

## Tantia Constructions

<b>STOCK INFO.</b>	<b>BLOOMBERG</b>
BSE Sensex: 11,939	N.A.
<b>S&amp;P CNX: 3,556</b>	<b>REUTERS CODE</b>
	N.A.

26 April 2006

Buy

Rs170-200

### New Listing

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	EPS GROWTH (%)	P/E (x)	P/BV (x)	RoE (%)	RoCE (%)	EV/ SALES (x)	EV/ EBITDA (x)
3/06E	1,700	64	14.8	246.9	12.5	4.1	32.7	13.3	1.0	8.8
3/07E	3,000	162	10.4	-30.0	17.8	3.3	18.3	14.8	1.2	10.6
3/08E	4,500	276	17.7	70.7	10.4	2.6	24.5	17.5	0.9	7.8

\*Calculation based on Rs185/share

Tantia Constructions (Tantia) is an upcoming construction company with an impeccable profit record and a strong presence in Eastern India. The company is getting listed on 28th April 2006. We recommend a **Buy** at Rs170-200 with a one year price target of Rs270 (15x FY08E)..

- **Positive industry outlook - huge opportunity:** If India is to sustain an 8%+ GDP growth rate, adequate infrastructure would be the pre-requisite. Infrastructure spending over the next five years is estimated to post a ~15% CAGR, which will take the figure to ~US\$125b by 2010. Construction companies will be the biggest beneficiaries of this expected surge in the infrastructure investment.
- **Strong order book; high revenue growth visibility:** Tantia has a strong order book. From Rs6.5b as at 31 March 2005, its order book has swelled to Rs8.1b as on 28 February 2006 (~4.7x FY06E revenues). Most of these orders are scheduled for completion over the next 2-3 years, which gives high revenue visibility.
- **Diversified project portfolio:** Tantia has a diversified project portfolio spanning railways, roads, ports, bridges, power and urban infrastructure. As its order book is not dependent on a single segment of the construction industry, it is exposed to relatively low business risk.
- **Consistent profits; expanding margins:** Tantia has been making profits consistently. Over the last 10 years, its post-tax profits have posted a CAGR of 26%. Net profit for 9MFY06 stood at Rs40.8m as against Rs18.7m for FY05. Its EBITDA margin has steadily improved on back of low contract operating cost. EBITDA margin, which stood at 7.7% in FY03, has increased to 11.8% in 9MFY06.
- **Valuation and recommendation:** On the back of its robust order book, we expect Tantia to post net sales of Rs3b and Rs4.5b, in FY07E and FY08E respectively. PAT will be Rs162m and Rs276m. At Rs185, the stock is at PE of 17.8x (FY07E) and 10.4x (FY08E) We recommend a **Buy** with a one year price target of Rs270 (15x FY08E).



Investment Ideas for Private Clients

#### PROMOTERS & PROMOTER GROUP HOLDING (%)

Pre-Issue	64.1
Post-Issue	51.2

## Key positives

### Positive industry outlook - huge opportunity

In the past few years Indian government, at the center as well as those of states, have taken initiatives towards improving infrastructure of the country. Last one year has seen many new projects being allotted and policies formulated for increasing infrastructure spend. For India to achieve 8% plus GDP growth, adequate infrastructure is a pre-requisite. Infrastructure activities involve construction of roads, railways, ports, airports, power system, and urban infrastructure.

India spends ~3.5% of its GDP towards infrastructure development which is very low as compared to that of China (~11% of GDP). It is expected to post a CAGR of 15% over the next five years. Construction companies will be the biggest beneficiaries of this expected surge in infrastructure investment. We expect construction companies will have huge opportunity to tap and there will not be any dearth of orders/projects over the next five years.

Apart from domestic opportunities, the international construction scenario too offers humungous prospects for growth for Indian construction companies. The global construction business is estimated at ~Rs176t and India's share in this is a miniscule Rs22b, thus leaving enormous scope for growth.

### Estimated spending by FY09 on some major construction segments

Segments	Major policy indicative	Rs b
Roads	• Seven phase National Highway Development Program	873
Railways	• Green field railway network for freight traffic. • Metro Rail projects at Hyderabad, Mumbai, Bangalore	1017
Airports	• Restructuring of Delhi & Mumbai airports • Greenfield airports at Bangalore /Hyderabad	180
Power	• Accelerated power development • Enactment and Implementation of Electricity Act	1485

Source: RHP

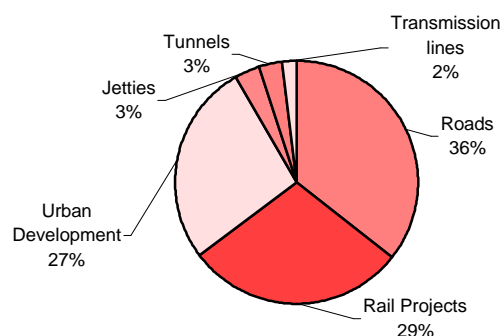
### Strong order book; high revenue growth visibility

Tantia has a strong order book. From Rs6.5b as on 31 March 2005, its order book has swelled to Rs8.1b (~4.7x FY06E revenues) as on 28 February 2006. Most of these orders are scheduled for completion over the next 2-3 years, which gives high revenue visibility.

