HARIOM
PIPES | SCAFFOLDINGS | COILS

MONARCH
NETWORTH CAPITAL

INITIATING COVERAGE

HARIOM PIPE INDUSTRIES LTD



JANUARY 2025

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Initiating Coverage

Hariom Pipe Ind.l BUY l Target Price: Rs785 | Upside: 62%

When the hollow becomes solid

We initiate coverage on Hariom Pipe Industries (Hariom) with a BUY and a target price of Rs785, offering 62% upside. Hariom is poised for an exceptional growth trajectory, fueled by a ramp-up in capacity, accelerated galvanized product sales via its established dealer network, and favorable industry dynamics. The company's backward-integrated model stands as a testament to its strategic execution and is primed to scale effortlessly with rising capacities. The tandem mill further cements Hariom's market edge of production of sub-2mm pipes, a true differentiator. With a turbocharged combo of improving cash conversion cycle, rising return ratios, debt-to-equity metrics, and resilient margins, Hariom is set for robust growth and a deserved re-rating.

- **Margin powerhouse built on backward integration:** Hariom's differentiated strategy of a backward-integrated manufacturing chain, spanning sponge iron to billets, HR strips, and MS pipes & tubes, enables it to clock *industry leading margins*, also allowing the company to optimize value addition at each stage of production and make agile, market-driven decisions on internal use versus external sales. Moreover, Hariom's dealer-based distribution model eliminates distributor commissions. Its strategic focus lies in scaling up production capacity for MS pipes and tubes while deepening backward integration, ensuring a stable supply of critical inputs. This approach enhances efficiency and ensures higher EBITDA per tonne.
- **Enhancing value proposition with galvanized offerings:** Hariom expanded its product portfolio by adding galvanized pipes and coils in FY23, thereby elevating the proportion of value-added products from 66% in FY22 to an impressive 88% in FY24. As galvanized products progress through their ramp-up phase, we anticipate that Hariom's extensive dealer network and fortified market presence will facilitate robust scaling. Furthermore, the company's state-of-the-art tandem mill not only optimizes production efficiency but also enables the fabrication of pipes with exceptionally low thicknesses of 0.4mm, underscoring its Hariom USP of largely manufacturing pipes less than 2mm.
- **Inflection point - unlocking growth rerating potential:** We forecast 26% CAGR in sales volumes over FY24–27, driven by the ramp-up of capacities, potentially fully funded by internal accruals. Hariom is actively improving its currently adverse cash conversion cycle by negotiating favorable credit terms with suppliers. Further, we expect upside on working capital improvement as the company progresses towards its target of improving the engineering segment's revenue share to 60-70% over the next 3 years. We anticipate the company will maintain its margin leadership, bostered by its robust backward-integrated setup and dealer model. We expect Hariom to clock Revenue/ EBITDA/ PAT CAGR of 25%/ 27%/ 33% respectively over FY24-27, with an improved cash conversion cycle and return ratios.
- **Valuation & Risks: We value Hariom at 18x FY27 EPS to arrive at a target price of Rs785. At CMP of Rs485, Hariom trades at 11.1x FY27 PE ratio.** Key Risks: delay in commissioning of capex, input price volatility. *The apparently steep projected re-rating is validated by numerous examples from several sectors, where profitability inflection has been rewarded by meaningful multiple expansion*.

Target Price	785
CMP*	485
Upside	62%

Price Performance (%)	1M	6M	1Yr
HARIOMPI	-12.3	-16.9	-20.3
Nifty	-1.8	-1.2	11.6

Key Data	
Bloomberg Code	HARIOMPI :IN
Curr Shares O/S (mn)	31.0
Diluted Shares O/S(mn)	31.0
Mkt Cap (Rsbn/USDmn)	15.3/178.9
52 Wk H / L (Rs)	888/440
3M Average Vol.	118502

Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

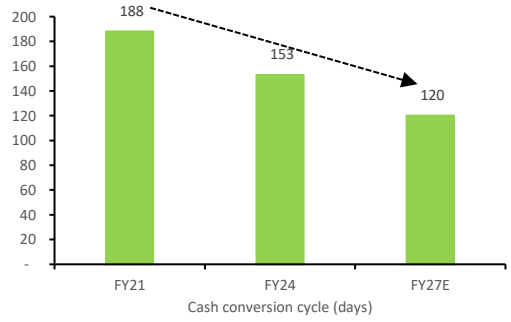
	Sept-24	Jun-24	Mar-24	Dec-23
Promoter	57.2	57.2	58.3	60.9
FIIs	9.5	10.1	6.5	2.6
DIIs	0.4	0.1	0.0	0.0
Others	32.9	32.6	35.2	36.5

Source: BSE

Why should you read this report?

- Analysis of Hariom's differentiation through its backward-integrated model and its impact on operational efficiency and competitiveness within the industry.
- Evaluation of the company's growth roadmap, including planned capacity expansions.
- Key drivers behind the improvement in the cash conversion cycle and improvement of financial ratios.

Improving cash conversion cycle to meet capex requirements internally



Source: Company, MNCL Research Estimates

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Y/E Mar (Rs mn)	Revenue	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Adj EPS	RoE (%)	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY22	4,306	69.4	561	*13.0*	320	*111.2*	18.8	37.2	22.5	NM	NM
FY23	6,437	49.5	819	*12.7*	462	*44.6*	16.7	19.4	12.5	17.6	12.2
FY24	11,532	79.1	1,386	*12.0*	568	*22.9*	19.7	13.5	10.7	30.3	14.9
FY25E	13,616	18.1	1,756	*12.9*	674	*18.7*	21.8	12.8	10.9	22.3	9.9
FY26E	17,367	27.5	2,223	*12.8*	963	*42.8*	31.1	15.2	12.6	15.6	8.1
FY27E	22,529	29.7	2,861	*12.7*	1,350	*40.3*	43.6	18.0	14.7	11.1	6.3

Source: Company, MNCL Research estimates, Consolidated Financials.

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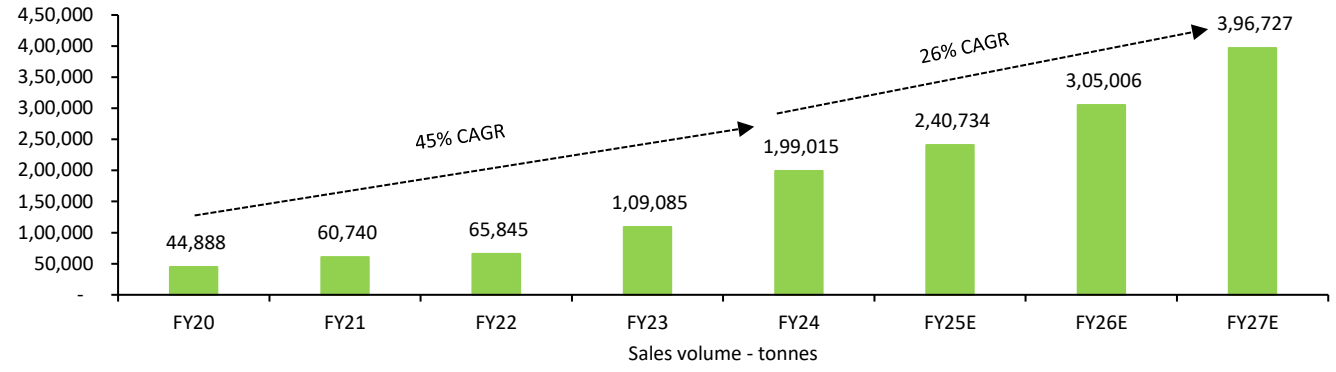
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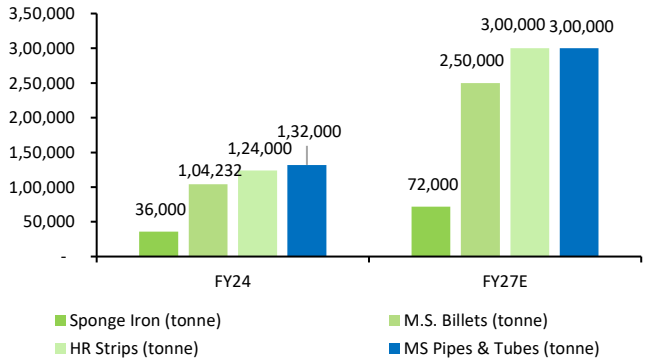
Investment Thesis in Charts

Exhibit 1: Entity level sales volumes to grow at 26% over FY24-27 due to ramp up of capacities and improved market presence



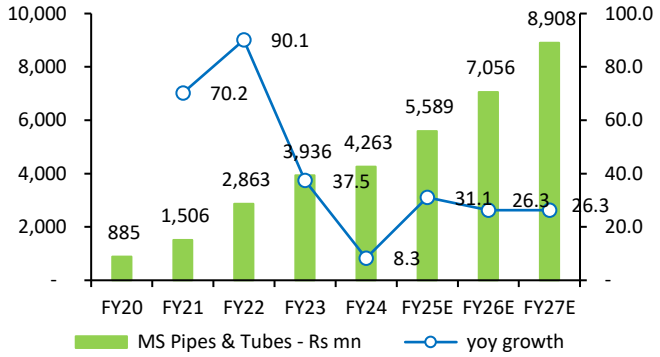
Source: Company, MNCL Research

Exhibit 2: Expect MS pipes & Tubes capacity to touch 3 lakh tonnes with increase in backward integration capacities



