

## SKP Bearings Limited

### A REVIEW REPORT ON SKP BEARINGS LIMITED IPO

#### IPO Details

<b>Opening Date</b>	June 30, 2022
<b>Closing Date</b>	July 05, 2022
<b>Stock</b>	
<b>Exchange</b>	NSE SME
<b>Lot Size</b>	2000 Shares
<b>Issue Price</b>	₹ 70 per share
<b>Issue Size</b>	44,00,000 Equity Shares
<b>Application Amount</b>	₹ 1,40,000

#### IPO Objective

- Funding Working Capital Requirements
- General Corporate Purposes

#### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	31,16,480	77.91 %
Public	8,83,520	22.09%

#### Company Background

- Company was incorporated in the year 1991 as a partnership firm.
- It is involved in manufacturing of needle rollers, cylindrical rollers, pins and steel balls.
- Company is also involved in sale of solar and wind energy.
- Company is among the few players in the list of Finished Roller manufacturers in India.
- As on the date of filing this prospectus, the company had a total of 110 employees.

#### Promoter of the Company

1. Mr. Shrinand Kamlakar Palshikar
2. Ms. Sangita Shrinand Palshikar

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## Company Overview

SKP Bearings Limited was established in the year 1991 as a partnership firm as 'M/s. S K P Bearing Industries'. Later in the beginning of the year 2022 it was transformed to Private Limited and then Public Limited Company.

The company is engaged in the manufacturing of needle rollers, cylindrical rollers, pins and steel balls and is one of the players in the list of finished roller manufacturers in India. Company also in these years had set up Wind and Solar energy generating units in Gujarat and Maharashtra respectively and is used for captive purpose as well as generation and sale of power and electricity to various customers.

### Analysis

The company has a good track record of existence and has been in the industry for more than 30 years. The company operates in a niche segment of product and the application of its products could be seen in a variety of process ranging from friction reduction, moving machine parts, mining, power generation, metal recycling etc. The company over the years has also developed two power generating units which are used for captive use as well as for sale to its customers. As mentioned in the prospectus, the company has generated around 92% from sell of Steels rollers & balls and around 8% from power generation. Although the main business of the company is from sell of rollers, mills and balls, company has gradually increased in revenue from power generation as well from recent years.

Below table depicts the revenue from operations along with percentages over the years -

Particulars	For the period ended		For the Financial Year ended					
	January 05, 2022		2020 – 21		2019 – 20		2018 – 19	
	₹ in Lakhs	%	₹ in Lakhs	%	₹ in Lakhs	%	₹ in Lakhs	%
Revenue from operations	3,147.50	91.38	3,627.91	97.81	3,189.45	97.89	3,997.33	97.95
Other income	296.85	8.62	81.38	2.19	68.74	2.11	83.82	2.05
<b>Total</b>	<b>3,444.35</b>	<b>100.00</b>	<b>3,709.29</b>	<b>100.00</b>	<b>3,258.18</b>	<b>100.00</b>	<b>4,081.15</b>	<b>100.00</b>
Profit after Tax	940.41	27.30	745.60	20.10	812.47	24.94	992.64	24.32

The business of the company looks good with its product segment and based on the same it looks like a good investment, however other factors should also be considered which is discussed in the report below.

