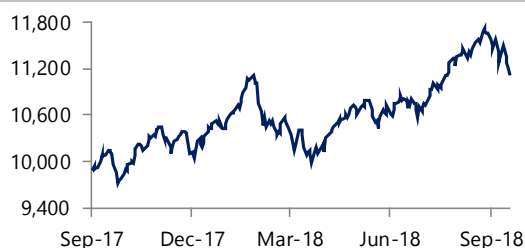


SEPTEMBER 24, 2018

	21-Sep	% Chg			
		1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	36,842	(0.8)	(3.8)	3.6	
NIFTY Index	11,143	(0.8)	(3.5)	3.4	
NSEBANK Index	25,597	(2.6)	(9.5)	(3.6)	
NIFTY 500 Index	9,426	(1.3)	(4.2)	1.6	
CNXMcap Index	18,348	(2.5)	(6.4)	(1.4)	
BSESMCAP Index	15,763	(3.0)	(6.7)	(5.4)	
<b>World Indices</b>					
Dow Jones	26,744	0.3	3.7	8.8	
Nasdaq	7,987	(0.5)	0.5	3.8	
FTSE	7,490	1.7	(1.2)	(2.5)	
NIKKEI	23,675	0.0	5.6	6.0	
Hangseng	23,675	0.0	5.6	6.0	
Shanghai	27,954	1.7	(0.3)	(6.0)	
<b>Value traded (Rs cr)</b>					
	21-Sep	% Chg Day			
Cash BSE	5,030	70.4			
Cash NSE	66,047	99.7			
Derivatives	1,333,835	(34.9)			
<b>Net inflows (Rs cr)</b>					
	19-Sep	MTD	YTD		
FII	(2,186)	(3,932)	(9,371)		
Mutual Fund	696	4,969	81,586		
<b>Nifty Gainers &amp; Losers</b>					
	Price	Chg	Vol		
21-Sep	(Rs)	(%)	(mn)		
<b>Gainers</b>					
Bharti Infra	281	3.8	3.6		
BPCL	377	3.1	8.2		
Indian Oil Corp	158	3.0	19.1		
<b>Losers</b>					
Yes Bank	227	(29.0)	293.5		
Indiabulls Housing	1,062	(8.4)	13.5		
Bajaj Finance	2,379	(4.8)	5.8		
<b>Advances / Declines (BSE)</b>					
21-Sep	A	B	T	Total	% total
Advances	102	127	43	272	100
Declines	328	903	96	1,327	488
Unchanged	2	19	18	39	14
<b>Commodity</b>					
	21-Sep	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	79.8	1.2	5.2	5.6	
Gold (US\$/OZ)	1,199.0	(0.7)	(0.8)	(5.7)	
Silver (US\$/OZ)	14.3	(0.2)	(4.1)	(13.7)	
<b>Debt / forex market</b>					
	21-Sep	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	8.1	8.1	7.8	7.8	
Re/US\$	72.2	72.4	69.8	68.0	

