

**Capacity expansion will drive growth.**

**CMP: INR 413**

**Rating: BUY**

**Target Price: INR 657**

**Stock Info**

BSE	543517
NSE	HARIOMPIPE
Sector	Steel
Face Value (INR)	10
Equity Capital (INR cr)	25
Mkt Cap (INR cr)	1,052
52w H/L (INR)	443 / 169
Avg Yearly Volume (in 000')	371.1

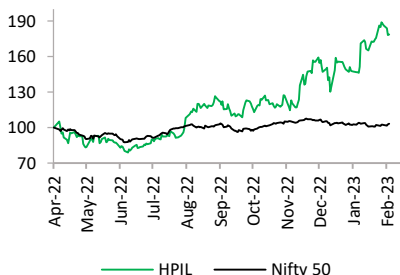
**Shareholding Pattern %**

(As on Dec, 2022)

Promoters	66.03
DII	0.37
FII	2.11
Public & Others	31.51

Stock Performance (%)	3m	6m	YTD
HPIL	52.3	60.5	78.7
NIFTY	-2.1	1.1	3.1

**HPIL vs Nifty**



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**Hariom Pipe Industries Ltd (HPIL)** reported numbers, Q3FY23 revenue grew by 16.4% YoY (-3.3% QoQ) to INR 123cr vs our estimates of INR 152cr. Gross profit stood at INR 40cr (+18.7% YoY/-1.9% QoQ) vs our estimates of INR 49cr. Gross margin improved by 62 bps to 32.7% vs 32.1% in Q3FY22. The margin improvement is mainly due to decrease in raw material cost in terms of sales. EBITDA stood at INR 18cr (+38% YoY/+15.1% QoQ) vs our estimates of INR 21cr. EBITDA Margin improved by 235 bps to 15.0% vs 12.7% in Q3FY22. The employee cost and power & fuel cost reduced in terms of sales. The employee cost in terms of sales stood at 4.3% vs 5% in Q3FY22. The power cost in terms of sales stood at 11.7% vs 12.9% in Q3FY22. PAT stood at INR 10.1cr (+8.9% YoY/+9.5% QoQ), PAT Margin contracted by 57bps (+96 bps QoQ) to 8.3% vs 8.8% in Q3FY22.

**Key Highlights**

**Focused on ERW Steel Pipes & Scaffoldings:** The company is focused on expanding its presence in the ERW Steel pipes and Scaffoldings space. The sales volume stood at 16,978 tons of Value-Added Products, which accounts 72.1% of total revenue. Scaffolding sales stood at 957 tons in Q3FY23.

**Acquisition will accelerate growth:** The company has entered an asset transfer agreement with R.P.Metal Sections to acquire an operating galvanized pipe mill plant at Perundurai in Tamil Nadu. The acquisition will add capacities, products and geographical expansion going forward. The additional revenue will be partially visible from Q4FY23 and the full impact is expected from FY24 onwards.

**Remain on track with Capex:** The company is implementing capex plans for expanding the pipe mill capacity, and for setting up a modern cold rolled steel mill and galvanized pipe manufacturing plant near Hyderabad. The capex benefits will be visible from FY24 onwards.

**The installation of solar will lead to a reduction in power cost:** The company has initiated the process of installing rooftop solar power generating units in the upcoming expansion plants. The pipe mill power requirements will be met through the units, and are expected to save 4.5 mn units of electricity annually.

**Outlook & Valuation:** HPIL has witnessed a strong revenue growth with good volumes in ERW steel pipes. Strategically located plants with integration, competitive pricing, cost effectiveness, expanding presence, experienced management, and capacity expansion will drive growth going forward. The acquisition of R.P.Metal will bring additional revenues too. At the CMP of INR 413 per share, the stock is trading at 7.6x of its FY25E EPS of INR 54.7. We are valuing stock at 12x of FY25E EPS, and arrived at price objective of INR 657, an upside of 59.1%. On our price objective of INR 657, stock would trade at 6x FY25E EV/EBITDA. We maintain our "BUY" rating on the company.

