



IPO NOTE

PKH Ventures Ltd

28th June 2023

Company Overview

Incorporated in 2000, PKH Ventures Ltd. is in the business of construction & development, hospitality and management services. They are into the execution of civil construction works for third-party developers on a project basis and have been awarded two government projects viz., Hydro Power Project and Nagpur Project, and three Government Hotel Development Projects viz., Rajnagar Garhi Project, Pahadikhurd Project and Tara Resort Project. The civil construction business is executed by their subsidiary and construction arm, Garuda Construction. The company's hospitality vertical is in the business of owning, managing and operating hotels, restaurants, QSRs, spas and the sale of food products. PKH Ventures have been responsible for the development of the Delhi Police Headquarters in April 2021, which involved the construction of twin towers of seventeen storeys each, with a complete glass façade and steel bridge connecting the two towers. The company is looking forward to developing forthcoming development projects which include real estate development at Amritsar, Punjab; real estate redevelopment project at Dadar-Matunga, Mumbai; agro-processing cluster at Jalore, Rajasthan; cold storage park/facilities at Indore, Madhya Pradesh; and a wellness centre & resort at Chiplun, Maharashtra. The knowledge and experience gained while developing their Mumbai hotels led the promoter to venture into the business of civil construction through, Garuda Construction, which is now their subsidiary since 2 April 2020. Garuda Construction provides end-to-end construction services for residential and commercial buildings. Under the Management Services vertical, the company in the past managed airport entry ticket counters, retail outlets at airports and toll management services. Presently, there are no such active contracts for these Management Services. At present under Management Services vertical, they provide services for the annual maintenance of the Delhi Police headquarters as per the agreement entered into with the concessionaire.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Investment by way of equity in its subsidiary, Halaipani Hydro Project Private Limited, for the development of Hydro Power Project (Civil Construction and Electromechanical Works);
- ⇒ Investment by way of equity in its subsidiary, Garuda Construction, for funding long-term working capital requirements;
- ⇒ Pursuing inorganic growth through acquisitions and other strategic initiatives; and
- ⇒ To fund expenditures towards general corporate purposes.

Investment Rationale

Diversified business model helps in cushioning business performance during downtimes

PKH Ventures are in the business of Construction & Development, Hospitality and Management Services. The company's businesses generate income from diverse activities completely independent of each other. Eternal Building Assets has already received an annuity for a period of three years on part COD and will receive an annuity of Rs. 780 million per year till FY33. Considering a 40% equity stake in Eternal Infra, the company will be entitled to a pre-tax amount of Rs. 278.6 million per annum. Its civil construction works for third-party developers generate revenue from works contract charges and its hospitality vertical generates income from hotels, restaurants, and the sale of food. Further, under the Hydro Power Project awarded by the State of Arunachal Pradesh, the company will receive income from the sale of power once the Hydro Power Project is commissioned by June 2024.

Asset light model in civil construction business aids financial performance

The company has adopted an asset-light model approach for its civil construction business and for that, it relies on third-party suppliers for equipment and labour. Since the location of the Government Projects, Government Hotel Development Projects and forthcoming Development Projects are in different geographies like Punjab, Arunachal Pradesh, Maharashtra, Madhya Pradesh and Rajasthan, it is difficult and unviable to mobilize heavy equipment and machinery from one place to another for the execution of projects at such diverse locations. Also, a large amount of capital is required to acquire construction equipment and machinery, which can otherwise be effectively and more profitably deployed in other areas of the company's business. The deployment of equipment and labour through third-party contractors at these locations helps to reduce fixed costs, make the execution of construction projects cost efficient and increase margins.

Issue Details		
Offer Period	30 th June, 2023 - 04 th July, 2023	
Price Band	Rs. 140 - Rs. 148	
Bid Lot	100	
Listing	BSE & NSE	
Issue Size (no. of shares in mn)	25.6	
Issue Size (Rs. in bn)	3.8	
Face Value (Rs.)	5	
Issue Structure		
QIB	50%	
NIB	15%	
Retail	35%	
BRLM	IDBI Capital Markets	
Registrar	Link Intime India Pvt. Ltd	
Particulars	Pre Issue %	Post Issue %
Promoter	63.69	40.59
Public-Amansa Investment	36.31	28.25
Public-Others	-	31.16
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Valuation and Outlook

The construction and development sector will be a major driver for growth in India. The construction sector is the country's second-largest economic segment after agriculture. The sector contributed 8% to the national GVA (at constant price) in FY22. PKH Venture's diversification into new areas for the Construction & Development vertical will increase their financial and technical ability, making them eligible to bid for larger future projects and to effectively leverage their experience in the execution of such projects. Further, its subsidiary, Garuda Urban Remedies Limited, is proposing to set up an agro-processing cluster in the Jalore district of Rajasthan. The agro-processing cluster will provide basic enabling infrastructure like roads, water supply, power supply, drainage etc. and core infrastructure like warehouses, cold storage, sorting, grading etc. However, we are of the opinion that the company's focus across different segments may be a concern in their effective implementation. On the financial front, the debt has increased significantly to Rs. 748 million for the nine months ended 31 December 2022 compared Rs. 486 million posted in the year ended 31 March 2022, whereas the revenue has shown a degrowth in the last three years. **On the upper end of the price band, the issue will be valued at 24.8x of annualized FY23 earnings which we believe is richly valued. We, thus, recommend an "Avoid" rating for the issue.**

Key Risks

- ⇒ The company has no experience in developing and operating a hydropower plant and may not be successful in these endeavours. In the event of failure of execution of the Hydro Power Project or lack of adequate generation of power, the same may adversely affect the company's results of operations and financial condition.
- ⇒ Significant portion of revenues from Construction & Development activity come from the Government of India, through Delhi Police. Any dispute with the Delhi Police leading to a delay or cessation of annuity payments may result in a material adverse effect on its financial condition.
- ⇒ Increase in the prices of construction materials and labour & works contract charges could have an adverse effect on the business.

