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IPO Report

03rd Sept'23

Snapshot

Ratnaveer Precision Engineering Limited is a stainless steel ("SS") product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes and tubes. Stainless steel is a value-added product with high corrosion resistant properties. Higher levels of chromium and additions of other alloy elements enhance the corrosion resistance. Company operate out of four manufacturing units, out of which two (Unit-I and Unit-II) are located at GIDC, Savli, Vadodara, Gujarat, one (Unit-III) is located at Waghodia, Vadodara, Gujarat and the other one (Unit-IV) is located at GIDC, Vatva, Ahmedabad, Gujarat.

VALUATION

Company is bringing the issue at price band of Rs 93-98 per share at p/e multiple of 19.05x on post issue FY23 basis.

Company has wide product portfolio and multiple designs product enables it to serve diverse end-use applications. Company with Experienced Promoter has establish presence in the international markets. Also company has strategically located manufacturing facilities with a core focus on quality & growth led by continuous investment and R&D set up for new product development..

Hence, we recommend "Subscribe" on issue

Price Band (Rs./Share)	93-98
Opening date of the issue	04th Sept '2023
Closing Date of the issue	06th Sept '2023
No of shares pre issue	34699040 Eq Shares
Issue Size	Rs 157-165 Cr
Issue Size	16,840,000 Equity Shares
Fresh Issue	13800000 Equity Shares
Offer For Sale	3,040,000 Equity Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	150

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 8420,000 Eq Shares)
Non-Institutional	15% of the offer (Approx 2526,000 Eq Shares)
Retail	35 % of the offer (Approx 5894,000 Eq Shares)
Lead managers	Unistone Capital
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Synergistic Business Model focused on Backward Integration

Company have developed a synergistic system of backward integration whereby it process the waste being generated in manufacturing of company's products for converting back into the raw material which is utilized again in manufacturing. Thus, the raw material required is also being generated in-house, while the waste being produced in the manufacturing process is being completely utilized, ensuring economies of scale and minimal wastage

Consistent financial performance

Company has grown from a single product to multi-product manufacturing company. Company have demonstrated consistent growth in terms of revenues and profitability. Company's revenue from operations has grown from INR 821.23 Million in Fiscal 2011 to INR 4,797.48 Million in Fiscal 2023 registering a CAGR of 14.54% in last 13 years. Similarly, its profit after tax has grown from INR 15.42 Million in Fiscal 2011 to INR 250.44 Million in Fiscal 2023, registering a CAGR of 23.92% in last 13 years.

Wide product portfolio and multiple designs

Company had started its business activities with manufacturing of SS washers and have since branched out to manufacturing SS finishing sheets, SS solar roofing hooks, SS tubes and pipes which has enabled company to diversify its product portfolio manifold. Company's portfolio comprises of over 2,500 SKUs of SS washers. Having a wide range of products not only enables company to meet the trends and ever changing demands of its customers but also gives company an edge to efficiently compete with its competitors. Company's product portfolio also includes diversified variety of stainless steel pipes in various specifications and sizes having wide applications in varied industries. Company's constant efforts are focused towards identifying the customer requirements and introducing high quality products which are in demand.



COMPANY BACKGROUND

Globally, cold rolled flat products are the largest produced stainless-steel product in the world, followed by hot rolled coils, and steel wire rods & bars. According to International Stainless-Steel Forum, cold rolled flat products accounts for approximately 47% of total stainless-steel trade in the world. Hot coils, Semisflat, Semis Long, Hot Bar/Wire rod, Cold Bar/Wire, Hot Plate & Sheet are another SS intermediary product traded globally.

Company operate out of four manufacturing units, out of which two (Unit-I and Unit-II) are located at GIDC, Savli, Vadodara, Gujarat, one (Unit-III) is located at Waghodia, Vadodara, Gujarat and the other one (Unit-IV) is located at GIDC, Vatva, Ahmedabad, Gujarat. Company's manufacturing units are strategically located with availability of transportation, which facilitates convenient transportation of its products.

