

IPO Note

Denta Water and Infra Solutions Limited

Recommendation: **APPLY!**

Company Background -

- **Incorporation:** The company was originally incorporated as "Denta Properties and Infrastructure Limited" on Nov 17, 2016. The registered office is located at Bangalore, Karnataka.
- **Business Activity:** The company is a water and infrastructure solutions company engaged in design, installation and commissioning of water management infrastructure projects with expertise in ground water recharging projects.
- **Revenue Stream:** The major revenue stream for the company is from water management projects.
- **Human Resource:** The company had 89 permanent employees as of Nov 30, 2024.

Objects of the Issue -

- To meet working capital requirements of the Company
- General corporate purposes.

Promoters Name -

Sowbhagyamma, Sujith T R, C Mruthyunjaya Swamy and Hema H M

Rationale for recommendation -

- ✓ The PE ratio is 16.43 times post annualized basis which makes it fairly priced.
- ✓ The top line and bottom line have increased consistently over the years.
- ✓ The RoE and RoCE are better compared to its peers.
- ✓ The company has a strong order book of Rs. 752.45 Cr.
- ✓ The company has also entered to road and railway projects.
- ✓ The company has decent experience in the industry.
- ✓ The management overview is satisfactory
- ✓ The industry prospect is good and the government has taken many initiatives.

IPO Details

Opening Date	Jan 22, 2024
Closing Date	Jan 24, 2024
Allotment Date	Jan 27, 2024
Listing Date	Jan 29, 2024
Stock Exchange	BSE, NSE
Lot Size	50 Shares
Issue Price Per Share	₹279 to ₹294
Issue Size	220.50 Cr.
Fresh Issue	220.50 Cr.
Offer for Sale	-
Application Amt	₹ 14,700 - ₹ 1,91,100 (50 to 650 shares)

INDUSTRY - EPC (Water Projects)

Avg. PE ratio as per RHP - 32.94

KPI's	KPIs (In Crores)			
	FY 22	FY 23	FY 24	Sep-24
Revenue	119.57	174.32	238.60	97.78
EBITDA	51.81	66.96	79.14	32.77
Net Profit	38.34	50.11	59.73	23.88
RoCE	94.45%	62.90%	47.54%	14.87%*
ROE	70.43%	47.93%	36.36%	11.04%*
P/E	14.72	11.26	9.45	16.43*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post Issue
100.00%	71.91%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	31.11	17.89
BVPS	85.59	162.11
P/E	9.45	16.43
P/BV	3.44	1.81
Mkt Cap (In Cr)	564.48	784.98

*Annualized

Lead Managers -

SMC Capitals Limited

Registrar -

Bigshare Services Private Limited

Business Overview –

Denta Water and Infra Solutions Limited is a water and infrastructure solutions company engaged in design, installation and commissioning of water management infrastructure projects with expertise in ground water recharging projects. In addition, they also undertake construction projects in the field of railways and highways. As on date, their water management projects are concentrated in the state of Karnataka and have executed 32 water management infrastructure projects, where they have undertaken 11 projects as the main contractor, 1 project has been undertaken under a consortium / joint venture arrangement and 20 projects have been undertaken under a sub-contract arrangement with the main contractor.

The company participates in tenders for developing projects such as infrastructure for ground water recharging, lift irrigation, infrastructure for supplying drinking water to various habitations under “Jal Jeevan Mission”. Under the “Jal Jeevan Mission”, the Company was awarded three projects i.e. “Kerehalli Drinking Water Project” and “Chikkabenakal Drinking Water Project” and Rehabilitation of MVS to Doddakowlande and other 55 Villages of Nanjangud Taluk which are located in the State of Karnataka. As on November 30, 2024, they have covered 445.77 km of infrastructure for water management, pumping of secondary treated sewage water from adjoining cities of Bangalore, Mysore in the State of Karnataka, to replenish the dried lakes in adjoining districts such as Kolar, Chikkaballapura and Ramanagara in the State of Karnataka and supplying of drinking water to peripheral habitations from reservoirs.

Order Book:

As on November 30, 2024, out of total contract value of ₹1,100.44 cr., they have completed work amounting to ₹347.99 cr. and outstanding order book is of ₹752.45 cr.