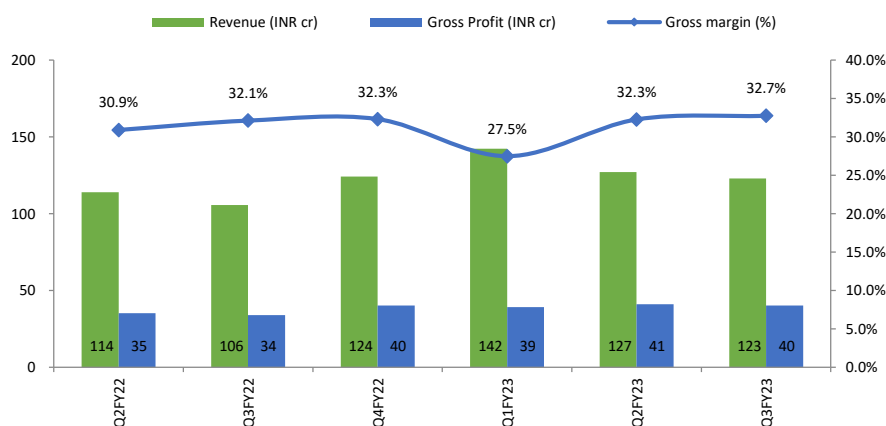
Q3FY23 Result update

Income statement summary

Particular (INR cr)	Q3FY22	Q2FY23	Q3FY23	YoY (%)	QoQ(%)
<b>Revenue</b>	<b>106</b>	<b>127</b>	<b>123</b>	16.4%	-3.3%
Net Raw Materials	72	86	83	15.4%	-4.0%
Employee Cost	5	5	5	0.4%	0.5%
Power & Fuel Cost	14	18	14	5.6%	-18.3%
Other Expenses	1.6	2.0	2.0	29.7%	-0.5%
<b>EBITDA</b>	<b>13</b>	<b>16</b>	<b>18</b>	<b>38.0%</b>	<b>15.1%</b>
<b>EBITDA Margin (%)</b>	<b>12.7%</b>	<b>12.6%</b>	<b>15.0%</b>	<b>+235 bps</b>	<b>+240 bps</b>
Depreciation	2.1	1.8	2.4		
Interest expense	2.0	2.0	2.1		
Other income	2.4	0.2	0.1		
<b>Profit before tax</b>	<b>11.7</b>	<b>12.4</b>	<b>14.1</b>	<b>19.9%</b>	<b>13.1%</b>
Taxes	2.4	3.2	3.9		
<b>PAT</b>	<b>9.3</b>	<b>9.3</b>	<b>10.1</b>	<b>8.9%</b>	<b>9.5%</b>
<b>PAT Margin (%)</b>	<b>8.8%</b>	<b>7.3%</b>	<b>8.3%</b>	<b>-57 bps</b>	<b>+96 bps</b>
Other Comprehensive income	-	(0.0)	(0.0)		
<b>Net profit</b>	<b>9.3</b>	<b>9.3</b>	<b>10.1</b>	<b>8.7%</b>	<b>9.5%</b>
<b>Net Profit Margin (%)</b>	<b>8.8%</b>	<b>7.3%</b>	<b>8.2%</b>	<b>-57 bps</b>	<b>+96 bps</b>
<b>EPS (INR)</b>	<b>5.5</b>	<b>3.6</b>	<b>4.0</b>		

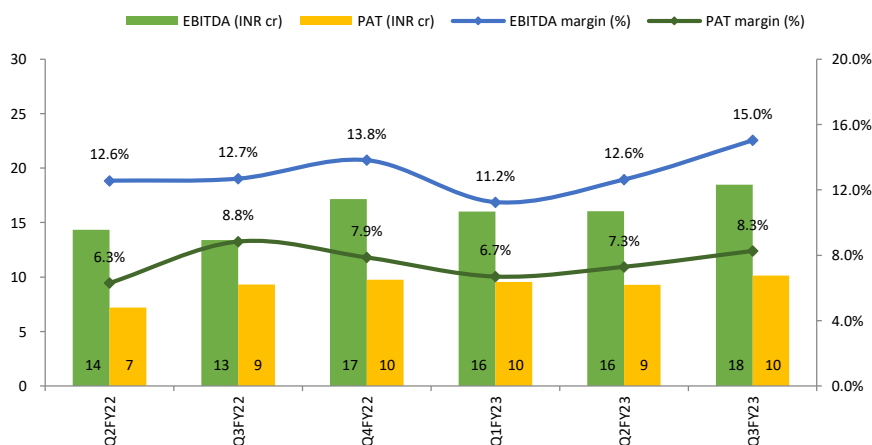
Source: Company Reports, Arihant Capital Research

Exhibit 1: Margins were improved due to softening of raw material prices.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA Margins were improved due to reduction in employee and power costs.



Source: Company Reports, Arihant Capital Research

**Capex Plan would lead better business Visibility**

Particular	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Installed Capacity (MT)</b>						
MS BILLETS	74,400	95,832	95,832	1,04,232	2,49,744	2,49,744
HR STRIPS	84,000	84,000	84,000	1,24,000	2,50,000	4,00,000
MS TUBES	84,000	84,000	84,000	1,32,000	2,50,000	2,50,000
SPONGE IRON	-	36,000	36,000	36,000	1,26,000	1,26,000
SCAFFOLDING	1,000	1,000	1,000	1,000	1,000	1,000
GP PIPE	-	-	-	1,00,000	1,00,000	2,00,000
<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>12,26,744</b>

**Capacity Utilization (MT)**

MS BILLETS	46,276	45,339	88,309	88,597	2,12,282	2,12,282
HR STRIPS	34,280	45,070	77,406	1,14,266	2,12,262	3,00,773
MS TUBES	24,183	32,403	55,967	81,797	1,44,191	1,78,602
SPONGE IRON	-	22,578	25,200	28,800	1,07,100	1,07,100
SCAFFOLDING	980	315	650	657	664	671
GP PIPE	-	-	-	30,249	45,373	98,308

**Capacity Utilization (%)**

MS BILLETS	62%	47%	92%	85%	85%	85%
HR STRIPS	41%	54%	92%	92%	85%	75%
MS TUBES	29%	39%	67%	62%	58%	71%
SPONGE IRON	0%	63%	70%	80%	85%	85%
SCAFFOLDING	98%	32%	65%	66%	66%	67%
GP PIPE	-	-	-	30%	45%	49%

**Sales (MT)**

Sponge	-	20,551	-	-	-	-
Furnace	9,972	1,590	1,500	-	-	-
Rolling	11,008	11,518	24,600	20,000	20,000	20,000
Pipe	22,896	26,896	57,060	56,274	1,04,000	1,30,000
Scaffolding	1,012	185	642	641	648	654
GP Unit	-	-	-	25,538	32,000	80,000
<b>Total Sales (MT)</b>	<b>44,888</b>	<b>60,740</b>	<b>83,802</b>	<b>1,02,454</b>	<b>1,56,648</b>	<b>2,30,654</b>
Average Selling Price per MT (INR)	35,818	41,841	51,378	55,440	56,006	58,918
<b>Revenue (INR cr)</b>	<b>161</b>	<b>254</b>	<b>431</b>	<b>568</b>	<b>877</b>	<b>1,359</b>

