



BS TRANSCOMM LIMITED

Issue Details

BS Transcomm Limited proposes to come out with an Initial Public Offer (IPO) of 76,79,410 shares of face value Rs. 10 each, through the book building route. Of the total issue, 50% would be reserved for Qualified Institutional Buyers (QIBs), 15% for non-institutional investors, and 35% for retail investors. Post-IPO, the shares will be listed on Bombay Stock Exchange and the National Stock Exchange.

Proposed Use of IPO Proceeds

The IPO proceeds are proposed to be used primarily to:

- Setting up of manufacturing facilities of telecommunication and power transmission towers under Phase-I[†] and Phase II having an installed capacity of 84,000 MTA and 120,000 MTA respectively. Phase-I has been completed in March 2010 (except the galvanizing plant which is scheduled completed by August 2010).
- Setting up rolling mill plant under Phase-I[†] having an installed capacity of 90,000 MTA. The setting up of the rolling mill capacity has been completed in August 2009 and the commercial production has started in September 2009
- To part finance margin money for working capital
- To fund general corporate purposes
- To meet expenses of this issue
- To get the equity shares of the Company listed on BSE and NSE

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IPO Grading

ICRA has assigned an IPO Grade 2, indicating below average fundamentals, to the proposed initial public offering (IPO) of BS Transcomm Limited (BTL). ICRA assigns IPO gradings on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include, *inter alia*, business and competitive position, financial position and prospects, management quality, corporate governance, and history of compliance and litigation.

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[†] Phase-I project (manufacturing unit of 84,000 MTPA capacity and rolling mill of 90,000 MTPA capacity) was funded through bridge finance (Rs 550 million), internal accruals, promoters equity and long term loans. The bridge loan taken for Phase-I will be repaid from the proceeds of the IPO.

Strengths

- Long track record of the promoters in steel trading and rolling activities.
- Reputed client base of the company.
- Backward integrated operations provides the company with additional margin per unit of tower sales.
- Strong return indicators and healthy revenue growth demonstrated in the past.
- Positive demand outlook for towers given the large capex planned in the power transmission sector in India.

Concerns

- Limited track record of the company in its core activities (including tower manufacturing, turnkey solutions and O&M services); the company has however demonstrated the capability to effectively transition from steel trading to tower manufacturing and services within a short span of three years.
- High market risk associated with expansion plans, particularly given the high competitive intensity of the business.
- Industry dominated by large established players; given this the company's capability to sustain current level of growth and return on investments still remains to be seen.
- Profitability could be vulnerable to steel price fluctuation risk; the risk is however mitigated to an extent on account of the price escalation clause typically attached to longer duration tower manufacturing contracts.
- Current stretched liquidity position as indicated by instances of LC devolvement and delays in debt servicing in the recent past.
- High working capital intensity of the business.
- Current high gearing level and significant debt repayment obligation in the medium term.

Grading Rationale

The assigned grading draws comfort from BTL's strong client base, its backward integrated operations and the long track record of the promoters in steel trading and rolling activities. The grading is also supported by the company's strong return indicators and healthy revenue growth demonstrated in the past, and the positive demand outlook for towers, given the large capex planned in the power transmission sector in India. However, the grading is constrained by the company's limited track record in tower manufacturing and services, although this risk is partly mitigated by the fact that the company has demonstrated the capability to effectively transition from steel trading to tower manufacturing and services within a short span of three years. The grading also factors in BTL's exposure to raw material price fluctuation risk although this risk is partly mitigated by price escalation clauses attached to most longer duration tower manufacturing contracts, and the high market risk associated with BTL's expansion plans, given the high competitive intensity of the business. The industry is dominated by large established players which could constrain BTL's capability to sustain its current growth rate and return on investments going forward. The grading is further constrained by current stretched liquidity position of the company as indicated by the instances of LC devolvement and delays in debt servicing in the recent past, its high working capital intensity and its current high gearing level.

Company Profile

BTL started its operations in the year 2004 with steel trading activity. Since the year 2007, the company diversified into tower manufacturing, turnkey services (for tower erection and commissioning), and O&M services and has catered to the requirements of various reputed telecom operators and power transmission companies. Currently BTL is in the process of wrapping up its trading activity and has completely shifted its focus towards tower manufacturing and services. During FY2010, the company reported a Profit After Tax of Rs 241 million on an Operating Income of Rs 5.2 billion.

Promoters and Management

The shareholding pattern of BTL (pre and post IPO) is provided in Table-1.