## Industry Charts

Exhibit 1: Indian Bearings Market to grow at a CAGR 10.9% from FY20 to FY27

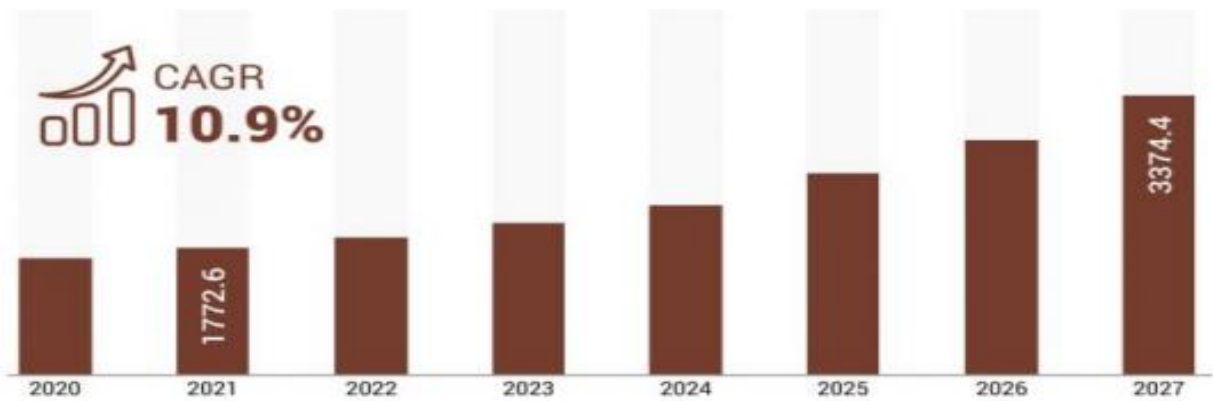


Exhibit 2: Key Players in Indian Bearing Market



(Source: <https://www.astuteanalytica.com/industry-report/india-bearings-market>)

## Investment Overview

### **Bearings Industry**

India bearings market size was valued at US\$ 1,772.6 Mn in 2021 and is projected to expand up to US\$ 3,374.4 Mn by the end of 2027. The market is registering growth at a CAGR of 10.9% during the forecast period 2022-2027. Bearings are highly engineered, precisely made components that enable machinery to move at extremely high speed and carry remarkable loads with ease and efficiency. It is a part of a machine that allows one part to rotate in contact with another part with less friction. Bearings are used in every kind of equipment or machinery, ranging from automobile parts, farm equipment, and household appliances to defence and aerospace equipment.

In India, the market for bearing has gained an impressive impetus owing to the rising utilization of bearing in motors and increasing demand for automotive electrification. Moreover, the Indian government's initiatives such as 'Make in India' and 'Aatmanirbhar Bharat', aimed at reviving the manufacturing sector in turn increases the demand for bearings. However, the low-cost, and easy availability of counterfeit products are major threats to the India-bearing market.

(Source: prospectus)

### **Addressable Market for SKP Bearings Limited**

Company is established in Gujarat and is currently targeting to expand its production capacity. Company caters to the domestic market as well the export market majorly covering Brazil, Argentina and UAE. Company targets to sell its products in Germany in the coming times and gradually also cater more regions both domestically and globally.

### **Competition**

As mentioned in the prospectus, company operates in a competitive market with players having larger capital base than that of the company. However, the market is not that highly fragmented although it is scattered with organised and unorganised segment. The threat of entry is to be looked upon as there are not many barriers to entry.

## Peer Analysis

The company has listed 4 peer companies in its prospectus viz. NRB Bearings Limited, Menon Bearings Limited, Galaxy Bearings Limited and SNL Bearings Limited. A comparison of the same has been depicted in the table below –

Company	SKP Bearings Limited**	NRB Bearings Limited	Menon Bearings Limited	Galaxy Bearings Limited	SNL Bearings Limited
Net Profit (INR Cr)	9.40	73.26	24.47	13.29	8.83
EBITDA (INR Cr)	16.78	155.36	42.69	19.97	13.19
Return on Capital Employed	36.62%	10.11%	28.43%	33.93%	23.56%
Return on Equity	22.76%	12.45%	21.85%	22.67%	18.27%
EPS (INR)	6.27	8.00	4.38	41.78	24.46
P/E* (Times)	11.16	17.63	17.08	17.59	11.54

**\*P/E has been calculated as on 01/07/2022**

**\*\* As on 05/01/2022**

The company has performed at par with the peers but is smaller in size when compared with them and therefore has rightly priced itself at a discounted PE of 11.16 vs Sector PE of around 40.

## Promoters' Profile

### Mr. Shrinand Kamlakar Palshikar



- **Mr. Shrinand Kamlakar Palshikar** is the Promoter, Chirman and Managing Director of the Company.
- He was partner in the erstwhile partnership firm.
- He holds degree in Bachelor of Engineering from University of Jabalpur, Madhya Pradesh in the year 1986.
- He has completed his Master of Technology in Mechanical Engineering with specialization in Product Engineering from IIT Bombay in the year 1988.
- Further he has completed the Rolling Bearing Theory & Performance Course from SKF College of Engineering in 1989.

