

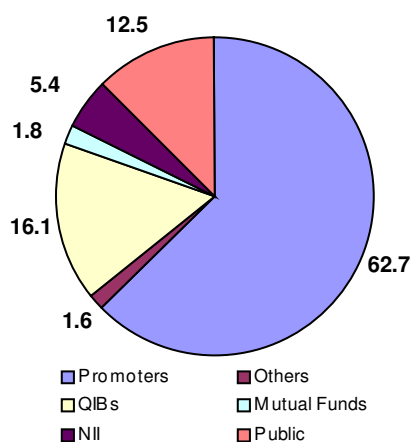
# Precision Pipes and Profiles (PPAP)

**Buy**

## Company Details

<b>CMP</b>	<b>: Rs. 69.75</b>
<b>Target</b>	<b>: Rs. 104</b>
<b>Upside</b>	<b>: 49 %</b>
<b>Time Frame</b>	<b>: 12 months</b>
<b>P/E</b>	<b>: 7.04</b>
<b>P/B</b>	<b>: 0.83</b>
<b>Market Cap</b>	<b>: Rs. 110.35 Crore</b>
<b>52 High/ Low</b>	<b>: Rs.175/Rs.68.20</b>
<b>Free Float</b>	<b>: 12.5 %</b>

## Shareholding Pattern (%)



## Price Chart



## Indian Auto Component Industry

India has already seen epic episodes being written all over the world be it in software exports, mushrooming call centers or even 'exporting' talent to lead world's largest organizations. Amidst this huge explosion of real estate, reality TV, mobile telephony and M & A's that dotted the landscape of 2007, there was a quiet revolution-taking place in the backyard of the manufacturing sector. Every Indian has a dream to own a car, and there are 56 lakh middle class families that are waiting to migrate from two-wheeler to a four-wheeler! That gives an indication of potential in this segment. In fact from all over the globe, companies are vying to get a slice of this growth.

### World is flocking to India

#### Recent Developments:

- The 9th edition of Auto Expo in January saw over 60 models and variants in the pipeline for the year 2008, it was the largest ever show
- Tata launched Nano, Skoda & Fiat are launching Fabia and Grand Punto respectively
- Maruti announced plans for its Splash and A-star concept cars
- Indica being renewed
- Bravo and Mazda2 from Ford
- Bajaj entering into the car segment with Renault
- The mid-size market will be reviving up with the i20 from Hyundai, Logan-spawned Sandero from Renault, the Jetta from Volkswagen, Linea from Fiat and Suzuki's Swift sedan.
- In the mid size premium segment Mistubishi Lancer Gallant will debut and position itself among the existing players like corolla, octavia and optra
- For SUVs, the scene would be hoting up again this year with Mitsubishi Outlander sports utility vehicle (SUV), GM 's Captiva, Hyundai's Santa Fe and BMW's X6
- The year of 2007 also saw the descent of luxury carmakers Audi, Mercedes Benz, Rolls-Royce, BMW, Bentley, Volvo and Porsche to name a few
- The budget excise cut and low cost of manufacturing for small cars has paved the way for making India a major automobile-manufacturing hub. Maruti and Hyundai have already announced their massive plans of manufacturing small car for exports to Europe from their new plants with Manesar plant churning a cool 3,00,000 units and engines and Hyundai's new plant producing a similar number
- Mahindra and Mahindra, who in alliance with Renault-Nissan have setup a massive assembly plant near Chennai for Nissan cars exports at the cost of 4000 crores producing 4,00,000 vehicles annually
- Many other car manufacturers like GM, TATA, Honda, BMW have doubled the production capacities to serve the Indian market
- Tata and Mahindra are seriously considering launching fuel cell or hydrogen powered vehicles, with Honda leading the charge with its CR-Z concept offering this year
- Suzuki has committed to invest 1700 crores in R&D over the next few years
- The Tata-Jaguar-Land rover deal along with consolidation of the auto components manufacturers in the world market will bring international recognition to the 'frugal' engineering India is famous for
- 2007 saw a lot of SEZs dedicated to auto and auto components companies with Tamilnadu, Maharastra, Uttranchal and now West Bengal as the beneficiaries
- The government has also upgraded Automotive Research Association of India to NaTRip [National testing and R&D Infrastructure project] dedicated to undertake testing of every new model on the basis of various automotive regulations apart from product development, crash testing and emission regulations
- Ashok Leyland and Bajaj signed tie-ups with France's Renault, Hero Group with Germany's Daimler Trucks, Eicher Motors formed a joint venture with Sweden's Volvo and Tata is all set to acquire Jaguar and Land Rover.

