

Roundtable: Smart Workplaces-
Productivity Enhancement...62

Cement & Precast...94

Paving & Compaction Equipment...68

Construction Chemicals & Adhesives...82

Interviews: Ajmer Municipal Corporation;
Schneider Electric Infrastructure;
HUDCO...80, 88, 100

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Shankara Building Products

HUDCO

PSP Projects

BRNL

Reliance Infrastructure

IPO TOTAL SCORE

₹9000 CR

Capacit'e Infraprojects

IRB

MEP Infrastructure Developers

Sterlite Power

BIZ NEW LOOK

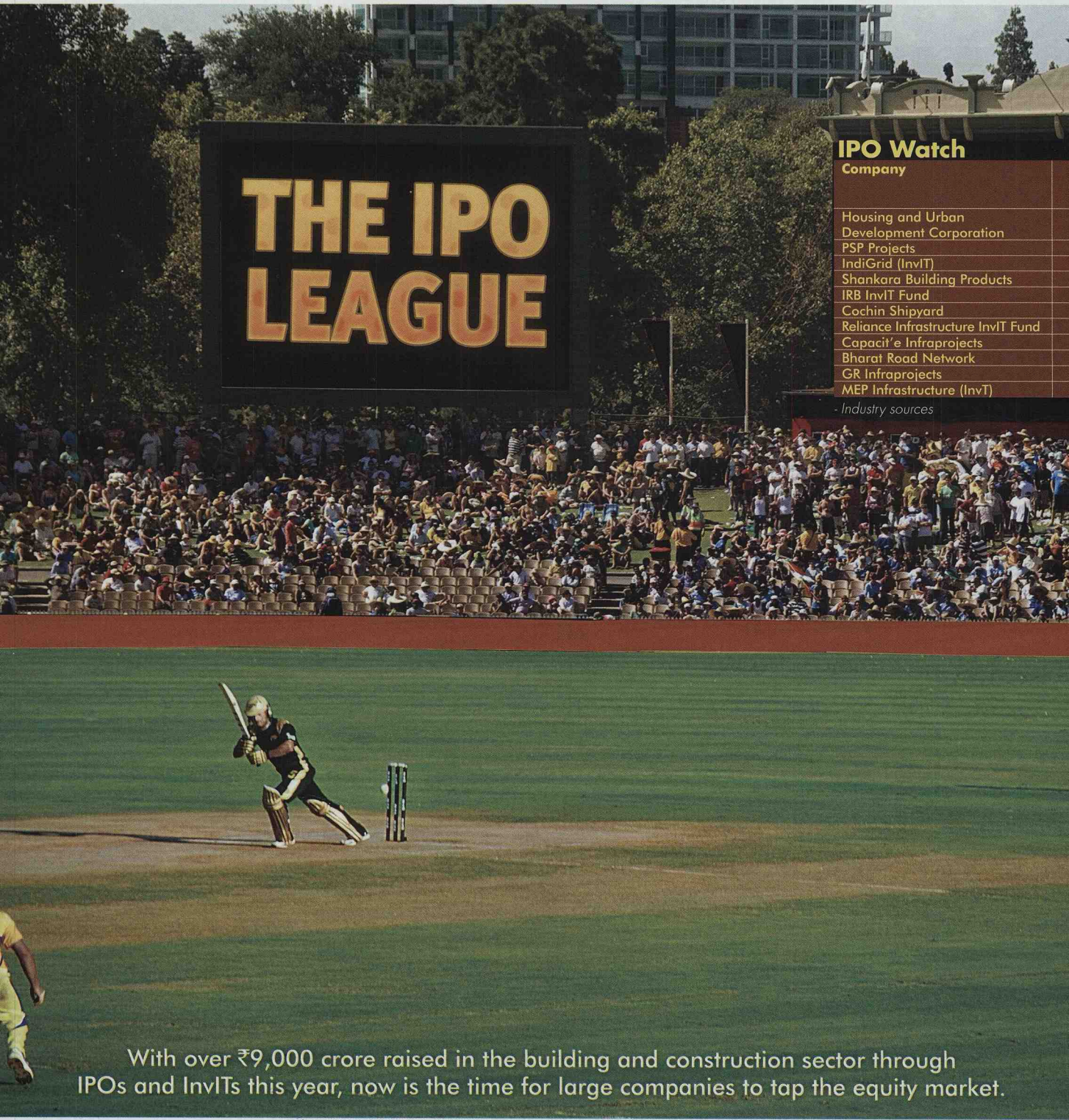
60+ Upcoming Projects, Product
Launches, Building Material Prices,
Tenders, Contracts Awarded
and more...124, 144, 149, 148, 146

