

PKH Ventures

Construction | India

IPO | 26 June 2023

Construction and Hospitality

About the Company

PKH Ventures Limited is a construction company primarily in business of construction and development, hospitality, and management services. The company developed the Delhi Police Headquarters in Apr'21, which involved the construction of twin towers of 17 storeys. The civil construction business is executed by its subsidiary and construction arm, Garuda Construction. The company has multiple in-house development projects in the pipeline, which include real estate development at Amritsar, Punjab; a food park at Jalore, Rajasthan; cold storage park/facilities at Indore, Madhya Pradesh; and a wellness center & resort at Chiplun, Maharashtra. Additionally, the company has been awarded with two government projects via the Hydro Power Project and the Nagpur Project, being executed through its Subsidiaries/SPVs. The company is coming up with an IPO comprising of OFS of ~7.4mn shares and Fresh Issue of 18.3mn shares, aggregating to Rs3.79bn.

Leveraging Strong Expertise in Hospitality Vertical

After its incorporation in the year 2000, the company was managing and operating restaurants, lounges, retail outlets, food stalls, bars, staff canteens and food supply at various airports across the country. The company currently provides miscellaneous mechanical, electrical, and plumbing (MEP) works services such as annual maintenance of its projects and certain third-party O&M contracts. The company has developed two hotels in Mumbai, namely, Golden Chariot Hotel & Spa, Vasai and Golden Chariot, The boutique hotel near Mumbai International Airport (Mumbai Hotels) and has been owning, managing and operating the Mumbai Hotels since FY15. The knowledge and experience gained while developing the Hotels led the Promoter to venture into the business of civil construction through, Garuda Construction which provides end-to-end construction services for residential and commercial buildings.

Asset-Light & Diversified Business Model

The company has an asset light model for its civil construction business and relies mostly on third party suppliers for equipment and labour. Moreover, its businesses generate income from diverse activities completely independent of each other. For example, the step-down subsidiary, Eternal Building Assets has already received annuity for a period of 3 years on part COD and will receive the annuity of Rs780mn per year till FY33. The company is not only focused on order book addition but also on adding quality projects with potentially higher margins or prestigious projects that helps enhance its growing reputation, market penetration and perception. It is currently engaged in the civil construction of 6 residential projects for Third Party Developers and Promoter Group in the MMR.

Financials in Brief

During FY0-22, its revenue/EBITDA/Adj. PAT has grown at a CAGR of 10%/127%/70%. For FY22, its revenue was at Rs1,994mn while EBITDA stood at Rs530mn. EBITDA margin increased significantly from 6.2% in FY20 to 26.6% in FY22. Adj. PAT during FY20, FY21 and FY22 stood at Rs141mn, Rs306mn and Rs405mn respectively. Return ratios are healthy with average RoE/RoCE of 8.5%/4.6% during FY20-22. Average Net Asset Turnover during FY20-22 was at 1.7x.

Our View

On FY22 financials, the IPO is valued at 30x P/E, 24.5x EV/EBITDA and 6.5x EV/Sales, at the upper price band. The company is poised for growth in the coming years led by multiple projects in the pipeline. The company has been awarded with 3 Government Hotel Development Projects, while subsidiary Garuda Construction is currently engaged in the Civil Construction of 6 residential projects. PKH is also undertaking several Forthcoming Development Projects.

Considering the healthy business prospects, decent financials, expertise in the Hospitality vertical, synergies led by acquisition of Amar Remedies and experienced management, we recommend SUBSCRIBE to the issue.

SUBSCRIBE 

IPO Details

Price Band (Rs)	140-148
Face Value (Rs)	5
Issue Open/Closing Date	30-June-23/4-July-23
Fresh Issues (mn)	18.3
OFS (mn)	7.4
Total Issue (mn)	25.6
Minimum Bid Qty. (Nos)	100
Issue Size (Rs bn)*	3.79
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)*	12.2

*At higher band

Object of the Issue

- ▶ Investment in subsidiary, Halaipani Hydro Project Private Limited for the development of Hydro Power Project.
- ▶ Investment in Garuda Construction project, for funding working capital.
- ▶ Acquisitions and other strategic initiatives.
- ▶ General corporate purposes

Key Risk

- ▶ No experience of developing and operating a hydro power plant
- ▶ Experienced negative cash flows in the past.
- ▶ Significant revenues from the Construction & Development vertical.
- ▶ Third party developer order book of Garuda Construction may not be representative of future results.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100.0	68.8
Others	0.0	31.2

