

**CMP: INR 201**

**Rating: BUY**

**Target Price: INR 403**

**Stock Info**

BSE	543517
NSE	HARIOMPIPE
Sector	Steel
Face Value (Rs)	10
Equity Capital (Rs cr)	17
Mkt Cap (Rs cr)	512
52w H/L (INR)	248 / 195

**Shareholding Pattern %**

*(As on Dec, 2021)*

Promoters	66.0
Public & Others	34.0

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**Hariom Pipe Industries Ltd (HPIL)** is part of the prestigious Hariom Group and headquartered Hyderabad, Telangana. The company is the premium manufacturer of Iron and Steel products. The company has prominent presence in south India and expanding to west India like Maharashtra. The Mild Steel Pipes are marketed and sold in the brand name of **"Hariom Pipes"**. The company manufacture MS Pipes and Scaffoldings of more than 150 different specifications and cater to customer requirements. The requirement for MS Pipes and Scaffoldings comes from sectors such as housing, Infrastructure, power, automotive, agriculture, solar power, cement, mining and engineering.

**Investment Rationale**

**Integrated Nature of Operations leads to cost effectiveness:** The Iron ore is purchased from an auctioned platform and converted into sponge iron at Unit II manufacturing plant which is located in Anantapur, Andhra Pradesh. The sponge iron are transmitted to Unit I manufacturing plant which is located in Mahabubnagar to make finished steel products. The company has using ore to produce sponge iron which is then processed across various stages to manufacture final products. This helps to MS Pipes and Scaffolding manufacturing process cost effective. The cost effectiveness are yielding better margins compared to other players.

**CAPEX Plan would leads to better business visibility:** The company successfully completed the IPO. The issue size is INR 130 Cr, out of this INR 50.05cr will be utilised for capex. The capacity of the pipe mills will be enhanced from 84,000 to 1,32,000 MT (INR 39 Cr). The furnace capacity will be increased from the current 95,832 to 1,04,232 MT (INR 11 Cr). Working Capital needs are about INR 40 Cr, about INR 8 Cr is issue expenses, and the rest will be directed toward general corporate purposes. All the CAPEX should be completed by September, 2022. The increase in capex will able to execute the industry demand which results better business visibility in going forward.

**Distribution model enables margin benefits:** The material is sold to dealers and sub-dealers instead of stockists. Stockists generally sell to dealers that sell to sub-dealers by adding their own margins. This gives the advantage of providing proper material as per requirements to the dealers, plus they also get to keep the margin benefits. The dealer network comprises 200+ distributors, with ~1,500 selling points in south India.

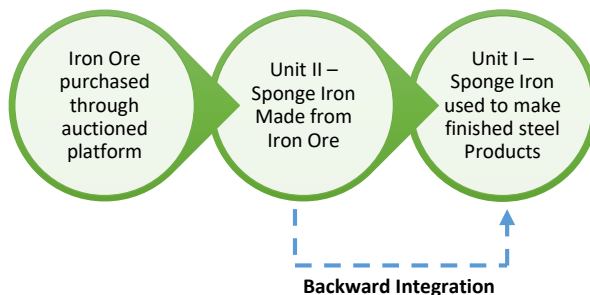
**Outlook & Valuation:** HPIL has witnessed strong revenue growth from FY19-FY21, strategically located plants with integration, competitive pricing of the products, cost effectiveness, expanding network, experienced management and capacity expansion would drive the growth in going forward. At the CMP of INR 201 per share, the stock is trading at a EV/EBITDA multiple of 10.6x/6.3x/4.0x its FY22E/FY23E/FY24E EBITDA of INR 55cr/102cr/191cr respectively. We have a BUY rating at a TP of INR 403 per share; valued at EV/EBITDA multiple 4x and its FY24E EBITDA of INR 191cr; an upside of 100.4%.

