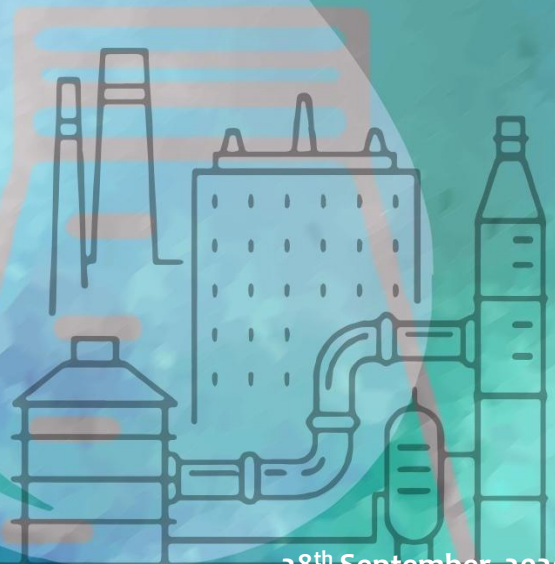


# Likhitha Infrastructure Ltd.



# Likhitha Infrastructure Ltd

<b>Issue Opens On</b> Tuesday, 29 <sup>th</sup> September 2020	<b>Issue Closes On</b> Thursday, 01 <sup>st</sup> October 2020	<b>Price Band (INR)</b> 117 – 120	<b>Issue Size (INR cr.)</b> 61.20	<b>Rating</b> SUBSCRIBE
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**Likhitha Infrastructure Ltd (LIL)** incorporated in 1998, is an oil & gas pipeline infrastructure service provider in India. The company is engaged in providing oil & gas pipelines, city gas distribution projects, Cross-Country Pipeline Projects, and operations and maintenance services. **It is the first company that has executed the first Trans-National Cross-Country Hydrocarbon Pipeline Project between India and Nepal.**

With over 20 years of existence, it has spread its geographical presence across more than 16 states and 2 Union Territories in India such as Delhi, West Bengal, Telangana, Gujarat, Andhra Pradesh, Madhya Pradesh, Bihar, Chandigarh, Haryana, Kerala, Orissa, Uttar Pradesh, etc. Company has a strong client base in India including both the private and public players such as ONGC, IGL, HCG, Indian Oil, GAIL India, etc. The company has successfully laid over 600 Kms of Oil & Gas pipelines including steel and Medium-Density Polyethylene (MDPE) network in past 5 years. Additionally, the Company has laid approximately 800 kms of Oil and Gas pipelines for on-going projects. As of July 31, 2020, LIL has been engaged on more than 31 on-going projects across India. LIL reported revenue of INR 161 cr, EBIT of INR 27 cr and PAT of INR 20 cr in FY20. LIL has reported robust revenue CAGR of 39.0% over FY15-FY20, and has steadily improved profitability as well, from 8.2% PAT margin in FY18 to 12.3% in FY20.

## OFFER STRUCTURE

Particulars	IPO Details
No. of Units (Lakhs)	5.1
Price band (INR/share)	117 – 120
Face Value (INR/share)	10

Source: IPO Prospectus, KRChoksey Research

Indicative Timetable	
Bid/Offer Opens Date	29 <sup>th</sup> September 2020
Bid/Offer Closes Date	01 <sup>st</sup> October 2020
Finalisation of Basis of Allotment with Stock Exchange	07 <sup>th</sup> October 2020
Initiation of Refunds	08 <sup>th</sup> October 2020
Credit of Equity Shares to Demat accounts	09 <sup>th</sup> October 2020
Commencement of trading of the Equity Shares on the stock Exchanges	12 <sup>th</sup> October 2020

Source: IPO Prospectus, KRChoksey Research

Issue break-up	
Fresh Issue:	INR 61.20 cr
Offer for sale:	NIL
<b>Total Issue Size:</b>	<b>INR 61.20 cr</b>

Source: IPO Prospectus, KRChoksey Research

Objects of the issue
To meet the general working capital requirements of the business (estimated utilization of INR 47 cr)
To meet general corporate purposes (estimated utilization shall not exceed 25% of the gross proceeds from the issue)

