

Technofab Engineering Ltd.

Witnessing margin pressure

Outlook

While the infrastructure sector is reeling under the pressure of high debt burden and a slowing economy, Technofab Engineering Ltd (TEL) with its large order book of over Rs 1,100 crore and low debt equity of ~0.3x is expected to outperform the industry. Owing to revenue visibility (2.7x FY12 revenues), we expect the revenues to grow at a CAGR of 22.5% to Rs 566.3 crore over the forecast period of FY13-14. At a CMP of Rs 123, TEL is trading at 3.5x and 2.7x its estimated earnings for FY13 and FY14 and we reiterate a BUY with the price target of Rs 182 (target 4.0x FY14 EPS) representing a potential upside of 48%.

Key Takeaways

- TEL recorded 17.2% YoY in Q2FY13 to Rs 109.9 crore as against Rs 93.8 crore in Q2FY12 led by timely execution of on-going projects. Power and Water segment continues to be the higher contributory to the top-line with 39% and 34% respectively, followed by Oil & Gas (16%), Industrials (10%) and Electricals (1%) segments.
- EBITDA of the company was lower by 3.8% YoY to Rs 12.8 crore in Q2FY13 from Rs 13.3 crore in Q2FY12 on account of ~78% YoY increase in input costs. Finance costs were higher during the quarter at Rs 1.6 crore (+13.8% YoY). Consequently, PAT was at Rs 7.2 crore in Q2FY13 as against Rs 7.6 crore (-5.0% YoY) owing to the decline in other income (Rs 0.07 crore v/s Rs 0.2 crore; -74.5% YoY) and rise in finance costs (+13.8% YoY).
- EBITDA margins for the quarter contracted by 260 bps YoY to 11.6% from 14.2% in Q2FY12. It also contracted on sequential basis by 190 bps. PAT margin contracted by 150 bps YoY to 6.6% in Q2FY13 as against 8.1% in Q2FY12. The management attributed intense competition coupled with continued slowdown in domestic industry for the margin pressure. However, it is confident of improving the margins going ahead.
- The company has received order inflow of ~Rs 350 crore during H1FY13 which takes its order back log to Rs 1,100 crore (2.9x FY12 revenues). Moreover, the company has guided to achieve order book of ~Rs 950-1,000 crore in FY13. As of H1FY13, its mainstream order book comprises of Power (Thermal – 28%, Nuclear - 2%) and Water (29%) followed by Oil & Gas (9%), Industrials (13%) and Electrical distribution & rural electrification (13%).

Recommendation (Rs)	
CMP	123
Rating	BUY

Index Details	
Sensex	18,309
Nifty	5,574
Industry	Construction & Engg

Scrip Details	
Mkt Cap (Rs cr)	129
Eq Shares O/s (Cr)	1.0
Avg Vol (Lakhs)	0.01
52 Week H/L	178/110
Dividend Yield (%)	1.6
Face Value (Rs)	10.0

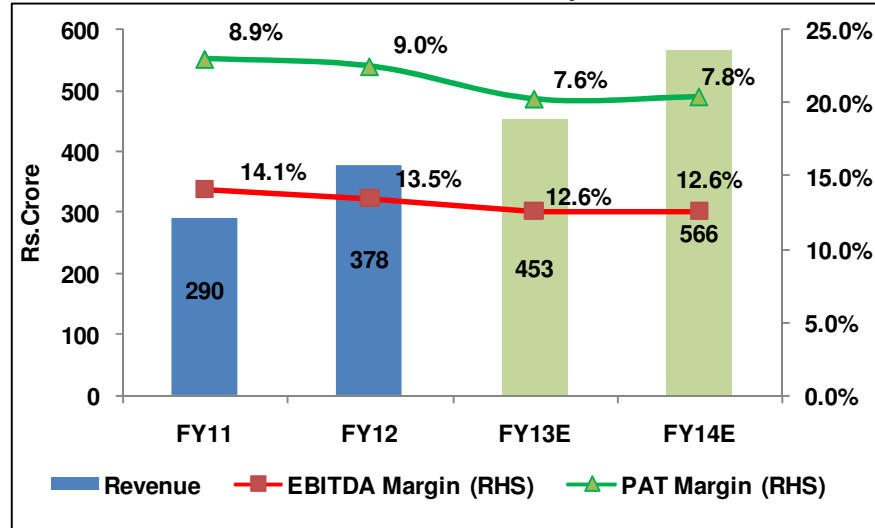
Latest shareholding pattern (%)	
Promoters	43.7
Indian Institutions	3.2
FII's	12.8
Public	40.3
Total	100

