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SEBI/HO/CFD/RAC-DIL1/P/OW/2024/17661/1

May 24, 2024

Fedex Securities Private Limited
B-1306, One BKC,
G Block, Bandra Kurla Complex,
Bandra East, Mumbai - 400051 India.

Kind Attention: Mr. Saipan Sanghvi

Dear Sir/Madam,

Sub: Clarifications on the DRHP of Deepak Builders & Engineers India Limited

We are in receipt of the Draft Red Herring Prospectus (DRHP) of the captioned company forwarded to us vide letter dated April 29, 2024.

In this regard, please provide the clarifications as mentioned in Annexure A.

Yours faithfully,

Dhruba Jyoti Das
Manager

(Encl: As above)

Annexure A

With reference to the Draft Red Herring Prospectus of **Deepak Builders & Engineers India Limited** (Issuer Company) filed with SEBI, you are advised to clarify on the following issues:

1. Lead Manager (LM) is advised to examine the applicability of SEBI (Framework for Rejection of Draft Offer Documents) Order, 2012, to the DRHP of Issuer Company and confirm whether the said general order is applicable to the instant public issue/DRHP. LM is further advised to provide a para-wise reply on the applicability of aforesaid order.
2. LM is advised to examine the applicability of SEBI (Issuing Observations on Draft Offer Documents Pending Regulatory Actions) Order, 2020, dated Feb 05, 2020, to the DRHP of the Issuer Company and confirm whether the said general order is applicable to the instant public issue/DRHP. LM is further advised to provide a para-wise reply on the applicability of the aforesaid order.
3. LM is advised to submit whether there has been any instance of issuance of equity shares in the past by the issuer Company, the Group Companies, or entities forming part of the Promoter Group to more than 49 / 200 investors as the case may be in violation of:
 - a) Section 67(3) of Companies Act, 1956; or
 - b) relevant section(s) of the Companies Act, 2013, including Section 42 and the rules notified thereunder; or
 - c) the SEBI Regulations; or
 - d) the SEBI (Disclosure and Investor Protection) Guidelines, 2000, as applicable.
4. It has been observed that in various instances disclosures have been made in the offer document stating 'we believe...' / 'we do not believe...', LM is advised to provide the basis for making such disclosures in the offer document while also explaining compliance with Regulation 24 (1) and Regulation 25 (2) (b) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations").
5. LM is advised to provide the response containing all necessary changes to be carried out in the relevant RF/sections of DRHP, instead of comments such as "noted/will be updated in UDRHP".
6. **Standard Disclosure for Special Rights in DRHP**
 - a) LM is advised that it is categorically disclosed in the DRHP under section "History and Certain Corporate Matters" of the offer document that none of the special rights available to the Promoters / Shareholders (except for nominee/nomination rights and information rights) would survive post listing of the Equity Shares of the Company and same shall cease to exist or shall expire/waived off immediately before or on the date shares are allotted to public shareholders in IPO, without requiring any further action.
 - b) LM is advised to make disclosures if special rights for nominee/nomination rights and information rights are available to certain Promoters / Shareholders that would continue

post-listing and if yes, then details of the same may be clearly disclosed under the section "History and Certain Corporate Matters".

c) Further, LM shall specifically disclose that special rights, post listing shall be subject to the approval of the Shareholders by way of a special resolution, in the first general meeting of the Company held post-listing of the Equity Shares.

d) LM is advised to ensure that special rights that will continue post-listing are not prejudicial or adverse to the interest of the minority / public shareholders.

7. LM is advised to evaluate the impact of the SEBI Share Based Employee Benefits and Sweat Equity Regulations, 2021 ("SBEB Regulations") and accordingly, to modify the ESOP Schemes to comply with the provisions of the SEBI SBEB Regulations 2021, prior to filing of the RHP.

Summary of Offer Document

8. LM is advised to disclose the PAT and EBITDA margin of the company in selected Restated Consolidated Financial Information.

Risk Factors

9. LM is advised to rearrange the risk factors based on materiality. LM is advised to provide adequate and correct cross-referencing, wherever required.

10. LM is advised that all the risk factors containing any data have a proper cross reference to the actual section/page where the specific and detailed explanation is given (where more than one section/page). Further, LM is advised that data provided in % to be followed with the actual/absolute figures. Data shall be for the last 3 financial years and the stub period. Due reason to be provided if there is no cross reference being provided.