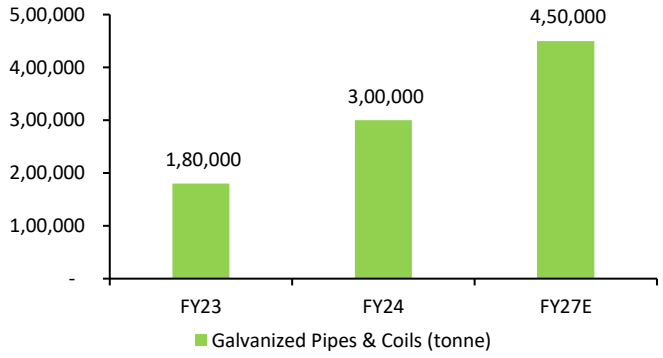
Source: Company, MNCL Research estimates

Exhibit 3: MS pipes & tubes projected to grow at a CAGR of 28% over FY24-27



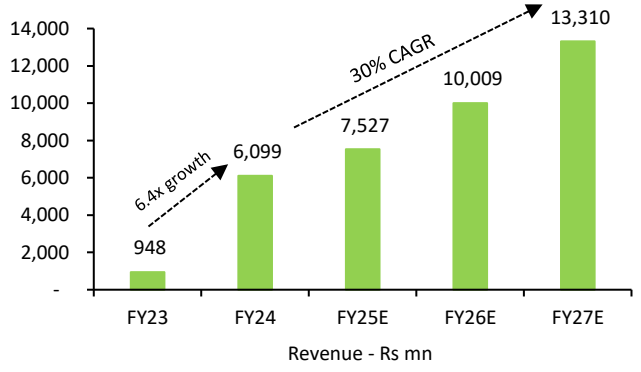
Source: Company, MNCL Research Estimates

Exhibit 4: Expect galvanized products capacity to touch 4.5 lakh tonnes by FY27



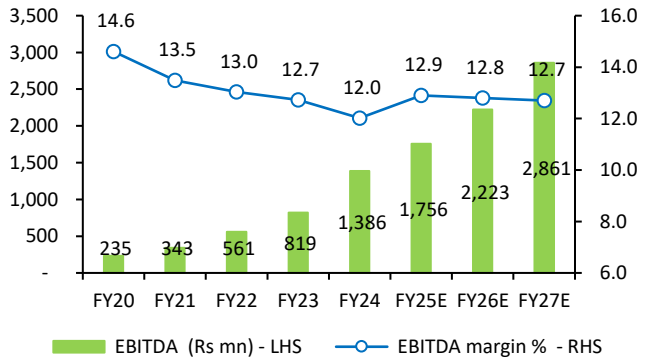
Source: Company, MNCL Research estimates

Exhibit 5: Galvanized products projected to grow at a CAGR of 30% over FY24-27



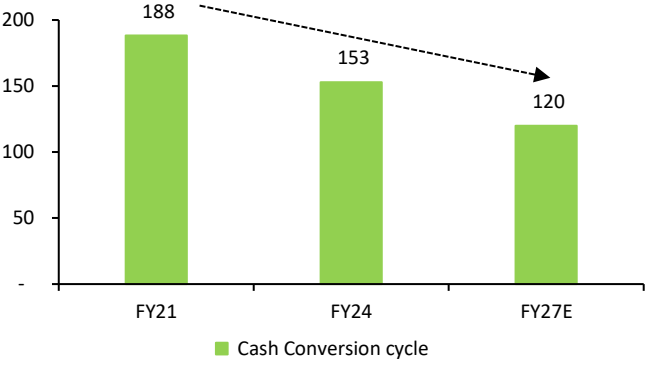
Source: Company, MNCL Research estimates

Exhibit 6: EBITDA margins to remain healthy ~12.8% levels



Source: Company, MNCL Research estimates

Exhibit 7: Cash conversion cycle to improve to 120 days

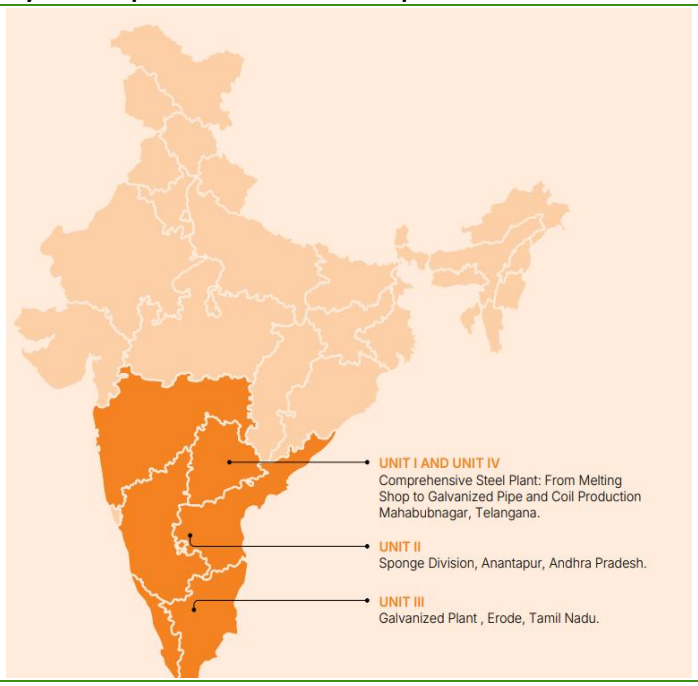


Source: Company, MNCL Research estimates

Hariom pipe: Mastering the Southern Realm

Initially incorporated as Hari Om Concast and Steels Private Limited in 2007, **Hariom offers a diverse product portfolio including Sponge Iron, MS Billets, HR Strips, MS Pipes & Tubes, Galvanized Pipes and coils and Scaffolding systems.** The plants are strategically positioned to meet the pipes and tubes demand in the South. Hariom operates via four units across Ananthapur, Mahabubnagar, and Perundurai.

Exhibit 8: Strategically located plants to cater to the requirements of the South



Source: Company, MNCL Research

The acquisition of assets from R P Metal Sections Private Limited in FY23 enabled entry into value-added galvanized pipe and cold roll coil manufacturing. The company is focused on driving top-line growth while ensuring healthy margins, supported by its backward integrated setup. This strategic positioning enables it to effectively meet the rising demand across diverse industries such as auto components, water, construction, solar structures, and others. **Hariom Pipe generates 20% of its revenue from B2B clients, with the remaining 80% derived from its extensive dealer network.**

Exhibit 9: Installed capacity overview of raw material and finished products

~95 acres
Total Land across all facilities

~51 acres
Still Unutilized, Huge scope for expansion

Capacity across plants (MTPA)	Products	FY22	FY23	FY24
Ananthapur	Sponge Iron	36,000	36,000	36,000
Mahabubnagar	M.S. Billets	95,832	104,232	104,232
	HR Strips	84,000	124,000	124,000
	MS Tubes	84,000	84,000	132,000
	Scaffolding	1,000	5,000	5,000
	Galvanized Pipes & Coils	-	-	120,000
Perundurai	Galvanized Pipes & Coils	-	180,000	180,000
Total Capacity		**300,832**	**533,232**	**701,232**

Backward integrated Raw material internally consumed to make Finished products

Current Cumulative Capacity

264,232 MTPA
Raw Materials

437,000 MTPA
Finished Goods

Source: Company, MNCL research

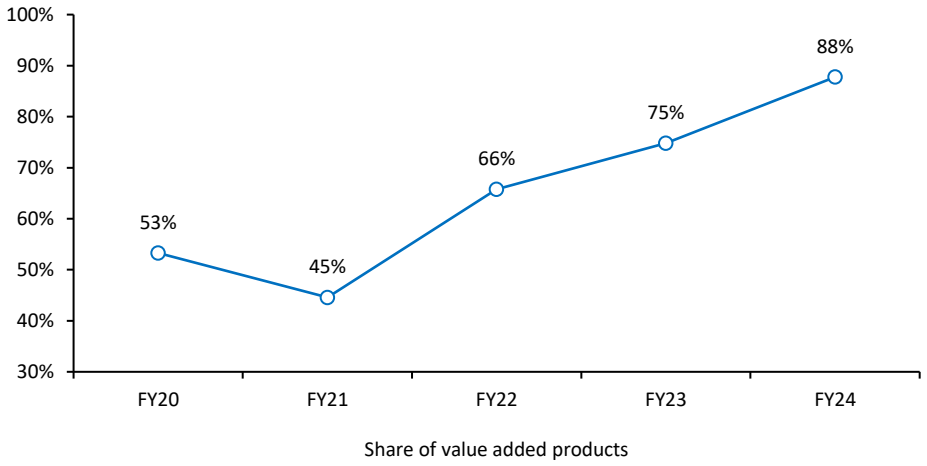
Exhibit 10: Strong dealer network and market presence in several states

State	Dealers (nos)	District presence (nos)
Telangana	216	33
Karnataka	201	30
Andhra Pradesh	164	26
Tamil Nadu	120	32
Kerela	79	8
Maharashtra	11	5
Others	20	10

Source: Company, MNCL research

The value-added product portfolio includes MS pipes and tubes, scaffolding, and galvanized products (pipes and coils). **Hariom has significantly enhanced its value-added product share in sales volume from 53% in FY20 to 88% in FY24, driven by increased volumes of MS pipes & tubes and the introduction of galvanized products in FY23.**