Major Ongoing Projects:

1. Koramangala-Challaghatta (KC) Valley project – Phase II

The company was awarded contract by the Minor Irrigation department, Government of Karnataka for second stage lifting or pumping secondary treated water from available sources to various ridge points to fill additional 272 tanks in Kolar District and Chintamani Taluk of Chikkaballapura District.

2. Bangalore East Lift Irrigation Scheme (LIS)

The company was awarded contract by the Minor Irrigation department, Government of Karnataka for lifting/pumping of secondary treated water from KR Puram STP to feed 22 tanks in Bangalore (East) Taluk of Bangalore Urban District through LIS.

3. Multi Village Scheme for drinking water supply – Kopal District

The company was awarded contract by Rural Drinking Water and Sanitation Department, Government of Karnataka, for supplying drinking water to Kerehalli and other 103 habitations of Koppal Taluk in Koppal District in Karnataka. The project comprises designing and engineering for lifting water from Tungabhadra river, installation of water treatment plant with capacity of 14.5 MLD and 8.5 MLD and laying of 388.605 km of pipelines for supply of drinking water.

Revenue Bifurcation:

(Amt in Cr.)

Particulars	FY 2022		FY 2023		FY 2024		Sep-24	
	Amt	%	Amt	%	Amt	%	Amt	%
Water Management	95.50	79.87%	156.36	89.78%	223.33	93.60%	95.35	97.52%
Irrigation	4.44	3.71%	1.29	0.74%	0.05	0.02%	-	-
Roads	-	-	2.39	1.37%	5.52	2.32%	1.46	1.49%
Operations and maintenance	-	-	0.20	0.11%	0.34	0.14%	-	-
Miscellaneous	19.64	16.42%	13.92	7.99%	9.18	3.85%	0.65	0.66%
Railway Work	-	-	-	-	0.18	0.07%	0.32	0.33%
Total	119.57	100%	174.17	100%	238.60	100%	97.78	100%

Competition -

- 1. Market Competition:** The industry is highly competitive and the key factors of competition are the type of project, total contract value, technical capability, complexity, location of the project and risks involved.
- 2. Geographic Competition:** The company faces competition from other companies operating in the same geographies as them with presence in Water Management projects.
- 3. Barriers to entry:** Moderate barriers to entry.
- 4. Threat of Substitutes:** High threat of substitutes.
- 5. Bargaining Power of Buyers:** The bargaining power is high with the customers.
- 6. Bargaining Power of Suppliers:** The bargaining power is low with the suppliers.

Business Strategies -

- The company intends to continue to focus on construction of existing projects while seeking opportunities to expand portfolio of GWR Projects.
- The company intends to expand into other geographies such as Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh to unearth additional opportunities beyond the confines of Karnataka.
- The company intends to diversify into new functional areas.

Risk Factors -

The company heavily relies on Government of Karnataka for its business.

The company is experiencing time overrun in 10 projects due to delay in clearance of the site.

The company is highly dependent on top 10 suppliers for their raw materials contributing to 72.63%, 50.92%, 40.01% and 97.98% for FY22, FY23, FY24 and Sep-24 respectively.

The company has 2 cases against it for tax and civil matters amounting to Rs. 0.31 Cr.

The company had negative cash flow from operations for FY22 and Sep-24.

The company has contingent liabilities amounting to Rs. 57.83 Cr. as of Sep 30,2024.

PEER ANALYSIS

Particulars	Denta Water and Infra Solutions Limited			VA Tech Wabag Limited			EMS Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	32.06%	28.75%	25.03%	4.38%	0.43%	8.47%	21.52%	19.82%	18.83%
EBITDA Margin	43.33%	38.41%	33.17%	8.84%	3.03%	14.13%	31.88%	28.55%	27.14%
RoCE	94.45%	62.90%	47.54%	14.00%	4.63%	16.58%	28.74%	27.04%	24.18%
ROE	70.43%	47.93%	36.36%	8.57%	0.83%	13.50%	20.56%	21.95%	19.09%
EPS (INR)	19.97	26.10	31.11	21.21	2.09	39.49	16.63	22.91	29.72
P/E	14.72	11.26	9.45	13.45	168.37	19.33	-	-	13.54

- The market cap of the company is low compared to its peers.
- The PE ratio of the company is better compared to its peers.
- The RoCE and RoE is better compared to its peers.
- Denta Water and Infra Solutions and EMS Limited have observed a similar NP and EBITDA margin trend.

