



Garuda Construction and Engineering Limited

Garuda Construction and Engineering Ltd.

Issue Opens On
Oct 08, 2024

Issue Closes On
Oct 10, 2024

Price Band (INR)
92 - 95

Issue Size (INR Mn)
2,558 – 2,641

Rating
SUBSCRIBE

Garuda Construction and Engineering Limited, established in 2010, is a Mumbai-based infrastructure development company that specializes in civil construction, infrastructure development and engineering services. Over the years, the company has successfully executed various projects across sectors like residential, commercial and industrial construction. Garuda has developed a robust reputation for its expertise in delivering end-to-end solutions, from planning and designing to execution and maintenance. The company's portfolio includes large-scale projects, showcasing its capability in handling complex engineering and construction tasks with a focus on innovation, quality and timely delivery. As part of its growth strategy, Garuda continues to expand its presence across different regions in India, contributing to the country's rapidly growing infrastructure sector.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (Mn)	27.80
Fresh issue (# shares) (Mn)	18.30
Offer for sale (# shares) (Mn)	9.50
Price band (INR)	92 - 95
Post issue MCAP (INR Mn)	8,560 – 8,839

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Thursday, 10 th Oct'24
Finalization of Basis of Allotment with Stock Exchange	On or about 11 th Oct' 24
Initiation of Refunds	On or about 14 th Oct' 24
Credit of Equity Shares to Demat accounts	On or about 14 th Oct' 24
Commencement of Trading of Eq. shares on NSE	On or about 15 th Oct' 24

Source: IPO Prospectus

Issue	# Shares	INR Mn	%
QIB	1,39,00,000	Max. 1,321	Upto 50%
NII	41,70,000	Min. 396	Not less than 15%
Retail	97,30,000	Min. 924	Not less than 35%
Net Offer	2,78,00,000	2,641	100%

Source: IPO Prospectus

Objects of the Offer	Amount (In Mn)
1. Working capital requirements.	1,000
2. General Corporate Purposes including unidentified inorganic.	739

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	97%	68%
Others	3%	32%
Total	100%	100%

Source: IPO Prospectus

Particulars (In INR Mn)	FY22	FY23	FY24
Revenue	770	1,607	1,542
EBITDA	272	557	498
EBITDA Margin (%)	35%	35%	32%
Profit After Tax	188	408	364
PAT Margin (%)	24%	25%	24%
Net Worth	418	826	1,190
RONW (%)	45%	49%	31%

Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Company Overview :

- Garuda Construction and Engineering Limited primarily engages in civil construction services, specializing in both residential and commercial buildings.
- The company has been executing various construction projects since 2010 and has expanded its expertise into hospitality, infrastructure and industrial segments.
- With a focus on high-quality project management and timely execution, Garuda has built a reputation for delivering projects on time while maintaining high construction standards.
- The company's growth trajectory is driven by a focus on project execution capabilities, expanding its client base beyond group entities to external developers, and taking on larger construction projects.
- Historically, Garuda Construction worked primarily with its group companies, but it is increasingly securing contracts with unrelated third parties and expanding its role in residential development.

Core Business

1. Construction Activity: Garuda Construction and Engineering primarily focuses on civil construction, offering services for residential, commercial and industrial buildings, as well as infrastructure projects. Its expertise spans planning, designing, procurement and execution of structures, including MEP systems. It manages all stages of construction, ensuring quality and timely completion of projects.

2. Maintenance of Buildings: As part of its extended services, the company also provides maintenance operations for completed projects. A notable example is its contract to maintain the Delhi Police Headquarters for 13 years, for which it receives INR 72 Mn annually. Its maintenance responsibilities cover addressing defects and ensuring the upkeep of infrastructure post-construction, typically governed by defect liability periods that last from 12 to 60 months.

