

### A2Z Maintenance & Engineering Services Ltd.

Price Band	: Rs400-410 per share	December 7, 2010
IPO open during	: Dec. 8 - Dec. 10, 2010	
Book Running Lead Manager	: IDFC Capital, DSP Merrill Lynch, Enam, ICICI, SBI Cap	
To list on	: NSE & BSE	
IPO Grading	: 4 / 5 (CARE)	
PE	: 23.4x (based on base price)* : 24.0x (based on cap price)*	
Market Cap post-listing	: Rs3,024Cr or \$672mn (based on the cap price)	
Market Cap of Free Float	: Rs1,768Cr or \$393mn (based on the cap price)	

\* Based on FY10 EPS

IPO of 21.02mn equity shares of Rs10 each, aggregating to Rs861Cr or \$191mn (at the cap price) consisting of a fresh issue of 16.46mn shares (at the cap price) aggregating to Rs675Cr and an offer for sale of up to 4.56mn shares aggregating to Rs187Cr.

#### Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	3,19,80,629	56%	3,06,30,629	42%
Institutions	2,53,20,496	44%	2,21,14,303	30%
QIBs excl. Mutual Funds	0	0%	2,10,19,608	28%
Mutual Funds				
Non-Institutional Investors				
Public				
<b>Total</b>	<b>5,73,01,125</b>	<b>100%</b>	<b>7,37,64,540</b>	<b>100%</b>

#### Executive Summary

- Incorporated in 2002, A2Z Maintenance & Engineering Services Ltd. (AMEL) is an established EPC company provides services to the power transmission and distribution sector with a focus primarily on the distribution segment.
- The company has diversified its EPC services to power generation companies and companies in other sectors such as road and telecommunications. In addition, the company is also in other businesses such as (i) power generation from renewable energy sources; (ii) municipal solid waste management services (iii) facility management services; and (iv) developing information technology solutions for power utilities.
- The power sector in India is slowly moving from a regulated return framework to a market driven pricing mechanism. This has provided a major boost for private entrepreneurs to enter the power sector and set up projects.

- Demand for engineering, procurement and construction services in the power transmission lines and power distribution businesses is largely dependent on development, demand and new investments in the power generation, transmission and distribution sectors.
- The Planning Commission envisages a planned additional capacity of 78,700MW through investments of Rs4,951bn during the XIth five year plan period from 2007 to 2012. For solid waste management, the XIth five year plan has determined there should be 100% population coverage and it is estimated that the fund requirement for solid waste management during such plan period will be approximately Rs22,120mn.
- AMEL has established a track record for efficient project management and execution of projects in EPC and FMS business, and recently, MSW business.
- Risks include, a significant part of the business contracts is with government and public sector undertakings.

## **Company Background**

The company was incorporated as A2Z Maintenance Services Pvt. Ltd. on January 7, 2002. Pursuant to a resolution of the Board of Directors of the Company dated April 28, 2005 and a special resolution of the shareholders at an extraordinary general meeting held on May 2, 2005, the name of the Company was changed from A2Z Maintenance Services to A2Z Maintenance & Engineering Services Pvt. Ltd. to reflect the enhanced scope of services offered by the company. The fresh certificate of incorporation was issued by the RoC on June 13, 2005. Subsequently, pursuant to a special resolution of the shareholders of the company at an extraordinary general meeting held on March 12, 2010, the company became a public limited company.

## **Promoters and Management**

**Mr. Surender Kumar Tuteja**, is the Chairman of the company. He is an independent and non-executive Director.

**Mr. Amit Mittal**, is the Managing Director of the Company. Mr. Mittal has been a Director of the company since February 1, 2004.

## **Industry Overview**

### **The Indian Infrastructure Opportunity**

The Indian economy is based on planning through successive five year plans that set out targets for economic development in various sectors, including the infrastructure sector. The XIth Five Year Plan (FYP) aims at a sustainable GDP growth rate of 9.00%, but there is a consensus that infrastructure inadequacies would constitute a significant constraint in realizing this development potential. To overcome this constraint, an ambitious programme of infrastructure investment, involving both public and private sector, is being developed for the XIth FYP. Infrastructure spending targets for the XIth FYP were revised from approximately 4.6% to approximately 7.6% compared to the Xth FYP.

