



SRM Contractors Limited

IPO Note
Recco - **APPLY**



IPO Details			Company Background				
Opening Date	Mar 26, 2024		<ul style="list-style-type: none"> SRM Contractors Limited was originally incorporated in the year 2008 and has its registered office in Trikuta Nagar, Jammu, India. The company is an engineering construction and development company engaged primarily in the construction of roads (including bridges), tunnels, slope stabilisation works and other miscellaneous civil construction activities in the Union Territories of Jammu & Kashmir and Ladakh. Company undertakes construction works both as an EPC contractor and on an item rate basis for infrastructure projects. The company has emerged as a key player in the infrastructure construction industry in the Union Territories of Jammu & Kashmir and Ladakh and has developed technical capabilities to execute projects in hilly/ challenging terrain in the region. As of January 31st, 2024, the Company had 275 employees on its payroll. 				
Closing Date	Mar 28, 2024						
Stock Exchange	NSE, BSE						
Lot Size	70 Shares						
Issue Price	₹200 to ₹210 per share						
Issue Size	Aggregating up to 130.20 Cr.						
Fresh Issue	Aggregating up to 130.20 Cr.						
Offer for Sale	-						
Application Amount (Price at Upper Band)	Min. Inv. - ₹ 14,700 (70 shares) Max. Inv. - ₹ 1,91,100 (910 shares)						
IPO Objective							
1. Funding capital expenditure requirements for the purchase of equipment/machinery.							
2. Full or part repayment and/or prepayment of certain outstanding secured borrowings availed by the company							
3. Funding the working capital requirements of the company.							
4. Investment in Project Specific Joint Venture Projects.							
5. General corporate purposes.							
Pre-Issue Shareholding			Market Capitalization (In Cr.)				
Category	No. of Shares	% of Total Shares	Pre-Issue	Post-Issue			
Promoter & Promoter Group	1,67,31,000	99.92%	₹ 352	₹ 482			
Public	13,200	0.08%					
Promoter of the Company			Financial Summary (In Cr.)				
1. Sanjay Mehta			For the Period Ended	Mar-21	Mar-22	Mar-23	Dec-23
2. Ashley Mehta			Total Assets	112.47	120.22	137.36	168.87
3. Puneet Pal Singh			Net Assets	26.85	44.41	63.16	84.23
			Total Borrowings	31.96	31.52	47.16	42.32
			Total Revenue	161.95	265.51	300.65	242.28
			Profit After Tax	8.27	17.57	18.75	21.07
Competitive Strengths			Tentative Timeline				
1. Proven track record of efficient execution of roads, tunnels and slope stabilisation works in the difficult terrain of union territory of Jammu and Kashmir.			Opening Date		Mar 26, 2024		
2. Business model of selecting and clustering of the projects in the union territories of Jammu & Kashmir and Ladakh .			Closing Date		Mar 28, 2024		
3. Continuous Focus on equipment ownership.			Basis of Allotment		Apr 01, 2024		
4. Strong financial performance.			Initiation of Refunds		Apr 02, 2024		
5. In-house integrated model.			Credit of Shares to Demat		Apr 02, 2024		
6. Experienced Promoters with a strong management team.			Listing Date		Apr 03, 2024		



Company Background and Analysis

SRM Contractors Limited was incorporated on September 04, 2008. The company is an engineering construction and development company engaged primarily in the construction of roads (including bridges), tunnels, slope stabilisation works and other miscellaneous civil construction activities in the Union Territories of Jammu & Kashmir and Ladakh. The company undertake construction works both as an EPC contractor and on an item-rate basis for infrastructure projects. The Company also undertakes subcontracting assignments for infrastructure construction projects.

The company is pre-qualified to bid independently on projects, tendered by departments of governmental authorities and other entities funded by the GoI, of contract value up to ₹300.0 Cr and ₹5,000 Cr for EPC contracts pertaining to the construction of roads (including bridges) and for construction of tunnel respectively.

