



SEBI Research Analyst Registration No: INH000009843

## **Dhruv Consultancy Services Ltd. (DCSL)**

### Initiating Coverage

30<sup>th</sup> January, 2023

**CMP: ₹56 | Target Price: ₹70**

**Upside Potential: 25% | Duration: 1 Year**

**Market Capitalisation: ₹84 Cr.**

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Investors are advised to refer through important disclosures made at the end of the Research Report.



# INDEX

SUMMARY.....	3
CORPORATE GOVERNANCE.....	7
INDUSTRY ANALYSIS .....	8
THE COMPANY.....	9
TRIGGERS.....	15
RISKS.....	17
SHAREHOLDING PATTERN (Q2FY23).....	18
PEER DESCRIPTION .....	19
FINANCIALS.....	21
VALUATIONS.....	28

## SUMMARY

Incorporated in 2003, DCSL is engaged in infrastructure consultancy providing design, engineering, procurement, construction and integrated project management services for highways, bridges, **tunnels, architectural, environmental engineering and ports. The company's services includes preparation of DPR and feasibility studies for infrastructure projects, operations & maintenance works, project management consultancy services, independent consultancy, project planning, designing, estimation, traffic and transportation engineering, financial analysis, technical audits, structural audit, inspection of bridges and techno legal services.** DCSL has a 33% market share in infrastructure consultancy for National Highways Authority of India (NHAI) and Ministry of Road Transport and Highways (MoRTH).

DCSL has provided services to clientele such as Ministry of Road Transport and Highways, National Highways Authority of India, The City and Industrial Development Corporation of Maharashtra Ltd., Jawaharlal Nehru Port Trust, Maharashtra State Road Development Corporation, Mumbai Metropolitan Region Development Authority, Public Works Department, Maharashtra Tourism etc.

Over the past seven years, national highways built have increased by more than 50% from 91,287 km (as of April 2014) to 1,45,000 km now, despite the challenges posed by the pandemic. NHAI has set a full year target of 6,500 kilometers of road projects to be awarded in FY23 which has been slow in H1FY23, but is expected to pick up in H2FY23. **Ministry of Road Transport and Highways (MoRTH) has set a target of 50 km/day of highway construction which translates to 18,250 km of constructed roads by FY24.**

The road infrastructure industry currently has strong revenue visibility in the mid-term, with 40% of total work worth ₹8 lakh Cr. already completed, and an additional ₹12 lakh Cr. of orders expected to flow in until FY25. **The consultancy business has a significant opportunity for growth, with an estimated 5% share of ₹12 lakh Cr. expected to flow into the consultancy segment until FY25, translating to potential revenue of ₹60,000 Cr. for the consultancy industry in the mid-term.**

**We believe that infrastructure consultancy can be a highly profitable and attractive business opportunity in India, due to its potential for strong margins and operating leverage. Additionally, consultancy business models tend to generate a significant portion of revenue at the start of a project, as opposed to milestone-based percentage completion methods used in EPC companies. Furthermore, consultancy is an asset-light business with less debt and lower working capital cycles making it a compelling way to capitalize on the growth of India's infrastructure sector.**

Going forward, we estimate 25% revenue and 19% PAT CAGR till FY24, driven by the order book and infrastructure push from the Government of India through the National Infrastructure Pipeline (NIP). We anticipate a FY24 P/E multiple of 12.8, which is below the 3-year median of 19.86. We arrive at a target price of ₹ 70 which represents an upside of 25% from CMP, which we believe can be achieved within 12 months.

## MILESTONES

2003	Establishment- Started with 4 employees in a 200 sq. ft rented office
2006	First PMC Work- Bhiwandi Kalyan Shilphata road by PLUS Expressway BERHAD
2013	10 years Completion-Empanelment with Ministry of Road Transport & Highways
2015	Highest work order received- National Highway Bridge Inspection in Gujarat and Maharashtra
2018	Listed On BSE and DPR work of 1400 km, Authority Engineer's work of 1800 km. Listed on BSE - May 2018
2021	Diversification- Bagged the 1st order under solid waste management in the state of Maharashtra.
2021	Migrated to the Main Board of BSE & NSE (25 Nov 2021)
2022	First International Road Connectivity Implementation Programme in Cambodia
2022	Second international shortlisting- Shortlisting for submission of RFP in Bangladesh for Value Addition in Road Safety work – March 31, 2022.

## PROMOTERS AND MANAGEMENT TEAM

### PANDURANG DANDAWATE, NON – EXECUTIVE DIRECTOR



1. He holds a Bachelor's degree in Civil Engineering from Dr. Babasaheb Ambedkar Marathwada University in Maharashtra. He cleared his MPSC exams and was selected as a Grade I Class II officer (Maharashtra Engineering Service) in PWD, Government of Maharashtra as an Assistant Engineer. He took voluntary retirement as an Executive Engineer from Maharashtra State Road Development Corporation Limited in the year 2003.
2. He takes remuneration of ₹0.45 Cr. which is 7.7% of the FY22 net profit (₹5.79 Cr.) and holds a 27.15% of stake in the company.

### TANVI AUTI, MANAGING DIRECTOR



1. She holds a Bachelor's degree in Civil Engineering from Pune University. She joined the Company as a Director in the year 2016 and is designated as the Managing Director with effect from December 21, 2016. Prior to joining the Company, she worked with Hiranandani Construction, Mumbai and Simplex Infrastructure Limited as an Engineer Trainee. She has over 7 years of experience in the infrastructure industry. She is the daughter of Pandurang and Jayashree Dandawate.
2. She takes remuneration of ₹0.48 Cr. which is 8.2% of the FY22 net profit and holds 10.51% of stakes in the company.

### JAYASHREE DANDAWATE, EXECUTIVE DIRECTOR



1. She holds a Bachelor Degree in Home Science from Bombay University. She takes remuneration of ₹0.10 Cr. which is 1.7% of the FY22 net profit and holds 19.28 % stake in the company.

## **SANDEEP DANDAWATE, EXECUTIVE DIRECTOR**



1. He holds a Diploma in Civil Engineering from the Board of Technical Examinations, Maharashtra State. He has more than 10 years experience in the infrastructure industry. He oversees the project implementation, project estimation and project engineering of the projects that the Company undertakes. He takes remuneration of ₹0.36 Cr. is which is 6.2% of the FY22 net profit.

## **RAJA MUKHERJEE, CHIEF EXECUTIVE OFFICER-HIGHWAY & TRANSPORTATION**



1. He holds a Bachelor Degree in Civil Engineering from Osmania University, Hyderabad and MBA in Construction Management from IIBM, Delhi. He has an experience of 28 years in infrastructure space.
2. Before joining DCSL, he was associated with MEP Infrastructure and Developers Ltd., as Chief Technical Officer. Prior to MEP, he was with Gammon Infrastructure Pvt Ltd as Project Head and a member of the Board of Directors, Welspun Projects Ltd., HCC, STUP Consultants, L&T ECC. He has in depth experience in design, planning, execution and project management in infrastructure projects such as highways & expressways, bridges, airport, railways.