**R.P Metal**

Capacity (tonnes)	-	-	-	1,80,000	1,80,000	1,80,000
Capacity utilisation (%)	-	-	-	10.0%	50.0%	80.0%
Production (tonnes)	-	-	-	18,000	90,000	1,44,000
Realisation (INR per tonne)	-	-	-	65,000	66,950	68,959
<b>RP Metals Revenue (INR cr)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117</b>	<b>603</b>	<b>993</b>

<b>Total Revenue (INR cr)</b>	<b>161</b>	<b>254</b>	<b>431</b>	<b>685</b>	<b>1,480</b>	<b>2,352</b>
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Source: Company, Arianth Capital Research

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	161	254	431	685	1,480	2,352
Net Raw Materials	91	173	291	472	1,045	1,656
Employee Cost	8	10	21	28	59	94
Other Expenses	38	37	62	94	203	313
<b>EBITDA</b>	<b>23</b>	<b>34</b>	<b>56</b>	<b>91</b>	<b>173</b>	<b>289</b>
<b>EBITDA Margin (%)</b>	<b>14.6%</b>	<b>13.5%</b>	<b>13.0%</b>	<b>13.3%</b>	<b>11.7%</b>	<b>12.3%</b>
Depreciation	(5)	(6)	(8)	(11)	(25)	(36)
Interest expense	(7)	(8)	(8)	(9)	(20)	(27)
Other income	0	1	3	3	6	9
<b>Profit before tax</b>	<b>11</b>	<b>21</b>	<b>43</b>	<b>75</b>	<b>134</b>	<b>236</b>
Taxes	(3)	(6)	(11)	(20)	(37)	(66)
<b>PAT</b>	<b>8</b>	<b>15</b>	<b>32</b>	<b>55</b>	<b>96</b>	<b>170</b>
<b>PAT Margin (%)</b>	<b>4.9%</b>	<b>6.0%</b>	<b>7.4%</b>	<b>8.0%</b>	<b>6.5%</b>	<b>7.2%</b>
Other Comprehensive income	0	0	(0)	-	-	-
<b>Net profit</b>	<b>8</b>	<b>15</b>	<b>32</b>	<b>55</b>	<b>96</b>	<b>170</b>
EPS (INR)	6	9	19	20	31	55
Diluted EPS (INR)	6	9	19	18	31	55

Source: Company Reports, Arianth Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	13	17	17	28	31	31
Reserves	35	54	84	211	411	565
<b>Net worth</b>	<b>48</b>	<b>71</b>	<b>101</b>	<b>238</b>	<b>442</b>	<b>596</b>
Provisions	0	0	0	0	1	1
Debt	71	90	91	180	260	335
Other non-current liabilities	2	4	3	10	22	35
<b>Total Liabilities</b>	<b>122</b>	<b>164</b>	<b>196</b>	<b>430</b>	<b>726</b>	<b>969</b>
Fixed assets	49	59	54	178	305	430
Capital Work In Progress	0	8	10	23	31	2
Investments	0	0	1	2	4	7
Other non current assets	0	0	1	1	3	5
<b>Net working capital</b>	<b>70</b>	<b>95</b>	<b>131</b>	<b>188</b>	<b>351</b>	<b>492</b>
Inventories	60	80	115	155	295	431
Sundry debtors	23	20	27	56	114	148
Other current assets	5	5	9	23	49	77
Sundry creditors	(15)	(4)	(10)	(33)	(72)	(113)
Other current liabilities & Prov	(3)	(5)	(9)	(14)	(34)	(52)
Cash	2	1	0	36	28	29
Other Financial Assets	0	0	-	1	3	5
<b>Total Assets</b>	<b>122</b>	<b>165</b>	<b>196</b>	<b>430</b>	<b>726</b>	<b>969</b>

Source: Company Reports, Arianth Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	11	21	43	75	134	236
Depreciation	5	6	8	11	25	36
Tax paid	(3)	(6)	(11)	(20)	(37)	(66)
Working capital Δ	(23)	(26)	(35)	(57)	(164)	(140)
<b>Operating cashflow</b>	<b>(10)</b>	<b>(4)</b>	<b>5</b>	<b>9</b>	<b>(42)</b>	<b>65</b>
Capital expenditure	(12)	(24)	(4)	(148)	(161)	(132)
<b>Free cash flow</b>	<b>(22)</b>	<b>(28)</b>	<b>0</b>	<b>(139)</b>	<b>(203)</b>	<b>(66)</b>
Equity raised	4	7	(2)	82	116	(0)
Investments	(0)	(0)	(0)	(1)	(2)	(3)
Others	0	(0)	(0)	(2)	(3)	(3)
Debt financing/disposal	14	19	2	89	80	75
Dividends paid	-	-	-	-	(9)	(15)
Other items	1	1	(0)	7	12	14
<b>Net Δ in cash</b>	<b>(2)</b>	<b>(1)</b>	<b>(0)</b>	<b>36</b>	<b>(9)</b>	<b>1</b>
<b>Opening Cash Flow</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>36</b>	<b>28</b>
<b>Closing Cash Flow</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>36</b>	<b>28</b>	<b>29</b>

