



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Infrastructure
Total Issue (Shares) - Fresh Issue	10,000,000
Net Offer to the Public	10,000,000
Issue Size (Rs. Cr.)	183-185
Price Band (Rs.)	183-185
Offer Date	28-Sep-18
Close Date	3-Oct-18
Face Value	10
Lot Size	80 Equity Share

Issue Composition	In shares
Total Issue for Sale	10,000,000
QIB	5,000,000
NIB	1,500,000
Retail	3,500,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.68%
QIB	0.00%	12.66%
NIB	0.00%	3.80%
Retail	0.00%	8.86%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- Expansion of business by setting up of further OFC Network under IP-1 License;
- To fund expenditures towards general corporate purposes; and
- To meet public issue expenses.

Book Running Lead Manager

- Hem Securities Ltd

Name of the registrar

Link Intime India Pvt Ltd

About the Company

Incorporated in 2006, the company is a passive communication infrastructure provider Company in India, focused on providing passive communication infrastructure services mainly to the Telecom operators and internet service providers ("ISPs"). The company has been licensed by Department of Telecommunications (DoT) with the Infrastructure Provider (IP)-I License, under which it can establish and maintain wired networks, Duct space for the purpose to grant on lease or sale on IRU basis to the licensees of Telecom operators, ISPs etc. Its key expertise lies in the field of providing support services to telecom vendors which inter alia includes project management for laying of the duct and optic fibre cables, construction of basic transmission and telecom utilities, dark fiber leasing, optical fiber network construction, maintenance of duct and optic fibre and optical fibre project turnkey services to various Telecom network operators & broad band Service operators across the states of India. Some of the prominent clients of the Company includes telecom giants like Bharti Airtel Ltd, Idea Cellular, Vodafone, Tata Communications Ltd. etc. as well as ISP clients like Intech, D-vois SSV, Atria, power grid, Hathway, Sify riding on its fibre optic network along several routes. Apart from the above it also has Mahanagar Gas Limited in its client list for gas pipeline work.

Strength

Established Optic fiber network in India: Over the past years the company has created its own fibre optic network of around 7500 Kms which run across Rajasthan, Gujarat, Maharashtra, Goa, Karnataka, Andhra Pradesh and Telengana. Apart from the own network, The company has also undertaken Vendor Projects and developed a Network of around 9500 Kms for its customers. This fibre network is currently being used by various companies such as companies like telecom operators, cable TV companies, MSOs, ISPs etc. Even after building a network running across 10 states, it is continuously expanding its fibre and duct network so as to be able to serve more customer needs and leverage economies of scale.

Strong project management and execution capabilities: Over the last five years, the company has executed many projects for the telecom companies and gas companies. The company has a strong ROW team which liaison with the government and local authorities to get the projects executed with all the required permission and without any hindrances from the locals. The company has its own list of sub- contractor in various states that help us get the work executed in those respective areas. The company enjoys accreditations such as the ISO 9001, 14001 & OHSAS 18001 certification.

Efficient Business Model: Its growth is largely attributable to its efficient business model which involves careful identification and assessment of the project with emphasis on cost optimization which is a result of executing its projects with careful planning and strategy. Its business model relies more on its efficient liasoning, speed of execution, quality of work performed and maintenance of the laid network. The company focuses to ensure high quality standards, and believes, that it can deliver the project successfully with the required standards.

Long standing customer relationships with strong repeat business: In last three financial years, the company has generated more than 95% of its revenue from operations from its top 10 customers, among which most were its existing clients. The company has built long standing customer relationships which have helped us better understand its clients' business needs and enabled us to provide effective solutions to meet these needs.

Quality Certification: The company believes in maintaining and adheres to quality standards. Its execution process is closely monitored by the project supervisors. The company has been accredited with ISO 9001:2015certificate, 14001:2015 certificate & OHSAS 18001:2007 certificate.

