



IPO NOTE

**Vishnu Prakash R Punglia
Ltd.**

23rd August 2023

Company Overview

Vishnu Prakash R Punglia Ltd. is an ISO-certified integrated engineering, procurement, and construction (“EPC”) company having a robust experience in the design and construction of various infrastructure projects for the central and state governments, autonomous bodies, and private bodies across nine states and one Union Territory in India. Its principal business operations are broadly divided into four categories, namely, Water Supply Projects (WSP), Railway Projects, Road Projects, and Irrigation Network Projects. Out of all the operations, the company has been a focused player in WSP which also accounts for a significant portion of its order book and revenue share. The company has its management team ranging from design and engineering, procurement, project management, and up to quality management which reduces its dependency on third parties for critical materials and services required for the projects. Due to such an extensive team, the company has always taken up projects independently and has never undertaken projects on a sub-contract basis. The company’s employee resources and fleet of equipment together with its engineering capabilities have enabled the company to execute a range of projects on a turnkey basis.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- Funding capital expenditure requirements for purchase of equipment / machineries;
- Funding working capital requirements of the company;
- General corporate purposes.

Investment Rationale

A focused player in Water Supply Projects

The company is a focused player in the segment of Water Supply Projects (WSP) which is reflected in its order book. Over a period of 36 years, the company has gained experience in the execution of WSPs comprising construction and development of pipelines, water tanks, reservoirs, tunnels, overhead tanks, water treatment plants, and irrigation projects. While gaining experience, the company has also developed financial strength and managerial capabilities. The growth in the company’s order book is reflected on account of its continued focus on WSPs, technical capabilities, timely completion, emphasis on high quality, financial strength, and prudent bids. Currently, the company has WSPs to be executed in the states of Rajasthan, Uttar Pradesh, Manipur, Uttarakhand, Gujarat, Assam, and Haryana.

Revenue visibility through robust order book across segments

The company operates in the EPC industry where the order book is considered an indicator of future performance since it represents a portion of anticipated future revenue. Along with its increasing order book, the company has focused on undertaking quality projects with potentially higher margins. This is reflected in the company’s current status concerning its order book which represents Rs. 61,835.81 million worth of ongoing projects as on July 2023. Out of such ongoing projects, Rs 23,840.53 million worth of work has been executed, and the balance of Rs 37,995.28 million forms part of the company’s current order book. Therefore, by expanding its order book and skill set across different business segments and geographical regions, the company can pursue a broader range of project tenders and maximize its business volume and profit margins. The company has been able to achieve and maintain such strong order book positions due to continued focus on its core areas and ability to successfully bid and win new projects across multiple segments. The execution of current order book and potential new business would provide the company with sustainable growth and ability to enhance shareholders’ value in the future.

Issue Details		
Offer Period	24 th August, 2023 - 28 th August, 2023	
Price Band	Rs. 94 to Rs. 99	
Bid Lot	150	
Listing	BSE & NSE	
Issue Size (no. of shares in mn)	31.20	
Issue Size (Rs. in bn)	3.08	
Face Value (Rs.)	10	
Issue Structure		
QIB	50%	
NIB	15%	
Retail	35%	
BRLM	Choice Capital Advisors private Limited , Pantomath Capital Advisors Private Limited	
Registrar	Link Intime India Private Limited	
Particulars	Pre Issue %	Post Issue %
Promoter	51.00	38.23
Promoter Group	39.45	29.58
Public	9.55	32.19
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Valuation

In recent times, India has been focusing on improving its infrastructure sector as it is a key driver for the Indian economy. There was a steep increase in the government capital outlay to Rs 10 lakh crore, (which forms 22.2% of total expenditure) for FY24 compared to the capital outlay of Rs 7.5 lakh crore (which formed 19% of total expenditure) in FY23, driven by roads, railways, and highway infrastructure. Such expansion is unsustainable without efficient planning and provision of utility services, especially clean and affordable water. Also, India being one of the most populous country in the world faces the challenge of serving its population with adequate water supply. Accordingly, water management emerges as a crucial area to be looked into and appropriately managed in upcoming years. Considering all the above factors, the company emerges as a formidable solution provider covering all the above areas of growth. The company is an EPC company that has its core focus on the WSP segment which forms a significant portion of its revenue. The company has WSP projects spanning multiple states in India with a concentrated focus on the state of Rajasthan. The company also undertakes railway projects, road projects, and irrigation network projects. The company procures the majority of its projects from the central and state governments and local bodies through the process of bidding. The company has so far undertaken projects on an independent basis, barring a few which were undertaken on a joint venture basis. The company has shown consistent growth by leveraging its experience, management team, and technical and financial capabilities. **The company has a track record of sustained Revenue/EBITDA/PAT growth which grew at a CAGR of 55.1%/85.72%/118.23% during the FY21-23 period, respectively. On the upper price band, the issue is valued at a P/E of 9.5x based on FY2023 earnings which we feel is fairly valued. We, therefore, recommend a "Subscribe" rating for the issue.**