Source: Company Reports, Arihant Capital Research

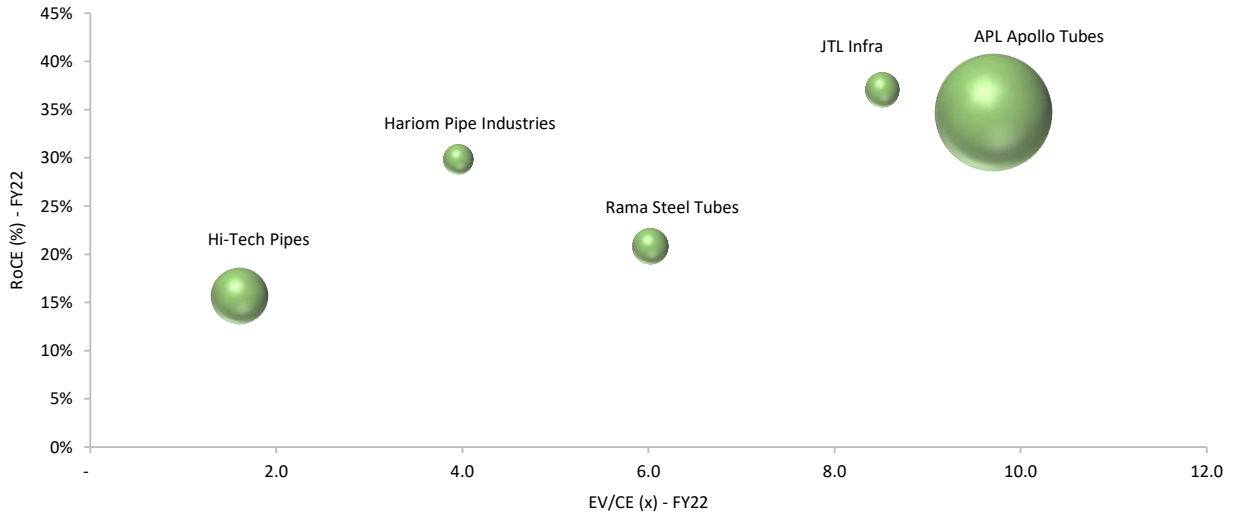
## Ratio analysis

Particular	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>						
Revenue growth	20.3%	58.1%	69.4%	59.1%	116.0%	58.9%
Op profit growth	37.9%	46.0%	63.7%	62.8%	89.5%	67.1%
<b>Profitability ratios (%)</b>						
OPM	14.6%	13.5%	13.0%	13.3%	11.7%	12.3%
Net profit margin	4.9%	6.0%	7.4%	8.0%	6.5%	7.2%
RoCE	12.3%	14.6%	21.5%	20.0%	19.7%	23.1%
RoNW	18.7%	25.4%	37.2%	32.4%	28.3%	32.7%
RoA	6.5%	9.2%	16.3%	12.8%	13.3%	17.5%
<b>Per share ratios (INR)</b>						
EPS	6.0	8.9	18.8	19.9	31.1	54.7
Dividend per share	-	-	-	-	2.9	5.0
Cash EPS	9.9	12.6	23.6	23.9	39.3	66.4
Book value per share	36.5	41.7	59.5	86.3	142.7	192.5
<b>Valuation ratios (x)</b>						
P/E	68.6	46.2	22.0	20.7	13.3	7.5
P/CEPS	41.8	32.7	17.5	17.3	10.5	6.2
P/B	11.3	9.9	6.9	4.8	2.9	2.1
EV/EBITDA	26.2	23.0	14.1	14.0	8.7	5.5
<b>Payout (%)</b>						
Dividend payout	0.0%	0.0%	0.0%	0.0%	9.2%	9.1%
Tax payout	30.2%	28.6%	24.9%	26.2%	28.0%	28.0%
<b>Liquidity ratios</b>						
Debtor days	38	30	20	22	21	20
Inventory days	198	147	122	104	79	80
Creditor days	30	16	7	13	15	16
WC Days	206	162	135	113	85	84
<b>Leverage ratios (x)</b>						
Interest coverage	2.5	3.7	5.9	9.5	7.4	9.4
Net debt / equity	1.4	1.3	0.9	0.6	0.5	0.5
Net debt / op. profit	2.9	2.6	1.6	1.6	1.3	1.1

Source: Company Reports, Arihant Capital Research

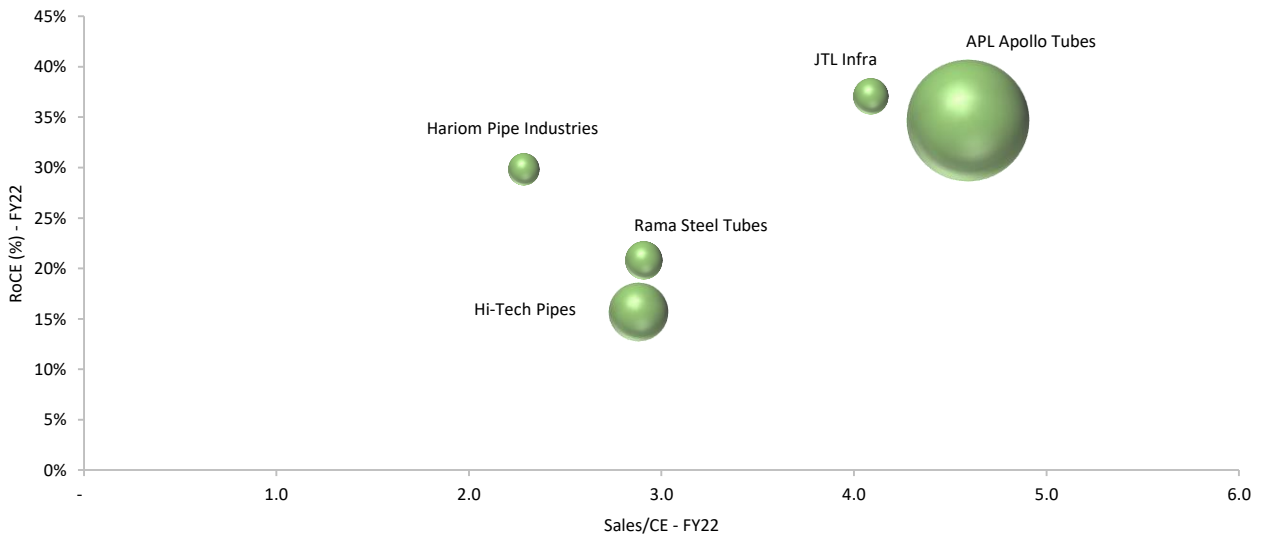
Story in Charts

Exhibit 3: Hariom Pipe Industries has deployed higher capital in terms of enterprise value and delivered 30% RoCE in FY22.