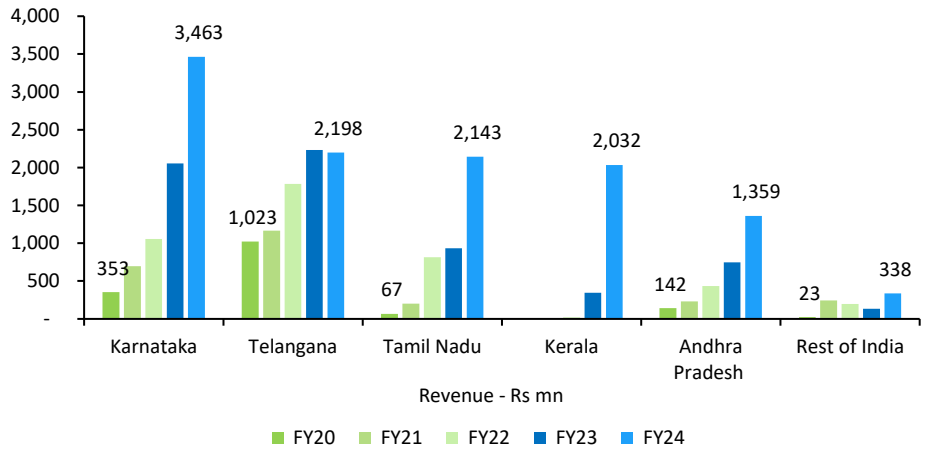
Exhibit 11: Share of value added products remains high, ensures better margins



Source: Company, MNCL research

Hariom has achieved significant sales growth in Karnataka, Telangana, Tamil Nadu, Kerala, and Andhra Pradesh over FY20-24. This growth is driven by an expansion in the dealer network, now exceeding 800 dealers, and an improved presence across districts.

Exhibit 12: Revenue scale up across states driven by dealer additions and enhanced market presence



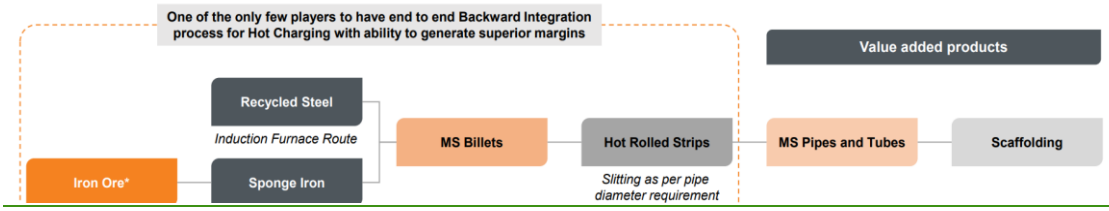
Source: Company, MNCL research

Investment thesis

A. MS Pipes & tubes: Strategic edge powered by backward integration

Hariom manufacturers high-quality MS pipes and tubes. It offers a diverse range of steel pipes, with outer diameters ranging from 20x20mm to 150x150mm and wall thicknesses between 1.2mm and 6mm. **Hariom specializes in selling** pipes **with thickness below 2mm. Nearly 70% of revenue is derived from pipes with thickness below 2mm.** These pipes are available in various shapes, including round, square and rectangular sections, allowing Hariom to serve a wide range of industrial needs. Manufactured using hot-rolled strips, the pipes are designed to deliver strength, reliability, and precision. HR pipes are widely used in construction, scaffolding, pergolas/ shed & gates and other applications.

Exhibit 13: Comprehensive process flow of backward integration to manufacture MS pipes & tubes



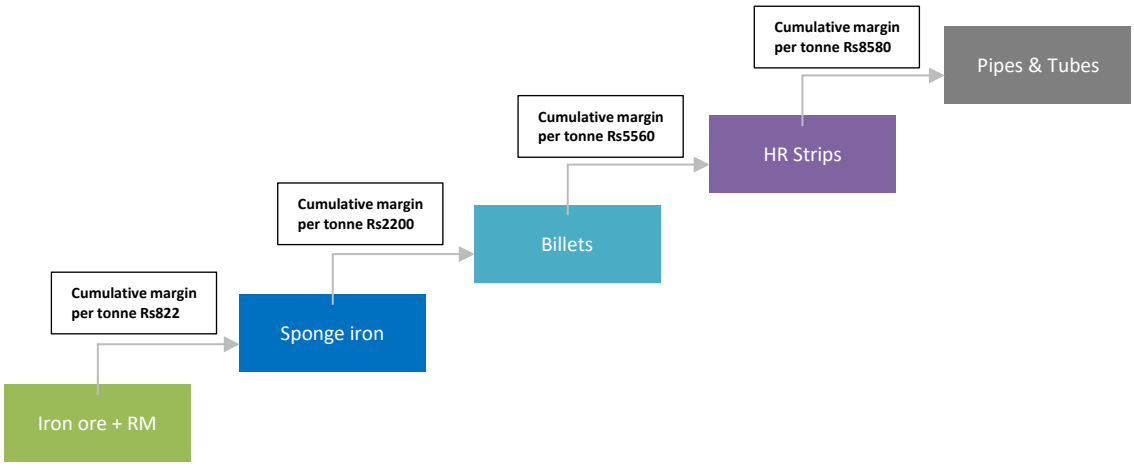
Source: Company, MNCL research

Hariom purchases iron ore from open market to manufacture sponge iron, which is then processed through various stages to manufacture the final product. All intermediate products required for the production of MS Pipes & Tubes, such as Sponge Iron, MS Billets, and HR Strips, are produced in-house. MS pipes and tubes can also be utilized for scaffolding when necessary. Hariom has a scaffolding capacity of 5000 tonnes and MS pipes & tubes capacity of 1.32 lakh tonnes as of FY24. The integrated nature of operations is one of the major strength and differentiator.

Each finished product from one process acts as an input for the next, providing flexibility in altering the product mix according to market demand, supply, market prices, and margins. For example, the output from the induction furnace plant i.e. MS Billets can be either sold independently or used as an input for the rolling mill. **In addition to seamless and flexible operations, the integration of the production process provides Hariom with a cost advantage over competitors.**

Breaking down value addition: margin analysis at every process

Exhibit 14: The margin equation from sponge iron to finished MS pipes & tubes for a historical period



Source: Company, MNCL research.

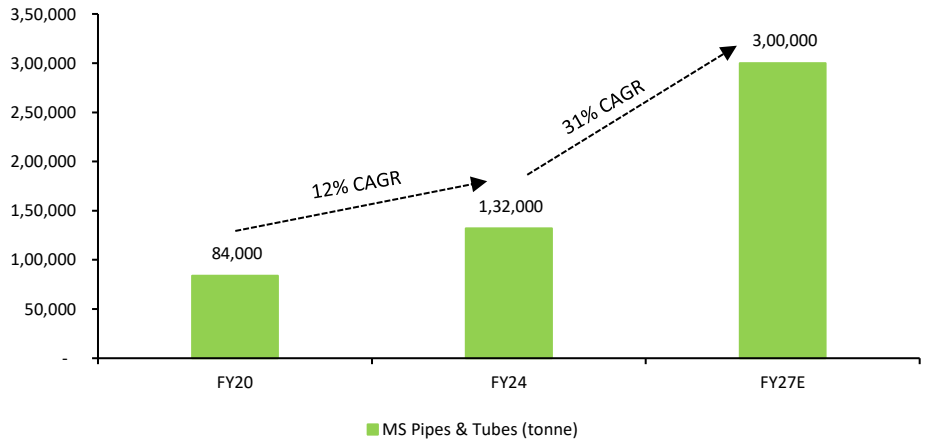
The analysis for a historical period highlights the value addition at every stage of the production process, showcasing the superior EBITDA per tonne achieved from manufacturing sponge iron and converting it into MS pipes and tubes. Historically, intermediate products were sold in the market or used internally

based on a strategic decision, depending on which option provided the most beneficial outcome at the time. This flexible approach has allowed Hariom to optimize margins and adapt to market dynamics effectively.

Roadmap for capacity addition of MS pipes & Tubes

The strategy for MS Pipes & Tubes is to expand production capacity while simultaneously enhancing backward integration to ensure consistent supply of key inputs, thereby maintaining higher EBITDA per tonne. **To capitalize on the industry tailwinds and improved market presence of Hariom, the capacity for MS pipes and tubes is expected to reach 3 lakh tonnes by FY27, reflecting a CAGR of 31% from FY24-27, outpacing the 12% CAGR recorded from FY20-24.**

Exhibit 15: MS pipes & tubes capacity to touch 3 lakh tonnes by FY27



Source: Company, MNCL research estimates

The Ultra Pipes acquisition: As part of its capacity expansion strategy, Hariom would add 84,000 tonnes of MS pipes and tubes capacity through the acquisition of Ultra Pipes, which is expected to be completed at a cost of ~Rs401mn. **The MS pipes & tubes capacity for Hariom is expected to be 2.16 lakh tonnes by FY25E as we expect the acquisition to be completed by 4QFY25.**

Ultra Pipes specializes in manufacturing high diameter pipes using DFT technology, in contrast to Hariom's historical focus on small diameter pipes. This acquisition allows Hariom to penetrate a wider market by offering a broader product range, thereby enhancing its ability to serve larger and more diverse customer segments.

