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Mumbai

## **CRISIL Research assigns IPO grade '2/5' to APR Constructions Ltd**

CRISIL has assigned a CRISIL IPO Grade '2/5' (pronounced 'two on five') to the proposed initial public offer (IPO) of APR Constructions Ltd (APR). This grade indicates that the fundamentals of the IPO are 'below average' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects the company's strong order book position of Rs 14.2 bn as of February 2011, amounting to 5x FY10 revenues. The grade also factors in the construction opportunities that will arise with the government's thrust on irrigation projects, a segment which comprises 85% of APR's order book. APR's foray into the high-margin railways segment (13% of order book) also bodes well for revenues and profits, since tendering in railways is expected to be robust.

The grade is moderated by the fact that despite a long-standing presence in construction, APR has remained a mid-sized player. Further, 66% of APR's overall irrigation projects are concentrated in Andhra Pradesh and most of these projects have been progressing slowly because of delays in land acquisition and environmental clearances. Significant delays in payment are also stretching the company's working capital. While the company is foraying into the road construction segment given its good growth prospects, we believe bagging orders and successfully executing them in this highly competitive segment will be critical. Moreover, APR, although professionally run at present, has not grown in line with other construction companies due to limited focus by the promoter.

APR's financial performance in the past three years has been driven by strong growth in order inflows. Although the irrigation segment comprises a large portion of the order book, railways registered higher revenue growth due to comparatively faster execution. APR's operating revenue has grown at 27.4% CAGR over FY07-10 with EBITDA margin and adjusted PAT margin averaging 13.2% and 6.2%, respectively. APR's FY10 net profit was Rs 152 mn and RoE was 27.0%.

### **About the company and the issue**

APR is a mid-sized construction player with a presence in irrigation, railways and roads segments. The company was incorporated as a partnership firm in the name of A. Prabhakar Reddy & Co. in 1983, and was later converted into a public limited company in 2004.

Through the IPO, APR plans to raise Rs 1,040 mn. The proceeds will be utilised to finance the procurement of construction equipment and meet long-term working capital requirements.

## About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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