

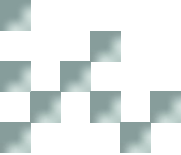
CRISIL SME IER Independent Equity Research

**MITCON Consultancy &
Engineering Services Ltd**

Initiating Coverage

Enhancing investment decisions





Explanation of CRISIL SME Fundamental and Valuation (CFV) matrix

The CRISIL SME CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through SME Fundamental Grade) and Analysis of Returns (SME Valuation Grade) The SME fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The SME valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP). This opinion is a relative assessment in relation to other SMEs in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research.

CRISIL SME Fundamental Grade	Assessment	CRISIL SME Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Last updated: May, 2013

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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SME Fundamental Grade 4/5 (Superior fundamentals)
SME Valuation Grade 5/5 (CMP has strong upside)

Pune-based MITCON Consultancy & Engineering Services Ltd (MITCON) is an established player in the engineering consultancy and vocational training industry in India with expertise in providing consultancy services to power generation, energy, infrastructure and BFSI sectors. Recently, it has started catering to emerging sectors such as bio-technology, environment management and food processing as well. Currently focused on Maharashtra, the company plans to gradually expand to other major cities. Although demand for consulting services is likely to remain subdued in the near term, we are positive on the long-term growth prospects of the company. We have assigned SME Fundamental Grade of **4/5** to MITCON, indicating that its fundamentals are **superior** relative to other SMEs in India.

Multi-industry exposure, geographic expansion plans bode well for long-term growth

Over the years, MITCON has developed expertise in providing consultancy services to industries such as power, energy and BFSI; it has some of the leading public and private sector players as its clients. The company has now started catering to emerging industries such as bio-technology, environment management and food processing and is making steady progress. Exposure to multiple industries is expected to be a key growth driver in the future. MITCON also intends to expand its geographic presence, open up new growth avenues and expand client base by setting up offices in other cities in India.

Plans to downsize training business to focus on consultancy

MITCON plans to downsize the vocational training business in order to channelise management bandwidth to its core consultancy segment. Although the training segment accounts for a significant share in total revenues, it has lower margins compared to the consulting segment and lacks scalability. We expect the consulting business to drive MITCON's overall growth in the future.

Key risks: Competition is likely to intensify

The engineering consultancy industry is fragmented in nature with many small regional and pan-India players. We expect MITCON to face stiff competition from these players as the company scales up its consulting business and expand its geographic presence.

Revenues estimated to register tepid CAGR of 4.5% over FY13-16

Owing to economic slowdown and muted investment spending, MITCON's revenues are expected to remain under pressure in the near term and decline to ₹440 mn in FY15 compared to ₹467 mn in FY13. However, we expect the company's foray into new markets and gradual recovery in investment spending to drive revenue growth post FY15; we expect revenue ₹533 mn in revenues in FY16. EBITDA margin is expected to contract to 20.3% in FY15 owing to increase in employee costs and SG&A expenses, before recovering to 22.8% in FY16. EPS is expected to decline to ₹6.4 in FY16 from ₹11.5 in FY13 due to lowered PAT and equity infusion.

Valuation: We assign fair value of ₹64 per share

We have used the enterprise value to sales (EV/sales) multiple to value MITCON. We have used EV/sales multiple of 1.0x on FY16 revenues and then added the FY15 cash, after applying a discount of 30% to cash in hand, to arrive at the equity value for the company. By using this method, we have arrived at a fair value of ₹64 per share for MITCON.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	538	467	404	440	533
EBITDA	148	136	87	89	122
Adj net income	104	99	22	67	78
Adj EPS (₹)	11.1	11.5	4.7	5.5	6.4
EPS growth (%)	(10.1)	3.8	(58.8)	16.0	17.2
RoCE (%)	30.7	23.4	10.3	7.6	10.1
RoE (%)	21.4	18.0	8.3	7.9	8.8
P/E (x)	4.3	4.1	10.0	8.6	7.3
P/BV (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	1.3	1.2	1.0	2.2	2.4

Source: Company, CRISIL Research estimates

January 07, 2014

Fair Value ₹64
 CMP ₹47

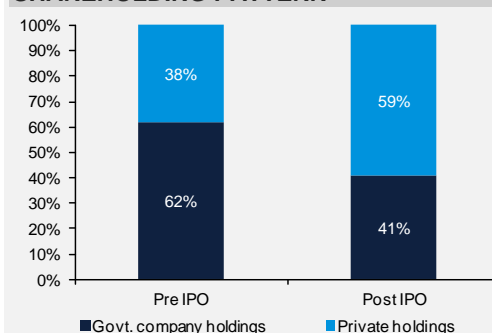
SME CFV MATRIX

	Excellent	Strong Upside	
SME Fundamental Grade	5/5	5/5	SME Valuation Grade
	4/5	4/5	
	3/5	3/5	
	2/5	2/5	
	1/5	1/5	
	Poor	Strong Downside	

KEY STOCK STATISTICS

NIFTY/SENSEX	6162/20693
NSE EMERGE ticker	MITCON
Face value (₹ per share)	10
Shares outstanding (mn)*	12
Market cap (₹ mn)/(US\$ mn)**	574/9
Enterprise value (₹ mn)/(US\$ mn)**	128/2
52 week high/low (₹)	60/38

SHAREHOLDING PATTERN



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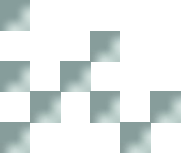


