

SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Metals
Total Issue (Shares) - Fresh Issue	8500000
Net Offer to the Public	8,500,000
Issue Size (Rs. Cr.)	122-130
Price Band (Rs.)	144-153
Offer Date	30-Mar-22
Close Date	5-Apr-22
Face Value	10
Lot Size	98

Issue Composition

	In shares
Total Issue for Sale	8,500,000
QIB	2,550,000
NIB	2,975,000
Retail	2,975,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	99.10%	66.03%
QIB	0.90%	10.61%
NIB	0.00%	11.68%
Retail	0.00%	11.68%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

1. Funding capital expenditure requirements.
2. Funding the working capital requirements of our Company.
3. General corporate purposes.

About the company

Hyderabad-Telangana based company, Hariom Pipe Industries Limited, is a premium manufacturer of iron and steel products. The company has evolved into an integrated steel manufacturer with a stronghold in the South Indian market under the brand name "Hariom Pipes". With a diverse product portfolio consisting of Mild Steel (MS) Billets, Pipes and Tubes, Hot Rolled (HR) Coils and Scaffolding Systems, the company's top-quality products cater to a variety of industrial applications across multiple sectors. Hariom Pipe Industries has more than 200 dealers and distributors for selling its products. The company is located in Hyderabad, Telangana. The company operates two plants, one at Mahabubnagar District in Telangana (Unit I) that manufactures finished steel products from iron scrap and sponge iron and the second plant at Anantapur District, Andhra Pradesh (Unit II) that only manufactures Sponge Iron. Hariom Pipe Industries has more than 200 employees, 1400 plus Retailers distribution network, 150 plus manufacturing specifications, and a total of 300832 MT manufacturing capacity.

Strength

Integrated nature of its operations: The company believes that its ability to change the product mix as per market demand and supply dynamics gives it the flexibility to serve a wider spectrum of customers across various sectors. In addition to the seamless and flexible operations, integration of its production process provides a cost advantage over its competitors.

Environment friendly manufacturing process: The company has synchronized its manufacturing processes to ensure smooth transition from one process to the other including environmental considerations. The company has installed pollution control equipment at its smoke emanating chimney's that collect the dust particles which are then stored in filter bags for disposal. These filter bags are sold to cement and other industries for its operations. The company also planted over 3,000 trees in and around its manufacturing units and installed drip irrigation to maintenance of the plantation. As regards water conservation and treatment, it has made the provision for rainwater harvesting with pits in both Unit I & II and have also installed a RO Plant having a capacity of 10,000 liters per hour. It recycles the water used in its manufacturing process to minimize wastage and water pollution.

Strategic location of manufacturing Units: Strategic location of manufacturing Units. Unit I is located around seventy (70) kms from Hyderabad in the Mahabubnagar District, State of Telangana and close to Jadcherla industrial area. This proximity enables ease of logistics, power, water supply and raw materials for its operations in Unit I. Skilled personnel for Unit I also come from Hyderabad. Unit II is located at Anantapur District, Andhra Pradesh which is around eighteen (18) kms from Bellary, which is one of the hubs in South India for iron ore production. The connectivity between Unit I and southern markets provides the benefits of logistics considering accessibility and proximity.

Cost advantage in manufacturing its products: The Company has established a manufacturing process which keeps costs low, leading to a competitive price advantage as compared to others in the industry. It has synchronized its processes in such a manner that one product follows the other without any break leading to costs and time efficiencies. It has 32 KVA dedicated feeder for its furnace at its Unit I which makes it eligible for obtaining private power from IEX through the online bidding process, against its contracted load of

Book Running Lead Manager

- Aryaman Financial Services Limited

Name of the registrar

- Bigshare services private limited

9,999 KVA with TSSPDCL with fixed power cost. In peak season for agriculture where there is shortage of supply of power from TSSPDCL, it has the alternative facility of receiving uninterrupted supply of power from IEX at competitive rates. It has installed multiple operations at a single location i.e. Unit I where it manufactures the entire range of its products viz. MS Billets to Mild Steel (MS) Pipes and Scaffolding. The hot charging process installed in its Unit I enables the MS Billets produced to be directly fed into the rolling mill for producing HR Strips leading to savings in the cost of coal and power. Further, by using a crusher it crushes the slag and extracts iron content from the slag, which is again recycled in furnaces for producing MS Billets.

Competitive pricing of its products: The Company is able to face competition from other industry players effectively as its products are a result of backward integration which leads up to the Sponge Iron stage of manufacturing. Backward integration has its own cost and savings advantages which its competitors may be lacking giving it a competitive advantage as to price. In addition to the pricing advantage, it has also built its manufacturing process some flexibility as to thickness, length and quality of its products which enables customisation leading to better margins for its products. Due to the flexibility in manufacturing a range of products having specific thickness, length and quality, the demand of its products is higher as compared to its competitors who manufacture and sell standard industry sizes or dimensions of products.

