

IPO NOTE



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GARUDA CONSTRUCTION AND ENGINEERING LIMITED

08.10.2024



Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



- Originally incorporated as 'Garuda Construction and Engineering Pvt. Ltd' in September 2010 and subsequently converted to a public limited company in September 2023 with name changed to 'Garuda Construction and Engineering Ltd', the company provides end to end civil construction for residential, commercial, residential cum commercial, infrastructure and industrial projects.
- The company also provides services such as operation and maintenance (O&M) and mechanical, electrical and plumbing (MEP) services and finishing works as part of construction services.
- The company primarily focuses on constructing residential and commercial buildings and is now venturing into industrial and infrastructure projects.
- The company's projects are spread across different geographies like MMR, Punjab, Karnataka, New Delhi, Tamil Nadu, Rajasthan and Arunachal Pradesh. For the cost-effective execution of the projects the company follows an asset-light model, wherein the company deploys majority of the equipment and labour through third party contractors.
- The company has a strong track record in various construction projects, including Golden Chariot Vasai Hotel & Spa and Golden Chariot Boutique Hotel in 2015. Since 2017, the company has undertaken residential projects in MMR and completed two. From 2010 to 2017, the company focused on civil engineering in MMR, Karnataka and Tamil Nadu.
- The company recorded Revenue from Operations of Rs. 1,187.50 Lacs for the period ended April 30, 2024, Rs. 15,417.83 Lacs in FY 2024 and Rs. 16068.76 Lacs in FY 2023.
- As of September 28, 2024, the order value of the company's ongoing and pending projects of Rs. 1,40,827.44 lacs.
- As of September 28, 2024, the company had 65 permanent employees.

Objects of the Offer

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

- Working Capital Requirements
- General Corporate Expenses and Unidentified Inorganic Acquisitions

Issue Details

Price Band (in ₹ per share)	92.00-95.00
Issue size (in ₹ Crore)	255.76-264.10
Fresh Issue (in ₹ Crore)	168.36-173.85
OFS (in ₹ Crore)	87.40-90.25
Issue open date	08.10.2024
Issue close date	10.10.2024
Tentative date of Allotment	11.10.2024
Tentative date of Listing	15.10.2024
Total number of shares (lakhs)	278.00
No. of shares for QIBs (50%) (lakhs)	139.00
No. of shares for NII (15%) (lakhs)	41.70
No. of shares for S-HNI (33%)(lakhs)	13.90
No. of shares for B-HNI (66%)(lakhs)	27.80
No. of shares for retail investors (35%) (lakhs)	97.30
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	157
Face value (in ₹)	5.00
Amount for retail investors (1 lot) (in ₹)	14444-14915
Maximum no. of shares for Retail investors at Lower Band	2041 (13 lots)
Maximum no. of shares for Retail investors at Upper Band	2041 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	187772-193895
Minimum no. of shares for sHNI (2 Lakhs) at upper band	2198 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	10519 (67 lots)
Minimum number of shares for bHNI at upper band	10676 (68 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- PRAVINKUMAR BRIJENDRA KUMAR AGARWAL
- PKH VENTURES LIMITED
- MAKINDIAN TOWNSHIP PRIVATE LIMITED

BRIEF FINANCIALS

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital^	37.37^	12.45	12.45
Net Worth	119.00	82.61	41.79
Revenue from operation	154.17	160.68	77.02
EBITDA	50.08	55.99	27.16
EBITDA Margin (%)	32.49	34.85	35.27
Profit/(Loss) After Tax	36.43	40.79	18.78
EPS (in Rs.)	4.87	5.46	2.51
Net Asset Value (in Rs.)	15.92	11.05	5.59
Total Borrowing	0.15	0.19	11.99
P/E#	19.51	NA	NA
P/B#	5.97	NA	NA

