

Texmo Pipes and Products Limited

IPO Grading

CARE IPO Grade 2

CARE has assigned a ‘**CARE IPO Grade 2**’ to the proposed Initial Public Offer (IPO) of Texmo Pipes and Products Limited (TPPL). CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE’s IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the fundamentals of the issuer. TPPL proposes an IPO of 50,00,000 equity shares of face value of Rs.10 each. The price band has not yet been decided.

The grading is constrained by TPPL’s relatively small size of operations, significantly large expansion plans in relation to its size, localized manufacturing facilities, relatively new brand, volatility in raw material prices, limited customer base and dependence on comparatively large size customers, the presence of unorganized sector players and highly competitive nature of the industry in which the company operates. The grading is also constrained by risks associated with the dependence of proposed capacity expansion on mobilization of required funds through proposed IPO and effective deployment of such funds in setting up new manufacturing unit and its ability to efficiently manage its working capital requirements post expansion.

The grading, however, draws strength from the good track record of the promoters as reflected in the successful operation of their PVC and HDPE pipes & fittings business, growth in revenues exhibited particularly since last two years and favourable prospects of the PVC and HDPE pipes industry due to increase in end uses across various sectors. The grading also draws strength from the recent consolidation of TPPL’s operations.

Background of the company

TPPL was originally constituted as a partnership firm under the name Shree Mohit Industries on May 13, 1999 with Mr. Sanjay Agrawal and Ms. Rashmidevi Agrawal as

partners for manufacture of PVC pipes, with an installed total capacity of 2,928 mtpa (metric tonnes per annum). The company was converted into a Public Limited Company under the name 'Texmo Pipes and Products Limited' (TPPL) on July 3, 2008. The installed capacity has increased steadily through expansion to 6,797 and 7,217 mtpa for PVC pipes and HDPE pipes respectively.

Management

The Company has two manufacturing units in Burhanpur, Madhya Pradesh. There are functional heads for Marketing, Finance, Production/Operations, Human Resource, etc., reporting to the Chairman & Managing Director and the WholeTime Director.

Corporate Governance

As on January 27, 2009, the Board had 5 Directors, of which the Chairman was the Executive Director and there were 3 independent Directors and 2 non-independent Directors.

The company has complied with SEBI guidelines in respect of corporate governance with respect to broad basing of Board, constituting various committees such as Audit Committee, Remuneration Committee and Shareholders'/Investors' Grievance Committee.

Operations

TPPL is engaged, at its two units in Burhanpur, in manufacturing a range of PVC and HDPE pipes, viz., suction & delivery hose pipe, rigid PVC pipes, elastomeric sealing ringfit PVC Pipe (Gasket Pipe), PVC casing and ribbed screen casing pipes, SWR pipe, plumbing pipe, conduit pipe, capping casing strips, column pipe, HDPE plain pipe, sprinkler pipe, PLB HDPE cable duct and drip irrigation system.

The pipes manufactured by the Company find application in irrigation, agriculture, potable water supply schemes, sewerage and drainage systems, construction industry, telecom industry, and bore/tube well for underground water suction.

The company has marketing presence in the states of Madhya Pradesh, Chhattisgarh, Maharashtra, Uttar Pradesh, Gujarat, Andhra Pradesh and Rajasthan and has an extensive dealer network.

IPO Details

The company is proposing to make a public offer of 50 lakh equity shares of Rs.10 each for cash through a fresh issue. Price band for the same has not been decided yet. Out of the above, 1 lakh shares are to be reserved for the eligible employees under 'Employee reservation scheme'. The offer would constitute 44.37% of the fully diluted post-offer paid-up capital of TPPL.

The Proceeds of the issue of shares are intended to be deployed for:

1. Expansion of product range:- TPPL plans to expand its existing manufacturing facility at Unit-I and II at Burhanpur so as to include CPVC and DWC pipes and also increasing dimensions for HDPE pipes. This will aid in increasing its installed capacity to 38,270 mtpa for PVC pipes and 11,023 mtpa for HDPE pipes and simultaneously enhance its product portfolio.
2. Setting up of up manufacturing facilities for injection mouldings/fittings and woven sacks: - TPPL intends to use part of its proceeds in setting manufacturing variety of woven sack bags.
3. Meeting long term working capital requirements:- Operations of TPPL being highly working capital intensive, the company proposes to deploy part proceeds as margin money for working capital requirements.

The balance proceeds, if any, will be directed towards general corporate purposes and issue related expenses.

Industry overview

The Indian Pipe Industry with presence across all categories of pipes is among the top three manufacturing hubs after Japan and Europe. Pipe transportation is an economical mode of transportation as compared to traditional modes of rail, road and sea transport. It helps in saving scarce natural energy resources and time taken for transportation.

