

Tijaria Polypipes Ltd.**September 27, 2011**

Price Band	: ₹60 per share
Minimum Bid Lot Size	: 100 Equity Shares
Maximum Bid Lot Size	: 3300 Equity Shares (for retail investor)
IPO opens during	: Sept. 27 – 29, 2011
Book Running Lead Manager	: Hem Securities Ltd.
To list on	: NSE & BSE
IPO Grading	: 2 / 5 (ICRA)
PE	: 11.3x (based on base price)*
Market Cap post-listing	: ₹141.75Cr or \$28.73mn
Market Cap of Free Float	: ₹60Cr or \$12.16mn

*Based on FY11 EPS

IPO of 10mn equity shares of ₹60each, aggregating to ₹60Cr or \$12.16mn (at the cap price).**Shareholding Pattern**

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	13626172	100.00%	13626172	57.67%
Public	0	0.00%	10000000	42.33%
Total	13626172	100.00%	23626172	100.00%

Executive Summary

- Tijaria Polypipes Ltd. (TPL) was incorporated as a partnership firm with the name “Tijaria Overseas Vinyl” in the year 2000 and was subsequently converted into a public limited company in July 2006 based at Jaipur. TPL is an ISO 9001:2000 certified and is into manufacturing of various kinds of high grade plastic based pipes under the brand name of “TIJARIA” and “VIKAS”.
- TPL is a winner of ‘NATIONAL AWARD-2008’ for Quality Production (Special Recognition Award) awarded by the Ministry of Micro, Small & Medium Enterprises, Govt. of India. TPL is also a recipient of ‘RASHTRIYA UDYOG RATNA AWARD’ in the Year 2010, by Center for Educational Development Research for excellence in their respective field.
- Indian plastic industry has made significant achievements in the country ever since it made a promising beginning with the start of production of polystyrene in 1957. The country has an estimated production capacity of 4500 thousand metric tons annually and 60% to 70% accounts for the production of polyethylene (PE) and polypropylene (PP).
- India with 4 Kg per capita consumption per year ranks eighth in the world against world average of 20 Kgs & developed nations above 100 Kgs. The industry demand is expected to touch 12.4mn tons by 2010-11, becoming third largest consumer after US and China. The polymer industry is growing at about 12-15% annually.
- The market is well represented by TPL in all segments and is participating in tenders and supplying the products to government enterprises like BSNL, etc. and in private sector to Reliance Communication in bulk and selling the products in the retail segment through more than 250 dealers spread across the country.

Our View

At the issue price, the company is valued at 11.8x of FY11 EPS a bit expensive of its industry average of 11.0x and would be further diluted post issue. The company requirement of fund (₹108Cr) is much higher than that of IPO size (₹60Cr) and the balance would be funded through loan from bank and internal accruals (₹40Cr+₹8Cr). Any delay in the proceeding for the funds may affects the company's future earnings thereby we recommend **not to subscribe** for the same.

Company Background

Tijaria Polypipes Ltd. (TPL) was incorporated as a partnership firm with the name "Tijaria Overseas Vinyl" in the year 2000. The company later on converted into a private limited company in July 2006 and was subsequently converted into a public limited company in July 2006. TPL is an ISO 9001:2000 Certified company based at Jaipur, manufacturing various kinds of high grade plastic based pipes viz HDPE, MDPE, LDPE, LLDPE, uPVC, PP-R Pipes and sprinkler systems under the brand name of "TIJARIA" and "VIKAS". The company through its vision of learning and constant innovation has become a premier name in the industrial, agricultural, infrastructure, domestic and telecommunication fields.

Promoters and Management

Mr. Alok Jain Tijaria is the Managing Director of TPL having 25 years of experience and in-depth knowledge in the business of plastic and related materials. He manages all the intricate techniques and subtle nuances of the business, holding administrative and financial portfolio of the company.

Mr. Vikas Jain Tijaria Executive Director (Marketing) of the company having an experience of around 9 years in sales and dealership network. He has been instrumental in firming up the existence of the various quality products of the company all over the country and sourcing negotiations from abroad.

Mr. Praveen Jain Tijaria Executive Director (Production) of TPL with 9 years of experience handles the production department and managing the day to day operations of the company.

Mr. Vineet Jain Tijaria Executive Director (Projects) of the company has an experience of 16 years in the manufacturing of plastic pipes industry and has been looking after the sales & marketing divisions of TPL.

Industry Overview

The Indian plastic industry has taken great strides. In the last few decades, the industry has grown to the status of a leading sector in the country with a sizable base. The material is gaining notable importance in different sphere of activity and the per capita consumption is increasing at a fast pace. Continuous advancements and developments in polymer technology, processing machineries, expertise, and cost effective manufacturing is fast replacing the typical Materials in different segments with plastics.

