



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

ROTO PUMPS LTD	BSE CODE: 517500
Industry: Compressors / Pumps	CMP: Rs. 105 (05/08/2012)
Market Cap: 324.53 (Millions)	Target Price: Rs. 220
Date: August 05, 2012	Time Period: 18 – 24 months



Saral Gyan Capital Services

www.saralgyan.in

An Independent Equity Research Firm

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1. Company Background



Roto Pumps is an engineering company with global focus. With presence in over 40 countries, company aims to provide localized solutions in application engineering, deliveries and sales support.

As a positive displacement pump manufacturer, company continuously endeavors to increase our pump basket to cater to wide spectrum of industries and applications. Roto Pumps basket consists of Progressive Cavity Pumps, Twin Screw Pumps, Dosing Pumps, Food Pumps and General Purpose Pumps.

Company greatest asset is the application expertise gained in the last 40 years in providing fluid engineering solutions to thousands of customers worldwide.

Company's manufacturing infrastructure spans over 20000 sq. meters and is equipped with machine tools like CNC and other SPMs. The units are certified with ISO 9001-2000 quality surveillance systems and it has the coveted ATEX certification. One of the focus area of company's manufacturing is the Research and Development. This facility is equipped with state-of-the-art testing equipment, captive machine shop and design centre.

Infrastructure

Roto Pumps has strong roots in manufacturing engineering and has over the years been able to develop efficient manufacturing processes both in the field of metal cutting and rubber processing. Spread over a combined factory area of 20,000 sq. meters, these units are equipped with sophisticated machine tools like CNC and other SPMs. These are also geared up with modern testing facilities including water and oil test bed with sophisticated data.

The continuous investments in precision instruments in in-house manufacturing facilities for critical components ensure 100% control over quality and customer satisfaction. Roto Pumps manufacturing units are certified for conformance with the ISO 9001-2008 quality surveillance systems. We are also in the process of acquiring ISO 14001 and OHSAS 18001 (Occupation, Health, Safety & Environment) certifications.



Corporate Office & Export Warehouse



Roto Manufacturing Plant

Research and Development

Roto Pumps Research and Development facility is the concrete realization of its philosophy of providing cost effective fluid engineering solutions. It translates concepts into prototypes and prototypes into final product. Our Research & Development team was also instrumental in helping the company to get its product accredited to ATEX certification.



This facility is equipped with state-of-the-art testing equipment, a captive machine shop and design centre. The design centre is equipped with 3D designing software (solid works) and also deploys advanced software for flow analysis, mechanical strength and cost optimization. Staffed with highly qualified and experienced professionals, the Roto Pumps R&D centre is playing a critical role in helping the company maintaining its leadership by continuously upgrading the technology as well as expanding the product range.



Management

Founder – Mr. Ram Ratan Gupta

Mr. Gupta created history in 1968 by inventing a unique manufacturing process for machining the intricate profile rotor, which is the heart of progressive cavity pump. This technological innovation gave birth to Roto Pumps...



Mr. Gupta strongly believed in "in-house" development of products and manufacturing technology as opposed to importing technology. This philosophy translated into continuous investment in Research and Development as well as in manufacturing infrastructure, enabling Roto Pumps to produce quality products at a competitive cost.

Message from the Chairman – Mr. Harish Chandra Gupta

Ours is the journey of an enterprise, which pioneered manufacture of progressive cavity pumps in India in the late 70's to a global player who is now counted amongst the top ten.



Since our inception, we have not only made continuous investments in product development and built a strong manufacturing infrastructure but also focused on developing skills in application engineering, vital to ensure superior performance and customer satisfaction.

The last decade saw Roto Pumps strengthening its overseas presence by setting up regional offices and warehousing facilities in Australia and United Kingdom and additionally, expanding distribution network in other markets.

Our continuous focus on technological upgradation would enable us to continue to offer state-of-the-art products and services with a competitive edge.

Product Range

Industrial Pump



Roto Xtra Value Progressive Cavity pumps are of heavy duty construction and are designed to pump 'tough – to – handle' fluids with ease. These pumps are used in many areas of Industry. The construction of these pumps is based on the modular concepts and incorporate next generation pumping elements (molded to metal) stator, solid shaft and double sealed Cardan Universal Joints for improved performance and longer service life.

These pumps are available in bare shaft and close coupled configuration. 6 and 8 stages in select sizes. A variety of material of construction, shaft sealing options are also available.

