

HARIOM PIPE INDUSTRIES LIMITED

Issue highlights

- ❑ **Hariom Pipe Industries Limited (“Hariom”)** was incorporated on June 21, 2007. Hariom is an integrated manufacturer of Mild Steel (MS) Pipes, Scaffolding, HR Strips, MS Billets, and Sponge Iron.
- ❑ Hariom caters to the southern and western Indian markets for their products. Their MS Pipes are marketed and sold in these geographies under the brand name - Hariom Pipes.
- ❑ The company manufactures MS Pipes and Scaffoldings of more than 150 different specifications.
- ❑ Wide products to choose from gives company an advantage to build consumer base in different finished steel products including:
 - Sponge Iron;
 - HR Strips;
 - MS Section;
 - MS Pipes & Tubes;
 - Scaffolding.
- ❑ Company’s integrated plant at Mahabubnagar District in Telangana (Unit I) manufactures finished steel products from iron scrap and Sponge Iron and the other plant at Anantapur District, Andhra Pradesh (Unit II) exclusively manufactures Sponge Iron. Unit II is located near Bellary.
- ❑ Hariom mainly sells MS Pipes through more than 200 distributors and dealers. They also sell MS Pipes and Scaffoldings to certain developers and contractors directly as B2B sales.

Brief Financial Details*

(₹ In Cr)

| | As at Sep’ 30, | As at Mar’ 31, | | |
|----------------------------|---------------------|----------------|----------|----------|
| | 2021(06) | 2021(12) | 2020(12) | 2019(12) |
| Equity Share Capital | 16.98 | 16.96 | 13.23 | 13.23 |
| Reserves | 66.75 | 53.83 | 35.07 | 22.86 |
| Net worth as stated | 83.72 | 70.79 | 48.30 | 36.09 |
| Revenue from Operations | 200.87 | 254.14 | 160.78 | 133.60 |
| Revenue Growth (%) | - | 58.07% | 20.34% | - |
| EBITDA | 25.86 | 34.97 | 23.86 | 17.35 |
| EBITDA Margin (%) | 12.86% | 13.72% | 14.81% | 12.95% |
| Profit before Tax | 17.71 | 21.20 | 11.33 | 11.65 |
| Net Profit for the period | 12.87 | 15.13 | 7.91 | 8.02 |
| Net Profit Margin (%) | 6.40% | 5.94% | 4.91% | 5.99% |
| EPS -Basic (₹) as stated | 15.12 [^] | 10.64 | 5.98 | 7.34 |
| EPS -Diluted (₹) as stated | 15.12 [^] | 9.80 | 5.93 | 7.34 |
| RoNW (%) | 15.37% [^] | 21.38% | 16.37% | 22.22% |
| Net Asset Value (₹) | 49.19 | 49.79 | 36.50 | 33.01 |

Source: RHP *Restated Statement, ^ not annualised.

Issue Details

Fresh Issue of 850,000 Equity shares.

Issue summary

Issue size: ₹ 122 – 130 Cr

No. of shares: 8,500,000 Equity Shares

Face value: ₹ 10/-

Price band : ₹ 144 - 153

Bid Lot: 98 Shares and in multiple thereof

Post Issue Implied Market Cap =

₹ 367 – 390 Cr

BRLMs: ITI Capital

Registrar: Bigshare Services Pvt. Ltd.

Issue opens on: Wednesday, 30th Mar’2022

Issue closes on: Tuesday, 5th Apr’2022

Indicative Timetable

| Activity | On or about |
|------------------------------------|-------------|
| Finalisation of Basis of Allotment | 08-04-2022 |
| Refunds/Unblocking ASBA Fund | 11-04-2022 |
| Credit of equity shares to DP A/c | 12-04-2022 |
| Trading commences | 13-04-2022 |

