



IPO Report

17th June '24

Snapshot

Company is an engineering company providing specialized process piping solutions for industries such as oil and gas, power (including nuclear), chemicals and other process industries through engineering, procurement and manufacturing. Company have manufacturing experience of over three and a half decades and have been able to leverage company's brand, strategically located manufacturing facilities and engineering capabilities to successfully expand company's business. As part of company's specialized process piping solutions, company also manufacture and supply piping products such as high-pressure piping systems, piping spools, high frequency induction pipe bends, Longitudinally Submerged Arc Welding pipes etc.

VALUATION

Company is bringing the issue at price band of Rs 193-203 per share at p/e multiple of 73x on post issue annualized 9 months ended FY24 PAT basis.

Company is leading player in an industry with significant barriers to entry .Company is largest player in process piping solutions in India, in terms of installed capacity, providing specialized process piping solutions with strategically located state-of-the-art Manufacturing Facilities. Also , company has long standing customer relationships with a strong order book & wide range of specialized product offerings and services making company a comprehensive solution provider. Company has strong focus on automation and process excellence with an experienced engineering team to drive operational efficiencies .Hence ,looking after all above we recommend "Subscribe" on issue.

| | |
|----------------------------------|-----------------------------------|
| Price Band (Rs./Share) | 193-203 |
| Opening date of the issue | 19th June '2024 |
| Closing Date of the issue | 21st June '2024 |
| No of shares pre issue | 5,30,39,140 Eq Shares |
| Issue Size | Rs 413-418 Cr |
| No of shares | 2,14,27,036-20596938 Shares |
| Fresh issue | Rs 325 Cr |
| Offer For Sale | 45,82,000 Eq Shares |
| Face Value (Rs/ share) | Rs 10/share |
| Bid Lot | 73 |
| Employee Discount | Rs 19/share |

BIDDING DETAILS

| | |
|--------------------------------|---|
| QIBs (Including Anchor) | 50% of the offer (Approx 1,02,71,295 Eq Shares) |
| Non-Institutional | 15% of the offer (Approx 30,81,389 Eq Shares) |
| Retail | 35% of the offer (Approx 7189907 Eq Shares) |
| Employee | 54,347 Eq Shares |
| Lead managers | SBI Capital Markets, Equirus Capital |
| Registrar to the issue | Link Intime India Pvt Ltd |

WHAT WE LIKE

Leading player in an industry with significant barriers to entry

Company is an engineering company providing specialized process piping solutions for industries such as oil and gas, power (including nuclear), process industries and chemicals through engineering, procurement and manufacturing services. As part of company's specialized process piping solutions, company also manufacture and supply piping products such as high-pressure piping systems, piping spools, high frequency induction pipe bends, Longitudinally Submerged Arc Welding pipes, industrial pipe fittings, pressure vessels, industrial stacks, modular skids and accessories including boiler superheater coils, de-super heaters and other customized manufactured components.

Long standing customer relationships with a strong order book

Company's customers include global companies such as JGC Corporation, Nooter Eriksen, MAN Energy Solutions SE, Mitsubishi Heavy Industries and John Cockerill S.A, and Indian companies such as Reliance Industries Limited, Thermax Babcock & Wilcox Energy Solutions Limited India, HPCL-Mittal Energy Limited, Toshiba JSW Power Systems Private Limited, UOP India Private Limited, Doosan Power Systems India Private Limited and Andritz Technologies Private Limited. As of December 31, 2023, company had an order book of ₹ 8,287.04 million, which constitutes 139.16% of its revenue from operations for Fiscal 2023.