Food Pump



These pumps are designed for handling food applications. All metallic parts in contact with the medium being handled are fabricated in smooth finish stainless steel. These pumps are provided with metal bonded aseptic food grade elastomeric stator resistant to oil & fats. These pumps are standard with closed universal joints enabling it to handle fluids which are poor lubricants like aerated or dematerialized water as well as lubricating type applications.

Available in close coupled and bare shaft configuration. Sealing is by Hygienic quality packed gland or Mechanical Seal. These pumps are also available with CIP port configuration. For high viscous and difficult to flow liquids these pumps are also available with wide throat configuration.

General Purpose Pump

Light Industrial and Agriculture DC series

Capacities upto 6.5 M3/hr (29 GPM)
Pressures upto 3 Bar (44 Psi)

The most versatile pump for light industrial, agricultural & domestic applications UV resistant Acetyl-co-polymer housing for pump sizes 11, 12 & 31 Cast Iron casing for pump sizes 41& 51. Simple and easy to maintain. Compact and light weight. These pumps are available in bare-shaft and close coupled versions. Standard IEC frame sized motors.



Mini Range MC series

Capacities upto 3.5 M3/hr (15 GPM)
Pressures upto 3.5 Bar (50 Psi)

These pumps are designed for use where low flow or transfer duties in both domestic and industrial applications are required, Excellent suction lifts capabilities up to 8 metres on water. Suitable for a wide range of light industrial applications. Available in close coupled configurations only. Standard IEC frame motors.



General Purpose SC series

Capacities upto 12 M3/hr (54 GPM)
Pressures upto 3.5 Bar (51 Psi)

These General purpose pumps are compact and light weight, designed for transfer duties in both domestic and industrial applications. Excellent suction lifts up to 8 metres on water. Suitable for a wide range of light industrial applications.



Dosing Pumps



These pumps are developed for low flow applications that demand high accuracies and repeatability with unique advantages of smooth, laminar & pulsating free flow. These pumps can handle wide variety of fluids ranging from clean and clear liquids to abrasive, Corrosive, viscous and solid laden media. The repeatability accuracy has been less than 1% fluctuation

Sales Network


Roto Pumps Ltd marketing head office is in Noida, India. Company has its branch offices and warehouses in United Kingdom and Australia to cater to the large European markets. It has also established prominent distributors all over Europe, Middle East, South East, Far East and North & South America. Recently, company started a subsidiary in Germany.



2. Recent Developments

Increasing product reach by offering Innovative Solutions to Customers

Roto Pump is actively participating in events related to pump industry to add new customers. Company has recently invited its existing and new clients from different geographies to attend events like STAI India scheduled from 24th – 26th Sept 2012 at Hyderabad, India and Weftech 2012 scheduled from 1st – 3rd Oct 2012 at Louisiana, USA.

ROTO PUMPS LTD.

is pleased to invite you to the

71 Annual Convention


The Sugar Technologists Association of India

to be held in at Hyderabad International
Convention Center (HICC), Hyderabad, India

from 24th – 26th September, 2012

This exhibition aims to provide an
opportunity for Managers
interested in seeking innovative solutions
in the pump industry and interacting with
Roto Pumps technical team.

RSVP : Roto Pumps at 0120 3043901 - 4. Email - contact@rotopumps.com



ROTO PUMPS LTD.

is pleased to invite you
at



Booth# 6921, 'H' Hall,

New Orleans Convention Center, Louisiana, USA.

October 1st - 3rd, 2012.

This exhibition aims to provide an opportunity for Managers
interested in seeking innovative solutions
in the pump industry and interacting with
Roto Pumps technical team.

RSVP : Roto Pumps at 0120 3043901 - 4. Email - contact@rotopumps.com

Roto Pumps enjoys the legacy of being amongst the leading progressive cavity pump manufacturers and processes deep and sound designing capabilities, which has been developed over the last 4 decades. R&D activity within Roto has lead to launch of numerous new products with some of the most distinguished features, high degree of reliability and immaculate product performance.

Roto Pumps capacity expansion

Roto Pumps Ltd, manufacturer of progressive cavity pumps and twin screw pumps, started capacity expansion plan two years back. The expansion was taken place on the plot allotted to the company by Greater Noida Industrial Development Authority.

The Authority has allotted us 20,000 sq. metres of land in Sector Ecotech-XII. Company planned to start civil works on the expansion project by 2009-end and commercial production was expected to start by end of 2011.

Company has imported machinery to the tune of Rs 5 crore for capacity expansion. The project was funded through internal accruals and bank loans.

