

Tantia Constructions Ltd

BUY

April 12, 2010

C.M.P:
Rs.127.15

Target Price:
Rs.150.00

1 Year Comparative Graph



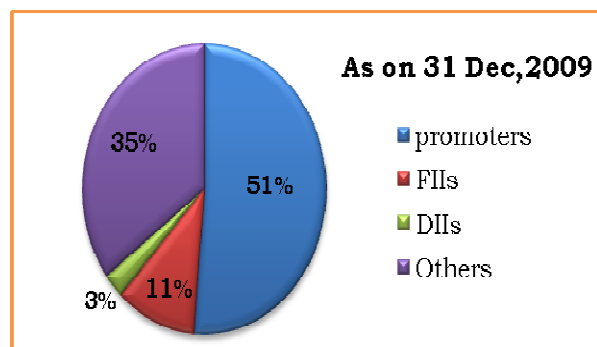
Tantia Constructions

BSE SENSEX

Stock Data

Sector	Construction & Engg.
Face Value (Rs.)	10.00
52 wk. High/Low (Rs.)	159.00/34.30
Volume (2 wk. Avg.)	70238
BSE Code	532738
Market Cap (Rs.mn.)	1980.11

Share Holding Pattern



V.S.R. Sastry
Equity Research Desk
vsrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
drsastry@firstcallindia.com

SYNOPSIS

- We initiated the coverage of Tantia Constructions Ltd and set a target price of Rs.150.00
- Tantia Constructions is specialized in works like railway infrastructure, bridges, roads, highways, power transmission, pipelines, aviation, marine, urban development and building hospitals.
- The company has received a project worth Rs 47.18 crore from Brahmaputra Cracker and Polymer.
- The company has secured an order worth Rs 91.74 crore from Northern Railway, Headquarters Office, Delhi in the name of TANTIA-CCTL (JV).
- The company is considering rising up to Rs 250 crore through various options.
- The company's net sales and net profit are expected to grow at a CAGR of 12% and 20% over FY08 to FY11E.

Financials

(Rs. in mn.)	FY08	FY09	FY10E	FY11E
Net Sales	3623.0	4496.9	4674.4	5141.9
EBIDTA	455.6	601.2	719.8	797.6
PAT	153.93	172.59	235.58	266.88
EPS	9.88	11.08	15.13	17.14
P/E	12.86	11.47	8.41	7.42

Table of Content

Content	Page No.
1. Peer Group Comparison	03
2. Investment Highlights	03
3. Company profile	06
4. Financials	10
5. Charts & Graph	12
6. Outlook and Conclusion	14
7. Industry Overview	15

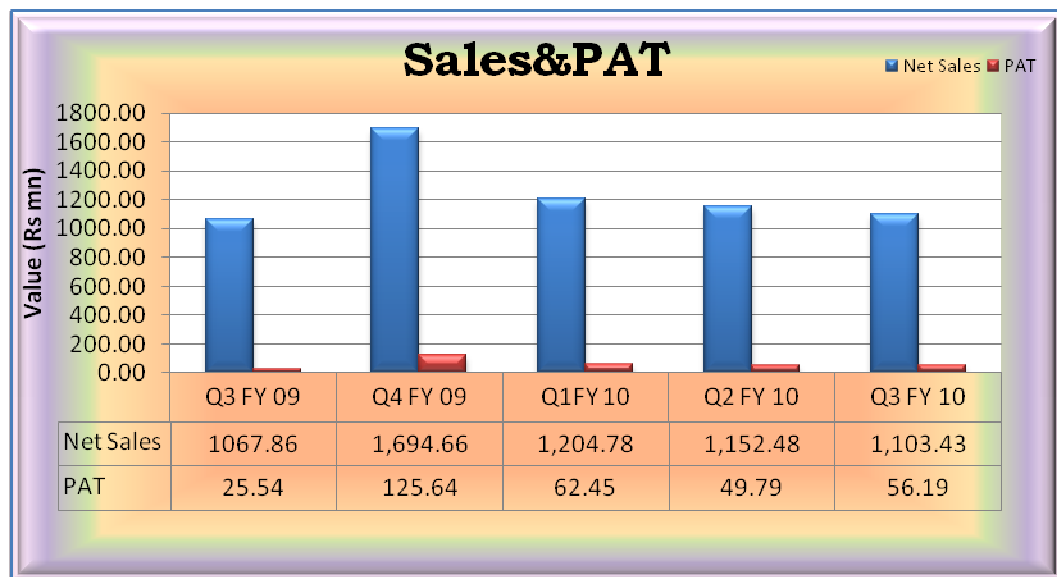
Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Tantia Construction Ltd	127.15	1980.11	11.07	6.75	1.80	15.00
Jindal SAW Ltd	217.25	59443.00	19.95	10.89	2.15	50.00
L & T	1607.00	964638.40	59.45	24.51	7.76	525.00
Nagarjuna construction	180.05	46197.90	6.72	27.45	2.73	55.00

