

Structural Steel Pipes Industry

26th June 2024

Multiple levers for strong growth

The structural steel pipes industry is an integral part of India's infrastructure and construction sectors, providing the backbone for a wide range of projects, from bridges and buildings to oil and gas pipelines. With the government's emphasis on infrastructure development and the country's rapidly urbanizing population, factors such as increased investment in infrastructure projects, rising demand for residential and commercial spaces, and many more are expected to drive the demand for structural steel pipes. The industry's adoption of advanced manufacturing techniques and the introduction of innovative products, such as high-strength and corrosion-resistant pipes, will become the primary reason for the growth in Value Added Products (VAP), hence increasing the mix of VAP in total volume sold. Furthermore, the adoption of better technology will lead to an array of opportunities, leading to an increase in the size of the Total Addressable Market (TAM).

Leaders gaining market share & improving operating margins

Currently, leaders are concentrating on broadening the product portfolio (adding VAP), expanding capacity, advancing technology, and extending distribution reach. These strategic initiatives will assist them in catering to customers' needs as a one-stop solution, meeting the rising demand, reducing costs, and ensuring that the product is available across all regions of India. These steps will significantly contribute to incremental EBITDA/T and help gain market share.

Additional demand will be met by Hot Rolled (HR) Coil based steel pipes

In India, the anticipated expansion in HR steel production capacity and the consequent increase in structural steel tube manufacturing, which relies on HR coils as its primary input, it is projected that the growing demand for structural steel tubes will be predominantly met by those produced from HR coils. Industry forecasts indicate that an additional 15 Mn T of HR steel production capacity is expected to become operational within the next 3-5 years (as of FY23, HR Coil/strip production in India was ~46 Mn T). Upon realization of this expanded capacity and multiple benefits of primary products, secondary market participants, such as Patra Steel Components, are likely to experience a significant contraction in their market share.

Adoption of Structural steel pipes over Reinforced Concrete (RCC) structures

Structural steel is a lightweight alternative with high strength and an advantageous strength-to-weight ratio. These structures can be easily fabricated, replaced, assembled, or dismantled. Owing to its lightweight nature, structural steel facilitates ease of transportation and handling. Additionally, the erection time for structural steel structures is significantly shorter compared to RCC construction.

POSITIVE

Companies Covered

Bloomberg Code	Rating	Current Price	Target Price (FY26)	Upside
APAT IN	BUY	1,625	2,032	25%
HITECH IN	BUY	133	165	24%
JTLIND IN	NOT RATED	218	-	-

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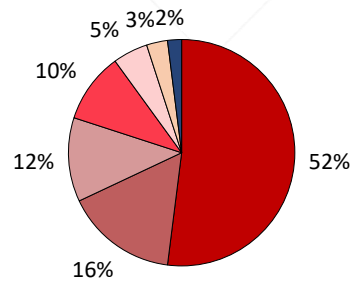
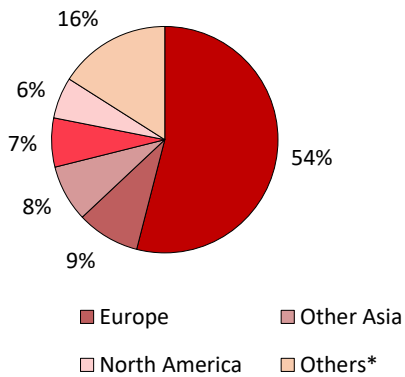
Structural Steel Pipes Industry | Industry Report

Global Steel Industry

Steel is a paramount material in the fields of construction and engineering, finding widespread applications in industries such as automotive, construction, consumer goods, infrastructure, mechanical and medical equipment, packaging, and utensils, among others. Its popularity stems from its abundant availability, cost-effectiveness, exceptional strength and durability, ductility, and recyclability. According to the World Steel Association, there are more than 3,500 different grades of steel produced worldwide, each possessing unique physical, chemical, and environmental properties to suit various applications.

Global Crude Steel Production – CY22: 1,885 MnT

Global Steel Consumption (Sector) – CY22: 1,762 MnT



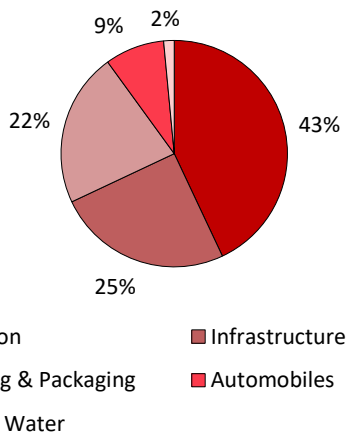
Others include Russia & Other CIS: 4.6%, Africa: 1.1%, South America: 2.3%, Japan: 4.7%, Middle East: 2.7%, Australia & New Zealand: 0.3%

Source: World Steel Association, Indian Steel Association, Keynote Capitals Ltd.

Indian Steel Industry

India was the second largest crude steel producer in the world during CY22, with a capacity utilization of 79% and production of 124 MnT (CY22). According to the Ministry of Steel India, crude steel production is expected to grow at a CAGR of ~8% until 2031 (from 124 MnT in CY22 to 255 MnT in CY31).

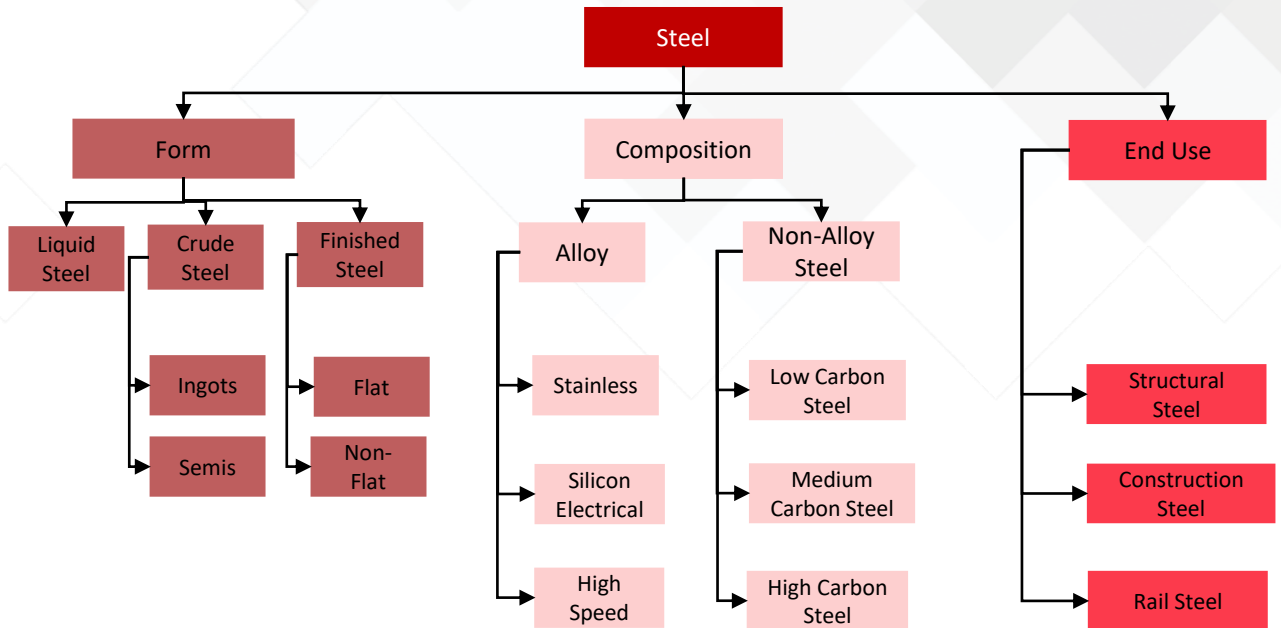
India Steel Consumption (Sector) – CY22: 106 MnT



Source: Ministry of Steel, Keynote Capitals Ltd.

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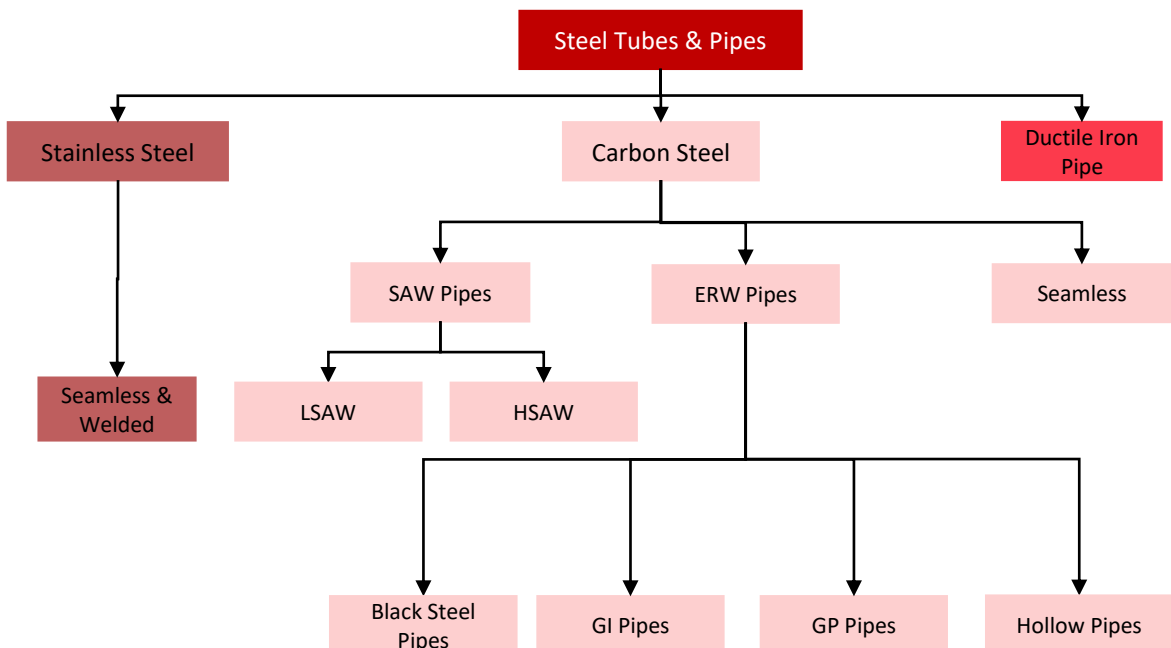
Structure of Steel Sector



Source: IBEF, Keynote Capitals Ltd.

Steel Tubes & Pipes Industry

Steel tubes and pipes are composed of steel that typically possess a hollow interior. Nevertheless, these products can be manufactured in diverse shapes, sizes, and grades to fulfil the specific requirements of various industrial sectors.



Source: Industry, Keynote Capitals Ltd.

* SAW stand for Submerged Arc-Welding, LSAW Pipe stand for Longitudinal Submerged Arc-Welding, HSAW pipes stand for Helical submerged arc welding (spiral), ERW stand for Electrical Resistance Welded, GI pipes stand for Galvanized Iron Pipe, GP pipes stand for Galvanized Pipes

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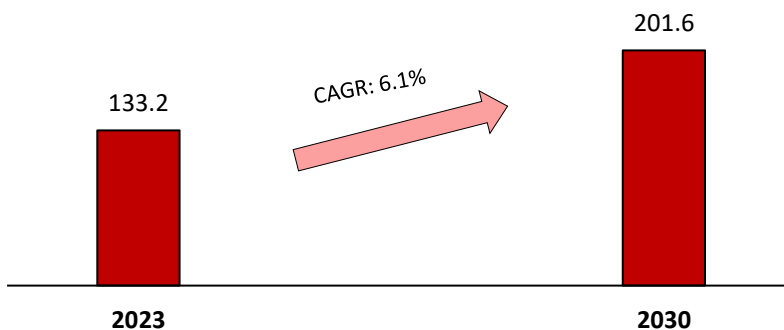
Types of Pipes	Size of Pipes	Manufacturing Process	Key Applications
Seamless	0.5" -14"	Piercing ingots/billets of steel at a high temperature	High-pressure conditions like oil & gas exploration & drilling, boiler, automobiles, pipelines, refineries
Spiral HSAW	18" -120"	Spirally welding HR coils	Low-pressure application cross-country line pipes for oil & gas and water transportation
LSAW	16" -50"	Longitudinally submerged arc-welding of steel plates	High-pressure application, cross-country line pipes for oil & gas transportation
ERW	0.5" -22"	Hot rolled steel coils using an electrical resistance welding process	Low/medium pressure application, application in urban and rural infrastructure, industrial application in engineering, automobile, and process industry
Black steel Pipe	Diameter: 0.5"-20" Thickness: 1mm-12.7mm	Are forged and threaded	Water, gas, air, steam, sewage, water wells, mechanical hot water circulation in a boiler system, general engineering purpose
Galvanized Iron Pipe	15mm-200mm	Coated with zinc layers. Generally screwed & socketed plain beveled cut ends in the pipe are used	Carrying water in homes and commercial buildings, structural application
Ductile Iron Pipe	100mm-300mm+	Manufactured in multiple grades to achieve high ductility and tensile strength	Transporting water for drinking water application, sewage treatment, and industrial water supply

Source: Venus Pipes Tubes, Hari Om Pipes, Keynote Capitals Ltd.

Global Steel Tubes & Pipes Industry

Globally, Steel Pipes & Tubes industry was worth \$133.2Bn in 2023. It is anticipated to grow to \$201.6Bn by 2030 at a CAGR of 6.1%. Higher demand in various sectors due to increase in economic activities and consumer confidence will lead to growth in the steel pipes market.

Global Steel Tubes & Pipes Industry (\$Bn)



India is ~7-7.5% of Global Steel Tubes & Pipes Industry

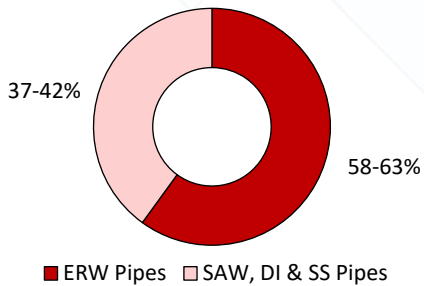
Source: Grand view research, Keynote Capitals Ltd.

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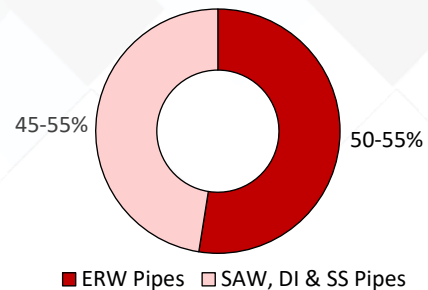
Indian Steel Tubes & Pipes Industry

Due to diversified applications in several industries, Steel Pipes & Tubes industry is a critical segment of the Indian steel sector. This segment accounts for a 9-10% share in the overall steel consumption basket, which translates into ~12MnT in volume terms and ~Rs. 800 Bn in value terms as of FY23.

Indian Steel Pipes & Tubes (Volume Terms)



Indian Steel Pipes & Tubes (Value Terms)



Source: Industry, Keynote Capitals Ltd.

ERW pipes is a fragmented market with 200+ players in the industry. These pipes are used in 2 places: 1) Traditional which includes water transport, agricultural, oil & gas, etc. and 2) Structural which includes infrastructure, construction etc.

Structural Steel Tubes

Steel pipes and tubes are the preferred choice due to high strength and low weight, making them ideal for construction applications. Furthermore, they demonstrate remarkable resilience, capable of withstanding extreme heat, pressure, shock, and vibrations. Structural steel tubes are ubiquitous in the construction industry, forming the backbone of major infrastructure projects worldwide. Whether commercial complexes, airports, railway stations, high-rise towers, or skyscrapers, structural steel tubes have emerged as the foundation of skyline-defining structures in most advanced nations across the globe. Every landscape-altering creation utilizes structural steel tubes.

High tensile strength helps in longitudinal stress.

In India, the demand for structural steel tubes is expected to gain significant traction in the coming years. Structural steel tubes are poised to transform the nation's infrastructure creation by serving as a critical input for revolutionary change. Until very recently, India relied on conventional construction methods, which were time-consuming and expensive.

Steel Tubes v/s Conventional RCC	
Steel Tubes Structure	RCC Structure
8 days / slab	24 days / slab
16 days saving for each slab	
<p>Revenue Economics</p> <ul style="list-style-type: none"> - 2% Additional Carpet Area - Quicker Revenue / Cash Flows - Reduced Construction Time (Super structures ready 65% faster) - Financial cost savings <p>Early commencement of project</p>	<p>Cost Economics</p> <ul style="list-style-type: none"> - Project cost higher by 5%/Rs. 250-300 sq. ft.
Net Impact	
- Project IRR +1.5% +2% Additional Area	

RCC stands for Reinforced Cement Concrete

Source: APL Apollo, Keynote Capitals Ltd.

Structural Steel Pipes Industry | Industry Report

Despite the advent of structural steel, Reinforced Cement Concrete (RCC) remains the predominant construction material. RCC exhibits exceptional compressive strength; however, it lacks the ability to withstand tensile stresses. To enhance its tensile strength, steel reinforcement bars are incorporated into RCC construction.

In contrast, structural steel offers a lightweight alternative with high strength and an advantageous strength-to-weight ratio. These structures can be easily fabricated, replaced, assembled, or dismantled. Owing to its lightweight nature, structural steel facilitates ease of transportation and handling. Additionally, the erection time for structural steel structures is significantly shorter compared to RCC construction.

Structural steel is preferred for steel buildings because it's recyclable, easy to pre-fabricate, has higher volume to weight ratio, and has higher tensile strength

The structural steel industry will play a vital role in India's rapid infrastructure development. A substantial portion of this growth is expected to stem from the government's continuous infrastructure push. The development of railway stations, metro services throughout the country, and new aviation infrastructure, such as airports and logistics hubs, are anticipated to drive growth in the structural steel market over the next few years.

Additionally, Structural Steel is replacing other products and creating a new market for itself:

Conventional Construction Products	Application	Why Structural Steel Tube replaces these products?
Steel angle/ Channels	Structural support, infrastructure	Uniform Strength, Lower steel consumption
Wood	Furniture, Door Frames, Planks	Cost effective, Termite proof, Environmental friendly
Aluminium profiles	Facades & Glazing	Cost effective, Higher strength.
RCC	Construction of buildings	Faster construction, Environmental friendly
Fabricated metal sheet	Pre-engineered steel buildings	Lower steel consumption reduces overall project cost

Low diameter steel tubes / Low load bearing

High diameter steel tubes / High load bearing

Source: APL Apollo, Keynote Capitals Ltd.

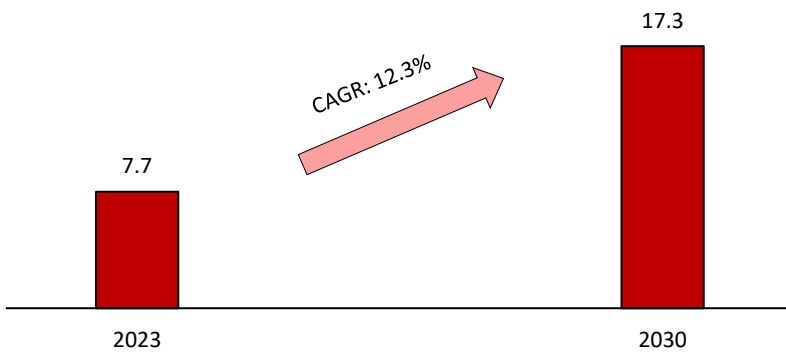
Furthermore, the surge in the domestic real estate market, particularly the emerging trend of verticalization for residential and commercial buildings, is expected to fuel the demand for structural steel. Moreover, the rising popularity of pre-engineered buildings and design changes in urban housing bode well for the long-term demand for structural steel. The benefits of structural steel pipes over conventional construction methods have driven their increased adoption in India, aligning with the nation's ambition to build world-class infrastructure efficiently and sustainably.

Structural Steel Pipes Industry | Industry Report

India's unique structural steel tube manufacturers, specializing in large-sized, high-quality products, will form the bedrock of a resurgent and globally competitive nation. Back-of-the-envelope calculations suggest incredible numbers that could catapult structural steel tube manufacturers into a completely new orbit.

The construction industry in India is undergoing a paradigm shift, with increased recognition and acceptability for structural steel tubes and pre-engineered building materials. While globally, the proportion of structural steel tubes accounts for ~10% of total steel consumption, in India, it lags at ~5-6% (Pre-COVID, it was 4%). This indicates further scope for increased consumption levels. The total market size for structural tubes in India is currently ~7.7 MnT per annum.

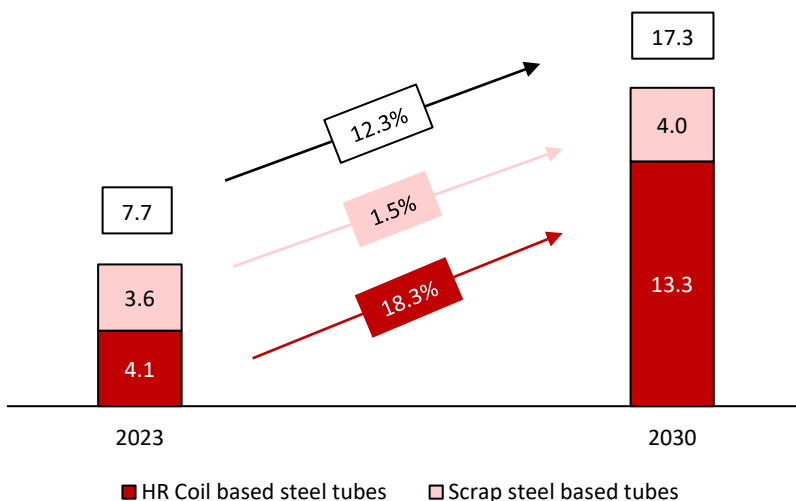
India Structural Steel Tube Market (Mn Tons)



Source: APL Apollo, Keynote Capitals Ltd.

The primary input material for the manufacturing of structural steel tubes is HR coils. However, in the event of a shortage or higher costs associated with HR coils, alternative secondary products, such as steel tubes derived from scrap metal and Patra steel, are utilized. It is expected that 15 MnT of HR steel capacity is expected to commence its operation in next 3-5 years. When this happens, the secondary players like the Patra steel component would shrink remarkably making room for the primary structural steel tube manufacturers to fill in the vacuum.

Bifurcation of Structural Steel Tubes - India (Mn Tons)



Source: APL Apollo, Keynote Capitals Ltd.

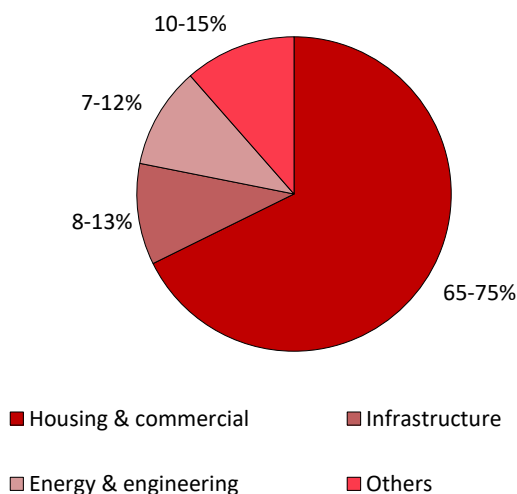
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Difference between HR Coil & Scrap / Patra Steel

Parameters	HR Coil	Scrap/Patra Steel
Market Size	It forms 50-55% of the total market.	It forms 45-50% of the total market.
Realization & EBITDA per Ton	Pipes made from HR Coil are comparatively expensive due to expensive raw materials (Rs. 5-10 revenue /Kg). Generally, the price differential is dependent upon the supply and demand of the product. However, on EBITDA per Ton, both are similar.	Pipes made from Scrap steel are comparatively cheaper due to the lower price of raw materials (Rs. 5-10 revenue /Kg). However, on EBITDA per Ton, both are similar.
Product Portfolio	HR Coil-based better heat resistance and can handle pressure leading to high diameter pipes to be produced through HR Coil	Due to low heat resistance and inability to handle pressure, it will have comparatively lesser SKUs
Manufacturing Process	HR Coil are rolled in standardized steel mills which have provisions for qualitative improvements in the product.	Patra is rolled in a non-standardized "Patra Mill" which does not usually have any provisions for improving the quality of the product.
Quality of Raw Materials	HR Coil are made using slabs, blooms and billets of iron ore. These slabs, blooms and billets are cast from pure material.	Patra is manufactured using ingots casted from low quality raw material or other commercial grade low quality raw material.
Chemical Composition	The quality of HR Coil is compliant with international standards because of their standardized manufacturing process and use of top-quality raw materials	The chemical composition of Patra cannot be controlled owing to the non-standardized rolling process and low-quality raw material.
Surface Finish	The surface finish of HR Coil is uniform and smooth owing to the superior quality of raw material and advanced manufacturing process	The surface finish of patra is rough because of its rolling process and low-quality raw material
Thickness & Consistency	The thickness and consistency of HR Coil is uniform and smooth.	The thickness and consistency of patra may not be uniform owing to its manufacturing process.
Width Variation	The variation in the width of HR Coil or coils is limited.	The variation in the width of patra is high.
Physical Properties	HR Coil follow a technically advanced manufacturing process, which ensures that the product follows the standards uniformly with regards to physical properties.	The physical properties of patra are not homogeneous throughout the product as quality control is not possible in its manufacturing process.