## **HIMANSHU SHRIMAL, CHIEF TECHNICAL OFFICER**



1. He holds a Bachelor's Degree in Civil Engineering from Devi Ahilya Vishwavidyalaya, Indore University. He has an experience of 38 years in infrastructure sector. He is a retired Chief Engineer from Govt of Maharashtra. Before joining DCSL, he was working for the Public Works Department (PWD), Govt of Maharashtra.
2. He has a rich experience in project execution and project management in infrastructure projects such as highways & expressways and bridges.

# CORPORATE GOVERNANCE

Positive
  Negative

Checklist	Remark
Auditors' opinion	Unmodified
Auditor change	No frequent change in Auditor
Promoter pledged %	No promoter pledge
Conference call	Only once in Q1FY23
Investor presentation	Only once in Q1FY23
Business in JV with Promoter group company	We find this as a risk.
Independent Directors as % of Board	50%, Good sign

# INDUSTRY ANALYSIS

## NATIONAL INFRASTRUCTURE PIPELINE (NIP)

- NIP is a signature project of the Indian Govt. to develop world class infrastructure in India. NIP has outlined plans to invest ₹111 lakh Cr. on infrastructure projects by 2024-25, with the Centre, States and the Private Sector to share the capital expenditure in a 39:39:22 formula.
- To achieve \$5 trillion economy of India, infrastructure is an important factor. FY20-FY25 is the execution period of the National Infrastructure Pipeline. Out of the total Rs. 111 lakh Cr. allocation to NIP, the total capex for road infrastructure will be ₹20.33 lakh Cr. for FY20-25.
- India's projected capital expenditures on infrastructure will be dominated by sectors such as energy (24%), roads (19%), urban (16%), and railways (13%) between 2020 and 2025.

Ministry/ department	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-FY25
<b>Energy</b>								
Power	164,140	225,551	221,734	223,487	225,236	211,002	139,279	1,410,428
Renewable nergy	30,500	151,000	144,000	170,000	217,000	217,000	0	929,500
Atomic energy	11,635	21,462	28,324	33,124	32,674	28,284	0	155,503
Petroleum and natural gas	27,332	43,510	48,314	41,523	22,858	10,535	499	194,572
<b>Total energy</b>	<b>233,607</b>	<b>441,522</b>	<b>442,372</b>	<b>468,134</b>	<b>497,768</b>	<b>466,821</b>	<b>139,778</b>	<b>2,690,003</b>
<b>Roads</b>								
Roads	332,559	383,283	356,966	252,780	240,761	332,659	134,815	2,033,823
<b>Total roads</b>	<b>332,559</b>	<b>383,283</b>	<b>356,966</b>	<b>252,780</b>	<b>240,761</b>	<b>332,659</b>	<b>134,815</b>	<b>2,033,823</b>
<b>Railways</b>								
Railways	133,387	262,465	308,800	273,831	221,209	167,870	0	1,367,563
<b>Total railways</b>	<b>133,387</b>	<b>262,465</b>	<b>308,800</b>	<b>273,831</b>	<b>221,209</b>	<b>167,870</b>	<b>0</b>	<b>1,367,563</b>
<b>Ports</b>								
Ports	13,357	18,104	20,649	15,863	7,724	10,002	35,495	121,194
<b>Total ports</b>	<b>13,357</b>	<b>18,104</b>	<b>20,649</b>	<b>15,863</b>	<b>7,724</b>	<b>10,002</b>	<b>35,495</b>	<b>121,194</b>
<b>Airports</b>								
Airports	18,667	21,655	24,820	21,334	25,386	5,141	26,445	143,448
<b>Total airports</b>	<b>18,667</b>	<b>21,655</b>	<b>24,820</b>	<b>21,334</b>	<b>25,386</b>	<b>5,141</b>	<b>26,445</b>	<b>143,448</b>
<b>Urban</b>								
Atal Mission for Rejuvenation and Urban Transformation, Smart Cities, MRTS, Affordable Housing, Jal Jeevan Mission	298,174	462,208	404,134	234,858	217,164	159,862	142,867	1,919,267
<b>Total urban</b>	<b>298,174</b>	<b>462,208</b>	<b>404,134</b>	<b>234,858</b>	<b>217,164</b>	<b>159,862</b>	<b>142,867</b>	<b>1,919,267</b>

Source- National Infrastructure Pipeline, website, KamayaKya research

- The industry currently has strong revenue visibility in the mid-term, with 40% of total work worth ₹8 lakh Cr. already completed, and an additional ₹12 lakh Cr. of orders expected to flow in until FY25.



