



SRM CONTRACTORS LIMITED

SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Infrastructure
Fresh Issue (Shares)	6,200,000
Net Offer to the Public	6,200,000
Issue Size (Rs. Cr.)	124-130
Price Band (Rs.)	200-210
Offer Date	26-Mar-24
Close Date	28-Mar-24
Face Value	10
Lot Size	70

Issue Composition

	In shares
Total Issue for Sale	6,200,000
QIB	3,100,000
NIB	930,000
Retail	2,170,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	99.92%	72.92%
QIB	0.00%	13.57%
NIB	0.08%	4.05%
Retail	0.00%	9.46%
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 Issue towards funding the following objects:

Funding capital expenditure requirements for the purchase of equipment/machinery;

Full or part repayment and/or prepayment of certain outstanding secured borrowings availed by the company;

Funding the working capital requirements of the company;

Investment in Project Specific Joint Venture Projects; and General Corporate Purpose.

Book Running Lead Manager

- Interactive Financial Services Limited

Name of the registrar

- Bigshare Services Private Limited

About the company

Established in 2008, SRM Contractors Limited is a construction and development company primarily engaged in the construction of roads (including bridges), tunnels, slope stabilization works, and other construction activities in the Union Territories of Jammu and Kashmir and Ladakh. The company operates as an EPC contractor and on a unit-price basis for infrastructure projects and subcontracts infrastructure construction projects. The company has these major business verticals: Road projects, Tunnel projects, Slope stabilization works and other miscellaneous civil construction activities. As of March 2024, the company has completed 37 infrastructure construction projects with a total contract value of Rs. 77,088.00 lakhs including 31 road construction projects, 3 tunnel projects, 1 slope stabilization project, and 2 miscellaneous construction works. Out of the 37 projects 29 infrastructure construction projects, including sub-contracts, were undertaken by the company independently and 8 projects were undertaken through project-specific joint ventures. As on January 31, 2024, the company employed 275 full-time employees, consisting of specialists and workers.

Strength

Proven track record of efficient execution of roads, tunnels and slope stabilisation works in the difficult terrain of union territory of Jammu and Kashmir: SRM Contractors boasts a successful track record in Jammu and Kashmir and Ladakh, specializing in road, tunnel, and slope stabilization projects in challenging terrains. By January 31, 2024, the company had completed 38 projects with a total contract value of Rs. 1411.66 crore. This impressive portfolio includes 32 roads, 3 tunnels, 1 slope stabilization project, and 2 other civil construction projects. Notably, 30 of these projects were executed independently (including subcontracting), showcasing their expertise and capabilities. The remaining 8 projects involved project-specific joint ventures. SRM Contractors attributes their competitive edge to their ability to operate in difficult terrains, handle complex projects with timely completion, and offer competitive bids, making them a preferred choice for government departments and Gov-funded entities.

Business model of selecting and clustering of projects in the union territories of Jammu & Kashmir and Ladakh: SRM Contractors' growth hinges on a strategic project selection model. By concentrating its efforts on Jammu and Kashmir and Ladakh, the company leverages its expertise in challenging terrain. This focus allows it to efficiently cluster projects geographically, maximizing efficiency and profitability. The key lies in minimizing transportation costs and equipment investment. The company achieves this by utilizing existing manpower, equipment, and materials from nearby projects, even when subcontracting. This approach creates economies of scale and a competitive advantage.

Continuous Focus on equipment ownership: SRM Contractors prioritizes equipment ownership to ensure timely project delivery and efficient execution. Its extensive fleet of modern construction equipment minimizes reliance on external providers, giving it a competitive edge. The company strategically invests in equipment, often acquiring similar models to streamline operator training and reduce downtime and maintenance costs. As of January 31, 2024, the company owns 228 pieces of equipment, including hot mix plants, stone crushers, excavators, and various essential machineries for road construction. Its commitment is evident in consistent equipment purchases, with Rs. 18.48 crore spent in 2023 alone, and plans for further fleet expansion.