### Ms. Sangita Shrinand Palshikar



- **Ms. Sangita Shrinand Palshikar** is the Promoter and Director of the Company.
- She was one of the partners in the erstwhile partnership firm.
- She has completed her graduation in commerce from Brihan Maharashtra College of Commerce, Pune in the year 1982.
- She has experience in accounts, finance, human resource and administration.

## **Analysis on the Company's Promoter and Board of Directors**

**Mr. Shrinand Kamlakar Palshikar** is one of the Promoters, Chairman and Managing Director of the company. He has more than three decades of experience in the fields of production, quality, marketing. He holds degree in Bachelor of Engineering from University of Jabalpur, Madhya Pradesh in the year 1986. He has completed his Master of Technology in Mechanical Engineering with specialization in Product Engineering from IIT Bombay in the year 1988. Further he has completed the Rolling Bearing Theory & Performance Course from SKF College of Engineering in 1989. He gives directions to the company and is responsible for planning and executing the expansions and diversification.

**Ms. Sangita Shrinand Palshikar** is the other Promoter and Non-Executive Director of the company. She has also served as partner in the erstwhile partnership firm. She has been awarded for "Special award to outstanding women Entrepreneur of the Year" from the President of India Late Honourable Shri Pranab Mukherjee in 2011 and "Successful Business entrepreneur" award by Chief Minister and Governor of Gujarat in 2019. She has experience in accounts, finance, human resource and administration.

The independent directors of the company also bring around 35-40 years of experience. **Mr. Rajeev Vinayak Lokare** is highly experienced in the areas of TPM, TQM, JIT, and diversification for business development through expanding existing product line as well as new product development and JV while **Mr. Kishorbhai Chhanalal Parikh** is a Practicing Chartered Accountant under his firm name M/s K.C. Parikh & Associates. He has around 35 years of experience in the field of audit, taxation, accounts and finance.

Looking at the management, it can be said that the team is highly educated and well experienced in the business line. Mr. Shrinand has a very good education base relating to the field in which the company operates and has been in the industry for more than 30 years. Ms. Sangita has received multiple awards for her entrepreneurship skills and has been able to lead the company quite efficiently. The Independent Directors are also very experienced and can be a great driving force for the company.

Overall the management outlook is positive, except for the fact the Chairman position in the Board of Directors is held by the promoter itself which is not considered good from Corporate Governance point of view.



## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 05th Jan 2022
<b>Profit and Loss</b>			
Revenue from operation	3,189.45	3,627.91	3,147.50
Other income	68.74	81.38	296.85
Total Revenue	3,258.19	3,709.29	3,444.35
Expenses	1,837.58	2,299.63	1,765.67
Depreciation and Amortisation Cost	120.90	141.17	116.49
Finance Cost	198.46	219.97	252.98
Total Expenses	2,156.94	2,660.77	2,135.14
PBT	1,101.25	1,048.52	1,309.21
EBITDA	1,420.61	1,409.66	1,678.68
EBITDA Margin	44.54%	38.86%	53.33%
Net Profit	812.47	745.60	940.41
Net Profit Margin	25.47%	20.55%	29.88%
<b>Balance Sheet</b>			
Total Borrowings	40.56	35.96	-
Net Worth	3,913.92	4,580.08	4,130.47
Fixed Assets	2,375.95	2,431.75	2,453.80
Net Working Capital	901.64	1422.4	1537.32
<b>Financial Measures</b>			
Inventory Turnover Ratio	4.06	3.36	3.63
Receivables Turnover Ratio	5.05	3.77	2.50
Payables Turnover Ratio	25.80	17.23	13.15
Fixed Assets Turnover Ratio	1.34	1.49	1.28
Return on Capital Employed	32.18%	26.79%	36.62%
Return on Equity	20.76%	16.28%	22.76%
Debt-Equity Ratio	0.01	0.01	-

(The data has been taken and calculated from the financials given in the prospectus)

## **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has grown from Rs. 1420.61 lacs in 2020 to 1678.67 lacs up to 5<sup>th</sup> Jan 2022 growing at a CAGR of 10%. The EBITDA margin up to 5<sup>th</sup> Jan 2022 was 53.33% from 44.54% in 2020. The company is operating at very good EBITDA margins and the growth in EBITDA has been 10% which seems to be highly sustainable in future.

