

We initiate coverage of Man Industries (Man) with a BUY recommendation and target price of Rs500/sh, which implies 27% upside. Man's stock price has more than doubled within one year, reflecting improved business fundamentals as well as greater visibility on execution of its announced expansion plans. Also, industry tailwind in the form of demand growth for pipes as well as capacity growth by peers have provided meaningful clarity on Man charting a similar path. We reckon the optimism around such tailwind and growth aspirations are mostly in the price = 'potential'. We think the stock is yet to factor in project execution hereon which is expected to double the group's revenue in 3-4 years = 'delivery'. This transition from the 'potential' to the 'delivery' phase is likely to create meaningful shareholder value.

Man Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,709	31,942	34,038	46,089	58,053
EBITDA	1,768	2,932	3,284	4,665	6,424
Adj. PAT	680	1,051	1,260	1,762	3,181
Adj. EPS (Rs)	11.3	16.7	18.4	26.2	47.3
EBITDA margin (%)	7.8	9.2	9.6	10.1	11.1
EBITDA growth (%)	(18.8)	65.9	12.0	42.0	37.7
Adj. EPS growth (%)	(35.4)	47.7	9.8	42.6	80.6
RoE (%)	7.0	8.7	8.6	11.0	17.4
RoIC (%)	10.0	14.3	11.8	11.1	14.7
P/E (x)	34.9	23.6	21.1	15.1	8.3
EV/EBITDA (x)	4.4	5.0	10.7	8.4	5.6
P/B (x)	2.4	1.8	1.8	1.6	1.3
FCFF yield (%)	(63.4)	10.2	(31.0)	(11.2)	17.9

Source: Company, Emkay Research

Taking the next leap – Two exciting projects

With delivery of 100kt expansion into ERW pipes, the management has demonstrated execution capabilities, and is now embarking on a larger and more impactful expansion into the stainless steel and ERW segments in Jammu and the line-pipes segment in Saudi Arabia. Man plans to invest Rs8.2bn in Jammu and Rs4.8bn in Saudi, with total capex of Rs13bn over the next 12-18 months, adding 400kt of capacity (+36%) and potentially doubling revenue in 3-4 years. We expect margin to expand to 11.1% in FY27E from 9.2% in FY24, with entry into the high-margin stainless steel business. We see significant improvement in return ratios. Existing business generates mid-cycle ROE of 9-10%. We estimate incremental ROE contribution from the Saudi expansion at 4.8% and stainless steel at 3.9%; this would take group ROE to 17.4/21.0% in FY27E/28E. We believe the market prefers taking a de-risking approach to the company's project execution, with the next leg of stock re-rating likely to be accompanied by progress on projects.

Gaining market share from a growing pie

We see an industry-driven tailwind firmly in place, with new entrants potentially taking market share from a growing pie. This would help Man expand into newer geographies (Jammu and Saudi) and product categories (stainless steel and ERW). Our understanding from industry sources is that a three-year order book is fully secured by Saudi-based pipe-makers. There are multiple catalysts in place to help sustain demand (NEOM city, 2034 FIFA World Cup, water desalination) for 10 years in Saudi Arabia.

Risk/Reward proposition favorably placed

We value the stock on a blended framework and set a target price of Rs500/share, which implies 27% upside. The line pipes sector is trading at 12.9x earnings, 8.2x EV/EBITDA, and is generating average ROE of 15.8% for FY25E. Though Man is trading at higher P/E of 21.1x, we see valuation comfort at 8.3x on FY27E earnings. Key risks: decline in utilization rates, air pocket in order book, and challenges in newer geographies.

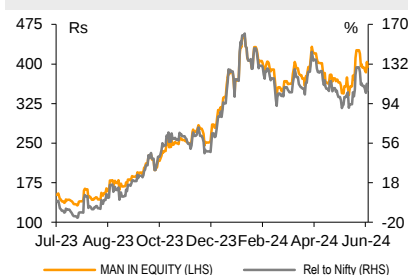
Target Price – 12M	Mar-25
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	26.8
CMP (27-Jun-24) (Rs)	394.4

Stock Data	Ticker
52-week High (Rs)	459
52-week Low (Rs)	129
Shares outstanding (mn)	64.7
Market-cap (Rs bn)	26
Market-cap (USD mn)	306
Net-debt, FY25E (Rs mn)	9,732
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	89.7
ADTV-3M (USD mn)	1.1
Free float (%)	-
Nifty-50	24,045
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	46.1
FPIs/MFs (%)	1.6/3.3

Price Performance

(%)	1M	3M	12M
Absolute	10.0	9.0	149.3
Rel. to Nifty	4.9	0.3	95.1

1-Year share price trend (Rs)



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Table of contents

Contents	Page No.
Summary of Estimates	3
Transition phase from 'potential' to 'delivery' offers positioning opportunity	6
Stock pricing-in growth potential but not delivery (yet) – transition towards delivery offers positioning opportunity	6
Target price set at Rs500/sh on a blended valuation framework	7
Valuation metrics in sync	8
Peer valuation comparison	9
Bull / Bear return range of –23% to +54%	10
Risks	12
Investment case	13
Taking the next leap – Two exciting projects	13
Delivery of the ERW project enhances visibility on execution	13
Jammu project to provide product and geographical diversification	14
Saudi project to tap the secular demand trend.....	16
Building blocks to growth, cash generation, and returns	18
Industry-driven tailwind – Taking market share from a growing pie	25
Saudi demand story structural.....	25
Infrastructure-led pipes' demand acceleration in India.....	26
SWOT analysis	28
Company overview.....	29
Company synopsis	29
Product profile	30
Experienced management team.....	31
Shareholding pattern.....	32

Summary of estimates

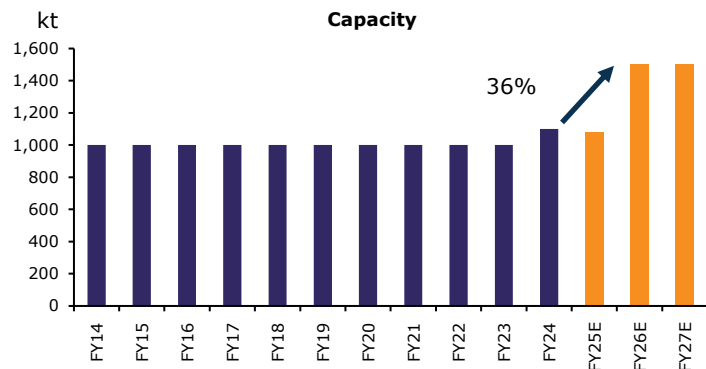
Exhibit 1: Man Industries – Summary of estimates

Consolidated (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E		FY23	FY24	FY25E	FY26E	FY27E
P&L						Operational metrics					
Revenue	22,709.0	31,942.3	34,037.6	46,089.2	58,053.2	Capacity - India (kt)	1,000.0	1,100.0	1,080.0	1,100.0	1,100.0
Cost of sales	20,941.5	29,010.1	30,753.4	41,424.2	51,629.2	Production - India (kt)	225.0	355.0	383.0	409.0	440.0
Adj. EBITDA	1,767.5	2,932.2	3,284.2	4,665.0	6,424.0	Capacity - Saudi (kt)	-	-	-	400.0	400.0
Depreciation	453.5	610.9	659.3	1,048.6	1,139.6	Production - Saudi (kt)	-	-	-	80.0	140.0
EBIT	1,314.0	2,321.3	2,624.9	3,616.4	5,284.4	EBITDA/t of capacity (Rs)	1,767.5	2,665.6	3,040.9	3,110.0	4,282.7
Interest and taxes	634.1	1,269.9	1,364.4	1,854.8	2,103.1	EBITDA/t of production (Rs)	7,855.6	8,259.7	8,574.8	9,539.8	11,075.8
Net earnings	679.9	1,051.4	1,260.4	1,761.6	3,181.3	Asset turnover (x)	1.3	1.5	1.2	1.3	1.4
Adj. EPS (Rs/sh)	11.33	17.42	19.47	27.21	49.14	Working capital days	44.2	56.9	71.3	72.2	58.5
Dividend (Rs/sh)	2.00	2.00	2.00	2.50	5.00						
Number of shares	60.0	62.9	67.2	67.2	67.2						
Balance sheet						Financial metrics					
Gross block	5,294.7	5,844.5	13,868.4	17,472.1	16,949.4	EBITDA margins	7.8%	9.2%	9.6%	10.1%	11.1%
Inventories	1,208.0	6,456.3	6,319.2	8,511.8	8,487.0	Net margins	3.0%	3.3%	3.7%	3.8%	5.5%
Receivables	4,939.3	3,551.0	5,388.4	7,410.7	9,303.8	ROE	7.0%	8.7%	8.6%	11.0%	17.4%
Payables	3,397.5	5,027.5	5,055.4	6,809.5	8,487.0	ROCE	12.3%	16.9%	13.0%	13.4%	17.7%
Net working capital	2,749.8	4,979.8	6,652.2	9,113.1	9,303.8	ROIC	15.7%	19.7%	14.0%	12.9%	16.2%
Cash	368.9	1,886.0	852.8	309.6	1,252.2	Gross debt (Rs mn)	2,936.0	3,084.5	10,584.5	14,084.5	11,584.5
Total assets	17,278.8	24,151.6	32,794.2	39,680.4	41,877.5	Net debt (Rs mn)	2,567.1	1,198.5	9,731.7	13,774.9	10,332.3
Total liabilities	7,237.0	10,102.9	17,630.8	22,884.9	22,062.4	Net debt to EBITDA (x)	1.5	0.4	3.0	3.0	1.6
Total Equity	10,041.8	14,048.7	15,163.4	16,795.6	19,815.1	Net debt to Equity	25.6%	8.5%	64.2%	82.0%	52.1%
Cash flow						Valuation					
Operating cash before WC	1,839.0	2,703.3	2,801.0	4,457.8	6,348.8	Methodology	Rs mn	Rs/sh			
Working capital changes	-2,779.8	196.6	-1,672.4	-2,460.9	-190.7	DCF	34,513.2	513.3			
Operating cash flow	-1,187.5	2,574.6	716.7	1,409.7	5,097.7	EV/EBITDA	32,253.1	479.7			
Capex	-2,072.2	-1,203.8	-8,634.8	-4,263.0	-525.8	P/E	31,709.1	471.6			
Investing cash flow	-1,354.9	-2,636.9	-8,176.6	-4,055.8	-450.6	Blended fair value	32,825.1	488.2			
Borrowings	2,630.8	796.9	7,500.0	3,500.0	-2,500.0	Target price		500.0			
Equity changes	45.0	1,858.0	0.0	0.0	0.0	Current price		395.0			
Financing cash flow	2,091.8	1,579.4	6,426.7	2,102.9	-3,704.5	Price return		26.6%			
Net change in cash	-450.6	1,517.1	-1,033.2	-543.2	942.6	Dividend return		0.5%			
Ending cash	368.9	1,886.0	852.8	309.6	1,252.2	Expected total return		27.1%			
						WACC		12.0%			

Source: Company, Emkay Research

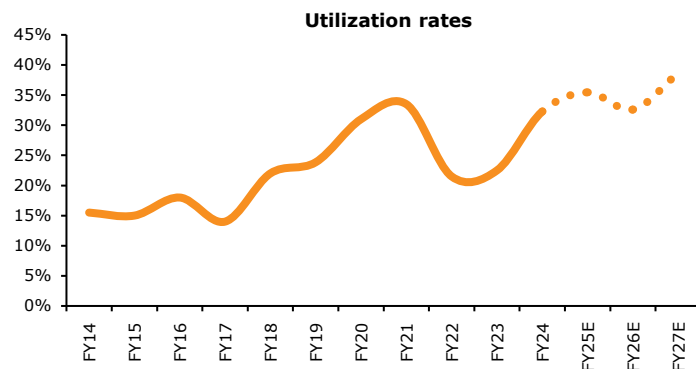
Story in charts

Exhibit 2: Geographical expansion to expand capacity to 1.5mt



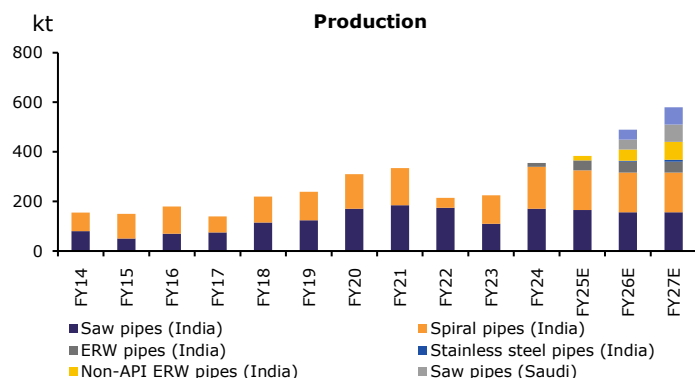
Source: Company, Emkay Research

Exhibit 3: Utilization expected to improve in both, the existing operations as well as those in Saudi Arabia