*Restated consolidated financials; #Calculated at upper price band; ^Bonus Issue in the ratio of 2 equity shares for every 1 equity share – September 5th, 2023.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Income			
Revenue from operation	77.02	160.69	154.18
Other income	0.01	0.34	0.29
Total income	77.03	161.02	154.47
YoY Growth (%)	-	109%	-4%
Expenses			
Cost of Materials Consumed	11.34	11.55	9.36
YoY Growth (%)	-	2%	-19%
Construction Expenses	30.90	89.30	85.00
YoY Growth (%)	-	189%	-5%
Employee Benefits Expenses	1.25	1.56	2.76
Finance cost	2.07	0.38	0.02
Depreciation and amortisation	0.31	0.52	0.41
Other Expenses	6.37	2.63	7.26
Total expenses	52.24	105.94	104.82
EBITDA	27.17	55.99	50.09
EBITDA Margin (%)	35.27%	34.84%	32.49%
EBIT	26.86	55.47	49.67
Profit before tax	24.78	55.09	49.65
Tax expenses			
Current tax	6.23	14.26	13.17
Deferred tax charge / (benefit)	-0.23	0.03	0.04
Total tax expenses	6.00	14.29	13.21
Profit for the year	18.78	40.79	36.44
PAT Margin (%)	24.38%	25.33%	23.59%
Earnings per share			
EPS (BASIC)	2.51	5.46	4.87

Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Net cash generated from operating activities	12.92	12.26	-6.81
Net cash used in investing activities	-1.16	-2.11	2.54
Net cash used in financing activities	-5.08	-12.18	-0.07
Net increase/ (decrease) in cash and cash equivalents	6.68	-2.04	-4.34
Cash and cash equivalent as at 1 April	0.21	6.88	4.85
Cash and cash equivalent as at year end	6.88	4.84	0.51

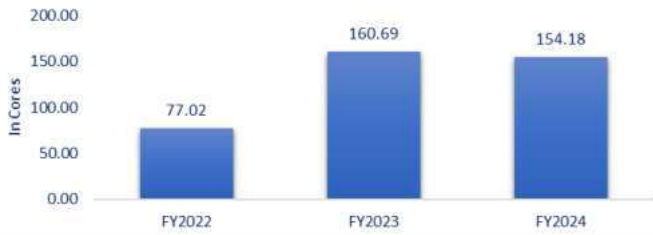
Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
ASSET			
Non-Current Asset			
Property plant and equipment	2.15	1.93	1.65
Capital work-in-progress	2.21	2.21	2.21
Financial Assets			
Other Financial Assets	9.77	10.31	7.92
Deferred Tax Assets (Net)	0.48	0.44	0.41
Other Non-Current Assets	14.93	14.93	14.93
Total Non-Current Assets	29.54	29.82	27.11
Current Assets			
Inventories	2.70	6.60	7.38
Financial Assets			
Trade Receivables	30.17	76.98	176.24
Cash and Cash Equivalents	6.88	4.85	0.51
Other Bank Balances	0.16	1.77	1.79
Loans	0.05	0.10	0.07
Other Financial Assets			
Other Current Assets	41.52	56.23	15.39
Total Current Assets	81.49	146.53	201.37
Total assets	111.03	176.35	228.49
Equity and Liabilities			
Equity			
Equity Share Capital	12.46	12.46	37.37
Other Equity	29.33	70.15	81.64
Total Equity	41.79	82.61	119.01
Liabilities			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	-	0.15	0.11
Other Financial Liabilities	9.50	9.50	-
Provisions	0.04	0.01	0.08
Total Non-Current Liabilities	9.54	9.66	0.18
Current Liabilities			
Financial Liabilities			
Borrowings	11.99	0.04	0.04
Trade and Other Payables Due to Micro and Small Enterprises	-	-	-
Other than Micro and Small Enterprises	40.70	62.34	61.74
Other Financial Liabilities	0.12	0.13	0.48
Other Current Liabilities	1.36	7.84	34.41
Provisions	0.02	0.03	0.03
Current Tax Liability (Net)	5.52	13.70	12.58
Total Current Liabilities	59.70	84.07	109.29
Total Non-current and Current liability	69.24	93.74	109.48
Total Equity and Liabilities	111.03	176.35	228.49



