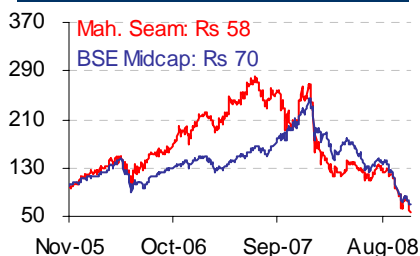


Market data

Current price	Rs 138 (BSE)
Market cap	Rs 9,650 m
NSE symbol	MAHSEAMLES
BSE code	500265
No of shares	70.0 m
Free float	53.7%
Face value	Rs 5.0
FY08 DPS (Rs)	Rs 5.0
52 week H/L	Rs 660/130

Rs 100 invested is now worth



Stock price performance

	Mah.Seam.	Index*
6-Mth	-58.5%	-58.2%
1-Yr	-71.6%	-64.7%
3-Yr	-16.8%	-11.0%

*BSE Midcap

Returns over 1 yr are compounded annual averages

Shareholding (Sep-08)

Category	(%)
Promoters	46.3
Institutions (Banks, MFs, FIs)	14.6
FIIIs	11.1
Indian public	25.9
Others	2.2
Total	100.0

Report prepared by

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Maharashtra Seamless Ltd.

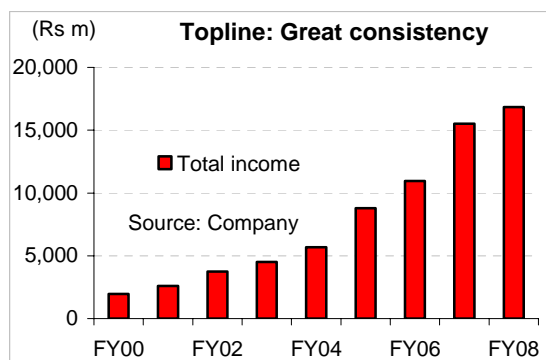
Buy

Target price: Rs 300

Investment Rationale

- **Seamless performance:** The first thing that struck us about Maharashtra Seamless is the company's amazing consistency. Between the period FY00 and FY08, the company has consistently grown its topline at a CAGR of 31% and has not witnessed a single year where topline growth had turned negative. The growth in net profits came in even more impressive, registering a CAGR of 35%, pointing not only towards absolute growth but also improvement in the quality of growth.

The impressive performance clocked by the company has come about on the back of its ability to establish a dominant position in the domestic seamless pipes market. It is perhaps the only



Indian company to manufacture higher OD (outer diameter) seamless and ERW (Electric Resistance Welded) pipes. The company has a strong presence in the domestic market with nearly 50% markets share in seamless pipes. It also has significant presence in overseas markets through its exports to USA, Middle Eastern countries, Japan etc.

- **Opportunities galore in domestic and international markets:** Maharashtra Seamless is the largest manufacturer of seamless pipes in India. Seamless Steel pipes and tubes cater to the needs of oil and non-oil sectors. Oil and gas sector is one of the largest consumers of seamless pipes domestically as well as in the international markets. The growth prospects of the sector are strongly depended on the growth in Exploration and Production (E&P) activities in both domestic and international markets. Although crude prices are trading at multi year lows currently, we believe strong structural changes are still in place that could make the commodity trade significantly higher from the current levels over the medium to long term. This could give rise to higher spend on E&P activities, thus benefiting companies like Maharashtra Seamless.

The domestic demand for seamless pipes is also likely to remain strong on account of increased E&P activities and new avenues opened up by NELP (New Exploration Licensing Policy) for private sector participation in the sector. Furthermore, recent discoveries of natural gas will increase the network of OCTG (Oil Country Tubular Goods) and line pipes manifold. Also, the need for cross country infrastructure for oil and gas will increase the demand for ERW pipes. The increasing refinery capacities and power projects in the

country will also boost up the demand for the seamless pipes. In view of these factors, we expect the company's topline to grow at a CAGR of 10% between FY08 and FY11.

- **Strong and diversified client base:** The company boasts of an impressive list of domestic and international clientele. The domestic customer base of company consists of top companies present across diversified sectors like oil and gas, hydrocarbon and process industry, automotive, bearings, mechanical and general engineering etc. It is also a vendor to some of the leading international oil companies. For suppliers like Maharashtra Seamless, it pays to have a diversified client base. And the company does well on this count. It not only has a diversified client base in absolute numbers but also in terms of sectors and geographies. This helps reduced volatility on the topline front as a slowdown in a country or a sector can be countered more effectively by stepping up efforts in other countries and sectors. (Ref : Table 1 on pg no 5)
- **Tenacious financial position:** The company's operations are both fixed as well as working capital intensive. But despite that, the company's leverage ratios have never spiraled out of control. Over the last six years, the average has stood at 0.4x, well below alarming levels. Furthermore, despite the company undertaking huge capex plans in the future, it is expected to remain virtually a debt free company. The tenacity in the company's balance sheet stems from its ruthless focus on costs, manifested among other things in a unique track record of putting up plant at the lowest capex levels. What more, it also gives us the confidence in the company's ability to ride out a prolonged downturn, if any, in the fortune of the industry.

