

Nitin Fire Protection

Price Band: Rs 171-190

May 10, 2007

Expensive -- but good long-term prospects

An end-to-end solutions provider for fire protection systems, Nitin Fire Protection Industries now intends to establish itself in high-pressure seamless cylinders for automobiles that run on CNG, stored in the cylinders. At present, 54% of Nitin's revenue arises from fire protection and security systems; the rest from *trading* in high-pressure seamless cylinders supplied to industry. (Such cylinders are obtained from a Chinese company under contract manufacturing.)

Nitin and its five fully owned subsidiaries (one, 95%) operate in these two business segments (fire protection & security systems and high-pressure seamless cylinders). The present issue of equity is to part-fund the company's foray into *manufacturing the high-pressure seamless cylinders*. At a cost of Rs 1.18bn, Nitin is setting up, in two phases, a 0.5m-cylinder plant. The current issue would fund between 49% and 55% of this cost. The first phase, covering 0.25m cylinders, is nearing completion.

For FY07, the company reported consolidated net sales of Rs 1,005m, EBITDA of Rs 170m (with a 16.9% margin) and net profit of Rs 100m. The current issue of 3.39m shares dilutes the equity by 37% to 12.6m shares. On the fully diluted equity, the consolidated EPS for FY07 works out to Rs 7.9.

Within the price band of Rs 171 to Rs 190, the stock is steeply priced -- at 21.6 to 24 times FY07 earnings. The potential business of CNG cylinders is undoubtedly lucrative, yet the price asked for is unattractive. Long-term investors can accumulate.

Issue Details

In the forthcoming public offer, the company is offering 3.39m equity shares, of which the QIB portion would be 1.62m (47.8%), non-institutional 0.486m (14.3%) and retail 1.134m (33.5%), with the rest reserved for employees. At the lower and upper ends of the price band of Rs 171 to Rs 190 a share, the proceeds would amount to Rs 0.58bn to 0.64bn.

Issue Details

(number of shares)

Pre-Issue	92,100,000
Total Shares Offered	3,390,000
QIBs	1,620,000
Retail	1,134,000
Non-Institutional	486,000
Employees	150,000
Post-Issue	12,600,000

The post-issue equity would be Rs 126m divided into 12.6m equity shares of Rs 10 each.



Promoters and Group Structure

Started in 1984 by Nitin Shah to manufacture fire extinguishers, Nitin Industries was incorporated in 1995 as Nitin Fire Protection Industries, promoted and actively run by Shah and his two sons, Rahul and Kunal, who, together hold 49.3% of the equity. A further 45.76% is held by the family. Post-issue, these holdings would come down to 36% and 33.5%, respectively, giving the promoter family a post-issue stake of 69.5%.

The Nitin Group

Entity	Relationship	Segment	Activity	Standalone FY07	
				Net Sales (Rs m)	Net Profit (Rs m)
Nitin Fire Protection Industries Ltd.		Fire Protection, Cascades	Fire-fighting equipment manufactured under the brand name NITIE. Turnkey contracts for fire safety and protection	278.4	29.5
Alert Fire Protection Systems Pvt. Ltd.	Wholly-owned	Fire and Smoke Detection Devices	Distributor of the UK's Apollo Fire Detectors and Fire Fighting Enterprise's smoke detectors	155.1	17.4
Eurotech Corp.	95% owned	Fire Extinguishers	Manufacture of Fire Extinguishers at Parwanoo (HP)	9.3	1.7
Logicon Building Systems Pvt. Ltd.	Wholly-owned	Building Automation	Turnkey contracts for intelligent building security systems	102.7	4.5
Eurotech Cylinders Pvt. Ltd.	Wholly-owned	High-pressure seamless cylinders	Cylinders imported from China and sold under the brand name, EURO	506.5	50.4
Nitin Cylinders Pvt. Ltd.	Wholly-owned	High-pressure seamless cylinders	Manufactures cylinders at an SEZ at Vizag. Also makes CNG fuel dispensers with technology from Kraus Global Inc., Canada	Operations yet to commence	

Investment Positives

CNG is fast emerging as a global "clean" alternative to polluting fuels

Concerned about providing cleaner air and enhanced environmental and health benefits, many countries are formulating regulations and strategies to promote CNG as the "clean" fuel for vehicles. An estimated 6m vehicles already run on natural gas. By 2020, this figure is expected to grow eight-fold to 50m vehicles. Three countries account for 75% of these vehicles: Argentina, Brazil and Pakistan. The greatest potential would come from Iran, China and India. The estimated business potential is about Rs 33bn, with India expected to contribute Rs 5bn to Rs 6bn.



Intelligent security systems are the demand of the day

The explosive growth in realty, coupled with huge investments in malls, is driving up demand for Intelligent Building Management Systems. IBMS offer, on a unified platform, an array of utilities like climate control, water management, advanced surveillance, automated fire prevention and control systems. NFPIIL has considerable expertise and experience in various turnkey projects, competing with Siemens, Honeywell, Johnson Controls (India), etc. The revenue potential for this industry in India is estimated at Rs 8bn.

Fire-protection systems provide the base

Traditional fire-protection systems provide NFPIIL with its base business. The industry is estimated at Rs 5bn, and is largely unorganized and highly fragmented.