Roadmap for capacity addition of backward integration

Sponge iron:

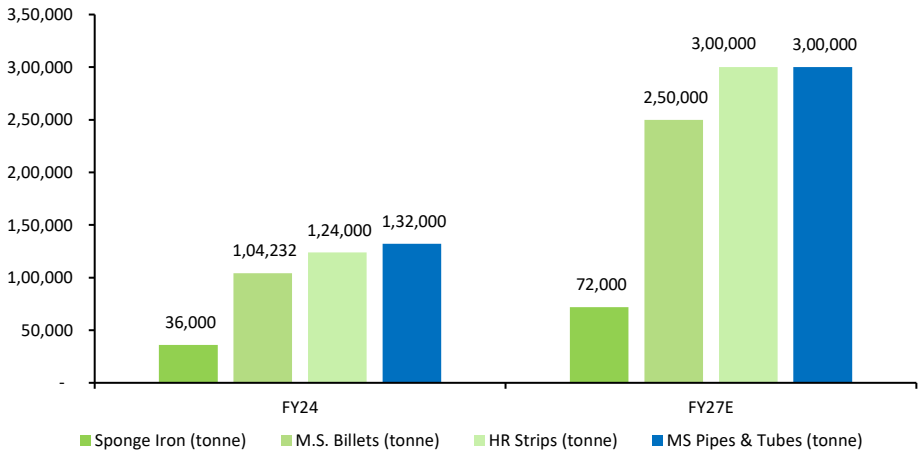
The erstwhile capacity stood at 36,000 tonnes. Further, the installation of a second kiln at Anantpur has boosted sponge iron production capacity to 72,000 tonnes. **The second kiln is not operational yet and the final approvals for running the kiln are expected by Mar'25.** While we anticipate that the backward integration strategy will persist on the increased MS pipes & Tubes capacity in the future, we expect the integration process to commence at the MS billets stage. This approach is necessary due to challenges associated with obtaining approval for kiln operations.

Billets & HR Strips:

The capacity for billets and HR strips stands at 1.04 lakh tonnes and 1.24 lakh tonnes as of FY24. The projected capacity increase of MS pipes & tubes to 3 lakh tonnes by FY27 would warrant an equivalent increase in Billets and HR Strips capacity to ensure backward integration. We remain confident of the company integrating backwards from MS Billets to MS Pipes & Tubes and project billets and HR strips capacities to touch 2.5 lakh tonnes and 3 lakh tonnes respectively by FY27. We believe that expanding backward integration capacities alongside MS pipes and tubes is the right strategy to sustain higher margins.

Hariom has unutilized land available to support the anticipated capacity expansion. However, any strategy to expand into a completely new geography would require a greenfield expansion. The management has indicated plans of expanding in the markets of Gujarat & Maharashtra which remains an optionality in our estimates.

Exhibit 16: Backward integrated setup to largely persist in FY27

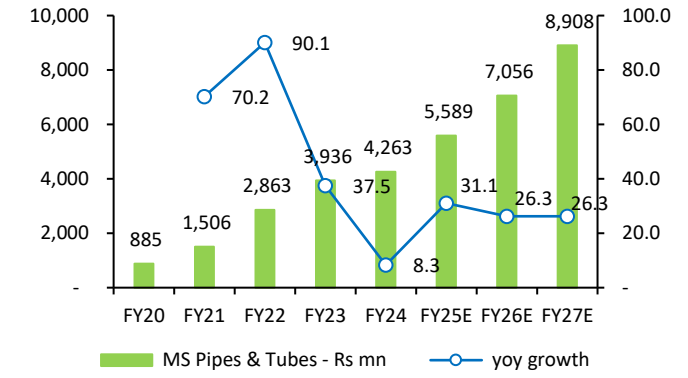


Source: Company, MNCL research estimates

Projecting robust revenue growth backed by accelerating sales volumes

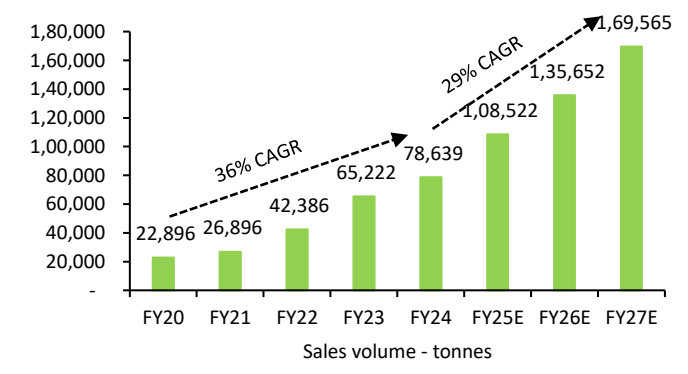
Historically, sales volumes of MS pipes and tubes have experienced an impressive 36% CAGR from FY21 to FY24. This remarkable growth can be attributed to Hariom's unwavering focus on quality, significant market share gains, and an expanded dealer network, which has increased coverage across multiple districts in the states it is present. In FY24, sales volume grew by 21% yoy, reaching a total of ~78600 tonnes. **Going forward, we expect Hariom to report revenue CAGR of 29% over FY24-27, driven by the industry tailwinds and completion & ramp-up of its expanded capacities.**

Exhibit 17: MS pipes & tubes Revenues to grow at 28% CAGR over FY24-27E



Source: Company, MNCL Research estimates

Exhibit 18: MS pipes & tubes sales volumes to grow at 29% CAGR over FY24-27E



Source: Company, MNCL Research estimates

B. Galvanized products: value added foray, ramp up underway

As of FY24, out of the 12.3 million tonnes of industry demand for steel pipes (SAW, ERW, and seamless pipes), galvanized pipes accounted for approximately 4-4.5 million tonnes of demand (source: Crisil), highlighting the significant market demand. Through an asset transfer agreement in FY23, Hariom acquired the operating assets of R P Metal Sections Private Limited in Perundurai, Tamil Nadu, which specializes in the manufacturing of Galvanized Pipes and Cold Roll coils with a capacity of 1.8 lakh tonnes. This strategic foray into galvanized pipes has enabled Hariom to expand its product portfolio by adding another value-added product, further enhancing its market offering and growth potential. Further, in FY24, Hariom commissioned a Galvanizing Plant (GP unit) at Mahabubnagar, Telangana, with a capacity of 1.2 lakh tonnes for GP pipes.

Exhibit 19: Manufacturing flow chart for galvanized products



Source: Company, MNCL research

Hariom manufactures the following galvanized products:

- **GI Pipes (Hot Dipped Galvanized Pipes):** application in industries like plumbing systems and irrigation.
- **GP Pipes (Pre Galvanized Pipes):** application in industries like automotives, solar structure, greenhouse structures.
- **GP coils:** application in constructing strong roofing systems for pre-engineered buildings, furniture, automotives, stampings and others.

Exhibit 20: GP Pipes (Pre Galvanized Pipes)



Source: Company, MNCL Research

Exhibit 21: GI Pipes (Hot Dipped Galvanized Pipes)



Source: Company, MNCL Research

The tandem mill advantage, technological upgrade to lower thickness

A state-of-the-art Cold-Roll Tandem Mill and an annealing furnace were commissioned at the Mahabubnagar Plant in Telangana. Advantages of the tandem mill include:

- Ability to perform multiple rolling operations in a single pass, significantly reducing the number of required passes.
- Enhances overall production efficiency and reduces manufacturing time, enabling Hariom to deliver steel products to customers more quickly and meet stringent deadlines and production schedules.
- The advanced mill represents a major technological upgrade, allowing for the **production of thin pipes with thicknesses as low as 0.4mm.**
- With only a few players in the industry possessing such a tandem mill, this development gives Hariom a significant competitive edge in the market.

Exhibit 22: The tandem mill at Mahabubnagar plant

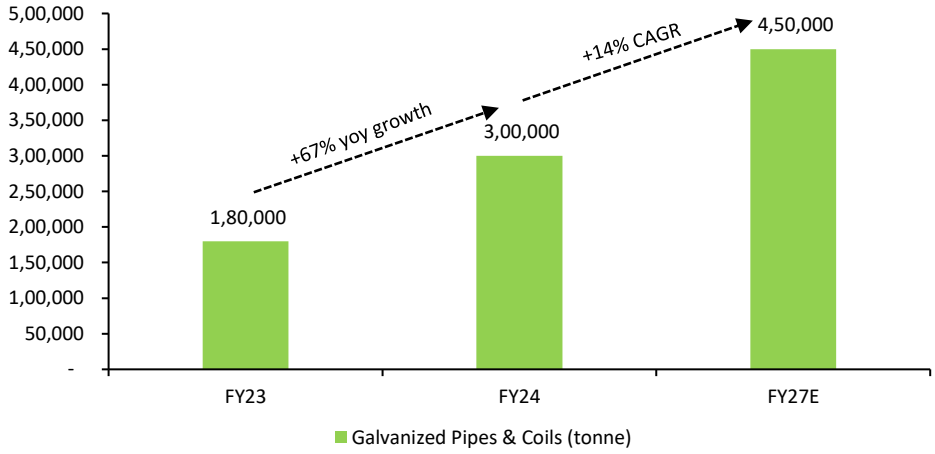


Source: Company, MNCL research

Planning capacity for next leg of growth, current capacity under ramp-up mode

Hariom's total capacity for GP pipes, GI pipes, and GP coils currently stands at 3 lakh tonnes and is projected to reach 4.5 lakh tonnes by FY27. We anticipate that Hariom will achieve optimum utilization on its galvanized products capacity of 3 lakh tonnes by FY27, and the capacity expansion to 4.5 lakh tonnes will pave the way for further growth beyond FY27. The capex cost for the addition of 1.5 lakh capacity is expected to be ~Rs350-400mn which is expected to be funded by internal accruals.

