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IPO Report

03rd Jan '25

Snapshot

Company is one of the top five specialised engineering equipment manufacturer for pharmaceutical and chemical sectors in India, in terms of revenue in Fiscal 2024 with in house capabilities across the entire value chain. Company's capabilities include designing, engineering, manufacturing, assembly, installation and commissioning solutions as well as establishing standard operating procedures for pharmaceutical and chemical manufacturers on a turnkey basis. Company's portfolio comprises core equipments used in the manufacturing of pharmaceutical and chemical products, which can be categorized into: (i) Reaction Systems; (ii) Storage, Separation and Drying Systems; and (iii) Plant, Engineering and Services (including other ancillary parts).

VALUATION

Company is bringing the issue at price band of Rs 133-140 per share at p/e multiple of 36x on post issue annualized H1FY25 PAT basis.

Company is one of the top five specialised engineering equipment manufacturers for pharmaceutical and chemical sectors in India with products across entire value chain, company has strategically located manufacturing facilities with advanced technological capabilities & has long term relationships with marquee clientele across sectors with consistent track record of profitable growth. Hence Looking after all above, we recommend "Subscribe" on issue.

Price Band (Rs./Share)	133-140
Opening date of the issue	06th Jan '2025
Closing Date of the issue	08th Jan '2025
No of shares pre issue	18,44,91,662 Eq Shares
Issue Size	Rs 400-410 Cr
Fresh Issue	Rs 210 Cr
Offer For Sale	14,289,367 Equity Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	107

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 1,46,44,682 Eq Shares)
Non-Institutional	15% of the offer (Approx 43,93,406 Eq Shares)
Retail	35% of the offer (Approx 1,02,51,279 Eq Shares)
Lead managers	IIFL Capital Services Ltd, Motilal Oswal Investment Advisors Ltd
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

One of the top five specialised engineering equipment manufacturers for pharmaceutical and chemical sectors in India with products across entire value chain.

Company is one of the top five specialised engineering equipment manufacturers for pharmaceutical and chemical sectors in India, in terms of revenue, in Fiscal 2024 with an in house capabilities across the value chain including design, engineering, manufacturing, assembly, installation and commissioning solutions as well as establishing standard operating procedures for pharmaceutical and chemical manufacturers on a turnkey basis. Company is one of the top three manufacturers of glass-lined, stainless steel, and nickel alloy based specialised engineering equipment in Fiscal 2024.

Long term relationships with marquee clientele across sectors

As of September 30, 2024, company's customer base included 347 companies. Some of company's customers are Apitoria Pharma Private Limited, Aurobindo Pharma Limited, CCL Food and Beverages Private Limited, Cohance Lifesciences Limited, Cadila Pharmaceutical Limited, Deccan Fine Chemicals (India) Private Limited, Dasami Lab Private Limited, Laurus Labs Limited, Granules India Limited, Macleods Pharmaceuticals Limited, MSN Laboratories Private Limited, Natco Pharma Limited, Honour Lab Limited, Hetero Drugs Limited, Hetero Labs Limited, Hazelo Lab Private Limited, Piramal Pharma Limited, Sanvira Biosciences Private Limited, Suven Pharmaceuticals Limited, Tagros Chemicals India Private Limited, Vamsi Labs Limited and Viyash Life Sciences Private Limited.

Consistent track record of profitable growth

Company have been able to achieve 50.45% growth of revenue from operations on a consolidated basis from Fiscal 2022 to Fiscal 2024. Having commenced operations in 2012, company have supplied over 11,000 equipment, in the last ten years of its operations. Company's growth has been aided by inorganic acquisitions of business of M/s Stanpumps Engineering Industries, M/s S2 Engineering Services, M/s Higenic Flora Polymers, M/s Yashasve Glass Lining Industries and C.P.K Engineers Private Limited.



COMPANY BACKGROUND

Company is also one of India's top three manufacturers of glass-lined, stainless steel, and nickel alloy based specialised engineering equipment, in terms of revenue in Fiscal 2024. Company is also one of the top three suppliers of polytetrafluoroethylene ("PTFE") lined pipelines and fittings in India, in terms of revenue in Fiscal 2024. Company have been the fastest-growing company in the industry in which it operate during the past three completed Fiscals in terms of revenue. Company possess in-house capabilities to manufacture all the core specialised engineering equipment required in the active pharmaceutical ingredient ("API") and fine chemical products manufacturing process. Over the last decade company have supplied over 11,000 products.

