

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Infrastructure Construction</b>	<b>Price Band (Rs): 380 - 401</b>
<b>31<sup>st</sup> July 2024</b>	<b>Recommendation: Subscribe for Long Term</b>

## Ceigall India Ltd.

### Company Overview:

**Ceigall India Ltd** is an infrastructure construction company with robust experience in undertaking specialized structural work such as elevated roads, flyovers, bridges, railway over bridges, tunnels, highways, expressways and runways. It has achieved one of the highest YoY revenue growths of ~43.1% in FY24 among the peers and has grown at a CAGR of 50.1% over FY21-24. As of Jun'24, 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.

### Key Highlights:

**1. One of the fastest growing EPC company with experience in executing specialized structures:** Ceigall is one of the fastest growing engineering, procurement and construction (EPC) companies in terms of 3-Yr revenue CAGR as of FY24, among the companies with a turnover of over Rs 1,000 cr in FY24. The company's revenues have grown at a CAGR of 50.1% over FY21-24.

**2. Strong order book position with healthy revenue visibility:** Ceigall has an orderbook of Rs 9,471 cr as of Jun'24 which is 3.1x of its FY24 revenues, thus providing healthy revenue visibility over medium term. The company currently 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 project and multi-lane highways.

**3. Demonstrated project development execution capabilities:** The company has completed 34 projects, including 16 EPC, 1 HAM, 5 O&M and 12 Item Rate Projects in the roads and highways sector over the last 2 decades. As on Mar'24, the company has constructed over 1,739.88 lane kms of roads and highways, including specialized structures.

**4. Efficient business model:** Ceigall India has efficient business model which enables it to bid at competitive prices, have effective control over operational expenses, purchase majority of construction equipment on a buy-back basis, etc. thereby boosting profitability.

**Valuation:** The company is valued at FY24 P/E multiple of 23.0x based on the post-issue capital on upper price band. Ceigall is one of the fastest growing EPC companies and has transitioned from a small construction company to an established EPC player over the last two decades. The company has one of the best return ratios among the listed peers which is on the back of its efficient business model. However, looking at the consistently negative operating cash flows generated by the company, high debt levels and geographical concentration in the states of Punjab, UP and J&K (87% of FY24 revenues), the business model seems to be carrying relatively higher risk as compared to its listed peers. Due to this, the issue can be a slightly risky bet and hence, we recommend investors to SUBSCRIBE to this issue for long term.

Issue Details	
Date of Opening	01 <sup>st</sup> August 2024
Date of Closing	05 <sup>th</sup> August 2024
Price Band (Rs)	380 - 401
Offer for sale (Rs cr)	538.6 – 568.4 (1,41,74,840 shares)
Fresh Issue (Rs cr)	684.3
Issue Size (Rs cr)	1,223 – 1,253
No. of shares	3,21,81,470 – 3,12,38,481
Face Value (Rs)	5
Post Issue Market Cap (Rs cr)	6,655 – 6,985
BRLMs	ICICI Securities, IIFL Securities, JM Financial
Registrar	Link Intime India Private Limited
Bid Lot	37 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Purchase of equipment	99.8
Repayment/prepayment, in full or in part, of certain borrowings availed by the company and its subsidiary	413.4
General corporate purposes*	-
<b>Total proceeds from fresh issue</b>	<b>-</b>

\*To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	15,71,20,000	99.99
Public & Others	16,000	0.01
<b>Total</b>	<b>15,71,36,000</b>	<b>100.0</b>

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	14,29,46,810	81.6
Public & Others	3,21,95,822	18.4
<b>Total</b>	<b>17,51,42,632</b>	<b>100.0</b>

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	14,29,46,810	82.1
Public & Others	3,12,52,831	17.9
<b>Total</b>	<b>17,41,99,641</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Rs cr	FY22	FY23	FY24
Revenue from operations	1,134	2,068	3,029
EBITDA	186	296	518
PAT	126	167	304
EBITDA Margin (%)	16.4	14.3	17.1
PAT Margin (%)	11.1	8.1	10.0
ROE (%)	29.2	28.2	34.3
ROCE (%)	24.1	21.4	25.6
PE (x)	50.1	37.7	20.7