The company since incorporation has completed thirty-eight (38) infrastructure construction projects. As of January 31, 2024, the order book consists of twenty-one (21) infrastructure construction projects which include eleven (11) road projects (including bridges), five (5) tunnel projects, four (4) slope stabilisation projects and one (1) other miscellaneous civil construction activities. The order book in terms of the value of contracts, including subcontracting assignments, was ₹1,199.31 Cr.

The company’s business verticals and revenue bifurcation are as follows –

1. Road Projects - The Road division undertakes the designing and construction of realignment, widening, upgradation, restoration and/or strengthening and improvements of roads& highways and their maintenance in the difficult terrain of Union Territories of Jammu & Kashmir and Ladakh.
2. Tunnel Projects - tunnel division undertakes designing and construction of new tunnels, cut and cover tunnels for avalanche and slide protection and caverns and also includes widening, upgradation, restoration and/or strengthening and improvements including providing niches/modification in niches and stabilisation of existing tunnels in difficult terrain of Union Territories of Jammu & Kashmir and Ladakh.
3. Slope stabilization works – The slope stabilisation division undertakes the designing and construction of reinforced soil steepened slope structures as part of slope stabilization works.
4. Other miscellaneous civil construction activities – The company also undertake other construction activities such as the construction of government housing and residential units, drainage works and irrigation & flood control works.

(Amt in Cr)

Particulars	Mar-21		Mar-22		Mar-23		Dec-23	
	Amt	%	Amt	%	Amt	%	Amt	%
Road Projects	87.29	54.54	102.78	39	135.33	45.07	175.85	74.97
Tunnel Projects	67.42	42.12	108.57	41.2	78.22	26.05	0.6287	0.27
Slop Stabilisation works	2.2871	1.43	49.05	18.61	83.90	27.94	56.77	24.2
Other miscellaneous civil construction activity	3.0562	1.91	3.1166	1.18	2.838	0.95	1.3013	0.55
Total	160.06	100	263.51	100	300.29	100	234.55	100

To conclude, the company has vast experience in the industry in which the company operates. The company is in the business of engineering construction and development. The company has seen a decreasing trend in revenue generation from road and tunnel projects over the years and the contra for the slop stabilisation works segment.



Business Strategies

1. Bid for, win and operate hybrid annuity model-based projects –

The company intends to strengthen its presence by bidding, winning and operate mid to large annuity projects. The company's focus on larger projects will provide them an opportunity to rationalise fixed costs associated with large projects, such as employee expenses, system automation expenses and administration expenses. The company intend to actively pursue the opportunities to expand the portfolio of projects by bidding for Hybrid Annuity Model projects with strategic joint venture partners.

2. Expansion of fleet of machinery and equipment –

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 the costs to execute the projects and have better operating margins. The company intends a portion of Net Proceeds towards the acquisition of equipment from reputed manufacturers and continues with the strategy of placing minimum reliance on hired or leased equipment.

3. Focus on rationalizing the indebtedness –

The Company focuses on rationalising the indebtedness. The company have entered into various financing arrangements with banks and financial institutions for financial facilities.

4. Further enhance the project execution capabilities –

The company intends to continue to focus on performance and project execution in order to maximize client satisfaction and margins. The company intends to continuously strengthen the execution capabilities by adding to the existing pool of employees, attracting new graduates from engineering colleges in India, and facilitating continuous learning with in-house and external training opportunities.

5. Develop and maintain strong relationships with the clients and project specific joint venture partners –

The company intends to establish relationships and share risks with companies whose resources, skills and strategies are complementary to the business and are likely to enhance the opportunities.

6. Leverage core competencies with enhanced in-house integration –

The company intends to enhance the in-house integration model in the areas of design and engineering capabilities, project management and central procurement facilities. The company 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.



