Ceigall India Ltd.

01st August , 2024

IPO NOTE

Recommendation	Subscribe	
Price Band	Rs 380-401	
Bidding Date	Aug 1, 2024 - Aug 5,2024	
Book Running Lead Manager	ICICI Securities Ltd., IIFL Securities Ltd., JM Financial Ltd.	
Registrar	Link Intime India Private Limited	
Sector	Infrastructure	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	37	
Minimum Application Money	Rs. 14,837	
Discount to retail	0	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	**FY23**	**FY24**
Total Income	2,068	3,029
EBITDA	296	518
Adj PAT	167	304
Valuations (FY24)	**Lower Band**	**Upper Band**
Market Cap (Rs Cr)	6,620	6,985
Adj EPS	17.39	17.57
PE	21.85	22.82
EV/ EBITDA	13	14
Enterprise Value (Rs Cr)	6,903	7,269
Post Issue Shareholding Pattern		
Promoters	82.1%	
Public/Other	17.9%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	87.1	
Issue Size (Rs in cr)	1252	
Face Value (Rs)	5	

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BACKGROUND

Founded in 2002, Ceigall India Limited (the company) is an infrastructure construction company with expertise in specialized structural projects, including elevated roads, flyovers, bridges, railway overpasses, tunnels, highways, expressways, and runways. By July 2024, the company completed over 34 road and highway projects. These projects include 16 EPC projects, one HAM project, five O&M projects, and 12 Item Rate Projects. The company has 18 ongoing projects, including 13 EPC projects and five HAM projects. The company has presence in 10 states like Punjab, Haryana, Rajasthan, Uttar Pradesh, etc.

Details of the Issue:

The company proposes to utilize the Net Proceeds towards funding the following objects:

- Purchase of equipment = Approx. 99.789 crores;
- Repayment of certain borrowings = Approx. 413.4 crores and
- General corporate purposes

Investment Rationale:

- Asset light model
- Strong financials and track record of growth
- Strong industry growth

Valuation and Recommendation:-

The company has shown strong track record of revenue, EBITDA and PAT growth in the past. Because of the company's asset light model the company has been able to generate high ROCE and ROE as compared to industry average. The company's debt-equity is reasonable at 0.7x and is expected to further reduce because of the repayment of certain borrowings from the IPO proceeds. The infrastructure industry in India is expected to grow for the foreseeable future given the central government's continuous and consistent focus on capital expenditure and infrastructure.

The P/E multiple for Ceigall at 22x is at a premium to industry average of 18x. The company deserves to trade at a premium to peers on the back of strong growth track record and higher ROCE. We believe Ceigall will sustain its premium valuations and thus recommend a 'SUBSCRIBE' to the issue.

Financials	FY22	FY23	FY24
Net Revenues	1,134	2,068	3,029
Growth (%)		82.4%	46.5%
EBITDA	186	296	518
EBITDA Margin (%)	16.4%	14.3%	17.1%
PBT	169	225	405
Adjusted PAT	126	167	306
EPS	7.23	9.60	17.57
ROCE	29.9%	28.7%	32.1%
EV/Sales	6.4	3.5	2.4
EV/EBITDA	39.1	24.6	14.0
P/E	55.5	41.8	22.8

Company Background

The company is an infrastructure construction company with experience in undertaking specialized structural work such as elevated roads, flyovers, bridges, railway over bridges, tunnels, highways, expressways and runways. It was incorporated in July 2002 and since then, it has gradually increased its execution capabilities in terms of size of the projects. It is one of the fastest growing engineering, procurement and construction ("EPC") company in terms of three-year revenue CAGR as of Fiscal 2024, among the companies with a turnover of over Rs. 1000 crores in Fiscal 2024 with over 20 years of experience in the industry. It has achieved one of the highest year-on-year revenue growth of approximately 43.10% in Fiscal 2024 among the peers.

Over the last two decades, the company has transitioned from a small construction company to an established EPC player, demonstrating expertise in the design and construction of various road and highway projects including specialised structures across 10 states in India. Its principal business operations are broadly divided into EPC projects and hybrid annuity model ("HAM") projects, which are spread over ten states in India.