Company's engineered solutions are used in processes across pharmaceutical, chemical, food and beverage, biotechnology and fertilizer sectors. Company customise its products basis the unique process requirements of its customers. Company also provide turnkey automated equipment solutions, optimising processes like vacuum distillation, solvent recovery and gas dispersion. Company have a diversified customer base including end users operating in a range of sectors across pharmaceutical, chemicals, paint, bio technology and food and beverages. Company's marquee customer base includes 30 out of approximately 80 pharmaceutical and chemical companies in the NSE 500 index as of June 30, 2024. Some of company's customers include Apitoria Pharma Private Limited, Aurobindo Pharma Limited, CCL Food and Beverages Private Limited, Cohance Lifesciences Limited, Cadila Pharmaceutical Limited, Deccan Fine Chemicals (India) Private Limited, Dasami Lab Private Limited, Laurus Labs Limited, Granules India Limited, Macleods Pharmaceuticals Limited, MSN Laboratories Private Limited, Natco Pharma Limited, Honour Lab Limited, Hetero Drugs Limited, Hetero Labs Limited, Hazelo Lab Private Limited, Piramal Pharma Limited, Sanvira Biosciences Private Limited, Seven Pharmaceuticals Limited, Tagros Chemicals India Private Limited, Vamsi Labs Limited and Vijash Life Sciences Private Limited.

Company operate through its eight manufacturing facilities spread across built-up/floor area of over 400,000 sq. ft., strategically located in Hyderabad, Telangana, the "Pharma Hub" of India, which accounted for 40.00% of the total Indian bulk drug production in Fiscal 2024. Company's manufacturing capabilities are complemented by a sales, service and distribution network operating from four sales offices located in Vadodara, Gujarat, Ankleshwar, Gujarat, Mumbai, Maharashtra and Vishakhapatnam, Andhra Pradesh and sales team members in Jhagadia, Gujarat, Chennai, Tamil Nadu, New Delhi, Bengaluru, Karnataka and Vijayawada, Andhra Pradesh with pan-India reach. Company also have agency arrangements for sale and marketing of company's products in Bangladesh as well as agency and distribution agreement for sale, marketing and distribution of company's products in Russia. Further, company have resale arrangements for North America (excluding Cuba), South America, Europe (excluding Belarus and Russia) and certain countries in Asia and Africa.

Company's growth has been compounded by its partnerships. Company have entered into an agreement with HHV Pumps Private Limited ("HHV"), for supply of vacuum pumps along with a private label arrangement. Company also have a supply and purchase arrangement for India with Japan based Asahi Glassplant Inc. and GL Hakko Co. Ltd ("GL Hakko") for procurement of specified grades of glass for its glass lining division. These partnerships have enabled company to fortify its position in the Glass Lining and Vacuum Pumps market in India. Further, company have also entered into an exclusive collaboration with GL Hakko for exclusively purchasing glass lined tubes manufactured by GL Hakko using which Company will manufacture and sell shell and heat tube exchangers under the name of GL Hakko in India and abroad except Japan.

Company also benefit from an experienced management team, which is supported by a capable and motivated pool of employees. Company's senior management team has diverse experience in manufacturing and functions related to its business, and an in-depth understanding of the specific industry, products and geographic regions they cover, which enables them to appropriately support and guide company's employees. Company's management team is guided by its seasoned Board, who have extensive experience in the pharmaceutical, chemicals and engineering sectors.



