

31 July, 2008

**BUY**

Price Target  
**Rs 321** **Rs 440**

Sensex 14,287

**Price Performance**

%	1M	3M	6M	12M
Absolute	-3	-29	-34	-21
Rel to Sensex	-3	-9	-10	-12

Source: Capitaline

**Stock Details**

Sector	Fire protection equipment
Reuters	NIFP.BO
Bloomberg	NFPI IN
Equity Capital (Rs mn)	126
Face Value (Rs )	10
52 Week H/L (Rs )	667/275
Market Cap (Rs Mn)	4046
Daily Avg Vol (Rs Mn)	21.36

Source: Capitaline

**Shareholding Pattern (%)**

Promoters	69.42
FII/NRI	3.78
Institutions	11.58
Private Corp.	6.78
Public	8.43

(As on June '08)

Source: Capitaline

**Abhishek Gaoshinde**

abhishek.gaoshinde@emkayshare.com

+91 22 66121278

**Nitin Fire Protection Industries Ltd.**Initiating  
Coverage**CNG cylinders - fueling growth...**

Nitin Fire Protection Industries Ltd's (NFPI) foray into the high margin high pressure seamless CNG cylinder business is likely to change the fortunes of the company. The company has commenced production of high pressure CNG cylinders at its Visakhapatnam SEZ facility, having an installed capacity of 0.5mn units per annum. The increasing demand for high pressure seamless CNG cylinders is likely to drive NFPI's revenues. We expect this high growth high margin segment to fast replace the fire protection division as the main revenue generator of the company. We expect the fire protection solution business and the industrial cylinder business to maintain their growth rates and grow at a 15% and 14 % CAGR over FY08-10 respectively. With NFPI's foray into the high pressure seamless CNG cylinder business, the company has embarked on a high growth trajectory. We expect the high pressure seamless CNG cylinder business to contribute 37% and 53% to total revenues in FY09 and FY10 respectively. Higher margins combined with tax benefits for its Vishakapatnam facility are likely to drive earnings at a 74% CAGR over FY08-10. At current market price of Rs 321, the stock is trading at a PE of 11.6x FY09E and 6.9x FY10E earnings. We initiate coverage on the stock with a buy rating and a target price of of Rs 440, which is 16x FY09E EPS and 9.4x FY10E EPS.

**Foray into the high pressure seamless CNG cylinder business to boost revenues**

NFPI's recent foray into the high margin high pressure seamless CNG cylinder business is likely to see a healthy 67% growth in revenues during FY08-10 period. The company's Vishakapatnam facility commenced production in Feb'08. Recently declared Q1FY09 result have already shown revenues from this division. We believe that this will change the revenue mix of the company, improve its EBITDA margins and scale up its topline. Going forward, we expect the high pressure seamless CNG cylinder business to be a major revenue driver for the company. We expect 30% and 60% capacity utilization for FY09 and FY10 respectively.

**Rising crude prices to enhance the demand for high pressure seamless CNG cylinders**

With rising crude oil prices, economical alternate automobile fuels like CNG are gaining increasing acceptance. NGVs (Natural Gas Vehicles) are expected to grow at a 17.8% CAGR over FY07-20. This is likely to drive the demand for high pressure seamless CNG cylinders, especially in countries, where natural gas is available in abundance. We believe that NFPI will gain large market share in its targeted overseas markets like Pakistan and Iran, where demand for high pressure seamless CNG cylinders are huge, with little or no manufacturing capacity.

**Healthy order book position- near term earnings visibility**

At the end of FY08, the unexecuted order book position of the company stood at Rs 1600 mn (1.2x FY08 net sales). High pressure seamless CNG cylinders constituted 75% of its order book.

**Financial Estimates**

Y/E, March (Rs.mn)	Net Sales	EBIDTA	EBIDTA (%)	PAT	EPS (Rs)	EPS Grth (%)	ROE (%)	P/E (x)	EV/EBITDA (x)	P/BV (x)
FY07	1005	166	16.5	100	7.9	53	27.5	40.4	25.1	11.1
FY08	1324	254	19.2	194	16.7	111	16.8	19.2	18.0	3.5
FY09E	2432	511	21.0	347	27.5	65	23.1	11.6	8.8	2.7
FY10E	3694	850	23.0	589	46.5	70	28.2	6.9	5.2	1.9

Source: Company, Emkay PCG Research

## Company background

*Leading fire protection & high pressure seamless CNG cylinder company*

Nitin Fire Protection Industries Ltd, established in 1995 in Mumbai, is a leading fire protection and intelligent building management system, high pressure seamless cylinder and refueling systems company in India. The company has tie-ups with leading international players in the fire alarm and security systems space, such as Air Sense Technology Limited, U.K., for smoke detection equipments; Kerr Fire Fighting Chemicals, U.K., for fire fighting foams and dry powder; Ceodeux Extinguisher Valves Technology S.A., and Newtex Industries Inc for their ZetexPLUS safety clothing. The company raised Rs 640mn via IPO in May 2007 and utilized the proceeds for setting up a CNG cylinder manufacturing facility at Visakhapatnam. It has the second largest high pressure seamless CNG cylinder manufacturing capacity in the domestic market.

### Business division

#### Fire protection, safety and security including intelligent building management systems:

*Acquired 40% stake in Dubai based 'New Age Company' LLC*

Nitin Fire Protection Industries Ltd is an end-to-end solutions provider for fire protection, safety and security, with capabilities in manufacturing, designing, engineering, commissioning and maintenance. Its specific areas of operation are: Fire Protection (gas and water based), fire detection and alarm, building automation and security. The company carries out its fire protection business in association with three of its subsidiaries and a partnership concern. The company holds a strong position in the domestic fire protection segment and has been expanding its presence in overseas markets via organic and inorganic route. In the fire protection system business, NFPIL imports gases like HFC227ea, Novace and cylinders from the overseas market. The company provides customized fire protection systems and also provides after sales services to its existing customers. Till FY08, the fire protection division has been the main revenue generator for the company. However, NFPIL's foray into the high pressure seamless CNG cylinder segment is likely to see a change in its revenue mix. We expect this segment to gradually constitute a major chunk of NFPIL's revenues. The company has recently acquired a 40% stake in a Dubai based fire protection company 'New Age Company' LLC. The company is also making efforts to establish itself as a strong intelligent building management system provider.

