

**Rating: Subscribe for Long Term**

**Issue Offer**

**Fresh Issue of 41,00,000 equity shares up to INR 287 mn**

**Issue Summary**

Price Band (INR)	66-70
Face Value (INR)	10
Implied Market Cap (INR Mn)	1,057
Market Lot	2000
Issue Opens on	Jan, 19, 2024
Issue Close on	Jan, 23, 2024
No. of share pre-issue	11,000,000
No. of share post issue	15,100,000
Listing	NSE SME

**Issue Break-up (%)**

Anchor	28.44
Market Makers	5.02
QIB Portion	18.98
NIB Portion	14.29
Retail Portion	33.27

**Book Running Lead Managers**

Beeline Capital Advisors Pvt Ltd

**Registrar**

Skyline Financial Services Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	91.65%	66.77%
Public & Others	8.35%	33.23%

**Objects of the issue**

- To Meet Working Capital Requirements.
- General corporate purposes.
- To meet Public Issue Expenses.

**Abhishek Jain**

abhishek.jain@arihantcapital.com  
022-422548871

**Balasubramanian A**

bala@arihantcapital.com  
022-67114780

**Deepali Kumari**

**Konstelec Engineers Ltd** is an integrated EPC player for Electrical, Instrumentation, and automation systems. The company has three decades of experience in project management & execution and successfully executed over 200 projects. The company specializes in delivering full-scale project management, procurement support, and detailed engineering services for various kinds of electrical infrastructure, instrumentation, and automation projects in India and abroad. The company is majorly catering to multiple sectors including Oil & Gas, Chemicals, Pharma, etc. The company is the preferred partner for Reliance, Adani, Tata, Indian Oil, JSW, etc.

**Investment Rationale**

**Strong order book shows business visibility:** The order book stood at ~INR 5,730mn (~3.7x of FY23 revenue) as of Dec-23. Out of this, around INR 4,000mn order is under execution & expected to be completed in the next 12-18 months. Most of the orders are domestic orders (~95%) and Nigeria orders are less than 5% of the order book. PSU and Public order book mix stood at 60:40 and are expected to be 50:50 going forward. The order winning ratio is around 15% to 20%. The order inquiry pipeline is more than INR 10,000mn and the company can able to secure an order of INR 1,500mn in the next quarter. The company is currently executing around INR 550mn for single large orders and is eligible to bid on more than INR 1,000mn orders.

**Margin improvement through value-added projects:** The company is executing projects in various industries such as Oil & Gas, Refinery, Atomic Energy, Space, Specialty Chemicals, Steel, Cement, Healthcare, FMCG, and residential and commercial complexes. The EBITDA margin stood at 9% as of FY23. The higher margin and higher ticket size projects improve the margins towards 12% going forward. The higher-margin projects are chemicals, pharma, petrochemicals, Oil & Gas, etc. The company is prioritizing planning & execution, high-quality standards, timely delivery, and adherence to budgets.

**Prudent working capital management and asset allocation would improve profitability:** The working capital debt stood at INR 360mn and the term loan stood at INR 50mn. The company might take an additional loan of INR 50mn for working capital requirements. The working capital requirement is around INR 1,100mn; around INR 510mn through internal accruals and remaining from debt and IPO proceedings. The increase in working capital is majorly due to project execution that would lead to profitability going forward. The receivables days stood around 60-90 days and payables days stood around 90 days.

**Customer-centric approach and two-prolonged approach would lead to sustainable growth:** The company is adopting a customer-centric approach to understand customers' specific requirements to provide tailor-made solutions. The company is focused on expanding its customer base by actively targeting new markets and engaging with a wider range of clients. The company's prolonged approach such as expanding capabilities and presence in the existing markets and sectors through continuous innovation, leveraging cutting-edge technologies, etc. The company is focused on inorganic growth through strategic tie-ups and JV's to access new markets, technologies expertise, etc.

**Valuation & Outlook:** Konstelec Engineering has an order book of INR 5,730mn (~3.7x of FY23 revenue) and around INR 4,000mn order book is under execution and expected to be completed in the next 12-18 months. The company has an order pipeline of INR 10,000mn and the order winning ratio is around 15%-20% showing an expected order book of around INR 1,500mn in the next quarter. The company is currently executing a big order of INR 550mn and is eligible to bid more than INR 1,000mn going forward. We believe, the high ticket size projects and specific industry-focused projects would lead to margin improvement going forward. The customer-centric approach, expanding customer base, innovation, leveraging cutting-edge technologies, and exploring in-organic growth opportunities would lead the business growth going forward. At the upper band of INR 70, the issue is valued at an EV/EBITDA of 7.7x based on FY23 TTM EBITDA and PE of 5.2x based on FY23 EPS of INR 5.2. We are recommending "Subscribe for Long Term" for this issue.

