

## Company Overview

Incorporated in the year 2008, SRM Contractors Ltd is an engineering construction and development company engaged primarily in the construction of roads (including bridges), tunnels, slope stabilization works, and other miscellaneous civil construction activities in the Union Territories of Jammu & Kashmir and Ladakh. Undertaking construction works both as an EPC contractor and on an item-rate basis, the company has a track record of successful execution of road, tunnel, and slope stabilization projects in the difficult terrain of union territories of Jammu & Kashmir and Ladakh. Having developed the expertise and know-how to undertake infrastructure construction projects in difficult terrains, the company has emerged as a key player in the infrastructure construction industry in the Union Territories of Jammu & Kashmir and Ladakh and has developed technical capabilities to execute projects in hilly/ challenging terrain in the region. The company is an ISO 9001:2015 certified company and is also registered as a class A contractor with the Public Work (R&B) Department, Jammu & Kashmir, and is pre-qualified to bid independently on projects, tendered by departments of governmental authorities and other entities funded by the government, of contract value up to Rs. 30,000 lakhs and Rs. 50,000 lakhs for EPC contracts pertaining to construction of roads (including bridges) and for construction of tunnel respectively. The company has further forayed into executing other infrastructure projects such as standalone bridges, larger slope stabilization works, and other miscellaneous civil construction activities to capitalize on such rising opportunities. The company undertakes projects independently or wherever required through project-specific joint ventures with other entities when a project requires the company to meet specific requirements with certain large projects.

## Objects of the issue

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

- ⇒ Funding capital expenditure requirements for the purchase of equipment/machineries;
- ⇒ Full or part repayment and/or prepayment of certain outstanding secured borrowings availed by the company;
- ⇒ Funding working capital requirements of the company;
- ⇒ Investment in Project Specific Joint Venture Projects; and
- ⇒ General corporate purposes

## Investment Rationale

### Proven Track Record in Road, Tunnel, and Slope Stabilization Projects in Jammu and Kashmir Territory

SRM Contractors is an engineering construction and development company engaged in the construction of roads (including bridges), tunnels, slope stabilization works, and other civil construction activities in the difficult terrain of the Union Territories of Jammu & Kashmir and Ladakh. The company's primary focus on roads, tunnel projects, and slope stabilization works has helped it gain technical expertise in undertaking such projects of different sizes involving varying degrees of complexity while simultaneously helping it to also develop quality control systems, acquire a fleet of modern construction equipment and employ manpower to supplement the growth of our construction business. The construction of infrastructure projects in hilly areas is difficult as compared to the construction activity in plains as the construction activity in hill areas poses varied degrees of complexities such as difficult terrain, sharp bends and curves, steep gradients and limited width of roadway, extreme weather and other environmental & safety constraints. The contractor's expertise in operating in difficult terrain and successfully executing projects with varied degrees of complexities with timely execution capacities, financial strength, and the price competitiveness of the company's bid provides it a competitive edge and enables it to secure contracts from departments of governmental authorities and other entities funded by the government.

### In-House Integrated Model Drives Company Growth in Project Execution

The company's in-house integration has been instrumental in its growth over the years as it has been instrumental in reducing its dependency on third parties for designing and engineering, procurement of key materials such as stone aggregates, and availability of machinery required to execute its projects, such as boomers, shotcrete machines, batching plants, excavators, hot mix plants, compactors, among others, cost-effectively. The company believes that its in-house integrated model ensures that products and services required for the development and construction of a project meet quality standards and are delivered promptly, thereby reducing contractual risks associated with third-party

## Issue Details

Offer Period	26 <sup>th</sup> March 2024 - 28 <sup>th</sup> March 2024
Price Band	Rs. 200 to Rs. 210
Bid Lot	70
Listing	BSE & NSE
Issue Size (no. of shares in mn)	6.2
Issue Size (Rs. in bn)	1.30
Face Value (Rs.)	10

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Interactive Financial Services Ltd.
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Registrar	Bigshare Services Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	99.92	72.97
Public	0.08	27.03
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

## SRM Contractors Ltd.

suppliers. This has significantly contributed to the company's ability to complete projects on time, without compromising on quality.

### Valuation

In recent years Infrastructure development has remained a recurring theme in India's economic development. The launch of various flagship government policies like the National Infrastructure Pipeline (NIP), and PM Gati Shakti are expected to improve freight movement, debottleneck the logistics sector, and improve the industrial production landscape, which would provide incremental growth in GDP. Factors like rapid urbanization, increased freight movement, and demand for improved infrastructure have been pushing tunnel development and construction across the country. This is driving a demand for new tunnels to connect different parts of the country and improve transportation efficiency due to this the tunnel construction is expected to continue for a few more years. With more focus on Indian Infrastructure, the tunneling sector is expected to propel with a strong pipeline network of 1,300 tunnels, spanning around the country with a length of more than 3,600 km. When compared state-wise in terms of upcoming tunnels, Jammu & Kashmir is the pioneer offering the largest pipeline network of around 200 tunnels. Union Territory of Ladakh being a border area is of significant importance for national security as well as a popular tourist location thus underscoring the key role of developing a robust road infrastructure. Bridging such infrastructure demand gap and capitalizing on such market opportunity, SRM Contractors Limited has emerged as a key player in the infrastructure construction industry in the UT of J&K and Ladakh. Executing several road, tunnel, and slope stabilization projects over 15 years, SRM Contractors Limited has the experience and has developed technical capabilities to execute projects in hilly/challenging terrain in the region, thereby being one of the reliable partners in nation-building. **Considering the financial performance, the company's Revenue/EBITDA/PAT grew at a CAGR of 37%/52.6%/50.5% during FY2021-23. On the upper price band, the issue is valued at a P/E of 23.1x based on FY2023 earnings which we feel is fairly valued. We, therefore, recommend a "Subscribe" rating for the issue.**