Source: Industry, Keynote Capitals Ltd.

Application of Structural Steel Tubes (%)



Source: Industry Research, Keynote Capitals Ltd.

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Types of Structural Steel Tubes

Spiral Steel: Spiral steel pipes are the right fit for road casing, piling, and trenches. Because of its economical and durable structure, this tube offers long-lasting quality.

Seamless Steel: Seamless steel is a structural steel shape that is a common option for internal support. It is durable and popular for projects like dock piling, caissons, and bollards.

ERW Steel: ERW steel pipe is typically known as the premium quality pipe. It is the seamless line pipe manufactured for sign pole, dock, and tunnel construction.

DSAW Carbon Steel: DSAW carbon steel pipe is a welded pipe, welded from the outside and inside. It is also available in different grades. This construction material is useful in building road casing, culverts, and more.

Culvert: A Culvert pipe is one of the different types of structural steel tubes that aren't known for being high-quality. It is used for diverting water around and under driveways, as well as temporary bridges, drainage systems, sewer systems, and water systems. Because of this, culvert pipes are common in farming and irrigation as well.

Fence Pipe: Fence pipe is used for building fences. This type of structural steel tubes is incredibly durable and strong, making it perfect for fencing. It is often used for building fences, enclosing parks, enclosing parking lots, and more. It isn't usually used for buildings or construction.

Types of ERW Steel Tubes

Parameter	Black	Hollow section	Galvanized	Pre-Galvanized
Application	Engineering structural water and sewage, gas distribution, boilers, etc.	Infrastructure construction, machinery and furniture	General engineering, underground piping and agriculture	Electric conduit pipes, fencing, cabling, ducting and rooftop
Characteristics	<ul style="list-style-type: none"> - Coated with oil or black lacquer base - They are not corrosion resistant - Low maintenance 	<ul style="list-style-type: none"> - Fastest growing segment - Possesses high tensile capacity - Fire-resistant & rigid - Square, circular, rectangular and cross section 	<ul style="list-style-type: none"> - Undergo hot-dipped galvanized process - Dipped in molten zinc (corrosion resistant) 	<ul style="list-style-type: none"> - Made from pre-galvanized sheets - Tough, durable, lightweight and zinc coated (corrosion resistant)
Realization per Ton	X	~1.02x	~1.2-1.25x	~1.2-1.25x
EBITDA per Ton	X	~1.4-1.6x	~2.8-3.2x	~3.2-3.8x
Margin profile	~4-6%	~6-8%	~9-10%	~11-12%

Source: Industry, Keynote Capitals Ltd. estimates

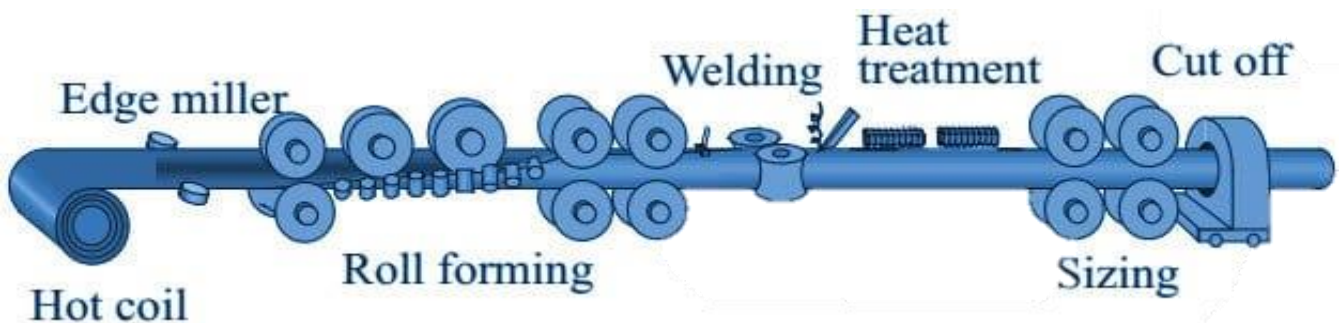
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Process of manufacturing Structural Steel Tubes

1. **Steel Strip Preparation:** Flat steel strips are uncoiled and inspected for surface defects.
2. **Edge Milling:** The edges of the steel strip are milled to remove irregularities and ensure straight edges.
3. **Forming:** The steel strip is passed through forming rolls to shape it into a cylindrical form and bring the edges together to form a longitudinal seam.
4. **High-Frequency Induction Welding:** A high-frequency electric current is passed through the edges of the steel strip, heating them to fusion temperature. Pressure is applied to forge the edges together, forming a strong weld.
5. **Weld Seam Heat Treatment:** The weld seam may undergo heat treatment to relieve residual stresses and improve mechanical properties.
6. **Sizing:** The welded pipe undergoes sizing operations to achieve desired outer diameter and wall thickness.
7. **Cutting to Length:** The pipe is cut to the required length.
8. **End Finishing:** The ends of the pipes may be trimmed, beveled, or threaded as needed.
9. **Inspection and Testing:** Pipes undergo quality control checks, including dimensional inspection and non-destructive testing.
10. **Coating and Marking (Optional):** Pipes may undergo surface coating or marking for corrosion protection or identification.
11. **Packaging and Shipping:** Pipes are bundled, packaged, and prepared for shipment to customers.

Throughout the process, strict quality control measures are implemented to ensure that the pipes meet required standards and specifications.

Before welding, pipes can be coated with zinc to prevent rusting. After forming a shape its dipped into zinc bath. Note: It is not easy for rectangular tubes



Source: Industry, Keynote Capitals Ltd.

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Supply chain of manufacturing structural steel tubes

Through primary products



Iron Ore



Coke



Steel scrap



Others



Steel billets/Slabs



HR Coil



Structural Steel Pipes

Note: Pipes are made from secondary steel, also known as Patra steel. The only difference in process is that it includes low-quality raw materials

Source: Industry, Keynote Capitals Ltd.

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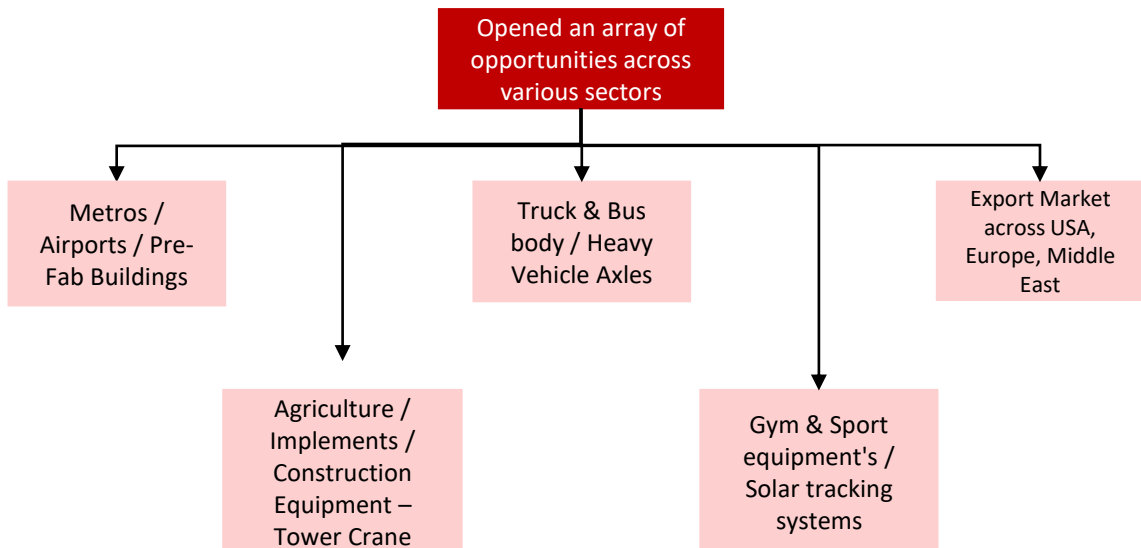
About Direct Forming Technology (DFT)

DFT is an innovative route designed to produce tubes. This technology brings in the possibility of producing customized hollow section pipes by including it in the mill range without changing the roll. The technology is strongly preferred in advanced global economies like the US, Europe, and Japan. Benefits of using this technology:

1. **Customization:** DFT enables a hollow shape manufacturing company to cater to the diverse requirements of customers across industries by providing highly customized hollow section pipes, which can be supplied in smaller quantities, too.
2. **Cost-effective and time-saving:** Direct material cost saving is ~2-10%, and rollover costs are reduced to 20 minutes from 4-24 hours. This technology can help to cater to tight deadlines of clients through Just-In-Time (JIT) delivery.
3. **Accuracy:** One of the foremost advantages of DFT is that it is a completely automatic and computerized process.

DFT technology-based plant can cost 3-4 times more than normal

In construction projects, meeting execution deadline is very important for better economics



Source: Industry, Keynote Capitals Ltd.

Dynamics of industry

- The industry is dealer/distributor driven. This means that the higher the dealer discounts and dealer reach, the better it would be for companies.
- Pipe manufacturers must make sure that they are timely available to market.
- Government-led projects will lead to high working capital requirements for pipe manufacturers.
- Industry-wide usage of VAP products is increasing.
- Leaders are focusing on increasing their product SKUs
- There are multiple types of pipe manufacturers: 1) Only pipe (low capital intensive), 2) Backward integrated players who manufacture both HR coil and Pipe (High capital intensive and comparatively higher EBITDA per ton), 3) Backward integrated who have both HR coil and Patra steel as raw material.

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Demand Drivers

High Rise Buildings

Structural steel pipes are utilized in several key applications within high-rise construction, including but not limited to foundations, building piles, frameworks, and even in the aesthetic aspects of building design. In addition to strength and durability, structural pipes are cost effective, fire resistant and helps in integration of other systems.



The growing urban migration of aspirational Indians resulted in a massive demographic expansion in urban and metro cities. The finite resources forced builders to 'go vertical' to provide the required housing and office spaces. Skyscrapers have become the most logical conclusion to decongest the urban sprawl, especially with the advent of new-age construction technology that supports verticalization. As a result, metro cities hosted most of these skyscrapers with Mumbai taking the lead in the number of high-rise buildings closely followed by New Delhi, Hyderabad, Kolkata, and Bengaluru. But now, the verticalization approach has become the norm even in Tier I and II towns where almost every gated-living residential and commercial complex is a high-rise. This trend is only expected to gain steam over the coming years. With sustainability emerging as a critical element of the entire planning, designing, and construction process of these modern-day edifices, demand for tubular construction is expected to leapfrog.

According to a report by real estate consultancy firm Anarock, the Mumbai Metropolitan Region (MMR) is expected to see a 34% increase in skyscrapers with over 40 floors between 2024 and 2030.

No. of High-Rise Towers in MMR over the years				
Completion-wise	<20th floor	20th-40th floor	>40th floor	Total
Till 2023	12,126	1,487	154	13,767
B/w 2024-2030	8,096	1,846	207	10,149

Source: Anarock, Keynote Capitals Ltd

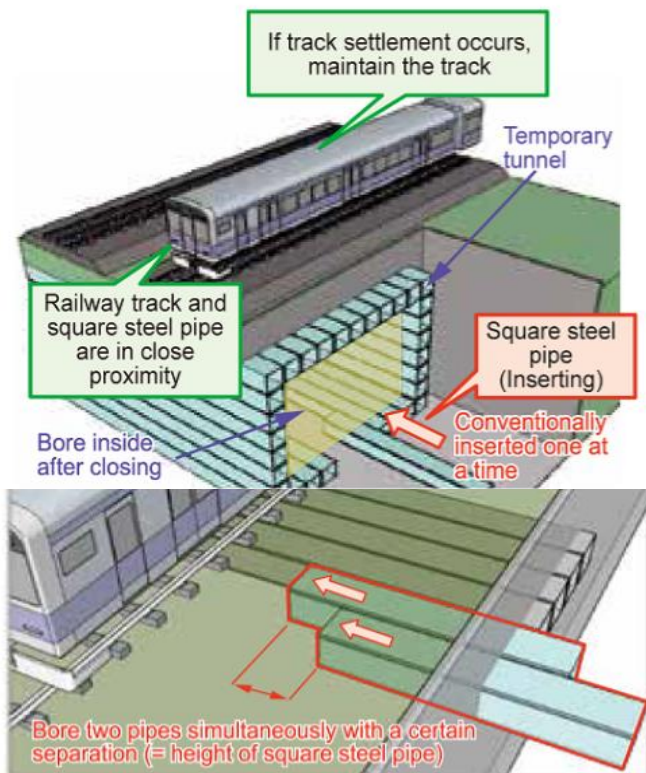
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Railway Infrastructure and Metros

Structural steel pipes are used in the construction of bridges, culverts, and tunnels, which are integral parts of the railway infrastructure. It is used in the foundations of tracks or as part of the load-bearing structures in tunnels, where their robustness and resistance to environmental stresses are crucial.

For metro systems, structural steel pipes play a significant role in the overall structural integrity of underground and elevated metro lines. They are used in the construction of metro stations, especially in the frameworks that support the platforms and the tracks. The durability of steel ensures that these structures can withstand the daily load of thousands of passengers and the vibrations caused by the metro trains.

Structural pipes have several advantages over aluminum, traditional iron and concrete such as weight to strength ratio, corrosion resistance, etc.



Source: Railway Technical Research Institute, Industry, Keynote Capitals Ltd



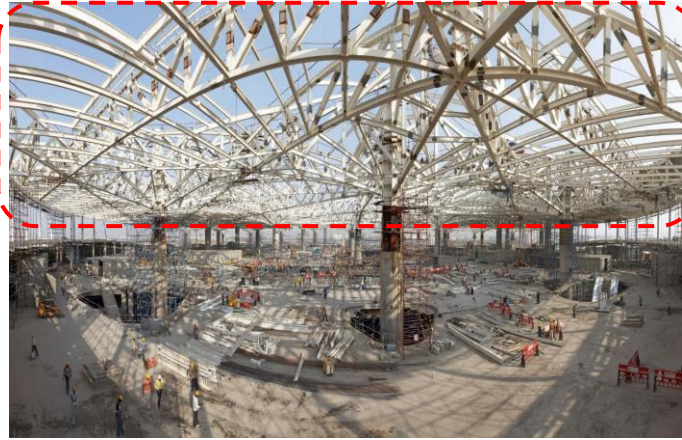
In February 2023, Government of India launched Amrit Bharat Station Scheme with an objective to modernize and enhance railway stations across country. The scheme aims to redevelop 1,275 stations nationwide, transforming them into vibrant city centers that integrate seamlessly with urban areas on both sides of the stations.

The Government of India's significant Capex allocation for railways and metros is poised to drive growth for structural steel pipes, given the integral role these materials play in infrastructure development. The increased Capex allocation for the FY24-25 to Rs 2.52 Trn, marking a 5% increase from the previous year, underscores the government's commitment to enhancing the railway infrastructure.

Structural Steel Pipes Industry | Industry Report

Airport Infrastructure

Structural steel is a critical material in the construction of aviation and airport infrastructure due to its strength, durability, and flexibility. It is majorly used to construct terminals, aircraft hangars, support structures and structural frames. The preference of using it is to reduce alternative building materials such as concrete, masonry. In addition to this, the environmental sustainability of steel, being 100% recyclable, also contributes to its preference over less sustainable materials.



Source: Industry, Keynote Capitals Ltd

The Airports Authority of India (AAI) is planning a capital expenditure of ~Rs 300 Bn in the next five years (FY25-29) to build and revamp airport infrastructure across the country. This capex was Rs. 52.5 Bn for FY24 and Rs. 51.75Bn for FY23.

In March 2022, Ministry of Civil Aviation projected a capex of Rs. 250 Bn for developing new and existing airports for the next 5 years. This includes construction of new terminals, expansion and modification of existing terminals, expansion and/ or strengthening of existing runways, aprons, Airport Navigation Services (ANS) infrastructure, control towers and technical blocks etc.

Warehousing

The warehousing sector in India is on a robust growth trajectory, fueled by the e-commerce boom, favorable government policies, technological advancements, and a shift towards more efficient and modern warehousing solutions. The Indian warehousing market is predicted to reach ~Rs. 2,872 Bn, expanding at a CAGR of ~15.6% from 2022 to 2027.



Source: Industry, Keynote Capitals Ltd

Peer Analysis

Particulars	APL Apollo	JTL Industries	Hi-Tech Pipes
Manufacturing (FY24)			
Capacity (in Mn MTPA)	4.0	0.6	0.8
Volume	2.6	0.3	0.4
Capacity Utilization	65%	58%	52%
Manufacturing Plants	11	4	6
Plant Location	Uttar Pradesh (3)	Punjab (2)	Uttar Pradesh (2)
	Karnataka (2)	Maharashtra (1)	Andhra Pradesh (1)
	Tamil Nadu (1)	Chattisgarh (1)	Maharashtra (1)
	Haryana (1)	-	Gujarat (2)
	Chattisgarh (2)	-	-
	Maharashtra (1)	-	-
Backward Integrated	No	Yes (Patra Steel 0.21 Mn MPTA)	No
DFT	Yes	Expected to come in FY25	Expected to come in FY25
Products & Distribution			
SKUs	3,000+	1,000+	1,200+
Markets (FY24)	100% Primary	50% Primary	100% Primary
		50% Secondary	
Products sold by the company	MS Black Pipes	MS Black Pipes	MS Black Pipes
	Pre-Galvanised	-	Pre-Galvanised
	Galvanised pipes	Galvanised pipes	Galvanised pipes
	Color Coated sheets	-	-
	Solar structures	Solar Structures	Solar Structures
	-	Coils & others	
Distributors network	800+	1,000+	500+
Retailer's reach (FY23)	50,000	(includes retailers)	NA
Fabricators, architects & engineers (FY23)	200,000+	NA	610+
Unit Economics (per ton -FY24)			
Sales	69,209	59,683	69,010
COGS	59,653	52,605	62,956
Gross profit	9,555	7,078	6,054
Employee cost	984	619	804
Other expenses	4,018	2,007	2,313
EBITDA	4,554	4,452	2,937
Financial Details (FY24)			
Debt to Equity	0.32	0.03	0.63
CFO (FY24) (Rs. In Mn)	11,120	-220	-950
Working capital days	17	60	65
Market Share (Primary products)*	55%	4%	8%
Market Share (Secondary products)*		5%	
Sales (Rs. In Mn)	181,188	20,402	26,993
EBITDA (Rs. In Mn)	11,922	1,522	1,149
PAT (Rs. In Mn)	7,324	1,130	439
ROCE	21%	18%	11%
Capex Guidance (FY25)	6,000	2,000	500
Revenue Mix (FY24)			
General Product	42%	71%	65%
VAP	58%	29%	35%

*Note: Based on our estimates Market share as per FY24

Structural Steel Pipes Industry | Industry Report

Opportunities

Leaders gaining market share & improving operating margins

Currently, leaders are concentrating on broadening the product portfolio (adding VAP), expanding capacity, advancing technology, and extending distribution reach. These strategic initiatives will assist them in catering to customers' needs as a one-stop solution, meeting the rising demand, reducing costs, and ensuring that the product is available across all regions of India. These steps will significantly contribute to incremental EBITDA/T and help gain market share.

Parameter	Black	Hollow section	Galvanized	Pre-Galvanized
Realization per Ton	X	~1.02x	~1.2-1.25x	~1.2-1.25x
EBITDA per Ton	X	~1.4-1.6x	~2.8-3.2x	~3.2-3.8x
Margin profile	~4-6%	~6-8%	~9-10%	~11-12%

Source: Industry, Keynote Capitals Ltd.

Additional demand will be met by HR Coil based steel pipes

With the increase in HR steel capacity and structural steel tubes (made from HR Coils), it is expected that the incremental demand for structural steel tubes will be met by HR coil-based structural tubes. This will remarkably shrink the market of secondary steel-based structural tubes.

The primary input material for the manufacturing of structural steel tubes is HR coils. However, in the event of a shortage or higher costs associated with HR coils, alternative secondary products, such as steel tubes derived from scrap metal and Patra steel, are utilized. It is expected that 15 MnT of HR steel capacity is expected to commence its operation in the next 3-5 years. When this happens, the secondary players like the Patra steel component would shrink remarkably, making room for the primary structural steel tube manufacturers to fill in the vacuum.

Adoption of structural steel pipes over RCC structures

Structural steel offers a lightweight alternative with high strength and an advantageous strength-to-weight ratio. These structures can be easily fabricated, replaced, assembled, or dismantled. Owing to its lightweight nature, structural steel facilitates ease of transportation and handling. Additionally, the erection time for structural steel structures is significantly shorter compared to RCC construction.

Steel Tubes v/s Conventional RCC

Steel Tubes Structure	RCC Structure
8 days / slab	24 days / slab
16 days saving for each slab	
Revenue Economics - 2% Additional Carpet Area - Quicker Revenue / Cash Flows - Reduced Construction Time (Super structures ready 65% faster) - Financial cost savings Early commencement of project	Cost Economics - Project cost higher by 5%/Rs. 250-300 sq. ft.
Net Impact	
- Project IRR +1.5% +2% Additional Area	

Source: APL Apollo, Keynote Capitals Ltd.

Challenges

Competition from the secondary steel pipes

In the Indian structural steel pipe market, HR coil-based tubes currently account for 50-55% of the market share, while secondary steel pipes constitute 45-50% of the market share. Despite the numerous advantages of manufacturing structural pipes from HR coils over secondary steel pipes, factors such as lower prices and the suitability of secondary steel pipes for applications that do not require high pressure or heat resistance (such as door frames and pipes used in the Jal Jeevan Mission) may potentially dampen the demand for structural steel tubes made from HR coils.

Fall in HR coil prices

The structural steel pipe market is primarily driven by dealers and distributors who play a crucial role in the supply chain. When HR coil prices correct downward, dealers and distributors often reduce their inventory levels to avoid holding high-cost stock that may depreciate in value. This reduction in inventory can lead to a decrease in the immediate demand for structural steel tubes as dealers wait for prices to stabilize or drop further. To counteract the potential drop in demand, companies may need to offer higher commissions or discounts to incentivize dealers and distributors to maintain or increase their inventory levels.

Company Section

APL Apollo Tubes Ltd.

A bet on market leader and innovator

26th June 2024

APL Apollo Tubes Ltd. (APL), established in 1986 by Sudesh Kumar Gupta as Bihar Tubes, has evolved into India's largest structural steel tube manufacturer under the visionary leadership of Sanjay Gupta, who took the helm at the age of 16 after his father's passing. Sanjay Gupta's strategic focus has consistently introduced pioneering products and technologies, such as DFT and advanced galvanizing techniques, which have revolutionized the steel tube manufacturing process in India. Today, APL boasts a robust manufacturing, distribution, and retail network that spans the nation. The Company operates 11 manufacturing facilities strategically, over 23 warehouses, 800+ distributors, 2,00,000+ fabricators/architects/engineers, and 50,000+ retailers. As of FY24, APL holds a commanding market share of 55% with 4 Mn MTPA capacity that is employed to produce products such as MS Black pipes and hollow sections, galvanized pipes, and pre-galvanized tubes, with a volume contribution of 68:5:27.