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	1,049	1,070	1,534
Operating expenses	406	401	740
<b>Gross Profit</b>	<b>642</b>	<b>669</b>	<b>794</b>
<b>Gross Margin (%)</b>	<b>61.2%</b>	<b>62.5%</b>	<b>51.8%</b>
Employee Cost	172	178	237
Other Expenses	422	433	415
<b>EBITDA</b>	<b>48</b>	<b>58</b>	<b>141</b>
<b>EBITDA Margin (%)</b>	<b>4.6%</b>	<b>5.5%</b>	<b>9.2%</b>
Depreciation	(9)	(8)	(8)
Interest expense	(24)	(22)	(38)
Other income	13	20	16
Share of profits associate & JV	-	0.1	-
<b>Profit before tax</b>	<b>28</b>	<b>48</b>	<b>111</b>
Taxes	(9)	(13)	(34)
<b>PAT</b>	<b>19</b>	<b>35</b>	<b>78</b>
<b>PAT Margin (%)</b>	<b>1.8%</b>	<b>3.3%</b>	<b>5.1%</b>
EPS (INR)	19.2	34.0	75.6

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	10	10	10
Reserves	497	532	609
<b>Net worth</b>	<b>507</b>	<b>542</b>	<b>619</b>
Minority Interest	-	-	-
Provisions	22	27	20
Debt	255	265	351
Other non-current liabilities	-	-	-
<b>Total Liabilities</b>	<b>784</b>	<b>835</b>	<b>990</b>
Fixed assets	77	74	83
Capital Work In Progress	-	-	-
Other Intangible assets	1	1	0
Goodwill	0	-	-
Investments	20	26	22
Other non current assets	6	6	6
<b>Net working capital</b>	<b>564</b>	<b>629</b>	<b>756</b>
Inventories	-	-	-
Sundry debtors	327	513	532
Loans & Advances	142	110	123
Other current assets	348	359	573
Sundry creditors	(166)	(264)	(359)
Other current liabilities & Prov	(86)	(89)	(113)
Cash	115	99	121
Other Financial Assets	-	-	-
<b>Total Assets</b>	<b>784</b>	<b>835</b>	<b>990</b>

Source: Company Reports, Arihant Capital Research

Equity capital stood at INR 10mn in FY23 and increased to INR 110mn in Sep-23.

Post IPO, Equity capital would be INR 151mn.

## Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	28	48	111
Depreciation	9	8	8
Tax paid	(9)	(13)	(34)
Working capital Δ	(564)	(64)	(128)
Change in Goodwill	(0)	0	-
<b>Operating cashflow</b>	<b>(536)</b>	<b>(22)</b>	<b>(42)</b>
Capital expenditure	(86)	(5)	(17)
<b>Free cash flow</b>	<b>(622)</b>	<b>(27)</b>	<b>(59)</b>
Equity raised	488	0	(1)
Investments	(20)	(6)	4
Others	(7)	0	0
Debt financing/disposal	255	10	86
Dividends paid	-	-	-
Other items	22	6	(8)
<b>Net Δ in cash</b>	<b>115</b>	<b>(16)</b>	<b>22</b>
<b>Opening Cash Flow</b>	<b>-</b>	<b>115</b>	<b>99</b>
<b>Closing Cash Flow</b>	<b>115</b>	<b>99</b>	<b>121</b>

Source: Company Reports, Arihant Capital Research

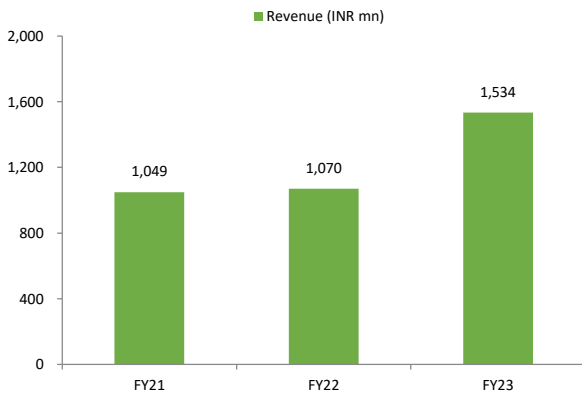
## Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
<b>Growth matrix (%)</b>			
Revenue growth		2.1%	43.3%
Op profit growth		21.6%	142.1%
<b>Profitability ratios (%)</b>			
OPM	4.6%	5.5%	9.2%
Net profit margin	1.8%	3.3%	5.1%
RoCE	4.5%	6.3%	11.4%
RoNW	3.8%	6.6%	13.4%
RoA	2.4%	4.2%	7.9%
<b>Per share ratios (INR)</b>			
EPS	19.2	34.0	75.6
Cash EPS	28.2	42.6	85.9
Book value per share	507.1	542.4	619.2
<b>Valuation ratios (x)</b>			
P/E	3.7	2.1	0.9
P/CEPS	2.5	1.6	0.8
P/B	0.1	0.1	0.1
EV/EBITDA	3.9	3.6	2.0
<b>Payout (%)</b>			
Dividend payout	0.0%	0.0%	0.0%
Tax payout	31.9%	27.6%	30.2%
<b>Liquidity ratios</b>			
Debtor days	114	143	124
Inventory days	-	-	-
Creditor days	61	78	82
WC Days	53	65	43

