

Prakash Constrowell Ltd.

September 17, 2011

Price Band	: ₹130 – 138 per share
Minimum Bid Lot Size	: 50 Equity Shares
Maximum Bid Lot Size	: 1400 Equity Shares
IPO opens during	: Sept 19 – 21, 2011
Book Running Lead Manager	: Intensive Fiscal Services Private Ltd.
To list on	: NSE & BSE
IPO Grading	: 2 / 5 (CARE)
PE	: 10.04x (based on base price)* : 10.66x (based on cap price)*
Market Cap post-listing	: ₹173.43Cr or \$36.67mn (based on the cap price)
Market Cap of Free Float	: ₹62.20Cr or \$13.15mn (based on the cap price)

*Based on FY11 EPS

IPO of 4.35mn equity shares of ₹10each, aggregating to ₹60Cr or \$12.68mn (at the cap price).

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters	8060000	98%	8060000	64%
QIBs (excl. Mutual Funds)	0	0%	2065217	16%
Mutual Funds	0	0%	108696	1%
Non Institutional Investors	0	0%	652174	5%
Public	160000	2%	1681739	13%
Total	8220000	100%	12567826	100%

Executive Summary

- Prakash Constrowell Ltd. (PCL) was incorporated in January 1996 is a fast growing company that provides integrated engineering, procurement and construction services.
- Construction as a percentage of GDP has been in the range of 7.9%-8.1% in the past six years. Development of infrastructure in the country mainly depends upon the spending by Gol in various sub-segments of infrastructure. Gol has set an ambitious target to increase the proportion of the investment in the infrastructure sector to 9% of GDP by the end of FY12.
- PCL is a construction company predominantly engaged in the business of infrastructure development and civil construction and undertakes projects for various Government / semi-government bodies and other private sector clients.
- PCL has over 15 years of experience in the construction industry and due to its focus on quality and timely execution of projects it has earned repeat orders from its clients Public Works Department and Maharashtra State Police and Housing Corporation to name a few.
- PCL has successfully executed BOT project at Arni, Yeotmal on Public-Private Partnership (PPP) model.

Our View

The company operates at negative cash flows and low profitability. Further, high intensity of competition and dependence of real estate sector in high interest rate scenario are negatives. We therefore advise investors to skip the issue

Company Background

Prakash Constrowell Ltd. (PCL) was incorporated as “Prakash Constrowell Private Limited” in January 1996. Subsequently, the company became a public limited company in December 2010 and changed its name to “Prakash Constrowell Limited” in January 2011. PCL is a construction company predominantly engaged in the business of infrastructure development and civil construction. A fast growing company that provides integrated engineering, procurement and construction services. PCL undertake projects for various Government / semi-government bodies and other private sector clients.

PCL has four subsidiary companies namely: Atal Buildwell Private Ltd. (ABPL) was incorporated in March 2007. PCL acquired 51% of the issued equity share capital of ABPL thereby making it a subsidiary in April 2010. Ram Buildwell Private Ltd. (RBPL) was incorporated in September 2007. PCL acquired 51% of the issued equity share capital of RBPL thereby making it a subsidiary in April 2010. Punamraj Construwell Private Ltd. (PNPL) with Mohini Buildcon Private Ltd. (MBPL) was incorporated in November 2006 as a subsidiary company of PCL.

Promoters and Management

Mr. Prakash P. Laddha is a Whole-Time Director of PCL with over three decades of industrial and entrepreneurial experience. He was instrumental in establishing the company and is actively involved in the business development and corporate relationship functions of PCL.

Industry Overview

The infrastructure segment involves construction projects in different sectors like roads, rails, ports, irrigation, power, telecom etc. Investment in the infrastructure sector plays a crucial role in the growth of the economy of the country. Development of infrastructure in the country mainly depends upon the spending by Gol in various sub-segments of infrastructure.

Construction as a percentage of GDP has been in the range of 7.9%-8.1% in the past six years. The Government emphasized mainly to ease liquidity and liberalize the lending policies. Focus was given to increase the expenditure on infrastructure and provide funding to the long-term infrastructure projects in order to speed up the completion. Gol had authorized India Infrastructure Finance Co. Ltd. (IIFCL) to raise ₹40000cr through tax-free bonds to refinance bank lending for infrastructure projects in the Public Private Partnership (PPP) mode. Apart from this, IIFCL was allowed to provide takeout financing to banks so that they can lend to the long-term infrastructure projects.

