

Stock Note

The Indian Hume Pipe Co Ltd

Aug 07, 2023





The Indian Hume Pipe Co Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Infrastructure	Rs. 277.05	Buy in the band of Rs 275 - 280 and add on dips in the band of Rs 245 - 250	Rs. 305	Rs. 327	2 - 3 quarters

HDFC Scrip Code	INDIANHUM
BSE Code	504741
NSE Code	INDIANHUME
Bloomberg	INHP:IN
CMP Aug 04, 2023	277.05
Equity Capital (Rs cr)	10.52
Face Value (Rs)	2
Equity Share O/S (cr)	5.26
Market Cap (Rs cr)	1477.7
Book Value (Rs)	143.5
Avg. 52 Wk Volumes	132159
52 Week High	281.8
52 Week Low	115.6

Share holding Pattern % (Jun, 2023)	
Promoters	72.3
Institutions	0.9
Non Institutions	26.8
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

The Indian Hume Pipe Co Ltd (IHP) was established in 1926 with the objective of manufacturing, popularizing and marketing Hume pipes and allied products. Over a period, the company IHP has developed pre-stressed concrete pipes, concrete cylinder pipes, bar wrapped steel cylinder pipes, steel pipes, welded steel penstocks, concrete railway sleepers, and has specialized in the execution of turnkey water supply, and sewerage & sanitation projects.

The company has a wide network of 19 factories and more than 100 projects under execution in India. Its state-of-the-art technology, stringent quality control measures, continuous R&D and timely execution has earned it a good reputation. The Company is actively involved in varied fields viz. water supply, irrigation, drainage, power generation and rail transport by executing numerous turnkey pipeline projects for water supply, sewerage and hydroelectric power generation, and supplying millions of concrete sleepers for the track modernization of railways in India. IHP has also executed projects in neighboring countries like Nepal, Sri Lanka, Myanmar (Burma) and Malaysia and Iraq.

The Government of India, state governments and local bodies are making substantial efforts to supply safe drinking water all across the country. Further, to make cities and rural areas more hygienic and as a part of the Swachha Bharat mission, a number of sewerage disposals and drainage schemes are coming up. IHP is one of the major beneficiaries of the increasing government spending on water and sewage infrastructure.

Valuation & Recommendation:

Government spending on infrastructure, water supply schemes, and various related projects are likely to continue, which augurs well for the company. Margins are expected to remain steady as the input cost volatility seen in the past year eases out. Realization of long standing receivables would help the company repay its debt. We expect the company to post Revenue/EBITDA/PAT CAGR of 12%/18%/18% over FY23-FY25E. We have not considered any income from real estate monetization in FY24/25.

We think the base case fair value of the stock is Rs 305 (20.5x FY25E EPS) and the bull case fair value is Rs 327 (22.0x FY25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 275 - 280 (18.7x FY25E EPS) and add more on dips in the band of Rs 245 – 250 (16.7x FY25E EPS).



Financial Summary:

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY-%	Q3FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Operating Income	454.2	391.7	15.9	404.7	12.2	1,241.4	1,520.4	1,542.9	1,735.7	1,923.2
EBITDA	41.8	45.3	-7.7	36.6	14.3	117.4	149.3	134.2	163.2	186.6
APAT	16.0	19.8	-19.1	12.7	26.5	42.0	57.8	55.7	65.8	78.1
EPS (Rs)	3.3	4.1	-19.1	2.6	26.5	8.7	11.9	11.5	12.5	14.8
RoE-%						7.2	9.2	8.3	8.8	9.3
P/E (x)						31.9	23.2	24.1	22.2	18.7
EV/EBITDA						16.0	12.7	14.4	12.8	11.4

(Source: Company, HDFC sec)

Q4FY23 and FY23 Result Review:

Revenue for the quarter stood at Rs. 454 Cr, up 15.9% from Rs. 392 Cr in Q4FY22. EBITDA margin for the quarter stood at 9.2% compared to 11.6% in the corresponding quarter last year. Profit came in at Rs. 16 Cr compared to Rs. 20 Cr in Q4FY22.

Revenue for the full year stood at Rs. 1,543 Cr, up 1.5% from Rs. 1,520 Cr in FY22, with margins at 8.7% compared to 9.8% in FY22. Net Profit for FY23 was Rs. 56 Cr vs Rs. 58 Cr in FY22.