11. LM is advised to add a separate RF in the top 10 explaining all the possible risks arising from the cyclical nature of the industry in which the company operates.

12. RF 1: LM is advised to disclose relevant data such as % of revenue earns from government projects, semi-government projects and government controlled entities in last three years, % of order book of such entities, etc.

13. RF 2: LM is advised to disclose all the material incidents/projects which were delayed or stalled in last three financial years.

14. RF 8:

a) LM is advised to disclose any material past instances relating to the Risk Factor, having an adverse impact on the business and operations of the Company in the last three fiscal years.

b) LM is advised to disclose the data regarding order book realization, completed projects etc. for the last three financial years in a table.

15. RF 11: LM is advised to disclose the credit rating of the company in the last three financial years. LM is advised to provide reasons why in the past our credit rating of the company has been altered or withdrawn/revised. LM is advised to re-draft the Risk Factor and move it to the top 5.

Further, with respect to the adverse change in credit ratings assigned to the company. LM is advised to add a separate RF.

16. RF 12:

- a) LM is advised to disclose the data regarding the total number of employees of the company, percentage of contract labourers among them, no. of independent contractors and their job profile etc.
- b) LM is advised to disclose any material past instances relating to the Risk Factor, having an adverse impact on the business and operations of the Company in the last three fiscal years.

17. RF 13: LM is advised to disclose relevant data/information with respect to the RF in a tabular format for last three financial years. LM is advised to move the instant RF to the top 10.

18. RF 14: LM is advised to disclose any material past instances relating to the Risk Factor, having an adverse impact on the business and operations of the Company in the last three fiscal years.

19. RF15: LM is advised to move the instant RF to the top 10.

20. RF 18: LM is advised to disclose the data regarding cost of raw material based on domestic and import purchase for the last three financial years such as %raw material sourced domestically/internationally, major raw materials consumed and their cost of raw material consumed.

21. RF 19: LM is advised to disclose the details of all the pending statutory/regulatory permits/license/approvals etc.

22. RF 52: LM is advised to disclose the following with respect to Related Party Transactions (RPTs):

- a. Confirm whether all RPTs are done on arm's length basis;
- b. Whether a transfer pricing audit has been conducted for RPTs;
- c. Confirm whether RPTs taken together for the last three fiscal years is more than 10% (for all 3 FYs) of the total transactions of a similar nature;
- d. If any loan/advances given by issuer/subsidiaries to related parties and guarantees given/securities provided to related parties, mention Risk Factor on recoverability/ any default in the past and its effect on the financials of the issuer/subsidiaries.

23. RF 56: LM is advised to move the instant RF to the top 15.

Basis for offer price:

24. With respect to qualitative factors, LM is advised to provide/disclose brief notes about them explaining the justification for such qualities.

25. LM is advised to confirm that all the KPIs and other material information for the company that has been shared with the company's investors in the last three financial years are disclosed to the DRHP.

26. In addition to the existing disclosures stipulated for 'Basis for Offer Price', LM is advised to clarify that the Issuer Company complies with the norms stipulated in the SEBI, ICDR Regulations 2018, last amended on November 21, 2022.

Industry Overview:

27. LM is advised to confirm that while disclosing the "excerpts" of the industry report in the DRHP, no parts, information, or data that are material and relevant for the issuer company/investors are left out or changed in any manner.
28. LM is advised to ensure that the agency responsible for preparing the Industry Report shall ensure and confirm that all possible challenges, weaknesses and threats of the Industry/sector associated with the concerned company including specific segments or the products within the Industry/sector shall be properly analyzed and disclosed in the industry report.
29. LM is advised to ensure and confirm that all the challenges weaknesses and threats as stated in the Industry Report shall be disclosed as Risk Factors in the DRHP.

Our business:

30. Page no. 207: LM is advised to justify the strength i.e. '*Established presence and proven track record*' with historical data and numbers.
31. LM is advised to remove the strengths i.e. '*Continuous Focus on equipment ownership*'.
32. Page 209: It is stated that "*We are an established integrated construction and engineering company having our operation in Northern India*"- LM is advised to justify the statement with revenue numbers from northern states of India.
33. Page 210: It is stated that "*One of the primary focus areas of our project execution strategy is to focus on performance and project execution in order to maximize client satisfaction and margins*"- LM is advised to justify the statement with relevant historical.