Competitive Scenario and Peer Mapping

Competition

The company operates in a competitive atmosphere where it faces competition from other construction companies operating in the union territories of Jammu & Kashmir and Ladakh. The competition depends on various factors, such as the type of project, total contract value, potential margins, complexity, location of the projects and risks relating to revenue generation. The industry in which the company operates has low barriers to entry. The bargaining power with the suppliers is high.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given below -

Particulars	SRM Contractors Limited	Man Infraconstruction limited	ITD cementation India Limited	Likhitha Infrastructure Limited	Udayshivakumar Infra Ltd
	31st Mar 2023	31st Mar 2023	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	6.24%	1.65%	2.41%	16.12%	5.57%
EBITDA Margin	12.75%	24.02%	8.98%	23.65%	11.22%
Return on Capital Employed	35.93%	38.83%	23.62%	32.72%	14.30%
Return on Equity	17.11%	2.94%	10.04%	23.80%	11.13%
EPS (INR)	90.82	6.96	7.23	10.06	3.49

The comparison of the key performance indicators of the listed peers as on Mar-22 is given below -

Particulars	SRM Contractors Limited	Man Infraconstruction limited	ITD cementation India Limited	Likhitha Infrastructure Limited	Udayshivakumar Infra Ltd
	31st Mar 2022	31st Mar 2022	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	6.66%	18.59%	1.79%	17.64%	6.63%
EBITDA Margin	11.42%	38.66%	8.77%	25.20%	13.51%
Return on Capital Employed	43.87%	33.41%	18.23%	32.15%	20.95%
Return on Equity	20.12%	21.63%	6.08%	23.88%	19.85%
EPS (INR)	1,154.10	5.83	4.01	5.83	3.39

The comparison of the key performance indicators of the listed peers as on Mar-21 is given below -

Particulars	SRM Contractors Limited	Man Infraconstruction limited	ITD cementation India Limited	Likhitha Infrastructure Limited	Udayshivakumar Infra Ltd
	31st Mar 2021	31st Mar 2021	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	5.17%	57.05%	1.11%	15.02%	4.41%
EBITDA Margin	10.27%	27.07%	10.50%	21.57%	10.60%
Return on Capital Employed	30.31%	11.10%	8.00%	25.49%	21.47%
Return on Equity	15.86%	35.64%	21.26%	18.89%	16.57%
EPS (INR)	543.47	0.86	0.92	5.36	2.55



Industry Overview

Exhibit 1: Road Network in India (in Million Kms).

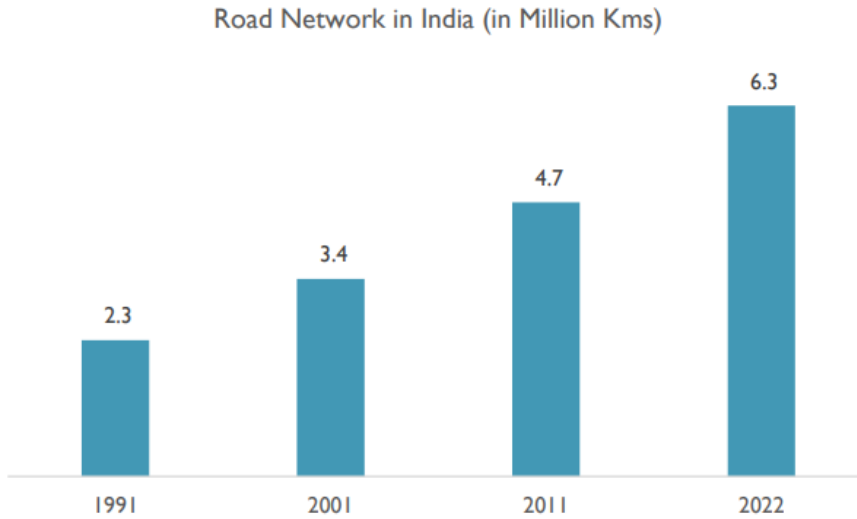
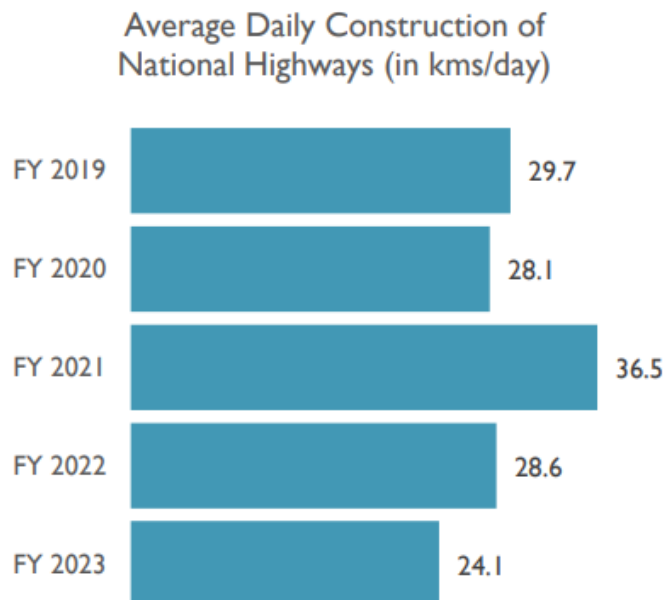


