



IPO Report

08th Oct '24

Snapshot

Company, is a growing civil construction company . It provide end-to-end civil construction for residential, commercial, residential cum commercial, infrastructure and industrial projects and additional services for infrastructure and also hospitality projects, Wherein, civil construction includes construction of residential, hospitality, industrial, infrastructural and commercial buildings, construction of concrete building structures and composite steel structures which are required for the civil construction.

VALUATION

Company is bringing the issue at price band of Rs 92-95 per share at p/e multiple of 20x on post issue annualized 1 month FY25 PAT basis.

Company's primary focus is civil construction of residential and commercial buildings. Company have established a track record of successfully executing a diverse mix of construction projects i.e., residential, hospitality and commercial projects. Company's goal is to use project management and execution capabilities to accomplish its projects on schedule while keeping high construction quality. Company shows visible growth through increasing order book.

Price Band (Rs./Share)	92-95
Opening date of the issue	08th Oct '2024
Closing Date of the issue	10th Oct '2024
No of shares pre issue	28,021,259 Eq Shares
Issue Size	2,78,00,000 Eq Shares
Fresh issue	1,83,00,000 Equity Shares
Offer For Sale	95,00,0000 Equity Shares
Face Value (Rs/ share)	Rs 5/share
Bid Lot	157

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 1,39,00,000 Eq Shares)
Non-Institutional	15% of the offer (Approx 41,70,000 Eq Shares)
Retail	35% of the offer (Approx 97,30,000 Eq Shares)
Lead managers	Corpwis Advisors Pvt. Ltd
Registrar to the issue	Link Intime India Pvt. Ltd

WHAT WE LIKE

Strong financial performance and healthy balance sheet

After being impacted significantly in FY21, company has witnessed recovery over FY22 and FY23. With significant increase in earnings and simultaneously repayment of debt, Garuda Construction and Engineering's interest coverage ratio has increased exponentially to 146x in FY23 from 13.0x in FY22. The average interest coverage ratio of the peers has been at 28.4x in FY 23. The average debt to equity ratio of construction peers was 0.32x, 0.66x, 0.42x, 0.31x and 0.23x respectively during FY19-FY23. Garuda Construction and Engineering's debt equity ratio came down gradually, as it became virtually debt-free.

Visible growth through increasing order book

In the construction industry, an order book is considered as 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 Company to evaluate and improve on the quality of projects undertaken by company. The contract value of company's ongoing and upcoming projects amounted to a total of ₹ 1,40,827.44 lakhs. With projects spread across the MMR, Arunachal Pradesh, Karnataka, Rajasthan and Punjab, the increasing number of construction work and projects help company maintain the momentum of its growth and enhanced reputation

Strong project management capacity and execution capabilities

Over the years, company have procured a fleet of construction equipment to ensure high quality and timely execution of its projects. However, keeping in mind company's objective of being an asset light company, for most of its construction equipment, the deployment of construction equipment is done vide third party vendors, which keeps its asset model light for project execution, thereby allowing company to maintain cost control and minimize disruptions due to non-availability or machinery breakdown. Company places great emphasis on executing each project in strict compliance with the work description outlined in the contracts, while adhering to its high standards of construction quality. Company achieve this by utilizing the expertise of its in-house engineering and design team, which possesses extensive knowledge and experience in various aspects of construction, including civil construction, electrical and mechanical work



COMPANY BACKGROUND

Company's end-to-end civil construction starts with detailed route survey, designing, detailed engineering, mobilization of resources, micro scheduling of construction activities, obtaining construction permissions and conducting soil/water testing, hiring of contractor / manpower, procurement of material, lab testing, carrying out construction activities as per approved plan and finally handing over the project as per the agreed terms. Further, company is also involved in sector pertaining to civil construction cum services. The construction of concrete building structures and composite steel structures are procured by company from underlying sub-contractors as per specified designs which may be mandated by overlying developers or by company's own engineering teams.

Further, company also provide services such as operations and maintenance services ("O&M") and Mechanical, Electrical and Plumbing ("MEP") services and finishing works as a part of company's construction services. Hence, all-in-all company offer complete construction services under its banner.