The programme strengthens and consolidates recent infrastructure initiatives, such as the Bharat Nirman for building rural infrastructure, as well as sectoral initiatives, such as the National Highways Development Programme (NHDP), the Airport Financing Plan, the National Maritime Development Programme (NMDP) and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Given the scale of infrastructure

spending, the Government of India is encouraging private sector participation through Public Private Partnership (PPP) projects. The Government of India has also set up the Ministry of New and Renewable Energy (MNRE) as the nodal agency for all matters relating to new and renewable energy.

## **Indian Power Sector**

The power sector in India is slowly moving from a regulated return framework to a market driven pricing mechanism. This has provided a major boost for private entrepreneurs to enter the power sector and set up projects. Currently significant traction has been achieved in the generation space, while the transmission and the distribution segment is slowly opening to the private sector.

Demand for engineering, procurement and construction services in the power transmission lines and power distribution businesses is largely dependent on development, demand and new investments in the power generation, transmission and distribution sectors. For FY10, India faced an energy shortage of approximately 11.7% of total energy requirements and 13.3% of peak demand requirements. Over FY00-FY10, the peak deficit has grown from 6.2% to 13.3%.

## **Municipal Solid Waste Management (MSWM)**

Municipal Solid Waste is a waste type which predominantly includes household waste (domestic waste) and sometimes with the addition of commercial wastes collected by a municipality within a given area.

## **Global Scenario in Waste Management**

Rapid increase in volume and types of solid and hazardous waste as a result of continuous economic growth, urbanization and industrialization, is becoming a burgeoning problem for national and local governments to ensure effective and sustainable management of waste. It is estimated that in 2006 the total amount of municipal solid waste generated globally reached 2.02bn tons, representing a 7% annual increase since 2003. It is further estimated that between 2007 and 2011, global generation of municipal waste will rise by 37.3%, equivalent to approximately 8% increase per year.

## **Business Overview**

AMEL is an established EPC company provides services to the power transmission and distribution sector with a focus primarily on the distribution segment.

The company has diversified its EPC services to power generation companies and companies in other sectors such as road and telecommunications. In addition, the company is also in other businesses such as (i) power generation from renewable energy sources; (ii) municipal solid waste management services (iii) facility management services; and (iv) developing information technology solutions for power utilities.

The company's business spread across India and conducted through the company and its direct and indirect subsidiaries.

## **EPC**

The company's EPC business started operations in FY06 with focus primarily on the power distribution sector, where its EPC services include the installation of distribution line infrastructure with capacities of up to 33 KV, the construction of substations of up to 33 KV and participation in system strengthening projects and rural electrification projects. In the power transmission sector, AMEL's projects include construction of extra high voltage substations of up to 400 KV and EHV transmission lines of up to 765 KV. The company executes projects in the power transmission and distribution sector in India for various

state power utilities and central public sector utilities such as PGCIL, NTPC and NHPC. The company has recently been awarded an EPC project in the road segment.

## **Renewable Energy Generation**

AMEL have recently entered the power generation business from renewable energy sources of fuel such as biomass, RDF generated from its projects in the MSW business, bagasse, mustard stems, rice husk, juliflora and other agricultural and forest waste. The company is constructing three 15 MW renewable energy cogeneration projects in sugar mills located in Punjab on a BOOT basis and a 15 MW biomass-based power plant in Uttar Pradesh. In addition, AMEL is setting up five 15 MW biomass-based power generation projects in Rajasthan that will primarily utilize crop residue as fuel and biomass-based power generation projects in Punjab with an aggregate installed capacity of 100 MW that will utilize the rice husk generated from rice milling operations.

## **MSW**

In the MSW business, AMEL provides collection, transportation, processing, disposal and treatment of municipal solid waste (MSW).

## **FMS**

AMEL is engaged in the FMS business (Facility Management Services) since its incorporation in 2002. The company's services in the FMS business include engineering maintenance (mechanical, plumbing, electrical, HVAC, DG Set), energy saving solutions, janitorial services, parking management, property lease management, telecommunications tower maintenance and security services to public and private sector clients.

## **Power IT Solutions**

AMEL has recently diversified into the Power IT Solutions business, where it executes projects as a systems integrator by developing solutions for aggregate technical and commercial (AT&C) loss reduction in India.