Key Developments and Triggers:

Strong performance across segments

IHP operates in the following segments:

Water Supply and Sewerage Projects

The company executes turnkey projects for the supply of drinking water and irrigation water to many parts of the country. It has completed and is in the process of executing a number of prominent turnkey projects involving various components such as intake wells, transmission lines, pumping stations with pumping machineries, water treatment plants, ground level reservoirs, overhead reservoirs along with supplying, laying and jointing of pipelines and allied civil works. Some big projects completed by the company during the year included the following:

- Manufacturing and supplying to site, laying, jointing, testing and commissioning of 1600/1700 mm dia PCCP Pipeline and construction of appurtenant works for the water supply pipeline from Kushtagi to Bellary Thermal Power Plant of the value of Rs. 444.84 Cr in Karnataka



- Water Supply Scheme to Bhilai for Distribution Network for Bhilai Municipal Corporation consisting of 100 to 900 mm dia DI K7 Pipes for 447.66 Km for Rs. 116.20 Cr in Chhattisgarh
- Urban Water Supply Scheme, Alwar consisting of DI K7 pipes and HDPE Pipes including OHSRs, CWRs, Pump Rooms, Tube Wells, SCADA, etc. for Rs 109.63 Cr
- Water Supply Scheme to Mandsaur consisting of 600 mm dia DI K9 pipes for 53 KM and 110 to 200 mm dia HDPE pipes for 25 KM including Intake Well for Rs 53.58 Cr

Bar Wrapped Steel Cylinder (BWSC) Pipes/Pre-stressed Concrete Cylinder Pipes (PCCP)

The BWSC and PCCP pipes introduced by the Company as alternative pipe materials to M.S. and D.I. pipes have become popular amongst various Government authorities. The Company has undertaken and continues to undertake several projects involving BWSC and PCCP pipes. To meet the demand of these pipes, the company had specially set up manufacturing plants at Choutuppall in Telangana, Chilamathur in Andhra Pradesh, Dhule and Walwa in Maharashtra. In addition to the above, the Company has also created facilities to manufacture these pipes in its existing factories at Rajkot, Kanhan, Patancheru, Yelhanka, Thanjavur, Kekri, Sikar, Karari and Kovvur. During the year, these plants produced 56.14 kms of BWSC pipes valued at Rs. 20.88 Cr, 54.80 kms of PCCP Pipes valued at Rs 55.11 Cr and 18.04 kms of Pre-Stressed Concrete Pipes valued at Rs 5.93 Cr. During FY23, IHP received orders worth Rs 41.00 Cr for BWSC pipes, orders worth Rs. 3.53 Cr for PSC pipes and orders worth Rs. 92.99 Cr for PCCP pipes along with other civil works.

Railway Sleepers

IHP introduced Pre-stressed monoblock sleepers for railways in 1970. The life of an IHP sleeper in track is estimated at not less than 50 years. The heavier sleeper produces higher resistance to lateral movement, and reduces vertical movement under traffic of imperfectly parked sleepers. In conditions of excess heat, a concrete sleeper track is less prone to vertical and horizontal distortion and this has important safety and maintenance implications. During the year, the Company has received work orders of Rs 24.48 Cr and the Company manufactured 96,866 sleepers amounting to Rs 20.82 Cr against the orders received from Ministry of Railways, New Delhi.

Satisfactory Order Book and esteemed customers

The company has an order book of Rs. 3,112 Cr as on May 06, 2023 against Rs. 3,823 Cr as at May 20, 2022. The average project execution cycle for the company is 36 – 60 months. IHP is L1 in one project having value of Rs. 113 Cr as well. The order book ensures a bill to book ratio of ~2 times.



IHP undertakes projects for various customers including state government bodies, central government entities and companies operating in the private sector as well. These include:

CENTRAL GOVERNMENT

- ▶ Indian Railways
- ▶ Indian Railway Construction Company (IRCON)
- ▶ Rail India Technical And Engineering Services (RITES)
- ▶ Bharat Heavy Electricals Limited (BHEL)
- ▶ National Hydro Power Corporation (NHPC)
- ▶ National Thermal Power Corporation (NTPC)
- ▶ Indian Farmers Fertiliser Co Operative Limited (IFFCO)
- ▶ Satlaj Jal Vidyut Nigam Limited (SJVN)

PRIVATE SECTOR



(Source: Company, HDFC sec)

Land parcel development

The company has land parcels at Pune, Mumbai and Delhi, which are being developed and will be monetized over the next few years:

Hadapsar, Pune

IHP has given development rights of the land to Dosti Realty Ltd, for 38% of the revenue from sale of developed property. The developer has registered Phase 1 and 2 under RERA in the current year. The entire development under all phases of the Hadapsar project consists of 12 towers with an approximate total RERA carpet area of 10,51,389 Sq ft. (is subject to change based on the development control rules and market dynamics). The project completion dates as per records submitted to RERA are 2027 and 2028.