Investment Concerns

- **Prolonged economic slowdown:** The world is undergoing perhaps its worst ever financial crisis in decades. The current global credit crisis has pushed quite a few developed economies into recession. The situation back home is not that worse as compared to the developed economies but the economic growth in country is likely to slow down from 9% in FY08 to around 6.5% to 7% in FY09. The outlook for FY10 does not inspire confidence as well. If the economic

growth continues to slowdown further, then it might result into decreased E&P activity. Furthermore, the growth in the auto, construction, power and other sectors will also get impacted, hurting revenues of companies like Maharashtra Seamless.

- **Subdued oil prices:** The crude oil prices, after touching an all time high of US\$ 147 per barrel in the beginning of year, have come off by more than 60% in the past few months. The declining price of crude oil is the consequence of a decrease in the global demand, fueled by the credit crisis. As per estimates, E&P activities, upon which depend the revenues of the company, make economic sense at a crude oil price higher than US\$ 50 per barrel. Thus, if the crude prices stay below these levels for a prolonged period of time, it might hurt the growth prospects of the company as it derives nearly 60% of its revenues from the oil and gas space.
- **Threat from Chinese products:** The domestic seamless pipe industry faces the risk of dumping from lower priced products, mainly from China. Although the industry has requested the government to impose an anti dumping duty, increased acceptance of the imported products could lead to a potential revenue loss for the company.
- **Volatility in raw material prices:** The cost of raw materials account for nearly 75% of the topline of the company. Steel is the major component of raw material and the company is completely dependent on external sources. Thus, the company's margins are highly sensitive to steel prices. Although steel prices have come down recently, even a slight increase in steel prices could impact the margins of company significantly, if it is unable to pass them on fully.

Management Team

Mr. Saket Jindal serves as the Managing Director of Maharashtra Seamless Ltd. He is a renowned industrialist and has more than 10 years of experience in the industry. He also serves as Chairman of the Board and Non Executive Director of Haryana Capfin Limited. He holds a Bachelor's degree in Business Management from Boston University, USA.

Mr. Anil Jain serves as the Chief Financial Officer of Maharashtra Seamless Ltd. He has served as an

Assistant Manager of Finance and Secretary of Manjushree Extrusions Ltd. from February 1, 2002 to June 25, 2004.

Background

Maharashtra Seamless Limited (MSL) is the flagship company of the D.P Jindal Group. It was incorporated in 1989 and is the largest manufacturer of seamless pipes in India, primarily used in oil & gas exploration activities. It also manufactures electric arc welded (ERW) pipes used in the refining industry. Its wide range of pipe products also finds application in the hydrocarbon & process industry, automotive, boilers, bearings, mechanical & general engineering industries. The company is increasingly focusing on manufacture of high diameter pipes, both in the seamless and ERW pipes category. Currently, the company is the sole manufacturer of 14--inch diameter seamless pipes in India, a niche segment that is largely import intensive.

Moreover, it also offers value--added services like anti--corrosion coating for pipes and connectors used in drilling. It also has presence in the renewable energy segment, having 20 windmills aggregating to 7 MW capacities for captive consumption. Its plant is located in Raigad district of Maharashtra, which has manufacturing capacity of seamless pipes of 350,000 tonnes and ERW pipes of 250,000 tonnes annually.

It recently acquired a seamless pipes plant in Romania on an asset sale basis having a capacity of 200,000 tonnes, which it intends to relocate to India and undertake modernization at an estimated cost of Rs 3.5 bn. This would take the company's seamless plant capacity to 500,000 tonnes per annum by September 2010.

Industry Prospects

The Indian pipe industry is the 3rd largest in the world after Japan and Europe. The seamless pipe industry in India primarily caters to mining, constructions, automotives, bearings, engineering and oil and gas sectors.

The seamless pipe industry has registered robust growth in the last few years. The growth is expected to continue in the long term as well, encouraged by the increased spending and drilling activities of the oil and gas companies across the world in order to offset declining rates of production from the mature fields and to explore and develop new oil reserves.