With the IPO pitch set for some big
innings, the offering pipeline for
2017-18 looks promising – perhaps
the best time for large companies to
tap the equity market...50

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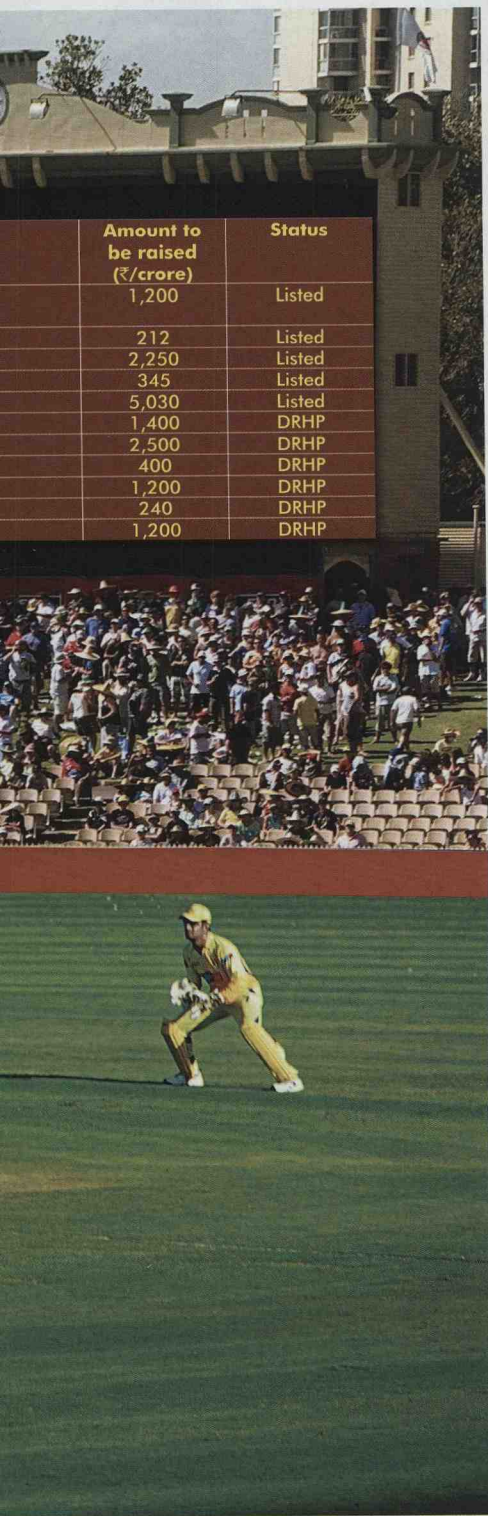
IPO Watch

Company

Housing and Urban Development Corporation
PSP Projects
IndiGrid (InvIT)
Shankara Building Products
IRB InvIT Fund
Cochin Shipyard
Reliance Infrastructure InvIT Fund
Capacit'e Infraprojects
Bharat Road Network
GR Infraprojects
MEP Infrastructure (InvT)

- Industry sources

With over ₹9,000 crore raised in the building and construction sector through IPOs and InvITs this year, now is the time for large companies to tap the equity market.



The IPO league is growing – and thriving. In the construction arena, whether it is companies involved in building products, building and infrastructure projects, or state-owned undertakings, the initial public offering (IPO) lane is clearly crowded.

