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IPO Report

25th Mar'24

Snapshot

Company is an engineering construction and development company engaged primarily in the construction of roads (including bridges), tunnels, slope stabilisation works and other miscellaneous civil construction activities in the Union Territories of Jammu & Kashmir and Ladakh. Company undertake construction works both as an EPC contractor and on an item rate basis for infrastructure projects. Company also undertakes sub-contracting assignments of infrastructure construction projects.

VALUATION

Company is bringing the issue at price band of Rs 200-210 per share at p/e multiple of 17x on annualized 9 months FY24 PAT basis.

Company has proven track record of efficient execution of roads, tunnels and slope stabilisation works in the difficult terrain of union territory of Jammu and Kashmir. Company has business model of selecting and clustering of its projects in the union territories of Jammu & Kashmir and Ladakh. Company's continuous focus on equipment ownership along with strong financial performance in the last three financial years. Company has in-house integrated mode along with experienced Promoters with strong management team.

Looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	200-210
Opening date of the issue	26th Mar '2024
Closing Date of the issue	28th Mar '2024
No of shares pre issue	1,67,44,200 Eq Shares
Issue Size	Rs 130 Cr
Fresh Issue	Rs 130 Cr
Fresh Issue	62,00,000 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	70

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 31,00,000 Eq Shares)
Non-Institutional	15% of the offer (Approx 9,30,000 Eq Shares)
Retail	35 % of the offer (Approx 21,70,000 Eq Shares)
Lead managers	Interactive Financial Services Limited
Registrar to the issue	Bigshare Services Private Limited

WHAT WE LIKE

Proven track record of efficient execution of roads, tunnels and slope stabilisation works in the difficult terrain of union territory of Jammu and Kashmir

Company is an engineering construction and development company engaged in construction of road (including bridges), tunnels, slope stabilization works and other civil construction activities in the difficult terrain of Union Territories of Jammu & Kashmir and Ladakh. Recently, company have also been awarded with a contract for slope stabilization work in the state of Utrakhand.

Business model of selecting and clustering of company's projects in the union territories of Jammu & Kashmir and Ladakh

Company's growth is largely attributable to its business model of focusing, selecting and clustering of company's projects in the Union Territory of Jammu and Kashmir and Ladakh. This model has facilitated company with maximum efficiency and profitability as company leverage its expertise and know-how to undertake infrastructure construction projects in the difficult terrain of the Union Territory of Jammu and Kashmir and the same provide company with the competitive advantage.

Strong financial performance

Company's business in the last three Financial Year has contributed significantly to its financial strength. Company had achieved revenue from operations of ₹ 30,029.08 lakhs in Financial Year 2023, ₹26,361.14 lakhs in Financial Year 2022 and ₹16,005.89 lakhs in Financial Year 2021, representing 13.91%, year-on-year growth and 63.60% year-on-year growth in Financial Year 2023 and Financial Year 2022, respectively.



COMPANY BACKGROUND

Company have a track record of successful execution of road, tunnel and slope stabilization projects in the difficult terrain of union territories of Jammu & Kashmir and Ladakh and company have developed the expertise and know-how to undertake infrastructure construction projects in difficult terrains. Company has emerged as a key player in infrastructure construction industry in the Union Territories of Jammu & Kashmir and Ladakh and has developed technical capabilities to execute projects in hilly/ challenging terrain in the region (Source: D&B Report).

Company is an ISO 9001:2015 certified company and are also registered as class A contractor with Public Work (R&B) Department, Jammu & Kashmir. Company is pre-qualified to bid independently on projects, tendered by departments of governmental authorities and other entities funded by the GoI, of contract value up to ₹30,000 lakhs and ₹50,000 lakhs for EPC contracts pertaining to construction of roads (including bridges) and for construction of tunnel respectively. As a result of the growth of company's road and tunnel construction business as well as the recent government initiatives and support to develop the infrastructure of union territories of Jammu & Kashmir and Ladakh, company have further forayed into executing other infrastructure projects such as standalone bridges, larger slope stabilisation works and other miscellaneous civil construction activities in order to capitalise on such rising opportunities. Recently, company have also been awarded with a contract for slope stabilization work in the state of Uttarakhand.

As an EPC contractor, the scope of company's services includes detailed engineering of the project, procurement of construction materials, plant and machinery, construction and execution of the project and its operation and maintenance in accordance with the contractual provisions. Company's manpower, resources and fleet of machinery and equipment, together with its engineering capabilities, enables company to execute a large number of projects simultaneously. Company's resources, quality of work and project execution skills have enabled it to enhance its relationships with existing clients and helps company to further secure projects from new clients. Company undertake contracts independently or whenever required, through its project-specific joint ventures with other infrastructure and construction entities when a project requires company to meet specific eligibility requirements in relation to certain large projects, including requirements relating to particular types of experience. Company also undertakes sub-contracting assignments from third party major infrastructure and construction entities.

