



Hi Tech Pipes (HTP) reported strong Q1FY19 results. Revenues grew 59.3%YoY and 13.9% QoQ to Rs 3,215mn driven by volume growth of 23.5% YoY and 9.1% QoQ (to 60,021 tons), increased sale of value added products and better realisations. Gross margins have witnessed some pressure and were down 20 bps sequentially and 2.1 percentage points YoY to 9.1% mainly due to rising steel prices. However, gross profit in absolute terms increased by Rs 239 per ton YoY. EBITDA grew by 31.6% YoY and 16.5% QoQ to Rs 174m. EBITDA per ton improved 6.6% YoY & 6.8% QoQ to Rs 2,906/ton due to operational efficiencies and increased contribution from the more profitable Western and Southern regions. EBITDAM at 5.4% contracted by ~120bps YoY and remained flat QoQ. Adj. PAT stood at Rs 65mn versus Rs 43mn in Q1FY18 and Rs 51mn in Q4FY18.

Additional capacity of 60,000 MTPS at Sanand, Gujarat was commissioned in July and trial productions have started. This year it is expected to go up to 50% capacity utilization. Capacity expansion of Cold rolling of 65,000 MTPA at Sikandrabad for the automobile sector is on stream and is expected to be commissioned in Q4FY19. The total capex on both expansions is ~Rs 270m of which Rs 170m was spent in FY18 and the balance to be incurred in FY19.

Post expansion the total capacity of the company will rise to 480,000 MTPA which will be sufficient for the company to achieve 25% CAGR in volumes till FY21E given the buoyancy in demand scenario from increased government spends on drinking water for all, infrastructure, telecom, affordable housing and solar energy. Also implementation of GST has resulted in a demand shift from the unorganized sector to the organized sector.

Post results, we have revised our revenue and profit estimates upwards by 29% and 8.7% for FY19E to Rs 15,132mn and Rs 329m and by 31.6% and 7.5% to Rs 19,104mn and Rs 479mn for FY20E. With most of the capex out of the way in this fiscal, the company is now set to reap the benefits of the same for the next 2-3 years. Higher capacity utilization will result in strong topline growth and even stronger bottomline growth on back of rising volumes and lower operating costs which will result in higher EBITDA per ton, higher profits and improving return ratios. We re-iterate BUY on the stock with a TP of Rs 594.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	6,374	10,156	15,132	19,104
Growth (%)	26.5	59.3	49.0	26.3
EBITDA (Rs m)	399	601	836	1,098
PAT (Rs m)	105	210	329	479
EPS* (Rs)	9.3	18.6	29.1	42.4
Growth (%)	61.3	100.4	56.4	45.9
CEPS* (Rs)	15.4	22.1	34.8	48.9
Net DPS (Rs)	0.3	0.3	0.3	0.3
Profitability & Valuation				
EBITDA margin (%)	6.3	5.9	5.5	5.7
RoE (%)	26.0	20.7	21.8	23.6
RoCE (%)	35.4	23.6	24.3	26.6
EV / sales (x)	0.8	0.6	0.4	0.3
EV / EBITDA (x)	12.5	9.6	7.3	5.9
PE (x)	33.0	16.5	10.5	7.2
P / BV (x)	4.3	2.8	1.9	1.5
Net dividend yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

* Please note: We have calculated ratios considering dilution after conversion of 8 lakh warrants

Q1FY19 Result Update

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Rating	BUY
Price	Rs 306
Target Price	Rs 594
Implied Upside	94.0%
Sensex	37,645
Nifty	11,356
Bloomberg Code	HITECH IN
Reuters Code	HITC.NS
<i>(Prices as on August 13, 2018)</i>	

Tracking Data

Market Cap (Rs bn)	3.3
Shares O/s (m)	10.7
3M Avg. Daily Value (Rs m)	16.8

Major Shareholders

Promoters	61.3%
Domestic Inst.	-
Public & Others	38.7%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.2)	(16.7)	88.0
Relative	(7.0)	(25.1)	70.3

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019E	29.1	-	NA
2020E	42.4	-	NA