#### High pressure seamless cylinder & re-fueling systems

*NFPIL has set up a high pressure seamless CNG cylinder facility at Visakhapatnam with an annual capacity of 500,000 units/annum*

NFPIL operates in the high pressure seamless cylinder segment via its two wholly owned subsidiaries- Euro Tech Cylinders Pvt.Ltd(ECPL) and Nitin Cylinders Ltd(NCL).ECPL sells high pressure seamless cylinders for industrial and CNG use in domestic market via brand EURO. ECPL is the trading arm of NFPIL. ECPL gets the cylinder contract manufactured from BTIC, China. The cylinders are manufactured according to standards of quality conforming to specifications laid by Bureau of Indian Standards and Chief Controller of Explosives and based on customers requirement. The industrial cylinders for domestic markets are manufactured as per IS 7285 standard whereas the high pressure seamless CNG cylinders for automobiles are manufactured as per IS-15490. ECPL supplies a wide range of high pressure seamless steel gas cylinders for applications such as industrial gases, medical gases, fire fighting equipments and many more applications.

Nitin Cylinders Ltd (NCL) has recently set up a facility to manufacture high pressure seamless CNG cylinders with an annual capacity of 500,000 units at Visakhapatnam SEZ. This unit enjoys a 100% tax holiday on profits from exports for 5 consecutive assessment years. The company also manufactures CNG cascades using high pressure seamless steel gas cylinders, valves, fittings and accessories, which are used for transportation of CNG.

**High pressure seamless CNG cylinder capacity**

Category	Cylinder sizes(diameter in MM)	Capacity /Annum( no. of cylinders)
Small	232	1,00,000
Medium	279	2,50,000
Large	356	1,50,000

Source: Company

**Oil exploration block**

In March 2007, the company entered into a production sharing contract for the exploration and prospecting of a crude oil block in Rajasthan(NELP VI) with consortium partners, including GSPC(20%),GAIL(20%),BPCL(10%), HALWORTHY(10%) and SILVERWARE (10%). The company has 10% share in this consortium.

10% share in oil exploration block

**The group structure:****Nitin fire protection industries ltd (holding company)**

It makes fire-fighting equipment (gas based and water based fire extinguishers) under the brand name "NITIE", and also provides turnkey solutions including procurement, designing, system integration, commissioning, and installation of safety and security solutions. It is also in the business of manufacturing CNG cascades.

**Alert - fire protection (Wholly owned subsidiary)**

Alert exclusively distributes in India, fire detection products from U.K. based Apollo Fire Detectors Limited, optical beam smoke detectors from Fire Fighting Enterprise U.K., both Halma Group Companies (listed on London Stock Exchange). Alert also provides customized fire detection products and technical support.

**Eurotech corporation (95% partner)**

It is in the business of manufacturing of fire extinguishers. The unit is located in Parwanoo, Himachal Pradesh, to avail tax benefits.

**Logicon building (Wholly owned subsidiary)**

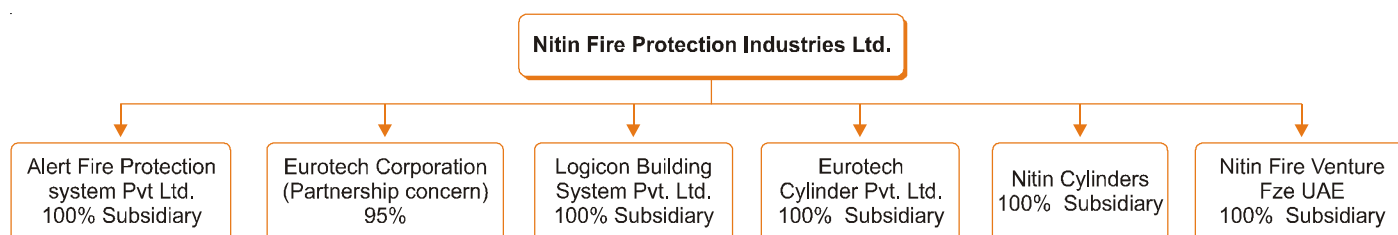
Logicon undertakes turnkey contracts for intelligent building management systems, clean agent and fire detection alarm system and water based hydrant systems, CCTV and Security systems. Its activities include designing, integration, installation of these systems and also maintenance services.

**Eurotech cylinders pvt ltd (Wholly owned subsidiary)**

ECPL sells high pressure seamless cylinders for industrial and CNG use in the domestic market. These cylinders are contract manufactured in China and sold under the brand name, EURO.

**Nitin cylinders ltd (Wholly owned subsidiary)**

Nitin Cylinders has been set up to undertake manufacturing of high pressure seamless cylinders to cater to the demand from export market and utilize the benefits available to SEZ units. NCL also intends to make and sell fuel dispensers.



## Investment argument

### Entry into CNG segment at the perfect time

NFPIL has forayed into the high pressure seamless CNG cylinder business at an opportune time when alternate automobile fuels are fast gaining acceptance. Spiraling crude prices are likely to result in increased demand for CNG and consequently, high pressure seamless CNG cylinders. We expect the demand for high pressure seamless CNG cylinders to arise from new CNG vehicles and converted CNG vehicles (from petrol, diesel vehicles).

*High crude price to stimulate the demand for CNG vehicles*

### Increasing demand for high pressure seamless CNG cylinders

Various Governments across the world are encouraging use of alternate and cleaner fuels like CNG. The traditional segments like industrial, medical, firefighting and beverage segments have been generating substantial demand for high pressure seamless CNG cylinders. However, due to technological developments, major demand for high pressure seamless CNG cylinders is coming from the automobile sector. The global demand for high pressure seamless CNG cylinders for automotive applications are likely to grow at an average rate of about 19-20%, on account of rising oil prices, CNG infrastructure and increasing air pollution. The demand for high pressure seamless CNG cylinders has been rising on account of conversion of existing vehicles into CNGV or production of new CNG vehicles.

*CNG cylinders for automotive applications to grow at an average rate of 19-20%*

According to IANGV (International Association For Natural Gas Vehicles), the NGV-CNG vehicle segment has grown at a 17.6% CAGR over the 1991-2006 period. It estimates this segment to grow at a 17.8% CAGR over the 2007-20 period to 65 mn vehicles by 2020, world wide.

