

ROTO PUMPS LTD

HOLD : Rs.73

Market Cap.: Rs.200.92mn.

CMP: Rs.65.00

Date: January 11, 2010

Key Ratios:

Particulars	FY09	FY10E	FY11E
OPM(%)	15	18	18
PAT Margin(%)	6	8	8
ROE(%)	20	19	17
ROCE(%)	38	36	34
P/BV(x)	1.22	0.99	0.81
P/E(x)	6.08	5.15	4.68

Key Data:

Sector	Pumps
Face Value	Rs.10.00
52 wk. High/Low	Rs.76.50/Rs.26.05
Volume (2 wk. Avg.)	6330
BSE Code	517500

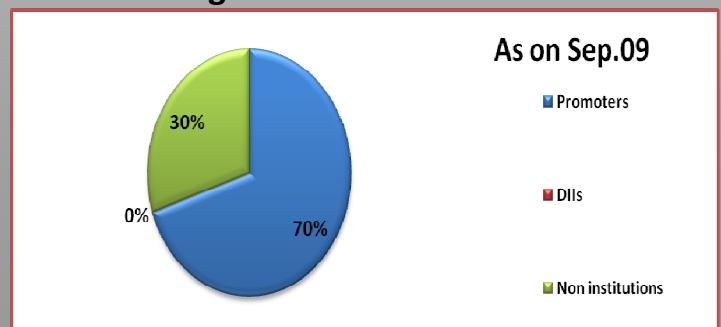
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SYNOPSIS

- Roto Pumps Limited manufactures and distributes industrial pumps in India. Its products include progressive cavity pumps, twin screw pumps, and accessories.
- Roto Pumps products are widely used abroad in sectors like oil and gas, pharmaceuticals, food industry and especially in wastewater treatment plants.
- During the quarter the company has bagged an order worth Rs 36 million from Larsen & Toubro Ltd.
- The company plans to carry out market development activities in other major markets like USA and China in addition to other identified markets in the Middle East/Gulf and Africa.
- The company derives 45% of the Sales revenues through export sales.
- The company has set up its warehouse cum marketing office in Australia.
- Roto has an extensive experience of handling over 1100 types of fluids.
- The company is currently expanding its capacity and this would lead to increased volumes in the years ahead.
- The topline of the company is expected to grow at a CAGR of 8% over FY08 to FY11E.

Share Holding Pattern:



Investment Highlights

- **Result Updates (Q2 FY10)**

Roto Pumps disclosed a substantial rise in standalone net profit for the quarter ended September 2009. During the quarter, the profit of the company rose 11.18% to Rs 9.55 million from Rs 8.59 million in the same quarter previous year. Net sales declined 18.05% to Rs 115.26 million, while total income for the quarter declined 18.12% to Rs 115.21 million, when compared with the prior year period.

During the quarter, the operating margin of the company increased 17.46% as compared to 13.84% of corresponding quarter ended September 2008. Interest cost decreased 62.86% to Rs 2.66 million while depreciation cost rose 8.81% to Rs 3.21 million over previous year period.

- **Received ATEX & CE Certificate**

ROTO has been awarded with ATEX certification by DNV (Det Norske Veritas) for their Progressive Cavity & Twin Screw pumps. DNV type approval requires the verification of a set of requirements during the design, construction, and operation of pumps.

- **CHEMTECH participation**

ROTO's CHEMTECH participation has brought additional focus on Chemical, Pharmaceutical, Energy & Environment sectors. The display was focused on four products :- Working pump models of RJ Series, KM Series, DM Series pump and a Twin Screw pump, also displayed working cut-section of L Series pump. RJ Series pump drew an exceptionally great interest of people visited.

- **Awarded Job for Prestigious Sydney Desalination**

Roto Pumps has recently been awarded a high-valued prestigious job for supply of pumps in Sydney desalination project at NSW, Australia. The contract was awarded by Blue Water Joint Venture, company which has been contracted by Sydney Water to design, construct, operate and maintain the desalination plant and intake and outlet facilities. The project envisage 32 progressive cavity pumps, in exotic material constructions, in Duplex, Super Duplex & SS316.