Exhibit 2: Average Daily Construction of National Highways (in kms/day)a.



(Source: prospectus)



Road Infrastructure in India

India has a road network spanning approximately 6.4 million kms, making it the second largest in the world. This network – which comprises of national highways, state highways, district roads, and rural road – carries approximately 65% of country's freight traffic and nearly 90% of passenger traffic.

India also has the second largest highway network in the world, after the United States, spanning approximately 145,000 kms. The national highways however accounts for less than 2.5% of the total road network in India. Despite this, national highways account for 40% of the total traffic volume.

National Highway Network in India

Implementation of favourable policy measures / programs, and aggressive push by the Government to increase the road network has accelerated the pace of road construction in the country. The switch to a corridor-based highway development strategy adopted by the Government, beginning 2014 – 15, has improved the pace of construction. The annual addition in road network reached its fastest during FY 2021, when the pandemic induced a lockdown in the country. Between FY 2015 and FY 2023, nearly 54,000 kms of road was added to the national highway network in the country, thereby taking it from approximately 91,000 kms to its present stretch of approximately 145,000 kms. Average daily construction rate reached its highest level of nearly 36.5 kms/day in FY 2021, as the industry was benefitted by the lockdown measures imposed after the spread of Covid-19 pandemic. Since then, the average daily rate has dipped, to nearly 24 kms in FY 2023.

Over the years, the national highway network has undergone remarkable growth, evolving from a modest collection of roads to a vast expanse of well-connected highways. The pattern of growth in the network is characterized by distinct phases, where each phase has contributed to the network's growth and transformation. Among these, the Golden Quadrilateral and the North-South and East-West Corridors stand out as iconic examples that have played a pivotal role in shaping the expansion and connectivity of the network.

The Golden Quadrilateral program, initiated in the early 2000s, was a massive undertaking that aimed to connect several major industrial, agricultural, and cultural centers of India by connecting the four major metropolitan cities of Delhi, Mumbai, Chennai, and Kolkata through a network of high-quality highways. This project not only drastically reduced travel time between these economic centers but also spurred economic growth and trade across the regions it covered.

The successful completion of the Golden Quadrilateral represented a significant leap forward in India's highway development efforts and showcased the country's capacity to undertake and execute ambitious infrastructure projects. Similarly, the North-South and East-West Corridors are envisioned to enhance connectivity between the northern and southern regions, as well as between the eastern and western parts of the country, making them the largest ongoing highway project in India. These corridors are bringing together the previously disconnected areas into the fold of the national highway network, opening up new avenues for trade, tourism, and development.

(Source: prospectus)



Key Managerial Personnel

Sanjay Mehta, aged 54 years, is one of the Promoters, and Managing Director of the Company. He completed the degree of Bachelor of Medicine and Bachelor of Surgery. He also completed his degree of Master of Health Administration. He has over 14 years of experience in the construction industry, particularly, in the infrastructure sector. He oversees the day-to-day activities of the Company.

