

# A2Z Maintenance & Engg. Services

SECTOR: ENGINEERING



SUBSCRIBE

## Issue Snapshot

Issue Open:	8-Oct-10
Issue Close:	10-Oct-10
Price Band (Rs.)	400-410
Issue Size (Rs.mn)	8570-8616
Market Cap (Rs.bn)	27.8-28.4

	₹ @ Rs. 400	₹ @ Rs. 410
<b>Issue Size (No. of Shares)</b>	<b>21,425,000</b>	<b>21,013,415</b>
QIB:	10,662,500	10,456,707
Non-Institutional:	3,198,750	3,137,012
Retail:	7,463,750	7,319,695
Employee Reservation Portion	100,000	100,000

Face Value (Rs)	10
Book Value as of FY10 (Rs.)	73.9

## Capital Structure:

Pre Issue Equity (Rs.mn)	570
Post Issue Equity @ Rs.400 (Rs.mn)	696
Post Issue Equity @ Rs.410 (Rs.mn)	692

Shareholding Pattern	Pre Issue (%)	Post issue (%) @ Rs 400	Post issue (%) @ Rs 410
Promoter	55.8	45.9	46.2
Mutual fund, FII, Other	44.2	29.8	30.0
Public	-	24.2	23.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Shares</b>	<b>57,301,125</b>	<b>69,626,125</b>	<b>69,214,540</b>

## Objects of the Issue

Sr. No.	Particulars	Rs mn
1	Investment in biomass-based power projects, certain MSW projects and rice mill	3577
2	Repayment of loan	417
3	Working capital requirement	1250
4	General Corporate Purposes	[.]
	<b>Total</b>	<b>[.]</b>

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

A2Z Maintenance & Engineering Services (A2Z) an established engineering, procurement and construction (EPC) company, providing services to the power transmission and distribution sector plans to raise about Rs 8.6bn to primarily fund its biomass-based power projects, MSW projects and meet working capital requirements.

## Investment Rationale

- **Key beneficiary from Government initiatives:** The Government's attempts to curb power distribution losses (currently at 26.91%) through schemes like R-APDRP and RGGVY and emphasis on waste management due to increasing population, are expected to prove beneficiary for the company.
- **Diversification:** A2Z is diversifying into providing EPC services to power generation companies and companies in road and telecom besides T&D. Further it is entering the **renewable energy** space integrating from its municipal solid waste (MSW) service. It is also looking at developing **IT solutions for power utilities**.
- **Capex plan (over FY11-FY12)=FY10 turnover:** The company has a huge capex lined-up over 2010-2011, thereby pulling-up long term growth prospects.
- **Integration to enable margin expansion:** Integrating into larger EPC services in Power and entering renewable energy generation from collection and transportation of MSW, is expected to enable margin expansion.
- **New businesses to enable overcome stressed working capital:** The Company executes power T&D projects on EPC-basis, which are mainly for public sector undertakings, leading to strained working capital. Newer ventures including renewable power are expected to bring respite.

## Valuation

A2Z is an established EPC service provider to Power T&D sector primarily focusing on distribution. EPC contributes 90-95% of the turnover and has recorded CAGR of 57% over FY08-FY10. The company reported net sales and net profit CAGR of 60% and 40% over FY08-FY10. We recommend a 'Subscribe'.

## Industry Overview

### Power

The power sector in India is slowly moving from a regulated return framework to a market driven pricing mechanism. This has provided a major boost for private entrepreneurs to enter the power sector and set up projects. Currently significant traction has been achieved in the generation space, while the transmission and the distribution segment is slowly opening to the private sector.

Demand for engineering, procurement and construction services in the power transmission lines and power distribution businesses is largely dependent on development, demand and new investments in the power generation, transmission and distribution sectors. For FY 10, India faced an energy shortage of approximately 11.7% of total energy requirements and 13.3% of peak demand requirements.

Each successive FYP has increased power generation capacity addition targets. The XIth FYP envisaged a planned additional capacity of 78.7 GW through investments of Rs. 4,951 billion, an additional 92.5 GW generation capacity is envisaged in the XIIth FYP through an investment of Rs. 5,917 billion. The Ministry of Power has projected an installed capacity of 212,000 MW by 2012. This requires substantial augmentation of power generation capacity. Investment in power generation sector is expected to lead to increased investment in power transmission and distribution sector as well so as to make the power available to the required end consumers in the country

### Distribution

Distribution is typically considered to be the transfer of less than 66 KV range of power to end consumers. After the unbundling of the state electricity boards in the country, most of the states have separate distribution corporations engaged in the business of electricity distribution. Distribution is considered as the weakest link in the power sector due to the large energy losses occurring at the distribution end. T&D losses in India are very high at 26.91% as per PFC in 2008.

In order to accelerate and upgrade the Indian T&D infrastructure, the Government of India consolidated various distribution schemes during the Xth FYP including Accelerated Power Development and Reforms Program

(APDRP) & Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) schemes.

