



IPO Report

13th Mar'23

Snapshot

Global Surfaces Ltd was incorporated in the year 1991 in Jaipur and provides natural and engineered stones products. It is involved in mining, production and export of natural stones and engineered quartz. The company offers products made of granite, marble and quartz. The products range includes slabs and countertops that can be used in flooring, indoor wall cladding, vanity tops, reception desk, table tops, staircase. etc.

VALUATION

Company is bringing the issue at price band of Rs 133-140 per share at p/e multiple of more than 21x on post issue annualized 6 months ended FY23 PAT basis.

Company's wide product portfolio and multiple designs along with established presence in international markets is looking positive. Also, company has experienced and result oriented Promoter with a committed employee base. Company's effective quality checks thereby reducing loss & R&D set up for new product development is also signalling towards strong base of company. However, valuation at current levels looks little stretched.

Hence, we recommend "Long Term Subscribe" on issue.

Price Band (Rs./Share)	133-140
Opening date of the issue	13 th March 2023
Closing Date of the issue	15 th March 2023
No of shares pre issue	33,861,818 Eq Shares
Issue Size(In Rs)	Rs 147-155 Cr
Issue Size (in No of Shares)	11,070,000 Eq Shares
Fresh Issue	8,520,000 Eq Shares
Offer For Sale	2,550,000 Equity Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	100

BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 5,535,000 Eq Shares)
Non-Institutional	15% of the offer (Approx 16,60,500 Eq Shares)
Retail	35 % of the offer (Approx 3874,500 Eq Shares)
Pre Issue Promoter & Group Holding	99.35%
Post Issue Promoter & Group Holding	73.36%
Lead managers	Unistone Capital Private Ltd
Registrar to the issue	Bigshare Services Pvt Ltd.

KEY HIGHLIGHTS

Consistent Growth

Company has grown from a single category to multi-category stone manufacturing company. Company's revenue from operations has grown from INR 232.89 Million in Fiscal 2011 to INR 1903.13 Million in Fiscal 2022, registering a CAGR of 21.04% in last 11 years. Despite Fiscal 2021 being impacted by COVID-19, company's revenue from operations has grown by 7.40% between Fiscal 2020 to Fiscal 2021

Wide product portfolio and multiple designs

Company had started its business activities with processing of natural stones and have since branched out to manufacturing engineered quartz which has enabled company to diversify its product portfolio manifold. 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 big players in the industry. Company's constant efforts are focused towards identifying new market trends and introducing high quality products which are in demand

Established presence in international markets

Company's philosophy has always been to manufacture and process quality products which in turn has helped company to build a sustainable export business. As on date, various regions of the USA are company's primary focus in international markets. Company's exports business constitutes 99.13% of operating revenue in the Fiscal 2021-22 and has grown at 21.60% CAGR over last 11 years. Company have in the recent past sold its products in the United States of America, Canada, Australia and Middle East.



COMPANY BACKGROUND

Company is engaged in the business of processing natural stones and manufacturing engineered quartz. Natural stones are produced by complex geological processes and include a number of products such as granite, limestone, marble, slate, quartzite, onyx, sandstone, travertine, and others that are quarried from the earth. Company have two units, one located at RIICO Industrial Area, Bagru Extn, Bagru, Jaipur, Rajasthan and the other at Mahindra World City SEZ, Jaipur, Rajasthan for processing and manufacturing of company's products. Company's Unit I which is admeasuring 20,488 sq. mtrs. or thereabouts is located at Bagru, Jaipur, Rajasthan. This Unit was acquired by company as a stressed asset under the Recovery of the Debt Due to Banks and Financial Institutions Act, 1993 in 2004 and is exclusively dedicated to processing natural stones such as marble, granite and quartzite. Company's Unit I is strategically located in close proximity of the key raw material (i.e. blocks of natural stones) which helps company in sourcing its raw materials and also minimize the logistics and transportation cost. In 2004, a sick industrial unit comprising of the leased premise situated at RIICO Industrial Area, Bagru Extn, Bagru, Jaipur, Rajasthan along with the building and shed constructed on such premises and plant and machinery for cutting and processing of natural stones was being auctioned by the Debts Recovery Tribunal.

