

**Precision Pipes and Profiles Company Ltd.**

<b>Price Band</b>	: Rs140 - 150 per share	<b>December 18, 2007</b>
<b>Issue open between</b>	: <b>December 17 - 20, 2007</b>	
<b>Recommendation</b>	: <b>Subscribe with a medium term view</b>	
<b>Book Running Lead Managers</b>	: <b>UTI Securities &amp; Nexgen Capitals</b>	
<b>To List on</b>	: <b>NSE and BSE</b>	
<b>Market Cap post-listing</b>	: <b>Rs2.1Bn or \$53.2mn (based on the cap price)</b>	

**IPO of 5mn equity shares of Rs10 each, aggregating to Rs75Cr or \$19mn (at the cap price)**

**Shareholding Pattern**

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters and Promoter Group	8,775,000	97.5%	8,775,000	62.7%
Others	225000	2.5%	225,000	1.6%
QIBs excluding Mutual Funds	-	0.0%	2,250,000	16.1%
Mutual Funds	-	0.0%	250,000	1.8%
Non Institutional Investors	-	0.0%	750,000	5.4%
Public	-	0.0%	1,750,000	12.5%
<b>Total</b>	<b>9,000,000</b>	<b>100.0%</b>	<b>14,000,000</b>	<b>100.0%</b>

**Recommendation - Subscribe with a medium term view**

- Precision Pipes And Profiles Company Ltd. (PPAP) is a manufacturer of automobile sealing systems and exterior products. Besides automobile OEMs, it also services the white goods sector, through PVC based customized profiles. It operates from five manufacturing facilities located in New Delhi and Noida.
- PPAP is a unique and ideal play on the domestic auto component sector, with strong customer relationships with Maruti Udyog Ltd. (MUL), Honda SIEL, etc.
- Strong technological backing in terms of technical know-how through overseas collaborations and customer relationships are entry barriers, preempting competition.
- Strong EBITDA margin trend (up from 20.7% in FY05 to 25% in FY07) is on account of pricing power coupled with cost efficiencies. It is insulated from the appreciating rupee, as exports constitute a negligible portion of its revenues (4% in FY07). On the contrary, it has gained from the rupee appreciation, by virtue of 38% of raw materials being imported.
- Expansion of capacity from 4,750tpa to 11,264tpa by FY10, in our view, improves revenue visibility.
- Addition of electrical outlet system (EOS) to the product portfolio is another positive. Power and Data Corporation Pty. Ltd. Australia, the patent owner, will outsource EOS from PPAP.
- The business is capital intensive, as apparent from a low asset turn. Further capital infusion may therefore be essential for growth. Also, over-reliance on a single customer (accounting for 53% of revenues in FY07) is a matter of concern.
- The IPO is priced at 12.4x FY08E, 10.8x FY09E and 8.6x FY10E earnings. It appears to be fairly valued vis-à-vis other players in the auto component sector. We recommend investing from a medium term perspective.

### Company & Promoter Background

PPAP was incorporated in 1978 and changed its status to a public limited company in 1995. PPAP has been promoted by Mr. Devendra Jain, Chairman who has over four decades of experience in the auto components and white goods sector. Ajay Kumar Jain, MD has experience of over three decades.

### Overview of Operations

PPAP is engaged in the business of manufacturing automobile sealing systems and exterior products.

Product range

#### Four wheeler Automotive sealing systems Exterior products in Automobiles

Weather Strips
Trim Door Opening
Windshield Molding
Roof Molding
Quarter Window Seal
A-Pillar Garnish
B-Pillar Garnish
Skirt Air Damper
Body Side Molding

Skirt Air Damper
Body Side Molding

It also manufactures PVC based customized profiles for white goods and other industries. It has 5 manufacturing facilities located in New Delhi and Noida, Uttar Pradesh, with an aggregated capacity of 4,750tpa.

### Key technological agreements

- Technical collaboration with Tokai Kogyo Co.Ltd, Japan, manufacturers of specialized profiles for automobile industry.
- Manufacturing agreement with Power Data Corporation Pty Ltd, Australia for the manufacture of electrical outlet systems.
- Automotive parts licensing agreement with Nissen Chemitech Corp, Japan for the manufacture of products in connection with automotive interior parts and related products.

Nissen agreement would provide PPAP new product technology in order to manufacture products for Honda SIEL Cars India Ltd and its affiliated companies.

