WILLIAM O'NEIL INDIA

Nal Se Jal - A Pipe Dream

Pipes: the new way forward

India's existing pipeline infrastructure falls well short of what is required to cater to the upcoming boom in demand from the oil and gas as well as the water segment.

Along with the domestic oil and gas distribution (which is expected to increase sharply from 34.1MMT to 38.3MMT and 35BCM to 72), refining capacities will be ramped up from the current 248 MMTPA to 307 MMTPA in 2022. A similar situation exists in water and sanitation segments too.
To address these issues, the government of India has taken various initiatives to boost demand for pipes.

Oil and gas

Replacing old and truncated oil and gas pipeline and laying in a fresh network of pipeline of 11,000KM to ensure an efficient distribution of oil and gas products.
Plans of enhancing nationwide connectivity between LNG terminals and natural gas production hubs will see an increase in natural gas usage.
The above mentioned reforms are likely to attract investments in the domestic oil and gas sector, which is expected to grow at a **CAGR of 8.5% to Rs. 90,000 crore in FY22 from Rs.65,000 crore** in FY18.

Water and Sanitation

According to the World Bank, per capita availability of India is only 1,118 cubic meters, which is significantly lower than China's 2,062 cubic meters, Brazil's 27,271 cubic meters and the U.S.'s 8,844 cubic meters and marginally higher than South Africa's 821 cubic meters, which is a desert country. This shows India needs to do a lot of work on its transmission line and this would lead to an increase in demand for pipes.
After the Launch of '**Swachh Bharat**' mission, the basic sanitation coverage in India went up to 99% in 2019 from 40% in 2014.

Key demand drivers for metal pipes in the oil and gas industry

Upward revision in global oil demand projections

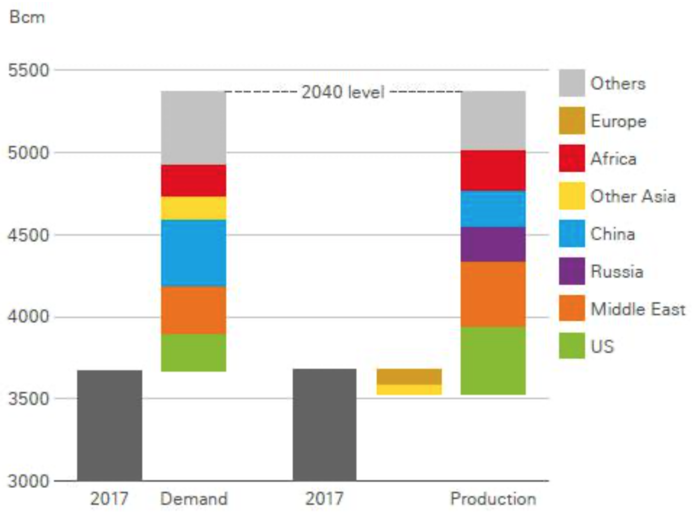
For the second consecutive year, long-term oil demand projections have been revised upwards. Oil demand is expected to grow at a healthy pace in upcoming years and likely to reach a level of 104.5 mb/d by 2023. **In the long run, the expected demand would reach 111.7 mb/d by 2040.** India is projected to be the country with the fastest growing demand in this scenario.

	2017	2018	2019	2020	2021	2022	2023	2025	2030	2035	2040
OECD America	25	25.3	25.5	25.7	25.8	25.7	25.6	25.2	23.9	22.5	20.9
OECD Europe	14.3	14.4	14.4	14.5	14.4	14.3	14.2	13.9	13.1	12.4	11.6
OECD Asia Oceania	8.1	8.1	8	8	8	7.9	7.8	7.6	7.2	6.7	6.2
OECD	**47.3**	**47.8**	**48**	**48.3**	**48.1**	**47.9**	**47.6**	**46.8**	**44.2**	**41.5**	**38.7**
Latin America	5.7	5.8	5.9	6	6.1	6.2	6.3	6.4	6.8	7.1	7.3
ME & Africa	3.8	3.9	4	4.1	4.2	4.3	4.4	4.6	5.1	5.7	6.3
India	4.5	4.7	5	5.2	5.4	5.6	5.9	6.4	7.6	9	10.4
China	12.3	12.7	13.1	13.4	13.7	14	14.3	14.7	15.8	16.6	17.4
Other Asia	8.7	8.9	9.1	9.4	9.6	9.7	9.9	10.3	11.3	12.2	12.9
OPEC	9.3	9.4	9.5	9.8	9.9	10.1	10.3	10.7	11.5	12	12.3
Developing Countries	**44.4**	**45.5**	**45.6**	**47.9**	**48.9**	**49.9**	**51**	**53.1**	**58.1**	**62.6**	**66.6**
Russia	3.5	3.5	3.6	3.7	3.7	3.8	3.8	3.9	3.9	3.9	3.9
Other Eurasia	1.9	2	2	2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.5
Eurasia	5.4	5.6	5.7	5.8	5.9	5.9	6	6.1	6.3	6.4	6.4
World	**97.2**	**98.8**	**100**	**102**	**102.9**	**104**	**105**	**106**	**109**	**110.5**	**111.7**

Natural Gas projected to rise by 65% from 2010 to 2040

In 2040, gas is projected to become the second-largest energy source with an estimated share of 25%, an increase of more than 3 percent from 2015 levels. The majority of the increase in gas demand is expected to come from China, the Middle East, and Europe, which covered almost 85% of the global y-o-y increase in the gas consumption in 2017.

Gas demand and production projection till 2040

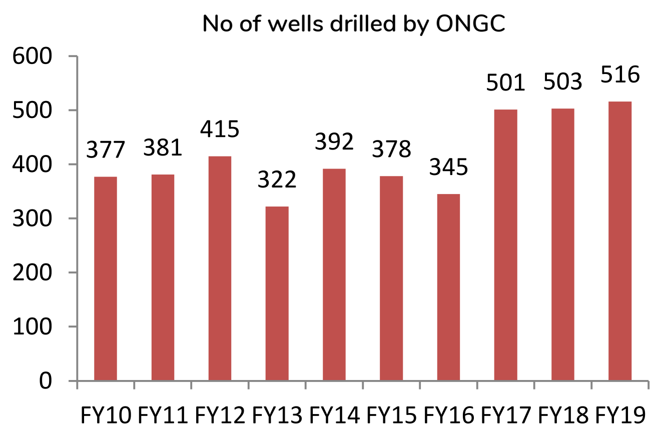


The global demand for natural gas is projected to grow at a pace of 65% from 2010 to 2040, the largest volume in any energy resource. It is anticipated that the natural gas consumption is mostly concentrated in the non-OECD countries where demand is expected to grow twice as fast as the OECD countries.

Global recovery in E&P space to boost seamless pipe demand

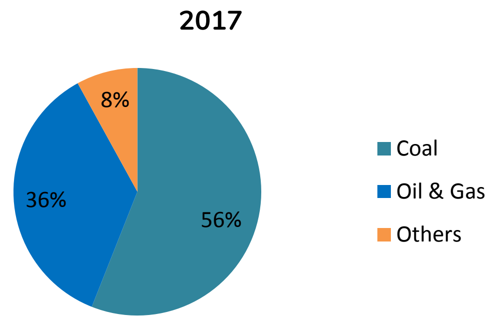
With a fall in oil prices, rig values had declined globally, which further impacted E&P activities and hampered the seamless manufacturers. Off late, there has been a pickup in global E&P spending. With global prices expected to remain firm, demand for seamless pipe is likely to remain strong.

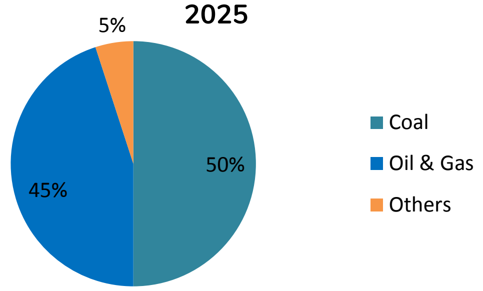
The Indian seamless pipe manufactures have been key beneficiaries of ONGC's aggressive exploration activity.

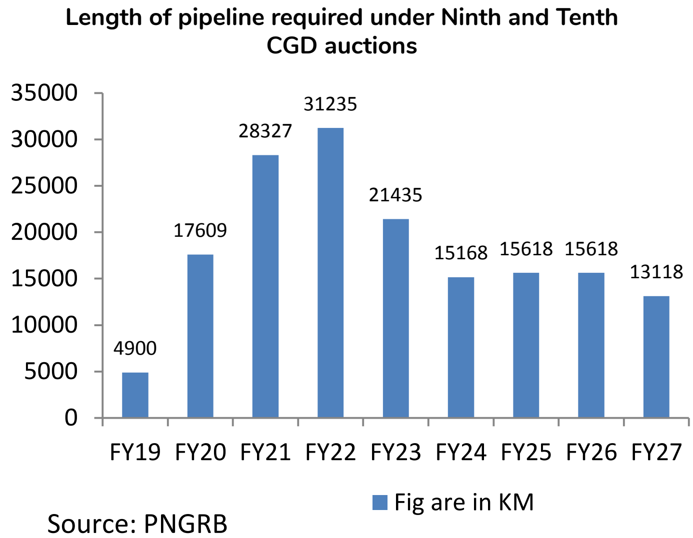


Change in energy mix to propel demand for SAW pipes

In the total energy mix of India, share of oil and gas is likely increase to 45% in 2025 from 36% in 2017. Energy demand is expected to grow at 4.5–5%. This would propel SAW pipe volume demand in absolute term till 2025.





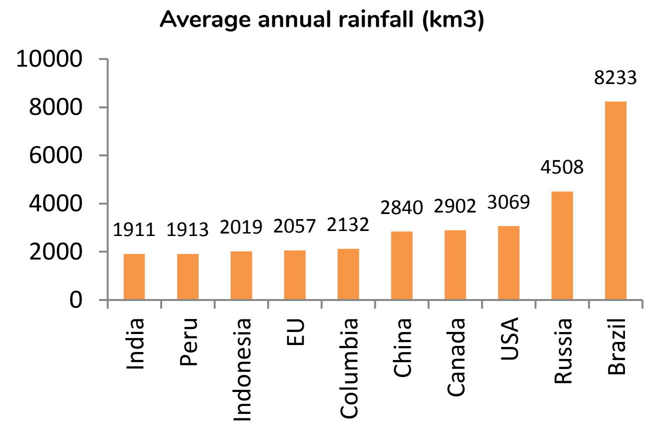


Source: PNGRB

Growing opportunities in the Water transportation Segment

Water is one of the most critical resources that enable life on earth, which is depleting very fast. As the global population is expected to reach 9.2B in 2040 from 7.4B in 2017, demand for water is expected to increase by 20–30% every year during this period.

India, at 1,544 metre cube per capita availability, is already water starved. This is primarily because India has only 4 percent of the global water resources but accounts for nearly 17 percent of the global population. By 2030, the demand for water will be twice as that of supply. The government of India has taken various initiatives and proposes to link major water-starved regions to rivers of India.



According to the Word Bank data, India is one of the wettest lands in terms of precipitation received annually, but water management continues to be a big issue for the country. We waste ~74% of the available water due to a lack of an efficient water management and transmission infrastructure.

For domestic and industrial uses, most river basins are water stressed.

Farmers' high dependency on monsoon in India

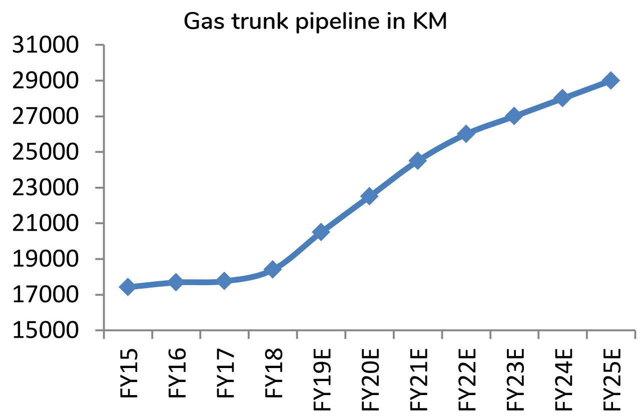
India is highly dependent on its agricultural activities and nearly 60 percent of India's population depends on agriculture for their livelihood and, hence directly depend on monsoon for their water requirements.

During times of drought there is a high dependence on ground water resources. Groundwater fulfills nearly 80 percent of India's drinking water requirements and 70 percent of irrigation requirements.

Replacement of old oil and gas truncated pipelines and demand for new lines will propel demand for SAW pipes

Oil and gas pipelines normally have an economic life span of 30 years. Many pipelines have outgrown their economic age and will require a replacement. We expect about one-tenth of pipeline to be replaced creating demand for SAW pipes.

Coupled with replacement demand, a new pipeline of 11,000KM is under construction and is likely to be constructed in next 5-7 years.



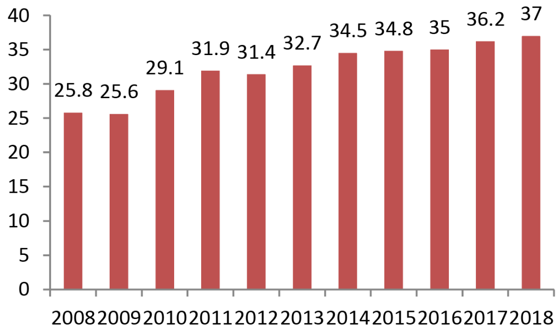
Source: PNGSTAT, PNGRB

Gas pipeline demand to reach 29,000KM by FY25E, which would boost demand for SAW pipes.

