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**IPO Report** Bigsha

26<sup>th</sup> Sept '24

**Snapshot**

Company is engaged in the business of manufacturing welding consumables, wear plates and wear parts and heavy engineering machinery for core industries. With over four decades of experience, company is dedicated to providing specialized repairs and reconditioning services for heavy machinery and equipment. Additionally, company is also involved in trading of anti-wear powders and welding and cutting machinery. Company provide super conditioning process at its manufacturing facilities, a surface treatment solution for machine components that enhances wear resistance, eliminates stress and improves their reparability ultimately extending their lifespan and reducing production costs.

**VALUATION**

Company is bringing the issue at price band of Rs 159-168 per share at p/e multiple of 20x on post issue FY24 PAT basis. Company's synergistic business models is focused on forward integration, serving industry leaders directly as well as through OEMs shows consistent financial performance & has long-standing relationships with customers across industries along with experienced promoters and strong management team. Hence ,looking after all above we recommend "Subscribe" on issue.

<b>Price Band (Rs./Share)</b>	<b>159-168</b>
<b>Opening date of the issue</b>	<b>26<sup>th</sup> Sept '2024</b>
<b>Closing Date of the issue</b>	<b>30<sup>th</sup> Sept '2024</b>
<b>No of shares pre issue</b>	28,021,259 Eq Shares
<b>Issue Size</b>	Rs 150-158 Cr
<b>Fresh issue</b>	9,405,000 Equity Shares
<b>Face Value (Rs/ share)</b>	Rs 10/share
<b>Bid Lot</b>	88
<b>Employee Discount</b>	Rs 8/Share

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 46,77,500 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 1,403,250 Eq Shares)
<b>Retail</b>	35% of the offer (Approx 3,274,250 Eq Shares)
<b>Lead managers</b>	Unistone Capital
<b>Registrar to the issue</b>	re Services Ltd

**WHAT WE LIKE**

**Consistent financial performance**

Company have demonstrated consistent growth in terms of revenues and profitability. Company's revenue from operations has grown from ₹878.37 million in Fiscal 2013 to ₹2,571.26 million in Fiscal 2024, registering a CAGR of 10.26% in last 11 years. Company's PAT has grown from ₹73.22 million in Fiscal 2013 to ₹ 233.95 million in Fiscal 2024, registering a CAGR of 11.14% in last 11 years. Further, amongst the players considered for the industry between fiscal 2021-2024, company recorded third highest CAGR of 21% for operating income, second highest CAGR of 38% for profit after tax and third highest CAGR of 33% for EBITDA.

**Synergistic business models focused on forward integration**

In 1993, company started manufacturing welding electrodes, gradually expanding company's offerings to include flux cored wire in the year 1997. Subsequently, company also started manufacturing wear plates and wear parts using flux cored wire. These wear plates are further being utilized for manufacturing of wear parts and heavy engineering equipment. Company have embarked on forward integration journey, transitioning from a manufacturer of welding electrodes to producing flux-cored wires, wear plates, wear parts, and now to heavy engineering, broadening its scope and expertise in the industry.

**Long-standing relationships with customers across industries**

Company have, through over 4 decades of business operations, established long-standing relationships with several Indian and global customers across industries. Company have a diversified customer base and company have served 503, 500 and 444 customers for the Fiscals 2024, 2023 and 2022, respectively. Company's focus on quality, providing customized solutions to its customers and timely delivery of its product offerings have helped company establish and maintain long term relationships with its customers, retain existing customers and attract new customers.



## COMPANY BACKGROUND

Company have developed a synergistic system of forward integration whereby company manufacture special purpose electrodes and flux cored wires which are utilized for manufacturing wear resistance plates (commonly known as wear plates). These wear plates then become an integral part of majority of large industrial equipment which are made in company's heavy engineering division and are significant contributor in manufacturing of industrial equipment used in core industries like cement, steel, power, mining, engineering, oil & gas, sugar, etc. This forward integration helps company in achieving efficiency in the production process and gaining competitive advantage, reducing product costs, enhancing supply chain control and reducing company's dependency on third-party suppliers for company's operations.