Roto Pumps products are widely used abroad in sectors like oil and gas, pharmaceuticals, food industry and especially in waste water treatment plants. The company is also planning to diversify its business.

3. Financial Performance

Roto Pumps net profit rises 93.94% in the March 2012 quarter

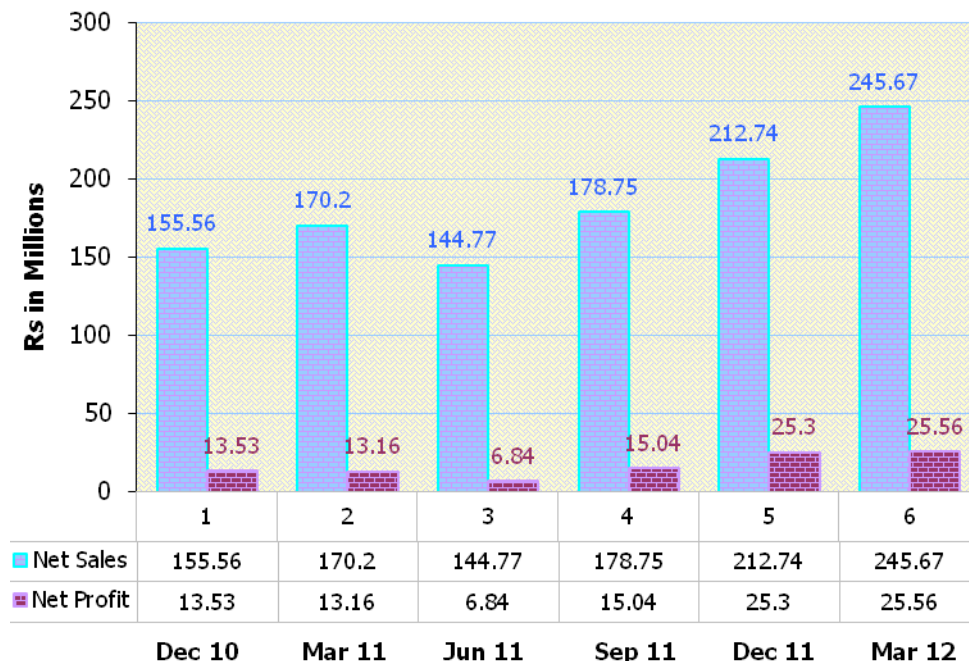
Roto Pumps net profit rose 93.94% to Rs 25.6 million in the quarter ended March 2012 as against Rs 13.2 million during the previous quarter ended March 2011. Sales rose 44.36% to Rs 24.57 million in the quarter ended March 2012 as against Rs 17.02 million during the previous quarter ended March 2011.

For the Audited full year, net profit rose 34.88% to Rs 72.7 million in the year ended March 2012 as against Rs 53.9 million during the previous year ended March 2011. Sales rose 28.43% to Rs 759.9 million in the year ended March 2012 as against Rs 591.7 million during the previous year ended March 2011.

Roto Pumps net profit rises 87.41% in the December 2011 quarter

Net profit of Roto Pumps rose 87.41% to Rs. 25.3 million in the quarter ended December 2011 as against Rs. 13.5 million during the previous quarter ended December 2010. Sales rose 36.76% to Rs. 212.74 million in the quarter ended December 2011 as against Rs. 155.56 million during the previous quarter ended December 2010.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012 E	Sep 2012 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	144.77	178.75	212.74	245.67	204.98	210.74
Total Expenditure	126.48	149.75	171.2	195.42	169.42	175.56
PBIDT (Excl OI)	18.29	29	41.54	50.25	35.56	35.18
Other Income	1	2.47	4.22	-0.31	1.72	2.71
Operating Profit	19.29	31.47	45.76	49.94	36.28	37.89
Interest	4.71	4.76	5.52	4.34	5.03	5.25
Exceptional Items	0	0	0	0	0	0
PBDT	14.58	26.71	40.24	45.6	31.25	32.64
Depreciation	3.93	4.37	5.89	5.42	5.12	5.26
Profit Before Tax	10.65	22.34	34.35	40.18	26.13	27.38
Tax	3.81	7.3	9.05	14.62	8.74	8.21
Provisions & contingencies	0	0	0	0	0	0
Profit After Tax	6.84	15.04	25.3	25.56	17.39	19.17
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	6.84	15.04	25.3	25.56	17.39	19.17
Equity Capital	30.91	30.91	30.91	30.91	30.91	30.91
Face Value (IN RS)	10	10	10	10	10	10
Reserves						
Calculated EPS	2.21	4.87	8.19	8.27	5.63	6.20
Calculated EPS (Annualised)	8.85	19.46	32.74	33.08	22.52	24.80
No of Public Share Holdings	953337	953337	953337	953337	953337	953337
% of Public Share Holding	30.84	30.84	30.84	30.84	30.84	30.84

