

## Short Note on Hariom Pipe Industries Ltd

Date:- 4/5/22

### About the company

The Company (established in 2007 by Mr Rupesh Kumar Gupta) is an integrated manufacturer (manufacturing of MS Billet to the manufacturing of MS Tubes and Scaffolding accessories in the same premises) of Mild Steel (MS) Pipes, **Scaffolding**, HR Strips, MS Billets, and Sponge Iron for housing, infrastructure, agriculture, automotive, power, cement, mining, solar power, and engineering. Company uses iron ore to produce Sponge Iron which is then processed across various stages to manufacture final products. The company has 200+ distributors and dealers in Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Maharashtra, Dadra & Nagar Haveli, and Puducherry under brand name **Hariom Pipes**. APL Apollo, Hi-Tech Pipe, Rama Steel Tubes, JTL Infra are some of the listed competitors for the company.

The company came up with an SME IPO for 130 crore rupees for purposes as mentioned below.

1. Funding capital expenditure requirements. 50 Crore
2. Funding the working capital requirements of our Company. 45 Crore
3. General corporate purposes.

### What they do:-

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 our final products viz. MS Pipes and Scaffolding making our manufacturing process cost-effective. They company cater to the southern and western Indian markets for its products. 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 us are *used for captive consumption* in the manufacturing MS Pipes and Scaffolding. We manufacture MS Pipes and Scaffoldings of more than *one hundred fifty (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. Mainly the company sells MS Pipes through more than two hundred (200) distributors and dealers. They also sell MS Pipes and Scaffoldings to certain developers and contractors directly as B2B sales. The key differentiator of products are its specifications in terms of thickness, length, quality, availability and customised products.

### Products:-

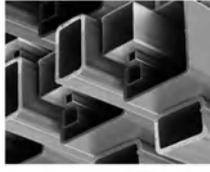
#### Mild Steel (MS) Billets



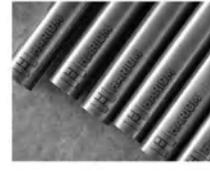
## Pipes and Tubes



Square Hollow Section



Rectangular Hollow Section

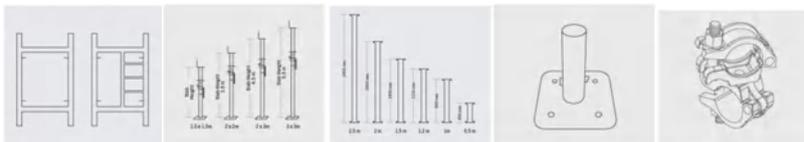


Circular Hollow Section

## Hot Rolled (HR) Coils



## Scaffolding Systems



Management is focused to add more share of value added as under:-

- 1) **Rust Free MS Pipe:** These are anti-rust oil-coated MS Pipes that prevent rusting of MS Pipes.
- 2) **End Facing of MS Pipe:** This process provides a softer finish to the MS Pipe thereby avoiding injuries due to sharp edge.
- 3) **Packaging:** They use packing strips/tapes for packing their MS Pipes to enable easy movement from one place to another.

**Scaffolding** is also called **scaffold** or **staging**, is a temporary structure used to support a work crew and materials to aid in the construction, maintenance and repair of buildings, bridges and all other man-made structures. Scaffolds are widely used on site to get access to heights and areas that would be otherwise hard to get to.

Hariom Pipe Industries Limited is an **integrated** steel manufacturer with a stronghold in the South Indian market. It is based out of Hyderabad Telangana. The company's products being steel related materials, the demand and prices for the same are also cyclical and volatile depending upon the fortunes of the industry. The industry is characterized by **high fragmentation** and competition due to the presence of numerous players in India owing to **relatively moderate entry barriers**. **High competitive pressure** limits the pricing flexibility of the industry participants which induces **pressure on the profitability**. The company started with a furnace unit to manufacture mild steel (MS) billets and over the years, has forward integrated into hot-rolled (HR) strips, MS tubes and scaffoldings. **Integrated operations led to high operating**

**margin of 12-13%.** Furthermore, the company has backward integrated and started manufacturing MS sponge iron in fiscal 2021, which is expected to support further improvement in the operating margin over the medium term. Operating profitability is susceptible to volatility in input cost, such as sponge iron, steel scrap and power costs and steel prices. The prices are market driven. Any sharp fluctuation in steel price can impact the operating margin, as the company **has no price contracts with suppliers or customers.** The company has a 32 KVA dedicated feeder for our furnace in Unit I, which makes it eligible for obtaining private power from IEX through the online bidding process, against their contracted load of 9,999 KVA with TSSPDCL with fixed power cost which also enables dedicated power supply in peak agriculture seasons. Their installation of the hot charging process has resulted in significant savings from reduced coal and power usage.