Table 1: MITCON – Business environment

Parameter	Business segments	
	Consultancy and engineering services	Training and allied services
Revenue Contribution (FY13)	58%	42%
Revenue Contribution (FY15)	70%	30%
Revenue CAGR (FY10-13)	5.7%	11.6%
Revenue CAGR (FY13-15E)	5.0%	-15.7%
Product/service description	Provides consultancy services and corporate solutions to power, energy and carbon, environment management, BFSI, infrastructure and bio-technology sectors	Provides vocational and entrepreneurship development training, corporate training and IT-based training programs
Geographic presence	Mostly in Maharashtra; plans to expand gradually to major Indian cities such as Ahmedabad, Bengaluru, Chennai, and Delhi	Maharashtra, Madhya Pradesh, Gujarat, Karnataka and Goa
Market position	Highly fragmented industry; MITCON is an established player in the engineering consultancy market, particularly for small ticket projects	An established player in the vocational and IT training industry in Maharashtra. However, the company plans to focus on its core consultancy business
Demand drivers	<ul style="list-style-type: none"> ■ Pick-up in investment spending - which will benefit sectors such as power, infrastructure and banking - is expected to result in higher demand for MITCON's consulting services ■ Geographic expansion to major business hubs of the country is likely to expand the revenue and client base 	<ul style="list-style-type: none"> ■ Increase in demand from the industry for skilled labour ■ Central and state governments' focus to promote small scale industries is, in turn, boosting demand for vocational and entrepreneurship development training
Key risks	<ul style="list-style-type: none"> ■ Prolonged slowdown in investment spending activity is likely to affect the consultancy business ■ MITCON faces stiff competition from large, established engineering consultancy providers such as Engineers India Ltd, Feedback Ventures and Mott MacDonald India. With geographic expansion, the company is expected to face competition from these players in the newer cities 	
Major competitors	Large pan-India players - Engineers India Ltd, Feedback Ventures and Mott MacDonald Pvt. Ltd Regional players - APITCO Ltd, KITCO Ltd, MPCON Ltd and others	

Source: Company, CRISIL Research

Grading Rationale

Established player in the engineering consultancy and vocational training industry

Over the past three decades, MITCON has established itself as a known brand in the engineering consultancy and vocational training market, particularly in Maharashtra. A wide range of consultancy and training services – project feasibility studies, energy audit, project management, market research and vocational training – are its key strength. Its expansive client base includes prominent corporate (Hindustan Petroleum, Bharat Forge, GSPC Pipavav and VRL Logistics) and public sector companies (Tamil Nadu Electricity Board; National Institute for Micro, Small and Medium Enterprises; and Bureau of Energy Efficiency).

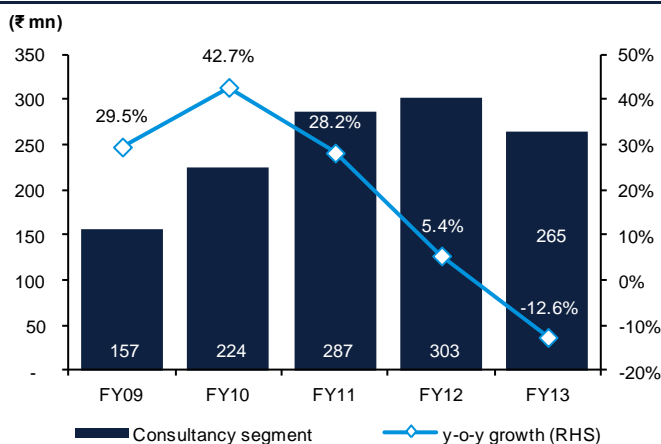
Consultancy business to drive future growth

Although the vocational training business has recorded healthy growth in recent years and accounts for a significant share of total revenues (32% in FY13), the engineering consultancy business is expected to drive long-term growth. The vocational training business lacks scalability and earns lower margins compared to the consultancy business. According to the management, the market opportunities of the consultancy business are more attractive compared to training. A combination of these factors has prompted MITCON's management to shift its focus from the training business and channelise management bandwidth to its core consultancy business. As a result, we expect the consulting segment to gradually increase its share in overall revenues.

The consultancy segment's revenues grew at a five-year CAGR of 16.9% to ₹265 mn in FY13. Revenue growth moderated significantly in FY12 and FY13 owing to weak economic scenario and slowdown in investment spending. Although short-term prospects appear subdued, we remain positive on the long-term growth prospects of the consulting business.

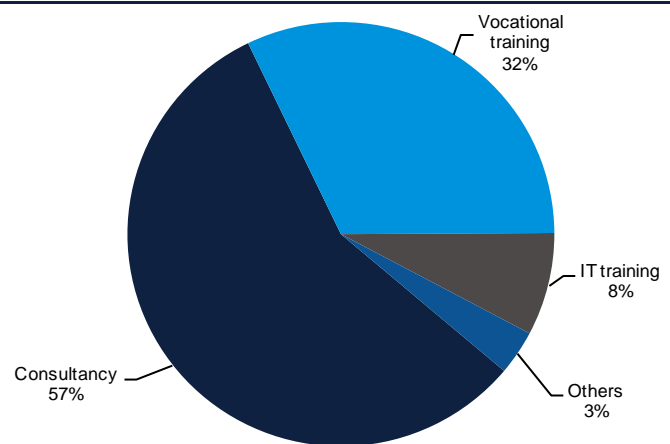
With an experience of over three decades, MITCON has established itself in the engineering consultancy and vocational training industry in Maharashtra