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The Reserve Bank along with Sebi is "closely monitoring" recent developments in financial markets and "ready" to take actions, if necessary, as domestic bourses witnessed sudden mid-session plunge last Friday. (ET)
- ▶ **Tata Steel** has executed a definitive agreement for acquisition of **Usha Martin's** steel business through a slump sale on a going concern basis. The amount of consideration for the transfer of business will be in the range of Rs 43 billion to Rs 47 billion. (BS)
- ▶ **DHFL** said it proposes to reduce exposure to commercial paper (CP) as part of overall borrowing plan and increase hedging activity, days after the shares of the company tumbled up to 42 per cent on massive selling over fears of a liquidity crisis. (ET)
- ▶ **Thyrocare Technologies'** buyback up to Rs 630 mn at a maximum price of Rs 730 per share starts today. (Bloomberg)
- ▶ **Biocon** and its partner Mylan announced that they have received positive opinion from the European Medicines Agency's Committee for Medicinal Products for Human Use for recommending approval of bio-similar product 'Fulphila'. (Moneycontrol)
- ▶ **Reliance Industries'** telecom unit signed a five-year contract with Star TV for broadcasting cricket content on its platform 'JioTV' and Hotstar. (BS)
- ▶ **ITD Cementation India** has secured orders worth Rs 8.4 Bn for Upgrading of passenger terminal building and Airside facilities at Tiruchirapalli (Trichy). (BS)
- ▶ **ABB India** to supply power solutions at 23 subtraction stations between 1,500 kilometers lines between Mumbai and Dadri. The deal is with Indian Railways over its Dedicated Freight Corridor which will run through Delhi, Mumbai, Kolkata and Chennai. (Bloomberg)
- ▶ NCLT approved resolution plan by Ingen Capital Group for **Orchid Pharma**. Orchid's lenders may take a haircut and would receive around Rs 10 billion out of the total Rs 32 billion outstanding. (BS)
- ▶ **Biocon's** Drug Substance Facility in Bangalore completes US FDA inspection with no observations. (BSE)
- ▶ **Cipla** received final approval for its ANDA for Albendazole Tablets 200mg from US FDA. It is an anthelmintic drug indicated for use in Treatment of parenchymal neurocysticercosis. According to IQVIA, Albenza® had US sales of nearly \$99M for 12-month ending July 2018. The product is available for shipping immediately. (BSE)

## What's Inside

- ▶ **Management Meet Update:** Maharashtra Seamless Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

**Management Meet Update**

**Stock Details**

Market cap (Rs mn)	:	31651
52-wk Hi/Lo (Rs)	:	552 / 375
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	54,063
Shares o/s (mn)	:	67

Source: Bloomberg

**Financial Summary**

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	21,497	27,845	33,438
Growth (%)	49.9	29.5	20.1
EBITDA	3,110	6,404	7,524
EBITDA margin (%)	14.5	23.0	22.5
PAT	2,001	4,136	4,829
EPS	29.9	61.7	72.1
EPS Growth (%)	73.1	106.7	16.8
BV (Rs/share)	437	495	563
Dividend/share (Rs)	2.8	3.0	3.3
ROE (%)	7.1	13.2	13.6
ROCE (%)	5.6	11.4	11.9
P/E (x)	15.8	7.6	6.5
EV/EBITDA (x)	9.7	4.7	4.0
P/BV (x)	1.1	1.0	0.8

Source: Company, Kotak Securities - PCG

**Shareholding Pattern (%)**

(%)	Jun-18	Mar-18	Dec-17
Promoters	61.2	60.6	60.3
FII	2.4	3.3	4.4
DII	7.6	7.9	7.4
Others	28.2	28.3	28.0

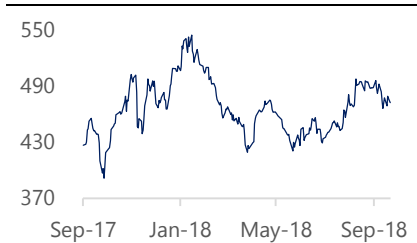
Source: Company

**Price Performance (%)**

(%)	1M	3M	6M
Mah Seamless	(4.7)	7.5	5.2
Nifty	(3.5)	3.4	10.1

Source: Bloomberg

**Price chart (Rs)**



Source: Bloomberg

**Ruchir Khare**

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**MAHARASHTRA SEAMLESS LTD (MSL)**

**PRICE Rs.472**

**TARGET Rs.805**

**BUY**

**Key highlights**

- We interacted with the management of MSL to get perspective on the company's operations-core business and United Seamless Tubular Private Limited proposed acquisition. Management is able to reassure (during the course of our interaction) that the company is well poised to benefit from the demand uptick in Seamless pipes which is expected to further flow into FY19/20.
- We believe that the company will be able to maintain margins on back of improved pricing and operating leverage. We maintain estimates; reiterate our positive view and expect company to be able to deliver PAT growth at c.55% CAGR between FY18-20.