Company assessed the opportunity and believing it to be viable, bid in the auction wherein company was allotted the premises and the plant and machinery. Company started the processing of natural stones from these premises were able to turn around this sick industrial unit into a profitable venture over the years. Prior to the acquisition of Unit I in 2004, company was engaged in the real estate construction business which business company have since ceased to undertake. From FY 2017-18 onwards, company has further diversified its business into manufacturing of engineered quartz and for this purpose, Unit II at Mahindra World City SEZ, Jaipur, Rajasthan was set up by company. This Unit II is spread across 24,139.08 sq. mtrs. or thereabouts of land and is dedicated towards manufacturing engineered quartz. This Unit is also equipped with a R&D facility to develop, improve and test company's products which assists company in keeping pace with the ever evolving market trends and demands. Both company's Units are located in close proximity of each other i.e., within a range of 20 Kms. from one another. Company's products have application in the flooring, wall cladding, countertops, cut-to size and other items. Company's products are used in both commercial and residential industry and are sold within and outside India. Majority of company's operational revenues comprise of export sales. Approximately 99% of company's revenues from operations have been derived from exports during the Fiscals 2020, 2021 and 2022 and approximately 98% of its revenues from operations have been derived from exports during the period ended September 30, 2022. Company is focused on exporting its products and have exported to the United States of America, Canada, Australia and Middle East.

Company through its wholly owned subsidiary, Global Surfaces FZE, intend to establish a dedicated unit for manufacturing engineered quartz at Dubai, UAE. Global Surfaces FZE has taken on lease a parcel of land admeasuring 39,657.63 square meters situated at Plot no. S-50902, The Jebel Ali Free Zone, Dubai, UAE for a period of twenty years where it has been granted a rent-free lease period till June 13, 2023. This Unit would be strategically located to facilitate company, through its subsidiary, to achieve physical growth, organic growth, optimization of freight and transportation charges, customer acquisition and expansion of company's business.



INVESTMENT RATIONALE

<p><i>Experienced and result oriented Promoter</i></p>	<p>Mr. Mayank Shah, company’s Promoter and Managing Director has about eighteen years of experience in the stone industry. He has been instrumental in reviving and turning around a sick and closed unit (Unit I) into a profitable venture and helping company achieve great milestones including setting-up of a dedicated unit in the year 2018 for manufacturing engineered quartz at Mahindra World City SEZ, Jaipur, Rajasthan (Unit II) and doubling its operating revenue from about ₹ 500 Million in Fiscal 2016 to about ₹ 1350 Million in Fiscal 2019. Company has received recognitions from reputed organisations from around the world including Asia Pacific Enterprise, Capexil, India SME Forum, Government of Rajasthan – Department of Industries and Indian Organisation for Commerce and Industry under his tutelage.</p>
<p><i>Effective quality checks thereby reducing loss</i></p>	<p>Company have developed quality control processes for inspecting the raw materials as well as the final products. The raw materials undergo a strict quality check and for this purpose company have even implemented internal procedures for procurement of the raw material as the quality of the final product is dependent on them. Company’s Units have dedicated personnel responsible for monitoring the parameters of equipment, strength of materials, reporting any irregularities in the manufacturing process and making adjustments accordingly. These multi-level quality checks ensure that company consistently provide premium quality products which further enhances its brand value.</p>
<p><i>R&D set up for new product development</i></p>	<p>Company have an in- house R&D facility at its Mahindra World City SEZ, Jaipur, Rajasthan (Unit II) where company focus on developing good quality and cost- efficient engineered quartz. A dedicated team of R&D personnel are engaged in developing new products and designs which would appeal to the diversified customer base. This in- house development ensures that company is self-reliant for the development of highquality products and are kept abreast of the market trends.</p>
<p><i>Synergy of young and experienced management team with a committed employee base</i></p>	<p>Company’s have an experienced 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. It endeavour to maintain a balance of highly 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

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

1. Investment in company's wholly owned subsidiary, Global Surfaces FZE for part-financing its capital expenditure requirements in relation to the setting up of manufacturing facility for engineered quartz at The Jebel Ali Free Zone, Dubai, United Arab Emirates ("UAE") ("Proposed Facility");
2. General corporate purposes.