Expected Earnings for 1st and 2nd Qtr FY 2012-13:

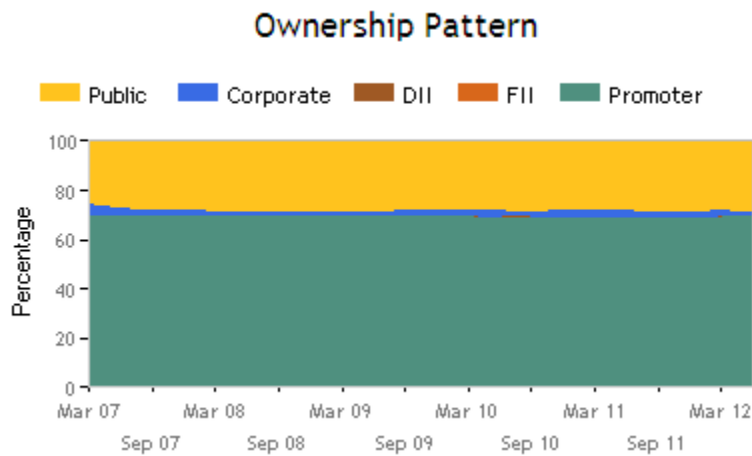
Roto Pump Ltd has posted robust growth in FY 2011-12. In last 2 quarters, company has delivered stellar performance in top line as well as bottom line. Company profits were increased by almost 90% in 3rd and 4th quarter of last financial year.

FY 2012-13 first quarter results will be released on 13th August 2012 and our equity analysts are confident that company will post robust growth similar as that of last 2 quarters considering expansion in its operations.

4. Charts & Graphs

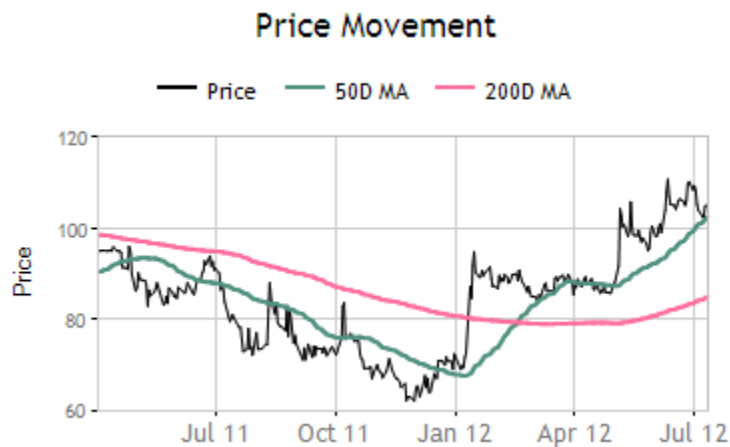
i) Share holding Pattern:

Promoters share holding is 69.8% without any major change in their stake since last 3 years. FII exposure is nil where as DII exposure is negligible at 0.05%.



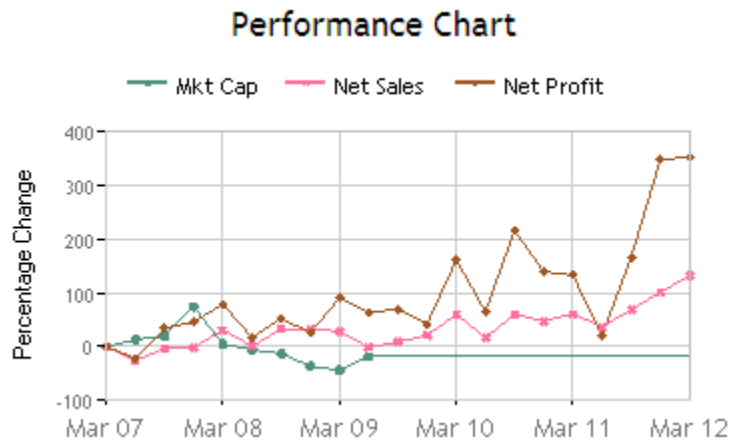
ii) Share Price Moving Average:

Roto Pump Ltd is currently trading above its 50 and 200 day price moving average. Stock has strong support at 82-85 Rs levels.



