

Technofab Engineering : Good Issue

IPO Note: Order Book Position 2.7 times of FY10 Revenue

Ranking:***

Issue details

Price band (Rs)	Rs.230 - 240
IPO Opening Date	29/06/2010
IPO Closing Date	02/07/2010
Issue Size	Rs.68.77-71.76 Crore

Valuations & Recommendation

Standalone sale for FY 2010 was higher by 34% to Rs 200.37 crore and net profit was higher by 63% to Rs 19.09 crore. The company's OPM in FY 2010 was 16.8%, which is high compared to other players in the industry who enjoy OPM of around 10-12%. The standalone EPS for FY 2010 works out to Rs 18.2. The offer price band of Rs 230-240 discounts the FY 2010 EPS by 12.6-13.2 times.

IT has an order book of Rs 533 crore as of March 31, 2010, which is 2.70 times its revenue for the 12 months ended March 2010. In comparison other comparable BoP EPC players such as Techo Electric quotes at a PE of 13.5 times its FY 2010 consolidated EPS and Sunil Hitech trades at P/E of around 11 times FY 2010 standalone EPS. The company have to face competition from established player in the same segment while looking to its order book position and past track record we advice to subscribe in the issue for listing gain as well as long term gain.

Highlights

- **Unexecuted order book end March 2010 was Rs 533.74 crore, about 2.7 times its FY 2009-10**
- **Gammon India holds about 15.7% of the pre IPO paid-up equity of the company and it will get diluted to 11% post issue**
- **The company's OPM in FY 2010 was 16.8%, which is high compared to other players in the industry who enjoy OPM of around 10-12%.**

Company Introduction

Business

Technofab Engineering (TFEL) is engaged in the business of providing engineering, procurement and construction (EPC) services on turnkey basis. The company undertakes execution of a wide range of balance-of-plant (BoP) and electro-mechanical projects in the power, oil & gas, water & wastewater treatment and other industrial & infrastructure sectors in both India as well as international markets. The company currently executes projects in 15 states in India as well as Kenya, Ethiopia and Fiji.

Incorporation and Activities

Incorporated in 1971, the company has evolved from a piping, valves and pressure vessels fabricator to an EPC company undertaking turnkey packages relating to low pressure piping systems, fuel oil handling systems and fire protection systems, and eventually executing comprehensive electromechanical packages involving all engineering disciplines: mechanical, electrical, control and instrumentation, environmental and civil. Even within turnkey services, the company has gradually expanded its coverage.

The company, which had largely targeted individual BoP packages required by customers in the steel, metallurgical and power sectors in the initial years, has gradually evolved to undertake comprehensive turnkey projects in liquid waste and effluent treatment, raw and seawater intake systems and pumping stations, rural electrification works comprising transmission mains and distribution lines, rehabilitation and up gradation of city water & sewage treatment plants in the latter years.

Financial Summary

Particulars	1003 (12)	0903 (12)	0803 (12)	0703 (12)
Sales	200.37	149.31	81.00	61.36
OPM (%)	16.8	14.5	11.2	4.7
Net Profit	19.09	11.73	5.28	0.76
EPS* (Rs)	18.2	11.2	5.0	0.7

* On post IPO equity of Rs 10.49 crore & Face Value: Rs 10

RANKING METHODOLOGY

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

Developments

The company forayed into rural electrification by acquiring 100% stake of Rivu Infrastructure Developers (RIDPL), a company engaged in undertaking electrical works including lighting and erection of substations on contractual basis on February 6, 2010 for Rs 5 lakh. RIDPL clocked a net profit of Rs 7 lakh on a sale of Rs 1.70 crore for FY 2010.

Working Partners

The company has strong relationship and worked with leading engineering consultants such as Development Consultants (DCPL), Desein, FITCHNER Consulting Engineers (India), Mecon, Tata Consulting Engineers, Engineers India, M.N. Dastur, L&T, Sargent & Lundy, Uhde India.

Issue Proceed

Issue proceeds are to fund: long-term working capital requirements; to finance the procurement of construction equipment; to set up maintenance and storage facility for construction equipment; to set up of training centre for employees; and general corporate purposes.

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