PERFORMANCE

Revenue shows steady growth of 41% CAGR-2 yr



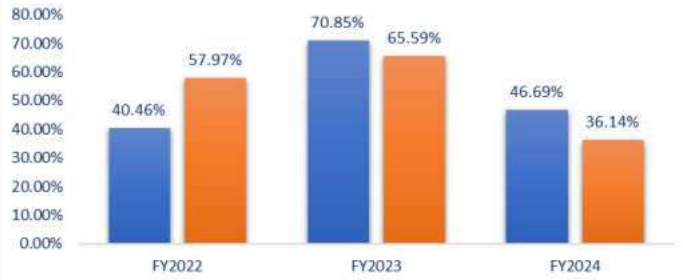
EBITDA shows robust growth of 39% CAGR-2 yr



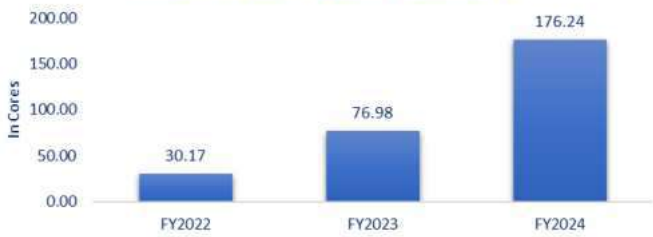
PAT shows robust growth of 39% CAGR-2 yr



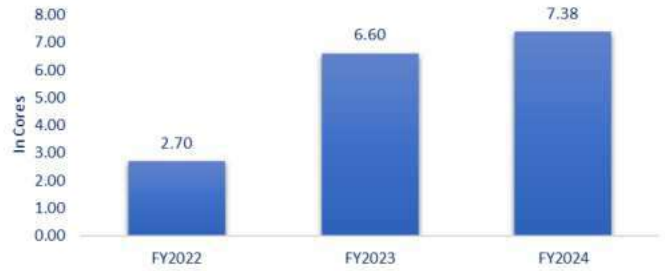
Strong Return Ratios



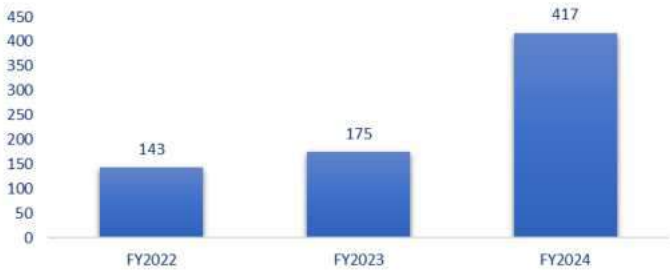
Trade Receivables is more than Revenue which grew by 142% CAGR-2 yr



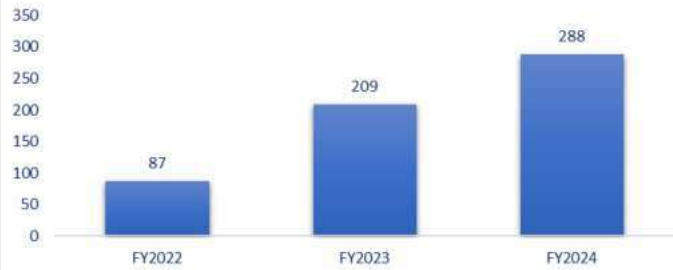
Inventories grew by 65% CAGR- 2 yr



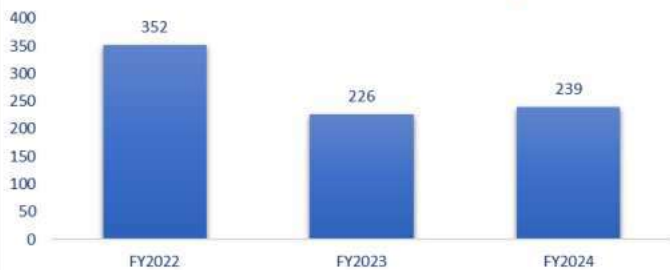
Debtor days are increasing extremely



Inventory days also appears high



Creditor Days are decreasing



Revenue from Top 5 Clients



INDUSTRY REVIEW

Overview of the Construction sector in India.