Key Financials

(Rs mn)	FY21	FY22	9MFY23
Revenue	2,415	1,994	1,255
EBITDA	505	530	351
EBITDA Margin (%)	20.9	26.6	28.0
PAT	306	405	286
PAT Margin (%)	12.7	20.3	22.8
EPS (Rs)	3.7	4.9	3.5
P/E (x)	39.8	30.0	31.9
EV/EBITDA (x)	25.9	24.5	27.9
EV/Sales (x)	5.4	6.5	7.8
Net Worth	6,934	7,598	7,988
RoE (%)	4.4	5.3	4.8*
Gross Debt	967	982	1,720
Net Block	3,682	3,670	3,657
Net Asset Turnover (x)	0.7	0.5	0.5*

Source: RHP, * based on FY23 annualized numbers

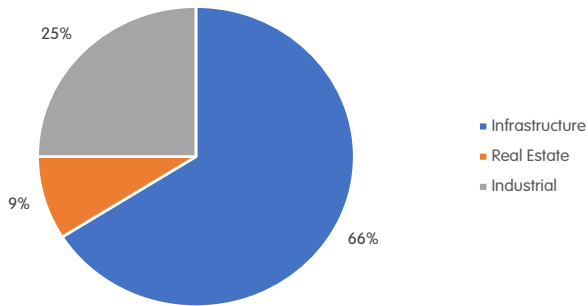
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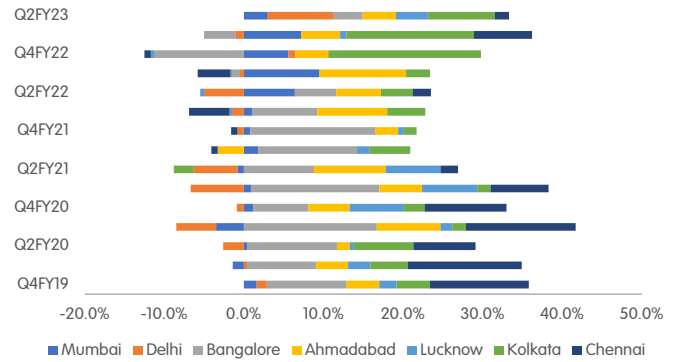
Industry Data

Exhibit 1: Share of Key Segments in Construction Sector FY22 (%)



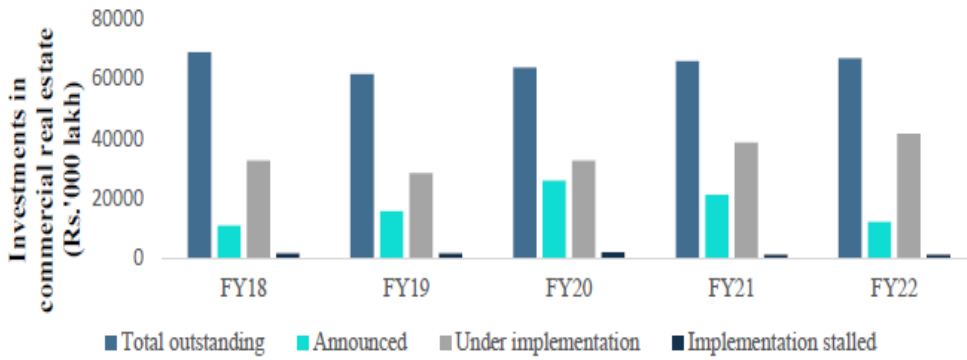
Source: RHP, Department of Industrial Policy and Promotion (DIPP)

Exhibit 2: City-Wise Growth in Property Prices in Residential Real Estate (%)