**Manufacturing units** located in the state of Telangana (Unit 1:- used in **manufacturing finished steel products from iron scrap and Sponge Iron.** This unit is strategically located ~70 km from Hyderabad in the Mahabubnagar District and close to Jadcherla industrial area enables ease of logistics, power and water supply) and Unit 2 acquired in 2020 in Andhra Pradesh (**exclusively manufactures Sponge Iron**) Located in Anantapur District, which is around 18 km from Bellary the hub for Iron ore production). The backward integration via Unit 2 improves cost efficiencies and results in quicker turnaround time which reduced dependencies on external sources.

| <b>Products</b>   | <b>Manufacturing Capacity</b> | <b>Capacity Utilisation (Fy21)</b> |
|-------------------|-------------------------------|------------------------------------|
| Induction Furnace | 47916 MTPA                    | 46.74%                             |
| Rolling Mill      | 42000 MTPA                    | 51.54%                             |
| Piping Mill       | 42000 MTPA                    | 34.88%                             |
| Scaffolding       | 5000 MTPA                     | 28.20%                             |
| Sponge Iron       | 18000 MTPA                    | 62.72%                             |

#### **What is changing:-**

**1) Unit 2:** - Acquisition of UNIT 2 (Sponge Iron Unit) in Sept 2020 has backward integrated then which reduces dependence on outsiders and enables better efficiencies and reduced costs.

**2) Future Expansion :-** Company is planning to expand two additional their MS Pipe manufacturing capacity by setting up of two 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** (57%). 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 capex proposed by the company will result in incremental capacities (furnace & pipe mill) which will in turn reflect in the revenue growth from FY 2023 onwards. This expansion will ensure the availability of primary raw materials i.e. MS Billets which is used in the production of HR Strips. HR Strips are used as main raw material in our Pipe Mills. This new electric melting furnace will also help in ensuring availability of HR strips for our additional pipe mills.

## Balance Sheet

Figures in Rs. Crores

CORPORATE ACTIONS

|                          | Mar 2017  | Mar 2018  | Mar 2019   | Mar 2020   | Mar 2021   |
|--------------------------|-----------|-----------|------------|------------|------------|
| Share Capital +          | 7         | 14        | 19         | 16         | 17         |
| Reserves                 | 10        | 9         | 21         | 28         | 53         |
| Borrowings               | 24        | 22        | 50         | 65         | 80         |
| Other Liabilities +      | 12        | 17        | 20         | 33         | 24         |
| <b>Total Liabilities</b> | <b>47</b> | <b>58</b> | <b>105</b> | <b>140</b> | <b>174</b> |
| Fixed Assets +           | 12        | 12        | 43         | 50         | 59         |
| CWIP                     | 0         | 1         | 0          | 0          | 8          |
| Investments              | 0         | 0         | 0          | 0          | 0          |
| Other Assets +           | 36        | 46        | 62         | 90         | 107        |
| <b>Total Assets</b>      | <b>47</b> | <b>58</b> | <b>105</b> | <b>140</b> | <b>174</b> |