Company manufacture SS finishing sheets, SS washers and SS solar mounting hooks at its Unit I and SS pipes & tubes at its Unit II. Unit III and Unit IV are dedicated for the backward integration process. Unit III is the melting unit where company melt steel scrap and turn it into steel ingots and Unit IV is the rolling unit where flat ingots are further processed to turn them into SS sheets which are the raw material for SS washers. Company's Units are supported by infrastructure for storage of raw materials, manufacturing of its products, storage of finished goods, together with a quality control and R&D laboratory. Company's revenue from operations breakup is as under:

Particulars	Fiscal					
	2023		2022		2021	
Domestic turnover	3875.39	80.79%	3432.33	80.39%	3043.68	84.63%
Export turnover	921.91	19.21%	837.05	19.61%	552.95	15.37%
Total	4797.30	100.00%	4269.38	100.00%	3596.63	100.00%

Company is one of the few companies who has a backward integration model (Source: D&B Report). This backward integration model is one of company's major strengths and has helped company in maximising the returns on its investments. While company's two units (Unit I and II) are dedicated for manufacturing the products which are offered to its customers, the other two units (Unit III and IV) are dedicated towards processing the byproducts generated in manufacturing company's products and converting it back into the raw material for its products.

Company's products find application across various industries including automotive, solar power, wind energy, power plants, oil & gas, pharmaceuticals, sanitary & plumbing, instrumentation, electro mechanics, architecture, building & construction, electrical appliances, transportation, kitchen appliances, chimney liners, etc. Company's products are used in both commercial and residential sector and is sold within India and overseas.

Company is focused at consistently expanding its product portfolio by developing new designs. Company constantly engage with its customers through marketing via personal interactions with them. Company's sales team works closely with its customers to obtain their insights and feedback about the upcoming trends in the industry which enables company to develop and improve its products to fulfil the requirements of the market.

Company is promoted and managed by its Managing Director and Promoter, Vijay Ramanlal Sanghavi who has been instrumental in the growth of Company. Sanghavi has played a key role in setting up the manufacturing units, facilitating technology upgradation in the production process, diversification of business into SS finishing sheets, tubes and pipes and spearheading its venture of setting foot in new markets.

Company intend to expand its portfolio of SS washers by adding circlips into the product line. Company currently offer over 2500 SKUs of SS washers to its customers including inner ring washers, spring washers, nord lock washers, retaining rings, internal tooth washers and external tooth washers of different sizes and specifications. Having a wide range of products not only enables company to meet the trends and ever changing demands of its customers but also gives company an edge to efficiently compete with its competitors.

Company's product portfolio also includes diversified variety of stainless steel pipes in various specifications and sizes having wide applications in varied industries. Company have taken the land located at E-78, GIDC Industrial Estate, Savli, Dist. Vadodara, Gujarat which is adjoining to company's Unit I, on a 99-year lease from GIDC, for this expansion. Company have undertaken R&D activity for developing circlips, have developed the required tools and identified prospective customers.



INVESTMENT RATIONALE

<i>R&D set up for new product development</i>	<p>Company have an in-house R&D facility at Unit I wherein it develop tools and molds for its products. To enhance company's product offerings, company have leveraged its manufacturing ability to evolve by virtue of investing in the Research and Development activities. Company is focused on undertaking dedicated R&D in its existing products and development of new products and designs in areas where there is significant growth potential and would cater to needs of its customers. Company connect with its customers from time to time and understand their requirements on the basis of which company develop new and advanced product designs more suitable to its customers.</p>
<i>Customer Diversification</i>	<p>Company sell its products both in the domestic as well as international markets. In the domestic market, company sell its products to the manufacturers as well as traders/ stockists and end customers whereas in the international market company supply its products through traders/stockists in the International market. Company have been exporting since incorporation and as on March 31, 2023, some of the countries company is exporting to including but not limited to Germany, UK, Spain, Netherland, etc. Revenue contribution from company's top 10 customers is ₹1,471.99 Million, ₹1,906.95 Million and ₹2380.62 Million contributing 35.60%, 35.35%, 38.84%, and 49.62%, for Fiscals 2021, 2022 and 2023, respectively.</p> <p>Company's diversified customer base signifies its non-dependence on any single customer and thereby hedges company's business operations from potential customer specific risk, sector specific risks, including but not limited to policy announcements, change in global markets and international relations etc.</p>
<i>Experienced Promoter</i>	<p>Vijay Ramanlal Sanghavi, company's Promoter and Managing Director has over two decades of experience in the steel and stainless steel industry. Company has been instrumental in achieving various milestones including setting-up of a dedicated unit in the year 2018 for manufacturing SS Tubes & Pipes (Unit II) and increasing Company's operating revenue from about ₹ 1,595 Million in Fiscal 2013 to about ₹ 4,269 Million in Fiscal 2022.</p> <p>Company has received recognitions from reputed organisations from around the world including Engineering Export Promotion Council, Marsh & McLennan and Dun & Bradstreet under his tutelage.</p>
<i>Synergy of young and experienced management team with a committed employee base</i>	<p>Company have a strong management team with considerable industry experience. Company's key business functions like production, finance, sales and HR play an important role in efficient day-to-day operations of the Company. Company endeavour to maintain a balance of experienced and young professionals in the team. Company's Board of Directors includes a combination of management executives and independent members who bring in significant business expertise including in the areas of administration and management, manufacturing, finance, compliance and audit. Company's well-defined organization structure has helped in establishing cordial relationships with its employee base across its offices.</p>



OBJECTS OF OFFER

Offer for Sale

The proceeds of the Offer for Sale shall be received by the Promoter Selling Shareholder Vijay Ramanlal Sanghavi. Company will not receive any proceeds from the Offer for Sale.

