



SRM Contractors Ltd. is an engineering construction and development company which specializes in the construction of roads (including bridges), tunnels, slope stabilization works, and various other civil construction activities within the Union Territories of Jammu & Kashmir and Ladakh. The company's expertise encompasses both EPC (Engineering, Procurement, and Construction) contracting and item rate-based construction for infrastructure projects. Additionally, we undertake subcontracting assignments for infrastructure construction projects. The company

holds pre-qualification to independently bid on projects tendered by governmental authorities and other entities funded by the Government of India. SRM's pre-qualification limits are INR 3,000 million for contracts related to the construction of roads (including bridges) and INR 5,000 million for EPC contracts concerning tunnel construction. Given the robust growth in its road and tunnel construction business, coupled with recent government initiatives aimed at bolstering infrastructure development in the Union Territories of Jammu & Kashmir and Ladakh, the company has expanded its operations to include other infrastructure projects also. These include standalone bridges, larger slope stabilization works, and various miscellaneous civil construction activities. The company's expansion endeavours are strategically aligned to capitalize on the increasing opportunities emerging in the region.

#### Investment Rationale:

##### Operations in hybrid annuity model-based projects:

- Over the past few years, the Indian road sector, particularly road in union territory of Jammu & Kashmir and Ladakh, has gained momentum with the present government's thrust on economic reforms and policy measures focussed on expanding the transport network commensurate with India's economic growth and development.
- The government has planned for a number of projects on annuity basis. In projects undertaken on hybrid annuity model basis, the contractor is responsible to meet only 60% of the total project cost but undertakes the entire risk of operations and maintenance, while the government bears 40% of the total project cost and undertakes the entire toll collection risk.
- Hybrid annuity model generally provide better operating margins because of the added overall control of project costs that can be exercised by the contractor and fixed return by way of annuity for the contracted period of Annuity.

##### Expansion of fleet of machinery and equipment:

- SRM's strategy is to continue acquiring the core equipment typically required for projects. Ownership of modern machinery and equipment ensures continuous and timely availability, thereby increasing efficiency and cost-effectiveness, critical to SRM's business operations.
- SRM intends to enhance efficiency and competitiveness by continuously investing in state-of-the-art construction machinery and equipment to reduce project execution costs and improve operating margins.
- SRM is spending INR 315 million on expanding its machineries from the net proceeds which will take its total fixed assets to INR 709.69 million.

##### Growing orderbook:

- SRM's order book in terms of the value of contracts, including subcontracting assignments, was INR 1199.31 million as of January 31, 2024, INR 8346.937 million as of FY23, INR 2578.832 million as of FY22, and INR 4325.733 million as of FY21.

**Valuation and Outlook:** In recent years, J&K has received a boost in road infrastructure development. Major upcoming infrastructure projects J&K are (i) Jammu and Srinagar MetroLite (INR 105990 million); (ii) Amarnath Marg Project (estimated cost of Project - INR 18000 million); (iii) Upgradation of Khellani Tunnel; and (iv) Srinagar-Baramulla Uri National Highway (estimated cost of project – INR 8234.5 million). SRM which operates in J&K and derives 75% of its revenues from road projects is looking to benefit from this growth in the coming fiscal year as reflected by its past growth in the orderbook. The company's orderbook grew 177% between FY21 to FY23 to INR 11,993.20 million in Jan 31, 2024 of which INR 7201.53 million is remaining to be executed. In FY23 the company's revenue was reported at INR 3002.91 million which grew 13.91% YoY with an EBITDA of INR 383.02 million with an EBITDA margin of 12.75%. The company reported ROE and ROCE of 34.86% and 33.13% in FY23 which beat its industry peers. We recommend a subscribe to the issue as the company's orderbook is expected to increase in FY24 and FY25 due to the government infrastructure initiatives in J&K where the company operates and the company is increasing its fleet machinery and equipment which will drive its operational efficiency in the coming quarters.

#### Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	1600.59	-	165.554	10.34%	82.73	7.18	30.82	22.58
FY22	2636.11	64.70	301.66	11.44%	175.68	15.24	49.31	38.44
FY23	3002.91	13.91	383.017	12.75%	187.46	10.58	34.86	33.13

#### Issue Snapshot

Issue Open	26-Mar-23
Issue Close	28-Mar-23
Price Band	INR 200 - 210
Issue Size (Shares)	62,00,000
Market Cap (INR mln)	INR 3722

#### Particulars

Fresh Issue (INR mln)	INR 1302
OFS Issue (mln)	-
QIB	50%
Non-institutionals	15%
Retail	35%

#### Capital Structure

Pre Issue Equity	1,15,24,400
Post Issue Equity	1,77,24,400
Bid Lot	70 shares
Minimum Bid amount @ 200	INR 14000
Maximum Bid amount @ 210	INR 14700

#### Share Holding Pattern

	Pre Issue	Post Issue
Promoters	99.92%	64.96%
Public	0.0800%	35.04%

#### Particulars

Face Value	INR 10
Book Value	INR 109.09
EPS, Diluted	INR 10.58

#### Objects of the Issue

- Funding capital expenditure for the purchase of equipment/machineries- INR 315 million.
- Repayment of borrowings- INR 100 million
- Funding working capital requirements- INR 460 million
- Investment in joint venture projects- INR 120 million
- General Corporate Purposes

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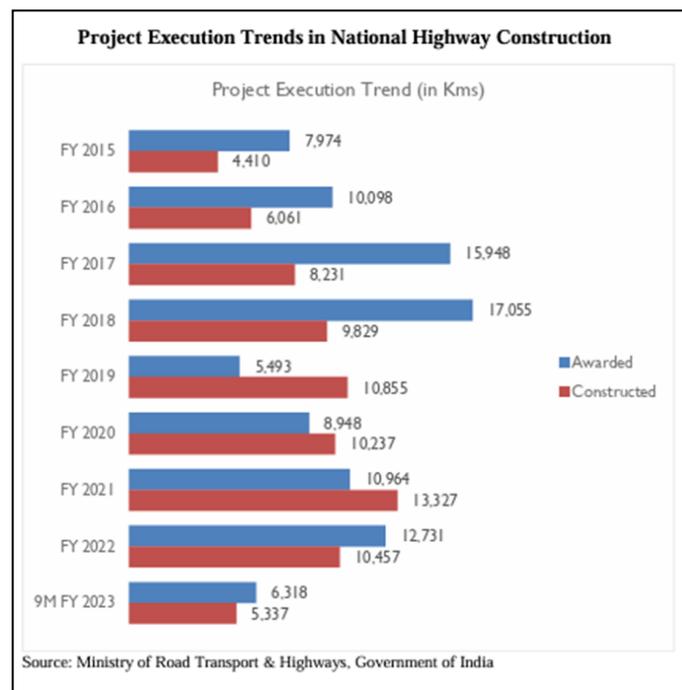
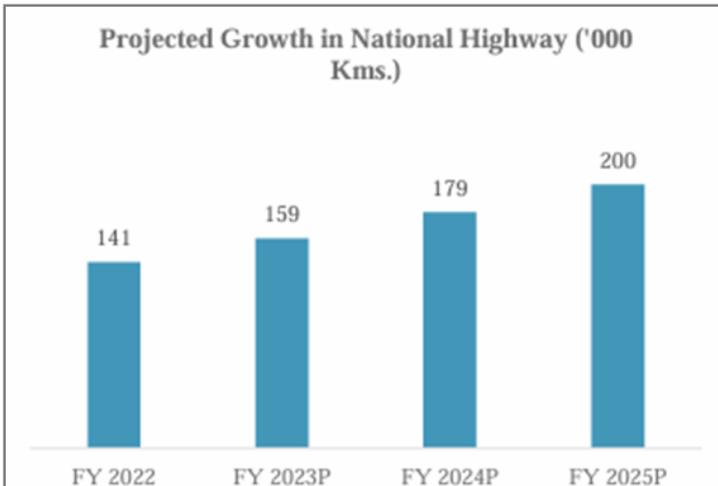
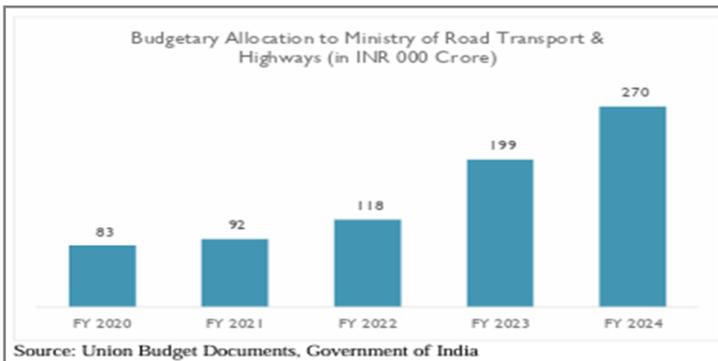


