



Company Overview

Incorporated in 2016, Denta Water and Infra Solutions Ltd. (Denta Water) is a key player in water engineering, procurement, and construction (EPC) services with a successful track record in groundwater recharging and water management infrastructure projects. The company offers a wide range of services from design and engineering to project management and operations, with expertise in groundwater recharging using recycled water. The company significantly contributes to addressing the rising water demand in India with projects like the Byrapura and Hiremagaluru LIS Project, Karagada LIS Project, and others, which were executed through lift irrigation systems. Further, the company was involved in the KC Valley project, which helped Bengaluru build its reputation as the second-largest city in the world for treated wastewater capacity, improving the city's water management and sustainability efforts. The company has been an active participant in water management projects, with 32 projects executed and 11 projects in the order book under the Government of India's "Jal Jeevan Mission". The company contracts have been awarded through competitive bidding undertaken by both the State and Central Governments. In addition to participating in government tenders, the company also undertakes projects as sub-contractors from private players. Apart from water projects, the company is also expanding its reach in railway and highway construction segment.

Objects of the issue

The company proposes to utilize the net proceeds raised through the issue for the following purposes:

- ⇒ To meet working capital requirements of the company;
- ⇒ General corporate purposes, subject to the applicable laws.

Investment Rationale

Strong order book in water management projects driving future growth

The company operates in the Indian water and wastewater treatment market, which is expected to grow to USD 23.9 billion in 2033 from USD 13.1 billion in 2023, and South India is expected to have a major share in this segment. Denta Water, a key player in the EPC segment, specializes in the design, installation and commissioning of water management infrastructure projects, with a focus on groundwater recharge projects. The company has successfully executed 32 projects in the past, such as Byrapura & Hiremagaluru LIS Project and Karagada LIS Project in Karnataka, with a completion timeline ranging from 24 to 36 months. Currently, the company has 17 ongoing projects with a contract value of Rs. 11,004.4 million, out of which Rs. 10,667.5 million is from water management projects. The company has completed a project worth Rs. 3,479.9 million, leaving an outstanding order book of Rs. 7,524.5 million. These outstanding projects are expected to be realized in two years. The company's track record of timely project completion, efficient project execution, post-completion support and a strong order book enhances the company's credibility in the industry.

Efficient asset-light business model driving operational excellence

The company has established an efficient business model, leveraging its industry knowledge and expertise to drive strong financial and operational performance. It focuses primarily on selected segments such as Groundwater Recharge (GWR), irrigation, and operations and maintenance (O&M) related to water projects, primarily in the state of Karnataka. This targeted approach provides the company with a competitive advantage during project award evaluations. The company follows an asset-light business model, emphasizing its project execution and management strengths, along with established relationships with clients, architects, and contractors. By focusing on development management, joint development agreements, and joint ventures, the company minimizes upfront capital expenditure compared to direct approaches. This model allows for the outsourcing of equipment requirements, with associated costs included in tender bids. The asset-light structure leads to efficient capital utilization, lower debt, and regular income, contributing to higher returns on capital employed. As of September 30, 2024, the company had a total working capital borrowing of Rs. 570.2 million in non-fund limits for bank guarantees required for its projects, with no other borrowings. The company's asset-light model helps minimize initial costs, and its focus on development management and strong execution capabilities is expected to drive continued growth and business development.

Issue Details

Offer Period	22 nd Jan 2025 - 24 th Jan 2025
Price Band	Rs. 279 to Rs.294
Bid Lot	50
Listing	BSE & NSE
Issue Size (no. of shares in mn)	7.5
Issue Size (Rs. in bn)	2.2
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM SMC Capitals Ltd.

Registrar Integrated Registry Management Services Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	100	72
Public	0	28
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Denta Water and Infra Solutions Ltd.

Valuation

Denta Water and Infra Solutions Ltd. operates in the Indian water and wastewater treatment industry, which is projected to reach USD 23.9 billion by 2033. The company, a key player in this industry, is set to benefit from this growing trend due to its strong track record, including 32 successful execution of water management projects, particularly in groundwater recharge (GWR) and wastewater management with projects like Byrapura and Hiremagaluru LIS. Currently, the company has an outstanding order book of Rs. 7,524.5 million, mainly from the government of Karnataka. Additionally, the company is focusing on diversifying its geographic footprints in high-potential regions like Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh, which will reduce the reliance on Karnataka. The company follows an efficient, asset-light model that enhances project execution through joint ventures and development management. This approach reduces the capital expenditure and improves return ratios, resulting in the debt-equity ratio of the company for H1FY25 being 0. With the growing focus of the government on water reuse and recycling, Denta Water plans to leverage its expertise to capitalise on these trends and expand its participation in water conservation and infrastructure development projects. The company's expanding portfolio, including ventures in railways and highways, further strengthens its position in the infrastructure sector, positioning it well for continued growth amidst evolving market conditions. Financially, the company has registered a revenue CAGR of 41.3% from Rs. 1,196 million in FY22 to Rs. 2,386 million in FY24. EBITDA grew at a CAGR of 23.4% from Rs. 518 million in FY22 to Rs. 791 million in FY24. **Overall, Denta Water's strategic focus on water management projects, growing market opportunities, and strong order book positions it well for future growth in water management and infrastructure sectors. Considering its valuation with a PE ratio of 9.5x based on FY24 earnings, we recommend a "SUBSCRIBE" rating for medium to long term investment.**

