DEEPAK BUILDERS & ENGINEERS INDIA LIMITED

October 17, 2024

SMC Ranking

★☆☆☆☆ (1/5)

Issue Highlights

Industry	Construction
Offer for sale (Shares)	2,110,000
Fresh Issue (Shares)	10,700,000
Net Offer to the Public	**12,810,000**
Issue Size (Rs. Cr.)	245-260
Price Band (Rs.)	192 - 203
Offer Date	21-Oct-24
Close Date	23-Oct-24
Face Value	10
Lot Size	73 Shares

Issue Composition

	In shares
Total Issue for Sale	12,810,000
QIB	6,405,000
NIB	1,921,500
Retail	4,483,500

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	72.50%
QIB	0.00%	13.75%
NIB	0.00%	4.13%
Retail	0.00%	9.63%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

Repayment/prepayment, in full or part, of certain borrowings availed by the Company;

Funding of working capital requirements of the company and

General corporate purposes.

Book Running Lead Manager

- Fedex Securities Private Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Deepak Builders & Engineers India Limited, established in September 2017, is a construction company with expertise in a wide range of projects, including administrative, institutional, and industrial buildings, hospitals, stadiums, residential complexes, and more. The company has successfully delivered turnkey projects that cover various aspects such as architectural design, structural work, civil engineering, MEP (mechanical, electrical, and plumbing) systems, firefighting, public health services, IT infrastructure, operation theaters, medical gas pipelines, and landscaping. The business operates in three main verticals: Construction Projects, Infrastructure Projects, and Product Sales. The company has completed significant construction and infrastructure projects across four Indian states—Punjab, Haryana, Rajasthan, and Uttarakhand—and two Union Territories—Chandigarh and the National Capital Territory of Delhi. Currently, it is managing twelve projects, which include seven EPC (Engineering, Procurement, and Construction) projects and five item rate/percentage rate contracts. Within its ongoing projects, Deepak Builders is involved in constructing four hospital and medical college facilities, one administrative and institutional building, and one industrial building. Its infrastructure projects include four initiatives to upgrade, develop, and redevelop railway stations, as well as two projects focused on road and bridge development, particularly rail over bridges.

Strength

Solid order book with a government-focused client base: Deepak Builders & Engineers India Limited has built a strong portfolio of clients, primarily comprising government, semi-government, and government-controlled entities. The company's reputation for executing high-quality construction projects is supported by its use of advanced technology, streamlined processes, and a skilled workforce. As of June 30, 2024, the company's order book stands at Rs 1380.40 crore for Fiscal 2024, Rs 1112.70 crore for Fiscal 2023, Rs 1657.80 crore for Fiscal 2022, and Rs 719.63 crore for Fiscal 2021. The company has also executed complex projects, including constructing 3D domes at Jang-E-Azadi, Kartarpur, Punjab; developing the Heritage Walk at Golden Temple Corridor, Amritsar, Punjab; and installing specialized steel fire ramps at AIIMS, Delhi A selective approach to project acquisition has been integral to Deepak Builders' growth. The company's timely execution, financial strength, and competitive pricing provide it with a unique advantage, enabling it to secure contracts from various government departments and public sector entities. This ability to consistently secure contracts brings financial and operational stability, offering clarity on future revenue potential and project demands. This strategic approach also helps optimize working capital, asset utilization, and workforce management, shielding the company from macroeconomic fluctuations such as economic downturns.

Emphasis on equipment ownership: Owning and managing equipment assets is crucial to Deepak Builders & Engineers India Limited's ability to deliver quality infrastructure projects on time. By investing heavily in its fleet, the company gains a competitive edge over peers that rely on outsourced contractors. Standardizing its equipment fleet by class and brand has facilitated operator training and reduced maintenance costs, ensuring quick access to necessary machinery. As of June 30, 2024, the company owned 398 major pieces of equipment, including concrete mixers, boom pumps, and mobile tower cranes, with a gross block value of Rs.74.26 crore. This ownership allows Deepak Builders to undertake complex projects efficiently. The company's strategic investments in plant and machinery, totaling Rs.10.06 crore in Fiscal 2024, Rs.9.36 crore in Fiscal 2023, and

Rs.1.47 crore in Fiscal 2022, reflect its commitment to maintaining robust in-house capabilities.

Robust financial performance: Deepak Builders & Engineers India Limited has shown strong financial growth over recent fiscal years. With revenue from operations reaching Rs.105.11 crore in the three months ending June 30, 2024, the company has demonstrated year-on-year growth of 17.98% in Fiscal 2024 and 19.39% in Fiscal 2023. Total revenue for Fiscal 2024 stood at Rs.511.40 crore, up from Rs.433.46 crore in Fiscal 2023 and Rs.363.10 crore in Fiscal 2022. This steady growth underscores the company's financial resilience and capacity to capitalize on opportunities in the construction and infrastructure sectors.

