

Mr. Avinash Gupta
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Technofab Engineering Limited
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Fax: (0129) - 2270201

March 25, 2010

Kind Attn: Mr. Avinash Gupta, Chairman & Managing Director

Dear Sir,

Re: IPO Grading for Technofab Engineering Limited, in connection with an initial public offering of 2,990,000 equity shares of INR 10 each (the "Shares")

You have requested the IPO Grading described above from Fitch Ratings India Pvt. Ltd. ("**Fitch India**"). This IPO Grading is a point-in-time assessment and does not constitute a credit rating by Fitch India of Technofab Engineering Limited or, for the avoidance of doubt, of the Shares. Our procedures for issuing a credit rating differ from the procedures used to issue the IPO Grading. In addition, a point-in-time assessment will not be monitored by Fitch India and therefore will not be updated to reflect changed circumstances or information that may affect the IPO Grading referred to in this letter.

This letter notifies you that, based largely upon our assessment of the fundamental financial strength of Technofab Engineering Limited, Fitch India assigns an IPO Grading for Technofab Engineering Limited of '3(ind)', out of a maximum of '5(ind)'.

This IPO Grading is based on the information and documents provided to us by you and other parties. Fitch India relies on all these parties for the accuracy of such information and documents. Fitch India did not audit or verify the truth or accuracy of such information and does not take responsibility for the appropriateness of the information provided and used in our analysis. Fitch India provides this IPO Grading "as is" and does not represent, warrant or guarantee (i) the accuracy, correctness, integrity, completeness or timeliness of any part of this IPO Grading, or (ii) that this IPO Grading and the information and analyses contained in, and constituting a part of, this IPO Grading will fulfill any of your or any third party's particular purposes or needs.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact either of undersigned at 022 4000 1700.

Sincerely,



Ananda Bhoumik
Senior Director



Rakesh Valecha
Senior Director

Construction/India
IPO Grading Report

Technofab Engineering Limited

Fitch IPO Grade 3(ind)

Fitch has assigned a grade of '3 (ind)' out of a maximum of '5 (ind)' to the proposed initial public offer of Technofab Engineering Limited (TEL). The grade indicates the average fundamentals of the issue relative to other listed equity securities in India.

IPO Details

Technofab Engineering Limited proposes an IPO of its up to 2,990,000 equity shares of INR 10 each.

Financial Snapshot

Technofab Engineering Limited		
(INRm)	2009	2008
Revenues	1,493.1	813.5
Operating EBITDA	215.9	97.7
Operating EBIT	208.4	95.1
Net income	116.9	52.8
Total debt	162.1	42.1
Total adjusted debt	162.1	83.1
Net worth	322.0	213.9
Op. EBITDA margin (%)	14.5	12.0
Op. EBIT margin (%)	14.0	11.7
Net income margin (%)	7.8	6.5
Earnings per share	15.6	7.0
Total adjusted debt/equity	0.5	0.4

Analysts

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Grading Rationale

The grading factors in TEL's strong revenue growth, improving margins and order book of INR5.3bn, which is 3.5 times of its 12 months ending March 2009 (FY09) revenue. TEL reported strong revenue growth of 84% in FY09 (FY08: 33%), with the EBITDA margin improving to 14.5% (FY08: 12%) and earnings per share (EPS) to INR15.6 (FY08: INR7.0). Despite increase in revenue in FY09, TEL kept its working capital requirements at a lower level than in FY08, as indicated by its improving cash conversion cycle. Gammon India Limited (GIL) acquired a 15.7% stake in TEL in FY07, and the association has benefited TEL by enabling it to bid for and secure projects for which it was not previously eligible due to net worth and/or revenue criteria.

The company's grading is constrained, by its moderate size of operations, moderate concentration risk and its presence in an industry characterised by high working capital requirements. The top five customers contributed to around 75% of its FY09 revenue and 47% of its current order book. Fitch Ratings notes that the company has limited track record of growth, having grown mainly during FY08-FY10.

The company is proposing an initial public offering (IPO) of 2.99 million equity shares of face value of INR10 a share. The purpose of the IPO is to meet working capital requirements of INR300m, purchase construction equipment and storage facilities for INR203.6m, setting up training centre for employees for INR54m and balance for other general corporate purposes.

Key Grading Issues

Areas of Strength

- Over 3 decades of experience of turnkey engineering and construction.
- Strong revenue, profitability and EPS growth since FY08
- Strong order book of INR5.3bn as on 31st January 2010 - almost 3.5 times of the FY09 revenue
- Recent association with Gammon India Limited (GIL).

