

27th March 2024

SRM Contractors – SUBSCRIBE

Investment Thesis

SRM Contractors Ltd. (SRM Contractors) is coming out with an initial public offering (IPO) on March 26, 2024. The issue comprises of fresh issue of 6,200,000 equity shares at highest price band worth Rs.1,302mn. Objective of the issue is to funding capital expenditure requirements for the purchase of equipment/machinery & investment in project specific joint venture projects.

SRM Contractors is an engineering construction and development company engaged in construction of road / bridges, tunnels, slope stabilization works and other civil construction activities in the UT of Jammu & Kashmir and Ladakh. Recently, it has also been awarded with a contract for slope stabilization work in the state of Utrakhland. With focus on the roads, tunnel projects and slope stabilization works, SRM Contractors has gained technical expertise of undertaking such projects of different sizes. It has a proven track record of successful execution of road, tunnel projects and slope stabilization work in the difficult terrain of Jammu and Kashmir and Ladakh.

Current order book of SRM Contractors in terms of value of contracts, including subcontracting assignments is Rs.1,199Cr as on January 31. Currently, SRM Contractors is executing 21 infrastructure construction projects, out of which 11 projects aggregating to a total contract value of Rs.721Cr relates to road construction, 5 projects of total contract value of Rs.258Cr relates to tunnel construction, 4 projects of total contract value of Rs.204Cr relates to slope stabilization works and 1 project of total contract value of Rs.17Cr relates to other construction activity.

Over the past few years, the Indian road sector, particularly road in Jammu & Kashmir and Ladakh, has gained momentum with the present government's thrust on economic reforms and policy measures focused on expanding the transport network commensurate with India's economic growth and development. The government has planned for a number of projects on annuity basis. Hybrid annuity model generally provide better operating margins because of the added overall control of project costs that can be exercised by the contractor and fixed return by way of annuity for the contracted period of Annuity.

Financials

- During the past 2 years, revenue of SRM Contractors grew at a CAGR of 37.0% while PAT grew at CAGR of 50.6% in same period.

Consol. (Rs.Mn.)	FY21	FY22	FY23	9MFY24
Revenue	1,601	2,636	3,003	2,423
EBITDA	166	302	383	372
EBITDA Margin(%)	10.3%	11.4%	12.8%	15.4%
PAT	83	176	188	211
EPS (Rs.) #	3.6	7.7	8.2	9.2
P/E (x) *#	58.3	27.4	25.7	
RoE (%) #	16.6%	26.1%	21.8%	

* At highest price band # Post listing

IPO Details

Issue Open Date	26 March 2024
Issue Close Date	26 March 2024
Price Band (Rs.)	Rs. 200 – Rs. 210
Issue Size*	Rs. 1,302.0 Mn
Issue Size (Shares)	6,200,000
Market Lot	70 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 1,302.0 Mn
Issue Type	Book Building
Book Running Lead Manager	Interactive Financial Services
Issue structure	QIB: 20% Non Institutional: 15% Retail: 35% Anchor Investors: 30%
Credit of Shares to Demat Account	02 April 2024
Issue Listing Date	03 April 2024

* At highest price band

Key Business Highlights

- SRM Contractors is an engineering construction and development company engaged in construction of roads, bridges, tunnels, slope stabilization works and other miscellaneous civil construction activities in Jammu & Kashmir and Ladakh. It undertakes construction works both as an EPC contractor and on an item rate basis for infrastructure projects. It also undertakes sub-contracting of infrastructure construction projects.
- SRM Contractors has a track record of successful execution of road, tunnel and slope stabilization projects in the difficult terrain of union territories of Jammu & Kashmir and Ladakh.
- SRM Contractors is pre-qualified to bid independently on projects, tendered by government authorities and other entities funded by the Govt of contract value up to Rs.300 Cr and Rs.500 Cr for EPC contracts pertaining to construction of roads / bridges and for construction of tunnel, respectively.