### Close proximity to fast growing Iran and Pakistan market to boost NFPIL's sales

Countries like Pakistan have abundant natural gas reserves; low oil base. Various governments are promoting natural gas as a fuel for automobiles, thereby driving the demand for CNG cylinders. The NGVs account for 52% and 24% market share in total automobile sector in Pakistan and Iran respectively. Import of high pressure seamless CNG cylinders are exempted from custom duty in Pakistan. These nations have little or no capacity to manufacture high pressure seamless CNG cylinders to cater their growing need. These countries fulfill their demand requirements through imports from regions such as Europe, South America and India. These regions are likely to remain net importers of cylinders for the next few years. We believe that NFPIL's Vishakapatnam facility enjoys a distinct advantage over other European or South American suppliers on account of its close proximity to Iran and Pakistan. Orders for high pressure seamless CNG cylinders from these markets constituted 70% of NFPIL's order book.

*Import of high pressure seamless CNG cylinders are exempted from custom duty in Pakistan.*

### Country wise automobile and fuel status

Particulars	Argentina	Pakistan	Brazil	India	Iran	USA
Total vehicles	7,608,744	2,500,000	14,277,600	14,554,000	1,102,720	234,646,314
Total NGVs	1,650,000	1,300,000	1,375,034	334,820	263,662	146,876
NGV mkt share	22%	52%	9.60%	2.30%	23.90%	0.06%
Oil production (bbl/day)	745,000	63,000	1.6 Mn	785,000	4.0 Mn	7.6 Mn
Oil consumption (bbl/day)	470,000	324,000	2.1 Mn	2.45 Mn	1.5 Mn	20.7 Mn
Oil proven reserves (bbl)	2.1 bn	358.9 Mn	12.22 bn	5.6 bn	132.5bn	22.45 bn
Natural gas production (M <sup>3</sup> /year)	44.8 bn	27.4 bn	9.6 bn	28.2 bn	83.9 bn	531.1 bn
Natural gas consumption (M <sup>3</sup> /year)	37.8 bn	27.4 bn	17.2 bn	30.8 bn	85.5 bn	635.1 bn
Natural gas proven reserves (M <sup>3</sup> )	612.5 bn	759.7 bn	306.0 bn	853.5 bn	26.62 tn	5.451 tn

Source: IANGV (June '07)

*NFPIL is the second largest domestic high pressure seamless CNG cylinder manufacturer*

### High pressure seamless CNG cylinder business - Growth engine

With the setting up of the Visakhapatnam facility, the company has forayed into the lucrative high pressure seamless CNG cylinder segment. The Visakhapatnam plant has an installed capacity of 500,000 CNG cylinders per annum. This makes it the second largest high pressure seamless CNG cylinder manufacturing company in India, the first being, Everest Kanto Cylinders. We expect the company to utilize 30% of its total capacity in FY09 and augment it to 60% in FY10. This assumption is based on the fact that capacity utilization will gradually ramp up as the operating process smoothens.

The major raw material required for manufacturing the high pressure seamless CNG cylinder is seamless pipe with high thickness (seamless chrome 34CRM04). The company imports its raw material, due to unavailability of specified type of seamless pipes in India. However, there are a large number of European companies manufacturing such kind of seamless pipes. The company imports seamless pipes from Italian company Tenaris and Chinese company Tainzen Pipe Company (TPCO). The company protects its margins by passing on incremental cost of production due to hike in raw material to its customers.

*The company enjoys 100% tax exemption on export income for 5 years from its Visakhapatnam plant.*

The company also enjoys 100% tax exemption on export income for 5 years from its Visakhapatnam plant, set up in the SEZ. Given the company's focus on the overseas market, we expect an overall reduction in the effective tax rate, thereby improving its profitability. As on Mar'08, the order book for this segment stood at Rs 1200 mn with an execution time frame of 9 months. We estimate the high pressure seamless CNG cylinder segment to add Rs 900 mn (0.6x FY08 revenue) and Rs 1,950 mn (1.47x FY08 revenue) to NFPIL's revenues in FY09 and FY10 respectively. Due to the fast growth of high pressure seamless CNG business, we expect the overall revenues to grow at a 67% CAGR over FY08-10. We expect the high pressure seamless CNG cylinder segment to be the future growth driver of NFPIL.

### Fire protection system – expanding reach

NFPIL has adopted a strategy of expanding its business horizons by foraying into newer markets. After establishing itself as a strong player in the domestic markets, NFPIL plans to gain a foothold in the global fire protection business. It has taken the first step in this direction by acquiring a 40% stake in Dubai based 'New Age Company LLC'. We expect NFPIL's fire protecting division to maintain its growth momentum in this segment on account of promising demand in the domestic markets and strong growth in the UAE fire protection market. We estimate a 15% CAGR in revenues from the fire protecting division over the FY08 -10 period.

### Infrastructure growth to drive demand in domestic market

Increase in malls, multiplexes, data centers, refineries combined with increasing awareness about safety security are likely to drive demand for the company's fire protection and intelligent building management systems. The competitive price, long experience, good quality and adherence to the delivery schedule will drive the growth for the business in the domestic market.

### Fire protecting business – to grow via inorganic route

Given its stronghold in the domestic fire protection solutions market, NFPIL is now focusing on the UAE fire protection solutions market. To gain a foothold in the UAE market, the company has followed the inorganic route. It has recently acquired a 40% stake in a Dubai based leading fire protecting engineering company 'New Age Company LLC'. This company is engaged in fire protection, fire detection, emergency lighting and water mist fire protection systems. The entire activity includes supply and installation, testing and commissioning of equipment system and maintenance of commercial and residential complexes, industrial warehouses, schools, govt. offices. It has over three decades of experience in UAE. New Age Company has several projects for municipality, Airport Development Board, Port Authority, telecommunication sites, cement plants, Ministry of Education and Civil Defence to its credit. It has also got major

*To expand fire protection business in Dubai market*

local civil defence licenses and registrations, with a staff of over 100 personnel. NFPIL expects this newly acquired company to grow at 20-25% / annum.

We believe that given its rich experience in fire protecting solution systems and being an established player, NFPIL will maintain its growth momentum.