### Estimated schedule of commencement and completion

| Particulars  | Estimated date of Commencement | Estimated date of Completion |
|--|--------------------------------|------------------------------|
| <b>Funding Capital Expenditure Requirements</b>                        |                                |                              |
|  |                                |                              |
| <b>Two Additional Pipe Mills – Plant and Machinery and Civil works</b> |                                |                              |
| - Civil Works  | April 2022                     | May 2022                     |
| - Placement of Order   | April 2022                     | May 2022                     |
| - Receipt of Plant & Machinery   | July 2022                      | August 2022                  |
| - Erection and Commissioning   | August 2022                    | September 2022               |
| - Trial Run Production   | October 2022                   | October 2022                 |
| - Commercial Production  | November 2022                  | November 2022                |
|  |                                |                              |
| <b>Expansion of Existing Furnace -</b>                                 |                                |                              |
| Plant & Machinery  |                                |                              |
| - Placement of Order   | April 2022                     | April 2022                   |
| - Receipt of Plant & Machinery   | July 2022                      | July 2022                    |
| - Erection and Commissioning   | August 2022                    | September 2022               |
| - Trial Run Production   | September 2022                 | September 2022               |
| - Commercial Production  | September 2022                 | September 2022               |

### Revenue Growth

**Hari Om Pipe is the fastest growing topline and bottom-line growing company in the industry.**

The company has grown its topline at 30.67% cagr from 87 crores to 254 crores in last 4 years. The increase in the topline has been achieved by good project execution skills of the management by ramping up their production capacities as given under.

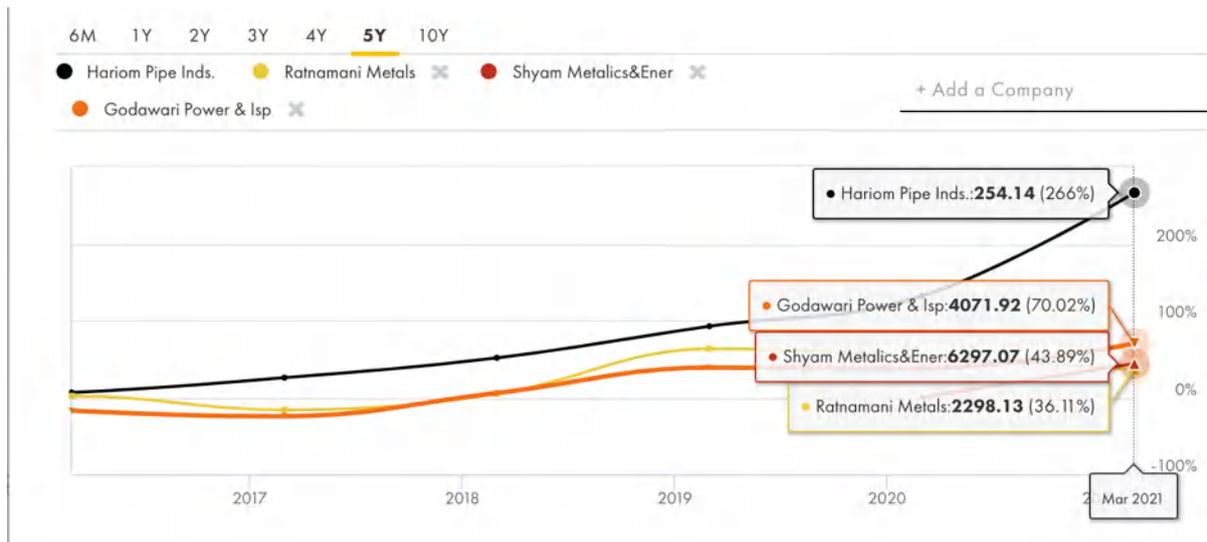
### Operating Production Stats

#### 4 Years CAGR Stats

Induction furnace has grown at 20.43% cagr from 21290 to 44788.