Valuation

- As a result of the growth of road and tunnel construction business as well as the recent government initiatives and support to develop the infrastructure of union territories of Jammu & Kashmir and Ladakh, SRM Contractors has further forayed into executing other infrastructure projects such as standalone bridges, larger slope stabilization works and other miscellaneous civil construction activities in order to capitalize on such rising opportunities.
- SRM Contractors own a large fleet of sophisticated construction equipment which enables it to be less dependent on third party equipment providers and to efficiently manage its project execution schedules. Currently, it own and maintain 228 equipment and machineries consisting of 7 hot mix plant, 6 stone crushers, 23 excavators, 18 backhoe loader, 42 tippers/dumpers, etc. This also provides SRM Contractors with a competitive advantage over other construction companies that outsource their construction activities to external contractors. SRM Contractors consistently invest in fleets of modern construction equipment and often acquire equipment of the same class and same brand to facilitate the training of operators and help reduce equipment down time and maintenance cost. With multiple projects in progress at any given time, ready access to such equipment is essential to execute existing projects on time and bid for additional projects. Easy access to and high availability of our modern equipment fleet has enabled SRM Contractors to undertake complex and challenging projects and complete projects efficiently and profitably.
- With having experience in construction of road / bridges, tunnels, slope stabilization works and other civil construction activities in the UT of Jammu & Kashmir and Ladakh, current order book of Rs.1,199Cr, forayed into executing other infrastructure projects and own a large fleet of sophisticated construction equipment, we are recommending **SUBSCRIBE** rating to the IPO of SRM Contractors Ltd. (SRM Contractors) for medium to long term perspective.

Risk & Concern

- SRM Contractors' business is highly concentrated in the UT of Jammu & Kashmir and Ladakh. Any adverse change in budgetary allocations for infrastructure development or any change in government policies may adversely affect.
- SRM Contractors derives a significant portion of its revenues from a limited number of clients, any loss of any significant clients may impact future growth of the company.
- If new infrastructure projects are not awarded to SRM Contractors or any contracts awarded to it got prematurely terminated than it may affect SRM Contractors going ahead.

Graphs & Charts

Figure 1: Net Sales Trend

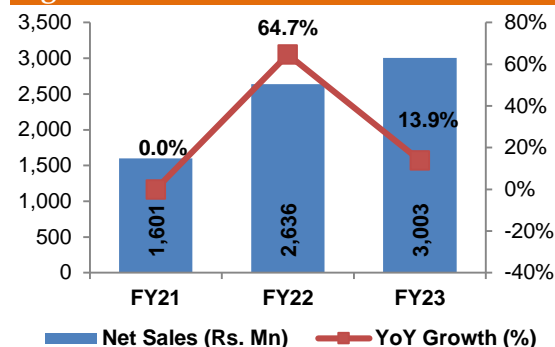


Figure 2: EBITDA & EBITDA Margin Trend

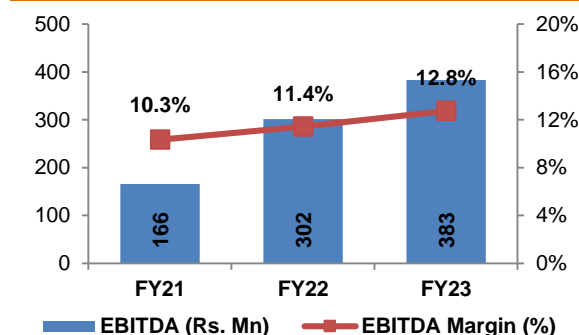


Figure 3: PAT & PAT Margins

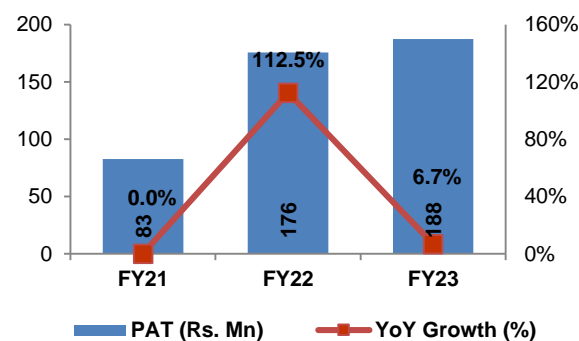
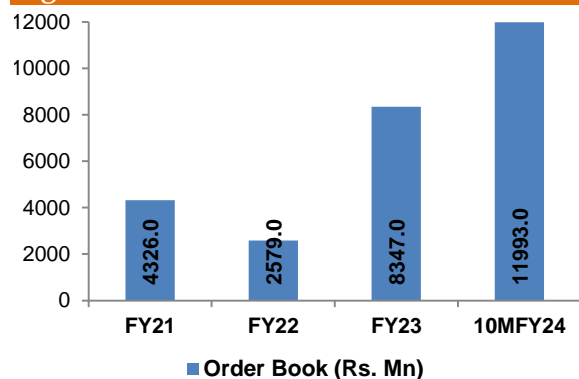


Figure 4: Order Book Trend



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