Key Risks

- ⇒ The company relies heavily on competitive bidding to win government projects, making its revenue source uncertain. These government projects contributed 84.0% of revenue in H1FY25 from 18.3% in FY13. This dependence on government contracts exposes the company to risks such as policy changes, project delays, and contract terminations, which could significantly impact revenue, profitability, and overall growth of the company.
- ⇒ The company's projects are subject to specific completion deadlines and delays due to unforeseen issues, financial problems, or government approvals. Currently, the company is experiencing time overrun in 10 out of 17 ongoing projects, which may lead to losing deposits, paying fines and higher costs, and could adversely affect the business and its financial results.
- ⇒ The company relies on limited suppliers for raw materials and lacks long-term agreements with them, exposing the company to the risk of volatile raw material prices and supply shortages. If any supplier ceases to supply due to commercial disagreement or insolvency, the company may struggle to find alternatives, thereby impacting production, contracts, and financial performance.

Denta Water and Infra Solutions Ltd.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Revenue				
Revenue from Operations	1,196	1,743	2,386	978
Total Revenue	1,196	1,743	2,386	978
Expenses				
Cost of Raw Materials Consumed	669	1,045	1,520	603
Employee Benefits Expenses	1	11	36	26
Other expenses	8	17	39	21
Total Operating Expenses	678	1,074	1,595	650
EBITDA	518	670	791	328
Depreciation & amortization	1	4	5	3
EBIT	517	666	787	325
Finance costs	0	1	5	1
Other Income	1	14	32	7
PBT	518	679	814	331
Total tax	135	178	217	89
PAT	383	501	597	242
Diluted EPS	20.0	26.1	31.1	12.6

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Cash Flow from operating activities	(78)	515	269	(468)
Cash flow from investing activities	(45)	(296)	6	18
Cash flow from financing activities	(0)	8	(8)	(3)
Net increase/(decrease) in cash and cash equivalents	(123)	227	266	(453)
Cash and cash equivalents at the beginning of the period	259	136	363	630
Cash and cash equivalents at the end of the period	136	363	630	177

Source: RHP, BP Equities Research

Denta Water and Infra Solutions Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
ASSETS				
Non-Current Assets				
a) Property, plant and equipment	101	243	245	243
b) Other intangible assets	-	0	0	0
c) Financial assets				
i. Investments	-	-	-	101
ii. Loans	-	66	69	-
iii. Other financial assets	5	94	97	51
d) Other non-current assets	0	50	44	44
e) Deferred tax assets (Net)	-	-	-	-
Total non-current assets	106	454	456	439
Current assets				
f) Inventories	34	65	195	224
g) Financial assets				
i. Trade receivables	135	232	255	102
ii. Cash and cash equivalents	136	359	126	5
iii. Bank balances other than cash and cash equivalents	-	4	504	172
iv. Other financial assets	88	5	39	13
h) Other current assets	108	113	625	1249
Total current assets	500	778	1,743	1,764
Total Assets	606	1,233	2,198	2,203
EQUITY AND LIABILITIES				
Equity				
a) Equity share capital	48	48	192	192
b) Other equity	496	997	1,451	1,693
Total Equity attributable to Equity Holders	544	1,045	1,643	1,885
Non-controlling interest	0	1	1	0
Total Equity	544	1,046	1,643	1,885
Liabilities				
Non-current liabilities				
a) Financial liabilities				
i. Borrowings	-	9	5	4
b) Provisions	0	0	1	2
c) Deferred tax liabilities (net)	1	1	2	2
d) Other Non-Current Liabilities	3	3	3	3
Total non-current liabilities	3	13	11	10
Current liabilities				
a) Financial liabilities				
i. Borrowings	0	3	3	3
ii. Trade payables	36	102	112	44
b) Other current liabilities	11	56	117	15
c) Provisions	1	1	237	172
d) Current tax liabilities (net)	11	12	75	74
Total Current Liabilities	59	174	544	309
Total Liabilities	62	187	555	319
Total Equity and Liabilities	606	1,233	2,198	2,203

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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