### Municipal solid waste management

Municipal Solid Waste is a waste type which predominantly includes household waste (domestic waste) and sometimes with the addition of commercial wastes collected by a municipality within a given area.

### Need for Urban Sector Development

According to the 2001 census, India has a population of 1,027 million with approximately 28% or 285 million people living in urban areas. As a result of the liberalization policies adopted by the Government of India, the urban population is expected to increase to about 40% of total population by the year 2021.

### Investment Requirements in the Urban Sector

It is estimated that over a seven-year period, the urban local bodies (ULBs) would require a total investment of Rs. 1,205,360 million. This includes an investment in basic infrastructure and services, that is, annual funding requirement of Rs. 172,190 million.

It is well recognised that in order to fructify these investments, a national level initiative is required that would bring together the State Governments and enable ULBs to catalyze investment flows in the urban infrastructure sector.

### Jawaharlal Nehru National Urban Renewal Mission

Urban renewal is one of the thrust areas in the National Common Minimum Programme of the Government and accordingly, JNNURM was launched on December 3, 2005 with an investment of Rs. 1,000,000 million during the mission period of seven years beginning 2005-06.

### Renewable Energy in India

Renewable energy-based power capacities have registered the highest pace of growth in the overall capacity additions in India compared to non renewable sources, increasing their share of total power capacity from 2% in FY 2003 to around 10% in FY 2010. Nonetheless, contribution from renewable energy sources towards overall generation has been low at around 3% due to low plant load factors of renewable capacities.

The aim for the XIth FYP, as stated by the working group of the Planning Commission in its Report of the Working Group on New and Renewable Energy for the XIth FYP (2007-2012) (published in December 2006), is a capacity addition of 14,000 MW from renewable energy (grid-interactive). In the report, the Planning Commission estimates that by the end of the XIth FYP, renewable energy power capacity in India could be around 23,000 MW out of total capacity of around 211,000 MW (or approximately 11% of total capacity).

### Company Background

A2Z Maintenance & Engineering Services Ltd (A2Z) operates in facility management services (FMS) and engineering, procurement and construction (EPC) projects.

**FMS** includes engineering maintenance (mechanical, plumbing, electrical, HVAC, DG Set), energy-saving solutions, janitorial services, parking management, property lease management, telecommunication tower maintenance and security services to public and private sector clients.

Under **EPC**, the company provides services to the power transmission and distribution sector, with primary focus on the distribution segment. It is also diversifying into providing EPC services to power generation companies and companies in other sectors, including road and telecommunication.

A2Z has been operating the EPC business since fiscal 2006 and has historically focused on the power distribution sector. EPC services include the installation of distribution line infrastructure with capacities of up to 33 KV, the construction of substations of up to 33 KV and participation in system-strengthening projects and rural electrification projects.

In the power transmission sector, it has undertaken select EPC projects like the construction of extra high voltage (EHV) substations of up to 400 KV and EHV transmission lines of up to 765 KV. Its customers in EPC business are state power utilities and central public sector utilities such as PGCIL, NTPC and NHPC.

In addition to this, the company is diversifying its focus on to other businesses that include the following:

- Generating power from renewable energy sources
- Providing municipal solid waste management services
- Developing information technology (IT) solutions for power utilities

### Capex plan (over FY11-FY12) = FY10 turnover

The company has an ambitious capex plan of Rs 12bn, 42% of which would be funded through the IPO proceeds.

Particulars	Estimated Total Cost	Finance from IPO proceeds
3x15MW biomass (bagasse)-based power cogeneration projects in Punjab	2,460	680
5x15MW biomass-based power generation projects in Rajasthan	4,000	1,200
15 MW biomass-based power generation project in Kanpur	850	250
MSW projects	2,384	423
Rice mill and associated rice-husk based biomass power generation project in Punjab	1,023	1,023
Repayment of loan	417	417
Working capital requirements	1,250	1,250
<b>Total</b>	<b>12,384</b>	<b>5,244</b>

Source: Company

The capex is concentrated towards renewable energy projects to be commissioned in 2011 at Punjab, Rajasthan and Kanpur.

### Valuation & Recommendation

A2Z Maintenance & Engineering Services is an established EPC service provider to Power T&D sector primarily focusing on distribution. EPC contributes 90-95% of the turnover and has recorded CAGR of 57% over FY08-FY10. Other segments including facility management and waste management though small are high growth businesses. The company reported net sales and net profit CAGR of 60% and 40% over FY08-FY10. We recommend a '**Subscribe**' to the issue.