While going public is not for every company with the pitfalls being numerous and stakes high, the concept is gaining currency – literally. As reports indicate, in FY2016-17, private-sector firms raised Rs 28,225 crore through IPOs, said to be among the best in six years. And this year – in fact, just in the past two to three months – several building and construction companies have made headlines for filing their draft red herring prospectus (DRHP) or announcing IPOs or InlTs. Companies that have recently announced their IPOs include HUDCO, PSP Projects and Shankara Building Products, and IRB and Sterlite Power Grid Ventures (IndiGrid) have announced InlTs. This apart, companies such as Reliance Infrastructure, MEP Infrastructure, India Energy Exchange, GR Infraprojects, Capacit'e Infraprojects and Cochin Shipyard have filed or are in the process of filing their DRHP soon. Such is the traction just in the first half of the calendar year, and first quarter of the financial year!

A conducive market

Currently, the Indian capital markets are on a bull run, as evident from the Nifty touching an all-time high.

In this context, **Dr Suresh Surana**, Founder, RSM Astute Consulting Group, says, "The response to the recent IPOs has been



Dr Suresh Surana

encouraging." Referring to the success of the HUDCO IPO recently, **Dr M Ravi Kanth**, Chairman & Managing Director, HUDCO, adds, "The environment looks conducive for IPOs in view of various government initiatives and



Abhishek Lodhiya

schemes." And **Abhishek Lodhiya**, Senior Equity Research Analyst-Infrastructure, Capital Goods and Real Estate, Angel Broking, says, "There is high liquidity in the

market. The IPOs of companies with a good financial track record are getting oversubscribed."

The current market scenario remains upbeat in view of the expected good monsoon, soft interest rate regime, controlled inflation and various government initiatives such as implementation of the GST with effect from July 1, 2017; implementation of RERA; Pradhan Mantri Awas Yojna; Housing for All by 2022; smart city development; Skill India; Startup; Jan Dhan Yojana; and so on.

As **Vikas Khemani**, President & CEO, Edelweiss Securities, says,

"Increasing government spending across segments like roads, railways, metro rail and urban infra is leading to a substantial order book build-up for construction companies." In fact, revenue visibility (in terms of book-to-bill) for major construction companies has improved to 4x (compared to 3x a year earlier). This has led to the expectation that revenue growth for construction companies, will improve



Vikas Khemani

COVER STORY

"Through the IPO, we intend to raise about ₹400 crore."



Rahul Katyal



Rohit Katyal

Predominantly an EPC construction company, **Capacit'e Infraprojects** has filed its DRHP with SEBI. **Rahul Katyal, Managing Director**, and **Rohit Katyal, Executive Director and CFO, Capacit'e Infraprojects**, share more on the company's growth plans...

Order book and utilisation plans: Our order book and the new orders that we receive have a significant effect on our future revenue. The company's order book as on January 31, 2017, was approximately Rs 4,049 crore. This includes commercial, residential and institutional buildings. We work for a number of reputed clients and are associated with some marquee construction projects in India. Having joined hands with new, reputed companies, we also get repeat orders from existing clients.

Amount to be raised through IPO: We have filed the DRHP with SEBI. The contours are probably such that we will raise about Rs 400 crore, with all primary capital and no offer for sale (OFS). The utilisation has been divided into three parts: Rs 250 crore for funding working capital, about Rs 50 crore for funding purchase of capital assets capex (to increase the equipment and machinery bank), and balance for general corporate purposes and issue expenses. At present, we own equipment required throughout the lifetime of a project, that is, formwork, tower cranes, passenger and material hoists, concrete pumps and boom placers.

Current debt/equity ratio: Based on the restated consolidated financial statements, as on December

31, 2016, our debt equity ratio level is 0.59. There is no debt repayment proposed out of the IPO proceeds. The working capital will be utilised over the next two years. We would like to be adequately capitalised for all our requirements as we enter a new phase of growth from the next fiscal.

Credit enhancement: The net cash generated from operating activities for the nine months period ended December 31, 2016, on a restated consolidated basis, was Rs 44 crore.

Current business model and growth strategies: We provide end-to-end construction services for residential, commercial and institutional buildings, and will continue to remain focused on building construction. We intend to capitalise on the recent government initiatives such as 'Housing for All by 2022' by expanding in the mass housing segment and undertaking projects in the public sector. We intend to undertake projects to be executed on design-build basis. That's our strategy. Our revenue from operations for the nine months period ended December 31, 2016, on a consolidated basis, was about Rs 847 crore. The revenue from operations grew at a CAGR (between March 31, 2014, to March 31, 2016) of 99.56 per cent.

significantly going ahead. "Better revenue growth will aid these companies, owing to operating leverage, leading to margin improvement," says Khemani. In addition, with interest rates being low, profitability is also expected to be better.