PAN India CGD rollout to drive demand for SAW and ERW pipes

With the completion of the ninth and tenth CGD bidding round of PNGRB, the natural gas would be made available in 404 districts across 27 states and union territories. **The new GAs would require ~1.56 lacs km of steel pipes network by 2026.**

Depth of groundwater in India (in meters)

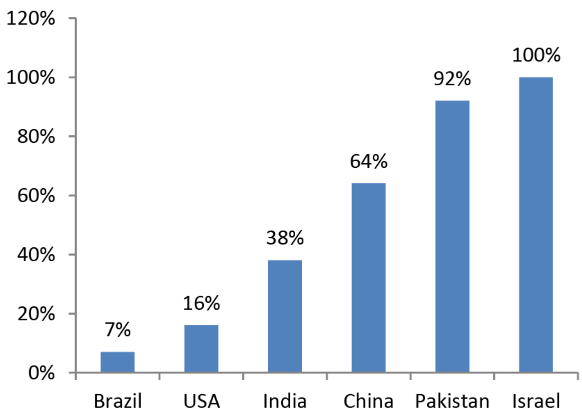


Source : Ministry of water resources

Infrastructure for irrigation a problem from decades

Despite the announcement of numerous schemes and allocation by the government of India, ordinary citizenry has not been able to benefit from these schemes so far. The result is that only 35% of India's total cropped area of 68.5 million hectares is penetrated.

Despite heavy requirements for irrigated land



Source: The World Factbook by CIA

India has about 20 river basins; however, utilization levels have been very low. Due to increasing demand for water in

In India water is transported through open canals, hence, the chances of water evaporation increases while transporting. Water seepage is also an issue on account of poor quality of the canal construction and water theft remains a big issue in India.

New India's new plan for tackling these issues

Government of India has increased its budgetary allocation for water during FY17–18 and actual investments topped budgetary allocations by 28.5% during FY16–18.

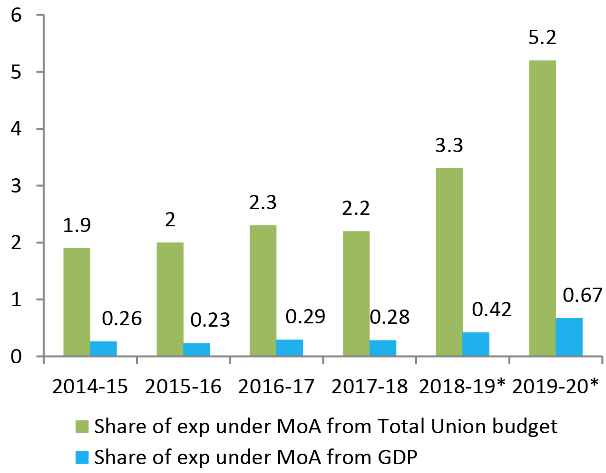
In several states, the government is working on linking key river projects, which are expected to get implemented in the coming years.

- Project for diversion of Godavari water up to Cauvery basin, which is expected to carry 20,976 million metre cube of water to the Cauvery basin through canals and transmission lines.

- Damanganga – Pinjal project is expected to provide 895 million metre cube of water annually to Mumbai, along with 5 MW of hydropower.

- Ken – Betwa link projects, which are expected to irrigate 8.98 lac hectares of land annually in the drought-prone areas of Uttar Pradesh.

Allocation under Ministry of Agriculture Farmers Welfare



Sewage treatment capacities to get enhanced with AMRUT scheme

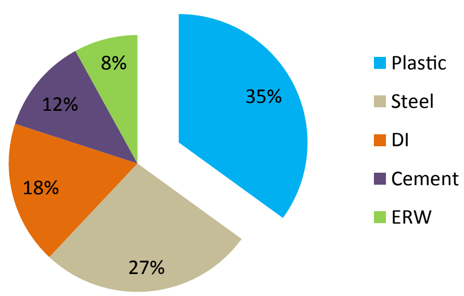
To overcome the gap between the discharge and treatment capacities, the government of India has rolled out the AMRUT scheme. The purpose of this scheme is to ensure that every household has access to tap water, with assured supply of water and sewage connection.

State	No. of Muncipalities	Amt. approved (Rs. Cr.)
MP	34	7201
Gujarat	31	4884
West Benga	60	4035
Rajastan	29	3223
AP	33	2890
Punjab	16	2767
Bihar	27	2469
Odisha	9	1599
J&K	5	593
Mizoram	1	140
Chandigarh	1	85
Goa	1	80
Tripura	1	84

Plastic pipes: the modern age product

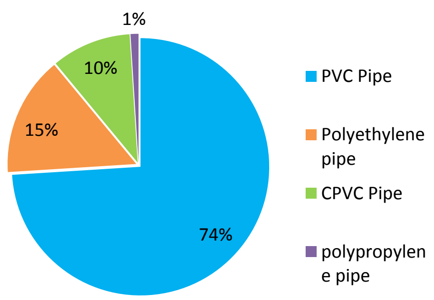
The domestic pipe industry is dominated by plastic pipes whose market size is pegged at ~Rs. 315B, with the organized players accounting for than 70 percent of the market share in this segment. Plastic pipes are growing faster than other pipes on account of its light weight, ease of transportation, ease of installation, and longer life span.

Indian Pipe market size - 5M MTPA



The government's push for cleanliness and sanitation and building of affordable houses is expected to drive demand for plastic pipes (PVC/CPVC).

Indian Plastic pipe Market size 3.15M MTPA



Plastic pipes: growth drivers

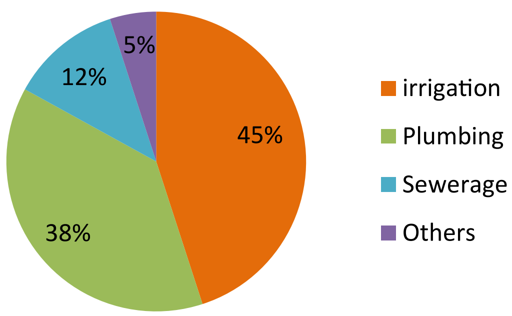
Housing demand the long-term growth driver

The plastic pipe industry is highly dependent on the housing demand in India. As India becomes more service/ manufacturing oriented, the need for urbanization increases and that in turn drives the need for modern houses with sanitation and water supply for drinking and other purposes.

Even today, India's housing demand outpaces its supply. While private players in the industry continue to address this situation, the government has increased its thrust on this sector with schemes such as Housing for All.

In addition, replacement demand remains strong and robust shift is happening from GI pipes to PVC/CPVC pipes. The government of India has targeted construction of 20M and 40M houses in urban and rural areas, respectively, by 2022. One unit in the urban area nearly consumes 200 kg of PVC products like pipes, flooring, doors, and windows, etc. while a rural house consumes ~75kg.

FY19 market size 3.15 mn MTPA



Thus we expect robust growth in the PVC segment, especially in pipes and fittings from housing and agriculture going forward.

Replacement market: PVC/CPVC preferred over GI pipes

In existing real estate units, there might be certain cases where GI pipes are used and the market is moving fast away from these pipes towards plastic pipes. PVC/CPVC pipes have an edge over these pipes because of their longer life span, which is two times more than GI pipes. PVC/CPVC pipes are highly durable as well and are being preferred by various allied industries.

Irrigation can further increase plastic pipes demand

As previously noted in this report, India is a highly water scarce country, with an abundant requirement for a proper infrastructure for irrigation and water supplies, keeping in mind the country's high dependence on agricultural activities.

To address this problem, the central government has sharpened its focus on irrigation projects through its flagship schemes such as PMKSY. Other initiatives include supporting farm incomes as well local government initiatives to encourage farmers to use irrigation systems.

Given the immense demand for plastic pipes in this segment, major organized players have a huge potential to increase their grip on this territory

ASTRAL POLYTECHNICK

Company Overview

Astral Poly Technik is one of the leading players in the CPVC and PVC piping segment and an emerging player in the adhesive segment as well. With a current total PVC/CPVC/DWC capacity of 2,20,989 MT with a year-end expected capacity of 2,50,000 MT in the piping space. Astral competes with players such as Supreme and Ashirwad in the CPVC segment and with Supreme, Finolex, and Prince in the PVC segment. The company has backward integrated manufacturing of CPVC compounds and ensures consistent cost savings and efficient raw material supply.

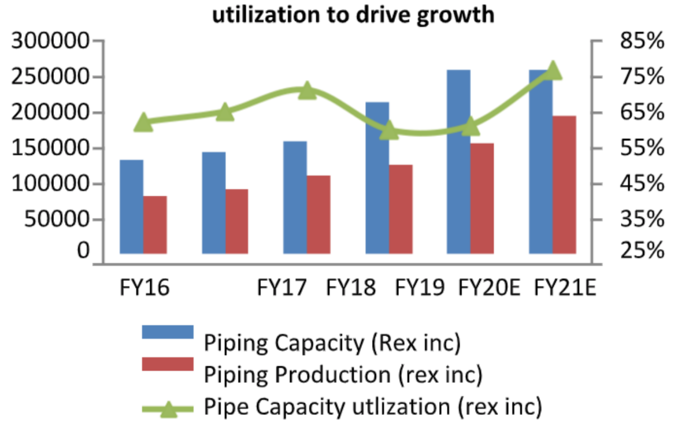
Adhesive to play a key role in the next leg of growth

With a focus on Adhesives, it has formed a notable presence in acrylics, epoxy and sealant businesses in a very short span of time. **Pipe/Adhesive revenue has grown at a CAGR of 13.2/17.2 percent during FY16–19.** Going forward, the company's pipe revenue growth will rise on account of constant additions of capacities, tapping into untapped territories such as North and East India and continuous A&P spend in the pipe segment. Also, government's initiatives such as Har Ghar main Jal will further drive volume growth in the piping segment. Focus on adhesives and completely debottlenecking the dealer network in the adhesive space will help drive growth in that segment as well.

Consensus estimates pipe volume to grow at a CAGR of 24% over FY19–21E, led by robust demand and capacity expansions.

Plastic pipe industry size stands at ~Rs260B (value wise) and nearly 27 lakh tpa (volume wise), of which the CPVC share is estimated at ~15% and ~6%. Astral generates more than 50% of the piping revenue from the CPVC segment. Over FY16–19, piping capacity grew at 17%, whereas production grew by 16% during the same period led by: 1) Gains in the market share on account of strong focus on branding 2) joint ventures with major players – Lubrizol (CPVC segment) 3) A Wide network of 800 distributors and 30,000 dealers. **Blending all these, Astral's volume CAGR can be 25% in next year.**

Capacity additions and improvement in utilization to drive growth



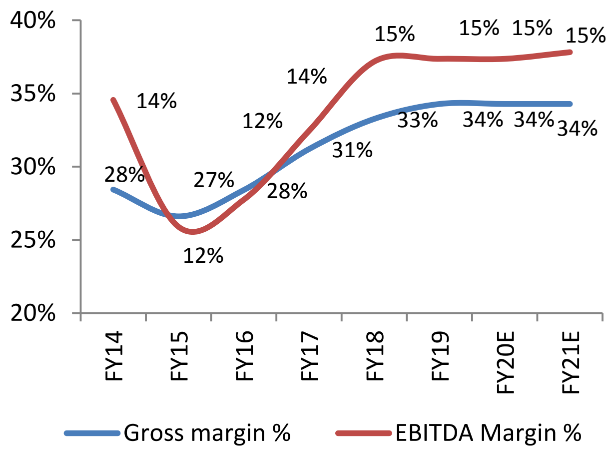
Aggressive A&P spend to improve brand visibility

The company has set a benchmark by promoting commodity products that had relatively low or no aesthetic value in the past. The company has roped in Bollywood star Salman Khan to promote its piping products. Meanwhile, from spending 0.1% of revenue on A&P in FY10 to spending more than 5% of revenue on A&P in FY19, the company has created a strong demand for its CPVC pipes.

Backward integration to CPVC compound making has led to margin improvement

On account of a tough competition in the CPVC segment, realizations were on a downturn till FY18. Astral's strategic move to backward integrate CPVC compound making has helped the company in gaining market share in that segment by passing of the benefit to its customers, which eventually led to improvement in margins of its pipe division. The company's margin improved further on the back of a resin supplier change from Lubrizol to Sekisui (Sekisui being 10–15% cheaper than Lubrizol).

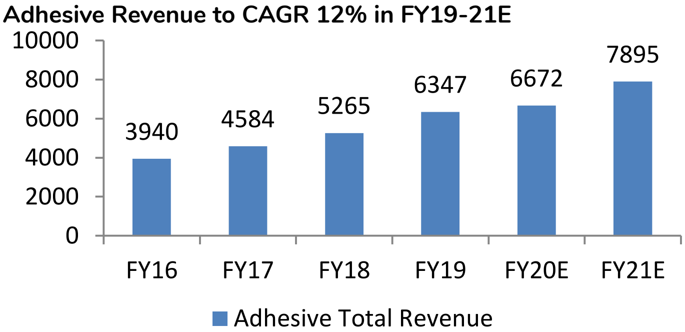
GM improved post backward integration



Adhesive segment to be back on track post dealer network transition and drive growth

Astral entered the adhesive space in 2011 with the launch of cement solvents under Advance Adhesives. Since then, Astral has focused on organic as well as inorganic expansion. The size of the adhesive industry in India is nearly Rs 55B and is largely dominated by organized players (>70%). Pidilite is the leader in this space followed by Henkei, Sika India, Atul, Bostik, and Huntsman. Astral has a mere 3% market share in the segment, hence a healthy scope of improvement lies ahead. We expect its adhesive business to grow more than 10% over the next few years due to 1) the transition of a dealer distributor network (bringing down the existing dealers under 200 master dealers). The transition is almost complete according to the Q2 earnings call. 2) Low capacity utilization (~35%) provides further scope of growth 3) 95% of debottlenecking exercise has been completed and positive numbers should be evident in H2 FY20.