- **Receives an order**

Roto Pumps Ltd has bagged an order worth Rs36million from Larsen & Toubro Ltd. The proposed contract has been secured for Rajasthan Northern Area Development Project

of Cairn Energy India Pvt Ltd. The source further disclosed that, Larsen & Toubro Ltd is the contractor for this project and it is certified for deemed export benefits.

- **Secures export order**

Noida-based Roto Pumps has secured an export order worth AU\$ 0.5 million (Rs 2 crore) from Blue Water for their Water Desalination Project in Sydney, Australia. Blue Water is a joint venture of John Holland Pty Ltd and Veolia Water Australia Ltd.

Company Profile

Roto Pumps Limited manufactures and distributes industrial pumps in India. Its products include progressive cavity pumps, twin screw pumps, and accessories. The company's progressive cavity pumps comprise a precision machined single external helix metallic rotor and a double internal helix elastomeric stator. It also offers horizontal external bearing, horizontal internal bearing, and vertical twin screw pumps, which are used in various application areas, including oil and gas, paper, power plants, distillation plants, sugar, fertilizers, marine, steel, man made fiber, and edible oil. In addition, Roto Pumps provides accessories, such as dry running protection device, pressure switch, gauges, relief valves, and strainers. It also exports its products to the People's Republic of China, the Middle East, Far East Asia, and Africa. The company was founded in 1968 and is based in Noida, India.

Infrastructure

Roto's integrated manufacturing plant in Noida and its plant in NSEZ are spread over 20,000 sq.mtrs. The plants have sophisticated machine tools and testing facilities that ensure consistent world class quality matching today's customer expectations. All critical components are manufactured in house to ensure 100% quality conformance. The company has state-of-the-art R&D facility that translates concepts to Prototypes, and Prototype into final Products. The R&D facility is equipped with a battery of CAD stations and sophisticated Test beds with Data Acquisition and Analysis System that ensure comprehensive validation of pump design. Roto sells its products through a wide network of branches in India, own Warehouse cum Marketing offices at Australia and U.K. and network of distributors spread across the globe. The continuous investments in precision measuring instruments, state-of-the-art testing facilities and the dedicated team of engineers are testimony to Roto's commitment to maintain and constantly upgrade the quality of its products. The manufacturing units are certified for conformance to ISO 9001 Quality Surveillance System.

Business Area

The Company mainly divided into two products. They are:

- Progressive Cavity Pumps
- Twin Screw Pumps

Peer Group Comparison

Name of the company	CMP(Rs.) (As on January 11, 2010)	Market Cap. (Rs. Mn.)	EPS (Rs.)	P/E (x)	P/BV (x)	Dividend(%)
Roto Pumps Ltd	65.00	200.92	10.69	6.08	1.22	20
Kirloskar Brothers	255.00	26972.5	8.21	31.06	3.80	100
KSB Pumps	441.60	7685.6	37.39	11.81	2.63	55
Shakti Pumps India	134.40	836.4	14.06	9.56	2.03	10

Key Concerns

- Industry facing a liquidity crunch. Many Corporates deferring investment plans.
- Input costs like power, fuel, interest and distribution costs putting pressure on margins.
- Increasing competition putting margins under pressure.
- Dependence on the government sectors, PSUs high.
- Affected by the slowdown in the economy. Also influenced by the agricultural development in the country and vagaries of monsoons.
- Presence in exports markets not high - most players focusing on the domestic market - quality and technology key issues.