## THE COMPANY



HIGHWAY



BRIDGES



TUNNELS



ARCHITECTURE



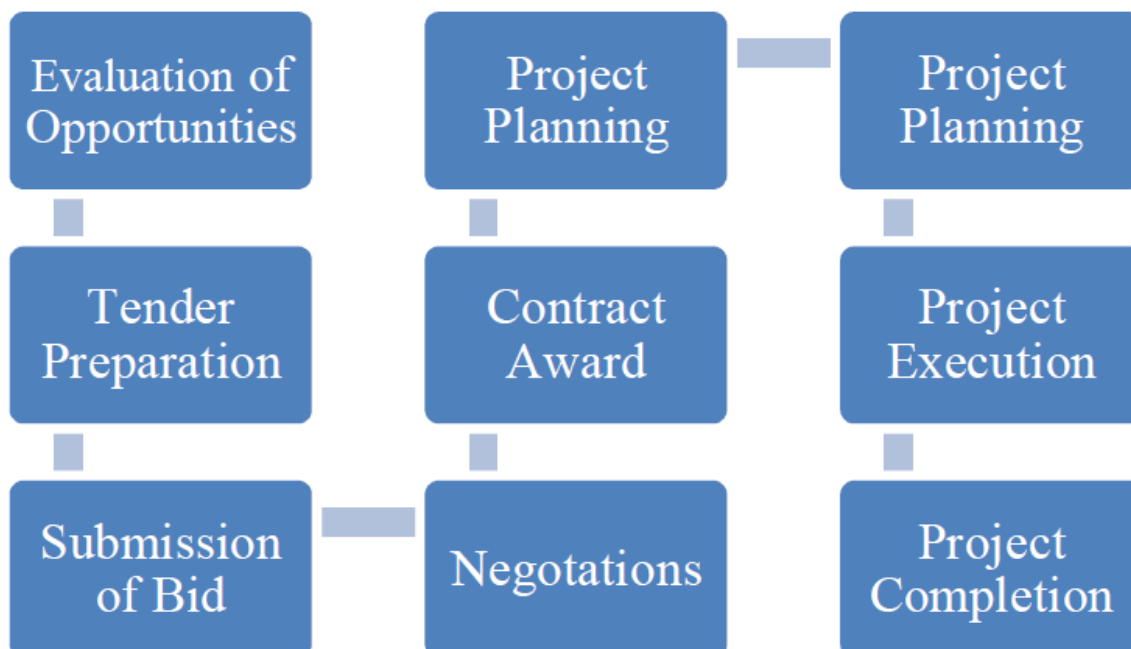
ENVIRONMENT



PORTS

- DCSL is engaged in infrastructure consultancy providing design, engineering, procurement, construction and integrated project management services for highways, bridges, tunnels, architectural, environmental engineering and ports. The company's services includes preparation of DPR and feasibility studies for infrastructure projects, operations & maintenance works, project management consultancy services, independent consultancy, project planning, designing, estimation, traffic and transportation engineering, financial analysis, technical audits, structural audit, inspection of bridges and techno legal services. The company has a team of 400 plus employees.
- The company has a total order book of ₹500 Cr. of which ₹250 Cr. is unexecuted. The current order distribution is: NHAI- 50%, MORTH- 30%, and other sources- 20%.

### The key business processes of the company



## Projects awarded in FY22

Sr.No.	Name of work
1	Independent Engineer for Ahmednagar bypass in the state of Maharashtra
2	Authority's Engineer for Savali Vihir and Ahmednagar Elevated flyover in the state of Maharashtra
3	Authority's Engineer for Patas – Baramati – Indapur – Tondle Palkhi marg in the state of Maharashtra
4	Independent Engineer services for Ahmednagar– Mirajgaon –Karmala - Tembhurni section in the state of Maharashtra
5	Authority's Engineer for Supervision of of Delhi-Dehradun Expressway in the state of Uttar Pradesh
6	Independent Engineer services for Supervision of Raipur-Visakhapatnam Expressway in the state of Andhra Pradesh
7	Authority Engineer for Supervision Of Pamarru To Akiveedu Section in the state of Andhra Pradesh
8	Supervision & Quality control works of PMGSY Madhya Pradesh 7 pkgs
9	Consultancy Services for the preparation of DPR for SHDP Phase IV Stage 2 in Chitradurga District in the state of Karnataka
10	Project Management Consultants for Rejuvenation of heritage structure project (Solapur Smart City) in the state of Maharashtra
11	Project Management Consultancy (PMC) for supervision of MMI plans at 15 station of Metro line 2A &7- Package -I in Mumbai
12	Independent Engineer for Amritsar Bathinda Greenfield from Bhagta Bhal Ka Bhadaur Road in the state of Punjab
13	Independent Engineer for supervision of six-laning of Chittoor-Thatchur in the state of Andhra Pradesh
14	Authority's Engineer for Kherwara to Sagwara in the state of Rajasthan
15	DPR for : Hunli to Hayuliang,, Arunachal Pradesh in 9 Packages
16	DPR:(Tali-Taliha-Siyum-Mechuka,225Km) Arunachal Pradesh in 9 Packages
17	PMC services for Nakrekal - Narasaraopet-Chilakaluripet-Vodarevu section in the state of Andhra Pradesh
18	Authority's Engineer for supervision of Duttaluru to Kavali section in the state of Andhra Pradesh

## RAW MATERIALS

- Employee expense is the major cost for the companies in consultancy business. 70% of costs are usually employee expenses.

## GROUP ENTITIES










Name of related party	Relation	Nature of transaction	Transactions for the Year ended		Amount recoverable/ (Payable)	
			31.03.2022	31.03.2021	31.03.2022	31.03.2021
Jayashree P Dandawate	Director	Remuneration	10.80	10.80	(1.95)	(1.09)
Tanvi T Auti	Director	Remuneration/Salary	48.00	44.00	(0.16)	(6.02)
Sandeep B Dandawate	Director	Remuneration/Salary	36.00	33.00	(0.70)	(3.19)
Milind V Kulkarni (resigned on 07th April 2021)	Director	Remuneration/Salary	-	16.00	(2.93)	(13.53)
Samarth Softech Solutions Pvt Ltd	Company in which Directors brother hold substantial interest	Professional Fees	92.40	205.80	(1.02)	(1.02)
		Purchase of Property, plant and Equipment	151.00	-	-	-
		Advance against Service	29.20	-	29.20	-
Innovision Studios (Prop: Tejas Auti)	Proprietorship of Directors Husband	Professional Fees	312.19	133.57	(10.26)	(8.76)
		Advance against Service	-	-	-	-
Infovibe Ventures Pvt Ltd	Company in which Directors Husband hold substantial interest	Professional Fees	3.39	10.84	-	(0.51)

Source – Annual Report

Sr. No.	Name(s) of the related party and nature of relationship	Nature of contracts/ arrangements/ transactions	Duration of the contracts / arrangements/ transactions	Salient terms of the contracts or arrangements or transactions including the value, if any	Date(s) of approval by the Board
1	Samarth Softech Solutions Pvt. Ltd. Related Party- Relative of Director is a Promoter and Director.	Consultancy Services for traffic survey	12 months	1000.00 Lakh	16/05/2022
2	Infovibe Ventures Pvt. Ltd Related Party – Relative of Director Relative of Director)	Design Consultancy Services	12 months	500.00 Lakh	16/05/2022

- Samarth Softech Solutions Private Limited (SSSPL) was incorporated on Oct, 2005. The company is engaged in the business of providing solutions for infrastructure automation, call centre services, smart city automation, automated traffic surveys and engineering surveys. Mahesh B. Dandawate holds 46.88 % of the Equity Share Capital of SSSPL and is also a Director in SSSPL.
- Atharva Enterprise was incorporated on 2005 by Neha S. Dandawate (Wife of Sandeep B. Dandawate, Executive Director of the Company). The company is involved in the activity of taking sub-contracting assignments from primary contractors in construction projects and is involved in providing transportation solutions in form of vehicle rentals to corporate and private players and is also engaged in providing skilled, semi-skilled and unskilled work force required for construction and allied activities.
- Innovation Studios and Infovibe Ventures are the companies where relatives of directors have control. The company has had transactions with these companies.