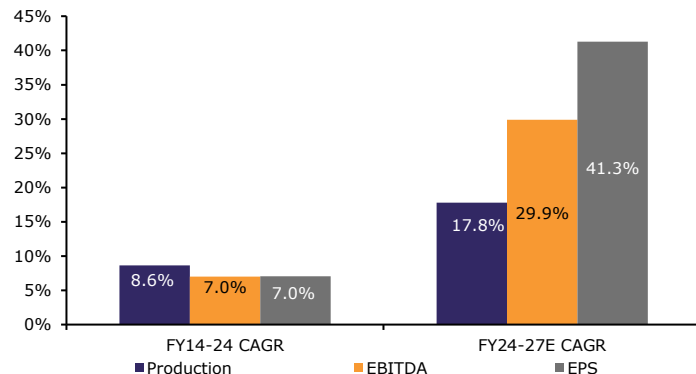
Source: Company, Emkay Research

Exhibit 4: Production growth acceleration to provide solid business momentum



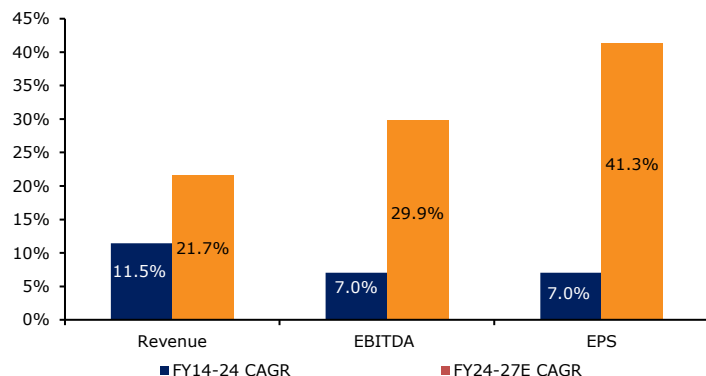
Source: Company, Emkay Research

Exhibit 5: Earnings growth tracking capacity expansion



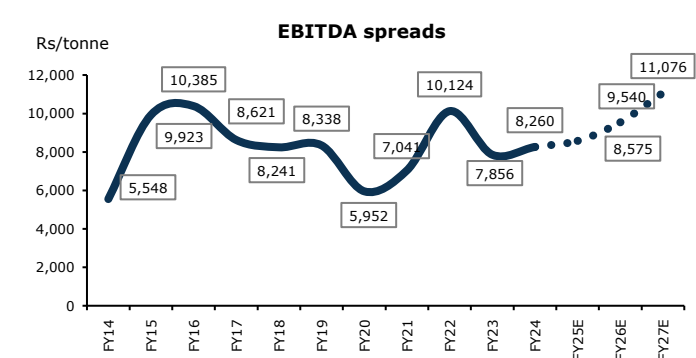
Source: Company, Emkay Research

Exhibit 6: EPS CAGR would understandably be higher in magnitude owing to operating leverage



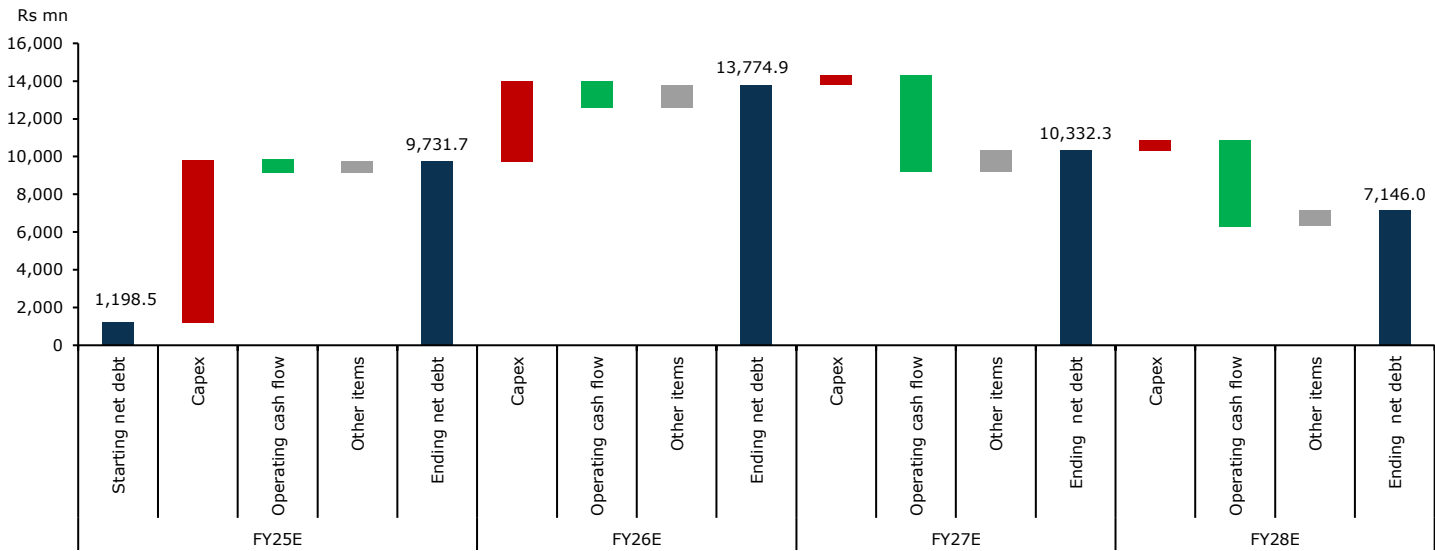
Source: Company, Emkay Research

Exhibit 7: EBITDA spreads likely to improve with enhanced business scale



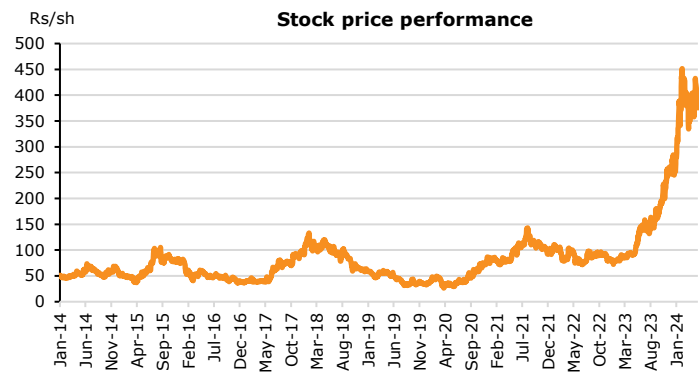
Source: Company, Emkay Research

Exhibit 8: Capex to be funded mainly through debt; operating cash flows from FY27E to de-leverage the balance sheet



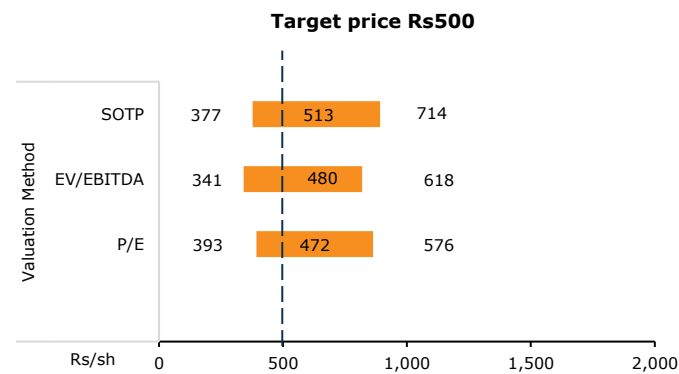
Source: Company, Emkay Research

Exhibit 9: Stock price performance reflects improved performance on business potential



Source: Company, Emkay Research

Exhibit 10: Football field analysis returns a valuation range of Rs341-714/share



Source: Company, Emkay Research

Transition phase from 'potential' to 'delivery' offers positioning opportunity

Stock pricing-in growth potential but not delivery (yet) – Transition towards delivery offers positioning opportunity

Man's stock has more than doubled in the past one year, reflecting improved business fundamentals as well as greater visibility on execution around the announced expansion plans. In addition, industry tailwind in the form of demand growth for pipes as well as capacity growth by peers have provided meaningful clarity on Man also having the ability to chart its path along a similar trajectory and deliver shareholder value.

We sense that the optimism around the industry tailwind and Man's growth aspirations are pretty much in the price = 'potential'. We think that the stock is yet to factor in project execution from here which is expected to more than double the group's revenue in 3-4 years = 'delivery'. This transition from the 'potential' phase to the 'delivery' phase is likely to create value for shareholders, in our view.

We believe that the market prefers taking a de-risking approach to the company's project delivery, with the next leg of re-rating likely to be accompanied by progress on the growth projects. The group has outlined exciting expansion plans in both, the new product category and new geographies. Peers have already demonstrated capacity execution which provides industry-level de-risking to investors. Management has delivered on the ERW project in Anjar which is a significant start towards the 'delivery' aspect of a much larger imminent expansion. Therefore, the last leg of de-risking has to come from the delivery of expansion projects into newer geographies and product categories.

The management has demonstrated its execution capability by delivering an ERW plant following a construction period of nine months; this assures us that the group is charged to deliver on the next set of growth projects – in Jammu and Saudi Arabia, over the next two years.

The recent pullback of 20% in the stock price from the high of Rs450 to the current price of around Rs350 offers a positioning opportunity to play on the 'delivery' phase. The de-risking approach could mean that the stock continues to re-rate over the next 2-3 years, as projects are commissioned and ramped-up. We expect the industry tailwind to remain in Man's favor for a number of years now, given the strong push on infrastructure and policy support in India, and the new demand in Saudi Arabia.

Current valuations offer a decent positioning opportunity

Exhibit 11: Stock price performance reflects improved performance on business potential



Source: Bloomberg, Emkay Research

We derive TP of Rs500/share for the stock

Target price set at Rs500/sh on a blended valuation framework

We value the stock based on a blended valuation framework, using a combination of DCF (sum-of-the-parts), EV/EBITDA, and P/E metrics. We set a rounded target price at Rs500/share, with our blended valuation working out at Rs488/share.

DCF valuation of Rs513/share

We value the Indian operations at Rs30.3bn by discounting the explicit cash flows to 2030 and then using terminal value. Our terminal assumptions are 461kt of production from India operations based on the average 41.9% utilization rates, modestly rising price and cost structure resulting in 12% EBITDA margins, and Rs285mn p.a. of sustaining capex.

Likewise, we value the Saudi expansion project at Rs15.2bn by discounting the explicit cash flows to 2030 and then using terminal value. Our terminal assumptions are 240kt of production based on 60% utilization rates, modestly rising price and cost structure resulting in 11% EBITDA margins, and Rs280mn p.a. of sustaining capex.

We add the carrying value of Merino Shelters, which is a non-core asset and is expected to be disposed-off with a deal expected to be signed this year. The last carrying value was ascertained at Rs1bn. However, we highlight that the market value assessed by the company management is much higher than this value. Any positive delta in the selling price and carrying value is highlighted as a potential upside in our bull case scenario.

We use net debt estimated for FY25 (Rs9.7bn), instead of the FY24 actual (Rs1.2bn) in our DCF valuation. Higher net debt reflects true leverage in the business to accommodate the funding for expansion plans. Subtracting this from the enterprise value (DCF-based) results in an equity value of Rs34.5bn or equivalent of Rs513 per share.

We assign 33% weight to the DCF approach in our blended valuation framework.

Exhibit 12: SOTP-based equity value of Rs513/share

VALUATION	Period	Multiple (x)	Rs mn	Rs per share	Weight
Sum-of-the-parts					
Operations - India		DCF	30,341.4	451.2	
Project - Saudi		DCF	15,155.4	225.4	
Merino		Carrying value	1,023.0	15.2	
Project and corporate costs		DCF	-2,274.8	-33.8	
Enterprise value			44,245.0	658.0	
less Net debt			9,731.7	144.7	
less Minority interest			0.0	0.0	
SOTP-based equity value			34,513.2	513.3	33%

Source: Company, Emkay Research

We assume WACC of 12% to discount the cash flows to the present value, with the inputs for the discount rate outlined in Exhibit 13.

Exhibit 13: Discount rate of 12% for DCF valuation

WACC	
Risk free rate	7.0%
Equity risk premia	5.5%
Beta	1.25
Cost of equity	13.9%
Debt in capital structure	30.0%
Effective tax rate	25.0%
Cost of debt	10.0%
WACC	12.0%
Terminal growth rate	1.0%

Source: Bloomberg, Emkay Research

EV/EBITDA-based valuation of Rs480/share

We value the stock on 9x FY26 EV/EBITDA. The full potential of the EBITDA uplift would be realized in around FY28, when the projects are fully ramped-up and running at maximum achievable capacity. Valuing the business on FY26 EBITDA (which is our house approach) and assigning a higher multiple (9x) should provide a decent valuation visibility. The multiples would naturally contract on FY28 EBITDA, as the earnings momentum would trail stock price moves.

We assess equity value of Rs32.2bn or Rs480/share based on the EV/EBITDA valuation approach, and assign 33% weight to the blended valuation.

P/E valuation of Rs472/share

Our P/E valuation works out to be Rs31.7bn or Rs472/share by applying 18x P/E on FY26 EPS of Rs26.2. We highlight here that the earnings step change would come from FY27 and the valuation on FY27 earnings implies a P/E of 10x, thus underlining the re-rating potential in the stock.