Financials

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs. in million)	FY08A	FY09A	FY10E	FY11E
	12m	12m	12m	12m
Description				
Net Sales	422.71	523.15	481.30	529.43
Other Income	1.79	0.93	4.58	5.04
Total Income	424.50	524.08	485.88	534.47
Expenditure	-358.82	-447.98	-399.48	-439.43
Operating Profit	65.68	76.10	86.40	95.04
Interest	-7.16	-12.05	-12.17	-13.39
Gross Profit	58.52	64.05	74.23	81.65
Depreciation	-10.75	-12.04	-13.24	-14.57
Profit before Tax	47.77	52.01	60.99	67.08
Tax	-17.46	-18.96	-21.96	-24.15
Profit after Tax	30.31	33.05	39.03	42.93
Equity Capital	30.91	30.91	30.91	30.91
Reserves	108.17	133.99	173.02	215.96
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	3.09	3.09	3.09	3.09
EPS	9.81	10.69	12.63	13.89

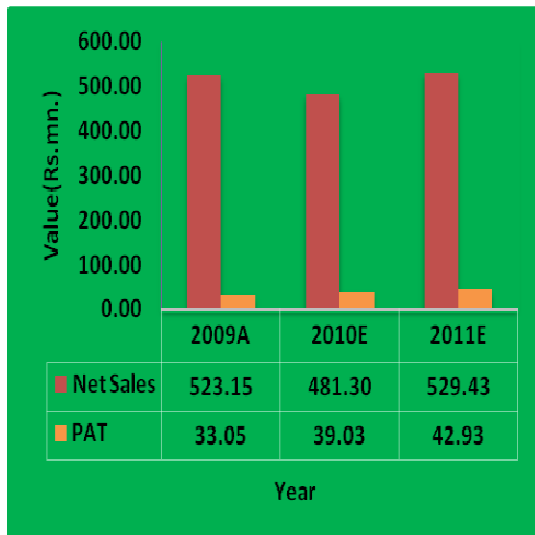
Quarterly Ended Profit & Loss Account (Standalone)

Value(Rs. in million)	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09E
	3m	3m	3m	3m
Description				
Net Sales	135.76	104.07	115.26	119.87
Other Income	0.69	3.05	-0.05	0.22
Total Income	136.45	107.12	115.21	120.09
Expenditure	-112.27	-86.86	-95.09	-99.49
Operating Profit	24.18	20.26	20.12	20.60
Interest	-3.66	-2.85	-2.66	-2.79
Gross Profit	20.52	17.41	17.46	17.80
Depreciation	-3.33	-3.05	-3.21	-3.37
Profit before Tax	17.19	14.36	14.25	14.43
Tax	-6.40	-5.13	-4.70	-5.05
Profit after Tax	10.79	9.23	9.55	9.38
Equity Capital	30.91	30.91	30.91	30.91
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	3.09	3.09	3.09	3.09
EPS	3.49	2.99	3.09	3.04

