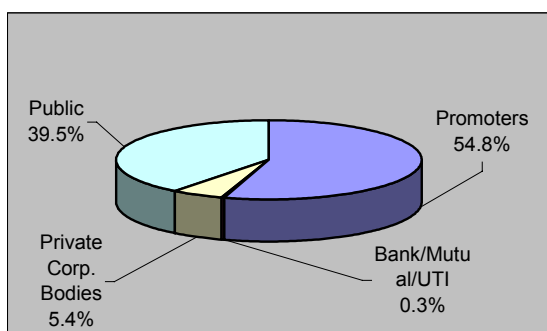


Stock Statistics		5 June 2003
Market cap (Rs Mn)	:	281.58
52-week high/low (Rs)	:	68/20
Avg. daily volume (shares)	:	40000
Face value (Rs)	:	10
BSE Sensex	:	3303.24
Nifty	:	1046.40
BSE code	:	500147
Reuters code	:	FLAT.BO
Bloomberg code	:	FPE IN
Industry	:	Engineering

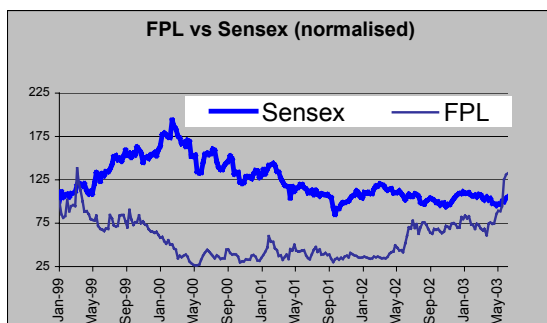
### A Value Pick

- FPL, engaged in the design and implementation of turnkey projects for cold rolling mills, galvanising lines and colour coating lines, is a leading player in the domestic market. Tisco, Bhushan Steel and Jindal Steel are some of its domestic clients.
- FPL's focus on exports has been fruitful. The company has received significant export orders for cold roll mills, galvanising lines and colour coating lines. FPL exports to countries like Japan, Mexico, China, Indonesia and Iran, to name a few. Export contribution to total sales improved from 47% in FY99 to 69.8% in FY03.
- Revival in the steel industry has led to increased demand for expansion of cold rolling mill and galvanising lines' capacities, especially in the international market. In the domestic markets, FPL continues to be the lead player.
- FPL has a huge order book position, primarily from the export market. The company's order book position stands at Rs5.56bn, of which export orders contribute Rs3.84bn (70% of the total order size).
- We expect FPL to report the highest-ever sales and net profit in its history primarily driven by the huge order backlog. We expect the company to report sales and net profit of Rs3.80bn and Rs165mn, respectively. At the current price, the stock is trading at 2x FY04E earnings. Historically, the stock has been trading in the range of 1.8-2.5x. However, we expect a strong case of re-rating. We recommend a **Strong Buy**, with a one-year price target of Rs130.

### Shareholding Pattern (as on 31 March'03)



### Flat Products V/s Sensex



Year (March)	Rs Million					
	Gross Sales	PAT	EPS (Rs)	PE (x)	RoCE (%)	RoNW (%)
2001	1275	60	12.2	5.4	14.3	12.7
2002	1302	47	9.5	6.9	9.9	9.1
2003	1794	68	13.8	4.8	11.7	12.1
2004E	3800	165	33.4	2.0	21.3	25.4

Source: Company Reports and Karvy Estimates

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## **Background**

Flat Products Equipments (I) Limited (FPL) is engaged in designing and implementation of turnkey projects of cold rolling mills, galvanizing lines, pickling lines and colour coating lines. FPL basically caters to the steel industry whereby it undertakes greenfield projects and expansion and modernisation of cold rolling mills. FPL has manufacturing facilities at Taloja, Bhandup and Silvassa. The company has collaborations with T Sendzimir Inc., USA for cold rolling mills; Achenbach Buschutten GmbH., Germany, for aluminum strip and foil mills; Bliss-Slaem Inc., USA for 4 hi-CR mills for mild steel. The company has entered into technical collaboration with Durmech Engineering, UK, for the manufacture of paint coating lines.

