

Bloomberg Code	MHS.IN
No of share O/S	6.70
Market Cap	2,396
Face Value	5
Dividend Yield	1.76
52 Wk High/Low	512/335

Subdued crude oil prices discouraging E&P activities, which are further affecting the demand for seamless pipes

Key result highlights

Maharashtra Seamless Ltd (MSL) reported YoY revenue growth of 28.3% to Rs.560.4 cr in Q3FY20 over the corresponding period previous year. Seamless and ERW pipe segments witnessed YoY sales volume decline of 18.8% and 11.8% to 65,000 tonnes and 15,000 tonnes, respectively, during Q3FY20. Continued pressure on oil & gas prices due to subdued global demand and the Corona virus outbreak impacted E&P activities, which further reduced the sourcing of seamless pipes and impacted MSL's quarterly numbers.

Gross profit reported a YoY decline of 25.4% to Rs.211.2 cr, while gross margin expanded by 143bps YoY to 37.7% in Q3FY20. Gross profit per tonne declined by 9.6% YoY to Rs.26,395 during the quarter. 9MFY20 gross profit per tonne was at Rs.29,786. Decline in sales volume lowered the capacity utilization and impacted the profitability

Similar to gross level performance, EBITDA reported YoY decline of 26% to Rs.116.4 cr, while EBITDA margin expanded by 64bps YoY to 20.8% in Q3FY20. EBITDA per tonne declined by 10.2% YoY to Rs.14,548 during the quarter. 9MFY20 EBITDA per tonne was at Rs.16,584

Other income grew at a YoY rate of 79.6% to Rs.15.0 cr and finance cost increased by 253.4% YoY to Rs.11.5 cr during the quarter. As a result, PBT reported a YoY decline of 29.9% to Rs.100.1 cr, while PBT margins declined by 41bps YoY to 17.9% in Q3FY20. MSL opted for the new tax regime of lower corporate tax, which aided the bottom-line. Net profit reported a YoY decline of 18.0% to Rs.76.1 cr, while net margins improved by 170bps YoY to 13.6%.

Valuation

MSL is currently trading at a FY22 forwarded P/E of 5.6x (FY22 est EPS of Rs.62.4). The surge in US crude oil production, fall in global oil demand and the Corona virus outbreak are expected to keep oil prices under pressure, which could discourage E&P activities. ONGC's crude oil production is expected to grow at a CAGR of 1.5% over FY19-22E to 22.0 MMT as against the company's target of 23.6 MMT. Therefore, we are expecting MSL's seamless pipe volumes to grow at a CAGR of 3.9% to 3.54 lac tonnes, while ERW pipe volumes are expected to witness volume CAGR of 6.9% to 89.2 thousand tonnes between FY19-22E. We would value MSL at FY22 P/E of 6.5x with a target price of Rs.406 and recommend BUY

Financial Summary

Slowdown in E&P activities impacted seamless pipe industry. MSL reported a decline in sales volumes which further affected financial performance.

Lower capacity utilization impacted profitability.

We are expecting a rebound in E&P activities due to govt push to increase domestic oil & gas output to meet growing energy demand.