Fresh Issue

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

1. Funding working capital requirements of company; and
2. General corporate purposes

RISKS

Company is dependent on a few customers for a major part of its revenues. Further company do not enter into long-term arrangements with its customers and any failure to continue its existing arrangements could adversely affect company's business and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Growth Outlook

SS sheet usage has seen a significant growth in the past decade, on the back of novel application in ABC segment as well as emergence of new customer segments like metro railways. Usage of steel in architecture & building construction was mostly confined to load bearing & structural applications. Usage of specialized products like SS sheet was relatively low. Changes in building design & construction technics have ushered in a change, paving the way for the adoption of SS sheets. While usage of SS sheet as roofing and cladding material has found a ready audience, its usage as a decorative sheet is yet to gain traction.

On the other hand, the growth in metro rail network has presented SS sheet manufacturers with a new customer segment. Given the rapid growth in metro network in the country, this new segment has turned out to be a key demand driver. These two customer segments would continue to be the major demand drivers for this product in the years to come.

Expected growth in demand from ABC segment

One notable difference would be the increase in product penetration. As the practice of using SS sheet for decorative cladding picks up, the volume of SS sheet consumed by architecture & building construction segment would significantly increase. In addition, the demand would diversify from low value SS sheet to high value SS sheets with specialized finishes. This later development (increase in premium specialized products) would also ensure a strong growth in annual turnover. Apart from this increase in consumption volume due to increase in usage areas, the general growth in office space and retail space would support the future growth in demand.

Expected growth in demand from ART segment

Aggressive expansion of metro rail projects coupled with expansion of existing network would create higher demand for metro coaches. This in turn would ensure higher demand for SS sheet from metro coach manufacturers. Unlike ABC segment, the bargaining power of buyers is high, due to the limited number of buyers. There are only 3 – 4 metro coach manufacturers operating in the country, and SS sheet procurement by these OEMs would be skewed towards established players. This bias is primarily due to the higher production capacity, as well as ability to manufacture a wide variety of SS sheet finishes. Hence larger players have an advantage over their smaller peers.

Thus, the overall demand for SS sheet would continue to remain strong in the coming years. However, the resultant impact on SS sheet manufactures would be different. Smaller players would be better equipped to capitalize on increased demand from ABC segment. Meanwhile the same set of players would find it challenging to cater to the expected demand from specialized customer segments like metro coach manufacturers.

On the back of the higher demand expected from ART and ABC segment, as well as from other segments like process industry & kitchen ware, the annual consumption of SS sheet is expected to reach 1,020 thousand tons in 2025, and further increasing to 1,660 thousand tons by 2030.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23
Total Revenue (A)	3596.63	4269.38	4797.48
Total Expenditure (B)	3397.32	3994.13	4341.23
EBIDTA	199.31	275.25	456.25
EBIDTA Margin	5.54	6.45	9.51
Other Income	43.88	15.34	13.97
Depreciation	26.74	39.37	40.18
EBIT	216.45	251.22	430.04
Interest	120.53	116.71	122.92
PBT	95.92	134.51	307.12
Prior Period Item	0.00	0.00	0.00
PBT	95.92	134.51	307.12
Tax	41.33	39.75	56.68
PAT	54.59	94.76	250.44
NPM	1.52	2.22	5.22
ROE %	9.65	14.36	23.61
EPS	132.75	154.80	30.39
Eq Cap	42.62	42.62	348.94
Net Worth	565.77	659.74	1,060.54

(Source: Prospectus)

Peer Comparison

Company Name	Face value	P/E	Total Income for Fiscal 2023 (in Rs Mn)	EPS	NAV	ROE %
<i>Ratnaveer Precision Engineering Limited</i>	10	[.]	4797.48	7.26	30.74	29.12%
Peers						
M.M. Forgings Limited	10	20.26	13951.10	52.02	285.31	18.23%
Menon Bearings Limited	1	23.07	2169.40	5.84	23.79	24.47%
Venus Pipes & Tubes Limited	10	59.93	5523.96	22.60	158.75	9.83%



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