Welding consumables market in India is estimated at around Rs 51 billion in fiscal 2024, with fiscal 2027 projections around Rs 64-66 billion. Due to the rise in demand for improved infrastructure, a lot of investment is happening in infrastructure development, such as construction of roads, bridges, ports and airports. The wear plates market in India is estimated at around Rs 22 billion in fiscal 2024 and is expected to grow at a CAGR of 8-9% to ~Rs 28 billion in fiscal 2027. Wear plates are essential part of the industries such as power plants, steel mills, quarrying, cement etc., as these plates protect key components of these industry. As India continues to undergo rapid industrialization, each of these industries would grow and require wear plates to protect their equipment and machinery. India's heavy engineering capital goods industry is estimated to be Rs 3,100-3,200 billion as of fiscal 2024, and is projected to clock a CAGR of

7.5-8.5% over fiscals 2023-27 to reach Rs 3,800-3,900 billion. Heavy electrical engineering, earthmoving, construction and Mining Machinery, and Process Plant Equipment are the largest segments of the industry.

Amongst the players considered for the industry between fiscal 2021-2024, Company recorded third highest CAGR of 21% in operating income, second highest CAGR of 38% in profit after tax and third highest CAGR of 33% in EBITDA.

Company focus on alloy and process development, quality and design to tailor-make products as per company's customers' needs. With a team of over 130 qualified engineers deployed across various departments as of February 29, 2024 and decades of experience in welding consumables and wear plates, company possess the expertise to design, develop and manufacture complex and specialized industrial equipment and components for OEMs and end-user industries.

Company presently operate from four manufacturing units, out of which Unit I, II and III are located in Nagpur Industrial Area, Hingna, Nagpur – 440 016, Maharashtra and Unit IV is located in Khapri (Uma), Nagpur – 441 501, Maharashtra for processing and manufacturing of company's products. Company's manufacturing operations are distributed across different units as under:

- Unit I: special purpose welding electrodes;
- Unit II: flux cored wires, wear plates and wear parts through fabrication and machining;
- Unit III: coatings for abrasion and corrosion resistance;
- Unit IV: flux cored wires (since Fiscal 2024), wear plates and heavy engineering machinery.

Each Unit is supported by necessary infrastructure for storage of raw materials, manufacturing of company's products, storage of finished goods, together with quality control measures. For further information of company's Units. Company's manufacturing Units are strategically located in the central part of the country with availability of all modes of transportation and facilitates convenient transportation of company's products, sourcing of raw materials and easy access to customers. The equipment which is used for production of company's products are owned by company. Company invest in R&D activities to create a differentiating factor and sustainability in company welding consumables products vis-à-vis company's competitors and to meet company's clients' specific requirements. Company's dedicated DSIR approved R&D facility at Unit I is equipped with laboratory infrastructure for various developmental activities, including process refinement, finished products testing and other raw materials analysis. Company hold accreditation by the National Accreditation Board for Testing and Calibration Laboratories – ISO/IEC 17025:2017 for General Requirements for the Competence of Testing & Calibration Laboratories.

Additionally, company undertake multiple stringent quality checks and hold Environment Management System (EMS) certification by TÜV SÜD South Asia Private Limited, Quality Management System (QMS)-ISO 9001:2015, Occupational Health and Safety Management systems – ISO 45001:2018 and Environment Management System – ISO 14001:2015. Company was incorporated in the year 1982. Company initially started trading in welding electrodes for super-conditioning. From the year 1993, company started manufacturing welding electrodes. In the year 1994, company acquired its Unit I for manufacturing welding electrodes. Subsequently, company acquired Unit II as a dedicated unit for manufacturing wear plates and flux cored wires. In the year 2015, company acquired its Unit III for manufacturing coatings for abrasion and corrosion resistances. In the year 2016, company set up and commenced operations at Unit IV for manufacturing heavy engineering equipment. Subsequently, company have also started production of flux cored wires and wear plates from Unit IV for which it have received consent to operate dated July 26, 2024 from MPCB. Company also have overseas presence through its Subsidiaries in Singapore, Turkey and Philippines, and Joint Ventures/ Associates in United Kingdom and Malaysia.