### Diversified project portfolio

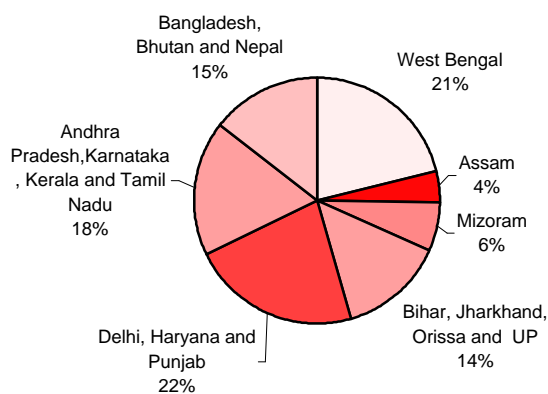
The company has a presence across all segments of the construction activity evident from its well diversified portfolio. This enables the company to de-risk its business model as its order book is not dependent on a single segment of the construction industry. In addition to its well diversified portfolio, Tantia, which is headquartered in Kolkata has also presence in North and South regions of India. The company has also ventured into construction projects in neighboring countries namely, Bangladesh, Bhutan and Nepal.

#### DIVERSIFIED PROJECT PORTFOLIO



Source: Motilal Oswal Securities / Company

#### GEO-GRAPHICAL BREAK-UP OF REVENUE - (% TURNOVER DERIVED ACROSS THE LAST 10 YEARS)



Source: Motilal Oswal Securities / Company

## Milestone Projects completed

### Railways:

- Restore in 19 days, 14 km rail track damaged by flood for Eastern railway.
- Built 1.25 km bridge across the wide and deep Saryu River in Uttar Pradesh.

### Urban Infrastructure:

- Construction of high-speed light rail concrete tram track for hooghly river bridge in Kolkata.
- Built display halls at Pragati Maidan (New Delhi)

### Marine:

- Built 14 km coastal embankment and hydraulic structures along Bangladesh's seashore and islands
- Built Jetty on Brahmaputra with a scour depth of more than 25 meter

### Roads:

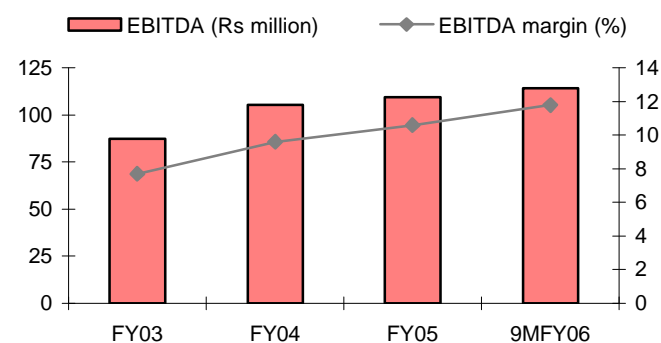
- Constructed 120 km roads in Mizoram along curves of the hills.
- Four-laning of NH-1 from Panipat to Karnal in Haryana

## Consistent profits; expanding margins

Tantia has been a consistent profit making company since inception. Its profits over the last 10 years have posted a CAGR of 26%. Its revenue has remained flat over the last two years, However the trend has changed in FY06 due to huge order inflow in FY05 and FY06. For 9MFY06, Tantia posted revenues of Rs965.4m - a growth of 24.8% on an annualized basis. Net profit for 9MFY06 stood at Rs40.8m as against Rs18.7m for full years FY05.

At the operating level the company has performed extremely well. EBITDA margin has steadily improved on back of low contract operating cost. EBITDA margin

## IMPROVEMENT IN MARGINS



Source: Motilal Oswal Securities / Company

which stood at 7.7% in FY03 has increased to 11.8% in 9MFY06.

## Concerns

### Increase in raw material price

Increase in cement/steel price, major raw materials for infrastructure projects, could impact operating margins.

However, most of the projects have escalation clause which unables companies to pass on this cost push.

### Equity dilution

As the company grows from a small sized entity to a mid sized one, it may need to increase its network there by resulting in further issue of shares.