Vadgaon, Pune

IHP executed an agreement for development with M/s. Kalpataru Limited, (the Developer) for sharing revenue from development of the Company's freehold land admeasuring 59,784.29 sq. mtrs equivalent to 6,43,518.09 sq. ft. approximately, situated at Vadgaon in Pune city



on May 21, 2023. The development will primarily be residential towers including amenities subject to approvals and permissions. IHP will be responsible for all costs related to providing FSI and conversion of land from industrial to residential use.

IHP's share of revenue was re-negotiated to 32.50% instead of 34% and correspondingly the share of the Developer is 67.50% instead of 66% of the shared revenue, which was agreed via an MOU signed in 2018. The reduction was due to an abnormal increase in development costs, change in development rules and enhancement in the size of the project, from the time of signing of the MOU.

Badarpur, Delhi

IHP has executed development agreement with M/s. Birla Estates Pvt. Ltd. (the Developer) on July 18, 2023 for sharing revenue from development of the Company's freehold land at Badarpur, Delhi admeasuring 27,504.78 sq. mtrs. (6.796 Acres) approximately. The development will primarily comprise of residential group housing apartments along with amenities and some retail area, which will be developed, constructed, marketed, and sold by the Developer after obtaining of applicable approvals and permissions. The Developer will bear costs of construction and marketing as well as costs of certain sanctions and approvals. IHP will be responsible for cost related to providing FAR and cost of conversion of land from industrial to residential use. The revenue generated from the sale of the project will be shared in the ratio of 36.50% to IHP and 63.50% to Birla Estates Pvt. Ltd.

Wadala, Mumbai

The land is encroached by slum dwellers and therefore this would be a SRA project. Potential development area after considering SRA's share is approx. 40,000 sq. ft. only. IHP has entered into MOU with Dosti developers for this land parcel. Development related approvals are being taken from various authorities.

Infrastructure spending by the Government

Rural areas in India has been falling short of access to drinking water. Central Government, State Governments and local bodies are making best efforts to supply safe drinking water. Hence, a number of water supply schemes are under anvil. Har Ghar Jal is a Scheme announced in the Union Budget 2019 by the Government of India with the aim to provide tap water to every rural household by the year 2024 at a cost of Rs. 5 Lakhs Crore during next 5 years.

To augment agricultural output, Lift Irrigation Schemes (LIS) have been undertaken by various State Governments. Hence, number of LIS are under anvil. Further to make cities, rural areas more hygienic, and endeavour towards Swachha Bharat, a number of sewerage disposals and drainage schemes have also come up.



With the government's push towards increased spending on water infrastructure, the prospects of the company seems to improve as players with diverse presence across various states are expected to benefit from the same.

Risks and Concerns:

High Competition

IHP operates in the EPC industry, which is highly competitive in nature. The industry is heavily dependent on order inflow from government agencies. Operating profit margins of the players in the industry have remained low due to fragmented nature of industry with presence of large number of players in the market. Players with superior execution capabilities and financial flexibilities are better placed to overcome the competition. Further, availability of substitutes such as alternate pipe materials like Ductile Iron pipes, spirally welded steel pipes and HDPE pipes add to the competition faced by the company.

Delay in Land development

The company has been trying to monetize the land since 2015. Development agreement with Kalpataru for an MOU signed in 2018 was executed in 2023. IHP has to undertake the process to convert the industrial land into residential land. Various other approvals from different authorities are to be obtained. Development of the freehold land into residential complexes would take further time. There is no clear timeline on the receipt of cash flows from land monetization.

Working Capital Intensive

The company operates in a working capital intensive industry and there has been extension of receivable days due to milestone-based payment terms as well as retention money. Retention money stood at Rs. 433 Cr vs Rs. 393 Cr in FY22. The promoters have infused Rs. 60 Cr by preferential allotment (~42.3 lakh shares @ Rs. 141.69 per share) for debt reduction and working capital requirements in June 2023.