## MARQUEE CLIENTS

 <b>NHAI</b>	 <b>MoRTH</b> Ministry of Road Transport and Highways	 <b>IHMCL</b>
 <b>Asian Development Bank</b>	 <b>World Bank IDA</b>	 <b>African Development Bank</b>
 <b>एम एम आर डी ए</b> <b>MMRDA</b>	 <b>NHIDCL</b>	 <b>CIDCO</b>
 <b>जवाहरलाल नेहरू पोर्ट ट्रस्ट</b> <b>JAWAHARLAL NEHRU PORT TRUST</b> <b>JNPT</b>	 <b>पशुपालन, डेयरी और मत्स्यपालन विभाग</b> <b>Department of Animal Husbandry, Dairying &amp; Fisheries</b> <b>Department of Animal Husbandry and Fisheries</b>	 <b>Government of Jharkhand</b>
 <b>UPSBC</b>	<b>Odisha</b>	 <b>Amrut</b>
 <b>MSRDC</b> <b>MSRDC</b>	 <b>NHIDCL</b>	 <b>CIDCO</b>

## MANAGEMENT MEETING WITH KAMAYAKYA HIGHLIGHTS

- The consultancy business has a significant opportunity for growth, with an estimated 5% share of total orders worth ₹12 lakh Cr expected to flow in until FY25 going towards the consultancy segment, translating to a potential revenue of ₹60,000 Cr. for the consultancy industry in the mid-term.
- The consultancy business has high revenue recognition in the initial years of a contract. For example, in a 7-year contract, 80% of the revenue will be recognized in the first 2 years, while the remaining 20% will be recognized in the next 5 years.
- The consultancy business bid is done on a weightage-based system, known as H1 (highest bidder), rather than a lowest-bidder system, known as L1(lowest bidder). The H1 bid (H1 Bid is 80% technical score and 20% financial score) is evaluated based on factors such as the company's credentials, software, CV's of professionals working, and equipment. In summary, safety and longevity are prioritized in construction consultancy, and the overall capability of the company is considered instead of just the lowest bid.
- DCSL has rapidly risen to become one of the top 5 infrastructure consulting companies in India, having moved up from being under the top 100 just a few years ago. In terms of technical capabilities, Dhruv scores an impressive 95% or higher, a significant improvement from its previous 75% score, with the highest score being 97% or higher.
- The management team is optimistic about their prospects for securing one or two international orders in the upcoming fiscal year, which would enable the company to break into the lucrative offshore consulting market, known for its high profit margins.
- Previously, there were 20 consulting companies operating in the market, however, a significant portion, roughly 12-13%, have been blacklisted. This leaves only 7-8 companies remaining in the competitive landscape such as AECOM, LBG, L. N. Malviya Infra Projects Group Pvt. etc. DCSL has a bid success rate of 20% whereas top 3 companies have 50%.
- The management guided for 25% revenue CAGR for the next 3 years with 50% PAT margin growth next year.

## TRIGGERS

### SUBSTANTIAL GOVERNMENT SUPPORT FUELING SIGNIFICANT GROWTH IN INFRASTRUCTURE SECTOR

- Central Government's commitment towards transforming the country's infrastructure is evident under National Infrastructure Pipeline (NIP). Out of the total ₹111 lakh Cr. allocation to NIP, the total capex for road infrastructure will be ₹20.33 lakh Cr. for FY20-25. Infrastructure will be the backbone to achieve a \$5 trillion economy for India.
- As of March 22, projects worth ₹8 lakh Cr. out of the total allocation of ₹20.33 lakh Cr. for road infrastructure development under National Infrastructure Pipeline (NIP) have been awarded. The remaining ₹12 lakh Cr. worth of projects are expected to be awarded within the next three years. Considering the projects, DCSL has an opportunity to grab a decent share of the ₹60,000 Cr. market for the next 3 years.
- Over the past seven years, national highways have risen by more than 50% from 91,287 km (as of April 2014) to 1,45,000 km now, despite the challenges posed by the pandemic. NHAI has set full year target of 6,500 kilometers of road projects to be awarded in FY23 which has been slow in H1FY23, but is expected to pick up in H2FY23. Ministry of Road Transport and Highways (MoRTH) has set a target of 50 km/day of highway construction which translates to 18,250 km of constructed road by FY24.

### GUIDANCE ON THE ORDERBOOK AND HIGH ENTRY BARRIER FOR PROVIDING CONSULTANCY TO NHAI AND MORTH

- The company has a total unexecuted order book of ₹250 Cr. with an average execution period of 2-3 years. DCSL has submitted a bid for ₹700 Cr. worth of orders and management is optimistic about a 30% success rate in the FY23, which is an improvement from the 20% rate achieved last year. DCSL has a goal to attain an order book of ₹1,000 Cr. by the fiscal year ending 2025.
- Gaining entry into NHAI/MORTH as a consultant can be difficult due to the stringent technical and financial criteria required. New entrants have limited options to enter this field, such as partnering with established players like DCSL or building their credentials over a prolonged period (10-15 years.) by working with state government undertakings, municipal corporations, or the private sector.
- Going forward, the company expects to see a shift in the sources of its orders, with an increase in revenue from NHAI (projected to account for 70% of total revenue) and MORTH (projected to account for 25% of total revenue), compared to the current distribution of 50% from NHAI, 30% from MORTH, and 20% from other sources.



- The shift in the sources of revenue is expected to reduce the working capital requirements for the company, as the cash conversion cycle for NHAI projects (60 days) is shorter than that of MoRTH projects (90 days). This will help to make the company's balance sheet leaner, by reducing the amount of cash tied up in outstanding payments and receivables.

#### IMPLEMENTING DIVERSIFICATION STRATEGIES WITHIN THE BUSINESS TO MITIGATE CONCENTRATION RISK

- The company is diversifying into the solid waste management and solar energy business in JV with group companies controlled within the extended family of the promoters.
- In solid waste management, the company has bid for ₹50-60 Cr. Management is expecting some orders in this division.
- Currently, these are group companies controlled within the extended family of the promoters. Thus, Government works are to be done in JV with Associates where DCSL will be lead partner (given that DCSL has the requisite qualifications) and 100% billing will be done DCSL, and the associate companies will be paid the sub-contracting charges, since execution would be done by them.
- Despite the substantial potential of the market, revenue generated by these two segments is not expected to exceed 15% of total revenue even after five years. The company is yet to book any revenue from non-consultancy business.