### Industrial cylinder & contract manufacturing segment – Steady growth

In the industrial segment, the company trades high pressure seamless industrial cylinders to industries. The company purchases contract manufactured cylinders from BTIC China, based on specified requirements and approved by statutory authorities ( Like Chief Controller of Explosives and Bureau of Indian Standards in India). The company passes any hike in purchasing cost of cylinders to its customers and saves its margin from erosion. The industrial cylinder & contract manufacturing business, which contributed 30% to the total revenue in FY08 is expected to grow at steady rate, on the back of growing requirement of gases in medical, food & beverage, energy and chemical industry. The industrial cylinder & contract manufacturing segment is expected to grow at a 14% CAGR over FY08-10.

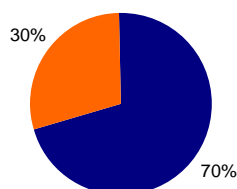
### Healthier revenue mix to expand margins

The entry of NFPIL into the high margin high pressure seamless CNG cylinder segment. This is likely to expand the company's overall margin. The high pressure seamless CNG cylinder segment enjoys superior margins of around 25%, which is higher than NFPIL's current businesses. We believe that as the proportion of CNG cylinders in their overall revenue mix increases, NFPIL's margins are also likely to expand.

On a conservative basis, we expect a 180bps and 200bps expansion in EBITDA margins in FY09 and FY10 respectively. The higher margin expansion in FY10 is on account of higher capacity utilization in its CNG cylinder plant. We have assumed a 37% and 53% contribution from the high pressure seamless CNG cylinder business in its top line in FY09 and FY10 respectively.

Revenue mix is expected to change by FY09

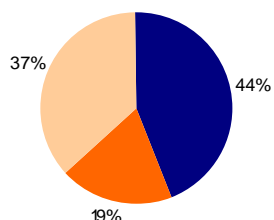
Revenue Mix (FY08)



■ Fire Fighting & Security Systems  
■ Industrial Cylinders & Contract Manufacturing

Source: Emkay PCG Research

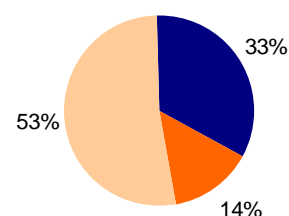
Revenue Mix (FY09E)



■ Fire Fighting & Security Systems  
■ Industrial Cylinders  
■ High Pressure seamless CNG Cylinders

Source: Emkay PCG Research

Revenue Mix (FY10E)



■ Fire Fighting & Security Systems  
■ Industrial Cylinders & Contract Manufacturing  
■ High Pressure seamless CNG Cylinders

Source: Emkay PCG Research

### High pressure seamless CNG cylinder unit focusing on the fast growing export markets

The company has strategically focused on the overseas market for its high pressure seamless CNG cylinder business, due to more incentive and growth opportunity in CNG vehicle segment in overseas market as compared to the Indian market. We believe that the proximity of the Vishakhapatnam facility to growing NGV-CNGV markets like Iran and Pakistan give it an additional edge over its other European and American competitors. We are positive on the company's strategy of focusing on the developed CNG vehicles market, having large demand for high pressure seamless CNG cylinders and limited or no manufacturing capacity. Also, higher export revenue from its SEZ unit will result in significant tax saving, thereby improving its profitability. However, we believe that going forward, the company will strengthen its presence in the domestic market also.



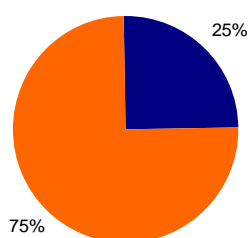
**Country - wise NGV penetration**

Country	NGV Mkt share
India	2.30%
Pakistan	52%
Iran	23.90%

Source: IANGV, June '07

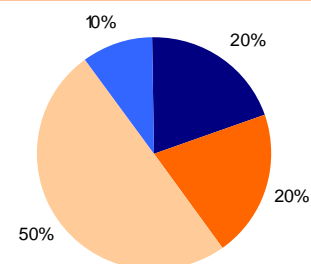
**Healthy order book at 1.2x FY08 revenues, lends strong earnings visibility**

At the end of FY08, the aggregate order book position stood at Rs1,600 mn, which is 1.2x FY08 revenue. Of the unexecuted order book position, the high pressure seamless CNG cylinder segment constitutes a whopping 75% or Rs 1200mn. This is indicative of high growth potential of this segment. Orders for high pressure seamless CNG cylinders from overseas markets like Pakistan and Iran constitute a major portion of NFPIL's order book. The fire fighting segment has an order book position of Rs 400 mn for a shorter duration of 4-5 months. We believe that in the coming quarters, the company will get more new orders for high pressure seamless CNG cylinders and fire protecting division. Its current order book provides adequate near term earnings visibility for the company.

**Total order book break up**

■ Fire fighting solution ■ High pressure CNG cylinder

Source: Emkay PCG Research

**Order book break up for high pressure seamless CNG cylinders**

■ India ■ Pakistan ■ Iran ■ Other

Source: Emkay PCG Research

**Down side risk**

A major part of the company's forecasted growth is based on the prediction of successful operation of its high pressure seamless CNG cylinder segment. Any downward revision of the estimates for high pressure seamless CNG segment will turn into significant downward price movement for the stock.

The company is conducting its diversified business via its subsidiaries. Thus, any adverse development in any of the subsidiaries will have negative impact on the consolidated performance of the company.

The financial performance of the company is subject to foreign exchange rate fluctuation as it imports its major raw materials from overseas markets.

**Upside triggers**

We have been conservative in all our financial estimates. There are chances that NFPIL can derive higher EBITDA margins and pay lesser tax in comparison to our estimates. This will improve EPS by significant amount. We have taken capacity utilization at lower levels; any improvement in capacity utilization will give better than estimated revenue.

Any positive development in the business like escalation in order book or improvement in capacity utilization will lead to a better stock rating.

We haven't taken into consideration the growth potential of Intelligent building management business which may give it additional earning. Occurrence of any of the above mention points, is likely to result in further earnings upside.

### Robust FY08 performance- without contribution from high pressure seamless CNG cylinder segment

In FY08, NFPIL has shown stupendous performance on account of significant growth in its existing fire protection business and industrial cylinder business. For FY08, the company reported a 32% and 94% growth in revenues and net profit respectively, with a 271 bps improvement in EBITDA margins. This growth was also on account of the rupee appreciation against the dollar during FY08. However, a drop in supply of cylinders from China, on account of the forthcoming Olympic games saw Q4FY08 lose some momentum. We believe that the industrial cylinder business will grow in coming quarters on regular supply of cylinders from China.

