	27.2
FII	4.2	4.5	5.6
DII	3.3	3.3	3.3
Public & Others	46.3	46.1	45.0

Stock Performance (%)	1M	3M	12M
Absolute	-20.3	-36.8	41.3
Relative to Nifty	-13.3	-35.9	14.8

Price Chart



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Dhanki reports are also available on Bloomberg and Factset.

INVESTMENT ARGUMENT

We are upbeat on MAN Industries (India) Ltd's (MAN) medium to long term growth prospects, given its established position in line pipes business, strong global clientele and widening product and geographical mix. Capacity expansion, healthy demand outlook and improving order inflows should improve MAN's overall growth trajectory.

Investment Rationale

Established presence in the SAW pipes business

With nearly three decades of experience, MAN is a prominent player in India's SAW pipe industry, producing both LSAW and HSAW pipes with combined capacity of 1 mn MT. It has a strong global presence, serving prestigious clients such as GAIL, IOCL, and Reliance, and having delivered over 20,000 km of piping since its establishment.

Healthy order backlog, revenue run rate and margins to improve from H2FY25E

MAN's current order backlog stands healthy at Rs 40 bn, executable over 6-15 months and comprising of 90% export orders, which command relatively better margins compared to domestic. Further, the recent large water order of Rs 18.5bn bagged from Taiwan for buoyancy pipes is likely to start execution from Q3FY25E, which would improve MAN's quarterly revenue run rate and margins meaningfully.

Greenfield expansion in Jammu and Saudi – a long term strategic move

The upcoming SS seamless pipes facility at Jammu (20,000 MT; capex Rs 5.5bn) and line pipes facility at Saudi (3,00,000 MT; capex Rs 6bn), expected to be operational from H2FY26E, could prove to be a major growth catalyst for MAN over long term. With these initiatives, MAN's revenues could potentially more than double in the next 3 years. These value added businesses could generate peak incremental revenue of Rs 38-49bn and drive MAN's overall margin trajectory in next 4-5 years.

Newly commenced ERW pipes business offers good growth opportunity

MAN has set up a new ERW pipes facility at Anjar with 1,25,000 MT of capacity in Q1FY24 and 50,000 MT in Q4FY24, which became fully operational from March-24. Another facility is being set up in Jammu (50,000 MT), which is expected to come on stream by end of FY26E. Increasing traction in CGD space should drive demand for ERW pipes, thus providing MAN strong growth opportunity in this space.

Joint Development Agreement to boost cash flows

Merino Shelter, MAN's wholly owned subsidiary, is likely to enter into a Joint Development Agreement with a real estate developer, wherein it is expected to receive a consideration of ~Rs 6bn over next 5 years, which should boost MAN's cash flows.

Valuation and Outlook

MAN's consolidated revenue, EBITDA and PAT is estimated to grow by 20.3%, 29.2% & 36.4% CAGR over FY24-27E, driven by capacity expansion, demand uptick and healthy order backlog. Higher share of value added products (SS seamless pipes), exports and better utilization should improve overall margin trajectory over the next three years. At CMP, the stock is trading at attractive valuations of 7.3x FY27E EPS. We initiate coverage with BUY rating on MAN with price target of Rs. 437.

Key Financials (Consolidated)

Particulars (Rs mn)	FY24	FY25E	FY26E	FY27E
Net Revenue	31,421.8	36,187.5	42,551.9	54,698.8
EBITDA	2,411.7	2,714.1	3,680.7	5,703.1
PAT	1,051.4	1,300.1	1,579.4	2,670.7
Fully Diluted EPS (Rs)	15.6	19.3	23.5	39.7
EPS Growth (%)	56.8	23.7	21.5	69.1
PE	18.5	14.9	12.3	7.3
ROIC	14.5	14.8	13.4	17.7
ROCE	11.5	11.0	11.6	16.7

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ABOUT THE COMPANY

Incorporated in 1988, Man Industries (India) Ltd (MAN) is a flagship company of diversified Man Group, which was promoted by the Mansukhani family in the year 1970. MAN's main business line includes manufacturing & coating of Large Diameter Carbon steel pipes, and ERW tubes. It is an ISO 9001:2015, ISO 14001:2015 & ISO 45001:2018 Certified Company and an established manufacturer and exporter of large diameter carbon steel line pipes (LSAW, HSAW and ERW) which are used for various high pressure transmission applications for oil & gas industry, petrochemicals, water, dredging & fertilizers, hydro-carbon and CGD sector. Spread over a total of 180 acres, the company has three state-of-the-art manufacturing facilities with two facilities located in Anjar, Gujarat (having 2 LSAW line pipe units, 2 HSAW line pipe units, 1 ERW pipes unit and also for various types of anti-corrosion coating systems) and one facility located in Pithampur (MP) with total installed capacity of 11,75,000 MTPA (LSAW - 5,00,000 MT; HSAW - 5,00,000 MT; ERW pipes – 1,75,000 MT). The company also manufactures steel bends and connectors (total capacity of 5,000-6,000 bends p.a.), which are used captively.

Segment-wise LSAW and HSAW account for 91% of the company's consolidated revenue (FY24), while coating and ERW contribute 8% and 1% respectively. ERW pipes facility at Anjar has become fully operational from March-24.

Product	Capacity (MTPA)	Location
LSAW	5,00,000 MT	1 facility at Anjar, Gujarat and 1 facility at Pithampur, MP
HSAW	5,00,000 MT	
ERW	1,75,000 MT	1 facility at Anjar, Gujarat
Total	**11,75,000 MT**	

Product Category	Product – visual overview	Key USPs	Applications
L-SAW		16"-56" OD/6-55mm WT/ 12.2 Mtr length	High-Pressure lines, used in Oil & Gas Projects
H-SAW		18"-140" OD/6.4-25.4mm WT/ 18 Mtr length	High-Pressure lines, used in Water Transport Projects
API-ERW		6"-18" OD/6-15mm WT/ 18.2 Mtr length	High-Pressure lines, used in Oil & Gas, Chemical, Food processing etc
Non API-ERW		0.5"-18" OD/6-25mm WT/ 18.2 Mtr length	Structural and Agricultural Applications

The company has a strong global reach (offices in India, UK, UAE) and caters to marquee domestic and international clients such as GAIL, IOCL, HPCL, BPCL, ONGC, Reliance, Adani, SHELL, Kinder Morgan, Kuwait Oil Company, Hyundai Engineering & Construction Ltd., and many more. Since inception, MAN has supplied 20,000+ km of pipes.