In-house integrated model: SRM Contractors credits its in-house integration model for driving growth. This model involves owning and managing a substantial fleet of construction equipment (228 pieces as of January 31, 2024, with a value of Rs. 73.05 crore on December 31, 2023). The company believes this approach ensures quality control, timely delivery, and reduced reliance on third-party suppliers, ultimately leading to

successful project completion on time and within budget.

Strategy

Bid for, win and operate hybrid annuity model-based projects: SRM Contractors leverages its decade-long experience and expertise in Jammu & Kashmir and Ladakh's challenging terrain to target mid-to-large Hybrid Annuity Model (HAM) projects. Its domain knowledge and technical know-how position them well for success. Bidding on larger projects allows it to spread fixed costs (employee expenses, automation, and administration) over a larger value, leading to greater efficiency compared to smaller EPC projects. While it'll continue fulfilling existing EPC commitments, SRM Contractors prioritizes expanding its portfolio through strategic joint ventures focused on HAM projects.

Expansion of fleet of machinery and equipment: Its strategy is to continue to acquire the core equipment that SRM Contractors Ltd. typically requires for its projects. Ownership of modern machinery and equipment ensures its continuous and timely availability, thereby increasing its efficiency and cost-effectiveness, which is critical to the operations of its business. The company intends to increase the efficiency and competitiveness of its operations by continuously investing in state-of-the-art construction machinery and equipment in order to reduce its costs to execute its projects and have better operating margins. SRM Contractors Ltd. believes that this will make it more efficient and also make it more competitive. To fuel its growth and expand operations, SRM Contractors Ltd. intends a portion of Net Proceeds towards the acquisition of equipment from reputed manufacturers and continues with its strategy of placing minimum reliance on hired or leased equipment.

Focus on rationalizing its indebtedness: The company focuses on rationalizing its indebtedness. SRM Contractors Ltd. has entered into various financing arrangements with banks and financial institutions for financial facilities. The company proposes to repay or prepay all or a portion of certain borrowings availed by the company from the Issue Proceeds. The repayment or prepayment will help reduce its outstanding indebtedness, assist it in maintaining a more favorable debt equity ratio and enable utilization of its internal accruals for further investment in business growth and expansion.

Further enhance its project execution capabilities: One of the primary focus areas of its project execution strategy is the completion of its projects on schedule. SRM Contractors Ltd. also intends to continue to focus on performance and project execution in order to maximize client satisfaction and margins. SRM Contractors Ltd. leverages technologies, designs and project management tools to increase productivity. SRM Contractors Ltd. seeks to optimize operating and overhead costs to maximize its operating margins. Its ability to effectively manage its projects will be crucial to its continued success as a reputed construction company. SRM Contractors Ltd. intends to continuously strengthen its execution capabilities by adding to its existing pool of employees, attracting new graduates from engineering colleges in India, and facilitating continuous learning with in-house and external training opportunities. SRM Contractors Ltd. also seeks to implement an Enterprise Resource Planning ("ERP") system for improved efficiency and better control over its project sites and offer its engineering and technical personnel a wide range of work experience, in-house training and learning opportunities by providing them with an opportunity to work on a variety of large, complex construction projects. SRM Contractors Ltd. will also continue to focus on its health, safety and environmental management and quality management standards as SRM Contractors Ltd. believes these elements of performance measurement has become important competition differentiators of contractors by potential clients.

Develop and maintain strong relationships with its clients and project specific joint venture partners: Its services significantly depend on procuring construction contracts undertaken by the government, semi-governmental authorities and other projects by private companies. Its business is also dependent on developing and maintaining strategic alliances with other contractors with whom SRM Contractors Ltd. may want to enter into project-specific joint ventures or subcontracting relationships for specific purposes. SRM Contractors Ltd. will continue to develop and maintain these relationships in both the client and vendor space. SRM Contractors Ltd. intends to establish relationships and share risks with companies whose resources, skills and strategies are complementary to its business and are likely to enhance its opportunities. The company also proposes to make investment in project specific joint ventures from the Issue Proceeds.

