

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	1,301
Fresh Issue (No. of Shares in Lakhs)	85
Offer for Sale (No. of Shares in Lakhs)	Nil
Bid/Issue opens on	30-Mar-22
Bid/Issue closes on	5-Apr-22
Face Value	Rs. 10
Price Band	144-153
Minimum Lot	98

Objects of the Issue

The Fresh Issue: Rs. 1301 Million

- Funding capital expenditure requirements.
- Funding the working capital requirements of the Company.
- General corporate purposes.

Offer for Sale: Nil

Book Running Lead Managers	
ITI Capital Limited	
Registrar to the Offer	
Bigshare Services Private Limited	

Capital Structure (` Million)	Aggregate Value
Authorised share Capital	286.84
Subscribed paid up Capital (Pre-Offer)	169.76
Paid up capital (Post - Offer)	254.76

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	99.1	66
Public	0.9	34
Total	100	100

Financials

Particulars (Rs. In million)	6M- FY22	FY21	FY20	FY19
Revenue from operations	2,008.7	2,541.4	1,607.8	1,336.0
Operating expenses	1,753.0	2,198.6	1,372.9	1,165.7
EBITDA	255.7	342.8	234.9	170.3
Other Income	2.9	6.8	3.7	3.2
EBIDT	258.6	349.7	238.6	173.5
Interest	41.7	75.1	73.7	35.5
Depreciation	39.8	62.6	51.6	21.5
PBT	177.1	212.0	113.2	116.5
Tax	48.4	60.7	34.2	36.3
Consolidated PAT	128.7	151.3	79.1	80.2
Minority/other adj.	-	-	-	-
Consolidated PAT	128.7	151.3	79.1	80.2
EPS	15.1	9.8	5.9	7.3
Ratio	6M- FY22	FY21	FY20	FY19
EBITDAM	12.7%	13.5%	14.6%	12.7%
PATM	6.4%	6.0%	4.9%	6.0%
Sales growth	-	58.1%	20.3%	-

Company Description

Hariom Pipe Industries Ltd is an integrated manufacturer of Mild Steel (MS) Pipes, Scaffolding, HR Strips, MS Billets, and Sponge Iron. The Company use iron ore to produce Sponge Iron which is then processed across various stages to manufacture their final products viz. MS Pipes and Scaffolding making their manufacturing process cost-effective.

The Company cater to the southern and western Indian markets for their products. Their MS Pipes are marketed and sold in these geographies under the brand name "Hariom Pipes". Substantial portion of the Sponge Iron, MS Billets and HR Strips produced by them are used for captive consumption in the manufacturing MS Pipes and Scaffolding.

They manufacture MS Pipes and Scaffoldings of more than one hundred fifty (150) different specifications and cater, directly and indirectly, to customer requirements in various sectors such as housing, infrastructure, agriculture, automotive, power, cement, mining, solar power and engineering.

Their integrated plant at Mahabubnagar District in Telangana (Unit I) manufactures finished steel products from iron scrap and Sponge Iron and their other plant at Anantapur District, Andhra Pradesh (Unit II) exclusively manufactures Sponge Iron. Unit II is located near Bellary, which is one of the hubs in South India for iron ore production. The iron ore required to produce Sponge Iron at Unit II is mostly procured through the online bidding process. Most of the Sponge Iron produced at the Unit II is transported to the Unit I and used as a raw material for manufacturing MS Billets, HR Strips, MS Pipes and Scaffolding. The manufacturing of Sponge Iron at their Unit II has reduced their dependence on external sources for raw materials since its acquisition in September, 2020. The integration of Unit I and II has optimized their operations and profitability through backward integration which helps with efficient logistics, inventory management, procurement, energy savings and quality control.

Their quality control team led by qualified chemists and engineers ensure that their raw materials as well as end products are tested on all quality parameters to ensure that they are compliant with the required market standards.

Valuation

HPIL have wide array of finished Steel products catering to diverse Industries. The company has a strong hold on steel products with wide distribution network across India and especially in South and Western India. It also focuses on backward Integration of its production line which helps the company in efficient logistics, inventory management, procurement, energy savings and quality control.

The company is available at the upper end of the IPO price band at 15.1x its FY22 annualized earnings attributable to post issue equity demanding a market cap of Rs. 3,898 million. At the upper end of the IPO price band, the issue is priced at a P/BV of 3.1x based on its NAV of Rs. 49.79 as of March 31, 2021.

The Company have delivered good growth in Sales over past few years along with stable margin profile. When compared to its listed peers, HPIL is fairly valued. We recommend a "Subscribe-Long Term" rating to this IPO.

