

Innoventive Industries

SECTOR: AUTO ANCILLARY



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Issue Snapshot

Issue Open	26-Apr-11
Issue Close	29-Apr-11
Price Band (INR)	117 - 120
Issue Size (INR Mn)	2,195.8
Market Cap (INR Mn)	7,000.1 - 7,123.3

	@ INR 117	@ INR 120
Issue Size (Shares)	18,767,522	18,298,334
Employee Reservation Portion	1,500,000	1,500,000
QIB	8,633,761	8,399,167
Non-Institutional	2,590,128	2,519,750
Retail	6,043,633	5,879,417
Face Value (INR)		10.0
Book Value as of 9MFY11 (INR)		36.2

Equity Capital

Pre Issue (INR Mn)	410.6
Post Issue @117 (INR Mn)	598.3
Post Issue @120 (INR Mn)	593.6

Shareholding Pattern	Pre Issue (%)	Post issue (%) @ INR 117	Post issue (%) @ INR 120
Promoter Group	65.6%	45.0%	45.4%
Public	34.4%	55.0%	54.6%
Total	100%	100%	100%
Total Shares	41,062,349	59,829,871	59,360,683

Objects of the Issue

Sr. No.	Particulars	INR Mn
1	Capacity Expansion	1,630.6
2	Repayment of Term Loans	500.0
3	General Corporate Purposes	[•]
	Total	[•]

Innoventive industries is engaged in manufacturing of Electric Resistance Welded and Cold Drawn Electric Welded Tubes. The company has its manufacturing plants located at Pune and Silvassa. Innoventive through its subsidiaries also manufactures tubings, machined components, ready to assemble parts, couplings, pup joints, etc. and supplies to transport equipment, oil & gas and farm equipment sectors.

Investment Summary

Precision tubes market to grow at a CAGR of 16.8%

As per the Frost & Sullivan report, the overall precision tubes market in volume terms is expected to grow at a CAGR of 10.7% to reach 800,213mt by FY15. During the same period ERW, CEW and seamless tubes segments are expected to grow at a CAGR of 9.9%, 14.2% and 9.3% respectively.

Expanding CEW tubes facility

Innoventive in order to cash in on the burgeoning demand in the precision tubes pipe industry is currently expanding its CEW tubes facility at Pimple Jagtap, Pune taking the total capacity to 76,701tpa from the current 23,265tpa by FY13. The total capital outlay is earmarked at INR 1,630.6mn.

Diversified End Users

The company caters to diversified industries such as transportation, oil & gas, power and farm equipments. With transport equipments forming 49.3% of the total share, Innoventive is well poised to take advantage of rapid growth of the Indian automobile and auto component sector which grew by 27.4% last fiscal.

Oil & gas industry is another major user industry for Innoventive contributing 12.0% to the total revenues. The recent NELP rounds and rising crude prices make investments favourable in the E&P activities which will further boost the demand for pipes and tubes used in critical applications.

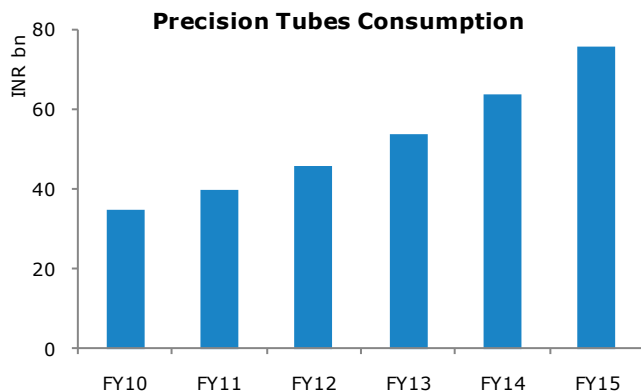
Valuation

At the upper band of INR 120, the stock is available at a P/E multiple of 12.8x based on 9MFY11 annualized post issue EPS of INR 9.4. As compared to its peers, the issue seems fairly priced. Threefold capacity rise in the CEW tubes aided by growth in user industries and better margins will catapult the revenue growth FY13 onwards. We recommend '**Subscribe**' to the offer.

Investment Rationale

Precision tubes market to grow at a CAGR of 16.8%

As per the Frost & Sullivan report, in terms of revenues, the precision tubes market in India is expected to grow at a CAGR of 16.8% till FY15 to INR 75.9bn from INR 34.9bn in FY10. The overall precision tubes market in volume terms is expected to grow at a CAGR of 10.7% to reach 800,213mt by FY15. During the same period ERW, CEW and seamless tubes segments are expected to grow at a CAGR of 9.9%, 14.2% and 9.3% respectively.



Expanding CEW tubes facility

Innoventive in order to cash in on the burgeoning demand in the precision tubes pipe industry is currently expanding its CEW tubes facility at Pimple Jagtap, Pune taking the total capacity to 28,785tpa from the current 23,265tpa. The company further plans to expand this to 76,701tpa by FY13 at a cost of INR 1,630.6mn.

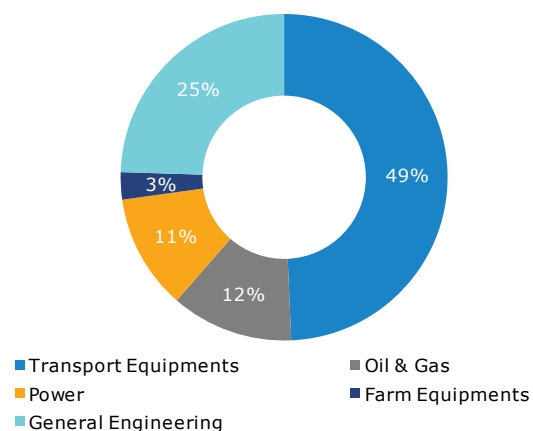
Innoventive's new plant at Pimple Jagtap has been awarded the 'Mega Project' status by the state government, which will enable the plant to enjoy benefits like electricity duty exemption till Nov-2015, 100% exemption from stamp duty.