- The construction sector is the country's second-largest economic segment after Agriculture.
- The sector contributed 8.4% to the national GVA (at constant price) in FY23. The order book of construction companies is dependent upon the capital expenditure in the economy. Broadly, the investments can be classified into infrastructure, real estate and industrial construction.
- The largest segment of the Indian Construction industry is the Infrastructure segment which contributes 59.7% as of FY23. The major chunk of growth is attributable to an increase in government spending on building infrastructure.
- The construction segment witnessed a drop in FY21 due to the impact of COVID-19 but has strongly recovered in FY22 and FY23.

Construction EPC in India

- EPC stands for 'Engineering, Procurement and Construction'. EPC entails the contractor building the project by designing, installing and procuring necessary labour and land to construct the infrastructure, either directly or by subcontracting.
- The EPC contract is a type of construction contract between parties where the contractor is responsible for all the engineering, procurement, and construction activities to deliver the completed project to the employer or owner.
- In addition to the delivery of the complete facility, the EPC contractor must deliver it within a guaranteed time and guaranteed price. EPC vendors are those service providers that execute projects on a turnkey basis

Opportunities in NIP for the construction segment

- Before the onset of the pandemic the Government of India had unveiled the National Infrastructure Policy (NIP) covering various sectors and regions indicating that it is relying on an 'infrastructure creation' led revival of the country's economy.
- The NIP which covered rural and urban infrastructure entailed investments to the tune of ₹ 11,10,000 thousand lakhs to be undertaken by the central government, state governments and the private sector during FY20-25. Now that the economy has almost opened up with most of the migrant workers too returning, infrastructure development will be relied upon to propel the Indian economy from the current slowdown.
- This in turn is expected to offer significant opportunities to EPC players in India. Significant investment in infrastructure development and real estate will boost construction activities and act as a catalyst for the growth of EPC companies in India.
- Through the National Infrastructure Pipeline, the government of India plans to complete around 7,400 projects aggregating to ₹ 11,10,000 thousand lakhs.
- The project pipeline is expected to be collectively funded by the Central Government, State Governments and PSUs to the extent of 79% with the remaining 21% being envisaged to come from the private sector.

Outlook

- The Construction sector was hit hard during the pandemic, because of the lockdown, and labour migration leading to logistical challenges. However, the sector has witnessed growth in FY22 and FY23, supported by unlock measures and significant infrastructure investments by the Government.
- The industry has experienced a similar growth trajectory in FY24, supported by a sustained focus on infrastructure investments in roads, railways, and airports, in addition to the expansion in real estate activity.
- According to CMIE, early indications from the real estate sector reveal a robust 23.5% year-on-year growth in sales revenues for the quarter ending December 2023. While operating expenses related to sales increased at a comparatively slower rate of 19.4%, the industry's most significant operating expense, categorized as other operating expenses, witnessed a notable rise of 75.3%.
- The Government has expanded the National Infrastructure Policy (NIP) during the Budget to 7,400 projects from 6,835 projects and announced plans for the National Monetization Pipeline and Development Finance Institution (DFI) to improve the financing of infrastructure projects.
- The NIP covers various sectors and regions indicating that it is relying on an 'infrastructure creation' led revival of the country's economy.



COMPETITIVE STRENGTHS OF THE COMPANY

Exclusive and focused business approach.

- The primary focus of their Company is the civil construction of residential and commercial buildings and now they are venturing into industrial, and infrastructural projects as well.
- This focused business approach has enabled them to build a team of people with the right knowledge of relevant domains, skills and experience.
- They have sought to establish systems and processes that are aligned with specific requirements of their business operations, which has led to the development of their core competence and technical expertise in the industry.
- Their capabilities in the civil construction business augment their positioning in the industry as a Company focused on providing a full spectrum of construction services.
- They usually concentrate specifically on undertaking the construction of buildings, without engaging in any other activities such as land development or infrastructure development.
- Their concentrated focus on the construction of buildings has enabled them to grow their order book leading to a high degree of specialization in this business, which has helped them increase their operating revenues and profits from operations.