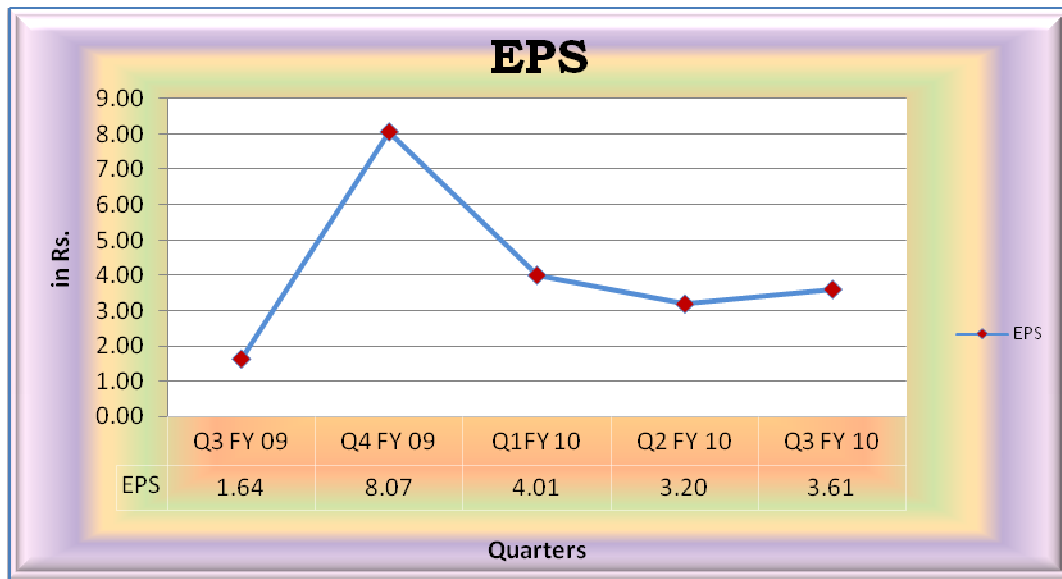
Investment Highlights

Results Updates (Q3 FY10)

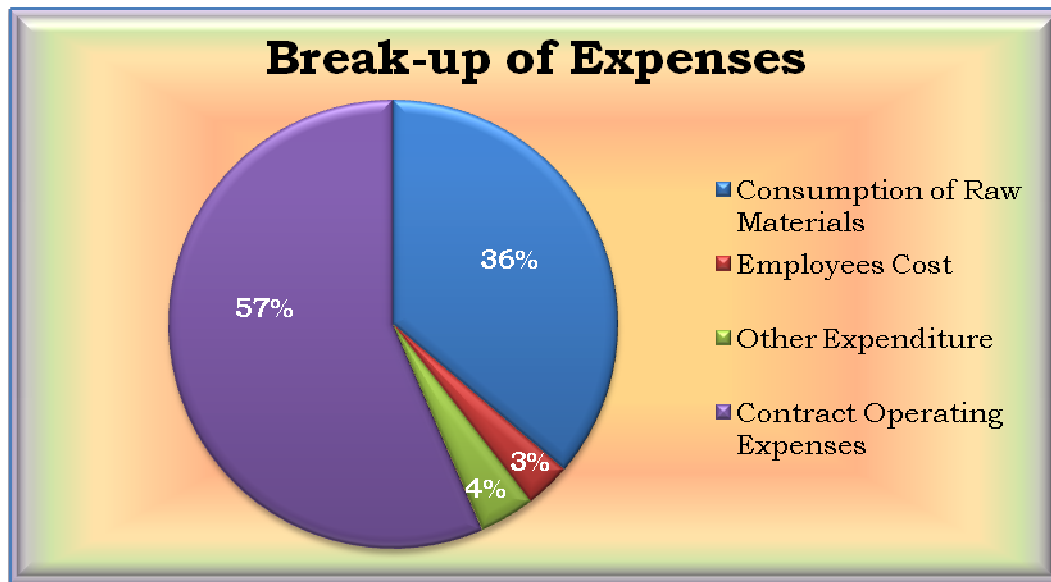
For the third quarter, the top line of the company increased 3%YoY and stood at Rs.1103.43mn against Rs.1067.86mn of the same period of the last year. The bottom line of the company for the quarter stood at Rs.56.19mn from Rs.25.54mn of the corresponding period of the previous year i.e. an increase of 120%YoY.



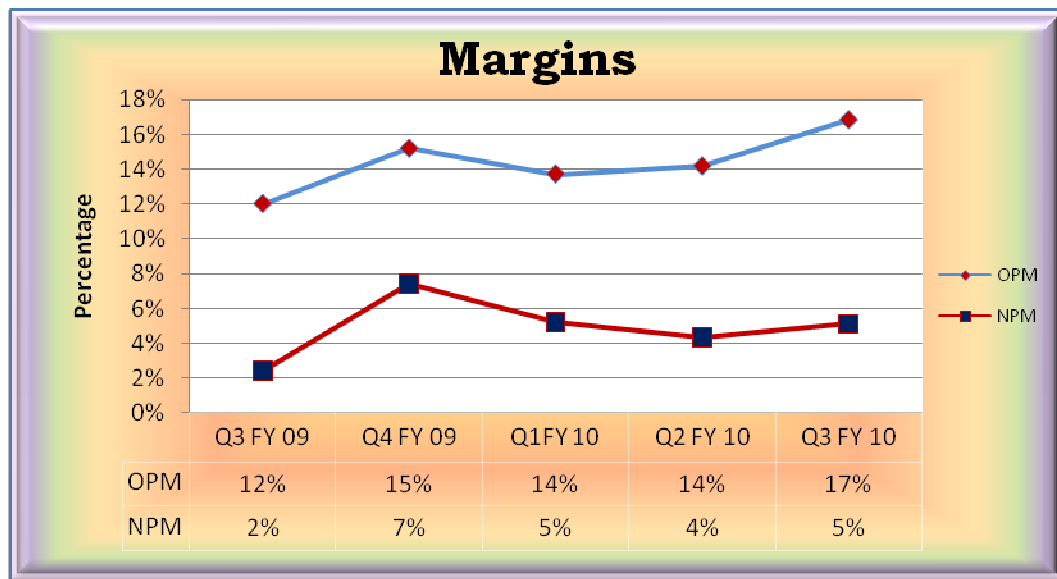
EPS of the company for the quarter stood at Rs.3.61 for equity share of Rs.10.00 each.