Domestic Clients			International Clients		
Reliance Industries Limited	GAIL	LARSEN & TOUBRO	NPCC	BR PETROBRAS	ConocoPhillips
HP	Bharat Petroleum	Indian Oil Corporation Limited	HYUNDAI ENGINEERING CO., LTD.	PETRONAS	KNPC
EIL	BHEL	ONGC	Technip	Kuwait Oil Company	Shell Global Solutions
CAIRN	Gujarat State Petronet	adani	NMDC	ADNOC	LUKOIL

Activate Windows

Key Management Team

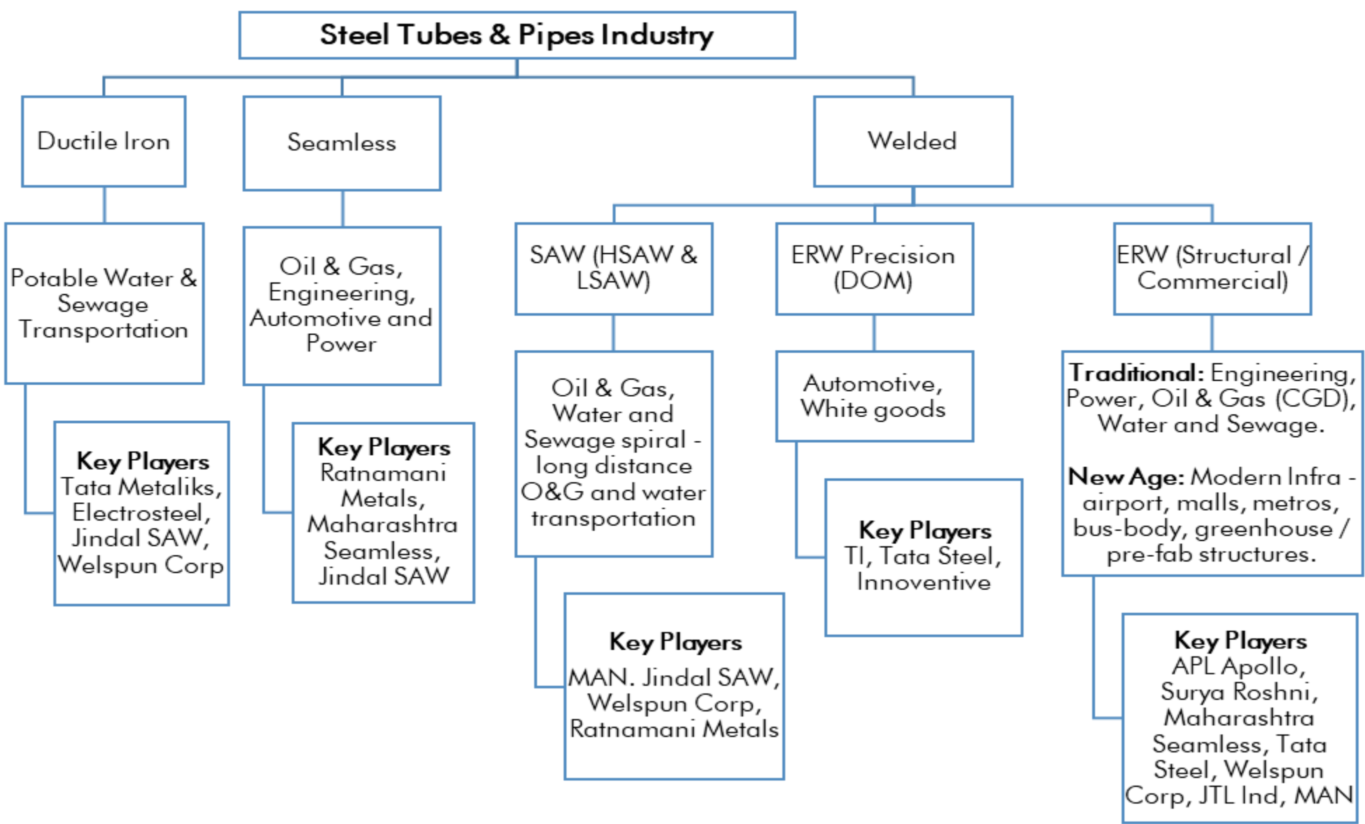
Name	Designation	Description
Ramesh Mansukhani	Executive Chairman	Mr Ramesh Mansukhani holds PhD in International Economics and Finance from France, Masters degree in Economics and Bachelors in Law from Vikram University, Ujjain (MP). He is the First Generation Entrepreneur and a visionary leader with over four decades of industrial experience. Since inception, he has been the company's strength and has set up successful businesses not only in India but also in the UK and UAE.
Nikhil Mansukhani	MD	Mr Nikhil Mansukhani joined the company as a director on 23rd Nov 2011 following his graduation with Bachelor's degree in Engineering with Business Management from King's College, University of London. In his role, he oversees business development and liaison efforts, as well as managing the company's day-to-day operations.
Sanjay Kumar Agrawal	CFO	Mr Agrawal brings 32 years of experience post obtaining his CA qualification from ICAI in 1992. Before joining MAN Group, he held similar positions with Transrail Lighting, Jindal India and Skipper.

INDUSTRY SNAPSHOT

Domestic steel tubes and pipes industry

The Indian steel tubes and pipes industry holds a significant position within the broader Indian steel industry, accounting for nearly 9-10% of India's steel consumption. Steel pipes and tubes are manufactured in various sizes to cater to different applications and can be categorized into segments like SAW pipes (LSAW, HSAW line pipes), Seamless pipes, ERW pipes and Ductile Iron (DI) pipes.

In volume terms, the industry is ~10-12mn MT and in value terms it is Rs 600-800bn. In terms of volume, 58-60% consist of ERW pipes, 20-22% DI Pipes and the remaining 20% comprises stainless steel and SAW pipes. In value terms ERW pipes contribute ~50%, while remaining 50% is accounted by other pipes like SAW, Seamless and DI.



After disruptions / challenges faced during period of COVID-19 pandemic, the industry has revived sharply over the last 2-3 years, led by strong capex revival. Driven by demand uptick across key user industries like infrastructure / construction / building materials (largest consumer of steel pipes, accounting for more than 50% of total demand), water supply, oil and gas (driven largely by CGD), automotive, agriculture, defence, railways, telecom, renewable energy and aviation, the industry is expected to grow at a CAGR of 7.5% during 2023-2027.

Key demand drivers for domestic metal pipes Industry

Surge in infrastructure spending fuels growth in steel pipe industry

The National Infrastructure Pipeline (NIP) has planned ~Rs 150 tn worth of investments across sectors over 2020-25. Investments in Energy, Irrigation, Water & Sanitation, Industrial Infrastructure are estimated at ~Rs 57 tn (~40% of the total investment). Assuming that 5-10% of capex spends accrue to steel pipes, this creates Rs 2.5-5 trn opportunity for the industry to capitalize. NIP-type investments should be an ongoing exercise and not end in CY25, thus aiding growth for the steel pipes industry going forward. India's capex upcycle is expected to stimulate investments in traditional factory setups, thereby boosting demand for steel pipes. As per CRISIL, India's infrastructure spends are expected to touch ~Rs 143 tn over 2024E-30E (vs ~Rs 67 tn over 2017-23).