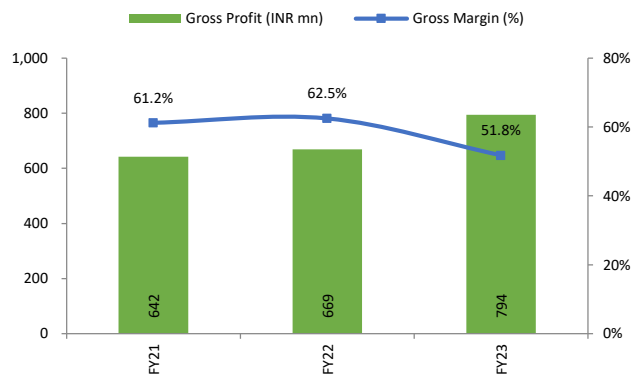
Source: Company Reports, Arihant Capital Research

Story in Charts

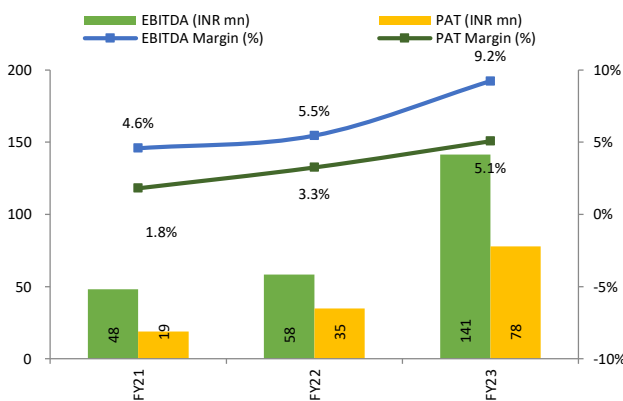
**Exhibit 1: Konstelec Engineers revenue grew at a CAGR of 20.9% over the period of FY21-FY23. The order book of INR 5,730mn (~3.7x of FY23 revenue) shows business visibility going forward.**



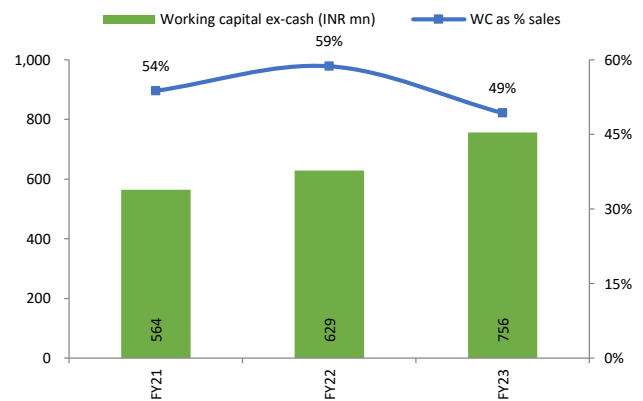
**Exhibit 2: Gross margins were declined to 51.8% due to higher raw material costs.**



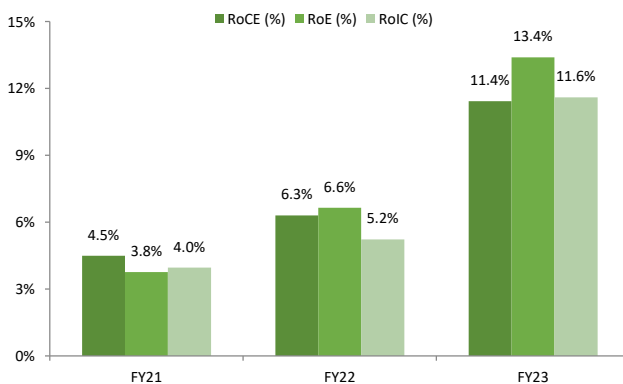
**Exhibit 3: EBITDA margin reached above 9% in FY23 and further margin improvement is expected going forward.**



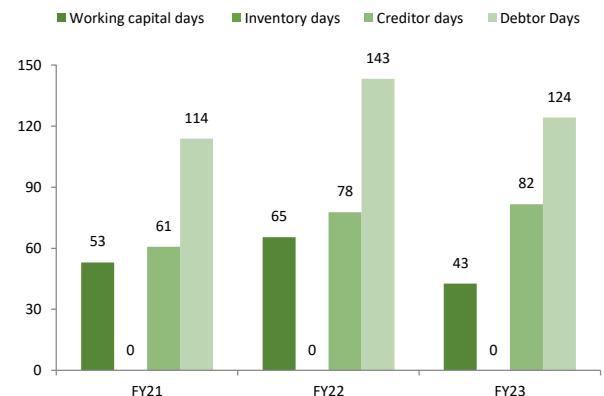
**Exhibit 4: Working capital has reduced in terms of sales.**



**Exhibit 5: Return ratios were improved over past 3 years and prudent capital allocation and profitability would improve further going forward.**



**Exhibit 6: Working capital days were reduced.**



Source: RHP, Company Reports, Arihant Capital Research

**Arihant Research Desk**

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880