

6<sup>th</sup> October 2010

## BS Transcomm Limited

Recommendation: Buy



Issue Summary		
Price Band (Rs)	257	266
Bid Lot	25 shares	
Face Value	Rs.10	
Opens on	6 <sup>th</sup> Oct'10	
Closes on	8 <sup>th</sup> Oct'10	
Total no of shares to be raised	76.79 lacs	

Pre-issue share capital	Rs. 14.19 crs	
Post-issue share capital	Rs. 21.88 crs	
Issue Size	Rs. 197.35 crs	Rs. 204.26 crs
Post Issue Market Cap	Rs. 562.8 crs	Rs. 582.5 crs
P/E on FY10	10.52	10.89

Net Issue	No. of Shares	%
QIB's	38.39 lacs	50
Non Institutional	11.52 lacs	15
Retail	26.88 lacs	35
Total	76.79 lacs	100

## Company &amp; Business Profile

BS Transcomm Ltd (BST) is engaged in the business of manufacturing and supply of towers to the telecommunication and the power sector in India with a pan India presence in 19 out of the 23 telecom circles. Headquartered in Hyderabad the company have eight circle offices throughout India through which they service customers in 19 telecom circles. In addition, it also has started providing turnkey solutions to the telecommunication and power transmission industry. In future, it intends to capitalize on the emerging opportunities in the telecommunications and power transmission sector.

BST's tower manufacturing activities include designing and fabrication of telecommunication and power transmission towers. The company supplies towers to companies like Reliance Infratel Limited, Vodafone, Idea Cellular Limited, Wireless-TT Info Services Limited, Essar Telecom Infrastructure Limited, Indus Towers Limited, Transmission Corporation of Andhra Pradesh Limited ("APTransco") and Huawei Telecommunications Limited.

As a turnkey solution provider to the telecommunication sector BST undertake radio frequency (RF) planning and transmission survey, site identification, acquisition, clearance and design, technology integration, project management and control, equipment procurement, supply and installation and managing services including RF optimizing. Their clients include Wireless- TT Info Services Limited, Reliance InfoComm Limited and Ericsson India Private Limited.

As a turnkey solutions provider to the power sector, it executes power transmission and sub-station projects on turnkey basis which includes supply of materials, installation, erection and commissioning. The work to be carried out for transmission projects are preliminary survey, route alignment, detail survey, check survey, classification of soil (for type of foundation to be used), construction of foundation, erection of towers, stringing of line, earthing, fixing of accessories, testing and commissioning of line. Presently they are executing projects for APTransco.

Incorporated in the year 2004 as a private limited company under the name of B.S Steels and Minerals Private Limited it's primary objective of trading in steel products required by tower manufacturers. The concurrent demand for telecommunication and power transmission towers prompted them to diversify into manufacturing and supply of such towers. The company's top management includes Mr. Rajesh Agrawal (MD), Mr. Rakesh Agarwal (JMD) and Mr. Mukesh Agarwal (Whole-time Director).

### Objects of the Issue

Part funding of Phase I i.e. expansion in Tower Manufacturing and galvanizing capacity from 36,000 MTPA to 1,20,000 MTPA (i.e. an increase in installed capacity by 84,000 MTPA) and setting up of the Backward Integrated Structural Mill with an installed capacity of 90,000 MTPA.

- Funding of Phase II i.e. expansion in Tower Manufacturing and galvanizing capacity from 1,20,000 MTPA to 2,40,000 MTPA (i.e. an increase in installed capacity by 1,20,000 MTPA);
- To part finance margin money for working capital for the Project;
- To fund general corporate purposes;
- To meet expenses of this Issue;
- To get the Equity Shares of the Company listed on the Stock Exchanges.

#### Book Running Lead Managers:

- JM Financial Consultants Ltd.