Adhesive Revenue to CAGR 12% in FY19-21E

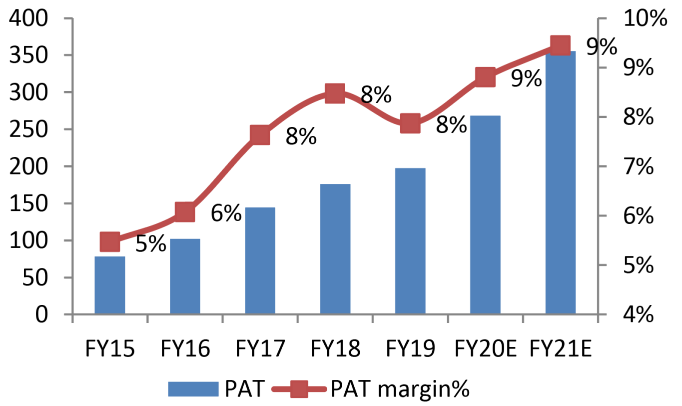


CREX to aid piping growth and lead to improvement in product mix

In FY18, ASTRAL acquired REX with good regional presence. ASTRAL has streamlined the operations of Rex with piping business and synergies have started to flow in. However, Rex Volume growth got impacted in Q2 due to flooding in various locations of Maharashtra. The present installed capacity of REX is 30,000 MT. It has acquired land in Sangli for expanding the capacity of corrugated pipes.

Astral has a proven track record of achieving operational efficiency, following acquisitions. We believe the Rex acquisition via its strong product portfolio will post profitable growth in the coming years led by the fast growing infrastructure segment where demand is shifting from DI pipes to RCC to double-walled corrugated pipes.

PAT Margin to improve going forward



Key Risks

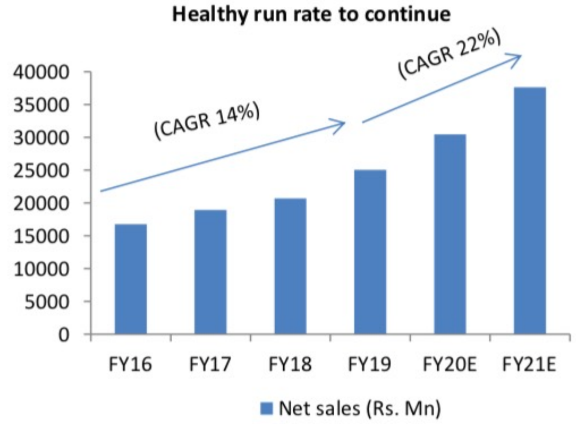
High Competition: Intense competition in the piping and fitting segment, which is characterized by low product differentiation.

Supplier concentration: CPVC is a niche product with limited suppliers in the world.

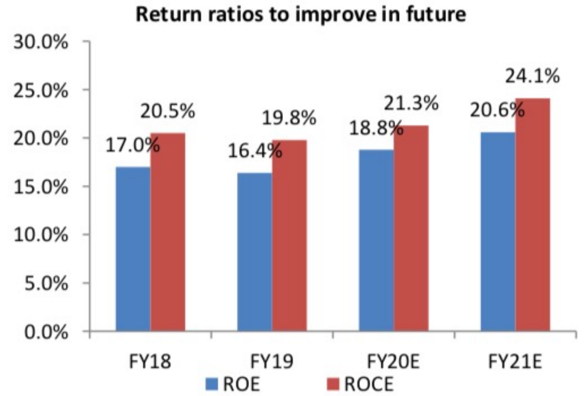
Fluctuations in raw material prices: Astral's margins are exposed to fluctuations from raw material prices (PVC resin, CPVC resin, and VAM), which move in tandem with crude oil prices.

Forex Movement: Risks related to fluctuation in forex rates as Astral imports one-third of its raw material content.

Healthy run rate to continue



Return ratios to improve in future



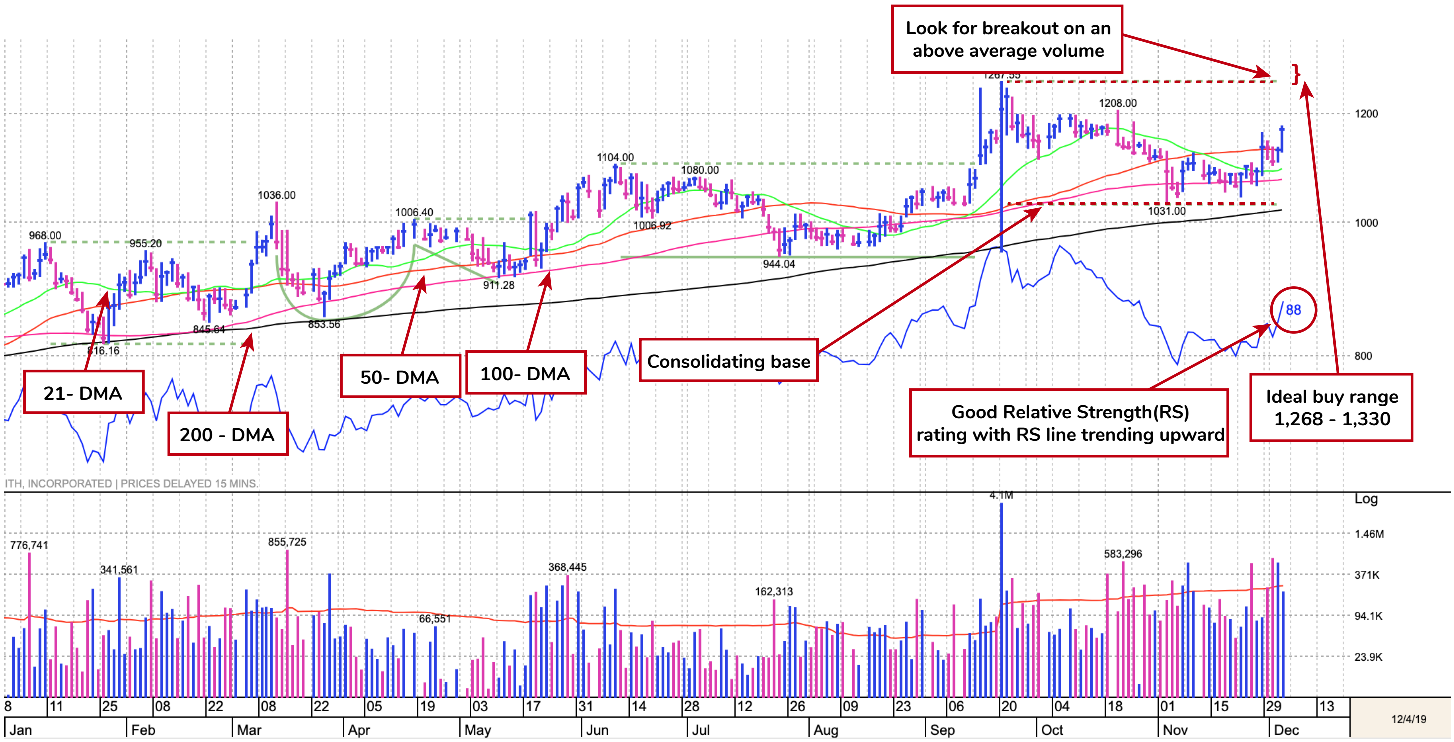
Profit & loss Statement

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
Total operating income	**2,073**	**2,507**	**3,046**	**3,762**
% chg	9	21	21	24
Total Expenditure	1,759	2,126	2,582	3,185
Raw Material	1,402	1,690	2,053	2,536
Personnel	106	139	169	209
Selling and Administration Exp	158	201	244	302
Others Expenses	92	96	117	139
EBITDA	**314**	**381**	**463**	**577**
% chg	21	21	21	25
(% of Net Sales)	15.2%	15.2%	15.2%	15.3%
Depreciation& Amortisation	57	81	87	94
EBIT	**257**	**300**	**376**	**484**
% chg	22	17	25	29
(% of Net Sales)	12	12	12	13
Interest & other Charges	22	32	35	28
Other Income	13	15	17	19
Recurring PBT	248	283	358	475
% chg	24	14	26	33
Tax	72	86	90	120
PAT (reported)	**176**	**197**	**268**	**355**
% chg	22	12	36	33
(% of Net Sales)	8.5	7.9	8.8	9.4
Basic & Fully Diluted EPS	15	17	23	30
% chg	22	14	36	33

Balance Sheet

Y/E March (`cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	12.0	12.0	12.0	12.0
Reserves& Surplus	1,006	1,193	1,416	1,712
Shareholders Funds	1,018	1,205	1,428	1,724
Total Loans	236	310	336	286
Other Liabilities	11	20	20	30
Total Liabilities	**1265**	**1535**	**1785**	**2040**
APPLICATION OF FUNDS				
Net Block	**842**	**1,105**	**1,203**	**1,237**
Capital Work-in-Progress	73	81	81	81
Investments	7	0	0	20
Long Term Loans & Advances	-	-	-	-
Current Assets	**742**	**874**	**1,107**	**1,435**
Inventories	357	396	481	639
Sundry Debtors	307	339	412	515
Cash	44	98	116	146
Loans & Advances	35	38	38	38
Investments & Others	-1	2	61	97
Current liabilities	**400**	**490**	**553**	**688**
Net Current Assets	**343**	**384**	**555**	**747**
Other Non Current Asset	-	-	6	5
Total Assets	**1265**	**1535**	**1785**	**2040**

(FY20 and FY21 estimates are based on consensus.)



O'Neil Methodology and Technical Viewpoint:

The stock is forming a consolidating base and trading ~6% below pivot. After correcting in October, the stock formed a bottom in November and reclaimed its 50-DMA last week.

Along with an improvement in price-volume action, the Relative Strength (RS) line is trending upwards, with an RS Rating of 89.

EPS Rank of 96 reflects a strong earnings profile. Also, the number of funds holding the stock increased 17% q/q in Q2 FY20.

We may consider adding the stock to our model portfolio if it breaks out of the base on higher–than-average volume. The ideal buy range for the stock is Rs 1,268–1,332.

Astral	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	447	625	633.7	774.7	606.6	678.3
Revenue growth % y/y	-	-	-	-	36%	9%
EBITDA	77.9	94.3	93.6	118.9	93.1	119
EBITDA Margin %	16.3%	15.1%	14.8%	15.4%	15.3%	17.5%
PAT	37.3	44.5	52.7	62.1	47.8	82.1
PAT growth % y/y	-	-	-	-	28%	84%
EPS (In Rupees)	2.5	2.97	3.5	4.15	3.14	5.45

In INR Crore

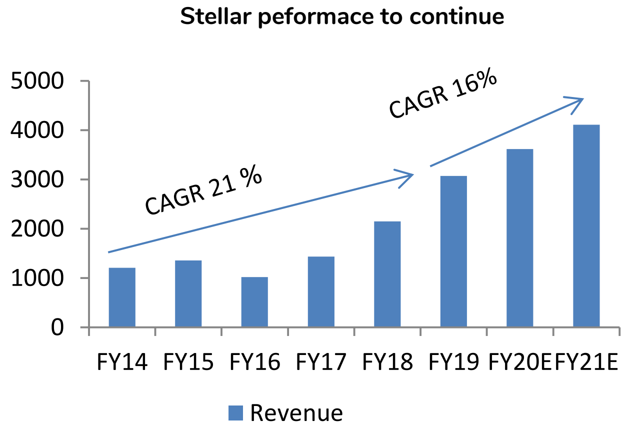
MAHARASHTRA SEAMLESS

Government initiatives to drive demand in coming years

Maharashtra Seamless (MSL) is a key player in the Indian seamless pipe and ERW pipe segments. It has the largest seamless capacity of 550,000 MTPA, which constitutes nearly 31% of the total industry's pipe capacity. Realisations for seamless pipes have been protected in the last few years on account of anti-dumping duty imposed on seamless pipe imports from China. We are factoring this benefit to continue for the next couple of years and realisations to hold up going ahead.

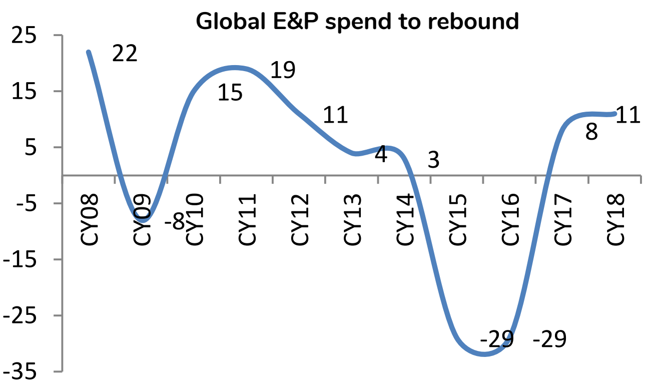
Consensus estimates overall CAGR of 18% in seamless pipe volume from FY19–21E to 440,000 MT on account of heavy capex undertaken for E&P activities, particularly in the natural gas exploration segment. Currently, the bulk of the production is to be carried out at existing facilities. **The USTL deal is currently on hold and it's not being considered as a subsidiary**. However, with the current utilization of 57% for FY19 of seamless pipes, the company has enough capacity to cater to the additional demand in the coming years.