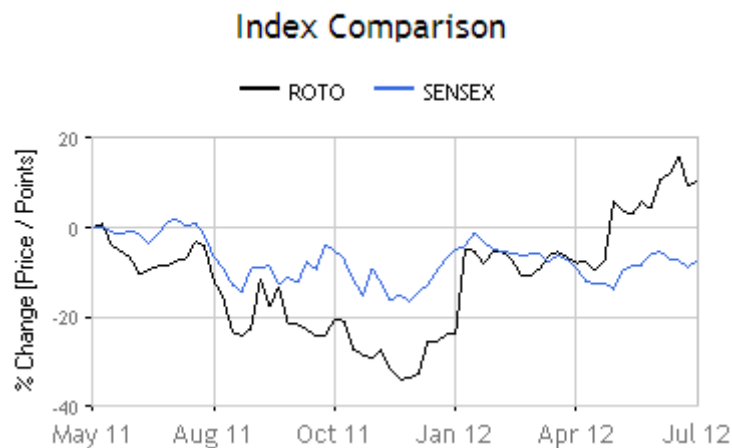
iii) Performance Chart:

Company has shown consistent growth in sales and profits year after year.



iv) Comparative Graph:

Roto Pump Ltd has given positive returns of 20.55% compared to Sensex negative returns of -3% in last one year.



5. Peer Group Comparison

PEER GROUP	Roto Pumps	KSB Pumps	Shakti Pumps	WPIL
CMP	105.00	203.10	38.70	401.40
52 W H/L	118.50/60.00	266.00/141.50	57.35/29.75	442.00/169.40
Market Cap	324.53	7069.47	543.49	3197.99
Results (in Million)	Mar-12	Jun-12	Mar-12	Mar-12
Sales	245.67	1898.60	415.02	970.36
PAT	25.56	174.60	21.14	70.24
Equity	30.91	348.10	140.43	79.67
EPS	23.54	14.10	10.65	24.91
P/E	4.46	14.40	3.63	16.11

6. Key Concerns / Risks

- The Indian market is becoming intensely competitive with cheap imports from China predominantly in the simple water handling pump market & presence of multi-national companies in the high end of industrial segment.
- The Indian companies would have to continuously invest in R&D, Manufacturing and Product Technology in order to improve product efficiency and cost effectiveness to retain and grow their market share.
- There is going to be pressure on margins due to steep increase in input costs & Interest rates. The Government approach to rein in the Inflation is having a dampening effect on the growth of the economy and sluggishness towards reforms is hampering the inflow of Foreign Investments.
- Cheap Imports backed by favorable commercial terms from China pose a definite risk to the Domestic industry.

7. Saral Gyan Recommendation

- ✚ Steady growth in Indian economy especially increased investments in infrastructure & development projects will continue to provide enough opportunities. International market also offers good opportunities in niche market despite sluggish economic scenario.
- ✚ Roto Pumps valuations are attractive compared to other listed players like KSB pumps, WPIL, Kirloskar and Shakti pumps. Roto pumps is trading at PE of 4.5 whereas other companies like KSB pumps and WPIL are trading at PE multiple of above 14 and 16 respectively.
- ✚ In terms of revenue, Roto pump is a smaller player compared to its peers. With recent capacity expansion programme; there is enormous potential for the company to scale up its business. Another positive about the company is its operating margins, Roto pumps operating margins are better compared to other listed companies in the same segment.
- ✚ As per our estimates, PEL can deliver bottom line of 96 million for full financial year 2012 – 13, annualized EPS of Rs. 31 with forward P/E ratio of 3.4 X for FY 2012-13, which makes stock an attractive and safe bet at current market price.
- ✚ Company has paid regular interim dividends to share holders since last 7 years, dividend payout is increased from 100% in 2005 to 250% in 2011.
- ✚ On equity of Rs. 30.91 million the estimated annualized EPS for FY 12-13 works out to Rs. 31 and the Book Value per share is Rs. 99.61. At current market price of Rs. 105, stock price to book value is 1.05 and with dividend yield of 2.4%, valuations are attractive with limited downside risk.

Considering attractive valuations and the growth potential of the company, Saral Gyan Team recommends **“BUY”** for **Roto Pumps Ltd.** for a target of Rs. 220 over a period of 18-24 months.

Buying Strategy:

- 50% at current market price of 105
- 50% at price range of 83-85 (If stock price falls during market correction)

8. Disclaimer

Important Notice: Saral Gyan Capital Services is an Independent Equity Research Company.

Disclosure: The author of this article does not hold shares in the recommended company.

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