Key Risks

- The company, promoters, and director are parties to certain legal outstanding litigations involving the company, which if determined adversely, may affect the business operation and reputation of the company.
- The company derives a significant portion of its business from the WSP segment and from the state of Rajasthan. Hence, any adverse impact on this segment or the region may adversely affect its business, operations, and results.
- The company has a significant portion of its revenue concentrated from a limited number of clients. Hence, deterioration in relationship with such a client base or loss of such client base may pose a significant threat to the company's revenues, the result of operations, and reputation.
- The company builds up its order book and secures customers majorly by submitting bids for the projects to be undertaken by it. Hence, there is no assurance of customer continuity in the business, as the nature of the bidding process is quite competitive. Also, if the company fails to fulfill the minimum criteria for the bidding process, it shall not procure projects.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Revenue			
Revenue from Operations	4,857	7,856	11,684
Total Revenue	4,857	7,856	11,684
Expenses			
Purchase Cost	1,474	3,456	4,884
Changes in inventory	-37	-715	-1,357
Employee benefit expenses	101	150	265
Construction expenses	2,787	4,001	6,151
Other expenses	79	95	175
Total Operating Expenses	4,404	6,987	10,118
EBITDA	454	869	1,566
Depreciation and Amortization expenses	41	42	70
Other income	19	18	31
EBIT	432	845	1,527
Finance costs	175	241	302
Exceptional Item			
PBT	257	604	1,224
Current tax	67	154	309
Deferred Tax charge/ (credit)	0	1	9
Total tax	67	155	318
PAT	190	448	906
Diluted EPS	2.3	5.3	10.4

Source:RHP,StoxBox

Cash Flow Statement (Rs in millions)

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	348	-33	-84
Cash flow from investing activities	-53	-297	-979
Cash flow from financing activities	-290	417	1,081
Net increase/(decrease) in cash and cash equivalents	5	87	18
Cash and cash equivalents at the beginning of the period	40	45	132
Cash and cash equivalents at the end of the period	45	132	150

Source:RHP,StoxBox

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	281	281	934
Other Equity	855	1,305	2,211
Non-controlling interest	0	0	0
Total Equity	1,136	1,587	3,145
Non-Current Liabilities			
Financial Liabilities			
(i) Long Term Borrowings	191	419	603
(ii) Lease Liabilities	0	0	0
(iii) Provisions	6	10	9
(iv) Deferred tax liabilities (net)	22	23	32
Other non current liabilities			
Current Liabilities			
Financial Liabilities			
(i) Short term Borrowings	917	1,347	1,901
(ii) Trade Payable - Due to Micro and Small enterprise	315	102	292
Due to other than micro and small enterprise	626	1,080	1,770
(iii) Other financial liabilities	69	123	91
Current tax liabilities (net)	0	0	61
Provisions	1	0	0
Other current liabilities	27	288	350
Total Current Liabilities	1,956	2,940	4,466
Total liabilities	2,174	3,391	5,110
Total Equity and Liabilities	3,310	4,978	8,255
Assets			
Non-Current Assets			
Property, plant and equipment	485	720	1,254
Capital work in Progress	0	3	56
Investment Property	69	94	94
Financial Assets			
(i) Investments	2	5	9
(ii) Other financial assets	62	43	97
Other non current assets	12	0	15
Total Non current assets	630	867	1,524
Current Assets			
Inventories	1,053	1,768	3,126
(i) Trade Receivables	1,001	1,169	1,977
(ii) Cash and cash equivalents	45	132	150
(iii) Other financial assets	76	80	105
(iv) Loans and advances	2	17	90
(iv) Other Balance with bank	233	255	550
Other current Assets	238	610	649
Current tax Assets	33	80	85
Total Current Assets	2,680	4,111	6,731
Total Assets	3,310	4,978	8,255

Source: RHP, StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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