Co-ordial relationship with its suppliers and contractors: The company maintains long term business relationship with its key suppliers and contractors with whom it has a mutual understanding. This long standing relationship with them has ensured its timely delivery of its materials, supply of quality materials, timely execution and work performance as per the desired guidelines. This has been beneficial for the company to successfully execute its projects on time and develop strong relationship with its suppliers and customers.

Strategies

To enhance the coverage of the Optic fiber network: With the help of its experience in the telecommunication sector and the increase in the digital India initiative, the company focuses on the identification of those networks where the Telecom companies want to operate but avoid executing routes due to local resistance or financial or other feasibility. By identifying such areas, it undertakes the work of fibre laying in those places which will increase its network coverage. The network so developed can be provided to the telecom operators on lease or sale on IRU basis.

Expand into business areas that create synergies with its current business: The company is planning to expand through its Subsidiary company into the business of ISP which could create synergies with its current business where it owns the fibre network which can be used by its subsidiary. It believes that with the increase in digitalization and building smart city projects it can expand its business in telecom infrastructure sector and similar business. By such expansion, it can take the benefit of leveraging its capabilities and gain economies of scale in operations and minimize its cost and maximize the profitability.

Augment customer relationships: It intends to further develop its long-standing customer relationships by providing such high quality services with the same amount of dedication as the company has done in the past. Through its robust systems and capable project management teams, it intends to closely monitor client satisfaction and be responsive to their evolving needs and requirements.

Enhance its project execution capabilities: It intends to continue to focus on enhancing its project execution capabilities. The company also intends to continue to optimize its internal management systems to optimize operating margins and reduce overhead costs. Further, the company intends to grow its execution capabilities by strengthening its human capital and attracting professionals, and nurturing their growth within its organization.

Continue to focus on strengthening the goodwill of its name: Over the past years, on account of its speed of execution, quality of work performed and maintenance of the laid network, the company has created its goodwill among the Telecom Operators. Further, with its dedicated team which looks after the cable and the duct for any cuts or damages which are repaired on regular basis it intends to provide the clients with an uninterrupted signal, proper flow of signal and no downtime. It also protects the cable and ensure that it is properly shifted to safer location where there are extensive expansions is going on.

Risk Factors

Limited number of large customers: A significant portion of company revenue is generated from limited number of large customers and if they are unable to maintain company relationship with such customers, its business, results of operations and financial condition will be materially and adversely affected.

Highly competitive market: The market in which they operate is highly competitive, and if they are unable to compete effectively, its business, prospects and results of operations may be materially and adversely affected.

Operations are subject to significant fluctuations: The company results of operations are subject to significant fluctuations, and adverse weather conditions. Any adverse condition may hamper the company's ability to achieve or sustain profitability in the future, which may materially and adversely affect company business and prospects.

Has a number of contingent liabilities: Its contingent liabilities as at March 31, 2018 amounted to Rs. 37.42 cr towards Guarantees & LC excluding financial guarantees. If any of these contingent liabilities materializes, its results of operations and financial condition may be adversely affected.

Industry overview

India has one of the fastest growing telecommunications sector with over 1.1 billion connections. It is the second largest in the world while continuing to grow at a Compounded Annual Growth Rate (CAGR) of 19.6 per cent from FY'07-17. Driven by an exponential surge in data consumption in the recent few years, India ranks among top five countries across the world in highest internet users and is speculated to rank as the fourth largest market by the year 2020 with two out of every three mobile phones to be smart phones. Optical Fiber Cable (OFC) continues to be the backbone of the digital world. With rapid spread of broadband connectivity and increasing usage of internet towards online financial transactions and sharing of confidential data, the need for secure transmission of data is gaining prominence. Exponential increase in the digital population and a consequential explosion in data consumption are necessitating the increase in carriage capacity and speed of the OFC network. Emerging trends in overhead carriage lines are opening up newer consumption possibilities of OFC. The oil and gas sector is among the core industries in India and plays a major role in influencing decision making for all the other important sections of the economy. In 1997-98, the New Exploration Licensing Policy (NELP) was envisaged to fill the ever-increasing gap between India's gas demand and supply. India's economic growth is closely related to energy demand. Therefore, the need for oil and gas is projected to grow more, thus making the sector remove conducive for investment.

