

Recommendation	NOT RATED	
Issue Price	Rs. 230 – Rs. 240	
Bidding Date	29 <sup>th</sup> June-02nd July 2010.	
Sector	Engineering	
Retail Application- Detail At Issue Price		
Number of Shares	400	
Application Money	96000	
Amount Payable	96000	
Financials (Rs in Crs)	FY09	FY 10
Revenue including other income	149.3	200.37
EBIDTA	21.86	33.78
PAT	11.71	19.12
EPS	9.81	10.72
Book Value	69.62	75.01
P/BV	2.88	2.68
PE Ratio	15.62	25.49
No of Equity Shares Offered	0.29 Cr	
Post Issue Promoter Holding	36.50%	
Offer structure for different categories		
QIB (Excluding Mutual Fund)	47.5%	
Mutual Fund	2.5%	
Non-Institutional	15%	
Retail	35%	
Lot Size	28	
Post issue Equity (Rs. in crore)	249.6	
Issue Size (Rs. in crore)	71.76	
Face Value (Rs.)	10	
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### Company Background

Technofab Engineering Ltd (TEL) was established in the year 1971. After Incorporation, it started as piping, valves and pressure vessels fabricator and later diversified into EPC player executing a wide range of BOP and Electromechanical projects on turnkey basis for all the major sectors. Over the years it has executed various projects for different industries both in India and abroad and showed strong project execution capabilities. TEL usually bids for the contracts in consortium where every partner gets the share of work according to their presence in the entire package, some of the consortium partners are industry leaders like Gammon, Simplex to name a few. TEL has recently acquired a small company, Rivu Infrastructural which caters to the needs of electrical works including lightning and erection of substations on contractual basis, this acquisition would enable it to secure orders for electrical distribution and rural electrification projects.

### Objects of the Issue

Objects of the Issue	Rs in Crs
Long term working capital requirements	30
Procurement of Construction Equipments	16.23
Setting up of maintenance & storage facility	4.99
Setting up of training centres for Employees	5.4
General corporate & Issue expenses	0

(Sources:- DRHP, NB Research)

The diversified service offering provides an edge during cyclical downtrend and enables it to mitigate from slowdown in revenues.

### Investment Rationale

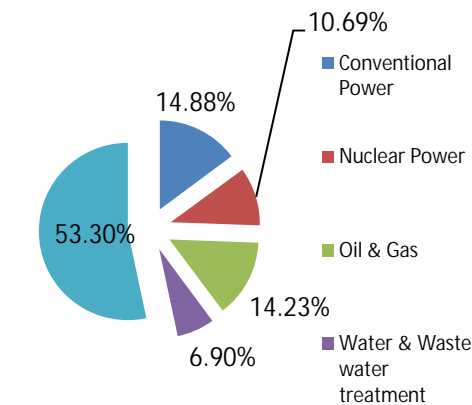
- Caters to various industry gives an edge over cyclical downtrend

TEL offers wide range of BOP services and caters to various sectors like thermal power, nuclear power, oil & gas, mineral & metals, etc. The same skill set is served to diverse systems & sectors, thus reducing the dependence on a single sector. It also gives advantage of executing multiple packages for a single project. In addition to BOP it has good presences in water & waste water treatment segment. Recently it has forayed in to EPC work for electrical distribution sector as well.

### TEL's presence across different sectors

Segments	Conventional Power	Nuclear Power	Oil & Gas	Water & Waste water Infrastructure	Industrial & Infrastructure Sectors	Electrical Distribution
Industrial Utility & Low Pressure Piping Systems	✓	✓	✓	na	✓	na
Fuel Oil, Unloading, Storage and Handling Systems	✓	na	na	na	✓	na
Fire Detection, Alaram and Protection Systems	✓	*	✓	na	✓	✓
Water, Waste Water and Effluent Treatment & recycling systems	✓	✓	✓	✓	✓	na
Tankages	✓	na	*	na	✓	na
Raw & Sea Water Intake Systems & Pumping stations	✓	*	✓	✓	✓	na
Plant Electrification/ T&D/ Rural Electrification	*	*	*	✓	✓	✓
Renovation & Modernization of Coal feeding Systems	✓	na	na	na	na	na
√ - Having Presence * - Opportunity Available na - Not having Presence						
Source: Company, NB Research						