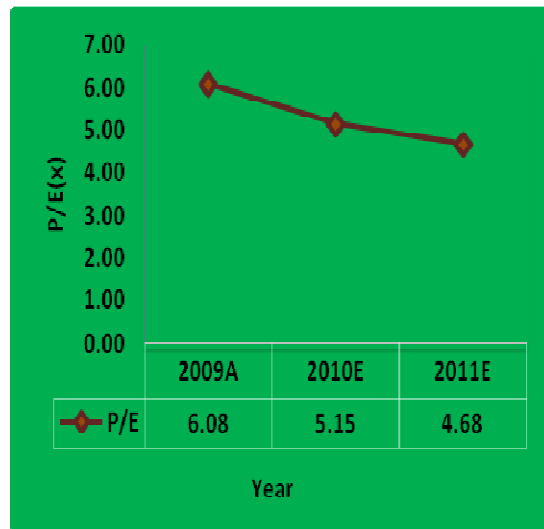
E=Estimated

Charts

1) Net Sales & PAT Chart



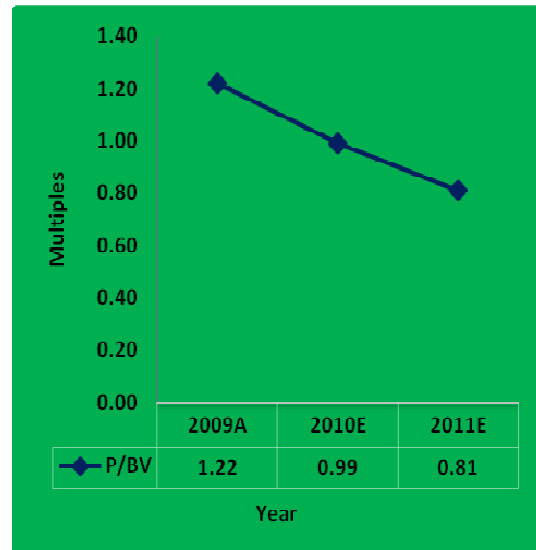
2) P/E Chart



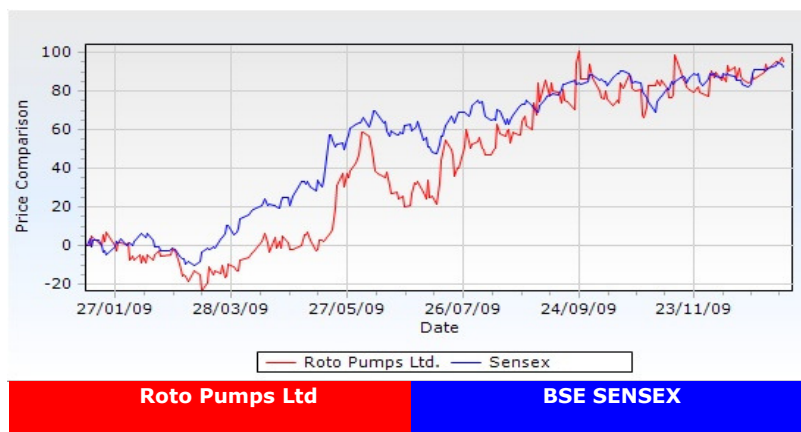
3) EV/EBIDTA Chart



4) P/BV Chart



1 Year Comparative Graph



Outlook and Conclusion

- At the current market price of Rs.65.00 the stock is trading at a P/Ex of 5.15x for FY10E and 4.68x for FY11E.
- The EPS of the stock is expected to be at Rs.12.63 and Rs.13.89 for FY10E and FY11E respectively.
- On the basis of price to book value, the stock trades at 0.99x and 0.81x for FY10E and FY11E respectively.
- Roto Pumps Ltd, manufacturer of progressive cavity pumps and twin screw pumps, is planning to expand its capacity in the next two years. The expansion will take place on the plot allotted to the company by Greater Noida Industrial Development Authority.
- The company recently bagged an Rs 3.6-crore order from L&T Ltd for supplying pumps to a development project in Rajasthan.
- The company derives roughly 45% of the Sales revenues through export sales is a testimony of the quality of the products and the company's commitment towards adhering to delivery schedules.
- Company has planned to start civil works on the expansion project by 2009-end and the project will be implemented in two years. Commercial production is expected by the end of 2011.
- We recommend a **"HOLD"** on the stock with a target price of Rs.73.00.

Industry Overview

The Pumps industry in India is more than seven decades old though it has a turnover of Rs 2500 crore the size is not even 7 per cent of the size of USA market. The more than 500 manufacturers of pumps in the country together produce more than 1.2 million pumps every year. The industry meets 95 per cent of the domestic demand. Indian pump industry is characterized by the coexistence of large number of SSI units, some large manufacturers like Kirloskar and plenty of foreign manufacturers. Most of the players in the unorganized sector cater to agriculture sector. The availability of subsidy, cheap or free power and decision made by individual farmers rather than consultants has helped the players in the unorganized sector push their products in agriculture sector.

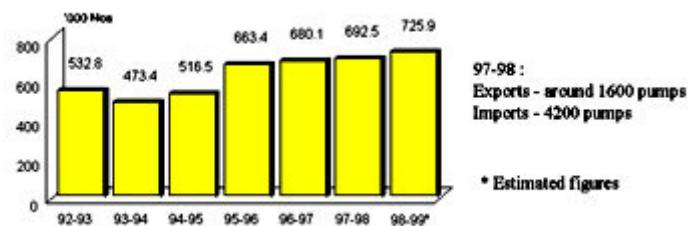
- Pumps can be classified based on rate of flow and total head; based on their use and application domestic & industrial and on displacement
- Around 40 - 45 types of pumps manufactured in India. Range extends from fractional horsepower designs to large pumps (3 MW)
- Investment in industry's infrastructure estimated at Rs. 70 crs.