Source: IPO Prospectus, KRChoksey Research

# Likhitha Infrastructure Ltd

## INVESTMENT RATIONALE

### Diversified geographical presence in India

Likhitha is one of the well-established oil & gas pipeline infrastructure companies with diversified operations spread across Karnataka, Delhi-NCR, West Bengal, Gujarat, Goa, Andhra Pradesh, Kerala, Tamil Nadu, Telangana, Madhya Pradesh, Jharkhand, Bihar, Chandigarh, Haryana, and Uttar Pradesh. Company able to maintain a strong top line growth at a CAGR of 39.0% from INR 31 cr in FY15 to INR 161 cr in FY20 with the help of its client-centric approach and core competence in the field of pipeline infrastructure over 20 years of experience. Likhitha's main focus is to sustain profitable growth by executing projects in time to the satisfaction of clients. **The company is proud to have executed 10.75" OD x 69 Kms Petroleum Product Pipeline for the first-ever Trans-National Cross-Country Pipeline of South-East Asia connecting India to Nepal, in the Year 2019, for the supply of petroleum products.** The company also have done three majors remarkable projects: 1) 12" x 125 Kms Pipeline Laying Works for Dobhi- Durgapur- Haldia Pipeline Section along with Spur-lines under Jagdishpur-Haldia-Durgapur-Bokaro Pipeline Project; 2) 12" x 40 Kms Laying & Construction of Pipeline along with associated work for Bantumilli & Ullampura Pipeline Project; and 3) 24" x 95 Kms laying works for Barauni-Guwahati Pipeline Project.

### Scalability of Operations

As per the recent Government policies, Petroleum and Natural Gas Regulatory Board (PNGRB) has increased the number of Geographical Areas (GAs) to 228 comprising of 402 districts spread over 27 States and Union Territories, covering 70% of Indian population and 53% of its area. The recent Government initiatives have provided profitable opportunities for work execution to the company, who is already having a good presence in City Gas Distribution (CGD - contributed ~25% of total revenue in FY20) Projects along with construction of CNG Stations. Likhitha's management optimistic about the CGD segments in long term driven by India's Pipeline network is expected to expand to ~35,000 kms in the next 5-6 years, which is supported by favorable Government policies, based on which the company plan to expand its pipeline laying execution capacity to a range of ~250-300 kms per year.

### Huge growth opportunities in O&M services; Margin to improve in near term

The significant increase in pipeline projects in India and the aging of existing pipeline projects resultant into a notable increase in demand for Company's O&M Services business, which include AMC services, repairs & modernization, scheduled shutdowns and overhauling of existing pipelines projects. Revenue from O&M Services business was at INR 6/20/34 cr in FY18/19/20 representing of 7.4/14.4/21.3% respectively, of the Company total revenue from operations. O&M Services business grew at a CAGR of 297.5% between FY17 and FY20. These offer relatively better margins as compared to pipeline infrastructure projects and taking into consideration the present phase of CGD business, the business of O&M Services is expected to further increase. The company has competitive advantage in O&M services due to availability of high level of technical expertise in O&M services, which is the most important factors required for O&M services. This would help to improve margin as well.

### Valuation

At the price band of INR 117-120, the Likhitha issue comes priced at a PE of 8.83x FY20EPS and P/BV of 2.51X based on its NAV INR 47.8/share in FY20. For the last three years, Company has posted an average EPS of INR 11.7 and Return on Net worth of 35.1%. While Likhitha will be the first mover in the segment, there is no average industry P/E is available.

We believe the recent Government initiatives have provided profitable opportunities for work execution Company like Likhitha. India's pipeline network is expected to expand to around ~35,000 kms in the next 5-6 years, based on which the Company is also planning to expand its pipeline laying execution capacity to a range of 250-300 kms per year. Company has strong project execution track record in last 20 years. We recommend **SUBSCRIBE** to the issue with a **long-term perspective**.

# Likhitha Infrastructure Ltd

## Company Overview

Likhitha Infrastructure Ltd. (LIL) is an oil & gas infrastructure service provider in India, focused on laying pipeline networks along with the construction of associated facilities and providing & Maintenance Services for City Gas Distribution (CGD) projects in India. The company has diversified the gamut of services being provided by it from Cross-Country Pipeline Projects (CCP); City Gas Distribution (CGD) Projects to providing Operation & Maintenance (O&M) Services to CGD Companies. Its client base comprises of established players in the Oil & Gas industry, both in public and private sector. For FY20, Company three main clients namely Oil India, Indraprastha Gas and GAIL India contributed 60% of total revenue.