The TAM expanding forerunner

APL's trajectory in the steel tube industry exemplifies a commitment to innovation and market leadership. In FY15, the introduction of colour-coated pipes and patented steel door frames marked a pivotal moment, addressing both aesthetic and durability concerns. Leveraging Italian DFT technology in FY16 streamlined production processes, while the acquisition of Apollo Tricoat expanded the product line with In-line Galvanized pipes. Notably, FY21 witnessed the launch of interior colour-coated tubes, reflecting its agility. By FY23, APL had secured 16 patents, showcasing dedication to niche offerings like elliptical tubes for transformers and octagon tubes for furniture.

The moat is in being far-sighted

APL's dominance in the steel tube industry is driven by its relentless technological innovation and strategic market approach. By targeting sectors with minimal competition, the Company secures a significant market share initially, settling at around 55%. For instance, the introduction of 500x500 columns filled a critical market gap, revolutionizing construction practices and solidifying APL's leadership. These innovations create formidable barriers for smaller players, compounded by external factors like steel price fluctuations and economic events. As a result, APL remains a strong leader in the industry, maintaining its position as a leading innovator and market leader.

The promising growth ahead

APL is gearing up for significant growth, driven by expansions and a VAP focus. There are only 4-5 production lines to come online besides the anticipated addition in Siliguri and Gorakhpur. All these plants together shall take the capacity from 4 Mn MTPA to 5 Mn MTPA in FY25. Further, the Company aims to have a ~70% contribution from VAPs, improving EBITDA per ton set to rise from the current Rs. 4,600.

View & Valuation

Owing to the above rationales, we believe the topline can grow at ~25% for the next 2 years and EBITDA per ton ~Rs. 4,900 in FY26E. Consequently, ascribing a PE multiple of 45x on FY26E EPS, we recommend BUY with a ~25% upside.

BUY

CMP Rs. 1,625

TARGET Rs. 2,032 (+25%)

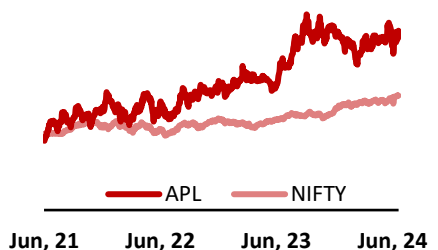
Company Data

Bloomberg Code	APAT IN
MCAP (Rs. Mn)	4,51,750
O/S Shares (Mn)	278
52w High/Low	1,806/1,298
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,100

Shareholding Pattern %

	Mar-24	Dec-23	Sep-23
Promoters	29.44	29.57	29.67
FIIIs	30.69	29.23	28.63
DIIIs	14.06	13.77	12.73
Non-Institutional	25.81	27.42	28.98

APL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	181	226	282
EBITDA	12	15	20
Net Profit	7	9	13
Total Assets	72	84	97
ROCE (%)	21%	21%	23%
ROE (%)	22%	24%	26%

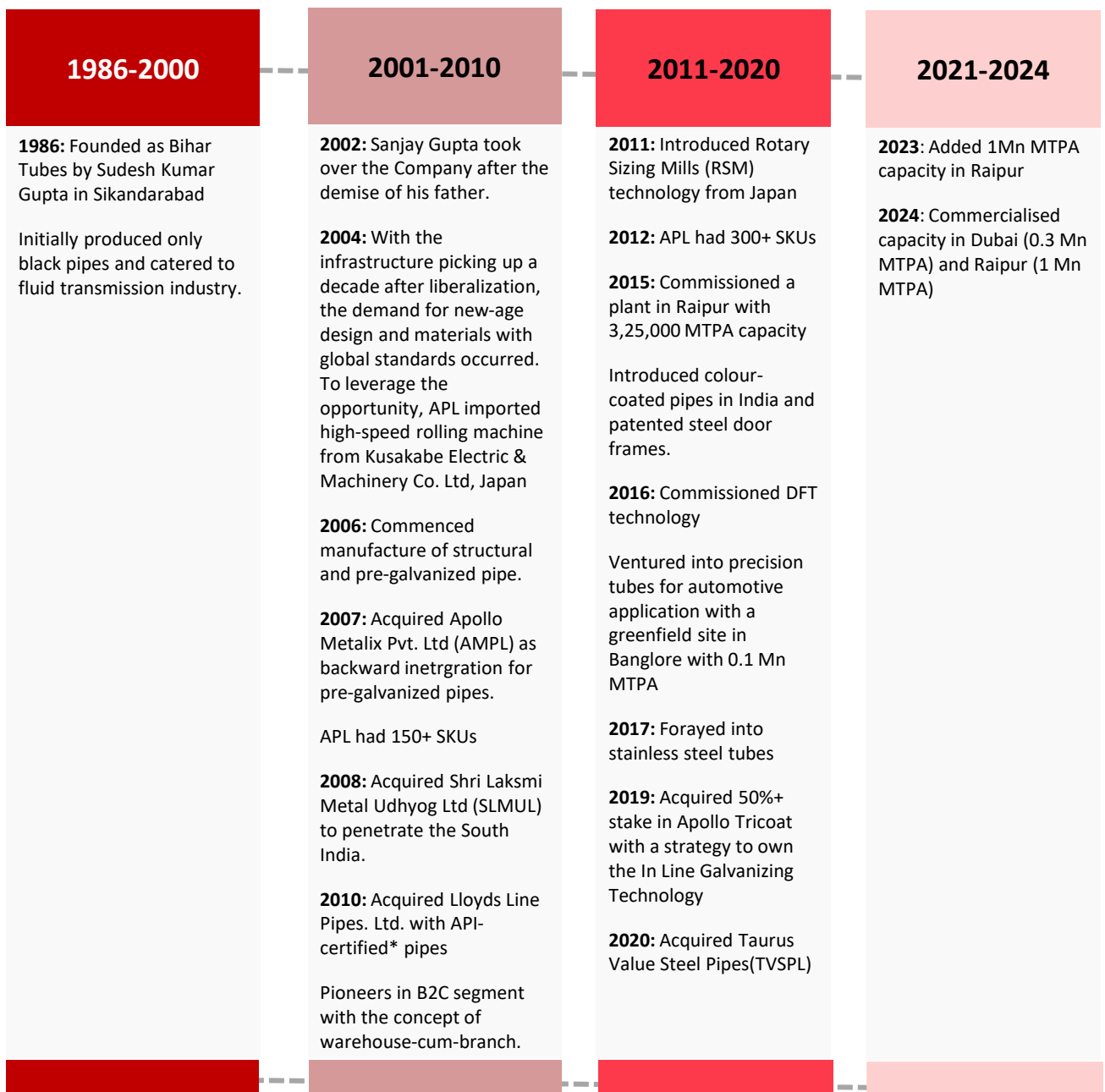
Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | APL Apollo

Business Overview

APL Apollo Ltd. (APL) traces its roots back to 1986 when it was founded as Bihar Tubes Ltd. in Sikandarabad, Uttar Pradesh, by Mr. Suresh Kumar Gupta and Sarojini Gupta. Over the course of 38 years and under the leadership of Sanjay Gupta, the second-generation promoter, the Company expanded its product portfolio to include Galvanized tubes, Pre-galvanized tubes, hollow sections, and more, offering a wide range of 3,000+ SKUs for various steel structures, PEB structures, structural steel buildings, and construction applications. With a capacity of 4 Mn MTPA as of FY24, the Company operates across 11 manufacturing plants in 7 states in India and one location in UAE. APL has a vast network of over 800+ dealers 50,000+ retailers, and 200,000+ fabricators, making it the largest structural steel tube manufacturer in India, with a market share of ~55% as of FY24. Additionally, it ranks as the third-largest player in the same category globally.

Business chronology

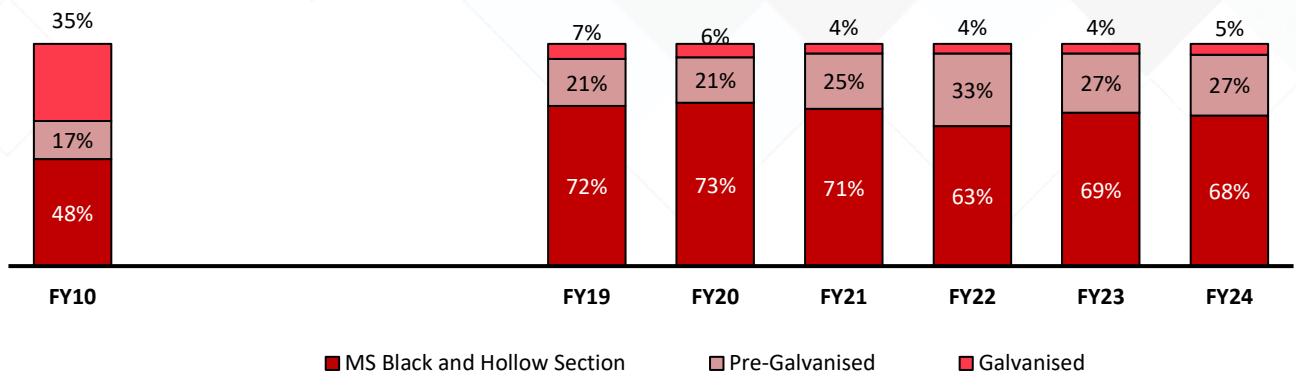


Structural Steel Pipes Industry | APL Apollo

Product Category

APL offers a diversified product portfolio of over 3,000 SKUs, including black hollow section pipes, black round pipes, galvanized pipes, and pre-galvanized pipes. APL has constantly been innovating, pioneering, and creating a market for these products.

Volume Mix Transition (%)



Source: Company, Keynote Capitals Ltd.

Over the years, the Company has shifted its product mix from initially serving use cases such as telecom towers, fluid transportation, and windmills in FY10 to now focusing exclusively on structural steel tubes. Consequently, the mix between the types of pipes has changed over the decade.

In FY11, the Company introduced a seamless equivalent low-diameter high-thickness product, replacing traditional seamless tubes in industrial applications. In FY12, APL brought the Rotary Sizing Mill (RSM) technology from Japan, enabling the development of precision tubes for automotive propellers, conveyor belts, and other specialized applications, thus expanding its product portfolio.

In FY15, APL launched colour-coated pipes in the Indian market, addressing the need for aesthetically pleasing and rust-resistant pipes. This innovation overcame the drawbacks of on-site colouring and demonstrated the Company's commitment to environmental sustainability. The same year, APL patented its first-in-India steel door frame, offering a more durable and cost-effective alternative to traditional wooden frames.

Continuing its pursuit of innovation, APL introduced the Italian DFT in India in FY16, enabling the direct production of square and rectangular hollow section pipes, reducing raw material costs and changeover times. The acquisition of Apollo Tricoat in FY19 further strengthened APL's product portfolio with ILG pipes, opening new avenues such as rooftop sheds, electrical conduits, greenhouse tubing, and hybrid (PVC+ILG) coated pipes.

Recognizing the growing demand for large-diameter tubes, APL increased its presence in this segment, from 300 to 500 sq mm. These high-diameter, high-thickness tubes are lightweight yet strong, used for verticalization in urban areas. In FY21, APL launched colour-coated tubes for interior and aesthetic purposes, further diversifying its product range and catering to evolving market trends. Additionally, they introduced tubular technology to the construction industry in India, where steel tubes are used as the primary material for making columns, beams, trusses, etc.

Structural Steel Pipes Industry | APL Apollo

By the end of FY23, APL had amassed an impressive portfolio of 16 patented products, a testament to its commitment to innovation and market leadership. These patented products included double-door chaukhat tubes, single-door chaukhat tubes, D-section for handrails/fences, elliptical tubes for electrical transformers, window frame tubes (Z, T, and L), plank tubes, reflector tubes, oval tubes for gym equipment, octagon tubes for furniture, and various other specialized products.

Going forward ahead, APL Apollo has an exciting pipeline of products lined up for its upcoming Raipur plant, which are colour-coated products, colour-coated tubes and heavy structural tubes, which include the world's first thicker colour-coated products, the world's first colour-coated structural steel tubes, India's first 500x500mm diameter structural steel tubes, India's first and the world's second 1,000x1,000 mm structural steel tubes, India's first CRCA black annealed tube, and India's first AluZinc tubes.

With the introduction of innovative and specialized products, APL has significantly shifted its product mix from general to VAP since FY19, when it stood at 58:42, to 42:58 in FY24. Consequently, the blended EBITDA per ton has witnessed a notable increase from ~Rs. 2,900 in FY19 to Rs. 4,600 in FY24.

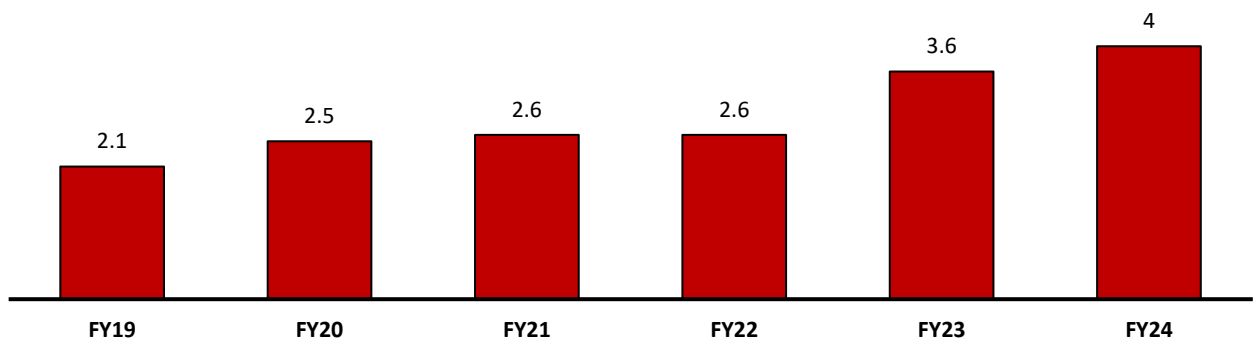
Recently, the Company added supplying solar torque tubes to its portfolio for the structure of solar tracking systems, and it has a direct connection with one of India's largest solar power producers.

In summary, the Company has a wide range of SKUs for all use-cases possible for steel pipes in construction and infrastructure.

Production

The journey of APL, under the visionary leadership of Sanjay Kumar, who took the helm at the tender age of 16 following the demise of Sudesh Kumar, is a testament to relentless innovation and strategic expansion. Inheriting a business operating in a fragmented and unorganized commodity market, Sanjay Kumar's robust approach and willingness to push technological boundaries have significantly transformed the Company's trajectory.

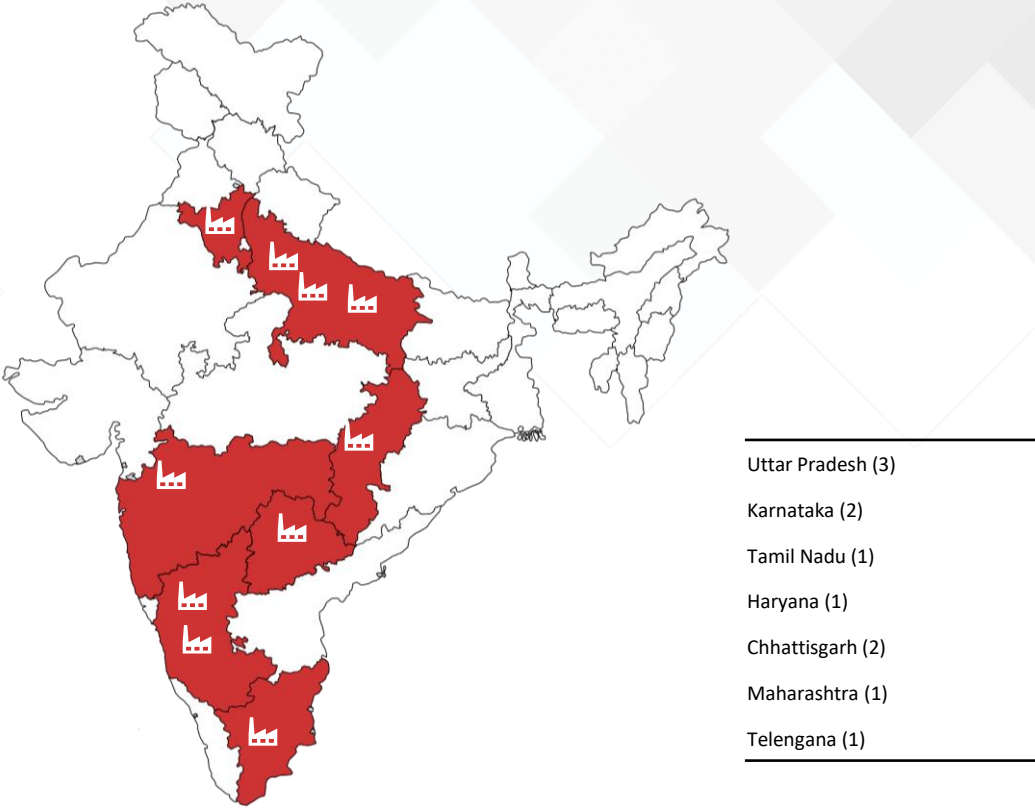
Installed Capacity (Mn MTPA)



Source: Company, Keynote Capitals Ltd.

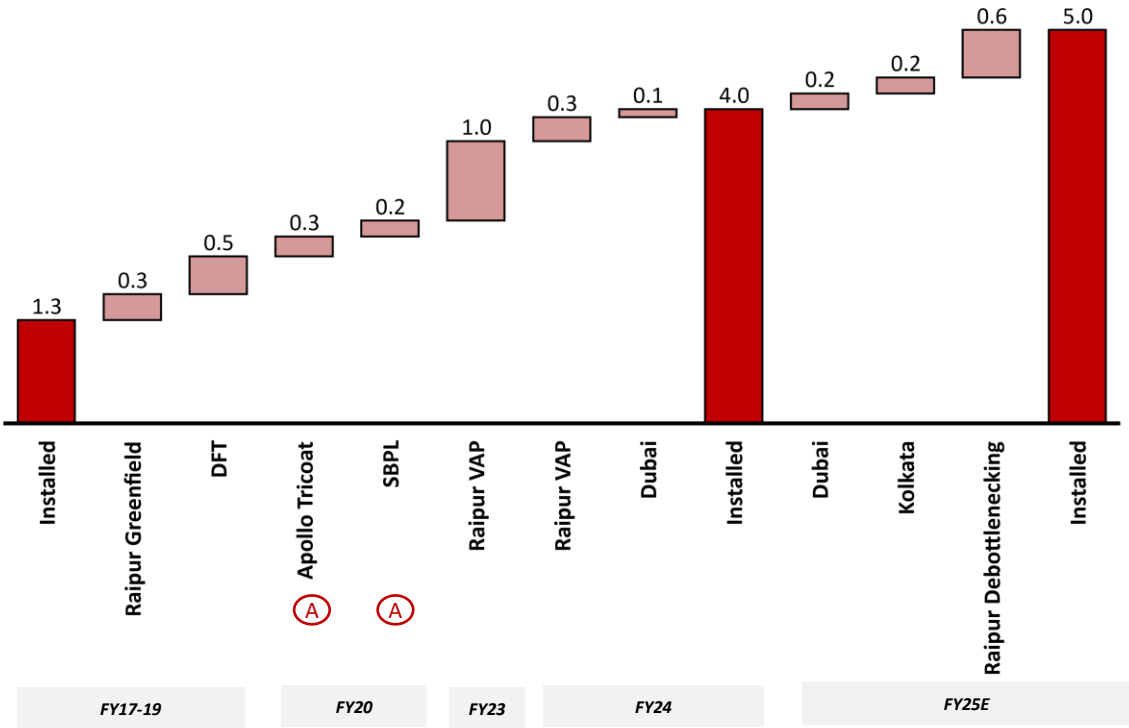
Structural Steel Pipes Industry | APL Apollo

Manufacturing plants across India



Source: Company, Keynote Capitals Ltd.

Manufacturing Capacity Build-up over the years (Mn MPTA)



(A) stands for acquisition, TVSPPL is Taurus Value Steel and Pipes Private Ltd.
Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | APL Apollo

Being more high-tech every few years

Year	Manufacturing technology	Significance	First-in-India
FY02	High speed rolling machine	Increased pipe production speed from 20 to 150 meters per minute, enhancing productivity while reducing costs.	Yes
FY03	Pre-Galvanized technology	The process involves the surface being cleaned before the metal is dipped into a hot zinc liquid bath and the recoiling process takes place.	Yes
FY11	Rotary Sizing Mill (RSM), a Japanese technology	Reduced ovality reduction to minimum/zero and ensured uniformity	Yes
FY11	Cold Saw machine	Eliminated unnecessary steps and delivered reinforced tubes with clean, burr-free ends	
FY15	Color-Coating technology	Made aesthetic and rust-preventive pipes	Yes
FY16	Direct-forming technology	Square and rectangular sections are formed directly through welding with high production speed, unlike conventional technology where round pipe is made first. It reduced 3-7% of the cost and decreased changeover time from 10 hours to 30 min. Can launch new products for agricultural implements, gym/sports equipments, solar power plants, truck & bus bodies, metros/airports infrastructure construction equipments, prefabricated structures, warehouses etc	Yes
FY19	In-line galvanizing technology from USA (via the acquisition of Apollo Tricoat)	Tube making and zinc plating are done simultaneously. The tube's exterior is galvanized uniformly, and its interior receives a simultaneous baked coating during manufacturing for strong anti-corrosion properties.	Yes
FY19	Cold rolling technology (backward integration)	Backward integration enables the production of 1mm-12mm steel vs. The industry standard >2.5mm, with a new cold-rolling facility (200,000 TPA) for cost-effective, customized thin steel materials.	No

Source: Company, Keynote Capitals Ltd.

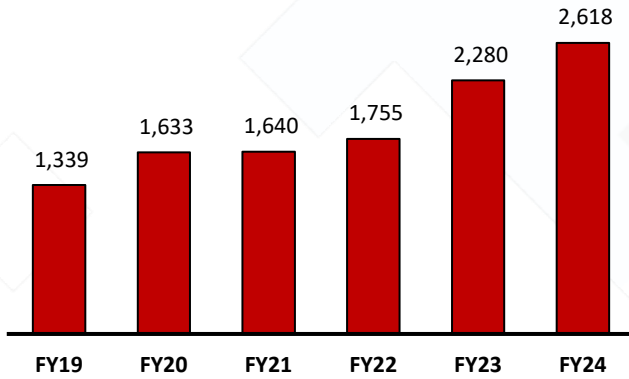
In order to strengthen its position in the international market, the Company has allocated ~ Rs.2 Bn for the Dubai plant, where they plan to install a total of 4 mills. Currently, 2 mills are operational and the remaining 2 mills are expected to become operational within the next one to two months. Once all 4 mills run, the projects have a production volume of ~0.15 Mn MTPA each, with a total production of ~0.3 Mn MTPA, resulting in about 50% utilisation. While there will be some cannibalisation from the Dubai plant, reducing APL's purchases from India, they anticipate overall production to grow to between 2 Mn MTPA and 2.5 Mn MTPA.

By June'24, the Company's capacity will increase to 4.5 Mn MTPA. Only four to five production lines are left to come on stream, which are in the final phase of completion. Following this, two additional plants will be operational in Siliguri (West Bengal) and Gorakhpur (Uttar Pradesh). These smaller plants have capacities of 0.2-0.25 Mn MTPA each. This will bring the total capacity to 5 Mn MTPA by FY25. This incremental 1 Mn MTPA in FY25 shall incur an estimated capex of ~Rs. 6 Bn.