Expenditure for the quarter stood at Rs.926.79mn, which is around 2% lower than the corresponding period of the previous year. Raw material cost of the company for the quarter accounts for 32% of the sales of the company and stood at Rs.358.55mn. Contract Operating Expenses stood at Rs.559.28mn from Rs.538.98mn. and accounts for 51% of the revenue of the company for the quarter i.e., an increase of 4%YoY.



OPM and NPM for the quarter stood at 17% and 5% respectively from 12% and 2% respectively of the same period of the last year.



- **CoD meeting**

The Committee of Directors of the Company has issued and allotted 8,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 79.12 per share pursuant to Conversion Notice(s) received from the Warrant holder(s) for conversion of 8,00,000 Warrants. Consequently, the Paid-up capital of the Company has increased from Rs. 15,71,30,660 to Rs 16,51,30,660 by addition of 8,00,000 Equity Shares of Rs. 10 each.

- **Tantia Constructions bags order worth Rs 47.18 crore**

The company has received a project worth Rs 47.18 crore from Brahmaputra Cracker and Polymer.

The order involves civil and structural works of the ECU unit for Brahmaputra Petrochemicals Complex at Lapatkata, Assam.

- **Tantia Constructions secures Rs 91.74 crore order**

The company has secured an order worth Rs 91.74 crore from Northern Railway, Headquarters Office, Delhi in the name of TANTIA-CCTL (JV).

The order is for construction of 1.80 km long tunnel on realigned path and carrying out re-profiling work in balance length of existing Tunnel No. 1 including blanketing, earthwork & construction of side drain etc. in Zone E-2 between Tunnel No. 1 Katra end to Road Over Bridge Sambal on Udampur-Katra section in connection with Udampur- Srinagar- Baramulla Rail Link.

- **Tantia Constructions bags contract worth Rs 34.62 crore**

The company has received a project worth about Rs 34.62 crore from Municipal Corporation of Delhi.

The project involves construction of road under bridge near existing railway level X-ing near Mundka No. 16 on Delhi- Bhatinda Section.

- **Tantia Constructions wins contract worth Rs 19.50 crore**

The company has received a contract worth Rs 19.50 crore approximately from Eastern Railway, constructions department Kolkata in the name of TANTIA-EDCL (JV).

The company won the prestigious contract for earthwork in filing with required compaction in Railway embankment, approach road/ back filing of platform wall, blanketing, turfing, construction of minor bridges and other miscellaneous works from Haripal Station (excluding yard) to Tarkeswar Station (excluding yard) in connection with double line from Seoraphuli to Tarkeswar.

- **Tantia Constructions to raise Rs 250 crore via various routes.**

The company is considering rising up to Rs 250 crore through various options.

The board of the company has approved raising fresh funds in the form of Foreign Currency Convertible Bonds (FCCBs), Qualified Institutional Placements (QIPs) to Qualified Institutional Buyers (QIBs), American depository receipts (ADRs) and Global Depository Receipts (GDRs), among others. Further, the proposal is subject to the necessary provisions and approvals.

- **Tantia Constructions bags Rs 51.40 crore contract in Meghalaya**

The company has bagged an order worth Rs 51.40 crore from the Meghalaya government. The order relates to a drinking water supply project in the state.

The project envisages construction of two stages raw water pumping system, augmentation of the capacity of the existing water treatment plant, laying of clear water gravity main and feeder main pipelines and construction of clear water pumping system.

- **Dividend**

The Board of Directors of the Company has approved payment of 15% dividend i.e. Rs 1.50 per share of Rs 10 each for the Fiscal Year 2008-09.

Company Profile

Tantia Constructions Company was set up in 1964 by the Late G.P. Tantia to strengthen India's railway infrastructure. It was one of the first Indian companies to be accredited for ISO 9001:2000 from DNV, the Netherlands in 2001.

The company entered advanced mechanized road construction in compliance with specifications set by the Ministry of Surface Transport in 1990. Since then, TCL has

built roadways in inverse terrains – the hills of Mizoram, coastal areas of Kerala, plains of Punjab and the hard plateau of Karnataka – on schedule.