## **Competitive Strengths**

### **Ability to identify new business opportunities and scale businesses in high growth sectors**

The company has diversified from the FMS business into the power and waste management businesses. The power and waste management sectors in India have experienced high growth over the last few years. The Planning Commission envisages a planned additional capacity of 78,700MW through investments of Rs4,951bn during the XIth five year plan period from 2007 to 2012. For solid waste management, the XIth five year plan has determined there should be 100% population coverage and it is estimated that the fund requirement for solid waste management during such plan period will be approximately Rs22,120mn.

### **Proven project execution capabilities and demonstrated track record**

AMEL has established a track record for efficient project management and execution of projects in EPC and FMS business, and recently, MSW business.

### **In-house engineering capabilities and strong quality management systems**

### **Diversified business and operations**

## **Objects of the Issue**

The Company intends to utilize the proceeds from the Fresh Issue for the following objects:

- Investment in 3 biomass (bagasse) - based power cogeneration projects of 15 MW each in Punjab;
- Investment in five biomass - based power generation projects of 15 MW each in Rajasthan;
- Investment in subsidiaries;
- Repayment of a loan granted by L&T Infrastructure Finance Company;
- Working capital requirements; and
- General corporate purposes

## **Risks & Concerns**

(Please refer to RHP for a complete listing of risk factors)

- There are outstanding criminal proceedings involving the Company, its certain Directors and Promoter.
- A significant part of the business contracts is with government and public sector undertakings, which may subject to several risks.
- The company does not have any track record or prior experience in power generation projects, processing municipal solid waste or rice milling operations.
- The company has high working capital requirements.

# KEYNOTE

## Profit & Loss Statements

(RsCr)

For Period Ended,	31-03-2007	31-03-2008	31-03-2009	31-03-2010	31-07-2010
<b>Income from operations</b>					
Revenue from engg services	170.43	453.65	664.42	1122.78	365.94
Revenue from FMS	10.22	25.35	50.07	90.98	44.94
Revenue from MSW	0.00	0.00	0.22	4.63	3.61
Sales -Compost	0.00	0.00	0.00	0.00	1.07
Consultancy fees	0.00	0.00	1.01	0.89	0.00
<b>Total Revenues</b>	<b>180.65</b>	<b>479.00</b>	<b>715.71</b>	<b>1219.29</b>	<b>415.56</b>
<b>Expenditure</b>					
Cost of material and services	138.35	340.71	468.03	832.77	253.71
Purchase of traded goods	0.00	0.00	0.00	0.00	14.53
(Increase) / Decrease in inventories	0.00	0.00	0.00	0.00	-14.53
Personnel expenses	10.57	28.66	65.55	108.91	54.55
Administrative & selling expenses	11.72	21.30	55.20	76.86	32.78
<b>Total expenditure</b>	<b>160.63</b>	<b>390.67</b>	<b>588.78</b>	<b>1018.54</b>	<b>341.03</b>
<b>EBITDA</b>	<b>20.02</b>	<b>88.33</b>	<b>126.93</b>	<b>200.74</b>	<b>74.53</b>
Other income	0.63	2.35	8.17	6.01	2.54
Interest	2.49	12.49	38.83	49.33	19.37
<b>PBDT</b>	<b>18.17</b>	<b>78.19</b>	<b>96.28</b>	<b>157.42</b>	<b>57.69</b>
Depreciation/amortisation	0.31	1.33	1.97	3.58	2.82
<b>Net profit before tax</b>	<b>17.86</b>	<b>76.86</b>	<b>94.31</b>	<b>153.84</b>	<b>54.87</b>
Current tax	7.34	26.96	35.61	57.89	21.25
Deferred tax charge/(credit)	-0.81	-0.38	-1.16	-2.29	-1.18
Fringe benefit tax	0.08	0.43	0.81	0.00	0.00
<b>Net profit before extraordinary items</b>	<b>11.26</b>	<b>49.84</b>	<b>59.05</b>	<b>98.25</b>	<b>34.79</b>
Extra-ordinary items	0.00	0.00	0.00	0.00	8.68
<b>Net profit before minority interest</b>	<b>11.26</b>	<b>49.84</b>	<b>59.05</b>	<b>98.25</b>	<b>26.11</b>
Less: Share of minority interest	0.00	0.00	0.00	0.37	-0.01
<b>Net profit as restated</b>	<b>11.26</b>	<b>49.84</b>	<b>59.05</b>	<b>97.87</b>	<b>26.11</b>
<b>EBITDA margin</b>	<b>11.1%</b>	<b>18.4%</b>	<b>17.7%</b>	<b>16.5%</b>	<b>17.9%</b>
<b>EPS (Rs)</b>	<b>72.90</b>	<b>26.05</b>	<b>27.28</b>	<b>17.08</b>	<b>4.56</b>
<b>Paid-up Equity Capital</b>	<b>1.54</b>	<b>19.14</b>	<b>21.65</b>	<b>57.30</b>	<b>57.30</b>