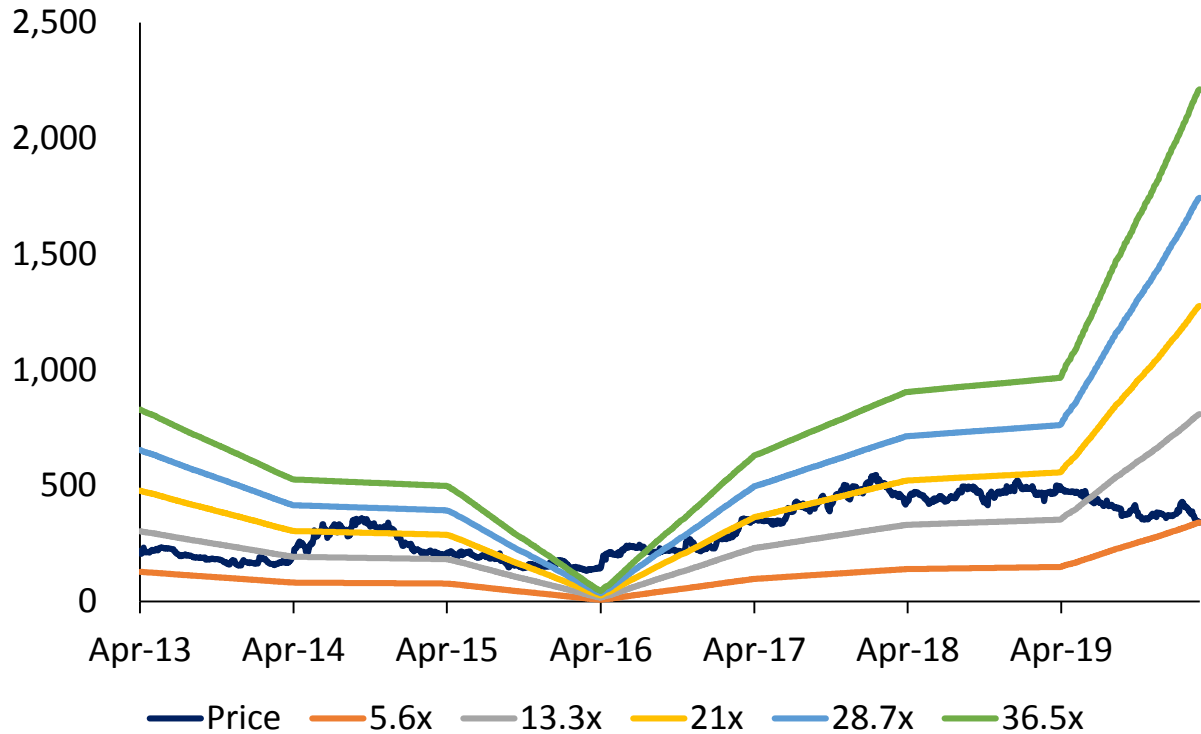
Figures are in Rs Cr	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	FY19	FY20E	YoY (%)	FY21E	YoY (%)	FY22E	YoY (%)
Net Sales	560	781	-28.3	788	-28.9	3,073	2,853	-7.2	3,153	10.5	3,405	8.0
Raw Material Cost	349	498	-29.9	485	-28.0	1,882	1,766		2,026		2,210	
RM Cost to Sales (%)	62.3	63.8		61.6								
Employee Cost	19	18	6.2	19	0.6	71	76		83		90	
Employee Cost to Sales (%)	3.4	2.3		2.4								
Operating Expenses	76	108	-29.9	118	-35.9	452	410		454		489	
OPEX to Sales (%)	13.5	13.8		15.0								
EBITDA	116	157	-26.0	166	-29.8	668	601	-10.0	590	-1.8	616	4.4
EBITDA Margin (%)	20.8	20.1		21.0		21.7	21.1		18.7		18.1	
Depreciation	20	20	0.8	20	0.4	80	79	-1.3	82	3.8	87	6.1
Depreciation to Net Block (%)				6.9								
Interest	12	3	253.4	12	-7.5	39	49		50		51	
Interest Rate (%)												
TTM Interest Coverage	13	71		16		15	11		10		10	
Other Income	15	8	79.6	20	-23.6	70	70		75		80	
Other Income to Sales (%)	2.7	1.1		2.5		2.3	2.5		2.4		2.3	
Exceptional Income / Expenses	0	0		0		-210	0		0		0	
Profit Before Tax	100	143	-29.9	153	-34.7	409	543	32.8	533	-1.8	558	4.7
Tax Rate (%)	24.0	35.0		-28.0		56.7	25.2		25.3		25.1	
Profit After Tax	76	93	-18.0	196	-61.3	177	406	129.4	398	-2.0	418	5.0
PAT Margin (%)	13.6	11.9		24.9		5.8	14.2		12.6		12.3	
Adjusted EPS	11.4	13.8	-18.0	29.3	-61.3	26.5	60.7	129.1	59.5	-2.0	62.4	4.9
Shareholder's Funds				3,426								
BV per share	#N/A	#N/A	#N/A	511.3	#N/A	479.4	527.9	10.1	575.5	9.0	625.4	8.7
Net Debt						69	435	530.4	-203	-146.7	-499	145.8
Net Debt to Equity	#N/A	#N/A		#N/A		#DIV/OI	#DIV/OI		#DIV/OI		#DIV/OI	
Net Debt to EBITDA						0.1	0.7		-0.3		-0.8	
Working Capital Cycle	#N/A	#N/A		113								
CAPEX						-25	-477	1,808.0	-25	-94.8	-25	0.0
RoE	#N/A	#N/A		10.5		5.5	11.5		10.3		10.0	
RoCE						16.5	13.5		12.0		11.6	
P/E	6.6	6.2		6.3		12.9	5.6		5.7		5.5	
P/B				0.7								
EV/EBITDA	#N/A	#N/A		#N/A		3.5	4.5		3.5		2.9	