**Valuation & outlook**

MSL stock continues to trade at attractive valuations at 4x FY20 EV/EBITDA. We value MSL stock at 7x EV/EBITDA FY20E earnings and maintain BUY with unchanged target price of Rs 805 per share.

**Management meet update**

**United Seamless Tubular Private Limited (USPL) acquisition to significantly enhance MSL capacity**

MSL has emerged as the lead bidder for USPL in NCLT. Management highlighted that USPL has capacity of 350000 MT and potential acquisition would enhance MSL capacity substantially (MSL current Seamless pipe capacity is reported at 550000 MT).

MSL has made a bid of c. Rs 4.7 Bn (Enterprise Value) for USTPL and the transaction is expected to complete by 2HFY19. Further management highlighted that Rs 250 mn would be invested to make USPL plant operational to reach the capacity mark of 25,000 MT. Additionally, Rs 1 Bn would have to be invested to reach full capacity of 350,000 MT. Management highlighted that the capacity would be ramped up in phases viz. 75000 MT in I year, 125000 in II and 170000 in year III.

We believe that the deal shall be value accretive at the valuation of Rs 4.7 Bn (Rs 6 Bn including additional investments, implying c. Rs 17142 per MT), given high setup cost of Rs 1 lakh per MT in a Greenfield project.

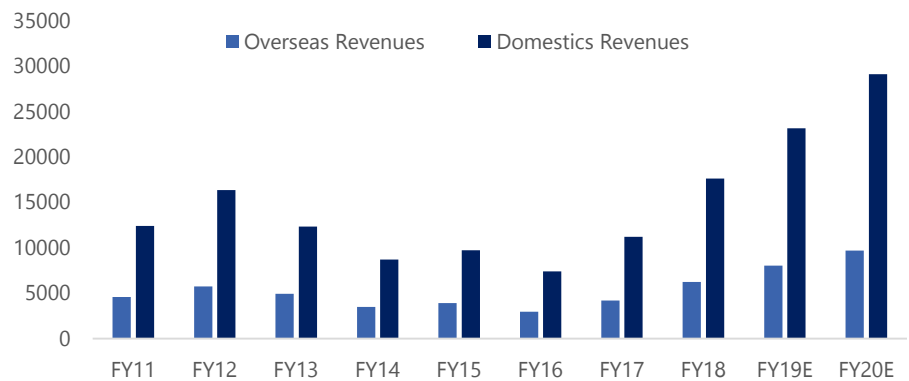
**MSL business would not be impacted by US imposition of anti-dumping duty**

The U.S. has announced hefty preliminary anti-dumping duties on metal pipes imported from India, China and four other countries to protect the American industry.

Trump administration has imposed c.51% anti-dumping duty on Indian pipe is applicable on large diameter pipes (20 inch and above) and it does not impact MSL exports in any way. Although there is no precise way of ascertaining, the future course of such protectionist moves, we take notable comfort in MSL

relatively lower exposure (exports constitutes to nearly 15% of revenue pie) in the export market. US accounts for nearly 5% of company's business.

**Domestic/Overseas mix (Rs mn)**



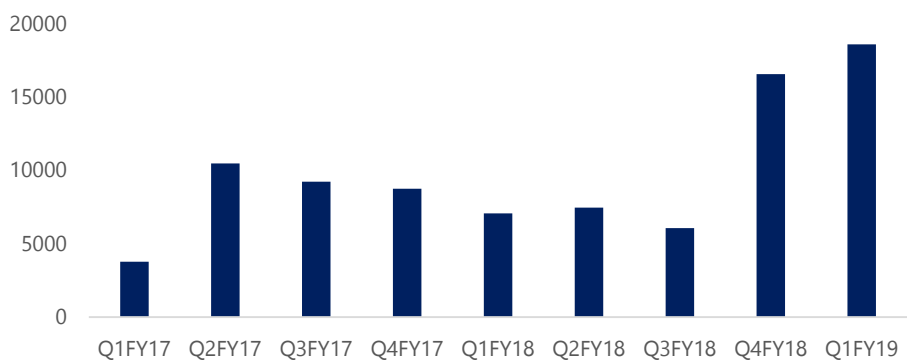
Source: Company, Kotak Securities – Private Client Research

**Volume/Pricing outlook remains strong; management confident about maintaining margin**

Management shared positive demand outlook for company's products, especially in seamless pipes and have reassured on company's ability to post margin sustenance going forward.