Exhibit 23: Galvanized product capacity to touch 4.5 lakh tonnes by FY27E

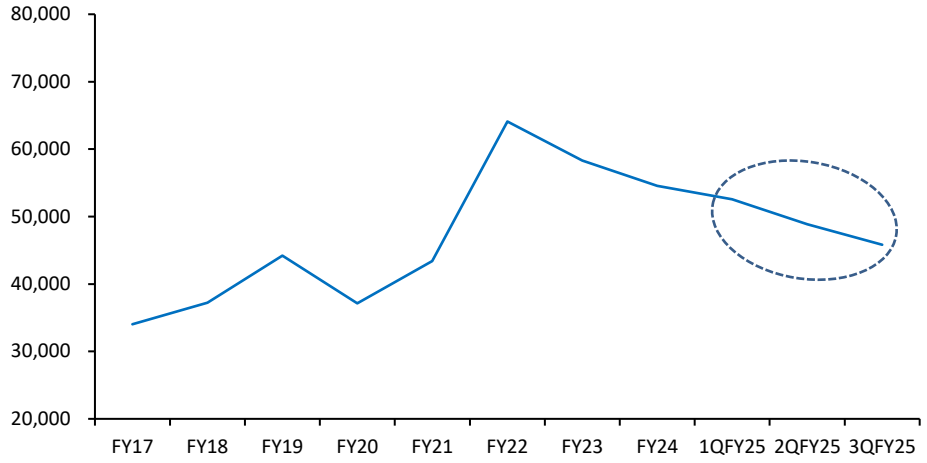


Source: Company, MNCL research estimates

HRC prices continue their downward trend

HRC is a key raw material for pipe manufacturers. HRC prices have fallen by 13% since Apr'24. HRC prices have been on a decline, primarily due to aggressive price undercutting by Chinese exporters. The influx of cheap imports from Vietnam and increased competition from China have forced Indian mills to lower prices, amid falling export volumes and weak domestic demand. The industry HRC capacity is projected to increase to 78mn tonnes by FY25, up from 66mn tonnes in FY24. **Over the next 3–4 years, the commissioning of new HRC capacities is anticipated to secure a consistent supply of HR coils in India. This increase in capacity is expected to narrow the price gap between primary and secondary market players.**

Exhibit 24: HRC prices (Rs per tonne) exhibit continued pressure

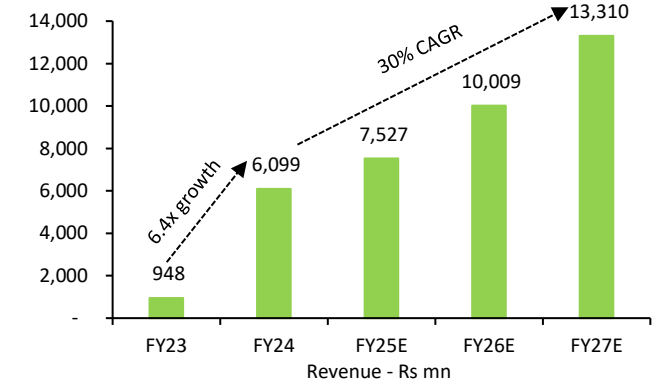


Source: Steelmint, MNCL research

Strong volume growth to act as revenue catalyst

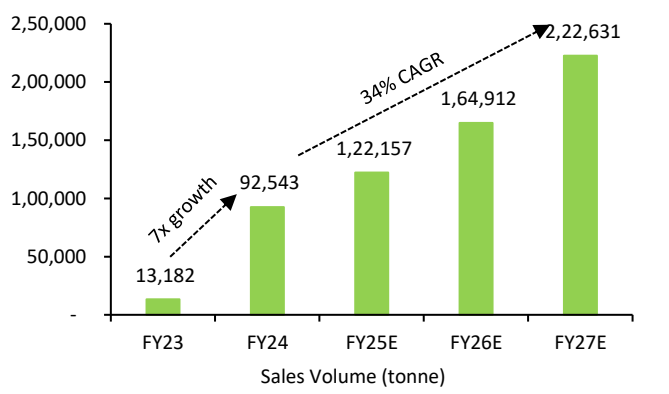
Hariom plans to leverage its established dealer network to drive sales of galvanized products. The galvanized products have significant potential in the engineering segment, which is expected to drive growth. The general engineering segment includes various industries, including automotive, bus body manufacturing, furniture, solar power plant structures, greenhouse structures, and more, presenting Hariom with significant potential for scaling up. This segment is advantageous as it offers visibility for volume growth backed by huge volume orders while also providing an improved receivable cycle, enhancing cash flow efficiency. **The engineering segment accounts for 15-20% of revenues currently and the management expects it's share to improve to 60-70% over the next 3 years.**

Exhibit 25: Revenues to grow at 30% CAGR over FY24-27, courtesy strong volume growth



Source: Company, MNCL Research estimates

Exhibit 26: Expect substantial volumes growth, backed by ramp up of facilities and demand from engineering segment



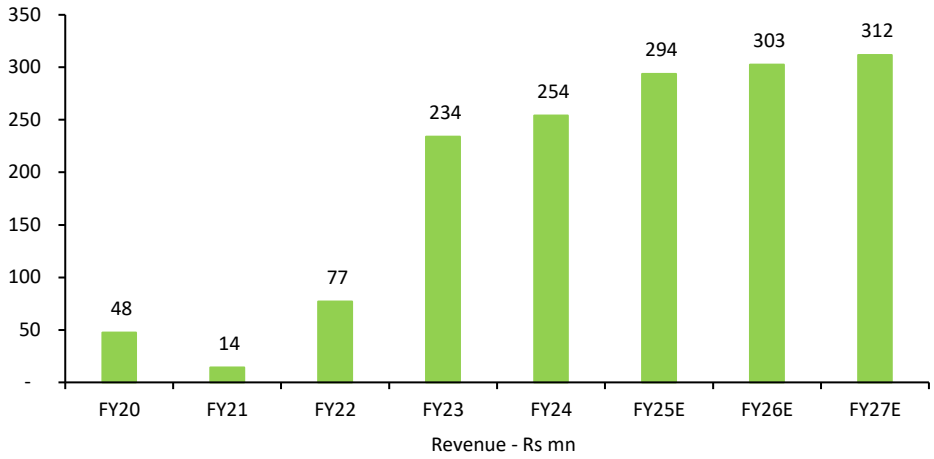
Source: Company, MNCL Research estimates

We anticipate optimum utilization on the current 3 lakh capacity by FY27, fueled by demand from the engineering sector and the ramp-up of capacities. Revenues are expected to grow at a CAGR of 30% over FY24-27, driven by a 34% CAGR in sales volumes, although realizations are expected to remain under pressure.

C. Scaffolding segment: Capacity constraints to limit growth

Scaffolding is an essential component in construction activities, both for buildings and other infrastructure projects. It serves various purposes, including facilitating the construction process and ensuring the safety of workers. **The major input for scaffolding production is the MS pipe, which Hariom manufactures in-house. Hariom sells Scaffolding to developers and contractors on a B2B basis.**

Exhibit 27: Scaffolding revenues to grow at 7% CAGR over FY24-27E



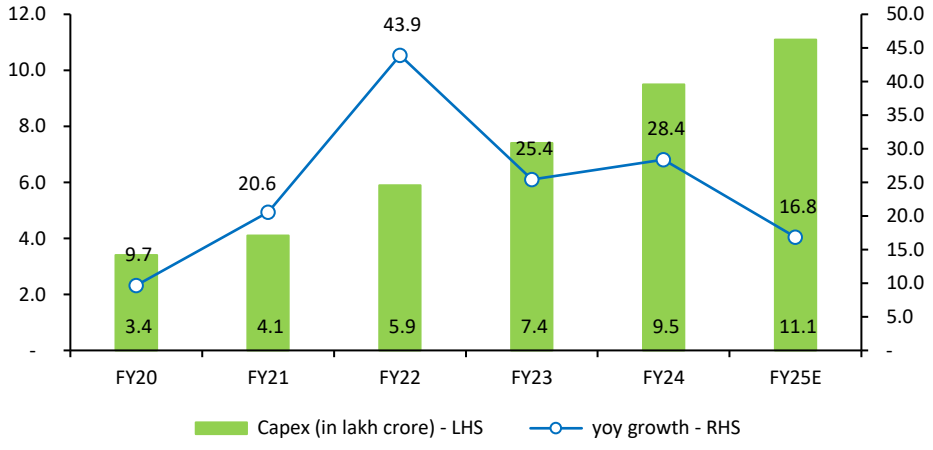
Source: Company, MNCL research estimates

While Hariom has not planned any capacity expansion for scaffolding, the current capacity utilization stands at 60%, leaving limited room for growth. As a result, we project scaffolding revenue to grow at a CAGR of 7% over FY24-27.

D. Industry tailwinds: ERW industry to thrive on government capex

The Indian government's capex spending has improved significantly by 29% CAGR to touch a massive Rs9.5tn over FY20-24. For FY25, the budgeted capex stands at Rs11.1tn, representing an increase of 16.8% yoy. The allocation emphasizes the government's focus on promoting economic growth.