Figure 1: Consultancy segment recorded 17% CAGR over FY08-13

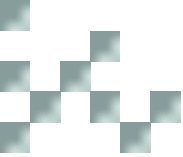


Source: Company, CRISIL Research

Figure 2: Consultancy accounts for the largest share in revenues



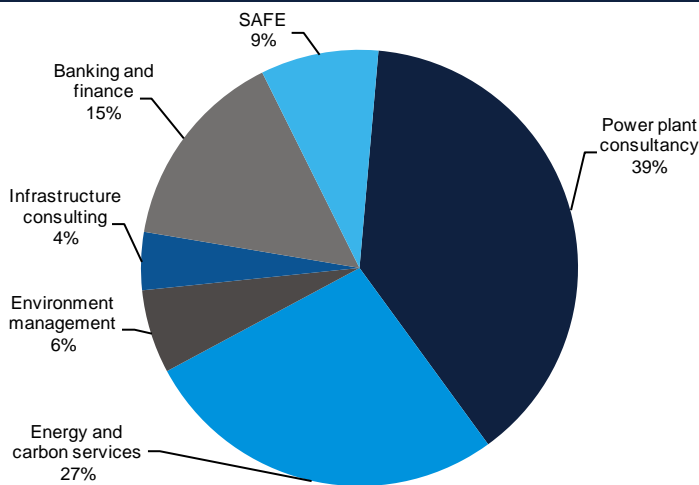
Source: Company, CRISIL Research



Multi-industry exposure and diversified revenue base minimise concentration risk

MITCON provides engineering consultancy services to a wide range of industries – traditional (such as power, infrastructure, energy and banking) as well as emerging industries (bio-technology, environment management and food processing). The multi-industry exposure diversifies the revenue base of the company which, in turn, 1) lowers its dependence on a single industry and 2) mitigates the risk of slowdown in any particular industry/market. We expect its diversified presence across matured and growing industries to be one of the key growth drivers for its consulting business.

Figure 3: MITCON's consulting business has a diversified revenue base



Source: Company, CRISIL Research

Strong domain expertise in key sectors; to further expand to other industries

Over the past three decades, the company has developed domain expertise in certain industries – especially in decentralised power generation – which has helped it to gain a strong foothold in those industries. Currently, it provides a wide range of services to small power generation projects – project feasibility studies, assistance for getting approvals, detailed appraisal reports, financial syndication, pre-contract engineering services, and post-contract project management services. MITCON has recently started catering to emerging industries such as bio-technology has and already recorded rapid growth.

In the coming years, the company intends to expand its offerings to more sectors such as healthcare, textiles and agricultural. Additionally, it plans to strengthen its market research offerings by adding consumer research services. Domain expertise in core sectors and a focus on expanding service offerings to growing industries strengthen the company's long-term prospects.

Likely beneficiary of steady growth in end-user industries

Most of the industries served by MITCON are expected to report steady growth over the next few years. Owing to an established position in the engineering consultancy industry, the company could be a beneficiary of growth in client industries.

Balanced focus on mature as well as growing industries strengthens long-term growth prospects

Table 2: Demand for engineering consultancy services expected to grow

Client industry	Industry prospects
Power and infrastructure	<ul style="list-style-type: none"> ■ Although these sectors have been seeing tepid growth in recent years owing to a slowdown in economy, we expect a gradual recovery over the next few years. <ul style="list-style-type: none"> - CRISIL Research estimates power generation to grow at 7.7% CAGR over FY13-17 driven by capacity additions of 68.3 GW. The private sector is expected to dominate this increase in capacity with a share of 54%. With a healthy private sector clientele, the company is expected to witness demand for its consultancy services from this industry. - MITCON, along with other technical consultancy providers, is expected to benefit from increased infrastructure spending by the government over FY13-17. Average infrastructure spending by the government over FY13-17 is aimed at 9-10% of GDP, which is significantly higher than 7.5% achieved during the previous five-year period.
Energy and carbon	<ul style="list-style-type: none"> ■ The Planning Commission of India has identified energy efficiency to be one of the key factors for sustainable development. It has also set stiff energy reduction targets for the next three years. The increased emphasis on energy efficiency is forcing energy-intensive industries to focus on conservation which, in turn, is expected to boost the demand for energy audit and other related services provided by MITCON.
BFSI	<ul style="list-style-type: none"> ■ Credit offtake is forecast to grow rapidly in the near term, which bodes well for the BFSI and securitisation and financial restructuring (SAFE) related services of the company.
Others	<ul style="list-style-type: none"> ■ Most of the other industries covered by MITCON are also expected to record steady growth - <ul style="list-style-type: none"> - For example, boosted by strong support from the government, the Indian bio-technology industry is estimated to grow at ~40% CAGR over FY15-20 to reach ₹55.3 bn in FY15. The food processing industry is expected to witness a healthy CAGR of 14% to reach US\$175 bn in FY15 from US\$91 bn in FY10, according to industry sources.

Source: Industry, CRISIL Research

Strong, diversified client portfolio

MITCON has a strong clientele including prominent government institutions (Tamil Nadu Electricity Board, National Institute for Micro, Small & Medium Enterprises and Bureau of Energy Efficiency), and private organisations (Hindustan Petroleum, Bharat Forge, GSPC Pipavav and VRL Logistics). By successfully expanding its client base, the company has been able to lower its client concentration. The contribution from the top 10 clients of the consulting business has decreased to 29.6% of total consulting revenues in FY13 compared to 44.6% in FY11. Moreover, no single client contributed more than 12% to total revenues in FY13.