Strategy

Establishing a stronghold in Northern India and expanding geographically: Deepak Builders & Engineers India Limited, an integrated construction and engineering company, operates extensively across Northern India, particularly in Punjab, Haryana, Rajasthan, Uttarakhand, as well as the Union Territories of Chandigarh and the National Capital Territory of Delhi. With revenue growth from Rs.363.05 crore in Fiscal 2022 to Rs.511.40 crore in Fiscal 2024 at an 18.69% CAGR, and profit after tax increasing at an impressive 84.93% CAGR, the company is poised to become a leading player in Northern India. Deepak Builders plans to further solidify its position in this region by continuing to undertake government projects where it has established a strong reputation for quality and timely execution. Looking ahead, the company aims to expand its footprint by bidding for construction and infrastructure projects outside Northern India. To manage diversification risks, it will initially focus on areas where it has core strengths. This strategic approach is expected to broaden the company's revenue base, hedge against project-specific risks, and provide protection against regional economic fluctuations.

Continuous enhancement of bid and pre-qualification capacities: The growth of Deepak Builders & Engineers India Limited depends on its ability to secure larger and more diverse projects. The company's bid capacity, which includes the total value of contracts it can be awarded, is determined by criteria set by government agencies. Accredited as a Class I – (Super) Contractor by the Central Public Works Department, Deepak Builders is pre-qualified to bid independently for projects valued up to Rs.650 crore. The company is committed to expanding its bid capacity and pre-qualification capabilities, which are crucial for maintaining a competitive edge. To secure larger contracts, it may form project-specific joint ventures to meet required financial or technical qualifications. Over the years, Deepak Builders has continually increased its bid capacity, enhancing its ability to compete for significant projects.

Strengthening project execution capabilities: A key focus for Deepak Builders & Engineers India Limited is optimizing performance and project execution to maximize client satisfaction and profitability. The company has a diverse portfolio, including stadiums, monuments, and medical colleges across Northern India. By leveraging advanced technologies and project management tools, Deepak Builders has improved its PAT margin from 4.87% in Fiscal 2022 to 11.81% in Fiscal 2024, with a net margin of 13.52% as of June 2024. The company aims to further optimize operating and overhead costs to enhance profitability. As it expands, Deepak Builders will continue to invest in employee development, attract engineering graduates, and offer training programs. Implementing an ERP system will improve efficiency and project site control, while a strong focus on safety and quality management will help maintain competitive advantages. The company plans to bid for major projects, such as NHAI roads and airports, through independent efforts or joint ventures with large partners.

Leveraging core competencies through enhanced in-house integration: Deepak Builders & Engineers India Limited attributes its success to robust in-house integration and intends to build on these capabilities. To better support future projects, the company will focus on strengthening its design, engineering, project management, and central procurement functions. This deeper integration will minimize reliance on third parties, reduce risks, and improve cost and time efficiency. By enhancing in-house competencies, Deepak Builders aims to optimize project execution and drive long-term growth.

Risk factor

- Deepak Builders' revenue is majorly concentrated from projects undertaken or awarded by government, semi-government and government-controlled entities. Any adverse changes in the government policies may lead to its contracts being foreclosed, terminated, restructured or renegotiated, which may have a material effect on its business and results of operations.
- Its portfolio of projects is concentrated in certain large-scale projects. Any delay or impediment to such projects may have adverse impact on its financial position.
- Deepak Builders' project portfolio has historically been concentrated in Punjab, India and any changes affecting the policies, laws and regulations or the political and economic environment in the region may adversely impact its business, financial condition and results of operations
- The company has sustained negative cash flows from operating activities in the past and may experience earnings declines or operating losses or negative cash flows from operating activities in the future.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
ITD Cem	8266.79	321.71	18.73	32.13	6.92	86.95	1	601.75	10337.32
Ircon Intl.	11945.18	966.23	10.27	21.75	3.58	62.42	2	223.35	21006.42
Ahluwalia Contr.	4011.04	356.32	32.00	35.10	4.70	238.84	2	1123.20	7524.04
PSP Projects	2615.22	119.80	30.22	21.20	2.19	292.34	10	640.80	2540.25
Deepak Builders & Engineers India Ltd	511.40	60.41	12.97	15.65	2.51	81.00	10	203.00	945.59

***Peer companies financials are TTM based**
****Deepak Builders & Engineers India Limited's financials are of FY 2024**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.203, the stock is priced at pre issue P/E of 12.06x on FY24 EPS of Rs.16.84. Post issue, the stock is priced at a P/E of 15.65x on its EPS of Rs. 12.97. Looking at the P/B ratio at Rs. 203 pre issue, book value of Rs. 44.62 of P/Bvx 4.55x. Post issue, book value of Rs. 81 of P/Bvx 2.51x.