Income Statement (Rs. in millions)

Particulars	FY20	FY21	FY22	9 MFY23
Revenue				
Revenue from Operations	1,659	2,415	1,994	1,255
Other Income	31	232	461	296
Total Revenue	1,690	2,647	2,454	1,550
Expenses				
Cost of material consumed	482	540	747	341
Direct Expenses	720	1,176	526	409
Employee benefit expenses	99	81	38	45
Other expenses	255	113	18	108
Depreciation and Amortization expenses	21	22	18	17
Finance costs	37	79	117	72
Total Expenses	1,615	2,011	1,463	993
Profit Before Share of Profit of Associates/ Joint Ventures, Exceptional Items and Tax	75	635	856	558
Profit before Exceptional Items	168	685	856	558
Exceptional Items	0	0	0	-30
PBT	168	685	856	528
Current tax	19	73	217	160
Deferred Tax charge	2	95	-26	-22
MAT Credit Entitlement	6	1	0	0
Total tax	27	169	191	138
PAT	141	516	664	390
Diluted EPS	2	5	6	4
PE	63	29	23	33

Cash Flow Statement (Rs. in millions)

Particulars	FY20	FY21	FY22	9MFY23
Cash Flow from operating activities	58	-4,268	234	51
Cash flow from investing activities	-18	3,112	-18	-41
Cash flow from financing activities	-28	1,143	-104	666
Net increase/(decrease) in cash and cash equivalents	12	-14	111	573
Cash and cash equivalents at the beginning of the period	8	20	6	117
Cash and cash equivalents at the end of the period	20	6	117	690

Source: StoxBox

Balance Sheet (Rs. in millions)

Particulars	FY20	FY21	FY22	9MFY23
Equity and Liabilities				
Equity Share Capital	75	80	320	320
Other Equity	1,419	4,942	6,129	6,415
Non Controlling Interests	3	1,912	1,150	1,253
Total Equity	1,497	6,934	7,598	7,988
Non-Current Liabilities				
Financial Liabilities				
(a) Borrowings	66	480	486	748
(b) Lease Liabilities	0	0	0	0
(c) Other Financial Liabilities	297	752	748	1
Provisions	1	1	1	756
Other non current Liabilities	33	108	45	1,380
Deferred Tax Liabilities (net)	36	804	778	46
Total Non-Current Liabilities	433	2,144	2,059	2,931
Current Liabilities				
Financial Liabilities				
(i) Borrowings	172	349	496	341
(ii) Current tax liabilities (net)				
(iii) Trade Payables	216	966	466	684
(iv) Other Financial Liabilities	97	258	117	39
Provisions	0	0	0	0
Other current liabilities	35	43	67	257
Current tax liabilities (net)	-3	75	222	240
Total Current Liabilities	518	1,692	1,370	1,561
Total liabilities	951	3,836	3,429	4,492
Total Equity and Liabilities	2,448	10,770	11,027	12,480
Assets				
Non-Current Assets				
Property, plant and equipment	430	3,682	3,670	3,657
Right of use of assets	0	0	0	0
Capital work in Progress	48	70	69	69
Goodwill	14	242	242	242
Other Intangible Assets	0	0	0	0
Financial Assets				
(a) Investments	1,196	138	105	71
(b) Other financial assets	60	151	118	137
Other non current assets	37	3,507	4,066	3,870
Total Non current assets	1,784	7,791	8,271	8,046
Current Assets				
Inventories	2	9	37	54
Financial Assets				
(i) Trade Receivables	19	345	888	850
(ii) Cash and cash equivalents	20	6	117	690
(iii) Bank balances other than cash and cash equivalents	72	44	86	161
(iv) Loans	0	0	1	1
(v) Other financial assets	483	399	320	632
Other current assets	51	2,162	1,289	2,031
Total Current Assets	648	2,964	2,738	4,419
Non-Current Assets Classified as Held for Sale	15	15	15	15
Net Current Assets	2,448	10,770	11,027	12,480
Particulars	FY20	FY21	FY22	9MFY23

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer :

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice.

BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report.

BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non- infringement. The recipients of this report should rely on their own investigations. BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Stobox is a brand of BP Equities Pvt Ltd and BP Equities Pvt Ltd is a SEBI Registered broker.

BP Equities Pvt Ltd – SEBI Regn No: INZ000176539 (BSE/NSE), INZ000030431 (MCX/NCDEX), IN-DP-CDSL-183-2002 (CDSL), INH000000974 (Research Analyst) CIN: U45200MH1994PTC081564BP Comtrade Pvt Ltd – SEBI Regn No: INZ000030431 CIN: U45200MH1994PTC081564

For complaints, send email on investor@bpwealth.com.

Corporate Office :

4th floor, Rustom Bldg, 29, Veer Nariman Road, Fort, Mumbai-400001
Phone- +91 22 6159 6464 | Fax:+91 22 6159 6160 | <https://stobox.in/>

Corporate Office :

24/26, 1st floor, , Cama Building, Dalal street, Fort, Mumbai-40000



Download the App Now!



Follow us on