The Company mainly sell MS Pipes through more than two hundred (200) distributors and dealers. They also sell MS Pipes and Scaffoldings to certain developers and contractors directly as B2B sales. The Company believe that their key differentiator is their range of product specifications in terms of thickness, length, quality, availability and customised products.

The Company's Promoters Mr. Rupesh Kumar Gupta and Mr. Sailesh Gupta are third generation entrepreneurs and individually have more than a decade of experience in the iron and steel industry. They have been instrumental in the growth and management of their Company.

Some of the Company's financial details for six months period ended September 30, 2021 and for Fiscal 2021, Fiscal 2020 and Fiscal 2019 are set out below:

Particulars	(₹ in lakhs)			
	For six months period ended September 30, 2021	Fiscal 2021	Fiscal 2020	Fiscal 2019
Total Income	20,116.0	25,482.3	16,115.1	13,391.6
EBITDA	2,586.0	3,496.7	2,385.9	1,734.9
EBITDA Margin (in %)	12.9%	13.7%	14.8%	13.0%
PAT	1,286.9	1,513.2	790.8	802.0
PAT Margin (in %)	6.4%	5.9%	4.9%	6.0%

Strengths:

➤ **Integrated nature of their operations.**

The Company use iron ore to produce Sponge Iron which is then processed across various stages to manufacture their final products viz. MS Pipes and Scaffolding making their manufacturing process cost-effective. The integrated nature of operations is one of the major strengths and differentiators of the Company. All intermediate products required for the manufacturing of their final products are produced in-house viz. Sponge Iron, MS Billets and HR Strips. Their finished product from each of their process acts as an input for the next process and provides flexibility in alteration of their product mix as per market demand and supply, market price and the available gross margins. For e.g. their induction furnace plant output i.e. MS Billets can be segregated and may be sold independently or may be provided as an input for their rolling mills and further the output of their rolling mill i.e. HR Strips can be sold independently as well as used as an input for manufacturing MS Pipes. The Company believe that their ability to change the product mix as per market demand and supply dynamics gives them the flexibility to serve a wider spectrum of customers across various sectors. In addition to the seamless and flexible operations, integration of their production process provides them a cost advantage over their competitors.

➤ **Environment friendly manufacturing process**

The Company believe that environmentally friendly manufacturing is not an option, but a necessity in world today. Sticking to this belief, they consciously preferred and installed the hot charging process of manufacturing their products as it significantly reduces the usage of coal and power. They have synchronized their manufacturing processes to ensure smooth transition from one process to the other including environmental considerations. For example, the company for shifting raw materials inside their Unit I they have laid down rail trolley system to eliminate the usage of diesel trucks and other polluting vehicles.

They have installed pollution control equipment at their 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 their operations. They have also planted over 3,000 trees in and around their manufacturing units and installed drip irrigation to maintenance of the plantation.

As regards water conservation and treatment, the company have 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. They recycle the water used in their manufacturing process to minimize wastage and water pollution.

➤ **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 their 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 the 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. They have synchronized their processes in such a manner that one product follows the other without any break leading to costs and time efficiencies.

They have 32 KVA dedicated feeder for their furnace at their Unit I which makes them eligible for obtaining private power from IEX through the online bidding process, against their 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 TSSPDCL, they have the alternative facility of receiving uninterrupted supply of power from IEX at competitive rates.

They have installed multiple operations at a single location i.e. Unit I where they manufacture the entire range of their products viz. MS Billets to Mild Steel (MS) Pipes and Scaffolding. The hot charging process installed in their 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 they crush the slag and extract iron content from the slag which is again recycled in furnaces for producing MS Billets.

➤ **Competitive pricing of their 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 their competitors may be lacking giving them a competitive advantage as to price. In addition to the pricing advantage, they have also built in their manufacturing process some flexibility as to thickness, length and quality of their products which enables customisation leading to better margins for their products.

Due to the flexibility in manufacturing a range of products having specific thickness, length and quality, the demand of their products is higher as compared to their competitors who manufacture and sell standard industry sizes or dimensions of products.

➤ **Experienced & Qualified Team.**

The Promoters and senior management team is well experienced in this industry both from marketing and distribution of products in this sector. The Promoter, Mr. Rupesh Kumar Gupta has been the main guiding force behind the growth and business strategy of their Company and has more than a decade of experience in the iron and steel industry. The Promoter, Mr. Sailesh Gupta also has over a decade experience in iron and steel industry and is actively involved in day to day business, administration and marketing of the Company. They believe that their management team's experience and their understanding of the industry will enable them to continue to take advantage of both current and future opportunities. A large number of their senior management personnel have worked with them for a significant period of time, resulting in effective operational coordination and continuity of business strategies. They have led the organization through acquisitions, development of new systems and components etc.