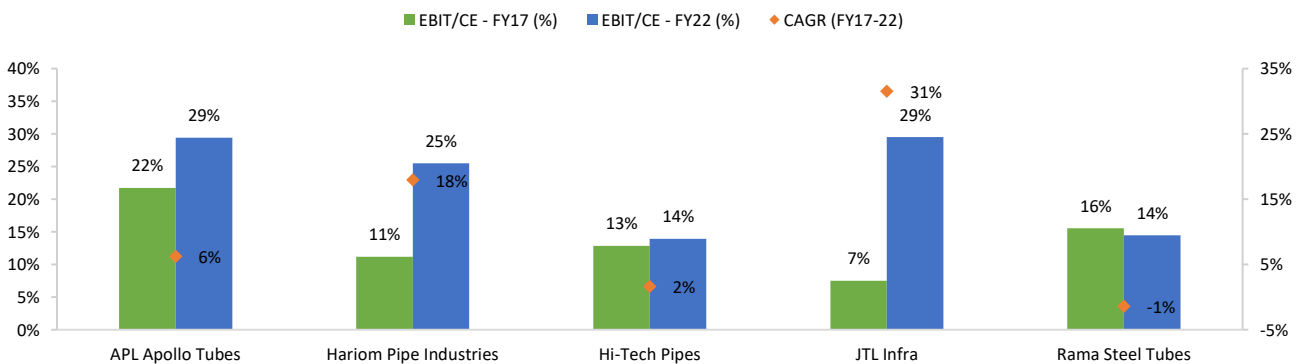
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 4: Hariom Pipe Industries earned INR 2.3 per Capital Employed of INR 1 in FY22.



Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

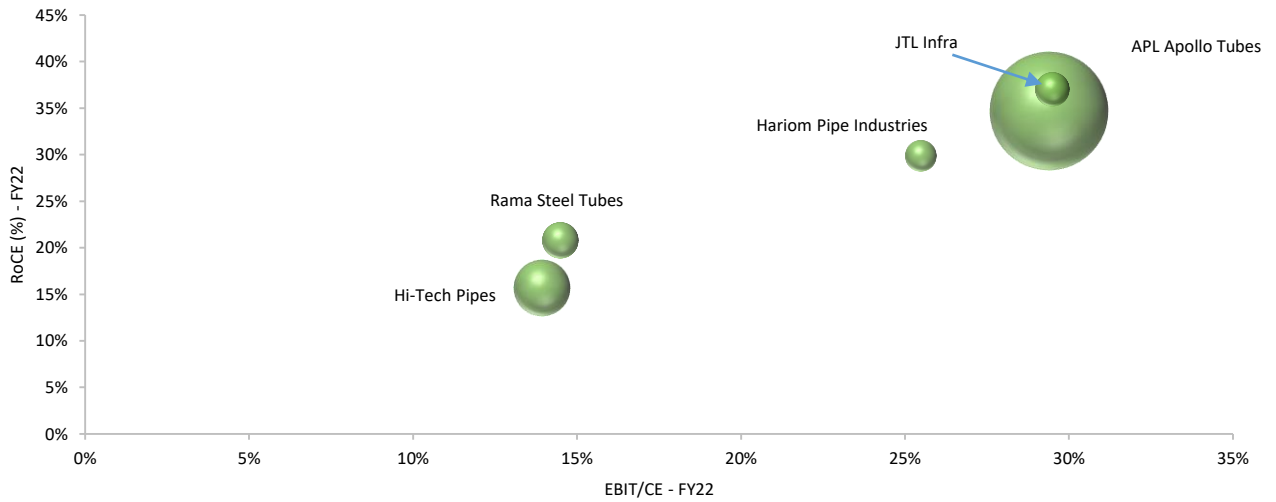
Exhibit 5: Hariom Pipe Industries has witnessed strong growth in EBIT/CE compared to peers.



Source: Ace Equity, Arihant Capital Research

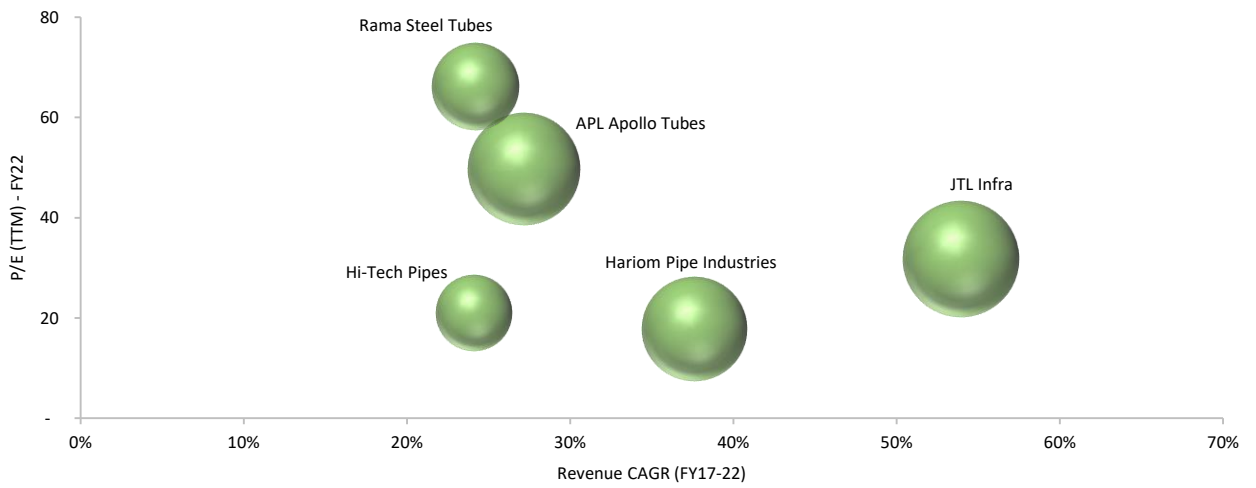
Story in Charts

Exhibit 6: Hariom Pipe Industries has generated 25% of EBIT/CE which is healthy operating profit in the industry.