Revenue Segmentation

Segment	FY22	FY23	FY24
Construction Activity	596	1,519	1,457
Maintenance of Building	174	77	85
Other Operating Revenue	-	10	-
Revenue from Operations	770	1,607	1,542

Source: IPO Prospectus, KRChoksey Research

Projects & Services Wise Revenue Mix

Category	FY22	FY23	FY24
Commercial	522	544	1,081
Residential	248	965	343
Industrial	-	75	103
Services	-	23	15
Total	770	1,607	1,542

Source: IPO Prospectus, KRChoksey Research

Contracts Wise Revenue mix

Particulars	FY22	FY23	FY24
Government	500	277	498
Private	297	1,330	1,044
Total	770	1,607	1,542

Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Company Overview :

Business Model

A key aspect of Garuda's operational model is its reliance on an asset-light approach. The company outsources much of its equipment, labor and material needs to third-party contractors, which helps to minimize fixed costs and enhance profitability. This strategy also allows the company to focus on project management and execution rather than the ownership and maintenance of heavy construction equipment.

The asset-light model provides flexibility, particularly when dealing with projects spread across different geographies. By using third-party vendors for equipment and labor, Garuda ensures cost efficiency and timely execution of projects, which is crucial given the competitive nature of the construction industry.

Geographical Footprint

While Garuda's projects were initially concentrated in the Mumbai Metropolitan Region (MMR), the company has diversified its geographical footprint to include regions like New Delhi, Karnataka, Rajasthan, Punjab and Arunachal Pradesh. This geographical expansion has allowed the company to mitigate risks associated with over-reliance on specific regions and capitalize on construction opportunities across India.

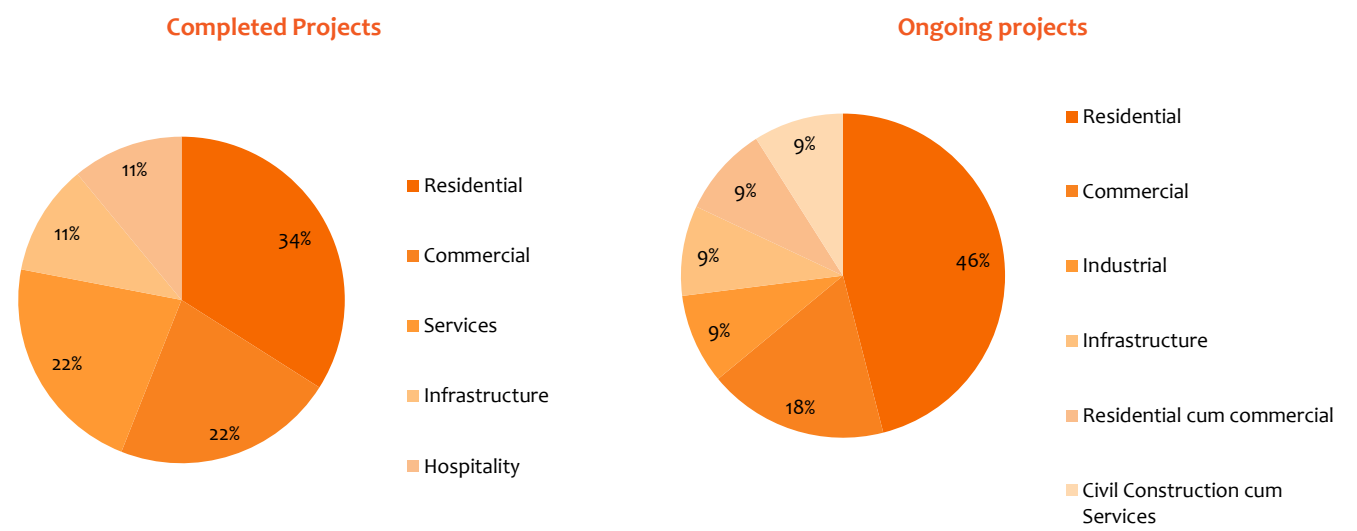
Garuda also aims to expand its business across multiple sectors. The company is now targeting the industrial, institutional, and government sectors to further broaden its portfolio. Additionally, Garuda plans to take on larger roles in development projects, positioning itself not only as a construction service provider but also as a developer.

Market Position

Despite being a relatively new player in the civil construction space, Garuda has quickly gained a reputation for executing complex projects with precision. The company has successfully transitioned from being predominantly focused on intra-group projects to taking on external third-party contracts. Garuda's increasing role as a developer and contractor for large-scale projects has established it as a growing force in the construction industry.

