GARUDA CONSTRUCTION AND ENGINEERING LIMITED

October 07, 2024

SMC Ranking

★ ☆ ☆ ☆ ☆ (1/5)

Issue Highlights

Industry	Construction
Offer for sale (Shares)	9,500,000
Fresh Issue (Shares)	18,300,000
Net Offer to the Public	**27,800,000**
Issue Size (Rs. Cr.)	255-264
Price Band (Rs.)	92-95
Offer Date	8-Oct-24
Close Date	10-Oct-24
Face Value	5
Lot Size	157

Issue Composition

	In shares
Total Issue for Sale	27,800,000
QIB	13,900,000
NIB	4,170,000
Retail	9,730,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	96.81%	67.56%
QIB	0.00%	14.94%
NIB	3.19%	7.04%
Retail	0.00%	10.46%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the funds being raised to fund the following objectives:

Working Capital Requirements

General Corporate Expenses and Unidentified Inorganic Acquisitions

Book Running Lead Manager

- Corpwis Advisors Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Garuda Construction and Engineering Limited, founded in 2010, is a construction company. The company provides comprehensive construction services for residential, commercial, residential/commercial, infrastructure, and industrial projects, as well as additional services for infrastructure and hospitality projects. The company also provides services such as operation and maintenance (O&M) and mechanical, electrical and plumbing (MEP) services as well as finishing works as part of construction services.

Strength

Exclusive and focused business approach: The company specializes in residential and commercial building construction, and is expanding into industrial and infrastructure projects. Its expertise in civil construction strengthens our position as a comprehensive construction services provider. While it primarily focuses on building construction, it does not engage in land development or infrastructure development. This concentrated focus has allowed it to build a substantial order book, leading to specialization in building construction. This specialization has contributed to increased operating revenues and profits.

Established and proven track record: The company has a proven track record in construction projects, including Golden Chariot Vasai Hotel & Spa and Golden Chariot Boutique Hotel in 2015. Since 2017, it has completed two residential projects in MMR. From 2010 to 2017, the company focused on civil engineering projects in MMR, Karnataka, and Tamil Nadu. Additionally, it completed the construction of the Delhi Police Headquarters for M/s. Eternal Building Assets Private Limited, a group company, on an EPC turnkey basis in April 2021. This track record has positioned the company to develop, own, and operate its own construction projects.

Strong project management and execution capabilities: The company aims to deliver projects on schedule while maintaining high construction quality through effective project management and execution. To ensure compliance with quality standards and contractual obligations, quality system managers are responsible for conducting regular inspections and tests at each project site.

Visible growth through increasing order book: The company's ongoing and pending projects had a total order value of Rs. 1408.27 crore as of September 28, 2024. With projects located in MMR, Arunachal Pradesh, Karnataka, Rajasthan, and Punjab, the growing number of construction projects has contributed to the company's sustained growth and reputation.

Strategy

Thrust into the Construction and Development segment: The company is expanding its presence in the civil construction sector by venturing into development aspects. Its expertise in construction can be leveraged for development projects. The company's reputation will aid in the development and marketing of residential and commercial projects. The promoters are already involved in development projects and are contracting construction activities. The company has worked on various projects with its promoters, gaining exposure to the roles and responsibilities of a developer. This experience has motivated the company to grow as a developer. The current order book includes two

projects for construction and development, one residential and one commercial, where the company is involved as a developer or joint developer.

Increase its focus on and execute greater number of projects on a lock-and-key basis: The company intends to increase its focus on and execute more lock-and-key projects. These projects involve all stages of construction, from foundation to interiors. The company seeks more such projects, including bids and projects from existing clients. While services currently form a negligible component of construction revenue, the company views this as a growth area with higher profit margins. It aims to provide more comprehensive civil construction projects with lock-and-key, MEP, and O&M services.

Continue focusing on timely completion: The company intends to continue focusing on performance and project execution to maximize client satisfaction and profit margins. It will integrate best practices from different sectors and geographic regions. The company uses designs, engineering, and project management tools to increase productivity and maximize asset utilization in construction activities. It aims to continue offering high-quality engineering solutions to clients to improve its ability to execute projects with quality and efficiency.

Continue to maintain an asset light model for its business operations: The company maintains an asset-light model for its civil construction business, relying mostly on third-party subcontractors for equipment, material, and labor. Given the diverse locations of its projects, mobilizing heavy equipment and machinery from one place to another is difficult and unviable. Additionally, acquiring construction equipment and machinery requires a large amount of capital, which can be more effectively deployed elsewhere. While the company has purchased some project-specific machinery, it primarily procures machinery from third-party vendors on a rental basis. This approach helps reduce fixed costs, make construction project execution cost-efficient, and increase margins. The company intends to continue this asset-light model.

Expand its geographical footprint: The company intends to expand its geographical footprint and grow its business throughout India. Initially, its projects were concentrated in the MMR region. Through a diversified portfolio, the company has broadened its clientele base and hedged against risks in specific areas or projects. Its construction activities now span across regions such as New Delhi, Rajasthan, Karnataka, Tamil Nadu, Amritsar, and Arunachal Pradesh. The geographical diversification of its projects will reduce its reliance on any particular state and allow it to capitalize on opportunities in different states across the country. As the company's existing clientele continues to expand geographically, its relationships will provide it with opportunities to undertake projects for such clientele across the country.

Expand its Construction activities across sectors: The company intends to become a multidisciplinary construction company offering a diversified range of construction and allied services across various industries by constructing institutional, government, industrial, and residential projects in India. The company has experience in completing projects in the hospitality and government sectors. It intends to capitalize on this experience and expand its footprint in other sectors and industries in the future.