Stock performance (%)			
	1m	3m	6m
Technofab	-7.0	-3.2	-2.8
Nifty	-1.0	4.7	13.9
BSE - CG	-3.2	7.4	18.5

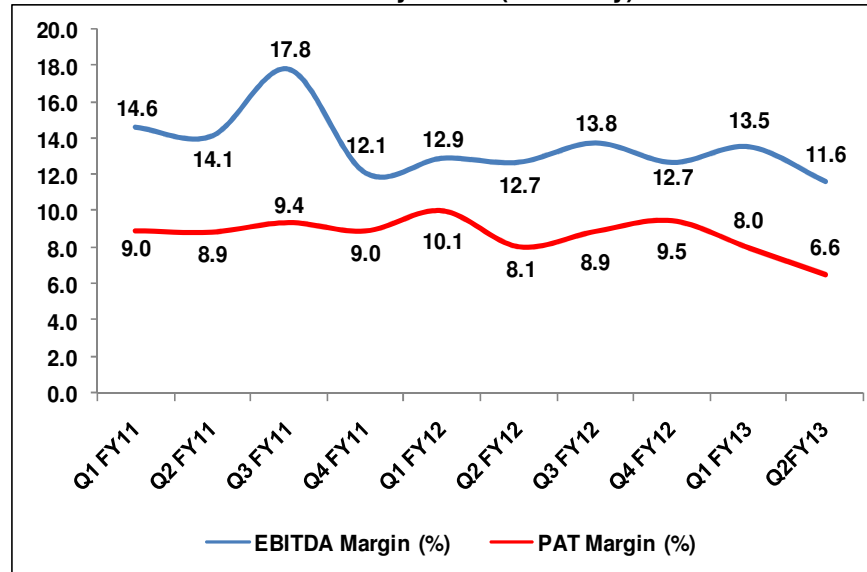
Quarterly Result Update

Description	Q2FY13	Q2FY12	% Chg.	Q2FY13	Q1FY13	% Chg.	FY201203	FY201103	% Chg.
Net Sales	109.9	93.8	17.2	109.9	72.4	51.8	376.3	289.0	30.2
Other operational Income	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1	-0.8
Total Oper. Income(TOI)	109.9	93.8	17.2	109.9	72.4	51.8	377.3	290.1	30.1
Raw Materials Cons.-	82.8	67.1	23.4	82.8	57.1	45.0	270.2	218.9	23.4
<i>% to TOI</i>	<i>75.4</i>	<i>71.5</i>	-	<i>75.4</i>	<i>78.9</i>	-	<i>71.6</i>	<i>75.5</i>	-
Stock adj. (-)Inc / (+)Dec-	-3.9	1.3	-	-3.9	-12.9	-69.8	1.9	-11.6	-
<i>% to TOI</i>	<i>-3.6</i>	<i>1.4</i>	-	<i>-3.6</i>	<i>-17.9</i>	-	<i>0.5</i>	<i>-4.0</i>	-
Net Raw Mat adj. for stock	78.9	68.4	15.4	78.9	44.2	78.5	272.1	207.3	31.2
<i>% to TOI</i>	<i>71.8</i>	<i>72.9</i>	-	<i>71.8</i>	<i>61.1</i>	-	<i>72.1</i>	<i>71.5</i>	-
Other expenses	11.3	6.3	81.4	11.3	12.1	-6.6	30.7	24.3	26.2
<i>% to TOI</i>	<i>10.3</i>	<i>6.7</i>	-	<i>10.3</i>	<i>16.7</i>	-	<i>8.1</i>	<i>8.4</i>	-
Contribution Net_Sales	19.7	19.2	2.5	19.7	16.1	22.4	74.5	58.4	27.6
Personnel	6.9	5.9	17.0	6.9	6.3	9.5	23.7	16.7	41.7
<i>% to TOI</i>	<i>6.2</i>	<i>6.3</i>	-	<i>6.2</i>	<i>8.7</i>	-	<i>6.3</i>	<i>5.8</i>	-