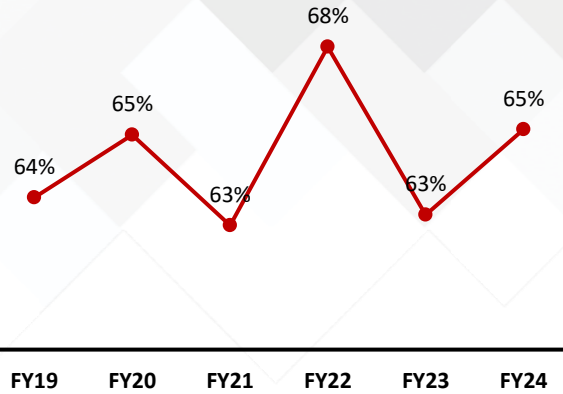
Structural Steel Pipes Industry | APL Apollo

Volume

Volume ('000 MT)



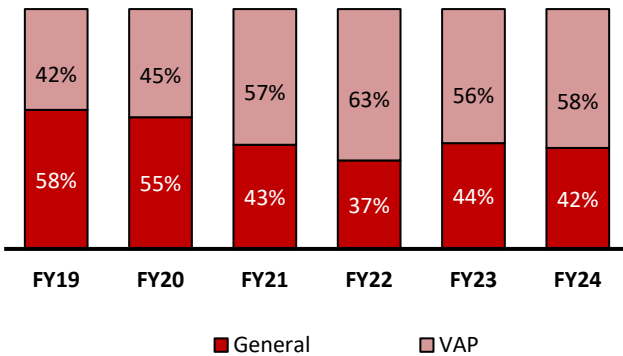
Utilization (%)



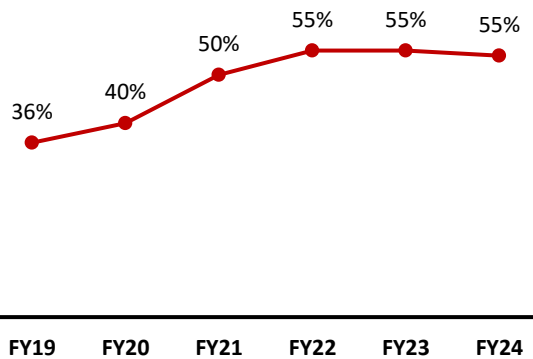
Source: Company, Keynote Capitals Ltd.

Profitability

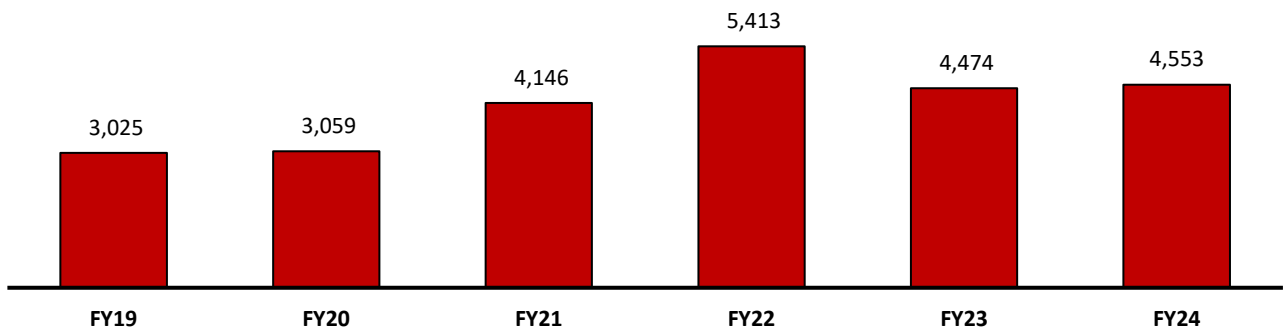
General and VAP Share (%)



Market Volume Share (%)



EBITDA per ton (Rs.)



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | APL Apollo

There are several reasons why EBITDA per ton could not register to its potential in FY24. These include the need to offer discounts and incentives to clients due to falling steel prices, which impacted EBITDA per ton, and a shift in the product mix, particularly in the segment for roofing sheeting and color coated, where the volume of lower-margin roofing sheets was higher compared to finished tubes. Additionally, the new plants in Raipur and Dubai incurred significant fixed costs upfront, affecting margins until higher utilization rates are achieved. The overall slowdown in construction activity, particularly in the retail sector, and the late ramp-up of new plants also contributed to the shortfall in expected volumes and EBITDA growth. Lastly, the decrease in steel prices required additional discounts to maintain sales volumes, impacting short-term EBITDA. With the normalization of these factors, the Company has the potential to register a higher operating profit per ton in the coming years.

Further, the steel prices have been volatile over the past 2 years. With the volatility subsiding and additional HRC capacity laid by suppliers, favourable raw material price are anticipated. Subsequently, the difference between primary and secondary steel is observed to fall to ~ Rs. 7,000 per ton from the previous high of ~Rs. 15,000 per ton. This reversion and normalcy will help companies like APL from not booking inventory losses, whereby improving EBITDA per ton.

Besides a Company's dependence on external factors for profitability, the Company's product mix also influences its profitability. With APL having a wide variety of products, profitability also varies. On a segmented basis, the general products yield an EBITDA ranging from ~Rs. 1,700-2,000 per ton, while VAP sub-categories exhibit significantly higher returns, ranging from Rs. 6,000-10,000 per ton.

The upcoming Raipur plant, slated to add a capacity of ~1.3 Mn MTPA, constituting 20% of the targeted 5 Mn MTPA by FY25, will exclusively focus on VAP production. It is anticipated to generate an impressive EBITDA per ton of ~ Rs. 6,000-7,000, further solidifying APL's position as a leader in the steel tube industry.

The long-term vision of Mr. Sanjay Gupta is to attain an EBITDA/ton of Rs. 10,000 with an installed capacity of 10 Mn MTPA over next 5 years. Management's optimism comes from the anticipation that India shall follow the global steel tube market where secondary steel tube market doesn't exist.

The Global Peer, Zekelman, has a manufacturing capacity of 2.8 Mn MTPA, an EBITDA margin of ~19%, and an EBITDA per ton of ~Rs.16,000. ~80% percent of its revenue comes from building materials and infrastructure.

Structural Steel Pipes Industry | APL Apollo

Distribution

APL has meticulously crafted a robust three-tier distribution network to solidify its presence and expand its reach across the Indian market. This network is supported by over 800+ distributors, 29 warehouses, 50,000 retailers, and 200,000 fabricators, covering more than 2,000 cities and towns nationwide. A key factor in APL's strong relationships with its dealers and distributors is its commitment to innovation, frequently introducing new products that are first-of-their-kind in India and offering an extensive variety of SKUs. From FY18 to FY24, the Company has expanded its product range from ~1,000 to ~3,000 SKUs.

The strategic placement and increase of warehouses from ~22 in FY19 to 29 in FY24 have significantly contributed to the efficiency of APL's supply chain, reducing inventory days from about 45 days in FY19 to ~38 days in FY24. The Company's engagement strategies, including personal interactions, channel financing, and efficient supply chain management, ensure regular and swift supplies, thereby strengthening distributor loyalty.

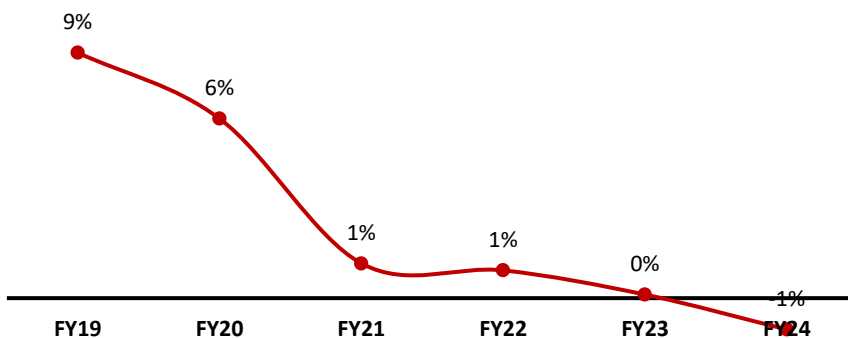
In a strategic move to enhance its distribution network, APL invested Rs. 750 Mn for a ~10% stake in Shankara, making it the Company's largest distributor with over 100 retail stores nationwide. This investment has not only improved APL's pricing strategy in the South but also contributed to an increase in its EBITDA per ton.

During the COVID-19 pandemic, APL leveraged the situation to adopt a cash-and-carry sales model, focusing on smaller customers with minimal outstanding balances. This approach, supported by the Company's DFT, allowed for efficient catering to the diverse product needs of smaller dealers, preserving margins amidst increased competition.

The shift to a cash-and-carry sales policy post-pandemic lockdowns, facilitated by APL's comprehensive product basket, customization capabilities, manufacturing presence near key markets, and strong brand, has significantly reduced the Company's net working capital cycle.

The introduction of the cash-and-carry model has also reduced receivable days from ~28 days in FY19 to about 3 days in FY24. Concurrently, the Company's payable days have extended to 46 days from 42 days in FY19, reflecting a disciplined approach and underscoring the benefits of this strategic shift.

Net Working Capital as a percentage of Sales (%)



Source: Company, Keynote Capitals Ltd.

Net Working Capital = Receivables + Inventory - Payables

Structural Steel Pipes Industry | APL Apollo

Management Analysis of APL

The Management team of APL comprises of industry veterans who bring immense expertise and relevant experience of working with large entities.

Name	Designation	Previous Experience	Experience with APL (Yrs.)
Sanjay Gupta	Executive Chairman	-	22+
Vinay Gupta	Director (Pre-Galvanized and International business)	-	24+
Deepak Goyal	Director (Operations) & Chief Financial Officer	CFO at Surya Roshni	10+
Rahul Gupta	Director	-	7+
Ravindra Tiwari	National Head (Sales and Marketing)	Senior Vice President at HiTech Pipes Ltd Head Marketing at APL Apollo	6+

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
% Promoter Holding (~)	37%	38%	37%	35%	31%	29%
MD's salary (Rs Mn)	35	35	35	35	35	NA
As a % of PAT (~)	2.4%	1.4%	0.9%	0.6%	0.5%	NA

Source: Company, Keynote Capitals Ltd.

Top Shareholders with more than 2% stake

Stakeholders	FY19	FY20	FY21	FY22	FY23	FY24
Smallcap World Fund Inc	-	-	4.4%	6.1%	5.7%	5.4%
Kitara Piin 1101	-	-	3.4%	-	-	-
New World Fund Inc.	-	-	-	-	-	3.3%
K India Opportunities Fund Limited Class S	-	-	-	3.3%	2.5%	-
DSP Small Cap Fund	4.2%	3.3%	1.1%	-	1.7%	-
DSP Dynamic Asset Allocation Fund	-	-	-	2.4%	-	-
ICICI Prudential Life Insurance	-	2.2%	2.4%	1.6%	-	-
Kotak Emerging Equity Scheme	2.2%	2.3%	1.2%	-	-	1.7%
Sameer Mahendra Sampat	2.3%	2.3%	2.3%	2.3%	2.1%	-

Source: Company, Keynote Capitals Ltd.

Opportunities

The TAM expanding forerunner

APL has consistently proven itself as a trailblazer in the steel tube industry, relentlessly expanding its TAM through the introduction of cutting-edge, innovative products derived from the latest technologies. The Company's unwavering commitment to innovation has not only solidified its position as a market leader but has also revolutionized the industry as a whole.

In FY15, APL made a groundbreaking introduction to the Indian market with its colour-coated pipes, addressing the demand for aesthetically appealing and corrosion-resistant pipes. This pioneering product eliminated the shortcomings of on-site colouring while showcasing the Company's dedication to environmental sustainability. During the same year, APL registered a patent for its first-in-India steel door frame, presenting a more robust and economical alternative to conventional wooden frames.

APL's relentless pursuit of innovation led to the introduction of the globally renowned Italian DFT in India in FY16. This technology facilitated the direct production of square and rectangular hollow section pipes, optimizing raw material usage and reducing changeover times, ultimately enhancing operational efficiency and flexibility.

The strategic acquisition of Apollo Tricoat in FY19 further bolstered APL's product portfolio by incorporating ILG pipes, a technology possessed by only a select few global players. This acquisition unlocked new opportunities for the Company, including rooftop sheds, electrical conduits, greenhouse tubing, and hybrid (PVC+ILG) coated pipes.

Recognizing the surging demand for large-diameter tubes, APL concentrated on expanding its presence in this segment, ranging from 300 to 500 sq mm. These high-diameter, high-thickness tubes offer a lightweight yet robust solution, ideal for verticalization in urban areas.

In FY21, APL diversified its product range further by launching colour-coated tubes for interior and aesthetic applications, adapting to evolving market trends. By the end of FY23, the Company had amassed an impressive portfolio of 16 patented products, underscoring its dedication to innovation and market leadership. These patented products encompassed a wide array of specialized offerings, including double-door chaukhat tubes, single-door chaukhat tubes, D-section for handrails/fences, elliptical tubes for electrical transformers, window frame tubes (Z, T, and L), plank tubes, reflector tubes, oval tubes for gym equipment, octagon tubes for furniture, and various other niche products.

Looking ahead, APL has an exciting pipeline of products lined up for its greenfield Raipur plant, commissioned almost a year ago, which includes colour-coated products, colour-coated tubes, and heavy structural tubes. These groundbreaking offerings comprise the world's first thicker colour-coated products, the world's first colour-coated structural steel tubes, India's first 500x500mm diameter structural steel tubes, India's first and the world's second 1,000x1,000mm structural steel tubes, India's first CRCA black annealed tube, and India's first AluZinc tubes.

Structural Steel Pipes Industry | APL Apollo

Through the introduction of innovative and specialized products, APL has shifted its product mix from general to VAP from 58:42 in FY18 to 42:58 in FY24. As a result, the blended EBITDA per ton has witnessed a remarkable increase from ~Rs. 2,900 in FY19 to Rs. 4,600 in FY24.

APL's unwavering focus on innovation, coupled with its ability to leverage cutting-edge technologies, has positioned the Company as a pioneer in the steel tube industry. By constantly pushing the boundaries and introducing revolutionary products, APL continues to redefine the market and set new benchmarks for excellence.

The moat is in being far-sighted

APL's stronghold lies in its ability to consistently advance technologically and innovate within the steel tube industry. As a result, APL has transformed what was once a commodity-driven steel converter industry into one that demands significant investments in backend technology, akin to the textile and end-product innovation like consumer discretionary sectors. This shift towards technological spending and product innovation has elevated APL's status as a leader in the industry.

The Company employs a strategic approach to market penetration, prioritizing sectors with minimal competition to maximize its market share. By targeting product gaps and void of competition, the Company establishes itself as a dominant player with ~100% market share initially, which later settles to ~50-60%.

A prime example of this strategy is the Company's introduction of 500x500 columns, which filled a gap in the market and addressed heavy column needs against the convention RCC. Over a period of two years, the Company actively engaged with construction experts to promote the benefits of tubular technology and demonstrate its relevance in modern construction practices. As a result, the Company successfully deployed its tubular technology in the construction of six hospitals in the national capital, significantly reducing construction time to just three months. This initiative garnered attention within the construction community, showcasing the Company's ability to create new markets and establish itself as an industry leader.

For smaller players, these continuous advancements create substantial barriers to competing effectively. Moreover, external factors such as fluctuations in steel prices, along with events like demonetization, GST implementation, and the COVID-19 pandemic, amplify the challenges faced by smaller players. These events further widen the gap between industry leaders like APL and their competitors, making it increasingly difficult for smaller players to reach and maintain top positions in the market.

The Company had laid down a vision for a 5 Mn MTPA capacity across categories, especially, light tubs. However, the success observed in the big and super big sections over the last year has led to a strategic shift. This success convinced the Company of the need to install more mills for bigger section tubes, anticipating future demand and staying ahead of the competition.

Structural Steel Pipes Industry | APL Apollo

In 2017, the Company installed a 300x300 mill, and now competitors are planning to install similar mills after 4-5 years. Observing the momentum gained by the Company's 500x500 square mill, competitors are tracking these developments. By the time competitors consider installing such mills in the next 3-4 years, the Company plans to be ready with 1,000x1,000 and 600x600 mills.

This strategic move is intended to make a statement in the industry and assure clients that the Company is prepared to meet the upcoming demand. Consequently, the capacity expansion program has been adjusted to focus more on heavy and super-heavy sections.

The promising growth ahead

APL is poised for significant growth in the coming years, driven by strategic expansions and a focus on VAP. The Company has inaugurated a new manufacturing facility in Raipur dedicated to producing VAPs such as colour-coated products, colour-coated tubes, and heavy structural tubes. This move is part of APL's broader strategy to enhance its product portfolio and meet the increasing demand for high-quality steel products.

The Raipur plant's operational capacity is a cornerstone of APL's ambitious growth plans. The Company aims to achieve a sales volume of ~4 Mn MTPA by FY25 and further increase this to around 5 Mn MTPA by FY26. Of this projected volume, 1.5 Mn MTPA will be allocated to general products, while a significant 3.5 Mn MTPA will be dedicated to VAPs. This includes a contribution of 0.5 Mn MTPA from the Company's Dubai facility, which is integral to APL's goal of exporting 1 Mn MTPA—half from India and the remainder from Dubai.

The strategic focus on VAPs is expected to increase their contribution to ~70% of the Company's total volume by FY24, up from the current ~58%. This shift towards higher-margin products is anticipated to enhance the Company's EBITDA per ton from the present rate of ~Rs. 4,600.

Management is optimistic about achieving a growth rate of 20-25% through internal capabilities alone. However, they also recognize the potential for even higher growth rates if external market conditions remain favorable. This balanced approach, leveraging both internal strengths and external opportunities, positions APL well for sustained growth and market leadership in the steel industry.

Challenges

Heavy dependence on the construction sector

Roughly 80% of APL's revenue stems from building materials, primarily structural steel tubes and pipes. Among these, the housing sector contributes ~57% of the revenue, while the commercial real estate sector accounts for 22%. This heavy reliance on construction activities in both residential and commercial segments leaves APL vulnerable to fluctuations in these sectors. Any slowdown in construction could substantially affect the demand for their core structural steel products, potentially impacting the Company's growth. Furthermore, APL's limited diversification beyond construction materials makes them particularly susceptible to cyclical downturns in real estate and infrastructure development.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,61,660	1,81,188	2,25,803	2,82,621	3,39,146
Growth %		12%	25%	25%	20%
Raw Material Expenses	1,40,178	1,56,172	1,94,190	2,42,489	2,89,969
Employee Expenses	2,062	2,576	3,161	3,957	4,748
Other Expenses	9,204	10,518	13,097	16,392	19,670
EBITDA	10,216	11,922	15,355	19,783	24,758
Growth %		17%	29%	29%	25%
Margin%	6%	7%	7%	7%	7%
Depreciation	1,383	1,759	2,118	2,412	2,706
EBIT	8,832	10,162	13,237	17,372	22,052
Growth %		15%	30%	31%	27%
Margin%	5%	6%	6%	6%	7%
Interest Paid	671	1,134	1,259	1,259	1,259
Other Income & exceptional	472	749	600	600	600
PBT	8,633	9,777	12,578	16,713	21,393
Tax	2,215	2,453	3,144	4,178	5,348
PAT	6,419	7,324	9,433	12,535	16,045
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	6,419	7,324	9,433	12,535	16,045
Growth %		14%	29%	33%	28%
Shares (Mn)	277.3	277.5	277.5	277.5	277.5
EPS	23.1	26.4	34.0	45.2	57.8

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	3,525	3,476	5,471	9,512	18,639
Current Investments	0	0	0	0	0
Debtors	1,374	1,391	2,258	2,826	3,391
Inventory	14,799	16,379	21,361	26,674	31,897
Short Term Loans & Advances	10,568	8,847	8,847	8,847	8,847
Other Current Assets	443	3,320	3,320	3,320	3,320
Total Current Assets	30,709	33,414	41,257	51,180	66,095
Net Block & CWIP	29,544	34,840	38,722	42,310	45,604
Long Term Investments	960	1,027	1,027	1,027	1,027
Other Non-current Assets	4,092	2,588	2,588	2,588	2,588
Total Assets	65,305	71,868	83,593	97,104	1,15,313
Creditors	15,970	19,816	23,901	27,258	32,471
Provision	5,343	435	435	435	435
Short Term Borrowings	3,037	3,380	3,380	3,380	3,380
Other Current Liabilities	2,583	1,322	1,322	1,322	1,322
Total Current Liabilities	26,934	24,954	29,039	32,396	37,609
Long Term Debt	4,081	7,865	7,865	7,865	7,865
Deferred Tax Liabilities	1,171	1,258	1,258	1,258	1,258
Other Long Term Liabilities	3,063	1,745	1,745	1,745	1,745
Total Non Current Liabilities	8,315	10,868	10,868	10,868	10,868
Paid-up Capital	555	555	555	555	555
Reserves & Surplus	29,501	35,491	43,132	53,285	66,281
Shareholders' Equity	30,056	36,046	43,687	53,840	66,837
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	65,305	71,868	83,593	97,104	1,15,313

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	8,633	9,777	12,578	16,713	21,393
Adjustments	1,903	2,316	2,777	3,071	3,365
Change in Working Capital	-1,475	1,202	-1,765	-2,523	-575
Total Tax Paid	-2,161	-2,180	-3,144	-4,178	-5,348
Cash flow from operating Activities	6,901	11,116	10,446	13,082	18,834
Net Capital Expenditure	-8,424	-6,618	-6,000	-6,000	-6,000
Change in investments	-393	-2,876	0	0	0
Other investing activities	59	338	600	600	600
Cash flow from investing activities	-8,757	-9,156	-5,400	-5,400	-5,400
Equity raised / (repaid)	27.4	28	0	0	0
Debt raised / (repaid)	2,902	2,586	0	0	0
Dividend (incl. tax)	-875	-1,387	-1,792	-2,382	-3,048
Other financing activities	-608	-961	-1,259	-1,259	-1,259
Cash flow from financing activities	1,446	266	-3,051	-3,640	-4,307
Net Change in cash	-410	2,225	1,995	4,042	9,127

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	23	26	34	45	58
Growth %		14%	29%	33%	28%
Book Value Per Share	108	130	157	194	241
Return Ratios					
Return on Assets (%)	11%	11%	12%	14%	15%
Return on Equity (%)	23%	22%	24%	26%	27%
Return on Capital Employed (%)	21%	21%	21%	23%	24%
Turnover Ratios					
Asset Turnover (x)	2.8	2.6	2.9	3.1	3.2
Sales / Gross Block (x)	6.0	5.1	5.2	5.7	6.1
Working Capital / Sales (%)	2%	3%	5%	5%	7%
Receivable Days	5	3	3	3	3
Inventory Days	30	36	35	36	37
Payable Days	33	41	40	38	37
Working Capital Days	3	-2	-2	2	3
Liquidity Ratios					
Current Ratio (x)	1.1	1.3	1.4	1.6	1.8
Interest Coverage Ratio (x)	13.9	9.6	11.0	14.3	18.0
Total Debt to Equity	0.2	0.3	0.3	0.2	0.2
Net Debt to Equity	0.1	0.2	0.1	0.0	-0.1
Valuation					
PE (x)	52.1	61.9	48.0	36.1	28.2
Earnings Yield (%)	2%	2%	2%	3%	4%
Price to Sales (x)	2.1	2.5	2.0	1.6	1.3
Price to Book (x)	11.1	12.6	10.4	8.4	6.8
EV/EBITDA (x)	33.2	38.2	29.6	23.0	18.4
EV/Sales (x)	2.1	2.5	2.0	1.6	1.3

Source: Company, Keynote Capitals Ltd. Estimates,

APL Apollo's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	FY26E
Revenue	2,82,621
EBITDA	19,783
PAT	12,535
No. of shares	~278
EPS	~45
PE	~45
Market Capitalization	5,64,058
Target Price	2,032
Current Market Price	1,625
% Upside/(Downside)	~25%

Source: Company, Keynote Capitals Ltd. estimates

APL exemplifies innovation and market leadership in the steel tube industry. Introducing pioneering products like colour-coated pipes, patented steel door frames, and interior colour-coated tubes, they address aesthetic and durability demands. Leveraging advanced technologies and strategic acquisitions expands their product line and streamlines production. With 16 patents by FY23, APL demonstrates dedication to niche offerings. Targeting underserved sectors secures a significant market share, initially around 55%, creating high entry barriers. Owing to their relentless innovation, market strategy, and capacity expansions, we expect a topline growth of ~25% topline over the next 2 years and EBITDA per ton of ~Rs. 4,900. Further, with a PE of 45x on FY26E EPS, we suggest an upside of ~25%.