As on July 2024, the company is eligible to bid for single NHAI EPC projects up to a value of Rs. 5700 crore and for single NHAI HAM projects up to a value of Rs. 5500 crore. As on July 2024, it has been empanelled to participate with the Delhi Metro Rail Corporation Limited in its upcoming tenders involving inter alia construction of railways, mega bridges and tunnels in India and abroad and also with a public sector undertaking for highways, bridges and tunnel construction work in north-eastern states of India, and such empanelment is mutually extendable.

As on July 2024, the company has completed over 34 projects, including 16 EPC, one HAM, five O&M and 12 Item Rate Projects, in the roads and highways sector. Currently, it has 18 ongoing projects, including 13 EPC projects and five HAM projects which includes elevated corridors, bridges, flyovers, rail over-bridges, tunnels, expressway, runway, metro projects and multi-lane highways. In addition to undertaking operation and maintenance ("O&M") activities in accordance with its contractual obligations under the EPC/HAM concession agreements, it has also undertaken independent O&M projects. Further, it has also undertaken in the past and continue to undertake sub-contracting projects.

The company's order book, as on June 30, 2024 and Fiscals 2024, 2023 and 2022, amounted to Rs. 9470.84 cr, Rs. 9225.78 cr, Rs. 10809.04 cr and Rs. 6346.13 cr, respectively. As on June 30, 2024, projects awarded by NHAI contributed 80.31% to its order book. Its other public sector clients include Indian Railway Construction International Limited ("IRCON"), Military Engineer Services ("MES") and Bihar State Road Development Corporation Limited ("BSRDCL"). Its Book to Bill Ratio as of Fiscals ended March 31, 2024, March 31, 2023 and March 31, 2022 was 3.05, 5.23 and 5.60 times, respectively.

The company has a successful track-record in executing projects of different sizes ranging from 20.42 lane km to 260.00 lane km in terms of length. As on March 31, 2024, it has constructed over 1,739.88 lane kms of roads and highways, which also includes specialized structures such as elevated roads, flyovers, bridges, railway over bridges, tunnels, highways, expressways and runways. As on March 31, 2024, it has 1,488.17 lane kms of ongoing projects. As on March 31, 2024, it has completed 2,158.72 lane kms of O&M projects.

The following table sets forth the revenue from EPC, HAM and O&M projects for the periods indicated below: (Rs. In crores)

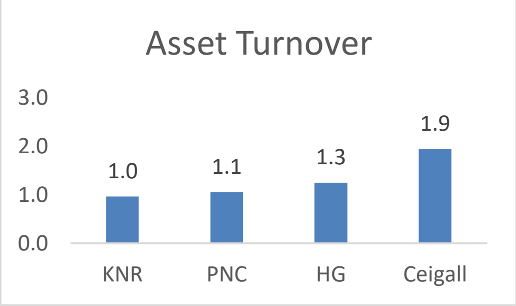
Sr. No.	Particulars	Fiscal 2024	% of total revenue	Fiscal 2023	% of total revenue	Fiscal 2022	% of total revenue
1.	EPC	2025.33	66.05%	1645.82	78.86%	847.97	73.96%
2.	HAM	807.52	26.34%	360.79	17.28%	264.07	23.03%
3.	O&M	9.71	0.32%	8.88	0.43%	5.31	0.46%
Total		**2842.56**	**92.71%**	**2015.49**	**96.57%**	**1117.35**	**97.45%**

Below is a graphical presentation of its geographical presence across various states in India:

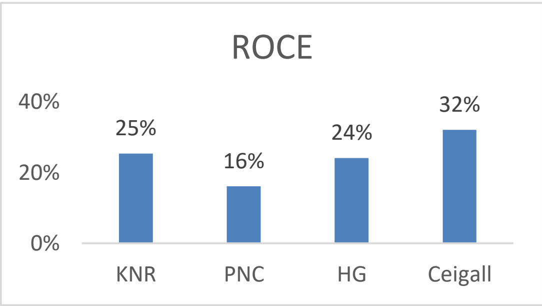
Investment Rationale

Asset light model

The Company on a routine basis invests a minimum amount on its machinery vertical, some of which are under buyback arrangements i.e., the right of the company to return the asset to the vendor after a specified period at a pre-defined amount, pursuant to the terms and conditions in their agreements. This enables it to avoid blockage of its capital in fixed assets and ensure availability of effective machinery with it for speedy execution of its projects. This reduces the fixed capital requirement and higher capital efficiency. Hence, its Asset Turnover is significantly higher at 1.9x than industry average of 1x. This has led to higher ROCE of 32% being generated by the company against an industry average of 21%.



Source: Company Data, NBRR



Source: Company Data, NBRR

Strong financials and track record of growth

The Company has grown its revenue at a CAGR of 63.43% from FY22 to FY24. The company's PAT in the same period has grown at a CAGR of 55.84%. The company's EBITDA margins are decent at 17%. The company has a very high asset turnover of 1.9x as compared to industry average of 1x. The company has strong ROE's and ROCE's at 33.6% and 32.1% respectively. The company has strong order book and good execution capabilities.

Strong industry growth

The Indian infrastructure sector plays a major role with around 3% contribution to GDP as on FY23. CareEdge estimates India's infrastructure industry investments of Rs. 52,962 billion between FY24-FY28. India's economic growth is fueled by a diverse range of sectors, of which infrastructure is a vital sector. In recent years, the government has taken several steps to accelerate infrastructure development, wherein, the key focus areas are transportation, energy, smart cities, water, social infrastructure, and digital infrastructure. There have also been efforts to attract foreign investors in the infrastructure sector through policy reforms. The following graph shows continued investment in infrastructure in India:

Source: CareEdge Research

One of the key drivers for economic growth is the increased infrastructure investment thrust by the government. In the Union Budget 2024-25, the government continued its focus on infrastructure development with budget estimates of capital expenditure toward the infrastructure sector of Rs. 11,111 Billion.

Risks and concerns

- The business is primarily dependent on contracts awarded by governmental authorities. As on June 30, 2024, the NHAI projects awarded to the constituted 80.31% of its Order Book, while the remaining 19.69% of its Order Book was from contracts with other central, state governmental and local departments. Any adverse changes in the central, state or local government policies may lead to its contracts being foreclosed, terminated, restructured or renegotiated, which may have a material effect on its business, profitability and results of operations.

- Delays in the completion of construction of ongoing projects could lead to termination of its contracts or cost overruns or claims for damages, which could have an adverse effect on its cash flows, business, results of operations and financial condition.

Valuation and Recommendation

The company has shown strong track record of revenue, EBITDA and PAT growth in the past. Because of the company's asset light model the company has been able to generate high ROCE and ROE as compared to industry average. The company's debt-equity is reasonable at 0.7x and is expected to further reduce because of the repayment of certain borrowings from the IPO proceeds. The infrastructure industry in India is expected to grow for the foreseeable future given the central government's continuous and consistent focus on capital expenditure and infrastructure.

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Peer Comparison

FY24 Figures (Standalone)	KNR	PNC	HG	Avg	Ceigall
Revenue	4,091	7,699	5,122		3,029
CAGR (FY22-FY24)	12%	11%	19%	14%	63%
EBITDA Margin	17.0%	17.0%	16.0%	16.7%	17.1%
Asset Turns (x)	1.0	1.1	1.3	1.1	1.9
ROCE	25%	16%	24%	22%	32%
Cash Conversion Cycle	43	57	-4	32	25
TTM PE	20.4	14.3	19.1	17.9	22.0
Order Book (Rs. In crore)	5304.8	20400.0	12434.0		9470.8
Order Book to Sales ratio	1.3	2.6	2.4	2.1	3.1