Historically company have been majorly been an in-house construction company for its Promoter Group and group related entities, where in company's group entities and corporate Promoters bid for third party civil contracts as developers (private sector as well as where Government entities have a requirement where the bidding is as per publicly available tender documents and the Governments tendering process in certain cases) and sub-contract the construction work to company as a contractual service. Going forward, company is directly venturing into contracts with unrelated third parties and company is taking on a role of a professionally managed construction company. With years of experience as a construction company and company's promoter entities & group entities being the developer, company's management has also got an exposure of the roles and responsibilities as a developer. In order to gain the advantage from company's management experience, company is looking towards to enter into the larger role of a developer.

Company was incorporated as "Garuda Construction and Engineering Private Limited" on September 21, 2010, as a private limited company, in accordance with the provisions of the erstwhile Companies Act, 1956, pursuant to a Certificate of Incorporation dated September 21, 2010. Company's aim is to increase its execution capabilities in terms of the size and number of civil construction projects across various sectors, namely, residential, residential cum commercial, infrastructure, commercial and industrial. Company also aim to procure larger contracts with other developers outside company's group entities and expand its client base. Along with company's growing civil construction base, company intend to take on larger roles in the capacity of developers and company intend to commence such development mandates in due course. Company started the civil construction work in hospitality sector with Golden Chariot Vasai Hotel & Spa in the year 2010. Company began its journey as an in-house construction company. However, with increased exposure and work experience in the construction sector company is desirous of expanding its business. For instance, in 2014, company completed construction of the Golden Chariot Vasai Hotel & Spa; in 2015, company renewed and refurbished Golden Chariot, the Boutique Hotel, these were construction contracts with its promoter namely PK Hospitality Services Private Limited, now known as PKH Ventures Limited. In the year 2017, company commenced the civil construction of residential buildings in the Mumbai Metropolitan Region ("MMR") named the Rivali park, Kandivali, dated June 30, 2017. In 2021, company concluded civil construction of the Delhi Police Headquarters, for the concessionaire M/s. Eternal Building Assets Private Limited, (a group company), which is also one of its marquee projects, which involved construction of twin towers of seventeen (17) storeys each, with a complete glass façade and steel bridge connecting the two towers, admeasuring total construction area of 89,140.53 Sq. Mtrs. Company is currently engaged in civil construction of six (6) residential projects, two (2) commercial projects, one (1) industrial project and one (1) infrastructure. As on the date of filling Red Herring Prospectus, company's order book aggregates to ₹ 1,40,827.44 lakhs.

Company, along with its promoter company M/s. PKH Ventures Limited and group company M/s. Artemis Electricals and Projects Limited, on January 20, 2024 had bid towards the tender for the construction of Rapti Nagar Ext. Township & Sports-city, Gorakhpur on Land/FSI monetisation model floated by the Gorakhpur Development Authority, Gorakhpur, Uttar Pradesh. On February 08, 2024, company has received a Letter of Intent from the Gorakhpur Development Authority, Gorakhpur, Uttar Pradesh as a successful bidder.



INVESTMENT RATIONALE

<p><i>Exclusive and focused business approach</i></p>	<p>The primary focus of Company is civil construction of residential and commercial buildings and now company is venturing into industrial, infrastructural projects as well. This focused business approach has enabled company to build a team of people with the right knowledge of relevant domain, skill and experience. Company have sought to establish systems and processes that are aligned with specific requirements of company's business operations, which has led to development of its core competence and technical expertise in the industry. Company's capabilities in the civil construction business augments its positioning in the industry as a Company focused on providing a full spectrum of construction services. Company usually concentrate specifically on undertaking construction of buildings, without engaging in any other activities such as land development or infrastructure development.</p>
<p><i>Established and proven track record</i></p>	<p>Company have established a track record of successfully executing a diverse mix of construction projects i.e., residential, hospitality and commercial projects. For instance, company 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. In the year 2017, company started undertaking civil construction works contracts of residential buildings in the MMR and have successfully executed 2 such projects. From 2010 to 2017 company's projects comprised mainly of civil construction and work in additional services sector in the geographical areas of MMR, Karnataka and Tamil Nadu.</p>
<p><i>Experienced Promoter, Directors & Management Team</i></p>	<p>Pravin Kumar Agarwal, the Promoter, Managing Director and Chairman of Company, has over two (2) decades of experience in various businesses, such as construction, hospitality and management services. He is currently responsible for the overall management of the affairs of company including devising investment strategies, developing industry networks for overall development of the business of company. Deepak Kumar, its Non – Executive Director is a seasoned professional, and has over two decades of experience in administration and liaisoning. He is the key person who in-charge of the overall maintenance work of the New Delhi Police Headquarter Building, constructed by company, situated at Jai Singh Road, New Delhi. He has developed and maintained positive relationships with both Government and private agencies and supports in securing necessary permissions for smooth MRO operations, managed administrative and liaisoning responsibilities across.</p>
<p><i>Strong project management capacity and execution capabilities</i></p>	<p>Company's goal is to use its project management and execution capabilities to accomplish its projects on schedule while keeping high construction quality. Over the years, company have procured a fleet of construction equipment to ensure high quality and timely execution of its projects. However, keeping in mind its objective of being an asset light company, for most of its construction equipment, the deployment of construction equipment is done vide third party vendors, which keeps company's asset model light for project execution, thereby allowing it to maintain cost control and minimize disruptions due to non-availability or machinery breakdown.</p>