Hi-Tech Pipes Ltd.

26th June 2024

A bet on proficiency and opportunity

Hi-Tech Pipes Ltd (HTPL), established in 1988 and headquartered in New Delhi, India, is a leading manufacturer of steel products under the guidance of Ajay Kumar Bansal. The Company operates five manufacturing facilities across Uttar Pradesh, Maharashtra, Andhra Pradesh, and Gujarat, with a total capacity of 0.75 Mn MTPA in FY24, set to expand to 1 Mn MTPA by FY25. HTPL offers a diverse range of products, including steel pipes, hollow sections, tubes, cold rolled coils & strips, road crash barriers, solar mounting structures, GP/GC Sheets, Color Coated Coils, and various galvanized products. The Company has over 500 dealers and distributors, offering more than 1200 SKUs. The Company has guided that the share of VAP in volume is expected to increase from 35% in FY24 to 50% by FY26.

Growth phase ahead with capacity expansion

The Company is poised for a solid growth phase with significant capacity expansion plans. The Company's capacity stood at ~0.58 Mn MTPA for FY24, achieving a utilization rate of ~67%. The addition of 0.17 Mn MTPA capacity in the late FY24, from the Sanand facility allows entry into the large diameter segment, enhancing the total capacity to 0.75 Mn MTPA. A planned capex of ~Rs. 1 Bn for FY25 aims further to increase capacity to 1 Mn MTPA through brownfield expansion. Additionally, the increase in VAP volumes from ~35% in FY24 to 50% in FY26 is projected to boost average realizations.

Increase in EBITDA per ton by ~33%

The Company increased its VAP share from ~28% in FY23 to ~35% in FY24, targeting ~50% by FY26. This growth is supported by introducing products like solar torque tubes, colour-coated sheets, and specialized SKUs for bullet trains. HTPL is also expanding upstream and downstream in the value chain, including increasing cold rolled coil capacity and augmenting GP/GC pipes. By FY26, the Company aims to achieve a total capacity of 1 Mn MTPA, dedicating ~60% of this capacity and ~50% of volume to VAP. These initiatives are projected to raise the Company's EBITDA per ton from ~Rs. 2,900 in FY24 to ~Rs. 4,000 by FY25.

View & Valuation

HTPL is set for significant growth through strategic expansions and a focus on VAP. The Company plans to increase production capacity by 20-25% annually, with new facilities dedicated to VAP. This expansion aims to boost VAP share from 35% to ~50%, enhancing margins. Consequently, we issue a BUY rating on HTPL, expecting a 20% topline growth, a blended EBITDA per ton of Rs. 3,500, and an EPS of ~Rs. 5 by FY26E, suggesting a target price of Rs. 165 on a PE of 32x and an upside of ~24%.

BUY

CMP Rs. 133

TARGET Rs. 165 (+24%)

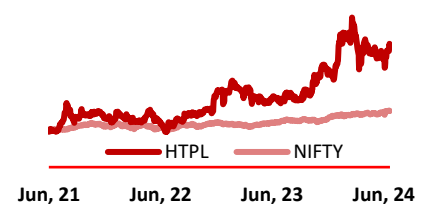
Company Data

Bloomberg Code	HITECH IN
MCAP (Rs. Mn)	19,950
O/S Shares (Mn)	150
52w High/Low	170/71
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	115

Shareholding Pattern %

	Mar-24	Dec-23	Sep-23
Promoters	53.2	55.64	55.27
FIIIs	0.38	0.08	0.35
DIIIs	11.44	7.45	4.81
Non-Institutional	34.97	36.83	39.58

HTPL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

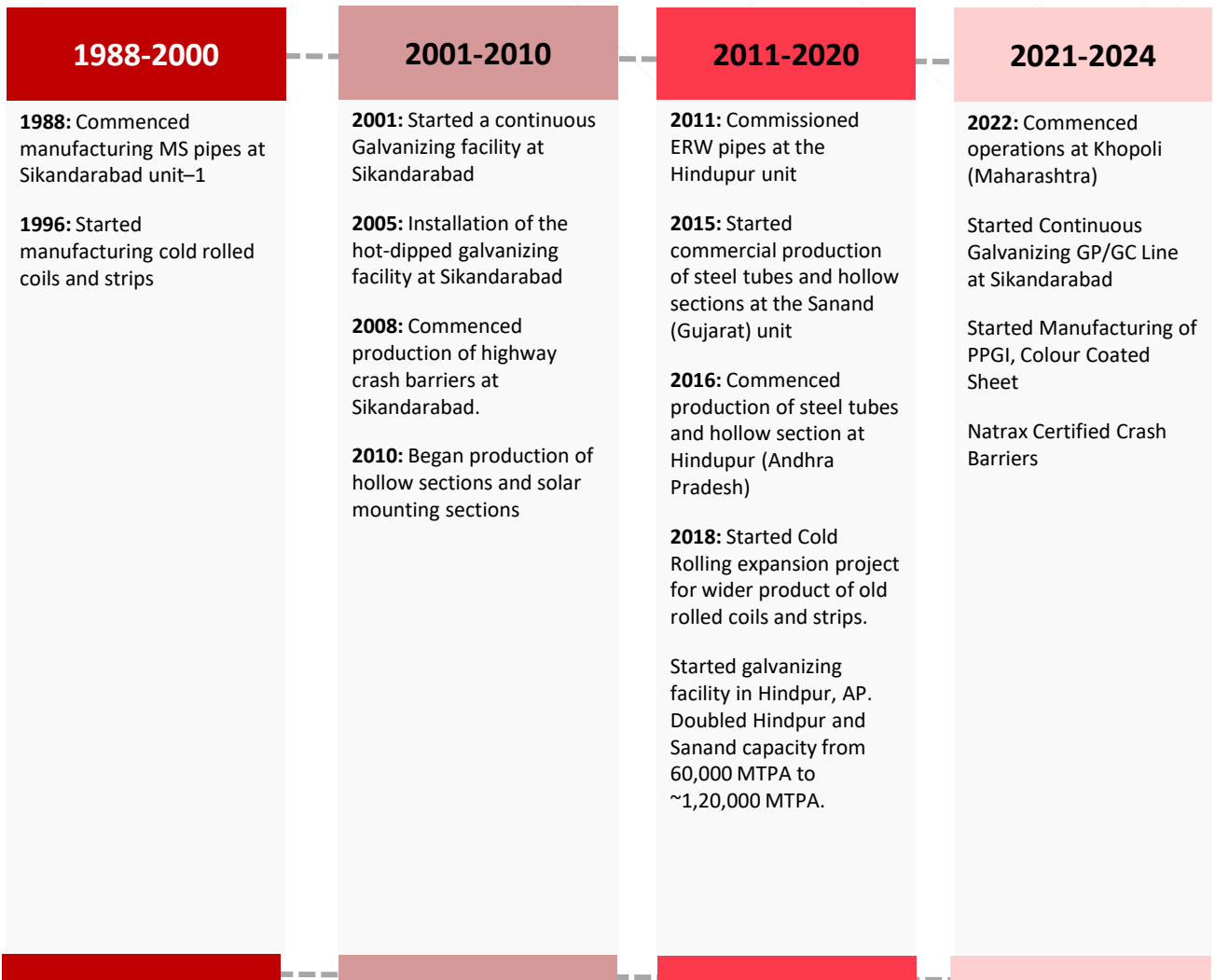
(Rs Bn)	FY24	FY25E	FY26E
Revenue	27	32	39
EBITDA	1	1	2
Net Profit	4	6	9
Total Assets	12	14	15
ROCE (%)	11%	11%	12%
ROE (%)	9%	9%	11%

Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | HTPL

Business Overview

Hi-Tech Pipes Ltd. (HTPL), established in 1988 and headquartered in New Delhi, India, is a leading manufacturer in the steel pipe industry. The Company serves a diverse range of sectors, including infrastructure, telecommunications, defence, railroads, airports, real estate, and automobiles. HTPL boasts an impressive installed capacity of 7,50,000 MTPA and operates five manufacturing facilities across four states. The Company maintains a strong distribution network with 500+ dealers. HTPL offers a comprehensive product range that includes MS Steel Pipes, Hollow Sections, GI Pipes, Cold Rolled Coils & Strips, GP Coils, GC Sheets, and Crash Barriers, among others.



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | HTPL

Product Category

HTPL offers a diversified product portfolio of 1,200+ SKUs, including black hollow section pipes, black round pipes, galvanized pipes, and pre-galvanized pipes.

HTPL has expanded its product from manufacturing MS Black pipes in its earlier years to now providing a diverse range of steel products such as M S black pipes – square and rectangular hollow sections, solar torque tubes, GI pipes, GP pipes, cold-rolled coils, galvanized plain and corrugated sheets, colour-coated coils, metal beam crash barriers, and more.

The Company's product portfolio has grown significantly, with the number of SKUs increasing from ~550 in FY19 to over 1,200+ in FY24.

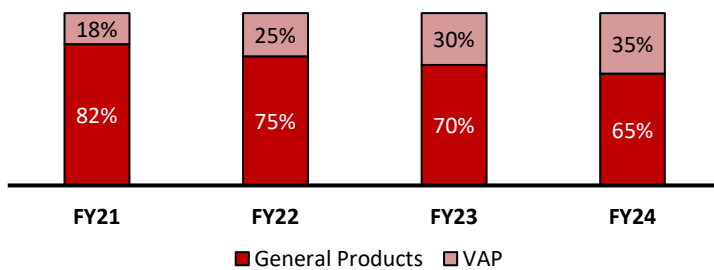
The Company derives ~70% of its volume from pipes and tubes; and ~30% from cold rolled products, colour-coated products and engineering products as of FY24.

Recently, HTPL introduced colour-coated pipes and large-diameter pipes to its product lineup. These new offerings cater to various applications, including warehousing, industrial sheds, bus bodies, metros, wall cladding, oil and gas, and infrastructure projects. The addition of large-diameter pipes in FY24 has expanded the Company's SKU range from 0.5 inches to 16 inches.

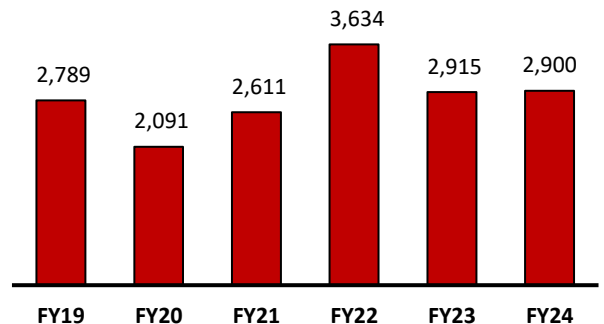
Further, the Company has taken a few new initiatives, such as Fire-Fighting systems, colour-coated coils, and GP/GC lines, as forward integration to the cold-rolled coil.

The precious VAP

Share of General Products VAP (%)



EBITDA per ton (Rs.)



The Company has made strides in enhancing its share of VAP, which increased from ~28% in FY23 to ~35% in FY24. To further bolster this trend, the Company aims to elevate the VAP share to ~40% by FY25 and ~50% by FY26. This strategic objective is being pursued through the introduction of high-margin products such as solar torque tubes, colour-coated sheets, and specialized SKUs for bullet trains.

Moreover, the Company is undertaking expansion initiatives both upstream and downstream in the value chain. This includes increasing cold rolled coil capacity as part of backward integration and augmenting GP/GC pipes as part of forward integration. By the anticipated completion of the 1 Mn MTPA capacity by FY25, ~60% of the Company's total capacity will be dedicated to VAP.

Structural Steel Pipes Industry | HTPL

Consequently, the Company expects a significant improvement in its EBITDA per ton, with guidance to increase from ~Rs. 2,900 in FY24 to a range of Rs. 4,000 in FY25.

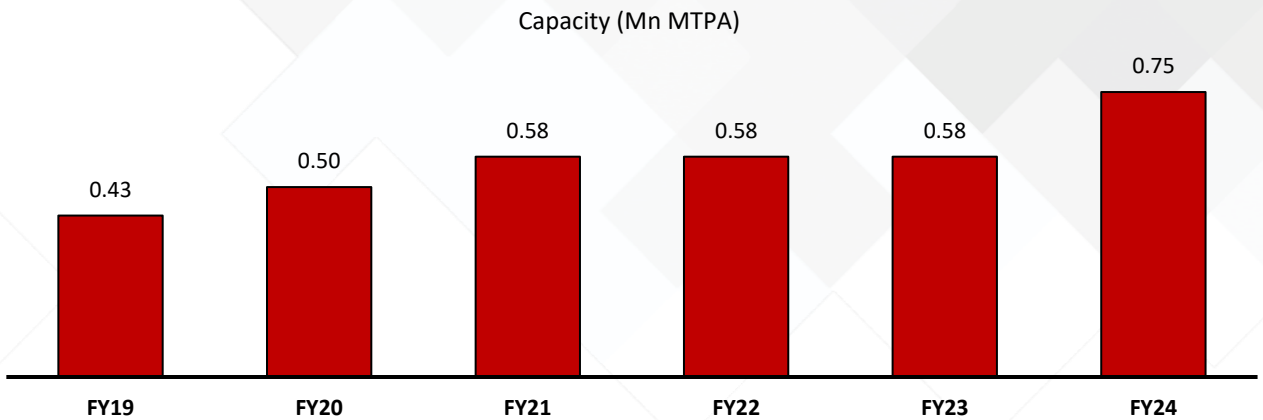
Products added in VAP in the last 3 years:

Year	Product	Description
FY22	Solar torque tube	The demand for this product increased after the cost of solar modules increased. To offset this cost, the Company sought to offset it by adopting solar trackers instead of fixed solar structures, which help them produce more output by ~20-25%. The Company is aggressively pursuing this product.
	Color coated sheets	It is a forward integration to the existing Cold Rolling and Continuous Galvanizing Line facility. It is used in Warehouses, Industrial Sheds, Bus Bodies, Metros, Hilly areas, Wall Cladding, Doors, and Window Frames, etc.
FY23	Colour Coated Coils	They are premium color-coated coils used in Warehouses, Industrial Sheds, Bus Bodies, Metros, Hilly areas, Wall Cladding, Doors, and Window Frames, among other applications.
	GP/GC Line	It is a forward integration to Cold Rolled Coil Line
FY24	200x200 Hollow Section Pipes	Size 4mm to 8mm
	CRFH Pipes	Used for furniture and high-end segment has been started at Hindupur, Andhra Pradesh
	Large-diameter API Pipes	Sizes up to 16 inches Round pipes for Water, Infrastructure, Oil & Gas Segment. The Company shall be able to enlarge its product basket from 0.5 to 16 inches

Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | HTPL

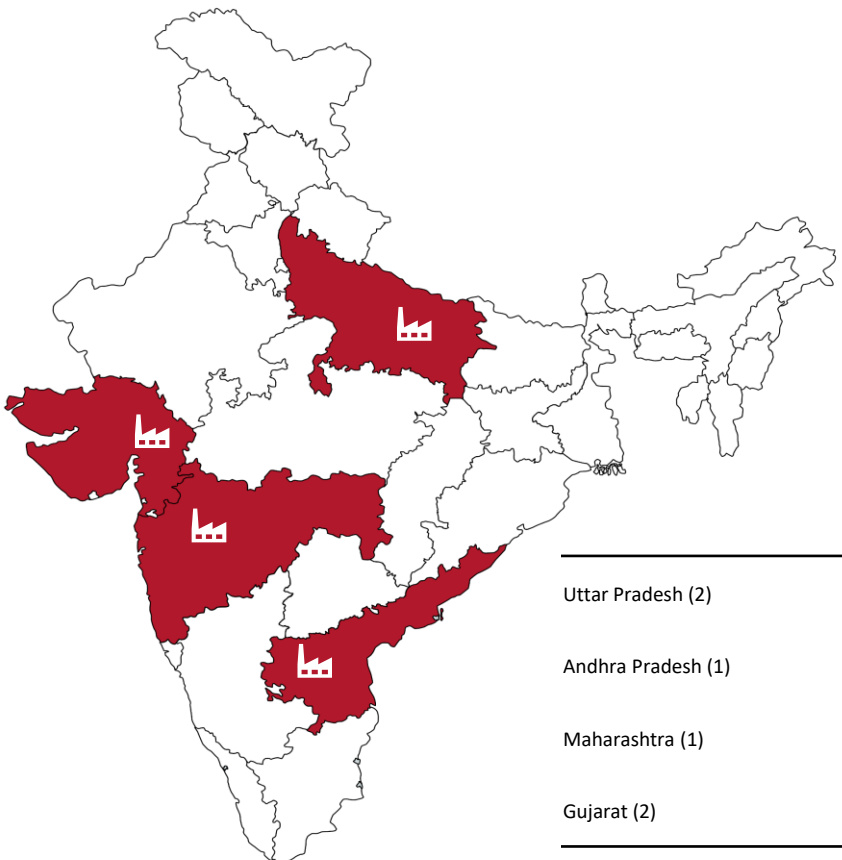
The manufacturing capital



Source: Company, Keynote Capitals Ltd.

HTPL's manufacturing infrastructure spans India, with ~50% of its capacity situated in the western region (comprising 39% in Sanad, Gujarat and 11% in Khopoli, Maharashtra), 34% in the northern district of Sikandarabad of Uttar Pradesh, and 16% in the southern district of Hindupur of Andhra Pradesh.

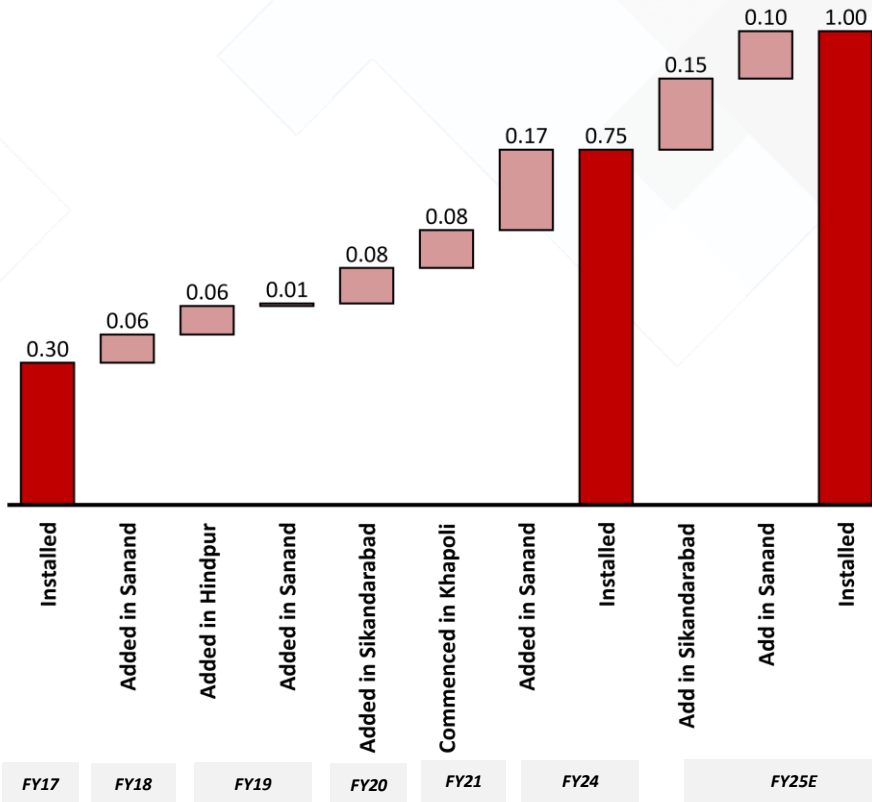
Manufacturing plants across India



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | HTPL

Manufacturing Capacity in Mn MTPA



Source: Company, Keynote Capitals Ltd.

Manufacturing Footprint

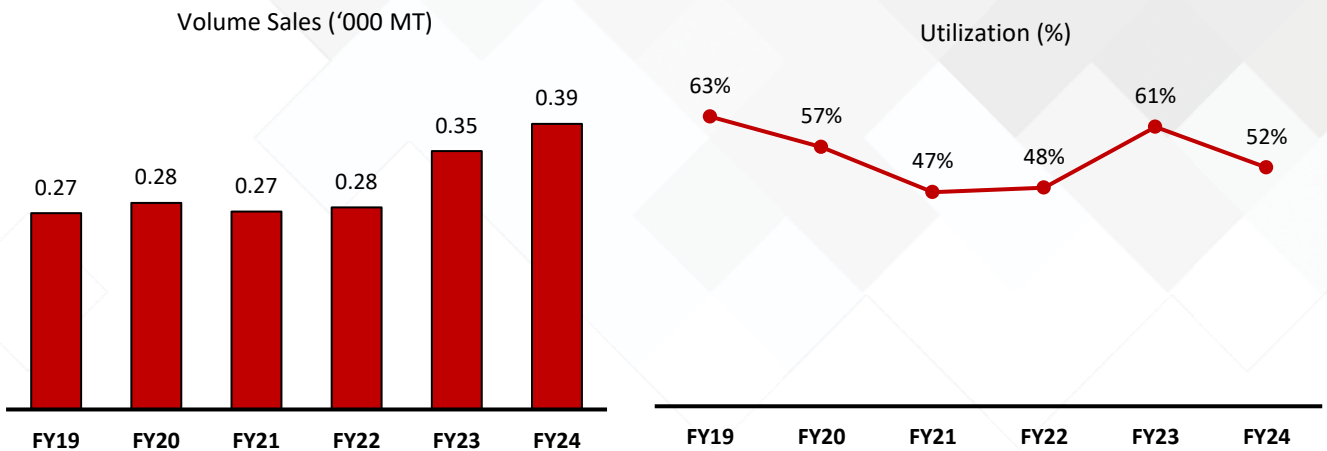
Plant Location	Capacity (~Mn MTPA)	Products Manufactured
Sikandarabad, UP	0.26	MS steel pipes, Hollow section, GI Pipes, Cold Rolled Coils and Strips, GP Cols, GC Sheets, Crash Barriers, Color Coated Coils
Hindupur, Andhra Pradesh	0.12	MS Steel Pipes, Hollow Sections and GP Pipes
Sanand Gujarat	0.30	MS Steel Pipes, Hollow Section, GI Pipes, GP Pipes, CR Pipes, Solar Torque Tubes, Large Dia PIPES
Khapoli, Maharashtra	0.08	MS Steel Pipes, Hollow Section, GP Pipes, CR Pipes

Source: Company, Keynote Capitals Ltd.

Additionally, the Company has undertaken several cost optimization initiatives. Notably, between FY16 and FY23, it achieved a 1.5% reduction in the cost of power and fuel by transitioning to solar power. Looking ahead, the Company remains committed to this path and has recently entered an MoU with Amplus RD Solar Private Limited to procure 5 MW of solar electricity for its Sikandarabad facility. This strategic move is expected to further lower power costs and enhance operational efficiency.

Structural Steel Pipes Industry | HTPL

Volume Sales



Source: Company, Keynote Capitals Ltd.

The adjusted utilization level based on the available capacity for the full year is 67%.

By initiating sales in categories across the board, HTPL achieved volume growth of ~8% CAGR between FY19-24. With the commissioning of an additional ~0.17 Mn MTPA capacity at the Sanand facility in Gujarat, the Company expects to contribute ~0.1-0.15 MT to its total volumes in FY25. This increase will bring the total volumes to ~0.45-0.50 MT, representing an implied growth rate of 15-28% and utilization level of ~50%.

