

**IPO Note**

**BS TRANSCOMM Ltd**

<b>Recommendation</b>	<b>Not Rated</b>	
<b>Issue Price</b>	<b>266-257</b>	
<b>Bidding Date</b>	<b>6<sup>th</sup> -8<sup>th</sup> Oct 2010</b>	
<b>Lead Manager</b>	<b>JM Financials</b>	
<b>Sector</b>	<b>Engineering</b>	
<b>Retail Application- Detail At Issue Price</b>		
Number of Shares	375	
Application Money	99750	
Amount Payable	99750	
<b>Financials (Rs in Crs)</b>	<b>FY09</b>	<b>FY 10</b>
Revenue	337.3	521.1
EBIDTA	34.4	59.8
PAT	12.4	24.2
EPS	12.4	24.2
Book Value		131.5
P/BV (U-L) Diluted	1.93-1.87	
PE (U-L) Diluted (FY10)	24.0-23.2	
PE (U-L) Diluted(Q1 Annualized)	10.9-10.5	
<b>No of Equity Shares Offered</b>	<b>0.76 crores</b>	
<b>Post Issue Promoter Holding</b>	<b>64.5%</b>	
<b>Offer structure for different categories</b>		
QIB (Excluding Mutual Fund)	45%	
Mutual Fund	5%	
Non-Institutional	15%	
Retail	35%	
Lot Size	25	
Post issue Equity (Rs. in crore)	21.87	
Issue Size (Rs. in crore)	204.2-197.3	
Face Value (Rs.)	10	
<b>Shareholding pattern (Post Issue)</b>		
Promoter & Promoter Group	64.5%	
Institutional Investors	17.3%	
Public	12.1%	
Others	5.1%	
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Company Background

BS Transcomm Ltd (BSTL) initially began as a steel trading company, but it successfully entered in to manufacturing and supply of telecommunication and transmission towers, substation structures and providing service solutions to the telecommunication infrastructure and power transmission companies. The company plans to completely wrap up its trading activity while further expanding its tower manufacturing, turnkey solutions and O&M services operations.

The tower manufacturing activity includes designing and fabrication of telecommunication and power transmission towers. It has a manufacturing capacity of 120000 MTPA with a backward integrated structural steel plant, supporting the raw material required for tower manufacturing. It is undertaking a project to expand the manufacturing capacity to 240,000 MTPA.

The company has worked with esteemed names in telecom and power sectors like Indus Towers, Reliance Infratel, Quippo telecom infra, PGCIL, APTRANSCO etc. It has entered into consortium arrangements with Essel infra project, Patel Engineering and Simplex Infra to venture into transmission services on BOOM basis. It also ventured into new areas related to transmission & distribution by entering into arrangement with Chinese companies for selling Gas Insulated Switch Gears of 245 KV capacity and Transformers of 765 KV capacity.

Recently it has acquired 63.25% in a company named "Sugan Automatics Pvt Ltd" (SAPL), which is engaged mainly into the business of technology related products like development of remote monitoring system and energy management systems for tower infrastructure for telecom and utility sector. It is expected to provide synergic benefits to the O&M operations of BSTL.