Key Regulations and Policies in India

34. LM is advised to provide details of action taken by relevant authorities/courts on safety/ environmental / consumer protection, etc. related matters during the past 3 years, shall be disclosed. Appropriate risk factors should be incorporated.

History and Certain Corporate Matters

35. LM is advised that under the section "History and Certain Corporate Matters" of the offer document, it is specifically disclosed that all special rights available to the Shareholders / Investors, shall cease to exist or expire /waived immediately before or on the date shares are allotted to public shareholders, without requiring any further action.
36. LM is advised to make disclosures regarding whether any of the special rights available to certain shareholders would continue post-listing and if yes, the details of the same may be clearly disclosed under the section "History and Certain Corporate Matters". Further, LM shall specifically disclose that any special rights, post listing shall be subject to the approval of the Shareholders by way of a special resolution, in a general meeting of the Company held post-listing of the Equity Shares.

37. LM is advised to ensure that special rights that will continue post-listing are not prejudicial or adverse to the interest of the minority / public shareholders.
38. Further, a categorical statement from the Issuer Company/ promoter/ shareholders, may be provided that there are no other agreements and clauses/covenants which are material and which need to be disclosed and that there are no other clauses/covenants which are adverse/prejudicial to the interest of the public shareholders. Also, there are no other agreements, deeds of assignments, acquisition agreements, SHA, inter-se agreements, or agreements of like nature other than those disclosed in the DRHP.
39. Further, the LMs also to confirm to SEBI that they have gone through the agreements / inter-se, if any, as disclosed in the DRHP and they also do not see any clauses/covenants that are material and that need to be disclosed, have not been disclosed and that there are no other clauses/covenants which are adverse/prejudicial to the interest of the public shareholders/unit holders.

Our Management

40. LM is advised to check and disclose if the name of the directors, promoter, and promoter group persons appear in the list of directors of struck-off companies by ROC/ MCA. Please also check and disclose if the names of the promoter group companies and group companies appear in the list of struck-off companies by ROC/ MCA.

Financial Information

41. LM is advised that Related party transactions as a percentage of Revenue may be disclosed suitably in the offer document. Further, LM to ensure that all RPTs are done at arm's length price. LM is advised to ensure that RPT is in compliance with the Companies Act, 2013, SEBI (LODR) Regulations, relevant Accounting Standards, and other statutory compliances.

Outstanding Litigation and material developments

42. LM shall update the details of the status of litigation with the latest/updated position of litigations against promoter/promoter group entities/company and the companies promoted by the issuer.
43. LM is advised to confirm that the existing litigations are not so major that the issuer's survival is dependent on the outcome of the pending litigation.
44. LM is advised to ensure the disclosures of all actions taken by statutory and regulatory authorities
45. LM should also provide the amount of disputes and shall ensure that appropriate provisions for contingent liabilities have been made in financials. Further, appropriate risk factors should be provided.
46. LM is advised to ensure that the disclosure of details of all the criminal matters, if any, initiated by or against the company, group, directors, promoters, or subsidiaries, which are at the FIR stage and no/cognizance has been taken by the court. LM is also advised to specifically disclose the litigation liabilities.

Miscellaneous :