Source: RHP, SSL Research

## Risk Factors

- **Heavy dependence on contracts from government authorities:** The company's business is primarily dependent on contracts awarded by governmental authorities. As of Jun'24, projects from NHAI constituted 80.3% of the order book while the remaining 19.7% was from contracts with other central, state governmental and local departments.
- **Sustained negative operating cash flows in last three years:** The company has reported negative operating cash flows in FY22/FY23/FY24 of Rs 135 cr/Rs 73 cr/Rs 211 cr respectively. Sustained negative operating cash flows can create an adverse impact on the company's ability to meet working capital expenditure and repay loans.
- **Delay in project execution:** The company's projects are required to achieve commercial operation no later than the scheduled commercial operation dates specified under the relevant EPC and/or HAM contracts, or by the end of the extension period, if any, granted by its customers. Any delay in project execution could lead to termination of contracts, cost overruns or claims for damages.
- **High working capital requirements:** The business in which the company operates requires high working capital to finance the purchase of materials and the performance of engineering, construction and other work on projects. Moreover, it is customary in the industry in which it operates to provide bank guarantees or performance bonds in favor of customers to secure obligations under contracts.

## Growth Strategy

- To diversify by leveraging existing capabilities.
- To selectively expand its geographical footprint.
- To continue to explore hybrid annuity based model to optimize its project portfolio.
- To continue focusing on enhancing execution efficiencies.
- To continue to grow and benefit from the robust future growth of India's economy and infrastructure.

## Revenue Split – Project Wise

Particulars	FY22		FY23		FY24	
	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue
EPC	848.0	74.0	1,645.8	78.9	2,025.3	66.1
HAM	264.1	23.0	360.8	17.3	807.5	26.3
O&M	5.3	0.5	8.9	0.4	9.7	0.3
<b>Total</b>	<b>1,117.3</b>	<b>97.5</b>	<b>2,015.5</b>	<b>96.6</b>	<b>2,842.6</b>	<b>92.7</b>

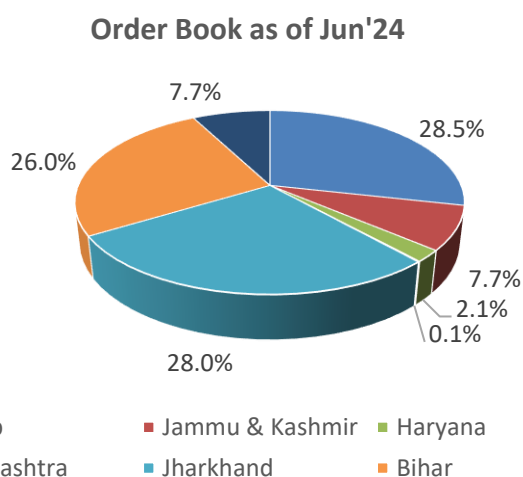
Source: RHP, SSL Research

## Revenue Split – State Wise

State	FY22		FY23		FY24	
	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of total sales volume	Revenue (Rs cr)	% of Revenue
Punjab	454.1	40.1	1,039.2	75.3	1,530.7	50.5
Jammu & Kashmir	18.3	1.6	190.7	13.8	413.4	13.6
Haryana	606.8	53.5	44.9	3.3	281.6	9.3
Himachal Pradesh	49.8	4.4	83.4	6.0	27.1	0.9
Maharashtra	4.8	0.4	21.0	1.5	23.4	0.8
Madhya Pradesh	-	-	-	-	10.9	0.4
Bihar	-	-	-	-	39.2	1.3
Uttar Pradesh	-	-	-	-	703.0	23.2
<b>Total</b>	<b>1,133.8</b>	<b>100.0</b>	<b>1,379.2</b>	<b>100.0</b>	<b>3,029.4</b>	<b>100.0</b>