Leverage core competencies with enhanced in-house integration: Its in-house integration has been instrumental in its growth over the years and SRM Contractors Ltd. seeks to focus on further enhancing its in-house capabilities. Depending on the nature of projects that SRM Contractors Ltd. intends to bid for, it intends to enhance its in-house integration model in the areas of design and engineering capabilities, project management and central procurement facilities. SRM Contractors Ltd. believes that further developing specialized in-house integration capabilities would reduce dependence on third parties, thereby avoiding risks and minimizing costs and time associated with outsourcing.

Risk factor

- The company relies heavily on Jammu & Kashmir and Ladakh for its business. Economic, regulatory, or other changes in these regions could significantly impact the company's performance.
- The company derives a large portion of its revenue from a few government clients. Losing any of these major clients could have a severe negative impact.
- The company depends heavily on government projects. Changes in government priorities or funding could affect the company's future projects and revenue.
- The company's business is subject to seasonal variations, which could lead to uneven cash flow and operational challenges.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
ITD Cem	7091.56	222.01	12.92	23.57	3.95	77.17	1.00	304.55	5231.79
Man Infra	1646.98	316.70	8.53	23.84	6.19	32.85	2.00	203.35	7549.38
Likhitha Infra.	416.64	64.28	16.29	15.22	3.54	70.11	5.00	247.90	977.97
Udayshivakumar	539.19	20.86	3.77	13.13	1.78	27.89	10.00	49.51	274.07
SRM Contactors Limited**	312.73	28.09	12.24	17.15	2.18	96.52	10.00	210.00	481.83

*Peer Comparison companies financials are based on TTM.

**SRM Contractors Limited Financials are annualised FY24

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.210, the stock is priced at pre issue P/E of 12.52x on Estimated Annualised FY-24 EPS of Rs. 16.78. Post issue, the stock is priced at a P/E of 17.15x on its EPS of Rs.12.24. Looking at the P/B ratio at Rs.210, pre issue, book value of Rs. 54.50 of P/Bvx 3.85x. Post issue, book value of Rs. 96.52 of P/Bvx 2.18x.

Considering the P/E valuation, on the lower end of the price band of Rs.200, the stock is priced at pre issue P/E of 11.92x on Estimated Annualised FY-24 EPS of Rs.16.78. Post issue, the stock is priced at a P/E of 16.33x on its EPS of Rs.12.24. Looking at the P/B ratio at Rs.200, pre issue, book value of Rs. 54.50 of P/Bvx 3.67x. Post issue, book value of Rs. 96.52 of P/Bvx 2.07.

Industry Outlook

The National Infrastructure Pipeline of India is a monumental initiative to reshape India's infrastructure landscape. Covering a multitude of sectors, from energy and transportation to urban development and beyond, the NIP is driven by the primary goal of fostering economic growth, creating employment opportunities, enhancing citizens' quality of life, and ensuring equitable access to essential infrastructure. Since its inception, the NIP has undergone significant expansion. Initially comprising 6,835 projects, it has now grown to encompass over 9,000 projects spanning 57 sub-sectors. These projects are jointly funded by the Central Government, State Governments, and the private sector, emphasizing collaboration as a key driver of success. As per the Economic Survey 2023, projects worth INR 108 trillion are currently at various stages of implementation under the National Infrastructure Pipeline. Of these projects, 8,964 are in different phases of execution. A significant portion belongs to the transportation sector, highlighting the program's focus on bolstering

