

IPO Note

IPO Details

Face Value	Rs. 10
Price Band	Rs. 50-60
Issue Opens	20-Nov-07
Issue Closes	23-Nov-07
BRLM	SREI Capital Markets Ltd
Registrar to issue	Intime Spectrum Registry Ltd
Shares on offer for sale	8.5 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	91.0
Others	9.0

Post issue shareholding pattern

Shareholders	% Stake
Promoters	51.5
QIBs	20.5
Others	28.0

Segmented Allocation

QIBs	4,012,500
Non-Institutional	1,203,750
Retail	2,808,750
Employees	475,000

IPO Details (In mn)	Lower End	Upper End
Price Band (Rs.)	50	60
Equity Shares prior to issue	11.1	11.1
Fresh Issue of shares	8.5	8.5
Total Equity Shares	19.6	19.6
Share Capital (mn)	Rs. 196.1	Rs. 196.1
Implied market cap (mn)	Rs. 980.3	Rs. 1,176.3
Debt (mn) (as on 30/06/07)	Rs. 230.6	Rs. 230.6
Cash (mn) (as on 30/06/07)	Rs. 30.0	Rs. 30.0
Implied EV (mn)	Rs. 1,180.9	Rs. 1,377.0

Kaushalya Infrastructure Dev. Corp.

Do not subscribe

Kaushalya Infrastructure Development Corporation Limited (KIDCO) is an infrastructure development company involved in the construction and maintenance of roads, highways, and bridges. In order to diversify its business activities, it has expanded its operations to include erection of transmission lines, electrification projects, construction of residential and commercial complexes, and operation of a hotel in Jhargram in West Bengal.

As on July 1, 2007, the Company has an order book of Rs. 760.1 mn which is 1.4x FY07's revenue. Though KIDCO carries out its operations in a high growth sector which is getting a lot of support from the government, the Company's small size, lack of experience in managing BOT/BOOT projects, and a high debtors turnover period are significant deterrents to its future prospects.

Valuation and Recommendation

KIDCO is valued at a P/E of 13x and 15.6x at the lower price band of Rs. 50 and upper price band of Rs. 60 respectively. At the upper price band, the Company is at a considerable premium to its peers such as Roman Tarmat, Supreme Infrastructure, and Ansal Buildwell. We believe the premium is not justified, considering the small order book of the Company and the lack of visibility regarding its ability to secure BOT/BOOT projects in the near term. Moreover, its debtor turnover period is very high (an average of 183 days for FY03-07) when compared to its peers. We believe the issue is overpriced in the light of the aforementioned factors.

However, the Company has land reserves in areas near Kolkata and Hyderabad, which could unlock value in the near term with the demand for commercial space shifting to these areas.

Hence, based on our analysis, we recommend the investors not to subscribe to the issue.

Peer group comparison

Valuation	Market cap	PE Ratio	EV/EBITDA	EV/Revenue
Tantia Const	2,087	15.7x	11.2x	1.3x
JMC Projects	9,769	43.1x	26.4x	2.0x
Ansal Buildwell	672	10.3x	5.6x	0.8x
Supreme Infrastructure	2,027	11.6x	13.6x	3.0x
Roman Tarmat	1,959	13.4x	14.1x	1.8x
Peer group average		18.8x	14.2x	1.8x
KIDCO				
Lower price band	50	13.0x	12.3x	1.4x
Upper price band	60	15.6x	14.1x	1.6x

IPO

Issue details

KIDCO intends to raise Rs. 425 mn to Rs. 510 mn through an IPO of 8.5 mn equity shares. The promoters hold 100% of the issued and paid-up share capital of the Company. Post issue, the promoters will hold 51.5% of the total paid up equity share capital. KIDCO plans to allocate 4 mn shares to QIBs, 1.2 mn shares to non-institutional buyers, 2.8 mn to the retail applicants and the remaining to the employees of the Company. The issue will constitute 43.4% of the fully diluted post-issue paid up capital of the Company.

Issue objective

The IPO is being carried out to raise capital for financing the Company's proposed business plans. The Company intends to utilize issue proceeds for

- Purchase of capital equipments consisting of construction and infrastructure equipments for execution of projects, worth Rs. 50.1 mn
- Acquisition of land and land development rights and real Estate Development for Rs. 175 mn
- Investment of Rs. 120 mn in BOT/BOOT projects and joint ventures
- Meeting the long term working capital requirements of Rs.120.4 mn
- Meeting general corporate expenses

Promoters

The promoters of the Company are Mr. Ramesh Kumar Mehra, Mr. Prashant Mehra, Mr. Sidh Nath Mehra, Mr. Mahesh Mehra, Keleenworth Marketing Pvt Ltd, Mahanti Engineers Pvt Ltd, and Sun Kissed Merchandise Pvt Ltd.

Mr. Ramesh Kumar Mehra, one of the promoters of KIDCO, is responsible for deciding the business strategies of the Company.