As of FY23, ~50% of the business comes from infrastructure, followed by 15% from water transportation, such as JJM, and ~10% from engineering, and the remaining ~25% is mixed with other industries.

Distribution

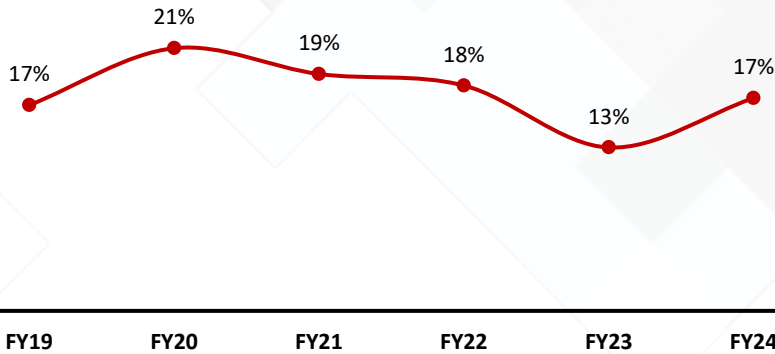
HTPL has developed a robust distribution network over the years in industries like Automobile, Capital Goods, Consumer Goods, Agriculture, Water Management, Commercial Buildings, Housing, Airports, Metros, Roads & Highways, Railways, Warehouses, Industrial Sheds, Doors and Window Frames, Residential Roofing, Metros etc. The customers for solar trackers are on a different supply channel. They are the EPC companies providing turnkey solutions for solar projects.

In FY18, the Company had a network of ~400 distributors, but this has expanded to 500+ dealers/distributors by FY24 amidst the growing demand and geographical spread of its operations.

The relationship with debtors and the management of working capital are critical aspects of HTPL's operational strategy. Over the years, the Company has made significant improvements in its working capital management. For instance, the net working capital days have been reduced from ~82 days in FY20 to ~66 days in FY24. Management anticipates an increase in working capital needs for FY26, which might result in a marginal increase in borrowings.

Structural Steel Pipes Industry | HTPL

Net Working Capital as a percentage of Sales (%)



During FY24, the Company supplied large orders from JJM, which typically have higher receivable days of upto 60 days. This has contributed to an increase in NWC as a percentage of sales in FY24.

Source: Company, Keynote Capitals Ltd.

Net Working Capital is based on receivables, inventories and payables

HTPL offers dealer discounts to maintain a healthy relationship with its distribution network. Without the cash discount, which typically ranges from 1-1.5%, the credit term for dealers is usually 30 days. The Company is also exploring options like dealer finance to optimize its working capital without necessarily adopting a zero-financing approach. An NBFC, with a book of Rs. 250 Mn, currently lends to dealers at an interest rate ranging from 9.5-10%.

When the demand environment is not favourable, the Company, along with its peers, tend to provide discounts to dealers to maintain or gain market share, depending on their financial strength. During FY24, the Company had provided ~Rs. 400-500 per ton of discounts to its distributors which lowered EBITDA/ton. This is anticipated to reverse in the coming period.

Market

HTPL has strategically diversified its market reach across various sectors, leveraging its extensive dealer, distributor, and contractor networks. During the pandemic, the Company strengthened its relevance in the agriculture industry, recognizing its vital role in the economy. Furthermore, HTPL actively associated with several government initiatives, including 'Nal se Jal / Har Ghar Jal,' 'Housing for All,' 'National Highway Development Program,' and 'PM Krishi Sanchar Yojana,' thereby enhancing its product offtake through its deep-rooted distribution channels.

The Company's strategic emphasis on exports is evident from its efforts to supply materials to prestigious projects across the country, such as the Sardar Vallabhbhai Olympics Sports Enclave in Ahmedabad, the Surat Diamond Bourse, and the Mumbai-Ahmedabad Bullet Train project.

On the export front, which contributed less than 1% to sales in FY23, the Company has become focused on targeting global customers by exporting its value-added products overseas, particularly Solar Torque Tubes. Favorably, domestic steel prices have now aligned with international levels, providing a conducive environment for export opportunities.

Structural Steel Pipes Industry | HTPL

Management Analysis of HTPL

The Management team of HTPL has industry veterans who bring immense expertise and relevant experience of working with large entities.

Name	Designation	Previous Experience	Experience with HTPL (Yrs.)
Ajay Kumar Bansal	Chairman and Managing Director	-	37
Anish Bansal	CFO	-	13

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
% Promoter Holding (~)	60.9%	62.7%	62.5%	59.3%	56.9%	53.9%
MD's salary (~Rs Mn)	6	10	10	10	10	-
As a % of PAT (~)	2%	5%	4%	2%	3%	-

Source: Company, Keynote Capitals Ltd.

Top Shareholders with more than 2% stake (%)

Stakeholders	FY19	FY20	FY21	FY22	FY23	FY24
HSBC Small Cap Fund	-	-	-	-	-	2.6%
Bandhan Core Equity Fund	-	-	-	-	-	2.1%
Mahesh Dinkar Vaze	3.2%	3.1%	3.0%	2.4%	-	-
Samarth Life Science Private Ltd.	-	-	2.5%	2.5%	2.5%	-
Samarth Life Science Private Ltd.	-	-	2.5%	2.5%	2.5%	-

Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | HTPL

Opportunities

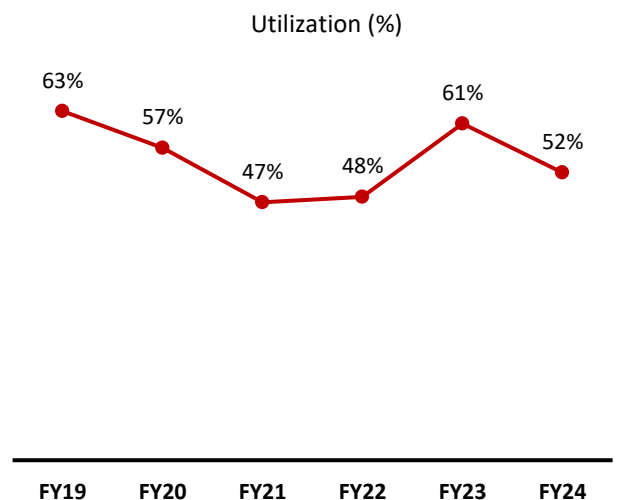
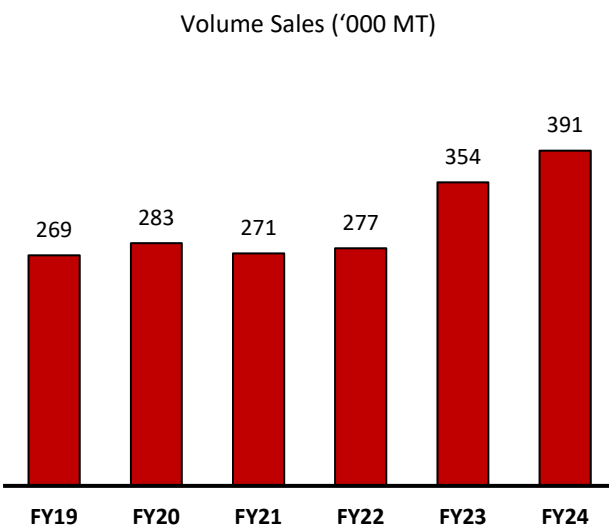
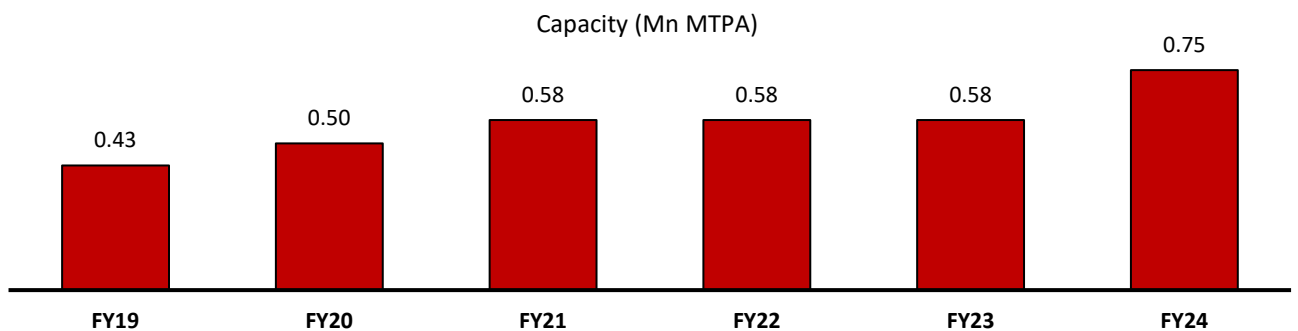
Growth phase ahead with capacity expansion

The Company had an outstanding capacity of ~0.58 Mn MTPA (excluding 0.17 Mn MTPA capacity commissioned in March '24) for FY24 and sold ~0.39 MT, implying a utilization of ~67%.

With the Sanand facility bringing 0.17 Mn MTPA, the Company enters the large diameter segment, up to 16 inches round pipe, for the water, infrastructure, oil, and gas segments. This takes the Company's outstanding capacity to 0.75 Mn MTPA.

The Company has guided a capex of ~Rs. 1 Bn for FY25, which will be deployed to increase the capacity to 1 Mn MTPA. This will be a brownfield expansion. While the capacity will increase by more than ~33% in FY25, the volume are anticipated to shoot up in the following year in FY26 by a higher number.

With a peak utilization of ~70%, we estimate a utilization of ~60% for FY25 and FY26, which will result in a volume CAGR of ~20% for the next two years. Further, with VAP volumes increasing from ~30% in FY24 to ~40% in FY25 and ~50% in FY26, the average realizations for the Company shall also increase, contributing to average price growth.



Structural Steel Pipes Industry | HTPL

Increase in EBITDA per ton by ~33%.

HTPL is strategically enhancing its EBITDA per ton by focusing on high-margin VAP and expanding its manufacturing capabilities. The Company has successfully increased its VAP share from ~ 28% in FY23 to about 31% in FY24, with a target to reach ~ 50% by FY26. This increase is supported by the introduction of products such as solar torque tubes, colour-coated sheets, and specialized SKUs for bullet trains.

Additionally, HTPL is expanding both upstream and downstream in the value chain, including increasing cold rolled coil capacity and augmenting GP/GC pipes. By FY26, the Company aims to achieve a total capacity of 1 Mn MTPA, dedicating about 60% of this capacity and ~50% of volume to VAP. These initiatives are projected to raise the Company's EBITDA per ton from ~Rs. 2,900 in FY24 to ~4,000 in FY25-26.

This management justifies the growth in EBITDA per ton by ~33% by FY25 on the back of adding high-margin products like large-diameter pipes for the oil and gas industry, galvanized pipes, colour-coated sheets, solar trackers, galvanized pipes for Jal Jeevan, etc.

With the addition of SKUs, the Company foresees an increase of ~20-25% in dealers as well, estimating the number to reach ~500 by FY26.

HTPL's strategic focus on operational efficiencies, such as achieving a high-capacity utilization rate of 70% in FY23, and cost optimization measures, including the adoption of solar power, are integral to this financial improvement. The Company's expansion plans are expected to be funded through internal accruals, ensuring financial stability and supporting sustained growth in EBITDA per ton.

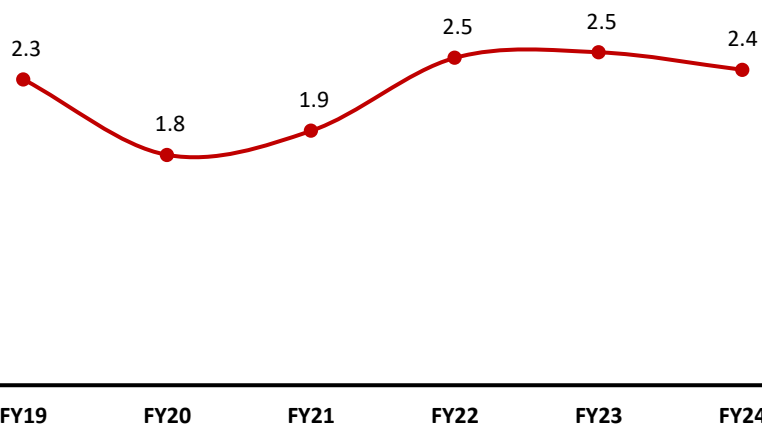
Overall, HTPL's commitment to increasing the proportion of VAP in its product mix and enhancing manufacturing capabilities positions it well to capitalize on the growing demand in high-margin sectors, thereby significantly improving its EBITDA per ton in the coming years.

Challenges

An unprecedented need to borrow

The Company and its shareholders have passed a resolution to increase a borrowing ceiling of up to Rs. 8 Bn in FY24, indicating the Company's anticipated funding needs, which it plans to meet through borrowings. For FY23, the Company reported an interest coverage ratio of 2.5x and a debt-to-equity ratio of 0.56x. These solvency ratios are likely to shift downwards with the planned addition of Rs. 8 Bn to the existing Rs. 2 Bn in borrowings. The Company's FCFF for FY24 was negative at Rs. 139 Mn. In comparison, the Company's industry peers, such as JTL and APL, have maintained a median interest coverage ratio of 6-7 times over the past seven years.

Interest Coverage Ratio (times)



Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	23,858	26,993	32,371	38,821	45,761
Growth %		13%	20%	20%	18%
Raw Material Expenses	21,743	24,625	29,393	35,160	41,413
Employee Expenses	264	315	388	466	549
Other Expenses	819	905	1,101	1,320	1,556
EBITDA	1,032	1,149	1,489	1,875	2,242
Growth %		11%	30%	26%	20%
Margin%	4%	4%	5%	5%	5%
Depreciation	138	155	180	194	202
EBIT	894	994	1,309	1,681	2,040
Growth %		11%	32%	28%	21%
Margin%	4%	4%	4%	4%	4%
Interest Paid	353	419	476	476	476
Other Income & exceptional	-43	12	15	15	15
PBT	499	587	849	1,221	1,579
Tax	122	148	212	305	395
PAT	377	439	637	915	1,184
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	377	439	637	915	1,184
Growth %		17%	45%	44%	29%
Shares (Mn)	128	150	178	178	178
EPS	2.95	2.93	3.58	5.15	6.66

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	212	260	1,157	1,364	1,401
Current Investments	0	0	0	0	0
Debtors	1,855	2,802	3,237	3,494	4,118
Inventory	3,068	3,467	4,115	4,922	5,798
Short Term Loans & Advances	429	0	0	0	0
Other Current Assets	10	627	627	627	627
Total Current Assets	5,574	7,156	9,137	10,408	11,945
Net Block & CWIP	3,235	4,167	4,505	4,505	4,531
Long Term Investments	17	26	26	26	26
Other Non-current Assets	390	439	439	439	439
Total Assets	9,216	11,787	14,106	15,377	16,941
Creditors	1,742	1,573	1,802	2,158	2,537
Provision	207	35	35	35	35
Short Term Borrowings	1,411	2,593	2,593	2,593	2,593
Other Current Liabilities	481	456	456	456	456
Total Current Liabilities	3,840	4,658	4,888	5,243	5,623
Long Term Debt	940	1,065	1,065	1,065	1,065
Deferred Tax Liabilities	220	261	261	261	261
Other Long-term Liabilities	35	40	40	40	40
Total Non-Current Liabilities	1,195	1,365	1,365	1,365	1,365
Paid-up Capital	128	150	178	178	178
Reserves & Surplus	4,053	5,614	7,676	8,591	9,776
Shareholders' Equity	4,181	5,764	7,854	8,769	9,953
Non-Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	9,216	11,787	14,106	15,377	16,941

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	499	587	849	1,221	1,579
Adjustments	478	564	640	654	663
Change in Working Capital	447	-1,989	-854	-709	-1,121
Total Tax Paid	-151	-113	-212	-305	-395
Cash flow from operating Activities	1,272	-952	423	861	727
Net Capital Expenditure	-693	-1,092	-518	-194	-229
Change in investments	-48	-44	0	0	0
Other investing activities	-301	-51	15	15	15
Cash flow from investing activities	-1,042	-1,187	-503	-179	-214
Equity raised / (repaid)	1,223	1,146	1,453	0	0
Debt raised / (repaid)	-1,294	1,558	0	0	0
Dividend (incl. tax)	-6	-3	0	0	0
Other financing activities	-208	-557	-476	-476	-476
Cash flow from financing activities	-285	2,143	978	-476	-476
Net Change in cash	-55	5	897	207	37

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	3	3	4	5	7
Growth %		-1%	22%	44%	29%
Book Value Per Share	33	38	44	49	56
Return Ratios					
Return on Assets (%)	4%	4%	5%	6%	7%
Return on Equity (%)	11%	9%	9%	11%	13%
Return on Capital Employed (%)	12%	11%	11%	12%	13%
Turnover Ratios					
Asset Turnover (x)	2.8	2.6	2.5	2.6	2.8
Sales / Gross Block (x)	7.7	7.1	7.2	8.0	9.0
Working Capital / Sales (x)	7%	8%	10%	12%	13%
Receivable Days	27	31	34	32	30
Inventory Days	48	48	47	47	47
Payable Days	21	24	21	20	20
Working Capital Days	54	56	61	58	57
Liquidity Ratios					
Current Ratio (x)	1.5	1.5	1.9	2.0	2.1
Interest Coverage Ratio (x)	2.6	2.4	2.8	3.6	4.3
Total Debt to Equity	0.6	0.6	0.5	0.4	0.4
Net Debt to Equity	0.5	0.6	0.3	0.3	0.2
Valuation					
PE (x)	27.1	43.9	35.9	25.0	19.3
Earnings Yield (%)	4%	2%	3%	4%	5%
Price to Sales (x)	0.4	0.8	0.6	0.5	0.4
Price to Book (x)	2.4	3.5	2.6	2.3	2.0
EV/EBITDA (x)	12.3	21.0	16.2	12.9	10.8
EV/Sales (x)	0.5	0.9	0.7	0.6	0.5

Source: Company, Keynote Capitals Ltd. Estimates,

HTPL's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	FY26E
Revenue	38,812
EBITDA	1,875
PAT	915
No. of shares	178
EPS	5.15
PE	32
Market Capitalization	29,294
Target Price	165
Current Market Price	133
% Upside/(Downside)	~24%

Source: Company, Keynote Capitals Ltd. estimates

HTPL is poised for significant growth and profitability driven by strategic expansions and a focus on VAP.

The Company is increasing its production capacity by 20-25% annually over the next 5-7 years, with new facilities like Sanand II and Sikandarabad Unit III dedicated to VAP, such as solar torque tubes and large-diameter pipes. This expansion is expected to boost the VAP share from 35% to over 40%, enhancing margins as VAP fetch higher EBITDA per ton (Rs. 4,000-5,000) compared to standard products.

The Company recorded its highest-ever volume of 0.4 Mn MT in FY24 and aims to reach a sales volume of ~0.5 MT in FY25 and commission the incremental 0.25 MTPA. Additionally, HTPL is targeting sectors like solar energy, high-speed rail, and water infrastructure, which promise stable demand and higher margins.

Owing to these reasons, we expect ~20% growth in topline, blended EBITDA per ton of ~3,500, with an EPS of 5.2 in FY26E, suggesting a target price of ~Rs. 165 on a PE of 32x, implying an upside of ~24%.

JTL Industries Ltd.

An integrated player expanding in VAP

26th June 2024

JTL Industries Ltd. (JTL), founded by Madan Mohan Singla in 1991, is a primary and secondary ERW steel pipe manufacturer with a total capacity of ~0.6 Mn MTPA spread across 4 state-of-the-art manufacturing facilities across Punjab, Maharashtra, and Chhattisgarh. It has a pan-India presence with over 800 distributors. The Company caters to diverse sectors like agriculture, water distribution, solar projects, and infrastructure through its wide product range, including ERW black pipes, galvanized pipes, and VAPs. JTL achieved record sales volumes of 0.34 MT in FY24, with VAPs contributing 29%. It reported an EBITDA per ton of Rs. 4,452 in FY24, driven by operational efficiency and increased VAP sales. The Company is underway to expand its manufacturing capacity to 1 Mn MTPA by FY25 and 2 Mn MTPA by FY27.

Focus on VAP

Looking ahead, the Company plans to raise ~Rs. 13 Bn through convertible warrants and a QIP to expand its VAP capacity to ~1.2 Mn MTPA and total capacity to 2 Mn MTPA by FY27. This growth will be driven by additional DFT lines, expanded galvanized pipe manufacturing, and a focus on value-added products. Technological upgrades will enable the production of higher thickness and larger diameter pipes, increasing SKUs to ~4,000 by FY27. The Company anticipates its gross block to reach ~Rs. 12 Bn by FY28, with an asset turnover of 8 times, suggesting a topline of Rs. 100 Bn, 5 times higher than FY24.

Expansion into a high-profitability product portfolio tags along with an expansion of TAM

The upcoming capacity expansion will significantly boost the Company's growth and volume. By FY25, the addition of ~0.4 Mn MTPA capacity through DFT at Raipur and Mangaon plants will enable the production of pipes up to 350 mm in thickness and diameter, increasing efficiency and reducing changeover time. This will expand the product range from 1,000+ SKUs in FY24 to ~1,500 SKUs in FY25. New products like JTL Ultra, JTL Hulk, JTL Harvest, and JTL Aqua will cater to diverse needs, including solar panels and water supply. The Company aims to increase its VAP share to over 50%, enhancing EBITDA per ton to ~Rs. 5,000.

Balanced presence in both markets

JTL sources 50% of its sales from primary steel, procuring hot-rolled coils from JSW and Tata Steel for its Derabassi and Mangaon plants, while the Raipur plant uses steel billets, and the Mandi plant acquires secondary coils for pipe production. Equally reliant on secondary steel products, JTL is transitioning towards primary steel for newer SKUs. Despite a competitor's claim that the market is shifting towards primary steel, both primary and secondary segments remain robust, driven by diverse applications and market demand. JTL's balanced growth in both segments – primary and secondary – is expected to continue at a healthy growth rate of 13-14%.

View & Valuation

The 3% shares given to Zenith Trading DMCC stand in abeyance. Due to our inability to understand the reason for allotting shares to Zenith Trading DMCC, we rate JTL as NOT RATED.