Exhibit 28: Trend in government capex spend



Source: MNCL research

The budget's clear emphasis on improving roadways, shipping, and railways, alongside defense, includes substantial capital allocations for these sectors. This investment bodes well for the demand for ERW pipes.

Exhibit 29: Demand for pipes & tubes across sectors to be aided by government schemes

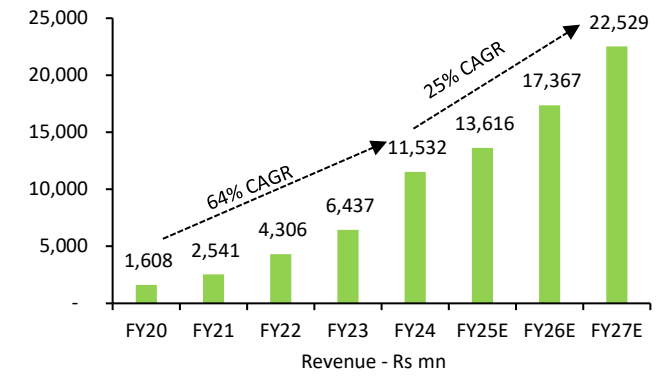


Source: Hi-tech pipes presentation, MNCL research

Financial Analysis

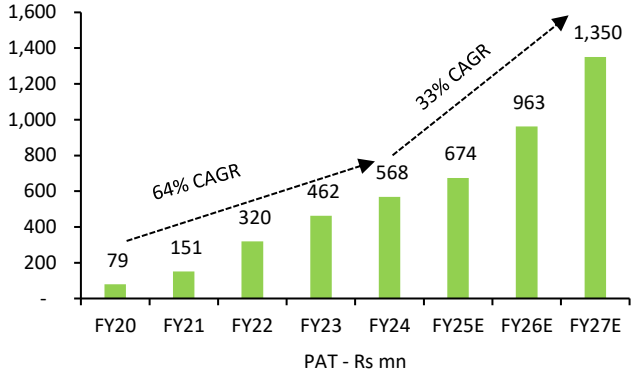
A. Hariom to grow at a robust pace: Despite accounting for pressure on HRC prices, we expect 25% and 33% CAGR growth in revenue and PAT over FY24-FY27E. The main reason for this is growth is ramp up of sales volumes of MS pipes & tubes and GP products. Hariom's expanding market presence and growing dealer network are expected to support its growth trajectory. Our analysis assumes that intermediate products produced by the company will be utilized internally for manufacturing finished products.

Exhibit 30: Expect revenue to grow at 25% CAGR over FY24-27



Source: Company, MNCL Research estimates

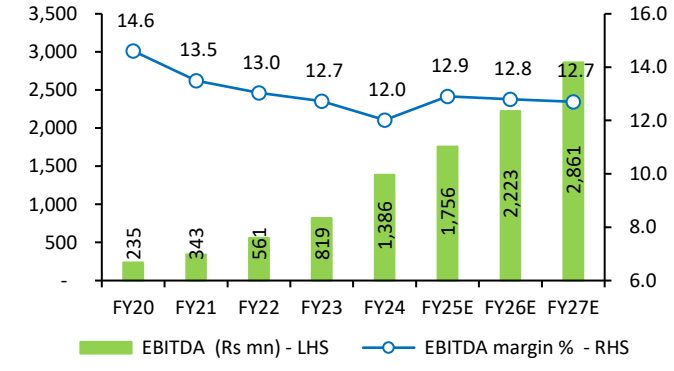
Exhibit 31: Expect PAT to grow at 33% CAGR over FY24-27



Source: Company, MNCL Research estimates

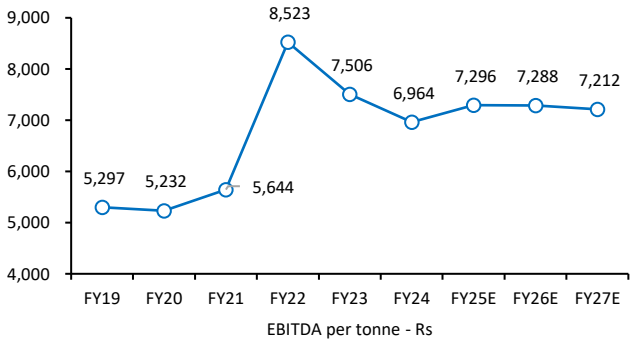
B. EBITDA margins & EBITDA per tonne: Hariom clocks industry-best margins driven by savings on distributor margins and its backward-integrated setup. Going forward, margins are expected to remain steady in the range of 12.5-13%. The superior EBITDA/ tonne is on account on value addition at every intermediate process level (discussed earlier). Going forward, EBITDA per tonne is projected to remain between Rs 7200-7300, barring any significant shifts in commodity prices.

Exhibit 32: EBITDA margins to remain healthy ~12.8% levels



Source: Company, MNCL Research estimates

Exhibit 33: Backward integration led superior EBITDA/ tonne



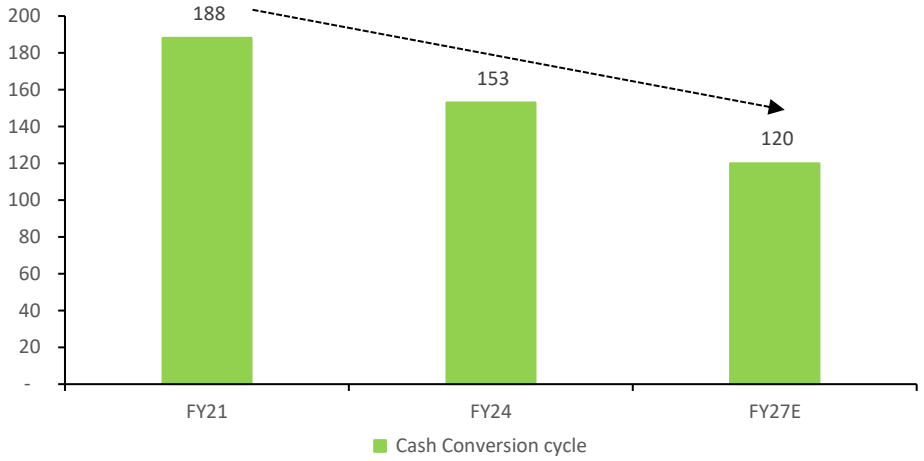
Source: Company, MNCL Research estimates

C. Cash conversion cycle

Hariom's cash conversion cycle is relatively stretched compared to industry peers due to its backward-integrated setup. This structure requires holding inventory for each intermediate product, resulting in higher inventory holding days. Additionally, the company maintains a minimum inventory for various SKUs, which further adds to the holding period. Going forward, inventory days are expected to remain consistent with current levels.

Payable days were 8 days in FY24 (below industry standard), contributing to the longer cash conversion cycle. However, successful negotiations have extended credit terms with suppliers to 40 days, which is expected to improve the cash conversion cycle. The first indications of improved payable days were observed in H1FY25, with payable days increasing to 39 days. This improvement in payable days is a strategic move to optimize working capital and improve liquidity. The receivable days stood at approximately 40 days in FY24 and are expected to remain stable at similar levels.

Exhibit 34: Cash conversion cycle (days) to improve due to improved credit terms

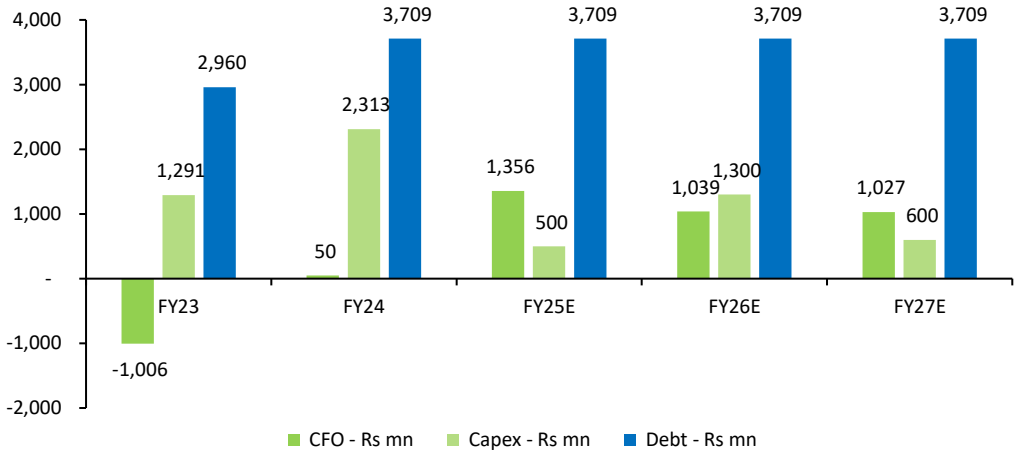


Source: Company, MNCL research estimates

D. CFO/ Capex/ Debt

CFO conversion is projected to improve significantly, driven by a better cash conversion cycle, reducing from 153 days in FY24 to 120 days by FY27. This improvement reflects enhanced efficiency in working capital management. Going forward, the company's capex requirements are expected to be largely funded through internal accruals. Debt levels are anticipated to remain stable, with the debt-to-equity ratio projected to improve to 0.5x in FY27 from 0.8x in FY24.

