



IPO Note

Desco Infratech Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** Desco Infratech Limited was originally incorporated on Jan 19, 2011. The registered office is located at Surat, Gujarat.
- **Business Activity:** The company is an infrastructure company focused on Engineering, Planning, & Construction, particularly in City Gas Distribution, Renewable Energy, Water, and Power sectors.
- **Revenue Stream:** The company generates majority of the revenue from city gas distribution network project.
- **Human Resource:** The company has 234 permanent and contractual employees as on Dec 31, 2025.

Objects of the Issue -

- Funding of capital expenditure requirements towards setting up of corporate office in Surat, Gujarat
- Funding of capital expenditure requirements towards purchase of machineries
- Funding Working Capital Requirements of the Company
- General Corporate Purposes

Promoters Name -

Indiraben Pruthubhai Desai, Pankaj Pruthu Desai, Hina Pankaj Desai, Malhar P Desai and Samarth Pankaj Desai

Rationale for recommendation -

- ✓ The PE ratio of 17.03 times makes it slightly highly priced.
- ✓ The bottom line and profitability margins have also increased over the years and but have seen a sudden jump in FY24 which looks unsustainable.
- ✓ The company had negative CFO for FY23, FY24 and Sep-24.
- ✓ There is concentration for customers.
- ✓ The business operations are concentrated in 4 states (Gujarat, Maharashtra, UP and Haryana).
- ✓ The industry is highly fragmented and concentrated.

IPO Details

Opening Date	Mar 24, 2025
Closing Date	Mar 26, 2025
Allotment Date	Mar 27, 2025
Listing Date	Apr 01, 2025
Stock Exchange	BSE SME
Lot Size	1,000 Shares
Issue Price Per Share	₹147 to ₹150
Issue Size	30.75 Cr.
Fresh Issue	30.75 Cr.
Offer for Sale	-
Application Amt	₹ 1,50,000 (1,000 shares)

INDUSTRY - Infrastructure

Avg. P/E ratio as per RHP - 12.95

KPI's	KPIs (In Lakhs)			
	FY 22	FY 23	FY 24	Sep-24
Revenue	1,985.19	2,922.21	2,939.31	2,263.46
EBITDA	165.77	219.32	555.92	485.72
Net Profit	82.52	122.72	345.82	338.07
RoCE	29.33%	25.75%	39.44%	16.04%*
ROE	21.43%	24.37%	28.83%	11.90%*
P/E	81.97	54.95	21.58	17.03*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
79.29%	58.12%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	6.95	8.81
BVPS	431.76	73.99
P/E	21.58	17.03
P/BV	0.35	2.03
Mkt Cap (In Cr)	84.39	115.14

*Annualized

Lead Managers -

Smart Horizon Capital Advisors Private Limited

Registrar -

Bigshare Services Private Limited

Business Overview -

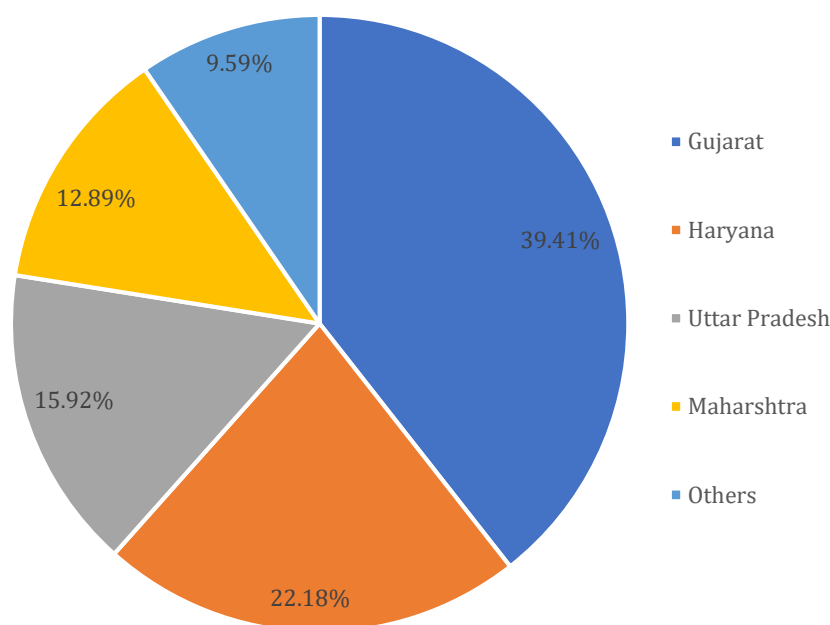
Desco Infratech Limited is engaged in providing infrastructure and maintenance services to city gas distribution divisions in India. They engage in activities such as pipeline laying, installation, testing, erection and commissioning for Piped Natural Gas (PNG) utilized by both domestic and commercial users.