We continue to take notable comfort from the latest lead indicators, which are pointing towards improving trends in the end markets. These include- pick up in ordering from US/Europe (US/Europe have also imposed anti-dumping duty on seamless pipes), strong order flows from ONGC in last three quarters and bounce back in energy prices which could lead to recovery from oil producing (Middle East & Africa) countries.

**Seamless pipes – Quarterly EBITDA/tonne trend (Rs)**



Source: Company, Kotak Securities – Private Client Research

### MSL to pursue the monetization of non-performing assets, a potential trigger for re-rating

Management confirmed that the company shall make attempts to monetize the non-performing investment assets (total exposure USD 96 mn) stuck in 1/ 6 oil rigs and 2/ iron ore mine in Brazil.

These split of this investment is presented in the table below.

#### Investment split

	Oil rigs mn \$	Iron ore mines mn \$
Year of acquisition	2012	2014
Holding in the JV (%)	21	32
<b>Total exposure</b>	<b>70</b>	<b>26</b>
Equity	9	.2
Preferential Shares	54	6
Loans	4	19.5

*Source: Company, Kotak Securities – Private Client Research; (Note, we do not account for the value of these assets in our valuation model).*

These investments have remained low yielding till date. Demand for oil rigs (and so the valuation) have remained constrained in last few years. Currently, 4 out of 6 rigs are deployed. **Management, however shared optimism regarding the deployment of remaining 2 oil rigs** on back of relatively improved demand now (driven by increasing Crude oil prices). Further this would revoke the loan guarantee of USD 164 mn which MSL has provided to the Oil rigs JV.

In iron-ore investment, situation is rather status-quo and efforts are being made to make the mine operational before hiving it off.

Street has remained skeptical about these investments (in our opinion) and any move towards the monetization of these investments could help re-rating of company's valuations.

#### .... MSL is reluctant in committing Greenfield capex

Management stated that the company would be more prudent in the capital allocation. MSL would refrain from making Greenfield capex and would rather scout for the opportunities (similar to USPL) in the NCLT and NCLAT. The opportunities might include 1/ debottlenecking of capacities across products and 2/ backward integration (billet manufacturing). The company would entail maintenance capex of c. 100-150 mn in FY19/20.

#### High growth in revenue/PAT to flow into FY19/FY20; sharp recovery in operating margins likely to aid to free cash flow generation

We maintain revenue projections at 24.7% CAGR between FY18-20 from Rs.21.4 Bn in FY18 to Rs 33.4 Bn in FY20E. Within the revenue stream, we expect seamless pipes divisions to report growth at c.25% CAGR in the same period from Rs 17.8 Bn in FY14 to Rs 27.7 Bn in FY20E. We expect ERW division to grow at c.26% CAGR between FY18-20. Further, we assume that wage and input price inflation should get offset by company's higher volumes/pricing in seamless pipes (high margin business).

Our assumptions are presented in the table below:

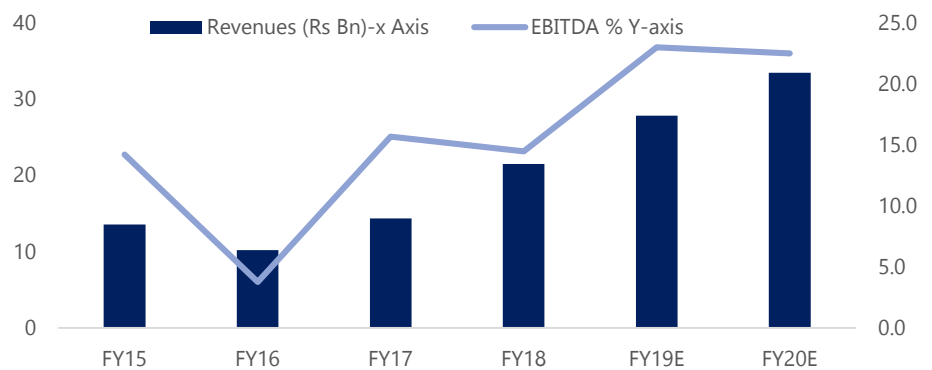
### Our assumptions

Rs mn	FY17	FY18	FY19E	FY20E
<b>Production (MT)</b>				
Seamless	209211	294035	308737	361222
YY (%)	38.3	40.5	5.0	17.0
ERW	71433	57655	67456	80948
YY (%)	17.4	-19.3	17.0	20.0
<b>Dispatch (MT)</b>				
Seamless	209746	294582	308737	361222
YY (%)	40.1	40.4	4.8	17.0
ERW	72331	55744	67456	80948
YY (%)	16.8	-22.9	21.0	20.0
<b>Net Sales Realization (Rs per MT)</b>				
Seamless	52940	60466	74373	76604
YY (%)	3.7	14.2	23.0	3.0
ERW	40107	52232	56411	57539
YY (%)	12.6	30.2	8.0	2.0
<b>EBITDA (Rs per MT)</b>				
Seamless	8171	9191.0	18000.0	18000.0
YY (%)	480.3	12.5	95.8	0.0
ERW	4594	2800.0	6000.0	4000.0
YY (%)	5502.4	-39.1	114.3	(33.3)

Source: Kotak PCG-Research

Overall, we revise our EBITDA margin estimates upward to 23% and 22.5% in FY19 and FY20 respectively.

### Revenue & margin trend



Source: Kotak Securities – Private Client Research

### Valuation and Recommendation; Rs 805 TP implying 65% upside

MSL stock is trading at attractive valuations at 4x FY20 EV/EBITDA. We value MSL stock at 7x EV/EBITDA FY20E earnings and maintain BUY with unchanged target price of Rs 805 per share.

### Valuation

EBITDA FY20	7524
EV/EBITDA (x)	7
Enterprise Value (E) mn	52665
Add: Investments, intercompany deposits, cash & FDs	7438
less Gross debt	6264
Target Market Cap	53839
<b>Target Price (Rs)</b>	<b>805</b>

Source: Kotak-PCG Research

**Company background**

Maharashtra Seamless Ltd. (MSL) is a part of DP Jindal group is market leader in Indian seamless pipe industry. The company was conceived after noticing huge demand and supply gap in the seamless pipe market, which was earlier met mostly through imports. Over the last three decades, MSL is market leader with over 60% market share in seamless and ERW pipes in India. Mr Saket Jindal, the elder son of Mr D.P Jindal is currently the 'Managing Director' of the company. Under his leadership, company has constantly moved up the value chain and has undergone incessant transition in terms of getting vertically & horizontally integrated. MSL activities are spreads mainly across three areas-1/Seamless pipes 2/ ERW (Electric Resistant Welded) pipes and 3/ Renewable energy.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>14,342</b>	<b>21,497</b>	<b>27,845</b>	<b>33,438</b>
% change yoy	40.8	49.9	29.5	20.1
<b>EBITDA</b>	<b>2,249</b>	<b>3,110</b>	<b>6,404</b>	<b>7,524</b>
% change yoy	15.7	14.5	23.0	22.5
Depreciation	710	762	790	810
<b>EBIT</b>	<b>2,303</b>	<b>2,998</b>	<b>6,514</b>	<b>7,514</b>
% change yoy	304.9	30.2	117.3	15.3
Net Interest	339	417	430	410
Earnings Before Tax	1,961	2,921	6,082	7,102
% change yoy	536.4	31.5	135.7	16.8
Tax	805	920	1,946	2,272
Effective tax rate (%)	41.0	31.5	32.0	32.0
XO Items	-	-	-	-
<b>Recurring PAT</b>	<b>1,156</b>	<b>2,001</b>	<b>4,136</b>	<b>4,829</b>
% change yoy	nm	73.1	106.7	16.8
Shares outstanding (m)	67	67	67	67
<b>EPS (Rs)</b>	<b>17.3</b>	<b>29.9</b>	<b>61.7</b>	<b>72.1</b>
DPS (Rs)	2.5	2.8	3.0	3.3
CEPS	27.8	41.2	73.5	84.2

