

Tantia Construction Ltd.

(Outperformer)

CMP

Rs. 139

TARGET PRICE

Rs. 216

POTENTIAL UPSIDE

50%

TIME FRAME

6-9 Months

Short Report

- **Priority Sector**
- **Operates mainly in the East and North-East, which is under-penetrated and thus has many opportunities**
- **Diverse Project Portfolio**
- **Robust Order Book**

Infrastructure development is a high priority area

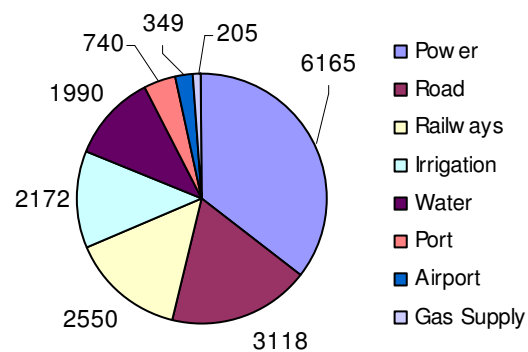
Over the past 3-4 years, a clear political consensus has emerged on the need for speeding up the development of the country's infrastructure. A number of large infrastructure projects have received support from the government, irrespective of which political party is in power. The primary reason is the multiplier effects infrastructure creation and development has on the economy. Not only does it provide jobs to a large number of people, it also improves supply chain efficiencies, increases living standards and creates a congenial environment for further investment. This has resulted in a robust flow of investments into the infrastructure sector in the last few years. This process is expected to gather pace over the next five years with an estimated Rs17,28,900 crore of investments lined up for infrastructure development over the next five years.

Eastern India has a lot of untapped potential

The Eastern and North-Eastern part of India is amongst the most under-developed parts in India. This is despite this region having bountiful natural resources. Of late, with increasing thrust on equitable growth there has been focus from the Central government to improve infrastructure in this area. The state governments of the two biggest states-Bihar & West Bengal - of Eastern India have high outlays for infrastructure creation. The Central Govt. in conjunction with the State Govts of the seven sisters of the North-East plans to develop this region which was hitherto ignored and has high strategic importance for the country. It also hopes this will help in alleviating people's grievances about being not treated at par with people in other regions of the country.

About Tantia Construction Ltd.

Tantia Constructions Ltd. (TCL), founded and promoted by I.P. Tantia in 1964, is a leading infrastructure company of Eastern India. It has a diverse project portfolio which includes Railways, Roads & Highways, Urban Infrastructure, Tunnels, Bridges, Marine Infrastructure, Airport Infrastructure and Water & Sanitation



**Planned infrastructure spending in 2007-2012
(Rs. Crore)**

Projects. The company has executed a number of 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. TCL maintains high standards in quality & timely completion of projects, adopts latest innovations and provides dedicated services.

Key Investment Themes

One of the largest infra companies of East India with a good brand image & excellent client relations

TCL is one of the largest infra companies of East India. It has also executed many projects in the neighboring countries of Bangladesh, Bhutan. It has executed several prestigious projects in this area like Kolkata tram track de-reservation, Gomti River Bridge and work on sewerage and drainage in Kolkata suburbs. The company has completed all its executed projects on time or ahead of time. The company enjoys excellent client relations as is manifest in it getting repeat orders which form 70% of the total orders.

It has a robust & diversified order book

The total outstanding order book of the company was Rs.1560 crores on 30th November 2007. The orders were from diverse sectors such as railways, roads, airport, sewerage & drainage etc. The total sales of the company in FY2007 were Rs.246 crores. So, the order book is almost 6.3 times its last year sales. It indicates superior earnings visibility and hence lower risks with associated future profits.