The ERW plant, located at Nagathone, Maharashtra with a current capacity of 200,000 MTPA, has a meager capacity utilization of 35%. With the focus on CGD and the water pipeline segment gaining traction, **consensus expects ERW sales volume at a CAGR of 22% during FY19–21E from current volume of 73,000 MTPA to 108,000 MTPA in FY21E.**



Global recovery in E&P spend to augur growth in seamless pipes

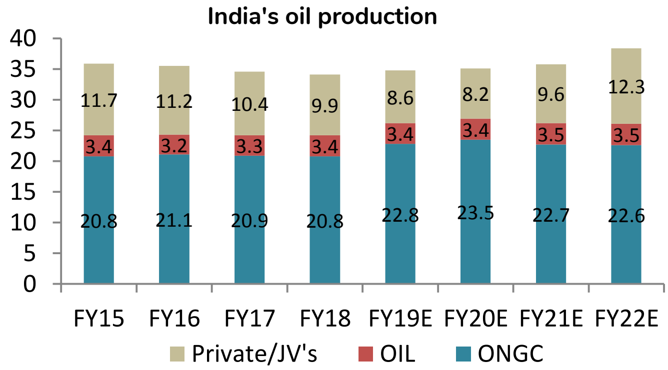
With oil prices falling globally, the global rig values were affected and hence the companies refrained from E&P spends. This had majorly impacted the seamless pipe industry.



The sharp fall in oil prices in 2014–2016 had resulted in a major fall in E&P spend as well. With crude oil prices recovering, we can see a rebound in the global E&P spend, which is likely to drive seamless pipe demand with it, going forward.

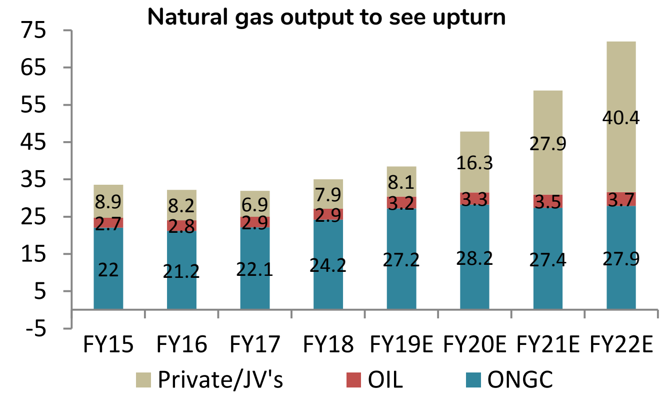
Government policies to trigger seamless pipe demand in India

To enhance domestic oil production, the government has come up with an industry friendly E&P policy, which is expected to increase investments in this space. Given the favorable investment space and the key need for seamless pipes, the demand for the coming years looks stellar.



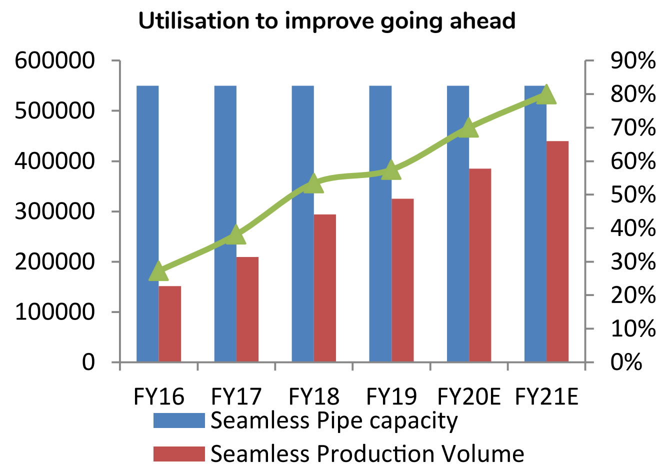
Source: Standing committee of Petroleum & Natural Gas

A surge in the natural gas output is expected to drive demand for seamless pipes too. The traction for the same can be seen in the last couple of years as well.



Source: Standing committee of Petroleum & Natural Gas

Maharashtra Seamless, being a leading player in the seamless pipes segment, is likely to benefit from this thrust in demand.



Key demand drivers for ERW pipes in the water segment

India has only 4% of the world's renewable water resources, but is home to 18% of the total world population. As per the World Bank data, India is a water-stressed region with 1,188 meter cube of per capita water availability. The country's per capita water availability compares with the desert regions of Africa.

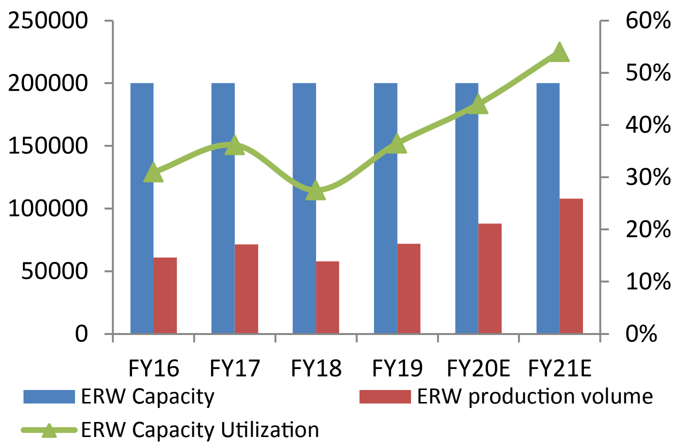
Increase in budgetary allocation by GOI to tackle water issues

During FY17–FY18, the government increased its budgetary allocation of water. The actual investments were higher than the budgetary allocations by 28.5% during the period. Investments had a CAGR of 65.8% during FY14–FY18.

The government is currently working on water transmission projects worth more than Rs 100,400 crore, of which projects worth Rs 96,230 crore are under construction.

The **AMRUT scheme**, rolled out by the government to overcome the gap between the discharge and treatment capacities, will also boost ERW pipes. The scheme will ensure that every household has access to taps with an assured supply of water and sewage connections.

Govt. push to drive ERW pipe's demand



Sanctions and output cuts to keep crude oil elevated

Crude oil prices are at multi-year lows. But, on account of supply cut from OPEC members and sanctions on Venezuela. Iran is expected to keep crude oil prices elevated in the near term. With buoyant crude oil prices, E&P spend within the segment is likely to remain stable in the coming years, which will help drive the demand for seamless pipes going forward.

Anti-dumping duty on Chinese imports to support realisations

The government had imposed anti-dumping duty on imports seamless pipes from China in February 2017. The duties ranged from $961–1,611 MT and provided much relief to domestic players. The duties were only imposed on products produced in India. Maharashtra Seamless, being the leading player in India, benefitted from this duty.

USTL acquisition update

The USTL deal, which had approved been by the Hyderabad bench of the National Company Law Tribunal on January 21, was rejected by NCLAT on April 8, and it required the company to submit an additional amount of Rs. 120 crore. The company had already submitted Rs 477 crore for the deal earlier. The company has filed for an appeal before the Supreme Court and the matter is sub-judice. Accordingly, USTL is not accounted for as a subsidiary.

Key risks and concerns

- Increase in iron ore prices.
- Decline in crude oil prices and E&P spends not showing major improvement.

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- Decline in crude oil prices and E&P spends not showing major improvement.

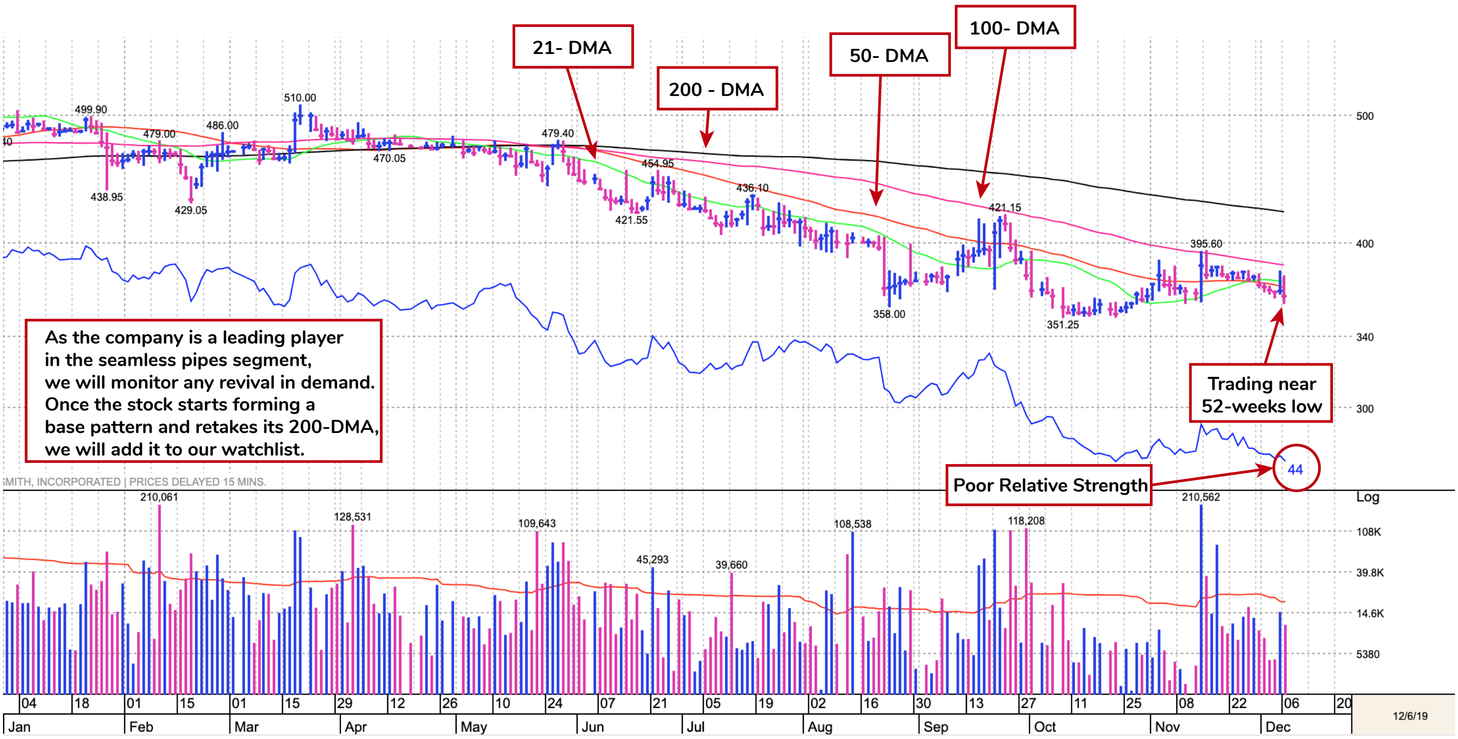
Profit & Loss Statement

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
Total operating income	**2,150**	**3,073**	**3,618**	**4,110**
% chg	50	43	18	14
Total Expenditure	1,839	2,615	2,987	3,388
Raw Material	1,458	2,020	2,379	2,702
Personnel	63	71	84	95
Selling and Administration Exp	43	58	68	78
Others Expenses	275	465	456	513
EBITDA	**311**	**458**	**631**	**722**
% chg	38	47	38	14
(% of Net Sales)	14.5%	14.9%	17.4%	17.6%
Depreciation& Amortisation	76	80	81	84
EBIT	**235**	**379**	**550**	**638**
% chg	53	61	45	16
(% of Net Sales)	11	12	15	16
Interest & other Charges	42	39	37	31
Other Income	99	93	105	117
Recurring PBT	292	433	618	724
% chg	49	48	43	17
Tax	92	231	192	224
PAT (reported)	**200**	**202**	**427**	**499**
% chg	73	1	111	17
(% of Net Sales)	9.3	6.6	11.8	12.1
Basic & Fully Diluted EPS	30	30	64	75
% chg	73	1	111	17

Balance Sheet

Y/E March (`cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	33.5	33.5	132.6	132.6
Reserves& Surplus	2,896	3,037	3,392	3,807
Shareholders Funds	2,930	3,070	3,524	3,940
Total Loans	701	1,175	837	750
Other Liabilities	40	1	20	30
Total Liabilities	**3881**	**4521**	**4681**	**5024**
APPLICATION OF FUNDS				
Net Block	**1,236**	**1,175**	**1,564**	**1,608**
Capital Work-in-Progress	17	23	23	23
Investments	1,461	792	792	792
Long Term Loans & Advances	13	8	9	11
Current Assets	**1,340**	**2,805**	**2,650**	**2,990**
Inventories	510	771	908	1,032
Sundry Debtors	392	492	580	658
Cash	17	61	77	140
Loans & Advances	373	974	974	974
Investments & Others	49	506	-	26
Current liabilities	**184**	**302**	**391**	**401**
Net Current Assets	**1,156**	**2,503**	**2,258**	**2,588**
Other Non Current Asset	2	19	7	2
Total Assets	**3886**	**4519**	**4681**	**5024**

(FY20 and FY21 estimates are based on consensus.)



O'Neil Methodology and Technical Viewpoint:

The stock is trading near its 52-week low. It is more than 10% below its 200-DMA, but holding near its 50-DMA.

Barring Q4 FY19 and Q1 FY20, the company has consistently performed well in terms of revenue and earnings. This can be evident from EPS strength of 87.

As the company is a leading player in the seamless pipes segment, we will monitor any revival in demand. Once the stock starts forming a base pattern and retakes its 200-DMA, we will add it to our watchlist.

