



IPO Note

Popular Foundations Limited

Recommendation: **AVOID!**

Company Background -

- Popular Foundations Limited was originally formed and incorporated on November 30, 1998. The registered office is located at Chennai, Tamil Nadu, India.
- The Company is engaged in the Engineering and Construction Activities, providing comprehensive end-to-end solutions in the construction sector.
- The company is dedicated to building practices catering to various verticals such as factories, educational institutions, commercial, and residential projects.
- The company had 86 permanent employees as of September 07, 2024.

Objects of the Issue -

- Prepayment and repayment of all or a portion of certain secured and unsecured loan availed by the company.
- To meet the Working Capital Requirements.
- General Corporate Purposes.

Promoters Name -

Ananthanarayanan Sankaralingam Venkatesh and Vinita Venkatesh

Rationale for recommendation -

- ✓ The company operates in a very fragmented business.
- ✓ The company is highly concentrated geography and product wise.
- ✓ The bottom line of the financials does not look sustainable going forward.
- ✓ The company has had negative operating cashflow for the FY 2022 and 2024.
- ✓ The company's objective is not very satisfactory.

IPO Details

Opening Date	Sep 13, 2024
Closing Date	Sep 18, 2024
Allotment Date	Sep 19, 2024
Listing Date	Sep 23, 2024
Stock Exchange	BSE SME
Lot Size	3,000 Shares
Issue Price Per Share	₹37
Issue Size	19.87 Cr.
Fresh Issue	19.87 Cr.
Offer for Sale	-
Application Amt	₹ 1,11,000 (3,000 shares)

INDUSTRY - Real estate

P/E Average - 36.05

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	2,589.40	4,709.55	5,181.90
EBITDA	224.45	166.13	700.94
Net Profit	48.08	119.61	347.75
RoCE	7.76%	5.44%	22.47%
ROE	3.47%	8.06%	15.03%
P/E	97.37	38.54	15.35

Promoter Share Holding Pattern

Pre-Issue	Post Issue
83.36%	61.39%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	2.41	1.71
BVPS	15.41	21.10
P/E	15.35	21.68
P/BV	2.40	1.75
Mkt Cap (In Cr)	55.53	75.40

Lead Managers -

Srujan Alpha Capital Advisors LLP

Registrar -

Bigshare Services Private Limited

Business Overview -

Popular Foundations Limited was incorporated in the year 1998. The company is engaged in engineering and construction activities and provides end-to-end solution in the construction sector. The company is focused towards non-residential and non-governmental projects.

The company relies on tenders as the key sourcing method. These tenders majorly include Architects, PMC, and any interested bidders.

The Services provided by the company are for Factories, Educational Institutions, and Commercial and Residential Projects. The company currently has completed 19 projects. The company also has 13 ongoing projects that will be completed within this year's end of 2024. There is a concentration towards institutional projects and has seen a slight diversification with a few hospitals, Admin buildings, and commercial and residential buildings totalling 5 projects under this segment.

Places where the company has completed its projects are in Pondicherry, Tanjore, Bangalore, Trichy, Madurai, Vizhupuram, Coimbatore and Chennai. The company intends to expand geography-wise but again only in Tamil Nadu indicating an concentration towards one state.

Revenue Bifurcation for the Period ended FY 2022, 2023, and 2024 are as follows -

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Institution	626.38	24.19	2,548.87	54.12	3,579.85	69.08
Hospital	1,611.75	62.24	1,318.35	27.99	637.54	12.30
Admin	-	-	228.27	4.85	602.4	11.63
Commercial	46.43	1.79	306.99	6.52	136.98	2.64
Hotel	279.01	10.78	260.51	5.53	138.74	2.68
Others*	25.82	1.00	46.57	0.99	86.38	1.67
Total	2,589.39	100.00	4,709.56	100.00	5,181.89	100.00

* Amount received towards booking of commercial space.

Net Proceeds Utilization -

The company is raising total gross proceeds of Rs. 1,986.90 lakhs out of which Rs. 198.69 lakhs are to be utilized for Issue Expenses the remaining Rs. 1,788.21 lakhs are thus considered net proceeds. The bifurcation are as follows -

Particulars	Amount
Prepayment or repayment of all or a portion of certain outstanding borrowings availed	Up to Rs. 494 lakhs
Funding the Working Capital Requirements	Up to Rs. 1,186 lakhs
General Corporate Purposes	Up to Rs. 108.21 lakhs
Total	Rs. 1,788.21 lakhs

Competition -

Market Competition and Geographic Competition: Moderate, Geographic focus in Chennai makes competition moderate, with a need for constant technology updates to avoid obsolescence and maintain competitiveness.