## Precision Pipes and Profiles (PPAP)

### Why Indian Car Industry is bullish?

#### Some facts

- The Indian automotive industry embarked on a new journey in 1991 with delicensing of the sector and subsequent opening up for 100% FDI through automatic route. Since then almost all the global majors have set up their facilities in India taking the level of production further.
- India is the 11th largest passenger car market in the world, and by 2016 it will be placed 7th largest in the world.
- The car segment is growing at around 10-15% every year. Compare this to the western powers US and Europe where the growth rate range from 0.5% to 3%.

#### • Domestic Sales Trend (no. of vehicles)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Passenger Cars	509088	541491	696153	820179	882208	1076408

#### • Exports Trend (no. of vehicles)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Passenger Cars	49273	70263	125320	160670	169990	192745

### Market Growth Estimates

- India is expected to emerge as the second-fastest growing automobile market over the next 10 years
- According to forecasts, the Indian passenger car market is projected to nearly double to 2 million units a year by 2010, helped by rising incomes and installment and loan schemes offered by banks and financial institutions.
- Another estimate - the Automotive Mission Plan 2006-2016 calls for automotive sales to increase from Rs. 1400 billion to Rs. 5800 billion by 2016. This means that the current turnover will be multiplied by five times, and the industry's contribution to the GDP would increase from 5 per cent e to 10 per cent. Employment would increase three times, and exports should go up nine times
- Indian auto components manufacturers are on a robust growth path, buoyed by superior technology, quality and low input costs the exports from this industry is estimated to touch Rs. 1600 billion by 2015 and one of the top auto components economies by 2020. This figure is not very far behind the software exports

### Growth Drivers

- The budget excise cut and low cost of manufacturing for small cars has paved the way for making India a major automobile manufacturing hub
- Favourable Economic Scenario
- Improvement in Infrastructure
- Introduction of new products (models)
- Increased Public Spending (Improvement in Per Capita Income)
- Cost managements Techniques
- Interest Rates cut by banks

### Concerns

- Labour cost is big concern (Shortage of talent)
- Huge Investments for modernizing production
- Competition with globally established players
- Appreciation in rupee (Currency Fluctuations)
- Rising Input Costs
- Soaring fuel prices

## Precision Pipes and Profiles (PPAP)

### Auto Ancillary and Component Industry

The world production of auto components is expected to reach Rs. 68 trillion by 2015. It is estimated that about Rs. 28 trillion worth of auto components would be sourced out from Low Cost Countries (LCCs) in the next 7-8 years. If India targets to get 10% share of this potential, it would mean Rs. 2800 billion, nearly 5 times of the current size of the industry in India, giving a huge business opportunity for the Indian auto component & ancillary industry.

Companies in the auto components and ancillary sector are optimistic in achieving a 15-20 percent growth year-on-year, in the next five years due to the current buoyancy in the Indian automotive sector as well as major investment and expansion plans of automotive manufacturers globally.

Crisil Research estimates the auto component industry to grow at a CAGR of 16% over the next five years (FY07-12) and reach production value of Rs. 1155 billion.

### Growth Drivers

- Increased Demand in the domestic Auto Sector
- Increased Export Demand in Auto Sector
- Increased Export Demand in Auto Ancillary Segment (Acceptance by overseas)
- Overseas acquisitions by domestic companies
- Reduction in Excise Duty
- Growth In Replacement Demand

### Concerns

- Increase in the cost of production (Raw materials like steel, aluminum, and polymers etc.)
- Pricing Pressure

### About Precision Pipes and Profiles

Precision Pipes and Profiles Company (PPAP) is an OEM supplier to the automobile industry and is engaged in the business of manufacturing automobile sealing systems and exterior products. PPAP's product range includes weather strips, trim door opening, windshield molding, roof molding, quarter window seal, A-pillar garnish, B-pillar garnish, skirt air damper, body side molding, among others. Additionally, it manufactures PVC based customized profiles for white goods and other industries. PPAP has five manufacturing facilities, which are located in New Delhi and Noida, Uttar Pradesh.

### Clients

Clients of the company include Maruti Udyog Limited, Honda SIEL, General Motors and Toyota Kirloskar among others.

In the white goods industry, PPAP supply customized profiles to Godrej, Voltas, Videocon and Carrier Refrigerators.