### Client List

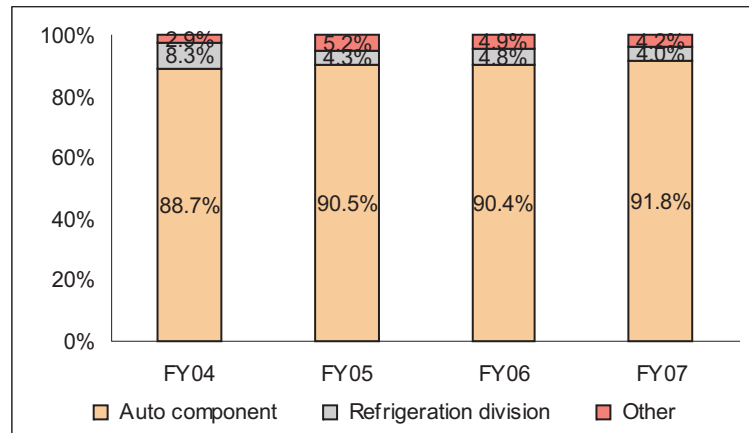
Its clientele in the automobile industry includes Maruti Udyog Ltd., Honda SIEL, General Motors and Toyota Kirloskar. In the white goods industry, it supplies customized profiles to Godrej, Voltas, Videocon and Carrier Refrigerators.

It derives around 92% of its turnover from automobile customers, 5% from white goods products and the balance from other segments including electrical and construction.

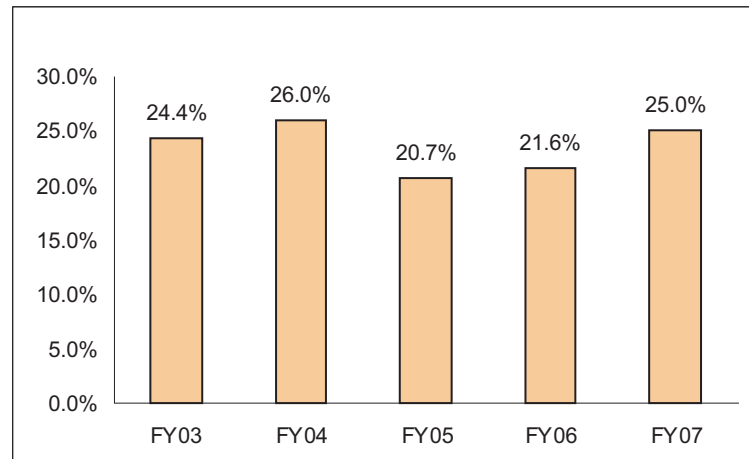
### Capacity utilization levels

	FY05	FY06	FY07
Capacity	4750	4750	4750
Production	3931	3096	2934
Capacity Utilisation	82.7%	65.2%	61.8%

## Revenue Mix

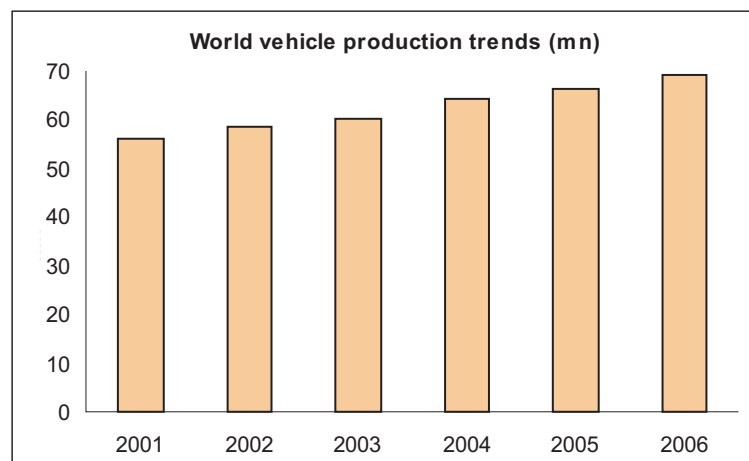


## Strong EBIDTA margin



## Industry Overview

### Global Automobile Industry

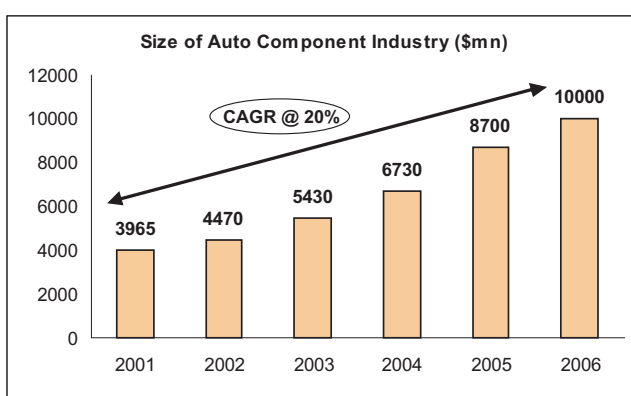
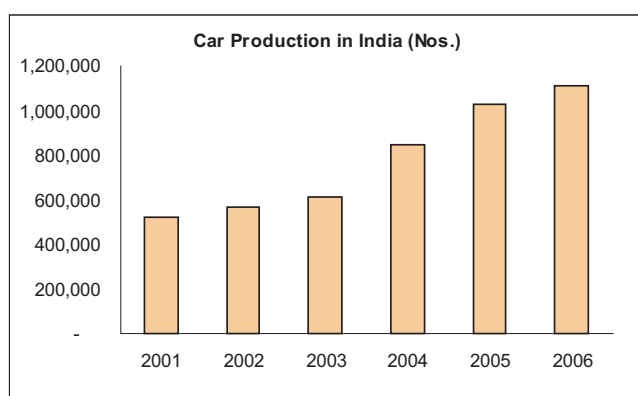