Issue break-up

| | No. of Shares | ₹ In Cr | | % of Issue |
|--------------|------------------|---------------|---------------|-------------|
| | | @Lower | @Upper | |
| QIB | 2,550,000 | 36.72 | 39.02 | 30% |
| NIB | 2,975,000 | 42.84 | 45.52 | 35% |
| RET | 2,975,000 | 42.84 | 45.52 | 35% |
| Total | 8,500,000 | 122.40 | 130.05 | 100% |

Listing: BSE & NSE

Shareholding (No. of Shares)

| Pre issue | Post Issue |
|------------|------------|
| 16,976,204 | 25,476,204 |

Shareholding (%)

| | Pre-Issue | Post-Issue |
|----------------|----------------|----------------|
| Promoters | 42.00% | 27.99% |
| Promoter Group | 57.10% | 38.05% |
| Public | 0.90% | 33.97% |
| Total | 100.00% | 100.00% |

BACKGROUND

Company and Directors

The company was incorporated as 'Hari Om Concast And Steels Private Limited' on June 21, 2007, at Hyderabad. Rupesh Kumar Gupta and Sailesh Gupta are the Promoters of the company and currently hold 7,130,069 Equity Shares, aggregating to 42% of the issued, subscribed and paid-up Equity Share capital of the company.

Brief Biographies of Directors

Pramod Kumar Kapoor is the Chairman and Independent Director of the company. He has more than 17 years of experience in textile industry. Presently, he is into business of plastic manufacturing.

Rupesh Kumar Gupta is the Promoter and Managing Director of the company. He has been the main guiding force behind the growth and business strategy of the company. He has more than 2 decades of experience in steel industry.

Sailesh Gupta is the Promoter and the Whole-time Director of the company. He has experience of more than a decade in Marketing. He has been a backbone of the company for identifying, negotiating and implementing new business opportunities. He is in charge of overall sales & marketing functions. He plays crucial role in team building and client's addition and retention.

Sunita Gupta is the Non-Executive Director of the company. She has 2 years of experience in steel industry.

B. Shanti Sree is the Independent Director of the company. She has more than 10 years of experience in audit, taxation, banking and finance.

G. Rajender Reddy is the Independent Director of the company. He has over 25 years of experience in the field of banking.

Key Managerial Personnel

Amitabh Bhattacharya is the Chief Financial Officer of the company. He is having over 14 years of experience in diverse industries including textiles, tyres and logistics. He has been associated with the company since June 21, 2007.

Chirag Partani is the Company Secretary and Compliance Officer of the company. He has professional experience of over 4 years in the field of secretarial work and corporate law compliances. He has been associated with the company since October 6, 2017.

Ashish Agarwal is the Head – Marketing of the company. He has more than 4 years of experience in the field of marketing. He has been associated with the company since November 1, 2016.

OBJECTS OF THE ISSUE

The net proceeds of the Fresh Issue are proposed to be utilised as:

| Objects | Amount (₹ Cr) |
|--|----------------|
| • Funding capital expenditure requirements; | 50.05 |
| • Funding the working capital requirements of the company; | 40.00 |
| • General Corporate Purposes. | [•] |
| Total | [•] |

SHAREHOLDING PATTERN

| Shareholders | Pre-offer | | Post-offer | |
|--|-------------------------|---------------------------------|-------------------------|---------------------------------|
| | Number of Equity Shares | % of Total Equity Share Capital | Number of Equity Shares | % of Total Equity Share Capital |
| <i>Promoter</i> | 7,130,069 | 42.00% | 7,130,069 | 27.99% |
| <i>Promoters Group</i> | 9,692,635 | 57.10% | 9,692,635 | 38.05% |
| Total for Promoter and Promoter Group | 16,822,704 | 99.10% | 16,822,704 | 66.03% |
| <i>Public</i> | 153,500 | 0.90% | 8,653,500 | 33.97% |
| Total for Public Shareholder | 153,500 | 0.90% | 8,653,500 | 33.97% |
| Total Equity Share Capital | 16,976,204 | 100.00% | 25,476,204 | 100.00% |

BUSINESS OVERVIEW

Hariom Pipe Industries Limited (“**Hariom**”) is an integrated manufacturer of Mild Steel (MS) Pipes, Scaffolding, HR Strips, MS Billets, and Sponge Iron. They use iron ore to produce Sponge Iron which is then processed across various stages to manufacture their final products viz. MS Pipes and Scaffolding making the manufacturing process cost-effective.