#### PURSUIING OFFSHORE CONSULTING OPPORTUNITIES FOR INCREASED PROFITABILITY

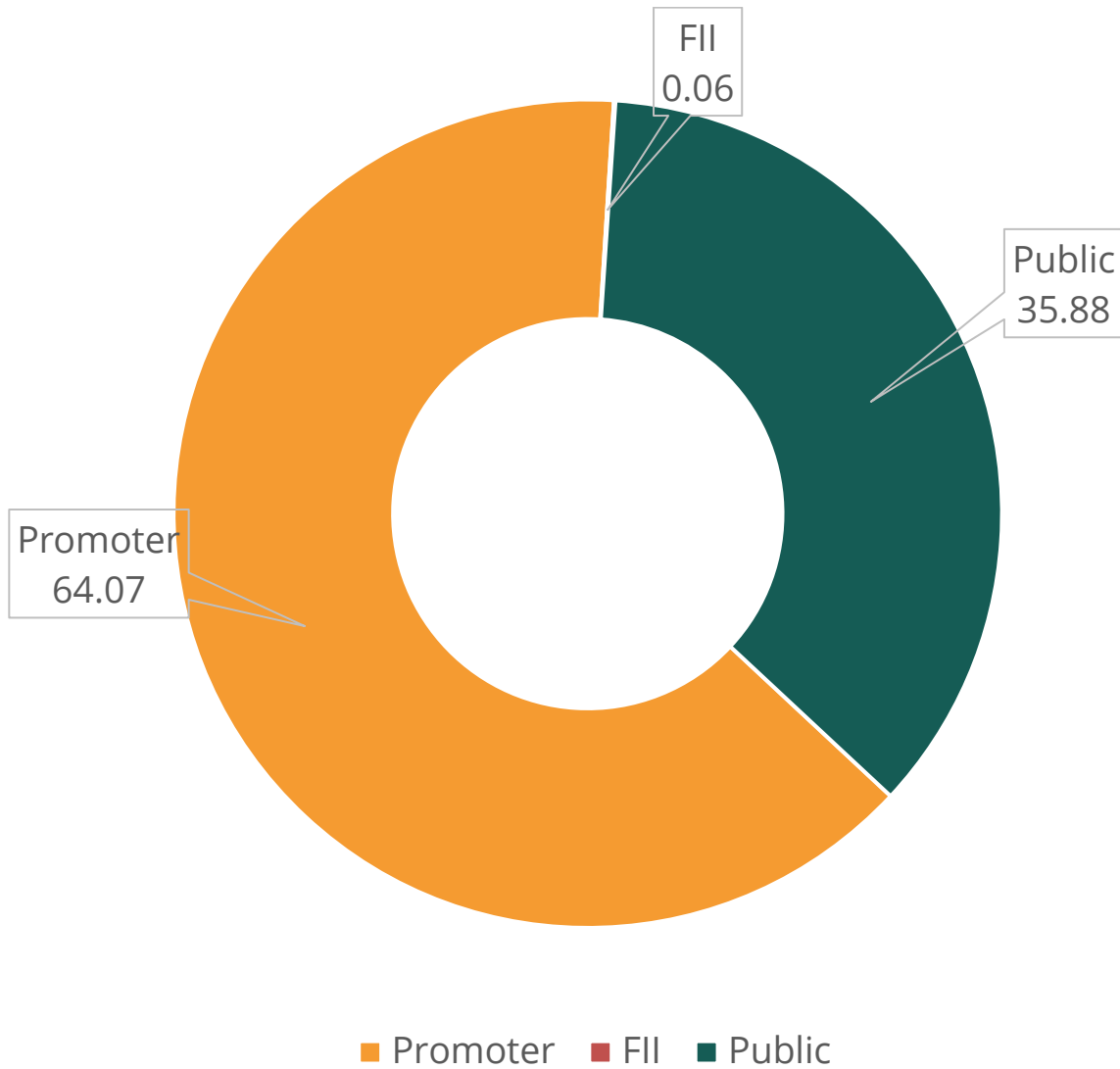
- DCSL has expanded its consulting services to the international market by submitting bids for projects financed by the Asian Development Bank, World Bank, and African Development Bank. The company has been shortlisted for potential projects in Cambodia, Bangladesh, and Zambia, out of the 45 tenders submitted. The management is confident in securing at least one international order in the near future.
- In India, the typical ticket size for projects is between ₹8-10 Cr. However, for the upcoming fiscal year FY23, it is projected to increase to a maximum of ₹10-12 Cr. In the export market, the minimum project size is ₹18-20 Cr, with an average project size of ₹25 Cr. The nature of the work is similar to that in India, but the expenses are 1.5x higher. Despite this, the profitability is significantly higher.



## RISKS

- The heavy reliance on infrastructure projects awarded by government entities like NHAI and MoRTH, which account for over 80% of revenue, and delays in receiving orders from these organizations, can affect the industry's revenue visibility.
- The company is involved in the business with promoter group companies which we consider to be a risk.
- The company adjusts its workforce based on current and projected workloads. However, if the company fails to secure future contracts or experiences delays in receiving them, it may incur additional personnel expenses.
- The company faces growing competition from both domestic and international companies (Big 4) offering consultancy services. These competitors may possess advantages such as superior market knowledge, more robust research and development and technical abilities, greater pricing options, stronger financial and other resources, cutting-edge technology, established operating histories, and/or well-established branding and reputation, which could aid them in acquiring clients.

## SHAREHOLDING PATTERN (Q2FY23)

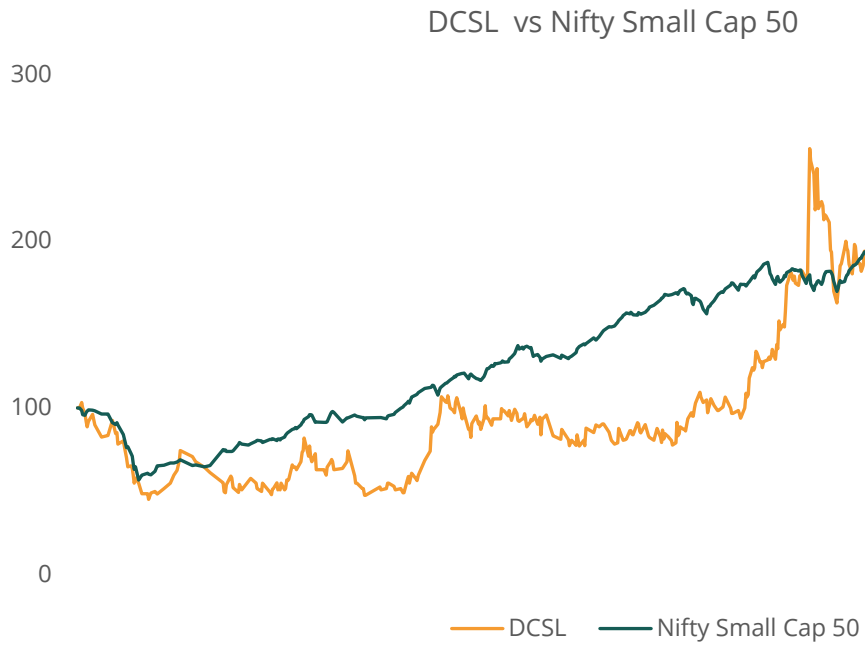


## PEER DESCRIPTION

### Rites Ltd. (RL)

- RL was incorporated in April 1974 as a multi-disciplinary consultancy organization operating in the fields of transport infrastructure and related technologies. RL is a Mini Ratna, Schedule-A, Category-I Public Limited company, with 72.20% shareholding held by the Government of India. RL provides a comprehensive array of services from consultancy to project execution, both domestically and internationally.
- In FY2022, it derived ~39.68% of its total revenue from providing consultancy services, ~17.88% from undertaking turnkey construction projects, ~37.60% from the export of rolling stock, and around ~4.84% from leasing services. Furthermore, the Company undertakes projects both domestically and abroad and its domestic operations contributed around ~58.34% to the revenue and remaining 41.65% from the export market.
- As of Sept 22, the order book position was robust at ₹4,907 Cr. with an average execution period of 2-3 years, providing revenue visibility in the medium term. Of all tenders, around 70% are awarded through competitive bidding and the remaining 30% through nomination. The company's FY22 consulting sales were ₹ 978 Cr. with 44% EBITDA margins.
- While Rites may be much larger in size compared to Dhruv, we believe that consultancy can be a highly profitable business with a decent market size for multiple players, with the potential for outstanding margins and operating leverage over time.