Strong focus on automation and process excellence with an experienced engineering team to drive operational efficiencies

Company's Manufacturing Facilities have a good mix of automation and manual processes with automated equipment such as fully automated robotic welding systems, automatic GMAW welding system, fully CNC heat treatment furnaces (gas and electric), semi-automatic shot blasting and painting machines and in-house non-destructive examination facilities. Company's automation capabilities enable it to combine operations and eliminate multiple operators in the production process in order to increase productivity, while controlling costs and maintaining consistent product quality



COMPANY BACKGROUND

Company currently is ranked as one of the leading process pipe solution providers in the world, in terms of technical capability to address complex process piping requirement arising from multiple industrial segments. At present, company is the largest player in process piping solutions in India, in terms of installed capacity. Company provide comprehensive specialized process piping solutions including engineering services such as pre bid engineering, basic engineering, detailed engineering and support engineering which includes engineering of process/ power piping systems for projects, and pre-fabrication services such as cutting and beveling on conventional and CNC machines, welding services on semi-automatic and fully automatic robotic welding machines, conventional and digital radiography, post weld heat treatment using CNG fired fully calibrated furnaces and induction heating process, hydro testing, pickling and passivation, grit blasting (manual and semiautomatic) and painting (manual and semiautomatic).

Company also specialize in handling complex metals such as varying grades of carbon steel, stainless steel, super duplex stainless steel, alloy steel and other materials including inconel and hastelloy in its manufacturing processes. Company have seven strategically located Manufacturing Facilities at Palwal in Haryana, Anjar in Gujarat, Barmer in Rajasthan. Numaligarh in Assam and Bangkok in Thailand, with three Manufacturing Facilities located at Palwal, Haryana. Company also operate a temporary Manufacturing Facility in Barmer, Rajasthan which is a dedicated facility set up to cater to the piping and erection requirements of the HPCL Rajasthan Refinery Limited (the “Barmer Satellite Facility”).

Company’s wholly owned subsidiary, DFIPL, also operates a heavy fabrication facility at Anjar, Gujarat (the “Anjar Heavy Fabrication Facility”). Company also have a dedicated engineering facility located at Chennai in Tamil Nadu (the “Chennai Engineering Facility”). Company’s seven Manufacturing Facilities, the Anjar Heavy Fabrication Facility and Chennai engineering Facility together span an area of approximately 437,453.85 square meters. Company’s Manufacturing Facilities had cumulative installed capacity of 70,875 MT, 94,500 MT per annum, 91,500 MT per annum and 86,500 MT per annum for the nine months ended December 31, 2023 Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively; and company’s capacity utilisation, calculated on the basis of company’s total production capacity was 51.53%, 43.10%, 27.40% and 27.77% for the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively.

Company have commenced operations at the New Anjar Facility I which has an installed capacity of 3,000 MT per annum and are in the process of enhancing its manufacturing capabilities by setting up a new manufacturing facility at the New Anjar Facility II with a proposed installed capacity of 9,000 MT per annum, which will increase the total installed production capacity of its Anjar facilities (excluding company’s heavy fabrication capacity) from 3,000 MT per annum to 15,000 MT per annum. Company have been focussed on automating certain manufacturing processes and company’s Manufacturing Facilities are equipped with equipment such as fully automated robotic welding systems, semi-automatic shot blasting machines, automatic GMAW welding system and fully automatic high frequency induction bending machines having diameter of up to 48 inches..

In the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, company supplied its products to domestic customers and its overseas customers in countries including USA, Europe, Japan, Canada, Middle East, Nigeria, Vietnam, Singapore, China and Taiwan. In the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021 company’s revenue from operations outside India was ₹2,211.10 million, ₹ 2,685.92 million, ₹ 1,681.48 million and ₹ 2,259.62 million, respectively, which represented 40.53%, 45.10%, 36.48% and 45.63% of company’s revenue from operations for the respective period/ years. Over decades of company’s operations, company have developed strong relationships with its customers, including global companies such as JGC Corporation, Nooter Eriksen, MAN Energy Solutions SE, Mitsubishi Heavy Industries, and John Cockerill S.A, and Indian companies such as Reliance Industries Limited, Thermax Babcock & Wilcox Energy Solutions Limited India, HPCL–Mittal Energy Limited, Toshiba JSW Power Systems Private Limited, UOP India Private Limited, Doosan Power Systems India Private Limited and Andritz Technologies Private Limited and have built a loyal base of customers across its markets through relationships with several of these customers for more than a decade. In the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, company supplied its products and provided engineering services to 95, 82, 74 and 71 customer groups excluding scrap, respectively. Since a significant portion of company’s sales are to its overseas customers, company’s Anjar Facility I, company’s Anjar Heavy Fabrication Facility, its New Anjar Facility I, company’s proposed New Anjar Facility II in Gujarat and company’s Bangkok Facility are strategically located with access to ports to cater to its overseas customers.

