IPO REVIEW

Veer Global Infraconstruction IPO

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- VGIL is a local real estate developer for affordable residential projects.
- Company's top line shows inconsistency.
- This segment is witnessing subdued demand and slowdown due to pandemic.
- Based on P/E parameter, the issue is exorbitantly priced.

About the Company

Veer Global Infraconstruction Ltd. (VGIL) is a real estate developer, primarily focusing on the development of residential projects in Vasai - Virar and Palghar district. It has over 9 years of experience in, developing residential projects in the low-income affordable housing segment. Company is primarily catering for affordable housing where it tries to bring reality to the dreams of people for owning their own place to live. VGIL achieves this by creative pricing and flexible payment terms ranges within the low-income affordable housing market segment. As on the date of filing of Prospectus, it has completed 5 projects.

It focuses on residential projects, which include residential building in townships, redevelopments, etc. mainly in affordable segments. Currently, VGIL has seven ongoing projects.

Issue Details / Capital History

To meet its plans for working capital (Rs. 4.00 cr.) and general corpus fund (Rs. 0.66 cr.) needs, VGIL is coming out with a maiden IPO of 1756000 equity shares of Rs.10 each at a fixed price of Rs. 28 per share to mobilize Rs. 4.92 cr. The issue opens for subscription on September 30, 2020, and will close on October 09, 2020. The market is surprised for such a long duration for the IPO subscription period. Minimum application is to be made for 4000 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE SME platform.

Issue constitutes 27.02% of the post issue paid-up capital of the company. The company will be spending Rs. 0.26 cr. for this IPO process.

The issue is solely lead managed by Capitalsquare Advisors Pvt. Ltd. and Purva Sharegistry India Pvt. Ltd. is the registrar to the issue. Nikunj Stock Brokers Ltd. is acting as a Market Maker for this company. Having raised initial equity at par, the company raised further equity at a fixed price of Rs. 21 per share between March 2016 and January 2020.

The average cost of acquisition of shares by the promoters is Rs. 20.48, Rs. 20.70 and Rs. 21.00 per share. Post issue, VGIL's current paid up equity capital of Rs. 4.74 cr. will stand enhanced to Rs. 6.50

cr. With this IPO, the company is looking for a market cap of Rs. 18.19 cr.

Financial Performance

On the financial performance front, for the last three fiscals, on a consolidated basis, VGIL has posted turnover/net profits of Rs. 2.33 cr. / Rs. 0.04 cr. (FY18), Rs. 10.08 cr. / Rs. 0.12 cr. (FY19) and Rs. 8.63 cr. / Rs. 0.16 cr. (FY20). It has shown inconsistency in the top line.

For the last three fiscals, on a consolidated basis, VGIL has posted an average EPS of Rs. 0.52 and an average RoNW of 1.62%.

The issue is priced at a P/BV of 1.28 on the basis of its NAV of Rs. 21.89 as on March 31, 2020, and at a P/BV of 1.22 on the basis of post-issue NAV of Rs. 23.00.

If we attribute FY20 earnings (on a consolidated basis) on fully diluted post issue equity, then asking price is at a P/E of around 112 making it exorbitantly priced offer.

COMPARISION WITH LISTED PEERS:

As per offer documents, VGIL has shown Suratwwala Business and Kolte Patil as its listed peers. They are currently trading at a P/Es of around 32 and 00 (as on September 25, 2020). However, they are not strictly comparable on an apple to apple basis.

MERCHANT BANKER'S TRACK RECORDS:

On merchant banker's performance front, this is the 3rd mandate from its stable in the last two fiscals (including the ongoing one). Out of last 2 listings, 1 opened at a discount and the rest at a premium of 0.04% on the day of listing.

Conclusion / Investment Strategy

VGIL has posted average performance with the inconsistent top line. Based on P/E parameters, the issue is exorbitantly priced. This segment is currently witnessing subdued demand and slowdown due to COVID-19 pandemic. There is no harm in giving this IPO a "MISS".

About Dilip Davda

Dilip Davda is a veteran financial journalist associated with the Indian stock market since 1978. He has been contributing to print and electronic media on capital markets, insurance, and finance since 1985. He is widely recognized for reviewing public issues and non-convertible debentures (NCDs) in the primary market, with a special emphasis on SME public issues.

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