NOT RATED

CMP Rs. 218

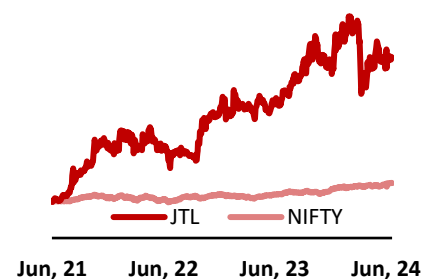
Company Data

Bloomberg Code	JTLIND IN
MCAP (Rs. Mn)	38,586
O/S Shares (Mn)	177
52w High/Low	277/159
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	440

Shareholding Pattern %

	Mar-24	Dec-23	Sep-23
Promoters	54.3	56	55.78
FIIIs	4.48	1.62	2.35
DIIs	0.07	0.83	1.07
Non-Institutional	41.16	41.55	40.8

JTL vs Nifty



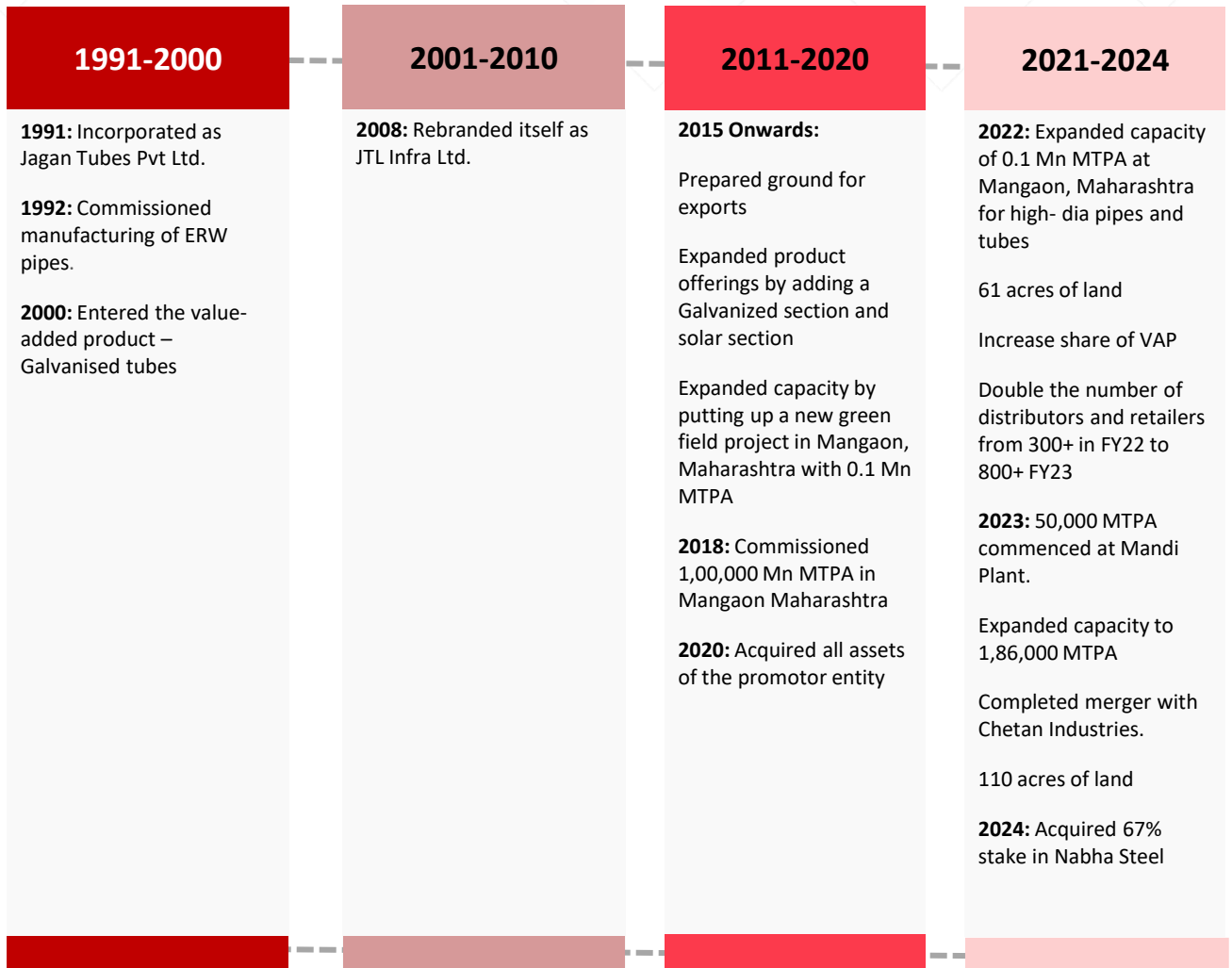
Source: Keynote Capitals Ltd.

Structural Steel Pipes Industry | JTL Industries

Business overview

JTL Industries Limited (JTL), founded by Madan Mohan Lal Singla, is a leading ERW steel tube manufacturer with over 1,000 SKUs. It has a pan-India presence with 800+ distributors and a manufacturing capacity of 5,86,000 MTPA across four strategically located plants in Punjab, Maharashtra, and Chhattisgarh. Through its wide product range, the Company caters to diverse sectors like agriculture, water distribution, solar projects, and infrastructure. JTL exports to over 20 countries and has a strong focus on value-added products like galvanized pipes and solar mounting structures.

Business chronology



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | JTL Industries

Product Category

JTL offers a diversified product portfolio of over 1,000 SKUs, including black hollow section pipes, black round pipes, galvanized pipes, and pre-galvanized pipes.

The Company primarily produces black and hollow section pipes, which are utilized across diverse sectors, including agriculture, water distribution, solar projects, energy and engineering, heavy vehicles, construction, and core infrastructure. Additionally, they manufacture hot-dipped galvanized pipes, which serve applications in agriculture, water distribution, heavy vehicles, construction, and solar module mounting for solar power projects. The Company also produces coils.

In terms of markets based on raw materials, the Company is present in both the primary and secondary steel tube markets, with equal capacity and volumes.

The Company's secondary steel products have increased over the past few years owing to the increased usage of lightweight steel products. The total General products category contributed ~65% of the total volume in FY24. The high-end primary products, which make up the VAP category, stood at ~29% during the same period.

Across all categories, the Company offers product sizes ranging between 0.5 to 12 inches. To be able to cater to a wider section of needs and expand its business and market share, the Company has made a mega expansion plan, which adds a capacity of ~1.4 Mn MTPA over the existing ~0.6 Mn MTPA. Resultantly, the Company will introduce ~500 SKUs by FY25 with the launch of DFT technology (0.2 Mn MTPA), which will manufacture a new variety of hollow section pipes with high diameters of up to 350 mm. The Company shall introduce a range of colour-coated products and implement backward integration in its facility, which will facilitate the production of pre-galvanized sheets. These sheets will then be processed into pre-coated coils, adding another SKU of pre-galvanized pipes to the portfolio. Owing to this product expansion, the Company plans to increase its share from the VAP category up to ~40% by FY25 from the current ~29%.

By FY27, the Company will have the manufacturing capability to produce an additional set of ~2,500 SKUs, including colour-coated pipes and set up for Cold Rolling Mill (CRM), which will be incremental over the 1,500 SKUs available in FY25. With the increase in capacity and catering to diverse market needs, JTL is most likely to gain market share.

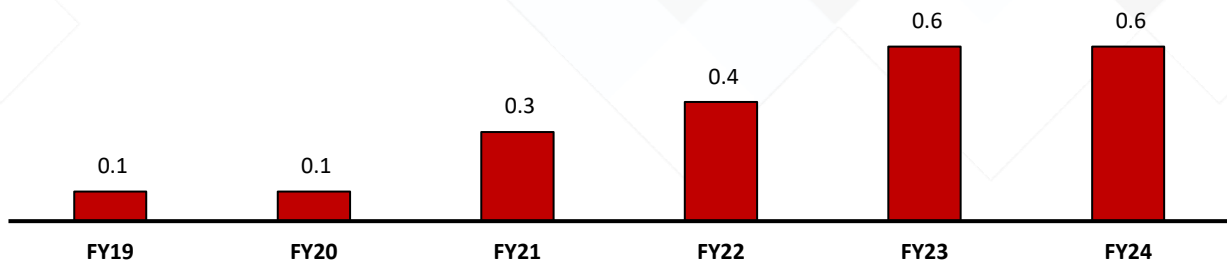
The Company has fungible capacity which helps the company be agile according to market demand.

Structural Steel Pipes Industry | JTL Industries

The manufacturing capital

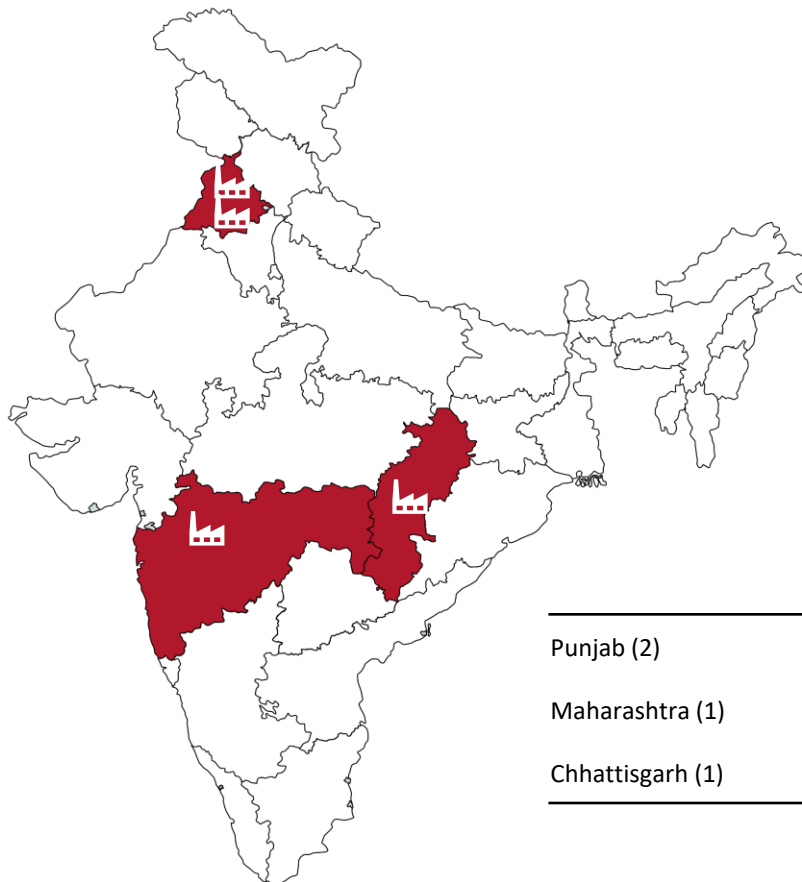
JTL Industries, formerly known as JTL Infra Limited, has undergone a remarkable transformation since its inception in 1991. Starting with a modest capacity to manufacture steel pipes at Derabassi in Punjab, the Company steadily expanded its capacity to 0.1 Mn MTPA in FY18. Post this, the Company expanded at a CAGR of 29%, closing FY24 at ~0.6 Mn MTPA.

Manufacturing Capacity (Mn MTPA)



Source: Company, Keynote Capitals Ltd.

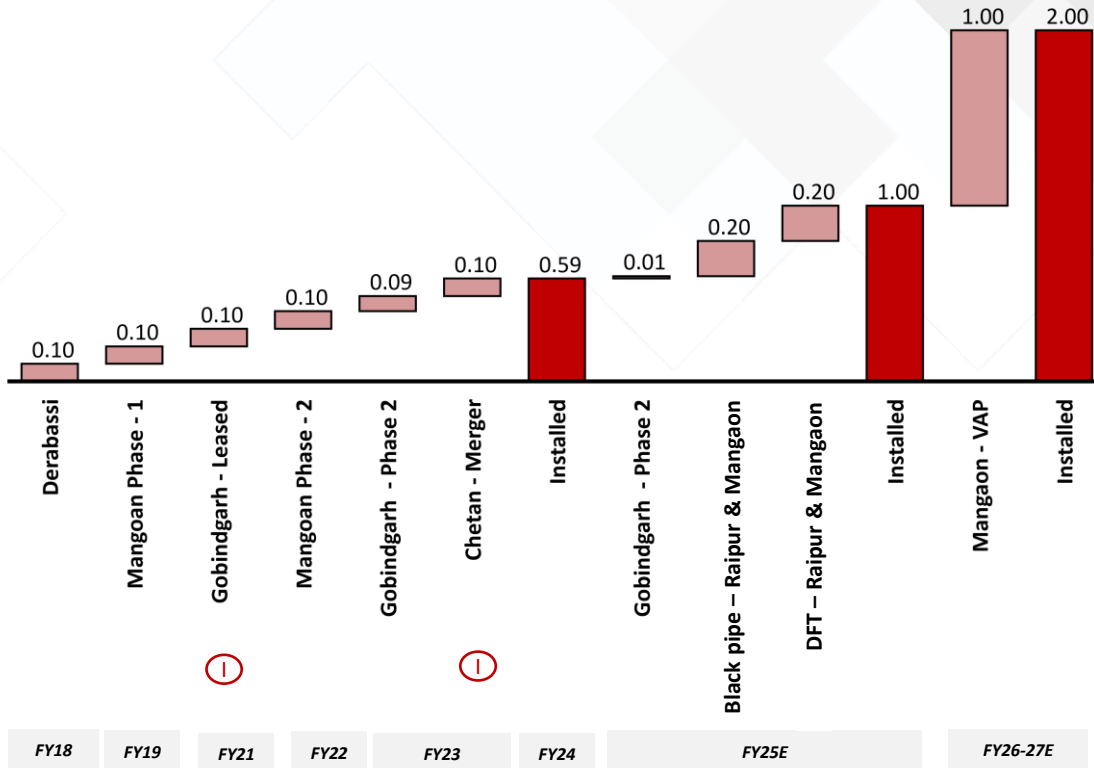
JTL's manufacturing infrastructure is strategically distributed across three regions of India. It includes two facilities in Punjab (Derabassi and Mandi Gobindgarh) in the north, which account for ~50% of the total capacity. Additionally, there is one facility in Maharashtra (Mangaon) in the west, contributing 33% of the capacity, and another in Chhattisgarh (Raipur) in the east, which makes up 17% of the capacity.



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | JTL Industries

Build up of Manufacturing Capacity (Mn MTPA)



(I) Stands for inorganic growth by acquisition of assets or merger
Source: Company, Keynote Capitals Ltd.

Currently, the facilities in Raipur and Gobindgarh primarily serve the secondary market, while those in Derabassi and Mangaon cater to the primary market. However, all these facilities are fungible. Despite Raipur's current role as a secondary facility, plans are underway to introduce DFT technology for primary products.

The immediate plan is to add ~0.4 Mn MTPA by FY25 in Raipur and Mangaon, with DFT 0.1 Mn MTPA and another 0.1 Mn MTPA of black pipes at both facilities. The Company anticipates the facilities to become commercial by FY25.

Consequently, the Company will be able to manufacture higher thickness, higher diameter pipes up to 350 mm and increase the number of SKUs from ~1,000 in FY24 to ~1,500 in FY25. All these SKUs are towards new usage, which widens the Company's opportunity size and scope of growth.

The Company raised ~Rs. 4 Bn through fully convertible warrants (to 1 share each) in FY23 to expand its installed capacity from 0.586 Mn MTPA to 1 Mn MTPA by FY25. This expansion will occur at its Mangaon and Raipur plants.

The outstanding capacity in secondary products is ~2,10,000 Mn MTPA

Furthermore, the Company aims to raise ~Rs. 13 Bn through convertible warrants (Rs. 8 Bn) and the QIP route (Rs. 5 Bn). This capital will fuel an expansion plan to increase the VAP capacity to ~1.2 Mn MTPA and total capacity to 2 Mn MTPA by FY27. The focus will be on value-added products VAP, such as pre-galvanized pipes and colour-coated products achieved through backward/forward integration.

The Company has been unable to receive and utilize ~Rs. 1.5 billion, which was raised from issuing around 2.7 million warrants, along with a 1:1 bonus to Zenith Multi Trading DMCC, as the funds have been marked in abeyance.

Structural Steel Pipes Industry | JTL Industries

Additionally, the Company is backward integrated at two locations – Mandi Gobindgarh and Raipur. With the merger happening with Chetan Industries in FY23, the Company got coil manufacturing capabilities of 0.1 Mn MTPA, which added backward integration strength in the east.

Further, at the beginning of FY25, the Company acquired a majority of ~67% stake in Nabha Steels and Metals in Mandi Gobindgarh, Punjab, which provides the Company with a coil manufacturing capacity of 0.15 Mn MTPA. With this acquisition, the Company has a total backward integrated capacity of a coil of 0.25 Mn MTPA. Nabha has melting shop, wherein JTL can melt scrap to form billets, which are then rerolled to narrow, and HR coils used for captive consumption.

Currently, the Company is upgrading and debottlenecking the capacity of Nabha. Recently in FY25, the Company has completed phase 1 of the expansion and successfully commissioned 60,000 ton per annum. This expansion will enhance JTL's total backward integration capacity, support the captive requirements of the Mandi Gobindgarh plant, and aid EBITDA/Ton at this plant by Rs. 2,000 per ton range.

The Company's inorganic assets are reported at book value, which could be lower than their fair value, which artificially increases the asset turns. The Company's average asset turns between FY19-24 stood at ~18 times. With the addition of gross assets over the next few years, the asset turns are anticipated to normalize, thereby showing a realistic ROCE.

The merger with Chetan Industries

The merger of Chetan Industries Limited with JTL was a strategic move aimed at consolidating resources, optimizing operations, and enhancing the combined entity's overall business capabilities. The merger process was initiated in 2021 and completed in 2023, following a series of regulatory approvals and corporate actions.

The merger aimed to achieve operational efficiencies, cost reductions, and optimal utilization of infrastructure. It also provided JTL Industries with additional manufacturing capacity and backward integration benefits. The merger added a manufacturing capacity of 100,000 MTPA to JTL Industries, with 50% dedicated to producing value-added products.

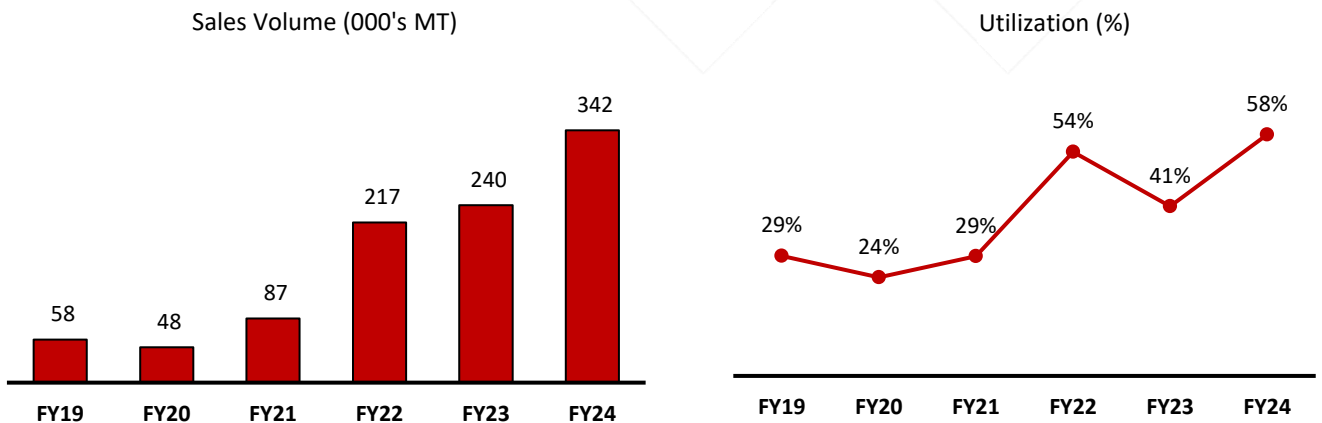
As part of the merger, JTL Industries issued and allotted 1,88,04,942 equity shares of face value Rs. 2 each to the shareholders of Chetan Industries Limited as a consideration for the merger. The financial statements of JTL Industries for FY2022-23 included the impact of the merger, with the appointed date for the merger being April 1, 2021.

Structural Steel Pipes Industry | JTL Industries

The merger resulted in the issuance of ~18 Mn equity shares of Rs. 2 each to the shareholders of Chetan Industries Limited. During the financial year 2022-23, JTL Industries also allotted 6 Mn equity shares of Rs. 2 each upon conversion of warrants issued on a preferential basis to non-promoters in the public category. Consequently, the total number of equity shares of JTL Industries increased from 59 Mn to 84 Mn (59+18+6). These additional shares caused an equity dilution of ~42% in FY23 over the previous year.

Consequently, to a stock-deal merger, JTL's paid-up share capital increased significantly from ~Rs. 131 Mn to ~Rs. 169 Mn due to the allotment of shares to Chetan Industries' shareholders.

Volumes



Source: Company, Keynote Capitals Ltd.

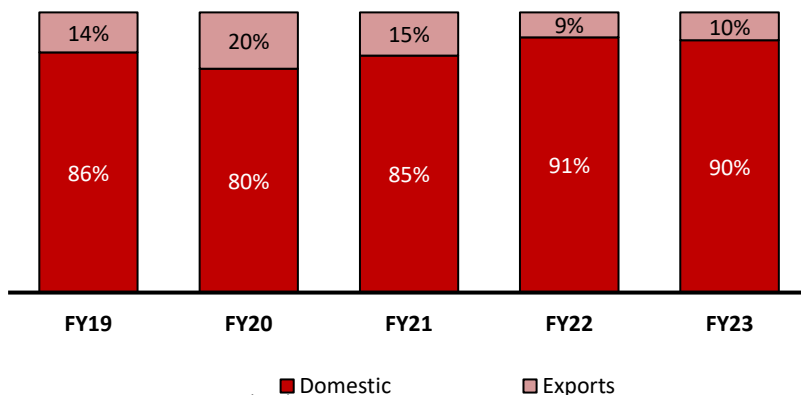
The Company has a volume market share of ~4% in the primary products and ~5% in the secondary products market.

The Company's Mangaon plant is anticipated to cater to the export market. As of FY24, ~90% of exports were VAP (galvanized pipes).

The Company had a dependence for ~24% of the business on government projects like JJM in FY24, with the remaining business split between dealers, exports and EPC.

The Company's volume has grown at a five-year CAGR of ~43%, but going forward, the management anticipates a volume growth of ~35% in FY25.

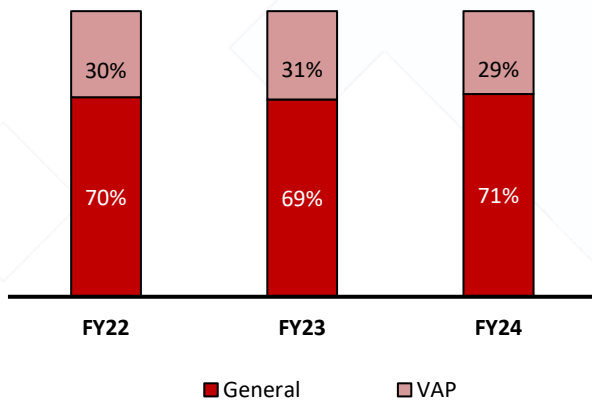
Domestic and Export Contribution in Revenue (%)



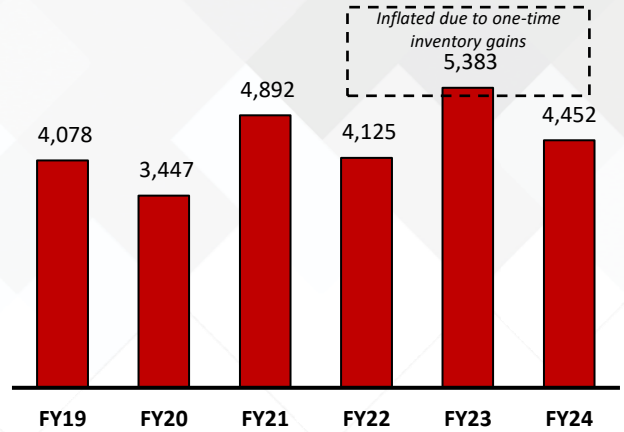
Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | JTL Industries

General and VAP volume (%)



EBITDA per ton (Rs.)



Source: Company, Keynote Capitals Ltd.

There are multiple factors that contribute to the superior EBITDA per ton compared to peers.

Firstly, the Company is present in the primary and secondary steel markets, with equal volume as of FY24, which contributes to a higher EBITDA margin.

Secondly, the increasing share of VAP in the total volume, which stood at ~29% in FY24, is gradually increasing the Company's profitability.

With the acquisition of Nabha Steel, the Company will be able to save up to 30% on EBITDA of black pipes.

The total existing capacity of ~0.6 Mn MTPA is fungible in nature and capable of producing products in the primary and secondary categories. The Company expects to add a dedicated 0.2 Mn MTPA VAP capacity by FY25 and a massive 1 Mn MTPA by FY27, exclusively for the VAP category.

Consequently, the total exclusive capacity for VAP will be ~1.2 Mn MTPA, making up ~60% of the available capacity in FY27.

In this category, the Company shall produce items such as colour-coated tubes and galvanized products in the pipeline, which are estimated to have an EBITDA per ton of Rs. 7,000-8,000.