Total expenditure	97.1	80.5	20.6	97.1	62.6	55.1	326.5	248.4	31.5
Operating Profit	12.8	13.3	-3.8	12.8	9.8	30.6	50.9	41.7	21.9
<i>% to TOI</i>	<i>11.6</i>	<i>14.2</i>	-	<i>11.6</i>	<i>13.5</i>	-	<i>13.5</i>	<i>14.4</i>	-
Non-Operating Income	0.1	0.3	-74.5	0.1	0.5	-80.0	4.3	1.3	230.0
Interest	1.6	1.4	13.8	1.6	1.1	45.5	3.7	3.3	11.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	11.3	12.2	-7.5	11.3	9.2	22.8	51.5	39.7	29.7
Depreciation	0.6	0.5	3.5	0.6	0.5	20.0	2.1	1.2	82.6
PBT before Extra-ord	10.7	11.6	-8.0	10.7	8.6	24.4	49.4	38.5	28.1
<i>% to TOI</i>	<i>9.7</i>	<i>12.4</i>	-	<i>9.7</i>	<i>11.9</i>	-	<i>13.1</i>	<i>13.3</i>	-
Extraordinary Items	-	-	-	-	-	-	-	0.0	-
PBT	10.7	11.6	-8.0	10.7	8.6	24.4	49.4	38.5	28.1
Tax Rate	32.7	34.8	-6.1	32.7	32.8	-0.3	30.8	32.5	-5.2
Prov. for Tax	3.5	4.1	-13.6	3.5	2.8	25.0	15.2	12.5	21.5
<i>% to TOI</i>	<i>3.2</i>	<i>4.3</i>	-	<i>3.2</i>	<i>3.9</i>	-	<i>4.0</i>	<i>4.3</i>	-
Profit after Tax	7.2	7.6	-5.0	7.2	5.8	24.1	34.2	26.0	31.3
<i>% to TOI</i>	<i>6.6</i>	<i>8.1</i>	-	<i>6.6</i>	<i>8.0</i>	-	<i>9.1</i>	<i>9.0</i>	-
Face Value	10.0	10.0	-	10.0	10.0	-	10.0	10.0	-
Equity Share capital	10.5	10.5	-	10.5	10.5	-	10.5	10.5	-
EPS (Rs.)	6.9	7.2	-5.0	6.9	5.5	25.5	32.6	24.8	31.3
CEPS (Rs.)	7.4	7.8	-4.5	7.4	6.1	21.3	34.6	25.9	33.5

Revenue Profitability



Profitability Trend (Quarterly)