Segmental Performance

Segmental Performance	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY18	FY19	FY20E	FY21E	FY22E
Seamless Sales volume (in tonnes)	69,000	82,000	72,000	65,000	76,000	80,000	95,000	70,000	79,000	65,000	294,582	316,000	299,500	329,450	354,159
<i>YoY Growth</i>	<i>59.5%</i>	<i>47.9%</i>	<i>8.1%</i>	<i>-9.7%</i>	<i>10.1%</i>	<i>-2.4%</i>	<i>31.9%</i>	<i>7.7%</i>	<i>3.9%</i>	<i>-18.8%</i>	<i>40.4%</i>	<i>7.3%</i>	<i>-5.2%</i>	<i>10.0%</i>	<i>7.5%</i>
ERW Sales volume (in tonnes)	15,000	14,000	14,000	16,000	19,000	17,000	21,000	16,000	18,000	15,000	55,744	73,000	72,100	81,113	89,224
<i>YoY Growth</i>	<i>-14.7%</i>	<i>-35.6%</i>	<i>-27.2%</i>	<i>33.3%</i>	<i>26.7%</i>	<i>21.4%</i>	<i>50.0%</i>	<i>0.0%</i>	<i>-5.3%</i>	<i>-11.8%</i>	<i>-22.9%</i>	<i>31.0%</i>	<i>-1.2%</i>	<i>12.5%</i>	<i>10.0%</i>
Total Sales volume (in tonnes)	84,000	96,000	86,000	81,000	95,000	97,000	116,000	86,000	97,000	80,000	350,326	389,000	371,600	410,563	443,383
<i>YoY Growth</i>	<i>38.0%</i>	<i>24.4%</i>	<i>0.2%</i>	<i>-3.6%</i>	<i>13.1%</i>	<i>1.0%</i>	<i>34.9%</i>	<i>6.2%</i>	<i>2.1%</i>	<i>-17.5%</i>	<i>24.2%</i>	<i>11.0%</i>	<i>-4.5%</i>	<i>10.5%</i>	<i>8.0%</i>
Revenue (in Rs Cr)	484	564	631	604	697	781	965	690	788	560	2,150	3,073	2,853	3,153	3,405
<i>YoY Growth</i>	<i>58.7%</i>	<i>47.4%</i>	<i>39.5%</i>	<i>34.0%</i>	<i>43.9%</i>	<i>38.6%</i>	<i>52.8%</i>	<i>14.4%</i>	<i>13.1%</i>	<i>-28.3%</i>	<i>49.9%</i>	<i>42.9%</i>	<i>-7.1%</i>	<i>10.5%</i>	<i>8.0%</i>
Per unit realization (in Rs)	57,615	58,715	73,412	74,519	73,324	80,540	83,174	80,269	81,247	70,053	61,377	78,990	76,785	76,785	76,785
<i>YoY Growth</i>	<i>15.0%</i>	<i>18.5%</i>	<i>39.2%</i>	<i>39.0%</i>	<i>27.3%</i>	<i>37.2%</i>	<i>13.3%</i>	<i>7.7%</i>	<i>10.8%</i>	<i>-13.0%</i>	<i>20.7%</i>	<i>28.7%</i>	<i>-2.8%</i>	<i>0.0%</i>	<i>0.0%</i>
Gross Profit (in Rs Cr)	154	164	255	253	229	283	404	269	303	211	739	1,191	1,087	1,127	1,195
<i>YoY Growth</i>	<i>32.7%</i>	<i>18.3%</i>	<i>57.1%</i>	<i>60.9%</i>	<i>48.2%</i>	<i>73.0%</i>	<i>58.3%</i>	<i>6.4%</i>	<i>32.5%</i>	<i>-25.4%</i>	<i>43.9%</i>	<i>61.2%</i>	<i>-8.7%</i>	<i>3.6%</i>	<i>6.1%</i>
Gross Profit per tonne (in Rs)	18,371	17,054	29,681	31,254	24,067	29,194	34,827	31,315	31,226	26,395	21,089	30,618	29,264	27,441	26,947
<i>YoY Growth</i>	<i>-3.9%</i>	<i>-4.9%</i>	<i>56.8%</i>	<i>66.9%</i>	<i>31.0%</i>	<i>71.2%</i>	<i>17.3%</i>	<i>0.2%</i>	<i>29.7%</i>	<i>-9.6%</i>	<i>15.9%</i>	<i>45.2%</i>	<i>-4.4%</i>	<i>-6.2%</i>	<i>-1.8%</i>
EBITDA (in Rs Cr)	60	61	124	144	128	157	235	154	166	116	310	668	601	590	616
<i>YoY Growth</i>	<i>1.0%</i>	<i>2.5%</i>	<i>72.2%</i>	<i>136.3%</i>	<i>113.2%</i>	<i>157.6%</i>	<i>89.2%</i>	<i>7.1%</i>	<i>29.6%</i>	<i>-26.0%</i>	<i>37.9%</i>	<i>115.3%</i>	<i>-10.1%</i>	<i>-1.8%</i>	<i>4.5%</i>
EBITDA per tonne (in Rs)	7,148	6,357	14,460	17,737	13,473	16,207	20,286	17,899	17,099	14,548	8,854	17,170	16,161	14,367	13,903
<i>YoY Growth</i>	<i>-26.8%</i>	<i>-17.6%</i>	<i>71.9%</i>	<i>145.1%</i>	<i>88.5%</i>	<i>154.9%</i>	<i>40.3%</i>	<i>0.9%</i>	<i>26.9%</i>	<i>-10.2%</i>	<i>11.0%</i>	<i>93.9%</i>	<i>-5.9%</i>	<i>-11.1%</i>	<i>-3.2%</i>

1 year forward valuation band charts

P/E band chart



P/B band chart



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