



February 18, 2008

# Tantia Construction

Buy

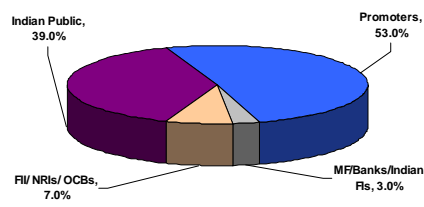
CMP: Rs 131

Target Price: Rs 157

## Key Data

Market Cap (Rs bn)	2
Market Cap (US\$ mn)	51
52 WK High / Low	189 / 92
Avg Daily Volume	106780
Face Value (Rs)	10
BSE Sensex	18115
Nifty	5303
BSE Code	532738
NSE Code	-
Reuters Code	TANC.BO
Bloomberg Code	TANC IN

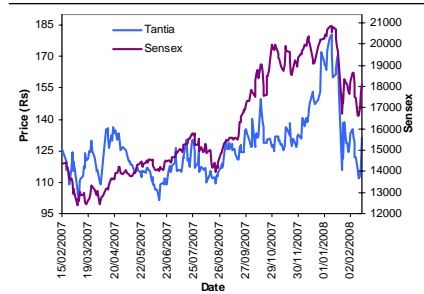
## Shareholding Pattern (%)



## Price Performance (%)

	Absolute	Relative
3 Months	(3.4)	(0.2)
6 Months	16.8	(8.8)
12 Months	20.5	(12.3)

## BSE vs Tantia Construction



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## Keeping It Small & Simple.....

Tantia Construction is a pure cash contractor and is in the business of construction of roads, urban infrastructure and rail projects. The company has a decent order book in hand and presence in niche areas.

## Company Updates

Tantia's order book has grown to Rs 16bn up from Rs 13bn in September 2007 with an execution period of approximately 2.5 years.

Current focus of the company continues to be on roads which is commanding 40% share in the order book. Railways and Urban Infrastructure hold 25% each and balance is distributed between power transmission and aviation projects.

The company is currently bidding for BOT projects in road segment and has emerged lowest bidder in one of the projects. The company continues to focus on the EPC division of railways and power transmission segment. In urban infra, Tantia has taken up projects for sewerage treatment projects and allied activities. Two aviation projects for construction of new terminals are also under execution.

Tantia plans to enter the logistics sector by constructing and owning ware-houses. The company has presence in growing segments, strong foothold in Eastern India and intends to focus on this part of the country in future also. The company continues to focus on selective high margin projects and building of strong capabilities in-house. **We expect the company to report a CAGR of 45% in revenues and 35% in profits during FY2007-10E.**

## Valuations

Tantia is sitting on a comfortable order book, which is 6.5x its FY2007 revenues and diversified in niche areas. **At the CMP 131, the scrip trades at 10.7x FY2009E diluted EPS of Rs 12.2 and 7.5x FY2010E diluted EPS of Rs 17.5. We reiterate a Buy recommendation and 12 month Target Price of Rs 157 which translates into annualized returns of 20%.**

## Key Financials

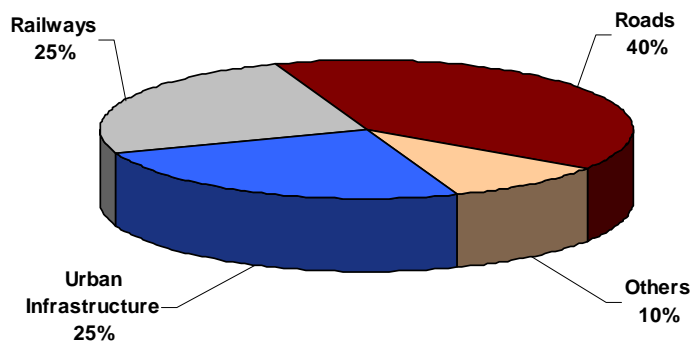
Y/E	March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
<b>Net Sales</b>		<b>2460</b>	<b>3421</b>	<b>5393</b>	<b>7551</b>
% chg		51.6	39.1	57.6	40.0
<b>Net Profit</b>		<b>131</b>	<b>150</b>	<b>226</b>	<b>323</b>
% chg		54.0	13.8	50.9	43.2
<b>EPS (Rs)</b>		<b>8.5</b>	<b>8.1</b>	<b>12.2</b>	<b>17.5</b>
EBITDA Margin (%)		11.8	11.7	11.7	12.0
P/E (x)		15.4	16.2	10.7	7.5
P/CEPS (x)		12.2	11.6	7.8	5.6
EV/EBIDTA		12.4	9.2	6.5	5.6
Book Value(Rs)		53.4	73.5	84.1	100.2
P/BV(x)		2.5	1.8	1.6	1.3
RoE (%)		16.8	13.7	15.5	19.0