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## Market Opportunity

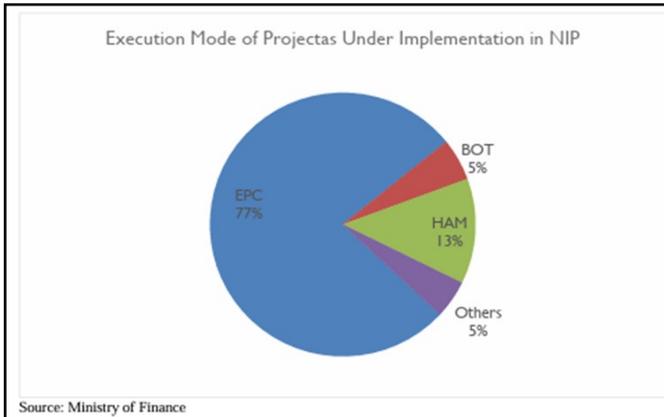
Infrastructure development has remained recurring theme in India's economic development. The launch of flagship policies like National Infrastructure Pipeline (NIP), and PM Gati Shakti are expected to improve freight movement, debottleneck the logistics sector, and improve the industrial production landscape, which would provide the incremental growth in GDP. In its Union Budget FY 2023, the Government has increased the capital expenditure by 35% to nearly INR 7.5 lakh crore which indicates the strong Government focus on improving the overall infrastructure landscape in India. The budgetary allocation to the Ministry of Road Transport and Highways (MoRTH) by the Government of India has exhibited a significant and consistent upward trend in recent years, reflecting the government's commitment to infrastructure development and the expansion of road networks. In its latest budget (Union Budget FY 2024), the Government have allocated approximately INR 270,000 crore to MoRTH towards various projects. Compared to this, the annual budgetary allocation that was made during budget announcement FY 2020 was only INR 83,000 crore. The jump from INR 83,000 to INR 270,000 crore of allocation signals the aggressive commitments by the Union Government to develop the road infrastructure in the country. The Indian Road sector is experiencing significant growth and is set to expand further in the future. The government has recognized the importance of improving transportation infrastructure and has taken initiatives to enhance the road network in the country. It is estimated that India will need to spend \$4.51 trillion on infrastructure by 2030 to achieve its vision of becoming a \$5 trillion economy by 2025. In line with this, the National Infrastructure Pipeline (NIP) has allocated a total capital investment of INR 20.34 trillion for the highways sector by 2025. The growth potential of the Indian road sector is immense. The highway construction industry is projected to experience a significant growth rate of 133% by 2025. In the recent years, J&K has received a boost in road infrastructure development. In recent years, the government's relentless focus on improving road infrastructure in the Union Territory of Jammu and Kashmir (J&K) has ushered in a wave of transformation, revolutionizing connectivity and fostering economic prosperity across the region. Union Territory of Jammu and Kashmir has been rapidly emerging as one of the fastest developing economies in the country. As of 2022, it 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. The journey towards improving road infrastructure in Jammu and Kashmir gained momentum after 2019. Over the period of 2020-2022, road and tunnel infrastructure have been prioritized, with approximately one lakh crore being allocated for the construction of a robust road network. Major upcoming infrastructure projects J&K are (i) Jammu and Srinagar MetroLite (INR 10,599 crores); (ii) Amarnath Marg Project (estimated cost of Project - INR 1800 Crores); (iii) Upgradation of Khellani Tunnel; and (iv) Srinagar-Baramulla Uri National Highway (estimated cost of project – INR 823.45 crore).

Union Territory of 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. The administration has initiated several infrastructure development projects in Ladakh, including the construction of new roads, bridges, and tunnels. According to the FY 2022 Annual Report of the Ministry of Road Transport & Highways, there are 8 stretches with a length of 230 km at total project cost of INR 22.8 billion under construction by the National Highways & Infrastructure Development Corporation. The Vision document 'Vision 2050 for UT of Ladakh' outlines the challenges and aspirations/development strategies of Ladakh in various areas including infrastructural development such as; Connectivity by all-weather roads by 2030, Upgradation in capacities of regional road network, Construction of roads and tunnels at strategic and high altitude locations to strengthen national security in progress, Vision 2050 for sustainable development across key areas including building strong road network. SRM Contractors Limited has emerged as a key player in the infrastructure construction industry in the UT of J&K and Ladakh.