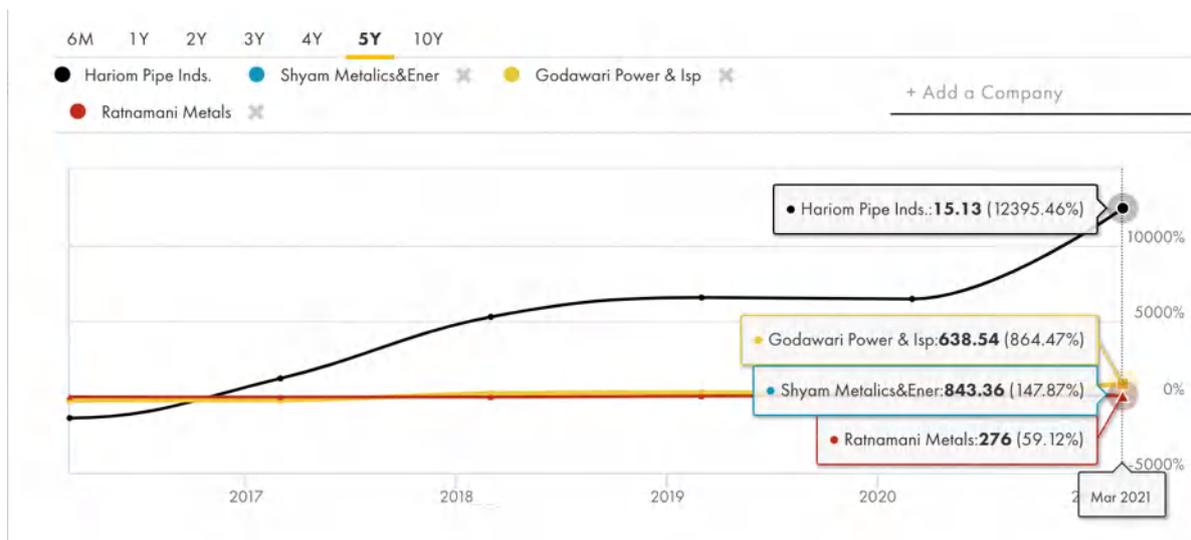
Rolling Mill has grown at 35.7% cagr from 12844 to 43546.

Paper Mill has grown at 23.24% cagr from 12701 to 29303.  
 Scaffolding has grown at 2% cagr from 260 to 282. (de grew from 980 tons to 280 tons in covid lockdown)



### Net Profitability Stats

The company has the fastest growing profitability in the industry.



| Metric               | Year             |      |      |      |      |     |
|----------------------|------------------|------|------|------|------|-----|
|                      | 2017             | 2018 | 2019 | 2020 | 2021 |     |
| Fixed Asset Turnover | Hariom Pipe      | 7    | 9    | 3    | 3    | 4   |
|                      | Ratnamani Metals | 3    | 4    | 5    | 5    | 3   |
|                      | Godawari Power   | 1    | 1    | 1    | 1    | 2   |
|                      | Shyam Metalics   |      | 2    | 3    | 2    | 3   |
| ROCE %               | Hariom Pipe      |      | 30%  | 22%  | 19%  | 22% |
|                      | Ratnamani Metals | 19%  | 18%  | 28%  | 24%  | 19% |
|                      | Godawari Power   | 6%   | 16%  | 22%  | 16%  | 37% |
|                      | Shyam Metalics   |      |      | 20%  | 11%  | 27% |

The company enjoys the best fixed asset turns and high roce across its other listed peers in the industry

## Risks

- 1) **Price risks:** - Our Company has not entered into long-term agreements with our customers for purchasing our products nor for the supply of raw materials with our suppliers. We are subject to uncertainties in demand and there is no assurance that these customers and suppliers will continue to purchase our products or sell raw materials to us or that they will not scale down their orders. This could impact the business and financial performance of our Company. we may not find other customers for the surplus or excess capacity, in which case we may be forced to incur loss. Similarly, on the supply side as well we have been purchasing raw materials like Iron Ore through MSTC bidding portal or local suppliers. We also procure Sponge Iron from the local markets to meet our total Sponge Iron requirements. We place orders considering the demand-supply position which is also an industry practice. Secondly raw materials and stores spares and consumables consumed constitute a significant percentage of our Company's total expenses.
- 2) The company derives a significant component of its revenues from its TOP 10 clients. There is client concentration risk.
- 3) 25% sales are to related party Ultra Pipes which is also the promoter of the company.