Hariom caters to the southern and western Indian markets for their products. Their MS Pipes are marketed and sold in these geographies under the brand name - Hariom Pipes. Substantial portion of the Sponge Iron, MS Billets and HR Strips produced by them are used for captive consumption in the manufacturing MS Pipes and Scaffolding.

The company manufactures MS Pipes and Scaffoldings of more than 150 different specifications and cater, directly and indirectly, to customer requirements in various sectors such as housing, infrastructure, agriculture, automotive, power, cement, mining, solar power and engineering.

Company’s integrated plant at Mahabubnagar District in Telangana (Unit I) manufactures finished steel products from iron scrap and Sponge Iron and the other plant at Anantapur District, Andhra Pradesh (Unit II) exclusively manufactures Sponge Iron. Unit II is located near Bellary.

Hariom mainly sells MS Pipes through more than 200 distributors and dealers. They also sell MS Pipes and Scaffoldings to certain developers and contractors directly as B2B sales.

The company promoters Rupesh Kumar Gupta and Sailesh Gupta are third generation entrepreneurs and individually have more than a decade of experience in the iron and steel industry. They have been instrumental in the growth and management of the company.

COMPANY PRODUCT PORTFOLIO

Sponge Iron:

Sponge iron is a metallic product produced through direct reduction of iron ore in the solid state. It is a substitute for scrap and is mainly used in making steel through the secondary route. The sponge iron is a superior substitute of steel scrap for different steel/iron based items like TMT bars, *Ductile Iron Pipes* and so forth. Sponge Iron is likewise an appropriate material for utilizing as a coolant in Linz-Donawitz (LD) converters of the integrated steel plants.

MS Billets:

Raw steel cannot be of use while in its pure form, thus it has to be cast into shape. The freshly made steel, which is still in the form of a metal bar or rectangle, is called billets. Billets, or ingots, are not of practical use until they have been formed into more functional shapes and sizes such as hot and cold working, milling and cutting before they are sold in for different applications like round bar, flat bar, angle plate, spring steel, wire rod, D-bar etc.

HR Strips:

HR Strips refers to pieces of iron or steel that may be forged into long, narrow strips. HR Strips are typically used in the manufacture of various types of goods such as pipes, tubes, and gun barrels. It is usually made from a piece of bar iron/ MS Billets that has been selected due to its length and thickness.

MS Pipes:

Company’s primary product is HR (Hot-Rolled) MS pipes. The company manufactures HR pipes up-to a maximum size of 250x250mm for square sections, 300x200mm for rectangular sections and 300mm NB (nominal bore) for circular sections. The thickness can vary from 2mm to 6mm. Their products have multiple applications in multiple industries.

Scaffolding, Tube Accessories and Fittings:

Scaffolding is used in construction activity, both buildings and other infrastructure construction. Scaffolding is used for variety of purposes including ease of construction process and safety of workers.

MANUFACTURING UNITS AND CAPACITY UTILIZATION

Details of Installed Capacity, Utilized Capacity and % of Utilized Capacity:

(Capacity in MTPA)