### Q1FY09 results: in line with expectations

In Q1FY09, NFPIL has reported 109.3% and 164.8% YoY growth in net sales and net profit, on account of sale of high pressure seamless CNG cylinder from its Visakhapatnam plant. The company has successfully passed on the rising raw material cost to its customers, resulting in 1035 bps decline in raw material cost as a % of sales. The EBITDA margin has improved by 377 bps to 20.93%, largely due to the significant growth in net sales. The capacity utilization at the Visakhapatnam facility was lower in Q1FY09, due to initial stage of production and power shortage. We believe that NFPIL will successfully improve capacity utilization at its Visakhapatnam plant in the coming quarters.

### Q1FY09 financial performance: (Cons.)

Financial results (Rs Mn)	Q1FY08	Q1FY09	% Chg
Net Sales	273.00	571.42	109.31
Other Income	3.31	6.58	98.88
Gross Income	276.31	577.99	109.19
Raw Material cost	193.91	346.70	78.80
Staff Cost	9.22	13.52	46.62
Other Expenditure	23.01	91.58	297.96
Total Expenditure	226.14	451.80	99.79
Operating profit	50.17	126.19	151.54
Interest	1.52	14.29	842.12
PBDIT	48.65	111.90	130.01
Depreciation	3.25	9.31	186.11
PBT	45.40	102.59	125.99
Tax Expenses	13.71	18.70	36.35
Net Profit	31.68	83.89	164.81
EPS (Rs)	2.51	6.66	165.33
OPM %	17.16	20.93	
NPM %	11.5	14.5	

Source: Company, Emkay PCG Research

### Q1FY09 (Cons.) Segment wise revenue break up

Segment	Revenue(Rsmn)	Volume(units)	Avg.realization/unit(Rs)	Rev.contribution(%)
Fire protection	348			61
CNG cylinder	95	15,000	6,333	17
Industrial cylinder	128	24,000	5,333	22
Total	571			100

Source: Emkay PCG Research



## Financial projections

The business activity of the company can be divided into two major segments - Fire protection solution and cylinder segment (which can be further divided into industrial cylinder and high pressure seamless CNG cylinder). Currently, the fire protection solutions segment constitutes major portion of NFPIL's revenues (70% in FY08). However, we believe that its revenue mix is likely to change in favor of the high pressure seamless CNG cylinder business. We expect strong margins expansion also, on account of a higher proportion of the high margin CNG cylinders in its revenue mix. We expect this change in revenue mix to boost NFPIL's revenues as well as overall profitability.

Revenue Mix %	FY08	FY09E	FY10E
Fire Fighting & Security Systems	70	44	33
Industrial Cylinders & Contract Manufacturing	30	19	14
High pressure seamless CNG cylinders		37	53

Source: Emkay PCG Research

### Revenue breakup :

#### Fire protection solution segment

Fire fighting & security systems	FY08	FY09E	FY10E
Revenue(Rs Mn)	927	1,066	1,226
Revenue growth%		15	15

Source: Emkay PCG Research

#### Industrial cylinder and contract manufacturing

Industrial cylinders & contract manufacturing	FY08	FY09E	FY10E
No. of cylinders (units / annum)	78,000	89,700	98,670
Growth%		15	10
Average realization / unit (Rs)	5,093	5,200	5,250
Growth%		2	1
Revenue (Rs Mn)	397	466	518
Revenue growth%		17	11

Source: Emkay PCG Research

#### High pressure seamless CNG cylinder

High pressure seamless CNG cylinders	FY09E	FY10E
Capacity (units / annum)	5,00,000	5,00,000
Capacity utilization%	30%	60%
No. of units	1,50,000	3,00,000
Average realization /unit (Rs)	6,000	6,500
Revenue (Rs Mn)	900	1,950
Revenue growth%		44

Source: Emkay PCG Research

### Sensitivity analysis - capacity utilisation at Vishakapatnam facility holds key to revenue projections

The major factor influencing our future assessment of the company is the capacity utilization at its Visakhapatnam plant and average realization for the high pressure CNG cylinders. On conservative basis, we have taken 30% capacity utilization for the plant for FY09. However, we have performed a sensitivity analysis by keeping average realization constant at Rs 6000 and varying capacity utilization from 30% to 45%. **Our sensitivity analysis indicates that for every 1% point improvement in capacity utilization from our assumption of 30%, it will add Rs 30 mn in topline of the company in FY09E.**

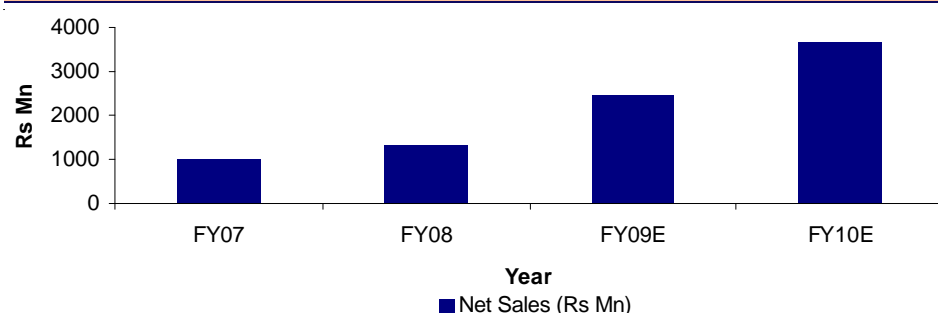
*Improvement in capacity utilization at high pressure seamless CNG cylinder plant to boost NFPIL's revenue*

Sensitivity analysis	Case1	Case2	Case 3	Case 4
<b>High pressure seamless CNG cylinder</b>	<b>FY09E</b>	<b>FY09E</b>	<b>FY09E</b>	<b>FY09E</b>
Capacity (units / annum)	500000	500000	500000	500000
Capacity utilization %	30%	35%	40%	45%
No. of units	150000	175000	200000	225000
Average realization /unit (Rs)	6000	6000	6000	6000
Revenue (Rs Mn)	900	1050	1200	1350

Source: Emkay PCG Research

We expect a 67% CAGR in net sales over FY08-10, on the back of expectation of change in revenue mix. We estimate the high pressure seamless CNG cylinder business to contribute 47% and 53% to total revenues in FY09 and FY10 respectively.