Strategies

Expand its geographical network: The Company is presently serving the markets of Southern and some parts in Western India. Its distribution channels developed over the years have been critical to its growth. It intends to continue developing and nurturing existing markets and creating new distribution channels in under and non-penetrated geographies. It aims to further develop its domestic sales networks in those territories where there are lower transportation costs having a significant demand of its products, where it can sell at price-points that can effectively offset higher transportation costs.

Organic growth by expansion of its manufacturing capacity: The Company has embarked on a phase of growth to build scale and expand its portfolio of value-added products. From the Net Proceeds of the Issue, it will be deploying funds for expansion of its MS Pipe manufacturing capacity by setting up of two (2) additional pipe mills adjacent to its existing Unit I. This expansion will increase its capacity from the present 84,000 MTPA to 1,32,000 MTPA. It will also be expanding its Furnace Unit capacity which will enhance its production capacity to the extent of 1,04,232 MTPA from the existing capacity of 95,832 MTPA. The Company in September 2020, has acquired the Sponge Iron manufacturing facility i.e. Unit II as a part of its backward integration initiatives. It will continue to explore both backward and forward integration initiatives to achieve the goal of becoming an end-to-end and cost-effective manufacturer of its products.

Upgrading its existing manufacturing facilities: The Company constantly endeavors to improve its productivity levels by optimum resource utilization, improvement in manufacturing process, skill up-gradation of its workers and modernization of machineries to achieve better asset turnover. It will continue to further improve its manufacturing processes to identify the areas of bottlenecks and correct them. This would help it in improving efficiency and putting resources to optimal use. It has a team of chemist and engineers who strive to improve the production methodologies by conducting experiments and creating innovative prototypes to enhance its manufacturing processes.

Expanding its product range to add more value-added products: MS Pipes and Scaffoldings are the end products that are manufactured from the conversion of Sponge Iron to HR MS Billets and HR Strips. The company provides a range of product specifications in MS Pipes and Scaffoldings in terms of thickness, length, quality, availability, and customised products. It intends to further enhance its value proposition by manufacturing value added products which have better margins and wider markets. Certain value added products require a certain modifications and extensions to its existing lines which are in the development phase. Some value additions to its existing products include the following:

- **Rust Free MS Pipe:** These are anti rust oil coated MS Pipes which prevent rusting of MS Pipes.
- **End Facing of MS Pipe:** This process provides a softer finish to the MS Pipe thereby avoiding injuries due sharp edges
- **Packaging:** It uses packing strips/tapes for packing its MS Pipes to enable easy movement from one place to another. It believes that such value additions further enhance the quality and sale of its products.

Increasing Operational efficiency: It continues to invest in increasing its operational efficiency throughout the organization. It is addressing the increase its operational output through continuous process improvement, QC / QA activities, customer service, consistent quality and technology development. Alignment of its people to 'process improvement' through change management and upgrading of skills as required for customer satisfaction is a continuous activity. Awareness of this quality commitment is widespread amongst its employees.

Risk factors

- The Company has not entered into long-term agreements with its customers for purchasing its products nor for the supply of raw materials with its suppliers.
- Raw materials and stores spares and consumables consumed constitute a significant percentage of its Company's total expenses.
- The demand and pricing in the steel and steel products industry is volatile and is sensitive to the cyclical nature of the industries it serves.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
APL Apollo Tubes	11049.91	513.50	20.52	43.91	11.42	78.92	2	901.05	22551.52
Rama Steel Tubes	655.43	27.62	16.45	19.82	4.81	67.85	5	326.10	547.65
Hi-Tech Pipes	1675.58	35.63	30.33	17.01	2.57	200.70	10	515.95	606.04
JTL Infra	878.75	44.94	7.59	33.36	10.12	25.01	2	253.20	1498.62
Hariom Pipe Industries Limited**	401.74	25.74	10.10	15.14	1.72	88.95	10	153.00	389.74

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.153, the stock is priced at pre issue P/E of 10.09x on Estimated Annualised FY22 EPS of Rs. 15.16. Post issue, the stock is priced at a P/E of 15.14x on its EPS of Rs.10.10. Looking at the P/B ratio at Rs.153, pre issue, book value of Rs. 49.32 of P/Bvx 3.10x. Post issue, book value of Rs.88.95 of P/Bvx 1.72x.

Considering the P/E valuation, on the upper end of the price band of Rs.144, the stock is priced at pre issue P/E of 9.50x on Estimated Annualised FY22 EPS of Rs.15.16. Post issue, the stock is priced at a P/E of 14.25x on its EPS of Rs.10.10 Looking at the P/B ratio at Rs.144, pre issue, book value of Rs. 49.32 of P/Bvx 2.92x. Post issue, book value of Rs.88.95 of P/Bvx 1.62x.