Source: Company; FQ Research

## Order book...well diversified

The company has a decent order book of Rs 16bn adding Rs 8bn worth of orders post its IPO in March 2006.

### Exhibit 1: Diversified Order Book



Source: FQ Research, Company

The company has a vast experience in the EPC of Railway projects executing right from earth work to laying of railway lines to construction of bridges and tunnels. In urban infra segment the company executes environmental projects of sewerage systems and water supply systems. Going forward Tantia intends to focus on railways and urban infra projects coming up across India especially in Eastern region.

The company is also expected to benefit from projects in upcoming SEZs, road projects under North South Economic Development Corridor connecting the northern hinterland of the state with the industrial regions of south, railways electrification, upgradation of existing small ports and real estate projects in north eastern areas.

#### Future Initiatives

Tantia intends to bid for bigger projects in power transmission segment for which the company has built up an in-house capabilities for transmission lines. The company has also completed laying of 100 km of transmission lines making it eligible for bidding higher end projects.

The company is also scouting for airport projects coming up in non- metro segments. The orders primarily include building of terminals and allied works. The company has already put in bids for some of these projects.

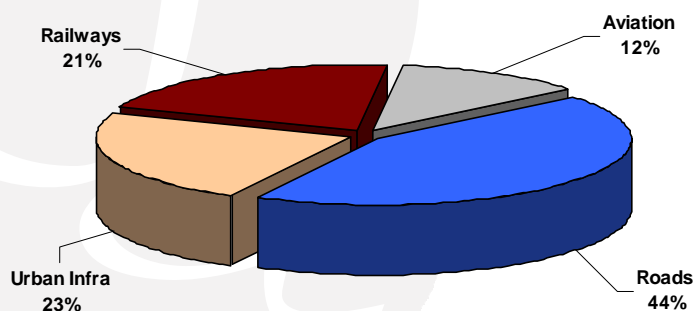
Tantia intends to enter in Logistics sector by building and owning ware-houses. The company plans to buy land and construct ware –houses at strategic places across India. The ware- house business would be kept under a separate subsidiary.

**Q3FY2008...revenues soaring**

Y/E March (Rs mn)	Q3 FY2008	Q3 FY2007	%chg YoY	9mth FY2008	9mth FY2007	%chg YoY
<b>Net Sales</b>	<b>938</b>	<b>603</b>	<b>55.4</b>	<b>1980</b>	<b>1456</b>	<b>36.0</b>
Expenditure	815	523	55.9	1698	1269	33.8
<b>EBIDTA</b>	<b>123</b>	<b>81</b>	<b>52.5</b>	<b>283</b>	<b>187</b>	<b>50.9</b>
<i>Margin (%)</i>	<i>13.1</i>	<i>13.4</i>		<i>14.3</i>	<i>12.9</i>	
Interest	49	27	82.9	149	69	115.8
EBDTA	74	54	37.2	134	118	13.2
Depreciation	14	9	56.3	37	24	57.9
<b>PBT</b>	<b>60</b>	<b>45</b>	<b>33.6</b>	<b>97</b>	<b>95</b>	<b>2.1</b>
Other Income	8	0	1900.0	13	1	
Tax	6	7	(24.2)	11	11	5.6
<b>PAT</b>	<b>63</b>	<b>38</b>	<b>65.1</b>	<b>99</b>	<b>85</b>	<b>15.5</b>
<i>Margin (%)</i>	<i>6.7</i>	<i>6.3</i>		<i>5.0</i>	<i>5.9</i>	
<b>EPS</b>	<b>4.0</b>	<b>2.5</b>		<b>6.3</b>	<b>5.5</b>	