Exhibit 14: Target price of Rs500/sh derived using blended valuation

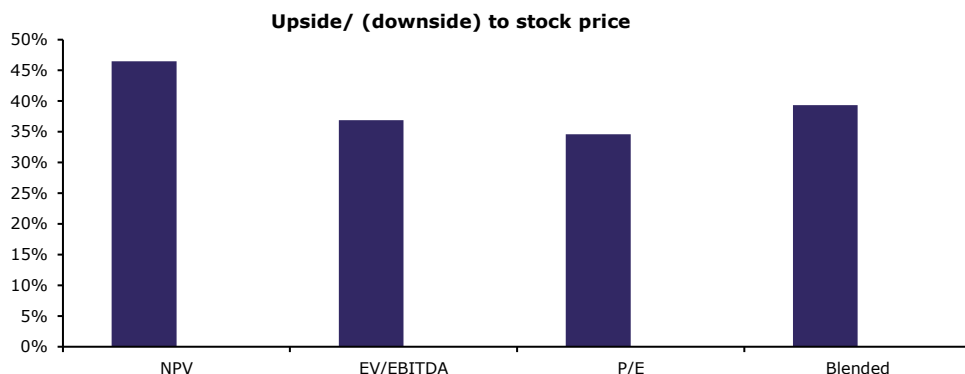
VALUATION	Period	Multiple (x)	Rs mn	R\$ per share	Weight
Sum-of-the-parts					
Operations - India	DCF		30,341.4	451.2	
Project - Saudi	DCF		15,155.4	225.4	
Merino	Carrying value		1,023.0	15.2	
Project and corporate costs	DCF		-2,274.8	-33.8	
Enterprise value			44,245.0	658.0	
less Net debt			9,731.7	144.7	
less Minority interest			0.0	0.0	
SOTP-based equity value			34,513.2	513.3	33%
EV/EBITDA					
Enterprise value	FY26	9.0	41,984.8	624.4	
less net debt and minorities			9,731.7	144.7	
EV/EBITDA-based equity value			32,253.1	479.7	33%
P/E					
P/E-based equity value	FY26	18.0	31,709.1	471.6	33%
Blended equity value			32,825.1	488.2	
Rounded target price				500	
Current share price				395	
Expected price return				26.6%	
Expected dividend yield				0.5%	
Expected total return				27.1%	

Source: Company, Emkay Research

Valuation metrics in sync

Our assessed valuation metrics—DCF, EV/EBITDA and P/E—return a narrow valuation range of Rs472-513/share. A narrow range of possible outcomes should provide a reasonable degree of comfort to investors when valuing the stock.

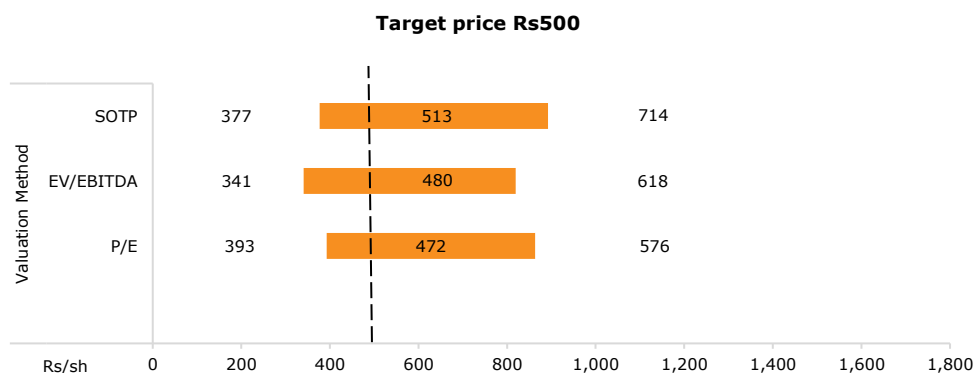
Valuation levels on all these metrics translate into upside potential from the current price in the range of 19-30%.

Exhibit 15: Upside potential in a narrow range of 21-30% on different metrics

Source: Company, Emkay Research

We run a range analysis tweaking the valuation inputs. On our bear case valuation levels (7x EV/EBITDA, 15x P/E, and 14% WACC), average fair value comes at around Rs370/share, whereas bull case valuations work out at Rs635/share (11x EV/EBITDA, 22x P/E, and 10% WACC).

Football field analysis returns a valuation range of Rs341-714

Exhibit 16: Football field analysis returns a valuation range of Rs341-714

Source: Company, Emkay Research

Rest of the sector trading on normalized earnings following an expansion phase

The line pipes sector is trading at 12.9x FY25 earnings, 8.2x FY25 EV/EBITDA, generating average ROE of 15.8%. Man is trading at 20.3x P/E and 8.2x EV/EBITDA with growth plans lined up, whereas the rest of the sector has delivered well on growth execution and is therefore trading at normalized levels.

Exhibit 17: Peer valuation comparison

Peer Valuation Comps	Share price	Mcap (Rs.bn)	P/E (x)		EV/EBITDA (x)		FCF yield (%)		Dividend yield (%)		ROE (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
MAN Industries	395.0	25.6	20.3	14.3	8.2	7.5	-31.0	-11.2	0.5	0.8	8.6	11.1
Jindal Saw	558.0	179.0	11.4	9.9	7.3	7.4	10.9	11.0	1.3	1.4	14.7	13.5
Welspun Corp	538.0	141.6	13.4	10.8	9.3	7.4	-3.9	-1.7	1.2	1.2	18.6	18.8
Sector average		346.1	12.9	10.6	8.2	7.4	1.8	4.2	1.2	1.3	15.8	15.5

Source: Company, Emkay Research

Exhibit 18: Peer group metrics

	Capacity (kt)	Production (kt)	EBITDA margins (%)		Asset turnover (x)
	FY24A	FY24A	FY25E	FY26E	FY24A
MAN Industries	1,100.0	355.0	9.6	10.1	1.5
Jindal Saw	3,400.0	1,740.0	13.9	13.1	1.2
Welspun Corp	2,200.0	1,000.0	9.8	10.2	1.4

Source: Bloomberg, Emkay Research

-23% to +54% bear/bull case spread**Bull / Bear return range of -23% to +54%**

We see the risk/reward proposition for the stock as favourable, with a 54% upside in our bull case and a 23% downside in our bear case, relative to the current share price.

Bull case valuation of Rs605/share (54% upside)

While our base case valuation of Rs488/share adequately factors in the growth trajectory, project de-risking, and improved cash generation, we take a step further in our bull scenario to showcase the value accretion from the areas where the lever is (mostly) in the hands of the management.

Scenario 1 – Saudi utilization rising to 75%: We model capacity utilization of 60% at peak for the Saudi project. However, the management had highlighted possibility of achieving 70-80% levels, given greater uniformity sizing and diameter of the product. Should the company position itself to work at higher utilization levels, we assess 13.9% upside potential, beyond our base case valuation.

Scenario 2 – Entry into hydrogen segment: Developments in the hydrogen value chain would be keenly watched. Man's management does see an opportunity to produce pipes needed to supply hydrogen. We see 16.5% upside potential, should the group announce its entry into this segment.

Scenario 3 – Project de-risking: The market would look at the stock more favorably, as the company makes progress on its projects. With much of the project de-risking baked into our base case, the incremental upside beyond our target price of Rs500/share appears limited. That said, the stock could react favorably on any announcement relating to project delivery.

We derive a bull case valuation of Rs610/share, should all these scenarios play out, implying a 54.4% potential upside.

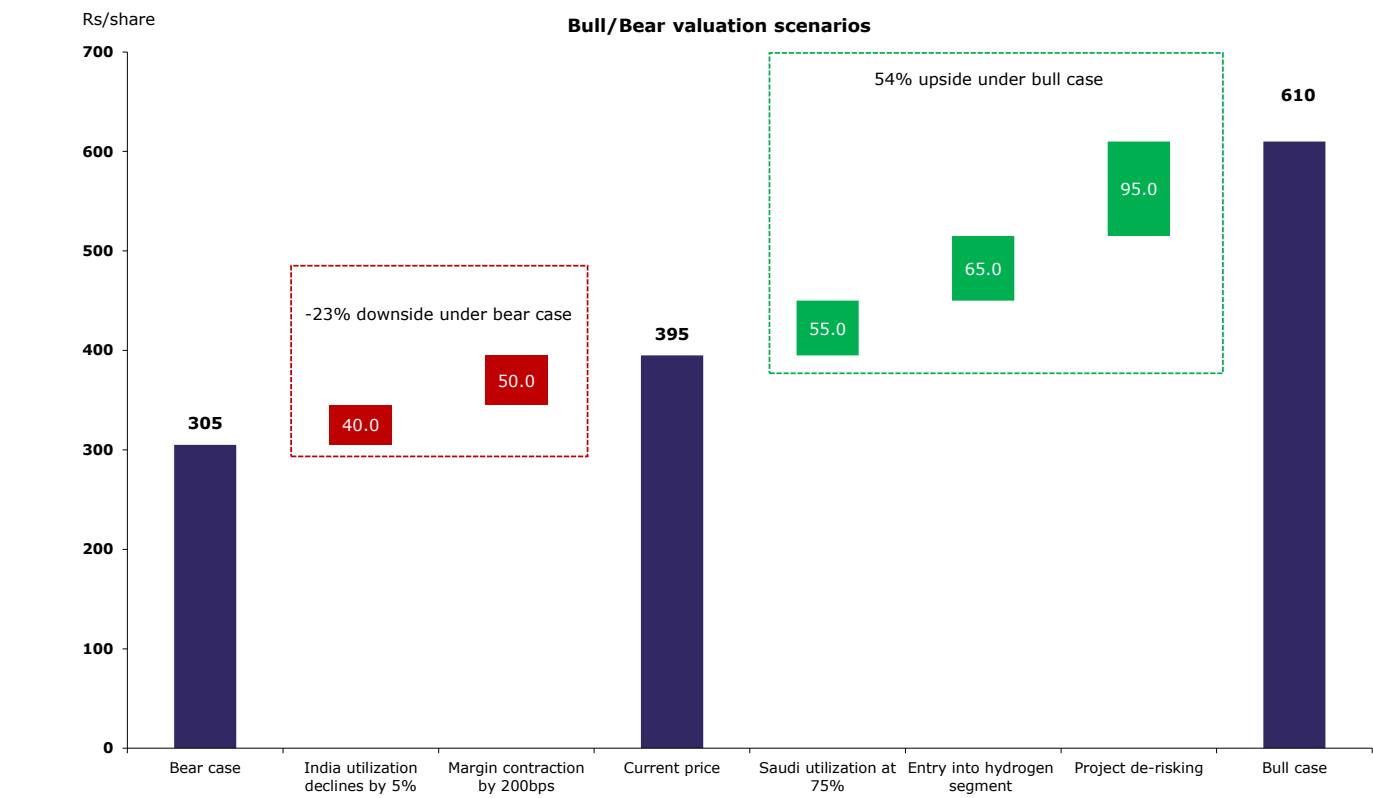
Bear case valuation of Rs305/share (23% downside)

Scenario 1 – India utilization rates decline by 5%: We expect the average utilization rates to increase, from 32.3% in FY24 to 41.9% by FY28E. The increase in utilization would be led by above-average utilization rates from the newer product categories – stainless steel and ERW pipes. However, if the utilization stays lower than our estimates, then we assess that a 5% lower rate would translate into 10.1% downside for the stock.

Scenario 2 – Margin contraction by 200bps: Pipe-making is a conversion business and relies on generating a stable margin and attractive ROCEs. The company generates 10% EBITDA margin on average. In a scenario where margin compresses by 200bps either due to lower realizations or higher input costs, we assess a downside risk of 12.7%.

We derive a bear case valuation of Rs305/share, should all the bear-case scenarios play out, implying 22.8% downside risk.

Exhibit 19: Bull / Bear case return potential



Source: Emkay Research

Risks

Decline in utilization rates

Capacity utilization rates tend to be low in the pipes industry. The underlying reason for the lower utilization is due to the fact that the total capacity is assessed using a pipe with a standard length and diameter. The pipe-makers would have to customize products based on the orderbook requirements. Owing to such customizations, the utilization rates dip. In effect, it takes a similar amount of machine-hours and man-hours; however, the output in terms of volumes differs when pipes of different sizes and diameters are produced.

The industry typically operates at 30-50% of capacity as a rule of thumb. Higher utilization would typically coincide with more standardized order sizes with less number of plant reconfigurations through the year.

Man currently operates at 30-35% capacity. In the past, utilization rates dipped to even 20% levels in periods of a weak external demand environment.

We calculate 11% sensitivity on group EBITDA to a 5% change in utilization rates. Therefore, any decline in utilization rates could adversely affect the earnings and the stock could find it difficult to reaching our target price.

Air pocket in orderbook

The Pipes industry has had intermittent dips in demand in the past. The Industry structure is such that the business run on the basis of orders received and subsequently executed. The business bids for orders from oil & gas companies – with the usual bid-to-order conversion ratio of about 15-20%. Once the business receives the order, it reconfigures the plant based on order specifications and delivers the output within the planned timeline.

Any delays in orderbook execution or a decline in bid-to-order conversion could create an air pocket in orderbook continuity. This could have negative earnings implications and the stock might not be able to achieve estimated target price.

Challenges from expansion into newer geographies

The company is expanding capacity into newer geographies like Jammu and Saudi Arabia. In addition, the company is expanding into the stainless steel pipes market with a focus on high precision products. Any challenges or delays arising from fresh expansion could delay the expected uplift in earnings and effectively impact the valuation.

Potential outcome of the ongoing forensic audit

In developments involving Man Industries, the SEBI, NFRA, and SBI, and a series of forensic audits and investigations have unfolded. SEBI instructed Man Industries to undergo a forensic audit in November 2021 which was prompted by issues like the non-consolidation of a subsidiary, related party transactions, and accounting treatment. This audit led to a settlement between Man Industries and SEBI, highlighting regulatory scrutiny. Additionally, a consortium of banks, led by SBI, ordered a separate forensic audit following complaints of financial irregularities, which, after investigation, did not reveal significant issues, with banks continuing to support Man Industries. NFRA imposed penalties on the auditor for professional misconduct in the audit of Man Industries, citing deficiencies in financial statements and inadequate audit evidence in critical areas.

Further, a settlement order was issued by the SEBI in July 2023, resolving the disclosure lapses case with Man Industries. This settlement included a recovery amount from defaulting officers but did not penalize investors.

The outcome of the audit is expected to result in a penalty of Rs25million (Management view) on Man Industries for non-compliance with LODR Regulations, underscoring the importance of adherence to regulatory standards in financial practices. We believe the issues would be finally resolved once SEBI issues the final order and the company settles penalties.