On the domestic front, the increased focus of government on the development of infrastructure, power and agriculture sectors will likely boost the demand for steel pipes. Furthermore, New Exploration Licensing Policy (NELP) which allows private participation in Exploration and Production (E&P) sector throws up potential opportunities for the industry going forward.

However, current slowdown in the economy due to the global credit crisis which has caused a slowdown in auto, engineering, mining and other sectors and lower oil prices may likely impact the industry in the short run.

Comparative valuation

Parameter (FY08)	Maharashtra Seamless	Welspun Gujarat Stahl Rohren
EBDITA margin (%)	19.9	14.5
Net margin (%)	13.0	8.5
Return on equity (%)	17.9	21.8
Working cap/sales (%)	54.0	22.7
Debt to equity ratio	0.1	1.5
Valuation ratios		
Price (Rs)	138.0	89.9
Price to earnings (x)	4.9	4.7
Price to book (x)	1.0	1.0
Price to cash flow (x)	4.5	4.0

Risk Analysis

Note: See the 'Risk Matrix' table on the page 6

Sector: The seamless pipe industry will benefit from the increased spending and drilling activities by oil and gas companies across the world to explore and develop new oil reserves on account of rising oil demand. On the domestic front, the increased focus of government on the development of infrastructure, power and agriculture sectors will be favorable for the industry. Thus, with these kinds of opportunities for the sector, we expect the industry to grow between 10% and 15% over the medium to long term. In view of such decent growth rate expectations, we assign a 'medium' risk rating to the stock on this parameter.

Company standing: With Maharashtra Seamless being a leader in domestic seamless market and also a significant player in ERW pipes segment, we assign a 'strong' rating to the company on this parameter.

Sales: Maharashtra Seamless generated revenues to the tune of nearly Rs 15 bn in FY08. Further, the

company is expected to generate average revenues to the tune of Rs 18 bn over the next three years. We thus assign a low risk rating of 8 to the stock on this parameter.

Operating margins: Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as raw materials, wages, and sales and marketing costs. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt. The higher the margin, the better it is for the company as it indicates its operating efficiency. Maharashtra Seamless' average operating margins for the past five years has been 21%, which we expect to remain quite similar during the next three years. As such, we assign a low risk rating of 8 to the stock on this parameter.

Long-term EPS growth: We expect the company's net profit to grow at a CAGR of 11% between FY08 and FY11 (CAGR of 32% during FY05-FY08). In a normal scenario, we consider a compounded growth of over 20% in net profits over a period of 3 to 5 years as healthy for a company. As such, the rating assigned to the stock on this factor is 3.

Return on invested capital: ROIC is an important tool to assess a company's potential to be a quality investment by determining how well the management is able to allocate capital into its operations for future growth. A ROIC of above 15% is considered decent for companies that are in an expansionary phase. Considering Maharashtra Seamless' last five years' average ROIC of 20.4%, which is expected to go up to 21.3% by FY11, we have assigned a medium-risk rating of 5 to the stock on this parameter.

Dividend payout: Maharashtra Seamless has had an average dividend payout of 17% over the last 5 years, which we expect to remain stable at more or less 18% over the next three. The rating assigned on this parameter is 4.

Promoter holding: A larger share of promoter holding indicates the confidence of people who run the company. We believe that a greater than 40% promoter holding indicates safety for retail investors. At the end of September 2008, the promoter holding in Maharashtra Seamless stood at 46.3%. We have assigned a risk rating of 5 to the stock.

FII holding: We believe that FII holding of greater than 25% can lead to high volatility in the stock price. FII holding in the company stood at 11.1% at the end of September 2008, Therefore, the rating assigned is 6.

Liquidity: The past 52-week's average daily volume of the stock is in the range of 57,110 shares, which indicates that the stock has moderate liquidity. The rating assigned is thus 4.

Current ratio: Maharashtra Seamless' average current ratio during the period FY08 to FY11 is estimated to be around 4.8 times, indicating the company's ability to pay up short-term obligations. A ratio under 1 suggests that the company is unable, at that point, to pay off its obligations if they came due. We assign a low-risk rating of 9 to the stock.

Debt to equity ratio: A highly leveraged business is the first to get hit during times of economic downturn, as companies have to consistently pay interest costs, despite lower profitability. We believe that a debt to equity ratio of greater than 1 is a high-risk proposition. Maharashtra Seamless' average debt to equity ratio is expected to be 0.1 times in the next 3 years. We have thus assigned it a risk rating of 8.

Interest coverage ratio: This ratio is used to determine how comfortably a company is placed in terms of payment of interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expense for a given period. The lower the ratio, the greater are the risks. Maharashtra Seamless' interest coverage ratio has been around 64 times over the past five years, which we expect to be around 87 times over the next three years. Thus, the rating assigned to the stock on this parameter is 10.