Tantia has clocked a YoY growth of 55.4% on top-line at Rs 938mn from Rs 603mn in Q3FY07. However, margins have come down by 25bps on account of greater execution of road projects in the said quarter.

**Exhibit 2: Q3FY08 Revenue Mix**



Source: FQ Research, Company

As the company has been growing its order intake the depreciation and interest costs have shown a steep rise. The company is getting benefits on some projects u/s 80IA which has resulted into a lower tax rate.

**Company background**

Tantia was incorporated in the year 1964 and over four decades of existence. The company has an unmatched track record of completing every single assignment on time. In recent years the company has executed a number of praiseworthy projects in the states of West Bengal, Assam, Bihar, Uttar Pradesh, Tamil Nadu, Kerala and Mizoram, and in neighboring countries like Bangladesh, Nepal and Bhutan.

**Concerns**

The company is an EPC player in construction sector which carries execution risks inherent in it.

Margin Pressure: Though the company works on projects with price escalation clause, drastic increase in the commodity prices may affect the margins of the company to that extent.

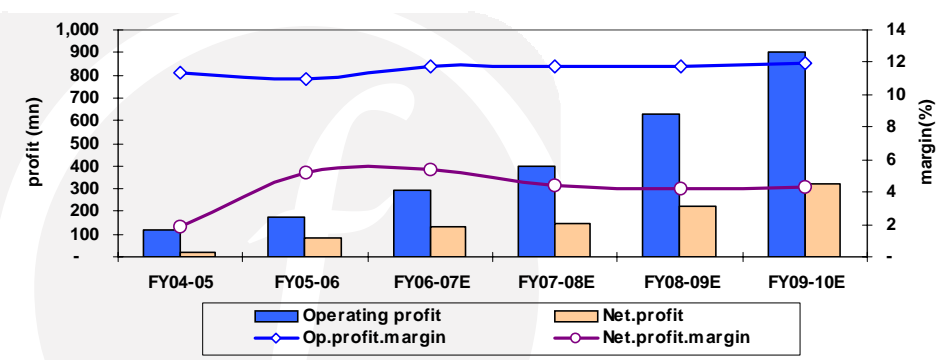
Geographic Concentration: The company has majority of its projects in Eastern India, (and further is banking on growth of this region) thus is geographically concentrated. Any slow down in the investment momentum in these states can hamper the growth of the company if it does not diversify geographically.

### Financials

We maintain our earlier estimates for FY2008E and FY2009E. We expect Tantia to post sales of Rs 3.4bn and Rs 5.3bn in FY2008E and FY2009E, registering a growth of 40% YoY and 57% YOY respectively. We expect the company to post Rs 150mn as PAT in FY2008E and Rs 225mn in FY2009E.

We introduce our FY2010E estimates and expect the company to achieve top-line and bottom-line of Rs 7.5bn (CAGR of 45.3% over FY2007-10E) and Rs 323mn (CAGR of 34.7% over FY2007-10E) respectively. Assuming a reduction in share of road projects in revenues we expect the margins to inch up by 25bps. Our FY2010E EPS stands at Rs 17.5. We have valued the core business at Rs 157 giving a P/E of 9x to FY2010E EPS.