INVESTMENT RATIONALE

<p><i>Customized and innovative product offering across the entire pharmaceutical and chemical manufacturing value chain</i></p>	<p>Company is one of the few companies in India offering end to end customised solutions in the specialised engineering equipment used in the pharmaceutical and chemical sectors . As of September 30, 2024, company’s comprehensive product portfolio consists of more than 65 products and offerings across pharmaceutical and chemical industries. Company’s portfolio consists of: (i) Reaction Systems; (ii) Storage, Separation and Drying Systems; and (iii) Plant, Engineering and Services (including other ancillary parts). Company’s products are manufactured using various materials including stainless steel, carbon/ mild steel and nickel alloy, etc. Company’s capabilities include producing process equipment customised to the requirements of its customers. Company can manufacture process equipment using various types of alloys with thickness ranging from 1 mm to 60 mm, which are used in food, pharmaceutical and fine chemical industries</p>
<p><i>Strategically located manufacturing facilities with advanced technological capabilities</i></p>	<p>Company operate through its eight manufacturing facilities spread across built-up/floor area of more than 400,000 sq. ft., strategically located in Hyderabad, Telangana, the “Pharma Hub” of India, which accounts for 40.00% of the total Indian bulk drug production . Company have the capabilities to manufacture reactors, receivers, and storage tanks ranging from 30 litres to 40,000 litres in size. Company also have the capacity to manufacture around 300-350 equipments per month across its product portfolio of (i) Reaction Systems; (ii) Storage, Separation and Drying Systems; and (iii) Plant, Engineering and Services (including other ancillary parts). Company’s manufacturing facility can also produce up to 100 reactors per month. Further, company have an exclusive facility to make 30 ANFDs per month. Company also have the capacity to manufacture 9,000 units per month of PTFE lined pipes and fittings. Further, company also provide supply and service of pumps.</p>
<p><i>Experienced promoters and management team</i></p>	<p>Company is led by a qualified and experienced management team that has the expertise and vision to manage and grow its business. Company’s management team is guided by its seasoned Board, who have a extensive experience in the pharmaceutical, chemicals and engineering sectors which allows company unique insight into the manner in which company’s end customers offerings may be produced. Company’s Board of Directors includes a combination of management executives and independent directors who bring in diverse expertise. The combination of company’s experienced Board of Directors and its Promoters positions it well to capitalize on future growth opportunities. In addition to company’s Board, that company’s senior management and employees are experienced and skilled, providing it access to a pool of capable and motivated employees. Company’s Promoters and certain of its Key Managerial Personnel and Senior Management have been with company for several years, demonstrating continuity and commitment in its leadership. Company’s Senior Management has played an instrumental role in solidifying customer relationships. Company rely on its leadership and management team’s guidance to provide it with a competitive advantage as company seek to grow its business.</p>



OBJECTS OF OFFER

The Offer comprises the Fresh Issue of Equity Shares, aggregating up to ₹ 2,100.00 million by Company and the Offer for Sale of up to 14,289,367 Equity Shares, by the Selling Shareholders.

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

1. Funding of capital expenditure requirements of Company towards purchase of machinery and equipment;
2. Repayment or prepayment, in full or in part, of all or a portion of certain outstanding borrowings availed by company and investment in its wholly owned Material Subsidiary, S2 Engineering Industry Private Limited, for repayment or prepayment, in full or in part, of all or a portion of certain outstanding borrowings availed by S2 Engineering Industry Private Limited, from banks and financial institutions;
3. Investment in company's wholly owned Material Subsidiary, S2 Engineering Industry Private Limited, for funding its capital expenditure requirements towards purchase of machinery and equipment;
4. Funding inorganic growth through strategic investments and/or acquisitions; and
5. General corporate purposes

RISKS

Company is dependent on its manufacturing facilities, all of which are situated in Telangana, India. Company is subject to risks in relation to company's manufacturing process including accidents and natural disasters and also risks arising from changes in the economic or political conditions of Telangana, India which in turn will interfere with company's operations and could have an adverse effect on its business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Overview of Filters and Dryers Equipment Industry Filtration and Drying Equipment Industry –