The O&M Services encompass both underground and above ground gas pipeline work for carbon steel and MDPE pipelines. As part of this, the company conduct lock pressure and leak detection tests on MDPE pipelines to identify leaks and prevent significant natural gas losses and potential accidents resulting from these leaks. Dedicated emergency response vehicles are maintained to detect leaks and deter unauthorized access, addressing potential hazards proactively. When a situation arises, a specialized team comprising an engineer, technicians and support staff is mobilized to the location. This team takes safe and immediate action to assess the situation and implement necessary measures, ensuring a quick operational recovery and minimizing any uninterrupted gas supply.

The Company has begun offering services in the power division, focusing on the installation, connectivity, commissioning, and erection of Low Tension (LT) and High Tension (HT) cables. These services ensure efficient power transmission and distribution across industrial, commercial, and residential applications. Furthermore, the company is also involved in water distribution projects as well which involves designing and constructing water distribution networks, open wells, sump wells, overhead tanks, and well systems.

Geography-wise Bifurcation:

Revenue Bifurcation Geography-Wise (Sep-24)



Revenue Bifurcation:

(In Lakhs)

Particulars	FY 2022		FY 2023		FY 2024		Sep-2024	
	Amt	%	Amt	%	Amt	%	Amt	%
City Gas Distribution Network Projects	989.55	49.85%	1,265.99	43.32%	1,267.57	43.12%	1,881.07	83.11%
Power Segment Projects	-	-	-	-	85.14	2.90%	136.21	6.02%
O&M Services	995.64	50.15%	1,656.22	56.68%	1,586.60	53.98%	172.50	7.62%
Water Distribution Projects	-	-	-	-	-	-	66.68	2.95%
Renewable Energy Projects	-	-	-	-	-	-	7.00	0.31%
Total	1,985.19	100%	2,922.21	100%	2,939.31	100%	2,263.46	100%

Project Details:

As on Dec 31, 2024, the order book consists of 78 ongoing projects and 7 upcoming projects aggregating to Rs. 24,367.58 lakhs.

(In Lakhs excluding GST)

Sr. No.	Project	No. of work orders/ contracts	Value of Project	Sr. No.	Project	No. of work orders/ contracts	Value of Project
Government Projects				Private Sector Projects			
1. City gas distribution network				1. City gas distribution network			
i)	Completed	29	6,562.89	i)	Completed	18	1,701.52
ii)	Ongoing	19	7,278.13	ii)	Ongoing	39	6,580.85
iii)	Upcoming	6	7,115.40	iii)	Upcoming	-	-
2. O&M Services				2. O&M Services			
i)	Completed	14	1,861.80	i)	Completed	4	373.40
ii)	Ongoing	7	1,178.54	ii)	Ongoing	6	334.60
iii)	Upcoming	1	450.00	iii)	Upcoming	-	-
3. Power Distribution				3. Power Distribution			
i)	Ongoing	-	-	i)	Ongoing	3	660.83
4. Water Distribution				4. Water Distribution			
i)	Ongoing	-	-	i)	Ongoing	2	186.39
5. Foundational Support in Renewable Energy				5. Foundational Support in Renewable Energy			
i)	Ongoing	-	-	i)	Ongoing	2	582.84