**INVESTMENT RATIONALE**

<p><i>Experienced promoters and strong management team</i></p>	<p>Prashant Garg, Promoter and Managing Director of company and a second-generation entrepreneur has been associated with company since 2003. He has a rich experience of nearly two decades in the industry company operate. Company has grown rapidly over the last few years primarily due to the vision, commitment and dynamism demonstrated by company’s promoter and he continues to be the driving force for Company. In addition to its Promoters, its key management and senior management team includes qualified,experienced and skilled professionals who possess requisite experience across various division of company’s business. The stability of company’s management team and the industry experience brought on by its Promoters enable company to continually take advantage of future market opportunities. Company’s senior management team is well qualified to leverage its market position with their collective experience and knowledge in industry, to execute its business strategies and drive company’s future growth.</p>
<p><i>Strategically located manufacturing facilities</i></p>	<p>Company’s business operations in Nagpur, Maharashtra, boast a strategic location at the heart of the country, providing significant advantages for its business operations. Company’s central location ensures easy access to industries across the entire country, streamlined logistics for procurement and timely delivery to its customers. With company’s manufacturing units centrally located, company can efficiently serve diverse industries and segments, reaching both urban and remote areas alike. This central location minimizes transit times for shipments, enhances company’s operational efficiency and supports prompt responses to customer demands. Additionally, the location contributes to cost-effective logistics as transportation costs are optimized due to the reduced distances to various regions, positively impacting company’s overall cost structure.</p>
<p><i>Synergistic business models focused on forward integration</i></p>	<p>In 1993, company started manufacturing welding electrodes, gradually expanding its offerings to include flux cored wire in the year 1997. Subsequently, company also started manufacturing wear plates and wear parts using flux cored wire. These wear plates are further being utilized for manufacturing of wear parts and heavy engineering equipment. Company have embarked on forward integration journey, transitioning from a manufacturer of welding electrodes to producing flux-cored wires, wear plates, wear parts, and now to heavy engineering, broadening company’s scope and expertise in the industry. Over the years, company have expanded its capabilities to offer not only quality welding consumables but also comprehensive welding services for core industries. Company’s commitment in manufacturing and welding services ensures that its clients receive a comprehensive and streamlined approach to meet their welding and anti-wear needs, ultimately contributing to the longevity and optimal performance of their heavy equipment.</p> <p>Company’s revenues from welding electrodes, wear plates, wear parts and heavy engineering business on standalone basis contributes in aggregate 90.92%, 92.85% and 92.78%for the fiscals 2024, 2023 and 2022.</p> <p>Further, the manufactured special purpose electrodes and flux cored wire are consumed in-house as well as sold to company’s customers (domestic and international) ensuring economies of scale and minimal wastage.</p>



## OBJECTS OF OFFER

Company proposes to utilize the Net Proceeds from the Issue towards funding the following objects:

1. Funding capital expenditure requirements towards expansion of company's existing manufacturing facility at Khasra No. 36, 38/1, 38/2, 38/3, Khapri (Uma), Nagpur- 441 501, Maharashtra, India
2. Setting up of a new manufacturing facility located at Plot Nos. 33-B/1/1/ & 33-B/1/1/Part, MIDC, Hingna, Sonegaon District, Nagpur – 440 016, Maharashtra ("Proposed Facility")
3. Funding working capital requirements of the Company; and
4. General Corporate Purposes

## RISKS

Company had negative cash flows during certain fiscal years in relation to its operating, investing and financing activities. Sustained negative cash flows in the future would adversely affect company's results of operations and financial condition.

