

## A2Z Maintenance & Engineering Services : Average Issue IPO Note: High PE Compared To Other Listed Players

### Rating\*\*

#### Issue details

Price band (Rs)	Rs.400-410
IPO Opening Date	08/12/10
IPO Closing Date	10/12/10
Issue Size	Rs.675 Crore

#### Valuations & Recommendation

The issue has been offered in a price range of Rs 400-410 per equity share. The PE works out to 30.3-30.8 times, which is very expensive compared to much larger and established players in T&D EPC such as KEC International and Kalpataru Power Transmission, which are available at a PE of 12.1 and 14.8 times of their FY 2010 consolidated EPS. One of its investor Jhunjhunwala plans to sell one million shares in A2Z's IPO, comprising 1.78 per cent of pre-issue equity capital. The company intends to strengthen its presence across various segments in the power sector. In the EPC business, it intends to leverage on the opportunity in the Indian power transmission and distribution sector with a focus on power distribution projects.

**The company has been getting orders from various state governments as well as private players. Healthy growth and profitability in EPC in the power transmission & distribution business keeps the company well positioned benefit. Keeping growth prospects of the company in view, we recommend to invest in the stock at lower level after listing for long term gain.**

#### Highlights

- ◆ CARE has assigned a CARE IPO Grade 4.
- ◆ Plan to invest in 3 biomass (bagasse)-based power co generation projects of 15 MW each in the State of Punjab.
- ◆ Plan to invest in 5 biomass-based power generation projects of 15 MW each in the State of Rajasthan
- ◆ In fiscal 2008, 2009 and 2010, the total income from contracts with government authorities and public sector undertakings was Rs 4,62.03 crore, Rs 6,81.53 crore and Rs 11,50.12 crore, comprising 96.46%, 95.22% and 94.33% of the total income

#### Company Introduction

##### Company Profile

A2Z Maintenance & Engineering Services is an engineering, procurement and construction (EPC) company incorporated on January 7, 2002 in India and has been engaged in providing services to the power transmission and distribution sector with a focus primarily on the distribution segment. The company is diversifying this business to provide EPC services to power generation companies and companies in other sectors, including road and telecommunications. In addition, it is significantly focused on and involved in other businesses that include generating power from renewable energy sources (Renewable Energy Generation business), providing municipal solid waste management services (the MSW business), providing facility management services (the FMS business) and developing information technology (IT) solutions for power utilities (the Power IT Solutions business). The company's business operations are geographically spread across India and conducted through the company and its direct and indirect subsidiaries.

##### New trend and line of business



[www.a2zgroup.co.in](http://www.a2zgroup.co.in)

## Financial Summary

Particulars	1003 (12)	1003 (12)	0903 (12)
Sales	415.56	1219.29	715.71
OPM (%)	17.90	16.50	17.70
Net Profit	26.11	97.87	59.05
EPS* (Rs)	14.10	13.30	8.00

\* EPS on post-issue equity capital of Rs 73.76 crore based on upper price band. Face Value: Rs 10

## RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

The company has diversified from the FMS business into the power and waste management businesses. The power and waste management sectors in India have experienced high growth over the last few years. The company's ability to successfully identify new business opportunities and scale businesses in high growth sectors in a short period of time provides it with a significant competitive advantage. In many of the businesses that the company operates, the pre-qualification requirements for undertaking a project are strict and include a minimum experience which acts as an entry-barrier for such business. An early presence in such businesses has helped it in gaining experience and strengthened its execution skills.

## Diversified business

The company is present in and have capabilities across key growth sectors, including power and waste management. In addition, it also has a presence in the FMS business and Power IT Solutions business. The company has been able to benefit from synergies derived from its various businesses. While its EPC business provides a shorter term revenue outlook based on an outstanding order book to be executed, its Renewable Energy Generation business and MSW business offer longer-term revenue prospects. Further, the company's presence in various businesses diversifies its revenue sources, provides more stability in cash flows and protects it against adverse economic conditions.

## Significant contracts with government and PSU

The company's business and revenues are substantially dependent on projects awarded by government authorities, including central, state and local authorities and agencies and public sector undertakings (PSU). In fiscal 2008, 2009 and 2010, the total income from contracts with government authorities and public sector undertakings was Rs 4,62.03 crore, Rs 6,81.53 crore and Rs 11,50.12 crore, comprising 96.46%, 95.22% and 94.33% of the total income. The government projects may be subject to extensive internal processes, policy changes, and delays, changes due to local, national and internal politics, insufficiency of funds or changes in budgetary allocations.

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