Geographic expansion to be a key growth driver; successful execution is a key monitorable

We expect MITCON's India-wide expansion likely to be a key driver of long-term growth. Currently, MITCON's operations are mostly in Maharashtra. However, to grow its consultancy business, the company is planning to set up execution and sales offices in other major business metros of the country such as Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Mumbai, primarily by using the IPO issue proceeds. This expansion is likely to be completed by FY15. With a pan-India presence, MITCON is expected to 1) open up new growth avenues by further widening the revenue and client base, 2) reduce the risk of geographic concentration, 3) be able to hire from a larger talent pool and 4) improve its client servicing capabilities. However, the successful implementation of this strategy is a key monitorable.

A diversified client base mitigates concentration risks

To support its expansion strategy, MITCON intends to ramp up its advertising and marketing initiatives and invest in brand-building exercises. As part of the planned marketing push, MITCON is looking to launch advertising campaigns and other promotional activities.

Competitive landscape

The engineering consultancy industry is fragmented. There are a number of small regional (including MITCON, KITCON, APITCO) and large pan-India players (such as Feedback Ventures, Mott MacDonald, Engineers India Ltd). The entry barriers of this industry are also low.

The service offerings and financial performance of MITCON are at par with most competitors

Table 3: Peer comparison – MITCON's financial performance at par with peers

Parameters	MITCON	Engineers India Ltd	Mott MacDonald India Pvt. Ltd	APITCO Ltd	KITCO Ltd
Major services	Provides consultancy services to industries including power generation, infrastructure, BFSI, environment engineering and others. Also offers training services	Provides engineering consultancy services such as design, EPC, construction, and integrated project management services for oil and gas, petrochemicals, fertiliser and LNG industries in India and internationally	Provides an array of management, engineering and development consultancy and advisory services to energy, infrastructure, power and construction industries	Offers engineering and other consultancy services focusing on SMEs. It caters to power generation, energy and carbon services, environment management and others	Provides engineering, management and project consultancy services. Its services cover diverse sectors such as infrastructure, environment, financial services, urban development and IT services
Geographic presence	Primarily Maharashtra, intends to expand to other major cities in India	Pan-India presence with headquarter in Delhi	Present across India	Andhra Pradesh, Delhi, Kerala, and Orissa	South India, primarily Kerala
Market capitalisation (₹ mn)	574	55,932	Unlisted	Unlisted	Unlisted
FY13 revenue (₹ mn)	467	25,290	2,139	145	285.6 (FY12)
Revenue growth (FY11-13 CAGR)	(0.6%)	(5.8%)	4.5%	6.7%	NA
Average EBITDA margin (FY11-13)	29.2%	22.1%	2.6%	23.9%	NA
Average PAT margin (FY11-13)	20.5%	20.3%	0.4%	15.1%	NA
Average RoE (FY11-13)	23.5%	36.1%	20.8%	23.9%	NA
Average debtor days	98	40	130	138	NA

Source: Industry, CRISIL Research

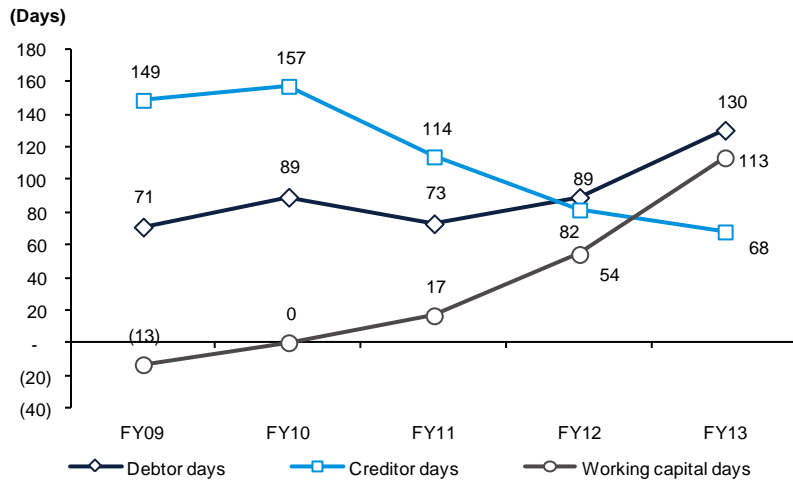
Although MITCON's service offerings and operational and financial performance are at par with most of the aforementioned companies, it lacks scale compared to larger players (such as Engineers India, Mott MacDonalds and Feedback Ventures). This limits MITCON's ability to bid for large ticket projects, which is necessary to achieve the next level of growth.

Stretched working capital cycle is a key monitorable

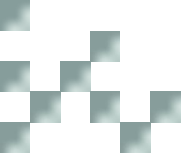
Owing to an increase in debtor days, MITCON's working capital was stretched in FY13. Due to a challenging business environment, some of its clients were unable to pay their dues on time, which led to debtor days increasing to 130 in FY13 from 89 in FY12. This, coupled with a

decline in creditor days, resulted in working capital days increasing to 113 days in FY13 from 54 days in FY12. An ageing analysis of the debtors shows that there has been a sharp increase in debtors exceeding six months in FY13, when it reached 33% of the total outstanding amount compared to 6% in FY12. Management expects working capital to improve in FY14, which is a key monitorable.