**Exhibit 3: Financials.. volume growth to excel**



Source: Company, FQ Research

### Valuations

Tantia is on a learning curve and has a decent order book in different areas. **At the CMP 131, the scrip trades at 10.7x FY2009E diluted EPS of Rs 12.2 and 7.5x FY2010E diluted EPS of Rs 17.5. We reiterate a Buy recommendation and 12 month Target Price of Rs 157 which translates into annualized returns of 20%.**

**Profit & Loss Statement**
**Rs mn**

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
<b>Net Sales</b>	<b>2460</b>	<b>3421</b>	<b>5393</b>	<b>7551</b>
% Ch YOY	51.6	39.1	57.6	40.0
Expenditure	2170	3020	4761	6647
<b>EBIDTA</b>	<b>290</b>	<b>401</b>	<b>633</b>	<b>904</b>
Margin %	11.8	11.7	11.7	12.0
Interest	113	123	211	310
EBDTA	177	278	422	594
Depreciation	35	58	86	110
Other Income	12	6	4	3
PBT	153	225	339	486
Tax	22	75	114	163
<b>PAT</b>	<b>131</b>	<b>150</b>	<b>226</b>	<b>323</b>
%Chg	54.0	13.8	50.9	43.2

**Balance Sheet**
**Rs mn**

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
<b>SOURCES OF FUNDS</b>				
<b>Share Capital</b>	<b>167</b>	<b>186</b>	<b>186</b>	<b>186</b>
<b>Reserves &amp; Surplus</b>	<b>664</b>	<b>1172</b>	<b>1368</b>	<b>1665</b>
Shareholders Funds	831	1358	1554	1851
Deferred Tax Liab (net)	10	14	21	21
Secured Loans	1176	1010	1426	2460
Unsecured Loans	375	255	238	220
Total Debt	1551	1265	1664	2680
<b>Total Liabilities</b>	<b>2392</b>	<b>2637</b>	<b>3239</b>	<b>4553</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	567	852	1152	1552
Less : Accum. Dep.	158	217	303	413
<b>Net Block</b>	<b>409</b>	<b>636</b>	<b>849</b>	<b>1139</b>
Capital WIP	0	0	0	0
<b>Investments</b>	<b>101</b>	<b>91</b>	<b>45</b>	<b>222</b>
Current Assets	2402	2553	3358	4626
Current Liab.	529	650	1017	1439
<b>Net Current Assets</b>	<b>1874</b>	<b>1903</b>	<b>2340</b>	<b>3187</b>
Misc Exp not w/o	8	8	5	5
<b>Total Assets</b>	<b>2392</b>	<b>2637</b>	<b>3239</b>	<b>4553</b>

**Key Ratios**

Y/E March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
<b>Valuation Ratio (x)</b>				
PER (Rs)	15.4	16.2	10.7	7.5
PEG (%)	-0.3	-3.5	0.2	0.2
P/CEPS (x)	12.2	11.6	7.8	5.6
P/BVPS (x)	2.5	1.8	1.6	1.3
EV/EBIDTA (x)	12.4	9.2	6.5	5.6
EV/Net Sales (x)	1.5	1.1	0.8	0.7
<b>Per Share Data(Rs)</b>				
EPS	8.5	8.1	12.2	17.5
CEPS	10.8	11.2	16.9	23.4
BV	53.4	73.5	84.1	100.2
<b>Returns(%)</b>				
ROCE	14.8	15.9	21.5	23.2
ROE	16.8	13.7	15.5	19.0
EBIDTA Margin	11.8	11.7	11.7	12.0
Net Profit Margin	5.4	4.4	4.2	4.3
EBDTA Margin	7.2	8.1	7.8	7.9
Tax/PBT	14.2	33.5	33.5	33.5
<b>Operating Ratio(%)</b>				
Debtors collection (days)	102	96	92	93
Creditors payment (days)	60	55	52	58
Debt-Equity (x)	1.9	0.9	1.1	1.4



## FINQUEST Securities (P) Ltd.

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Website: [www.finquestonline.com](http://www.finquestonline.com)

**Ratings (Returns)**

**Buy > 15%**

**Hold 0-15%**

**Sell > -10%**

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