Diversification Across Sectors

The company plans to expand its construction activities across different sectors, aiming to become a multidisciplinary construction firm. Garuda has experience in constructing institutional, government, industrial and residential projects, and plans to leverage this experience to enter new sectors, such as healthcare and education.



Source: IPO Prospectus, KRChoksey Research
Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Company Overview :

Projects

Garuda Construction's portfolio includes various types of projects:

- **Residential Projects:** The company is involved in constructing residential complexes, including luxury apartments and affordable housing.
- **Commercial Projects:** It handles the construction of office spaces and commercial complexes for various industries.
- **Industrial Projects:** Garuda has experience building industrial facilities and infrastructure that support manufacturing and other industrial activities.
- **Hospitality Projects:** The company has played a pivotal role in the construction of hotel projects, including the Golden Chariot Hotels, which have contributed to its reputation in the hospitality sector.
- **Infrastructure:** The company is also engaged in constructing infrastructure projects, such as highways and institutional buildings.

Order Book

Garuda Construction has a significant order book that includes both ongoing and upcoming projects valued at INR 14,08,23 Mn mentioned as per RHP. The company's ongoing projects cover a wide array of sectors and the expansion into third-party contracts has enabled the firm to evolve beyond its historical dependence on intra-group construction projects. Notable ongoing projects include five residential projects, two commercial projects, one industrial project and one infrastructure project.

Order Book

S.No	Nature of Contract	Location	Sector	Area to be Constructed (sq. ft.)	Contract Value
1.	Construction contract of Trinity Oasis at Ghodbunder Road, Thane	Thane	Residential cum commercial	4,00,000	1,080
2.	Construction contract for the residential project "Garuda Shatrunjay"	Borivali West, Mumbai	Residential	2,87,400	1,680
3.	Complete finishing works along with miscellaneous construction and beautification work of Garuda Shatrunjay	Borivali West, Mumbai	Residential cum services	5,748	-
4.	Construction Contract for slum rehabilitation project	Borivali East, Mumbai	Residential	4,91,800	2,561
5.	Construction, development and completion of the project "Options World"	Santacruz West, Mumbai	Commercial	4,00,804	1,725
6.	Construction of proposed office building	BKC, Mumbai	Commercial	-	550
7.	Construction of proposed residential building at Amritsar Village	Amritsar, Punjab	Residential	3,68,869	1,300
8.	Civil work, barrage structure, intake cum feeder channel, etc.	Anjaw District, Arunachal Pradesh	Infrastructure	-	1,065
9.	Agro-processing cluster EPC contract dated February 09, 2023	Ahore - Jalore, Rajasthan	Industrial	-	364
10.	Finishing and Completion of Residential Building	Kalyan, Thane	Residential	1,45,000	136
11.	Construction and Development of Residential Project	Kalyan, Thane	Residential	7,00,000	2,500
12.	Redevelopment of Immovable Property in Mumbai	Lower Parel, Mumbai	Residential	1,75,000	568
	Total			29,68,873	14,083

Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Industry Overview:

Indian construction Industry

- The construction sector in India is one of the largest contributors to the national economy, standing as the second-largest economic segment after agriculture.
- As of FY23, the sector contributed 8.4% to the national Gross Value Added (GVA) at constant prices.
- Over the years, the construction industry has demonstrated robust growth, expanding at a CAGR of 10.6% between FY18 and FY23, with the market size growing from INR 2,375 Bn to INR 3,922 Bn during this period.
- The future prospects of the sector remain promising, with projections indicating further growth to INR 6,494 billion by FY30, at an estimated CAGR of 7.5%. This expansion is largely driven by an increase in government expenditure on infrastructure and rising demand across various sub-sectors including residential, commercial and industrial construction.