GDP and Construction at the factor cost (at constant prices)

Year	GDP (₹ Cr)	GDP growth (%)	Construction (₹ Cr)	Construction as % of GDP
FY2006	3254216	9.5	258124	7.9
FY2007	3566011	9.6	284798	8.0
FY2008	3898958	9.3	315389	8.1
FY2009	4162509	6.8	332557	8.0
FY2010	4493743	8.0	355918	7.9
FY2011	4877842	8.5	384629	7.9

(Source: RHP)

The global financial crisis also hit the Indian economy and economic growth slashed to 6.8% in FY2009. However, with buoyant domestic demand, accommodative policies and stimulus packages announced by the government, macroeconomic environment improved in the later year and economy registered a growth of 8% in FY10.

Investments planned in the Eleventh Five Year Plan

Govt has set an ambitious target to increase the proportion of the investment in the infrastructure sector to 9% of GDP by the end of FY12. Accordingly, estimated investment in the infrastructure sector during the Eleventh Five Year Plan would be more than ₹20500Bn. Almost half of the investment planned is expected to flow into the road and power sectors. Investments in different sub-segments of infrastructure are expected to be achieved through a combination of public private partnership and exclusive private investments. This provides a huge opportunity for the construction companies by sharing investments to participate in the rally of infrastructure development in the country.

Outlook

Investment in the infrastructure sector plays a crucial role in the growth of the economy of the country and in turn the construction industry. The construction industry has the opportunity to capitalize on the massive order flow expected to come from the infrastructure projects.

Govt had set a target of adding 78700 MW of power-generation capacity in the Eleventh Five Year Plan. Out of this target capacity, only about 34463 MW of capacity has been added in the first four years of the current Five Year Plan. Accordingly, Govt has given the highest priority to increase the power-generation capacity in the country. In line with the target of developing 20kms of road everyday (as against the current 4-5kms per day), the road sector is also one of the key focus areas.

Business Operations

PCL is a construction company predominantly engaged in the business of infrastructure development and civil construction. A fast growing company that provides integrated engineering, procurement and construction services. PCL undertake projects for various Government / semi-government bodies and other private sector clients.

The main objects of PCL is to carry on the business in all its respective branches in India and abroad, of promoters, developers, builders, masonry and to construct, execute, carry, equip, improve, develop, work and build roadways, docks, harbours, wharfs, canals, water courses, reservoirs, bridges, well, dams, embankments, irrigations, reclamations, sewage, drainage, and other sanitary work, houses, shops, stores, industries shed and estate, factories and residential and other buildings and any kind of work in connection with building and real estate.

The focus of the company is on the following segments of construction:

- Infrastructure development; including construction and maintenance of roads / highways, bridges, including projects on public private partnership (PPP) model, industrial parks, workshops, hospitals, educational institutions.
- Civil construction; including, Government staff quarters, hostel buildings and auditoriums.
- Residential and commercial real estate construction.

Strengths

Experienced management

Mr. Prakash P. Laddha, Promoter and Whole Time Director, has over three decades of entrepreneurial experience in the infrastructure and construction industry and is a first generation entrepreneur. Mr. Krishnan G. Trichur, Managing Director has over 40 years of experience, including experience into infrastructure industry. PCL's management team also plays an instrumental role in decision making process considering their vast experience in the construction industry.

Successfully completed a number of projects awarded by Government / semi-government bodies

PCL has over 15 years of experience in the construction industry and has executed many projects for Government and semi-government agencies. Due to its focus on quality and timely execution of projects it has earned repeat orders from its clients Public Works Department and Maharashtra State Police and Housing Corporation to name a few.

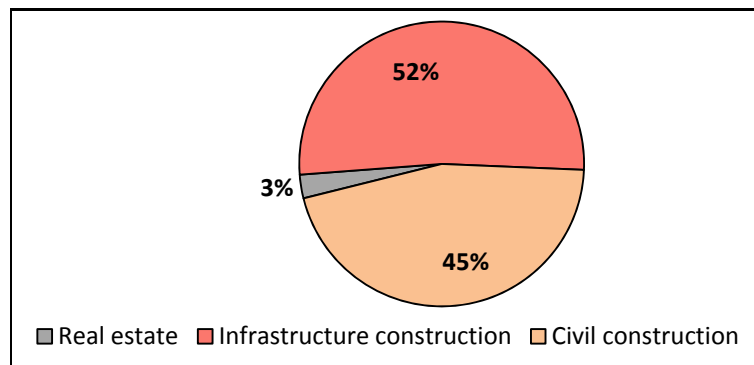
Successfully completed BOT project by way of PPP model

PCL has successfully executed BOT project at Arni, Yeotmal on Public-Private Partnership (PPP) model. The project included construction of by-pass road and widening of several bridges in between Arni to Mahagaon, Yevatmal along with construction of new bridge on Nagpur-Bori-Tuljapur Road and has also developed a commercial complex for MSRTC.