Despite these advantages, India with its large geographical area has very low pipe penetration levels at 32% compared to global average of 79% in oil and gas transport. Sanitation levels are also lower at 33% compared to 91% in Sri Lanka and 100% in developed countries like France. Of 140 mn. hectares of cultivable land, only 40% land is irrigated.

The lower penetration levels offer a huge scope for Indian pipe companies. A positive trend in the pipe industry is expected to continue in the coming years on the back of economic growth, more oil and gas discoveries, infrastructure focus by government and low penetration levels.

Financials

Total income grew at a CAGR of 77% for the period FY07 to FY09 due to increase in capacity in PVC and HDPE pipes through expansion and also due to business transfer agreement with its group entities i.e. Shree Balaji Industries, Shree Venkatesh Industries and Shree Padmavati Irrigation Private Limited. Net sales during FY09 increased by 6.52% to Rs.61.17 crore, as compared to Rs.57.43 crore during FY08. This increase was mainly on account of increased sales in agricultural and telecom sector, leading to increase in its order book position. TPPL's profitability margins have shown an improvement due to higher share of products with better margins . Interest cost shows an increase to Rs.2.16 crore during FY09 from Rs.0.98 crore during FY08 due to increased borrowing from Rs.9.78 crore as on March 31, 2008 to Rs.23.10 crore as on March 31, 2009. TPPL had to fund its working capital requirement by availment of cash credit facility to the extent of about Rs.15 crore.

Current Assets show an increase from Rs.21.91 crore as on March 31, 2008 to Rs.30.16 crore mainly due to increase in inventory by about Rs.8.09 crore.

TPPL, originally a partnership firm, was converted into a Public Limited Company on July 3, 2008. Equity shares were issued to the promoters of partnership firm to the extent of Rs.6 crore against partner's capital held to the extent of Rs.9.38 crore. During July 3, 2008 to March 31, 2009, equity shares were issued to the extent of Rs.0.27 crore at premium of Rs.2.16 crore. Hence the networth depicts an increase due to issue of shares at premium and retained profits.

Long term debt to equity as on March 31, 2009 was 0.63x as compared to 0.01x as on March 31, 2008 due to increased long term borrowing from banks for additions in plant and machinery.

Overall gearing of 1.92x as on March 31, 2009 had increased from 1.04x as on March 31, 2008 due to availment of cash credit facilities for working capital requirement. Return on capital employed and return on networth during FY09 has reduced as compared to FY08 due to increase in equity during the period.

(Rs. in crore)

Y.E. / as on March 31	2007	2008	2009
	Audited		
<u>Working Results</u>			
Net Sales	20.37	57.43	61.17
Total Operating Income	20.43	58.37	63.75
PBILDT	1.08	6.33	7.97
Interest	0.35	0.98	2.16
Depreciation	0.23	0.30	0.56
PBT	0.55	5.76	6.53
PAT (after deferred tax)	0.41	4.18	4.80
Gross cash Accruals	0.63	4.54	5.64
<u>Financial Position</u>			
Equity share capital	3.29	9.38	6.27
Net worth	3.25	9.38	12.03
Total capital employed	8.06	19.16	35.13
<u>Key Ratios</u>			
<u>Growth</u>			
Growth in Total income (%)	(9.01)	185.79	9.21
Growth in PAT [after D.Tax] (%)	(30.31)	927.59	14.79
<u>Profitability</u>			
PBILDT / Total Op. income (%)	5.28	10.85	12.50

PAT / Total income (%)	1.99	7.07	7.37
ROCE (%)	10.64	44.31	27.28
Average cost of borrowing (%)	7.35	13.46	13.22
RONW	12.87	66.16	44.81
EPS*	-	-	7.65
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.45	0.01	0.63
Overall Gearing (times)	1.48	1.04	1.92
Interest Coverage (times)	2.41	6.15	3.43
<i>Liquidity</i>			
Current ratio(times)	1.76	1.48	1.44
Quick ratio(times)	1.36	1.18	0.84
<i>Turnover</i>			
Average collection period (days)	56	46	61
Average creditors (days)	23	21	24
Average inventory days	33	24	59

*Partnership firm upto FY08.

Future Prospects

The Company faces competition from larger firms in high value added products and for larger customers, with whom it may have low bargaining strength and lesser pricing power. The Company needs to continuously maintain its operational and commercial competitiveness to win tenders for big contracts. Further, it has to continuously meet quality and quantity commitments under contracts awarded. On the other hand, in the low value added products, TPPL faces competition from the organized and unorganized sector characterized by high price sensitivity and lower margins. The volatility in raw material prices may also impact the demand and margins for the products of the company.

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