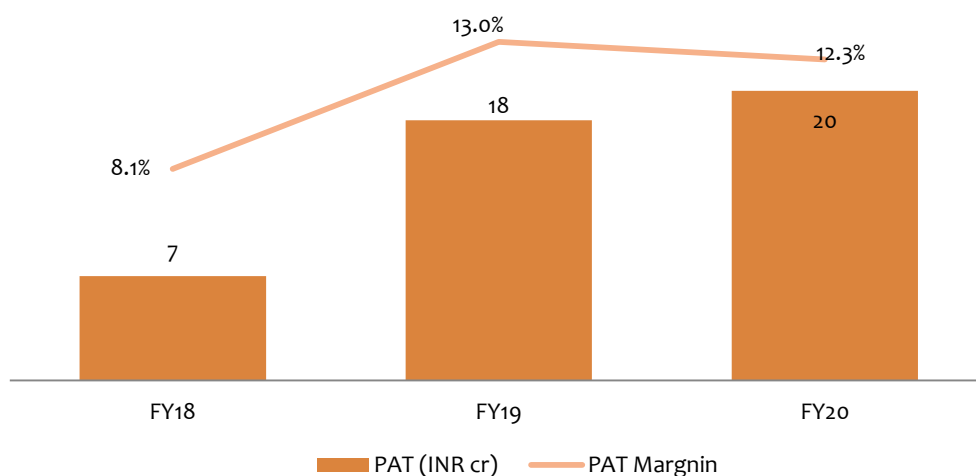
LIL's financial strength provides with a valuable competitive advantage in terms of access to bank guarantees and letters of credit, which are factors critical to the business. **The company's debt/equity ratio for FY18/19/20 was 0.11/0.03/0.01x respectively.** The Company's low-cost centre operations in India provide a competitive edge by allowing to be more cost-effective as compared to its competitors. As per the terms of the contract, it is generally the obligation of the client to provide most of the required material to execute the contracts. The additional materials to be procured by the Company is a minor portion of the contract price.

To meet the general working capital requirements of the business (INR 47 cr) and general corporate purposes (estimated utilization shall not exceed 25% of the gross proceeds from the issue), LIL is coming out with an IPO of 5.1 lakh equity shares of face value of INR 10/share via book building route. It has fixed a price band of INR 117 - 120/share. The issue opens for subscription on September 29, 2020 and will close on October 01, 2020. Minimum application is to be made for 125 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. The Company's IPO includes only a fresh issue of INR 61.20 cr, with a post-issue market capitalisation of INR 236.70 cr .

## Segmental Revenue

INR Cr	FY18	FY19	FY20
Revenue from Works Contract	81	118	127
% on Total Revenue	91.6%	85.7%	78.8%
O & M and HDPE Pipeline	7	20	34
% on Total Revenue	8.4%	14.3%	21.2%
<b>Total</b>	<b>88</b>	<b>137</b>	<b>161</b>

## PAT and Margin Performance



Source: RHP



## Likhitha Infrastructure Ltd

### Robust order book on the back of strong project execution capabilities

As of July 31, 2020, Company has engaged more than 31 on-going projects across India. The company has equipment base including Pipe layers (Side-boom), Excavators, Horizontal Directional Drilling (HDD) Machines, etc. which enables Likhitha to quickly and effectively mobilise project works. While company's over 20 years technical expertise and project execution capabilities are significant competitive advantages to prequalify, effectively evaluate and bid, and procure contracts for projects. Company has order book of INR 663 cr as of July 31, 2020, this to be executed in next 3 years. In last 20 years, Company has a good track record of successful completion of major projects like- **Trans-National Cross-Country Pipeline of South-East Asia connecting India to Nepal; Dobhi- Durgapur- Haldia Pipeline; Bantumilli & Ullampura Pipeline Project; and Barauni-Guwahati Pipeline Project.**

### Operation-wise Order book as of July 31, 2020

Operation	Order Book (INR Cr)			
	Number of Projects	Order Value Completed & Bills Raised	Outstanding order value	% of Total Outstanding Value
Pipeline Infrastructure Projects	28	262	616	92.9%
O&M Services	3	36	47	7.0%

### KEY RISKS & CONCERNS

- **Client Concentration risk:-** Likhitha is dependent on a limited number of clients for a substantial portion of its revenue. A reduction in services performed for such clients could result in a significant reduction in top line. There were three major clients- Oil India, IGL and GAIL India contributed 60% to Company's FY20 revenue.
- There are certain **Tax Proceedings** outstanding pending against Promoters and Directors of the Company. Any adverse outcome could affect Company's profitability, reputation etc.
- Company's success largely dependent on the knowledge and experience of **Key Management Personnel**. Any loss of such Key Management Personnel could adversely affect the Company's operations and financial conditions.
- **Business is subject to seasonal fluctuations:-** Company's business operations could impact by seasonal factors like heavy or sustained rainfalls or cyclones, which may cause severe damages to equipment could result in delays to execution of projects.

