



IPO Note

7th October, 2024

Company Overview

Garuda Construction and Engineering, a subsidiary of PKH Ventures, specializes in offering end-to-end civil construction services across various sectors, including residential, commercial, infrastructure, industrial, and hospitality projects. The company's expertise covers a wide range of construction activities, such as the development of residential and commercial complexes, industrial facilities, and infrastructural works, as well as hospitality buildings. The services span the full spectrum of construction processes, from detailed route surveys, engineering, and design to resource mobilization, micro-scheduling, and obtaining construction permissions. This includes soil and water testing, contractor and manpower hiring, procurement of materials, laboratory testing, and the execution of construction activities in line with approved project plans. In addition, the company procures concrete building structures and composite steel structures through a network of sub-contractors based on designs provided either by developers or by in-house engineering teams. Beyond construction, the company also offers a range of supplementary services, such as Operations and Maintenance (O&M) services, Mechanical, Electrical, and Plumbing (MEP) services, and finishing works, ensuring a comprehensive suite of construction solutions under one roof.

Some major projects completed by the company are as follows:

Sr. No.	Description of the Project	Nature of Project	Work Order Value (In lakhs)
1	Golden Chariot Vasai Hotel & Spa, MMR	Civil construction, hospitality	2,810
2	Renovation and refurbishment of the building from commercial premises to a hotel - Golden Chariot, the Boutique Hotel at Andheri (East), Mumbai	Services	582
3	Construction of Delhi Police head-quarters	Civil construction	44,800

Source: RHP

Major upcoming/ on-going project list of the company:

Sr. No.	Description of the Project	Area (in Sq. ft.)	Nature of Project
1	Construction contract for slum rehabilitation project at Borivali East, Mumbai	4,91,800	Industrial
2	Construction contract of Trinity Oasis at Ghodbunder Road, Thane	4,00,000	Residential
3	Construction, development and completion of the project "options world" at Santacruz West, Mumbai	4,00,804	Residential
4	Complete contract for the residential project Garuda Shatrunjay at Borivali West, Mumbai	2,87,400	Residential

Source: RHP

Objects of the issue

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

- Working capital requirements and;
- General corporate purposes and unidentified inorganic acquisitions.

Issue Details

Offer Period	8th Oct 2024 - 10th Oct 2024
Price Band	Rs. 92 to Rs.95
Bid Lot	157
Listing	BSE & NSE
Issue Size (no. of shares in mn)	27.8
Issue Size (Rs. in bn)	2.64
Face Value (Rs.)	5

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM Corpis Advisors Private Limited

Registrar Link Intime India Private Limited

Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	96.81	67.56
Public	3.19	32.44
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Garuda Construction and Engineering Ltd.

Investment Rationale

Exclusive and focused business approach

The primary focus of the company is civil construction of residential and commercial buildings, with recent expansion into industrial and infrastructural projects. This specialized approach has allowed the company to build a skilled team with domain-specific knowledge and experience, while developing core competencies and technical expertise in the construction industry. The company's capabilities in civil construction position it as a provider of comprehensive construction services, primarily focusing on building construction rather than land or infrastructure development. However, the company has entered a Memorandum of Understanding (MoU) to act as a joint developer for a residential project in Thane, Maharashtra, which has yet to commence. Additionally, the company has agreements for other projects where it will assume the role of a developer. The company's concentrated focus on building construction has strengthened its order book, resulting in a high degree of specialization in the field, contributing to the growth of operating revenues and profits

Visible growth through increasing order book

In the construction industry, an order book is a key indicator of future performance as it reflects a portion of anticipated future revenue and provides a list of projects undertaken and to be undertaken by the company. Maintaining an order book allows the company to evaluate and improve the quality of its projects. The company aims to select projects with higher margins and those that enhance its reputation, market penetration, and perception. The quality of construction and strong client relationships have contributed to the growth of the company's order book. As of the filing of the Red Herring Prospectus, the total contract value of the company's ongoing and upcoming projects amounts to Rs. 1,408.3 Crores. With projects across the Mumbai Metropolitan Region (MMR), Arunachal Pradesh, Karnataka, Rajasthan, and Punjab, the growing number of construction works supports the company's continued growth and enhanced reputation