### Net sales growth



Source: Emkay PCG Research

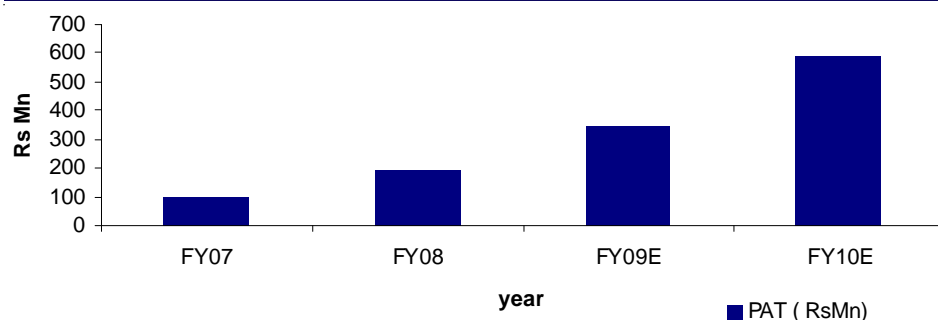
### EBITDA margin to improve on likely change in revenue mix

We believe that higher contribution from the high margin high pressure seamless CNG cylinder segment will improve the overall EBITDA margins of the company. Generally, the high pressure seamless CNG cylinder business generates 25% EBITDA margin, which varies according to the diameter and capacity of the cylinder. The company has been taking adequate safety to prevent its margin from declining by entering into price escalation contracts with its customers, in case of hike in raw material cost. However, we have been conservative in our EBITDA margin estimations for the company, considering the uptrend in raw material cost and foreign exchange rate fluctuation. We estimate 21% and 23% EBITDA margin for FY09 and FY10 respectively.

### Changing revenue mix to drive earnings by 74% over FY08-10E

The company is strategically focused on the projects having small gestation period and high probability of required margins, which we believe will grow bottomline at a faster rate than that of topline. We believe that higher contribution from the high pressure seamless CNG cylinder segment, tax saving on export income from Vishakapatnam plant at SEZ and lower interest burden (1.49 % and 0.98 % of sales in FY09E and FY10E respectively) will result in a 74% CAGR in bottom-line over the period of FY08-10.

### PAT Growth



Source: Emkay PCG Research

## Valuation and outlook

**We are positive on the growth prospects of the company on the back of growing demand for high pressure CNG cylinders and expectation of sustainable growth in the fire protection solution business.** The high pressure seamless CNG cylinder business enjoys higher margin in comparison to its current business, which we believe will improve overall margin of the company. The total installed capacity of the company is 500,000 cylinders per year. However, we have conservatively assumed only 30% and 60% capacity utilization for FY09 and FY10 respectively for future financial projections. We expect its Fire protection solution and Industrial cylinder business to grow at a 15% and 14% CAGR over the period of FY08-10. With this we estimate 67% CAGR and 74% CAGR in net sales and net profit over FY08-10 for the company. The aggregate order book position of Rs 1600 mn (1.2x FY08 revenue) gives good short term earning visibility. We believe that company will successfully obtain good set of orders in coming quarters. At CMP of Rs 321, the stock is trading at 11.6x and 6.9x of its FY09E EPS of Rs 27.5 and FY10E EPS of Rs 46.5 respectively. We believe that the stock is trading at attractive valuation in comparison to its closest peer. With this, we initiate coverage on the stock with target price of Rs 440, which is 16x FY09E EPS and 9.4x FY10 EPS.

### Peer comparison

	Everest kanto cylinder*	Nitin fire protection industries
Market Cap (mn)	29536	4045
Price (Rs)	292	321
Total no. of shares (mn)	101.15	12.6
Face Value(Rs)	2	10.0
Installed Capacity( no. of cyl/ann)	6,10,000	500000
Sales FY08 (Rs mn)	5287.4	1324
Sales FY09E (Rs mn)	8921	2432
Sales FY10E (Rs mn)	13160	3694
FY08 EPS (Rs)	10.5	17
FY09E EPS (Rs)	16.5	27.5
FY10E EPS (Rs)	27.2	46.5
FY08 BV(Rs)	61.5	92
FY09E BV (Rs)	70.06	119
FY10E BV9 Rs)	96.16	166
P/E FY08x	27.8	19.2
P/E FY09Ex	17.7	11.6
<b>P/E FY10Ex</b>	<b>10.7</b>	<b>6.9</b>
P/B FY08x	4.7	3.5
P/B FY09Ex	4.2	2.7
<b>P/B FY10Ex</b>	<b>3.0</b>	<b>1.9</b>
Market Cap/Sales FY08x	5.6	3.1
Market Cap/Sales FY09Ex	3.3	1.7
<b>Market Cap/Sales FY10Ex</b>	<b>2.2</b>	<b>1.1</b>

Source: Emkay PCG Research / \* Bloomberg consensus estimates

## Industry overview

### Fire fighting industry

With the growth in industry and service sector, the requirement for electronically managed fire protection systems is increasing. The fire protecting industry is a highly unorganized segment. According to NFPI's internal estimate, the size of the industry is close to Rs 5000-8000 mn and major demand has been coming from IT and manufacturing sector.

### End-user sectors for fire extinguishing systems in India

Sector	Proportion
Information technology and banking	30%
Manufacturing	30%
Petrochemicals	15%
Other Commercial Establishments	10%
Others	15%
Total	100%

Source : Company estimates

### Industrial cylinders

The key driver for demand for industrial gas cylinders is the demand for industrial gases. The packaged industrial gases segment is estimated to grow at about 5-6% during 2006-2012. Thus, the demand for cylinders will also follow the same trend, with an estimated growth of 5%. The high pressure cylinders include gas cylinders for industrial applications as well as high pressure seamless CNG cylinders. Cylinder gas sales are strongly linked to the relative manufacturing growth of each country.