Opportunities within Oil & Gas/Refineries/Petrochemicals

- **Refineries, Petrochemicals -** India, the second largest refiner in Asia, is aiming for a refining capacity of 450 mn MTPA by 2030, up from ~250 mn MTPA currently. In addition to new refineries, companies are also increasing the capacity of their existing units. Oil PSUs like BPCL, HPCL, IOC, ONGC which contribute more than 70% of India's total refining capacity, have lined up huge investment plans of nearly Rs 4.5 trn over the next 3-5 years towards refinery expansion and upgradation, laying pipelines and boosting petrochemicals production and E&P activities. This provides an addressable market opportunity of Rs 360-450bn for domestic carbon and stainless steel pipe manufacturers (considering pipe cost to total capex at 8-10%).

- **City Gas Distribution -** Until 2014, only 57 Geographical Areas (Gas) were authorized for development of City Gas Distribution (CGD) Network in the country. Since then, there has been immense growth in the CGD sector with addition of 257 Gas over the last decade. Post the recent successful completion of 12th CGD bidding round, PNGRB has till date authorized entities for the development of CGD network in 307 GAs, covering almost 100% of the total geographical area of the country spread over around 733 districts in 34 states/UTs with Minimum Work Programme (MWP) target of establishing 18,336 CNG stations across the country by 2032. The expanded CGD networks will facilitate the delivery of piped natural gas (PNG) for residential, industrial and commercial purposes, alongside compressed natural gas (CNG) for transportation. This project is expected to attract an investment of Rs 1.2 trn over the next decade. This would boost demand for ERW pipes (which are branch pipelines for last mile connectivity), thus presenting a substantial growth opportunity for steel pipe manufacturers.

- **Gas Pipeline Network –** India is targeting to increase share of gas in energy mix to 15% from current ~6.7% by 2030. As a part of this plan, the Petroleum and Natural Gas Regulatory Board (PNGRB) has authorized ~33,478 km length of Natural Gas Pipeline Network across the country with the aim to create a national gas grid and increase the availability of natural gas. As on March 2024, ~24,881 km pipeline is operational and 10,404 kms of pipeline is under construction. This would be one of the key demand drivers for large-diameter pipes on the domestic oil & gas side. GAIL commands largest share of ~65% (16,243 km) of the country's total natural gas pipeline network and is in constant endeavour to expand its pipeline infrastructure as a part of National Gas Grid.

- **E&P activities:** The 10th round of bidding for oil and gas assets under the Open Acreage Licensing Programme (OALP) will be held in early next year. Bidding for 28 oil and gas blocks in the ninth round closed in Sept-24. In the previous eight OALP rounds, 144 exploration and production blocks comprising a total area of 2,42,055 sq km have been awarded. These initiatives should help in cutting imports and boosting the domestic output, thus translating into improved demand for carbon steel seamless pipes.

Opportunities within Water Sector

The water segment in the line pipes industry is poised for significant growth in the coming years. According to a UN World Water Development Report, 2.3 bn people globally lack access to clean drinking water, and 3.6 bn lack adequate sanitation. Additionally, erratic rainfall and rising temperatures disrupt water cycles. India, identified as a water-stressed country, ranks low on the water quality index. As these water scarcity issues intensify, there is an increasing emphasis on boosting investments in the water sector.

India's water infrastructure market is reportedly expected to reach $2.8 bn by 2025. This signifies a growing focus on water management solutions in the country. The report also emphasises the urgency of water resource planning. By 2050, India will require a substantial 1,450 cubic kilometres of water annually.

The Government of India has, over the last decade, initiated various schemes, missions and major policies in partnership with the state governments viz. Jal Jeevan Mission (JJM), Jal Shakti Abhiyan, National Water Mission (NWM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) to name a few. The construction activity in drinking and sewage water segment is poised to sustain its healthy growth momentum over the medium term, supported by healthy capital outlay and the Government's numerous initiatives, some of which are detailed below:

- **Ministry of Jal Shakti:** The Ministry has been allocated Rs 987bn in FY25, an increase of 2% over the revised estimate for FY24. 78% of this allocation, i.e. Rs 774bn, is towards Department of Drinking Water and Sanitation.

- **JJM scheme:** The Har Ghar Jal Programme, one of the largest drinking water programmes in the world, implemented by the JJM under the Ministry of Jal Shakti, was launched with the aim to provide rural households with affordable and regular access to adequate supply of safe drinking water through taps. The budgetary allocation to JJM has grown at a CAGR of 48% during FY20-25BE, with the allocation in FY25BE being at a healthy Rs 701.6bn. There has been a visible increase in the annual release of funds by the centre of Rs 607bn to 29 eligible states/UTs for the implementation of JJM in FY24.

- **AMRUT 2.0 scheme:** The JJM has two components, Rural and Urban, with the latter being covered under the AMRUT scheme. It is designed to provide universal coverage of water supply through functional taps to all households and sewerage management in select 500 cities. The total indicative outlay for AMRUT 2.0 is Rs 3 trn. The total budgetary allocation from 2021-22 to 2025-26 is ~Rs 668bn. The scheme has been allocated Rs 80bn in FY25.

- **River Interlinking Project:** As per the rating agency Icra, business opportunities worth Rs 2 trn are expected to open up for engineering, procurement and construction entities (EPC) players over the next decade for the completion of four priority interlinking river (ILR) projects, viz Ken Betwa, Kosi Mechi, Parabati Kalisindh Chambal and Godavari-Cauvery links (Ken Betwa, which accounts for 21% of the cost of priority links, is already under implementation). Of these, nearly Rs 800bn worth contracts are estimated to be awarded in the next four years to companies involved in the construction of large irrigation projects. Icra estimates these priority links to be completed for Rs. 2.6 trn by FY35, which is likely to create meaningful demand for metal pipe manufacturers in the coming years.

  The National Water Development Agency (NWDA) has identified 30 ILR projects (16 peninsular river links and 14 Himalayan river links), to be funded by the Government of India (60%) and the balance by the state governments. Parbati Kalisindh and Godavari-Cauvery projects are estimated to start from FY28 and FY29, With the announcement of the financial support of Rs 115bn towards various flood control and irrigation projects for Bihar in the FY25 Union Budget, Icra expects the Kosi Mechi to start contributing to the order book in the next 12-15 months.

  While the share of these projects as a percentage of budgetary allocation to the ministry is currently minimal, at ~5% i.e. Rs. 39bn, it is expected to increase as more projects get approval and awarding/construction gains momentum.

Other growth drivers: Multiple barriers to scale & import duties safeguarding large domestic players

- Approvals/certifications are prerequisites for suppliers to become regular choices for clients (5-7 years' gestation period).
- Quality Control Order (notified by the Ministry of Steel) imposes BIS certification norms on steel and steel products (including pipes/tubes). These norms are also applicable for imports.
- Finance Ministry has imposed definitive anti-dumping duty on 'Stainless Steel Seamless Tubes and Pipes' from China. Valid for five years (over 2023-27), the anti-dumping duty imposed ranges from $114 to $3,801 per tonne depending on the producer.