Investment case

Taking the next leap – Two exciting projects

Following delivery of the 100kt expansion into ERW pipes, the management has demonstrated execution capabilities and is now embarking on a larger and more impactful expansion into the stainless steel segment in Jammu and the LSAW/HSAW pipes segment in Saudi Arabia. The group sees a long term demand tailwind in both these categories. In addition, there are tax subsidies and interest subvention in place from the government for companies setting up units in Jammu.

Growth capex of Rs13bn over FY25-26

The company would invest Rs8.2bn to set up the unit in Jammu and Rs4.8bn in Saudi for a total growth capex of Rs13bn over the next 12-18 months. The management targets delivering such expansions in FY26 and fully ramp up operations by FY27.

The company would have peak net debt of Rs13.7bn in FY26E. Net debt-to-EBITDA would stretch to 3x at its peak, following which we expect increased free cash flows to rapidly de-gear the balance sheet over a 3-year period (FY27-29E).

Doubling of revenue in 3-4 years

The delivery of expansion plans would lead to doubling of revenue in 3-4 years, on our estimates, and lift earnings by a higher magnitude. We expect a sustained value creation for the shareholders through this phase.

Delivery of the ERW project enhances visibility on execution

Management has demonstrated superior execution capabilities

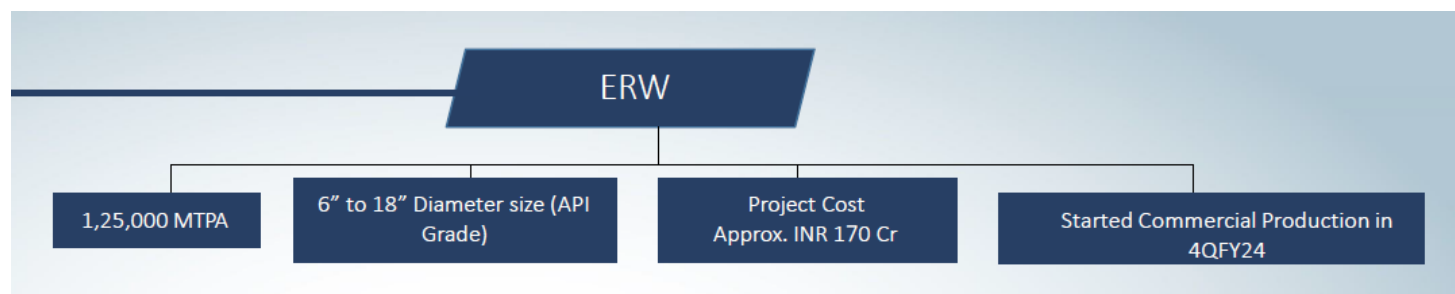
The management has demonstrated execution capability by delivering an ERW plant following a construction period of nine months, which leads us to believe that the group is charged to deliver on the next set of growth projects – in Jammu and Saudi Arabia, over the next two years.

The company constructed the ERW plant with project capex of Rs1.7bn, installing 100kt of capacity. In addition, the company installed 30kt of ERW capacity in Anjar as part of the proposed expansion in Jammu. The project construction took nine months and was completed in 2023. The company started commercial production in the fourth quarter of FY24.

The plant shares infrastructure with the existing facilities of the group.

We visited the facility in Anjar in Jan-24. We were particularly impressed with the ERW plant which sits within the existing LSAW/HSAW manufacturing base, and is well connected with the infrastructure. The company has set up a world-class ERW facility. It was under commissioning process when we visited (Jan-2024), and is in the ramp-up phase currently. We expect ERW production to ramp-up to 40% capacity utilization in FY25E and 45% utilization at full potential.

Exhibit 20: ERW project commissioned in 4QFY24



Source: Company, Emkay Research; Note: 1crore = 10million

The group also completed a project in 2023, for steel bends and connectors with a capex outlay of Rs750mn.

Exhibit 21: Steel bends & connectors – Project commissioned in 2QFY24

Source: Company, Emkay Research; Note: 1crore = 10million

Successful commissioning of these projects reaffirms our view of superior execution capabilities of the group.

Jammu project to provide product and geographical diversification**Capex of Rs8.2bn for stainless steel tubes and ERW pipes**

The group has set up a subsidiary company named as Man Stainless Steel Tubes Limited for its Jammu expansion. The project is in Kathua, Jammu (Kathua is a small town located close to the Jammu & Kashmir and Punjab border). It is strategically located in Kathua, Jammu & Kashmir grants it subsidy and incentive benefits from the Central Government for catering to the domestic market.

Exhibit 22: Geographical map of location

Source: Company, Emkay Research

The facility would house two verticals: 1) Stainless steel tubes 2) Non-API ERW pipes.

Stainless steel tubes – Opportunity to move into a niche vertical

Man is planning to install 20kt of stainless steel tubes capacity. The project is estimated to cost Rs5.6bn, with completion targeted in calendar year 2025.

Exhibit 23: Stainless steel project capex – Breakup

	Capex (Rs mn)
Land Lease Cost	300.0
Civil & Structural Work, Site Development	588.0
Plant & Equipment & Utilities	3,242.5
Electricals	220.0
Misc. Fixed Assets	626.1
Contingency	163.7
Pre-operative Expenses	32.0
IDC	235.3
Margin on Working Capital	147.9
Total Project Cost	5,555.6

Source: Company, Emkay Research

Stainless steel business commands premium valuations

The ramp-up trajectory would be protracted from 20% utilizations to be achieved in FY26 to 50% by FY28, in our view. We expect the company to produce 10kt p.a. of stainless steel tubes on a sustainable basis. The product is in a niche category and is expected to fetch price realizations of around Rs450,000/tonne. At full potential, the project would generate revenue of Rs4.7bn annually and would boost India business margins by 150bps.

The company plans to complete the project construction by end-FY25. We expect commissioning in the second half of calendar 2025 and ramp-up over subsequent months. We expect to see earnings from stainless steel enhancing FY27E onwards.

The manufacturing process involves using an extrusion mill to heat and extrude raw material billets into mother tubes. These mother tubes are then cold-pressed using the pilgering process to produce the final tube product.

The stainless steel tubes business commands valuation premiums over the conventional pipes business. Man would have peers like APL Apollo and Ratnamani against it. We think being a growing player in this vertical would command higher valuations for Man. However, it is worth highlighting that re-rating could take time, as the stock would not be a pure-play and SOTP valuation within a diversified company tends to struggle, relative to pure-plays. Secondly, the stainless vertical would contribute about 7% to the group revenue and, therefore, there could be only so much upside from re-rating that could be realized.

Exhibit 24: Product-mix matrix for the 20mn Extrusion Press for Stainless Steel

Size (mm)	Wall Thickness (mm)	Billets/h	Production (t/h)	Ton/Day (20 Hrs)	Yield	Discard + 800 mm end cut tube Weight (Kg)	Finish Tube Weight (kg)	Effective Ton/ Day @ 75% efficiency	330 Days/ Annum	Days/ Annum	Tons/ Year
33.4	2.77	65	2.6	52	8.70%	3.9	41.1	40.1	5%	17	858
33.4	3.38	65	2.9	58	8.50%	4.4	46.6	45.4	10%	33	1914
42	3.56	60	3.6	72	7.70%	5.2	61.8	55.6	30%	99	7128
48	3.68	60	4.2	84	7.50%	5.7	70.3	63.3	25%	83	6930
60.3	4	60	3.9	78	10%	7.2	64.8	58.3	10%	33	2574
76	5	60	8	160	7.90%	11.5	133.5	120.2	5%	17	2640
88.9	6	60	7.6	152	10.80%	14.8	122.2	110	5%	17	2508
101.6	6	55	6.2	124	13.30%	16.4	107.6	88.8	5%	17	2046
114.3	6	55	5.6	112	15.90%	18.1	95.9	79.1	5%	17	1848

Source: Company, Emkay Research

ERW – Doing what one is good at; essentially building a de-risked project from Day-one

The group is setting up a 180ktpa ERW unit along with a stainless steel vertical in Kathua, Jammu. The project is expected to incur capex of Rs2.6bn.

The benefits of the ERW expansion are two-fold: 1) the company has already demonstrated execution of the ERW project which would help it replicate a similar setup in Jammu. This effectively de-risks the project execution risk even before it starts construction. 2) The company would receive tax subsidies, given that it started this expansion work before 31-Mar-2024, which was the cut-off date to be eligible for tax benefits.

Exhibit 25: ERW project capex breakup

	Capex (Rs mn)
Land Cost	125.1
Civil & Structural Work, Site Development	330.2
Plant & Equipment	1,345.0
Electricals & utilities	210.2
Misc. Fixed Assets	146.4
Contingency	71.1
Pre-operative Expenses	49.9
IDC	100.9
Margin on Working Capital	217.6
Total Project Cost	2,596.4

Source: Company, Emkay Research

Relatively de-risked project from day one

Tax subsidies accretive by 20% on valuation

ERW expansion would take about 9 months once the company begins work in Kathua. We see 30% utilization rates in FY26E, with full ramp-up to 50% utilization by FY28E. The project is likely to contribute 9% of revenue on full ramp-up.

Tax subsidies key draw for Jammu location – Value accretive by Rs73/sh

The key draw for setting up a facility in the union territory of J&K is the tax subsidies and interest subvention available from the government.

The government is expected to give GST refund on 3 times the cost of the plant & equipment over a period of 10 years. We calculate Rs14bn of GST refund that the company would be eligible to receive which would be split over a period of 10 years. The actual amount to be received each year would be dependent on the revenue generated in the preceding year. We take Rs1bn of benefit p.a. into our assumptions, with maximum benefits starting to flow through from FY28E.

We calculate tax benefits to be value accretive by Rs73/share, which has been calculated using discounted cash flows to be received in the form of GST refunds from the central government. This translates into around 20% of the stock's valuation. This is baked into our estimates and is part of our base case.

The tax subsidy approval from the central government is expected to be received in the current fiscal year.

Saudi project to tap the secular demand trend

The group is setting up a greenfield project in Saudi Arabia. Capex of Rs4.8bn is earmarked for this, with planned capacity of 400kt. Of this capacity, 200kt is planned to be moved from India, as the company currently has an idle plant in Anjar. With the capacity transfer, India capacity would be 1.1Mt and Saudi capacity 400kt by FY26E, for a group total capacity of 1.5Mt.

Following the completion of expansion, targeted sometime next year, we model in 20% capacity utilization rate for FY26E which would ramp-up to 60% levels by FY28-29E. At peak utilization, we expect the company to deliver production of 240kt.

Price realizations are expected to improve relative to the pricing the company gets in India; this would translate into a solid revenue uplift for the group.

Exhibit 26: Saudi project capex breakup

	Capex (Rs mn)
Land Cost	100.0
Land Development	200.0
Building and Civil Works	750.0
Plant & Machinery	2,600.0
H Saw Pipe machinery	1,230.0
L Saw Pipe machinery (Including Shifting Costs)	720.0
Coating Plant	550.0
Others	100.0
Misc. Fixed Assets	200.0
Preliminary & Pre-operative	100.0
Contingency	100.0
Interest during Construction Period	140.0
Margin Money for Working Capital	600.0
Total Project Cost	4,790.0

Source: Company, Emkay Research

Rationale for the Saudi expansion

The rationale for the Saudi expansion is clear, with three visible areas around the secular trend in demand (discussed in more detail in the industry section). The company sees strong growth visibility. For context, Welspun's orderbook is secured for the next three years in Saudi Arabia.

- NEOM city development
- 2034 FIFA World Cup to be hosted in Saudi Arabia
- Renewed focus on water and gas projects

***Utilization rates in Saudi
expected to be higher than that
in India***

What's different in Saudi?

One aspect that caught our attention and which is different in Saudi compared with the Indian pipes industry is that the orderbook is more standardized with uniformity in product specifications. The uniformity comes largely from the kind of infrastructure the country is building, wherein there would be demand for pipes that connect the country in length from East to West and from North to South in areas involving water transportation. This would require pipes of similar sizes and diameters. The group target tapping into this opportunity.

Standardized orderbook specifications imply being able to produce large volumes of the same length and diameter of pipes. This would essentially augment the capacity utilization rates. For context, Man has been operating at 30-35% utilization in recent quarters; in contrast, it is looking to operate at 60-70% capacity upon full ramp-up of the Saudi project.

Building blocks to growth, cash generation, and returns

Capacity expansion would translate into increased revenue and deliver well on cash generation and improved returns profile for the group.

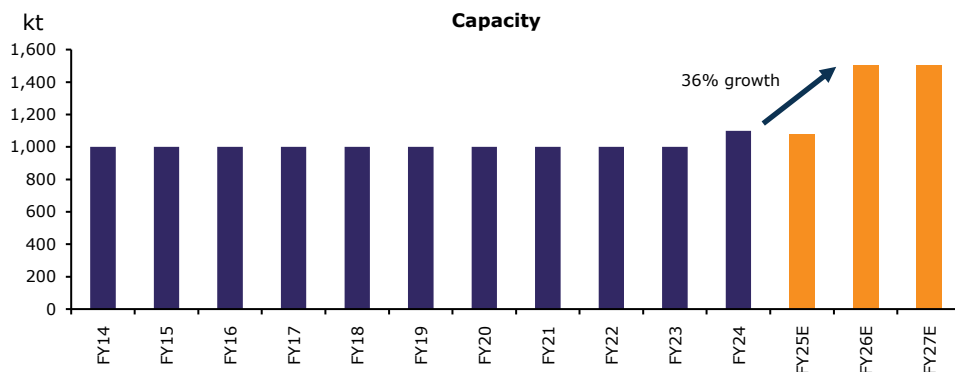
Raising capacity, from 1.1mt to 1.5mt

The company's current capacity is 1.1mtpa, with manufacturing facilities established in Anjar, Gujarat, and Pithampur, Madhya Pradesh. The expansion in Jammu and Saudi would raise group capacity to 1.5mtpa.