Projected demand - industrial cylinders (Mn)	2008	2009	2010	2011	2012
Cylinders in Circulation	486	511	536	563	591
New Cylinders Addition	24	26	27	28	30
High Pressure- High pressure seamless CNG cylinders	1.5	1.5	1.5	1.5	1.5
Total Industrial Cylinder Market Potential for Project	1.14	1.2	1.27	1.33	1.4

Source: Company / ISO, IMM Analysis

### High pressure seamless cylinders and refueling systems

The traditional segments like industrial, medical, firefighting and beverage segments have been generating substantial demand for high pressure seamless CNG cylinders. However, due to technological developments, major demand for high pressure seamless CNG cylinders is coming from the automobile sector. The global demand for high pressure seamless CNG cylinders for automotive applications is likely to grow at an average rate of about 19-20% on account of rising oil prices, CNG infrastructure and increasing air pollution. The demand for high pressure seamless CNG cylinders has been rising on account of conversion of existing vehicles into CNGV or production of new CNG vehicles. The availability of vehicles or conversion equipment varies greatly from country to country, depending on local conditions.

With Crude oil prices rising, the need for alternative cheaper fuel has been increasing day by day. Worldwide, CNG is being used as an alternative fuel for automobiles. According to IANGV, transportation consumes 65% of the total oil produced in the USA. 6.94 mn NGVs were running on the road worldwide in June 2007. This is expected to grow to 65 mn NGVs by 2020. World wide, 85Mbbbl oil has been consumed per day (source: IANGV, 2007). If IANGV's estimate of 65mn NGVs by 2020 were to be achieved ,then around 8 Mbbbl of oil per day could be substituted by natural gas.

**Worldwide natural gas vehicle statistics**

Country	Natural gas vehicles	Refuelling stations
Argentina	1650000	1400
Pakistan	1550000	1606
Brazil	1425513	1442
Italy	432900	558
India	334820	321
Iran	263662	179
USA	146876	1340
Colombia	203292	310
China	127120	355
Ukraine	100000	147

Source: IANGV June 2007

**Region wise NGVs growth statistics**

Region	Average % growth in NGV (2000-2007)
ASIA	50.10%
EUROPE	12.90%
NORTHAMERICA	3.70%
SOUTHAMERICA	27.90%
AFRICA	21.30%
TOTAL	30.60%

Source: IANGV

The major markets for high pressure seamless CNG cylinder have been America and Europe. Countries such as Argentina and Brazil have a successful CNG NGV program. The European markets are aiming at converting 10-15% of its vehicles to CNG by 2012-15 and this will mainly be in the trucks/bus segment. The emerging regions are Asia Pacific, Middle East and Africa. Most of the South Asian and South East Asian regions are exploring natural gas as an alternative fuel to reduce oil import bills and also reduce pollution. Countries like Iran and Pakistan have abundant natural gas reserves and hence, their governments are promoting cheaper and cleaner fuels like CNG, thereby driving the demand for high pressure seamless CNG cylinders. There is no custom duty on import of high pressure seamless CNG cylinder in Pakistan.

There is a need for cleaner fuels due to environmental concerns. The cost differential between petrol, diesel and CNG creates a huge demand for high pressure seamless CNG cylinders in domestic as well as export markets. The major demand for high pressure seamless CNG cylinders shall be from OEMs retrofitters. High pressure seamless CNG cylinders, made of steel for on board use in vehicles, aluminum cylinders for storage of high purity gases and life supporting devices. Cylinders are used in defense and space applications and large size of cylinders for industrial gases.

**International demand supply scenario for CNG cylinders****Demand for CNG cylinders**

The demand for CNG cylinder is expected to grow at an average annual growth rate of about 19.0 %. The detailed regional market share and growth rate is given in the table below

**Projected growth in cylinders**

Region	Current market share (%)	Expected growth (%)
America	56	17
Europe	26	17
Asia Pacific	14	26
Middle East/Africa	4	16
Total	100	19

Source: Company / IMM Analysis

The major market for CNG cylinders have been America and Europe. However, Asia Pacific region and Middle East and Africa are emerging as potential market for CNG cylinders. Countries like Pakistan have abundant natural gas reserves; low oil base. Governments are promoting natural gas as a fuel for automobiles, thereby driving the demand for CNG cylinders. The NGVs account for 52% and 24% market share in total automobile sector in Pakistan and Iran respectively.

### Supply status for CNG cylinders

The major markets such as Americas and Europe have been successful in their CNG programs and also have a strong industry to supply high pressure seamless CNG cylinders. It is to be noted that manufacturers in this region have been catering to the needs of their domestic market as well as the emerging markets through exports. At present, there are no new capacity additions in the high pressure seamless CNG cylinders except for a few units in South Asia. However, some greenfield projects can come up in the near future to cater to the growing demand.

### Demand-supply gap for cylinders

The world demand growth for CNG NGVs is estimated to be about 20% CAGR. Most of this growth will be in the emerging markets. The emerging markets of Iran, Pakistan, Bangladesh, Egypt, Myanmar and South East Asian nations have embarked on CNG NGV programs as a cost effective and clean fuel alternative. Import of high pressure seamless CNG cylinders and kits are exempt from duties and taxes. These nations have little or no capacity to manufacture high pressure seamless CNG cylinders to cater their growing need. These countries are fulfilling their demand through imports from regions such as Europe, South America and India. These regions are likely to remain net importers of cylinders for the next few years.

### Domestic CNG cylinder market

In India, the cylinder industry has been witnessing fair growth volumes based on surging demand for high pressure seamless CNG cylinders. The Supreme Court's decision mandating use of CNG as auto fuels by heavy vehicles in New Delhi created demand for such cylinders by both the OEMs and the retrofitters (conversion agents). Buoyed by the success of this measure, as witnessed in a considerable drop in the pollution levels of New Delhi, the Supreme Court has issued directives to various state governments about 28 highly polluted cities in India to switch to clean fuels including Agra, Lucknow, Jharia, Kanpur, Varanasi, Faridabad, Patna, Jodhpur and Pune. This decision itself is expected to generate substantial demand for high pressure seamless CNG cylinders in India. Besides, increasing use of CNG as auto fuel by neighboring gas rich countries like Iran, Pakistan, Malaysia, Bangladesh etc has opened up export markets for Indian companies.