Competition -

- Market Competition:** The industry is competitive where the key factors of competition primarily comprise of the type of project, total contract value, technical capability, complexity, location of the project and risks involved.
- Geographic Competition:** The company faces competition from small and large players in both organized and unorganized sector.
- Barriers to entry:** Low barriers to entry.
- Threat of Substitutes:** High threat of substitutes.
- Bargaining Power of Buyers:** The bargaining power is high with the customers.
- Bargaining Power of Suppliers:** The bargaining power is low with the customers.

Business Strategies -

- The company entered into water distribution projects and also secured a project in the renewal energy sector. Also they intend to expand their service portfolio further.
- The company intends to enhance O&M service business and cater to the evolving needs of the pipeline industry.

Risk Factors -

The company is highly dependent on top 10 customers for their revenue generation constituting to 99.99%, 90.47%, 98.52% and 91.17% for FY22, FY23, FY24 and Sep-24 respectively.

The company had 8 cases against it for tax and criminal matters amounting to Rs. 69.97 lakhs approx.

The promoters/ directors have 29 cases against it for tax matters amounting to Rs. 146.91 lakhs.

The company faces seasonal variations due to difficult working conditions affected by severe weathers mostly during extremely high temperatures and monsoon seasons.

The company had negative cash flow from operations in FY23, FY24 and Sep-24.

The company's total related party transaction as a % of revenue is 43.02% for Sep-24 which is quite high.

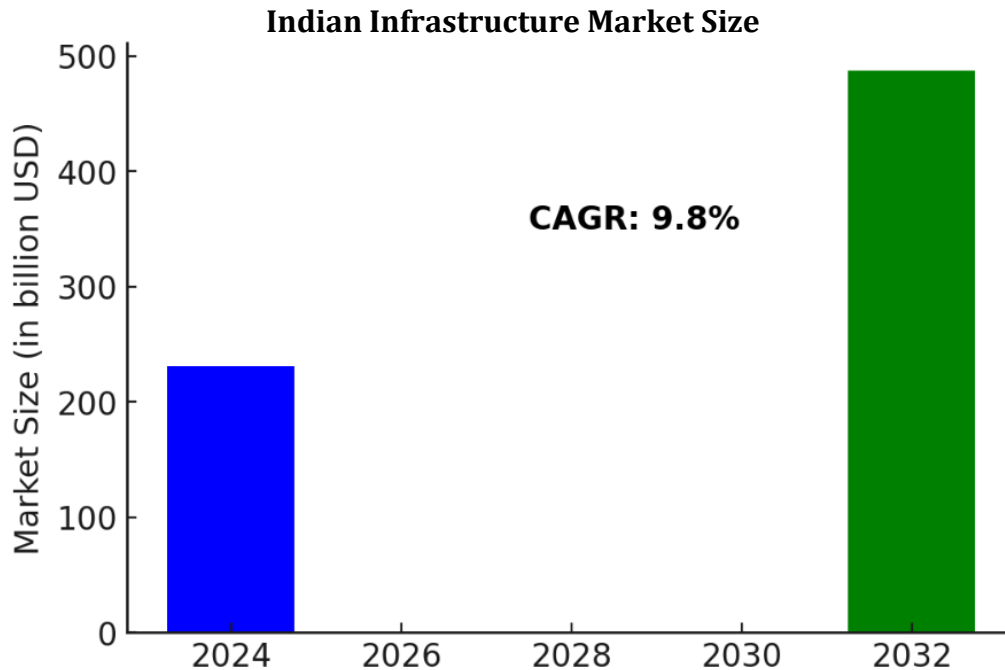
The company had contingent liabilities of Rs. lakhs as of Sep-24.