## Investment rationale:

Operations in hybrid annuity model-based projects: Over the past few years, the Indian road sector, particularly road in union territory of Jammu & Kashmir and Ladakh, has gained momentum with the present government's thrust on economic reforms and policy measures focussed on expanding the transport network commensurate with India's economic growth and development. The government has planned for a number of projects on annuity basis. In projects undertaken on hybrid annuity model basis, the contractor is responsible to meet only 60% of the total project cost but undertakes the entire risk of operations and maintenance, while the government bears 40% of the total project cost and undertakes the entire toll collection risk. Hybrid annuity model generally provide better operating margins because of the added overall control of project costs that can be exercised by the contractor and fixed return by way of annuity for the contracted period of Annuity. By leveraging on domain knowledge, expertise, and technical know-how coupled with more than a decade-long experience in the construction business, in the difficult terrain of the union territory of Jammu & Kashmir and Ladakh, SRM intends to strengthen its presence by bidding, winning, and operating mid to large annuity projects. The focus on larger projects will provide an opportunity to rationalize fixed costs associated with large projects, such as employee expenses, system automation expenses, and administration expenses, which typically represent a lower proportion of the total costs of the project than those incurred in smaller EPC projects. Going forward, while intending to remain focused on the construction and development of existing EPC projects, SRM intends to actively pursue opportunities to expand its portfolio of projects by bidding for Hybrid Annuity Model projects with strategic joint venture partners.



**Expansion of fleet of machinery and equipment:** SRM's strategy is to continue acquiring the core equipment typically required for projects. Ownership of modern machinery and equipment ensures continuous and timely availability, thereby increasing efficiency and cost-effectiveness, critical to SRM's business operations. SRM intends to enhance efficiency and competitiveness by continuously investing in state-of-the-art construction machinery and equipment to reduce project execution costs and improve operating margins. This approach aims to enhance SRM's efficiency and competitiveness. To fuel growth and expand operations, a portion of Net Proceeds will be allocated to acquiring equipment from reputed manufacturers, continuing SRM's strategy of minimizing reliance on hired or leased equipment. SRM is spending INR 315 million on expanding its machineries from the net proceeds which will take its total fixed assets to INR 709.69 million.

**Growing orderbook:** SRM's order book in terms of the value of contracts, including subcontracting assignments, was INR 1199.31 million as of January 31, 2024, INR 8346.937 million as of FY23, INR 2578.832 million as of FY22, and INR 4325.733 million as of FY21. Among the 21 infrastructure construction projects that the company is currently executing, 11 projects aggregating to a total contract value of INR 720.5600 million relate to road construction, 5 projects with a total contract value of INR 258.2150 million relate to tunnel construction, 4 projects with a total contract value of INR 203.8880 million relate to slope stabilization works, and 1 project with a total contract value of INR 166.5640 million relates to other construction activity.

Orderbook as on 31 Jan 2024	Total Order	Total order executed	Remaining Orderbook Value as on 31 Jan 2024
Road projects	7205.6	3431.768	3773.885
Tunnel Projects	2,582.15	819.99	1762.17
Slope Stabilisation work	2038.89	402.67	1636.22
Other Construction activity	166.56	137.3	29.26
<b>Total</b>	<b>11,993.20</b>	<b>4791.728</b>	<b>7201.535</b>

Growth in orderbook:	Jan 31 2024	FY23	FY22	FY21
	11993.133	8346.937	2578.832	4325.733