Figure 4: Debtor days increased in FY13 leading to stretched working capital



Source: Company, CRISIL Research



Key Risks

Prolonged slowdown in investment spending could have an adverse impact on growth

On account of muted economic growth and slowdown in investment spending, MITCON's consulting business has been under pressure for the past two years. Revenues from this segment witnessed a tepid CAGR of 5.7% between FY10 and FY13 compared to 35.1% between FY08 and FY10. If investment activity fails to pick up, demand for MITCON's consulting services - particularly power generation, energy and infrastructure related – could be adversely impacted.

Increase in competitive intensity

The engineering consultancy industry is fragmented; there are a number of small regional and large pan-India players. This, coupled with low entry barriers, leads to high competition. With MITCON's goals of establishing itself as a pan-India player, the competitive scenario for the consulting business could intensify in the future. The company is likely to face competition from other regional engineering consultancy providers (such as APITCO and KITCO Ltd) for small ticket projects; for larger projects, it is likely to face competition from large consultancy players such as Mott MacDonald and Feedback Ventures. At present, the company does not have any substantial competitive advantage against these established players.

Downsizing the vocational business may affect top line in near term

MITCON has decided to strategically shift focus from the vocational training business, which accounted for 32% of total revenues in FY13, to the core consultancy business. Although the management expects to maintain the current revenue stream from the training business, any significant shortfall from current levels may adversely impact its top line, especially given that the consultancy business is likely to remain under pressure in the near term.

Low entry barriers and fragmented nature of the industry may result in increased competition

Management and Corporate Governance

Strong institutional shareholding adds credibility

MITCON's shareholders include leading banks and financial institutions (such as ICICI Bank, IFCI, and SBI) and state development corporations - State Industrial & Investment Corporation of Maharashtra (SICOM) Ltd, Maharashtra Industrial Development Corporation (MIDC), and Maharashtra Small Scale Industries Development Corporation (MSSIDC). None of the shareholders have over 20% stake in the company. Each of the four largest shareholders – ICICI Bank, SIDBI, SICOM and IFCI – have one nominee director on the board. We believe a strong institutional shareholding helps the company establish good corporate governance practices.

Professional management team with strong domain expertise

MITCON is run by a professional management team with expertise in the engineering consultancy industry. The company's managing director, Mr Pradeep Bavadekar, has 18 years of experience in management and engineering consultancy; and 15 years of experience in automotive components, plastic and chemical equipment industries. Under the leadership of Mr Bavadekar, MITCON has successfully expanded its service portfolio to cover more industries. Based on our interaction with the management, we believe that decision making in MITCON is centralised.

The second line of management includes Mr Sunil Natu – senior vice president of power projects, and Mr Ram Mapari – controller of finance; both have over three decades of experience. In our opinion, the second line's experience is commensurate with the size of the company.

Directors have vast experience across industries

MITCON's board consists of six directors – the MD, four nominee directors and one independent director. The directors have held senior positions in companies across diverse sectors such as banking, advisory, education, government and entrepreneurship. This makes the profile of MITCON's board significantly better than other small and medium enterprise (SMEs) in the country. We believe the directors act independently and have the ability to exercise oversight.

Related party transaction with MITCON Foundation

The management of MITCON runs a trust, MITCON Foundation, which operates a business school in Pune. The company has outstanding receivables worth ₹21.3 mn from the trust against a sale of land. However, the company has issued a corporate guarantee to Bank of Baroda against a term loan taken by MITCON Foundation and is not eligible to claim its outstanding amount until the term loan is paid in full. The trust is expected to complete the payment to Bank of Baroda by FY15. Hence, the company is confident of recovering its dues in the subsequent years. However, any such related party transaction with the trust in the future could be detrimental for the minority shareholders.

No single shareholder has more than 20% stake in the company

The management team is experienced and commensurate to the size of the business

Each of the four largest institutional shareholders has one nominee director on the board

Financial Outlook and Valuation

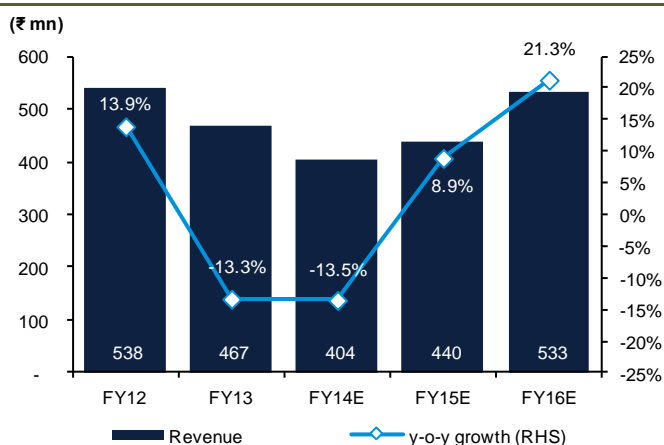
Revenue growth to be subdued in near term; expect 4.5% CAGR over FY13-16

CRISIL Research expects MITCON's revenues to grow to ₹533 mn in FY16 at a three-year CAGR of 4.5% driven mainly by growth in the consulting segment. Given the weak economic outlook, revenue growth is expected to be under pressure in FY14 and FY15 with y-o-y growth of -14% and 9%, respectively. However, gradual recovery in investment spending activity and geographic expansion is expected to drive top line growth from FY16 onwards.