Phase I of the expansion nearly complete

At a cost of Rs 1.18bn, Nitin is setting up, in two phases, a 0.5m-cylinder plant. The current issue is to fund phase II, estimated at between 49 and 55% of total cost. Phase 1 (to 0.25m cylinders) is nearing completion, at an estimated Rs 0.6bn, financed by a term loan (of Rs 370m), a rights issue (of Rs 62.5m), preferential allotment (of Rs 70m) and internal accruals (of Rs 110m). It will commence commercial production in June '07 (Q2 FY08).

Objects

Proceeds of the issue would finance Phase II of the 0.5m high-pressure cylinder manufacturing plant at the Vizag SEZ, being set up by its wholly owned Nitin Cylinders. The cost of its phase II expansion, estimated at Rs 568m, is expected to commence production by October 2007 (Q3 FY08). Of the total cost, about 54% would be required to set up plant and machinery. The rest would be distributed among development of land and buildings, margin money for working capital, pre-operative expenses, etc.

Investment Concerns

- The company has yet to obtain regulatory certification for its new CNG cylinders (for automobiles).
- Yet to be established is the *competitive* sourcing of the seamless pipes, at present, planned to be obtained from TPCO, China, where quality is uncertain.
- The tax holiday in the SEZ is contingent on achieving net forex neutrality in five years, compelling the company to export a large number of its cylinders to areas where a clear freight advantage is enjoyed by competitors.
- The company has largely been a *trading* entity in fire protection systems and possesses, apart from the brand NITIE, few inherent strengths in manufacturing and design.
- For FY07, the fire protection business of the standalone NFPIIL grew a meagre 0.25%

Valuation

Within the price band of Rs 171 to Rs 190, the stock, at 21.6 times to 24 times FY07 earnings, is steeply priced. The historical RoNW, at 42.6%, appears impressive. However, considering the steeply priced equity issue, the diluted RoNW is between 18% and 19%. The potential business of CNG cylinders is undoubtedly lucrative yet the price asked for isn't too inviting. Long-term investors could accumulate.



Peer Comparison - FY07E

COMPANY	EPS (Rs)	P / E (x)	RoNW (%)	Net Asset Value (Rs)
Nitin Fire Protection Inds.	7.9	21.6 - 24.0	42.6	36
Everest Kanto	33.3	32.4	29.4	150

On a peer comparison, NFPII comes off better than Everest Kanto Cylinders, though we believe both appear fully priced at current levels.

Income Statement - Consolidated

(Rs m)

Y/e March	2006	2007
Sales	684	1,005
Expenditure		
Raw Materials	532	711
Change in Stock	(41)	(10)
<i>% of Sales</i>	<i>71.8</i>	<i>69.8</i>
Personnel	23	37
<i>% of Net Sales</i>	<i>3.3</i>	<i>3.7</i>
Manufacturing & Other Expenses	58	96
<i>% of Net Sales</i>	<i>8.4</i>	<i>9.6</i>
Total Expenditure	571	835
EBITDA	113	170
<i>EBITDA Margin (%)</i>	<i>16.5</i>	<i>16.9</i>
Depreciation	4.6	10.5
EBIT	108	159
Interest Expenses	4.1	3.1
Non-Operating Income	1.0	2.1
Amortisation of Preliminary Expenses	0.3	2.3
Goodwill Amortised	2.0	2.0
PBT before Minority Interest	103	154
Minority Interest	-	0
PBT	103	154
Tax	38	54
<i>Tax Rate (%)</i>	<i>36.6</i>	<i>35.2</i>
Profit after Tax	65	100



Balance Sheet - Consolidated

(Rs m)

Y/e March	2006	2007
Sources of Funds		
Equity Share Capital	75	89
Share Application money	-	18
Reserves & Surplus	98	258
Networth	173	364
Deferred Tax Liabilities	1	2
Secured Loans	1	106
Unsecured Loans	27	12
Total Debt	28	118
Total Funds Employed	202	484
Application of Funds		
Gross block	91	110
Less: depreciation	35	48
Net Fixed Assets	56	63
Capital WIP	-	297
Preoperative expenses	-	13
Investments	0.03	0.03
Current Assets		
Inventories	71	81
Debtors	177	265
Cash & Bank Balances	13	61
Loans & Advances	32	138
Others	0	1
Current Assets	293	546
Less:		
Current Liabilities and Provisions	148	443
Net Current Assets	145	103
Minority Interest	-	0.3
Misc Exp to the extent not w/o	1	9
Total Assets	202	485

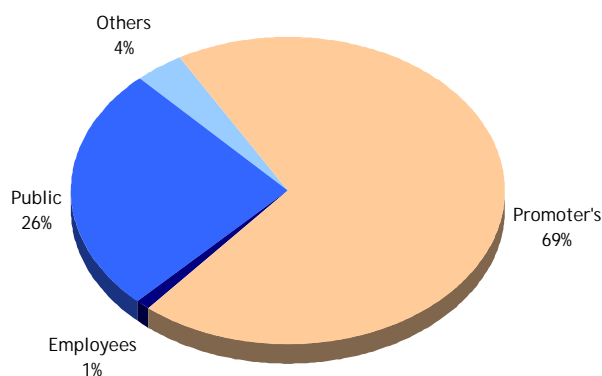


Cash Flow - Consolidated

(Rs m)

Y/e March	2006	2007
Operating Profit before Working Capital changes	113	169
Net Cash Flow from Operations	(28)	195
Net Cash from Investing	(19)	(463)
Net Cash from Financing	55	316
Net Change in Cash	8	47
Opening Cash	6	13
Closing Cash	13	61

Shareholding pattern, post-IPO



Source: Company Data, PL Research

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