Table-1: BTL shareholding pattern (Pre and Post IPO)

	Pre-IPO shareholding (%)	Post-IPO shareholding (%)
A. Promoters		
Mr. Rajesh Agrawal	35.29	22.9
Mr. Rakesh Agarwal	29.39	19.08
Mr. Mukesh Agarwal	30.74	19.95
Sub Total (A)	95.42	61.93
B. Promoter Group		
Mrs. Shakuntala Devi Agarwal	2.02	1.31
Mrs. Reema Agarwal	0.97	0.63
Mrs. Rakhee Agarwal	0.80	0.52
Mrs. Shalini Agarwal	0.19	0.12
Mr. Dhruv Bansal, through his legal guardian Mr. Rajesh Agrawal	0.02	0.01
Sub Total (B)	4	2.6
Total Promoters and Promoter Group holding (A+B)	99.42	64.52
C. Non-Promoters		
Employees	0.03	0.02
Others	0.55	0.36
Sub-Total (C)	0.58	0.38
Equity Shares offered through the present Issue*		35.1
Total	100	100

The promoters of the company have over a decade experience in steel trading and rolling activities. The Board of Directors of the company constitutes of eight directors out of which four are independent directors. The management team of the company has qualified personnel having experience in various sectors such as power, telecom, and manufacturing.

BST has two subsidiaries namely, BS Infratel Limited (99.88% BTL holding, yet to commence commercial operation) and SAPL (63.25% BTL holding). SAPL is mainly into the business of development of remote monitoring systems and energy management solutions for the telecom infrastructure and the utilities segments. During FY2010, SAPL generated a PAT of Rs 2 million on an Operating Income of Rs 34 million.

The other companies/ partnership firms/ trusts in the Group include - Yograj Real Estates Private Limited, Novus Real Estates Private Limited, Shivaganga Infrastructures Limited, Head Infotech India Private Limited, I-Vantage Apac Private Limited, I-Vantage India Private Limited, Reemalaxmi Mining and Energy Limited, CVK Developers Limited, Agarwal Developers, Everest Ventures, S.R.M Real Estate and Constructions and Champa Devi Foundation and Big Indian's Do Karma Foundation.

Business & Competitive Position

Limited track record of the company in its core activities (including tower manufacturing, turnkey solutions and O&M services); the company has however demonstrated the capability to effectively transition from steel trading to tower manufacturing and services within a short span of three years

Starting as a steel trading company in the year 2004, BTL diversified into tower manufacturing activity in the year 2007 with an installed capacity of 36,000 Metric Tonne Per Annum (MTPA). Subsequently the company also started providing turnkey solutions (for tower erection and commissioning) and O&M services to various telecom and power transmission companies. Within a short span of three years the company has been able to significantly expand its footprint in both tower manufacturing and services. However, the company still lacks the pre-qualification criteria to bid for transmission tower projects on a standalone basis, mainly because of its limited experience in providing turnkey solutions. As a result, the company has to largely depend upon its various joint venture partners for bidding for such projects. In the tower manufacturing segment of its operations, the company has recently expanded its capacity from 36,000 MTPA to 1,20,000 MTPA.

Currently tower manufacturing and services together contributes more than 70% of BTL's total turnover. During FY2011, the company plans to completely wrap up its trading activity while further expanding its tower manufacturing, turnkey solutions and O&M services operations. Considering the limited track record

of the company in its core activities, its ability to effectively manage the future growth and expansion remains to be seen; although ICRA has derived comfort from the company's demonstrated capability of effectively transitioning from steel trading to tower manufacturing and services within a short span of three years.

High market risks associated with the expansion plans given the high competitive intensity of the industry

The company has recently expanded its tower manufacturing unit capacity from 36,000 MTPA to 120,000 MTPA by setting up an additional manufacturing unit of 84,000 MTPA. The new unit became operational in March 2010. Further, in order to backward integrate its operations, the company has set-up a rolling mill of 90,000 MTPA which became operational in September 2009. This acts as a feeder to BTL's tower manufacturing unit thereby providing the company with additional margin per unit of tower sales. The company is also planning a phase 2 expansion where additional 1,20,000 MTPA of manufacturing capacity will be added thereby taking the total installed capacity of the company to 2,40,000 MTPA.

Considering the significant capacity addition undertaken and planned by the company, optimum utilization of the plant would remain critical for its future profitability and growth. As compared to the company's total installed capacity of 1,20,000 MTPA, its order book position as on 30th April 2010 shows orders for only 53,951 MT of tower supply. Additionally considering the intensely competitive nature of the industry (marked by the presence of several large established players like KEC International Limited, Jyoti Structures Limited, and Kalpataru Power Transmission Limited among others), adequate availability of orders for the optimum utilization of the plant still remains to be seen. The risk is however mitigated to an extent on account of positive demand outlook for towers given the large capex planned in power transmission sector in India, and strong order book position of various established players in the industry which should make them relatively less aggressive in future order bids.