Key Strategies:

➤ **Expand the geographical network.**

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

➤ **Organic growth by expansion of their 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, they shall be deploying funds for expansion of their MS Pipe manufacturing capacity by setting up of two (2) additional pipe mills adjacent to their existing Unit I. This expansion will increase their capacity from the present 84,000 MTPA to 1,32,000 MTPA. The Company will also be expanding their Furnace Unit capacity which will enhance their production capacity to the extent of 1,04,232 MTPA from the existing capacity of 95,832 MTPA. The Company in September 2020 acquired the Sponge Iron manufacturing facility i.e. Unit II as a part of their backward integration initiatives. They 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 their products.

➤ **Upgrading the existing manufacturing facilities.**

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

➤ **Expanding the 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. They provide a range of product specifications in MS Pipes and Scaffoldings in terms of thickness, length, quality, availability, and customised products. They intend to further enhance their 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 their existing lines which are in the development phase. Some value additions to their 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: They use packing strips/tapes for packing their MS Pipes to enable easy movement from one place to another.

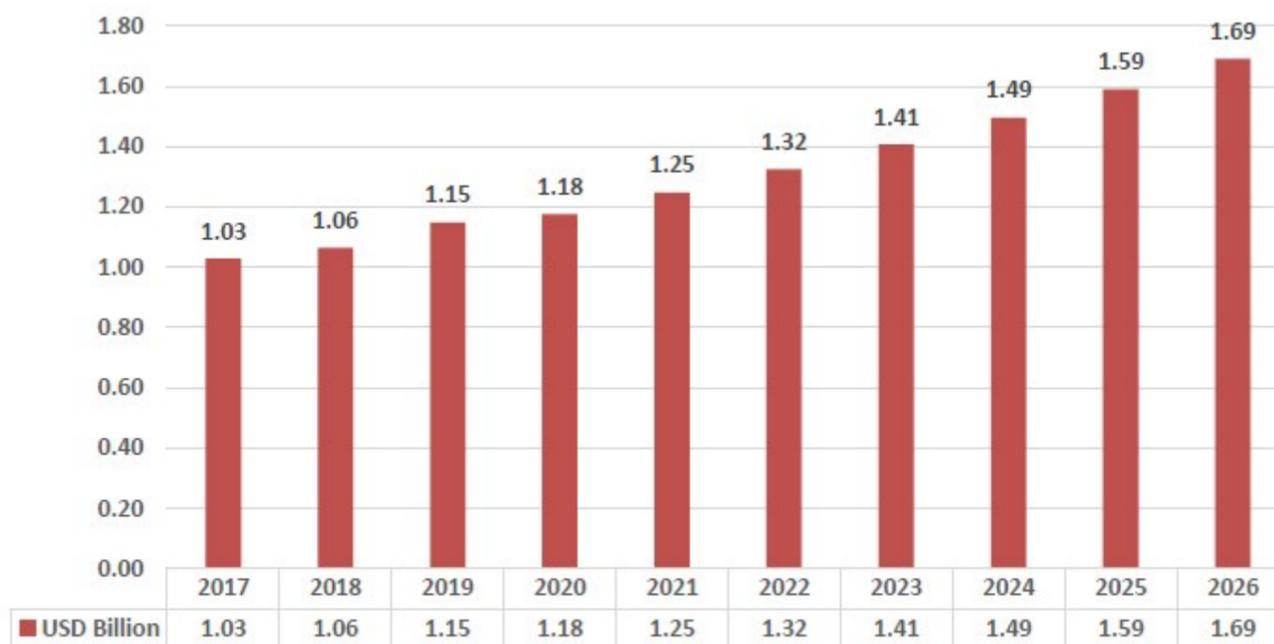
➤ **Increasing Operational efficiency**

The Company continue to invest in increasing their operational efficiency throughout the organization. They are addressing the increase their operational output through continuous process improvement, QC / QA activities, customer service, consistent quality and technology development. Alignment of their 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 their employees.