**We are already recommended to "Subscribe for Long Term" for HPIL IPO Issue.** Please refer the IPO Note for more details

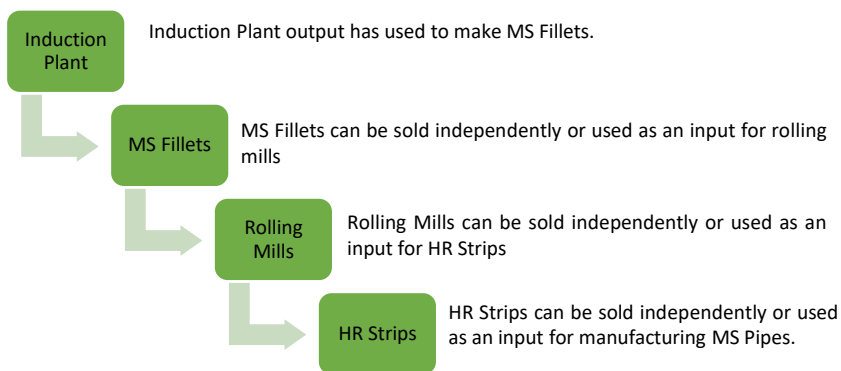
[Hariom Pipe Industries Ltd IPO Note](#)

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Source: Company, Aриhant Capital Research



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The company believes that their ability to change the product mix as per market demand and supply dynamics gives the flexibility to serve a wider spectrum of customers across various sectors. The seamless operations and integration of production process provides cost effectiveness over competitors. The cost effectiveness are yielding better margins compared to other players.

**Strategic location of manufacturing Units:** Unit I is located around 70 km 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 operations in Unit I. Unit II is located at Anantapur District, Andhra Pradesh which is around 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.



Source: Company, Aриhant Capital Research

### Investment Rationale

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

Particular	FY20	FY21	FY22E	FY23E	FY24E
<b>Installed Capacity (MT)</b>					
MS BILLETS	74,400	95,832	95,832	1,04,232	2,49,744
HR STRIPS	84,000	84,000	84,000	1,24,000	2,50,000
MS TUBES	84,000	84,000	84,000	1,32,000	2,50,000
SPONGE IRON	-	36,000	36,000	36,000	1,26,000
SCAFFOLDING	1,000	1,000	1,000	1,000	1,000
GP PIPE	-	-	-	1,00,000	1,00,000
<b>Total Installed Capacity</b>	<b>2,43,400</b>	<b>3,00,832</b>	<b>3,00,832</b>	<b>4,97,232</b>	<b>9,76,744</b>

<b>Capacity Utilisation (MT)</b>					
MS BILLETS	46,276	45,339	88,309	96,049	2,30,139
HR STRIPS	34,280	45,070	77,406	1,14,266	2,12,262
MS TUBES	24,183	32,403	55,967	81,797	1,44,191
SPONGE IRON	-	22,578	25,200	28,800	1,07,100
SCAFFOLDING	980	315	650	657	664
GP PIPE	-	-	-	30,249	45,373

<b>Capacity Utilisation (%)</b>					
MS BILLETS	62%	47%	92%	90%	92%
HR STRIPS	41%	54%	92%	92%	85%
MS TUBES	29%	39%	67%	62%	58%
SPONGE IRON	0%	63%	70%	80%	85%
SCAFFOLDING	98%	32%	65%	66%	66%
GP PIPE	-	-	-	30%	45%

<b>Sales (MT)</b>					
Sponge	-	20,551	-	-	-
Furnace	9,972	1,590	1,500	-	-
Rolling	11,008	11,518	24,000	20,000	20,000
Pipe	22,896	26,896	53,859	80,000	1,42,000
Scaffolding	1,012	185	634	641	648
GP Unit	-	-	-	30,000	45,000
<b>Total Sales (MT)</b>	<b>44,888</b>	<b>60,740</b>	<b>79,993</b>	<b>1,30,641</b>	<b>2,07,648</b>
Average Selling Price per MT (INR)	35,818	41,841	51,264	55,868	56,568
<b>Total Revenue from operations (INR cr)</b>	<b>161</b>	<b>254</b>	<b>410</b>	<b>730</b>	<b>1,175</b>