Diverse order book

PCI's diversification of the order book will enable to sustain its financial condition and results of operations through difficult economic climate and reduce its dependence on any particular segment and negate cyclical risks associated with the provision of construction services to a particular industry or sector.

Break-up work in hand as on 30th Jun, 2011 (%):



Source: RHP

Technical expertise and vast industry experience

PCL has qualified and trained employees consisting of project managers and supervisors, technical staff and non-technical staff which have assisted in the implementation of the business strategies in the past.

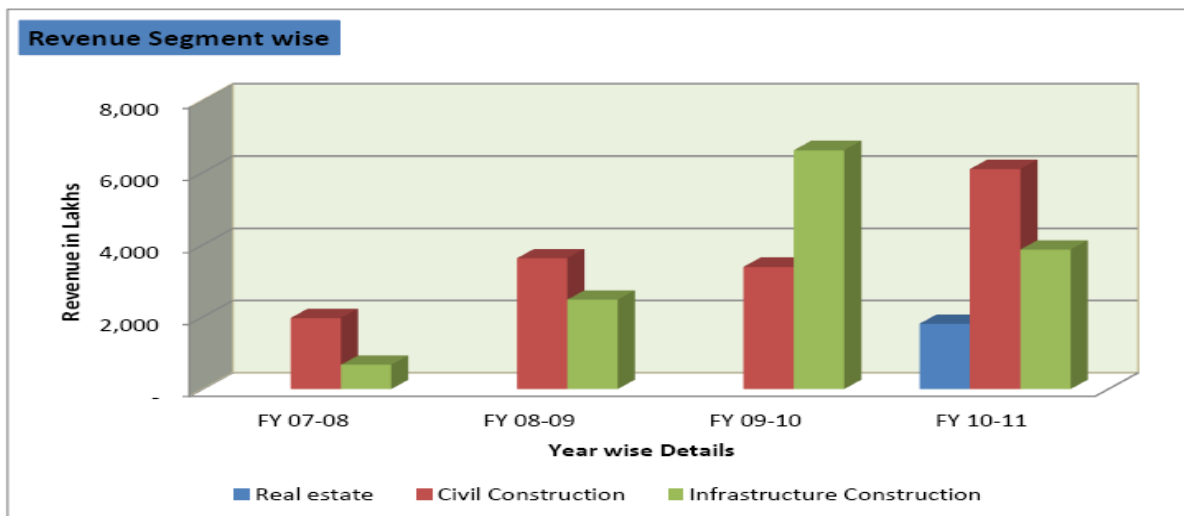
Track record of timely completion of Projects

PCL has a track record of timely execution of the projects which minimizes cost overruns and eliminates any possibilities of penalties and liquidated damages while earning repeat orders from its clients and has never been penalized for delayed execution of a project.

Continuous growth in the bid capacity and pre-qualification capability

PCL's business and growth are dependent on its ability to bid and secure large and varied projects. Bidding for infrastructure projects is dependent on various criteria; including bid capacity and prequalification capability. Bid capacity represents the aggregate value of the contracts that can be awarded to the firm, and is computed based on pre-defined criteria of various authorities. Pre-qualification capability includes various factors such as the technical capability, financial capability and past experience in similar projects. PCL is focused on improvising these parameters.

The below chart will provide an overview of its growth and the type of works executed by PCL over the past four years:



Integrated business model

PCL is able to undertake all the activities related to a construction projects in-house, from tendering for the project to the execution of the same. The company prepares all tendering documents and has dedicated planning and project management team. PCL's integrated structure also enables the company to bid for a project with confidence to complete and operate the same on a profitable basis.

Objects of the Issue

The objects of the issue are:

1. To meet working capital requirement.
2. To Invest in Construction Equipments.
3. To Invest in Subsidiaries.
4. To meet General Corporate Purposes.

Utilization of net proceeds

Particulars	Amount (₹Cr)
Working Capital Requirement	35.0
Investment in Construction Equipments	9.3
Investment in Subsidiaries	2.3
General Corporate Purposes	[•]
Public Issue Expenses	[•]
Total	60.0

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- The performance of the company could be affected in case majority of the bids are not accepted/ awarded to or negotiate a lower bid value. The revenues depend upon the award of new contracts and the timing of those awards.