Industry Snapshot:

➤ **MS PIPE / TUBES MARKET SIZE, 2017-2026, USD BILLION**

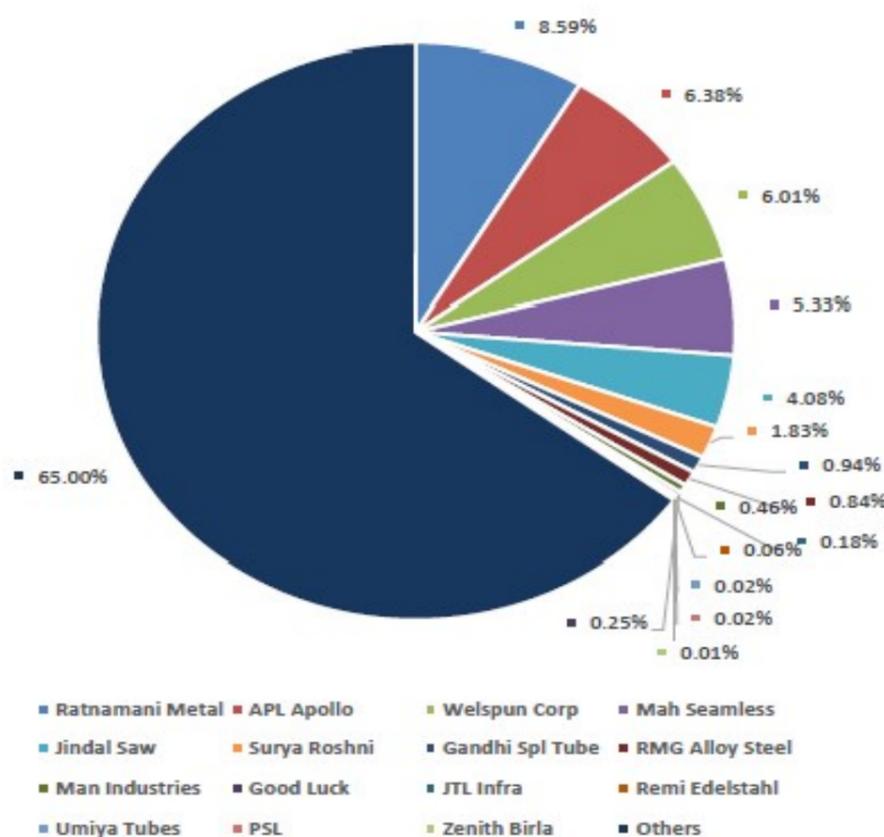
INDIA MS PIPE / TUBES MARKET, USD BILLION, 2017-2026



Source: Indian Steel Association, Steel.Gov, JSTOR, Bureau of Indian Standards, CCI, NCAER, Company Annual Report, Primary Interviews, Reports and Data

➤ **India Steel - Tubes & Pipes company revenue market share, 2020**

India Steel - Tubes & Pipes company revenue market share, 2020



Source: Indian Steel Association, Steel.Gov, JSTOR, Bureau of Indian Standards, CCI, NCAER, Company Annual Report, Primary Interviews, Reports and Data

Key Risk:

- The Company have historically derived, and may continue to derive, a significant portion of their income from their top 10 customers.
- The Company depend on their distribution network to sell their Products to their customers and their inability to manage their distributors and dealers could hamper the business, financial condition and the results of operations.
- Any changes in regulations or applicable government incentives would materially adversely affect their Company's operations and growth prospects.
- 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. A decrease in steel prices may have a material adverse effect on their business, results of operations, prospects and financial condition.
- The steel and steel products industry is characterized by volatility in the prices of raw materials and energy which could adversely affect their profitability.
- The Company's operations are subject to environmental and workers' health and safety laws and regulations. They may have to incur material costs to comply with these regulations or suffer material liabilities or damages in the event of an incidence or non-compliance of environmental laws and regulations which may have a material adverse effect on their business, financial condition and results of operations.
- Absence of large customers and dependence on smaller customers increases uncertainty of demand which may have an adverse impact on their business operations and financial performance.
- The Company face substantial competition from Indian steel and steel products producers, which may affect their prospects.

Valuation:

HPIL have wide array of finished Steel products catering to diverse Industries. The company has a strong hold on steel products with wide distribution network across India and especially in South and Western India. It also focuses on backward Integration of its production line which helps the company in efficient logistics, inventory management, procurement, energy savings and quality control.

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Peer Comparison:

Name of the company	Total Income for the year end 31st March 2021 (₹ in Lakh)	Face value (₹ per share)	PE as on March 21, 2022	EPS for Fiscal Year 21		Return on average net worth (%)	NAV (Rs per share)
				Basic	Diluted		
Hariom Pipe Industries Limited	25,482.3	10.0	-	10.6	9.8	21.4%	49.8
PEER GROUP							
APL Apollo Tubes Ltd	605,200.1	2.0	78.3	12.3	12.3	10.6%	116.0
Hi-Tech Pipes Ltd	102,728.4	10.0	41.4	13.8	12.5	8.7%	155.0
Rama Steel Tubes Ltd.	32,883.5	5.0	103.2	3.2	3.2	6.1%	52.7
JTL Infra Ltd	44,036.9	2.0	11.4	18.9	18.9	20.7%	91.4

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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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