Areas of Concern

- Relatively smaller size of the company and thus execution risk on completing large orders.
- Little growth track record (most growth has happened in FY08 and FY09); profitability also improved drastically only since FY08.
- Industry norm of high working capital requirements with progressive payments from projects and margin money to be kept in the form of fixed deposits for furnishing bank guarantees
- Moderate concentration risk with top 5 customers of the company representing 75% of total revenues in FY09 (95% in FY08 and 88% in FY07).

Company Background

TEL is a closely held unlisted company headed by Mr Avinash C. Gupta, with technical and commercial support by a team of engineers and professionals. The company was incorporated in 1971 and has over three decades of turnkey engineering and construction experience.

The company has evolved from a piping, valves and pressure vessels fabricator to an engineering, procurement and construction (EPC) company undertaking turnkey packages relating to low-pressure piping systems, fuel oil handling systems and fire protection systems, and eventually executing comprehensive electromechanical packages. The company has regional and support offices in Mumbai, Kolkata and at various other sites. Also, it has registered subsidiaries in Zambia, Ghana and Ethiopia. The company had orders worth of INR3.5bn in hand on 1 January 2010.

During FY07, TEL entered into strategic tie-up with GIL for equity/management participation. As a result, TEL divested a 9% holding to GIL and 6.7% holding to Associated Transrail Structures Ltd (ATSL, now merged in GIL). The association was mainly to meet the prequalification criteria due to net worth and turnover constraints.

Promoters

TEL's promoters (main shareholders) are Mr Avinash C. Gupta (1.75m equity shares), Mr Arjun Gupta (0.43m) and Mr Nakul Gupta (0.43m), collectively holding, along with other promoters, a majority stake of 51%. The company has a well-qualified management team, which is experienced in the turnkey and construction industry.

Business Overview

TEL mainly provides EPC services for various balance of plant (BoP) packages for sectors like conventional power, nuclear power, oil and gas, water and waste water treatment, industrial and infrastructure, and electrical distribution and rural electrification.

Income Breakdown by Sector

Sectors (%)	FY09	FY08	FY07
Conventional power	22	37	32
Nuclear power	17	0	0
Oil and gas	13	55	0
Water and waste water treatment	35	1	0
Industrial and infrastructure sectors	13	7	68
Electrical distribution and rural electrification	0	0	0
Total	100	100	100

Source: TEL's prospectus

Recently Completed Projects

Client	Project Details	Project value (INR m)	Year of completion
Tema Oil Refinery Limited, Ghana	New seawater intake pumping station and fibreglass pipeline from harbour to the refinery sea water basin	625.3	August 2009
Bharat Heavy Electricals Ltd.	Fuel Oil Unloading, Storage and Handling System and LP piping package for its Chattisgarh thermal plant	172	December 2007
National Thermal Power corporation Ltd.	LP piping package for NTPC's thermal power project, Orissa	240	December 2004
AHC Mining Municipal Services Limited, Zambia	Rehabilitation of Water Treatment Plant and Equipment as part of Mine township Services Project in Zambia, Africa	166.6	December 2005
Bharat Heavy Electricals Ltd.	Fire Detection, Alarm & Protection System for Bakreshwar Thermal Power, West Bengal	187	March 2005
BSES Limited	Naphtha & HSD Fuel Oil Unloading, Storage and Forwarding System Samalkot power plant, Andhra Pradesh	54.4	July 2003

Source: TEL's prospectus

Financial Performance

TEL recorded a CAGR of 31% during FY05-FY09, with most of the growth happening in FY08 and FY09. TEL's revenue grew by 84% in FY09 to INR1.5bn, with EBITDA also growing significantly, by 121% (FY08: 240%) to INR215m, and its margin improving by 250bp to 14.5% (FY08: 12.0%). This was mainly due to the higher number of overseas contracts awarded and partly completed during the year, which normally have higher operating margins.

Despite an increase in the net interest expense by 91% to INR28m (mainly due to higher usage of non-fund-based limits), the EBITDA interest coverage ratio improved to 7.6x from 6.6x in FY08. Net income also grew significantly, by 98% to INR117m (FY08: INR59m), with the profit after tax (PAT) margin increasing to 8% from 7% in FY08.

For the nine months to end-December 2009 (9M10), the company posted 18% yoy revenue growth to INR1.1bn, with the margins further improving to 16% from 14.5% in FY09. Total debt declined slightly to INR147m from INR162m at end-March 2009; however, the net debt/EBITDA ratio increased slightly to 0.7x, with a decline in cash levels to INR16.4m from INR63.6m at FYE09.