Rivalry Among Existing Competitors: High, both organized and unorganized players in the construction market

Barriers to entry: High, the unregulated, fragmented nature of the industry lowers barriers to entry, increasing the risk of new competitors, especially small unorganized operators.

Bargaining Power of Suppliers: Low, construction materials are widely available, but any disruptions in supply chains could affect operations.

Bargaining Power of Buyers: Moderate, they seek cost-effective, quality-driven construction services, which could pressure margins.

Business Strategies -

- The company aims to enhance its clientele and bolster profitability by prioritizing efficiency through mechanization, thus reducing reliance on labour.
- The company aims to foster a culture of work standardization, minimize manual intervention through increased mechanization, leverage cutting-edge technologies for enhanced efficiency, and ensure the workforce is adept in the latest industry practices.
- The company intends to execute projects in other major cities
- The company intends to continue to seek out talent to further enhance and grow the business.

Risk Factors -

The company has had negative operating cash flow for the FY ended 2022, and 2024.

The company is involved in an indirect tax-related case amounting to Rs. 3.59 lakhs which could impact the financial condition of the company.

The company's Top 10 suppliers contributed 65.90%, 47.90%, and 63.01% for the FY ended 2022, 2023, and 2024 respectively.

PEER ANALYSIS

Particulars	Popular Foundations Limited			NCC Limited			Hindustan Construction Company Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	1.86%	2.54%	6.71%	4.23%	3.88%	3.39%	4.98%	-0.32%	5.95%
EBITDA Margin	8.67%	3.53%	13.53%	11.39%	10.20%	8.90%	15.97%	11.93%	20.48%
RoCE	7.76%	5.44%	22.47%	18.24%	23.73%	23.72%	69.82%	14.91%	48.77%
ROE	3.47%	8.06%	15.03%	8.65%	9.88%	10.70%	-85.37%	3.90%	-283.81%
EPS (INR)	0.38	0.96	2.41	7.91	9.84	11.32	3.57	-0.18	3.10
P/E	97.37	38.54	15.35	7.66	10.36	20.53	4.52	-	10.19

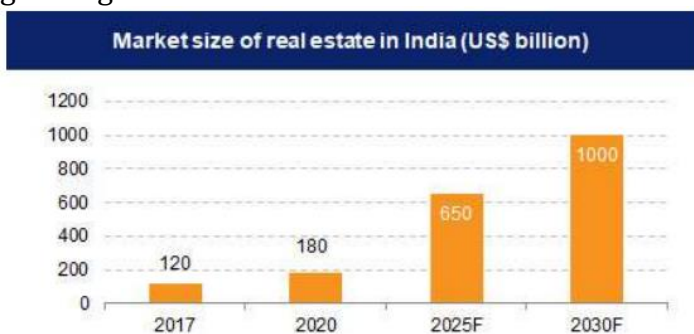
Real Estate Sector -

Market Overview -

The real estate sector is one of the most globally recognized sectors. It comprises of four sub-sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodation. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

The country's real estate market was affected by the COVID-19 pandemic. In addition, the residential sector was the worst hit as strict lockdown measures across major cities in India impacted housing sales as home registrations were suspended and home loan disbursement was slow. However, the sector recovered due to an increase in house sales, new project launches, and increasing demand for new office and commercial spaces, etc.

In India, the real estate sector is the second-highest employment generator, after the agriculture sector. It is also expected that this sector will incur more non-resident Indian (NRI) investment, both in the short term and the long term. Bengaluru is expected to be the most favored property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi, and Dehradun. Retail, hospitality, and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs



(source: RHP)

Market Size -

By 2040, real estate market will grow to Rs. 65,000 crores (US\$ 9.30 billion) from Rs. 12,000 crores (US\$ 1.72 billion) in 2019. Real estate sector in India is expected to reach US\$ 1 trillion in market size by 2030, up from US\$ 200 billion in 2021 and contribute 13% to the country's GDP by 2025. Retail, hospitality, and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

India's real estate sector is expected to expand to US\$ 5.8 trillion by 2047, contributing 15.5% to the GDP from an existing share of 7.3%. In the first quarter of 2023 (January-March), net office absorption in the top six cities stood at 8.3 million sq. ft. According to Savills India, real estate demand for data centers is expected to increase by 15-18 million sq. ft. by 2025.