Established and proven track record

- They have established a track record of successfully executing a diverse mix of construction projects i.e., residential, hospitality and commercial projects. For instance, they constructed the Golden Chariot Vasai Hotel & Spa, also, renovation and refurbishment of Golden Chariot, the Boutique Hotel at Mumbai in the hospitality sector in the year 2015.
- They started undertaking civil construction works contracts for residential buildings in the MMR and have successfully executed 2 such projects. From 2010 to 2017 their projects comprised mainly of civil construction and work in additional services sector in the geographical areas of MMR, Karnataka and Tamil Nadu.
- Further, they completed the construction of the Delhi Police Headquarters for the appointed concessionaire i.e., M/s. Eternal Building Assets Private Limited, a group company, on an EPC turnkey basis in April 2021, a construction project in the commercial sector.

Strong project management capacity and execution capabilities

- Their goal is to use their project management and execution capabilities to accomplish their projects on schedule while keeping high construction quality. Over the years, they have procured a fleet of construction equipment to ensure high quality and timely execution of their projects.
- However, keeping in mind their objective of being an asset-light company, for most of their construction equipment, the deployment of construction equipment is done via third-party vendors, which keeps their asset model light for project execution, thereby allowing them to maintain cost control and minimize disruptions due to non-availability or machinery breakdown.
- They achieve this by utilizing the expertise of their in-house engineering and design team, which possesses extensive knowledge and experience in various aspects of construction, including civil construction, electrical and mechanical work.
- Their team helps prepare detailed architectural and/or structural designs tailored to the specific requirements of their clients, thereby reducing their reliance on third-party consultants.

Visible growth through increasing order book

- In the construction industry, an order book is considered one of the key indicators of future performance as it represents a portion of anticipated future revenue and provides a brief list of projects undertaken and to be undertaken by the Company.
- Maintaining an order book helps the Company to evaluate and improve the quality of projects undertaken by them.
- They aim to undertake projects with potentially higher margins and/or select projects that help them to enhance their reputation, market penetration and perception.
- The quality of their construction and the established relationships with their clients, have enabled them to build their order book.



RISK FACTORS

Their total revenue depends on the top 10 clients; losing any significant client could severely affect their business, financials, and prospects.

- For the period ended on April 30, 2024, and for the fiscal 2024, 2023, and 2022, their top ten (10) largest clients accounted for approximately 100% of their revenues from operations, respectively.
- The loss of a significant client or clients would have a material adverse effect on their financial results. They cannot assure you that they can maintain the historical levels of business from these clients or that they will be able to replace these clients in case they lose any of them.
- Furthermore, major events affecting their clients, such as bankruptcy, change of management, mergers and acquisitions could adversely impact their business. If any of their major clients becomes bankrupt or insolvent, they may lose some or all of their business from that client and their receivables from that client would increase and may have to be written off, adversely impacting their income and financial condition.

The construction industry is cyclical and sensitive to changes in the economy and this could have a significant impact on their operations and financial results.

- They are subject to significant fluctuations in the market value of land and inventories as they can change significantly as a result of changing economic and market conditions.
- There is a time gap between their acquisition of land or development rights to the land and the development and sale of their projects, during which, deviations if any, could have a material adverse effect due to, among other things, changes to the national, state and local business climate and regulatory environment, local real estate market conditions, perceptions of prospective customers concerning the convenience and attractiveness of their properties, and changes concerning competition from other property developments.
- They could be adversely affected if the market conditions deteriorate or if they make their purchases at higher prices during stronger economic periods and when the value subsequently declines during weaker economic periods.

The previous IPO filed by their promoter group PKH Venture Limited was not subscribed leading to the withdrawal of the IPO.

- The Draft Red Herring Prospectus for PKH Ventures Limited was filed on March 23, 2022, to conduct an IPO to list its shares on the National Stock Exchange and the Bombay Stock Exchange.
- As the minimum subscription threshold of 90% was not met, PKH Ventures Limited had to withdraw the IPO, communicating the decision to the Registrar of Companies, National Stock Exchange, and Bombay Stock Exchange on July 4, 2023.

They enter into sub-contracts with primary contractors for construction projects. Non-compliance could cause delays and require compensation.