The company is focused on expanding capacity to meet market demand, focusing on both — production levels and geographical reach in Jammu and Saudi Arabia.

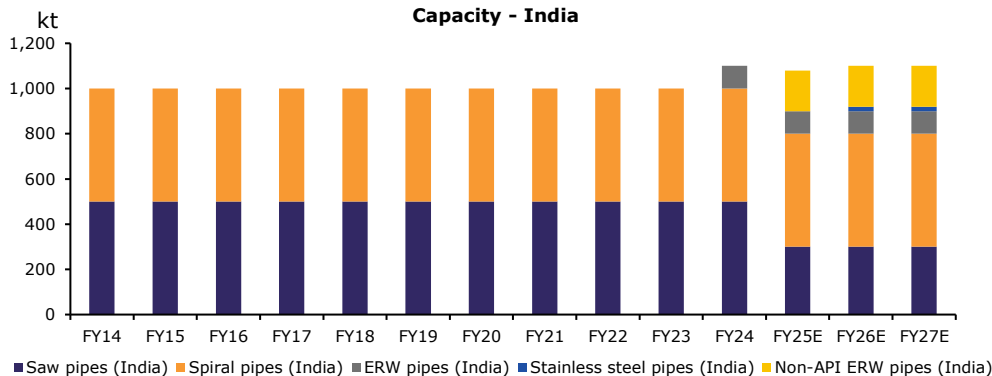
Capacity expansion in Jammu and Saudi to add value to the business

Exhibit 27: Geographical expansion to add capacity to 1.5mt



Source: Company, Emkay Research

Exhibit 28: Stainless steel is a key addition in India capacity, where we see a 5-10Y demand tailwind



Source: Company, Emkay Research

Capacity expansion with more standardization in the product mix to augment utilization rates

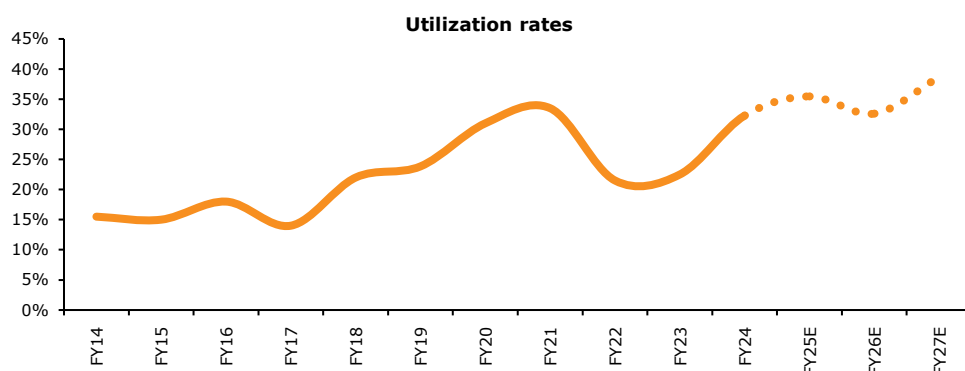
Utilization rates to improve with more standardization in product mix

The group achieved utilization rate of 23% for 10 years on average, during FY14-24. More recently, the group is operating at around 32% utilization.

Capacity is in fact a misnomer in the pipes industry. Capacity is calculated for a standard product size and diameter. However, businesses have to continuously reconfigure the plants to achieve the desired size – both, length and diameter – depending on the orderbook requirements. In this process, utilization rates tend to drop.

With the capacity expansion plan in place, the company is expected to see an increase in utilization rate, from 32.3% in FY24 to 35.5/37.2/40.0% in FY25E/FY26E/FY27E which is higher than its 10-year average. We expect peak utilization of 47% for the consolidated group in five years, with the key uplift in utilizations likely coming from Saudi operations, where the expectation is for the company to produce standardized sizes of pipes.

Exhibit 29: Utilizations expected to improve in both, the existing operations as well as in Saudi



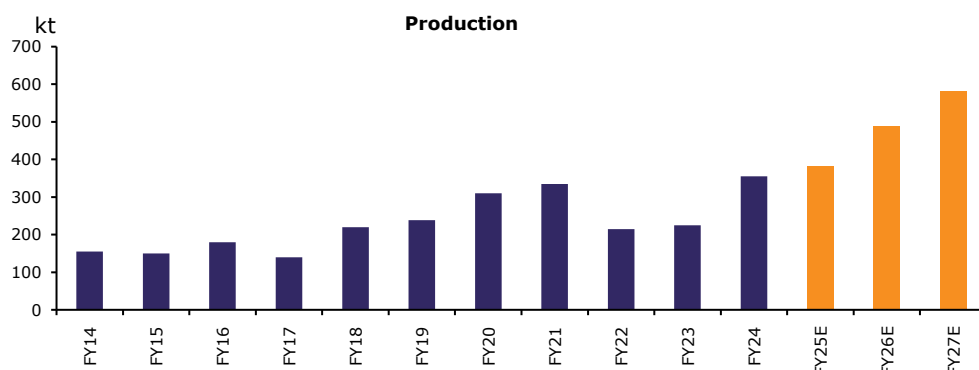
Source: Company, Emkay Research

Production CAGR expected at 17.8% over the next three years

One of the key drivers of our favorable investment case is the growth trajectory in production levels. The target is to reach group production levels of 580kt for FY27, implying 63% growth. For Saudi, we expect 240kt of production by FY29E. Overall, the group could achieve average utilization of 47%.

Our production forecasts imply 17.6% CAGR over the next three years.

Exhibit 30: Production growth acceleration to provide solid business momentum



Source: Company, Emkay Research

The company produced a total of 355kt in FY24 compared with 225kt in FY23. The business witnessed a decline in demand during FY22 but is now on a path to recovery.

Production growth key enabler for the overall investment case

Sustainable margins of around 10%

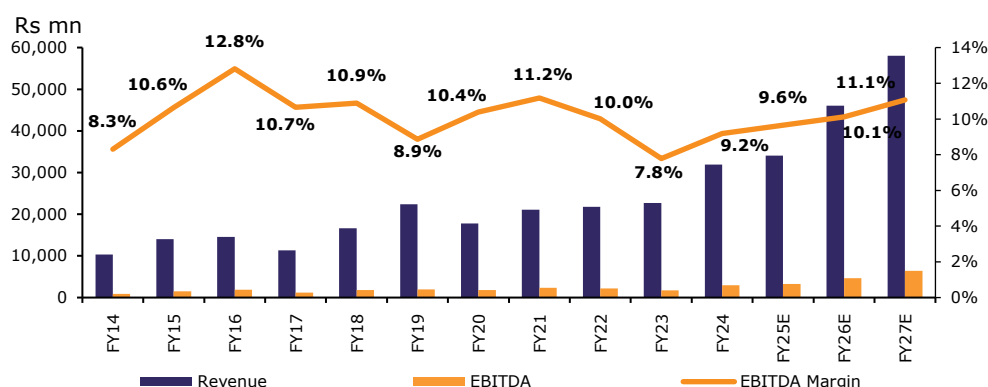
Pipes is a margin business

Pipe-making is a conversion business – retaining a certain margin in the process. Cost is a natural pass-through, although short-term volatility in input costs (mainly steel prices) would still have to be weathered by the business; this results in short-term margin fluctuations. In addition, inventory flows and timing do impact margins when looking at quarterly profitability; however, they even out on a longer timeframe of say 1-2 years.

Man achieved 10% margins in the last 10 years and we expect it to continue tracking similar levels going ahead.

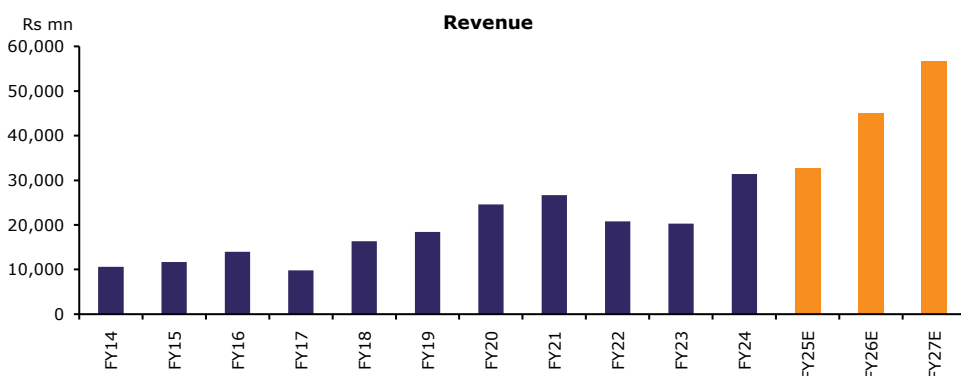
Since there is also capacity expansion, it would lead to increased revenue generation, from Rs.32bn in FY24 to Rs.58bn in FY27E – an increase of 82%, per our estimate. The current order book is reported to be Rs21bn, which is to be executed in the next 6-8 months. This would generate significantly higher absolute EBITDA even on a steady margin scale of 10%.

Exhibit 31: Margin trajectory improving with Revenue and EBITDA uplift



Source: Company, Emkay Research

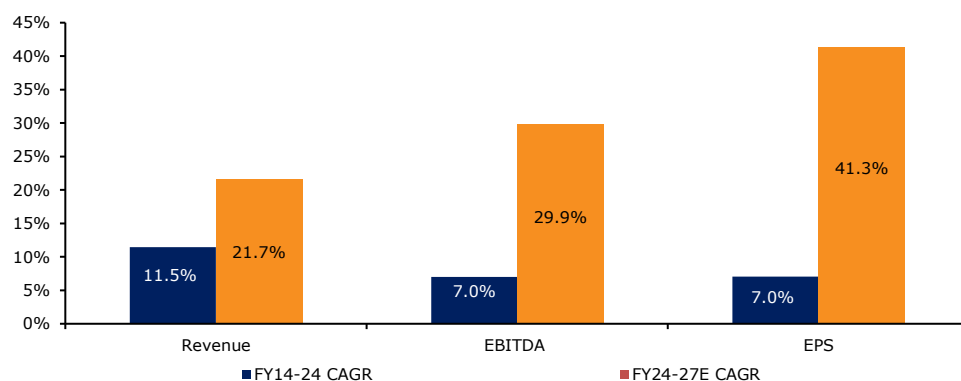
Exhibit 32: Revenue growth a reflection of production growth



Source: Company, Emkay Research

In terms of growth rates, we project revenue CAGR of 21.7% and EBITDA CAGR of 29.9% over FY24-27E.

Exhibit 33: EPS CAGR would understandably be higher in magnitude owing to operating leverage



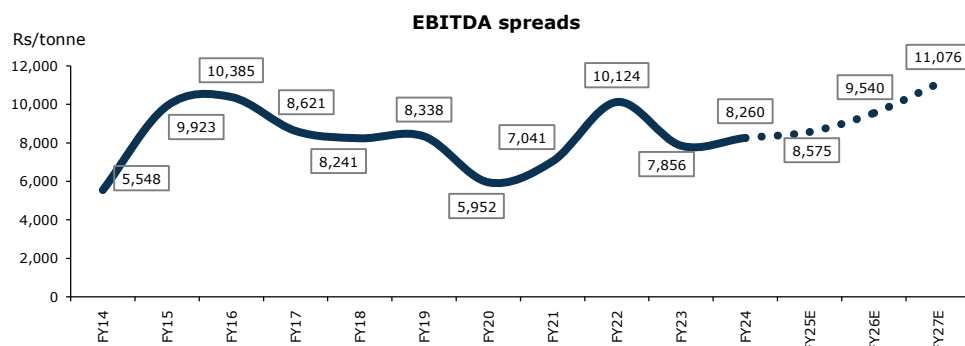
Source: Company, Emkay Research

EBITDA/tonne spreads to improve

The company generated EBITDA per tonne of Rs8,208/t on average for the last 10 years. Similarly, the spread was Rs8,260/t in FY24. With higher value offering in the form of stainless steel volumes as well as scale benefits, we expect the spreads to improve towards Rs11,076/t by FY27E.

The period during 2016 to 2020 witnessed a slower demand cycle and it resulted in downdraft in EBITDA spreads. This period also witnessed sub-25% utilization rates. The cycle turned favorably post-Covid and has accelerated in the past two years with a renewed focus on infrastructure in India. Likewise, post Ukraine war period created opportunity for pipe-makers as the focus turned to setting up more gas pipelines in the US and Europe.