% Composition of Order Book



Source: Company, NB Research

Order book & Order inflow have grown at CAGR of 116% & 46.6% respectively from FY08-FY10

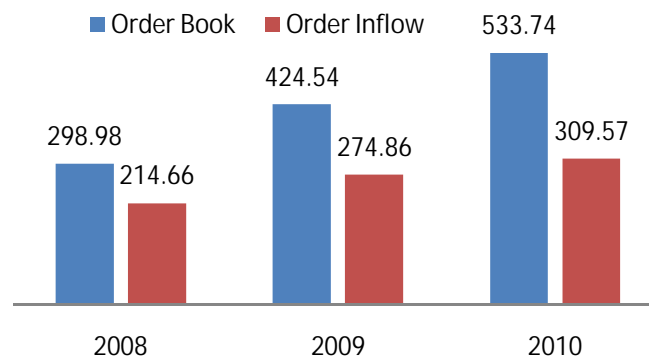
- Presence in niche areas like Nuclear power and Water & Waste Water treatment Segment.

India is energy deficit country with huge demand supply mismatch. To bridge the gap the government has identified nuclear power as one of the medium. Nuclear power projects have now become economically competitive and further huge investments is planned in the 5 year plans. TEL has executed number of contracts in nuclear power segment and margins are also lucrative. There are very few players who are having presence in this space mainly due to safety issues. Apart from this it also has presence in water & waste water treatment segment. TEL's execution expertise will facilitate it to gain business in these remunerative segments.

- Increasing Average ticket size from last few years coupled with robust order book

TEL 's average job value has increased from Rs 10 crores in 2006 to Rs 40 – 60 crores in 2010. Increasing order size will enable it to meet prequalification criteria for bigger size tenders. The current order book is worth Rs 533.74 crores and for around Rs 400 crores worth of orders the company is L1 bidder. It has healthy 2.65 times sales to order book ratio which provides strong revenue visibility.

Order Book & Inflow



Source: Company, NB Research

Strong customer base likes of BHEL, NTPC, and NPCIL etc

Going forward margins to reduce on back of change in order mix

• Strong Execution Capability

Over last 4 decades TEL has successfully executed more than 120 projects both across India and abroad in different segments and gained technical expertise and skills for effective and efficient project management capabilities. Its track record of execution capabilities can be judged from repeated orders from customers like BHEL, NTPC, NPCIL and others. Strong Execution capability contributes to growth and profitability of any EPC company.

Risk Concerns

• Significant presence in African market - Exposed to Risks

TEL is executing number of projects in Ethiopia, Fiji, Kenya and other African countries. Previously we have seen problems like civil, political unrest etc in these countries. Any happening of similar events may impact the revenues. In addition to this the company is also exposed to currency risk, which might hamper the profitability.

• Delayed Project Execution

TEL's business largely depends on proper & timely execution of projects. Any inefficient & ineffective project management may lead to cost and time overrun, consequently liquidated damages are levied by the customers, this might impact the profitability of the company.

• Change in Composition of order book

TEL has executed nuclear power projects in last 2 years which enjoys comparatively higher margins. Currently, composition of order from this segment is very less and it has also secured order from road project, where the company wouldn't be having the healthy margins. Going forward we believe due to these reasons margins would get reduced.

In FY10, Cash from Operation where negative (9.37 Crs)

- Limited Experience in Road & Rural Electrification  
Technofab has little experience in roads & rural electrification. Given the low margin nature of business, company's ability to prove will depend upon timely execution of projects & managing raw material cost.

### Comparison

PEER COMPARISON	Technofab	Sunil Hitech
Revenue	200.48	722.67
EBITDA	33.78	85.98
PAT	19.12	23.5
EPS	25.49	19.13
EBITDA Margins	16.85%	11.80%
PAT Margins	9.54%	4.30%
PE Ratio(U/ L)	13.05 -12.51	10.98
Order Book to Sales	2.65	2.67
EV	271.16	487.2
EV/EBITDA	8.03	5.67

Valuation:- On valuation front, based on diluted earnings TEL is offered at a PE of 13.05 & 12.51 times at upper & lower band respectively. This looks expensive than its peer's Sunil Hitech which is trading at PE of 11 times. Apart from foraying into high risk low margin segment like Roads, company has also significant exposure to African countries where execution problem may creep up and might impact on profitability.