Marquee Clientele

The company boasts of a marquee clientele such as Bajaj Auto, BHEL, Salem Steel North America, Thermax, et al. Bajaj Auto is the top customer of Innoventive as it contributes over 20% to the total revenues. The top 5 and the top 10 customers contribute 39.4% and 49.8% respectively to the total revenues.

Diversified End Users

The company caters to diversified industries such as transportation, oil & gas, power and farm equipments. The company has been able to bring down its dependence on transportation industry from 62.5% in FY09 to 49.3% in 9MFY11.



Automobile and auto components industry has been growing at a rapid pace. As per SIAM, the overall vehicle sales grew by 27.4% in FY11 to 17.9mn units. With transport equipments forming 49.3% of the total share, Innoventive is well poised to take advantage of this growth.

Oil & gas industry is another major user industry for Innoventive. The recent NELP rounds and rising crude prices make investments favourable in the E&P activities which will further boost the demand for pipes and tubes used in critical applications.

Company Background

Innoventive is engaged in the manufacturing of precision tubes, tubular components, machined components and other steel products which find applications in sectors such as transportation, oil & gas and farm equipments. The company has six manufacturing facilities located in Pune and Silvassa. Innoventive currently has a production capacity of 64,800tpa and 23,265tpa to manufacture ERW and CEW tubes respectively. The company's key subsidiary include Sankalp Forgings, Saicon Steel and Arihant Steel which are engaged in manufacturing ready to assemble parts like machine tubing, couplings, pup joints, etc, laminates, stampings and steel wires.

Financials

Income Statement (INR mn)	FY09	FY10	9MFY11
Total Income	3,619.6	4,214.8	4,531.7
Raw Materials Consumed	2,324.1	2,284.3	2,601.8
Staff Cost	153.0	215.0	174.3
Other Manufacturing Expenses	309.8	354.7	347.2
Selling & Admin Expenses	222.6	246.2	217.1
Total Expenditure	3,009.5	3,100.2	3,340.3
EBITDA	610.1	1,114.6	1,191.4
<i>EBITDA Margin</i>	<i>16.9%</i>	<i>26.4%</i>	<i>26.3%</i>
Other Income	91.4	36.8	38.5
Depreciation	116.1	163.2	164.9
Financial Charges	353.0	560.2	532.8
PBT	232.5	428.0	532.1
Tax	77.2	76.9	114.1
PAT	155.3	351.1	418.0
<i>PAT Margin</i>	<i>4.3%</i>	<i>8.3%</i>	<i>9.2%</i>

Balance Sheet (INR mn)	FY09	FY10	9MFY11
Share Capital	50.0	50.0	384.6
Reserves & Surplus	377.8	721.3	1,102.7
Net Worth	427.9	771.3	1,487.4
Secured Loans	2,806.5	2,796.7	2,942.3
Unsecured Loans	350.8	468.5	617.7
Def. Tax Liabilities & Minority Int.	249.9	329.2	450.0
Total Liabilities	3,835.0	4,365.6	5,497.4
Net Block	2,004.3	2,992.7	3,197.0
CWIP	944.5	445.0	539.9
Less: Revaluation Reserve	(6.6)	(6.6)	(6.6)
Total Fixed Assets	2,942.2	3,431.2	3,730.3
Goodwill on Consolidation	67.1	67.1	67.1
Investments	0.7	0.7	0.7
Current Assets	2,305.7	2,598.4	4,038.4
Current Liabilities	(1,480.8)	(1,731.8)	(2,339.2)
Total Assets	3,835.0	4,365.6	5,497.4

Cash Flow Statement (INR mn)	FY09	FY10	9MFY11
Cash flow from Operating Activities	646.2	608.5	577.4
Cash flow from Investing Activities	(1,429.1)	(652.0)	(461.3)
Cash flow from Financing Activities	881.4	(452.3)	112.7
Net Changes in Cash	98.4	(495.8)	228.8
Opening Cash	576.8	675.2	179.4
Closing Cash	675.2	179.4	408.2

Key Ratios	FY09	FY10	9MFY11
D/E Ratio (x)	7.4	4.2	2.4
EPS (INR)	31.1	70.2	10.2
P/E @ 120 (x)	3.9	1.7	11.8
BVPS (INR)	85.6	154.3	36.2
P/BV @ 120 (x)	1.4	0.8	3.3
RoE	36.3%	45.5%	28.1%

Company	CMP (INR)	Sales (INR mn)	EBITDA (%)	EPS (INR)	PE (x)	BVPS (INR)	P/BV (x)	M-Cap (INR mn)
Innoventive @117	117.0	6,042.3	26.3	9.3	12.6	63.9	1.8	7,000.1
Innoventive @120	120.0	6,042.3	26.3	9.4	12.8	65.3	1.8	7,123.3
Tube Investments	143.3	31,011.8	29.3*	6.1	23.6	43.3	3.3	26,612.9
Lumax Auto Technologies	150.6	4,169.3	8.5	19.7	7.6	59.9	2.5	2,052.2
Gandhi Special Tubes	107.3	776.8	49.5	17.2	6.2	69.1	1.6	1,577.2

Innoventive EPS is calculated using annualized 9MFY11 earnings and post issue equity shares.
 *Tube Investments EBITDA margins of tubes division

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Disclosure of Interest Statement

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

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