| Name(s) of the related party and nature of relationship | Nature of contracts/ arrangements/ transactions | Duration of the contracts / arrangement / transactions | Salient terms of the contracts or arrangements or transactions including the value, if any | Date(s) of approval by the Board, if any   | Amount paid as advances, if any |
|---|---|--|--|--|---------------------------------|
| Mr. Rupesh Kumar Gupta                                  | Rent paid (Expenses)                            | NA   | Rent of ₹55,000/- Per Month.   | Since these RPTs are in the ordinary course of business and are at arms length basis, approval of the Board is not applicable. However, necessary approvals were granted by the Audit Committee from time to time. | NIL                             |
| Ms. Parul Gupta   | Rent paid (Expenses)                            | NA   | Rent of ₹35,000/- Per Month  |  | NIL                             |
| Mr. Sailesh Gupta                                       | Rent paid (Expenses)                            | NA   | Rent of ₹50,000/- Per Month  |  | NIL                             |
| Ultra Pipes   | Sale of Goods                                   | NA   | 62,16,73,384   |  | Nil                             |
| Ultra Pipes   | Purchase of Goods                               | NA   | 37,83,85,911   |  | Nil                             |
| Lakshit Trade Link                                      | Purchase of Goods                               | NA   | 12,27,572  |  | Nil                             |

| Sr. No. | Name of shareholder           | No. of Equity Shares | Percentage of Pre-Issue Equity Share Capital (%) |
|---------|-------------------------------|----------------------|--|
| 1.      | M/s. Ultra Pipes              | 23,33,338            | 13.74%   |
| 2.      | Ansh Commerce Private Limited | 19,81,665            | 11.67%   |
| 3.      | Rakesh Kumar Gupta            | 16,40,000            | 9.66%  |
| 4.      | Sunita Gupta                  | 10,75,720            | 6.34%  |
| 5.      | Parul Gupta                   | 9,05,968             | 5.34%  |

- 4) A decrease in steel prices may have a material adverse effect on our business, results of operations, prospects and financial condition. Similarly an uptick in steel cycle will trigger good growth for the companies fortunes.
- 5) Demand for the products is seasonal in nature. And particularly the monsoon, affect the level of activity in the construction industry.
- 6) The company has a 6 Crore Rs contingent liability which is not acknowledged as debt. The company does not own the Registered Office, Corporate Office and Part of the Unit I land. The same is under leave and license agreement. Part of Unit 1 land belongs to Sailesh Gupta
- 7) Fluctuations in the prices of commodities affects the sales of our steel products and results of operations.
- 8) The company can face underutilization of plant and machinery due to several capacity licensing terms with respected authorities. The company has not been able to utilize the plant up to optimum utilization levels due to the caveat.

## Unit 1

The Company had applied with Telangana State Pollution Control Board (TSPCB) for enhancement of the licensed capacity of Unit I from of 1,26,000 MTPA to 6,86,400 MTPA and the same has been obtained from TSPCB on July 28, 2021.

| Details of manufacturing unit | Particulars              | Fiscal |        |        |
|-------------------------------|--------------------------|--------|--------|--------|
|                               |                          | 2019   | 2020   | 2021   |
| <b>Unit I - Mahbubnagar</b>   |                          |        |        |        |
| <b>Induction Furnace</b>      | Installed Capacity       | 37,200 | 95,832 | 95,832 |
|                               | Capacity Utilised        | 31,000 | 46,276 | 44,788 |
|                               | Utilised Capacity (in %) | 83.33% | 48.29% | 46.74% |
| <b>Rolling Mill</b>           | Installed Capacity       | 24,000 | 84,000 | 84,000 |
|                               | Capacity Utilised        | 20,771 | 34,280 | 43,546 |
|                               | Utilised Capacity (in %) | 86.55% | 40.81% | 51.84% |
| <b>Piping Mill</b>            | Installed Capacity       | 20,000 | 84,000 | 84,000 |
|                               | Capacity Utilised        | 18,282 | 24,183 | 29,303 |
|                               | Utilised Capacity (%)    | 91.41% | 28.79% | 34.88% |
| <b>Scaffolding</b>            | Installed Capacity       | 1,000  | 1,000  | 1,000  |
|                               | Capacity Utilised        | 655    | 980    | 282    |
|                               | Utilised Capacity (%)    | 65.50% | 98.00% | 28.20% |

## Unit 2

|                            |                       |       |       |        |
|----------------------------|-----------------------|-------|-------|--------|
| <b>Unit II – Anantapur</b> |                       |       |       |        |
| <b>Sponge Iron</b>         | Installed Capacity    | 0.00  | 0.00  | 36,000 |
|                            | Capacity Utilised     | 0.00  | 0.00  | 22,578 |
|                            | Utilised Capacity (%) | 0.00% | 0.00% | 62.72% |