### Indian Automobile Industry

Indian Automotive Industry started its new journey from 1991 with delicensing of the sector and subsequent opening up for 100% FDI through automatic route. Since then many global players have set up their facilities in India taking the production of vehicles from 2mn in FY91 to 9.7mn in FY06. Indian Auto Industry is the:

- Largest three wheeler market in the World
- Second largest two wheeler market in the World
- Fourth largest passenger vehicle market in Asia
- Fourth largest tractor market in the World
- Fifth largest commercial vehicle market in the World

(Source: ACMA)



### Growth Trends in Auto Component Industry in India (\$mn)

Year	Production	Exports	Investments
2001	4100	625	2300
2002	4470	578	2300
2003	5430	760	2645
2004	6730	1020	3100
2005	8700	1400	3750
2006	10000	1800	4400

### Investment Concerns

- The proposed diversification is restrictive in nature as PPAP does not have exclusive rights for the manufacture of electrical outlet systems and also does not have marketing rights. We therefore expect this segment to be a drag on profitability going forward.
- Customer concentration. Top five customers contributed 83% of sales during FY07, while 53% was attributable to a single customer.

# KEYNOTE

## Highlights of Project

(RsCr)

Particulars	Auto Component Division			Customized Profiles Division (for PDC)		Total
Plant & Machinery	5.51	17.83	43.12	2.65	1.56	70.66
Building & Civil work	0.00	0.00	15.27	0.00	0.00	15.27
Land & Site Development	0.00	0.00	5.92	0.00	0.00	5.92
Provision for Contingency	0.25	0.71	2.84	0.07	0.08	3.95
<b>Total</b>						<b>106.00</b>

## Means of Finance

Particulars	(RsCr)
IPO Proceeds	75.00
Term Loan	25.00
Internal Accruals	6.00
<b>Total</b>	<b>106.00</b>

## Keynote Capitals's Earnings Estimates & Valuations

Particulars	FY08E	FY09E	FY10E
Sales (RsCr)	144.59	177.84	213.41
Net Profit (RsCr)	16.91	19.53	24.45
EBITDA margin	24.9%	24.6%	24.1%
EPS (Rs)	12.08	13.95	17.47
P/E (x)	12.4	10.8	8.6
P/B (x)	1.51	1.33	1.15

## Peer Comparison

	PPAP	ANG Auto	JBM Auto	Lumax Automotive
Sales Turnover (RsCr)	109.29	121.73	167.92	100.17
Net Profit (RsCr)	13.88	20.84	8.80	2.49
Paid-up-Equity capital	#14.00	11.90	10.20	7.40
Price (as on 18-12-07)	150	158.85	58.45	63.1
Market Cap	210.0	189.0	59.6	46.7
EPS (Rs)	9.91	17.51	8.63	3.4
Book Value (Rs)	52.13	59.34	40.44	20.9
P/E (x)	15.1	9.1	6.8	18.8
P/B (x)	2.9	2.7	1.4	3.0
P/S (x)	1.9	1.6	0.4	0.5
EBIDTA margin	25.0%	24.8%	10.1%	11.8%
52 week High (Rs)	-	370	73.4	97.8
52 week Low (Rs)	-	116	43.2	53
FVPS (Rs)	10	10	10	10

# Post issue paid up equity capital  
Data for trailing 4 quarters, except PPAP

## Profit &amp; Loss Statements

(RsCr)