# PRICE HISTORY AND PERFORMANCE



# FINANCIALS

## • PROFIT AND LOSS STATEMENT

(All figures are in Cr. unless mentioned otherwise)

P & L	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales	4.99	9.03	9.46	15.12	30.44	43.39	56.11	48.74	63.39	75.06
Total Expenditure	4.44	7.29	7.81	11.66	22.27	31.48	41.52	45.18	54.64	65.76
Gross Profit	4.99	9.03	9.46	15.12	30.44	43.39	56.11	48.74	63.39	75.06
GPM (%)	100.00	100.00	100.00	100.00	100.00	85.46	84.65	84.79	85.64	88.56
EBITDA	0.67	1.88	1.94	3.49	8.20	12.84	15.14	4.20	9.33	9.81
EBITDAM (%)	13.48	20.84	20.50	23.12	26.92	29.59	26.98	8.61	14.72	13.07
EBIT	0.60	1.81	1.64	3.15	7.36	12.05	13.76	3.09	8.34	8.97
EBITM (%)	12.05	20.09	17.35	20.81	24.17	27.77	24.52	6.34	13.15	11.95
PBT	0.55	1.71	1.35	2.28	5.49	10.06	11.13	1.41	7.08	7.91
PAT	0.35	1.13	0.79	1.32	3.59	6.89	7.68	1.06	4.83	5.76
PATM(%)	6.92	12.48	8.35	8.75	11.80	15.87	13.69	2.18	7.63	7.67

## • FUND FLOW ANALYSIS

(All figures are in Cr. unless mentioned otherwise)

Sources of Funds	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Profit	0.42	1.19	1.09	1.67	4.43	7.67	9.06	2.17	5.83	6.60
Equity Paid Up	0.20	0.30	0.30	0.30	0.38	10.00	14.30	14.30	14.30	14.30
Reserves & Surplus	1.98	3.11	3.90	5.22	9.53	6.08	30.34	31.29	25.28	31.54
Net Worth	2.18	3.41	4.20	5.52	9.91	16.08	44.64	45.58	39.57	45.83
Total Debt	1.10	2.23	4.60	7.73	14.30	19.62	13.24	10.23	10.46	12.02
Capital Employed	3.29	5.64	8.80	13.25	24.20	35.70	57.88	55.81	50.03	57.85
Application of Funds	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Block	0.50	0.93	1.18	3.04	7.40	9.82	11.23	8.58	8.68	11.44
Investments	0.01	0.16	0.01	0.01	0.01	0.07	0.66	0.79	0.64	0.07
Cash and Bank balance	1.02	2.31	1.81	1.35	1.35	4.82	5.06	3.95	5.94	4.24
Net Current Assets	1.64	2.59	3.99	7.12	12.35	16.97	39.72	38.69	34.52	35.29
Total Current Liabilities	2.58	3.56	7.14	7.56	12.60	26.25	26.15	20.98	39.99	35.89
Total Assets	4.72	7.24	12.31	17.73	30.44	50.15	73.58	68.84	81.57	83.55

Source- Ace Equity, KamayaKya research

## • CASH FLOW STATEMENT

(All figures are in Cr. unless mentioned otherwise)

Cash Flow	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow from Operations	-1.07	0.78	-1.92	0.24	2.26	5.28	-10.64	-0.08	2.69	3.65
Cash Flow from Investing activities	0.19	-0.51	-0.11	-2.18	-3.10	-1.47	-1.65	1.51	0.23	-6.04
Cash Flow from Finance activities	1.14	1.02	1.53	1.48	0.84	-0.34	12.53	-2.54	-0.92	0.69
Free Cash flow	-1.04	0.31	-2.44	-2.79	-2.65	1.42	-15.05	-2.62	-3.95	-2.55

## • QUARTERLY P & L

(All figures are in Cr. unless mentioned otherwise)

P & L	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23
Net Sales	20.74	23.40	13.59	20.65	20.53	20.30	17.66	20.35
Operating Costs	19.11	16.08	11.37	16.39	18.04	19.96	16.30	15.98
Misc. Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	1.63	7.33	2.22	4.27	2.48	0.34	1.36	4.37
EBDTAM (%)	7.85	31.32	16.33	20.65	12.10	1.68	7.72	21.47
Depreciation	0.26	0.23	0.20	0.20	0.21	0.24	0.43	0.60
EBIT	1.37	7.10	2.02	4.06	2.27	0.10	0.94	3.77
EBDTM	6.62	30.33	14.85	19.68	11.08	0.51	5.30	18.55
Other Income	0.01	0.31	0.00	0.12	0.44	-0.06	0.10	0.03
Other Income	0.01	0.31	0.00	0.12	0.44	-0.06	0.10	0.03
Interest	0.36	0.32	0.29	0.26	0.27	0.24	0.34	0.39
EBT	1.02	7.09	1.73	3.93	2.44	-0.19	0.69	3.42
EBTM (%)	4.94	30.29	12.74	19.01	11.90	-0.94	3.92	16.81
Tax	3.35	0.07	0.42	0.22	1.37	0.14	0.25	0.96
Profit after tax	-2.33	7.02	1.31	3.71	1.07	-0.33	0.45	2.46
PATM (%)	-11.23	30.01	9.66	17.94	5.22	-1.64	2.52	12.08

Source- Ace Equity, KamayaKya research

- **QUARTERLY P & L ANALYSIS**

(All figures are in Cr. unless mentioned otherwise)