INDUSTRY OVERVIEW -**Indian Water and Wastewater Management Industry:**

India is the largest user of ground water (GW), with 50% of its rural population relying on it for basic needs. It is estimated that 17% of ground water blocks is overexploited due to excessive extraction of GW, reducing annual recharge from 447 billion cubic meters to 432 billion cubic meters. The India Water and Wastewater Treatment market is expected to grow at a CAGR of 6.20% in terms of value to reach USD 23,849.806 Million in 2033 from USD 13,101.158 Million in 2023.

In India, the urban sewage generation was 72,368 MLD in 2020-21, whereas the existing sewage treatment capacity was 31,841 MLD. The operating capacity is 26,869 MLD, which is much less than the load generation. Only 28% of total sewage generation, or 20,236 MLD, was processed, implying that 72% of waste water is left untreated and is disposed of in various water bodies such as rivers, lakes, or subterranean water. There has been some capacity expansion, such as 4,827 MLD sewage treatment, but there is still a 35,700 MLD gap, or 49%, between waste water generation and treatment. The expected sewage generation is 72,368 MLD, whereas the existing treatment capacity is 31841 MLD (43.9%). The operationalized capacity is 26,869 MLD (84% of the total installed capacity of 31,841 MLD).

INDIA WATER & WASTEWATER TREATMENT MARKET REVENUE ESTIMATES AND FORECASTS, BY REGION, 2019-2033, (USD MILLION)

Region	2019	2022	2023	2024	2027	2030	2033	CAGR% (2024-33)
North	2,952.385	3,426.522	3,622.503	3,832.519	4,552.556	5,439.605	6,529.634	6.10%
West	2,824.903	3,307.226	3,507.738	3,723.306	4,467.390	5,393.410	6,543.281	6.47%
South	3,065.899	3,570.369	3,779.356	4,003.593	4,774.413	5,727.791	6,904.113	6.24%
East	1,797.692	2,076.670	2,191.561	2,314.420	2,733.769	3,246.857	3,872.778	5.89%
Total	10,640.878	12,380.787	13,101.158	13,873.839	16,528.128	19,807.663	23,849.806	6.20%

India water & wastewater treatment market revenue estimates and forecast, by type, 2019-2033(USD million)

Type	2019	2022	2023	2024	2027	2030	2033	CAGR% (2024-33)
Water Treatment	5,366.400	6,276.633	6,654.796	7,061.210	8,462.992	10,205.567	12,366.881	6.42%
Sewage Treatment	4,073.319	4,734.731	5,008.400	5,301.836	6,309.080	7,552.189	9,082.591	6.16%
Effluent Treatment	1,201.160	1,369.422	1,437.961	1,510.793	1,756.056	2,049.906	2,400.334	5.28%
Total	10,640.878	12,380.787	13,101.158	13,873.839	16,528.128	19,807.663	23,849.806	6.20%

(Source:RHP)

Groundwater Recharging in Karnataka:

Over-exploitation and insufficient replenishment of groundwater have created an urgent need to preserve freshwater and reuse treated wastewater in Karnataka. To address this issue, the government has initiated a largescale plan to recycle 440 million liters per day, aimed at indirectly recharging groundwater in the drought-prone Kolar district. This recycling effort employs Soil Aquifer Treatment (SAT) technology, which involves filling surface run-off tanks with treated sewage water (STW) that infiltrates and recharges aquifers. The facility treats wastewater up to the secondary level before pumping it into 137 designated tanks. Results show that water in the revitalized tanks meets India's stringent discharge regulations, with groundwater levels in monitored boreholes increasing by 58-73% and quality improving significantly, converting hard water to soft. Land use studies indicated increases in water bodies, trees, and cultivated land, leading to a boost in agricultural output by 11-42%, milk productivity by 33%, and fish productivity by 341%.