Ashley Mehta, aged 24 years, is one of the Promoters and the Non-executive Director of the Company. She completed the degree of Bachelor of Science in Civil Engineering. She is presently employed at Weeks Marine, Inc. as a Field Engineer. She has over 3 years of experience in the business of the Company.

Puneet Pal Singh, aged 26 years, is one of the Promoters and Whole-Time Director of the Company. He completed the degree of Bachelor of Technology in Civil Engineering. He has over 3 years of experience in the construction industry, particularly, in the infrastructure sector. He oversees planning, designing and execution of construction activities at multiple sites of the Company.

Sanjay Sharma, aged 44 years, is the Independent Director of the Company. He completed the degree of Bachelor of Science and degree of Bachelor of Laws. He has experience in the legal field of nearly 20 years. He was also empanelled on the J&K Bank's panel of lawyers since 2010.

Sushil Sharma, aged 63 years, is the Independent Director of the Company. He completed the degree of Master of Science, degree of Master of Philosophy. He was involved in the education sector as an assistant professor of botany. He has over 3 decades of experience in the education sector.

Yudhvir Gupta, aged 51 years, is the Independent Director of the Company. He completed the degree of Bachelor of Commerce. He completed the degree of Bachelor of Laws. He established his proprietorship firm, M/s Gupta Accountants, Jammu, in the year 1999 which specializes in taxation and accountancy matters and has over 20 years of experience in the legal field (taxation).

To conclude, the company has three promoters, all the promoters have decent experience in the industry the company operates. The Remaining Directors of the company also have good knowledge and experience in their respective fields which helps in the overall growth of the company.



Financial Snapshot

Profit and Loss Statement					(In Cr.)
Particulars	FY 21	FY 22	FY 23	Dec-23	
Revenue from Operations	160.06	263.61	300.29	234.55	
Other Income	1.89	1.90	0.36	7.73	
Total Income	161.95	265.51	300.65	242.28	
Expenses					
Cost of material consumed	110.97	185.52	217.58	176.09	
Employee benefits expense	6.92	8.75	11.32	10.93	
Finance Costs	2.33	2.55	5.80	2.81	
Depreciation and Amortization expense	5.17	6.16	7.81	6.27	
Other expenses	25.72	39.23	33.10	18.01	
Total Expenses	151.11	242.21	275.60	214.12	
Earnings Before Interest, Taxes, Depreciation & Amortization	16.44	30.12	38.30	29.51	
EBITDA Margin	10.27%	11.42%	12.75%	12.58%	
Profit/(Loss) before tax	10.83	23.29	25.05	28.16	
Tax Expense					
Current Tax	2.60	5.14	5.54	6.07	
Deferred Tax Expense / (credit)	-0.04	0.58	0.77	1.02	
Total Tax Expense	2.56	5.73	6.30	7.09	
Profit/(Loss) for the year	8.27	17.57	18.75	21.07	
Net Profit Margin	5.11%	6.62%	6.24%	8.70%	

Balance Sheet					(In Cr.)
Particulars	FY 21	FY 22	FY 23	Dec-23	
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	30.00	29.38	39.47	37.54	
Investment Property	1.64	1.46	1.79	5.32	
Total Non-Current assets	31.64	30.83	41.26	42.87	
Current Assets					
Inventories	4.66	8.43	10.37	32.55	
Financial Assets					
(i) Investments	4.33	2.28	6.79	11.99	
(ii) Trade Receivables	22.54	16.21	15.38	10.41	
(iii) Cash and Cash Equivalents	15.85	16.65	20.67	27.70	
(iv) Loans	1.09	1.09	4.40	2.46	
(v) Other financial assets	32.30	44.67	38.27	40.67	
(vi) Other current assets	0.05	0.05	0.23	0.23	
Total Current assets	80.83	89.38	96.10	126.00	
Total Assets	112.47	120.22	137.36	168.87	
EQUITY AND LIABILITIES					
Equity					
Share Capital	1.52	1.52	16.74	16.74	
Other Equity	25.32	42.89	46.41	67.48	
Total Equity	26.85	44.41	63.16	84.23	
Liabilities					
Non-current liabilities					