Industry overview

During the period 2021-2026, the demand for steel would be majorly driven by growth in the construction and automotive sectors. Steel in the form of alloy sheets are used in automotive applications, and beams and pillars are extensively used in construction works. Thus the combination of both would majorly contribute to the global demand for the alloy in the forecast period. Pipes and tubes are manufactured using crude steel; stainless steel are extensively used in manufacturing household appliances and utensils, whereas nuclear infrastructure is built using alloy steel. Increasing demand from the automotive and the structural engineering sectors, which are the chief consumers of the product in the market is likely to stimulate demand in the future. Moreover, the essential applications of steel in oil & gas sector is anticipated to boost the growth of the market in the upcoming years. The greater tensile strength makes the product more durable and increases longevity. Hence, it finds application in oil storage tanks, street lighting poles, and earth moving

equipment. Growing inclination towards green energy trend has also brought new variables to the steel industry. Obligations for anti-dumping tariffs by the U.S. along with the current/upcoming guidelines in China could be a key contributor in the changing dynamics of global steel market. Thus, reflecting fluctuations of steel prices in the near future. China steel industry is targeting new carbon peaks by 2030 and carbon neutrality by 2060, which will drastically reduce steel production capacity. India is the second largest steel producer globally. The steel consumption in India is widely attributed to the infrastructural and construction industry. Rapid industrialization and urbanization, combined with increased private and government investment in infrastructure will fuel product demand. Properties such as durability, low maintenance, long life, high strength, and reusability propel the demand in the construction of low-rise and highrise buildings, sports stadiums, slabs bridge deck, harbors, siding and roofing, offices, security fencing and coastal and flood defenses. Steel has advantageous properties over other materials such as higher cryogenic toughness, higher heat resistance, higher corrosion resistance, higher ductility, more attractive appearance, higher strength and hardness, and lower maintenance. These properties of the material should develop new opportunities for its use in the structural components of vehicles.

Outlook

HPIL plans to diversify its product portfolio and add further capacities which will further strengthen its market position and pricing flexibility. The company will continue to benefit from established presence and relationships with clients. The company is planning to set up a manufacturing plant in Telangana's Sangareddy with a total estimated installed capacity of 51,943 tonnes per annum. It plans expanding mild steel (MS) pipe manufacturing capacity from 84,000 to 1,32,000 million tonnes per annum by setting up two pipe mills and bumping up furnace unit capacity from 95,832 to 1,04,232 mtpa. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	30-Mar-22
IPO Close Date	5-Apr-22
Basis of Allotment Date	8-Apr-22
Initiation of Refunds	11-Apr-22
Credit of Shares to Demat Account	12-Apr-22
IPO Listing Date	13-Apr-22

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Sep-21 (6 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Total Operating Income	200.87	254.14	160.78
Total expenditure	175.30	219.86	137.29
Operating Profit	25.57	34.28	23.49
OPM%	12.73	13.49	14.61
Other Income	0.29	0.68	0.37
PBDIT	25.86	34.97	23.86
Depreciation	3.98	6.26	5.16
PBIT	21.88	28.71	18.70
Interest	4.17	7.51	7.37
PBT	17.71	21.20	11.32
Tax	4.84	6.07	3.42
Profit After Tax	12.87	15.13	7.91

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	56.78	58.90	49.50
Capital Work-in-Progress	9.93	8.33	0.13
Financial assets			
Other financial assets	0.49	0.49	0.46
Other non-current assets	0.39	0.36	0.17
Total Non- Current Assets	67.59	68.08	50.26
Current assets			
Inventories	103.19	80.08	59.53
Trade Receivables	22.57	19.63	22.78
Cash and Bank balances	0.05	0.72	1.67
Bank Balances other than cash and cash equivalents	0.29	0.16	0.00
Other financial assets	0.07	0.05	0.02
Other Current Assets	5.05	5.02	5.42
Total current assets	131.23	105.66	89.42
Total Assets	198.82	173.74	139.68
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	28.44	33.94	27.17
Provisions	0.29	0.21	0.16
Deferred Tax Liabilities (Net)	3.38	3.58	2.23
Total non-current liabilities	32.10	37.73	29.56
Current liabilities			
Financial liabilities			
Borrowings	59.88	46.23	40.99
Trade payables			
-total outstanding dues of micro enterprises and small enterprises	0	0	0
-total outstanding dues of creditors other than micro enterprises and small enterprises	10.04	4.30	14.93
Other Financial Liabilities	5.99	9.68	2.62
Other Current liabilities (net)	3.15	2.66	1.73
Provisions	0.02	0.00	0.02
Current tax liabilities (net)	3.93	2.35	1.53
Total current liabilities	82.99	65.22	61.82
Total liabilities	115.10	102.95	91.38
	83.72	70.79	48.30
Net worth represented by:			
Equity share capital	16.98	16.96	13.23
Other equity	66.75	53.83	35.07
Total Equity	83.72	70.79	48.30

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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