PPAP derives around 90% of turnover from automobile customers, nearly 5% from white goods products and the remaining from other segments including electrical and construction.

### Expansion Plans

PPAP has proposed a capital expenditure of Rs 95.80 crore to increase its capacity. The company plans to increase its capacity from 4.75 million kg currently to 7 million kg by March 2008, to 9.15 million kg by March 2009 and to 11.26 million kg by March 2010. The company is also setting up two new manufacturing plants for auto components and electrical outlet system products for Power and Data Corporation of Australia at Surajpur and Badarpur



## Precision Pipes and Profiles (PPAP)

### Strengths

- Single biggest supplier of Automotive Sealing Systems, Profiles And Extrusions to Maruti Udyog Limited, Honda SIEL, Krishna Maruti, Toyota Kirloskar, TS Techson, Fiat India And General Motors India Limited

- Largest single source supplier of Import substitution products for the automobile and white goods industry

- **Collaborative Success**

PPAP has a technical agreement with Tokai Kogyo Co (TKCL), Japan, for making specialized profiles and extrusions for automobile industry.

PPAP has also entered into an Automotive Parts Licensing agreement with Nissen Chemitec Corporation, Japan. Nissen would provide PPAP new product technology in order to manufacture and deliver products in connection with automotive interior parts and related products to Honda SIEL Cars India and its affiliated companies.

- **One of the first Automotive ancillary company to tap component outsourcing**

The company also has entered into an agreement with Power and Data Corporation, Australia for the manufacturing of electrical outlet systems (EOS) for supply to the authorised distributors of PDC.

PPAP's export division supplies customized extruded parts to various industries overseas. Primary industries being catered to are Modular Buildings, Refrigeration, Electrical and others. These products are being exported to many countries such as the UK, Australia, New Zealand, France, Italy, countries in the Middle East etc.

- **Excellent Reputation in the market for its quality products**

PPAP has received many awards from its customers for outstanding overall excellence, best performing vendor, quality, targets, cost and delivery which clearly shows the

- **High Creditworthiness**

PPAP has been assigned with a SME 1 rating by Crisil denoting 'highest level' of creditworthiness adjudged in relation with other SMEs

### Concerns

- **Heavy Client Concentration**

PPAP's top five customers collectively contributed approximately 83% of sales in FY 2006-07 out of which about 53% is contributed by a single customer (Maruti Suzuki). Thus like other auto ancillaries, PPAP is also vulnerable to these large clients.

- **Project Execution**

PPAP has lined up a capex of about Rs100 crores over the next two years. Delay in capacity expansion could result in cost overruns leading to a revision in estimates.

**Precision Pipes and Profiles (PPAP)****Financials and Valuation**

Particulars	31-03-09E	31-03-08E	31-03-07	31-03-06	31-03-05	31-03-04
Net Sales	16125	12000	10789.98	7909.72	7210.66	5359.57
Total Income	16374	12250	10973.36	8045.26	7465.76	5564.75
Change YoY (%)	33.66	11.63	36.39	7.76	34.16	35.34
Total Expenditure	12614.58	9387.6	8184.79	6280.06	5867.42	4089.62
PBIDT	3759.4125	2862.4	2788.58	1765.2	1598.35	1475.12
Depreciation	950	675	497.03	433.5	356.89	320.21
PBIT	2809.4125	2187.4	2291.54	1331.7	1241.45	1154.91
Interest	441.76	441.76	167.68	94.8	68.33	24.14
PBT	2367.65	1745.64	2123.86	1236.91	1173.12	1130.77
PAT	1538.97	1134.66	1387.78	798.86	761.14	751.49
Change YoY (%)	35.63	-18.24	73.72	4.95	1.28	7.56
Diluted EPS	10.99	8.10	15.42	13.31	12.68	25.04
Net Profit Margin (%)	9.39	9.26	12.65	9.93	10.19	15.42
Equity	1400	1400	900	600	600	300
P/E	6.34	8.61	4.52	5.24	5.50	2.78

At the current price of Rs. 69.75, PPAP's P/E works out to 8.61 times FY 2008E earning and 6.34 times of FY 2009E annualised earning. We believe that Precision Pipes and Profiles at its current stage of rapid expansion should trade at a P/E multiple of 9.5x (Peer group P/E). Based on our FY09E EPS estimates of Rs. 10.99 and applying 9.5x as P/E multiple we arrive at fair value of Rs. 104.43, an upside of around 49% in the time frame of 12 months.



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