

**CMP**  
Rs. 148.5

**TARGET PRICE**  
Rs. 240

**POTENTIAL UPSIDE**  
60%

**TIME FRAME**  
6-9 Months

## Short Report

### A Snapshot of Pipes & Tubes Industry

There has been a robust demand for pipes globally. The main factor driving the demand is high crude price. The cost of transportation of oil & gas by steel pipes is nearly 50% lower than other modes like roads and railways. This has led to Oil & Gas companies investing in pipeline network for distribution.

According to Simdex data, over 2.46lakh km of global line pipe demand is expected to come from 511 projects. Additionally, a majority of natural gas pipelines in USA are 25-30 years old and requires replacement. This has created huge demand of SAW pipes from North America.

The pipeline network in India is 12,200 km. In India, the oil and gas transportation through pipe is at 30-35%, which is lower than the world average of over 60%. With larger investment by both public and private players, the share of transportation of oil and gas through pipeline is expected to increase in future. The domestic demand is estimated to be at over 21,000 km in the next five years.

### Projected pipeline capacities coming up in the world

Region	Total Length	No. of Projects	% share (Length)
Asia	81,736	90	33.2
North America	57,920	189	23.5
Latin America	34,278	39	13.9
Europe	33,822	62	13.7
Middle East	21,541	92	8.7
Africa	11,610	28	4.7
Australia	5,566	11	2.3
<b>Total</b>	<b>2,46,473</b>	<b>511</b>	<b>100</b>

(Source – Simdex)

### Pipeline capacities coming up in India

Proposed Project	Investment (US \$ bn)
<b>Gas Pipeline</b>	
GTICL (RIL Pipeline)	1.56
Gail Pipeline	4.44
<b>LNG</b>	
Petronet at Dahej	0.20
Petronet at Kochi	0.35
Shell at Hazira	0.20
Dhabol	0.20
Mangalore LNG	1.0
<b>Refinery &amp; Retail Expansion</b>	
PSU Downstream Projects	9.78
Private Companies Downstream Projects	4.89
RIL – KG Basin	2.50
Upstream Exploration	4.00
<b>Total</b>	<b>29.12</b>

(Source- Man Industries presentation)

## **About Man Industries (I) Ltd.**

Promoted by Mr. R.C. Mansukhani in 1988, the company manufactures SAW pipes (both spiral and longitudinal) and various types of anti-corrosion coating systems. Man Industries has two plants located in Pithampur, Madhya Pradesh and Anjar, Gujarat. It is one of the largest SAW pipe manufacturers in the country with a total installed capacity of 2,500 Km p.a. (upto 10 lakh tonne capacity). It manufactures both Longitudinally Submerged Arc Welded (LSAW) & Helically Submerged Arc Welded (HSAW) pipes. It also provides all types of Anti-corrosion coating such as 3LPE, FBE Internal Epoxy etc. The company's list of international clients includes Shell, Total, BR Petrobras, Kinder Morgan, elPaso, Hyundai, Petronas etc. Its domestic clients include companies such as GAIL, ONGC, RIL, Indian Oil, Hindustan Petroleum, Bharat Petroleum, Cairn etc.

## **Key Investment Themes**

### **▪ High demand for Pipes globally**

MAN Industries is expected to benefit from the expansion in the global pipeline capacity (as MAN's sales are export oriented). Additionally, increased supply of gas from new finds, LNG imports and international pipeline project proposals will lead to increased demand from the oil & gas sector. To cater to this growing demand, the company is consistently investing in capacity expansion projects like the HSAW capex project at Anjar. Furthermore, a strong order book worth Rs. 2,200 crores helps supports future earnings visibility.

### **▪ Strong order book position**

MAN has a strong order book position of Rs 2,200 crores which is to be executed in the next 14-15 months. Its order book includes large size orders from USA. It has recently bagged order amounting to approximately US\$ 225 million from Kinder Morgan USA for the supply of 257 miles of 42 inch diameter LSAW and HSAW line pipes. The execution of orders of such size strengthens the base for the company to bag large size orders in future. Besides this the company has bid for projects worth US\$ 1 bn globally. Hence the order book position is expected to remain strong in future.

### **▪ Expansion in the existing capacity at Anjar**

The Company has successfully commissioned its second mill for HSAW pipes at Anjar in July 2007. The capacity of the mill is 2 lakh tonne per annum (TPA) and would contribute to the fourth quarter of FY08E. The company incurred a total capital expenditure of Rs 100 crores for setting up these two new mills at Anjar. MAN would be executing a part of its Kinder Morgan order from this newly commissioned mill. Besides the third mill for manufacturing HSAW pipes with 2 lakh TPA capacity at Anjar is expected to come on stream by the end of 2007 and would strengthen the FY09E financials.

### **▪ New facilities coming up in USA & China**

The company is planning to expand its manufacturing facility in the overseas market. It is looking at the larger markets like USA and China. The company is expected to invest about USD 30 mn for the overseas expansion which would be financed from the FCCB raised by it recently. The expansion in the overseas market like US would result into faster delivery of order. Besides this it would also save the transportation cost that is one of the major cost components (10% of total cost) for the export orders.

### **▪ Location advantage at Anjar**

With close to 80% of its order book constituting exports, primarily to the Middle East and the US, supply from its Anjar facility is likely to aid lower freight costs due to its location advantage as it is situated close to Mundra & Jawahar Lal Nehru ports.

## Buffered from currency movements

Import of raw material provides a natural hedge (to the extent of 75% of total sales) for the company's export sales and hence forward forex transactions are minimal. Exports contribute 80% to total sales but the company is relatively insulated from currency risks.

## Key Risks

- Decline in crude prices could hamper any potential pipeline capacity expansion and E&P projects denting demand for pipes.
- As HR coils account for 70% of the total cost of raw materials, any volatility in steel prices may affect the company's profitability. Additionally, any decline in plate prices used to manufacture LSAW plates could erode the cost competitiveness of HSAW pipes, whose capacity has been expanded recently.
- Any delay in order execution could affect Man Industries' earnings.

## Financial Statement

Particulars	Value(Rs. Crore)		
	30-Sep-07 3 Months	30-Sep-06 3 Months	31-Mar-07 12 Months
Net Sales	335.35	283.33	1141.07
Other Income	19.34	9.30	62.49
Total Expenditure	311.93	259.68	1071.76
PBIDT	42.76	32.95	131.80
Interest (Including Lease)	6.17	10.10	30.92
Depreciation	5.26	4.39	16.93
PBT	31.33	18.46	83.95
PAT	18.93	14.82	55.29
Diluted EPS	2.78	3.55	10.1
PAT / Sales (%)	5.23	5.64	4.85
Equity	26.64	26.64	26.64

## Valuation

We expect the company to report an EPS of Rs.16 in FY08. This gives us a price target of Rs.260 based on a PER of 15, implying an upside of 60%.

## Rating

Out performer	Large cap	10% or more
	Mid Cap	20% or more
	Small cap	30% or more
Performer	Large cap	Between 5 to 10%
	Mid Cap	Between 10 to 15%
	Small cap	Between 15 to 20%
Under performer	Large cap	-10 %or more
	Mid Cap	-15 %or more
	Small cap	-20% or more

## **Disclaimer**

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