Year	Demand (mn)	Supply (mn)	Gap (mn)
2007-08	0.32	0.175	0.14
2008-09	0.39	0.175	0.22
2009-10	0.49	0.175	0.31
2010-11	0.6	0.175	0.43
2011-12	0.74	0.175	0.56
2012-13	0.9	0.175	0.72

Source: Company

### Domestic cylinder installed capacities

Company	Capacity (Number of cylinders / annum)
Everest Kanto Cylinders Ltd	6,10,000
Nitin Fire Protection Ltd	5,00,000
Rama Cylinders	3,00,000
Lizer	2,00,000

Source: Emkay PCG Research



## Profit &amp; loss statement (Rs Mn)

Year	FY07	FY08	FY09E	FY10E
Net Sales	1005	1324	2432	3694
Growth%	47	32	84	52
Other Income	2	31	20	20
Total Income	1008	1355	2452	3714
Consumption of Raw Materials	702	896	1703	2512
Operating & Other Expenditure	101	123	122	185
Employees Cost	37	51	97	148
Total Expenditure	840	1070	1922	2844
PBIDT	166	254	511	850
growth%	50	53	101	66
Gross profit	168	285	531	870
Interest	3	8	36	36
PBDT	165	277	495	833
Depriciation	11	14	26	37
PBT	154	263	469	796
Tax	54	68	122	207
Pat	100	194	347	589
Growth %	53	94	78	70
EPS(RS)	7.9	16.7	27.5	46.8

Source: Company, Emkay PCG Research

## Balance sheet (Rs mn)

	FY07	FY08	FY09E	FY10E
<b>SOURCES OF FUNDS :</b>				
Share Capital	89	126	126	126
Share application money	18	0	0	0
Reserves Total	257	1029	1376	1965
Total Shareholders Funds	364	1155	1502	2091
Secured Loans	106	541	450	400
Unsecured Loans	12	2	2	2
Total Debt	118	543	452	402
Differed tax liability	2	1	0	0
Total Liabilities	484	1699	1954	2493
<b>APPLICATION OF FUNDS :</b>				
Gross Block	110	122	522	741
Less: Accumulated Depreciation	47	64	90	127
Net Block	63	58	432	614
Capital Work in Progress	338	609	209	0
Investments	0	242	120	100
<b>Current Assets</b>				
Inventories	81	520	1079	1349
Sundry Debtors	265	328	752	867
Cash and Bank	61	212	375	683
Loans and Advances	117	322	339	355
Total Current Assets	525	1382	2545	3256
<b>Current Liabilities</b>				
Current Liabilities	360	401	1065	1161
Provisions	91	191	287	315
Total Current Liabilities	450	592	1352	1477
Net Current Assets	74	790	1193	1779
Miscellaneous Expenses	9	0	0	0
<b>Total</b>	<b>484</b>	<b>1699</b>	<b>1954</b>	<b>2493</b>

Source: Company, Emkay PCG Research

## Ratio analysis

Year	FY07	FY08	FY09E	FY10E
EBITDA %	16.5	19.2	21.0	23.0
NPM %	9.9	14.3	14.1	15.9
ROE %	27.5	16.8	23.1	28.2
ROCE %	20.7	11.4	17.7	23.6
D/E (x)	0.3	0.5	0.3	0.2
Asset Turnover (x)	9.1	10.9	4.7	5.0
Debtors days	4.6	4.5	4.5	4.6
Inventory days	39.6	122.3	120.0	120.0
Creditors days	92.2	104.8	110.0	110.0
<b>Per Share Data</b>				
EPS (Rs)	7.9	16.7	27.5	46.8
CEPS (Rs)	8.8	16.6	29.6	49.7
BVPS (Rs)	28.9	91.7	119.2	166.0
<b>Valuation ratios</b>				
P/E (x)	41.2	19.6	11.9	7.0
EV/EBITDA (x)	25.1	18.0	8.8	5.2
EV/Sales (x)	4.1	3.5	1.8	1.2
Mcap/Sales(x)	4.1	3.1	1.7	1.1
P/BV (x)	11.1	3.5	2.7	1.9

Source: Company, Emkay PCG Research

## Cash flow statement (Rs mn)

Rs Mn	FY07	FY08	FY09E	FY10E
PBT	154	263	469	796
Financial charges	3	8	36	36
Depreciation	11	14	26	37
(inc)/dec in inventories	-10	-439	-560	-270
(inc)/dec in debtors	-89	-63	-424	-116
(inc)/dec in loans&advances	-86	-205	-16	-17
inc/(dec) in current liabilities	302	142	760	125
change in working capital	118	-565	-240	-277
Tax paid	-54	-68	-122	-207
other adjustment	5	-69	10	0
<b>Cash flow from oper. acti</b>	<b>237</b>	<b>-418</b>	<b>179</b>	<b>385</b>
Change in fixed assets	-357	-283	0	-10
investments	0	-242	122	20
others	-135	-419	0	0
<b>Cash flow from inve. acti</b>	<b>-492</b>	<b>-944</b>	<b>122</b>	<b>10</b>
increase in share capital	233	1131	0	0
equity share expenses	-10	-53	0	0
change in borrowings	90	425	-91	-50
financial charges paid	-3	-8	-36	-36
others	-7	18	-11	-0.35
<b>Net Cash flow from Finan acti</b>	<b>303</b>	<b>1512</b>	<b>-138</b>	<b>-87</b>
Net inc/dec in cash equivalents	48	150	163	309
Cash at beginning of the year	14	61	212	375
<b>Cash at end of the year</b>	<b>61</b>	<b>212</b>	<b>375</b>	<b>683</b>

Source: Company, Emkay PCG Research

Name	Sector	Tel No	E-mail id
Daljeet S. Kohli	Head of Research	+91 22 6612 1205	daljeet.kohli@emkayshare.com
Urmil Negandhi	Auto, Auto Ancillary and Pharmaceutical	+91 22 6612 1280	urmil.negandhi@emkayshare.com
Pankaj Kumar	Engineering, Capital Goods & Mid-caps	+91 22 6612 1243	pankaj.kumar@emkayshare.com
Sweta Sinha	Information Technology	+91 22 6612 1282	sweta.sinha@emkayshare.com
Abhishek Gaoshinde	Power & Midcap	+91 22 6612 1278	abhishek.gaoshinde@emkayshare.com
Manas Jaiswal	Technical Analyst	+91 22 6612 1274	manas.jaiswal@emkayshare.com
Suruchi Kapoor	Junior Technical Analyst	+91 22 6612 1275	suruchi.kapoor@emkayshare.com
Sameer Shetye	Associate Derivative Analyst	+91 22 6612 1276	sameer.shetye@emkayshare.com

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C-6, Ground Floor, Paragon Center, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.

Tel No. 66121212. Fax: 66121299; e-mail: [marketing@emkayshare.com](mailto:marketing@emkayshare.com);

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