Key Segments within the Construction Industry

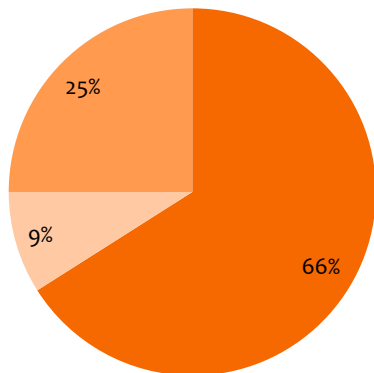
The construction industry can broadly be divided into three main segments:

Infrastructure: The infrastructure segment is the dominant force within the construction industry, contributing nearly 59.7% to the overall sector as of FY23. This segment includes vital sub-sectors such as roads, highways, telecom, airports, ports, power, oil and gas and railways. Government initiatives focusing on large-scale infrastructure projects have catalyzed growth in this area.

Real Estate: The real estate segment involves the construction of residential and commercial buildings. This includes apartments, housing developments, office buildings and shopping centers. Post-COVID recovery has led to an increase in demand, particularly in the residential sector.

Industrial Construction: Industrial projects include the development of factories, warehouses and other manufacturing facilities. Growth in this area is driven by increased capital expenditure in sectors such as manufacturing, pharmaceuticals and logistics

Share of Key Segments that Contribute to Construction Spending



■ Infrastructure ■ Real Estate ■ Industrial

Source: IPO Prospectus, KRChoksey Research

Trend in construction GVA at constant price



Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Industry Overview:

Growth Drivers

Several factors contribute to the growth of the construction sector in India, including:

- **Government Initiatives:** Various government policies such as "Housing for All", the Smart Cities Mission and the Pradhan Mantri Awas Yojana (PMAY) have been instrumental in driving the growth of both the infrastructure and real estate sectors. Additionally, significant investments in the development of roads, railways and airports are further stimulating demand.
- **Urbanization and Population Growth:** Rapid urbanization and an increasing population have led to higher demand for residential and commercial spaces. Cities are expanding, requiring more infrastructure and real estate projects to accommodate the growing urban population.
- **Technological Advancements:** New technologies such as Building Information Modelling (BIM), 3D printing and prefabrication techniques are being adopted in the construction industry, improving efficiency and reducing construction time.

Challenges

Despite the optimistic growth projections, the construction industry faces several challenges:

- **Regulatory Hurdles:** The sector is heavily regulated, and delays in obtaining clearances and approvals can slow down project execution. Regulatory risks are especially high in real estate, where changes in land acquisition laws and environmental clearances can impact timelines.
- **Fluctuations in Raw Material Prices:** The cost of essential construction materials such as steel, cement and fuel is subject to volatility. This can affect profit margins, particularly in projects where price escalation clauses are not included in the contracts
- **Competition:** The industry is highly fragmented, with competition from both large national players such as Larsen & Toubro and smaller regional operators. Many smaller firms compete primarily on price, which can lead to aggressive bidding and thinner margins for larger projects.

Future Outlook

The future of the construction sector in India looks bright, driven by continued government support and increasing private sector participation. By FY30, the construction industry is expected to emerge as the third-largest market globally, further solidifying its crucial role in India's economic growth. The development of smart cities, industrial corridors and new urban centers will provide ample opportunities for growth in both the infrastructure and real estate segments.

In conclusion, the Indian construction industry is poised for substantial growth, backed by strong demand across infrastructure, real estate and industrial projects, coupled with significant government investment and technological advancements. However, the sector must navigate through challenges such as regulatory delays and fluctuating raw material costs to maintain its growth trajectory.

Garuda Construction and Engineering Ltd.

Strengths:

Exclusive and focused business approach:

- The company specializes in civil construction of residential and commercial buildings and is now expanding into industrial and infrastructural projects.
- A specialized team has been developed with relevant knowledge and skills, supported by established systems that enhance core competencies and technical expertise.
- The company maintains a concentrated focus on building construction while avoiding land and infrastructure development, leading to specialization and growth in its order book.
- Recently, it entered into a joint development agreement for a residential project in Thane, Maharashtra, along with other developer roles in upcoming projects, contributing to increased revenues and profits.