RISKS

Company's sales are concentrated to a few customers with its top 3 customers contributing 67.38%, 73.08%, 65.41% and 60.11% respectively and its top 10 customers contributing 83.63%, 86.04%, 82.77% and 83.14% respectively, of its revenues during the Fiscal 2020, 2021 and 2022 and the period ended September 30, 2022, respectively

Source:RHP

INDUSTRY OVERVIEW

Indian Engineered Stone Industry

Engineered quartz was declared as a minor mineral by the Government of India in 2015. More than half of quartz in India comes from the state of Andhra Pradesh. Other states where quartz is available are Chhattisgarh, Gujarat, Rajasthan, West Bengal, Karnataka and Jharkhand. The industry mainly consists of unorganized players. Besides catering to the Indian market, India is a major exporter of engineered or quartz stones in countries like the U.S, Europe and U.A.E. The demand for engineered stones has increased tremendously owing to its wide range of applications, cost effectiveness, and many other characteristics such as strength, durability, and availability in various color pellets. The Indian engineered stone market is estimated to be valued at \$3,643 million in 2022. The industry is expected to grow at a CAGR of 7-8% in the projected years between 2022 to 2027. By the year 2032, the Indian engineered stone market is expected to reach \$ 7,355 million.

Outlook of Indian Engineered Stone Industry

The Indian engineered stone industry is estimated to be valued at \$ 3,643 million in 2022 and is expected to grow at a CAGR of 8-9% between 2022-2027 to reach \$5,410 million in 2027.

The outlook for the natural segment is stable with a positive upside in the medium term. Like natural stones, the engineered stone industry is also linked to commercial and residential real estate industries. Going forward, with hybrid working environment, design specifications for homes are likely to be altered as there will be higher demand for flexible homes that are capable of functioning as offices and classrooms if required. This would result in increased penetration of engineered stones to be used in interior designing. Under commercial real estate, the hospitality segment is expected to register a gradual pick-up over the coming years as the sector recovers from the effects of the pandemic. This would turn out well for engineered stones as they are widely used in swimming pools, food facilities, walls, canteens, kitchen countertops, etc.



Consolidated Financials

(Rs in Mn)

Financials	FY20	FY21	FY22	H1FY23
Total Revenue (A)	1632.91	1753.71	1903.13	979.78
Total Expenditure (B)	1229.75	1280.51	1485.09	787.47
EBIDTA	403.16	473.20	418.04	192.31
EBIDTA Margin	24.69	26.98	21.97	19.63
Other Income	24.89	36.33	80.44	12.77
Depreciation	168.61	130.13	107.79	43.84
EBIT	259.44	379.40	390.69	161.24
Interest	52.23	34.10	29.63	18.96
PBT	207.21	345.30	361.06	142.28
Extraordinary item	0.00	0.00	0.00	
PBT	207.21	345.30	361.06	142.28
Tax	-2.43	5.98	4.72	6.33
PAT	209.64	339.32	356.34	135.95
Share of Profit in Associates	0.00	0.00	0.00	0.00
PAT	209.64	339.32	356.34	135.95
NPM%	12.84	19.35	18.72	13.88
ROE %	32.51	34.47	26.59	9.13
EPS	32.50	52.61	10.52	4.01
Book Value	99.98	152.61	39.58	43.98
Eq Cap	64.50	64.50	338.62	338.62
Net Worth	644.84	984.34	1,340.34	1,489.30

(Source: RHP)



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