Exhibit 35: Capex to be largely funded by internal accruals on account of improved cash conversion cycle



Source: Company, MNCL research estimates

Competition analysis

ERW industry is fragmented in nature. Nearly 50% of the market comprises unorganized, scrap-based pipe manufacturers, while the remaining share is held by organized players. The ERW Below is the financial and operational comparison between major ERW players.

Exhibit 36: Financial & operational comparison of ERW players

Particulars - FY24	Hariom Pipe	Hitech Pipes	JTL Industries	APL Apollo	Surya Roshni
Capacity (tonnes)	7,01,232^	7,50,000	5,86,000	38,00,000	12,76,000*
Sales (tonnes)	1,99,015	3,91,147	3,41,847	26,18,000	8,07,258*
Revenue - Rs mn	11,532	26,993	20,402	1,81,188	62,420*
EBITDA - Rs mn	1,386	1,149	1,522	11,922	4,360*
EBITDA margin	12.0%	4.3%	7.5%	6.6%	7.0%*
PAT - Rs mn	568	439	1,130	7,324	3,292
Realization per tonne	57,945	69,010	59,683	69,209	77,323*
EBITDA per tonne	6,964	2,936	4,452	4,554	5,401*
ROE	13.5%	8.8%	19.1%	22.2%	16.3%
ROCE	10.7%	9.4%	17.9%	19.0%	15.6%
Cash conversion cycle (days)	153	63	57	-4	67
Market share	2%	4%	4%	28%	4%
SKUs	800+	1200+	1000+	2500+	NA
Dealer & distributor network	800+ dealers	500+ dealers & distributors	1000+ + distributors and retailers	800+ distributors	250+ distributors 21000+ dealers/ retailers
Value added Mix (%)	88%	35%	30%	58%	51%

*Source: MNCL Research, Crisil Report. Note: ^Hariom pipe capacity includes capacity for backward integration. ERW capacity stands at 437000 tonnes as of FY24. *Surya Roshni data pertains to Steel Pipe and Strips Segment. However, other data is entity level data.*

Hariom Pipe stands out among its competitors, including APL Apollo Tubes, Hi-Tech Pipes, Rama Steel Tubes, JTL Industries, Surya Roshni, and Vibhor Steel Tubes, due to its integrated business model.

Hariom Pipe operates with a robust network of over 800 dealers, operating through a direct dealer model in contrast to its competitors, who predominantly rely on a distributor model that introduces an additional intermediary layer. This strategic approach, coupled with its backward integration, enables Hariom to achieve industry-leading margins and superior EBITDA/ tonne.

However, the benefits of backward integration come with the trade-off of a longer cash conversion cycle, primarily driven by higher inventory days. Each intermediate product undergoes a holding period before progressing to the next stage of production, resulting in an extended conversion time from raw materials to finished goods.

Hariom boasts the highest share of value-added products among peers, standing at 88%. The return ratios remain superior to Hitech Pipes however, lag other peers like JTL Industries, APL Apollo and Surya Roshni.

Valuation – Perfectly placed for re-rating

Hariom has grown its Revenue/ EBITDA/ PAT at an impressive CAGR of 54%/ 52%/ 47% respectively over FY19-24. Further, we believe Hariom is well-positioned for strong growth driven by sectoral tailwinds that are bolstered by governmental spending.

Exhibit 37: Comparing manufacturing set up & finished goods profile

Company	Manufacturing set up			Finished products		
	DRI	Casting	Cold Rolling	HR coils	Pipes & Tubes	GI pipes
Hariom Pipe Industries	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
APL Apollo Tubes			Yes		Yes	Yes
Hi tech Pipes			Yes		Yes	Yes
Rama Steel Tubes					Yes	Yes
JTL Industries			Yes	Yes	Yes	Yes
Surya Roshni			Yes		Yes	Yes

Source: Crisil Report, MNCL Research

Exhibit 38: Financial comparison – Hariom largely at par on revenue growth, better in margins yet undervalued

Company	Mkt Cap (Rs mn)	CAGR (FY24-FY27)			EBITDA margins - %				ROE - %				PE Ratio			
		Revenue	EBITDA	PAT	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Hariom Pipe	15,019	25.0	27.3	33.1	12.0	12.9	12.8	12.7	13.5	12.8	15.2	18.0	30.3	22.3	15.6	11.1
APL Apollo Tubes Ltd	4,20,311	19.7	22.7	27.6	6.8	5.8	7.1	7.3	22.2	18.8	25.7	26.2	57.4	57.2	34.3	29.2
HI-Tech Pipes Ltd	31,939	25.4	43.6	64.8	4.3	5.3	5.9	6.4	8.8	10.1	12.6	15.7	48.3	36.5	21.5	15.0
JTL Industries Ltd	34,432	29.6	35.5	34.2	7.5	7.2	8.1	8.5	19.1	11.9	11.1	13.3	28.0	28.6	20.6	14.6
Surya Roshni Ltd	61,635	12.1	14.0	16.4	7.4	7.4	8.1	7.7	16.3	14.0	16.0	17.0	18.6	18.2	13.4	11.9

Source: Bloomberg, Hariom pipe numbers are MNCL Research estimates, data as on 30th December 2024

In comparison to its peers as shown in the above table, we find that Hariom is well-placed to grow largely at par on revenue with Hi-tech pipes and JTL Industries. Hariom's EBITDA margin is expected to remain industry-leading, driven by its integrated operations and focus on higher-value-added products. However, Hi-Tech Pipes and JTL Industries are projected to deliver stronger EBITDA growth, supported by margin expansion opportunities stemming from an increased contribution of value-added products to their portfolio.

Hariom is trading at a 35%/20% discount compared to Hi-Tech and JTL Industries respectively on FY25 basis, despite demonstrating operational excellence through superior margins, increased value-added product share, and strong EBITDA per tonne. Further, we anticipate largely comparable revenue growth and improving return ratios for Hariom. While its cash conversion cycle is currently stretched, improvements are anticipated in the near future, enhancing Hariom's overall performance and outlook. *We value Hariom at 18x FY27 EPS to arrive at a target price of Rs785/share and initiate with a BUY rating.*

We believe that the upside is a result of i) expected impressive earnings growth (CAGR of 33% over FY24-27E), ii) potential re-rating triggers - as the company improves the cash conversion cycle, delivers strong revenue growth on the back of ramp up of capacities, and improves the financial position reflected in progressively better return ratios, net debt/ equity ratio of 0.4x (currently 0.7x).

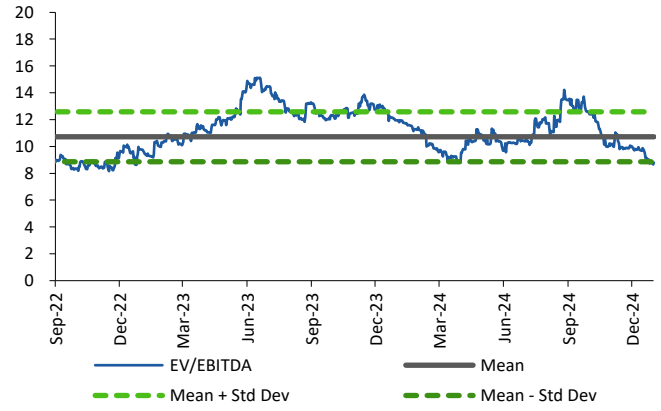
At CMP of Rs485, Hariom trades at 11.1x FY27PE ratio and remains highly undervalued.

Exhibit 39: Valuation

Valuation	FY27E
PER Valuation	
EPS - Rs/sh	43.6
Attributed PE Ratio - x	18
TP - Rs/sh	785
CMP	**485**
Upside	**62%**

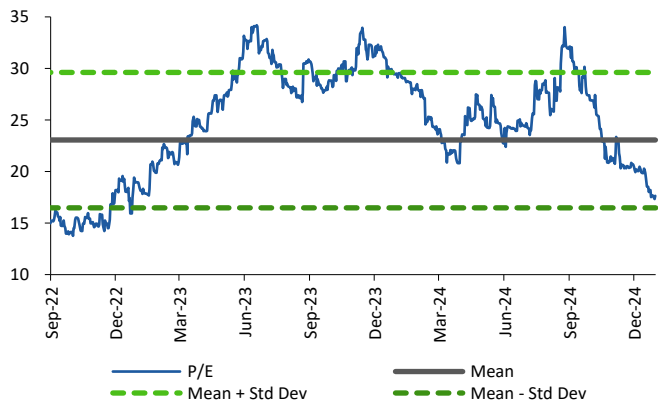
Source: Company, MNCL Research estimates

Exhibit 40: 1-year forward EV/EBITDA chart



Source: Company, Bloomberg, MNCL Research estimates

Exhibit 41: 1-year forward P/E chart



Source: Company, Bloomberg, MNCL Research estimates

Key risks to our thesis

- **Delays in capital expenditure:** Delays in capital expenditure plans are a key risk to our investment thesis, which is anchored on capacity expansion across product lines. Any postponement in spending or commissioning these expansions could pose a downside risk to our revenue estimates. Additionally, if raw material capacity does not increase in proportion to finished goods capacity, it could exert pressure on our margin expectations.
- **Increase in share of unorganized players:** Nearly 50% of the market comprises unorganized, scrap-based pipe manufacturers, while the remaining share is held by organized players. An increase in steel prices could incentivize customers to shift towards lower-cost, scrap-based pipes, posing a potential risk to the market share and profitability of organized players.
- **Input Price Volatility:** Fluctuations in hot-rolled coil (HRC) prices could significantly impact the company's cost of sales.
- **Slowdown in government capex :** We believe the industry is well-positioned to benefit from significant tailwinds driven by planned government capital expenditure. However, any slowdown in government spending could dampen demand for ERW pipes, adversely impacting the industry as a whole.