OBJECTS OF OFFER

Company proposes to utilize the funds which are being raised towards funding the following objects and achieve the benefits of listing on the BSE Limited and National Stock Exchange of India:

1. Working Capital Requirements
2. General Corporate Expenses and unidentified inorganic acquisitions

RISKS

Company's total revenue comes from its top 10 clients, mainly company's promoter related entities and group companies. The loss of any of company's significant clients may have an adverse effect on its business, financial condition, results of operations, and prospect.

Source:RHP

INDUSTRY OVERVIEW

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 Indian Construction industry is Infrastructure segment which contributes 59.7% as of FY23. The major chunk of growth is attributable with increase in government spending in building infrastructure. The construction segment witnessed a drop in FY21 due to impact of COVID but has strongly recovered in FY22 and FY23.

Overall the Indian Construction sector has grown at a CAGR of 10.6% from FY18 to FY23 from Rs. 2,375 Billion to Rs. 3,922 Billion. The construction sector is further expected to grow from Rs. 3,922 Billion in FY23 to Rs. 6,494 Billion in FY30 at a CAGR of 7.5%. Historically, infrastructure creation, spread across sectors such as roads and highways, telecom, airports, ports, power, oil and gas and railways has dominated the investments. Increase in Infrastructure demand & government initiative shows the potential for catapulting India to the third largest construction market globally. The sector is expected to contribute 15% to the Indian economy by 2030. Share of key segments that contribute to construction spending .

Construction EPC in India EPC stands for 'Engineering, Procurement and Construction'. EPC entails the contractor build 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 which 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 with that the economy has almost opened up with most of the migrant workers too are 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, real estate will boost construction activities and act as a catalyst for 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.



Consolidated Financials

(Rs in Lakhs)

Financials	FY22	FY23	FY24	1 Month 2024
Total Revenue (A)	7702.08	16068.76	15417.83	1187.50
Total Expenditure (B)	4985.95	10503.23	10438.32	716.69
EBIDTA	2716.13	5565.53	4979.51	470.81
EBIDTA Margin	35.26	34.64	32.30	39.65
Other Income	0.71	33.65	29.04	0.00
Depreciation	31.08	52.14	41.11	2.66
EBIT	2685.76	5547.04	4967.44	468.15
Interest	207.38	38.32	2.47	0.20
PBT	2478.38	5508.72	4964.97	467.95
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	2478.38	5508.72	4964.97	467.95
Exceptional	0.00	0.00	0.00	0.00
PBT	2478.38	5508.72	4964.97	467.95
Tax	600.16	1422.27	1321.45	117.77
PAT	1878.22	4086.45	3643.52	350.18
NPM	24.39	25.43	23.63	29.49
ROE%	44.94	49.38	30.62	2.86
EPS	2.51	5.46	4.87	0.47
Eq Cap	1,245.70	1,245.70	3,737.09	3,737.09
Net Worth	4,179.04	8,261.18	11,900.64	12,250.81

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Garuda Construction & Engineering Ltd</i>	--	4.87	--	36.14	15.92
Peers					
PSP Projects Limited	10.00	34.16	20.00	17.73	254.13
Capacite Infraprojects Limited	10.00	16.09	23.61	9.35	223.44
Vascon Engineers Limited	10.00	3.05	22.66	11.32	44.33
Ahluwalia Contracts (India) Limited	2.00	55.95	22.97	17.14	238.84
B L Kashyap & Sons Limited	1.00	2.33	48.67	13.38	22.02

(Source: RHP)



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