Tantia established its credentials in the field of construction, widening, conversion, maintenance, strengthening and beautification of roadways, road bridges, highways and flyovers. The company's expertise in the maintenance of road infrastructure will translate into complete solutions for the benefit of the client, community and country.

Extensive knowledge of the local terrain and culture, together with prior experience of undertaking projects on a pan-India basis, will result in nationwide road building opportunities.

The one company that is helping to make this a vibrant reality is Tantia Constructions Limited. A core infrastructure company, A pioneer in creating infrastructure in Eastern India. Enjoying a wide and deep footprint across the region today

The alliance partners of the company are:

- TSO, France
- Road Builder Sdn Berhad Malaysia, Malaysia
- IVRCL Infrastructure and Projects Limited, India
- Ramky Infrastructures Limited, India
- BSBK Limited, India
- Soma Enterprise Limited, India
- Basic Engineering Limited, Bangladesh
- OTBL, Bangladesh



Business area of the company:

- Roads and highways
- Railway infrastructure
- Urban infrastructure
- Aviation infrastructure
- Marine infrastructure
- Power transmission

Clientele:

- Eastern Railway
- East Central Railway
- Western Railway
- North Eastern Railway
- South Eastern Railway
- North East Frontier Railway
- Kolkata Metro Railway
- IRCON International Ltd.
- RITES
- National Highway Authority of India (NHAI)
- HRBC
- HIDCO
- NEEPCO and many more.



CPWD



IndianOil



SAIL



RITES



ISO 9001:2000



METRO RAILWAY



Delhi Development Authority



Firstcall Research

(KPO Division Of Firstsubject Technologies Ltd.)

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	3623.08	4496.95	4674.46	5141.91
Other Income	24.32	16.76	28.61	31.47
Total Income	3647.40	4513.71	4703.07	5173.38
Expenditure	-3191.75	-3912.48	-3983.27	-4375.76
Operating Profit	455.65	601.23	719.80	797.61
Interest	-200.86	-329.43	-362.35	-398.58
Gross profit	254.79	271.80	357.45	399.03
Depreciation	-53.54	-65.54	-67.52	-71.57
Profit Before Tax	201.26	206.26	289.97	327.46
Tax	-47.32	-33.67	-54.39	-60.58
Net Profit	153.93	172.59	235.58	266.88
Equity capital	155.73	155.73	155.73	155.73
Reserves	790.40	945.40	1180.98	1447.86
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	15.57	15.57	15.57	15.57
EPS	9.88	11.08	15.13	17.14

Quarterly Ended Profit & Loss Account (Standalone)

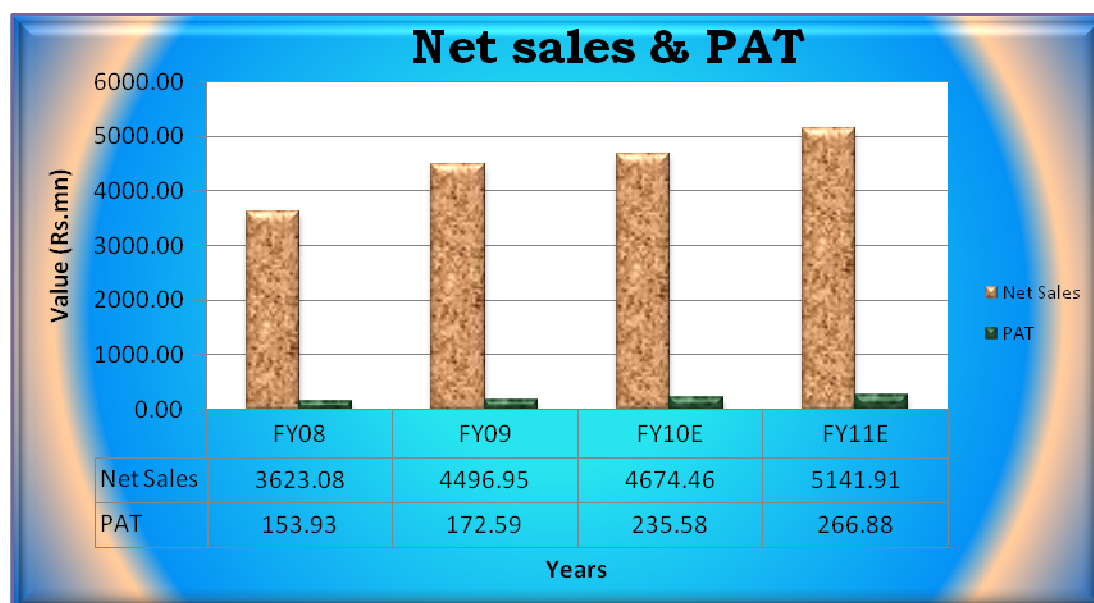
Value(Rs.in.mn)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3m	3m
Net sales	1204.78	1152.48	1103.43	1213.77
Other income	1.78	6.92	9.26	10.65
Total Income	1206.56	1159.40	1112.69	1224.42
Expenditure	-1041.14	-995.87	-926.79	-1019.47
Operating profit	165.42	163.53	185.90	204.95
Interest	-73.30	-79.99	-101.98	-107.08
Gross profit	92.12	83.54	83.92	97.87
Depreciation	-16.55	-16.71	-16.71	-17.55
Profit Before Tax	75.58	66.85	67.21	80.33
Tax	-13.12	-17.06	-11.03	-13.18
Net Profit	62.45	49.79	56.19	67.15
Equity capital	155.73	155.73	155.73	155.73
Face Value	10.00	10.00	10.00	10.00
Total No. of Shares	15.57	15.57	15.57	15.57
EPS	4.01	3.20	3.61	4.31