Indian plastic industry has made significant achievements in the country ever since it made a promising beginning with the start of production of polystyrene in 1957. The industry is growing at a rapid pace and the per capita consumption of plastics in the country has increased several times as compared to the earlier decade.

The chronology of production of polymers is summarized as under:

1957	•Polystyrene
1959	•LDPE
1961	•PVC
1968	•HDPE
1978	•Polypropylene

Currently, the Indian plastic industry is highly fragmented with an estimate of around 25,000 firms and over 400,000 employees. The top 100 players of Indian plastic industry account for just 20% of the industry turnover. Barring 10% to 15% of the firms that can be categorized as medium scale enterprises, most of the units operate on a small scale basis.

Strategies of Plastic Industry, India

The government of India is trying to set up the economic reforms to elevate and boost the plastic industry by joint venturing, foreign investments.

Present Characteristics of the Indian Plastic Industry:

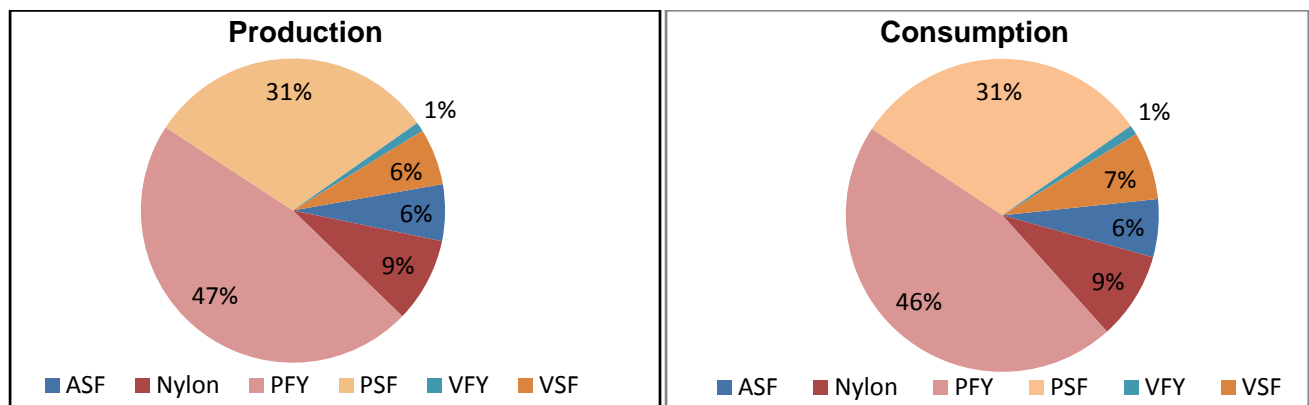
- The country has an estimated production capacity of 4500 thousand metric tons annually and 60% to 70% accounts for the production of polyethylene (PE) and polypropylene (PP).
- India with 4 Kg per capita consumption per year ranks eighth in the world against world average of 20 Kgs & developed nations above 100 Kgs.
- The industry demand is expected to touch 12.4mn tons by 2010-11, becoming third largest consumer after US and China.
- The polymer industry is growing at about 12%-15% annually.
- Buyers in the industry have very little bargaining power against the suppliers.

Demand – Supply Gap

The future fiber demand for different man-made fibers has been compared with existing capacities. The current level of existing capacities of all man-made fibres including Polyester Yarn would be insufficient to meet the future demand and hence they would require capacity additions by manufacturers.

Global Scenario

Globally, polyester is the most dominant man-made fibre, with a share of around 77% in total production and consumption of man-made fibres. It is followed by nylon, with a share of 9.4% and thereafter viscose, which constitutes roughly 7.7% share as depicted below:



Polyester accounted for a major share of 77% in the production and consumption of MMFs in 2007. This impressive performance of polyester can be attributed to a rapid increase in capacity of this fibre. Overall capacity of polyester has increased at a CAGR of 8% from 10,837 million kg in 1990 to 40,724 million kg in 2007. The period after the abolition of quotas witnessed a 70.6% increase in capacities of polyester to 36,376 million kg from 21,321 million kg in 2004. Among the varieties of polyester fibre, production of PFY increased by 14.4% y o y while that of PSF grew by 12.3% in 2007.

Future Forecast

The Indian plastic industry has the potential to continue its fast growth. However, over the next few years, competition in the industry is expected to increase considerably, as a result of global trends, which is applicable to the liberalizing economy of country. To survive the competition, both polymer manufacturers and processors will need to adopt radically new methods and approaches to reduce costs, improve market and customer service and management of performance.