Q1FY19 Result Overview (Rs m)					
Y/e March	Q1 '19	Q1 '18	YoY gr. (%)	Q4 '18	QoQgr. (%)
Net Revenue	3,215	2,019	59.3	2,823	13.9
Expenditure					
Raw Material Cost	2,921	1,792	63.0	2,559	14.1
<i>% of revenue</i>	<i>90.9</i>	<i>88.8</i>		<i>90.7</i>	
Employee Cost	33	28	16.1	30	7.3
<i>% of revenue</i>	<i>1.0</i>	<i>1.4</i>		<i>1.1</i>	
Other Expense	87	66	32.1	84	4.3
<i>% of revenue</i>	<i>2.7</i>	<i>3.3</i>		<i>3.0</i>	
Total Expenditure	3,041	1,886	61.2	2,673	13.7
EBITDA	174	133	31.6	150	16.5
<i>Margin (%)</i>	<i>5.4</i>	<i>6.6</i>		<i>5.3</i>	
Depr. & Amortization	14	10	48.4	11	34.3
EBIT	160	123	30.3	139	15.2
Net Interest	68	65	3.8	70	(4.0)
Other Income	2	3	(35.7)	4	(52.6)
Profit before Tax	95	61	55.7	73	30.2
Total Tax	29	18	61.0	22	34.4
<i>Effective tax rate (%)</i>	<i>31.0</i>	<i>30.0</i>		<i>30.0</i>	
Profit after Tax	65	43	53.4	51	28.3
<i>PAT Margin (%)</i>	<i>2.0</i>	<i>2.1</i>		<i>1.8</i>	
Adjusted PAT	65	43	53.4	51	28.3
EPS	6.1	4.0	53.4	4.7	28.3

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	6,374	10,156	15,132	19,104
Raw Material Expenses	5,626	9,133	13,770	17,385
Gross Profit	748	1,023	1,362	1,719
Employee Cost	106	121	139	159
Other Expenses	243	301	385	462
EBITDA	399	601	836	1,098
Depr. & Amortization	69	40	65	73
Net Interest	205	274	315	353
Other Income	24	13	13	13
Profit before Tax	149	300	469	685
Total Tax	45	90	141	205
Profit after Tax	105	210	329	479
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	105	210	329	479
Avg. Shares O/S (m)	11.3	11.3	11.3	11.3
EPS (Rs.)	9.3	18.6	29.1	42.4

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	245	(58)	(73)	76
C/F from Investing	(394)	(530)	(100)	-
C/F from Financing	135	587	481	(8)
Inc. / Dec. in Cash	(14)	(2)	308	68
Opening Cash	25	11	9	317
Closing Cash	11	9	317	385
FCFF	(149)	(588)	(173)	76

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	26.5	59.3	49.0	26.3
EBITDA (%)	25.0	50.5	39.1	31.3
PAT (%)	61.3	100.4	56.4	45.9
EPS (%)	61.3	100.4	56.4	45.9
Profitability				
EBITDA Margin (%)	6.3	5.9	5.5	5.7
PAT Margin (%)	1.6	2.1	2.2	2.5
RoCE (%)	35.4	23.6	24.3	26.6
RoE (%)	26.0	20.7	21.8	23.6
Balance Sheet				
Net Debt : Equity	2.0	2.0	1.6	1.4
Net Wrkng Cap. (days)	87.6	73.6	68.0	67.0
Valuation				
PER (x)	33.0	16.5	10.5	7.2
P / B (x)	4.3	2.8	1.9	1.5
EV / EBITDA (x)	12.5	9.6	7.3	5.9
EV / Sales (x)	0.8	0.6	0.4	0.3
Earnings Quality				
Eff. Tax Rate	29.8	30.0	30.0	30.0
Other Inc / PBT	0.2	0.0	0.0	0.0
Eff Depreciation Rate	7.8	3.0	4.0	4.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Non-Current Assets	960	1,494	1,549	1,499
Net fixed assets	811	1,239	1,448	1,375
Capital Work In Progress	77	174	-	-
Other Intangible Assets	1	1	1	1
Loans	26	27	37	47
Other Non-Current Assets	45	53	64	76
Current Assets	2,639	3,015	4,381	5,493
Inventories	1,244	1,543	2,312	2,919
Trade receivables	959	1,039	1,387	1,751
Cash & Bank Balance	164	128	317	385
Other Current Assets	272	305	365	438
Total Assets	3,598	4,509	5,931	6,993
Equity				
Equity Share Capital	103	105	113	113
Other Equity	663	1,031	1,590	2,066
Total Networth	766	1,136	1,703	2,179
Non-Current Liabilities	639	862	816	766
Long Term borrowings	490	704	659	614
Other financial liabilities	102	64	59	54
Provisions	6	6	10	10
Deferred tax liabilities	41	88	88	88
Current Liabilities	2,194	2,512	3,412	4,048
ST Debt / Current of LT Debt	1,198	1,721	2,339	2,750
Trade payables	575	454	765	1,014
Other financial liabilities	112	183	133	83
Short term provisions	78	46	46	46
Other current liabilities	231	107	128	154
Total Equity & Liabilities	3,599	4,510	5,931	6,993

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q4FY18	Q1FY19
Net Revenue	2,019	2,823	3,215
EBITDA	133	150	174
% of revenue	6.6	5.3	5.4
Depr. & Amortization	10	11	14
Net Interest	65	70	68
Other Income	3	4	2
Profit before Tax	61	73	95
Total Tax	18	22	29
Profit after Tax	43	51	65
Adj. PAT	43	51	65

Source: Company Data, PL Research.

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