Exhibit 34: EBITDA spreads likely to improve with enhanced business scale

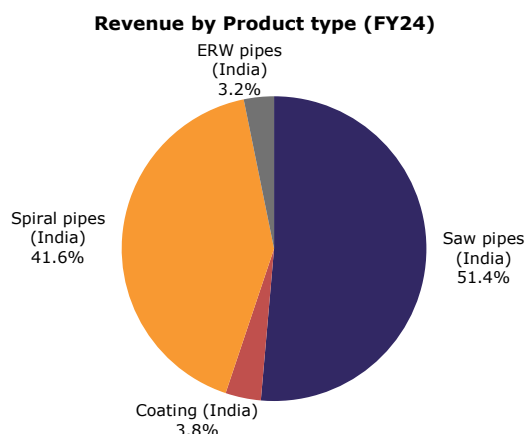


Source: Company, Emkay Research

Product mix to get diversified

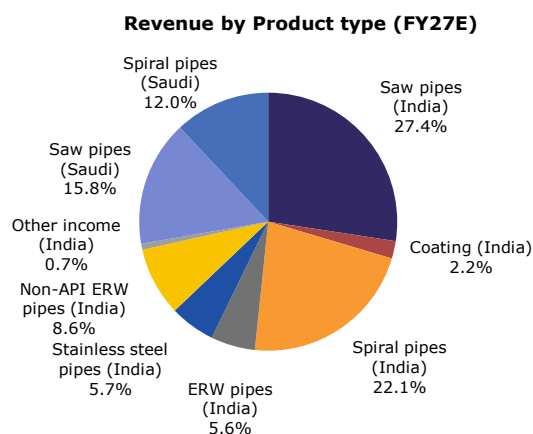
With the expansion, both, the product and geographical mix, would get diversified, enabling the business the benefits of scale alongside a flexibility to maneuver more freely in order to capture value-accretive demand opportunities.

Exhibit 35: Mix shift, from three pipe categories...



Source: Company, Emkay Research

Exhibit 36: ...to seven categories



Source: Company, Emkay Research

Capex now, cash generation later

The business would undertake growth capex of Rs13bn over the next two years. Once the growth capex is exhausted and the capacity comes onstream, we expect to see an accelerated pace of free cash flow generation by the group.

Exhibit 37: Capex heavy path over the next two years

Rs mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Operating cash flow	2,143.1	(598.9)	4,509.4	(1,187.5)	2,574.6	716.7	1,409.7	5,097.7	4,562.3	5,654.0
Capex	(107.0)	(121.9)	(456.8)	(2,072.2)	(1,203.8)	(8,634.8)	(4,263.0)	(525.8)	(538.9)	(552.3)
Free Cash Flow	2,036.1	(720.8)	4,052.6	(3,259.7)	1,370.8	(7,918.1)	(2,862.2)	4,561.6	4,013.7	5,090.3

Source: Company, Emkay Research

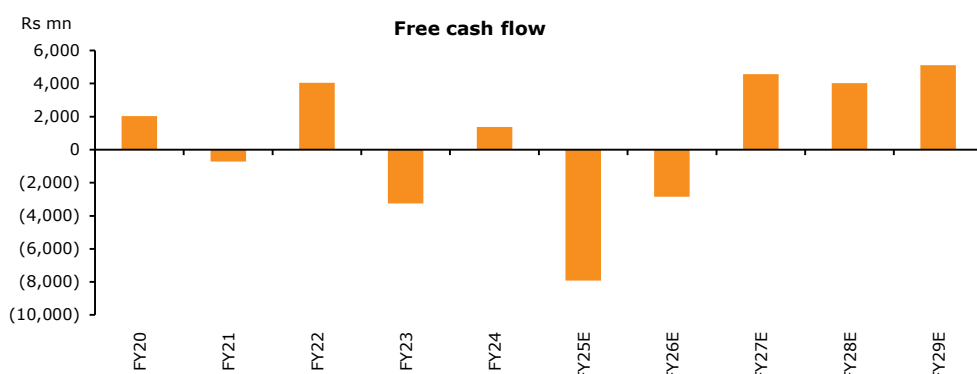
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FCF would increase as capex gets exhausted

The free cash flow for the given years exhibits fluctuations, ranging from Rs2bn to Rs5.1bn. The operating cash flow also show variations, with the highest value in FY22 at Rs4.5bn and the lowest in FY20 at Rs2.1bn. Capex is substantial, particularly in FY25E at Rs8.6bn to fund the ongoing expansions, impacting the FCF. FCF values indicate periods of growth, such as Rs4bn in FY22, and decline, such as Rs7.9bn in FY25E. This fluctuation could be attributed to changes in OCF and capex. The decrease in OCF and the increase in capex to Rs8.6bn in FY25E would lead to the all-time low FCF of -ve Rs7.9bn in FY25E. Subsequently, free cash flow generation is expected to improve after the projects are commissioned in calendar 2025.

Exhibit 38: Free cash flow generation to improve following expansion



Source: Company, Emkay Research

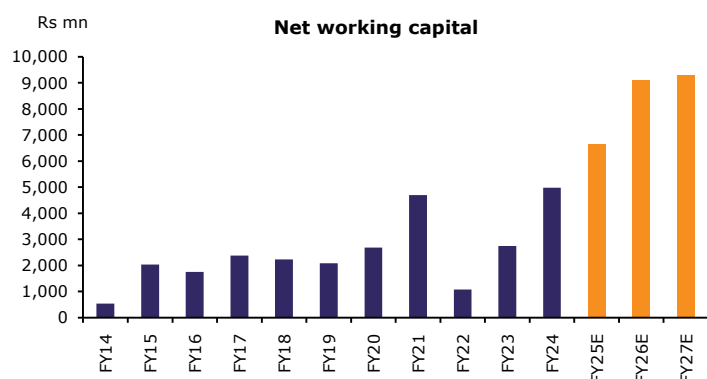
We estimate FCF yields of >20% on reaching full capacity. Naturally, we would expect the stock to re-rate on an FCF yield basis as the projects get de-risked over the next 12-18 months.

Working capital cycle likely to ease

One of the assessments in recent years is that there is increasing focus on working capital. The cyclical nature of working capital builds and unwinds is evident as inventories and receivables expand with rising prices, leading to a delay in converting increased profitability into cash during upturns.

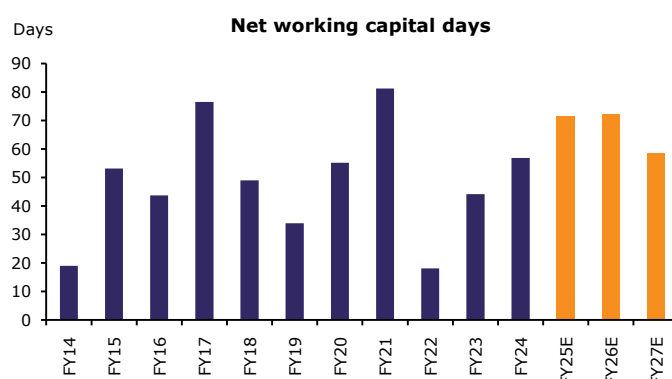
Man has notably improved its working capital cycle in FY22, reducing the number of days to 18 from 81 in FY21, though it again moved up, to 57 days by FY24. The cycle, previously volatile, is largely steady at around 57 days, with inventory days at 81, receivables at 41, and payables at 63 in FY24. Looking ahead, we see absolute working capital increasing, to sustain the business at a higher base; however, we expect working capital days to ease.

Exhibit 39: Increase in working capital is expected from FY25E



Source: Company, Emkay Research

Exhibit 40: Working capital days likely to shorten from FY25E

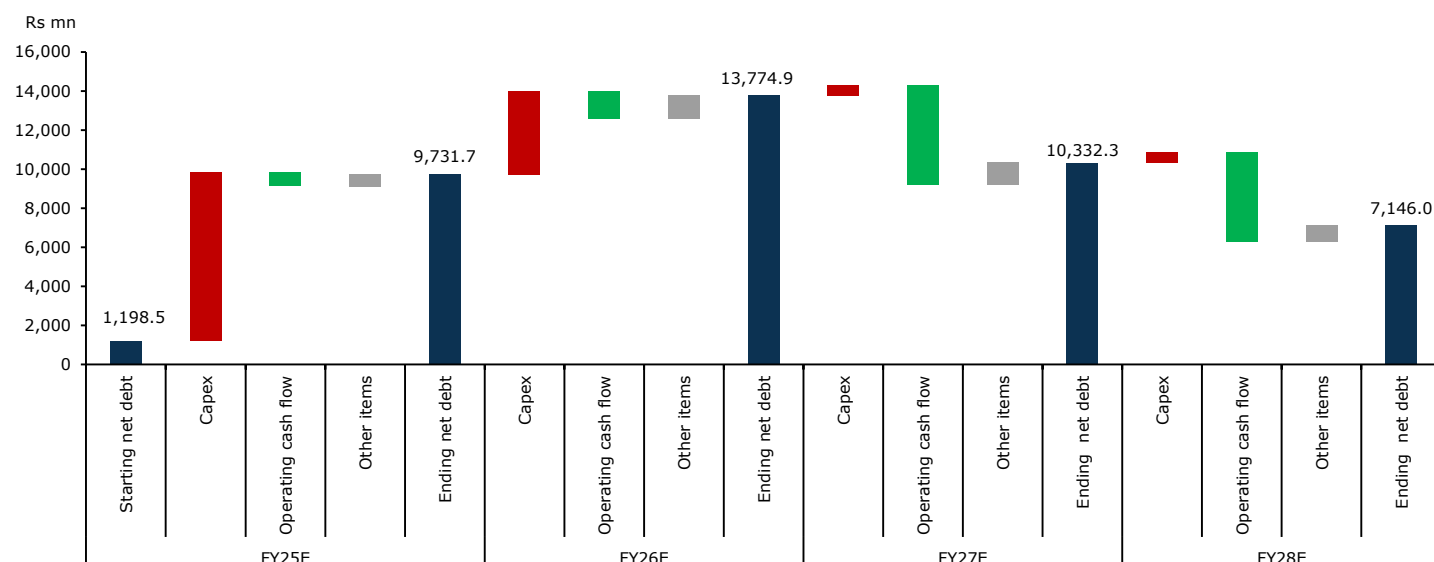


Source: Company, Emkay Research

Internal accruals should also lend support

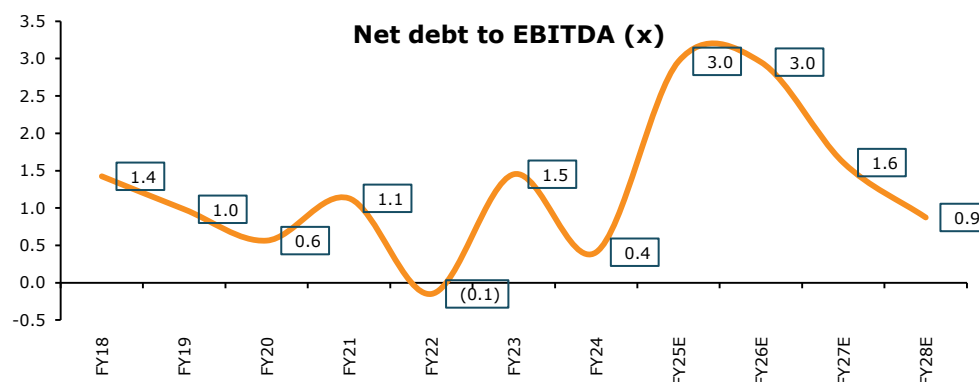
Gearing to stretch for two years, before normalizing back swiftly

The group had net debt of Rs1.2bn in FY24 and net debt-to-EBITDA of 0.4x. To fund the expansion, this net debt is likely to increase to Rs9.7bn in FY25E and to Rs13.8bn in FY26E, following which it should normalize to the current levels in five years from now. We outline the debt evolution which indicates that internal accruals would also help the company fund the expansion.

Exhibit 41: Capex to be funded mainly through debt; operating cash flows from FY27E to de-leverage the balance sheet

Source: Company, Emkay Research

We see peak net debt-to-EBITDA at 3x during FY25E and FY26E which should then de-lever well by FY27E and FY28E.

Exhibit 42: Peak net debt-to-EBITDA would reach 3x, per our estimates

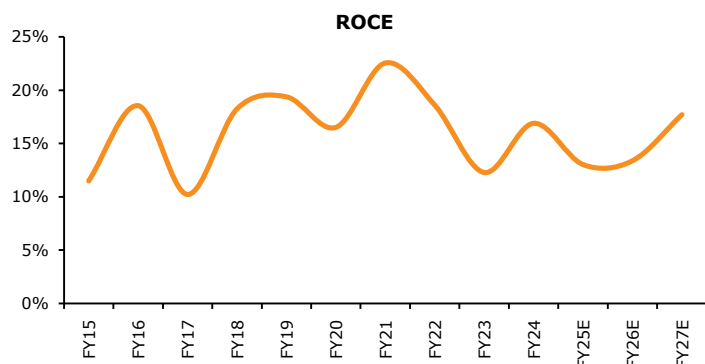
Source: Company, Emkay Research

Past returns (ROCE/ROIC) likely to sustain**Decent margin of ROCE and ROIC covers the cost of capital**

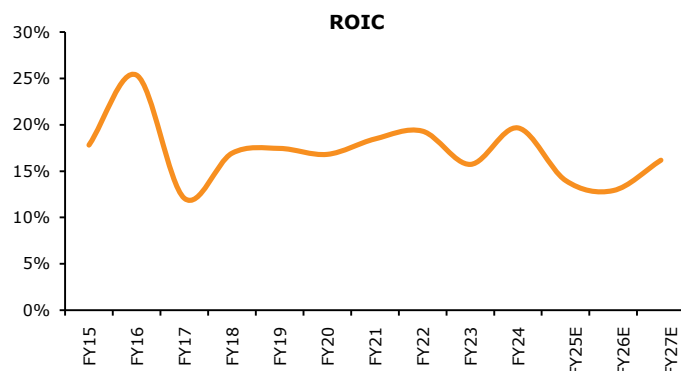
ROIC measures a company's profitability and efficiency in utilizing its capital. 10-year average ROIC is 18.0% for FY14-24 for the company, and it is expected that it would average at similar levels in future. ROIC has covered the cost of capital well and has generated positive shareholder value.