Business Operations

Tijaria Polypipes Ltd. (TPL) is an ISO 9001:2000 certified company based at Jaipur. It is into manufacturing of various kinds of high grade plastic based pipes viz HDPE, MDPE, LDPE, LLDPE, uPVC, PP-R Pipes and Sprinkler systems under the brand name of "TIJARIA" and "VIKAS". TPL is a winner of 'NATIONAL AWARD-2008' for Quality Production (Special Recognition Award) awarded by the Ministry of Micro, Small & Medium Enterprises, Govt. of India. It is also a recipient of 'RASHTRIYA UDYOG RATNA AWARD' in the year 2010, by Center for Educational Development Research for excellence in their respective field. TPL through its vision of learning and constant innovation has become a premier name in the industrial, agricultural, infrastructure, domestic and telecommunication fields.

The company has presently installed 3 Kolsite Twin Screw Extruders using German Battenfield Techniques for production for different specifications for PVC Pipes Division and 8 Single Screw HDPE Pipes Plant for its HDPE Division manufacturing products of various specifications. Besides, TPL has also installed the Corrugated Pipe Extrusion Line and Injection Moulding Machines. These lines are duly supported by Chiller Plants, Compressors, Cooling Towers, D.G. Sets, UPS Power Back-up and Lab Equipments for rigorous and strict quality control checks. TPL also has Pet Bottle Washing Line and Reciprocating, Kneading & Extruding System at Unit – II located at F-532, Road No. 6-D, VKI Area, Jaipur. Presently, the company is manufacturing an array of plastic pipes and has an installed capacity of 20664 MTPA (million tonnes per annum) for HDPE Pipes, 7392 MTPA for PVC Pipes, 3600 MTPA for Pet Flakes and 3600 MTPA for Pet Granules. TPL had produced 8197 MT for HDPE Pipe, 3090 MT for PVC Pipe, 336 MT for Pet Flakes production in FY11.

The market is well represented by TPL in all segments and is participating in tenders and supplying the products to government enterprises like BSNL, etc. and in private sector to Reliance Communication in bulk and selling the products in the retail segment through more than 250 dealers spread across the country.

Strengths

- **Existing clients relationship**

TPL is participating in tenders and supplying the products to government enterprises like BSNL, etc. and in private sector to Reliance Communication in bulk and selling the products in the retail segment through more than 250 dealers spread in 7 states in the country. The company has its branch offices at Mumbai, Ahmedabad, Hyderabad, Lucknow and Indore and some pilot offices on card, hence the ambit and scope of the company and its products is amplified.

- **Major customers**

TPL has major customers like Bhumi Mercantile (p) Ltd, Gammon India Ltd, Bharat Sanchar Nigam Limited, Larsen & Toubro; Mahindra World City (Jaipur) Ltd who contributed around 70% of total sales turnover for the financial year ended March 31, 2010.

- **Diversified product mix**

The company has a product mix to cater to the increasing requirements of customers and product offerings include HDPE pipes, PVC pipes, LLDPE pipes, HDPE DWC pipes, PLB HDPE Ducts, MDPE pipes, uPVC RIGID & BLUE CASING pipes, Pet Granules, MICRO/DRIP Irrigation System, SWR PIPES & FITTINGS, PPR Pipes & Fittings, HDPE Sprinkler System. These products are used in irrigation, telecommunication, industrial, and infrastructure and housing sector.

- **Diversification of Business Operations**

TPL now proposes to diversify their business activities into Zippers and Zipper Tapes and manufacturing the raw materials required for the same, viz., Partially Oriented Yarn (POY) and Monofilament, all under one roof, yielding the benefits of in house facilities, cost effectiveness and time saving.

- **Expand customer base with increase geographical reach**

TPL plans to increase customer base in the existing domestic markets as well as international markets by enhancing customer satisfaction and by timely delivery of orders. It's also plans to expand business to new geographic locations with the help of marketing team.

Objects of the Issue

The objects of the issue are:

- Implementation of the Company's Expansion cum Diversification Project.
- Meeting Preliminary and Capital Issue expenses.
- Meeting Pre Operative expenses.
- Provision for Contingencies.
- Provide Working Capital Margin.