Company operate two biomass power generation plants in Abohar and Muksar, Punjab, with a contracted annual capacity of 8 MW and 6 MW, respectively, which together span an area of approximately 347,511.15 square meters. The Muksar Biomass Power Plant is operated by its wholly owned subsidiary, MPPL. Company is focused on environment and sustainability and have achieved a reduction of more than 191,067 tons of CO2 emissions by producing green power through the use of biomass like paddy straw and other biofuels such as cotton stalks, wheat stalks and mustard straw. Further, company manufacture wind turbine towers through its wholly owned subsidiary, DFIPL, at its Anjar Heavy Fabrication Facility. DFIPL is also involved in the manufacturing of industrial stacks. Company have recently expanded its business by entering a new business vertical of design, engineering, fabrication and manufacturing of pilot plants, which company is carrying out from its Palwal Facility III. Company intend to provide a one stop solution for pilot plant requirements of its customers which will range from conceptualisation to commissioning of a pilot plant, and will include 3-D modelling, process simulation, control engineering, design, fabrication and construction of a pilot plant, followed by installation of the pilot plant at the site specified by the customer. Company intend to develop pilot plants which cater to the research and development needs of companies in the oil and gas, petrochemicals, refineries, specialty chemicals, pharmaceuticals and nuclear sectors, as well towards the research and development needs of educational research institutions. Certain projects by government owned companies, in the pilot plant sector are awarded on the basis of competitive bidding, wherein vendors are evaluated inter alia on their technical capabilities and infrastructure set up to execute such projects. Company has the required technical capabilities and infrastructure set up which enables it to bid for projects in the pilot plant sector. Other projects in the pilot plant sector, such as those by privately owned chemical and pharmaceutical companies are awarded on the basis of bilateral or multi-party negotiations.



INVESTMENT RATIONALE

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|--|---|
| <p><i>Largest player in process piping solutions in India, in terms of installed capacity, providing specialized process piping solutions with strategically located state-of-the-art Manufacturing Facilities</i></p> | <p>Company currently is ranked as one of the leading process pipe solution providers in the world, in terms of technical capability to address complex process piping requirement arising from multiple industrial segments. (Source: D&B Report). At present, company is the largest player in process piping solutions in India, in terms of installed capacity (Source: D&B Report). Company have seven strategically located Manufacturing Facilities at Palwal in Haryana, Anjar in Gujarat, Barmer in Rajasthan. Numaligarh in Assam and Bangkok in Thailand, with three Manufacturing Facilities located at Palwal, Haryana. Company’s Barmer Satellite Facility is a dedicated facility set up to cater to the piping and erection requirements of the HPCL Rajasthan Refinery Limited. Company’s wholly owned subsidiary, DF IPL operates company’s Anjar Heavy Fabrication Facility. Company’s seven Manufacturing Facilities and the Anjar Heavy Fabrication Facility together span an area of approximately 436,967.87 square meters. Company’s Manufacturing Facilities had cumulative installed capacity of 70,875MT, 94,500 MT per annum, 91,500 MT per annum and 86,500 MT per annum for the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively; and its capacity utilisation, calculated on the basis of company’s total production capacity was 51.53%, 43.10%, 27.40% and 27.77% for the nine months ended December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively. Since a significant portion of company’s sales are to its overseas customers, its Anjar Facility I, the Anjar Heavy Fabrication Facility, the New Anjar Facility I and, the proposed New Anjar Facility II and the Bangkok Facility are strategically located with access to ports. Company’s facilities at Anjar, Gujarat are located at a distance of approximately 24 kms from the Deendayal Port Trust (Kandla Port) and 208 at a distance of approximately 75 kms from the Adani Ports and Special Economic Zone (Mundra Port). Company’s Bangkok Facility is located at a distance of approximately 62 kms from the Bangkok Port.</p> |
| <p><i>Wide range of specialized product offerings and services making company a comprehensive solution provider for its diversified customers spread across geographies and sectors</i></p> | <p>As an integrated manufacturing partner providing ‘design-led-manufacturing’ solutions to its customers, company provide designs, engineering solutions, manufacturing and testing to ensure that its customers’ products meet robust standards in reliability, safety and performance. Company’s diversified product portfolio which includes piping spools, induction pipe bends, industrial pipe fittings, pressure vessels, modular piping (skids and modules), industrial stacks, wind turbine towers and pilot plants allows for limited dependence on individual products and addresses different business cycles across industries where its products are used.</p> |
| <p><i>Experienced and dedicated promoter and professional management team with extensive domain knowledge</i></p> | <p>Company is led by its Promoter, Chairman and Managing Director, Krishan Lalit Bansal, who has more than three and a half decades’ experience in engineering and manufacture of piping products. Company’s Promoter is actively involved in the critical aspects of its business including engineering, operational systems, quality assurance, marketing and finance. Company’s Promoter has been awarded with the Business Leader of the Year, 2011 and Lifetime Achievement Award in 2016 by the Faridabad Industries Association. Each of company’s Senior Management Personnel have worked with Company for more than 12 years, specifically, Pankaj Agarwal, company’s Chief Operating Officer, Charu Agarwal, company’s Vice President in the accounts department and Pawan Arora, its Associate Vice President, Vendor Relations Department have spent over 29 years, 19 years and 12 years, respectively with company. The key management team consists of individuals who average approximately over 15 years of experience in the industry. The commitment and track record of company’s management team provides stability in the execution of its business plan.</p> |