| Capacity | 6 months ended Sep'30, 2021 | | | Fiscal | | | | | | | | |
|----------------------------|--------------------------------|----------|--------|-----------|----------|--------|-----------|----------|--------|-----------|----------|--------|
| | Installed | Utilized | % | 2021 | | | 2020 | | | 2019 | | |
| | | | | Installed | Utilized | % | Installed | Utilized | % | Installed | Utilized | % |
| Unit -I Mahbubnagar | | | | | | | | | | | | |
| Induction Furnace | 47,916 | 35,727 | 74.56% | 95,832 | 44,788 | 46.74% | 95,832 | 46,276 | 48.29% | 37,200 | 31,000 | 83.33% |
| Rolling Mill | 42,000 | 32,231 | 76.74% | 84,000 | 43,546 | 51.84% | 84,000 | 34,280 | 40.81% | 24,000 | 20,771 | 86.55% |
| Piping Mill | 42,000 | 22,437 | 53.42% | 84,000 | 29,303 | 34.88% | 84,000 | 24,183 | 28.79% | 20,000 | 18,282 | 91.41% |
| Scaffolding | 500 | 441 | 88.20% | 1,000 | 282 | 28.20% | 1,000 | 980 | 98.00% | 1,000 | 655 | 65.50% |
| Unit-II Anantpur | | | | | | | | | | | | |
| Sponge Iron | 18,000 | 14,159 | 78.66% | 36,000 | 22,578 | 62.72% | 0.00 | 0.00 | 0.00% | 0.00 | 0.00 | 0.00% |

KEY DEMAND DRIVERS

- The Company has a strong hold on steel products with wide distribution network across India and especially in South and Western India. They are able to build a strong brand name for itself with the steel products under the brand name of Hariom which has a strong brand recall value, thereby resulting in strong sales across the country.
- Wide products to choose from gives company an advantage to build consumer base in different finished steel products including:
 - Sponge Iron;
 - HR Strips;
 - MS Section;
 - MS Pipes & Tubes;
 - Scaffolding.
- The company also caters to diverse end-use industries, which also results in strong sales as infrastructure & agriculture sector are witnessing strong growth. The company caters to end-use industries including:
 - Housing;
 - Infrastructure;
 - Agriculture;
 - Automotive Solar;
 - Fabrication;
 - Engineering.
- The company is presently dealing with over 200 distributors and dealers in:
 - Telangana;
 - Andhra Pradesh;
 - Karnataka;
 - Tamil Nadu;
 - Kerala;
 - Maharashtra;
 - Dadra & Nagar Haveli & Puducherry;
- The company also focuses on backward integration of its production line by producing sponge from steel and forward integrating it into finished products. The company's main focus is to:
 - Use sustainable steel producing methods;
 - Reduce wastage through automation and improve power consumption metrics;
 - Increase focus on domestic consumption;
 - Use renewables more frequently.
 - Reduce freshwater usage and focus on recyclability

COMPETITIVE STRENGTHS

- ***Integrated nature of the operations***

The integrated nature of operations is one of the major strengths and differentiators of the company. All intermediate products required for the manufacturing of their final products are produced in-house viz. Sponge Iron, MS Billets and HR Strips. Their finished product from each of the process acts as an input for the next process and provides flexibility in alteration of their product mix as per market demand and supply, market price and the available gross margins. Their ability to change the product mix as per market demand and supply dynamics gives them the flexibility to serve a wider spectrum of customers across various sectors.

- ***Environment friendly manufacturing process***

Hariom consciously preferred and installed the hot charging process of manufacturing their products as it significantly reduces the usage of coal and power. They have synchronized their manufacturing processes to ensure smooth transition from one process to the other including environmental considerations. They have installed pollution control equipment at their smoke emanating chimney's that collect the dust particles for disposal. They have made the provision for rainwater harvesting with pits in both Unit I & II and have also installed a RO Plant having a capacity of 10,000 liters per hour. They recycle the water used in their manufacturing process to minimize wastage and water pollution.

- ***Strategic location of manufacturing Units***

Unit-I is located around 70 kms from Hyderabad in the Mahabubnagar District, State of Telangana and close to Jadcherla industrial area. This proximity enables ease of logistics, power, water supply and raw materials for their operations in Unit-I. Unit-II is located at Anantapur District, Andhra Pradesh which is around 18 kms from Bellary. The connectivity between Unit I and southern markets provides the benefits of logistics.

- ***Cost advantage in manufacturing the products***

The company has synchronized their processes in such a manner that one product follows the other without any break leading to costs and time efficiencies. They have installed multiple operations at a single location.