FPL is promoted by Tilak Raj Mehta, a gold medallist in Metallurgy. Flat Products Equipment (I) Pvt Limited was incorporated in 1986 and later went public in 1993 followed by a rights issue in 1994. FPL has grown its turnover from Rs629.4mn in FY95 to Rs1.79bn in FY03. Since the domestic steel market reeled under a serious downtrend and not many projects started, the company began exploring the overseas markets very aggressively.

## **Investment Case**

### **Positives**

#### **A multi-product company**

FPL has, over the years, grown into a multi-product, design, manufacturing and contracting company. It started off with the manufacture of cold rolling mills but its domain expertise also includes galvanising mills, aluminum strip and foil mills, temper pass mills and colour coating mills. In addition to building new equipment, FPL also undertakes complete revamping and modernisation of older mill equipment.

#### **Leader in the domestic market**

FPL does not face any competition in the domestic market. In the international market its competitors include Hitachi and Kawasaki. However, FPL is cheaper by 20-25% compared to its international competitors. The company has a good understanding of customer needs, project assembling and manufacture of custom-built machinery.

#### **Surging demand from steel sector**

Revival in the steel industry has seen demand for cold rolling mills, especially in the Chinese market where a number of steel producers have undertaken modernisation and upgradation of their facilities. With the steel prices looking up, a number of steel producers are looking at capacity expansion. This offers a great opportunity for FPL.

#### **Key projects in the domestic market**

In the domestic market too, a number of players are increasing their capacity. Tisco set up a 1-mn tonne capacity CRM recently. FPL had undertaken the Rs320mn project for Tisco's CGL-1. Bhushan Steel has also undertaken expansion of its cold rolled and galvanised steel mills at its Khopoli plant. FPL has received an order from Bhushan Steel for its Khopoli project, worth Rs887mn. The project includes setting up of 6 hi mills, colour coating lines and heat to coat galvanise lines

#### **Growing exports' contribution**

Following a slowdown in domestic demand, FPL started focusing on exports FY01 onwards. **Export contribution to sales has increased from 47% in FY99 to 70% in FY03.** FPL has been exporting to countries like China, Malaysia, Iran, Germany, Japan, Bangladesh, Nepal and Taiwan. Going forward, we believe that exports will be the main growth driver for FCL.

### Strong order book position

FPL has a strong order book position of Rs5.56bn to be executed in the next eighteen months (domestic as well as exports). Of the total order book, Rs3.84bn is from the export market and Rs1.72bn from the domestic market. In the export market, it has received an order of Rs1.75bn from Union Steel, China, for two galvanising lines, colour coating line and temper mill. FPL also has orders in hand from Iran, Malaysia and Taiwan. In the domestic market, FPL has received an order from Bhushan Steel for its Khopoli project, worth Rs887mn. The project includes setting up of 6 hi mills, colour coating lines and heat to coat galvanise lines.

### Technical Expertise

FPL has a strong team of around 100 engineers that undertakes designing of the projects. Over the years, FPL has been expanding the strength of its designing team to match international standards. We believe, being an engineering company, FPL has focused on technical expertise in its industry.

### Key Concerns

FPL future growth is highly co-related to the capacity expansion in the steel sector. Though, currently there is some capacity expansions, modernisation and upgradation taking place in the steel sector, we believe, it may not be sustainable after two years. This may impact FPL FY05 onwards.

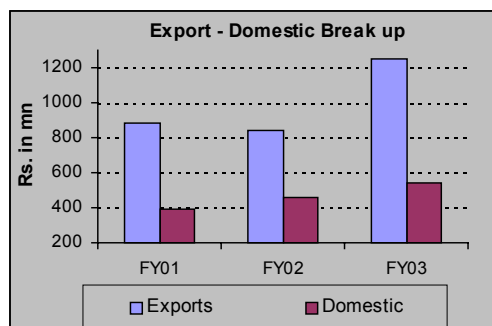
### Financials

FPL has been showing consistent performance in turnover, over the last three years. For FY03, FPL has reported a robust topline growth of 35.9% on the back of healthy orders. This robust growth was more so in Q4FY03 when the company reported a sales growth of 43.7% to Rs917.4mn as against Rs638.2mn in Q4FY02. We expect FPL to clock a sales growth of 112% in FY04 to Rs3.8bn. We believe that this surge in sales growth would primarily come from the company's strong order book position.