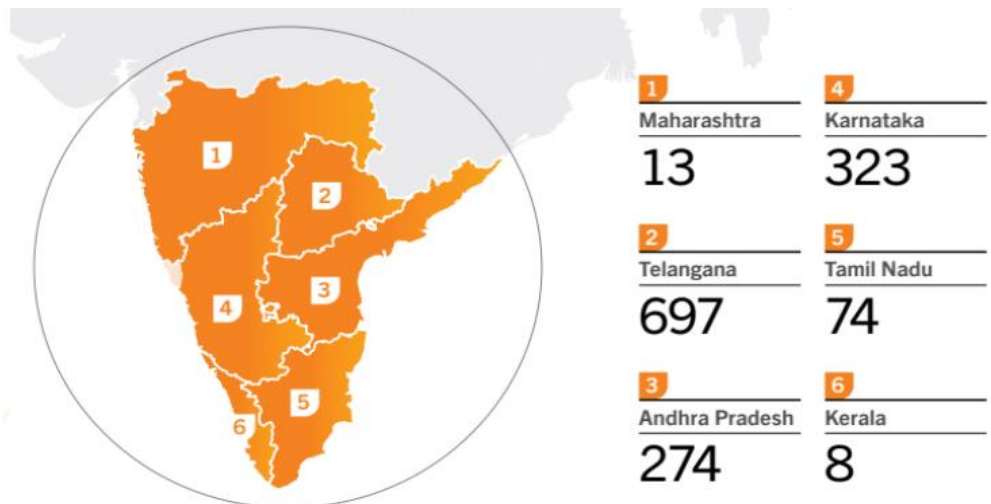
Source: Company, Arihant Capital Research

### Investment Rationale

**Distribution model enables margin benefits:** The material is sold to dealers and sub-dealers instead of stockists. Stockists generally sell to dealers that sell to sub-dealers by adding their own margins. This gives the advantage of providing proper material as per requirements to the dealers, plus they also get to keep the margin benefits. The dealer network comprises 200+ distributors, with ~1,500 selling points in south India.

Hariom Pipe Industries gets many benefits of selling to dealers being maintaining high margins, direct contact with customers and loyalty. The company has divided customers across diamond, platinum, gold, and silver tiers, all of which are allowed different discounts. This allows maintaining royalty. The company has not try to supply directly to projects.

#### Distributors presence across 6 states



Source: Company, Aриhant Capital Research

**Cost advantage in manufacturing 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. The company have synchronized processes in such a manner that one product follows the other without any break leading to costs and time efficiencies.

The company have 32 KVA dedicated feeder for furnace at Unit I which makes eligible for obtaining private power from IEX through the online bidding process, against contracted load of 9,999 KVA with TSSPDCL with fixed power cost.

In peak season for agriculture where there is shortage of supply of power from The Southern Power Distribution Company of Telangana (TSSPDCL), the Company have the alternative facility of receiving uninterrupted supply of power from IEX at competitive rates.

The company have installed multiple operations at a single location. In Unit I, the company manufacture the entire range of products such as MS Billets to Mild Steel (MS) Pipes and Scaffolding.

The hot charging process installed in 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.