INDUSTRY OVERVIEW -

Indian Infrastructure Industry -

Infrastructure is a key enabler in helping India become a US \$26 trillion economy. Investments in building and upgrading physical infrastructure, especially in synergy with the ease of doing business initiatives, remain pivotal to increase efficiency and costs. The Indian infrastructure industry is poised for substantial growth in the coming years, driven by significant investments and development across various sectors.

The market was valued at USD 231 billion in 2024 and is projected to reach USD 487 billion by 2032, growing at a compound annual growth rate (CAGR) of 9.8% during the forecast period.



The broader construction market, encompassing infrastructure projects, was valued at USD 884.72 billion in 2023 and is projected to reach USD 2,134.43 billion by 2030, achieving a CAGR of 12.6%.

Indian Oil & Gas Industry -

The oil and gas sector is among the eight core industries in India and plays a major role in influencing the decision making for all the other important sections of the economy.

According to the IEA (India Energy Outlook 2021), primary energy demand is expected to nearly double to 1,123 million tonnes of oil equivalent, as India's gross domestic product (GDP) is expected to increase to US\$ 8.6 trillion by 2040.

Indian refining capacity has increased from 215.1 million Metric Tons Per Annum (MMTPA) to 256.8 MMTPA in last 10 years. And it is projected to increase to 309.5 MMTPA by the year 2028. India is expected to be one of the largest contributors to non-OECD petroleum consumption growth globally.

The consumption of petroleum products has increased from 158.4 million metric tons (MMT) in the fiscal year 2013-14 to 234.3 MMT in the fiscal year 2023-24.

According to the International Energy Agency (IEA), consumption of natural gas in India is expected to grow by 25 BCM, registering an average annual growth of 9% until 2024.

Key Management -

Key Management Persons Name - Age	Pankaj Pruthu Desai 61
Designation and No. of years of experience	Promoter, Chairman and Managing Director, 18+ years of experience in city gas distribution & pipeline industry
Qualification Responsibility	Bachelor of Arts (Economics) Oversees client acquisition, business development and overall management of the Company.
Other Directorships	Desai Energy Private Limited
Key Management Persons Name - Age	Malhar P Desai 31
Designation and No. of years of experience	Promoter and Whole-Time Director, 8+ years of experience in city gas pipeline and operations activities
Qualification Responsibility	Business Administration and Management Contributes by looking after the daily operations, tender acquisitions, human resource and finance department of the Company
Other Directorships	-
Key Management Persons Name - Age	Samarth Pankaj Desai 26
Designation and No. of years of experience	Promoter and Executive Director, 6+ years of experience in city gas pipeline and operations activities
Qualification Responsibility	Bachelor of Arts and Bachelor of Laws ('B.A. LLB.') degree Contributes by looking after the responsibility of project operation, vendor management & establishment, business development in new verticals in the Company
Other Directorships	-

- The overall management of the company is decent.
- The promoter and management have good experience in the industry.
- There is an evidence of dual chairmanship, which is not favourable.
- Amulya Kumar Jena, Anand Jayaramankrishnan, Kaushal Manishkumar Rangoonwala, Mahendra Sabarsinh Gusain and Anita Digbijay Paul, are Non-Executive Independent Directors of the Company. They have an average experience of 5+ years in their respective fields.
- **Prinkle Jain (CFO)**, aged 32 years, is a qualified CA, completed the professional examination course of ICSI and holds M. Com degree and has 4 years of experience.
- **Gandharva Javanika (CS)**, aged 37 years, has 8+ years of experience.