Upcoming growth in the sectors in which it operates

There growth in the sectors in which TCL has presence is likely to be huge. Indian Railways plans to spend Rs. 1,49,500 crores from 2008-2012. TCL which has long association with Railways is well placed to take advantage. It is pre-qualified for contracts upto Rs.200 crores and with a partner for contracts upto Rs.400 crores. Jawaharlal Nehru National Urban Renewal Mission (JNNURM) envisages spending of Rs.50,000 crores on urban renewal and overhaul over next seven years. A Prime Minister working group further estimates a spend of Rs.1,03,100 crores on Maas Rapid Transport Systems (MRTS), drinking water and sewage treatment in India's cities and towns. TCL is well placed to take advantage of this opportunity as it has prior experience in this area. Committee on Infrastructure chaired by the Prime Minister envisages a spending of Rs.38,000 crores on Airport development. A part of these would be in building new airports and overhauling existing airports in smaller towns so they are more accessible. TCL already has prior experience in this area and would benefit from arising opportunities. To sum it up we can say that infrastructure is a huge opportunity. And a company like TCL with rich expertise across diverse areas and a vast repository of knowledge is likely to benefit from this humungous opportunity.

Planned forays into new areas

TCL recently raised US\$ 7.5 mn through FCCB. These FCCB will be traded on Singapore exchange. The sum will be used for growth of the company. TCL plans to foray into BOT & BOOT projects. These projects have better returns. TCL also plans to foray into real estate development. The real estate sector is margin accretive. Kolkata and tier 2 cities in East India – Patna, Guwahati, Ranchi and Jamshedpur – are seeing rapid growth in Real Estate development. TCL plans to cash on this opportunity. The company also plans to foray into Water Treatment, Solid Waste Management and Sewage Treatment. This will expand its portfolio in Urban Planning & Renewal projects. As the opportunity in this sector is huge the company should benefit from this.

Better operational efficiency & HR practices

TCL implemented SAP last year for improving operational efficiency and productivity. This enables the company to stay connected to project managers on ground and look at better ways of solving unique problems that arise while executing projects. The company also built a central warehousing unit in Kolkata. This will enable it to procure materials at cheaper rates from suppliers as it has better bargaining power due to large orders it can now give.

TCL has low attrition level of 4%. This is way below the industry standard. TCL recruits from top notch engineering colleges and polytechnics in East India. Human Capital represents the most critical factor in an Infrastructure company. Planning and execution of projects in a challenging environment is of key importance. The ability to retain experienced personnel is thus paramount. Its low attrition levels imply a superior HR policy which will benefit the company in the long term.

Particulars	Value(Rs. Lakh)		
	30-Sep-07 3 Months	30-Sep-06 3 Months	31-Mar-07 12 Months
Net Sales	3403.44	3285.00	24602.49
Other Income	25.29	5.82	118.27
Total Expenditure	2643.47	2754.63	21700.30
PBIDT	785.36	536.19	3020.46
Interest	565.32	218.00	1134.59
Depreciation	124.96	62.85	353.98
PBT	95.08	255.24	1531.89
PAT	68.18	212.95	1314.00
Diluted EPS	0.40	1.37	8.56
Net Profit Margin (%)	2.00	6.48	5.34
Equity	1557.31	1557.31	1557.31

Valuation

At the CMP of Rs. 139 the stock trades at a PER of 16.52. There was a sharp decline in the last quarter profit on account of higher interest outgo which company did to reduce debt which carried higher interest. Going ahead we expect the company to report an EPS of 9.1 in FY08. By FY09 the company should report an EPS of 12. We believe the company is undervalued and should get re-rated. Its peers that have the same Market Capitalisation trade in PE range of 20 to 30. Based on a conservative PER of 18, we arrive at a price target of 216.

Rating

Out performer	Large cap	10% or more
	Mid Cap	20% or more
	Small cap	30% or more
Performer	Large cap	Between 5 to 10%
	Mid Cap	Between 10 to 15%
	Small cap	Between 15 to 20%
Under performer	Large cap	-10 %or more
	Mid Cap	-15 %or more
	Small cap	-20% or more

Disclaimer

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