Risk factor

- Total revenue comes from its top 10 clients, mainly its promoter related entities and group companies. The loss of any of its significant clients may have an adverse effect on its business, financial condition, results of operations, and prospect.
- As a construction company, its limited experience in dealing with unrelated third-party entities presents challenges for its growth.
- The construction industry is cyclical and sensitive to changes in the economy and this could have a significant impact on its operations and financial results.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Ahluwalia Contr.	4011.04	356.32	32.00	34.78	4.66	238.84	2	1113.00	7455.72
B.L.Kashyap	1342.11	62.81	2.59	35.47	4.17	22.02	1	91.88	2071.34
Vascon Engineers	1108.24	65.64	2.93	21.05	1.41	43.66	10	61.69	1380.85
PSP Projects	2615.22	119.80	30.22	21.36	2.21	292.34	10	645.65	2559.47
Capacit'e Infra.	2070.93	154.54	18.27	20.82	2.12	179.30	10	380.40	3218.34
Garuda Construction & Engineering Limited	154.18	36.44	3.92	24.26	3.45	27.56	5	95.00	883.90

***Peer companies financials are TTM based**
****Garuda Construction & Engineering Limited's financials are of FY 2024**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.95, the stock is priced at pre issue P/E of 19.49x on FY24 EPS of Rs.4.87. Post issue, the stock is priced at a P/E of 24.26x on its EPS of Rs. 3.92. Looking at the P/B ratio at Rs. 95 pre issue, book value of Rs. 11.05 of P/Bvx 8.59x. Post issue, book value of Rs. 27.56 of P/Bvx 3.45x.

Considering the P/E valuation, on the lower end of the price band of Rs.92, the stock is priced at pre issue P/E of 18.87x on FY24 EPS of Rs.4.87. Post issue, the stock is priced at a P/E of 23.49x on its EPS of Rs. 3.92. Looking at the P/B ratio at Rs. 92 pre issue, book value of Rs. 11.05 of P/Bvx 8.32x. Post issue, book value of Rs. 27.56 of P/Bvx 3.34x.

Industry Outlook

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. Increase in infrastructure demand & government initiative shows the potential for catapulting India to the third largest construction market globally. Overall the Indian Construction sector has grown at a CAGR of 10.6% from FY18 to FY23 from Rs. 237500 crore to Rs. 392200 Crore. The construction sector is further expected to grow from Rs. 392200 Crore in FY23 to Rs. 649400 Crore 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.

Outlook

The company operates in the construction sector, specializing in civil, commercial, and infrastructure projects. Despite its expertise, limited interactions with external parties pose challenges for its growth. The cyclical nature of the construction industry, coupled with economic fluctuations, can significantly impact its operations and financial performance.

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

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	08-October-24
BID/ISSUE CLOSES ON	10-October-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	11-October-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	14-October-24
Credit of Equity Shares to Demat Accounts of Allottees	14-October-24
Commencement of trading of the Equity Shares on the Stock Exchanges	15-October-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	154.18	160.69	77.02
Total expenditure	104.38	105.03	49.86
Operating Profit	**49.80**	**55.66**	**27.16**
OPM%	32.30	34.64	35.26
Other Income	0.29	0.34	0.01
PBDIT	**50.09**	**55.99**	**27.17**
Depreciation	0.41	0.52	0.31
PBIT	**49.67**	**55.47**	**26.86**
Interest	0.02	0.38	2.07
Profit BeforeTax	**49.65**	**55.09**	**24.78**
Tax	13.21	14.29	6.00
PAT	**36.44**	**40.80**	**18.78**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	1.65	1.93	2.15
Capital work-in-progress	2.21	2.21	2.21
Financial Assets			
Other financial assets	7.92	10.31	9.77
Deferred Tax assets (net)	0.41	0.44	0.48
Other non-current assets	14.93	14.93	14.93
Total Non Current Assets	**27.11**	**29.82**	**29.54**
Current assets			
Inventories	7.38	6.60	2.70
Financial Assets			
Trade Receivables	176.24	76.98	30.17
Cash and cash equivalents	0.51	4.85	6.88
Bank balances (other than Cash and cash equivalents)	1.79	1.77	0.16
Loans	0.07	0.10	0.05
Other current assets	15.39	56.23	41.52
Total current assets	**201.37**	**146.53**	**81.49**
Total Assets	**228.49**	**176.35**	**111.03**
Non-current liabilities			
Financial liabilities			
Borrowings	0.11	0.15	0.00
Other financial Liabilities	0.00	9.50	9.50
Provisions	0.08	0.01	0.04
Total non-current liabilities	**0.18**	**9.66**	**9.54**
Current liabilities			
Financial liabilities			
Borrowings	0.04	0.04	11.99
Total outstanding dues of micro enterprises and small enterprises	0.00	0.00	0.00
Total outstanding dues of creditors other than micro enterprises and small enterprises	61.74	62.34	40.70
Other Financial Liabilities	0.48	0.13	0.12
Other Current Liabilities	34.41	7.84	1.36
Provisions	0.03	0.03	0.02
Current Tax Liabilities (Net)	12.58	13.70	5.52
Total current liabilities	**109.29**	**84.07**	**59.70**
Total	**109.48**	**93.74**	**69.24**
Net worth represented by:			
Equity Share Capital	37.37	12.46	12.46
Other Equity	81.64	70.15	29.33
Net Worth	**119.01**	**82.61**	**41.79**

RANKING METHODOLOGY

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

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