Global opportunities in steel tubes & pipes industry

The global steel pipes and tubes market reached $133.2 bn valuation in 2023. Growth momentum is likely to continue, with industry projected to grow by 6.1% CAGR between 2024-2030. Steel pipe and tube manufacturers are at the forefront of innovation, constantly developing technologically advanced products to meet the growing demand for high-performance and durable solutions. A key driver of this growth is the growing construction of petrochemical plants worldwide. Steel pipes and tubes are integral to these facilities, functioning as critical components in piping systems, pressure tubes, and heat exchangers within the chemical and petrochemical industries. As investments in these plants grow, the demand for steel pipes and tubes is anticipated to see significant enhancement. A meaningful share of demand for steel pipes is expected to originate in the Gulf countries, Asia and USA. India's competitive advantages in pricing, quality and location makes it a preferred exporter to countries like USA, Europe, South East Asia, the Middle East, and Africa.

Huge opportunity for line pipe manufacturers in Saudi Arabia

Kingdom of Saudi Arabia (KSA), a pivotal member of the Gulf Cooperation Council and OPEC, stands as the largest economy in the GCC, primarily due to its position as one of the top three global oil producers and the leading exporter of crude oil. In 2023, the nation experienced a notable surge in oil production. Additionally, under the leadership of Crown Prince Mohammed bin Salman, there is a strategic vision focused on infrastructure development and economic diversification. This includes the "Saudization" policy, which aims to enhance local manufacturing and reduce dependency on imports, akin to India's "Make in India" initiative.

The demand for the HSAW Pipes in the KSA is expected to grow at ~6% p.a. over the next few years. Increased demand of water and oil & gas needs would be resulting in demand of pipelines thereby increasing the demand of HSAW pipes in the Kingdom. Several key initiatives are poised to sustain demand in Saudi Arabia over the next decade, including i) the development of NEOM, a futuristic city in northwest Saudi Arabia (a $1.5 trn megaproject on the Red Sea Coast) that is the centerpiece of Crown Prince Mohammed bin Salman's Vision 2030, ii) the upcoming 2034 FIFA World Cup (which would accelerate the construction boom with major projects like modern stadiums, upgraded metro systems, expanded airports, etc), iii) advancements in water desalination technology (KSA is making substantial investment of $14.58 bn in desalination projects). Once the pipe infrastructure gets phased out, the replacement demand cycle would drive the growth. Hence KSA provides a multi-year growth opportunity for pipe manufacturers.

Current total capacity to produce large diameter HSAW pipes in KSA is estimated to be close to 1.6 mn MTPA, while capacity utilization rates are near to peak levels at 65% (in 2023). Due to non-availability of capacity to produce specific range of pipes in KSA, close to 2,25,000 MT of large diameter pipes are imported in KSA from various regions such as Japan, India and other neighbouring countries. With localization or push for local manufacturing to gain momentum from CY24, the imports are expected to decline in the coming years. KSA is holding In-Country Value (ICV) certificate and has imposed an import duty of 15% to protect domestic manufacturers, which should keep the imports of line pipes restricted.

The company expects the demand supply gap in KSA to reach more than 3,00,000 MT by FY26E and to more than 8,00,000-9,00,000 MT by 2034. Currently, there are only 3-5 producers of large diameter HSAW pipes in KSA and their respective order backlog is full for the next three years. This offers significant opportunity for companies like MAN (who is setting up a greenfield facility in Saudi, likely to commence operation in H2FY26E), to meet the increasing demand for large diameter line pipes, establish market presence and grab market share in the coming years.

INVESTMENT RATIONALE

Well placed to capitalize on available opportunity

Established position in the SAW pipes industry

The domestic line pipes industry is consolidated, with the top four players accounting for 75-80% of capacity. The competition in this industry is limited due to large capital requirement and the necessity to have critical accreditations and customer approvals. With nearly 3 decades of experience, MAN is amongst the largest SAW pipe players in India producing both helically submerged arc welded (HSAW) and longitudinal submerged arc welded (LSAW) pipes with total installed capacity of 1mn MTPA (distributed equally between LSAW and HSAW). The company boasts a robust global presence with offices in India, the UK, and the UAE, serving prestigious domestic and international clients like GAIL, IOCL, HPCL, BPCL, ONGC, Reliance, Adani, SHELL, among others. Since its establishment, MAN has delivered over 20,000 kilometers of piping.

Capacity expansion, diversification of product and geographical mix to improve growth visibility

Citing strong growth opportunities in domestic and global markets, MAN has decided to diversify its product and geographical mix by recently venturing into ERW pipes (at Anjar) and by undertaking huge expansion plan of nearly Rs 12bn (likely to be funded through a mix of borrowings and internal accruals) to set up greenfield facilities of Stainless Steel (SS) Seamless pipes and ERW pipes in Jammu and line pipes facility in Saudi. These expansions are likely to be a game changer and key growth catalyst for the company in the coming years.

Newly commenced ERW pipes business offers strong growth prospects

MAN recently ventured into ERW pipes business (6” to 18” diameter size) by setting up a new facility at Anjar with addition of 1,25,000 MT capacity in Q1FY24 (operated under MAN) and 50,000 MT in Q4FY24 (operated under 100% subsidiary Man Stainless Steel Tubes) at total capex of ~Rs 1.7bn. Both these capacities have become fully operational from March-24 after receiving API certificate and other necessary approvals. ERW pipes find application as high-pressure lines, used in Oil & Gas, Chemical, Food processing etc. With buoyant industry outlook (especially traction in CGD space), the demand for ERW pipes is likely to remain robust. The plant is designed such that it can produce non-API when API order is less. The product segment accounts for 10-12% (Rs 4-4.8bn) of the current total order backlog, which is expected to improve meaningfully in the coming months. The company is confident of achieving 40% utilization in its first year of operations in FY25E and expects the same to scale up to 60-70% by FY26E. At peak utilization, this facility has revenue potential of Rs 8-9bn.

MAN is also setting up a 50,000 MTPA of greenfield facility of ERW pipes at Jammu, where it would manufacture and sell structural ERW pipes & tubes (non-API) which find usage in infra, construction, building materials, water supply and engineering. The capex for this project would be Rs 0.4-0.5bn and the facility is estimated to come on stream by end of FY26E. The facility will also have DFT mill, which can produce all types of sections. Structural steel pipes & tubes have been witnessing increasing usage over conventional construction products (like steel angle / channels, aluminium profiles, wood, RCC, fabricated metal sheet, etc) in public infrastructure (railways, airports, metro), high-rise buildings and warehouses due to their various advantages like high strength, light weight, durability, cost effectiveness, etc. With increased spending on infrastructure, growth in warehouse construction demand, consumer preference for better quality residential construction, share of structural steel tubes to overall India's steel consumption is expected to improve steadily to ~8% by FY31E from 6.3% currently. This provides healthy growth opportunity for MAN. The facility in Jammu will also be entitled to various benefits offered by Government like concessional tax rate (15% plus surcharge), interest subsidy on loan (@6%), GST credit upto 3x investment in plant & machinery for 10 years, lower electricity cost.