### Means of Finance

(Rs. in crs)

Means of Finance	
Particulars	Total
Proceeds of the Issue	[*]
Promoter's equity	9.62
Internal Accruals	[*]
Term Loans	47
<b>Total</b>	<b>[*]</b>

### Shareholding Pattern

	Pre-issue		Post Issue	
	No. of shares (in lacs)	% holding	No. of shares (in lacs)	% holding
Promoter	141.17	99.42	141.17	64.52
Non-Promoter	0.82	0.58	0.82	0.38
Public	-	-	76.79	35.10
<b>Total</b>	<b>141.99</b>	<b>100.00</b>	<b>218.79</b>	<b>100.00</b>

## Investment Positives

- **Positioned well in ever-growing market:**

With government initiatives focused on expanding rural telecom infrastructure, and the need to tap the growing subscriber base has resulted in a huge demand for towers. Also with the telecom sector preparing itself for the 3G technology to enable high speed data transmissions and video conferencing over mobile phones, which will require higher and closer location of telecom sites thereby increases demand for towers. Further, the GOI has, in each of its successive five year plans, increased targets for addition of power generation capacity and projected addition of 82,500 MW during the eleventh five year plan which necessitates increased investment in power transmission and distribution. We believe the company has established itself well in providing efficient services to the telecommunication and the power sector which will enable them to effectively exploit the high growth opportunities in these two rapidly expanding sectors.

- **Reputed client base:**

BST's clientele includes leading companies in the Indian wireless industry, such as Vodafone, Essar Telecom Infrastructure Limited, Bharti Infrastructure Limited, Acme Tele Power Limited, India Telecom Infrastructure Limited, Reliance Communications Limited, Wireless- TT Info Services Limited, Idea Cellular Limited, etc. The strong clientele base will help the company to garner greater market visibility and goodwill which helps them to secure repetitive orders. They also have a pan-india presence.

- **Backward integration:**

BST plans to set up a rolling mill plant with a capacity of 90,000 MTA for the purposes of providing strategic backward integration in order to increase the operational flexibility of the company. This would enable it to manufacture structural steel, which is used as a raw material for their fabrication plant and thereby making it less dependent on suppliers. This would help to lower costs and improve operating margins.

- **Experienced management team:**

BST has an experienced management team with an established track record and knowledge of the sector in which they serve. This has enhanced their ability to build relationships with reputed telecom operators within a short span of time. Their management team has significant experience in procuring raw material, manufacturing and marketing of towers. The Promoters have over a decade of experience in the steel industry; while their senior management has over two decades of experience in telecommunication and power sector. This mix of expertise enables us to procure repetitive orders, source the raw materials and ensure competitive timelines. This in-depth understanding of the markets will enable them to continue to take advantage of both current and future market opportunities.

## Concerns

- **Competition:**

BST has a unique concern wherein their own clients may become their competitors. With a number of telecom companies hiving off their towers into a separate entity BST may lose out market share to them. Also with companies like Powergrid along with others also foraying into the telecom tower domain BST has a tough job in hand to retain clients.

**Profit & Loss Account** (Rs. in crs)

Particulars	FY 2009	FY 2010	Q1 FY11	
Total Income	340.95	540.15	173.99	
Expenditure	321.92	503.14	153.86	
Profit before Tax	190.31	370.15	201.26	
PAT	123.65	237.32	133.58	
Ratios:-				
Earnings per share (pre-dilution)	8.75	16.65	9.41	
Earnings per share (post-dilution)	5.68	10.81	6.11	
Net Asset Value per Share- (Rs)	41.92	58.45	67.85	
Return on Net Worth (%)	21.00	28.00	14.00	

**Recommendation**

*We recommend our investors to “BUY” the issue.*

Considering the growth prospect that is there in the Indian telecom tower business as well as in the power sector—more so because of the impending 3G services which will increase the need for more towers, we believe that the company is placed to take advantage of such a scenario. We also believe that in comparison to companies like Sujana Towers (PE of 12.3) and Kalpataru Power (PE of 17.1) the issue of BS Transcomm Ltd. is very attractively priced. We therefore recommend a “Buy” on the stock.

Company	PE
Sujana Towers	12.3
Kalpataru Power	17.1
BS Transcomm	10.5-10.8

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