We expect the consulting business to log a CAGR of 13.6% over FY13-16 driven by healthy growth across divisions, while the vocational training segment is expected to report a decline. As a result, the contribution of the consulting segment to overall revenues is expected to increase steadily. MITCON is expected to set up offices in five major cities in India by FY15, broadening its client and revenue base. This is expected to result in increasing demand for the company's consulting services.

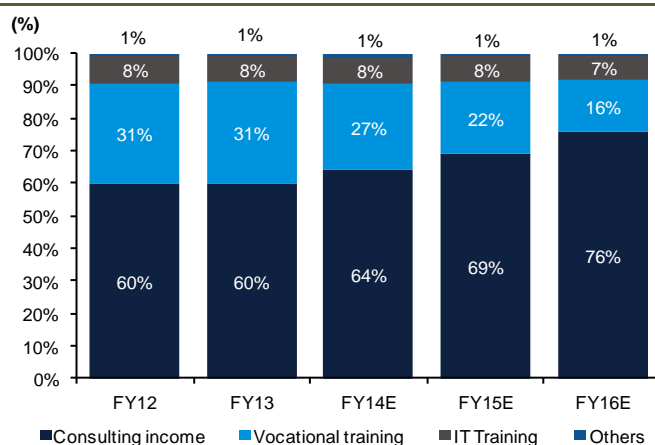
Geographic expansion and gradual recovery in investment spending is likely to drive top-line growth

Figure 5: Revenues to grow at 3% CAGR over FY13-16



Source: Company, CRISIL Research

Figure 6: Consulting segment to increase share in revenues



Source: Company, CRISIL Research

EBITDA margin to contract to 20.3% in FY15; expected to recover in FY16

With setting up of new offices, MITCON's SG&A expense is likely to increase in the next couple of years. The company expects to 1) hire new employees to back its growth plans, which is likely to increase employee expenses as a percentage of sales; and 2) increase marketing and advertising expenses, which are likely to lead to higher SG&A expense as a percentage of sales. As a result, EBITDA margin is expected to decline from 29% in FY13 to 20.3% in FY15. However, as these initiatives are expected to result in higher sales post FY15, EBITDA is estimated to improve to 22.8% in FY16.

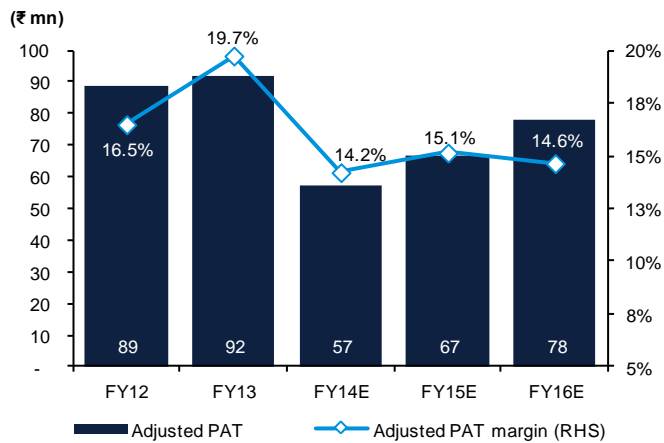
Higher SG&A and employee cost expected to result in subdued EBITDA margin

Adjusted PAT to decline to ₹78 mn in FY16

We expect MITCON's adjusted PAT to decline to ₹78 mn in FY16 from ₹99 mn in FY13, mainly due to a decline in EBITDA margin. EPS is expected to decline to ₹6.4 in FY16 from ₹11.5 in FY13 as the equity base will increase equity infusion. The increase in equity, coupled with declining profit margin, is also expected to result in RoE dropping to 8.3% in FY15 from

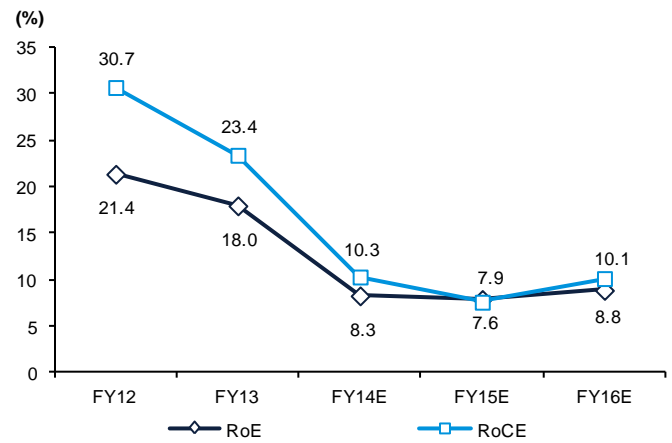
18% in FY13. However, we expect RoE to recover post FY15 once the offices across five cities are set up and the company starts to witness demand for its services from those regions.

Figure 7: Adjusted PAT to decline in FY13-16



Source: Company, CRISIL Research

Figure 8: RoE and RoCE to decline due to equity infusion



Source: Company, CRISIL Research

We assign fair value of ₹64 per share to MITCON

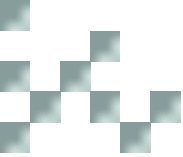
We have followed the EV/sales multiple to value the company as it is operating in a cyclical industry with limited long-term visibility on revenues and earnings.