Considering the P/E valuation, on the lower end of the price band of Rs.192, the stock is priced at pre issue P/E of 11.4x on FY24 EPS of Rs.16.84. Post issue, the stock is priced at a P/E of 14.80x on its EPS of Rs. 12.97. Looking at the P/B ratio at Rs. 192 pre issue, book value of Rs. 44.62 of P/Bvx 4.30x. Post issue, book value of Rs. 81 of P/Bvx 2.37x.

Industry Outlook

Infrastructure development has remained recurring theme in India's economic development. As India aims to grow to a USD 5 trillion economy by 2027, Construction sector that include Infrastructure construction will be critical for boosting economic growth as it is the key growth enabler for several other sector. Infrastructure development provides impetus to other sectors like cement, bitumen, iron and steel, chemicals, bricks, paints, tiles, financial services among others. The sector enjoys intense focus from the Government which is well reflection in higher budgetary allocations.

Outlook

Deepak Builders & Engineers India Limited, an engineering and construction company founded in 2017 in Punjab, has been steadily expanding its project portfolio. This growth has led to increased bidding and execution opportunities, resulting in the completion of 16 projects, including the notable Jung e Azadi memorial in Kartarpur, Jalandhar. These projects, with a combined contract value of Rs. 218.36 crore, showcase the company's capabilities in the construction sector. While the company's involvement in domestic construction projects demonstrates its growth potential, it also faces certain risks. Reliance on government contracts exposes it to potential delays in projects due to policy changes. Additionally, the concentration of its operations in Punjab makes it susceptible to regional economic and political fluctuations. It is crucial to carefully consider the risks associated with the company's reliance on government contracts and regional concentration.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	21-October-24
BID/ISSUE CLOSES ON	23-October-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	24-October-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	25-October-24
Credit of Equity Shares to Demat Accounts of Allottees	25-October-24
Commencement of trading of the Equity Shares on the Stock Exchanges	28-October-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	105.11	511.40	433.46
Total expenditure	74.89	399.20	382.57
Operating Profit	**30.22**	**112.20**	**50.89**
OPM%	28.75	21.94	11.74
Other Income	1.23	5.34	2.01
PBDIT	**31.44**	**117.54**	**52.89**
Depreciation	1.62	7.17	5.57
PBIT	**29.83**	**110.37**	**47.32**
Interest	6.59	28.58	18.60
Profit Before Tax	**23.24**	**81.79**	**28.73**
Tax	9.03	21.38	7.33
PAT	**14.21**	**60.41**	**21.40**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	52.86	54.03	50.86
Right of Use Asset	10.34	10.54	0.00
Financial Assets			
Investments	0.15	0.07	0.00
Other Financial Assets	74.97	74.93	66.68
Other non-current assets	41.46	41.65	27.82
Total Non Current Assets	**179.76**	**181.22**	**145.36**
Current assets			
Inventories	240.19	212.87	170.00
Financial Assets			
Trade Receivables	99.54	72.26	97.51
Cash and cash equivalents	1.25	0.09	3.17
Current Tax Assets (Net)	0.00	0.00	0.00
Other current assets	120.36	92.31	33.26
Total current assets	**461.34**	**377.53**	**303.94**
Total Assets	**641.10**	**558.75**	**449.30**
Non-current liabilities			
Financial liabilities			
Borrowings	71.83	80.42	33.18
Lease Liabilities	3.43	3.46	0.00
Other financial Liabilities	0.77	0.73	1.55
Provisions	0.87	0.87	0.66
Other Non-Current Liabilities	118.82	82.62	103.13
Deferred Tax Liabilities (Net)	1.71	1.80	2.35
Total non-current liabilities	**197.42**	**169.92**	**140.87**
Current liabilities			
Financial liabilities			
Borrowings	81.34	72.62	63.39
Lease Liabilities	0.12	0.12	0.00
Total outstanding dues of micro enterprises and small enterprises	41.11	41.63	75.26
Total outstanding dues of creditors other than micro enterprises and small enterprises	95.94	74.03	41.98
Other Financial Liabilities	15.33	14.25	8.10
Other Current Liabilities	0.26	0.26	0.22
Provisions	18.78	16.91	18.57
Current Tax Liabilities (Net)	16.68	8.92	0.36
Total current liabilities	**269.57**	**228.73**	**207.89**
Total	**467.00**	**398.65**	**348.76**
Net worth represented by:			
Equity Share Capital	35.88	35.88	35.88
Other Equity	138.23	124.22	64.66
Net Worth	**174.11**	**160.10**	**100.54**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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