OBJECTS OF OFFER

The Offer comprises of the Fresh Issue and the Offer for Sale. The Fresh Issue aggregating up to ₹3,250.00 million and the Offer for Sale comprises of up to 45,82,000 Equity Shares, aggregating up to ₹ [●] million by the Selling Shareholder.

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;
2. Prepayment or repayment of all or a portion of certain outstanding borrowings availed by Company; and
3. General corporate purposes.

RISKS

Company is measured against high quality standards and stringent performance requirements by its customers. Any failure by company to comply with these standards or performance requirements may lead to the cancellation of existing and future orders, recalls, liquidated damages, invocation of performance bank guarantees or warranty and indemnity or liability claims, which could adversely affect company's reputation, business, results from operations, financial conditions and cash flows

Source:RHP

INDUSTRY OVERVIEW

Biomass Power Generation in India

Biomass energy production in India has witnessed significant growth in recent years, driven by the country's abundant biomass resources and supportive government policies. With an estimated biomass availability of 750 million tons per annum, generated from the agriculture and forestry sector, India has a vast potential for biomass-based power generation. Additionally, there is a surplus biomass availability of nearly 230 million tons per annum, corresponding to a potential of about 28 GW. According to MNRE23, the potential for power generation from surplus agricultural residue alone is estimated at around 28,446 MW. When combined with bagasse cogeneration potential, the total estimated potential for biomass power generation in India reaches approximately 42,312 MW. Despite this vast potential, biomass-based power generation has remained a small proportion of the overall renewable energy targets set by India. Out of the targeted 175 GW of renewable power capacity by 2022, only 10 GW was expected from biomass, though biomass did meet its target. Growth in Generation Currently, the total installed capacity in the biomass segment, including biomass power and cogeneration in sugar mills, is estimated to be 10,802 MW as on end of FY 2023, a significant increase from 7,845 MW in FY 2017. This capacity is spread across 550 sugar mills and various biomass independent power producers (IPP).