P/E Ratio: The P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the per share income or profit earned by the company. This is one of the important metrics to judge the attractiveness of a stock, and thus gets the highest weightage in our risk matrix. Maharashtra Seamless's P/E on its earnings of the past four quarters currently stands at 4.2 times, which makes the stock attractive on a valuation basis. As such, we have assigned a medium risk rating of 9 to the stock on this parameter.

Considering the above analysis, the total ranking assigned to the company is 79 that, on a weighted basis, stands at 6.6. This makes the stock a medium-risk investment from a long-term perspective.

Valuations

At the current price of Rs 138, the stock is trading at a very attractive P/E of 3.6 times its expected FY11 earnings per share. Given the company's track record, its leadership position in the domestic market and its rock solid balance sheet, we believe it should deserve a P/E multiple of no less than 8 times even in the current depressed environment. Thus, taking this multiple into account, we recommend a 'BUY' on the stock with an FY11 target price of Rs 300. This translates into an extremely attractive CAGR of nearly 40% or a point to point return of nearly 117%.

Valuations

Standalone (Rs m)	FY08	FY09E	FY10E	FY11E
Revenue (Rs m)	14,977	16,420	18,062	19,868
PAT (Rs m)	1,952	2,002	2,425	2,653
EPS (Rs)	27.9	28.6	34.7	37.9
CEPS (Rs)	30.4	32.3	39.2	43.2
Price to earnings (x)	4.9	4.8	4.0	3.6
Price to cash flow (x)	4.5	4.3	3.5	3.2

Table 1 : Vendor registration for Maharashtra Seamless by major companies

Domestic	International
ONGC	Al-Furat Petroleum Corp, Syria (JV of Shell)
Engineers India Ltd	Sat Joint Operations, Saudi Arabia and Kuwait (JV Chevron, Texaco & KOC)
Oil India Ltd	KNPC, Kuwait
GAIL	KOC, Kuwait
Indian Oil Corporation	NIOC, Iran
BPCL	Ministry of Oil & Gas, Oman
SAIL	Energy Tubular, USA
BHEL	Malaysian International Trading Corp, Japan (Subsidiary Petronas)
NTPC	Arabian Gulf Oil Company, Libya
Indian Railways	Mobile Producing, Nigeria

Source: company

Risk Matrix

Rating	Rating accorded		
	Weightage* (A)	Rating# (B)	Weighted (A*B)
Sector Risk	-	Medium	NA
Company	-	Strong	NA
Performance parameters			
Sales	5.0%	8	0.4
Operating margins	5.0%	8	0.4
Long term EPS growth	10.0%	3	0.3
Return on invested capital	10.0%	5	0.5
Technical parameters			
Dividend payout	5.0%	4	0.2
Promoter holding	10.0%	5	0.5
FII holding	5.0%	6	0.3
Liquidity	10.0%	4	0.4
Safety parameters			
Current ratio	5.0%	9	0.5
Debt to equity ratio	10.0%	8	0.8
Interest coverage ratio	5.0%	10	0.5
P/E ratio	20.0%	9	1.8
Final Rating**		79	6.6

Rating has been assigned on the basis of the company's performance over the past five years and expected performance over the next 3 to 5 years. Rating is on a scale of 1 to 10, with 1 indicating highest risk and 10 indicating lowest risk.

* 'Weightage' indicates the relative importance in percentage terms of the parameter. For instance, for an investor, given all the performance metrics, valuation (say P/E or P/Adj. Book Value) should be the foremost criteria for buying/not buying stocks.

** The final rating has been arrived at by multiplying the rating/points given on each parameter with the respective weightage

Financials at a glance

Standalone (Rs m)	FY08	FY09E	FY10E	FY11E
Sales	14,977	16,420	18,062	19,868
Sales growth (%)	7.2%	9.6%	10.0%	10.0%
Operating profit	2,976	3,284	3,974	4,371
Operating profit margin (%)	19.9%	20.0%	22.0%	22.0%
Net profit	1,952	2,002	2,425	2,653
Net profit margin (%)	13.0%	12.2%	13.4%	13.4%

Balance Sheet

Current assets	10,031	11,128	12,271	13,669
Fixed assets	3,375	4,369	5,333	6,242
Investments	894	894	894	894
Total Assets	14,300	16,390	18,498	20,805
Current liabilities	1,924	2,435	2,628	2,841
Net worth	10,934	12,514	14,428	16,523
Loan funds	1,022	1,022	1,022	1,022
Total liabilities	14,300	16,390	18,498	20,805

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