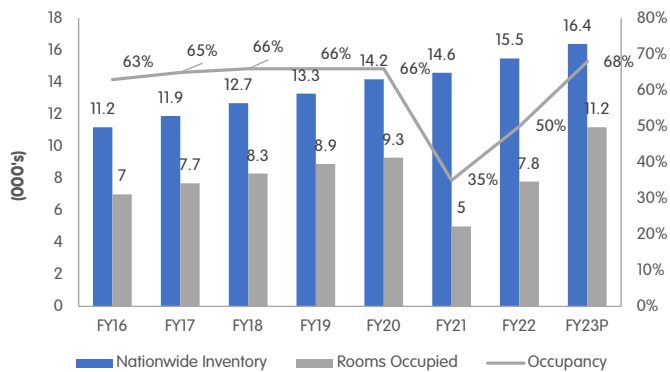
Source: RHP, RBI

Exhibit 3: Trend in Investments in Commercial Real Estate



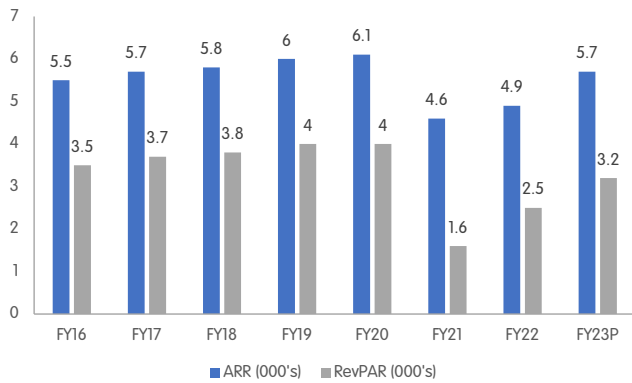
Source: RHP, CareEdge Research Report

Exhibit 4: Hotel Industry Trends in Room Occupancy



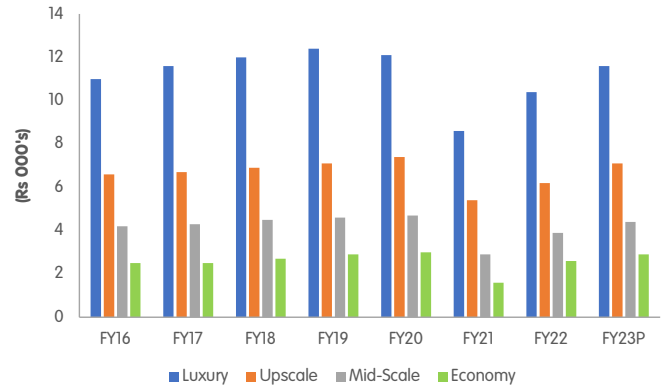
Source: RHP, Hotelivate & CareEdge Research

Exhibit 5: Hotel Industry- Key Performance Indicators (000's)



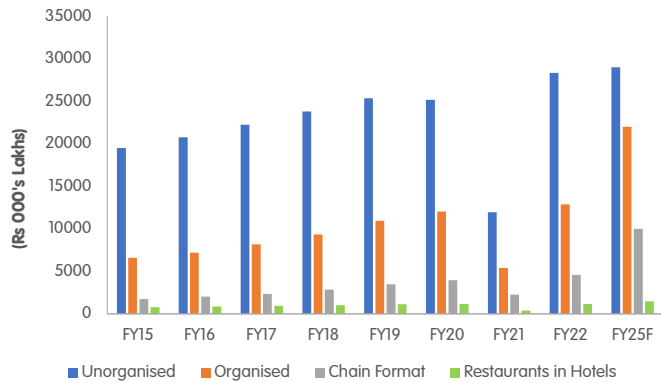
Source: RHP, Hotelivate & CareEdge Research

Exhibit 6: Average Room Revenue Category-Wise (Rs. 000's)



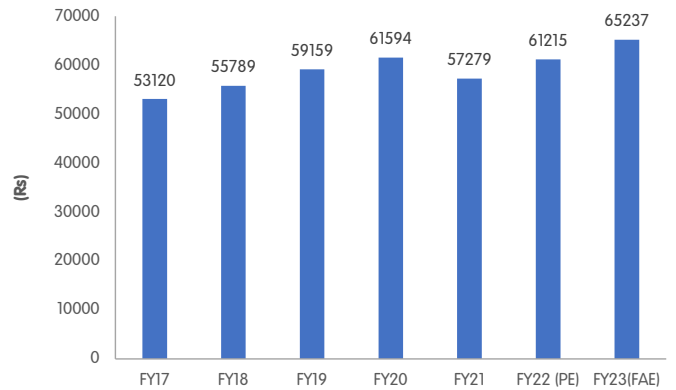
Source: RHP, Hotelivate & CareEdge Research

Exhibit 7: Indian Restaurant & Food Service Market Size (Rs 000's Lakhs)



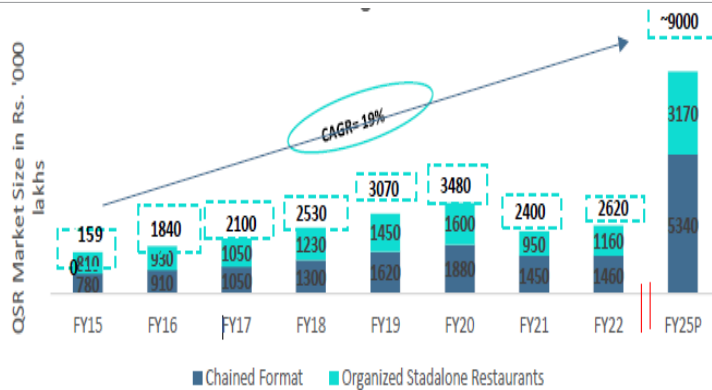
Source: RHP, National Restaurant Association of India, Market Research & CareEdge Research

Exhibit 8: Per Capita Private Final Consumption Expenditure (PFCE) (Rs)