Established and proven track record of projects:

- The company has a proven track record of executing a wide range of projects, including residential, hospitality and commercial. Notable works include the construction of Golden Chariot Vasai Hotel & Spa and the renovation of Golden Chariot Boutique Hotel, Mumbai.
- Between 2010-2017, the company focused on civil construction and additional services across MMR, Karnataka and Tamil Nadu, later expanding to residential buildings in MMR from 2017 onwards.
- Successfully completed the construction of the Delhi Police Headquarters on an EPC turnkey basis in April 2021, further establishing expertise in commercial projects.
- Initially focusing on in-house and promoter-linked projects, the company now secures external construction contracts based on word-of-mouth and its growing reputation in the industry.

Strong project management capacity and execution capabilities:

- The company prioritizes completing projects on schedule while maintaining high construction quality standards.
- Although the company owns some construction equipment, most machinery is sourced from third-party vendors to control costs, ensure timely availability and avoid disruptions from machinery breakdowns.
- The in-house engineering and design team plays a key role in preparing detailed architectural and structural designs, reducing reliance on third-party consultants and ensuring high-quality work.
- Dedicated quality system managers conduct regular inspections and tests at project sites to ensure compliance with contractual obligations and maintain construction standards.

Visible growth through increasing order book:

- The company aims to undertake projects with higher margins or those that enhance its reputation, market presence and perception.
- The total contract value of ongoing and upcoming projects amounts to INR 14,083 Mn as per RHP.
- Projects are spread across MMR, Arunachal Pradesh, Karnataka, Rajasthan and Punjab, supporting the company's growth momentum and reputation.

Garuda Construction and Engineering Ltd.

Strategies:

Thrust into the Construction and Development segment:

- The company is expanding from civil construction into development, using its construction expertise and established reputation to grow in this sector.
- With promoters already procuring projects as developers, the company has gained experience in development roles and is keen to grow as a developer.
- The order book includes two projects—one residential and one commercial—where the company is involved as a developer or joint developer.

Increase its focus on and execute greater number of projects on a lock-and-key basis:

- The company offers "lock-and-key" projects, which encompass all stages of building construction, including MEP, finishing and interior services, providing cost efficiencies and unlocking greater revenue potential.
- Although MEP and finishing services currently contribute minimally to revenue, the company views this as a growth area with higher profit margins and aims to increase the number of lock-and-key projects.
- The company plans to bid for more contracts and expand its offerings to include comprehensive civil construction projects that integrate lock-and-key, MEP and O&M services.

Continue focusing on timely completion:

- The company will prioritize project execution and performance to boost client satisfaction and profit margins while implementing best practices from various sectors and regions.
- It aim to utilize advanced design, engineering and project management tools to improve productivity and asset utilization in construction activities.

Continue to maintain an asset light model for its business operations:

- The company adopts an asset-light model by primarily utilizing third-party subcontractors for equipment, materials and labor, minimizing the need for heavy machinery mobilization across diverse project locations.
- By renting most construction equipment and only purchasing project-specific machinery, the company reduces fixed costs and enhances cost efficiency, leading to improved profit margins.
- This approach allows the company to effectively deploy capital and maintain flexibility in executing projects across various regions, ensuring continued focus on profitability and efficiency.

Expand the geographical footprint:

- The company aims to expand its geographical footprint and grow its business nationwide, moving beyond its initial concentration in the MMR region.
- By developing a diversified portfolio, the company has broadened its clientele base, effectively hedging against risks associated with specific areas and protecting itself from fluctuations due to business concentration.
- The company's construction activities now encompass various regions, including New Delhi, Rajasthan, Karnataka, Tamil Nadu, Amritsar and Arunachal Pradesh.

Garuda Construction and Engineering Ltd.

Risks:

- The company generates most of its revenue from its top 10 clients, mainly promoter-related entities and group companies. Losing any significant client could negatively affect its business and financial outlook.
- Limited experience with unrelated third-party entities challenges the company's growth. Failing to establish itself as a developer or contractor outside its promoter group may constrain long-term growth and profits.
- The construction industry is cyclical and sensitive to changes in the economy and this could have a significant impact on its operations and financial results.
- Mr. Pravin Kumar Brijendra Kumar Agarwal, a promoter, is involved in a pending criminal proceeding with the Airport Police Station in Mumbai. Such proceedings may negatively affect his reputation and, subsequently, that of the business.
- The previous IPO filed by the promoter group, PKH Venture Limited, was not subscribed and was subsequently withdrawn.