**Financials**

Income Statement			Rs Mn
Year ended 31st March	FY08	FY09	FY10
<b>Income</b>			
Engg services	4536.47	6644.22	11227.83
Facility management services	253.51	500.65	909.81
MSW Collection	-	2.17	46.27
Consultancy fees	-	10.06	8.94
<b>Income from Operations</b>	<b>4,790</b>	<b>7,157</b>	<b>12,193</b>
<b>Operating Expenditure</b>	<b>3,907</b>	<b>5,888</b>	<b>10,185</b>
Other Income	23	82	60
<b>EBIDTA</b>	<b>907</b>	<b>1,351</b>	<b>2,068</b>
Depreciation	13	20	36
<b>Profit before Interest &amp; Tax</b>	<b>893</b>	<b>1,331</b>	<b>2,032</b>
Financial Charges	125	388	489
<b>Profit Before Tax</b>	<b>769</b>	<b>943</b>	<b>1,542</b>
Tax Expenses	270	353	557
<b>PAT before minority interest</b>	<b>498</b>	<b>591</b>	<b>985</b>
Share of minority interest	-	0	4
<b>Profit after tax</b>	<b>498</b>	<b>590</b>	<b>981</b>

Cash Flow Statement			Rs Mn
Year ended 31st March	FY08	FY09	FY10
<b>From Operating Activities</b>	<b>(976)</b>	<b>(555)</b>	<b>(652)</b>
<b>From Investing Activities</b>	<b>(397)</b>	<b>(382)</b>	<b>(1,103)</b>
<b>From Financing Activities</b>	<b>1,382</b>	<b>1,007</b>	<b>1,818</b>
<b>Net Cash Flow</b>	<b>9</b>	<b>71</b>	<b>62</b>
Opening Cash	6	16	87
Acquisition of subsidiary			2
Closing cash	15	87	151

Balance Sheet			Rs Mn
Year ended 31st March	FY08	FY09	FY10
Share Capital	191	216	573
Preference shares	750	-	-
Share warrants	-	-	-
Reserves & Surplus	699	2,015	3,640
Minority interest		(2)	(22)
<b>Net Worth</b>	<b>1,641</b>	<b>2,233</b>	<b>4,235</b>
Loans	1,249	2,643	4,052
<b>Current Liabilities</b>	<b>1,975</b>	<b>3,077</b>	<b>5,306</b>
<b>Total Liabilities</b>	<b>4,864</b>	<b>7,953</b>	<b>13,593</b>
Gross Block	139	254	624
Less: Depreciation	17	36	76
Capital work-in-progress	-	136	846
<b>Net Block</b>	<b>122</b>	<b>354</b>	<b>1,394</b>
Investment	-	-	0
Deferred Tax Assets (Net)	12	23	41
Current Assets	4,731	7,577	12,089
Misc. expenditure	-	-	(68)
<b>Total Assets</b>	<b>4,864</b>	<b>7,953</b>	<b>13,593</b>

Ratios			
Year ended 31st March	FY08	FY09	FY10
Debt to Equity (x)	0.8	1.2	1.0
ROCE (%)	30.9	27.3	24.5
Cash EPS (Rs.)	8.9	10.6	17.8
BV/Share (Rs.)	28.6	39.0	73.9
P/BV at upper band (x)	14.3	10.5	5.5
RoNW (%)	30.4	26.4	23.2
EPS (Rs.)	8.7	10.3	17.1
P/E at upper band (x)	47.1	39.8	23.9
EBIDTA Margin (%)	18.9	18.9	17.0
PAT Margin (%)	10.4	8.3	8.0

\*Pre Issue Figures

**Disclaimer:** This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. SPA or any of its affiliates or employees 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. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.

The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement**

1. Analyst ownership of the stock - No
2. Group/Directors ownership of the stock - No
3. Broking relationship with company covered - No

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

<b>Research</b>	Srinivas Reddy	Head of Research	srinivas.reddy@spagroupindia.com	Tel: +91-22-4289 5000 Ext. 633
-----------------	----------------	------------------	----------------------------------	--------------------------------

<b>SPA Securities Limited</b>	<b>SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-22-4289 5000</b>
-------------------------------	---

For More Information Visit Us At [www.spasecurities.com](http://www.spasecurities.com)

SPA CAPITAL SERVICES LIMITED Investment Advisory services, AMFI Reg. No. ARN-0007	SPA MERCHANT BANKERS LTD. SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	SPA Securities Ltd.			
		Membership	SEBI Regn. No.	NSE – CM & WDM	INB231178238
SPA COMTRADE PRIVATE LIMITED Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC no.NCDEX/TCM/CORP/0714	SPA INSURANCE BROKING SERVICES LTD. Direct Broker for Life and General Insurance broking IRDA Lic. Code No. DB053/03	NSE – F&O	INF231178238	NSE – CD&IRF	INE231178238
		BSE – CM & WDM	INB011178234	BSE – CD	INE011178234
		MCX-SX – CD	INE261178238	OTCEI – Cash	INB200891838
		DP – CDSL	IN-DP-CDSL-485-	DP – NSDL	IN-DP-NSDL-316-
		SEBI – PMS	INP000003179		