KEYNOTE

- The financial condition of the company could be materially and adversely affected if the contingent liability materializes and has also availed unsecured loan which may be demanded for repayment at any time.
- The company relies on external agencies and third party suppliers in the construction business.
- The demand for construction services for the real estate sector is dependent on the performance of the property market in the areas in which we operate, and any slowdown in the demand for real estate and the demand for business of its customers could adversely affect the business.
- The industry is highly fragmented and competitive and would affect the company if it fails to keep pace with technical and technological developments.

Restated Profit & Loss Statements

(₹Cr)

For Period ended,	31.03.2008	31.03.2009	31.03.2010	31.03.2011
Income				
Income From Operations	26.40	64.23	113.41	126.91
Other Income	0.39	1.39	2.50	2.14
Total Income	26.79	65.62	115.90	129.06
Expenditure				
Construction Expenses	20.74	57.53	101.22	105.28
Payment & Provision for Employees	0.51	0.45	0.44	0.99
Administrative & Other Expenses	0.77	1.56	1.56	3.92
Selling & Distribution Expenses	0.16	0.08	0.08	0.69
Financial Charges	0.27	0.41	1.06	1.58
Depreciation & Amortization	2.61	2.76	2.76	2.64
Total Expenditure	25.04	62.80	107.12	115.11
Profit Before Tax and extraordinary items	1.74	2.82	8.79	13.94
Add / (Less) : Extraordinary Items/Prior Period	-	-	-	(0.27)
Add / (Less) : Transfer from revaluation reserve	1.80	1.80	1.80	1.35
Profit Before Tax and after extraordinary items	3.54	4.62	10.58	15.02
Add/ (Less) : Taxation / Provision for Tax	-	-	-	
Current Tax	(0.50)	(0.44)	(2.49)	(4.13)
Earlier Years	0.00	(0.08)	(0.25)	(0.36)
Deferred Tax Liability/ (Assets)	0.14	(0.41)	0.21	0.05
Profit After Tax and extraordinary items as per Audited Accounts	3.18	3.69	8.05	10.58
Less: Minority Interest	0.03	0.29	0.35	0.61
Profit After Tax and minority interest as per Audited Accounts	3.15	3.40	7.70	9.97
Impact of Change in Accounting Policies and Estimates	(0.25)	(0.39)	(0.33)	0.91
Excess/(Short) Provision for Taxation	0.08	(0.17)	0.07	0.01
Deferred Tax Impact	0.09	0.39	0.02	(0.25)
Misc. Exp. Written Off.	0.00	-	-	0.00
Total Adjustments net of tax impact	(0.08)	(0.17)	(0.24)	0.67
Net Profit as Restated	3.06	3.23	7.46	10.65

KEYNOTE

Restated Balance Sheets

(₹Cr)

As at ,	31.03.2008	31.03.2009	31.03.2010	31.03.2011
Fixed Assets				
Gross Block	2.48	3.03	3.33	4.46
Less: Accumulated Depreciation	(0.73)	(1.06)	(1.39)	(1.94)
Total	1.75	1.97	1.94	2.53
Gross Block	5.97	5.97	5.97	5.97
Less: Amortization	(3.21)	(4.07)	(4.94)	(5.80)
Total	2.76	1.89	1.03	0.17
Total Fixed Assets	4.51	3.87	2.97	2.69
Investments	0.61	0.61	0.00	0.00
Deferred Tax Assets	-	-	-	-0.21
Current Assets, Loans and Advances				
Inventories	1.53	6.20	17.50	24.46
Sundry Debtors	0.90	4.87	2.74	14.43
Cash & Bank Balances	3.59	4.06	3.50	3.87
Loans & Advances	8.87	31.57	28.42	28.42
Total Current Assets	14.88	46.69	52.16	71.18
Liabilities and Provisions				
Secured Loans	2.31	5.30	8.32	10.61
Unsecured Loans	0.16	0.15	1.89	0.13
Deferred Tax Liability	0.27	0.30	0.07	-
Current Liabilities	6.73	31.08	19.95	24.39
Provisions	0.46	0.74	3.51	4.25
Total Liabilities	9.94	37.58	33.74	39.38
Minority Interest	0.04	0.33	0.68	2.12
Net Worth	10.02	13.25	20.71	32.17

Keynote Capitals Ltd.

Member

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National Stock Exchange of India Ltd. (INB 010930556)
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