FPL's project driven business tends to have very low operating margins. FPL's operating margins were 6.4% in FY03. In future, OPM levels are expected to remain in the 6.5-7% range. In FY04 however, FPL's its operating profit is expected to grow by 123% (Rs258mn) driven by good topline growth.

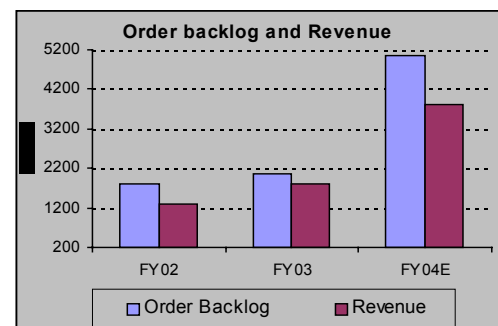
Exports have been the thrust area for FPL. Since a loss in FY00, the company changed its strategy to focus more on the export market. Exports grew sharply in FY03, registering a growth of 49.1% to Rs1.25bn. With export order position of Rs3.84bn, we expect export growth to be buoyant in FY04 too.

**Exhibit1: Exports/Domestic Breakup**



Source: Company and Karvy Estimates

**Exhibit2: Order Backlog & Revenue**



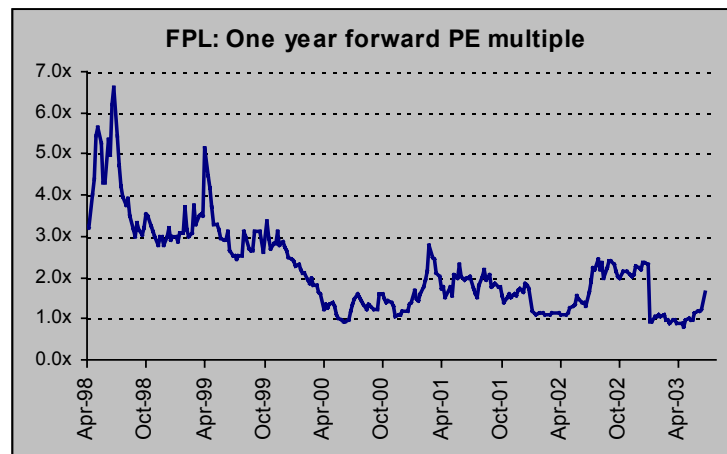
\* Order backlog as on 31 March

FPL working capital requirement is quite high. The company needs to keep a high level of inventory of spare parts required in the projects. *FPL's working capital loans are also expected to increase in FY04 due to surge in turnover.*

*We expect FPL to report sales of Rs3.8bn in FY04, as compared to Rs1.79bn in FY03, i.e., a growth of 111.8%!!* Such strong growth is expected on the back of strong order book of Rs5.56bn (Rs5.04bn as on 31 March 2003). Traditionally, 72-85% of the order book gets converted into revenues in the next year. We have assumed 75% of the order book (as on 31 March 2003) to get converted into turnover in FY04. We expect the company's net profit to grow from Rs68mn in FY03 to Rs165mn in FY04. We expect the EPS for FY04 to be Rs33.4 as compared to Rs13.7 in FY03.

FPL had a payout ratio of 26% in FY02. The company expects to maintain this payout ratio in the future as well. We expect FPL to pay dividends of Rs6-7 per share in FY04 based on our EPS estimate of Rs33.4. *Dividends of FY03 and FY04 should total up to around Rs10-11, which itself gives back returns of 17.2% at current levels.*

### **Exhibit 3: One year Forward PE Multiple**



### **Valuation**

Traditionally, the stock has been trading in the range of 1.8-2.5x forward earnings. At the current price, the stock trades at 2.0x FY04E earnings. We expect the company to register its highest Net sales and Net profit in FY04 that too on a higher base of FY03. This is commendable and one needs to factor this in the valuations. *On the back of such extraordinary growth prospects, we expect the stock to get re-rated.* We believe that the FPL stock would trade at least at 4-5x forward earnings. Our price target, based on 4x forward earnings, is Rs130. We recommend a **Strong BUY**.