- Some of their projects are as sub-contractors. The agreement confers the rights on them to construct and develop the said project either for a fixed fee. Such projects involve following the drawing plans, architecture designs, timelines, material quality, end finishing of the structure, etc. to be followed strictly as provided by the principal employer or their customer.
- Though they are generally empowered to make practical operating decisions for the development of the project, they may be required to make certain decisions in consultation with their primary contractors, principal employers, government agencies involved and/or regulatory authorities.
- These arrangements may limit their flexibility to make certain decisions about the projects. In the event of any delay in the completion of the project within the envisaged time frame, they may be required to indemnify and compensate the employers or contractors with whom they have agreed.
- Any disputes that may arise between them and the parties involved in the agreement may cause a delay in completion, suspension or complete abandonment of the projects they undertake. This may have a material adverse effect on their business operations, financial condition and reputation.

PEER COMPARISON

Name of the company	Revenue from Operations (in Cr.)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	RoCE (%)	P/E*	P/B*
Garuda Construction & Engineering Ltd	154.17	5.00	4.87	15.92	36.14	46.69	19.51	5.97
PSP Projects Limited	2505.78	10.00	34.16	254.13	17.73	18.98	18.84	2.53
Capacite Infraprojects Limited	1931.63	10.00	16.09	223.44	9.35	14.24	23.66	1.70
Vascon Engineers Limited	1052.85	10.00	3.05	44.33	11.32	8.25	20.25	1.39
Ahluwalia Contracts (India) Limited	3855.29	2.00	55.95	238.84	17.14	21.05	19.82	4.64
B L Kashyap & Sons Limited	1244.53	1.00	2.33	22.02	13.38	31.56	38.86	4.11

*P/E & P/B ratio based on closing market price as of 3rd October 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.



OUR VIEWS

- Garuda Construction & Engineering Ltd. (GCEL) is a civil construction company that specializes in end-to-end services for residential, commercial, industrial, and infrastructure projects. These services include everything from designing and engineering to the final handover of the project.
- Historically, GCEL has mostly worked as an in-house construction firm for the promoter group and related entities. However, it is now venturing into contracts with third-party clients, aiming to grow as a professionally managed company.
- The company currently boasts an order book worth ₹1,408.27 crore, which covers 12 ongoing projects.
- Valuation-wise, GCEL appears attractive, trading at a P/E ratio of 19.51x compared to the industry average of 24.28x.
- The Company's revenue from operations has grown at CAGR of 26.03%, from ₹ 77.02 Cr in FY2022 to ₹ 154.18 Cr in FY2024, and the Company's Profit After Tax has increased from ₹ 18.78 Cr in FY2022 to ₹ 36.43 Cr in FY 2024, at a CAGR of 24.72%. The Company's revenue from operations was ₹ 11.88 Cr for the period ended April 30, 2024, and the PAT stood at ₹ 3.50 Cr. However, it marked inconsistency in its financial performance for the reported periods with average financial data.
- Company's trade receivables, which were ₹176.24 crore as of March 31, 2024, and ₹182.56 crore at April 30, 2024 are higher than the top lines reported is a major concern. This figure, combined with debtor days extending to 468 days, shows challenges in collecting payments from clients.
- Efficient cash flow management will be crucial for GCEL's future growth. Yet, its financial health remains a key focus area due to elevated receivables and reliance on internal contracts.
- One of the Promoter Mr. Pravin Kumar Brijendra Kumar Agarwal is involved in a criminal proceeding initiated by Airport Police Station which is currently pending before the Hon'ble Metropolitan Magistrate at Andheri, Mumbai. Any such proceedings, or any adverse action as a result of such proceedings, may affect the reputation of the promoter and subsequently that of the business of the company.
- The promoter group's previous attempt to launch an IPO for PKH Ventures Ltd. in 2023 has to be withdrawn as the minimum subscription of 90% was not met, raising questions about the group's broader financial strategy.
- While the company has a solid order book and ambitions to expand, investors should weigh the potential growth against the risks stemming from cash flow constraints and past group-level challenges. Hence, caution is advised for this offering.

Therefore, we recommend to **AVOID** this issue.

Sources: Company website and red herring prospectus

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