Reputed client base

Although the company diversified into tower manufacturing and services only in the year 2007, it has been able to build up a strong and reputed client base within a short span of three years. In the telecom tower segment the company has catered to companies like Reliance Communications Limited, Vodafone Essar Spacetel Limited, Idea Cellular Limited, Wireless - TT Info Services Limited (WTTIL), Essar Telecom Infrastructure Limited, Indus Towers Limited and India Telecom Infra Limited among others. In the transmission tower segment, the main customers of the company include Transmission Corporation of Andhra Pradesh Limited (APTransco), Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPL), and Power Grid Corporation of India Limited (PGCIL) among others.

Future profitability of the company could be vulnerable to raw material (mainly steel and zinc) price fluctuation risk

The company's future profitability could be vulnerable to raw material (mainly steel and zinc) price fluctuation risk. However the risk is mitigated to an extent on account of the price escalation clause attached to the longer duration transmission tower sales contracts. Moreover the risk is not significant in case of telecom tower orders as these are shorter duration orders (typically executed in 1-2 months time) and the price for the new orders are negotiated based on the prevailing raw material price.

Order book position (as on 30th April 2010)

The order book position as on 30th April 2010 is around Rs 4.3 billion which includes telecom tower manufacturing orders of Rs 0.2 billion, transmission tower orders of Rs 2.7 billion and services orders of Rs 1.4 billion. The telecom tower manufacturing orders are shorter duration orders (1-2 months), while the transmission tower orders are for a much longer period (six months to two years). As compared to the total installed capacity of 1,20,000 MTPA, the order book as on 30th April 2010 includes orders of only 53,951 MT of tower supply. The order book therefore provides limited visibility to the adequate utilization of the installed capacity going forward.

Diversified into technology products through the acquisition of SAPL

The company has recently diversified into technology products through its acquisition of 63.25% stake in SAPL (acquired in February 2010). The company is mainly into the business of development of remote monitoring system and energy management systems for tower infrastructure and utility sector and is expected to provide synergic benefits to the O&M operation of BTL.

Although the FY2010 turnover of SAPL was modest (Rs 34 million), the company has successfully deployed its remote monitoring systems in 1200 Indus sites for which it has also received award for Technology & Innovation excellence from Indus Towers Limited in 2009. Besides this, the company's product is undergoing trial in the sites of various other passive telecom infrastructure players like WTTIL, Global Tele Limited, Reliance Infratel Limited and Bharti Infratel Limited. If SAPL is able to convert the ongoing negotiations and trials into confirm orders, it would lead to improvement in its turnover and profitability going forward.

Financial Position

Profitability and Earnings

Table 2: Financial Highlights

Rs in Million	2005-06	2006-07	2007-08	2008-09	2009-10
Operating Income	1350.0	1978.5	4256.0	3372.6	5210.7
Y-o-Y	224%	47%	115%	-21%	55%
OPBDITA	0.4	50.5	293.3	344.4	598.1
OPBDITA/OI	0.03%	2.55%	6.89%	10.21%	11.48%
PAT	1.9	27.7	138.8	123.7	241.6
PAT/OI	0.1%	1.4%	3.3%	3.7%	4.6%
RONW	5.0%	16.6%	37.8%	23.5%	34.2%
ROCE	4.9%	14.4%	28.2%	23.2%	24.7%

Y-o-Y: Year-on-Year, OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit After Tax; RONW: Return on Net Worth; ROCE: Return on Capital Employed

Healthy revenue growth demonstrated in the past; future growth expected to be primarily driven by strong demand prospect for towers

Despite progressively declining turnover from trading operation, the company has been able to demonstrate a healthy growth in revenue during the last three years (revenue growth from Rs 2 billion in FY2007 to Rs 5.2 billion in FY2010). The growth has been largely backed by expansion in the tower manufacturing and services operations of the company.

Going forward the revenue growth of the company is expected to be primarily backed by the strong demand prospect for towers given the large capex planned in the power transmission sector in India. Additionally the company is currently exploring various other avenues of growth including foraying into international market, supplying of gas insulated switchgear procured from Beijing Beikai Electric Company Limited, China, and inorganic expansion.