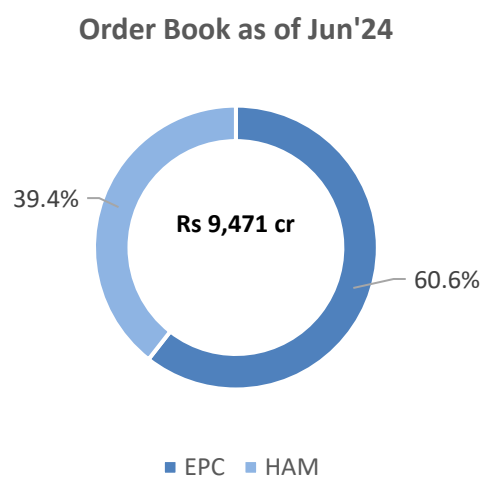
Source: RHP, SSL Research

### Order Book diversified across States



Source: RHP, SSL Research

### Balanced Mix of EPC and HAM projects

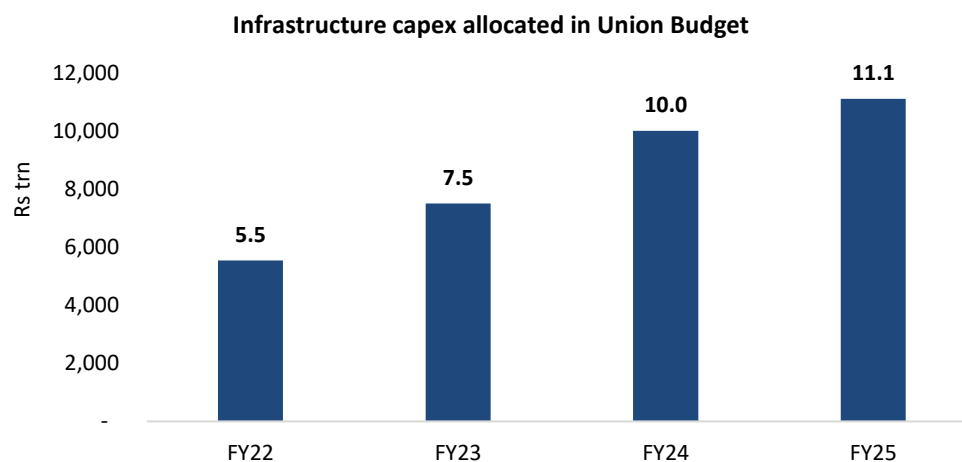


Source: RHP, SSL Research

## Industry Overview

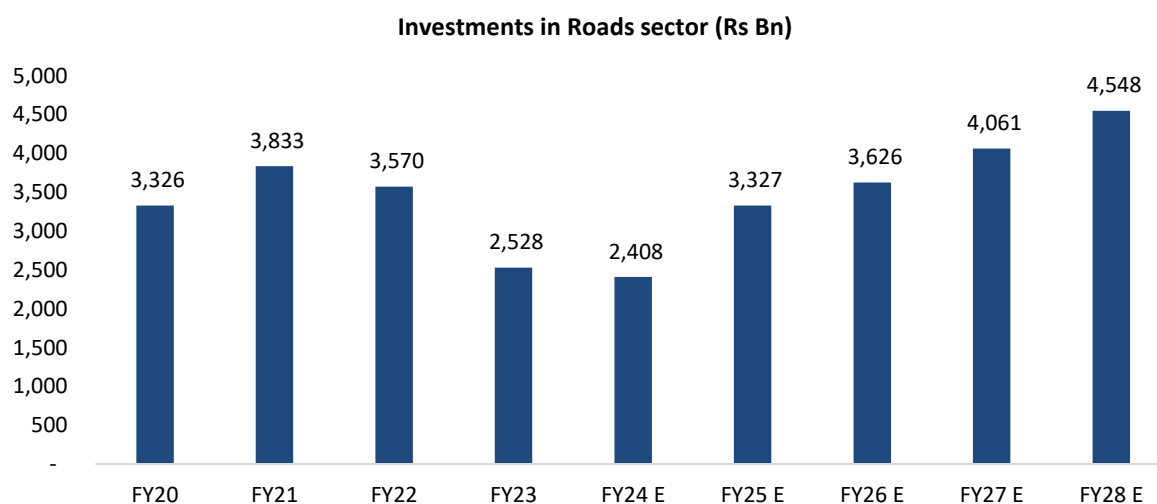
### Indian Infrastructure Industry

The Indian Infrastructure industry plays a pivotal role in fueling the country's economic growth. The Government of India has earmarked an impressive capital expenditure of over Rs 11 lakh crore towards Infrastructure development in the 2024-25 Union Budget, which is equivalent to ~3.4% of the GDP. Major infrastructural development plans such as Gati Shakti Plan aimed at developing critical transport infrastructure projects, National Infrastructure Policy, Urbanization schemes, Sagarmala project for enhancing efficiency in cargo and passenger movement, are expected to drive the country's growth and also trigger expansions in both the EPC and HAM (Hybrid Annuity Model) segments of the industry.



Source: RHP, SSL Research

Investments in **Road infrastructure** are expected to grow by a CAGR of around 17.2% over the forecast period FY24-FY28. The length of projects awarded by the National Highways Authority of India (NHAI) has increased over time to 6,306 km in FY22 from just 2,222 km in FY19. However, in FY23 it reached at around 6000 km and is expected to slow down and reach approx. 