Objects of the Issue

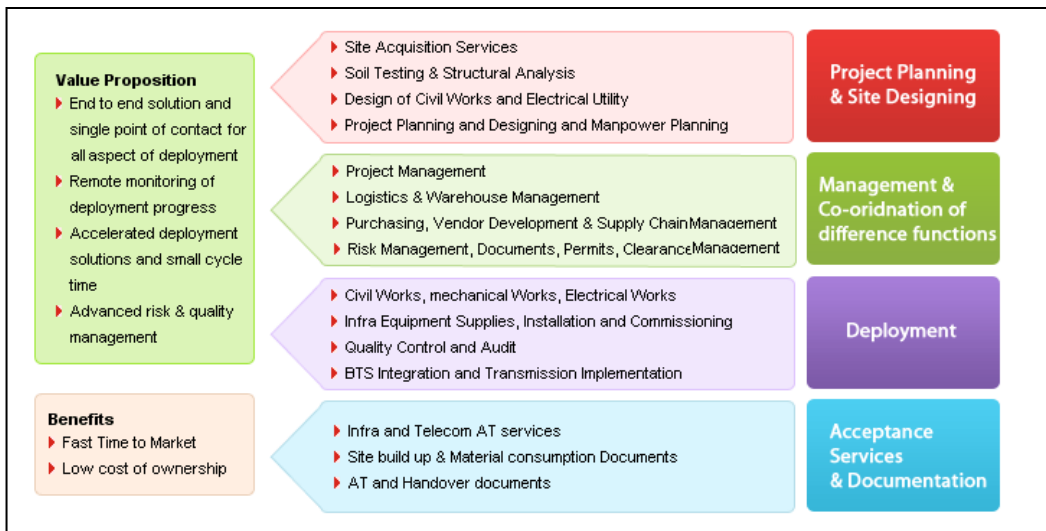
- To repay the amount borrowed for funding of Phase I capacity (86000MTPA Tower manufacturing capacity and 90000 structural mill).
- To fund Phase II ie, expansion of tower manufacturing capacity by 120000 mtpa.
- To part finance margin money for working capital for the Project

**Investment Rationale:**

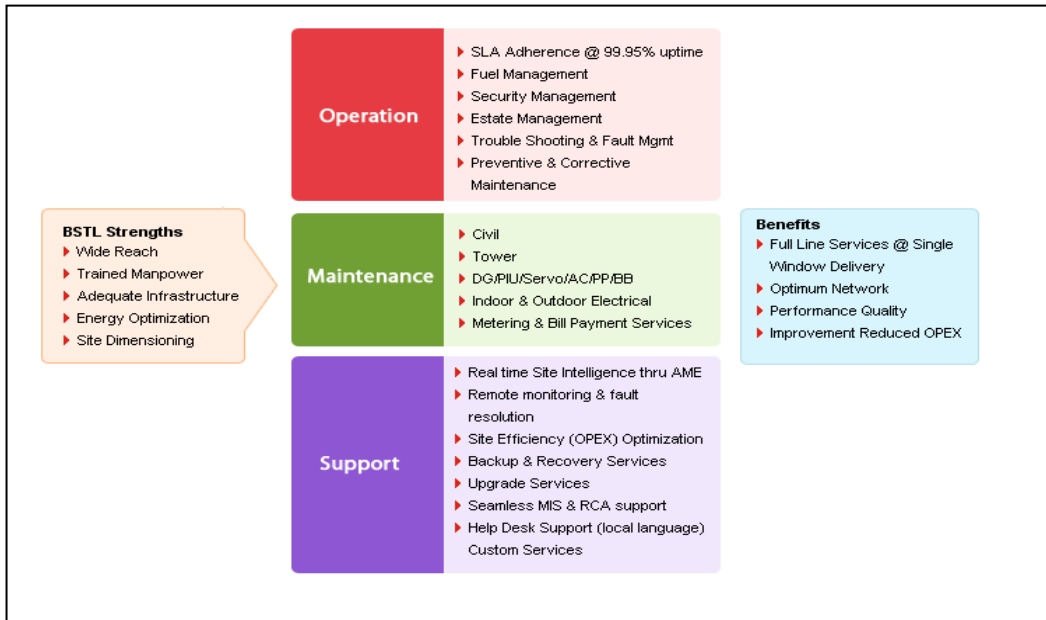
• **Integrated Business Model**

The company provides wide gamut of services to telecommunication infrastructure and power transmission players. It manufactures towers for which the company has backward integrated into structural mills, provides turnkey services (erection and commissioning of towers) and O&M services. The company has strategic arrangements with shelter manufacturer “UFOAM”. The backward integration and strategic arrangements helps it to maintain cost and enjoy higher margins, where as the integrated model helps the company to meet the customers requirement thus providing a competitive edge over its peers. Within a short span of 3 years it has developed reputed customer base both in telecom & power transmission space.