# KEYNOTE

## Balance Sheets

(RsCr)

As at,	31-03-2007	31-03-2008	31-03-2009	31-03-2010	31-07-2010
<b>Sources of Funds</b>					
<b>Share Capital</b>					
Equity Shares	1.54	19.14	21.65	57.30	57.30
Preference Shares	0.00	75.00	0.00	0.00	0.00
Equity Share Warrants	2.00	0.00	0.00	0.00	0.00
<b>Reserves &amp; surplus</b>					
Securities Premium A/c	19.57	5.38	77.87	142.21	139.54
Profit and Loss A/c	15.77	64.66	123.71	221.59	247.75
<b>Net Worth</b>	<b>38.88</b>	<b>164.18</b>	<b>223.23</b>	<b>421.10</b>	<b>444.59</b>
<b>Debt</b>					
Secured Loans	34.05	124.73	244.28	404.78	569.91
Unsecured Loans	15.79	0.14	20.02	0.41	1.68
<b>Total Debt</b>	<b>49.84</b>	<b>124.87</b>	<b>264.30</b>	<b>405.19</b>	<b>571.59</b>
Minority Interest	0.00	0.00	0.20	2.25	2.61
<b>Total Liabilities</b>	<b>88.72</b>	<b>289.04</b>	<b>487.73</b>	<b>828.54</b>	<b>1018.78</b>
<b>Applications of Funds</b>					
<b>Fixed Assets</b>					
<b>Gross Block</b>	<b>4.56</b>	<b>13.92</b>	<b>25.40</b>	<b>62.38</b>	<b>101.78</b>
Less: Acc. Depreciation	0.36	1.69	3.60	7.59	10.46
<b>Net Block</b>	<b>4.20</b>	<b>12.23</b>	<b>21.80</b>	<b>54.79</b>	<b>91.32</b>
CWIP	0.00	0.00	13.57	84.64	55.14
Investments	0.00	0.00	0.00	0.03	0.03
<b>Current Assets, Loans &amp; Adv.</b>					
Inventories	0.03	0.00	2.22	0.99	15.58
Debtors	125.51	318.49	485.92	826.63	651.40
Cash and Bank Balances	15.02	46.97	70.89	99.33	96.75
Other Current Assets	10.98	62.86	119.87	179.37	326.41
Loans and Advances	16.58	44.91	78.92	102.75	144.88
<b>Total Current Assets</b>	<b>168.12</b>	<b>473.22</b>	<b>757.81</b>	<b>1209.07</b>	<b>1235.02</b>
<b>Current Liabilities &amp; Provisions</b>					
Current Liabilities	75.74	177.22	277.53	496.28	365.07
Provisions	8.64	20.34	30.25	35.13	24.73
<b>Total Current Liabilities</b>	<b>84.38</b>	<b>197.56</b>	<b>307.78</b>	<b>531.41</b>	<b>389.80</b>
<b>Net Current Assets</b>	<b>83.74</b>	<b>275.66</b>	<b>450.04</b>	<b>677.66</b>	<b>845.22</b>
Net Deferred Tax	0.78	1.16	2.32	4.62	10.11
Misc. Expenditure not w/o	0.00	0.00	0.00	6.80	16.96
<b>Total Assets</b>	<b>88.72</b>	<b>289.04</b>	<b>487.73</b>	<b>828.54</b>	<b>1018.78</b>

## **Keynote Capitals Ltd.**

### **Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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