Particulars	Q2FY23	Q1FY23	QOQ	Q2FY22	YOY
<b>Net Sales</b>	<b>20.3</b>	<b>17.7</b>	<i>15.18%</i>	<b>20.7</b>	<i>-1.49%</i>
Operating & Manufacturing Expenses	<b>0.0</b>	<b>11.9</b>	<i>-100.00%</i>	<b>0.0</b>	
Employee Cost	<b>4.7</b>	<b>4.4</b>	<i>5.40%</i>	<b>6.2</b>	<i>-24.62%</i>
<b>Operating Costs</b>	<b>16.0</b>	<b>16.3</b>	<i>-1.98%</i>	<b>16.4</b>	<i>-2.51%</i>
<b>EBITDA</b>	<b>4.4</b>	<b>1.4</b>	<i>220.23%</i>	<b>4.3</b>	<i>2.42%</i>
<b>EBDTAM</b>	<b>21.5</b>	<b>7.7</b>		<b>20.7</b>	
Depreciation	<b>0.6</b>	<b>0.4</b>	<i>39.34%</i>	<b>0.2</b>	<i>196.02%</i>
<b>EBIT</b>	<b>3.8</b>	<b>0.9</b>	<i>302.67%</i>	<b>4.1</b>	<i>-7.16%</i>
<b>EBDTM</b>	<b>18.5</b>	<b>5.3</b>		<b>19.7</b>	<i>-5.75%</i>
Other Income	<b>0.0</b>	<b>0.1</b>	<i>-64.95%</i>	<b>0.1</b>	<i>-71.67%</i>
Profit On Sale Of Assets	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>	
<b>Other Income</b>	<b>0.0</b>	<b>0.1</b>	<i>-64.95%</i>	<b>0.1</b>	<i>-71.67%</i>
Interest	<b>0.4</b>	<b>0.3</b>	<i>12.87%</i>	<b>0.3</b>	<i>49.61%</i>
<b>EBT</b>	<b>3.4</b>	<b>0.7</b>	<i>394.36%</i>	<b>3.9</b>	<i>-12.86%</i>
<b>EBTM</b>	<b>16.8</b>	<b>3.9</b>		<b>19.0</b>	
Tax	<b>1.0</b>	<b>0.2</b>	<i>291.87%</i>	<b>0.2</b>	<i>338.18%</i>
<b>Profit after tax</b>	<b>2.5</b>	<b>0.4</b>	<i>450.90%</i>	<b>3.7</b>	<i>-33.70%</i>
<b>PATM</b>	<b>12.1</b>	<b>2.5</b>		<b>17.9</b>	

Source- Ace Equity, KamayaKya research

## RATIO ANALYSIS

Financial ratios	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Earnings Per Share (Rs)	17.26	37.56	26.32	44.07	94.51	6.89	5.37	0.74	3.38	4.03
Adjusted EPS (Rs.)	0.66	1.43	1.00	1.68	3.59	6.89	5.37	0.74	3.38	4.03
CEPS(Rs)	0.79	1.51	1.38	2.12	4.43	7.67	6.34	1.51	4.08	4.62
DPS(Rs)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adj DPS(Rs)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book Value (Rs)	109.23	113.71	140.03	184.10	260.68	16.08	31.22	31.89	27.68	32.06
Adjusted Book Value (Rs)	4.15	4.32	5.32	7.00	9.91	16.08	31.22	31.89	27.68	32.06
Tax Rate(%)	37.70	33.96	41.31	42.09	34.59	31.53	30.96	24.68	31.72	27.22
Dividend Pay Out Ratio(%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GPM (%)	100.00	100.00	100.00	100.00	100.00	85.46	84.65	84.79	85.64	88.56
EBIDTM (%)	13.48	20.84	20.50	23.12	26.92	25.29	22.84	7.30	12.61	11.58
EBITM (%)	12.05	20.09	17.35	20.81	24.17	23.74	20.76	5.38	11.26	10.58
Pre Tax Margin(%)	11.10	18.90	14.23	15.10	18.04	19.81	16.79	2.45	9.56	9.33
PATM (%)	6.92	12.48	8.35	8.75	11.80	13.56	11.59	1.85	6.53	6.79
CPM(%)	8.34	13.22	11.50	11.05	14.56	15.12	13.67	3.77	7.88	7.79
ROA (%)	7.31	18.84	8.08	8.80	14.91	17.09	12.42	1.49	6.43	6.97
ROE (%)	15.80	40.27	20.75	27.19	46.56	53.00	25.31	2.35	11.35	13.48
ROCE (%)	18.29	40.62	22.72	28.53	39.29	40.24	29.41	5.44	15.75	16.62

Efficiency ratios	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Turnover(x)	1.06	1.51	0.97	1.01	1.26	1.26	1.07	0.81	0.98	1.03
Debtors Turnover(x)	2.59	4.06	2.38	2.08	2.52	2.48	2.19	1.77	2.58	4.88
Fixed Asset Turnover (x)	10.03	12.66	8.99	7.17	5.83	5.89	6.30	5.80	8.58	8.43
Sales(x)/Working Capital	3.05	3.48	2.37	2.12	2.47	2.99	1.67	1.49	2.14	2.40
Fixed Capital/Sales(x)	0.10	0.08	0.11	0.14	0.17	0.17	0.16	0.17	0.12	0.12
Receivable days	141.18	89.88	153.05	175.64	144.67	147.22	167.02	205.83	141.72	74.83
Cash conversion cycle	141.18	89.88	153.05	175.64	144.67	147.22	167.02	205.83	141.72	74.83

Source- Ace Equity, KamayaKya research



Growth Ratios	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Sales Growth(%)	0.00	80.83	4.75	59.87	101.39	42.54	29.32	-13.14	30.07	18.41
Core EBITDA Growth(%)	0.00	179.56	3.07	80.27	134.56	56.67	17.92	-72.29	122.40	5.16
EBIT Growth(%)	0.00	201.58	-9.54	91.72	133.89	63.81	14.18	-77.53	169.57	7.57
PAT Growth(%)	0.00	226.39	-29.91	67.42	171.65	91.71	11.58	-86.18	355.29	19.06
Adj. EPS Growth(%)	0.00	117.59	-29.91	67.42	114.46	91.59	-21.95	-86.18	355.28	19.06

Liquidity ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current Ratio(x)	1.63	1.73	1.56	1.94	1.98	1.65	2.52	2.84	1.86	1.98
Quick Ratio(x)	1.63	1.73	1.56	1.94	1.98	1.65	2.52	2.84	1.86	1.98

Solvency ratio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Debt/Equity(x)	0.51	0.65	1.10	1.40	1.44	1.22	0.30	0.22	0.26	0.26
Interest Cover(x)	12.71	16.86	5.56	3.65	3.94	6.04	5.23	1.84	6.64	8.48
Total Debt/Mcap(x)	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.48	0.25	0.14

Valuation ratios	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Adjusted PE (x)	0.00	0.00	0.00	0.00	0.00	0.00	5.71	20.26	8.78	15.39
PCE(x)	0.00	0.00	0.00	0.00	0.00	0.00	4.84	9.94	7.28	13.41
Price / Book Value(x)	0.00	0.00	0.00	0.00	0.00	0.00	0.98	0.47	1.07	1.93
Dividend Yield(%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Net Sales(x)	0.06	0.02	0.33	0.44	0.44	0.57	0.93	0.57	0.74	1.28
EV/EBITDA(x)	0.43	0.12	1.60	1.91	1.63	1.93	3.44	6.62	5.03	9.82
EV/EBIT(x)	0.48	0.12	1.89	2.12	1.81	2.06	3.78	8.99	5.64	10.74
EV/CE(x)	0.06	0.03	0.25	0.38	0.44	0.49	0.71	0.40	0.58	1.15
M Cap / Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.78	0.44	0.67	1.18