**Turnkey Services**



**Managed Services**



- **Huge potential in both power and telecom sector**

Telecom sector has enjoyed huge investments till recent past. But now due to significant drainage of cash flows of telecom companies, investments have been slow down. Increasing customer base, government's emphasis on expanding rural telecom infrastructure has resulted in requirement for expansion of networks, which has resulted in increase in demand for towers. Further with the sector preparing itself for the 3G technology, WIMAX, to enable high speed data transmissions and video conferencing over mobile phones, which requires higher and closer location of telecommunication sites, is expected to increase the demand for infrastructure. Apart from this the old tower infrastructure are not capable of handling multiple tenants leading to the need of up gradation of towers. 'Power sector will continue to witness significant investments.. The 11th Plan envisages a total addition of 95,283 cKM of transmission lines (220 KV and above) and the 12th Plan envisages addition of 120,000 - 125,000 cKM of transmission lines (220 KV and above). The total funding requirement estimated for the Transmission Segment in the 11th Plan and 12th Plan is Rs. 140,000 crores and Rs. 240,000 crores respectively. BSTL initially had tower manufacturing capacity of 36000 MTPA which it has increased to 120000 MTPA. It has also established backward integrated structural mill with the capacity of 90000 MTPA. Revenues of BSTL have grown at CAGR of 129% during 2008-2010. It has an order book of around Rs 498 crores, ie, about 56000 MTPA capacity from both telecom and power sector put together. We believe the company has seen significant growth within a short span and is well poised to tap the opportunity lying in both the power and telecom sectors.

- **SAPL provides access to technology**

SAPL is a leading company in design and development of embedded products and solutions. It has products like intelligent data device, smart energy meters and fuel management system. BSTL has recently implemented certain technology based solutions which have been developed by SAPL with the primary aim of energy audit, conservation and automation. Apart from this SAPL has also developed solar hybrid solution of solar and wind energy which provides power at telecom site. Through SAPL it also provides managed services for the telecommunication towers. SAPL has successfully deployed IDD technology solutions to over 2000 telecom sites of Indus towers, and is also running a pilot project for other telecom infrastructure companies. We believe the SAPL projects like IDD, Hybrid solar solutions once gets widely acceptance from the telecom infrastructure companies, realizing the cost effectiveness, it will have traction in revenues, as there are more than 3 lakh telecom tower in India. It is the only player with the technology so it also gives the early mover advantage.

We believe it will have an advantage in rendering O&M services with technological products. SAPL would be the significant contributor to the bottom line of the company in coming years.

**Risk Concerns**

- **Stressed liquidity position**

The current liquidity position of the company is relatively stressed which is also reflected in the instances of LC devolvement and Interest payment delays in the recent past. It is facing negative operational cash flows since inception. The stress is on account of several factors including recent capacity expansion undertaken by the company by using short term loan, increase in the scale of the company's operations, and high working capital intensity of the business. Though with the IPO proceeds the company would be able to repay the short term debt but if the stress on liquidity continues, it would impact the profitability and the financial health of the company.

- **Limited past track record**

The Company initially began as steel trading company and later on entered in manufacturing of tower business. It has very short record of operation experience in manufacturing space. Owing to limited operational track record, timely order execution cannot be judged. Any order execution delays in future would impact the revenues and profitability.