We estimate revenue of Rs 2.2bn in FY25E (Q1FY25 revenue stood Rs 0.5bn), Rs 4.1bn in FY26E and Rs 5.6bn in FY27E from the ERW pipes business. Further, with improving utilization, the margin trajectory of this business will also improve over next 2-3 years.

Foray into SS Seamless Tubes & Pipes– an opportunity to explore niche vertical

To further widen its product offerings, MAN is setting up a 20,000 MT p.a. of greenfield facility of SS Seamless tubes and pipes in Jammu (to be housed under 100% subsidiary Man Stainless Steel Tubes). The total capex for this project is estimated at Rs 5.5bn (Rs 1.5bn has already been incurred towards land acquisition) and the facility, after getting the necessary approvals and certifications, is expected to be operational from Q2/Q3 of FY26E. This provides MAN an opportunity to explore a premium and niche vertical. SS Seamless tubes & pipes find usage across industries like oil & gas / petrochemicals, power, chemicals, fertilizers for critical applications and hence they command significantly higher margins (18-22%) and realizations (Rs 4,50,000-5,00,000 / MT) compared to conventional pipes. The manufacturing process involves using an extrusion mill to heat and extrude raw material billets into mother tubes. These mother tubes are then cold-pressed using the pilgering process to produce the final tube product.

The Jammu facility would be entitled to following benefits offered by the Government:

- 3x investment in Plant & Machineries to be paid back in 10years tenure in form of GST credit
- 6% subsidy on interest cost
- Concessional tax rate of 15% (plus surcharge)
- Lower Electricity Cost in Jammu which is the key cost driver in any SS industry

The entire capex is likely to be funded through borrowings, since company would be liable to pay lower interest rate of ~3.5% due to interest subsidy benefits. Initially, the company will produce and sell mother hollow pipes (which are witnessing strong demand) to players who are currently importing the same. Once company becomes established and gets customers, it will start manufacturing and selling pilgered products (like titanium tubes, instrumentation tubes, nickel alloy tubes, other SS seamless tubes which are used for critical applications) which command far superior margins and realizations. The company expects the revenue to start flowing from Q4FY26E with a meaningful scale up from Q1FY27E onwards. While the demand for SS seamless raw mother and pilgered pipes from its user industries remains robust, we expect the ramp up to happen gradually, since it could take time for the company to get all the necessary approvals and certifications in place. We have projected revenue of Rs 400mn from this business in FY26E. However, we expect the same to accelerate to Rs 2.5bn in FY27E (at ~30% utilization). Utilization should scale up meaningfully in FY28E and FY29E. At peak utilization, this facility has the revenue generating potential of Rs 8-9bn. Further this being a high margin business, it is likely to improve the overall margin trajectory of MAN in the coming years.

The cash flows to be received in the form of GST refunds on 3x cost of plant & equipment from the central government is estimated to be ~Rs 10bn (cost of plant & machinery in overall capex is likely to be Rs 3-3.5bn). This is expected to be split over a period of 10 years, amounting to ~Rs 1bn per annum on an average. Since the facility is likely to start generating meaningful revenues from FY27E onwards, the benefits in the form of GST credit would start getting reflected largely from FY28E onwards. We have not factored in any such benefits in FY27E. Further the 6% interest subsidy on the loan amount which will be taken for funding this capex program will be received from the Government with a time lag of at least one year (as per the management). We have estimated the interest cost in our P&L at 9.5% p.a. and have not factored in any subsidy benefits due to lack of clarity on the timeline of subsidy. Interest subsidy @6% could benefit the company to the extent of Rs 240mn p.a.

Greenfield facility of line pipes being set up in Saudi – a strategic move

In a bid to expand in new geographies offering strong growth opportunity in line pipes business, MAN has recently announced an expansion plan of setting up a new plant at Dammam, Saudi Arabia with an estimated capex of Rs 6bn. This plant will include line pipe manufacturing (with installed capacity of ~3,00,000 MT of HSAW pipes) and a coating facility, which will cater to Saudi Arabia's growing demand. The capex would be funded through a mix of borrowings (Rs ~4bn) and internal accruals (~Rs 2bn). The facility is expected to be operational from Q2/Q3 of FY26E and revenue will start flowing from Q4FY26E. At peak utilization (anticipating 70-80%), the management expects this facility to have revenue generating potential of Rs 30-40bn.

We feel this expansion plan is a strategic move, as it would allow MAN to establish its presence in a new geography. With massive demand anticipated in Saudi Arabia's water and oil & gas pipes sector over the next decade due to Government's infra push, MAN seems well placed to capitalize on the available opportunities and grab a decent market share. Being a local manufacturer, the company would be entitled to concessional tax rate of 20%. Further, the projects in Saudi (both oil & gas and water) would fetch better margins (~12%) compared to domestic line pipes (7-10%). We estimate revenue of Rs 1.4bn in FY26E and Rs 8.6bn in FY27E (utilization of 30%) from the Saudi business. Utilization and revenue would improve meaningfully in FY28E and FY29E.

Looking to explore hydrogen pipe market, which is still at nascent stage

The world is increasingly recognizing hydrogen's pivotal role in decarbonizing industries and establishing a clean energy. In India, the Ministry of New and Renewable Energy has set ambitious targets for energy independence by 2047 and net zero carbon by 2017, underscoring the importance of green hydrogen in achieving these milestones. The National Green Hydrogen Mission has a projected investment of over Rs 8 trn by 2030 and targets to produce at least 5mn MT p.a. of green hydrogen. Global hydrogen pipeline market is projected to grow from $9.1 bn in 2023 to $25.7 bn by 2030, at 16% CAGR. All the lines would be new.

Sensing strong growth opportunity in the next few years, MAN has started to explore the hydrogen pipe market. In Dec-23, the company announced successful testing of hydrogen transportation pipe by one of the prestigious international testing agencies. Its pipe has passed the fracture toughness for hydrogen service test, ensuring structural integrity and safety for hydrogen transport. While this market is at a nascent stage, it is expected to gain significance over the next 5-10 years. Countries like US, Japan, Europe are making some progress in laying hydrogen pipelines and other countries are likely to follow soon. MAN is confident

enough to take the first mover advantage and enhance its capability and order book for new hydrogen line pipes. It has started getting some small inquiries for hydrogen and has already started to bid for certain orders in Europe. In India many players are working on green hydrogen space (like Reliance, Adani Green, L&T, NTPC, ONGC, etc) and hence the company expects good orders of pipelines after 3-4 years onwards. We have not factored in potential benefits from this space in our financial projections.