## **Net Profit**

The net profit of the company has grown from Rs. 812.47 lacs in 2020 to Rs 940.41 lacs up to 5<sup>th</sup> Jan 2022 growing at a CAGR of 9%. The net profit margin has grown from 25.47% in 2020 to 29.88% up to 5<sup>th</sup> Jan 2022. The net profit margin is again looking very good and sustainable looking at the previous years' figures of the company.

## **Finance Cost.**

Since the company got converted to a public limited company from partnership firm, the finance cost is mainly towards the Interest on Partners' Capital

## **Financial Measures/Ratios**

The financial ratios of the company have shown sustainable growth and the margins are also very good.

RoCE of the company up to 5<sup>th</sup> Jan 2022 was 36.62%. The peer companies have posted on average 24% of ROCE which shows the company has performed well in this regard but it is expected to fall with new capital being employed in the business but still is expected to be in line with industry standards

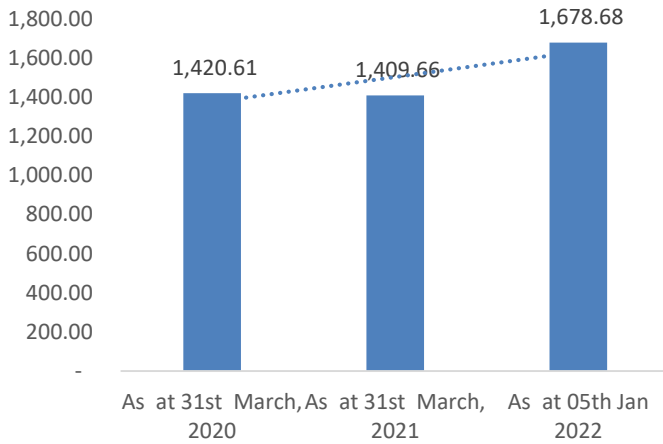
Return on Equity (ROE) of the company is at 22.76% up to 05<sup>th</sup> January 2022 and has grown at a CAGR of 5% from FY 20. The ratio looks good and in line with its peer companies

The Receivables Turnover ratio have come down gradually and the company has to be little more considerable towards the management of the same. The payable turnover ratio of the company has been effectively managed over the years.

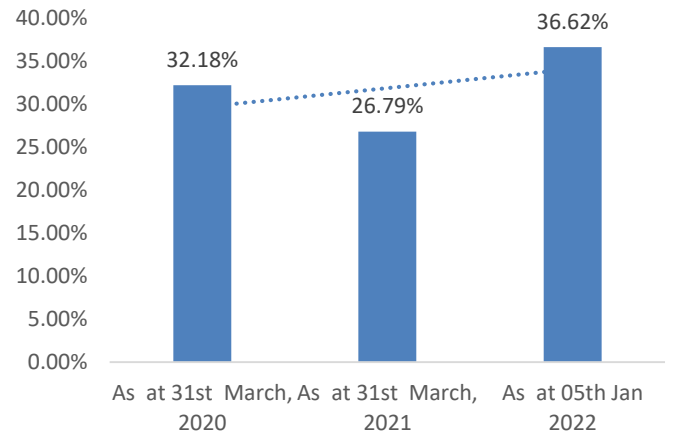
The company has Debt-Equity ratio of 0.01 but the loans are from Directors. On the debt part the company could have thought of Bank Finance looking at its performance over the years and could have tried to reduce its weighted average cost of capital.