The size of the Indian real estate sector is estimated to jump more than 12-fold to USD 5.8 trillion by 2047 from USD 477 billion last year and will contribute over 15 per cent to the total economic output of the country, according to Naredco-Knight Frank report. As per ICRA estimates, Indian firms were expected to raise >Rs. 3.5 trillion (US\$ 48 billion) through infrastructure and real estate investment trusts in 2022, as compared with raised funds worth US\$ 29 billion to date.

Road Ahead -

India's real estate market is expected to undertake a growth rate (CAGR) of 9.2% during the five years from 2023 to 2028. Looking ahead, the future of the real estate market in India appears promising, with continued growth and evolution.

- **Continued Urbanization:** India's urban population is projected to grow rapidly, driving demand for residential and commercial spaces in urban areas. Cities like Chennai, Hyderabad and Bengaluru, known for their vibrant job markets and educational institutions, IT hubs will remain key targets for real estate investments.

- **Boost in Rental Market:** Future forecasts indicate that the rental market will expand significantly. Factors such as urbanization, increased job mobility, and a preference for renting over buying among millennials are expected to contribute to this trend.

Key Management -



Key Management Persons Name -	Ananthanarayanan Sankaralingam Venkatesh
Age	59
Designation and No. of years of experience	Promoter and Managing Director, Founding Director, 25+ years of experience.
Qualification	Engineering graduate from IIT Madras, business administration from IIM Ahmedabad.
Roles and Responsibility	-
Other Directorships	Popular Estates Private Limited
Key Management Persons Name -	Vinita Venkatesh
Age	60
Designation and No. of years of experience	Promoter and Whole-time Director, 30 years of experience in the shipping industry
Qualification	Bachelor's Degree, in Business Management at the Indian Institute of Management (IIM), Ahmedabad.
Roles and Responsibility	-
Other Directorships	Popular Estates Private Limited, Popular Maritime (Proprietorship Concern)
Key Management Persons Name -	Dharmapuri Harirao Gopalakrishnan
Age	64
Designation and No. of years of experience	Independent Director, 19+ years of experience.
Qualification	Mechanical Engineer
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Narayanan Venkatesan
Age	61
Designation and No. of years of experience	Independent Director, 5+ years of experience in all facets of law - in litigation, transactional practice and as In-house Legal Head & General Counsel of reputed organisations.
Qualification	PG Diploma in Personnel Management, fellow member of The Institute of Company Secretaries of India
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Venkatachari Sridhar
Age	60
Designation and No. of years of experience	Independent Director, 35 years of experience in encompassing the field of Accounting, Auditing, Finance, Tax and Legal with good analytical, management and leadership skills
Qualification	B. Com, in accountancy, fellow member of Institute of Cost and Management Accountants of India (ICMAI), and The Institute Chartered Accountants of India (ICAI).
Roles and Responsibility	-
Other Ventures	Grant Thornton Bharat LLP

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	2,589.40	4,709.55	5,181.90
Other Income	40.77	157.34	9.10
Total Income	2,630.17	4,866.89	5,191.00
Expenses			
Cost of Material Consumed	2,739.34	3,534.19	3,554.33
Changes in Inventories of finished goods, work-in-progress and Stock in Trade	-858.36	441.99	289.13
Employee Benefit Expenses	364.38	393.64	458.40
Finance Cost	197.29	155.32	144.64
Depreciation and Amortization Expense	29.70	32.74	27.82
Other expenses	119.59	173.60	179.10
Total Expenses	2,591.94	4,731.48	4,653.42
EBITDA	224.45	166.13	700.94
EBITDA Margin	8.67%	3.53%	13.53%
Profit/(Loss) before tax	38.23	135.41	537.58
Tax Expense			
Current tax	-	16.85	186.61
Deferred Tax	-9.85	-1.05	3.22
Total Tax	-9.85	15.80	189.83
Profit/(Loss) for the year	48.08	119.61	347.75
Net Profit Margin	1.86%	2.54%	6.71%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	100.00	100.00	1,500.80
Reserves and surplus	1,284.08	1,383.69	812.31
Total Shareholder's Fund	1,384.08	1,483.69	2,313.11
2. Non-current liabilities			
Long-term borrowings	1,090.31	932.02	645.22
Long-term provisions	34.26	37.38	37.92
Total Non-current liabilities	1,124.57	969.40	683.14
3. Current liabilities			
Short-term borrowings	745.06	821.96	933.18
Trade Payables			
Total outstanding dues of MSME	91.08	168.72	716.93
Total outstanding dues of creditors other than MSME	936.79	779.09	602.74
Other Current Liabilities	643.44	620.07	914.48
Short-term provisions	4.46	21.76	191.30
Total Current liabilities	2,420.83	2,411.60	3,358.63
Total Liabilities	3,545.40	3,381.00	4,041.77
Total Equity and Liabilities	4,929.48	4,864.69	6,354.88
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	714.20	702.84	397.75
Intangible Assets	0.56	0.34	0.21
Non-Current Investments	4.64		
Deferred Tax Asses	15.46	16.51	13.30
Other Non-current Assets	29.25	27.40	42.46
Total Non-Current assets	764.11	747.09	453.72
2. Current assets			
Inventories	1,375.70	933.71	644.58