- We have used EV/sales multiple of 1.0x on FY16 revenue, which is at a ~25% discount to the company's listed peer, Engineering India Ltd (which is currently trading at a EV/sales multiple of 1.26x). Given that 1) MITCON is a smaller player compared to Engineers India Ltd and 2) MITCON's average RoE over the past three years is considerable lower than Engineers India Ltd (23.5% for MITCON compared to 36.1% for Engineers India Ltd), we believe the 25% discount is appropriate. By using the multiple, we have arrived at an enterprise value of ₹533 for MITCON.
- To arrive at the equity value, we added back the FY15 cash, after discounting it by 30%, to the enterprise value. We discounted it as we have limited visibility on the deployment of the excess cash in hand. By adding back the cash, we have arrived at a total equity value of ₹773 mn and a fair value of ₹64 per share.

Our fair value for MITCON is ₹64 per share

Equity valuation of MITCON	
FY16 revenue	₹533 mn
EV/sales multiple	1.0x
Enterprise value	₹533 mn
Cash in hand as of FY15	₹343 mn
Discount rate applied to cash	30%
Debt as of FY15	-
Total equity value	₹773 mn
Fair value per share	₹64

Source: CRISIL Research



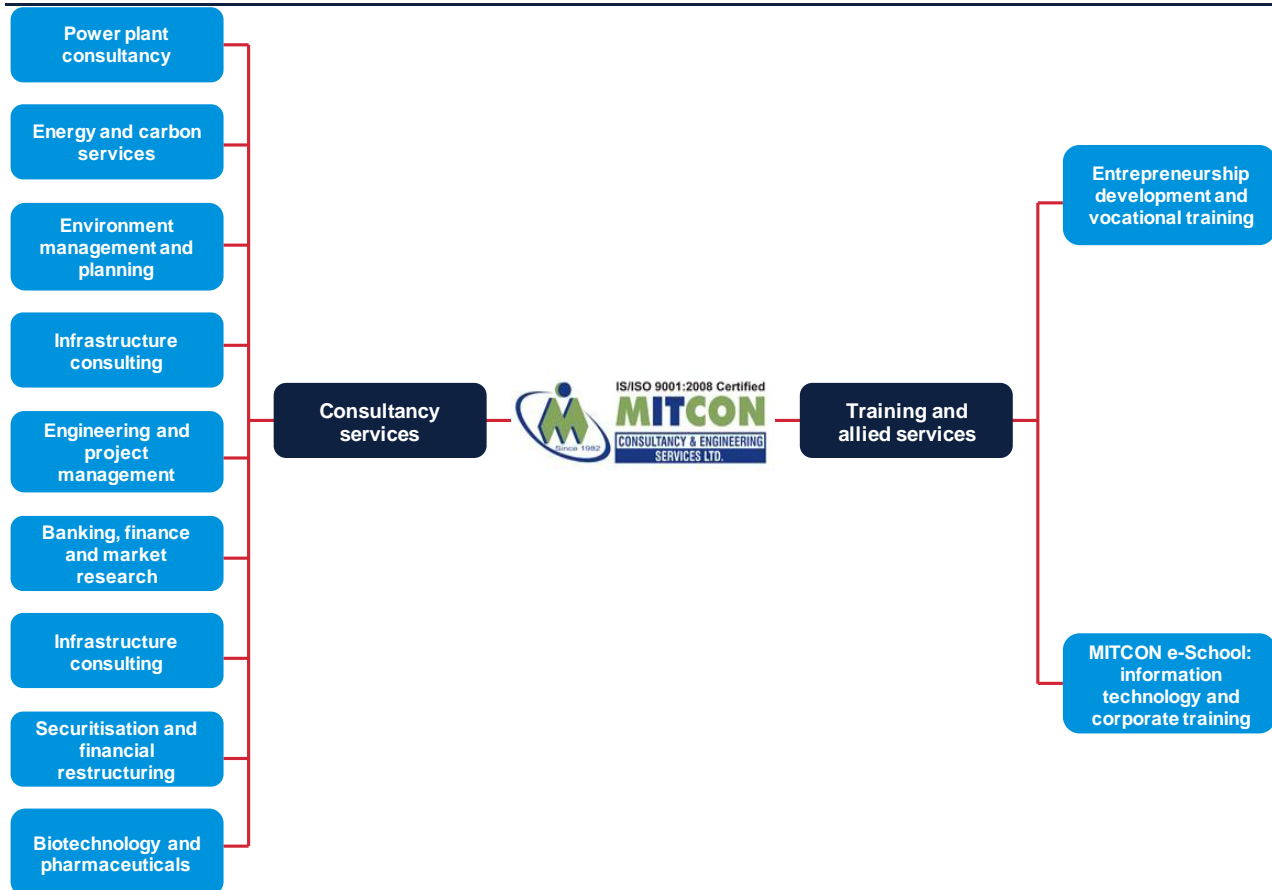
Company Overview

MITCON was established in 1982, promoted by leading commercial banks and financial institutes such as ICICI Bank, IDBI and IFCI, and state development corporations such as State Industrial & Investment Corporation of Maharashtra Ltd (SICOM), Maharashtra Industrial Development Corporation (MIDC), and Maharashtra Small Scale Industries Development Corporation (MSSIDC). From offering soft consultancy services such as draft report preparation initially, the company has gradually expanded its service offerings to become a technical consultancy and training services provider.

At present, the company provides consultancy, engineering, and vocational and entrepreneurship training services. Its consultancy services cover diverse areas such as decentralised power generation, carbon credit, energy conservation, industrial infrastructure, environment engineering, food processing and market research.