**Profit & Loss Account**

Rs Million

	FY00	FY01	FY02	FY03	FY04E
Gross sales	944.7	1275.2	1302.2	1794.1	3800.0
Excise	98.3	45.8	29.7	65.4	144.4
Net sales	846.4	1229.4	1272.5	1728.7	3655.6
Growth (%)		45.2	3.5	35.8	111.5
Expense	885.8	1092.2	1175.2	1613.2	3397.2
Operating Profit	-39.4	137.2	97.3	115.5	258.4
Other income	68.9	2.7	14.2	18.5	21.0
Depreciation	31.7	26.2	27.0	24.5	30.4
PBIT	-2.2	113.7	84.5	109.5	249.0
Interest	44.0	51.0	34.7	34.4	65.6
PBT	-46.2	62.7	49.8	75.1	183.4
Tax	0.0	2.5	2.9	7.1	18.3
<b>PAT</b>	<b>-46.2</b>	<b>60.2</b>	<b>46.9</b>	<b>68.0</b>	<b>165.0</b>
EPS (Rs)		12.2	9.5	13.8	33.4
% chng			-22.2	45.2	142.0

**Balance Sheet**

Rs Million

Year End March	FY00	FY01	FY02	FY03	FY04E
Equity Capital	49.4	49.4	49.4	49.4	49.4
Reserve & Surplus	400.4	448.1	486.9	540.6	659.4
Net Worth	449.8	497.5	536.3	590.0	708.8
Loans	312.6	335.0	334.2	415.3	625.0
<b>Total Liability</b>	<b>762.4</b>	<b>832.5</b>	<b>870.5</b>	<b>1005.3</b>	<b>1333.8</b>
Gross Block	399.9	431.1	438.2	454.1	510.0
Acc. Depreciation	170.8	196.9	222.7	247.2	277.6
Net Block	229.1	234.2	215.5	206.9	232.4
CWIP	15.2	15.9	16.5	40.2	30.0
Investment	5.1	5.1	5.1	5.1	5.1
Current Asset:					
Inventory	424.9	324.8	522.3	461.6	1051.1
Debtors	243.7	511.3	283.9	652.8	937.0
Cash	13.4	69.3	106.0	271.0	331.0
Loans and other Current Asset	147.9	182.8	252.1	301.4	339.6
Current Liability	291.4	469.3	513.6	908.7	1530.0
Provisions	25.5	41.6	17.3	25.0	62.3
<b>Total Asset</b>	<b>762.4</b>	<b>832.5</b>	<b>870.5</b>	<b>1005.3</b>	<b>1333.9</b>

**Key Ratios**

	FY00	FY01	FY02	FY03	FY04E
OPM (%)		10.8	7.5	6.4	6.8
Avg. RoCE (%)		14.3%	9.9%	11.7%	21.3%
Avg. RoNW (%)		12.7%	9.0%	12.0%	25.4%
Inventory Days	183	96	150	97	105
Debtors Days	94	146	80	133	90
EV/EBITDA		4.0	5.2	3.7	2.2
EV/Sales	0.6	0.4	0.4	0.2	0.2
Asset Turnover	0.4	0.3	0.3	0.3	0.1
Debt Equity (x)	0.7	0.7	0.6	0.7	0.9
PE (x)		5.4	6.9	4.8	2.0
P/CEPS		0.7	0.8	0.6	0.3
P/BV (Rs)	0.6	0.6	0.5	0.5	0.4

**Stock Ratings Absolute Returns**

Buy : > 25%  
Out Performer : 16 - 25%  
Market Performer : 0 - 15%  
Under Performer : < 0%

**Karvy Stock Broking Limited**

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