Key Ratio

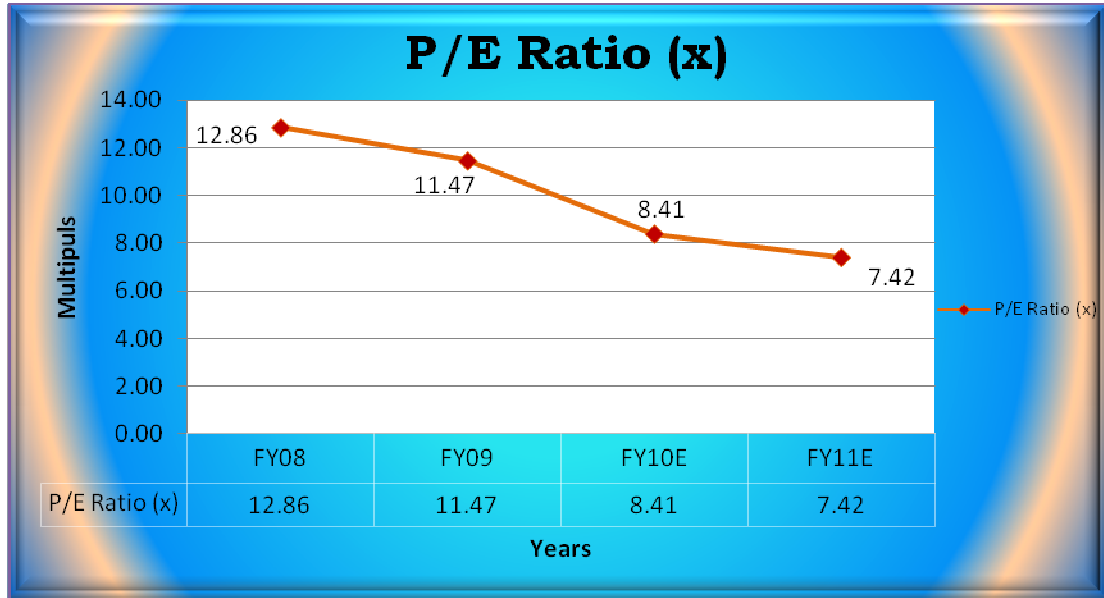
Particulars	FY08 A	FY09 A	FY10 E	FY11 E
EBIDTA %	13%	13%	15%	16%
PAT %	4%	4%	5%	5%
P/E ratio (x)	12.86	11.47	8.41	7.42
ROE - %	16%	16%	18%	17%
ROCE - %	11%	13%	14%	14%
EV/EBIDITA (x)	3.93	0.99	3.08	3.10
Debt Equity Ratio	2.98	2.80	2.53	2.32
Price/Book Value	1.89	1.80	1.48	1.23

Charts:

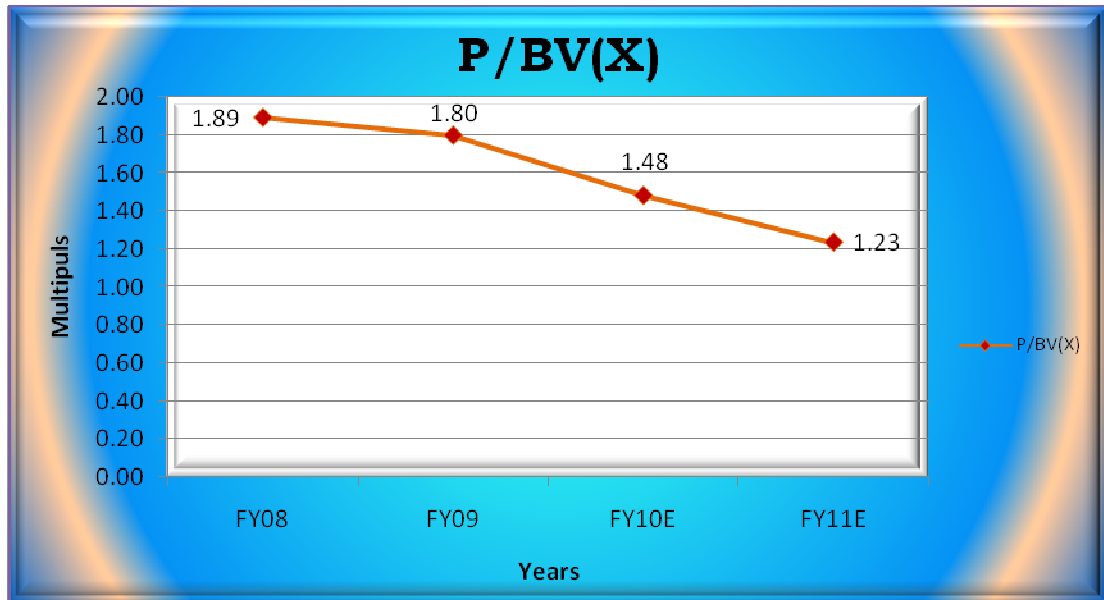
- **Net sales & PAT**



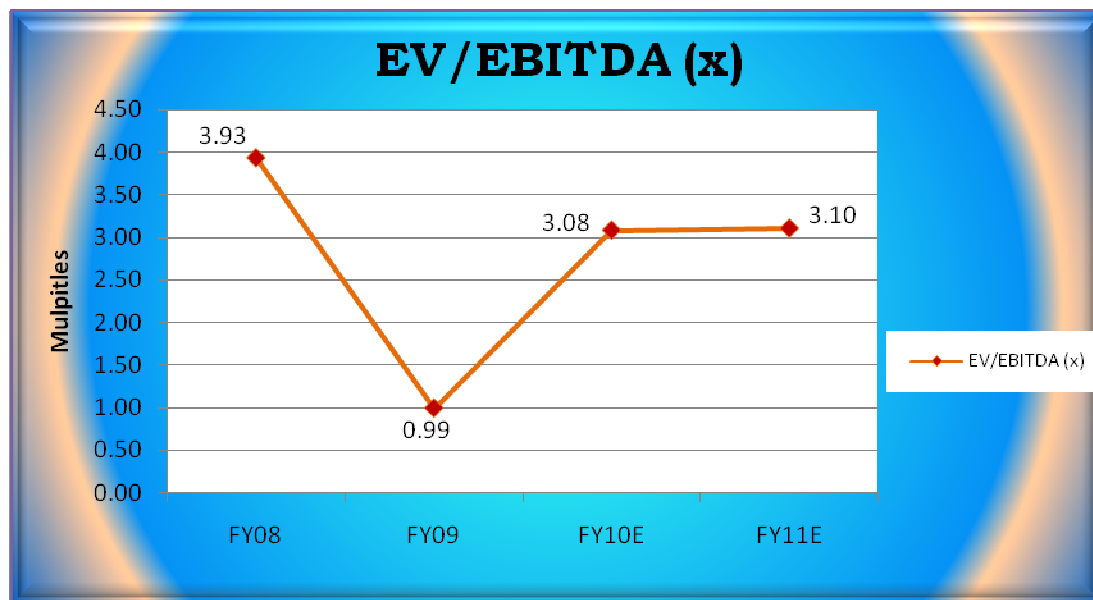
- **P/E Ratio (x)**



- **P/BV (X)**



- **EV/EBITDA(X)**



Outlook and Conclusion

- At the market price of Rs.127.15, the stock is trading at 8.41 x and 7.42 x for FY10E and FY11E respectively.
- On the basis of EV/EBDITA, the stock trades at 3.08 x for FY10E and 3.10 x for FY11E.
- Price to book value of the company is expected to be at 1.48 x for FY10E and 1.23 x for FY11E respectively.
- EPS of the company is expected to be at Rs.15.13 and Rs.17.14 for the earnings of FY10E and FY11E respectively.
- The Board of Directors of the Company has approved payment of 15% dividend i.e. Rs 1.50 per share of Rs 10 each for the Fiscal Year 2008-09.
- The Committee of Directors of the Company has issued and allotted 8,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 79.12 per share pursuant to Conversion Notice(s) received from the Warrant holder(s) for conversion of 8,00,000 Warrants.
- The company has received a project worth Rs 47.18 crore from Brahmaputra Cracker and Polymer.
- The company has secured an order worth Rs 91.74 crore from Northern Railway, Headquarters Office, Delhi in the name of TANTIA-CCTL (JV).

- Tantia Constructions to raise Rs 250 crore via various routes.
- The company has bagged an order worth Rs 51.40 crore from the Meghalaya government. The order relates to a drinking water supply project in the state.
- We recommend **'BUY'** this stock with a target price of **Rs.150.00** for medium to long term investment.

Industry Overview

The Indian construction industry

Construction activity is an integral part of a country's infrastructure and industrial development. It includes hospitals, schools, townships, offices, houses and other buildings; urban infrastructure (including water supply, sewerage, drainage); highways, roads, ports, railways, airports; power systems; irrigation and agriculture systems; telecommunications etc. Covering as it does such a wide spectrum, construction becomes the basic input for socio-economic development. Besides, the construction industry generates substantial employment and provides a growth impetus to other sectors through backward and forward linkages. It is, essential therefore, that, this vital activity is nurtured for the healthy growth of the economy.

With the present emphasis on creating physical infrastructure, massive investment is planned during the eleventh Plan. The construction industry would play a crucial role in this regard and has to gear itself to meet the challenges. In order to meet the intended investment targets in time, the current capacity of the domestic construction industry would need considerable strengthening.

In India, construction is the second largest economic activity after agriculture. Investment in construction accounts for nearly 11 per cent of India's Gross Domestic Product (GDP) and nearly 50 per cent of its Gross

Fixed Capital Formation (GFCF) Fund injection into the sector could go up to US\$ 124.65 billion by FY2010. Construction accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years.