## Financial Graph

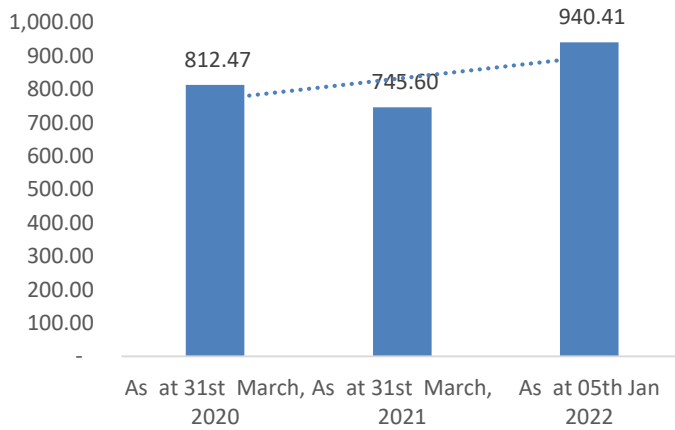
**EBITDA (In Lacs)**



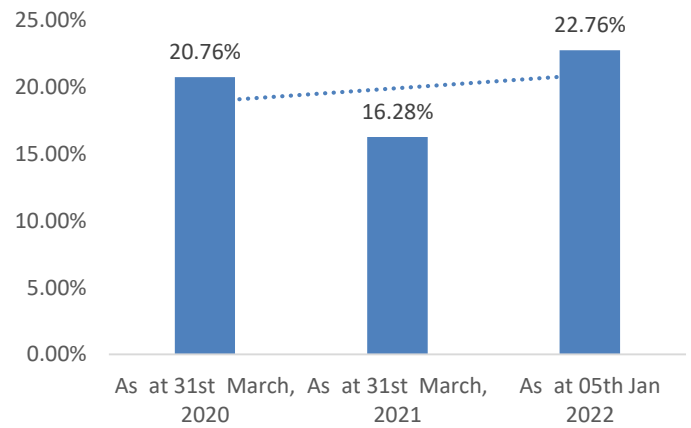
**Return on Capital Employed**



**Net Profit (In Lacs)**



**Return on Equity**



## Key Risk Factors

1. There are certain legal proceedings involving the Company, Directors, Promoter and Group Companies totalling to an amount of Rs. 83.45 lacs, an adverse outcome in which, may have an adverse impact on the reputation, business, financial condition, results of operations and cash flows.
2. The sales of the company is significantly dependent upon cylindrical and needle roller.
3. Company deals in a product segment with high price fluctuations and any fluctuation against the company could result in financial loss.
4. The capacity of manufacturing unit is not fully utilized and if the underutilization continues in future, the company might be inefficient to cover its fixed costs.

## Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Shreni Shares Private limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share	Listing date	CMP#
1.	Cospower Engineering Limited	2.04	51.00	March 30,2020	94.00
2.	KSolves India Limited	4.02	100.00	July 6, 2020	362.50
3.	Bodhi Tree Multimedia Limited	3.70	95.00	October 21, 2020	114.50
4.	Shine Fashions (India) Limited	1.60	40.00	November 2 2020	47.00
5.	Adjia Technologies Limited	2.00	74.00	March 15,2021	23.00
6.	Getalong Enterprise Limited	5.18	69.00	October 08, 2021	70.00
7.	DMR Hydroengineering & Infrastructures Limited	2.09	21.00	December 07, 2021	26.20
8.	Alkosign Limited	12.15	45.00	February 01, 2022	47.80
9.	Quality RO Industries Limited	2.70	51.00	February 09, 2022	54.00
10.	Ekennis Software Service Limited	2.88	72.00	March 07, 2022	85.00
11.	Fidel Softech Limited	13.50	37.00	June 10, 2022	57.15

**#CMP is taken as on 30<sup>th</sup> June 2022**

This is the 11th IPO of the Lead Manager, out of the last 10 listings, 1 opened at par and rest at premium

## Recommendation

The company has been into the business since 1991 showing good track record of existence. The company is into a niche product segment which has applicability in variety of industries. The business model of the company looks promising and has a positive outlook.

The company has been generating healthy revenues and has been generating profits of around 30% and EBITDA margin of around 50% over the years.

The management of the company is highly educated and has been in the business for more than 30 years.

Also the company has been listing at a P/E of 11.16 times while the industry PE is around 40 times and rightly looking at the size as compared to its peers the company is getting listed at discounted PE.

Looking at the business it looks like a good investment and one **may apply** in the IPO.

## Disclaimer

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