For period ending	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	30.06.07
<b>Net Sales</b>	<b>39.82</b>	<b>55.48</b>	<b>73.61</b>	<b>80.35</b>	<b>109.29</b>	<b>30.50</b>
<b>Expenditure</b>						
Raw material consumed	17.55	25.33	36.79	37.31	51.52	13.50
Manuf.. Exps.	7.09	9.38	13.71	17.36	20.96	5.19
Personnel Exps.	1.61	1.52	1.74	1.83	2.28	0.69
Admin. Exps.	3.14	3.74	4.72	5.26	5.40	1.50
Selling & Distribn. Exps.	0.71	1.11	1.38	1.19	1.76	0.47
<b>Total Expenditure</b>	<b>30.10</b>	<b>41.08</b>	<b>58.34</b>	<b>62.96</b>	<b>81.93</b>	<b>21.36</b>
<b>EBITDA</b>	<b>9.72</b>	<b>14.40</b>	<b>15.27</b>	<b>17.39</b>	<b>27.36</b>	<b>9.15</b>
Other Income	0.92	0.35	0.71	0.26	0.52	0.16
Interest	0.79	0.24	0.68	0.95	1.68	0.46
<b>EBDT</b>	<b>9.84</b>	<b>14.51</b>	<b>15.30</b>	<b>16.70</b>	<b>26.21</b>	<b>8.85</b>
Depreciation	3.31	3.20	3.57	4.34	4.97	1.35
<b>Profit Before Tax</b>	<b>6.53</b>	<b>11.31</b>	<b>11.73</b>	<b>12.37</b>	<b>21.24</b>	<b>7.50</b>
<b>Total Tax</b>	<b>2.25</b>	<b>3.79</b>	<b>4.12</b>	<b>4.38</b>	<b>7.36</b>	<b>2.56</b>
<b>Reported Net Profit</b>	<b>4.28</b>	<b>7.52</b>	<b>7.61</b>	<b>7.99</b>	<b>13.88</b>	<b>4.94</b>
Extraordinary Items	0.00	-1.07	0.00	0.00	0.00	0.00
Adjusted Net Profit	4.28	8.58	7.61	7.99	13.88	4.94
<b>EBITDA margin</b>	<b>24.4%</b>	<b>26.0%</b>	<b>20.7%</b>	<b>21.6%</b>	<b>25.0%</b>	<b>30.0%</b>
<b>EPS (Rs)</b>	<b>14.26</b>	<b>28.61</b>	<b>12.69</b>	<b>13.31</b>	<b>15.42</b>	<b>5.49</b>
<b>Book value (Rs)</b>	<b>76.55</b>	<b>90.15</b>	<b>51.22</b>	<b>55.69</b>	<b>46.55</b>	<b>52.13</b>

## Balance Sheets

(RsCr)

As at,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	30.06.07
<b>Sources of Funds</b>						
Paid-up equity capital	3.00	3.00	6.00	6.00	9.00	9.00
Reserves & Surplus	19.97	24.04	24.73	27.41	32.90	37.91
<b>Total Shareholders Fund</b>	<b>22.97</b>	<b>27.04</b>	<b>30.73</b>	<b>33.41</b>	<b>41.90</b>	<b>46.91</b>
Secured Loans	0.00	0.00	1.65	9.49	7.58	8.52
Unsecured Loans	1.21	4.65	5.03	7.56	7.78	7.78
<b>Total Debt</b>	<b>1.21</b>	<b>4.65</b>	<b>6.68</b>	<b>17.05</b>	<b>15.37</b>	<b>16.30</b>
<b>Total Liabilities</b>	<b>24.17</b>	<b>31.70</b>	<b>37.41</b>	<b>50.46</b>	<b>57.26</b>	<b>63.22</b>
<b>Applications of Funds</b>						
Gross Block	28.43	35.35	42.38	48.34	82.97	83.37
Less: Depreciation	14.07	11.90	14.82	13.49	32.40	33.73
<b>Net Block</b>	<b>14.35</b>	<b>23.45</b>	<b>27.55</b>	<b>34.85</b>	<b>50.57</b>	<b>49.63</b>
Capital work in progress	0.97	0.00	0.94	2.74	0.72	1.04
Investment	1.22	0.72	0.72	0.72	0.72	2.22
<b>Cur. Ass, Loans &amp; Adv.</b>						
Inventories	3.52	5.28	6.71	7.39	5.81	6.24
Sundry Debtors	5.77	7.81	8.70	10.03	11.87	14.65
Cash and Bank balances	1.86	0.50	0.30	0.34	0.58	1.13
Loans and Advances	9.01	10.72	17.71	20.10	10.37	14.06
Total current assets	20.16	24.31	33.42	37.86	28.63	36.09
<b>Cur. Liab. &amp; Prov.</b>	<b>10.72</b>	<b>15.28</b>	<b>23.41</b>	<b>23.83</b>	<b>21.40</b>	<b>24.12</b>
Total Cur. Liab.	10.72	15.28	23.41	23.83	21.40	24.12
<b>Net Current Assets</b>	<b>9.44</b>	<b>9.03</b>	<b>10.01</b>	<b>14.03</b>	<b>7.23</b>	<b>11.97</b>
Misc. Exp.	0.03	0.15	0.11	0.08	0.37	0.68
Net deferred tax	-1.83	-1.65	-1.93	-1.96	-2.35	-2.33
<b>Total Assets</b>	<b>24.17</b>	<b>31.70</b>	<b>37.41</b>	<b>50.46</b>	<b>57.26</b>	<b>63.22</b>

## **Keynote Capitals Ltd.**

### **Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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### **Ratings structure**

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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