5000 km per year upto FY27 on the back of volatile input material prices. Tunnel construction in the country is expected to maintain strong growth after it picked up pace in the last decade after consistent push from the government with regards to high capital expenditure towards infrastructural developments.



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>1,134</b>	<b>2,068</b>	<b>3,029</b>
<b>YoY growth (%)</b>	-	<b>82.4%</b>	<b>46.5%</b>
Cost Of Revenues (incl Stock Adj)	871	1,674	2,351
<b>Gross Profit</b>	<b>262</b>	<b>394</b>	<b>678</b>
<b>Gross margin (%)</b>	<b>23.2%</b>	<b>19.0%</b>	<b>22.4%</b>
Employee Cost	25	30	62
Other Operating Expenses	51	68	99
<b>EBITDA</b>	<b>186</b>	<b>296</b>	<b>518</b>
<b>EBITDA margin (%)</b>	<b>16.4%</b>	<b>14.3%</b>	<b>17.1%</b>
Other Income	13	19	37
Net Interest Exp.	11	52	94
Depreciation	19	38	55
<b>PBT</b>	<b>169</b>	<b>225</b>	<b>405</b>
Exceptional item/Extraordinary item	-	-	-
Tax	44	58	101
<b>Adj PAT</b>	<b>126</b>	<b>167</b>	<b>304</b>
<b>Adj. PAT margin (%)</b>	<b>11.1%</b>	<b>8.1%</b>	<b>10.0%</b>
<b>Adj. EPS</b>	<b>8.0</b>	<b>10.6</b>	<b>19.4</b>