Outlook and Valuation:

Garuda Construction and Engineering Limited, a leading Mumbai-based infrastructure company, is well-positioned to benefit from India's growing demand for residential, commercial and industrial projects. The company operates with an asset-light model, outsourcing equipment and labor to improve cost efficiency while focusing on high-quality construction. Garuda has built a strong reputation through the timely completion of complex projects. From FY22 to FY24, the company's revenue grew at a 41% CAGR, rising from INR 770 Mn to INR 1542 Mn, with EBITDA growing at a 35% CAGR. PAT increased from INR 188 Mn to INR 364 Mn, maintaining stable margins of 24%-25%. Garuda's impressive ROE of 36% and ROCE of 47% outperform industry peers, reflecting its operational efficiency and effective capital management. The company's strengths include its asset-light model, presence across multiple regions in India and a robust INR 14,083 Mn (as per RHP) spread across various sectors. This diverse portfolio ensures steady revenue and positions Garuda for further growth in India's infrastructure sector. Currently, Garuda trades at a PE ratio of 24.3x and an EV/EBITDA of 17.7x, slightly above peers like PSP Projects and Capacite Infraprojects. Given its solid financials, growing project portfolio, and proven track record, we recommend a **"SUBSCRIBE"** rating for the IPO.

Peer Comparison:

Particulars	Garuda Construction & Engineering Limited	PSP Projects Limited	Capacite Infraprojects Limited	Vascon Engineers Limited	Ahluwalia Contracts (India) Limited	B L Kashyap & Sons Limited
Market Cap	8,839	25,050	30,510	13,160	72,650	19,690
Revenue from operations	1,542	25,058	19,316	10,529	38,553	12,445
EBITDA	498	2,852	3,634	1,078	4,251	3,330
EBITDA Margin (%)	32%	15%	20%	11%	15%	27%
PAT	364	1,244	1,203	679	3,748	525
PAT Margin	24%	6%	7%	7%	13%	4%
ROE (%)	36%	14%	9%	7%	27%	11%
ROCE (%)	47%	19%	14%	8%	21%	32%
EPS	3.92*	32.9	19	2.98	53.2	2.79
PE ratio	24.26	20.8	19.8	20.5	33.8	34.5
RONW (%)	36%	18%	9%	11%	17%	13%
EV/EBITDA	17.70	9.41	7.84	13.6	16.2	17.7

*Based on Adj EPS

Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

Financials:

Income Statement (INR Mn)	FY22	FY23	FY24
Revenue	770	1,607	1,542
Operating Expenditure	499	1,050	1,044
EBITDA	272	557	498
EBITDA Margin %	35%	35%	32%
Other Income	0.07	3	3
Depreciation	3	5	4
Interest	21	4	0.25
PBT and Exceptional Items	248	551	496
Tax	60	143	132
Profit after Tax	188	408	364
PAT Margin (%)	24%	25%	24%
Adjusted EPS	2.02	4.38	3.92

Cash Flow (INR Mn)	FY22	FY23	FY24
CFFO	129	123	-68
CFFI	-12	-21	25
CFFF	-51	-122	-1
Net Increase/(Decrease) in Cash	67	-20	-43
Cash at beginning	2	69	48
Cash at end	69	48	5

Balance sheet (INR Mn)	FY22	FY23	FY24
Assets			
Non-Current Assets			
Property, plant and equipment	22	19	16
Other non-current assets	274	279	255
Current Assets			
Trade receivables	302	770	1,762
Other current assets	513	696	251
Total Assets	1,110	1,763	2,285
Equity & Liabilities			
Equity share capital	125	125	374
Other equity	293	702	816
Total Equity	418	826	1,190
Non -Current liabilities			
Non-current liabilities	95	97	2
Current liabilities			
Trade payables	407	623	617
Other current liabilities	190	217	476
Total Equity and Liabilities	1,110	1,763	2,285

Source: IPO Prospectus, KRChoksey Research

Garuda Construction and Engineering Ltd.

ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com