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Balance Sheet					(In Cr.)
Financial Liabilities					
(i) Borrowings	19.55	17.67	25.77	23.71	
Deferred tax liabilities (net)	0.16	0.74	1.51	2.53	
Total Non-current liabilities	19.71	18.42	27.28	26.25	
Current liabilities					
Financial Liabilities					
(i) Borrowings	12.40	13.85	21.39	18.61	
(ii) Trade Payables					
-Due to Micro and Small Enterprises	-	-	0.14	3.31	
-Due to Other then Micro and Small Enterprise	42.20	27.20	11.02	18.54	
(iv) Other Financial Liabilities					
Provisions	9.49	14.83	8.01	11.73	
Other current liabilities	1.82	1.50	6.37	6.19	
Total Current liabilities	65.91	57.39	46.92	58.39	
Total Liabilities	85.62	75.80	74.20	84.64	
Total Equity and Liabilities	112.47	120.22	137.36	168.87	

Cash Flow Statement					(In Cr.)
Particulars	FY 21	FY 22	FY 23	Dec-23	
Net Cash Flow from Operating Activities	14.19	9.73	13.05	21.88	
Net Cash Flow from Investing Activities	-13.25	-5.94	-18.87	-7.20	
Net Cash Flow from Financing Activities	4.53	-2.99	9.83	-7.65	

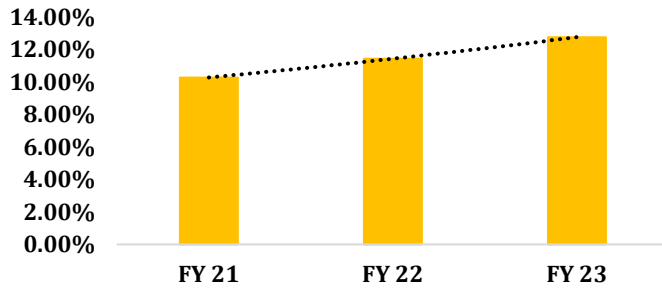
Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Dec-23*
Per Share Data				
Diluted EPS	543.47	1,154.10	90.82	12.24
BV per share	11.70	19.36	27.53	96.51
Operating Ratios				
EBITDA Margins	10.27%	11.42%	12.75%	12.58%
PAT Margins	5.11%	6.62%	6.24%	8.69%
Inventory days	10.63	11.67	12.60	38.16
Debtor days	51.40	22.45	18.69	12.21
Creditor days	148.69	52.45	18.55	58.53
Return Ratios				
RoCE	24%	38%	34%	13%
RoE	31%	40%	30%	13%
Valuation Ratios (x)				
EV/EBITDA	2.61	1.97	2.34	5.75
Market Cap / Sales	3.01	1.83	1.60	1.54
P/E	0.39	0.18	2.31	17.15
Price to Book Value	17.95	10.85	7.63	2.18
Solvency Ratios				
Debt / Equity	0.46	0.31	0.36	0.15
Current Ratio	1.23	1.56	2.05	2.16
Quick Ratio	1.16	1.41	1.83	1.60
Asset Turnover	1.42	2.19	2.19	1.39
Interest Coverage Ratio	4.84	9.38	5.26	8.26