Valuation

The company provides complete civil construction services across different sectors, including residential, commercial, infrastructure, industrial, and hospitality projects. Its main focus has been on building residential and commercial properties, but now it is expanding into industrial and infrastructure projects as well. The company has a solid track record of successfully completing various types of construction projects, such as residential, commercial, and hospitality buildings. The construction sector plays a big role in India's economy, being the second-largest contributor after agriculture. In FY23, it made up 8.4% of the country's total Gross Value Added (GVA). From FY18 to FY23, the sector grew at an average yearly rate of 10.6%, increasing from Rs. 2,37,500 crores to Rs. 3,92,200 crores. The sector is expected to continue growing, reaching Rs. 6,49,400 crores by FY30, with a yearly growth rate of 7.5%. With rising demand for infrastructure and strong government support, India could become the third-largest construction market in the world, and the sector could contribute 15% to the economy by 2030. Financially, the company's revenue doubled from Rs. 77.0 crores in FY22 to Rs. 154.2 crores in FY24, showing an impressive annual growth rate of 26.0%. Its profit after tax also grew from Rs. 18.8 crores in FY22 to Rs. 36.4 crores in FY24, with an annual growth rate of 24.7%. The average debt-to-equity ratio of other companies in the industry ranged between 0.23x and 0.66x during FY19-FY23, but in FY23, company has reduced its debt & is debt-free. **With an order book worth Rs. 1,408 crores, which is 9.2 times its sales, and an IPO priced at a reasonable Price-to-Earnings (P/E) ratio of 19.5x based on FY24 earnings, we recommend a "SUBSCRIBE" rating for this IPO from a long-term perspective**



As a construction company, the limited experience in working with third-party entities outside of the promoter group presents challenges to the company's growth. If the company is unable to establish a strong presence as a developer or contractor beyond group companies and related entities, its long-term growth, operational performance, and profitability could be restricted. A significant portion of the company's revenue is dependent on construction projects linked to group companies and promoters, contributing 100.00% for the period ended April 30, 2024, 44.82% for Fiscal 2024, 94.62% for Fiscal 2023, and 86.65% for Fiscal 2022

One of the company's promoters, Mr. Pravin Kumar Brijendra Kumar Agarwal, is involved in a criminal case filed by the Airport Police Station, which is still pending before the Metropolitan Magistrate in Andheri, Mumbai. If any negative outcome arises from this case, it could impact the reputation of the promoter and, in turn, affect the company's business.

The promoter group, PKH Ventures Limited, had to withdraw its previous IPO because it wasn't fully subscribed. The Draft Red Herring Prospectus was filed on March 23, 2022, to list shares on the National Stock Exchange and Bombay Stock Exchange. Although the Non-Institutional Investor category was oversubscribed, the Qualified Institutional Buyers (QIBs) didn't meet their commitments, so the overall subscription fell short. Since the 90% minimum subscription wasn't reached, PKH Ventures Limited decided to withdraw the IPO and informed the Registrar of Companies, National Stock Exchange, and Bombay Stock Exchange.

Garuda Construction and Engineering Ltd.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Revenue			
Revenue from Operations	770	1,607	1,542
Total Revenue	770	1,607	1,542
Expenses			
Cost of material consumed	113	115	94
Construction Expenses	309	893	850
Employee benefit expenses	12	16	28
Other expenses	64	26	73
Total Operating Expenses	499	1,050	1,044
EBITDA	272	557	498
Depreciation and Amortization expenses	3	5	4
Other income	0	3	3
EBIT	269	555	497
Finance costs	21	4	0
PBT	248	551	496
Current tax	62	143	132
Deferred Tax charge/ (credit)	(2)	0	0
Total tax	60	143	132
PAT	188	408	364
Diluted EPS	2.5	5.5	4.9

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Cash Flow from operating activities	129	123	156
Cash flow from/(used in) investing activities	-12	-21	25
Net cash flows (used in) / from financing activities	-51	-122	-1
Net increase/(decrease) in cash and cash equivalents	67	-20	-43
Cash and cash equivalents at the beginning of the period	2	69	48
Cash and cash equivalents at the end of the period	69	48	5

Garuda Construction and Engineering Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24
Assets			
Non-Current Assets			
Property, plant and equipment	22	19	16
Capital Work In Progress	22	22	22
Financial Assets			
Other financial assets	98	103	79
Deferred tax Assets (net)	5	4	4
Other non current assets	149	149	149
Total Non current assets	295	298	271
Current Assets			
Inventories	27	66	74
Financial Assets			
(i) Trade Receivables	302	770	1,762
(ii) Cash and cash equivalents	69	48	5
(iii) Loans and Advances	1	1	1
(iv) other Bank balances	2	18	18
Other current assets	415	562	154
Income tax assets (net)			
Total Current Assets	815	1,465	2,014
Total Assets	1,110	1,763	2,285
Equity and Liabilities			
Equity Share Capital	125	125	374
Other Equity	293	702	816
Total Equity	418	826	1,190
Non-Current Liabilities			
Financial Liabilities			
Borrowings	-	2	1
Other Financial liabilities	95	95	-
Provisions	0	0	1
Current Liabilities			
Financial Liabilities			
(i) Short Term Borrowings	120	0	0
(ii) Trade Payable	-	-	-
Due to micro and small enterprise	-	-	-
Due to other than micro and small enterprise	407	623	617
(iii) Other financial liabilities	1	1	5
Provisions	0	0	0
Current Tax Liability (Net)	55	137	126
Other current liabilities	14	78	344
Total Current Liabilities	597	841	1,093
Total liabilities	692	937	1,095
Total Equity and Liabilities	1,110	1,763	2,285

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392