The company is characterised by high working capital requirements, as it receives progressive payments from projects (which range from one to three years) on the basis of the milestones achieved. However, the company has been able to improve its cash conversion cycle in the last two years, which reached to almost eight days in FY09 against 110 days in FY07 and 46 days in FY08. At FYE09, total receivables were INR319m; around 10% of debtors were of more than six months overdue, compared with FYE08, when almost 40% of total debtors were more than 24 months old.

At FYE09, TEL had total debt of INR162m, up from INR42m at FYE08 due to an increase in the scale of operations, which mainly reflects a rise in working capital limits to INR118.2m (FY08: INR95m), with the rest being an unsecured loan from directors of INR14.9m and an inter-corporate loan of INR28.9m. TEL's net financial leverage remained stable at 0.5x at FYE09 (FYE08: 0.5x). At FYE09, TEL's liquidity was comfortable, with a cash balance of INR63.6m and positive free cash flow of INR179.5m. The company has minimal capital investment requirements and most of its working capital requirements are met by either higher working capital limits available from the banks or unsecured loans from directors. The proceeds from IPO of INR750m will also enhance the liquidity of the company, as almost INR300m of the total proceeds will be used for company's working capital requirements.

Outlook

The continued growth in the Indian economy, with the government of India's focus on infrastructure and TEL's association with GIL should keep the company's order book robust and will contribute to sustained high revenue growth. However, the sustainability of the high revenue growth in FY08 and FY09 will largely depend on the company's ability to manage large projects and execute them on time and within cost estimates.

Annex 1: Financial Performance

Financial Summary					
	FY09	FY08	FY07	FY06	FY05
Income statement					
Revenue	1,493.10	813.5	613.9	567	501.3
Revenue growth	83.5	32.5	8.3	13.1	18
EBIT	208.4	95.1	25.4	22.0	10.7
Interest expense net of interest income	28.2	14.8	15.9	17.4	11
Net income	116.9	52.8	7.9	4.8	2.5
Balance Sheet					
Cash and equivalents	63.6	35.5	5.9	12.6	1.2
Total assets	971.1	563.7	437.1	454	474.2
Short-term debt	118.3	42.1	83.9	97.8	105.5
Senior long-term debt	28.9	0	61.9	129.8	120.9
Subordinated debt	14.9	0	0	0	0
Total debt	162.1	42.1	145.8	227.6	226.4
Off-balance-sheet debt	0	41	0	0	0
Total adjusted debt	162.1	83.1	145.8	227.6	226.4
Common equity	322	213.9	140.3	132.4	127.6
Total adjusted capitalisation	484.1	297	286.1	360.1	354.1
Cash flow					
Operating EBITDAR	215.9	97.7	28.7	23.2	11.9
Cash interest paid, net of interest received	28.2	14.8	15.9	17.4	11
Cash tax paid	63.3	27.3	4.1	0.7	0
Funds from operations	124.4	58.7	8.6	5.1	0.9
Working capital	93.7	112.4	71.9	-23.5	-5.6
Cash flow from operations	218.2	171	80.6	-18.3	-4.7
Non-operational cash flow***	5	-6.8	0	0	0
Capital expenditure	30.7	13.9	1.6	-0.3	0.4
Dividends paid	8.8	4.4	0	0	0
Free cash flow	183.7	145.9	71.1	-18.1	-5.1
Exceptional and other cash flow items	-126.4	-17.7	-3.1	24.9	-0.5
Net cash in/outflow	57.3	128.3	68	6.8	-5.6
Equity issuance/(buyback)	0	25	0	0	0
Net cash flow available for financing	57.3	153.3	68	6.8	-5.6
Closing net debt	-78.9	-21	131	207.3	214.9
Profitability					
Operating EBITDAR/revenue (%)	14.5	12	4.7	4.1	2.4
EBIT/revenues (%)	14	11.7	4.1	3.9	2.1
FFO return on adjusted capital (%)	32.4	25.1	8.7	6.4	3.5
Credit ratios					
Funds from operations/gross interest expense (x)	4.8	4.7	1.5	1.3	1.1
FFO fixed charge cover (x)	4.8	4.7	1.5	1.3	1.1
Operating EBITDAR/net fixed charges (x)	7.6	6.6	1.8	1.3	1.1
Adjusted leverage/FFO (x)	1	1.4	5	5.4	9.8
Total adjusted debt net of cash/operating EBITDAR (x)	0.5	0.5	4.9	9.3	18.9
Total adjusted debt/total adjusted capitalisation (%)	33.5	28	51	63.2	64

Source: Company financials, Fitch

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