As of 28th March 2023, more than 800 biomass independent power plants and bagasse/non-bagasse cogeneration-based power plants have been installed in India, with a combined capacity of 10,232 MW. These installations are predominantly located in states such as Maharashtra, Uttar Pradesh, Karnataka, Tamil Nadu, Andhra Pradesh, Chhattisgarh, West Bengal, and Punjab. The growth of biomass energy production in India is a positive development that contributes to the country's renewable energy goals. However, there is still significant untapped potential in biomass utilization. Addressing challenges related to biomass supply chain management, technology improvements, and policy support will be crucial in further unlocking the benefits of biomass energy production and maximizing its contribution to India's sustainable energy future. Approximately 79% of the total installed generation capacity in Indian biomass sector is concentrated in five states, with Maharashtra leading the chart accounting for nearly 25% of total capacity. Demand Drivers The expansion of biomass energy in India is propelled by several pivotal factors that contribute to its increasing adoption and development throughout the nation. • Abundant Biomass Resources: India boasts a wealth of biomass resources, including agricultural residues, forest biomass, organic waste, and dedicated energy crops. With substantial quantities of these resources generated nationwide, there is a reliable and sustainable feedstock available for biomass energy production. • Renewable Energy Targets and Policies: The Indian government has set ambitious targets for renewable energy, 500 GW by 2030, and is committed to increasing the proportion of renewables in the overall energy mix. In support of this objective, policies like the National Bioenergy Programme and favorable regulations have been implemented to facilitate biomass energy generation. These initiatives create an environment conducive to investment, project development, and the utilization of biomass resources. • Energy Security and Rural Development: Biomass energy plays a vital role in improving energy security, particularly in rural areas where access to electricity is limited. By harnessing locally available biomass resources, communities can generate their own power, reducing their reliance on fossil fuels and centralized grid systems. Biomass energy projects also contribute to rural development by creating employment opportunities and supporting local economies. • Environmental Benefits and Waste Management: Biomass energy offers significant environmental advantages, including reduced greenhouse gas emissions and the ability to address waste management challenges. By converting biomass waste into energy, the country can tackle the issues associated with agricultural and industrial waste disposal. Biomass energy helps minimize pollution, improve air quality, and reduce the need for landfills or incineration. • Technological Advancements and Research: Advances in biomass conversion technologies, such as biomass gasification, pyrolysis, and anaerobic digestion, have enhanced the efficiency and viability of biomass energy projects. Ongoing research and development efforts focus on improving biomass conversion processes, exploring innovative biomass feedstocks, and optimizing energy production from various biomass resources.



Consolidated Financials

(Rs in Mn)

| Financials | FY21 | FY22 | FY23 | 9months ended FY24 |
|-------------------------|----------|----------|----------|-----------------------|
| Total Revenue (A) | 4952.17 | 4609.16 | 5954.95 | 5455.54 |
| Total Expenditure (B) | 4415.33 | 3963.09 | 5263.19 | 4776.1 |
| EBIDTA | 536.84 | 646.07 | 691.76 | 679.44 |
| EBIDTA Margin | 10.84 | 14.02 | 11.62 | 12.45 |
| Other Income | 178.09 | 99.23 | 188.25 | 123.08 |
| Depreciation | 355.37 | 358.99 | 377.27 | 332.92 |
| EBIT | 359.56 | 386.31 | 502.74 | 469.60 |
| Interest | 271.28 | 253.37 | 299.02 | 279.30 |
| PBT | 88.28 | 132.94 | 203.72 | 190.30 |
| Share of profit in Asso | 1.21 | 0.00 | 0.00 | 0.00 |
| PBIT | 89.49 | 132.94 | 203.72 | 190.30 |
| Exceptional | 0.00 | 0.00 | 0.00 | 0.00 |
| PBT | 89.49 | 132.94 | 203.72 | 190.30 |
| Tax | -52.56 | 50.97 | 74.00 | 46.93 |
| PAT | 142.05 | 81.97 | 129.72 | 143.37 |
| NPM | 2.87 | 1.78 | 2.18 | 2.63 |
| ROE% | 3.17 | 2.04 | 3.14 | 3.35 |
| EPS | 2.44 | 1.53 | 2.45 | 2.70 |
| Eq Cap | 156.93 | 106.08 | 106.08 | 530.39 |
| Net Worth | 4,543.18 | 4,119.82 | 4,236.44 | 4,380.45 |

(Source: RHP)

Peer Comparison

| Company Name | P/E | Revenue from operations (Rs in Mn) | EPS | NAV | ROE % |
|--------------------------------------|-------|--|-------|--------|-------|
| DEE Development Engineers Limited | NA | 6143.30 | 2.45 | 79.87 | 3.14 |
| Peers | | | | | |
| ISGEC Heavy Engineering Limited | 42.40 | 64117.13 | 26.72 | 325.32 | 8.59 |

(Source: RHP)



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