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- Any sharp rise in the raw material price will lead to sharp rise in total expenditure as its constitutes 84% of the cost or any disruption in their supplies may adversely affect the business operations and consequently financials of the company
- The Company has been assigned LBBB- rating for its term loans and fund based facilities by ICRA vide its August, 2010 Credit Ratings Report which inter-alia includes various credit concerns with regard to existing businesses of the company. Considering the magnitude of the proposed expansion-cum-diversification project which is very large in relation to the company's current size of operations and could be exposed to various execution related risks and consequently may have an adverse impact on the business operations and financial condition of the Company.
- The Company so far has placed orders for Plant & Machinery worth ₹20.7Cr under its expansion cum diversification project. Any delay in procurement of balance plant and machinery, equipments etc may delay the implementation schedule which may also lead to increase in prices of these equipments thus adversely affecting costs, revenues and profitability.
- The Company has high working capital requirements. In case of any insufficiency of cash flow to meet the working capital requirements or pay the short term debt obligations, there may be adverse effect on the results of the company's operations.
- The expansion of the proposed project is to be funded from the proceeds of this IPO and internal accruals. Any shortfall in the Issue proceeds may delay the implementation schedule. Therefore the company cannot assure that it would be able to execute the expansion project within the given time frame, or within the costs as originally estimated. Any time overrun or cost overrun may adversely affect the company's growth plans, revenues and profitability.

Restated Profit & Loss Statements

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11
Net Sales	30.99	47.54	87.52	110.35	118.60
Increase / (Decrease) in Inventories	1.45	3.00	-2.86	6.26	-2.12
Total	32.44	50.55	84.67	116.61	116.48
Total Expenditure	30.59	46.70	76.72	103.62	103.23
Raw material cost	24.97	35.66	59.30	90.48	86.89
Manufacturing Cost	4.55	7.89	11.66	6.19	9.21
Administration Cost	0.47	0.75	1.20	1.29	1.28
Employees Cost	0.25	0.61	1.30	1.64	1.67
Selling & Distribution Cost	0.35	1.79	3.26	4.03	4.17
Gross Profit	1.84	3.85	7.94	12.99	13.24
Other Income	0.37	0.31	0.88	0.69	0.69
EBIDTA	2.22	4.15	8.83	13.68	13.93
Depreciation	0.28	0.64	1.06	1.12	1.07
Interest	0.76	1.10	3.33	2.23	2.48
EBT before Extra Items	1.17	2.42	4.43	10.33	10.39
Current Tax	0.36	0.68	1.34	3.73	3.49
Fringe Benefit Tax	0.01	0.02	0.03	0.00	0.00
Deferred Tax Liability/(Asset)	0.09	0.27	-0.19	-0.14	-0.01
Profit After Tax	0.72	1.45	3.25	6.74	6.90
Prior period items	0.00	0.08	0.00	0.01	0.00
Net Profit	0.72	1.37	3.25	6.73	6.90
No of Shares	0.20	0.41	0.82	0.82	1.36
EPS	3.54	3.54	3.96	8.21	5.07
Price	60	60	60	60	60
PE	16.95	16.96	15.15	7.31	11.84

KEYNOTE

Restated Balance Sheets

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11
Gross Block	3.99	6.81	9.51	10.57	23.88
Less: Accumulated Depreciation	0.61	0.90	1.78	2.87	3.72
Net Block	3.39	5.91	7.73	7.70	20.17
Add: Capital Work in Progress	0.00	1.15	1.04	3.00	12.77
Total Fixed Assets (A)	3.39	7.06	8.77	10.69	32.94
Investments(B)	0.00	0.01	0.01	0.00	0.00
Inventories	3.08	9.80	6.85	10.84	8.58
Sundry Debtors	8.20	12.58	22.00	28.71	32.45
Cash & Bank Balances	1.40	1.77	2.16	2.50	3.08
Other Current assets, Loans & Advances	1.22	3.71	2.89	2.72	8.35
Total (C)	13.91	27.86	33.90	44.77	52.46
Liabilities & Provisions:					
Secured Loans	4.83	11.27	13.43	13.64	30.68
Unsecured Loans	0.02	0.01	0.53	0.00	1.74
Current Liabilities & Provisions	9.55	7.35	10.83	18.79	17.20
Total (D)	14.40	18.62	24.79	32.43	49.62
Deferred Tax Liability (E)	0.09	0.35	0.17	0.03	0.02
NetWorth (A+B+C-D-E):	2.81	15.94	17.71	23.00	35.76
Represented by:					
1) Share Capital	2.04	4.11	8.21	8.21	13.63
2) Reserves & Surplus	0.81	11.87	9.54	14.81	22.51
3) Less: Miscellaneous Expenses not w/off	0.03	0.03	0.04	0.02	0.38
Net Worth (1+2-3)	2.81	15.94	17.71	23.00	35.76

Keynote Capitals Ltd.

Member

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