Source: Company data, NBRR

Financials

Ceigall India Limited

Consolidated Nos

P&L (Rs. Cr)	FY22	FY23	FY24
Net Revenue	**1,134**	**2,068**	**3,029**
% Growth		*82%*	*46%*
Cost of Materials Consumed	411	687	1,053
% of Revenues	*36.3%*	*33.2%*	*34.8%*
Cost of Construction	460	987	1,298
% of Revenues	*40.6%*	*47.7%*	*42.8%*
Employee Cost	25	30	62
% of Revenues	*2.2%*	*1.4%*	*2.0%*
Other expenses	51	68	99
% of Revenues	*4.5%*	*3.3%*	*3.3%*
EBITDA	**186**	**296**	**518**
EBITDA Margin	*16.4%*	*14.3%*	*17.1%*
Depreciation	19	38	55
Other Income	13	19	37
Interest	11	52	94
PBT	**169**	**225**	**405**
Tax	44	58	101
Tax rate	*26%*	*26%*	*25%*
PAT (norm. Tax)	**126**	**167**	**304**
% Growth		*33%*	*82%*
Less: Minority Interest	**0**	**0**	**-2**
Adj. PAT	**126**	**167**	**306**
% Growth		*33%*	*83%*
EPS (Post Issue)	**7.23**	**9.60**	**17.57**

Ratios & Others	FY22	FY23	FY24
Debt / Equity	0.4	0.6	0.7
EBITDA Margin (%)	16.4%	14.3%	17.1%
PAT Margin (%)	11.1%	8.1%	10.0%
ROE (%)	29.2%	28.2%	33.6%
ROCE (%)	29.9%	28.7%	32.1%

Turnover Ratios	FY22	FY23	FY24
Debtors Days	31	56	52
Inventory Days	12	19	14
Creditor Days	18	63	41
Asset Turnover (x)	1.9	2.1	1.9

Valuation Ratios	FY22	FY23	FY24
Price/Earnings (x)	55.5	41.8	22.8
EV/EBITDA (x)	39.1	24.6	14.0
EV/Sales (x)	6.4	3.5	2.4
Price/BV (x)	16.2	11.8	7.7

Balance Sheet (Rs. Cr)	FY22	FY23	FY24
Share Capital	39	39	79
Other Equity	392	554	809
Minority Interest			19
Networth	**431**	**593**	**906**
Total Loans	**170**	**370**	**652**
Other non-curr liab.	2	2	4
Contract Liabilities	71	88	148
Trade payable	57	359	344
Other Current Liab	228	415	539
Total Equity & Liab.	**959**	**1,828**	**2,592**
Property, Plant and Equipment	126	246	296
CWIP	4	2	2
Other Intangible assets / Right of u	0	3	5
Non Currrent Financial assets	30	17	40
Other non Curr. assets	133	295	679
Inventories	39	107	118
Contract Assets	94.07	305.02	402.84
cash and cash equivalents	192	361	368
Investments+loans	71	22	0
Trade receivables(debtor)	96	316	430
Other Current assets	176	154	251
Total Assets	**959**	**1,828**	**2,592**

Cash Flow (Rs. Cr)	FY22	FY23	FY24
Profit Before Tax	169	225	405
Provisions & Others	18	75	117
Op. profit before WC	**188**	**300**	**523**
Change in WC	-275	-309	-625
Less: Tax	47	64	109
CF from operations	**-135**	**-73**	**-211**
Purchase/Sale of fixed assets	-80	-156	-106
Sale/Purchase of Investments	-56	50	30
Loans given and other items	-37.06	-38.71	16.399
Interest, dividend and other inc	9	11	22
CF from Investing	**-164**	**-134**	**-38**
Repayment towards Lease Liab		-0	-0
Net Proceeds/Repayment of Borro	287	224	489
(Repayment)/ proc current debt	34	160	-128
interest, div paid & others	-11	-58	-86
CF from Financing	**310**	**326**	**275**
Net Change in cash	**11**	**119**	**26**
Cash & Bank at beginning	86	97	217
Cash & Bank at end	97	217	243

Source: Company Data, NBRR

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