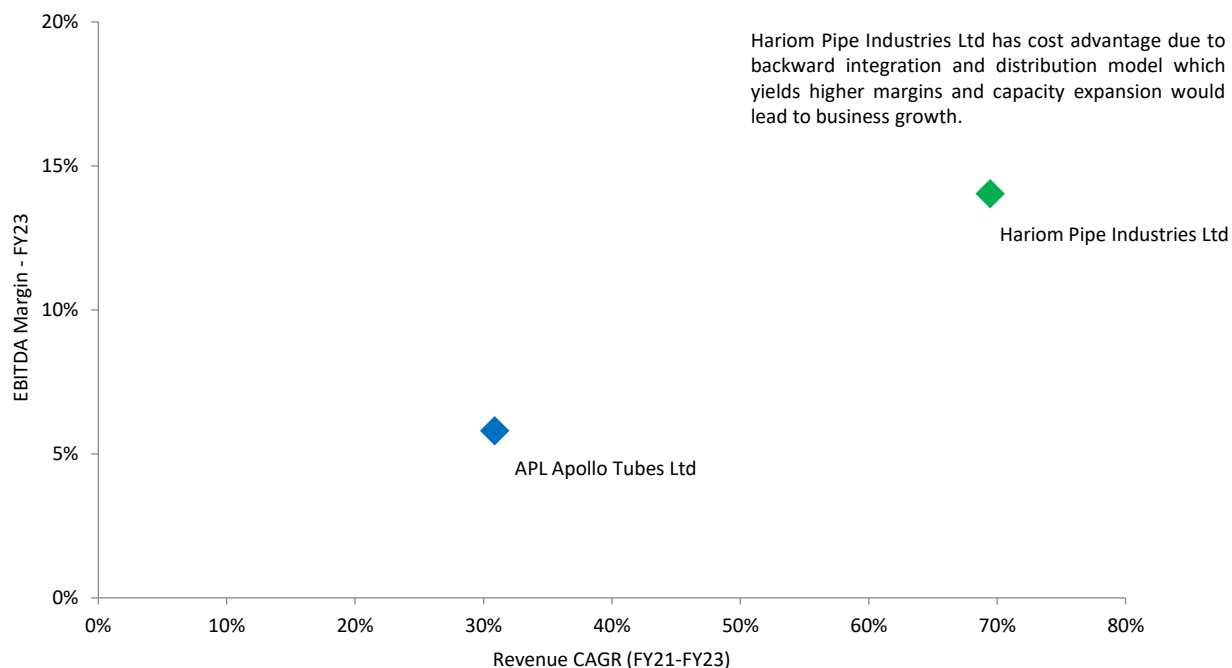
## Peer Comparison

Particular	CMP (INR)	M.Cap (INR cr)	Revenue (INR cr)		EBITDA (INR cr)		EBITDA Margin (%)		PAT (INR cr)		PAT Margin (%)	
Year	as on 25-04-22	as on 25-04-22	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Hariom Pipe Industries Ltd	207	527	161	254	23	34	14.6%	13.5%	8	15	4.9%	6.0%
APL Apollo Tubes Ltd	1,051	26,299	7,723	8,500	477	679	6.2%	8.0%	238	360	3.1%	4.2%
Hi-Tech Pipes Ltd	609	747	1,210	1,341	59	71	4.9%	5.3%	20	23	1.7%	1.7%
Rama Steel Tubes Ltd	403	677	353	470	9	18	2.5%	3.9%	0	12	0.1%	2.6%
JTL Infra Ltd	245	1,451	230	436	16	33	7.1%	7.5%	10	20	4.4%	4.6%

Source: Company, Ace Equity, Tijori, Arihant Capital Research

Particular	ROE (%)		ROCE (%)		P/BV (x)		EV/EBITDA (x)		PE (x)		D/E (x)	
Year	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Hariom Pipe Industries Ltd	18.7%	25.4%	12.3%	14.6%	6.3	5.5	15.9	14.0	38.4	25.9	1.4	1.3
APL Apollo Tubes Ltd	17.6%	21.3%	19.3%	26.2%	2.3	10.4	7.8	24.7	13.0	48.6	0.6	0.3
Hi-Tech Pipes Ltd	11.7%	11.1%	19.5%	18.7%	0.5	2.2	6.2	10.4	3.9	19.5	1.8	1.6
Rama Steel Tubes Ltd	0.5%	12.4%	8.7%	16.0%	0.4	1.2	8.3	7.5	76.0	9.6	1.0	0.9
JTL Infra Ltd	16.5%	20.7%	27.8%	32.4%	1.4	6.9	7.3	16.7	8.4	28.1	0.9	0.8