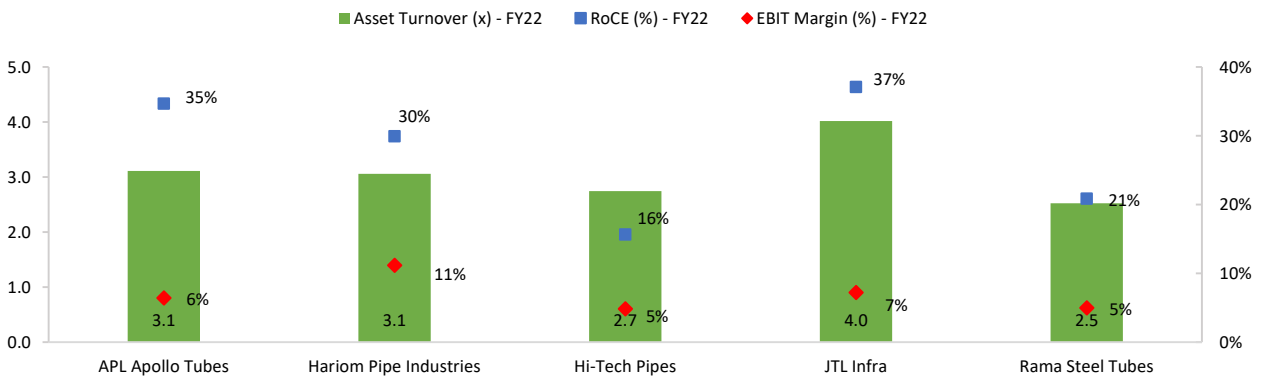
Source: Ace Equity, Arihant Capital Research; Bubble size represents Capital Employed (CE)

Exhibit 7: Hariom Pipe Industries has delivered 38% CAGR revenue growth over the period of FY17-22 and valued PE of 17.8x in FY22.



Source: Ace Equity, Arihant Capital Research; Bubble size represents RoCE

Exhibit 8: Hariom Pipe Industries has efficiently used its assets to generate sales compared to peers.



Source: Ace Equity, Arihant Capital Research

Story in Charts

Exhibit 9: Revenue growth momentum would continue.

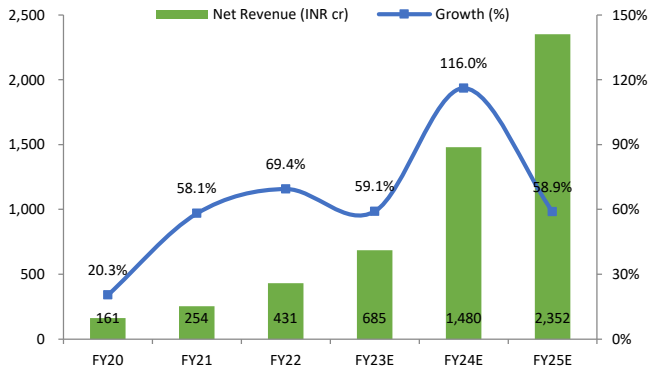


Exhibit 10: Power and Fuel cost is expected to moderate.

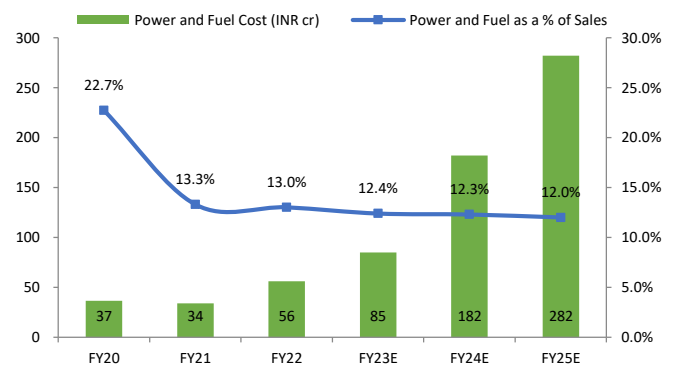


Exhibit 11: R.P Metals business is expected to be impact on margin levels and gradual improvement is expected going forward.

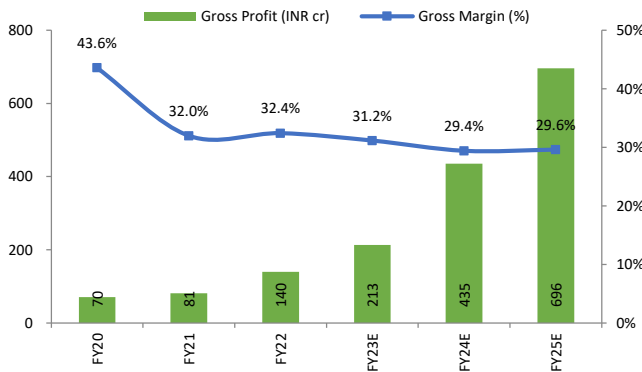


Exhibit 12: Growth in EBITDA & PAT levels.