MAHA SEAMLESS	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	607	703	786	965	690	788
Revenue growth % y/y	-	-	-	-	14%	12%
EBITDA	143.6	127.9	157.2	235.3	153.9	165.8
EBITDA Margin %	23.7%	18.2%	20.0%	24.4%	22.3%	21.0%
PAT	100.3	88.4	92.7	-19.2	91.4	196.3
PAT growth % y/y	-	-	-	-	-9%	122%
EPS (In Rupees)	14.98	13.21	13.85	-2.87	13.64	29.3

In INR Crore

INDIAN HUME PIPE

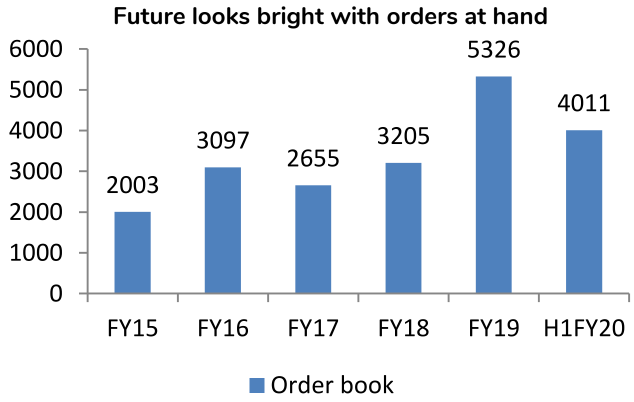
Government's push for Infra to keep order book healthy

Indian Hume Pipe Company (IHP) was established in 1926. The company has specialization in executing turnkey water supply, sewage projects, and has also developed pcp, pccp, bwsc, and hume steel pipes

The global water resources have estimated that two out of three people will live in water stressed areas by 2025. In today's times, 450 million people in 29 countries suffer from shortage of water supply, which puts huge pressure especially on the growing economies to use water sustainability and also resolve their growing imbalance of supply and demand.

GOI, state governments, and local bodies are striving to do their best to supply drinking water. This leads to dependence on a strong infrastructure to provide water to every possible household in India. Hence, companies like IHP will benefit as they specializes in providing such kind of infrastructure.

IHP's revenue has grown by a healthy CAGR of 13% from FY15-19 to Rs 1,646 crore on the back of solid order book and a long history on completing those orders on a timely basis. **Going forward, consensus estimates the sales for the company are likely to grow at a CAGR of 13% to Rs 2,101 crore from FY19-21E on the back of a healthy order book and various GOI initiatives in water supply sector**.



IHP's current order book stands at Rs 4,011 crore as of October 31

supported by unprecedented order flows from Andhra Pradesh, Karnataka, and Gujarat worth Rs 502.8 crore, Rs 418.3 crore, and Rs 340.7 crore, respectively. Order flow for the company has remained stable and is likely to remain healthy going forward.

The stock currently trades at 12.9x P/E for FY20E and 10.8x P/E of FY21E, which looks very attractive in the current market scenario. Despite economic slowdown, the company has been able to maintain a strong order book in a difficult scenario. On the back of strong order book and the specialization to implement such turnkey projects, PAT is likely to grow at a CAGR of 25% from FY19-21E to Rs 136 crore.

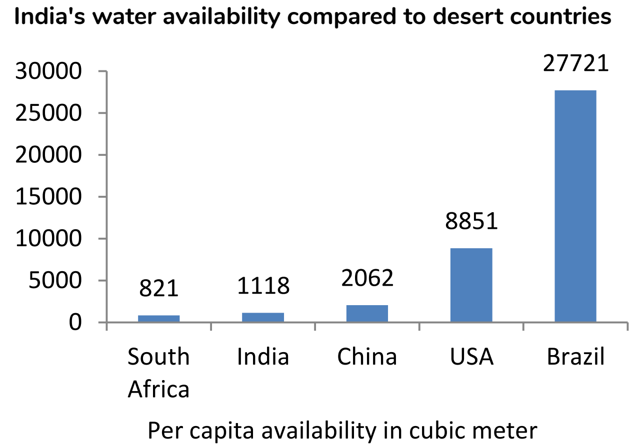
Investment Rationale

India's water crisis: A permanent problem requiring a permanent solution

Government has announced an ambitious target of providing piped clean drinking water to all rural households by 2024. The extreme water shortage in major Indian cities particularly in Chennai has brought public attention to the severe water crisis faced by India.

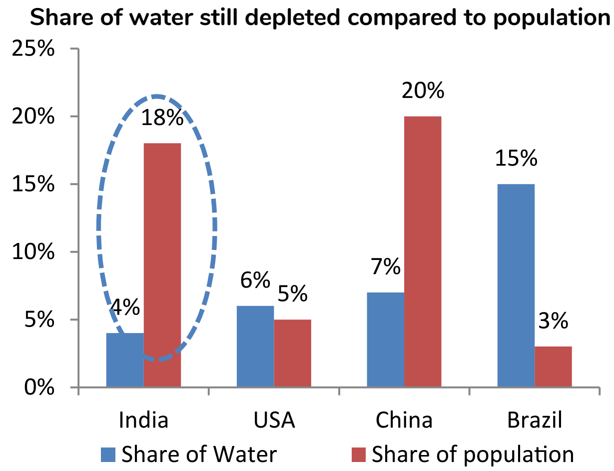
India's water stress levels can be compared to Africa

As per the World Bank data, India is water stressed region with 1,188 meter cube of per capita water availability. India's per capita availability can be compared to countries in Africa. (A country is categorized at water stressed if its water availability is less than 1,700 meter cube and water scarce if its water availability is less than 1,000 meter cube.)



The situation is further worsening given that India has only ~4% of world's renewable resources but is home to ~18% of world's population.

However, India is considered as one of the wettest countries in the world given that it has 1,911 km cube of annual precipitation.



However, to address India's water problems, it is important to understand **the root cause of this shortage which actually does not lie in the deficiency of rainfall but the outright misuse of country's water resources has led to the current crisis.**

Countries with largest agricultural water withdrawals

Country	Agricultural Water Withdrawals (billion m^3)	Total Water Withdrawals (billion m^3)	Share of Agricultural Water Withdrawal in Total Water Withdrawal (%)	Area Equipped For Irrigation (m ha)
India	688	761	90	67
China	358	554	65	69
United States	175	486	40	26
Pakistan	172	184	94	20
Indonesia	93	113	82	7

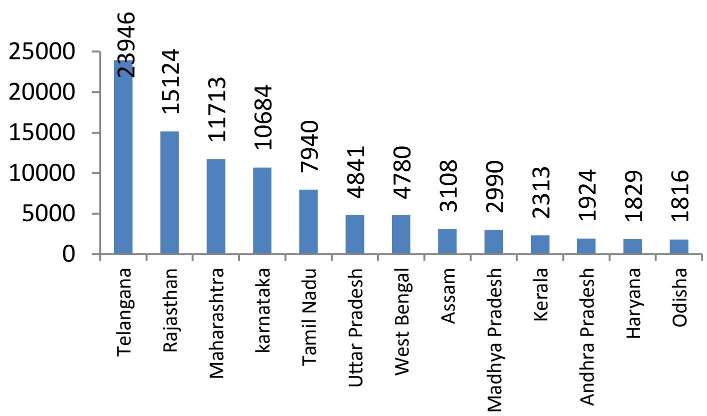
India's dependence on agriculture for its livelihood is well known but what is more eye catching is that the total agricultural withdrawal from total water withdrawal is around 90% (World Bank data), which is way more than other countries of the world. Further, the table shows that China has the larger area equipped for irrigation (69 million hectares) than India (67 million hectares) but withdrawals for China are much less.

India's main food crops such as rice, sugarcane, and paddy consumes 3,500 liters of water for a kilogram of grain produced.

How is Indian Government addressing this issue?

GOI is currently working on over Rs 1,00,400 crore of water transmission projects out of which Rs 96,230 crore worth of projects are under construction.

Breakup of spending of water transmission pipeline



IHP is likely to be a key beneficiary with the advent of such projects.

IHP's upcoming projects to drive growth

Andhra Pradesh drinking water supply department has provided a project worth Rs 502.9 crore for construction of drinking of water supply projects in Guntur district.

Karnataka Power Corporation Limited has provided a project worth Rs 418.3 crore for manufacturing and supplying to site, laying and jointing testing, and commissioning of PCCP water pipeline from Kushtagi to Bellary Thermal Power Plant.

Water Resources Investigation Division, Gujarat has provided an order worth Rs 340 crore for transmission of 200 cusecs of water from NMC Chainage to Sipu Dam.

TWAD Board, Coimbatore for CWSS to Alampalayam Town and other habitations in Namakkal district in Tamil Nadu have provided a project for DI K7 and DI K9 pipes worth Rs 220 crore.

IHP's order book is well diversified at the moment from orders from Andhra Pradesh, Gujarat, and Tamil Nadu among other states. The largest order in all three categories (completed, ongoing, & new projects) was related to providing drinking water to habitations that also hints toward the growing requirement of such projects in the country.

The company looks well placed to cater to any new major orders and opportunities to arise from GOI's further push to deepen the infrastructure network of water transmission pipeline in India.

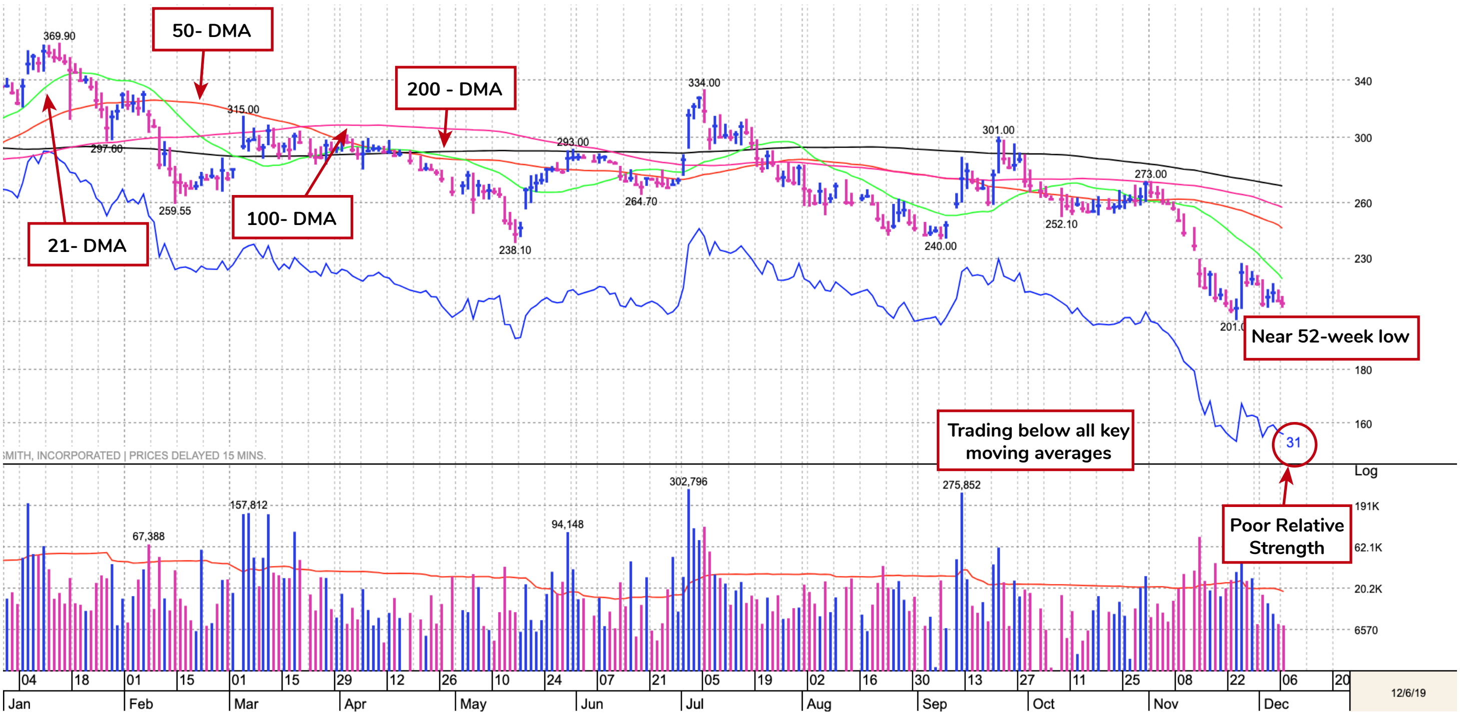
Profit & Loss Statement

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
Total operating income	**1,551**	**1,646**	**1,859**	**2,101**
% chg	(13)	6	13	13
Total Expenditure	1,400	1,459	1,653	1,863
Raw Material	136	139	158	178
Personnel	67	73	82	93
Selling and Administration Exp	90	54	61	69
Others Expenses	1,106	1,193	1,351	1,523
EBITDA	**152**	**186**	**207**	**238**
% chg	(27)	23	11	15
(% of Net Sales)	9.8%	11.3%	11.1%	11.3%
Depreciation& Amortisation	11	12	12	14
EBIT	**141**	**174**	**194**	**224**
% chg	(28)	24	12	15
(% of Net Sales)	9	11	10	11
Interest & other Charges	43	54	53	53
Other Income	3	12	13	14
Recurring PBT	100	132	154	186
% chg	(34)	32	17	21
Tax	34	46	39	47
PAT (reported)	**66**	**86**	**115**	**139**
% chg	(34)	31	34	21
(% of Net Sales)	4.3	5.2	6.2	6.6
Basic & Fully Diluted EPS	10	13	17	21
% chg	(34)	31	34	21

Balance Sheet

Y/E March (`cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	9.7	9.7	9.7	9.7
Reserves& Surplus	443	510	606	722
Shareholders Funds	453	520	616	731
Total Loans	342	474	530	527
Other Liabilities	40	1	40	30
Total Liabilities	**835**	**995**	**1185**	**1288**
APPLICATION OF FUNDS				
Net Block	**77**	**90**	**93**	**96**
Capital Work-in-Progress	2	18	18	18
Investments	2	3	3	3
Long Term Loans & Advances	25	25	28	32
Current Assets	**1,375**	**1,536**	**1,745**	**1,924**
Inventories	47	71	80	90
Sundry Debtors	475	599	676	764
Cash	19	39	55	61
Loans & Advances	25	25	25	25
Investments & Others	808	803	909	984
Current liabilities	**648**	**622**	**702**	**792**
Net Current Assets	**727**	**914**	**1,043**	**1,133**
Other Non Current Asset	2	19		7
Total Assets	**835**	**995**	**1185**	**1288**

(FY20 and FY21 estimates are based on consensus.)