Source: Company, Ace Equity, Tijori, Arihant Capital Research



Source: Company, Bloomberg, Arihant Capital Research

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	134	161	254	410	730	1,175
Net Raw Materials	84	91	173	279	489	775
Employee Cost	6	8	10	16	29	41
Other Expenses	27	38	37	60	109	167
<b>EBITDA</b>	<b>17</b>	<b>23</b>	<b>34</b>	<b>55</b>	<b>102</b>	<b>191</b>
<b>EBITDA (%)</b>	<b>12.7%</b>	<b>14.6%</b>	<b>13.5%</b>	<b>13.4%</b>	<b>14.0%</b>	<b>16.3%</b>
Depreciation	(2)	(5)	(6)	(11)	(20)	(44)
Interest expense	(4)	(7)	(8)	(8)	(12)	(19)
Other income	0	0	1	2	3	5
<b>Profit before tax</b>	<b>12</b>	<b>11</b>	<b>21</b>	<b>38</b>	<b>73</b>	<b>133</b>
Taxes	(4)	(3)	(6)	(11)	(21)	(37)
<b>Net profit</b>	<b>8</b>	<b>8</b>	<b>15</b>	<b>27</b>	<b>53</b>	<b>95</b>
<b>Reported Netprofit Margin (%)</b>	<b>6.0%</b>	<b>4.9%</b>	<b>6.0%</b>	<b>6.6%</b>	<b>7.2%</b>	<b>8.1%</b>
Other Comprehensive income	(0)	0	0	-	-	-
<b>Net profit</b>	<b>8</b>	<b>8</b>	<b>15</b>	<b>27</b>	<b>53</b>	<b>95</b>
EPS (INR)	6	6	9	11	21	37

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	13	13	17	25	25	25
Reserves	23	35	54	81	125	205
<b>Net worth</b>	<b>36</b>	<b>48</b>	<b>71</b>	<b>106</b>	<b>150</b>	<b>230</b>
Provisions	0	0	0	0	0	1
Debt	57	71	90	90	155	260
Other non-current liabilities	1	2	4	6	11	18
<b>Total Liabilities</b>	<b>94</b>	<b>122</b>	<b>164</b>	<b>203</b>	<b>317</b>	<b>509</b>
Fixed assets	43	49	59	60	138	330
Capital Work In Progress	-	0	8	8	16	1
Investments	0	0	0	1	2	4
Other non current assets	0	0	0	1	1	2
<b>Net working capital</b>	<b>47</b>	<b>70</b>	<b>95</b>	<b>115</b>	<b>136</b>	<b>163</b>
Inventories	39	60	80	99	121	127
Sundry debtors	10	23	20	39	60	90
Loans & Advances	-	-	-	0	0	0
Other current assets	7	5	5	13	24	39
Sundry creditors	(8)	(15)	(4)	(29)	(52)	(67)
Other current liabilities & Prov	(2)	(3)	(5)	(8)	(17)	(26)
Cash	4	2	1	17	21	6
Other Financial Assets	0	0	0	1	1	2
<b>Total Assets</b>	<b>94</b>	<b>122</b>	<b>164</b>	<b>203</b>	<b>317</b>	<b>509</b>

Source: Company Reports, Arihant Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	12	11	21	38	73	133
Depreciation	2	5	6	11	20	44
Tax paid	(4)	(3)	(6)	(11)	(21)	(37)
Working capital Δ	(47)	(23)	(26)	(19)	(21)	(27)
<b>Operating cashflow</b>	<b>(37)</b>	<b>(10)</b>	<b>(4)</b>	<b>18</b>	<b>52</b>	<b>113</b>
Capital expenditure	(45)	(12)	(24)	(11)	(106)	(221)
<b>Free cash flow</b>	<b>(82)</b>	<b>(22)</b>	<b>(28)</b>	<b>7</b>	<b>(55)</b>	<b>(109)</b>
Equity raised	28	4	7	9	-	-
Investments	(0)	(0)	(0)	(1)	(1)	(1)
Others	(0)	0	(0)	(1)	(1)	(2)
Debt financing/disposal	57	14	19	-	65	105
Other items	1	1	1	3	5	7
<b>Net Δ in cash</b>	<b>4</b>	<b>(2)</b>	<b>(1)</b>	<b>16</b>	<b>4</b>	<b>(15)</b>
<b>Opening Cash Flow</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>17</b>	<b>21</b>
<b>Closing Cash Flow</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>17</b>	<b>21</b>	<b>6</b>