Overview Filtration and drying are critical operations in a wide range of industrial processes that involve the separation of solid matter from solvent. The solid can then be discharged into the dryer in the same equipment. The advantages of using filtration and drying equipment are product isolation, reduced product handling, reduced operator exposure etc. Filtration and drying equipment are used in water and wastewater treatment, sewage processing, and the pharmaceutical, biopharmaceutical, and chemical industries. It's also used to remove particles from industrial lubricants and separate synthetic materials during production. Filter dryers represent versatile units that amalgamate multiple batch process steps within a single vessel. They excel in solid/liquid separation and drying technology for batch operations necessitating the washing, isolating, and drying of solids. Adaptable to numerous chemical processes and compliant with stringent health and safety protocols, these units boast distinctive features such as a specialized agitator design optimizing the processing of thick, wet, or dry cakes, and a universal filter plate facilitating the utilization of various filter media. Available across diverse sizes and capacities, ranging from laboratory to pilot to full-scale production, this equipment is tailored to enhance performance and efficiency. Key Growth Drivers - Global Both markets are driven by factors such as strict quality standards, the quest of more efficient manufacturing techniques, and the emphasis on product purity. As businesses evolve, the demand for innovative and dependable filtration and drying equipment is projected to persist. These systems not only assure the efficiency and quality of industrial processes, but they also play an important role in protecting product integrity and meeting regulatory standards across a wide range of industries, accelerating their adoption and market expansion. Product Types and Applications Filtration It is a technique to separate the solids from the liquids. It is a physical or biological process intended to separate solid from gases or liquid matter with the use of a filter medium in which the liquid permeate and the solid is left to retentate. There are majorly two categories in filtration. • Product filtration - Micron filter, Candy filter, Module filter, sparkler filter, leaf filter, ANFD, Centrifuge, Pressure nutsche filter, bag filters, Nutsche filter, Filter press, Rotary pressure filter etc. • Bi-product filtration- Agitated Nutsche Filter-Dryer (ANFD), Bag filters, Nutsche filter, Pressure nutsche filter, etc.

ANFD filtration is a very popular type of filtration and drying technique and is very popular among the end user segments. It shares about 50% market share of filtration and drying equipment globally. Nutsche filtration is a batch filtration method where vacuum and pressure are used in a closed vessel. It allows the process to be carried out in product isolation, minimal operator exposure, reduced product handling, vaporization, and protection against environment. Agitated Nutsche Filter/Dryers (ANFD) Agitated Nutsche Filter/dryer is a multipurpose piece of equipment used in various industries. It is used to isolate and extract solids from solvent. It is a closed system that can be operated in certain pressure, pH or temperature. It also prevents contamination of the product from outer environment. They are very flexible from a process standpoint, while they are used to separate solids, they are also used to separate solutions like catalysts etc. ANFD is also employed for the following operations: filling, filtering, displacement washing, slurry washing, smoothing, drying, chilling, and discharging. The pharmaceutical industry's product hygiene and integrity are maintained by ANFD's closed system, which guarantees odorless, contamination-free, and non-polluting working conditions.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	H1 FY 2025
Total Revenue (A)	2401.87	4975.88	5436.69	3071.95
Total Expenditure (B)	1997.23	4118.20	4487.62	2493.9
EBIDTA	404.64	857.68	949.07	578.05
EBIDTA Margin	16.85	17.24	17.46	18.82
Other Income	13.15	24.88	60.12	49.03
Depreciation	42.36	77.07	93.28	49.72
EBIT	375.43	805.49	915.91	577.36
Interest	37.73	86.96	117.90	79.97
PBT	337.70	718.53	798.01	497.39
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	337.70	718.53	798.01	497.39
Exceptional	0.00	0.00	0.00	0.00
PBT	337.70	718.53	798.01	497.39
Tax	86.25	184.29	197.90	134.71
PAT	251.45	534.24	600.11	362.68
NPM	10.47	10.74	11.04	11.81
ROE%	54.89	47.56	20.74	8.06
EPS	2.22	3.49	3.52	1.89
Eq Cap	153.00	157.85	181.63	1,816.35
Net Worth	689.59	1,557.20	4,089.77	4,468.57

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Standard Glass Lining Technology</i>	<i>10.00</i>	<i>3.52</i>	<i>--</i>	<i>20.74</i>	<i>24.55</i>
Peers					
GMM Pfaudler Ltd	2.00	39.79	30.64	20.23	215.22
HLE Glascoat Ltd	2.00	6.52	56.54	7.99	61.06
Thermax Ltd	2.00	57.28	81.24	15.53	394.10
Praj Industries	2.00	15.42	52.54	24.09	69.36

(Source: RHP)



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