O'Neil Methodology and Technical Viewpoint:

The stock is trading below all its key moving averages, near the 52-week low. 21-, 50-, and 200-DMA lines are trending lower.

The stock looks weak on most of the CAN-SLIM parameters. Relative Strength is 33 and accumulation is very poor.

We will look for improvement in quarterly results over the next two-three quarters and watch out for any 'N' factors that could drive the growth.

Indian Hume Pipe	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	333	416	362	522	463	371
Revenue growth % y/y	-	-	-	-	39%	-11%
EBITDA	38.5	52.3	32.6	62.5	51.3	40.1
EBITDA Margin %	11.6%	12.6%	9.0%	12.0%	11.1%	10.8%
PAT	16.9	29.7	10.6	28.9	20.9	14.2
PAT growth % y/y	-	-	-	-	24%	-52%
EPS (In Rupees)	3.51	6.15	2.19	5.97	4.32	2.94

In INR Crore

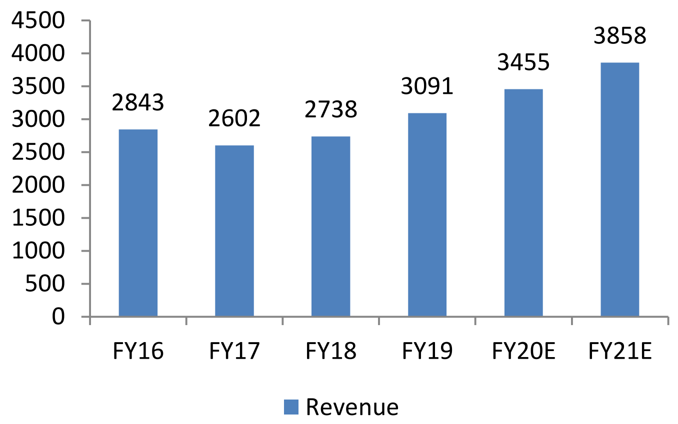
FINOLEX INDUSTRIES

Non-Irrigation business key for future growth

Finolex Industries (FIL) operates in two key business segments a) PVC pipes and fittings and b) PVC resin. In the PVC pipes and fittings segment, it offers a wide range of products catering to agriculture and non-agriculture sectors. In the PVC resin business, the company is providing raw material for consistent production of PVC pipes and for sale in the open market.

Finolex is a leading manufacturer in the PVC pipes segment with a market share of ~20 percent in the organized segment. The company has a significant presence in southern and western India. It is the only pipe company, which is backward integrated. The company has grown at a CAGR of 3 percent from FY16–FY19 to Rs. 3,091 crore on account of volatile realizations in the piping segment. **However, on the back of continuous capacity additions and strong volume growth in the piping segment at a CAGR of 12 percent from FY19–21E, consensus expects revenue to grow at a CAGR of 12 percent as well from FY19–21E to Rs. 3,858 crore.**

Revenue to grow at a CAGR of 12% from FY19–21E

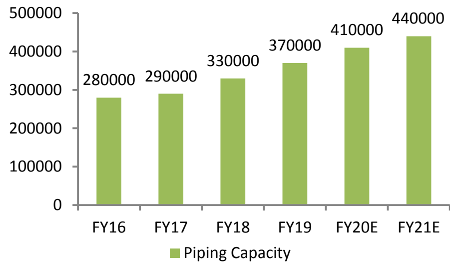


Going forward, consensus expects revenue/EBITDA/PAT to grow at a CAGR of 12%/12%/20%, respectively, on account of strong growth in the pipe segment's volume, but profitability will likely remain in check on account of lower PVC/EDC spread. However, the recent corporate tax cuts are likely to provide an impetus to the PAT growth, and earnings are likely to grow at a much faster pace of 20%.

Consisting capacity additions in the pipe segment to drive volume growth

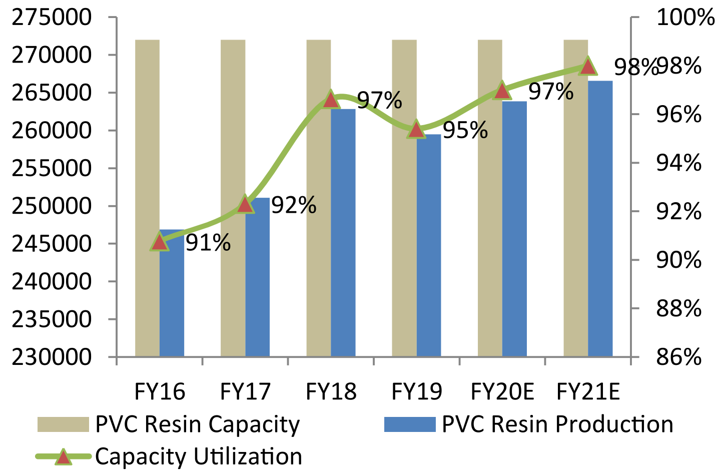
The division contributes nearly 83% of the total top-line and would continue to be a key contributor toward revenuegoing forward. Pipe volume has grown at a CAGR of 8 percent from FY16–19 to 263,313 MT on account of strong demand from the irrigation segment and consistent capacity additions. The current pipe capacity stands at 370,000 MT. **The company is on track to add 35–40K of capacity in the piping segment in FY20–21E.**

Piping Capacity



However, PVC resin capacity is likely to remain steady at 272,000 MT as the current capacity is sufficient for PVC pipe production of the company. The backward integration of PVC resins gives a unique advantage in terms of consistent high quality raw materials.

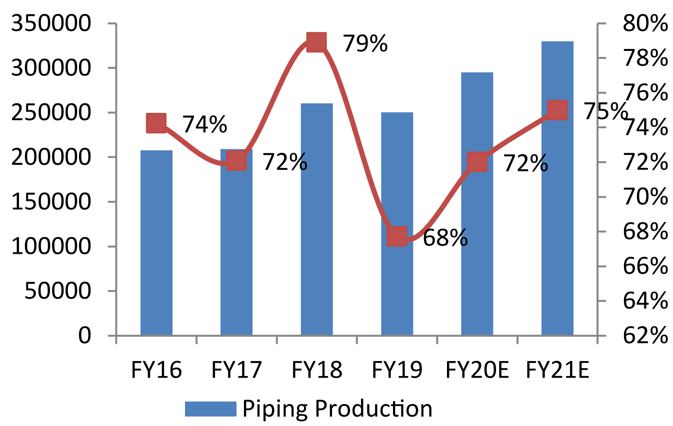
Utilizations to improve going forward



PVC Pipes and fittings division

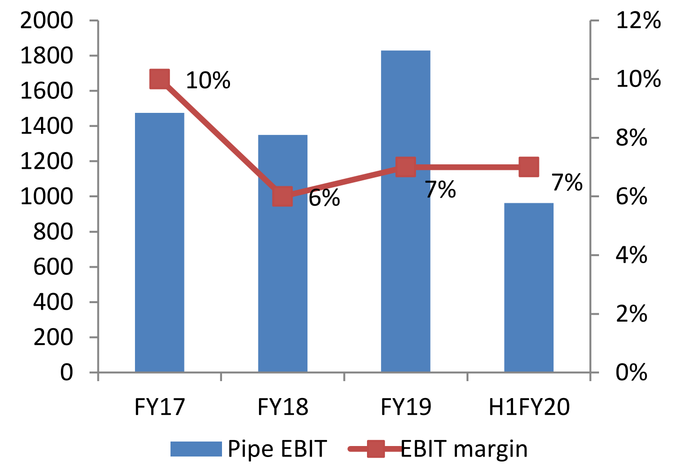
The PVC pipe segment has recorded a CAGR of 8% from FY16–FY19 to Rs. 2,575 crore and contributes to nearly 83% in sales in FY19. It is expected that the contribution can increase to 85% in FY21E on the back of strong demand from irrigation as well as non-irrigation segment on the back of improvement in rural income as well as various government initiatives to cater to water supply issues in the nation. However, the company is also focused on increasingiits market presence in the non-farming segment, which would be big boost for the company.

Strong demand to push utilizations



FIL has a meager 5% market share in the CPVC segment, but the company is determined to increase its market share in this segment. The company is targeting a growth of 20–25% in volume in FY20 from this segment. The increase in the CPVC pipe segment will help the company to grow its presence in the plumbing and drainage segment. The company has an agreement with Lubrizol for manufacturing of Finolex FlowGuard Plus CPVC pipes and fittings in India.

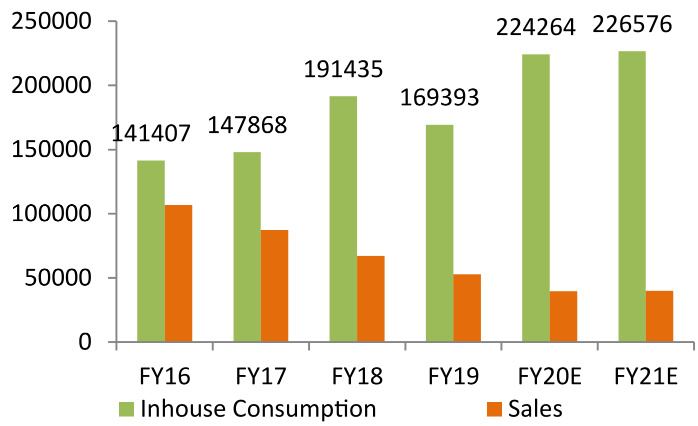
Higher RM cost kept profitability subdued



PVC Resin Business

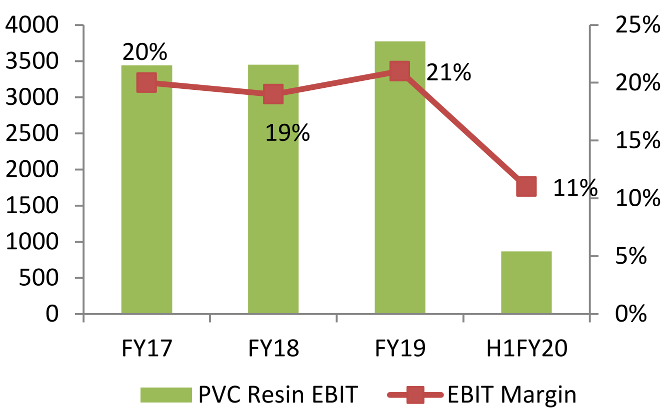
PVC resin business contributes nearly 17 percent to the top-line, excluding captive consumption. The company has manufacturing facilities in Ratnagriri, Maharashtra with a total capacity of 272,000MTPA. Of the total capacity, 250,000MTPA is suspension PVC and balance 22,000MT is emulsion PVC. With rising internal consumption of PVC resin and branding initiatives, the company's business model is increasingly transforming into to B2C from B2B.

In-house consumption is the key for the Resin segment



PVC resin is a highly capital intensive business and the company does not intend to expand its capacities. **We expect nearly 98% of resin to be consumed internally by FY21E.**

PVC/EDC spread key for margins



PVC/EDC Spread key driver for future profitability

A key matrix of profitability for PVC resin manufacturers is the spread between PVC and EDC prices. A healthy spread assures good margins. VCM is the intermediate product between EDC and PVC. FIL produces PVC from both routes of EDC and VCM. Through EDC, FIL manufactures 56% of its PVC resin and the balance is manufactured through the VCM route. The company mainly procures its EDC and VCM requirements from the Middle East.