Key Management -

Key Management Persons Name -	Manish Shetty
Age	32
Designation	Managing Director
Qualification	Bachelors' degree in engineering
Other Directorships	Excelink Career Solutions Private Limited, JNS Neopac India Private Limited and Ninetech Infra Solutions Private Limited

Key Management Persons Name -	Sujith TR
Age	39
Designation	Promoter, Whole-time Director and CFO
Qualification	Bachelor's degree in medicine & surgery, master's degree in business administration, post graduate degree of Doctor of Medicine in pharmacology and post graduate diploma in diabetology
Other Directorships	-

Key Management Persons Name -	Nista U Shetty
Age	30
Designation	Non-Executive Director
Qualification	Bachelors' degree in architecture
Other Directorships	Coorguva Infra and Hospitality Private Limited and UVASANDS Private Limited

Key Management Persons Name -	Gopalakrishna Kumaraswamy
Age	61
Designation	Independent Director
Qualification	Bachelors' degree in engineering
Other Directorships	-

Key Management Persons Name -	Pradeep N
Age	39
Designation	Independent Director
Qualification	Bachelors' degree in commerce and qualified CA
Other Directorships	-

Key Management Persons Name -	R. Narendra Babu
Age	62
Designation and No. of experience	Independent Director, 25+ years of experience in indirect taxation
Qualification	Bachelors' degree in engineering
Previous Associations	Minor Irrigation Division, Government of Karnataka

- The overall management of the company is decent.
- The management and promoters have good experience.
- The senior management consists of Senior Finance Officer, Finance Controller, General Manager and HR manager.

FINANCIAL SNAPSHOT

Statement of Profit and Loss					Amt in Crores
Particulars	FY 22	FY 23	FY 24	Sep-24	
Revenue from Operations	119.57	174.32	238.60	97.78	
Other Income	0.06	1.42	3.24	0.73	
Total Income	119.64	175.75	241.84	98.51	
Expenses					
Cost of Materials Consumed	66.88	104.50	151.98	60.31	
Employee benefits expense	0.10	1.13	3.62	2.65	
Finance Cost	-	0.09	0.51	0.11	
Depreciation and Amortization expense	0.09	0.37	0.49	0.58	
Other Expenses	0.78	1.74	3.86	2.06	
Total Expenses	67.85	107.83	160.45	65.69	
EBITDA	51.81	66.96	79.14	32.77	
EBITDA Margin	43.33%	38.41%	33.17%	33.51%	
Profit/(Loss) before tax	51.79	67.92	81.39	32.82	
Tax Expense					
Current tax	13.45	17.76	21.56	8.95	
Deferred Tax	0.002	0.04	0.10	-0.01	
Total Tax Expense	13.45	17.81	21.66	8.93	
Profit/(Loss) for the year	38.34	50.11	59.73	23.88	
Net Profit Margin	32.06%	28.75%	25.03%	24.42%	
Statement of Assets and Liabilities					Amt in Crores
Particulars	FY 22	FY 23	FY 24	Sep-24	
EQUITY AND LIABILITIES					
1. Shareholders' funds					
Share Capital	4.80	4.80	19.20	19.20	
Other Equity	49.63	99.75	145.06	169.26	
Total Shareholder's Fund	54.43	104.55	164.26	188.46	
Minority Interest	-	0.06	0.07	0.01	
Total Equity	54.43	104.61	164.33	188.47	
NON-CURRENT LIABILITIES					
Financial Liabilities					
(i) Borrowings	-	0.86	0.55	0.38	
Provisions	0.01	0.04	0.11	0.19	
Deferred tax liabilities	0.06	0.10	0.19	0.18	
Other non-current liabilities	0.27	0.27	0.27	0.27	
Total Non-current liabilities	0.34	1.27	1.11	1.02	
3. Current liabilities					
Financial Liabilities					
(i) Borrowings	-	0.29	0.31	0.33	
(ii) Trade Payables					
(a) Total outstanding dues of MSME	0.08	0.06	0.63	0.04	
(b) Total outstanding dues of creditors other than MSME	3.51	10.12	10.60	4.37	
Other Current Liabilities	1.07	5.65	11.72	1.53	
Provisions	0.09	0.11	23.68	17.15	
Current Tax Liabilities (Net)	1.12	1.18	7.46	7.44	
Total Current liabilities	5.87	17.41	54.41	30.86	
Total Liabilities	6.21	18.67	55.52	31.87	
Total Equity and Liabilities	60.64	123.28	219.85	220.35	
ASSETS					
1. Non-current assets					
Property, Plant and Equipment	10.06	24.32	24.51	24.26	
Other Intangible Assets	-	0.01	0.02	0.02	
Financial Assets					
(i) Investments	-	-	-	10.11	