Financials (Consolidated)

Exhibit 42: Income Statement

Y/E March - Rs mn	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**1,336**	**1,608**	**2,541**	**4,306**	**6,437**	**11,532**	**13,616**	**17,367**	**22,529**
Materials cost	842	907	1,729	2,910	4,631	8,863	10,444	13,338	17,348
% of revenues	**63.0**	**56.4**	**68.0**	**67.6**	**71.9**	**76.9**	**76.7**	**76.8**	**77.0**
Employee cost	59	83	95	214	225	447	504	643	834
% of revenues	**4.4**	**5.2**	**3.7**	**5.0**	**3.5**	**3.9**	**3.7**	**3.7**	**3.7**
Others	266	383	375	621	763	836	912	1,164	1,487
% of revenues	**19.9**	**23.8**	**14.8**	**14.4**	**11.9**	**7.2**	**6.7**	**6.7**	**6.6**
EBITDA	**170**	**235**	**343**	**561**	**819**	**1,386**	**1,756**	**2,223**	**2,861**
EBITDA margin (%)	**12.7**	**14.6**	**13.5**	**13.0**	**12.7**	**12.0**	**12.9**	**12.8**	**12.7**
Depreciation & Amortisation	22	52	63	81	94	339	482	569	663
EBIT	**148**	**183**	**280**	**480**	**725**	**1,047**	**1,274**	**1,654**	**2,198**
Interest expenses	33	74	75	82	104	326	408	408	408
PBT from operations	**115**	**110**	**205**	**398**	**621**	**722**	**867**	**1,246**	**1,790**
Other income	3	4	7	27	7	52	51	64	47
Exceptional items	0	0	0	0	0	0	0	0	0
PBT	**118**	**113**	**212**	**425**	**628**	**774**	**917**	**1,310**	**1,837**
Taxes	36	34	61	106	166	206	243	347	487
Effective tax rate (%)	**30.6%**	**30.2%**	**28.6%**	**24.9%**	**26.5%**	**26.6%**	**26.5%**	**26.5%**	**26.5%**
Reported PAT	**82**	**79**	**151**	**320**	**462**	**568**	**674**	**963**	**1,350**
Adj. Consol. PAT	**82**	**79**	**151**	**320**	**462**	**568**	**674**	**963**	**1,350**

Exhibit 43: Key Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratio (%)									
Revenue	27.1	20.3	58.1	69.4	49.5	79.1	18.1	27.5	29.7
EBITDA	11.7	38.2	46.0	63.7	45.9	69.3	26.7	26.6	28.7
Adjusted PAT	27.1	(3.7)	91.3	111.2	44.6	22.9	18.7	42.8	40.3
Margin Ratios (%)									
EBITDA	12.7	14.6	13.5	13.0	12.7	12.0	12.9	12.8	12.7
PBT from operations	8.6	6.8	8.1	9.2	9.6	6.3	6.4	7.2	7.9
Adjusted PAT	6.2	4.9	6.0	7.4	7.2	4.9	5.0	5.5	6.0
Return Ratios (%)									
ROE	25.8	17.7	25.4	37.2	19.4	13.5	12.8	15.2	18.0
ROCE	15.5	13.1	15.8	22.5	12.5	10.7	10.9	12.6	14.7
ROIC	16.0	13.5	16.0	22.5	14.3	11.8	12.0	14.0	15.8
Turnover Ratios (days)									
Gross block turnover ratio (x)	2.7	2.2	3.0	4.5	4.6	3.6	2.9	3.1	3.4
Debtors	29	52	28	23	49	39	50	45	45
Inventory	169	240	169	144	167	122	120	118	115
Creditors	21	60	9	13	13	8	40	40	40
Cash conversion cycle	**177**	**231**	**188**	**154**	**203**	**153**	**130**	**123**	**120**
Solvency Ratio (x)									
Net debt-equity	1.1	1.2	1.1	0.9	0.5	0.7	0.4	0.4	0.4
Debt-equity	1.2	1.2	1.1	0.9	0.8	0.8	0.6	0.5	0.5
Interest coverage ratio	4.5	2.5	3.7	5.9	7.0	3.2	3.1	4.1	5.4
Gross debt/EBITDA	2.9	2.5	2.3	1.6	3.6	2.7	2.1	1.7	1.3
Current Ratio	1.9	1.4	1.6	2.0	2.1	1.7	1.8	1.8	2.0
Per share Ratios (Rs)									
Adjusted EPS	4.2	6.0	8.9	18.8	16.7	19.7	21.8	31.1	43.6
BVPS	21.1	36.5	41.7	59.5	135.9	160.8	189.4	220.5	264.1
CEPS	5.3	9.9	12.6	23.6	20.1	31.4	37.3	49.5	65.0
DPS	-	-	-	-	-	-	-	-	-
Dividend payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)*									
P/E (adjusted)	NM	NM	NM	NM	17.6	30.3	22.3	15.6	11.1
P/BV	NM	NM	NM	NM	2.2	3.7	2.6	2.2	1.8
EV/EBITDA	NM	NM	NM	NM	12.2	14.9	9.9	8.1	6.3
Dividend yield	NM	NM	NM	NM	0%	0%	0%	0%	0%

Source: Company, MNCL Research Estimates

Exhibit 44: Balance Sheet

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds									
Equity Share Capital	194	132	170	170	276	289	310	310	310
Reserves & surplus	215	351	538	840	3,476	4,353	5,555	6,518	7,868
Shareholders' fund	**409**	**483**	**708**	**1,010**	**3,752**	**4,641**	**5,865**	**6,827**	**8,178**
Total Debt	501	597	802	875	2,960	3,709	3,709	3,709	3,709
Lease Liabilities (current + non current)	0	0	0	0	13	12	12	12	12
Def tax liab. (net)	15	22	36	31	42	82	82	82	82
Total Liabilities	**925**	**1,102**	**1,545**	**1,916**	**6,767**	**8,445**	**9,668**	**10,631**	**11,981**
Gross Block	664	783	939	967	1,855	4,507	5,037	6,223	6,906
Less: Acc. Depreciation	236	288	350	431	522	857	1,339	1,907	2,570
Net Block	428	495	589	535	1,332	3,651	3,699	4,316	4,335
Capital WIP	0	1	83	101	1,032	131	101	215	133
ROU Assets - Net	0	0	0	0	12	11	11	11	11
Intangible Assets	0	0	0	0	0	0	0	0	0
Net Fixed Assets	**428**	**496**	**672**	**636**	**2,377**	**3,794**	**3,812**	**4,543**	**4,480**
Other non current assets	2	6	8	18	418	193	193	193	193
Inventories	390	595	801	1,148	2,122	2,965	3,434	4,312	5,466
Sundry debtors	105	228	196	269	861	1,221	1,865	2,141	2,778
Cash & Bank	40	17	9	5	1,047	318	1,361	755	818
Other current assets	87	54	51	83	266	312	312	312	312
Total Current Asset	**622**	**894**	**1,057**	**1,504**	**4,297**	**4,816**	**6,972**	**7,520**	**9,373**
Trade payables	48	149	43	104	163	189	1,145	1,462	1,901
Other current Liab.	52	144	147	135	158	164	164	164	164
Provisions	28	2	2	4	4	5	5	5	5
Net Current Assets	**495**	**599**	**865**	**1,262**	**3,972**	**4,458**	**5,658**	**5,890**	**7,303**
Total Assets	**925**	**1,102**	**1,545**	**1,916**	**6,767**	**8,445**	**9,668**	**10,631**	**11,981**

Source: Company, MNCL Research Estimates

Exhibit 45: Cash Flow

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating profit bef working capital changes	173	235	343	561	819	1,399	1,756	2,223	2,861
Changes in working capital	(136)	(211)	(200)	(456)	(1,647)	(1,169)	(157)	(837)	(1,351)
Cash flow from operations	**14**	**5**	**104**	**37**	**(1,006)**	**50**	**1,356**	**1,039**	**1,024**
Net Capex	(322)	(120)	(155)	(27)	(1,291)	(2,313)	(500)	(1,300)	(600)
FCF	(308)	(115)	(51)	10	(2,297)	(2,263)	856	(261)	424
Cash flow from investments	**(322)**	**(120)**	**(235)**	**(42)**	**(2,215)**	**(1,816)**	**(449)**	**(1,236)**	**(553)**
Cash flow from financing	**345**	**92**	**121**	**(2)**	**4,261**	**744**	**136**	**(408)**	**(408)**
Net change in cash	**37**	**(23)**	**(10)**	**(6)**	**1,040**	**(1,023)**	**1,043**	**(606)**	**63**

Source: Company, MNCL Research Estimates

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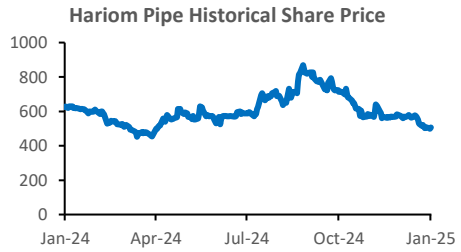
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