Peer comparison

The company believes that none of the listed companies in India are engaged in a portfolio of business similar to it

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 185, the stock is priced at pre issue P/E of 8.82x on its annualised FY18 EPS of Rs. 20.97. Post issue, the stock is priced at a P/E of 11.81x on its EPS of Rs. 15.66. Looking at the P/B ratio at Rs. 185 the stock is priced at P/B ratio of 5.04x on the pre issue book value of Rs. 36.68 and on the post issue book value of Rs. 74.23 the P/B comes out to 2.49x.

On the lower end of the price band of Rs. 183 the stock is priced at pre issue P/E of 8.72x on its estimated annualised FY18 EPS of Rs. 20.97. Post issue, the stock is priced at a P/E of 11.68x on its EPS of Rs. 15.66. Looking at the P/B ratio at Rs. 183, the stock is priced at P/B ratio of 4.99x on the pre issue book value of Rs. 36.68 and on the post issue book value of Rs. 74.23, the P/B comes out to 2.47x.

Outlook

With established Optic fiber network in India, strong project management & execution capabilities and efficient Business Model, the company is expected to do well in future. However, a significant portion of company revenue is generated from limited number of large customers. A high risk appetite investor may opt the issue.

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-18	Period ended 31-Mar-17	Period ended 31-Mar-16
Total Operating Income	302.17	169.23	122.25
Total Expenditure	194.21	123.57	94.51
Operating Profit	107.97	45.67	27.75
OPM%	35.73	26.98	22.69
Other Income	0.61	0.68	0.25
PBDIT	108.57	46.35	27.99
Depreciation	11.29	9.73	6.18
PBIT	97.28	36.62	21.81
Interest	1.99	2.78	2.07
PBT and Exceptional Items	95.29	33.84	19.75
Exceptional Items	0.11	0.04	0.04
PBT	95.18	33.80	19.71
Tax	33.42	11.79	6.82
PAT	61.87	22.05	12.92

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-18	As on 31-Mar-17	As on 31-Mar-16
Non-current Assets			
Property, Plant and Equipment	68.98	67.75	50.02
Capital Work-in-Progress	46.23	3.56	6.46
Intangible Assets	0.38	0.04	0.07
Financial Assets	0.00	0.00	0.00
i. Trade Receivables	6.00	9.38	6.90
ii. Investments	0.13	0.00	0.00
iii. Loans	0.00	0.00	0.00
iv. Other financial assets	29.34	16.36	11.56
Other non-current assets	4.77	5.99	11.65
Total Non- Current Assets	155.83	103.09	86.66
Current assets			
Inventories	17.50	0.00	0.00
Trade receivable	82.10	47.58	23.82
Cash & Cash Equivalents	0.59	13.62	0.54
Bank balances other than (iii) above	0.13	1.20	0.40
Loans	0.02	0.04	0.01
Others current financial assets	150.36	28.19	24.34
Other Current Assets	11.42	4.32	3.95
Total current assets	262.11	94.96	53.06
Total Assets	417.94	198.04	139.72
Non-current liabilities			
Borrowings	9.43	9.64	3.62
Provisions	0.28	0.37	0.23
Deferred tax Liabilities (Net)	1.04	0.60	0.52
Other Non-Current Liabilities	104.72	78.79	46.48
Total	115.47	89.40	50.85
Current liabilities			
Borrowings	16.70	0.00	7.84
Trade payables	136.73	43.70	37.63
Other Financial Liabilities	4.07	5.37	7.51
Other Current Liabilities	16.31	12.83	6.90
Provisions	0.14	0.02	0.02
Current Tax Liabilities	20.33	0.58	0.00
Total current liabilities	194.27	62.50	59.89
Total	309.74	151.89	110.74
NET Worth	108.19	46.15	28.98
Net worth represented by:			
Share capital	29.50	0.25	0.25
Reserves and surplus	78.49	45.90	28.73
Non-Controlling Interest	0.21	0.00	0.00
Net Worth	108.19	46.15	28.98

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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