Consolidation of Merino Shelter resolves uncertainty, JDA to boost cash flows

In Nov 2021, SEBI had ordered a forensic audit on the financial statements of MAN. The forensic audit as per the company was conducted primarily because of non-consolidation of Merino Shelters Pvt Ltd (MSPL; a wholly owned subsidiary) in MAN's books. The company had received a show cause notice from SEBI in Aug-22, as a conclusion to the forensic audit. The company has confirmed that it has already settled this matter with SEBI and the settlement amount (for inadequate disclosure regarding the initiation of forensic audit) was borne by the promoters, thus not having any impact on the financial risk profile of the company. As per the management, they were advised by their lawyers not to consolidate MSPL due to family dispute over ownership of MSPL. However, this dispute seems to have settled now and post long struggle, MSPL has been consolidated as a wholly owned subsidiary in MAN's books from FY24 onwards. This has resolved the uncertainty amongst the investor community.

MSPL is likely to enter into a Joint Development Agreement (JDA) with a renowned real estate player to develop a property (residential and commercial) on the land parcel at Navi Mumbai. As per the agreement, MSPL is likely to receive a consideration of Rs 6bn (equal to its share in JDA) in phases over the next 6 years. In FY25E, it expects Rs 0.4-0.5bn and thereafter Rs 1bn each in FY26E and FY27E.

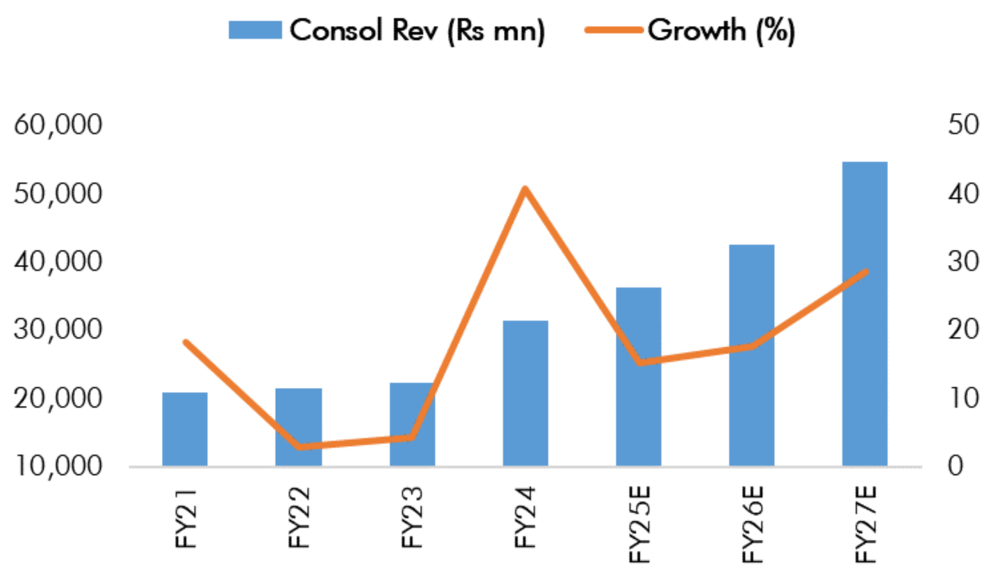
Till date, MAN has made overall investment of ~Rs 2.4bn in MSPL (including equity investment of Rs 1bn and loans and advances given for purchase of property ~Rs 1.4bn). MSPL will first repay the loans and advances from the JDA proceeds to MAN. Thereafter any further proceeds from JDA will add to MAN's consolidated cash flows and profitability.

Healthy order backlog, capex, strong demand to drive revenue growth over FY24-27E

MAN's order book as on date stands healthy at ~Rs 40bn, to be executed over the next 6-15 months. Nearly 90% are export orders. This includes a large export order for buoyancy water pipes worth Rs 18.5bn bagged recently from Taiwan, likely to be executed over the next 4-5 quarters starting from Q3FY5E. Excluding this export order, the balance order book has 80% oil & gas orders (which command better margins than water orders) and remaining 20% are water orders. With the commencement of execution of Taiwan order, MAN's quarterly revenue run rate is likely to improve from Q3FY25E onwards. Further, once the new SS seamless pipes and Saudi line pipes facilities become operational (meaningful revenue likely from Q1FY27E onwards), the revenue growth is likely to improve further.

The company has bid pipeline of Rs 80-100bn and it expects decent portion of that to get translated into orders in the coming months. With demand scenario across user industries likely to remain buoyant, we expect the bid pipeline and MAN's order inflows to remain healthy going forward.

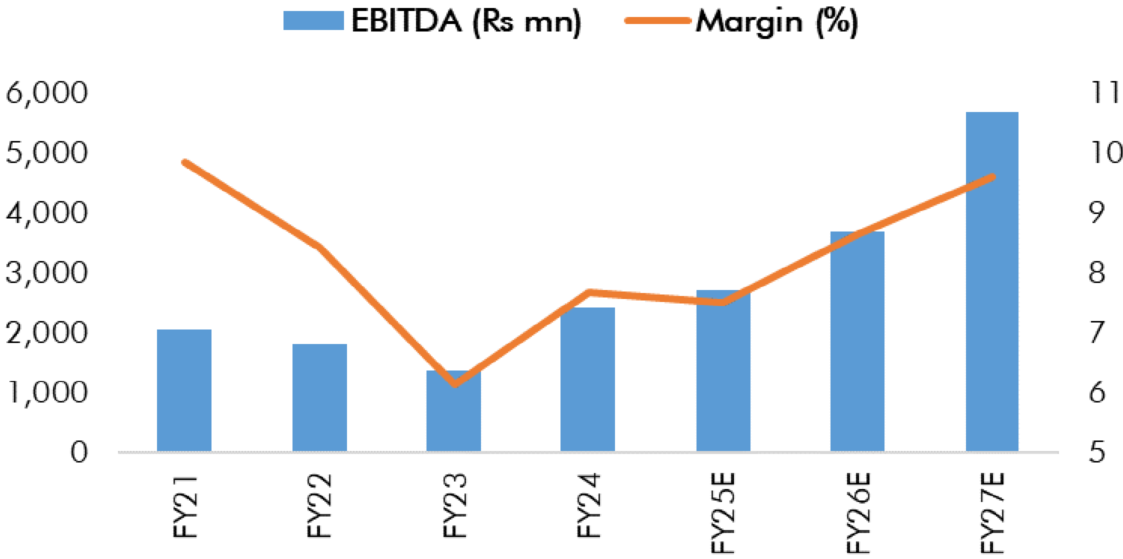
Driven by healthy order backlog, improving order inflows, capacity expansion and healthy demand from user industries, we estimate MAN's consolidated revenue to grow by 20.3% CAGR over FY24-27E, with faster growth anticipated in FY27E. We expect the new facilities (Jammu and Saudi) to account for ~22.5% of total consolidated revenue by FY27E.