FINANCIAL SNAPSHOT

Statement of Profit and Loss				Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24	Sep-24
Revenue from Operations	1,985.19	2,922.21	2,939.31	2,263.46
Other Income	6.32	6.00	10.17	11.04
Total Income	1,991.51	2,928.21	2,949.48	2,274.50
Expenses				
Cost of materials consumed	1,057.00	1,789.07	1,402.52	1,332.33
Employee Benefit Expenses	609.60	750.99	758.33	284.41
Finance Cost	37.93	36.57	52.43	45.37
Depreciation and Amortization Expense	13.82	14.83	15.73	10.28
Other expenses	152.82	162.83	222.54	161.00
Total Expenses	1,871.17	2,754.29	2,451.55	1,833.39
EBITDA	165.77	219.32	555.92	485.72
EBITDA Margin	8.35%	7.51%	18.91%	21.46%
Profit/(Loss) before tax	120.34	173.92	497.93	441.11
Tax Expense				
Current tax	32.91	55.38	151.61	106.60
Deferred Tax	4.91	-4.18	0.50	-3.56
Total Tax	37.82	51.20	152.11	103.04
Profit/(Loss) for the year	82.52	122.72	345.82	338.07
Net Profit Margin	4.16%	4.20%	11.77%	14.94%

Statement of Assets and Liabilities				Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24	Sep-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	25.00	25.00	27.78	562.60
Reserves and Surplus	360.06	478.65	1,171.56	1,704.18
Total Equity	385.06	503.65	1,199.34	2,266.78
NON-CURRENT LIABILITIES				
Long-term Borrowings	132.35	272.91	156.90	329.80
Deferred Tax liability	0.58	-	-	-
Long Term Provisions	-	17.45	13.31	26.92
Total Non-current liabilities	132.93	290.36	170.21	356.72
CURRENT LIABILITIES				
Short-term Borrowings	176.46	308.08	249.47	351.73
Trade Payables				
(a) Total outstanding dues of MSME	-	-	116.45	308.13
(b) Total outstanding dues of creditors other than MSME	281.46	717.49	243.24	23.87
Other Current Liabilities	196.84	244.88	311.11	151.70
Current Tax Liabilities (Net)	-	0.38	90.13	153.16
Total Current liabilities	654.76	1,270.83	1,010.40	988.59
Total Liabilities	787.69	1,561.19	1,180.61	1,345.31
Total Equity and Liabilities	1,172.75	2,064.84	2,379.95	3,612.09
ASSETS				
NON-CURRENT ASSETS				
Property, Plant and Equipment	93.36	94.74	134.06	137.10
Long-Term Loans and Advances	-	3.61	3.11	6.67
Deferred tax assets (net)	-	58.95	83.07	183.25
Other Non-current Assets	36.46	35.32	55.68	61.51

Particulars	FY 22	FY 23	FY 24	Sep-24
Total Non-Current assets	129.82	192.62	275.92	388.53
CURRENT ASSETS				
Inventories	34.60	35.20	83.46	207.17
Trade Receivables	711.22	1,401.56	1,476.72	1,915.29
Cash & Cash equivalents	19.35	16.80	35.16	83.39
Short Term Loans and Advances	18.61	12.65	70.69	466.38
Other Current Assets	259.15	406.02	438.00	551.34
Total Current assets	1,042.93	1,872.23	2,104.03	3,223.57
Total Assets	1,172.75	2,064.85	2,379.95	3,612.10

Cash Flow Statement Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Sep-24
Net Cash Flow from Operating Activities	34.10	-169.30	-27.64	-805.49
Net Cash Flow from Investing Activities	-19.99	-72.06	-80.43	-111.79
Net Cash Flow from Financing Activities	-25.67	238.81	126.44	965.50

Key Ratios

<u>Per Share Data</u>					<u>Valuation Ratios (x)</u>				
	FY 22	FY 23	FY 24	FY 25*		FY 22	FY 23	FY 24	FY 25*
Diluted EPS	1.83	2.73	6.95	8.81	EV/EBITDA	4.07	4.87	2.83	0.70
BV per share	154.02	201.46	431.76	73.99	Market Cap / Sales	0.19	0.13	0.14	2.54
<u>Operating Ratios</u>					P/E	81.97	54.95	21.58	17.03
EBITDA Margins	8.35%	7.51%	18.91%	21.46%	Price to Book Value	0.97	0.74	0.35	2.03
PAT Margins	4.16%	4.20%	11.77%	14.94%	<u>Solvency Ratios</u>				
Inventory days	6.38	4.41	10.39	9.48	Debt / Equity	0.80	1.15	0.34	0.11
Debtor days	131.12	175.54	183.88	161.35	Current Ratio	1.59	1.47	2.08	2.08
Creditor days	97.46	146.78	93.86	95.93	Quick Ratio	1.54	1.45	2.00	2.00
<u>Return Ratios</u>					Asset Turnover	1.69	1.42	1.24	1.90
RoCE	29.33%	25.75%	39.44%	16.04%	Interest Coverage Ratio	4.01	5.59	10.30	10.48
RoE	21.43%	24.37%	28.83%	11.90%					