Source: RHP

# Likhitha Infrastructure Ltd

## Key Financials:

Particulars (INR mn)	FY18	FY19	FY20
Net Sales	871	1,395	1,612
EBITDA	112	289	297
PAT	72	179	199
EBITDA Margin	12.8%	20.7%	18.4%
NPM	8.2%	12.8%	12.3%

Source: Company Research

## Profit and Loss statement:

Particulars (INR mn)	FY18	FY19	FY20
<b>Revenue from operations (Net Sales)</b>	<b>871</b>	<b>1,395</b>	<b>1,612</b>
<b>EBITDA</b>	<b>112</b>	<b>289</b>	<b>297</b>
Depreciation	9	30	31
<b>EBIT</b>	<b>102</b>	<b>259</b>	<b>266</b>
Interest cost	8	17	14
Other income	15	11	16
<b>PBT before Exceptional items</b>	<b>109</b>	<b>253</b>	<b>268</b>
Exceptional gain/(loss)	0	0	0
<b>PBT</b>	<b>109</b>	<b>253</b>	<b>268</b>
Tax expenses	38	74	69
<b>PAT</b>	<b>72</b>	<b>179</b>	<b>199</b>
Minorities, Associates, etc.	0	0	0
<b>Adj. PAT</b>	<b>72</b>	<b>179</b>	<b>199</b>
<b>Diluted EPS (INR)</b>	<b>4.9</b>	<b>12.2</b>	<b>13.6</b>

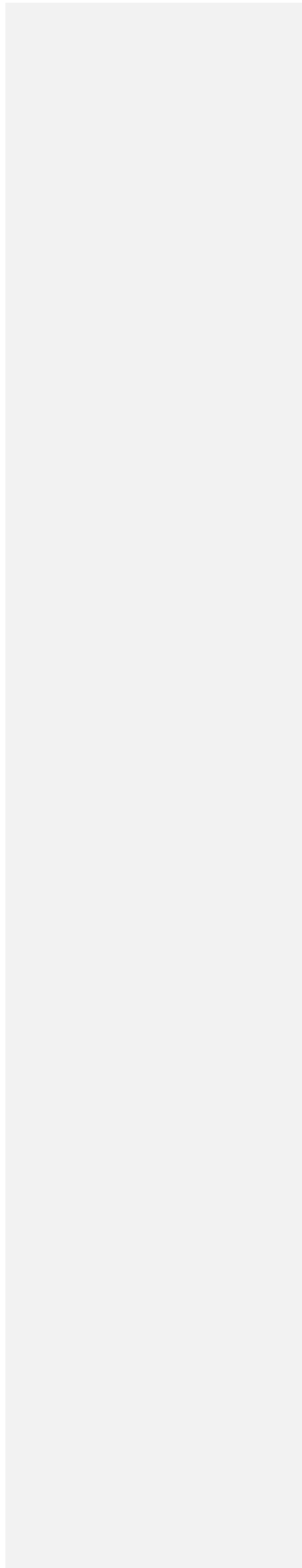
Source: Company Research

## Balance sheet:

Particulars (INR Mn)	FY18	FY19	FY20
<b>EQUITY AND LIABILITIES</b>			
<b>Equity Share Capital</b>	<b>45</b>	<b>45</b>	<b>146</b>
Other Equity	279	458	553
<b>Shareholders' funds</b>	<b>324</b>	<b>503</b>	<b>700</b>
<b>Total Borrowings</b>	<b>108</b>	<b>67</b>	<b>13</b>
Other non current liabilities	1	2	6
Trade Payables	134	121	139
Other Current liabilities	105	152	150
<b>Total equity and liabilities</b>	<b>672</b>	<b>846</b>	<b>1,009</b>
<b>ASSETS</b>			
<b>Property, plant and equipment</b>	<b>123</b>	<b>114</b>	<b>93</b>
Investment Property	24	24	23
Other non current assets	21	24	31
Inventories	27	198	247
Trade Receivables	224	162	163
<b>Cash and other bank balance</b>	<b>155</b>	<b>114</b>	<b>150</b>
Other current assets	99	209	301
<b>Total assets</b>	<b>672</b>	<b>846</b>	<b>1,009</b>

Source: Company Research

# Likhitha Infrastructure Ltd



## Cash flow Statement:

Particulars (INR mn)	FY18	FY19	FY20
Net Cash Generated From Operations	40	32	192
Net Cash Flow from Investing Activities	-69	-24	-73
Net Cash Flow from Financing Activities	63	-33	-38
<b>Net Inc/Dec in cash equivalents</b>	<b>35</b>	<b>-25</b>	<b>81</b>
Opening Balance	48	83	58
<b>Closing Balance Cash and Cash Equivalents</b>	<b>83</b>	<b>58</b>	<b>139</b>

Source: Company Research

## Ratio Analysis:

Key Ratio	FY18	FY19	FY20
EBITDA Margin (%)	12.8	20.7	18.4
EBIT Margin (%)	11.8	18.6	16.5
Net Profit Margin (%)	8.2	12.8	12.3
RoE (%)	22.1	35.5	28.4
RoCE (%)	23.7	45.4	37.3
Current Ratio (x)	1.6	2.1	2.9

Source: Company Research

# Likhitha Infrastructure Ltd

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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