Particulars	FY 22	FY 23	FY 24	Sep-24
(ii) Loans	-	6.63	6.86	-
(iii) Other financial assets	0.50	9.44	9.73	5.09
Other Non- current Assets	0.04	5.05	4.43	4.42
Total Non-Current assets	10.60	45.45	45.56	43.90
2. Current assets				
Inventories	3.36	6.50	19.51	22.39
Financial Assets				
(i) Trade receivables	13.45	23.15	25.46	10.19
(ii) Cash and cash equivalents	13.58	35.91	12.58	0.55
(iii) Bank balances other than (ii)	-	0.41	50.38	17.16
(iv) Other Financial Assets	8.82	0.53	3.88	1.28
Other Current Assets	10.83	11.34	62.48	124.88
Total Current assets	50.04	77.83	174.29	176.45
Total Assets	60.64	123.28	219.85	220.35

Cash Flow Statement				Amt in Crores
Particulars	FY 22	FY 23	FY 24	Sep-24
Net Cash Flow from Operating Activities	-7.80	51.46	26.90	-46.76
Net Cash Flow from Investing Activities	-4.46	-29.55	0.56	1.84
Net Cash Flow from Financing Activities	-0.05	0.83	-0.82	-0.33

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	FY 25*	Valuation Ratios (x)	FY 22	FY 23	FY 24	FY 25*
Diluted EPS	19.97	26.10	31.11	17.89	EV/EBITDA	0.79	1.04	1.29	11.03
BV per share	113.40	217.94	85.59	162.11	Market Cap / Sales	1.18	0.81	2.37	4.01
Operating Ratios					P/E	14.72	11.26	9.45	16.43
EBITDA Margins	43.33%	38.41%	33.17%	33.51%	Price to Book Value	2.59	1.35	3.44	1.81
PAT Margins	32.06%	28.75%	25.03%	24.42%	Solvency Ratios				
Inventory days	10.28	13.64	29.93	23.94	Debt / Equity	-	0.01	0.01	0.001
Debtor days	41.18	48.61	39.06	36.98	Current Ratio	8.52	4.47	3.20	3.20
Creditor days	27.09	59.92	54.95	41.86	Quick Ratio	7.95	4.10	2.84	2.84
Return Ratios					Asset Turnover	1.97	1.41	1.09	0.89
RoCE	94.45%	62.90%	47.54%	14.87%	Interest Coverage Ratio	-	716.01	155.13	303.70
RoE	70.43%	47.93%	36.36%	11.04%					

*Annualized

FINANCIAL ANALYSIS –

- The top line has increased consistently over the years. For FY2023 it increased by 45.79% and for FY2024 it increased by 36.87% which was because of increase in revenue from ongoing projects and the completion of the projects during the year.
- The net profit has also increased consistently over the years. It increased by 30.71% in FY23 and 19.19% in FY24.
- The PAT and EBITDA margin have decreased consistently over the years.
- The RoCE and RoE have also decreased consistently over the years.
- The PE ratio has improved in over the years.
- The company had negative cash flow from operations in FY22 and Sep-24.

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is SMC Capitals Limited. This is their third mandate.

A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

SMC Capitals Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Venus Pipes & Tubes Limited	165.42	326.00	May 24, 2022	1,414.50
2.	BSE Limited	1,243.43	806.00	Feb 03, 2017	5,998.75

The company has handled 1 mandates in the past three years (including the current year).

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

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

Recommendation -

Denta Water and Infra Solutions Limited has been in the industry since 2016 and has decent experience in the industry.

The management overview of the company is decent. However, the management team lacks depth, with no board member possessing prior relevant industry expertise or education related to infrastructure or management.

The P/E on a post-IPO annualized basis is 16.43 times which makes it fairly priced.

The top line and bottom line of the company has increased consistently over the years and looks sustainable. The profitability margins have seen a decrease over the years and it should not be a major concern as cost of materials consumed significantly increased undertaking new projects. Also, the RoE and RoCE of the company is better compared to its peers. Furthermore, the company majorly takes up government contracts which might result in a payment delay from their end.

The company has a strong order book of ₹752.45 cr. as outstanding value and has created a strong presence in Karnataka and wants to expand geographically as well. The company has also taken up a railway and road projects which will help grow their top line in the future.

The company is well-positioned for growth, with a strong order book, and new project ventures. Overall, they have strong fundamentals, and its industry prospects are promising with government initiatives.

Thus, investors can **APPLY** to this IPO for long-term basis.

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