*Annualized

INTERPRETATION –

- The top line has increased over the years. It increased by 47.02% in FY23 was due to increase in rapid growth in industrialization which led to the company secure new projects and more order from existing customers. Then it increased by 0.59% in FY24 which was due to entry into power segment projects.
- The net profit increased over the years. It increased by 48.72% in FY23 and it increased by 181.80% in FY24. The sudden increase in FY24 was due to decrease in cost of materials consumed which led to overall reduction in expenses.
- The EBITDA and PAT margin increased over the years and saw a sudden increase in FY24 which was due to reduction in cost of materials from 61.10% to 47.55% in relation to revenue.
- The cash flow from operations was negative for FY23, FY24 and Sep-24.

PEER ANALYSIS –

Particulars	Desco Infratech Limited			Rudra Gas Enterprise Limited			Likhita Infrastructure Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	4.16%	4.20%	11.77%	-	7.30%	7.27%	17.64%	16.12%	15.33%
EBITDA Margin	8.35%	7.51%	18.91%	-	14.85%	15.16%	25.20%	23.65%	23.13%
RoCE	29.33%	25.75%	39.44%	-	45.40%	26.81%	32.15%	32.72%	29.27%
ROE	21.43%	24.37%	28.83%	-	45.36%	17.79%	23.88%	23.80%	21.13%
EPS (INR)	1.83	2.73	6.95	-	6.90	6.86	5.83	10.06	16.58
P/E	81.97	54.95	21.58	-	-	24.40	25.78	23.41	14.02

- The market cap of the company is less compared to Likhita Infrastructure.
- The PE ratio of the company is worse compared to Likhita Infrastructure.

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is **Smart Horizon Capital Advisors Private Limited**. This is their 4th 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 –

Smart Horizon Capital Advisors Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Beezaasan Explotech Limited	59.93	175.00	Mar 03, 2025	173.00
2.	Maxvolt Energy Industries Limited	54.00	180.00	Feb 19, 2025	169.70
3.	Rikhav Securities Limited	88.82	86.00	Jan 22, 2025	73.31

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

*CMP for the above-mentioned companies is taken as of 24th Mar 2025.

As per the offer document, the above-mentioned mandate Beezaasan Explotech Limited has opened at a discount and remaining have opened at a premium on the listing day.

Recommendation -

Desco Infratech Limited has been in the industry since 2011 and has good experience in the industry.

The P/E on a post-IPO annualized basis is around 17.03 times which makes it slightly highly priced.

The company's management overview is decent.

The company's top line has increased over the years. The bottom line and EBITDA saw a sudden increase in FY24 which was due to decrease in cost of materials consumed which also affected the profitability margins in FY24. The company had negative cash flow from operations for FY23, FY24 and Sep-24. Overall, the financials of the company looks slightly unsustainable.

Although, the company has an order book of Rs. 24,367.58 lakhs, the concentration for customers is very high and loss of any may have adverse effect on the business operations.

The company is operating in a highly competitive and fragmented industry.

Thus, investors can **AVOID** this IPO for now.

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The analysis and recommendations are based on the current market and company-specific scenario, along with the data available in the prospectus. Market and company-specific conditions may change after the company's listing, potentially impacting its performance and outlook. We will not be providing any follow-up reports or updates on this analysis post-listing.

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