Source- Ace Equity, KamayaKya research

Cash Flow ratios	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flow Per share	-53.63	25.93	-64.14	8.05	59.54	5.28	-7.45	-0.06	1.88	2.55
Price to Cash Flow Ratio	0.00	0.00	0.00	0.00	0.00	0.00	-4.12	-264.30	15.77	24.26
Free Cash Flow per Share	-51.82	10.19	-81.40	-93.09	-69.75	1.42	-10.53	-1.83	-2.77	-1.78
Price to Free Cash Flow	0.00	0.00	0.00	0.00	0.00	0.00	-2.92	-8.22	-10.74	-34.72
Free Cash Flow Yield	0.00	0.00	0.00	0.00	0.00	0.00	-0.34	-0.12	-0.09	-0.03
Sales to cash flow ratios	-4.65	11.60	-4.91	62.59	13.45	8.21	-5.27	-598.71	23.54	20.56

Du Pont analysis	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PATM (%)	6.92	12.48	8.35	8.75	11.80	13.56	11.59	1.85	6.53	6.79
Sales / Total Assets(x)	1.06	1.51	0.97	1.01	1.26	1.26	1.07	0.81	0.98	1.03
Assets to Equity (x)	2.16	2.14	2.57	3.09	3.12	3.10	2.04	1.58	1.77	1.93
ROE (%)	15.80	40.27	20.75	27.19	46.56	53.00	25.31	2.35	11.35	13.48

Source- Ace Equity, KamayaKya research

## FINANCIAL SHENANIGANS

Positive Negative

(All figures are in Cr. unless mentioned otherwise)

Year	2018	2019	2020	2021	2022	CAGR	Remark
Net Sales	43.39	56.11	48.74	63.39	75.06	12%	
Trade Receivables	25.96	34.71	30.12	27.37	7.38	-22%	
Trade Receivables as % of sales	60%	62%	62%	43%	10%	-30%	Grown slower than sales
Contingent Liabilities	0.00	0.00	0.00	14.86	17.46		
Equity	16.08	44.64	45.58	39.57	45.83		
Contingent Liabilities as % of equity	0.00	0.00	0.00	0.38	0.38		Negligible
Director's remuneration	0.56125	1.1925	1.188	1.038	0.963	11%	Remuneration to Directors appears high compared to the PAT
PAT	6.88531	7.68292	1.06186	4.8346	5.7563	-4%	
Director's remuneration as % of PAT	8%	16%	112%	21%	17%		
Auditor fees	0.03	0.03	0.03	0.04	0.06		
Auditor fees as % of sales	0.07%	0.05%	0.06%	0.07%	0.08%		Negligible

Source- Ace Equity, KamayaKya research

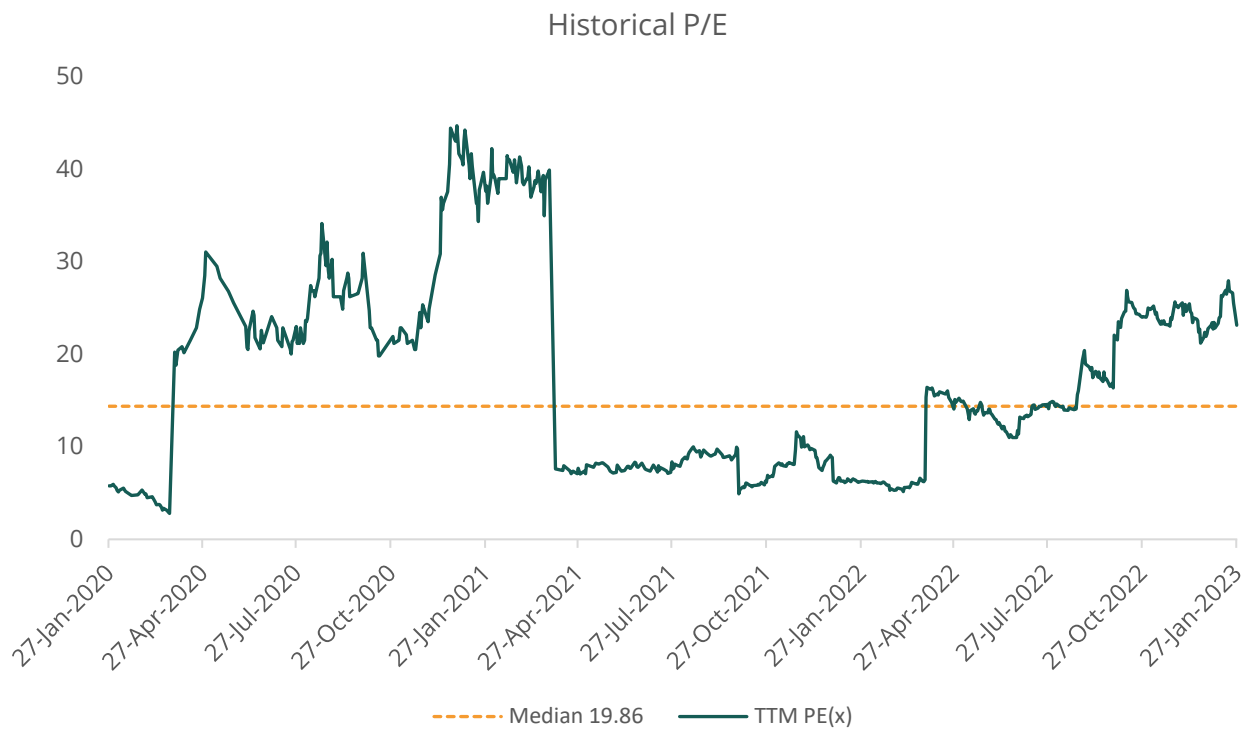
# VALUATIONS

(All figures are in Cr. unless mentioned otherwise)

P & L	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	43.39	56.11	48.74	63.39	75.06	93.83	117.29
EBITDA	0.67	1.88	1.94	3.49	8.20	18.77	23.46
EBITDAM (%)	13.48	20.84	20.50	23.12	26.92	20.00	20.00
PAT	6.89	7.68	1.06	4.83	5.76	6.57	8.21
PATM(%)	0.55	1.71	1.35	2.28	5.49	7.00	7.00

As on 30<sup>th</sup> January 2023

Expected FY24 P/E	12.8
PAT	8.21
Current M-cap	84
CMP	56
Expected M-cap	105
Target price	70
Upside	25%



- Going forward, we estimate 25% revenue and 19% PAT CAGR till FY24, driven by the order book and infra push from GOI through NIP, as well as geographical expansion from foreign orders. We anticipate a FY24 P/E multiple of 12.8, which is below the 3-year median of 19.86. We arrive at a target price of ₹ 70 which represents an upside of 25% from CMP, which we believe can be achieved within 12 months.

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