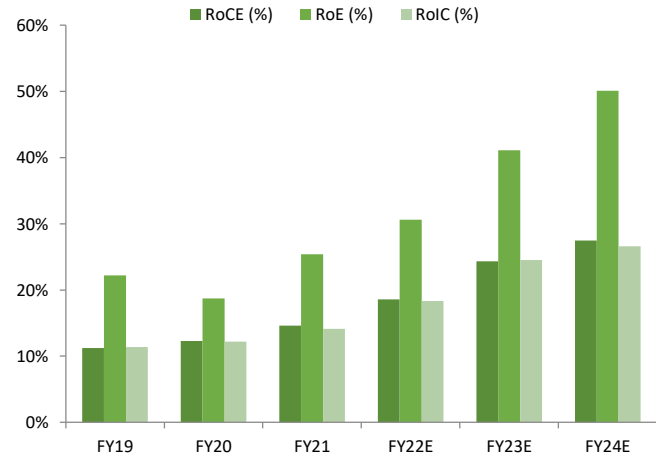
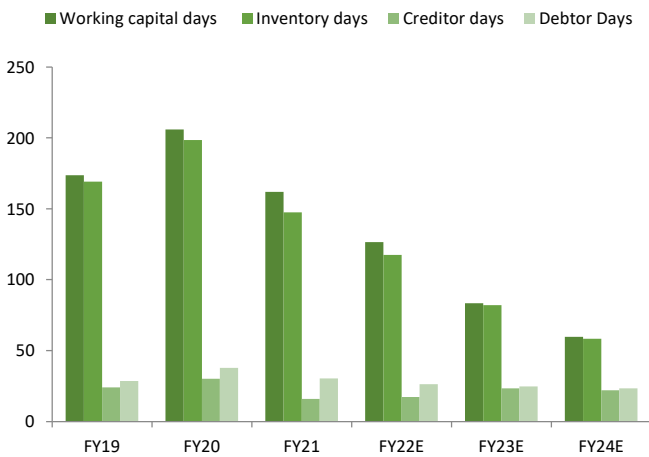
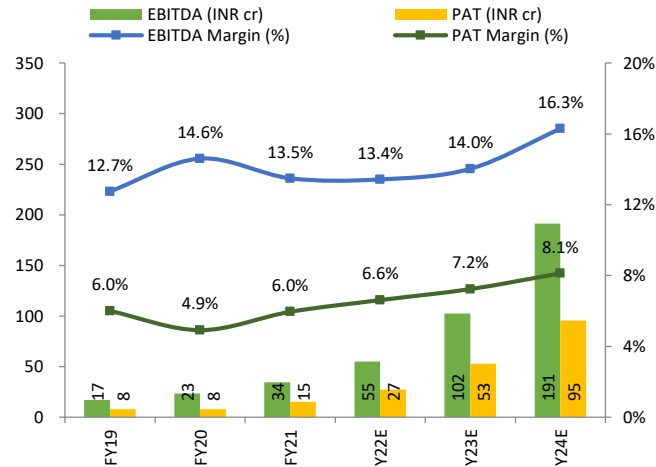
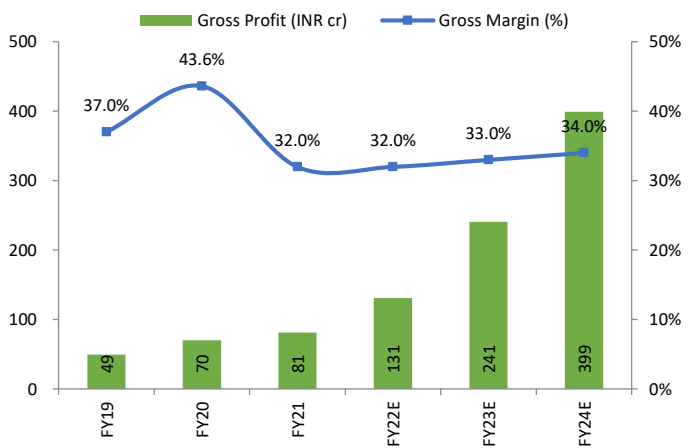
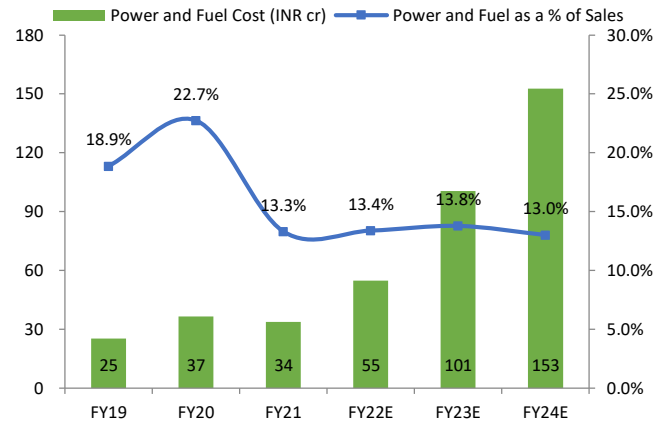
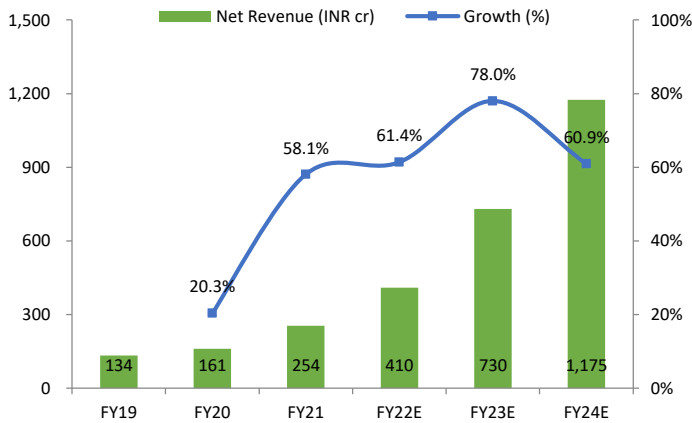
Source: Company Reports, Arianth Capital Research