47. With regard to the employees of the Issuer company, LM is advised to disclose whether the statutory dues to the Government and provident fund for all full-time employees have been paid and the number of the employees for whom the statutory dues and provident fund are paid. LM shall disclose the total PF being paid for the number of employees and whether the same is paid as per statutory law/obligation and the amount paid. Such details and bifurcation shall be disclosed for various dues such as PF, ESIC, GST, TDS, other statutory contributions etc shall be given in the document and whether the obligation has been duly discharged in terms of the applicable laws.
48. LM is advised to disclose any non-compliance by foreign entities with respect to RBI, FEMA, or FDI norms, if any.
49. LM is advised to update the status of the application for the pending trademark/registration of the Issuer Company.
50. LM to include a categorical statement that they have gone through the Articles of Association (AoA) of the Issuer Company and confirm to SEBI that no special rights are available to the Promoters / Shareholders in the AoA, at the time of filing of the offer document.
51. LM is advised to confirm Regulation 8(A) of SEBI ICDR, 2018 with regard to offer for sale by selling shareholders.
52. Mention corresponding figures in value (to the extent possible), wherever percentage figures are mentioned.
53. Reference to any place in the Offer Document should be followed by the name of the relevant city/ state, as the case may be.
54. Any risk on pricing of the issue/basis of issue price, track record of BRLMs, average cost of acquisition of shares by selling shareholders, etc. which is proposed to be included in the issue advertisement may be submitted.
55. All lead manager(s) are uniformly to be identified as Book Running Lead Manager(s) (BRLMs) without making any differentiation between lead manager(s). Details regarding BRLMs acting as Global Coordinators / Joint Global Coordinators may be provided at section on inter-se allocation of responsibilities in the draft offer document and the offer document.
56. Offer document, shall not contain any information where no responsibility is taken by the BRLMs or the Issuer Company/ Expert. The Issuer Company / BRLMs shall ensure that the "Industry Overview" section represents a fair and true view of the comparable industry scenario and the same is neither exaggerated nor any underlying assumptions have been omitted for investors to make an informed decision.
57. Industry report be included in the list of material documents for inspection and also provide a link in the offer document for online access to the industry report.
58. LM / Issuer should endeavor to provide access to all material documents for inspection through online means apart from inspection at the registered office.

59. Confirm whether there has been a change in auditor(s) before the completion of the appointed term (in any of the past five fiscal years), and the reasons thereof.
60. Disclose any past instances of termination/modification / non-renewal of material agreements that have adversely impacted the results of business operations and financials of the company.
61. LM to ensure that all the cross references given in the offer document are correct, leading to the exact page, instead of referring to the beginning of the section.
62. LM shall ensure compliance with all SEBI directions given to the Association of Investment Bankers of India (AIBI).

Price Advertisement

63. LM is advised to ensure the following disclosures in the Issue advertisement for the announcement of the Price Band and all further advertisements as a box item below the price band:

"Risks to Investors:

- a) The [to be disclosed] Merchant Bankers associated with the issue have handled [to be disclosed] public issues in the past three years out of which [to be disclosed] issues closed below the issue price on the listing date."
- b) Any adverse data/ noting in the basis for the issue price should be disclosed. For example:
 - "The Price/Earnings ratio based on diluted EPS for [latest full financial year] for the issuer at the upper end of the Price band is as high as [to be disclosed] as compared to the average industry peer group PE ratio of [to be disclosed]."
 - "Average cost of acquisition of equity shares for the selling shareholders in IPO is [to be disclosed] and offer price at upper end of the price band is [to be disclosed]."
 - "Weighted Average Return on Net Worth for [last three full financial years] is [to be disclosed] %."

The data on the above disclosures shall be updated and disclosed prominently (in the same font size as the price band) in advertisements of the Price Band and all further advertisements, the website of the company and the stock exchange. Further, any adverse ratio/data in basis for the issue price should also be disclosed. LM shall submit the draft advertisement for the announcement of Price Band with SEBI before its publication in the newspapers for our comments.

Price band advertisement:

- a. The portion pertaining to "Risks to Investors" shall constitute at least 33% of the price band advertisement space.
- b. The risks to investors shall include weighted average cost of acquisition of all shares transacted in last 3 years and 1 year, from the date of RHP, in the following format:

<i>Period</i>	<i>Weighted Average Cost of Acquisition (in Rs.)</i>	<i>Cap Price is 'X' times the Weighted Average Cost of Acquisition</i>	<i>Range of acquisition price: Lowest Price - Highest Price (in Rs.)</i>
<i>Last 1 year</i>			
<i>Last 3 years</i>			

- c. The font size for price band and "Risk to investors" should be increased to match the font of BID/Offer Programme.
- d. Matters related to ASBA and UPI may be brought subsequent to Price Band, Risks to Investors, Bid/ Offer Programme and other offer details, and can be of smaller font.
- e. The portion pertaining to "BRLMs" shall not constitute more than 10% of the price band advertisement space.
- f. Mention market Value at Issue Price to Total Turnover and P.E. Ratio at issue price.