The Indian construction industry recorded a consistent double-digit year-on-year growth (12%) during 2000-2005, and is expected to grow at 25-30% during 2005-2010. The key drivers of this growth are government investment in infrastructure creation and real estate demand in the residential and industrial sectors.

The industry is experiencing increasing polarization between large and small players. These players are increasing their market share through large-scale contracts, joint ventures, and foreign operations. Though an increasing number of small players are also entering the market, most of them do not have the resources to bid for big contracts.

The construction segment constitutes a significant part of infrastructure development in the economy. The following table shows the construction investments figures in the various areas of infrastructure development:

(Rs. in billion)

	FY02-FY06	FY07-FY11
Roads	1167	2306
Urban infrastructure	536	1150
Power	578	861
Irrigation	514	744
Railways	225	639
Others	193	429
Total	3,213	6129

Demand for construction has resulted in the following macro trends:

The increasing spend in the infrastructure sector has resulted in an increased order book for construction companies thereby easing the supply – demand competitive pressure.

Margins of construction companies were adversely impacted by increase in prices of inputs in the past especially steel, aggregate and now cement. Whilst commodity prices continue to exhibit volatility, price escalation clauses are being used to allow for some protection. Whilst partly mitigated, this remains an area of concern.

Construction companies are moving towards public-private partnership, raising funds from the market to finance these projects. Whilst some participants, especially the smaller ones, have adopted a fragmented approach to the market, bidding aggressively, the more established players who have financial strength, experience and access to technology and an appetite to undertake large contracts are adopting a selective approach in their order mix and client selection, leading up to risk management on margins. To accelerate and increase public private partnerships in infrastructure, two major initiatives have been taken by the GoI provision of viability gap funding and Establishment of India Infrastructure Finance Company Limited. Construction industry is facing the challenges of outdated land and property ownership regulations, infrastructural bottlenecks, and a shortage of civil engineers.

The construction sector has major linkages with the building material industry since construction material accounts for sizeable share of the construction costs. These include cement, steel, bricks/tiles, sand/aggregates, fixtures/fittings, paints and chemicals, construction equipment, petro-products, timber, mineral products, aluminum, glass and plastics.

Engineering

The engineering sector is the largest segment of the overall Indian industrial sector. India has a strong engineering and capital goods base. The important groups within the engineering industry include machinery & instruments, primary and semi finished iron & steel, steel bars & rods, non-ferrous metals, electronic goods and project exports. The engineering sector employs over 4 million skilled and semi-skilled workers (direct and indirect).

The sector can be categorized into heavy engineering and light engineering segments. Heavy engineering segment forms the majority of the engineering sector in India. India has a well-developed and diversified industrial machinery/ capital base capable of manufacturing the entire range of industrial machinery. The industry has also managed to successfully develop advanced manufacturing technology over the years.

Among the developing countries, India is a major exporter of heavy and light engineering goods, producing a wide range of items. The bulk of capital goods required for power projects, fertilizer, cement, steel and petrochemical plants and mining equipment are made in India. The country also makes construction machinery, equipment for irrigation projects, diesel engines, tractors, transport vehicles, cotton textile and sugar mill machinery.

Sector structure/Market size

The steel industry in India has been moving from strength to strength and according to the year-end review by the Press Information Bureau, India has emerged as the fourth largest producer of steel in the world and the second largest producer of crude steel.

Significantly, state-owned steel maker, Steel Authority of India (SAIL), which reported a net profit of US\$ 571 million in January-June 2009, has become the most profitable steel company globally, beating steel majors such as ArcelorMittal, Posco, Bao Steel and Nippon in the half yearly profits.

Production

Steel production reached 28.49 million tonne (MT) in April-September 2009.

The National Steel Policy has a target for taking steel production up to 110 MT by 2019–20. Nonetheless, with the current rate of ongoing greenfield and brownfield projects, the Ministry of Steel has projected India's steel capacity is expected to touch 124.06 MT by 2011–12. In fact, based on the status of memoranda of understanding (MoUs) signed by the private producers with the various state governments, India's steel capacity is likely to be 293 MT by 2020.

Consumption

India accounts for around 5 per cent of the global steel consumption. Almost 70 per cent of the total steel used is for kitchenware. However, its use in railway coaches, wagons, airports, hotels and retail stores is growing immensely.

India's steel consumption rose by 6.8 per cent during April-November 2009 over the same period a year ago on account of improved demand from sectors like automobile and consumer durables.

A Credit Suisse Group study states that India's steel consumption will continue to grow by 16 per cent annually till 2012, fuelled by demand for construction projects worth US\$ 1 trillion.

The scope for raising the total consumption of steel is huge, given that per capita steel consumption is only 35 kg – compared to 150 kg across the world and 250 kg in China.

Steel players like JSW Steel and Essar Steel are increasing their focus on opening up more retail outlets pan India with growth in domestic demand. JSW Steel currently has 50 such steel retail outlets called JSW Shoppe and is targeting to increase it to 200 by March 2010. They expect at least 10-15 per cent of their total production to be sold by their retail outlets.

Essar Steel which currently has over 300 retail outlets across the country, and plans to set up 5,000 outlets of various formats soon. It expects to sell 3MT of steel through the retail route in two years.

Exports

Out of India's annual iron ore production of more than 200 MT, about 50 per cent is exported.