Source: RHP, CMIE & CareEdge Research

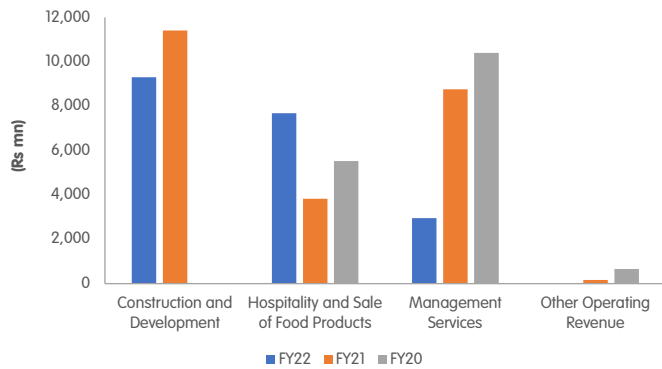
Exhibit 9: Quick Service Restaurants (QSR) Market Size



Source: RHP, Market Research & CareEdge Research

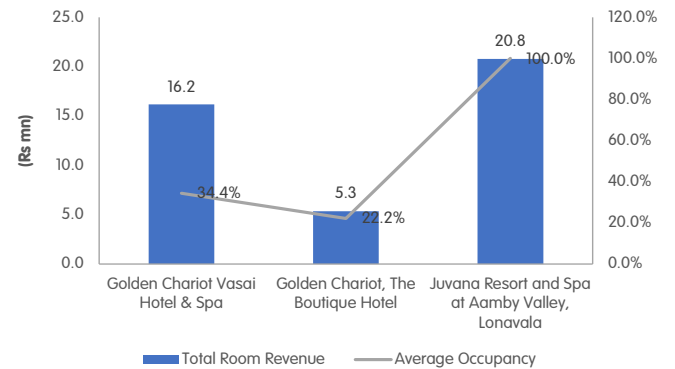
Company Data

Exhibit 10: Revenue (Rs mn)



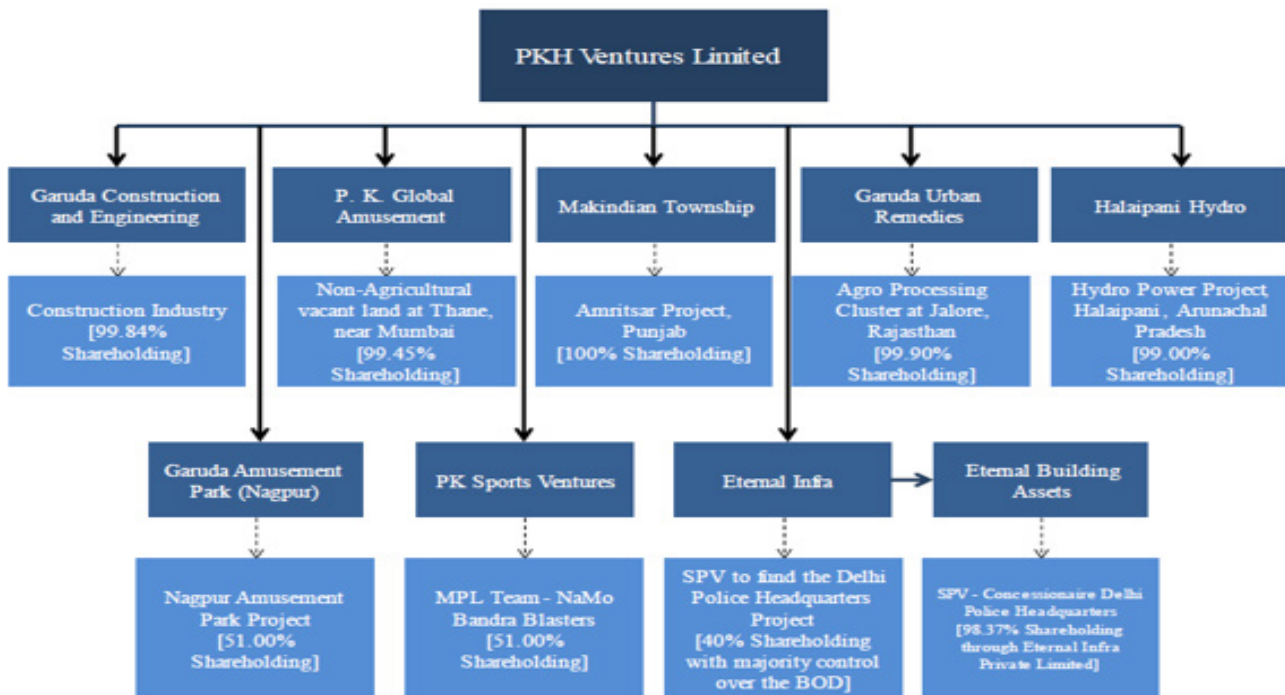
Source: RHP

Exhibit 11: Hotel & Resort Business (9MFY23)



Source: RHP

Exhibit 12: Business Structure



Source: RHP

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