Company was incorporated in September 2008 and company have gradually increased its execution capabilities in terms of the size of projects that company is now bidding for and executing. For instance, one of the first road projects awarded to company by Government of Jammu and Kashmir Economic Reconstruction Agency in the month of February 2011 for widening of Sakhi-Maidan-Kalai road in District Poonch with the project cost of ₹773.88 lakhs, whereas, one of the project recently awarded by Ministry of Road Transport and Highways through Border Roads Organisation in calendar year 2023 i.e. Construction of realignment between Pandrass- Pashkyum (net length 27.10 km) on road Zozila-Kargil-Leh (NH-1) to 2 lane specifications i.e. Drass realignment (9.30 km), Kharboo realignment (6.30 km) & Kargil alignment (11.50 km) under project Vijayak (BRO) in the Union Territory of Ladakh on EPC mode to company's project specific joint venture is having a project cost of ₹ 20,568.28 lakhs. Since incorporation, Company, independently and through project-specific joint ventures, has completed thirty-eight (38) infrastructure construction projects having an aggregate contract value of ₹1,41,165.62 lakhs which includes thirty-two (32) roads projects, three (3) tunnel projects, one (1) slope stabilisation works and two (2) other miscellaneous civil construction activities. Out of the thirty-eight (38) projects executed by Company, thirty (30) infrastructure construction projects, including sub-contracting assignments, have been executed independently by company and eight (8) projects have been executed through project specific joint ventures.

As on January 31, 2024, company's order book consists of twenty-one (21) infrastructure construction projects which includes eleven (11) roads projects (including bridges), five (5) tunnel projects, four (4) slope stabilization project and one (1) other miscellaneous civil construction activities. Out of the twenty-one (21) ongoing infrastructure construction projects, fifteen (15) infrastructure construction projects, including sub-contracting assignments, is being executed independently by company and six (6) infrastructure construction projects are being executed with its project-specific joint ventures.



INVESTMENT RATIONALE

<p><i>Business model of selecting and clustering of company's projects in the union territories of Jammu & Kashmir and Ladakh</i></p>	<p>Company's growth is largely attributable to its business model of focusing, selecting and clustering of its projects in the Union Territory of Jammu and Kashmir and Ladakh. This model has facilitated company with maximum efficiency and profitability as company leverage its expertise and know-how to undertake infrastructure construction projects in the difficult terrain of the Union Territory of Jammu and Kashmir and the same provide company with the competitive advantage. Company carefully select company's contracts, usually with a focus on EPC projects, by taking into consideration key factors such as the potential for project clustering. Company strive to cluster its projects geographically in the Union Territory of Jammu and Kashmir and Ladakh to improve efficiency and profitability. By leveraging the manpower, equipment and materials which are set-up at nearby work sites, company attempt to save transportation costs and investment in new equipment, thus achieving economies of scale. Company apply this principle even to projects that it undertake on sub-contract basis.</p>
<p><i>Continuous Focus on equipment ownership</i></p>	<p>Equipment asset management is a critical element of timely delivery of quality infrastructure development and construction projects. Company own a large fleet of sophisticated construction equipment which enables it to be less dependent on third party equipment providers and to efficiently manage company's project execution schedules. This also provides company with a competitive advantage over other infrastructure development and construction companies that outsource their construction activities to external contractors. Company have consistently invested in fleets of modern construction equipment. Company often acquire equipment of the same class and same brand to facilitate the training of operators and help reduce equipment down time and maintenance cost. With multiple projects in progress at any given time, ready access to such equipment is essential to company's ability to execute existing projects on time and bid for additional projects. Easy access to and high availability of company's modern equipment fleet has enabled company to undertake complex and challenging projects and complete its projects efficiently and profitably. As on January 31, 2024, company own and maintain 228 equipment and machineries consisting of seven (7) hot mix plant, six (6) stone crushers, twenty-three (23) excavators, eighteen (18) backhoe loader, forty two (42) tippers/dumpers, three (3) boomer, three (3) shotcrete machine, seven (7) hot bitumen pressure distributor, three (3) wet mix macadam plant, seven (7) tandem roller compactor, five (5) road roller, seven (7) paver, four (4) grader, etc. As on December 31, 2023, the aggregate gross block value of company's property, plant and equipment was ₹7305.21 lakhs. In the period ended on December 31, 2023 company had spent ₹427.35 lakhs and in Financial Year 2023, ₹1,848.11 lakhs, ₹585.12 lakhs in Financial Year 2022 and ₹1087.32 lakhs in Financial Year 2021 on equipment and machinery purchase and intends to add additional fleet of equipment and machinery.</p>
<p><i>Experienced Promoters with strong management team</i></p>	<p>Company have seen business growth under the vision, leadership and guidance of individual Promoters, who have more than 14 years of experience in the construction industry. Company's Promoters have played a key role in the development of its business and company benefit from their industry knowledge and expertise, vision and leadership. Company's Promoters have strong operational knowledge, good relationships with its clients and a successful track record of executing infrastructure projects. In addition to its Promoter, company's key management and senior management team includes qualified, experienced and skilled professionals who possess requisite experience across various division of company's business.</p>



OBJECTS OF OFFER

Company proposes to utilize the Net Proceeds from the Issue towards funding the following objects:

1. Funding capital expenditure requirements for the purchase of equipment/machineries;
2. Full or part repayment and/or prepayment of certain outstanding secured borrowings availed by Company;
3. Funding the working capital requirements of Company;
4. Investment in Project Specific Joint Venture Projects; and
5. General Corporate Purpose.