India's infrastructure backbone. Additionally, projects span various domains, including communication, energy, logistics, social infrastructure, transport, water and sanitation, and commercial infrastructure, reflecting the comprehensive nature of the NIP. Between the fiscal years 2020 and 2025, approximately 71% of the anticipated infrastructure investments in India are allocated to sectors like energy (24%), roads (18%), urban development (17%), and railways (12%). In the recent years, J&K has received a boost in road infrastructure development. In recent years, the government's relentless focus on improving road infrastructure in the Union Territory of Jammu and Kashmir (J&K) has ushered in a wave of transformation, revolutionizing connectivity and fostering economic prosperity across the region. Union Territory of Jammu & Kashmir has been rapidly emerging as one of the fastest developing economies in the country. This transformation has played a pivotal role in not only enhancing economic growth but also in fostering connectivity that has bridged geographical and developmental gaps within the region. Over the period of 2020-2022, road and tunnel infrastructure have been prioritized, with approximately one lakh crore being allocated for the construction of a robust road network. Major upcoming infrastructure projects J&K are (i) Jammu and Srinagar MetroLite (10,599 crores); (ii) Amarnath Marg Project (estimated cost of Project - Rs 1800 Crores); (iii) Upgradation of Khellani Tunnel; and (iv) Srinagar-Baramulla Uri National Highway (estimated cost of project - 823.45 crore).

Outlook

SCL is an engineering construction company specializing in roads, tunnels, slope stabilization works with related service. It has orders on hand worth Rs. 1199+ cr. as of December 31, 2023, indicating the prospects for the near term. However, the company derives a large portion of its revenue from a few government clients. Losing any of these major clients could have a severe negative impact. Besides, the company relies heavily on Jammu & Kashmir and Ladakh for its business. Economic, regulatory, or other changes in these regions could significantly impact the company's performance. Along term investor may opt the issue.

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

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	26-March-24
BID/ISSUE CLOSES ON	28-March-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	01-April-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	02-April-24
Credit of Equity Shares to Demat Accounts of Allottees	02-April-24
Commencement of trading of the Equity Shares on the Stock Exchanges	03-April-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	234.55	300.29	263.61
Total expenditure	205.04	261.99	233.50
Operating Profit	29.51	38.30	30.12
OPM%	12.58	12.75	11.42
Other Income	7.73	0.36	1.90
PBDIT	37.24	38.66	32.01
Depreciation	6.27	7.81	6.16
PBIT	30.97	30.85	25.85
Interest	2.81	5.80	2.55
Profit/(Loss) before Tax	28.16	25.05	23.29
Tax	7.09	6.30	5.73
PAT	21.07	18.75	17.57

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	37.54	39.47	29.38
Investment Property	5.32	1.79	1.46
Total non-current assets	42.87	41.26	30.83
Current assets			
Inventories	32.55	10.37	8.43
Financial Assets			
Trade Receivables	10.41	15.38	16.21
Cash and Cash Equivalents	27.70	20.67	16.65
Investments	11.99	6.79	2.28
Loans	2.46	4.40	1.09
Other financial assets	40.67	38.27	44.67
Other Current Assets	0.23	0.23	0.05
Total current assets	126.00	96.10	89.38
Total Assets	168.87	137.36	120.22
Non-current liabilities			
Financial liabilities			
Borrowings	23.71	25.77	17.67
Deferred Tax Liabilities (Net)	2.53	1.51	0.74
Total non-current liabilities	26.25	27.28	18.42
Current liabilities			
Financial Liabilities			
Borrowings	18.61	21.39	13.85
Trades Payable - MSME	3.31	0.14	0.00
Trade Payables - other than MSME	18.54	11.02	27.20
Provisions	11.73	8.01	14.83
Other Current Liabilities	6.19	6.37	1.50
Total current liabilities	58.39	46.92	57.39
Total	84.64	74.20	75.80
Net worth represented by:			
Equity Share Capital	16.74	16.74	1.52
Other equity	67.48	46.41	42.89
Minority interest	0.00	0.00	0.00
Net Worth	84.23	63.16	44.41

RANKING METHODOLOGY

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

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