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	126	246	296
Capital WIP	4	2	2
Intangible Assets	-	-	-
Intangible Assets under development	-	-	-
Right of use assets	-	3	5
Other Non-current Assets	162	312	719
<b>Current Assets</b>			
Current Investment	71	22	-
Inventories	39	107	118
Trade receivables	96	316	430
Cash and Bank Balances	192	361	368
Short-term loans and advances	-	-	-
Other Current Assets	270	459	654
<b>Total Current Assets</b>	<b>667</b>	<b>1,265</b>	<b>1,570</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	57	359	344
Other current liabilities	151	169	271
Short-term provisions	2	2	1
<b>Total Current Liabilities</b>	<b>210</b>	<b>529</b>	<b>616</b>
<b>Net Current Assets</b>	<b>457</b>	<b>736</b>	<b>954</b>
<b>Total Assets</b>	<b>749</b>	<b>1,298</b>	<b>1,976</b>
<b>Liabilities</b>			
Share Capital	39	39	79
Reserves and Surplus	392	554	809
<b>Total Shareholders' Funds</b>	<b>431</b>	<b>593</b>	<b>888</b>
Minority Interest	-	-	19
<b>Total Debt</b>	<b>316</b>	<b>700</b>	<b>1,061</b>
Long Term Provisions	2	2	4
Lease Liabilities	-	3	5
Other Long-Term Liabilities	-	-	-
Net Deferred Tax Liability	-	-	-
<b>Total Liabilities</b>	<b>749</b>	<b>1,298</b>	<b>1,976</b>

CASHFLOW (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	(135)	(73)	(211)
Cash flow from Investing Activities	(164)	(134)	(38)
Cash flow from Financing Activities	310	326	275
Free Cash Flow	(135)	(73)	(211)

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets	13.1%	9.2%	11.7%
Return on Capital Employed	24.1%	21.4%	25.6%
Return on Equity	29.2%	28.2%	34.3%
<b>Margin Analysis</b>			
Gross Margin	23.2%	19.0%	22.4%
EBITDA Margin	16.4%	14.3%	17.1%
Net Income Margin	11.1%	8.1%	10.0%
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.9	1.5	1.5
Quick Ratio (x)	1.8	1.3	1.4
Avg. Days Sales Outstanding	31	56	52
Avg. Days Inventory Outstanding	12	19	14
Avg. Days Payables	18	63	41
Fixed asset turnover (x)	9.0	8.4	10.2
Debt-service coverage (x)	0.6	0.4	0.4
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.7	1.2	1.2
Interest Coverage Ratio (x)	17.1	5.4	5.3
<b>Valuation Ratios</b>			
EV/EBITDA (x)	34.6	22.5	13.5
P/E (x)	50.1	37.7	20.7
P/B (x)	14.6	10.6	7.1
EV/Sales (x)	5.7	3.2	2.3

Source: RHP, SSL Research

## Peer Comparison – FY24

Particulars (Rs cr)	Ceigall India Ltd	KNR Constructions Ltd	J Kumar Infraprojects Ltd	ITD Cementation India Ltd	PNC Infratech Ltd	G R Infraprojects Ltd	H.G. Infra Engineering Ltd
CMP	401	402.7	870.7	520	507	1780.2	1640
Sales	3,029.4	4,429.5	4,879.2	7,717.9	8,649.9	8,980.2	5,378.5
EBITDA	517.7	1,047.8	704.1	745.1	2,004.5	2,122.3	1,061.8
Net Profit	304.3	733.8	330.8	274.2	909.4	1,323.0	538.6
Mkt Cap.	6,985.4	11,397.4	6,548.1	8,840.8	12,940.8	17,396.3	10,575.4
Enterprise Value	6,994.2	12,244.4	6,620.1	8,806.8	19,577.8	20,459.3	11,872.4
EBITDA Margin (%)	17.1	23.7	14.4	9.7	23.2	23.6	19.7
Net Margin (%)	10.0	16.6	6.8	3.6	10.5	14.7	10.0
PE (x)	23.0	15.5	19.8	32.2	14.2	13.1	19.6
EV/EBITDA (x)	13.5	11.7	9.4	11.8	9.8	9.6	11.2
RoE (%)	34.3	21.0	12.5	18.3	17.5	17.4	21.9
RoCE (%)	25.6	17.9	15.4	28.9	11.8	24.9	20.6

For Ceigall India, the Market Cap, PE (x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP of peer companies is as on 31<sup>st</sup> July, 2024.

Source: RHP, SSL Research

**SBICAP Securities Limited**

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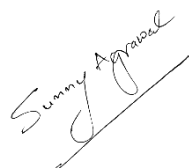
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