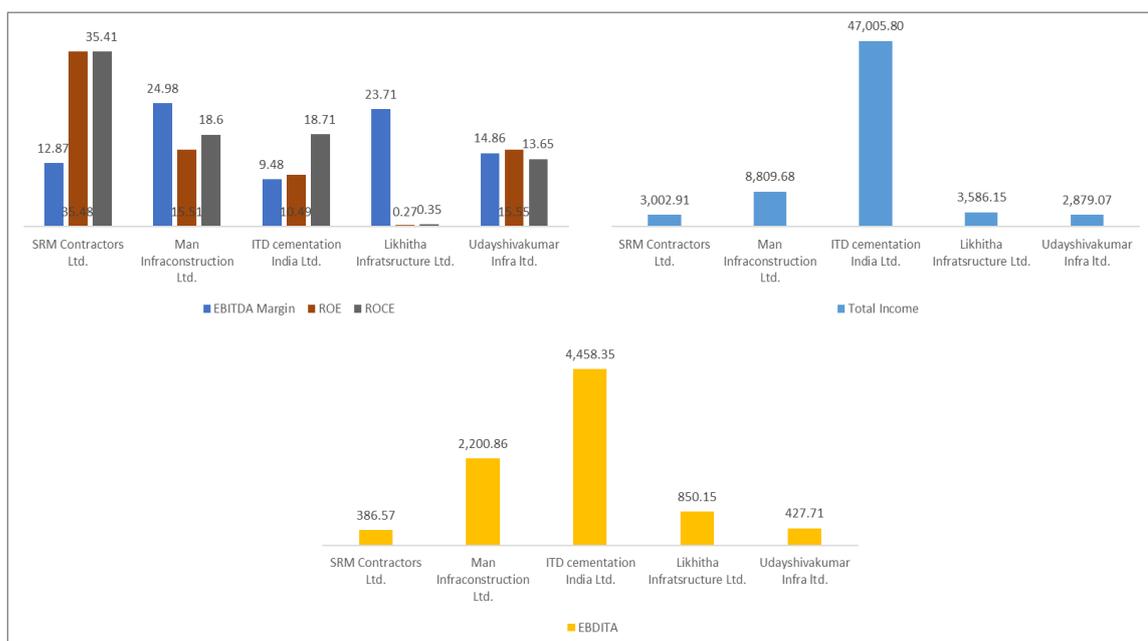
**Valuation and outlook:** In recent years, J&K has received a boost in road infrastructure development. Major upcoming infrastructure projects J&K are (i) Jammu and Srinagar MetroLite (INR 105990 million); (ii) Amarnath Marg Project (estimated cost of Project - INR 18000 million); (iii) Upgradation of Khellani Tunnel; and (iv) Srinagar-Baramulla Uri National Highway (estimated cost of project – INR 8234.5 million). SRM which operates in J&K and derives 75% of its revenues from road projects is looking to benefit from this growth in the coming fiscal year as reflected by its past growth in the orderbook. The company's orderbook grew 177% between FY21 to FY23 to INR 11,993.20 million in Jan 31, 2024 of which INR 7201.53 million is remaining to be executed. In FY23 the company's revenue was reported at INR 3002.91 million which grew 13.91% YoY with an EBITDA of INR 383.02 million with an EBITDA margin of 12.75%. The company reported ROE and ROCE of 34.86% and 33.13% in FY23 which beat its industry peers. We recommend a subscribe to the issue as the company's orderbook is expected to increase in FY24 and FY25 due to the government infrastructure initiatives in J&K where the company operates and the company is increasing its fleet machinery and equipment which will drive its operational efficiency in the coming quarters.

## Peer Comparison

FY23 Peer comparison				
Peer Comparison	EPS (Diluted)	P/E	RONW	Total Income (In mlns)
SRM Contractors	10.58	19.85	30.14	3,006.51
Man Infraconstruction Ltd.	4.47	46.87	14.61	8,809.68
ITD cementation India Ltd.	7.23	46.56	10.04	47005.803
Likhitha Infrastructure Ltd.	15.22	17.42	24.01	3586.152
Udayshivakumar Infra Ltd.	2.9	21.17	11.13	2879.071

FY23 Peer comparison						
No	KPIs	SRM Contractors Ltd.	Man Infraconstruction Ltd.	ITD cementation India Ltd.	Likhitha Infratsructure Ltd.	Udayshivakumar Infra Ltd.
1	Total Income	3,002.91	8,809.68	47,005.80	3,586.15	2,879.07
2	Current Ratio	2.05	3.87	1	5.59	1.62
3	Debt Equity ratio	0.75	0.01	0.6	0.18	0.31
4	EBDITA	386.57	2,200.86	4,458.35	850.15	427.71
5	EBITDA Margin	12.87	24.98	9.48	23.71	14.86
6	Net Profit	187.46	1,659.89	1,242.46	600.44	160.47
7	Net Profit Margin	6.24	20.81	2.7	0.17	5.59
8	ROE	35.48	15.51	10.49	0.27	15.55
9	ROCE	35.41	18.6	18.71	0.35	13.65