Over the past 10 years, the ROCE has exhibited a fluctuating trend. It reached its lowest point at 10.2% in FY17, followed by a significant increase to 18.2% in the subsequent year. However, it dipped again to 12.3% in FY23 due to a dip in margins. The recent rise of 16.9% shows a positive inflection from FY23 and our estimates imply ROCE to increase to 17.7% in FY27E, indicating a consistent upward trend thereon.

ROCE is also at similar levels, as the 10-year average is 16.5% and the subsequent 5-year average is 19%, per our estimates.

Exhibit 43: ROCE/ROIC averaged at 16.5/18.0% for 10 years...

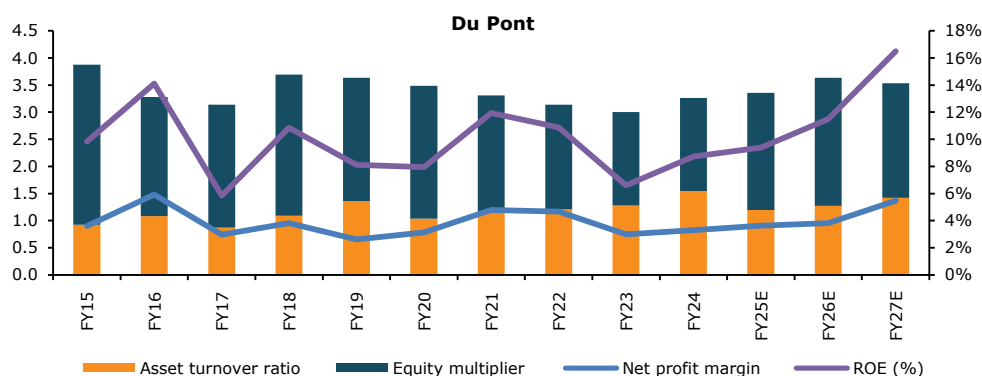
Source: Company, Emkay Research

Exhibit 44: ...which we expect would sustain post-expansion

Source: Company, Emkay Research

Asset turnover average of 1.2x in the last 10 years; improved to 1.5x in FY24

The business has generated ROE of 9.8% for the last 10 years, and is seeing an upward trend with an average of 12.3% expected for coming three years. An asset turnover shows fluctuation over the years, and the trend continuing is expected, with an average of 1.2x and 1.3x for the last 10 years and the next 3 years, respectively. Similarly, net profit margin follows the asset turnover trend and stands at 3.8% average for the last 10 years and would log 4.8% for FY25E-27E. In contrast, the equity multiplier is 2.2x on average for FY14-24 and FY25E-27E.

Exhibit 45: Asset turnover improved to 1.5x in FY24

Source: Company, Emkay Research

Industry-driven tailwind – Taking market share from a growing pie

Saudi demand story structural

Three years of orderbooks are fully secured by pipe-makers

Saudi demand prospect gives a long view

Demand growth prospect for line pipes in Saudi Arabia is two-fold. Firstly, the economy is aggressively building new infrastructure and secondly, there would be a replacement demand cycle once the existing pipe infrastructure gets phased out. This provides a structural demand tailwind on a multi-year view.

Our understanding from industry sources indicates that three years of orderbooks are fully secured by Saudi-based pipe-makers which reflects a long drawn out growth path for both, the existing players as well as new entrants like Man. In a way, Man would be taking market share from a growing pie. The company has verbally agreed with prospective clients for orders once the operations are up and running.

Outlining the catalysts

We see three catalysts that provide comfort of a structural demand tailwind:

NEOM city development

The Saudi government is keenly focused on diversifying away from oil. The ongoing project, which is planned as a hub for futuristic development. In the Northwest of Saudi Arabia, it stands at the northern tip of the Red Sea. On completion, Neom is would be larger than many global cities, as per plans. The ongoing vertical development is happening in the Line city within the Neom hub.

While there were recent reports on scaling back of construction plans in the Line city, we believe that Saudi is doing a project of this scale after a long time, so it would face challenges and the projects would be reconfigured as their progress is made on them. There could be logistical challenges as well. However, we do not anticipate much impact on orderbooks for pipes from a broader reconfiguration in the projects.

2034 FIFA World Cup to be hosted in Saudi Arabia

Saudi Arabia would host the FIFA World Cup 10 years down the line, in 2034. We sense that there would be growing impetus as the dates come closer, to build the associated infrastructure needed for hosting a world cup. This could range from building new stadiums, hotels, airports, transportation pipelines and so on to modernization of the existing infrastructure. We expect it to be a tailwind for pipes demand in Saudi.

For context, Qatar built an extensive infrastructure in preparation for the world cup in 2022.

Note, LSAW pipes are also used in steel structures in stadiums.

Renewed focus on water projects

We see significant demand for pipes for water transportation. Availability of fresh water is a key issue in Saudi. Therefore, water desalination is a chief requirement for supplying water to residents and the industries. To make this work, sea water needs to be transported to desalination plants, which would then be treated and thereafter transport to the cities for use. This would require long lengths of line pipe infrastructure.

Key risks

Key risks to our Saudi demand thesis are 1) delays in Neom development; and 2) global recession causing a downturn in oil prices which could transpire into slowdown in pipes demand, perhaps leading to projects being cancelled or delayed.

Infrastructure-led pipes demand acceleration in India

The pipes industry serves the critical engines of the economy – mostly used in oil, gas and water transportation. The demand is from both, new projects as well as for replacement.

Line pipes growth drivers accelerating

Line pipes are mainly used in oil & gas and water transportation. Pipes find their application in supplying liquids and gas, and are used in both, industrial and non-industries sectors ranging from wastewater treatment, sewage, water pumps, drinking water transportation, building systems to gas pipelines including city gas distribution networks, and oil transportation.

The growth drivers for the pipes industry are new residential and commercial buildings, water supply pipelines, city gas distribution, public irrigation systems, and oil transportation, to name a few. The demand growth comes from both, new developments as well as for replacement of the existing pipes infrastructure.

The growth estimates of the global industrial pipes market have been raised to 4.1% CAGR over 2024-30 by global consulting firm, Lucintel. The earlier forecast was 3.2% CAGR over 2023-28. The market size is estimated to grow to USD52.2bn by 2030. The favorable revision to growth stems from accelerated construction of new pipelines along with replacement of aging ones.

Growth in the gas pipes segment could offset a relatively stagnant oil segment globally. In India, rising energy demand and the associated infrastructure development would drive incremental demand for gas pipelines, especially in the states that are under-penetrated.

In addition, a growing adoption of premium and technologically advanced pipes with a focus on strength and durability is being seen.

Water – A secular demand trend

Within the line pipes industry, the water segment is a key growth driver for coming years. At a high-level macro, 2 billion people worldwide lack access to clean drinking water, per a UN World Water Development Report. In addition, 3.6 billion people lack adequate sanitation services. Erratic rainfall patterns and rising temperatures disrupt water cycles as well.

India ranks fairly low on the water quality index, and is among the water-stressed countries globally.

As water scarcity challenges get more pronounced, there is a growing focus on increasing investments in the water sector. Per Niti Aayog, India would need investment of Rs20trn to bridge the water supply gap by the end of this decade.

A key project from the Government of India (GoI) is the *Jal Jeevan Mission* that aims to provide safe and ample drinking water to all rural households. The project has reached about 75% of the households with tap water connections. In FY24, the GoI released Rs699bn to 25 states and 5 UTs for implementation of the *Jal Jeevan Mission*. Further, in the recent budget, allocation for the Department of Drinking Water and Sanitation was increased to Rs774bn for FY25. Of this budget, 90% is allocated for the *Jal Jeevan Mission*.

Against this backdrop of continuing investments in the water sector, we see a secular demand trend for water infrastructure development and, essentially, for pipes transporting water. The GoI targets laying down thousands of kilometers of pipelines to each house. Man Industries appears well positioned to benefit from this opportunity.

Hydrogen – Futuristic, as of now

We sense that the hydrogen pipes market would gain significance in the next 5-10 years. US and Europe are already making progress in laying hydrogen pipelines. Consequently, the GoI has set targets for this space under the 'National Green Hydrogen Mission', with projected investment of Rs8trn.

Man Industries conducted a successful trial of testing its pipes for hydrogen transportation. As the technology keeps evolving, we believe Man would position itself well to capture the hydrogen opportunity. That said, we do not bake in any estimates for hydrogen in our base case.

Stainless steel tubes – Demand from railways at an accelerated pace

Stainless steel tubes have varied uses, spanning across oil & gas and water as well as the chemicals & fertilizers, thermal, solar and nuclear power, desalination, aerospace & defense, pulp & paper, and automobile industries. The tubes are usually manufactured using the technologically-advanced pilgering process and the final output is high precision tubes used across industries that usually focus on value over price.

The global stainless steel market CAGR is projected at 8% over the next 5-10 years, based on research by industry consultants. In addition, steel demand growth is expected to be higher in India compared with the rest of the world.

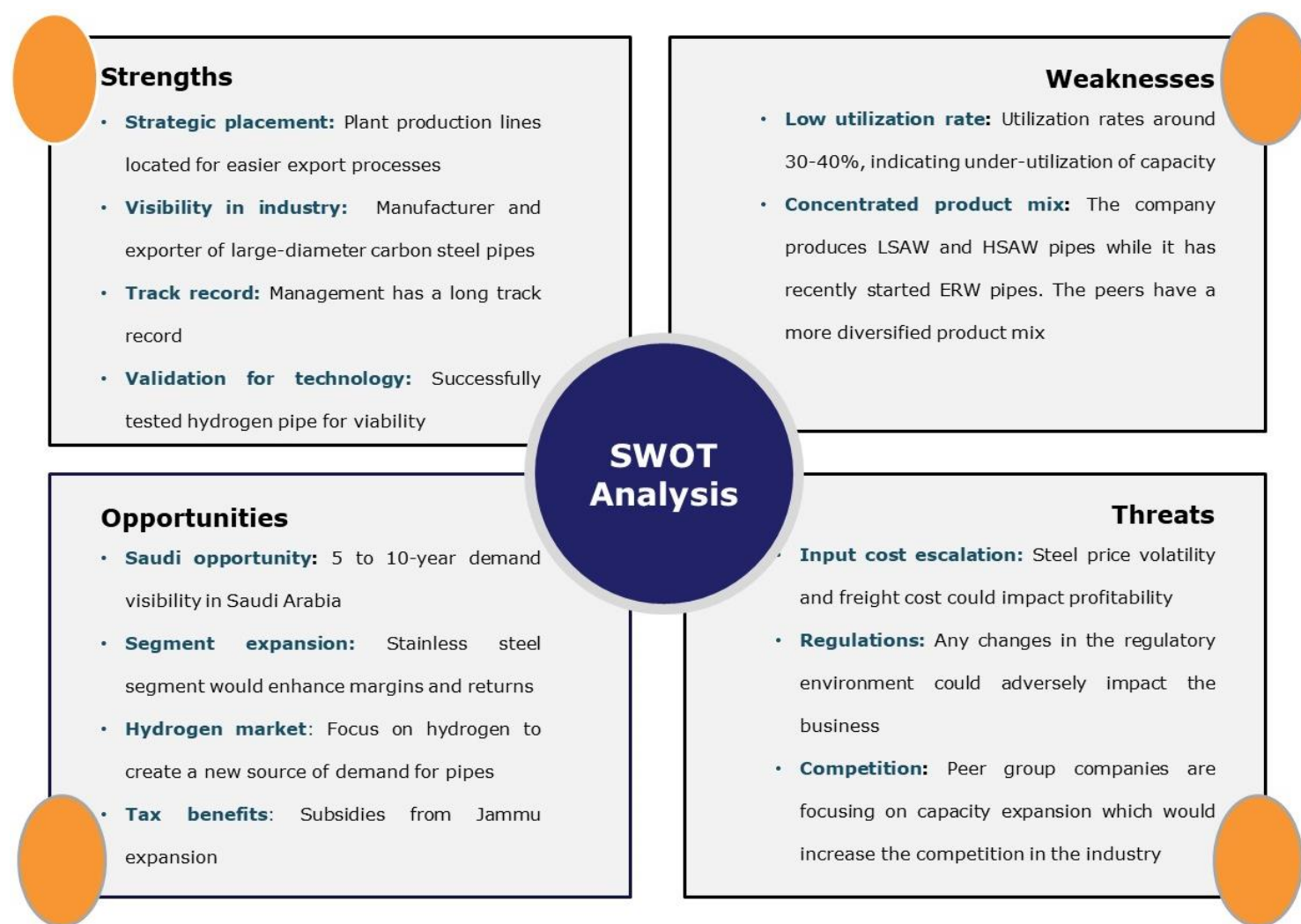
Demand for stainless steel from India's railways has risen and upgradation of the rail infrastructure on an accelerated pace over the next few years is expected to absorb the incremental supply. This is expected to be a structural demand tailwind for new entrants like Man. We expect the company's stainless products to have better pricing power as well as less earnings volatility resulting from lesser cyclical effect of these products.

Equity perspective

From the equities point of view, the energy sector in India has re-rated well in 2024YTD. Man, as an ancillary to the oil & gas sector, is well placed to benefit from a broader sector re-rating, in our view. Further, stainless steel stocks usually command a premium valuation. With Man's entry into this niche segment, we think the valuation gap could narrow over time, with Man potentially edging up towards peers operating in the stainless steel segment. We also highlight an entry into the hydrogen pipes segment in our bull case argument for the stock.

SWOT analysis

Exhibit 46: SWOT analysis



Source: Company, Emkay Research

Company overview

Company synopsis

Man Industries was incorporated in 1988, and promoted by the Mansukhani family. The company has a strong footprint in manufacturing and coating large-diameter LSAW, HSAW and ERW pipes with the associated infrastructure.