Improving profitability and strong return indicators

On account of the drop in lower margin trading activity (dropped from nearly 100% in FY2007 to less than 30% currently), the overall operating margin of the company has also improved from 2.8% in FY2007 to 11.5% during FY2010. The company's return indicators are also strong (Return on Net Worth of 34.1%, and Return on Capital Employed of 24.7% in FY2010) mainly on account of its healthy profitability and asset turnover ratio. Going forward, the profitability of the company is expected to be positively impacted by the further reduction in the trading activity. However overall profitability and return on investment of the company will largely depend on the company's ability to effectively manage the recent and proposed expansion and acquire enough orders for the optimum utilization of its resources.

Financial Leverage

Table 3: Capital Structure

Rs in Million	2005-06	2006-07	2007-08	2008-09	2009-10
Total Debt*	78.5	420.9	894.0	1030.5	2267.5
Net Worth	66.6	267.5	467.8	586.0	826.4
Total Debt/ Networth	1.18	1.57	1.91	1.76	2.74

*Total Debt includes bills discounted by the company

High gearing level and significant repayment obligation in the medium term

The debt level of the company has gone up significantly following debt funded capacity expansion undertaken by the company. The company had earlier planned the expansion work to be partly funded through proceeds from an IPO planned in the beginning of the year 2009. However the IPO got delayed considerably on account of various reasons and the company had to fund the phase-I of the expansion plan largely through debt and internal accrual. This has resulted in high gearing level of 2.74 times as on 31st March 2010.

Out of total outstanding debt of Rs 2.3 billion¹ as on 31st March 2010, nearly Rs 1 billion is the long and short term loan taken from various banks and financial institutions. There is significant repayment obligation on these term loan during the next two years (approx. Rs 0.55 billion in FY2011 and Rs 0.2 billion in FY2012). The company plans to repay nearly Rs 0.55 billion (including 0.35 crore of short term bridge loan from Punjab National Bank) of its term loan through IPO proceeds.

Working Capital**Table 4: Working Capital Indicators**

Working capital intensity	2005-06	2006-07	2007-08	2008-09	2009-10
Debtor (days)*	63	116	115	125	169
Creditor (days)	28	72	60	42	90
Inventory (days)	1	17	34	38	44
NWC/OI	0.11	0.21	0.25	0.31	0.37

NWC: Net Working Capital; OI: Operating Income

* Debtors includes bills discounted by the company

High working capital intensity of the business

The working capital intensity of the company is relatively high (NWC/OI of 0.37 times during FY2010) mainly on account of high debtor days of the company (169 days during FY2010). Typically in case of telecom tower sales the payments are realized in 60-90 days time, while in case of transmission tower contracts payments are largely dependent on the customer. While, PGCIL typically releases payments within 60 days from the bill date, the state owned power utilities take 90-120 days for the release of payments.

Current stressed liquidity position as also indicated by the instances of LC devolvement and interest payments delays in the recent past

The current liquidity position of the company is relatively stressed which is also reflected in the instances of LC devolvement and interest payment delays in the recent past. The stress is on account of several factors including recent capacity expansion undertaken by the company, increase in the scale of the company's operations, and high working capital intensity of the business. Earlier the company had planned to come up with an IPO in the beginning of the year 2009 in order to fund the capex of phase-I expansion and provide for the additional working capital requirement for the increase in scale of operation of the company. However the IPO was significantly delayed on account of various reasons. As a result the company had to partly fund the expansion through internal accruals. Additionally, as the company could not get adequate enhancements in its working capital limits from banks, the overall liquidity position of the company worsened. Going forward the company plans to use to IPO proceeds to repay the short term loan taken for the expansion plan and also provide for the margin money for enhancement in working capital limits of the company. Overall the liquidity position of the company is expected to improve after the IPO.

¹ Includes Rs 0.24 billion of bills discounted by the company

Contingent Liabilities

Table 5: Contingent Liabilities

Rs in Million	2008-09	2009-10
Bill Discounted with Bank	198.9	244
Bank Guarantees	60.9	343.9
Claim contested by the company	0.5	0.5
Claim by Custom and Income Tax	NIL	NIL

Corporate governance

Currently BTL's board has eight directors, of which the Chairman of the Board is an executive director. In compliance with the requirements of clause 49 of the listing agreement, the company has four executive directors and four independent Directors. This satisfies clause 49 requirements, which states that a company with executive chairman should have at least half of the board comprising of independent directors. In terms of the clause 49 of the listing agreement, the company has also constituted the following committees: (a) Audit Committee; (b) Share Transfer and Investor Grievance Committee; and (c) Remuneration and Compensation Committee.

Compliance and Litigation History

There are no material litigations against the company.

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 (MSK Aditya)
 Relationship Manager

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