## Ratio analysis

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth matrix (%)</b>						
Revenue growth		20.3%	58.1%	61.4%	78.0%	60.9%
Op profit growth		37.9%	46.0%	60.6%	86.0%	87.0%
<b>Profitability ratios (%)</b>						
OPM	12.7%	14.6%	13.5%	13.4%	14.0%	16.3%
Net profit margin	6.0%	4.9%	6.0%	6.6%	7.2%	8.1%
RoCE	11.2%	12.3%	14.6%	18.6%	24.3%	27.5%
RoNW	22.2%	18.7%	25.4%	30.6%	41.1%	50.1%
RoA	8.5%	6.5%	9.2%	13.4%	16.7%	18.8%
<b>Per share ratios (INR)</b>						
EPS	6.0	6.0	8.9	10.6	20.7	37.5
Dividend per share	-	-	-	-	3.5	6.0
Cash EPS	7.7	9.9	12.6	14.8	28.7	54.7
Book value per share	27.3	36.5	41.7	41.8	59.0	90.5
<b>Valuation ratios (x)</b>						
P/E	33.3	33.4	22.5	18.9	9.7	5.4
P/CEPS	26.1	20.4	15.9	13.6	7.0	3.7
P/B	7.4	5.5	4.8	4.8	3.4	2.2
EV/EBITDA	18.7	14.3	12.5	10.6	6.3	4.0
<b>Payout (%)</b>						
Dividend payout	0.0%	0.0%	0.0%	0.0%	16.7%	16.1%
Tax payout	31.1%	30.2%	28.6%	28.0%	28.0%	28.0%
<b>Liquidity ratios</b>						
Debtor days	29	38	30	26	25	23
Inventory days	169	198	147	117	82	58
Creditor days	24	30	16	17	23	22
WC Days	174	206	162	126	83	60
<b>Leverage ratios (x)</b>						
Interest coverage	4.2	2.5	3.7	5.3	7.1	7.6
Net debt / equity	1.5	1.4	1.3	0.7	0.9	1.1
Net debt / op. profit	3.1	2.9	2.6	1.3	1.3	1.3

Source: Company Reports, Arianth Capital Research

Story in charts



Source: Company reports, Arianth Capital Research



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**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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