However, we believe that incremental order inflow on back of increased network would not adversely impact return on equity and earnings.

## Valuations and recommendation

On the back of its robust order book, we expect Tantia to post net sales of Rs3b and Rs4.5b, in FY07E and FY08E respectively. PAT will be Rs162m and Rs276m. At Rs185, the stock is at PE of 17.8x (FY07E) and 10.4x (FY08E).

We recommend a **Buy** with a one year price target of Rs270 (15x FY08E).

### IPO details

Tantia Constructions has come out with an IPO issuing 11.25m equity shares of Rs10/each with a price band of Rs45-Rs50. The company is already listed on CSE and DSE. One of the objectives of this issue was to get its equity share listed on BSE. The net proceeds of the issue will be utilized for capital expenditure, repayment of public deposit & unsecured loan, enhancement of long term working capital and Investment in BOT/BOOT projects and Joint Ventures.

### Total requirement of funds

Particulars	Rs Million
Investment in Capital Equipment	322.5
Enhancement of LT working capital	150
Repayment of unsecured loan	170
Repayment of public deposit	25
Investment in BOT/BOOT projects & JV	100
<b>Total</b>	<b>767.5</b>

The company has tied up with the financial institutions for Rs136.8m to be utilized for above mentioned plans.

### About Tantia Construction

Tantia Constructions (Tantia) is an upcoming construction company with strong presence in Eastern India. Incorporated in the year 1964 and promoted by late Shri. G. P. Tantia, it is currently headed by Shri I P Tantia who possesses more than 35 years of experience in construction industry. The company with its head quarters in Kolkata has presence in other parts of the country through its regional office at New Delhi, Guwahati and Aizwal.

Over last four decades Tantia has successfully executed over 190 projects. It has been a profit making company since inception and has consistently paid dividends in the last six years. Tantia is among the first Indian companies to have been accredited with "ISO 9001:2000" certificate. The company has a well diversified portfolio with a presence in all the key verticals of the construction activity.

### Its evolution

Over the last four decades Tantia has evolved to become a well diversified construction company. From its earlier venture into railway projects in 1968, it has leveraged it's strength and has forayed into aviation and power segments in 2005. The company has expertise in construction of bridges, rail roads, roads & flyovers and has now presence in all the major construction activities.

Year	Particulars
1968	Ventured into Rail Projects
1978	Ventured into Bridges
1982	Ventured into Industrial Projects
1994	Ventured into Marine Infrastructure and Road
2005	Ventured into Aviation and Transmission

Source: RHP

INCOME STATEMENT						(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E	
<b>Net sales</b>	<b>1,094</b>	<b>1,032</b>	<b>1,700</b>	<b>3,000</b>	<b>4,500</b>	
Change (%)	-3.8	-5.7	64.8	76.5	50.0	
<b>EBITDA</b>	<b>92</b>	<b>109</b>	<b>184</b>	<b>354</b>	<b>530</b>	
Change (%)	13.5	18.5	68.1	92.5	50.0	
Depreciation	24	24	33	65	75	
<b>EBIT</b>	<b>68</b>	<b>85</b>	<b>151</b>	<b>289</b>	<b>455</b>	
Interest	49	62	82	110	148	
Other income	4	3	3	3	3	
<b>PBT</b>	<b>23</b>	<b>25</b>	<b>72</b>	<b>182</b>	<b>311</b>	
Tax	4	7	8	20	35	
Rate (%)	17.5	26.4	112	112	112	
<b>REPORTED PAT</b>	<b>19</b>	<b>18</b>	<b>64</b>	<b>162</b>	<b>276</b>	
<b>Adjusted PAT</b>	<b>19</b>	<b>18</b>	<b>64</b>	<b>162</b>	<b>276</b>	
Change (%)	-34.4	-4.1	246.9	152.3	70.7	
EBITDA margin (%)	8.4	10.6	10.8	11.8	11.8	
PAT margin (%)	1.8	1.8	3.8	5.4	6.1	