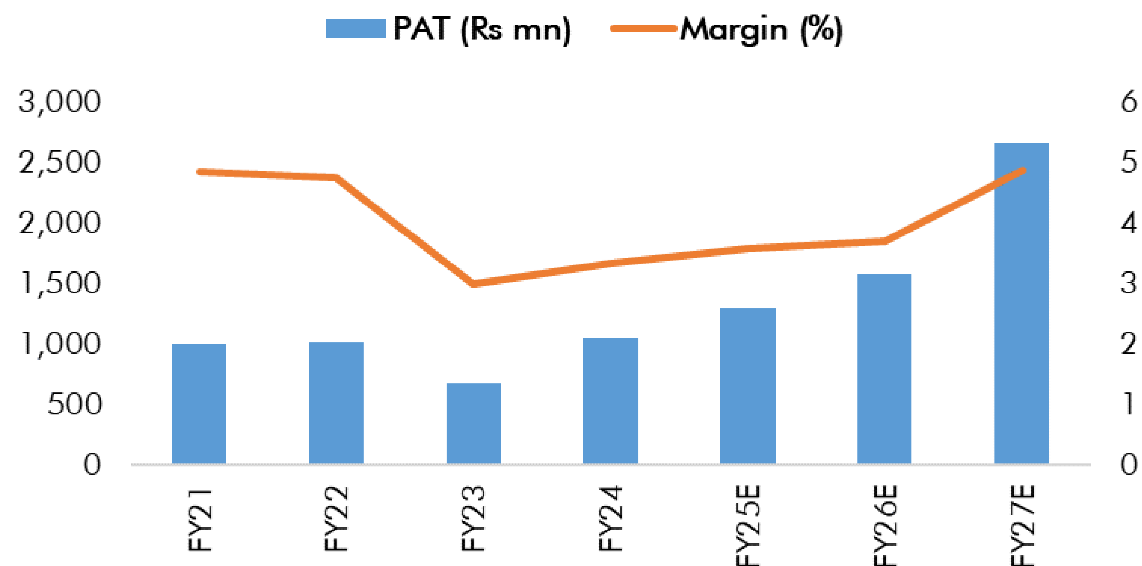
Better utilization, product mix to improve margin trajectory

Driven by increased contribution from high margin product categories and improved utilization, MAN's margin trajectory is expected to improve steadily over the next three years. Exports (which command higher margins by 1-2% compared to domestic) account for 90% of total order backlog. Further, export order from Taiwan is for supply of buoyancy water pipes, which commands more superior margins (~12%) compared to other export orders due to their niche applications. Once this order starts getting executed (from Q3FY25E), MAN's core margin trajectory is likely to improve meaningfully. Further, with the ramp up of the new facilities in Jammu and Saudi, which would manufacture high margin products (SS seamless pipes to fetch 18-22% margins and Saudi line pipes to command ~12% margins), the margin profile is likely to improve further.

We estimate MAN's core EBITDA to grow by 29.2% CAGR and core EBITDA margins (excluding other income and JDA inflows) to improve by 193bps to 9.6% over FY24-27E.



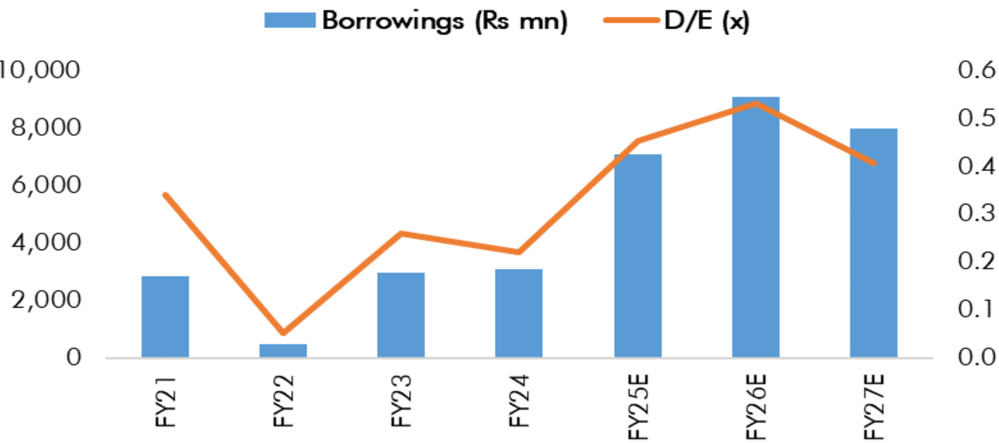
We estimate MAN's PAT to grow by 36.4% CAGR over FY24-27E with meaningful acceleration in growth in FY27E, likely to be driven by higher operating margins, relatively lower tax rate (estimated at 23.6% in FY27E) and higher other income (inflows from JDF). PAT margins are estimated to improve by 154bps to 4.9% over FY24-27E. We have estimated lower tax rate for FY26E and FY27E, since new facilities at Saudi and Jammu, which are entitled to tax benefits will start contributing to profitability.



Balance sheet positioning to remain healthy

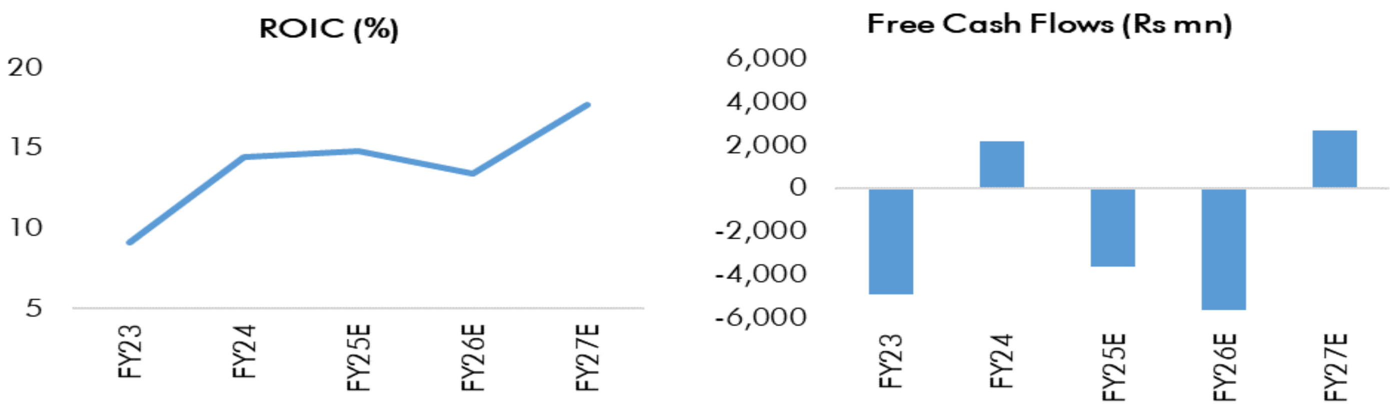
D/E to remain in comfortable zone despite huge capex

Incremental loans to fund the capex plans would increase overall borrowings of MAN from Rs 3bn in FY24 to Rs 9bn in FY26E (after factoring in some repayments). Though D/E would increase from 0.2x in FY24 to 0.5x in FY26E, we feel it appears to be in a comfortable zone, considering such a huge capex program. Further, once the new facilities scale up operations, it would translate into meaningful revenue, profitability and operating cash flows. This along with the inflows from JDA would enable MAN to improve its leveraging and working capital efficiency. Post the Saudi and Jammu expansion, there would not be any further major capex requirements. Hence we expect MAN's overall borrowings and D/E to decline from FY27E.