Financials & Projections

Y/E March, Fig in Rs. Cr	FY 2011	FY 2012	FY 2013e	FY 2014e	Y/E March, Fig in Rs. Cr	FY 2011	FY 2012	FY 2013e	FY 2014e
Profit & Loss Statement					Per Share Data (Rs)				
Net Sales	290.4	377.5	453.1	566.3	EPS	26.6	35.0	35.6	45.5
% Chg.	44.1	30.0	20.0	25.0	Cash EPS	27.8	37.4	38.3	48.7
Total Expenditure	249.5	326.7	396.0	495.0	DPS	0.0	0.0	1.5	1.5
% Chg.	48.7	30.9	21.2	25.0	Book Value	145.3	177.8	211.9	255.9
EBDITA	40.9	50.9	57.1	71.4	Capital, Liquidity, Returns Ratio				
EBDITA Margin %	14.1	13.5	12.6	12.6	Debt / Equity (x)	0.1	0.3	0.2	0.2
Other Income	1.6	4.4	4.1	4.7	Current Ratio (x)	5.0	2.0	2.6	2.7
PBDIT	42.6	55.2	61.2	76.0	ROE (%)	18.3	19.7	16.8	17.8
Depreciation	1.2	2.3	2.5	3.1	ROCE (%)	27.0	25.3	23.9	25.4
Interest	3.3	3.7	7.0	7.0	Dividend Yield (%)	0.0	0.0	1.2	1.2
PBT	38.2	49.2	51.7	65.9	Valuation Ratio (x)				
Tax Provisions	12.3	15.2	17.0	21.8	P/E	4.8	3.6	3.6	2.8
Reported PAT	25.8	34.0	34.6	44.2	P/BV	0.9	0.7	0.6	0.5
PAT Margin (%)	8.9	9.0	7.6	7.8	EV/Sales	0.3	0.3	0.2	0.2
Raw Materials / Sales (%)	71.6	72.1	72.5	72.5	EV/EBIDTA	2.4	2.0	1.7	1.4
Manpower cost / Sales (%)	6.2	6.3	6.4	6.4	Efficiency Ratio (x)				
Other operating Exp / Sales (%)	8.1	8.1	8.5	8.5	Inventory (days)	16.6	11.1	11.1	11.1
Tax Rate (%)	32.3	30.9	33.0	33.0	Debtors (days)	160.3	148.6	148.6	148.6
Balance Sheet					Creditors (days)	155.7	106.9	106.9	106.9
Share Capital	10.5	10.5	10.5	10.5	Cash Flow statement				
Reserves & Surplus	130.6	162.2	195.3	238.1	Profit After Tax	25.8	34.0	34.6	44.2
Minority Interest & Others	0.0	0.0	0.0	0.0	Depreciation	1.2	2.3	2.5	3.1
Total Loans	15.8	44.4	50.0	50.0	Working Capital Changes	16.4	-48.5	-19.3	-26.0
Deferred Tax Liability	0.5	0.7	0.7	0.7	Others	-8.1	-0.7	0.0	0.0
Total Liabilities	157.4	217.9	256.6	299.3	Operating Cash Flow	35.3	-12.9	17.9	21.2
Goodwill	0.0	0.0	0.0	0.0	Capital Expenditure	-5.2	-14.3	-7.0	-8.0
Gross Block	14.2	28.5	35.5	43.5	Change in Investment	-37.0	-3.9	0.0	0.0
Less: Acc. Depreciation	2.9	5.2	7.7	10.8	Cash Flow from Investing	-42.2	-18.1	-7.0	-8.0
Net Block	11.4	23.3	27.8	32.7	Proceeds from equity issue	71.7	0.0	0.0	0.0
Capital Work in Progress	0.0	0.0	0.0	0.0	Inc/ Dec in Debt	-3.6	28.6	5.6	0.0
Investments	37.3	41.2	41.2	41.2	Dividend and DDT	0.0	-1.5	-1.5	-1.5
Net Current Assets	108.7	153.3	187.6	225.4	Cash Flow from Financing	68.1	27.2	4.1	-1.5
Misc Expenses	0.0	0.0	0.0	0.0	Net Change in Cash	61.2	-3.9	15.0	11.8
Total Assets	157.4	217.9	256.6	299.3	Opening Cash Balance	11.1	72.3	68.4	83.4
					Closing Cash Balance	72.3	68.4	83.4	95.2

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