Raw Material volatility

IHP consumes steel, steel wires, HT wires and cement as key raw materials. Increase in cost during the year has affected profitability. Any volatility in these input materials shall affect the margins of the company.

Slowdown in government spending

The Company's activities and prospects largely depend on the implementation of various water supply related projects undertaken by various States/Central Government Agencies. The Company is undertaking turnkey projects of water supply schemes, irrigation and sewerage schemes of various State Governments and it depends upon their policy on approval of finance and allocation of funds as well as



their ability to raise funds to undertake such water supply projects amongst various infrastructure related projects being implemented by them. Adverse changes and lack of funds delays the work resulting in higher cost and can affect business prospects.

About the company:

In the year 1926, Seth Walchand Hirachand formed “The Indian Hume Pipe Co. Ltd.” with license from Humes of Australia for the manufacture of Reinforced Cement Concrete Pipes. The company is in the business of manufacturing, laying and jointing of pipelines of various pipe materials such as RCC pipes, Steel pipes, Prestressed Concrete pipes, Penstock pipes, Bar Wrapped Steel Cylinder pipes (BWSC), Prestressed Concrete Cylinder pipes (PCCP) etc., which provide infrastructure facility and development of drinking water supply projects, irrigation projects, and sanitation and sewerage schemes.

For over five decades as a part of nation building, the Company has been undertaking infrastructure development by way of executing on turnkey basis combined water supply projects. It undertakes the complete job of water supply from source to distribution centers which includes construction of intake wells, water sumps, water treatment plants, water pumping stations, installation of pumping machineries, electro-mechanical works, branch mains, ground level reservoirs, elevated reservoirs, leading to execution of complete systems for water supply to various towns and villages of India.

The company is acknowledged as a pioneer in the industry with an unbeatable record of introducing the following products in India:

1926	1932	1937	1957	1970	1998	2003
RCC Pipe	Welded Steel Pipe	Steel Penstock Pipe	PSC Pipe	PSC Sleepers	SWSC Pipe	PCCP Pipes

The Promoters have infused Rs. 60 cr in June 2023 by preferential allotment @Rs.141.69 per share for debt reduction and working capital requirements.



The Indian Hume Pipe Co Ltd

Financials: Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	1241.4	1520.4	1542.9	1735.7	1923.2
Growth (%)	-23.5	22.5	1.5	12.5	10.8
Operating Expenses	1124.0	1371.1	1408.7	1572.6	1736.6
EBITDA	117.4	149.3	134.2	163.2	186.6
Growth (%)	-35.6	27.2	-10.1	21.6	14.3
EBITDA Margin (%)	9.5	9.8	8.7	9.4	9.7
Depreciation	19.9	17.4	15.5	15.3	14.9
EBIT	97.5	131.8	118.6	147.8	171.6
Other Income	27.3	4.7	21.7	11.3	10.6
Interest expenses	67.8	58.6	67.9	72.5	77.7
PBT	57.0	78.0	72.4	86.6	104.5
Tax	15.0	20.2	16.7	20.8	26.3
RPAT	42.0	57.8	55.7	65.8	78.1
APAT	42.0	57.8	55.7	65.8	78.1
Growth (%)	-42.8	37.5	-3.6	18.2	18.7
EPS	8.7	11.9	11.5	12.5	14.8

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	10	10	10	11	11
Reserves	593	641	686	797	860
Shareholders' Funds	603	650	695	808	870
Minority's Interest	0	0	0	0	0
Long Term Debt	38	25	14	0	0
Net Deferred Taxes	-3	-4	-5	-5	-5
Long Term Provisions & Others	55	52	50	54	58
Total Source of Funds	693	723	755	858	924
APPLICATION OF FUNDS					
Net Block & Goodwill	126	127	114	114	114
CWIP	1	0	0	0	0
Other Non-Current Assets	176	186	160	182	204
Total Non Current Assets	303	314	274	296	318
Current Investments	0	0	0	0	0
Inventories	78	79	75	81	84
Trade Receivables	553	704	742	818	880
Cash & Equivalents	28	40	47	28	26
Other Current Assets	929	832	1037	1103	1186
Total Current Assets	1588	1655	1902	2030	2176
Short-Term Borrowings	522	562	619	659	694
Trade Payables	490	518	559	618	669
Other Current Liab & Provisions	187	165	243	191	207
Total Current Liabilities	1198	1246	1421	1469	1570
Net Current Assets	390	410	481	561	606
Total Application of Funds	693	723	755	858	924