BALANCE SHEET						(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E	
Equity share capital	22	43	43	156	156	
Preference Capital	0	1	1	0	0	
Reserves	101	93	152	729	969	
<b>Networth</b>	<b>123</b>	<b>138</b>	<b>197</b>	<b>884</b>	<b>1,125</b>	
Loans	560	698	950	1,074	1,477	
Net deferred tax liability	10	11	12	13	14	
<b>Capital employed</b>	<b>692</b>	<b>846</b>	<b>1,159</b>	<b>1,971</b>	<b>2,616</b>	
Gross fixed assets	321	314	387	637	740	
Less: Depreciation	104	117	150	214	289	
<b>Net fixed assets</b>	<b>218</b>	<b>197</b>	<b>237</b>	<b>423</b>	<b>451</b>	
Capital WIP	0	0	0	0	0	
Investments	4	4	4	4	4	
<b>Curr. assets</b>	<b>686</b>	<b>742</b>	<b>1,081</b>	<b>1,867</b>	<b>2,596</b>	
Inventory	274	348	475	743	1,110	
Debtors	175	163	300	538	800	
Cash & bank balance	57	110	130	200	236	
Loans & advances	180	120	176	386	450	
<b>Current liab. &amp; prov.</b>	<b>215</b>	<b>97</b>	<b>165</b>	<b>323</b>	<b>435</b>	
Creditors	175	52	120	210	320	
Other Liabilities	35	39	40	78	80	
Provisions	5	5	5	35	35	
<b>Net current assets</b>	<b>471</b>	<b>645</b>	<b>916</b>	<b>1,544</b>	<b>2,161</b>	
Misc. exp. (not written off)	0	1	1	0	0	
<b>Application of funds</b>	<b>692</b>	<b>846</b>	<b>1,159</b>	<b>1,971</b>	<b>2,616</b>	

E: Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>4.5</b>	<b>4.3</b>	<b>14.8</b>	<b>10.4</b>	<b>17.7</b>
Growth (%)	-34.4	-4.1	246.9	-30.0	70.7
Cash EPS	10.0	9.9	22.4	14.5	22.6
Book value	56.8	314	45.1	56.8	72.3
DPS	2.0	10	10	2.0	2.0
Payout (incl. Div. Tax.) (%)	22.4	26.4	7.6	21.7	12.7
<b>Valuation (x)</b>					
Price (Rs)			185.0	185.0	185.0
P/E			12.5	17.8	10.4
Cash P/E			8.3	12.7	8.2
Price/Book value			4.1	3.3	2.6
EV/Sales			10	12	0.9
EV/EBITDA			8.8	10.6	7.8
Dividend yield (%)			0.5	1.1	1.1
<b>Profitability ratios (%)</b>					
RoE	15.7	13.4	32.7	18.3	24.5
RoCE	10.5	10.3	13.3	14.8	17.5
<b>Turnover ratios</b>					
Debtors (days)	58	58	64	65	65
Inventory (days)	91	123	102	90	90
Creditor (days)	130	52	71	70	71
Asset turnover (x)	1.6	1.2	1.5	1.5	1.7
<b>Leverage ratio</b>					
Debt/Equity (x)	4.6	5.1	4.8	12	13

CASH FLOW STATEMENT						(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E	
<b>PBT before EO items</b>	<b>23</b>	<b>25</b>	<b>72</b>	<b>182</b>	<b>311</b>	
Add : Depreciation	24	24	33	65	75	
Interest	49	62	82	110	148	
Less : Direct taxes paid	4	7	8	20	35	
(Inc)/Dec in WC	-172	-121	-252	-558	-581	
<b>CF from operations</b>	<b>-80</b>	<b>-16</b>	<b>-73</b>	<b>-222</b>	<b>-82</b>	
EO, misc. & other items	0	0	0	0	0	
<b>CF from oper. incl. EO items</b>	<b>-80</b>	<b>-16</b>	<b>-73</b>	<b>-222</b>	<b>-82</b>	
(Inc)/Dec in FA	-26	-3	-73	-250	-103	
(Pur)/Sale of investments	3	0	0	0	0	
<b>CF from investments</b>	<b>-23</b>	<b>-4</b>	<b>-73</b>	<b>-250</b>	<b>-103</b>	
Inc/(Dec) in network	1	2	1	563	1	
Inc/(Dec) in debt	183	138	252	124	403	
Less : Interest paid	-49	-62	-82	-110	-148	
Dividend paid	-4	-5	-5	-35	-35	
<b>CF from fin. activity</b>	<b>130</b>	<b>72</b>	<b>166</b>	<b>541</b>	<b>222</b>	
<b>Inc/Dec in cash</b>	<b>26</b>	<b>53</b>	<b>20</b>	<b>70</b>	<b>36</b>	
Add: Beginning balance	31	57	10	130	200	
<b>Closing balance</b>	<b>57</b>	<b>110</b>	<b>130</b>	<b>200</b>	<b>236</b>	



For more copies or other information, please contact

**Institutional:** Navin Agarwal. **Retail:** Relationship Manager (RM) or MOS<sub>t</sub> Franchisee

Phone: (91-22) 39825500 / 56575200 Fax: (91-22) 22816161. E-mail: inquire@motilaloswal.com

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Disclosure of Interest Statement	Tantia Construction
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
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