Capital markets are largely driven by investor sentiment and

fundamentals. **Bajrang Choudhary, Managing Director, Bharat Road Network (BRNL)**, says, "After a moderate growth in the sensex in 2016, there's definitely a flurry of activities in the market, which is clearly visible from the series of IPOs lined up for listing over the next few months." Also, the infrastructure sector in India is

growing at an impressive rate, despite the country currently facing a massive funding gap to develop its infrastructure commensurate with its economic growth. And, while the outlook for the infrastructure sector is exciting, "The scenario for real estate is mixed," says Surana. "The sector has been saddled with excessive inventory, lack of

"We intend to use part of proceeds for organic and inorganic growth."



BRNL is a road BOT company focused on development, implementation, operation and maintenance of road and highway projects. Having filed its DRHP with SEBI, **Bajrang Choudhary, Managing Director, Bharat Road Network (BRNL)**, shares more on the company's utilisation plans...

Amount to be raised and utilisation plans:

At the current stage, we are awaiting SEBI approval, which is expected soon. The quantum of the issue size would be decided in consultation with our lead bankers. We intend to use part of the proceeds for organic and inorganic growth of the company.

Leveraging the IPO for debt removal:

Our debt levels are low and we have no plans to leverage the IPO proceeds to repay debt.

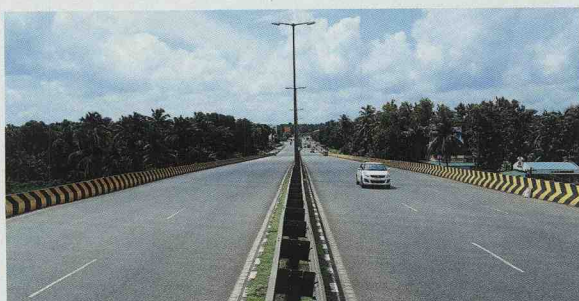
Current order book and utilisation plans,

total operating assets: Most of the projects in our portfolio are already operational, and one is expected to be fully operational in the next few months. Currently, we have a project portfolio consisting of six BOT projects, of which two are

operational under final COD, three under provisional COD, and one under construction.

Business model adopted and strategy for growth:

Our main business operations can be clearly divided into three categories of project development and implementation; operation and maintenance of tolling operations; and providing advisory and project management services to our projects. We are committed to focus on organic growth opportunities in the PPP model in roads and highway infrastructure in India. We see ourselves as an enabler for PPP projects while acting as a bridge between the public asset and project authority. We intend to leverage our asset management skill sets to attract best construction partners and institutional investors to implement projects. We intend to strengthen our presence by bidding for mid to large BOT projects in toll as well as under HAM. Over the next few years, we intend to remain focused on the operations, maintenance and development of our existing projects while seeking opportunities to expand our project portfolio. Besides capitalising on primary market opportunities, we intend to focus on strengthening our position in the road infrastructure development business through increased activity in the secondary market.



However, in IRB – where the revenue is a function of operational asset growth and traffic growth – the risk-reward ratio is much higher than that of IndiGrid, where the revenues come from stable tariff plans."

Sharing its views on the PSP IPO, **Reliance Securities** views the company as one with a decent project execution track record and balance sheets properly managed over the years. The

company's order book has grown almost 2.5 times in the past one to one-and-a-half years. The company has shown an order book of Rs 929 crore on its prospectus, and has already secured around Rs 250 crore of orders in the first two months of the current fiscal and is targeting some big orders going ahead. As the analyst firm sees it, the IPO is one way for the company to improve its financial strength,

after which its fund-based and non-fund based limit will increase from Rs 200 crore to Rs 250 crore. This will give the company mileage to bid for more projects.

Indeed, with the IPO pitch set for some big innings, the offering pipeline for 2017-18 looks promising – perhaps the best time for large companies to tap the equity market!

- **SHRIYAL SETHUMADHAVAN**



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