Particulars	FY 22	FY 23	FY 24
Trade Receivables	1,932.88	2,428.19	4,491.44
Cash & Cash equivalents	12.50	25.94	24.74
Short term loans and advances	710.28	621.58	580.21
Other Current Assets	134.01	108.18	160.20
Total Current assets	4,165.37	4,117.60	5,901.17
Total Assets	4,929.48	4,864.69	6,354.89

Cash Flow Statement Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	-14.57	272.59	-427.49
Net Cash Flow from Investing Activities	-186.61	-2.45	264.86
Net Cash Flow from Financing Activities	194.37	-256.70	161.43

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24
Diluted EPS	0.38	0.96	2.41	EV/EBITDA	14.29	19.33	5.52
BV per share	9.22	9.89	15.41	Market Cap / Sales	2.91	1.60	1.46
<u>Operating Ratios</u>				P/E	97.37	38.54	15.35
EBITDA Margins	8.67%	3.53%	13.53%	Price to Book Value	4.01	3.74	2.40
PAT Margins	1.86%	2.54%	6.71%	<u>Solvency Ratios</u>			
Inventory days	193.92	72.36	45.40	Debt / Equity	1.33	1.18	0.68
Debtor days	272.46	188.19	316.37	Current Ratio	1.72	1.71	1.76
Creditor days	171.38	174.73	226.15	Quick Ratio	1.15	1.32	1.57
<u>Return Ratios</u>				Asset Turnover	0.53	0.97	0.82
RoCE	7.76%	5.44%	22.47%	Interest Coverage Ratio	0.99	0.86	4.65
RoE	3.47%	8.06%	15.03%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Srujan Alpha Capital Advisors LLP. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Srujan Alpha Capital Advisors LLP –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Esprit Stones Limited	50.42	87.00	Aug 02, 2024	105.60
2.	Kontor Space Limited	15.62	93.00	Oct 10, 2023	178.55
3.	Dharni Capital Services Limited	10.74	20.00	Jan 31, 2023	44.70

The company has handled 3 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 13th Sep 2024.

As per the offer document, from the above-mentioned mandates, all the mandates have opened at premiums on the listing day.

Recommendation -

Popular Foundation Limited has been in the industry since 1998 and has vast experience in the industry. The management overview of the company is decent.

The P/E on a post-IPO basis is around 21.68 times which makes it highly priced by looking at the performance of the company and sector. The industry average P/E is 36.05 times.

The company operates in a very fragmented and competitive industry. The company has seen a sudden increase in its margins which may or may not be sustainable going forward. The company has had negative operating cash flow for the FY 2022, and 2024. The company's objective is not very satisfactory. The company operates majorly in south India and is highly concentrated geography and product-wise.

Thus, we recommend **AVOID** to this IPO.

Disclaimer

We are not registered research analysts with SEBI and are not subject to the regulations governing research analysts. This research report is for educational purposes only and should not be construed as investment advice. The information contained in this report is based on publicly available information and is believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy or completeness. Also, some of the employees of our organization may have or may in the future hold investments in the company that is the subject of this research report. This may create a conflict of interest, and you should be aware of this when considering the information contained in this report. You should consult with your financial advisor before making any investment decisions.

OUR WEBSITE:

www.tiareconsilium.com

OUR APP AVAILABLE ON:



CONNECT WITH US ON :