Type of Pumps

☐ Reciprocating	☐ Ash pumps	☐ Metering pumps
☐ Centrifugal	☐ Jet pumps	☐ Multi stage pumps
☐ Screw	☐ End suction axial flow pumps	☐ Nonclog pumps
☐ Gear pumps	☐ End suction horizontal/ radial/ mixed flow pumps	☐ Proportionating pumps
☐ Process pumps	☐ End suction vertical/ radial/ mixed flow pumps	☐ Ring vacuum pumps
☐ Submersible pumps	☐ Horizontal split horizontal suction pumps	☐ Self printing pumps
☐ Boiler feed pumps	☐ Lobe pumps	☐ Slurry sewage/ sludge pumps
☐ Mono bloc pumps		☐ Vertical turbine pumps
☐ Vacuum pumps		☐ Diaphragm
☐ Vane pumps		

Market

Production



Industry Structure

- Fragmented market 450 manufacturers operating in India. Around 72 players are in the organised sector
- Unorganised sector accounts for 30% of aggregate production
- State-of-the-art manufacturing facilities and well established R&D centres equipped with computer aided design and application software
- Technologies available :
- European - KSB, Sulzer, Weir, Alstom, Stork, Godiva, Pleuger, ABS, Denver Orion, etc.
- Others - Worthington Dresser, Ingersoll Rand, Goulds, Durco, Ebara, Asia LMI, Warman, etc.
- Export to nearly 60 countries. However, presence in the global market insignificant
- Imports negligible- only as systems. Customs duty - 25%, Additional duty - 10%, Special additional duty - 4%

Structure

Players

- Organised sector manufacturers focusing on the industrial sector as process industry requires specialised pumps which are technology intensive.
- This sector has very few large players. Some major players - Kirloskar Brothers Ltd. (KBL - Rs. 340 crs.), KSB Pumps (Rs. 203 crs.), Bharat Heavy Electricals Ltd. (Rs. 90 crs.), Sulzer, Philips
- Small scale players mainly restricted to the agricultural sector - water handling pumps; located mainly in Rajkot, Coimbatore.
- Most manufacturers have ISO 9001 certification

User segments

Common application areas

☐ Civil engineering works	☐ Sprinkler irrigation
☐ Dewatering	☐ Heat transfer liquids
☐ Excavation	☐ Fire fighting
☐ Chemical handling	☐ Air conditioning
☐ Petroleum products	☐ Drainage systems
☐ Water curing for building construction	☐ Storm water handling

- Agricultural sector a major user of pumps.
- Other sectors - onshore & offshore production of oil, natural gas, petroleum refining, petrochemicals, mining, ship building, marine, power generation, public water supply & sanitation and other process industries

- 40% of the pumps produced used in irrigation, rest for domestic and industrial purposes.

Market Characteristics

Market

- Indigenous requirements met domestically. Imports not high - only with special equipment, project basis.

Players

- Unorganised sector accounts for 30% of the production.
- Unorganised sector manufacturers located mainly in and around Rajkot and Coimbatore.

Products

- Local manufacturer presence mainly in lower capacity pumps.
- Specialised pumps, process pumps forte of large players.
- Further improvement of quality will result in higher acceptance in international markets.

Trade Network

- Distribution driven business. Most national level players operate through a distributor, dealer network. However, sales to projects, large customers direct.

Customer segments

- Cater to a wide range of customers and applications from water handling to viscous, corrosive fluid handling.
- Petrochemicals, Refineries, Chemicals major end user industries for high capacity pumps.
- Lower capacity pumps used mainly in agricultural and water handling applications

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