Free Cash Flows, Return Ratios to improve from FY27E

We estimate negative Free Cash Flows (FCF) in FY25E and FY26E due to deployment of huge capex during that period. However, with the end of capex cycle in FY26E and anticipation of strong revenue and profit growth, we expect FCF to bounce back in the positive in FY27E and improve meaningfully thereafter. Further, with strong cash flow generation and acceleration in profit growth, we also estimate a marked improvement in MAN's return ratios (ROCE, ROE and ROIC) by FY27E.



RISKS AND CONCERNS

- **Slowdown in key user industries** like oil & gas and water segment domestically and in key export markets (like ME and South East Asia) could impact the order inflows and growth visibility.
- **Sharp volatility in key input prices** (like HR Coil, Steel Plates), or any disruption in supply of raw materials could impact the operational performance.
- **Delay in ramp up of new capacities** at Saudi (line pipes) and Jammu (SS Seamless pipes) respectively due to delay in getting approvals / certifications, etc could impact the future sales and profit growth.
- **Delay in inflows from JDA** (Rs 6bn expected in phases over 5 years) could impact the cash flows.

Financials (Consol.)

Income Statement

YE March (Rs mn)	FY24	FY25E	FY26E	FY27E
Net Revenue	31,422	36,188	42,552	54,699
Growth	40.8%	15.2%	17.6%	27.4%
Operating Exp	29,010	33,473	38,871	48,996
Reported EBITDA	2,412	2,714	3,681	5,703
Core EBITDA	2,412	2,714	3,681	5,203
Growth	76.1%	12.5%	35.6%	41.4%
Depreciation	611	520	850	1,197
EBIT	1,801	2,194	2,831	4,507
Other Income	521	512	410	410
Interest	878	925	1,140	1,420
PBT	1,443	1,781	2,100	3,496
Tax	392	481	521	825
PAT	1,051	1,300	1,579	2,671
Growth	56.8%	23.7%	21.5%	69.1%
FD EPS	15.6	19.3	23.5	39.7
Growth	56.8%	23.7%	21.5%	69.1%

Key Ratios

YE March (Rs mn)	FY24	FY25E	FY26E	FY27E
EPS (Rs.)	15.6	19.3	23.5	39.7
CEPS (Rs.)	24.7	27.1	36.1	57.5
BV (Rs.)	208.9	232.4	254.9	293.6
P/E (x)	18.5	14.9	12.3	7.3
P/CE (x)	11.7	10.7	8.0	5.0
P/BV (x)	1.4	1.2	1.1	1.0
D/E (x)	0.2	0.5	0.5	0.4
EBITDA Margin (%)	7.7	7.5	8.7	9.6
PAT Margin (%)	3.3	3.6	3.7	4.9
RoCE (%)	11.5	11.0	11.6	16.7
RoIC (%)	14.5	14.8	13.4	17.7
RoE (%)	8.3	8.8	9.6	14.5
Wcap Cycle (days)	57.8	70.0	70.0	70.0
EV/Ebitda (x)	7.3	7.8	7.4	4.5
EV/Sales (x)	0.6	0.6	0.6	0.5

Balance Sheet

YE March (Rs mn)	FY24	FY25E	FY26E	FY27E
Share Capital	324	336	336	336
Reserves	13,725	15,289	16,801	19,405
Shr Funds	14,049	15,625	17,137	19,741
Debt	3,085	7,085	9,085	7,980
Net Def Taxes	258	258	258	258
LT Prov & Oth	183	210	246	297
Source of Funds	**17,574**	**23,177**	**26,725**	**28,276**
Net Block	5,248	5,028	15,679	14,982
CWIP	305	4,025	300	50
Goodwill	639	639	639	639
Investment	2,280	2,280	0	0
LT Loans & Adv	1,984	1,686	1,349	1,484
Total NCA	10,457	13,659	17,967	17,155
Inventories	6,456	6,940	8,161	10,394
Trade Rec	3,551	5,949	7,578	9,652
Cash & Equiv	2,549	3,109	1,305	1,732
Other CA	1,139	1,253	1,379	1,519
Total CA	13,695	17,250	18,422	23,297
Trade Payables	5,028	5,949	7,578	9,652
Other CL	1,551	1,783	2,086	2,524
Total CL	6,578	7,732	9,664	12,176
Net CA	7,117	9,519	8,758	11,120
Appl of Funds	**17,574**	**23,177**	**26,725**	**28,276**

Cashflow

YE March (Rs mn)	FY24	FY25E	FY26E	FY27E
Net profit	1,051	1,300	1,579	2,671
Add: Depreciation	611	520	850	1,197
Add: Non-Opt Item	358	413	731	1,011
(Inc)/Dec in Inv	(2,388)	(484)	(1,221)	(2,234)
(Inc)/Dec in Debtors	1,388	(2,398)	(1,629)	(2,074)
(Inc)/Dec in OA	(279)	(114)	(125)	(140)
Inc/(Dec) in CA	1,628	921	1,629	2,074
Inc/(Dec) in OL	939	233	303	438
Changes in Wcap	1,288	(1,842)	(1,043)	(1,936)
CF from Opt (A)	**3,308**	**392**	**2,117**	**2,942**
(Inc)/Dec in FA	(1,110)	(4,020)	(7,775)	(250)
Free CF	2,198	(3,628)	(5,658)	2,692
(Pur)/Sale of Invst	(2,277)	0	2,280	0
Int recd from Invst	521	512	410	410
(Inc)/Dec in Oth NCA	(578)	298	337	(135)
CF from Invst (B)	**(3,444)**	**(3,210)**	**(4,748)**	**25**
Inc/(Dec) in LT Debt	67	4,000	2,000	(1,104)
Inc/(Dec) in ST Debt	64	0	0	0
Interest Paid	(878)	(925)	(1,140)	(1,420)
Dividend Paid	0	(67)	(67)	(67)
Inc/(Dec) in Oth NCL	1,729	371	36	52
CF from Fin (C)	**983**	**3,379**	**828**	**(2,540)**
Net CF (A+B+C)	**846**	**560**	**(1,803)**	**426**

Disclosures/Disclaimers

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BUY: Absolute return of 15% and above; ACCUMULATE: 5% to 15%; HOLD: Upto ±5%; REDUCE: -5% to -15%; SELL: -15% and below.

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