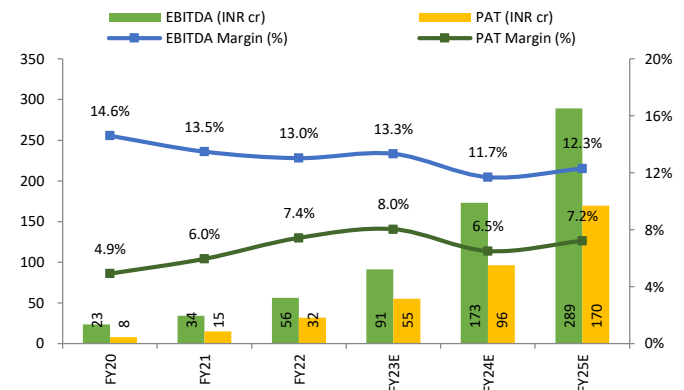


Exhibit 13: Working capital days to be improve

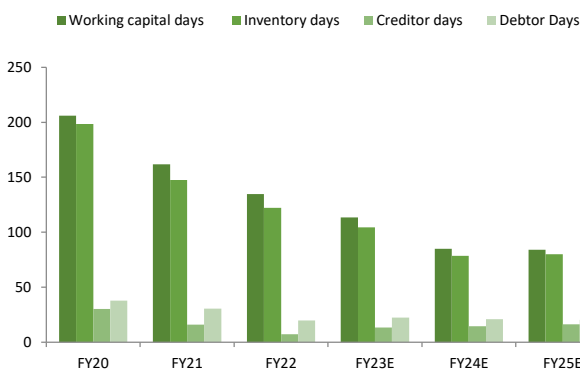
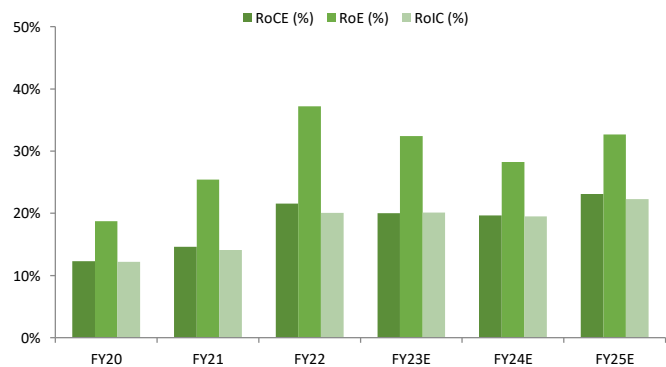


Exhibit 14: Return ratios to be improve

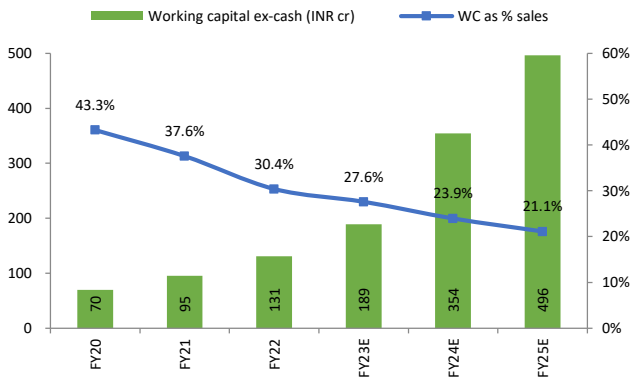


Source: Company Reports, Arihant Capital Research

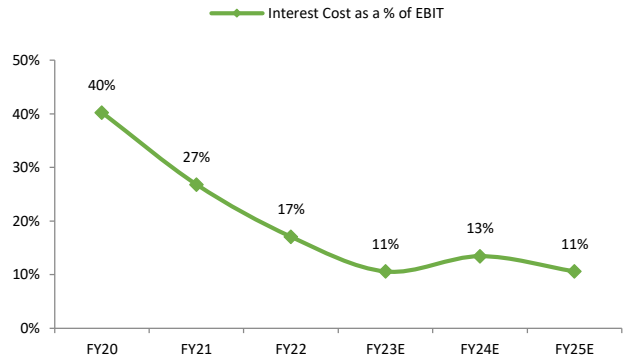


Story in Charts

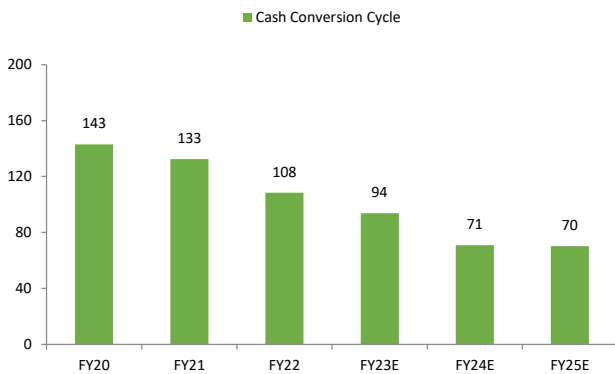
**Exhibit 15: Working capital in-terms of sales is expected to reduce going forward.**



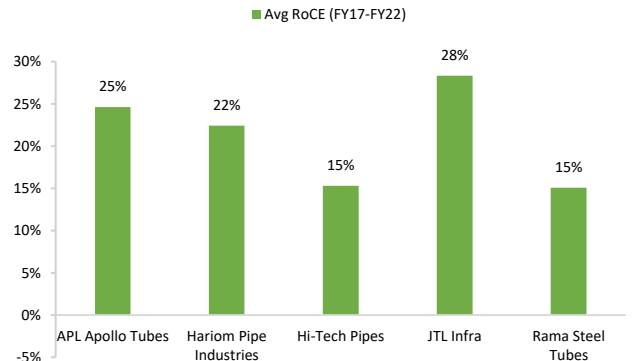
**Exhibit 16: Interest cost in-terms of EBIT is expected to reduce going forward.**