Source:RHP

## INDUSTRY OVERVIEW

### Welding consumables market in India

Manufactures in India heavily rely on welding consumables as a primary technique for joining metals, as no other method offers such wide-ranging benefits. Welding consumables, which are materials that facilitate the joining of two metal or alloys, are critical components of welding operations, as the quality and strength of the joint in welding is dependent on them. As different welding consumables have different properties and characteristics, selection of consumables vary according to the type of metals that are being welded, the process used in welding, and the application of the final products.

Welding consumables are used extensively in the infrastructure sector in construction of roads, bridges, ports and airports. Also, welding consumables form a key component for constructing and maintaining plants across industries, such as power, cement, railways and automotive.

### Market size of the welding consumables industry in India

Welding consumables market in India is estimated at around Rs 51 billion in fiscal 2024, with fiscal 2027 projections around Rs 64-66 billion. Due to the rise in demand for improved infrastructure, a lot of investment is happening in infrastructure development, such as construction of roads, bridges, ports and airports. This investment in infrastructure is one of the key growth drivers for the welding consumables sector, because welding is indispensable in the construction industry, as it provides strong and reliable joining solutions for structural components.

### Indian wear plates market

Wear plates serve as a safeguard to vulnerable surfaces from harsh abrasion or impact, when encountering other surfaces. Key application of wear plates is where friction between two components or material leads to deterioration. As these plates are replaceable components, they protect value equipment against excessive wear and potential damage. Wear plates are used in a variety of industries, such as construction, mining, energy and power, railways, and quarries, as these plates reduce downtime from damaged equipment, cost of part replacements and maintenance for the uninterrupted use of equipment and machines. Key players operating in the wear plates market in India are Jindal Steel, AM/NS and Diffusion Engineers.

### Market size of wear plates market in India

The wear plates market in India is estimated at around Rs 22 billion in fiscal 2024 and is expected to grow at a CAGR of 8-9% to ~Rs 28 billion in fiscal 2027. Wear plates are an essential part of various industries, such as power plants, steel mills, quarrying and cement, as these plates protect key components of these industry. As India continues to undergo rapid industrialisation, each of these industries would grow and require wear plates to protect their equipment and machinery. Additionally, as investments in the Indian infrastructure market will grow, the construction industry will promote the consumption of wear plates for long and durable equipment and machines. Also, increased focus by the mining industry to improve the lifespan of mining equipment will also lead to a stronger the wear plates sector.



**Consolidated Financials**

(Rs in Mn)

Financials	FY22	FY23	FY24
Total Revenue (A)	2045.89	2548.76	2781.44
Total Expenditure (B)	1821	2269.99	2392.77
EBIDTA	224.89	278.77	388.67
EBIDTA Margin	10.99	10.94	13.97
Other Income	41.58	37.95	74.17
Depreciation	41.64	38.42	45.49
EBIT	224.83	278.30	417.35
Interest	13.83	22.95	17.55
PBT	211.00	255.35	399.80
Share of profit in Asso	8.75	31.24	13.60
PBIT	219.75	286.59	413.40
Exceptional	0.00	0.00	2.57
PBT	219.75	286.59	415.97
Tax	49.29	65.15	102.80
PAT	170.46	221.44	313.17
NPM	8.33	8.69	11.26
ROE%	15.10	16.86	18.52
EPS	6.08	7.91	10.94
Eq Cap	37.37	37.37	280.21
Net Worth	1,208.36	1,421.66	1,910.18

(Source: RHP)

**Peer Comparison**

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Diffusion Engineers Limited</i>	<i>NA</i>	<i>2781.44</i>	<i>10.94</i>	<i>68.06</i>	<i>18.52</i>
<b>Peers</b>					
Ador Welding Limited	29.01	8838.30	46.46	266.49	18.43
AIA Engineering Limited	35.88	48537.61	120.4	705.86	18.41

(Source: RHP)





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