**Peer Comparison**

FY 2010	KEC Inter	Kalpataru	BS	
			FY2010	Q1FY11*
Sales	3877.59	3987.12	371.34	163.04
EBITDA	387.23	484.00	59.81	29.70
PAT	171.60	176.93	24.16	13.40
EBITDA Margin	10.0%	12.1%	16.1%	18.2%
PAT Margin	4.4%	4.4%	6.5%	8.2%
EPS	33.00	11.53	11.04	6.12
MP	486.00	182	266.00	266.00
<b>PE</b>	<b>14.73</b>	<b>15.78</b>	<b>24.09</b>	<b>10.86</b>
Equity Share	51.42	30.69	21.88	21.88
Market cap	2499.01	2792.79	581.97	581.97
Loan	786.74	901.45	219.18	219.18
EV	3285.75	3694.24	801.16	801.16
EV/Sales	0.85	0.93	2.16	1.23
EV/EBITDA	8.49	7.63	13.40	6.74
*PE, EV/sales, EV/EBITDA.(on Annualised Basis)				





**Recommendation**

BSTL operates in tower manufacturing, EPC services and O&M services segments catering to high growth sectors like telecom & power transmission and distribution. It has ventured into embedded solution and solar hybrid solutions through acquiring SAPL. We believe the integrated business model with the increased capacity and future foray into new areas like transformers, gas based insulators in collaborations with Chinese companies will add new growth avenues to the company. However limited past track record, higher working capital cycle and its ability to sustain margins in future remains a concern.

On the FY10 earnings, the stock is offered at the PE of 24.1x and 23.3x (diluted equity) on upper band and lower band respectively which is comparatively costlier than its listed peers. Our back of envelope calculations of FY11 diluted earnings of Rs 20.5 discounts the issue 12.9x and 12.5x at upper and lower band respectively, which looks expensive in comparison to established players.

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**BS TRANSCOMM Ltd**
**Consolidated Financials**

Profit & Loss Account (Rs in crores)	2006	2007	2008	2009	2010	30-Jun-10
<b>Income</b>						
<b>Sales:</b>						
Sale of Manufactured Goods	0.0	1.4	67.9	108.6	126.6	38.0
Sale of Traded Goods	135.0	196.4	354.5	206.7	149.7	0.0
Turnkey Services	0.0	0.0	3.2	21.9	244.7	125.0
<b>Total Sales</b>	<b>135.0</b>	<b>197.9</b>	<b>425.6</b>	<b>337.3</b>	<b>521.1</b>	<b>163.0</b>
<b>Expenditure</b>						
Raw material consumed	133.8	192.1	389.5	281.6	261.2	40.9
Increase/(Decrease) in inventories	-0.2	-1.8	-8.7	-3.1	-17.2	-11.6
Staff Costs	0.1	0.4	2.7	4.1	6.5	4.5
Employee Benefit Expenses	0.0	0.0	0.1	0.5	0.7	0.3
Other Manufacturing Costs	0.9	1.5	10.1	11.8	203.2	97.4
Admin & Selling Expenses	0.3	0.7	2.7	8.0	6.9	1.8
Misc Expen write off	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Expenditure</b>	<b>135.0</b>	<b>192.8</b>	<b>396.3</b>	<b>302.8</b>	<b>461.3</b>	<b>133.3</b>
EBITDA	0.0	5.0	29.3	34.4	59.8	29.7
Depreciation	0.0	0.4	3.6	3.4	5.5	2.7
Other Income	0.4	1.4	3.3	0.6	1.0	0.1
EBIT	0.4	6.0	29.0	31.6	55.3	27.1
Interest	0.1	2.2	7.7	12.6	18.6	7.1
EBT	0.4	3.8	21.3	19.0	36.7	20.1
Less: Tax	0.2	1.0	7.4	6.7	12.5	6.7
<b>PAT</b>	<b>0.2</b>	<b>2.8</b>	<b>13.9</b>	<b>12.4</b>	<b>24.2</b>	<b>13.4</b>

Margins	2006	2007	2008	2009	2010	30-Jun-10
EBITDA	0.0%	2.6%	6.9%	10.2%	11.5%	18.2%
PBT	0.3%	1.9%	5.0%	5.6%	7.0%	12.3%
PAT	0.1%	1.4%	3.3%	3.7%	4.6%	8.2%