The company is headquartered in Pune and has offices in Ahmedabad, Chennai, Delhi, Mumbai and Nagpur. With a small presence outside Maharashtra, the company intends to expand to other Indian cities. MITCON is a IS/ISO 9001:2008 certified company.

Figure 9: Business overview



Source: Company, CRISIL Research

Annexure: Financials

Income statement

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	538	467	404	440	533
EBITDA	148	136	87	89	122
EBITDA margin	27.6%	29.0%	21.6%	20.3%	22.8%
Depreciation	21	15	16	25	32
EBIT	128	120	72	64	89
Interest	1	1	-	-	-
Operating PBT	127	120	72	64	89
Other income	9	13	14	35	27
Exceptional inc/(exp)	15	7	(36)	-	-
PBT	151	139	50	99	116
Tax provision	47	40	28	33	38
Minority interest	-	-	-	-	-
PAT (Reported)	104	99	22	67	78
Less: Exceptionals	15	7	(36)	-	-
Adjusted PAT	89	92	57	67	78

Ratios

	FY12	FY13	FY14E	FY15E	FY16E
Growth					
Operating income (%)	13.9	(13.3)	(13.5)	8.9	21.3
EBITDA (%)	1.0	(8.7)	(35.7)	2.3	36.7
Adj PAT (%)	(10.1)	3.8	(37.7)	16.0	17.2
Adj EPS (%)	(10.1)	3.8	(58.9)	16.0	17.2
Profitability					
EBITDA margin (%)	27.6	29.0	21.6	20.3	22.8
Adj PAT Margin (%)	16.5	19.7	14.2	15.1	14.6
RoE (%)	21.4	18.0	8.3	7.9	8.8
RoCE (%)	30.7	23.4	10.3	7.6	10.1
RoIC (%)	40.0	33.4	20.2	24.1	18.8
Valuations					
Price-earnings (x)	4.3	4.1	10.0	8.6	7.4
Price-book (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	1.3	1.2	1.1	2.2	2.4
EV/Sales (x)	0.4	0.4	0.2	0.4	0.6
Dividend payout ratio (%)	2.4	2.5	10.0	50.0	50.0
Dividend yield (%)	0.7	0.7	0.4	5.8	6.8
B/S ratios					
Inventory days	3	5	4	4	4
Creditors days	82	68	50	57	48
Debtor days	89	130	154	148	140
Working capital days	54	113	146	140	150
Gross asset turnover (x)	2.2	1.9	1.6	1.3	1.1
Net asset turnover (x)	2.8	2.6	2.3	1.9	1.6
Sales/operating assets (x)	2.8	2.5	2.3	1.9	1.6
Current ratio (x)	3.8	5.9	12.9	9.1	8.2
Debt-equity (x)	-	-	-	-	-
Net debt/equity (x)	(0.4)	(0.4)	(0.6)	(0.4)	(0.3)
Interest coverage (EBITDA/interest)	172.3	255.7	-	-	-
Interest coverage (EBIT/interest)	148.1	226.6	-	-	-

Balance Sheet

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Liabilities					
Equity share capital	5	5	121	121	121
Reserves	460	555	708	741	780
Minorities	-	-	-	-	-
Net worth	465	560	829	863	902
Convertible debt	-	-	-	-	-
Other debt	-	-	-	-	-
Total debt	-	-	-	-	-
Deferred tax liability (net)	26	22	22	22	22
Total liabilities	491	582	851	885	924
Assets					
Net fixed assets	185	180	164	292	381
Capital WIP	1	2	-	-	-
Total fixed assets	187	182	164	292	381
Investments	21	29	29	29	29
Current assets					
Inventory	3	3	3	3	4
Sundry debtors	130	165	169	176	202
Loans and advances	43	49	42	55	80
Cash & bank balance	165	178	446	343	244
Marketable securities	25	37	37	37	37
Total current assets	367	432	696	615	567
Total current liabilities	97	73	54	67	69
Net current assets	270	359	642	547	498
Intangibles/Misc. expenditure	14	13	17	17	17
Total assets	491	582	851	885	924

Cash flow

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	136	133	86	99	116
Total tax paid	(50)	(44)	(28)	(33)	(38)
Depreciation	21	15	16	25	32
Working capital changes	(58)	(64)	(16)	(7)	(50)
Net cash from operations	49	40	57	84	60
Cash from investments					
Capital expenditure	(19)	(10)	(1)	(153)	(121)
Investments and others	(18)	(19)	-	-	-
Net cash from investments	(37)	(29)	(1)	(153)	(121)
Cash from financing					
Equity raised/(repaid)	-	-	325	-	-
Debt raised/(repaid)	-	-	-	-	-
Dividend (incl. tax)	(3)	(3)	(2)	(33)	(39)
Others (incl extraordinary)	14	6	(111)	-	-
Net cash from financing	11	3	212	(33)	(39)
Change in cash position	23	13	267	(102)	(100)
Closing cash	165	178	446	343	244

Per share

(₹)	FY12	FY13	FY14E	FY15E	FY16E
Adj EPS (₹)	11.1	11.5	4.7	5.5	6.4
CEPS	13.7	13.4	6.0	7.6	9.1
Book value	58.2	70.0	68.4	71.2	74.4
Dividend (₹)	0.3	0.3	0.2	2.7	3.2
Actual o/s shares (mn)	8	8	12	12	12

Source: CRISIL Research

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