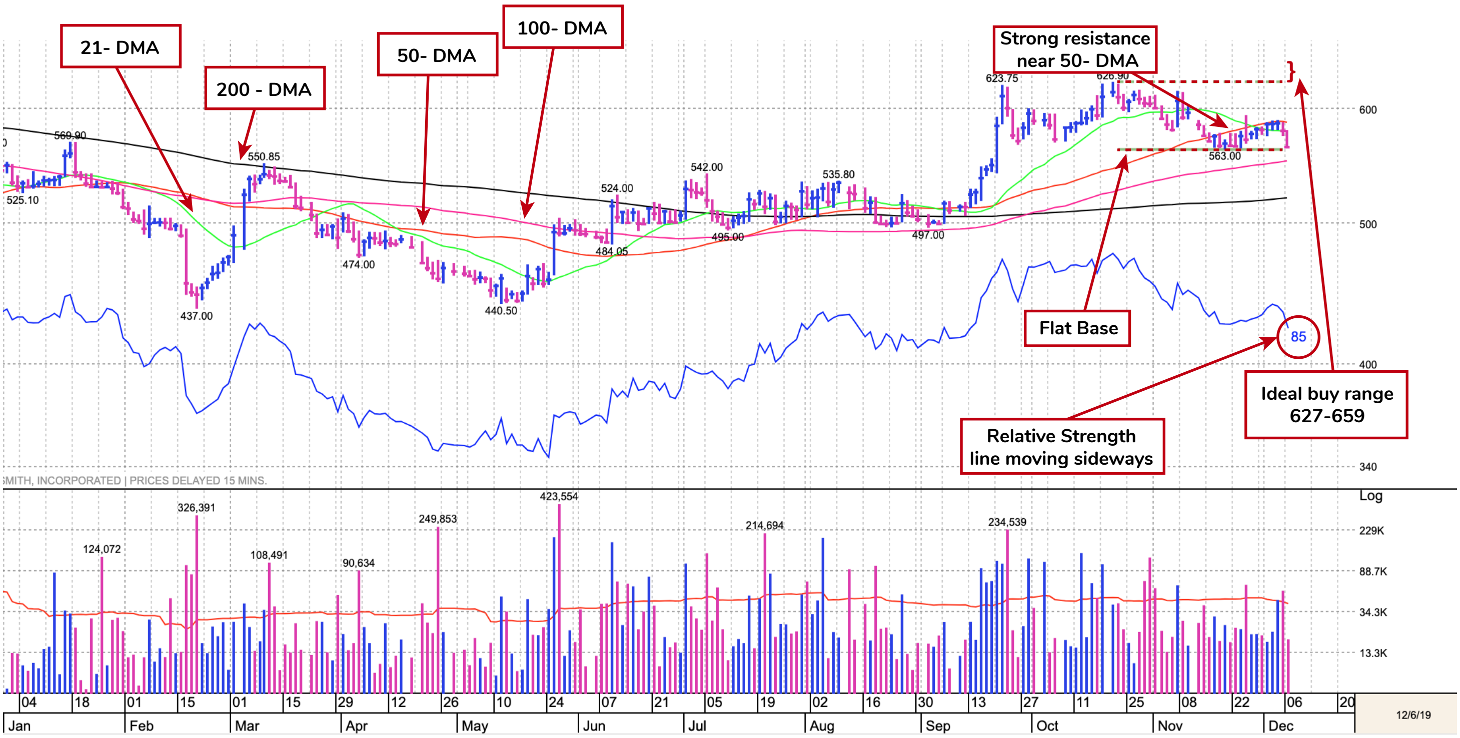
Profit/Loss Statement

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
Total operating income	**2,738**	**3,091**	**3,455**	**3,858**
% chg	5	13	12	12
Total Expenditure	2,254	2,515	2,811	3,132
Raw Material	1,798	1,964	2,195	2,450
Personnel	116	134	150	168
Selling and Administration Exp	82	115	129	144
Others Expenses	258	302	337	370
EBITDA	**484**	**576**	**644**	**726**
% chg	(14)	19	12	13
(% of Net Sales)	17.7%	18.6%	18.6%	18.8%
Depreciation& Amortisation	61	70	72	78
EBIT	**423**	**506**	**572**	**647**
% chg	(17)	20	13	13
(% of Net Sales)	15	16	17	17
Interest & other Charges	10	12	13	13
Other Income	41	54	61	68
Recurring PBT	454	548	620	703
% chg	(13)	21	13	13
Tax	148	181	156	177
PAT (reported)	**306**	**367**	**464**	**526**
% chg	(14)	20	26	13
(% of Net Sales)	11.2	11.9	13.4	13.6
Basic & Fully Diluted EPS	25	30	37	42
% chg	(14)	20	26	13

Balance Sheet

Y/E March (`cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	124.1	124.1	124.1	124.1
Reserves& Surplus	2,671	2,452	2,838	3,275
Shareholders Funds	2,795	2,576	2,962	3,399
Total Loans	101	91	91	91
Other Liabilities	37	57	58	18
Total Liabilities	**3033**	**2884**	**3111**	**3508**
APPLICATION OF FUNDS				
Net Block	**884**	**951**	**1,031**	**1,158**
Capital Work-in-Progress	90	90	90	90
Investments	1,607	1,362	1,362	1,362
Long Term Loans & Advances	-	-	-	-
Current Assets	**796**	**859**	**1,192**	**1,476**
Inventories	612	620	693	774
Sundry Debtors	43	74	83	93
Cash	23	29	251	329
Loans & Advances	76	103	103	103
Investments & Others	41	31	61	177
Current liabilities	**344**	**378**	**354**	**434**
Net Current Assets	**452**	**480**	**838**	**1,043**
Other Non Current Asset		-	-	5
Total Assets	**3033**	**2884**	**3111**	**3508**

(FY20 and FY21 estimates are based on consensus.)



O'Neil Methodology and Technical Viewpoint:

The stock is forming a stage-one flat base and trading ~8% below pivot. The stock has strong resistance near its 50-DMA. Once that level is reclaimed, the stock may form the right side of the base, and we will wait for it to break out on higher-than-average volume.

Along with a break out, we will also keep a watch on accumulation on the right side of the base. Volume should be high when the stock is moving higher to complete its base.

Relative Strength (RS) line is moving sideways with an RS rating of 85. This is constructive when the stock is forming a flat base.

EPS Rank of 80 reflects a good earnings profile. Also, the number of funds holding the stock has remained intact in H1 FY20.

We may consider adding the stock to our model portfolio if Q3 FY20 results show good improvement and the stock breaks out of the base on higher-than-average volume.

Finolex	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	828	543	757	964	944	577
Revenue growth % y/y	-	-	-	-	14%	6%
EBITDA	193.8	124.9	124.9	146.4	125.5	82
EBITDA Margin %	23.4%	23.0%	16.5%	15.2%	13.1%	14.2%
PAT	103.3	76.4	78.6	91.3	72.4	102.6
PAT growth % y/y	-	-	-	-	-30%	34%
EPS (In Rupees)	8.32	6.16	6.34	7.36	5.84	8.27

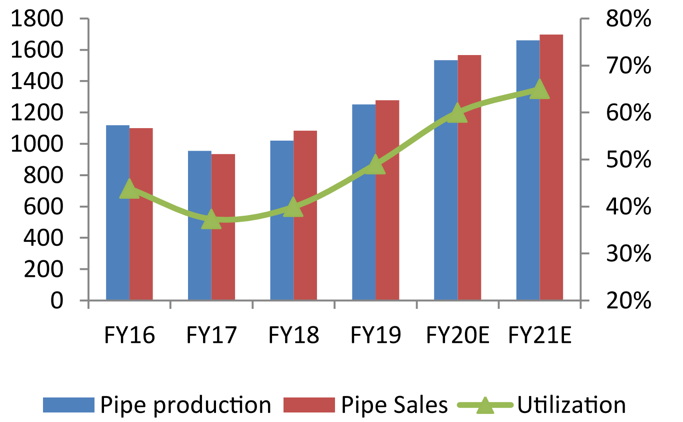
In INR Crore

WELSPUN CORP

Healthy order book coupled with operational efficiency to drive the company forward

WELSPUN CORP (WSL) is a leading global manufacturer of large diameter pipes with an installed capacity of 2.55 MT across the globe with plants in India, the U.S. and Saudi Arabia. We believe that Welspun as a company is better placed geographically to cater to pipe demand globally. The global market opportunity for steel pipes stands at over $400B. At the end of Q2 FY20, WSL order book stands at 1,357K MT and in value terms at Rs. 110,000M. Apart from this global bid, book stands at 2.5MT. This provides the company a strong visibility over the next few quarters.

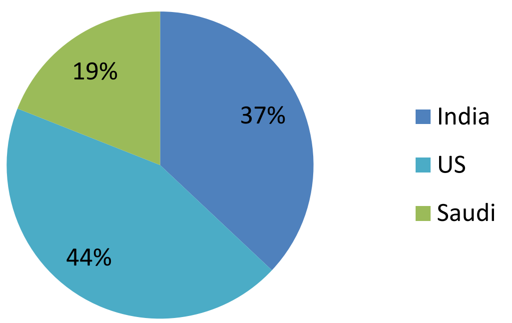
Utilization to improve going ahead



Overseas operations to be key revenue contributor

Welspun Corp's order book stands at 1,357K MT as of Q2 FY20, and a prospective order book of 2.5MT, which is likely to provide healthy growth over the next few quarters, of which 75 percent orders are from existing customers. The current order book is tilted more toward global operations, with the U.S. contributing nearly 44 percent.

Order book by region



Saudi JV turning profitable and the U.S. to contribute higher numbers

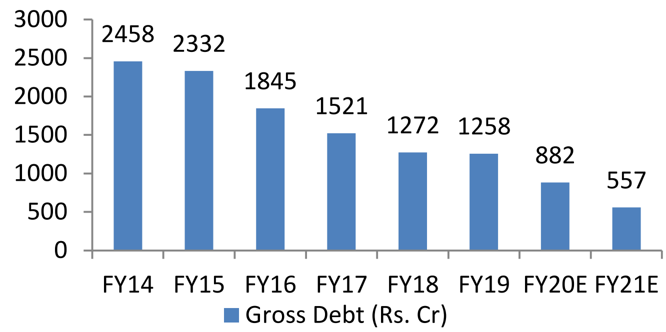
The overseas order book not only comes with a healthy visibility, but higher margins than India operations as number of qualified bidders are less in those markets. Additionally, increasing demand for the Shale gas would increase demand for spiral pipes in those regions, with the U.S. focus on curbing imports of pipes will boost performance of local players. Welspun Corp remains highly well-positioned to cater to this demand. We expect the U.S. operations to drive operating performance going forward.

Improvement in cash position and reduction in debt to support growth

WCL carried out a restructuring in 2013 and demerged its non-pipe business into Welspun Enterprises, which started focusing on its core pipe business. Following the demerger, the company has completely concentrated on its business and would continue to do so. With a leaner balance sheet, expected cash flows from sale of non-core business are likely to support the company's growth in the future. OCF for FY19 stands at Rs. 601 crore, which is likely to improve to Rs. 740 crore in FY20E.

PCMD business sale agreement is at an advanced stage according to Q2 FY20 earnings call and they are seeking regulatory approval from authorities. The timeline for closing the deal will be assessed after the approval is secured.

Gross debt to decline further

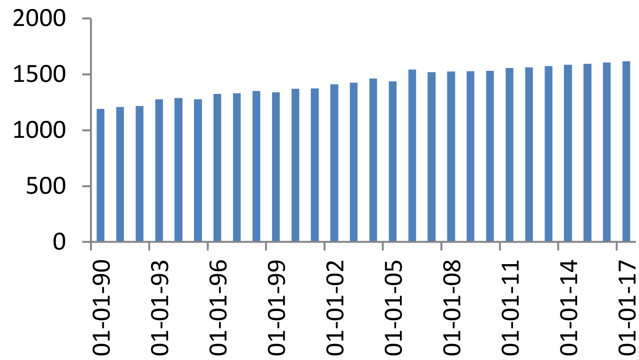


U.S. a key market with consistent demand

North America remains a key market for pipeline construction and line pipe demand despite its existing vast network of pipelines. The total pipeline length in the U.S. is 5M Km, with the majority coming from gas .

Given the growth in energy demand, the global pipeline demand over the next 4 years is estimated to come from 1,103 projects (as per SIMDEX) resulting in an opportunity for supplies of more than $468B across geographies. In addition, with the discovery of shale gas, the U.S. is now an exporter of gas and is developing seven LNG terminals to scale shale export. There will be a significant surge in pipeline demand, which will connect the producing fields to LNG export terminals.

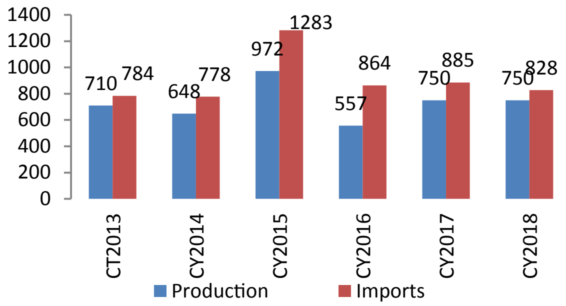
US GAS Pipeline (Miles)



Replacement of ageing infrastructure provides huge potential for the pipe manufacturers. Many pipelines in the U.S. were installed in the 60s and the 70s and will require regular replacement. Average lives of these pipes are nearly 25–30 years. Since Welpsun Corp has a plant in the U.S., it can cater to new as well replacement demand in the nation as

anti-dumping duties and CVD duties on pipes have restricted imports from other countries. This has benefitted local pipe players with Welspun being one of them.

Falling trend in imports



Global opportunity during 2019-2022	Projects	Total Length (000Km)	Business Potential(US$bn)
North America	340	20	89
Latin America	169	16	74
Europe	109	12	43
Africa	82	17	81
Middle East	77	5	29
Asia	55	9	29
Australia	79	22	77

Saudi to remain important contributor in the next leg of growth

The Middle East is a major market for large diameter pipes as the region continues to diversify its economies away from oil and invest billions of dollars in the distribution of gas. Welspun Corp entered Saudi Arabia in 2011 through a business joint venture. Initially, to fill up its order book, the company took up high volume orders, which were not highly profitable. But existing players are likely to benefit with barriers to entry remaining high on account of approvals required from the Saudi government. Local pipe players get a pricing benefit of 10–15%. Order book for Saudi has always remained high and the current order books stands at 19 percent for the total order book. Saudi operations turned profitable in H1 FY20, with EBITDA of $40M. We expect Saudi to remain profitable going forwards. **Management has commented an uptick in EBITDA/tonne for Saudi operations from $90/t to $ 150/t for FY20.**

Har Nal se Jal to supplement domestic growth along with gas demand

Domestic market still presents a huge potential for the company as pipeline penetration in the country stands at a mere 32 percent, compared with a global footprint of 78%. India is likely to add more to its existing gas pipeline over the next couple of years. Given the expansion plan of GAIL and GSPL, we believe demand from the domestic market will also remain strong in the coming years.