Mr. Prashant Mehra is the Managing Director of the Company and looks after the planning and execution of infrastructure development projects.

Mr. Sidh Nath Mehra and Mr. Mahesh Mehra, with their past experience in the field of infrastructure and construction, lend their services as directors of the Company.

Rationale

Execution risk in the management BOT/BOOT projects

KIDCO is a small sized company with majority of its contracts obtained from Central and State government and their agencies. The Company is coming up with the issue to increase its net worth so as to be eligible for bidding large contracts especially in BOT and BOOT projects. However, it does not have any prior experience in executing such projects either individually or through consortiums and JVs. Considering the intense competition in the bidding process for large contracts, lack of experience and financial strength could restrain KIDCO from securing projects such projects in the future.

Concentrated order book

The Company's order book as on July 1, 2007 stood at Rs. 760.1 mn, of which two orders from NPCC Ltd. constitute 61.2% of the order book for Sipat Super Thermal Projects. Inability to execute the orders on time will negatively impact the financials of the Company and raise doubts upon its capability to handle such projects in future.

High debtors turnover period

KIDCO obtains a majority of its contracts from government undertakings, where in general there is a delay in realization of contract proceeds. As a

result, the Company has a high debtor turnover period, averaging 183 days for FY03-07. In comparison, KIDCO's peers have an average debtors turnaround period of 82 days. The dependence on government undertakings has thus led to the unnecessary blockage of funds and an increase in the working capital requirements.

Orders for capital equipment not yet placed

KIDCO hires capital equipments for executing its projects. Lately, there has been a substantial rise in the hiring costs of these equipments on account of increased infrastructural development activities in the country. As a result, the contracting expenses of the Company increased by 54% in FY07 to Rs. 387.1 mn. Though, KIDCO intends to reduce such costs by using Rs. 50.1 mn of the issue proceeds to purchase capital equipments, orders worth only Rs. 5.1 mn have been placed. The Company has not yet finalized the purchase of the remaining equipment which could possibly prevent it from reducing its operating costs.

Key Risks

Presence in high growth sectors

The Company has diversified its business in high growth sectors such as transmission lines and electrification projects and construction of residential and commercial complexes. KIDCO also owns a hotel at Jhargram, in West Bengal. The Company has obtained 32.4 acres of land in areas near Kolkata and Hyderabad, close to the industry belt which provides scope for capturing the surge in demand for residential as well as commercial space in these areas. All these factors could trigger the revenues of the Company and pose a threat to our rating.

Strong clientele

KIDCO has a strong client base in the public sector comprising government undertakings, state public works departments as well as state and central public sector undertakings. AMR Construction Ltd., Punj Lloyd Ltd., Engineering Projects (India) Ltd., Power and Energy Department, Gangtok, Tania Construction Ltd., and Balasore Alloys Ltd. are some the Company's

other clients. Such an association with the government undertakings enables the Company to secure orders on a regular basis.

Outlook

KIDCO is a small sized infrastructure development company, engaged in the construction and maintenance of roads, construction of bridges, erection of transmission lines, electrification projects, as well as commercial and residential complexes. The Company's order book of Rs. 760.1 mn at 1.4x FY07 is quite small when compared with its peers. Though the Company intends to bid for large BOT/BOOT projects, it lacks the requisite experience in this segment as it has been constructing roads in small districts and towns only. Moreover, KIDCO's high debtor turnover period (average of 183 days for FY03-07) blocks funds for a long period, thus pressuring the cash flows and increasing the Company's working capital requirements.

KIDCO is valued at a P/E of 13x and 15.6x at the lower and upper price band of Rs. 50 and Rs. 60 respectively. At the upper price band, it is at a considerable premium to its peers such as Roman Tarmat, Supreme Infrastructure, and Ansal Buildwell. We believe this premium is not justified in the light of the aforementioned factors, which may shunt its growth prospects. Hence, we recommend the investors not to subscribe to the issue.

Company Background

Incorporated in 1992, KIDCO (erstwhile: R.M.S Exim Pvt. Ltd) is an infrastructure construction company based in Eastern India with its headquarters at Kolkata. Engaged in infrastructure development projects since 2001, the Company is involved in construction and maintenance of roads and highways, construction of bridges, erection of transmission lines, electrification projects, as well as commercial and residential complexes. The Company also operates a hotel in Jhargram, West Bengal.

The Company, with its construction activities chiefly concentrated in West Bengal, has extended its operations to other states like Jharkhand, Chattisgarh, and Sikkim.

KIDCO has executed several projects for various Government Undertakings, state PWDs and State and Central Public Sector Undertakings in the capacity of primary contractor as well as a sub-contractor.

The Company has catered to a wide range of clients in Eastern India including AMR Construction, Punj Lloyd, Engineering Projects (India), Power and Energy Department of the Government of Sikkim, Tantia Construction, Balasore Alloys, Allied Infrastructure and Projects, Purulia Zilla Parishad, PMGSY, National Projects Construction Corporation.

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