- ***Competitive pricing of the products***

The company is able to face competition from other industry players effectively as its products are a result of backward integration which leads up to the Sponge Iron stage of manufacturing. Backward integration has its' own cost and savings advantages, giving the company a competitive advantage as to price. Due to the flexibility in manufacturing a range of products having specific thickness, length and quality, the demand of their products is higher as compared to their competitors who manufacture and sell standard industry sizes of products.

- ***Experienced & Qualified Team***

The promoters and senior management team is well experienced in this industry both from marketing and distribution of products in this sector. Their promoter have over a decade experience in iron and steel industry and are actively involved in day to day business, administration and marketing of the company. A large number of their senior management personnel have worked with them for a significant period of time, resulting in effective operational coordination and continuity of business strategies.

KEY BUSINESS STRATEGIES

- ***Expand the geographical network***

Hariom is presently serving the markets of Southern and some parts in Western India. They intend to continue developing and nurturing existing markets and creating new distribution channels in under and non-penetrated geographies. Their aim to further develop their domestic sales networks in those territories where there are lower transportation costs having a significant demand of company products.

- ***Organic growth by expansion of the manufacturing capacity***

The company has embarked on a phase of growth to build scale and expand its portfolio of value-added products. They are planning the expansion of their MS Pipe manufacturing capacity by setting up of 2 additional pipe mills adjacent to their existing Unit-I. This expansion will increase the capacity from the present 84,000 MTPA to 1,32,000 MTPA. They will also be expanding their Furnace Unit capacity which will enhance their production capacity to the extent of 1,04,232 MTPA from the existing capacity of 95,832 MTPA. The company in September 2020 acquired the Sponge Iron manufacturing facility i.e. Unit-II as a part of their backward integration initiatives.

- **Upgrading the existing manufacturing facilities**

The company constantly endeavours to improve its productivity levels by optimising resource utilization, improvement in manufacturing process, skill up-gradation of their workers, modernization of machineries to achieve better asset turnover. They will continue to further improve their manufacturing processes to identify the areas of bottlenecks and correct them.

- **Expanding the product range to add more value-added products**

Harkiom provides a range of product specifications in MS Pipes and Scaffoldings in terms of thickness, length, quality, availability, and customised products. They intend to further enhance their value proposition by manufacturing value added products which have better margins and wider markets.

Some value additions to their existing products include:

- **Rust Free MS Pipe:** These are anti-rust oil coated MS Pipes which prevent rusting of MS Pipes.
- **End Facing of MS Pipe:** This process provides a softer finish to the MS Pipe.
- **Packaging:** They use packing strips/tapes for packing the MS Pipes to enable easy movement from one place to another.
- **Increasing Operational efficiency**

Hariom has addressing the increasing operational output through continuous process improvement, QC / QA activities, customer service, consistent quality and technology development. Alignment of their people to process improvement' through change management and upgrading of skills as required for customer satisfaction is a continuous activity.

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2021)

| Name of the Company | Consolidated/ Standalone | Face Value | Total Income for FY2021 (₹ Cr) | EPS (Basic) | NAV (₹) | P/E | RoNW (%) |
|-----------------------------------|-----------------------------|---------------|--------------------------------------|----------------|--------------|------------|---------------|
| Hariom Pipe Industries Ltd | Restated | 10 | 254.82 | 10.64 | 49.79 | [•] | 21.38% |
| Listed Peers | | | | | | | |
| APL Apollo Tubes Ltd | Standalone | 2 | 6,052.00 | 12.34 | 116.00 | 78.33 | 10.61% |
| Hi-Tech Pipes Ltd | Standalone | 10 | 1,027.28 | 13.75 | 154.99 | 41.36 | 8.66% |
| Rama Steel Tubes Ltd | Standalone | 5 | 328.83 | 3.24 | 52.68 | 103.16 | 6.08% |
| JTL Infra Ltd | Standalone | 2 | 440.37 | 18.91 | 91.36 | 11.43 | 20.70% |

Source: RHP; P/E figures for the peers are based on closing market prices as on March 21, 2022 mentioned on BSE website.

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