India's iron ore exports more than doubled to 9.3 million tonne in October 2009 as compared to 4.4 million tonne in the same month a year ago on the back of increase in demand from Chinese steel producers, as per a joint study by a group of iron ore exporters.

Iron ore is a key input in steel making. The country's iron ore exports during April-October 2009 period grew 20 per cent over the year ago period to 53 million tonne, as per the study.

Investments

A host of steel companies have lined up major investment proposals. Furthermore, with an expanding consumer market, the Indian steel industry is likely to receive huge domestic and foreign investments.

The domestic steel sector has attracted a staggering investment of about US\$ 236 billion, according to the Minister of State for Steel A Sai Prathap.

This consists of nearly 222 MoUs signed between the investors and various state governments mostly in the states of Orissa, Jharkhand, Chhattisgarh and West Bengal.

- According to the Investment Commission of India investments of over US\$ 30 billion in steel are in the pipeline over the next 5 years.

- Tata Steel has raised US\$ 500 million by issuing 'global depository receipts' (GDRs) aiming at expansion of its Jamshedpur plant and overseas mining projects.
- The state-owned Steel Authority of India Ltd (SAIL) will invest US\$ 724.12 million to set up a 4-million tonne per annum steel mill at its Bhilai Steel Plant.
- SAIL is also planning to set up a 12-million tonne plant in Jharkhand.
- Stainless steel manufacturer and exporter, Varun Industries, is setting up a US\$ 171.63 million stainless steel-cum-alloy steel plant at Rohat, Jodhpur.
- India's largest engineering conglomerate Larsen & Toubro (L&T) and state-owned Nuclear Power Corporation of India Limited (NPCIL) have formed a US\$ 370.09 million joint venture for specialized steel and forging products.

Government Initiative

Subsequent to the recent fall in international prices of commodities and to protect Indian producers, the Indian government has announced some changes in customs duty rates, which were effective from November 2008.

The government has removed full exemption of customs duty on some industrial and agricultural commodities. Iron and steel products like pig iron, spiegeleisen, semi-finished products, flat products and long products are now subject to a basic custom duty of 5 per cent ad valorem.

The Indian government plans to invest over US\$ 350 billion in industries related to infrastructure and construction which will give a fillip to the steel sector.

Moreover, in the Union Budget 2009-10, the government has made a 23 per cent hike in allocation for highway development and US\$ 1.034 billion increase in budgetary support to Railways which will further promote the steel industry.

Road ahead

While the demand for steel will continue to grow in traditional sectors such as infrastructure, construction, housing, automotive, steel tubes and pipes, consumer durables, packaging, and ground transportation, specialized steel will be increasingly used in hi-tech engineering industries such as power generation, petrochemicals, fertilizers, etc. The new airports and railway metro projects will require a large amount of stainless steel.

According to an estimate, with the growing need for oil and gas transportation infrastructure, a US\$ 118 billion opportunity is waiting to be tapped by steel manufacturers in the next five years. Indian steelmakers are set to make the most of booming global demand for steel pipes and tubes with the government withdrawing the 10 per cent duty on the exports of these products. According to a study by ICICI Direct, Indian steel companies are likely to get 19 per cent of the total global demand in the years to come.

Disclaimer:

This document prepared by our research analysts does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable but do not represent that it is accurate or complete and it should not be relied on as such. Firstcall India Equity Advisors Pvt. Ltd. or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provide for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.

Firstcall India Equity Research: Email – info@firstcallindia.com	
B. Harikrishna	Banking
B. Prathap	IT
A. Rajesh Babu	FMCG
C.V.S.L.Kameswari	Pharma
U. Janaki Rao	Capital Goods
E. Swethalatha	Oil & Gas
D. Ashakirankumar	Automobile
Kavita Singh	Diversified
Nimesh Gada	Diversified
Priya Shetty	Diversified
Tarang Pawar	Diversified
Neelam Dubey	Diversified

Firstcall India also provides

Firstcall India Equity Advisors Pvt.Ltd focuses on, IPO's, QIP's, F.P.O's, Takeover Offers, Offer for Sale and Buy Back Offerings.

Corporate Finance Offerings include Foreign Currency Loan Syndications, Placement of Equity / Debt with multilateral organizations, Short Term Funds Management Debt & Equity, Working Capital Limits, Equity & Debt Syndications and Structured Deals.

Corporate Advisory Offerings include Mergers & Acquisitions (domestic and cross-border), divestitures, spin-offs, valuation of business, corporate Restructuring-Capital and Debt, Turnkey Corporate Revival – Planning & Execution, Project Financing, Venture capital, Private Equity and Financial Joint Ventures

Firstcall India also provides Financial Advisory services with respect to raising of capital through FCCBs, GDRs, ADRs and listing of the same on International Stock Exchanges namely AIMs, Luxembourg, Singapore Stock Exchanges and Other international stock exchanges.

For Further Details Contact:

3rd Floor, Sankalp, The Bureau, Dr.R.C.Marg, Chembur, Mumbai 400 071

Tel.: 022-2527 2510/2527 6077/25276089 Telefax: 022-25276089

E-mail: info@firstcallindiaequity.com

www.firstcallindiaequity.com