RISKS

Company's business is concentrated in the Union Territory of Jammu & Kashmir and Ladakh and company is exposed to risks emanating from economic, regulatory and other changes in the Union Territory of Jammu & Kashmir and Ladakh.

Source:RHP

INDUSTRY OVERVIEW

Road Infrastructure in Union Territories Jammu & Kashmir and Ladakh

As Union Territory of Jammu and Kashmir has been rapidly emerging as one of the fastest-developing economies in the country, the Indian Government, recognizing the significance of infrastructure development in the region and particularly in border regions, has initiated and are coming up with various infrastructure development projects. As of 2022, the region boasts an extensive network of roads spanning over 41,000 kilometers. This transformation has played a pivotal role in not only enhancing economic growth but also in fostering connectivity that has bridged geographical and developmental gaps within the region. Managed by the Ministry of Road Transport and Highways, the primary road system consists of expressways and national highways. National Highways, totalling 1,735 kilometers, play a pivotal role in connecting and unifying major regions within the UT. While they make up a relatively small portion of the road network in terms of length, they bear a substantial share of the total traffic flow across the Union Territory. These roads serve as crucial links for transportation, connecting major regions within the UT and facilitating trade and movement of goods.

Road Infrastructure in Kashmir

Kashmir's road network includes a total of 858 kilometers of National Highways, 202 kilometers of State Highways, 814 kilometers of Major District Roads, and 3,785 kilometers of Other District Roads. In addition, there are 14,274 kilometers of Village. This comprehensive road infrastructure totals 19,933 kilometers. Kashmir has 10 districts under its belt, with Baramulla district having the largest expanse of 4011 kilometers. This is followed by Anantnag (2,958 kilometers), Budgam (2,629 kilometers), and Kupwara (2,390 kilometers) districts. Together, they contribute to over 60% of the total road expanse in Kashmir. Majority of the construction work in all the districts in Kashmir has been done by R&B Kashmir, whereas the PMGSY Kashmir Programme has been the second biggest contributor to the road network. The age-old Mughal Road passes through only one district in Kashmir: Shopian.

Road Infrastructure in Ladakh Overview

Ladakh being a border area is of significant importance for national security as well as a popular tourist location thus underscoring the key role of developing a robust road infrastructure. Ladakh is connected to the mainland namely through two roads – Leh-Srinagar National Highway and Leh-Manali road. These two roads remain open only during the months of summer season and remain closed for more than 7 months during winter due to closure of the passes (Zojila, Rotang Pass, Baralacha, Changla). Leh District is connected to the Block Headquarter by roads, through a network of roads and Border Roads Organization (BRO) maintains most of the highway connecting the block head quarter and PWD maintains a road length of 1060 Kms. As some of the roads to the block head quarter passes through the world's highest motorable roads, it is frequently closed due to the avalanches and snowfall in the passes.



Consolidated Financials

(Rs in lakhs)

Financials	FY21	FY22	FY23	9MonthsFY24
Total Revenue (A)	16005.89	26361.14	30029.08	23455.03
Total Expenditure (B)	14361.92	23349.60	26199.41	20503.60
EBIDTA	1643.97	3011.54	3829.67	2951.43
EBIDTA Margin	10.27	11.42	12.75	12.58
Other Income	188.85	189.74	36.01	772.60
Depreciation	516.82	616.45	780.80	626.85
EBIT	1316.00	2584.83	3084.88	3097.18
Interest	232.70	255.35	580.02	281.33
PBT	1083.30	2329.48	2504.86	2815.85
Exceptional	0.00	0.00	0.00	0.00
PBT	1083.30	2329.48	2504.86	2815.85
Tax	256.02	572.71	630.24	708.74
PAT	827.28	1756.77	1874.62	2107.11
NPM	5.17	6.66	6.24	8.98
ROE%	30.81	39.55	29.68	25.02
EPS	40.08	85.11	90.82	12.58
Eq Cap	152.22	152.22	1,674.42	1,674.42
Net Worth	2,684.70	4,441.47	6,316.09	8,423.19

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Total Income (Rs in lakhs)	EPS	NAV	ROE %
SRM Contactors	10	[.]	30065.09	90.82	37.72	30.14
Peers						
Man Infraconstruction limited	2	46.87	88096.76	4.47	30.60	14.61
ITD cementation India Limited	1	46.56	470058.03	7.23	72.04	10.04
Likhitha Infrastructure Limited	5	17.42	35861.52	15.22	63.39	24.01
Udayshivakumar Infra Ltd	10	21.17	28790.71	2.90	26.05	11.13

(Source: RHP)



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