## Financials

Profit & Loss Account (Rs in Crs)	FY06	FY07	FY08	FY09	FY10
<b>Revenue</b>					
Sales	53.91	61.35	80.99	149.3	200.37
Other Income	0.09	0.25	0.63	0.26	0.11
Total Income	54.00	61.60	81.62	149.56	200.48
<b>Expenditure on Contracts</b>	48.49	55.80	66.49	117.72	154.03
Employee Remuneration & Benefits	0.80	0.85	1.80	4.13	5.91
Administration & other benefits	1.95	1.83	3.57	5.85	6.76
Total Expenditure	51.24	58.48	71.86	127.70	166.70
<b>EBIDTA</b>	2.76	3.12	9.76	21.86	33.78
Depreciation	0.12	0.32	0.25	1.01	1.35
EBIT	2.64	2.80	9.51	20.85	32.43
Interest	2.07	1.59	1.47	2.82	3.16
EBT	0.57	1.21	8.04	18.03	29.27
Adjustments	0.002	-0.003	-0.002	0.004	0.00
Tax	0.06	0.41	2.71	6.31	10.15
Profit after Tax	0.51	0.80	5.33	11.71	19.12

Margin Matrix	FY 06	FY 07	FY 08	FY 09	FY10
EBIDTAM	5.11%	5.06%	11.96%	14.62%	16.85%
EBTM	1.06%	1.96%	9.85%	12.06%	14.60%
PATM	0.94%	1.30%	6.53%	7.83%	9.54%

Growth Matrix		FY 07	FY 08	FY 09	FY10
SALES		14.07%	32.50%	83.24%	78.73%
EBIDTA		13.04%	212.82%	123.98%	106.04%
EBT		112.28%	564.46%	124.25%	116.45%
PAT		58.01%	564.40%	119.63%	63.25%

Balance Sheet	FY 06	FY 07	FY 08	FY 09	FY 10
Share Capital	7.00	7.00	7.50	7.50	7.50
Reserve & surplus					
Share Premium	4.00	4.00	6.00	6.00	6.00
General Reserve	2.23	3.00	7.84	18.69	36.47
Net Worth	13.23	14.00	21.34	32.19	49.97
Secured Loan	20.18	10.48	4.20	11.83	15.17
Unsecured Loan	2.62	4.09	0.00	4.37	4.23
Deferred Tax Liability	0.00	0.00	0.00	0.02	0.17
Capital Employed	36.03	28.57	25.54	48.41	69.54
Gross Block	2.98	2.96	3.44	6.32	8.97
Less:- Depreciation	1.94	1.98	1.34	2.17	3.49
Net Block	1.04	0.98	2.10	4.15	5.48
Investments	0.02	0.02	0.70	0.20	0.35
Deferred Tax Asset	0.11	0.21	0.05	0.00	0.00
Current Assets					
Sundry Debtors	28.68	26.37	27.59	31.89	56.34
Cash & Bank	2.03	1.47	6.31	24.10	11.02
Inventories	3.40	3.79	4.31	4.50	3.45
Loans & advances	10.11	11.06	15.34	32.24	41.22
	44.22	42.69	53.55	92.73	112.03
Current Liabilities & Provisions	9.36	15.33	30.86	48.67	48.32
Net Current Assets	34.86	27.36	22.69	44.06	63.71
Capital Deployed	36.03	28.57	25.54	48.41	69.54

Ratios	FY06	FY07	FY08	FY 09	FY 10
RoCE	7.33%	9.80%	37.24%	43.07%	46.64%
RoNW	3.84%	5.73%	24.99%	36.39%	38.26%
Book value/Share	18.90	20.00	28.45	42.92	66.63
Debt Equity	1.72	1.04	0.20	0.50	0.39
EPS	0.73	1.15	7.11	15.62	25.49



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