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,961	2,921	6,082	7,102
Depreciation	710	762	790	810
Current liabilities incl provisions	135	(124)	696	480
Inc in inventory	147	(254)	(1,484)	(1,656)
Inc in sundry Debtors	(420)	(891)	(1,745)	(1,241)
Inc in advances	(637)	(484)	614	(1)
Tax Paid	(805)	(920)	(1,946)	(2,272)
Other Adjustments	455	(449)	-	-
<b>Net cash from operations</b>	<b>1,547</b>	<b>562</b>	<b>3,008</b>	<b>3,221</b>
Purchase of fixed Assets	(450)	(2,151)	(1,490)	(1,510)
Net investments	(718)	-	-	-
Other investment activities	(857)	2,053	(340)	2
<b>Net cash from investing</b>	<b>(2,025)</b>	<b>(98)</b>	<b>(1,830)</b>	<b>(1,508)</b>
Borrowings	692	(135)	-	(500)
Dividend Paid	(202)	(224)	(246)	(271)
<b>Net Cash from financing</b>	<b>490</b>	<b>(359)</b>	<b>(246)</b>	<b>(771)</b>
Net Cash Flow	12	105	932	942
Cash at the end of year	70	175	1,106	2,049

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	70	175	1,106	2,049
Accounts receivable	3,086	3,977	5,722	6,962
Loans & advances	2,230	2,714	2,100	2,101
Inventories	4,842	5,096	6,580	8,236
Other current Assets	553.5	1048.8	1048.8	1048.8
Current Assets	10,712	12,836	15,450	18,348
Net fixed assets	10,949	12,337	13,037	13,737
WIP	1190.3	174	174	174
Investments	2,722	1,496	1,496	1,496
Other non-current assets	12,918	13,448	13,448	13,448
<b>Total Assets</b>	<b>38,560</b>	<b>40,466</b>	<b>44,712</b>	<b>49,253</b>
Debt	6,400	6,264	6,264	5,764
Equity & reserves	27,464	29,300	33,190	37,748
Other non-current liabilities	2,532	2,862	2,522	2,524
Current Liabilities	2,164	2,041	2,737	3,216
<b>Total Liabilities</b>	<b>38,560</b>	<b>40,466</b>	<b>44,712</b>	<b>49,253</b>
BVPS (Rs)	410	437	495	563

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.7	14.5	23.0	22.5
EBIT margin (%)	16.1	13.9	23.4	22.5
Net profit margin (%)	8.1	9.3	14.9	14.4
Adjusted EPS growth (%)	nm	73.1	106.7	16.8
Receivables (days)	79	68	75	76
Inventory (days)	192	133	150	155
Sales / Net Fixed Assets (x)	1.3	1.8	2.2	2.5
Interest coverage (x)	6.8	7.2	15.1	18.3
Debt/ equity ratio	0.2	0.2	0.2	0.2
ROE (%)	4.3	7.1	13.2	13.6
ROCE (%)	4.2	5.6	11.4	11.9
EV/ Sales	2.1	1.4	1.1	0.9
EV/EBITDA	13.5	9.7	4.7	4.0
Price to earnings (P/E)	27.3	15.8	7.6	6.5
Price to book value (P/B)	1.2	1.1	1.0	0.8
Price to cash earnings	16.9	11.4	6.4	5.6

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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