(Source: Company, HDFC sec)

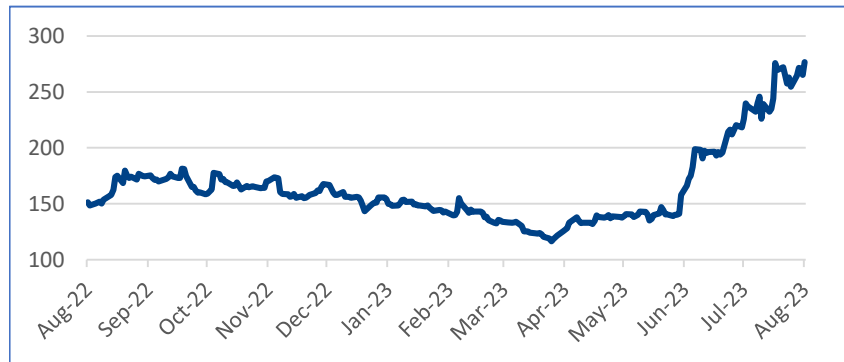


The Indian Hume Pipe Co Ltd

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	57.0	78.0	72.4	86.6	104.5
Non-operating & EO items	-21.0	1.8	-0.6	-18.8	-17.9
Interest Expenses	64.2	55.3	63.1	72.5	77.7
Depreciation	19.9	17.4	15.5	15.3	14.9
Working Capital Change	82.9	-68.7	-118.0	-139.2	-81.2
Tax Paid	-18.2	-27.8	-12.9	-20.8	-26.3
OPERATING CASH FLOW (a)	184.8	56.0	19.5	-4.3	71.7
Capex	-3.2	-3.8	-2.0	-15.0	-15.0
Free Cash Flow	181.6	52.2	17.5	-19.3	56.7
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	-9.8	-14.1	9.1	0.0	0.0
INVESTING CASH FLOW (b)	-12.9	-17.9	7.2	-15.0	-15.0
Debt Issuance / (Repaid)	-97.9	-27.3	11.6	25.5	35.0
Interest Expenses	-67.1	-58.8	-67.5	-72.5	-77.7
FCFE	16.7	-33.8	-38.4	-66.2	13.9
Share Capital Issuance	0.0	0.0	0.0	60.0	0.0
Dividend	-9.7	-9.7	-9.7	-13.2	-15.8
Others	3.1	3.2	3.3	0.0	0.0
FINANCING CASH FLOW (c)	-171.5	-92.6	-62.3	-0.1	-58.5
NET CASH FLOW (a+b+c)	0.4	-54.5	-35.6	-19.4	-1.9

One Year Price Chart:



(Source: Company, HDFC sec)

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
PROFITABILITY RATIOS (%)					
EBITDA Margin	9.5	9.8	8.7	9.4	9.7
EBIT Margin	7.9	8.7	7.7	8.5	8.9
APAT Margin	3.4	3.8	3.6	3.8	4.1
RoE	7.2	9.2	8.3	8.8	9.3
RoCE	8.1	11.0	9.2	10.6	11.3
SOLVENCY RATIO (x)					
Debt/EBITDA (x)	4.8	3.9	4.7	4.0	3.7
D/E (x)	0.9	0.9	0.9	0.8	0.8
PER SHARE DATA (Rs)					
EPS	8.7	11.9	11.5	12.5	14.8
CEPS	12.8	15.5	14.7	15.4	17.7
Dividend	2.0	2.0	2.5	2.5	3.0
BVPS	124.4	134.2	143.5	153.5	165.3
TURNOVER RATIOS (days)					
Debtor days	174	151	171	164	161
Inventory days	23	19	18	16	15.7
Creditor days	150	121	127	124	122.2
VALUATION					
P/E (x)	31.9	23.2	24.1	22.2	18.7
P/BV (x)	2.2	2.1	1.9	1.8	1.7
EV/EBITDA (x)	16.0	12.7	14.4	12.8	11.4
EV/Revenue (x)	1.5	1.2	1.2	1.2	1.1
Dividend Yield (%)	0.7	0.7	0.9	0.9	1.1
Dividend Payout (%)	23.1	16.8	21.7	20.0	20.2

(Source: Company, HDFC sec)



The Indian Hume Pipe Co Ltd

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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