Segments	9MFY24	Revenue %	FY23	Revenue %	FY22	Revenue %	FY21	Revenue %
Road Projects	1758.532	74.97%	1,353.29	45.07%	1,027.77	38.99%	872.93	54.54%
Tunnel Projects	6.287	0.27%	782.21	26.05%	1,085.72	41.22%	674.23	42.12%
Slope Stabilisation	567.672	24.20%	839.03	27.94%	490.46	18.61%	22.871	1.43%
Other Miscellaneous Civil Construction Activity	13.013	0.55%	28.38	0.94%	31.166	1.18%	30.562	1.91%



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<b>Total</b>	<b>11,993.20</b>	<b>4791.728</b>	<b>7201.535</b>

Growth in Order book:	Jan 31 2024	FY23	FY22	FY21	Orderbook growth between FY21-FY23
	11993.133	8346.937	2578.832	4325.733	177.2508844

Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Revenue	1600.59	2636.11	3002.91	<b>Source of funds</b>			
Expenses:				Equity Share Capital	15.22	15.22	167.44
Employee Cost	69.23	87.49	113.20	Reserves	253.20	428.88	464.12
Total Expenses	1435.04	2334.45	2619.89	Total Share holders funds	268.42	444.10	631.56
EBITDA	165.55	301.66	383.02	Total Debt	319.58	315.24	471.58
EBITDA Margin %	10.34%	11.44%	12.75%	Curent Liabilities	659.08	573.86	469.22
Interest	24.43	26.04	58.05	Trade Payables	421.97	272.01	111.55
Depreciation	51.68	61.65	78.08	Total Non-Current Liabilities	197.14	184.15	272.79
Other Income	18.89	18.97	3.60	<b>Total Liabilities</b>	1124.70	1202.16	1373.62
PBT	108.33	232.95	250.49				
PAT	82.73	175.68	187.46	<b>Application of funds</b>			
EPS	7.18	15.24	16.27	Fixed Assets	300.00	293.76	394.69
				Cash and Bank	158.48	166.54	206.66
				Total Current Assets	808.29	893.84	960.99
				Other current assets	0.47	0.48	2.26
				Inventory	46.63	84.26	103.67
				Sundry Debtors	225.40	162.13	153.79
				<b>Total Assets</b>	1124.70	1202.16	1373.62

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	108.33	232.95	250.49	<b>Growth Ratio</b>			
Adjustment	81.12	93.02	142.36	Net Sales Growth(%)	0.00	64.70	13.91
Changes In working Capital	-21.62	-177.21	-207.04	EBITDA Growth(%)	0.00	73.84	20.58
Cash Flow after changes in Working	167.83	148.76	185.81	PAT Growth(%)	0.00	112.35	6.71
Tax Paid	-25.96	-51.44	-55.35	<b>Margin Ratios</b>			
Cash From Operating Activities	141.86	97.32	130.45	Gross Profit	62.78	66.99	66.06
Cash Flow from Investing Activities	-132.50	-59.40	-188.67	PBIDTM	11.52	12.16	12.87
Cash from Financing Activities	45.26	-29.87	98.34	EBITM	8.29	9.82	10.27
Net Cash Inflow / Outflow	54.62	8.05	40.13	PBT	6.77	8.84	8.34
Opening Cash & Cash Equivalents	103.87	158.48	166.53	PAT	5.17	6.66	6.24
Closing Cash & Cash Equivalent	158.48	166.54	206.66	<b>Return Ratios</b>			
				ROA	7.36	15.10	14.56
				ROE	30.82	49.31	34.86
				ROCE	22.58	38.44	33.13
				<b>Turnover Ratios</b>			
				Asset Turnover(x)	1.42	2.27	2.33
				Inventory Turnover(x)	34.33	40.28	31.96
				Debtors Turnover(x)	7.10	13.60	19.01
				Fixed Asset Turnover (x)	3.48	5.40	4.96
				<b>Solvency Ratios</b>			
				Total Debt/Equity(x)	1.19	0.71	0.75
				Current Ratio(x)	1.23	1.56	2.05
				Quick Ratio(x)	1.16	1.41	1.83
				Interest Cover(x)	5.43	9.95	5.31

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Analyst holding in stock: **NO**

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