### Key Risks

- ⇒ The company's business is concentrated in the Union Territory of Jammu & Kashmir and Ladakh and it is exposed to risks emanating from economic, regulatory, and other changes in the Union Territory of Jammu & Kashmir and Ladakh. infrastructure or related sectors in the Union Territory of Jammu & Kashmir and Ladakh. In the event of any adverse change in budgetary allocations for infrastructure development or a downturn in available work in the infrastructure sector or resulting from any change in government policies or priorities, the business prospects and financial performance of the company may be adversely affected.
- ⇒ The company derives a significant portion of its revenues from a limited number of clients. Therefore, the loss of any significant clients may harm the business, financial condition, results of operations, and prospects of the company.
- ⇒ Infrastructure projects are typically awarded to the company on satisfaction of prescribed pre-qualification criteria and following a competitive bidding process. The company's business and its financial condition may be adversely affected if new infrastructure projects are not awarded to the company or if contracts awarded to the company are prematurely terminated.

**SRM Contractors Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
<b>Revenue</b>				
Revenue from Operations	1,601	2,636	3,003	2,346
<b>Total Revenue</b>	<b>1,601</b>	<b>2,636</b>	<b>3,003</b>	<b>2,346</b>
<b>Expenses</b>				
Cost of material consumed	1,110	1,855	2,176	1,761
Employee benefit expenses	69	87	113	109
Other expenses	257	392	331	180
<b>Total Operating Expenses</b>	<b>1,436</b>	<b>2,335</b>	<b>2,620</b>	<b>2,050</b>
<b>EBITDA</b>	<b>164</b>	<b>301</b>	<b>383</b>	<b>295</b>
Depreciation and Amortization expenses	52	62	78	63
Other income	19	19	4	77
<b>EBIT</b>	<b>132</b>	<b>259</b>	<b>309</b>	<b>310</b>
Finance costs	23	26	58	28
<b>PBT</b>	<b>108</b>	<b>233</b>	<b>251</b>	<b>282</b>
Current tax	26	51	55	61
Deferred Tax charge/ (credit)	0	6	8	10
<b>Total tax</b>	<b>26</b>	<b>57</b>	<b>63</b>	<b>71</b>
<b>PAT</b>	<b>83</b>	<b>176</b>	<b>187</b>	<b>211</b>
<b>Diluted EPS</b>	<b>54.3</b>	<b>115.4</b>	<b>9.1</b>	<b>1.3</b>

Source: RHP, BP Equities Research

**Cash Flow Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	142	97	130	219
Cash flow from investing activities	(133)	(59)	(189)	(72)
Cash flow from financing activities	45	(30)	98	(76)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>55</b>	<b>8</b>	<b>40</b>	<b>70</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>104</b>	<b>158</b>	<b>167</b>	<b>207</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>158</b>	<b>167</b>	<b>207</b>	<b>277</b>

Source: RHP, BP Equities Research



## SRM Contractors Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
<b>Equity and Liabilities</b>				
Equity Share Capital	15	15	167	167
Other Equity	253	429	464	675
Minority Interest	0	0	0	0
<b>Total Equity</b>	<b>268</b>	<b>444</b>	<b>632</b>	<b>842</b>
<b>Non-Current Liabilities</b>				
Financial Liabilities				
(i) Long term Borrowings	196	177	258	237
(ii) Provisions	-	-	-	-
Deferred tax liabilities (net)	2	7	15	25
<b>Current Liabilities</b>				
Financial Liabilities				
(i) Short Term Borrowings	124	139	214	186
(ii) Trade Payable				
Due to micro and small enterprise	-	-	1	33
Due to other than micro and small enterprise	422	272	110	185
Provisions	95	148	80	117
Other current liabilities	18	15	64	62
<b>Total Current Liabilities</b>	<b>659</b>	<b>574</b>	<b>469</b>	<b>584</b>
<b>Total liabilities</b>	<b>856</b>	<b>758</b>	<b>742</b>	<b>846</b>
<b>Total Equity and Liabilities</b>	<b>1,125</b>	<b>1,202</b>	<b>1,374</b>	<b>1,689</b>
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	300	294	395	375
Investment Property	16	15	18	53
<b>Total Non current assets</b>	<b>316</b>	<b>308</b>	<b>413</b>	<b>429</b>
<b>Current Assets</b>				
Inventories	47	84	104	325
<b>Financial Assets</b>				
Investments	43	23	68	120
(i) Trade Receivables	225	162	154	104
(ii) Cash and cash equivalents	158	167	207	277
(iii) Loans and Advances	11	11	44	25
(iv) Other financial assets	323	447	383	407
Other current assets	0	0	2	2
<b>Total Current Assets</b>	<b>808</b>	<b>894</b>	<b>961</b>	<b>1,260</b>
<b>Total Assets</b>	<b>1,125</b>	<b>1,202</b>	<b>1,374</b>	<b>1,689</b>

Source: RHP, BP Equities Research

**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](http://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