Key Ratios	2006	2007	2008	2009	2010	30-Jun-10
Debt Equity	<b>0.93</b>	<b>1.55</b>	<b>1.34</b>	<b>1.40</b>	<b>2.42</b>	<b>2.26</b>
Book value /share	11.48	46.12	33.10	41.89	58.90	68.36
ROE	2.81%	9.22%	23.07%	14.93%	21.31%	28.99%
ROA	193.98%	10.13%	34.48%	18.41%	17.94%	24.79%
ROCE	1.45%	6.73%	20.33%	17.39%	16.53%	19.13%

Balance sheet (Rs in Crores)	2006	2007	2008	2009	2010	30-Jun-10
1.Share Capital	5.8	5.8	14.1	14.2	14.2	14.2
Share Application Money	0.6	17.8	0.0	0.0	0.0	0.0
Share Suspense Account	0.0	0.1	0.0	0.0	0.0	0.0
2.Reserves & Surplus	0.3	3.1	32.6	45.3	69.4	82.9
<b>NETWORTH</b>	<b>6.7</b>	<b>26.8</b>	<b>46.8</b>	<b>59.5</b>	<b>83.6</b>	<b>97.1</b>
Secured loans	6.1	41.4	62.6	82.7	166.8	184.0
Unsecured loans	0.2	0.0	0.0	0.5	35.5	35.1
<b>Total Loan</b>	<b>6.2</b>	<b>41.4</b>	<b>62.6</b>	<b>83.2</b>	<b>202.3</b>	<b>219.2</b>
Deferred Tax Liability	0.0	0.5	0.5	0.5	4.2	4.4
<b>Capital Employed</b>	<b>12.9</b>	<b>68.6</b>	<b>109.9</b>	<b>143.2</b>	<b>290.2</b>	<b>320.6</b>
<b>ASSETS</b>						
<b>A. Fixed Assets</b>						
Gross Block	0.1	27.7	30.6	35.8	118.6	118.7
Less: Depreciation	0.0	0.4	4.0	7.4	12.9	15.6
<b>Net Block</b>	<b>0.1</b>	<b>27.3</b>	<b>26.6</b>	<b>28.3</b>	<b>105.7</b>	<b>103.1</b>
Capital Work-in-progress (Include advances)	0.0	0.0	0.0	25.6	2.0	5.4
<b>Total Fixed Assets</b>	<b>0.1</b>	<b>27.3</b>	<b>26.6</b>	<b>53.9</b>	<b>107.7</b>	<b>108.5</b>
B. Investments	0.0	0.0	0.5	0.6	2.8	2.8
<b>C. Current Assets, Loans &amp; Advances</b>						
Inventories	0.2	8.8	36.6	28.5	53.9	68.6
Sundry Debtors	23.4	62.4	109.1	98.2	217.5	247.8
Cash & Bank Balances	0.0	0.7	2.0	3.0	9.0	7.6
Loans & Advances	2.9	9.4	6.6	14.8	58.8	70.2
Other Current Assets	1.0	1.2	5.7	0.6	1.2	1.4
<b>Total Current Assets</b>	<b>27.5</b>	<b>82.3</b>	<b>160.1</b>	<b>145.1</b>	<b>340.4</b>	<b>395.6</b>
Miscellaneous Expenditure	0.0	0.0	0.0	0.9	1.0	1.2
<b>Total Assets</b>	<b>27.5</b>	<b>82.3</b>	<b>160.1</b>	<b>146.0</b>	<b>341.4</b>	<b>396.8</b>
<b>LIABILITIES &amp; PROVISIONS</b>						
Current Liabilities	14.7	41.0	77.3	57.3	161.8	187.6
<b>Total Liabilities (B)</b>	<b>14.7</b>	<b>41.0</b>	<b>77.3</b>	<b>57.3</b>	<b>161.8</b>	<b>187.6</b>
Net Current Assets	12.8	41.3	82.8	88.7	179.6	209.3
<b>Capital Deployed</b>	<b>12.9</b>	<b>68.6</b>	<b>109.9</b>	<b>143.2</b>	<b>290.2</b>	<b>320.6</b>

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