



INVESTOR'S DELIGHT

24TH JANUARY, 2011

COMPANY	TECHNOFAB ENGINEERING LTD.(TEL)
BSE Code	533216
Promoter's holding	38.2%
FV	Rs.10
Equity Capital (Rs in mn)	105
Reserves (Rs in mn)	1,164
Book Value	Rs. 121
Market Capitalization (Rs in mn)	1,710
CMP	Rs. 163
Target Price	Rs. 185
Upside	13%

ABOUT THE COMPANY

TEL has evolved into turnkey piping systems company with capabilities in EPC since inception in 1971. It has also developed expertise for engineered heating and storage systems, for low grade fuels, required by oil marketing companies and their customers.

IPO issue: In June 2010, the company came out with an initial public offering with an issue size of Rs. 717.6mn at the upper end of the price band of Rs.240 per share.

Development of product portfolio: To expand its product portfolio in engineered systems space, the company developed capabilities to design and engineer fire protection systems to protect all types of hazards, with a special focus on facilities with medium to high risk ratings such as power stations and oil refineries / petrochemical facilities. In the past, it has provided fire detection and protection systems in 27 different power projects aggregating ~17,000 MW of installed capacity apart from customers in hydrocarbon and other sectors.

Foray in international markets: It expanded its business activities to international market and secured its first overseas project in Kenya, Africa in 1993 and since then it has executed projects in Zambia, Ghana and Kenya. Leveraging its project management skills, it entered into the Water and Wastewater treatment sector and secured three of the first set of Water and Wastewater treatment and recycling projects of NTPC at Rihand, Korba and Kahalgaon in 1996, 1997 and 1998 respectively.

Strategic tie up with Gammon India: During FY07, TEL entered into strategic tie-up with Gammon India Ltd. (GIL) for equity/management participation. As a result, TEL divested 9% holding to GIL and 6.7% holding to Associated Transrail Structures Ltd (ATSL, now merged in GIL). The association was mainly to meet the prequalification criteria due to net worth and turnover constraints.



Execution track record: It has completed 120 projects and has 41 ongoing projects as on June 2010. For prequalification requirements, company either bids independently or in association with joint-venture partners.

CLIENT BASE

Segment	Clients
Conventional Power	NTPC, Lanco, DVC, Reliance Energy, BHEL, L&T, SEBs
Nuclear Power	NPCIL
Oil and Gas	Tema Oil Refinery, GAIL, IOC
Water and Waste Water Treatment	NBCC, World Bank/ADB/AFDB – Aided projects
Industrial and Infrastructure Sectors	NALCO, SAIL, NMDC

REVENUE PROFILE

Segment	FY10	%	FY09	%	FY08	%
Conventional Power	496	25	334	22	303	37
Nuclear Power	542	27	263	18	-	-
Oil and Gas	92	1	188	13	446	55
Water and waste water treatment	406	20	532	35	8.6	1
Industrial and Infrastructure	381	19	177	12	52.2	7
Electrical Distribution and Rural Electrification	169	8	-	-		

FINANCIAL ANALYSIS

The company has witnessed revenue CAGR of 38% over the period FY06-10 whereas PAT has clocked a CAGR of 167%. Major growth was witnessed in FY09 and FY10. OPM has improved from 4.8% in FY06 to 16.8% in FY10. However, the company is under pressure in the first two quarters of H1FY11. OPM declined by 270 bps to 14.1% in Q2FY11.

PAT margin has also shown a good improvement to touch 10.1% in FY10 as compared to 0.7% in FY06. This upward trend has lost momentum in the last few quarters. PAT margin has witnessed a decline of 120 bps to 8.9% in Q2FY11.

Working capital days have seen a mark improvement from 222 days in FY06 to 123 days in H1FY11. This was mainly attributable to improved efficiency in managing debtors from 194 days in FY06 to 98 days in H1FY10.

On the cash flow front, the company witnessed positive operating cashflows from FY06 to FY09. However in FY10, the company suffered negative operating cash flows worth Rs. 94 mn. This was account of elongation of debtor days from 78 days in FY09 to 103 days in FY10.



PEER ANALYSIS

Particulars	Technofab Engg.	Sunil Hitech Engineers	Hindustan Dorr Oliver
CMP (Rs.)	163	119	99
FV (Rs.)	10	10	2
Market Cap/Sales	0.96x	0.22x	0.92x
EPS (TTM)	20*	9.53	8.92
P/E	8x	12x	11x
Book Value (Rs.)	121	162	28
P/BV	1.35x	0.73x	3.53x

Note: * H1FY11 annualized EPS

INVESTMENT RATIONALE

Robust order book, healthy order inflows: As on November, 2010 its order book stood at Rs.7.82 bn. (3.9x FY10 revenue). Out of which, 44% of the orders worth Rs.3.42 bn were received in CY10.

Pre qualification credentials, strong execution capabilities: Its track record of over 38 years with 120 completed and 41 ongoing projects enables it to meet customer prequalification requirement either independently or in association with joint venture partners. The company has successfully completed several projects of erstwhile domestic customers like NTPC, Reliance Energy, BHEL amongst others and international customers like Tema Oil Refinery Ltd. (Ghana), AHC Mining Municipal Services Ltd. (Zambia), Kenya Power Company (Kenya) amongst others.

Favourable debt/equity ratio

The company debt levels are low as compared to its peers. Its debt/equity ratio as on FY10 was 0.39:1. Post equity dilution, D/E ratio stood at 0.17:1 as on H1FY11.

OUTLOOK AND VALUATION

At CMP, the stock trades at a P/E of 8x on H1FY11 annualized EPS. With due consideration to factors like a) good revenue visibility on account of strong order book, b) diversified order book, c) strong execution capabilities, we recommend a 'BUY' with a target price of Rs.185(9x at annualized H1FY11 EPS) for investors with a six months horizon.



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