The company is based in Mumbai, India. The Promoter group owns 46.2% of the company.

The company specializes in producing longitudinal submerged arc welded line pipes for various applications, such as oil, gas, petrochemicals, and dredging, as well as helically submerged arc welded line pipes for oil and gas transportation, water supply, sewerage, agriculture, and construction, among others. Additionally, Man Industries offers a range of coating systems for its pipes. It serves both, domestic and international clients like GAIL, HPCL, ONGC, Reliance, SHELL, IOCL, BPCL, Adani, Kuwait Oil Company, etc.

Exhibit 47: Product specifications

Products	Method of manufacturing	Outside Diameter (Inch)	Wall Thickness (mm)	Installed Capacity (kt)
LSAW	3 Roll (Line-I)	16-56	6.0 - 35.0	600
	JCO (Line-II)	18 - 56	6.0 - 55.0	400
HSAW	HSAW-2	18 - 130	6.4 - 19.0	140
	HSAW-3	24 - 130	7.1 - 25.4	140
Product	Product Type	Size Range	Wall Thickness (mm)	Installed Capacity (kt)
ERW	API Pipes	Ø 6" NB - Ø 18" NB	4.8 - 14.3	100
	Circular Hollow Sections	Ø 6" NB - Ø 18" NB	6.0 - 14.3	100
	Square & Rectangular Sections	132mm x 132mm - 350mm x 350mm	4.8 - 10.3	100
Product	Product Type	Size Range	Wall Thickness (mm)	Installed Capacity (kt)
HIB	Hot Induction Bends	Ø 6" NB - Ø 48" NB (Ø 52" NB)	4.8 - 40	6

Source: Company, Emkay Research

Man Industries has subsidiaries, namely Merino Shelters Private, Man Overseas Metals DMCC, and Man USA Inc.

The company has a global presence, with offices in the UK and UAE, besides India. It has a track record of executing pipeline projects for onshore, offshore, and critical sour service applications. Man Industries has manufactured and supplied over 13,000km of pipes globally for various applications, meeting all international project standards.

The company's strategies are to focus on cost reduction and maximum utilization of capacity, entering new sectors with existing product offerings such as clean fuel transportation, and entering a new product offering like steel products.

The company has two manufacturing facilities: one located in Anjar, Gujarat which is established to have fast access to the Kandla and Mundra ports, to cater to the global market. The other facility is in Pithampur, Madhya Pradesh, strategically placed near the national highway to save logistic costs and serve the domestic market.

The Anjar plant has 2 LSAW and 2 HSAW line pipe units and 1 ERW unit and types of anti-corrosion coating system, whereas it has 1 facility at Pithampur, Madhya Pradesh with total capacity (both plants) of over 1.15mtpa of both the plants.

Recently, Man has been investing further to widen its offering by entering the manufacture of stainless steel pipes.

Product profile

Longitudinal SAW Pipes (LSAW)

Man produces Longitudinal Submerged Arc Welding (LSAW) Line Pipes in various sizes for high-pressure cross-country pipeline owners and operators. These pipes have diameters ranging from 16" to 56", and lengths up to 12.20meter, following both general and customized specifications by customers from sectors like Oil, Gas, Petrochemicals, Fertilizers, and Dredging. Man's line pipe manufacturing facilities hold valid licenses to use the American Petroleum Institute (API) monogram and obtained approvals from esteemed customers globally.

Spiral Helical SAW Pipes (HSAW)

The HSAW line pipe facility is equipped with all NDT and laboratory facilities to cater to the requirements of its worldwide clientele in the high-pressure/critical application segment. HSAW pipes are manufactured in diameter ranging from 18" to 120", with up to 18-meter length. In addition to the stable demand for HSAW line pipes in the conventional segments of Oil Transportation, Water Supply, Sewerage, Agriculture, and Construction, there is a global surge in the acceptance of HSAW line pipes for high-pressure applications (in onshore installations). Man offers high-quality HSAW line pipes conforming to globally accepted quality standards.

Coating

Man offers various coating options to protect line pipes from corrosion and enhance their operational life. The available coating systems include single layer Fusion Bonded Epoxy (FBE) coating, 3-layer Polyethylene (PE) coating, 3-layer Polypropylene (PP) coating, internal blasting and painting, and concrete Weight Coating (CWC). These coating systems are applied to the line pipes to safeguard against corrosion and extend their service life. This ensures reliable performance in diverse applications such as oil and gas transportation, water supply, and other critical infrastructure projects.

Electric Resistance Welded Pipes (ERW)

The company has an existing Electric Resistance welding (ERW) pipes manufacturing facility at Anjar, Gujarat. These ERW pipes are produced in diameter ranging from 0.5" to 22" using hot-rolled steel coils and the electrical resistance welding process. However, ERW pipes have certain size, thickness, and grade limitations, which restrict their application. Despite these limitations, they are well-suited for branch lines in the oil, gas, and water distribution sectors.

Experienced management team

Executive Chairman – Dr. Ramesh Mansukhani

Dr. Ramesh Mansukhani has a PhD in International Economics and Finance from Ecole Supérieure Robert de Sorbon University, France, and a Bachelor of Laws from Vikrant University in Ujjain (Madhya Pradesh), in addition to a Master's in Economics, for which he was awarded a gold medal.

He is known as a first-generation entrepreneur for his decades of industrial experience. Since the start of his association with Man, he has been the company's strength and has set up successful businesses not only in India but also in the UK and United Arab Emirates. He is also known for actively participating in CSR activities.

Managing Director – Nikhil Mansukhani

Nikhil Mansukhani joined Man Industries as a director on November 23, 2011, after completing his education at the University of London holding a Bachelor's degree in Engineering with Business Management from King's College, UK. He looks after business development & liaisoning and handles day to day affairs of the company.

Chief Financial Officer – Sanjay Kumar Agrawal

Sanjay Kumar Agrawal brings with him 32 years of experience after obtaining his Chartered Accountant qualification from ICAI in 1992. Before joining Man, he held similar positions with organizations such as Transrail Lighting, Jindal India, and Skipper.

Along with the above key managerial personnel, the following people are handling key responsibilities in setting up the new stainless steel extrusion tubes in Unit-1 at Kathua, Jammu:

Jignesh Shah

Jignesh Shah is an Engineer with more than 22 years of experience in setting up of green field pipe plant projects and operation and maintenance.

V Krishnadas Balan

V Krishnadas Balan, a BE (Mechanical) graduate from Sardar Patel College of Engineering, Mumbai University, has 26 years of working experience in the industry. He holds experience in buying, vendor development, and supply chain management, and has exposure to commercial departmental activities and customs laws.

Shareholding pattern

Exhibit 48: Man Industries – Shareholding pattern

	Shareholding
Promoter and Promoter Group	46.2%
Mutual Funds	1.3%
Alternate Investment Funds	2.0%
Banks	0.0%
Insurance Companies	0.0%
Foreign Portfolio Investors	1.6%
Investor Education and Protection Fund	0.9%
Resident Individuals holding nominal share capital up to Rs2 lakhs	23.4%
Resident Individuals holding nominal share capital in excess of Rs2 lakhs	12.1%
Non Resident Indians	2.6%
Bodies Corporate	3.3%
Other	6.6%
Public	53.8%

Source: Company, Emkay Research

Man Industries : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,709	31,942	34,038	46,089	58,053
Revenue growth (%)	4.4	40.7	6.6	35.4	26.0
EBITDA	1,768	2,932	3,284	4,665	6,424
EBITDA growth (%)	(18.8)	65.9	12.0	42.0	37.7
Depreciation & Amortization	454	611	659	1,049	1,140
EBIT	1,314	2,321	2,625	3,616	5,284
EBIT growth (%)	(23.7)	76.7	13.1	37.8	46.1
Other operating income	396	521	1,258	1,007	1,455
Other income	0	0	0	0	0
Financial expense	410	878	953	1,268	1,043
PBT	904	1,443	1,672	2,349	4,242
Extraordinary items	0	0	0	0	0
Taxes	224	392	412	587	1,060
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	680	1,051	1,235	1,762	3,181
PAT growth (%)	(33.1)	54.6	17.5	42.6	80.6
Adjusted PAT	680	1,051	1,260	1,762	3,181
Diluted EPS (Rs)	11.3	16.7	18.4	26.2	47.3
Diluted EPS growth (%)	(35.4)	47.7	9.8	42.6	80.6
DPS (Rs)	2.0	1.9	1.8	1.9	2.4
Dividend payout (%)	17.4	11.0	9.4	7.1	4.9
EBITDA margin (%)	7.8	9.2	9.6	10.1	11.1
EBIT margin (%)	5.8	7.3	7.7	7.8	9.1
Effective tax rate (%)	24.8	27.1	24.6	25.0	25.0
NOPLAT (pre-IndAS)	1,090	1,930	2,213	3,029	4,224
Shares outstanding (mn)	60.1	64.7	64.7	64.7	64.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	904	1,443	1,672	2,349	4,242
Others (non-cash items)	0	0	0	0	0
Taxes paid	(268)	(335)	(412)	(587)	(1,060)
Change in NWC	(2,759)	206	(1,672)	(2,461)	(191)
Operating cash flow	(1,188)	2,575	717	1,410	5,098
Capital expenditure	(2,072)	(1,204)	(8,635)	(4,263)	(526)
Acquisition of business	421	(2,329)	0	0	0
Interest & dividend income	253	622	0	0	0
Investing cash flow	(1,355)	(2,637)	(8,177)	(4,056)	(451)
Equity raised/(repaid)	45	1,858	0	0	0
Debt raised/(repaid)	2,683	732	7,500	3,500	(2,500)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(518)	(890)	(953)	(1,268)	(1,043)
Dividend paid (incl tax)	(118)	(120)	(121)	(129)	(162)
Others	0	0	0	0	0
Financing cash flow	2,092	1,579	6,427	2,103	(3,704)
Net chg in Cash	(451)	1,517	(1,033)	(543)	943
OCF	(1,188)	2,575	717	1,410	5,098
Adj. OCF (w/o NWC chg.)	1,571	2,368	2,389	3,871	5,288
FCFF	(3,260)	1,371	(7,918)	(2,853)	4,572
FCFE	(576)	2,102	(418)	647	2,072
OCF/EBITDA (%)	(0.7)	0.9	0.2	0.3	0.8
FCFE/PAT (%)	(0.8)	2.0	(0.3)	0.4	0.7
FCFF/NOPLAT (%)	(3.0)	0.7	(3.6)	(0.9)	1.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	301	324	324	324	324
Reserves & Surplus	9,741	13,725	14,840	16,472	19,491
Net worth	10,042	14,049	15,163	16,796	19,815
Minority interests	0	0	0	0	0
Deferred tax liability (net)	242	258	258	258	258
Total debt	2,936	3,085	10,585	14,085	11,585
Total liabilities & equity	13,219	17,391	26,006	31,138	31,657
Net tangible fixed assets	5,295	5,845	13,868	17,472	16,949
Net intangible assets	0	0	0	0	0
Net ROU assets	49	163	163	163	163
Capital WIP	145	305	305	305	305
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	369	1,886	853	310	1,252
Current assets (ex-cash)	10,480	11,375	14,108	18,866	19,792
Current Liab. & Prov.	4,059	6,761	6,788	8,543	10,220
NWC (ex-cash)	6,790	6,500	8,173	10,633	10,824
Total assets	13,219	17,391	26,006	31,138	31,657
Net debt	2,567	1,199	9,732	13,775	10,332
Capital employed	12,978	17,133	25,748	30,880	31,400
Invested capital	11,680	11,897	21,545	27,220	26,797
BVPS (Rs)	167.3	223.5	225.5	249.8	294.7
Net Debt/Equity (x)	0.3	0.1	0.6	0.8	0.5
Net Debt/EBITDA (x)	1.5	0.4	3.0	3.0	1.6
Interest coverage (x)	7.4	5.9	6.8	6.5	11.5
RoCE (%)	11.5	15.4	12.2	12.8	17.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	34.9	23.6	21.1	15.1	8.3
P/CE(x)	20.9	14.9	13.8	9.5	6.1
P/B (x)	2.4	1.8	1.8	1.6	1.3
EV/Sales (x)	0.3	0.5	1.1	0.9	0.6
EV/EBITDA (x)	4.4	5.0	10.7	8.4	5.6
EV/EBIT(x)	5.9	6.3	13.4	10.9	6.8
EV/IC (x)	0.7	1.2	1.6	1.4	1.3
FCFF yield (%)	(63.4)	10.2	(31.0)	(11.2)	17.9
FCFE yield (%)	(11.2)	15.6	(1.6)	2.5	8.1
Dividend yield (%)	0.5	0.5	0.5	0.5	0.6
DuPont-RoE split					
Net profit margin (%)	3.0	3.3	3.7	3.8	5.5
Total asset turnover (x)	2.0	2.1	1.6	1.6	1.9
Assets/Equity (x)	1.2	1.2	1.5	1.8	1.7
RoE (%)	7.0	8.7	8.6	11.0	17.4
DuPont-RoIC					
NOPLAT margin (%)	4.4	5.3	5.8	5.9	6.8
IC turnover (x)	2.2	2.2	2.2	2.7	2.9
RoIC (%)	10.0	14.3	11.8	11.1	14.7
Operating metrics					
Core NWC days	44.2	56.9	71.3	72.2	58.5
Total NWC days	103.2	52.7	78.5	81.8	60.2
Fixed asset turnover	5.6	6.2	3.6	3.1	3.6
Opex-to-revenue (%)	0.9	0.9	0.9	0.9	0.9

Source: Company, Emkay Research

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