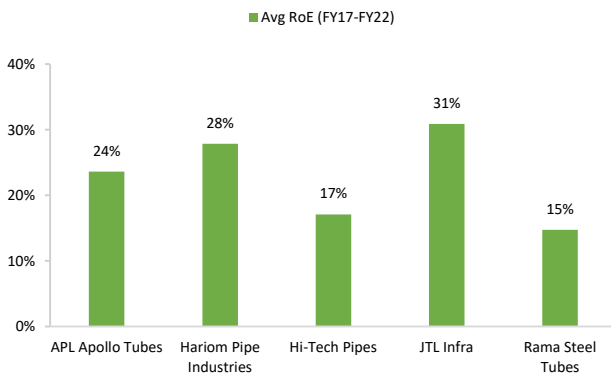
**Exhibit 17: Cash conversion cycle is expected to improve going forward.**



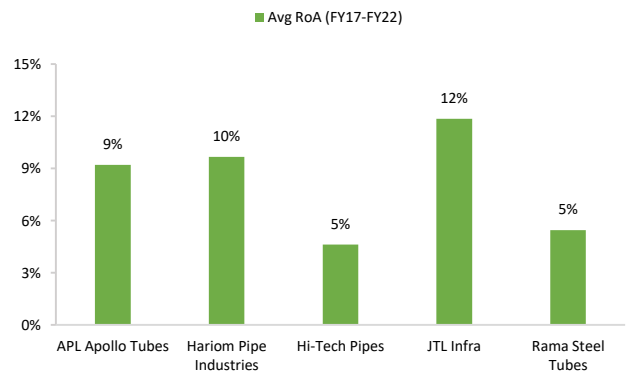
**Exhibit 18: Hariom Pipe Industries was delivered 22% RoCE over the period of FY17-22.**



**Exhibit 19: Hariom Pipe Industries was delivered 28% RoE over the period of FY17-22.**

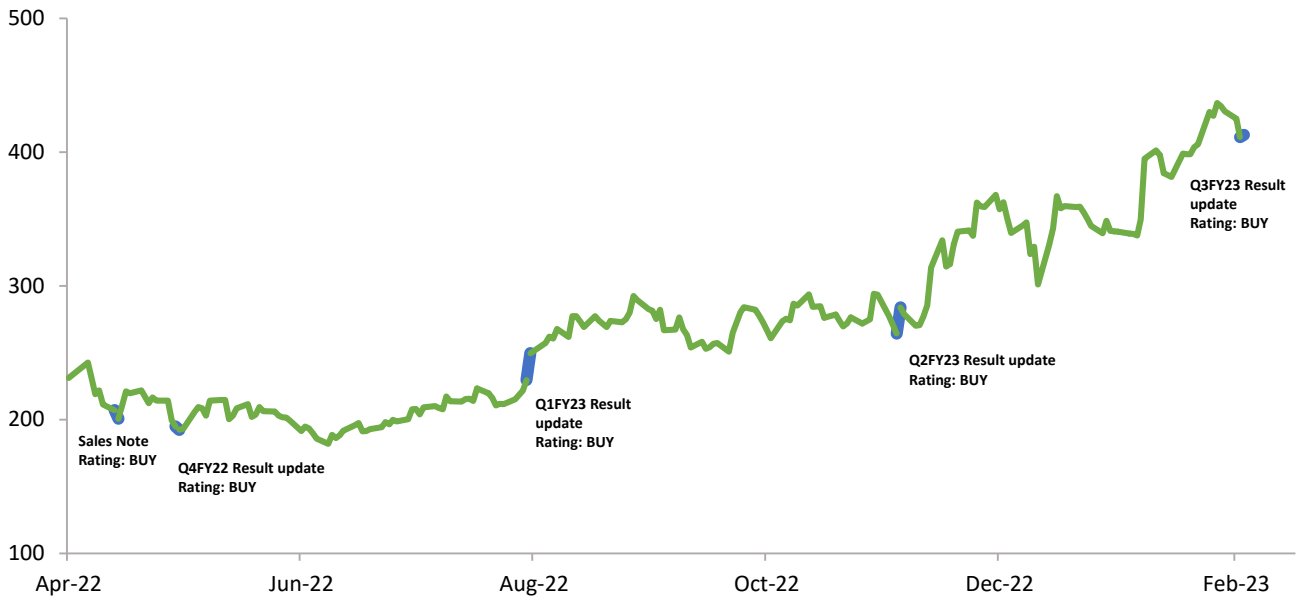


**Exhibit 20: Hariom Pipe Industries was delivered 10% RoA over the period of FY17-22.**



Source: Company Reports, Arianth Capital Research

## Analyst Coverage



Date	Report Type	Recom Price (INR)	Target Price (INR)	Rating	Report
30-Mar-22	IPO Note	153	-	Subscribe for Long Term	<a href="https://bit.ly/3EbETUo">https://bit.ly/3EbETUo</a>
26-Apr-22	Sales Note	201	403	BUY	<a href="https://bit.ly/3vM7MT5">https://bit.ly/3vM7MT5</a>
11-May-22	Q4FY22 Result update	199	403	BUY	<a href="https://bit.ly/3wccbic">https://bit.ly/3wccbic</a>
12-Aug-22	Q1FY23 Result update	230	403	BUY	<a href="https://bit.ly/3QnB6s8">https://bit.ly/3QnB6s8</a>
18-Nov-22	Q2FY23 Result update	284	403	BUY	<a href="https://bit.ly/3GtfSak">https://bit.ly/3GtfSak</a>

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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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