GAIL Pipeline projects

Pipeline projects	Length (KM)
Kochi-Kooanad-Bengaluru/Mangalore	1056
Vijaipur-Auraiya-Phulpur	672
Jagdishpur- Haldia & Bokaro-Dhamra	2539
Barauni- Guwahati	727

In addition to oil and gas pipelines, government initiatives such as Har Nal se Jal will contribute to major revenue streams of the piping industry in India. The government has also initiated to link its key rivers under the National River Linking Project. The companies stand to benefit from such initiatives launched by the government.

Global orders to deleverage geographical dependence

The current order book of Rs. 110,000M tilts nearly 70% towards global orders as of Q2FY20. The overseas order book not only provides revenue visibility, but a stronger margin compared with its domestic operations.

We believe overseas operations are likely to remain strong as oil prices remain stable and orders start flowing in from the U.S., the Middle East and the rest of the world.

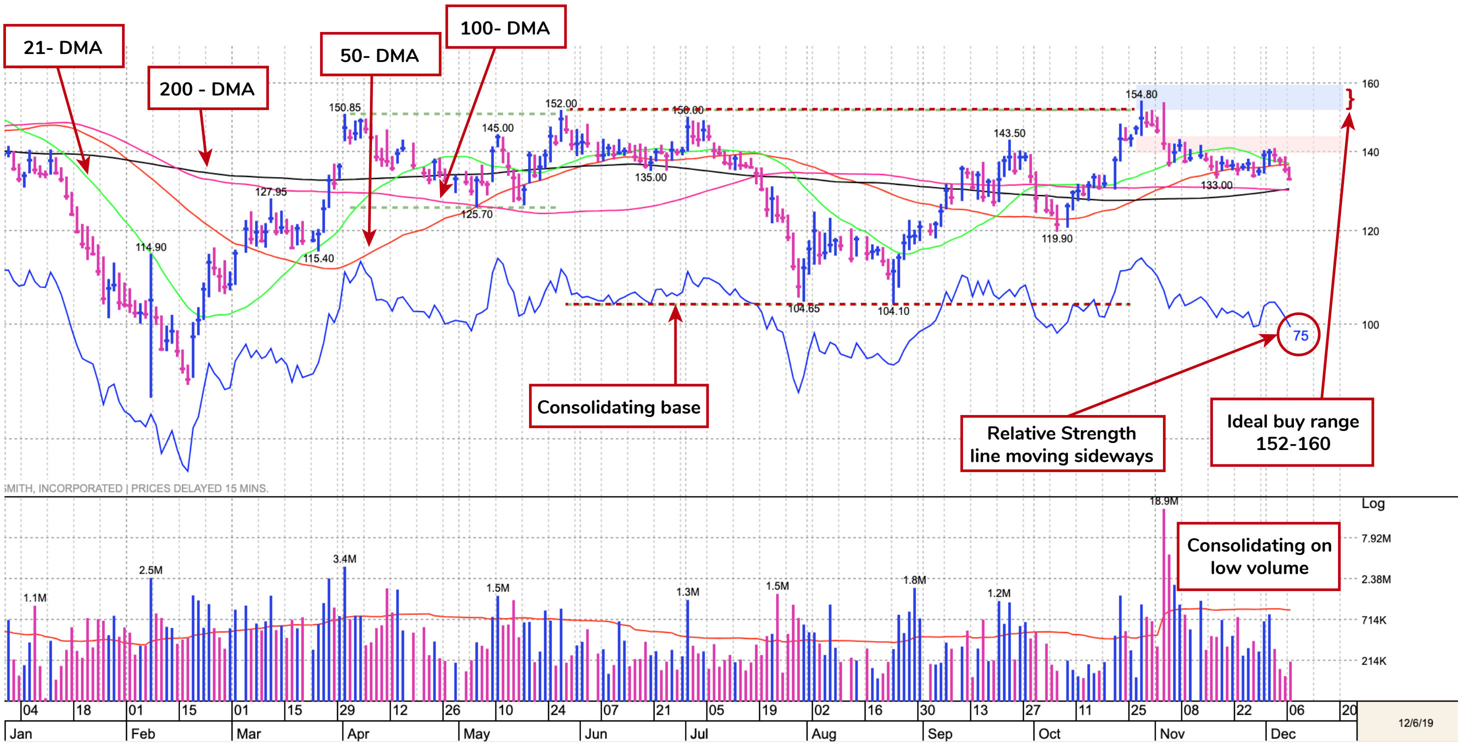
Balance Sheet

Y/E March (`cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	132.6	132.6	132.6	132.6
Reserves& Surplus	2,721	2,665	2,963	3,333
Shareholders Funds	2,854	2,798	3,096	3,466
Total Loans	1,284	1,261	885	560
Other Liabilities	11	1	20	30
Total Liabilities	**4149**	**4210**	**4307**	**4360**
APPLICATION OF FUNDS				
Net Block	**3,046**	**1,567**	**1,333**	**1,447**
Capital Work-in-Progress	17	47	47	47
Investments	196	228	228	20
Long Term Loans & Advances	-	-	-	-
Current Assets	**4,001**	**6,102**	**6,557**	**6,689**
Inventories	1,512	2,223	2,421	1,739
Sundry Debtors	1,314	1,181	1,286	1,402
Cash	628	670	2,172	2,787
Loans & Advances	151	147	250	250
Investments & Others	397	1,881	428	510
Current liabilities	**2,383**	**3,505**	**3,804**	**3,797**
Net Current Assets	**1,618**	**2,597**	**2,753**	**2,891**
Other Non Current Asset	2	20	6	5
Total Assets	**4149**	**4210**	**4307**	**4360**

Profit & Loss Statement

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
Total operating income	**6,347**	**8,953**	**9,750**	**10,238**
% chg	8	41	9	5
Total Expenditure	5,874	8,550	8,997	9,421
Raw Material	4,364	6,287	6,533	6,859
Personnel	417	572	623	654
Selling and Administration Exp	116	157	171	180
Others Expenses	977	1,534	1,670	1,728
EBITDA	**473**	**403**	**753**	**817**
% chg	(8)	(15)	87	8
(% of Net Sales)	7.4%	4.5%	7.7%	8.0%
Depreciation& Amortisation	258	260	261	263
EBIT	**215**	**143**	**492**	**554**
% chg	70	(33)	243	12
(% of Net Sales)	3	2	5	5
Interest & other Charges	170	177	123	78
Other Income	129	135	151	169
Recurring PBT	173	101	520	645
% chg	382	(42)	416	24
Tax	20	122	161	200
PAT (reported)	**153**	**-22**	**359**	**445**
% chg	1,410	(114)	(1,758)	24
(% of Net Sales)	2.4	-0.2	3.7	4.3
Basic & Fully Diluted EPS	6	-1	14	17
% chg	1,410	(114)	(1,758)	24

(FY20 and FY21 estimates are based on consensus.)



O'Neil Methodology and Technical Viewpoint:

On October 29, the stock broke out of a consolidating base, but the break out failed due to strong supply near Rs 154, and the stock started making a new base.

Currently, the stock is forming a Stage 1(b) flat base and trading ~12% below pivot. The 50-DMA line is acting as support and the stock is trading in a narrow range near its 50-DMA.

Relative Strength (RS) line is moving sideways, with an RS rating of 78, which is fair when the stock is consolidating.

EPS Rank of 74 is fair. EPS in the recent quarter was good and with expectations of an improvement in earnings for H2 FY20, the rank can improve further.

The ideal buy range for the stock is Rs 155-163, but we may wait for earnings improvement and 'N' factor to make a decision.

Welspun Corp	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	1,590	2,100	2,529	2,686	2,003	2,225
Revenue growth % y/y	-	-	-	-	26%	6%
EBITDA	148.1	194.8	183.3	32.2	199.8	291.7
EBITDA Margin %	9.3%	9.3%	7.3%	1.2%	10.0%	13.1%
PAT	52.7	83.3	30	-124.9	125	173
PAT growth % y/y	-	-	-	-	137%	108%
EPS (In Rupees)	1.99	3.14	1.14	-4.71	4.73	6.52

In INR Crore

ION EXCHANGE

The company provides environment solutions like water treatment, waste water treatment & recycle, and zero liquid discharge. The company is involved in treatment of water to meet the quality requirements of any industrial process, removing pollutants from wastewater, recycling and recovering water for reuse. Revenue mix: engineering, 56%; chemicals, 35%; consumer products, 9%.
Domestic and international business revenue share stand at 70% and 30%, respectively.

-The engineering segment which contributes more than 50% to the total revenue is growing well. In H1 FY20, there was an improvement in revenues and margins on the back of healthy order backlog at the beginning of the year. Also, international business is doing well. Large order execution in Sri Lanka is proceeding satisfactorily and revenue recognition in Q2 FY20 has picked up.

-Fundamentals have improved significantly. ROE has improved to 24.5% in FY19 from 18.3% in FY18. ROCE has improved to 25.3% in FY19 from 19.9% in FY18.

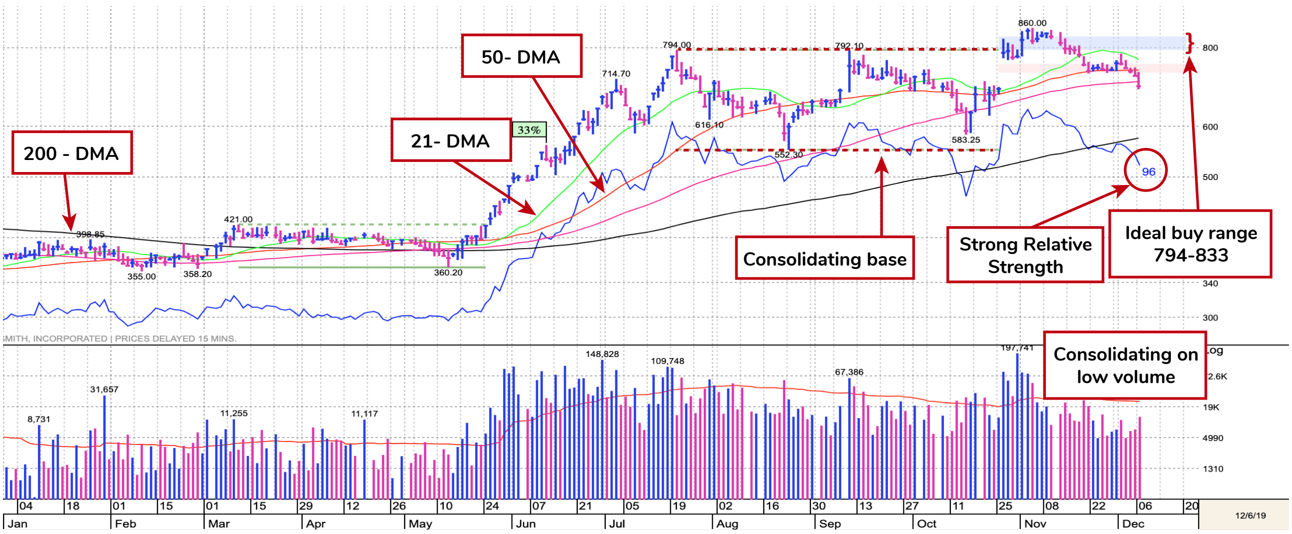
- Early signs of ramp-up in order execution in Sri Lanka were seen in Q2 FY20. Also, growth in export of resins continues. These two factors led to a strong surprise on Q2 FY20 Revenue, EBITDA, and PAT. Also, it can drive the growth in H2 FY20.

-Bid pipeline of the company stands at approximately Rs 6,000 crore. Last year, the company had received new orders worth Rs 93 crore. The company has an order book of Rs 821 crore as on June 30 (excluding orders from Sri Lanka). According to management, historically the company has maintained 10% winning rate.

-The company's membrane plant in Goa has already started generating revenues. Management expects that volumes will continue to improve in future, leading to top-line growth. This capacity is likely to generate Rs 100 crore on three shift basis without any additional CAPEX. Further, the company aims at achieving at least 50% utilization in this current fiscal year.

-The chemical segment contributes 35% to total revenue. The company has guided around Rs 50 crore capex in this segment for FY20. On average, capacity utilization in the chemical segment is in excess of 80% and will go higher due to new orders.

-The company participated in tenders worth Rs 5,000 crore in Q2 FY20. Management highlighted that there are 1-2 orders, where the company stands good chance of winning. These orders should get finalized soon.



O'Neil Methodology and Technical Viewpoint:
The stock broke out from stage-two consolidating base in the last week of October, but was under selling pressure. The positive side is that the selling was on low volume and 50-DMA provided a strong support.

EPS Rank of 97 reflects a strong earnings profile. Also, the number of funds holding the stock has doubled q/q in H2 FY20.

Even though the stock is moving sideways, Relative Strength is of 96. The stock is trading ~7% below its ideal buy zone. We may consider adding it to our portfolio if the stock retakes its 21-DMA on higher-than-average volume and reaches the ideal buy zone (Rs 794-834).

ION Exchange	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	206	229	250	418	304	397
Revenue growth % y/y	-	-	-	-	48%	73%
EBITDA	9.5	12.2	61.8	50.4	21.8	29.6
EBITDA Margin %	4.7%	5.4%	24.7%	12.1%	7.2%	7.5%
PAT	10.9	12	12.8	30.8	15.4	27.08
PAT growth % y/y	-	-	-	-	41%	126%
EPS (In Rupees)	9.08	8.21	8.73	21.6	12.83	18.46

In INR Crore

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Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

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