*Annualized Figures

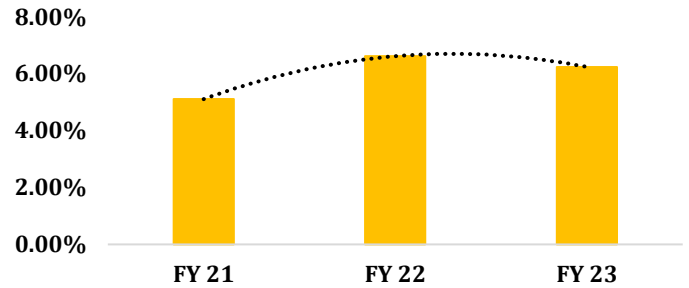


Financial Charts

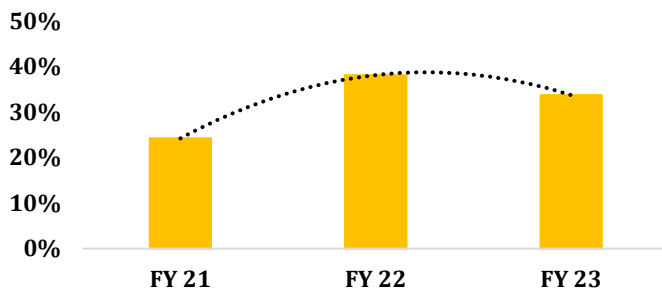
EBITDA Margin



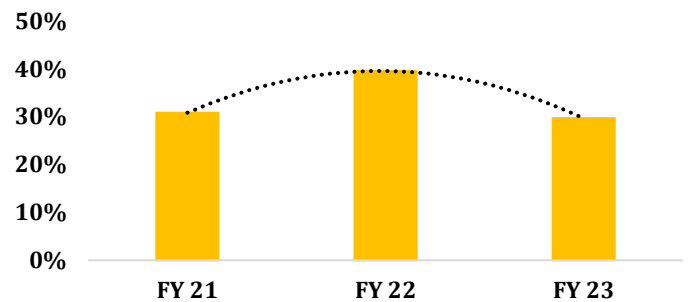
Net Profit Margin



Return On Capital Employed



Return on Equity



Key Risk Factors

1. The company derives a significant portion of its revenues top 5 customers. For the nine months period ending December 31, 2023, the financial year ended March 31, 2023, March 31, 2022, and March 31, 2021, the revenue from the top 5 customers contributed to 80.77%, 71.66%, 79.85%, and 77.72% respectively.
2. The company has certain contingent liabilities amounting to Rs. 65.94 Cr. It may adversely affect the business if any of these contingent liabilities materialize.
3. The Company, its Promoters, its Directors and its Joint Ventures are involved in litigation proceedings amounting to Rs. 33.90 Cr that may have a material adverse outcome.



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Track Record of Lead Manager

The lead manager to the issue is Interactive Financial Services Limited. A table has been set below highlighting the details of the IPO of the last 10 companies handled by the Lead Manager in recent times –

Interactive Financial Services Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Kalahridhaan Trendz Limited	22.49	45.00	February 23, 2024	41.50
2.	Vrundavan Plantation Limited	15.30	108.00	November 06, 2023	41.00
3.	Vivaa Tradecom Limited	7.99	51.00	October 12, 2023	24.99
4.	Crop Life Science Limited	26.73	52.00	August 30, 2023	38.10
5.	Tridhya Tech Limited	26.41	42.00	July 13, 2023	28.50
6.	Bizotic Commercial Limited	42.21	175.00	June 23, 2023	49.24
7.	Sahana System Limited	32.74	135.00	June 12, 2023	811.70
8.	Prospectus Commodities Limited	7.48	61.00	March 20, 2023	87.30
9.	Patron Exim Limited	16.69	27.00	March 06, 2023	8.10
10.	Pace E-Commerce Ventures Limited	66.53	103.00	October 20, 2022	16.86

*CMP for the above-mentioned companies is taken as of 20th March 2024.

As per the offer document Interactive Financial Services Limited has had 14 mandates in the last three years. For Interactive Financial Services Limited, from the above-mentioned mandates, four opened at a discount and the rest all have opened at premiums on the listing date.



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Recommendation

The company has been in the industry since 2008 and thus has vast experience in the industry. The company has seen an increasing trend in both its top-line and bottom-line financials. The company's management overview is good.

The P/E on a post-IPO and annualized basis is around 17.15 times which makes it fully priced by looking at the performance of the company and its peers. The Sector P/E is 16.6 times.

The company operates in the business of engineering construction and development. The company does face competition in the industry in which it operates. The company does have a good order book which can drive good growth for the company in the future. The company has good strategies planned out and is utilizing its net proceeds for expansion. Therefore, one can **APPLY** to this IPO.



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