Structural Steel Pipes Industry | JTL Industries

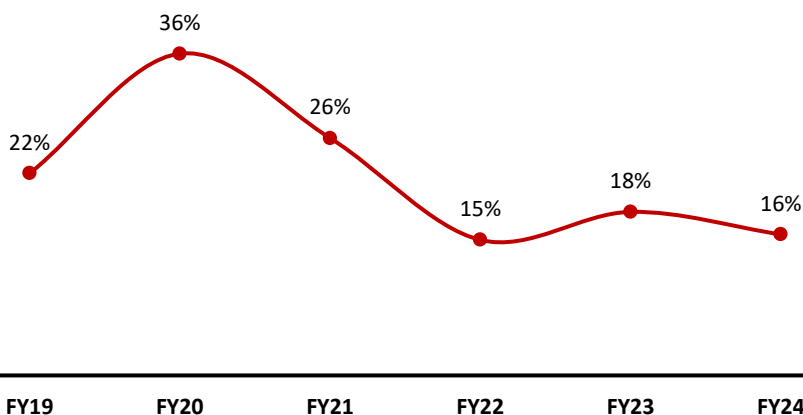
Distribution

JTL Industries has established a robust distribution network, which plays a crucial role in its operations and growth strategy. The Company has significantly expanded its dealer and distributor base over the years, currently boasting a network of over 1,000 dealers and distributors across India. This extensive network enables JTL to effectively serve the entire domestic market and extend its reach to international markets spanning over 20 countries across 5 continents with a diverse client base including B2B, B2G, OEM and international markets.

The Company's diverse portfolio of over 1,000 SKUs and client-centric approach has been instrumental in expanding its global presence. By introducing new products, such as colour-coated segments, pre-galvanized lines, and Cold Rolled Coil (CRC) processing, JTL aims to diversify its offerings further and cater to evolving customer needs. With the introduction of DFT technology, pre-galvanized pipes, and foraying into Cold Roll Mills, the Company will have more product array, empowering it to onboard more distributors and further widen its network.

The working capital requirement has been on the higher end in comparison to peers in consideration, with a 6-year average net working capital deployed for an annual turnover of ~22%.

Net Working Capital as a percentage of sales (%)



Source: Company, Keynote Capitals Ltd.

Moreover, the 6-year average (FY19-24) cash conversion cycle is 91 days, with the Company aiming to maintain a 60-day cycle in line with that of FY23.

With the introduction of DFT machinery, the Company will be able to reduce working capital requirements further. Subsequently, the Company anticipates the generation of more surplus cash flow from operations.

Structural Steel Pipes Industry | JTL Industries

Market

JTL operates predominantly in the domestic market, accounting for ~90% of its sales. The remaining 10% of its sales are exported to countries like the UK, Africa, Australia, and Europe. The Company aims to increase its export contribution to ~15% by FY25. While 90% of its export volumes consist of VAP, the Company remains unbiased between domestic and export markets, as the demand for VAP in the domestic market is equally strong or even stronger.

In the domestic market, JTL operates in both the primary and secondary steel pipe segments. Currently, the price differential between these two segments ranges from Rs.5,000-7,000 per ton. As primary steel prices rise, secondary steel prices tend to follow an upward trajectory as well.

Dealers play a crucial role in the steel pipe market through their destocking and restocking activities, which can significantly impact both primary and secondary markets. During periods of rising real demand for steel from end-users, steel distributors may sell steel from their inventory (destock), thereby delaying the effective implementation of steel price increases. Conversely, when steel prices decrease, customers may adopt a "wait and watch" attitude and destock in anticipation of further price reductions. This behaviour affects the apparent demand for steel, influencing steel prices and producers' profitability.

JTL did not face significant destocking issues recently as it operates in both primary and secondary markets, allowing it to push material in either market depending on the conditions. The primary market is favoured when HRC prices are lower in the international market, as manufacturers can import HRC cost-effectively for pipe production. On the other hand, the secondary market becomes more attractive when primary steel prices increase, as re-rolled coils are cheaper than HRC.

Being present in both primary and secondary markets allows JTL to cater to the same customers with a wide range of products and pricing. It provides flexibility to push material in either market depending on price movements, mitigating the impact of volatility in one market. Additionally, the "China plus-one" model adopted by export markets further bolsters the advantage of operating in both markets, enabling JTL to capitalize on opportunities.

Structural Steel Pipes Industry | JTL Industries

Management Analysis of JTL

The Management team of JTL con of industry veterans who bring immense expertise and relevant experience of working with large entities.

Name	Designation	Previous Experience	Experience with JTL (Yrs.)
Madan Mohan Singla	MD	-	35+
Rakesh Garg	Executive Director	-	30+
Dhruv Singla	Executive Director	-	11+
Pranav Singla	Executive Director	-	4+
Sanjeev Gupta	Executive Director	Diverse roles at Bhushan Power and Steel Limited, Aarti Strips Pvt Ltd (Nepal)	5+
Atul Garg		Finance Controller – HOD at Paras Spices Pvt Ltd. General Manager at RSPL Group	2+

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
% Promoter Holding (~)	70.3%	71.9%	67.8%	55.3%	56.3%	54.3%
MD's salary (~Rs Mn)	2	2	2	2	3	-
As a % of PAT (~)	1.4%	2%	1%	0.3%	0.3%	-

Source: Company, Keynote Capitals Ltd.

Top Shareholders with more than 2% stake (%)

Stakeholders	FY19	FY20	FY21	FY22	FY23	FY24
Shares in Abeyance	-	-	-	-	-	3.2%
Mohinder Pal	-	-	-	4.2%	2.3%	-
Shilpa Bansal	-	-	-	3.2%	2.9%	1.5%
Kusum Bansal	-	-	-	3.3%	-	2.5%
Laxmi Kant	1.8%	2.4%	2.6%	2.6%	1.3%	-

Source: Company, Keynote Capitals Ltd.

Opportunities

Capacity expansion will lead to an increase in market share

Looking ahead, the Company aims to raise ~Rs. 13 Bn through convertible warrants and a QIP to further expand its VAP capacity to ~1.2 Mn MTPA and total capacity to 2 Mn MTPA by FY27. This growth will be driven by additional DFT lines, expanded galvanized pipe manufacturing capabilities, and a focus on value-added products like pre-galvanized and colour-coated pipes. The technological upgrades will enable the Company to manufacture higher thickness and larger diameter pipes, increasing the total SKUs to ~4,000 by FY27.

With these expansions, the Company anticipates its gross block to reach ~Rs. 12 Bn by FY28, with an asset turnover of 8 times, suggesting a topline of Rs. 100 Bn, 5 times higher than FY24. The proximity of the Mangaon plant to the Nava Sheva port will also enable the Company to increase its export contribution from ~10% in FY12 to 15% by FY25.

With the introduction of DFT technology, the Company plans to cater to higher structured diameters in export markets such as the US and Canada, where Indian steel duties are not applicable to larger-diameter pipes and tubes. This will enable the Company to develop new SKUs to meet growing demand.

The Company expects sales volume to grow by ~35% from FY24 to FY25, led by a greater contribution of value-added products to the sales mix.

Furthermore, the Company's acquisition of a 67% stake in Nabha Steel and Metals, along with its existing coil manufacturing capacity, has increased the total coil production capacity to ~0.25 Mn MTPA in FY24.

The Company raised ~Rs. 4 Bn through convertible warrants in FY23 to expand its installed capacity from 0.586 Mn MTPA to 1 Mn MTPA by FY25, with 0.2 Mn MTPA dedicated to DFT for higher-diameter pipes.

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Expansion into a high-profitability product portfolio tags along with an expansion of TAM

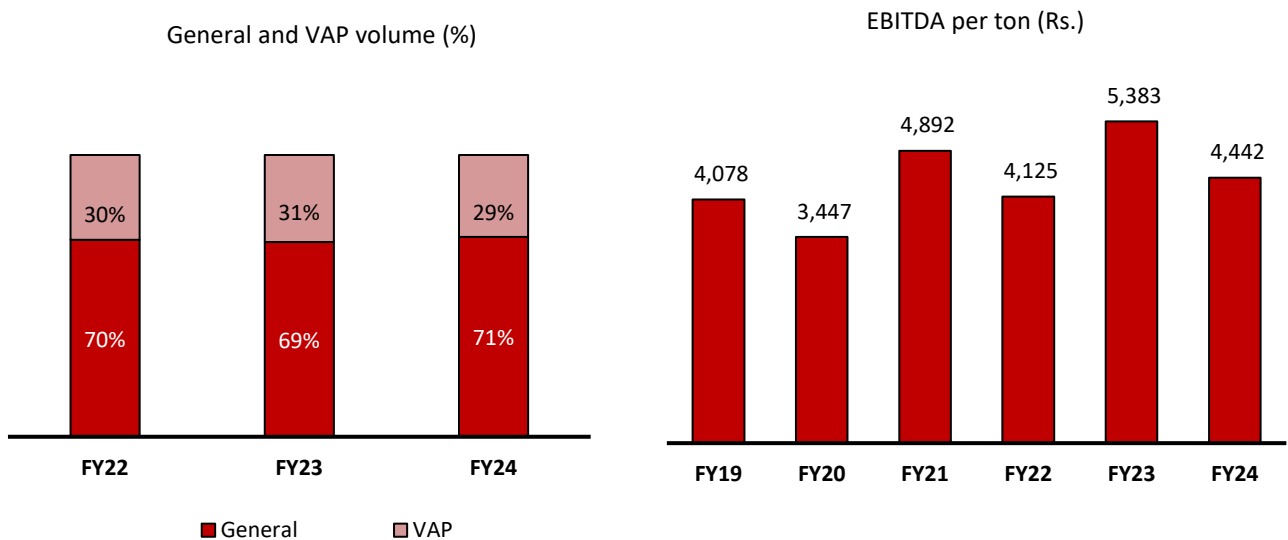
Introduction of New Products: By FY25, the addition of ~0.4 Mn MTPA capacity through DFT at Raipur and Mangaon plants will enable the production of pipes up to 350 mm in thickness and diameter. This technological upgrade will increase efficiency, reduce changeover time, and expand the product range from ~1,000 SKUs in FY24 to ~1,400 SKUs in FY25, catering to a wider customer base.

The Company has launched new products such as JTL Ultra, which are high-strength and low-weight hollow section pipes, and JTL Hulk, which are large black and galvanized pipes used for PV structures and airports. JTL Harvest is another new product for borewells and rainwater harvesting, while JTL Aqua caters to water supply and irrigation.

Entry into the Solar Segment: The Company has entered the solar segment with products placed under solar panels, catering to EPC players, which is a new category for the Company.

Enhanced VAP Offering: The Company aims to raise its proportion of VAP to over 50% within the next two years, indicating a strategic focus on expanding the share of VAP in its product mix.

This expansion in higher margin products shall result in higher EBITDA per ton. In FY25, the Company plans to increase its contribution to VAP to increase up to ~40%, with an expected EBITDA per ton of ~Rs. 5,000.



Source: Company, Keynote Capitals Ltd.

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Balanced presence in both the markets

JTL sources 50% of its sales from primary steel, specifically procuring hot-rolled (HR) coils from JSW and Tata Steel for its Derabassi (0.1 Mn MTPA) and Mungaon plants (0.2 Mn MTPA). The Raipur plant (0.1 Mn MTPA) utilizes steel billets to produce narrow gauge coils, while the Mandi plant (0.2 Mn MTPA) acquires secondary coils, known as "Patra," for pipe production. Traditionally, lighter gauge steel products have relied on secondary coils, but newer SKUs are transitioning towards primary steel. As JTL expands, its product mix is expected to incorporate more primary products, although secondary steel usage will persist, especially for low-end applications.

Over the past few years, the secondary segment has been a significant driver of growth for JTL due to lower prices compared to primary sales, creating a market tailwind.

Despite these claims, there has always been a primary and secondary market for most products in India. The emergence of new segments, such as the lighter gate structure segment, has increased demand for secondary products. With the global increase in steel usage, there has been a corresponding increase in demand for secondary products.

JTL has experienced balanced growth in both segments, driven by an expansion in its product profile. While the primary segment may experience lower demand due to election scenarios, overall market growth is expected to continue at a rate of 12-13%. Post-election, even higher growth rates are anticipated.

In summary, both the primary and secondary segments of the steel industry has grown at a healthy rate of 13-14%.

However, one of JTL's competitors has claimed that the market is shifting towards primary steel due to consumer preferences for better quality and anticipated decreases in primary steel prices as new HRC capacities come online.

Challenges

An issue to be aware of

JTL has accumulated ~Rs.4 Bn to increase its capacity to 1 Mn MTPA by the fiscal year 2025. However, in response to a robust demand for galvanized pipes, the company has planned a significant capital expenditure in Mangaon, Maharashtra. To support this expansion, JTL intended to raise ~Rs.13 Bn at a Rs.270 per warrant in December 2023, aiming to expand its capacity to 2 Mn MTPA by the FY27. Of the total amount, promoters and non-promoters are expected to contribute ~Rs.8 Bn equally, with an additional ~Rs.5 Bn to be raised via QIP.

In February 2024, the Company allotted ~5.5 Mn shares (1:1 bonus on 2.7 Mn shares) to Zenith Multi Trading DMCC, a Dubai-based entity owned by Hari Shankar Tibrewal. It is important to note that Hari Tibrewal, a Dubai-based businessman, has been implicated in several fraudulent activities, primarily involving the manipulation of stock prices and money laundering through illegal online betting operations.

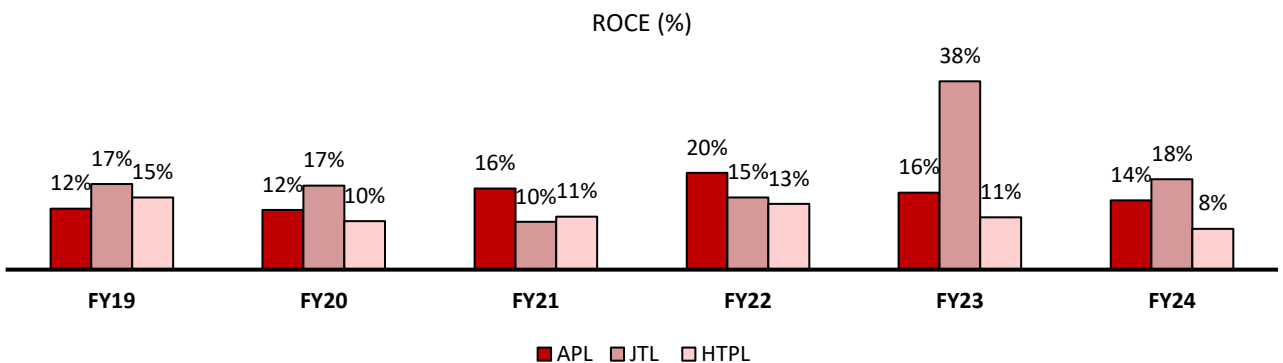
A total of 5.5 Mn shares allotted to Zenith Multi Trading have been marked in abeyance by SEBI.

The Enforcement Directorate (ED) has identified Tibrewal as a major player in these operations, which involved large-scale hawala transactions to move betting funds. These funds were then invested in the stock market, where Tibrewal and his associates manipulated stock prices. This manipulation often involved inflating stock prices through coordinated buying and subsequently selling the shares at a profit, a practice known as a "pump-and-dump" scheme.

Furthermore, Tibrewal's involvement extended to employing associates as directors in various companies to facilitate these schemes. The ED's investigations have led to the freezing of assets and shares worth hundreds of crores linked to Tibrewal and his associates, underlining the scale and impact of his fraudulent activities on the stock market.

Decline in ROCE with new capex

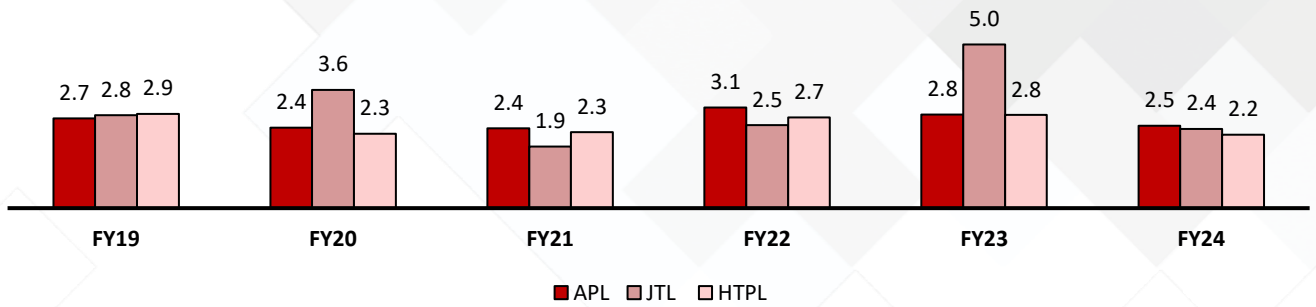
Over the past five years, JTL's ROCE has aligned with its peers. Excluding the one-off event in FY23, the 4-year average ROCE for APL and JTL was ~15%, while HTPL's was ~11%.



Source: Company, Keynote Capitals Ltd.

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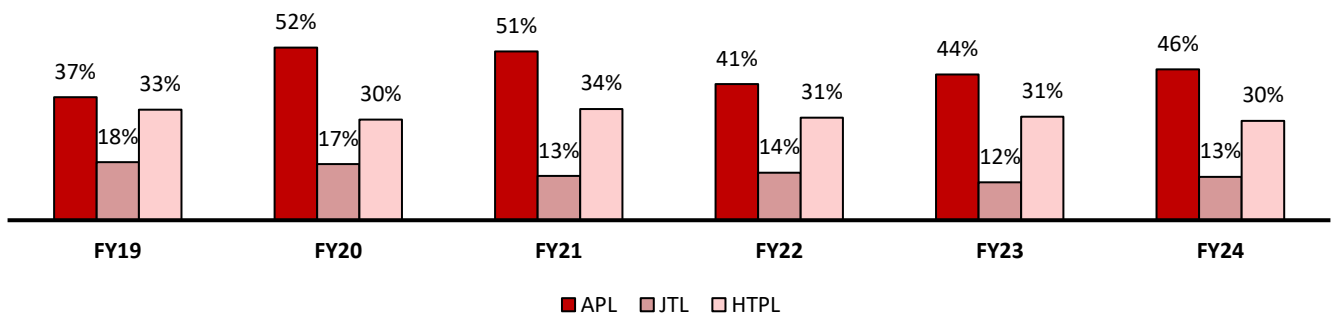
Total Asset Turns



Source: Company, Keynote Capitals Ltd.

JTL has historically maintained a low percentage of fixed assets relative to total assets. This was due to the acquisition of assets at favourable prices, which allowed the Company to report at lower book value for these assets.

Fixed Asset as a percentage of Total Assets (%)



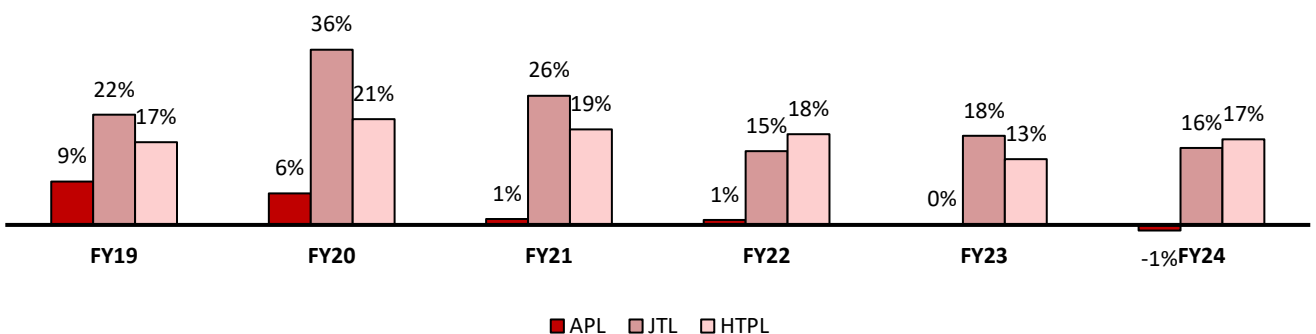
Source: Company, Keynote Capitals Ltd.

However, with the ongoing capex and plans to scale the capacity to 2 Mn MTPA, the Company shall add fixed assets at fair value, increasing the Company's fixed assets as a percentage of total assets, closer to their peers. While its peers will continue their trend, JTL shall witness a downturn in TAT and ROCE.

High net working capital viz-a-viz peers.

The Company's net working capital is its peers. The concern doubles as with the increase in size of capacity and business, the Company's need for working capital would increase over the next few years.

Net Working Capital as a percentage of sales (%)



Source: Company, Keynote Capitals Ltd.

Structural Steel Pipes Industry | JTL Industries

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24
Net Sales	13,553	15,499	20,402
Growth %		14%	32%
Raw Material Expenses	12,031	13,598	17,983
Employee Expenses	166	183	212
Other Expenses	462	424	686
EBITDA	894	1,294	1,522
Growth %		45%	18%
Margin%	7%	8%	7%
Depreciation	32	43	56
EBIT	863	1,251	1,466
Growth %		45%	17%
Margin%	6%	8%	7%
Interest Paid	77	63	51
Other Income & exceptional	38	39	87
PBT	823	1,226	1,502
Tax	213	325	372
PAT	611	901	1,130
Others (Minorities, Associates)	0	0	0
Net Profit	611	901	1,130
Growth %		48%	25%
Shares (Mn)	59.2	84.3	177.0
EPS	5.16	10.69	6.38

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24
Cash, Cash equivalents & Bank	18	531	1,060
Current Investments	0	0	0
Debtors	1,096	1,412	1,927
Inventory	1,193	1,677	1,504
Short Term Loans & Advances	251	953	416
Other Current Assets	24	26	1,685
Total Current Assets	2,581	4,600	6,592
Net Block & CWIP	520	698	1,173
Long Term Investments	124	162	58
Other Non-current Assets	167	175	612
Total Assets	3,392	5,635	8,435
Creditors	257	286	245
Provision	44	90	3
Short Term Borrowings	809	434	200
Other Current Liabilities	165	602	200
Total Current Liabilities	1,275	1,413	648
Long Term Debt	104	91	0
Deferred Tax Liabilities	19	42	19
Other Long Term Liabilities	17	18	21
Total Non Current Liabilities	140	151	40
Paid-up Capital	134	169	354
Reserves & Surplus	1,842	3,902	7,394
Shareholders' Equity	1,977	4,071	7,748
Non Controlling Interest	0	0	0
Total Equity & Liabilities	3,392	5,635	8,435

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24
Pre-tax profit	823	1,226	1,502
Adjustments	97	103	33
Change in Working Capital	-486	-1,020	-1,340
Total Tax Paid	-264	-261	-416
Cash flow from operating Activities	171	49	-221
Net Capital Expenditure	-216	-189	-1,007
Change in investments	-135	-54	1
Other investing activities	8	35	50
Cash flow from investing activities	-343	-208	-956
Equity raised / (repaid)	122	1,133	2,624
Debt raised / (repaid)	144	-412	-868
Dividend (incl. tax)	-21	0	-17
Other financing activities	-75	-62	-51
Cash flow from financing activities	170	658	1,689
Net Change in cash	-2	498	511

Valuation Ratios

	FY22	FY23	FY24
Per Share Data			
EPS	5	11	6
Growth %		107%	-40%
Book Value Per Share	33	48	44
Return Ratios			
Return on Assets (%)	22%	20%	16%
Return on Equity (%)	41%	30%	19%
Return on Capital Employed (%)	28%	28%	18%
Turnover Ratios			
Asset Turnover (x)	4.9	3.4	2.9
Sales / Gross Block (x)	25.5	18.9	17.5
Working Capital / Sales (x)	8%	14%	22%
Receivable Days	28	30	30
Inventory Days	26	39	32
Payable Days	9	7	5
Working Capital Days	45	61	57
Liquidity Ratios			
Current Ratio (x)	2.0	3.3	10.2
Interest Coverage Ratio (x)	11.7	20.5	30.5
Total Debt to Equity	0.5	0.1	0.0
Net Debt to Equity	0.5	0.0	-0.1
Valuation			
PE (x)	22.4	10.8	34.3
Earnings Yield (%)	4%	9%	3%
Price to Sales (x)	1.0	0.9	1.9
Price to Book (x)	6.9	6.6	5.0
EV/EBITDA (x)	16.4	20.9	26.1
EV/Sales (x)	1.1	1.7	1.9

Source: Company, Keynote Capitals Ltd. Estimates,

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Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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