

EP Biocomposites Limited

A REVIEW REPORT ON EP BIOCOMPOSITES LIMITED IPO

IPO Details

Opening Date	Aug 29, 2022
Closing Date	Sep 05, 2022
Stock Exchange	BSE SME
Lot Size	1000 Shares
Issue Price	₹ 126 per share
Issue Size	5,04,000 Equity Shares
Application Amount	₹ 1,26,000

IPO Objective

- Long-term lease deposit for Manufacturing Facility Part Repayment of Loan
- To meet the Working Capital Requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	11,65,416	98.97%
Public	12,084	1.03%

Company Background

- Company was incorporated in the year 2020 in Goa.
- Company is into manufacturing and supply of fibre re-inforced polymers (FRP) products such as door shutters, frames, Biodigester Tanks, Bio toilets and allied products for construction and Industrial applications.
- The Company got into sector of waste water recycling in 2021.
- Company has taken over is promoter's existing business "M/s Om Ventures" in 2021.
- As on 31st March 2022, the company had 30 employees in its payroll.

Promoter of the Company

1. Mrs. Leena Kamat
2. Mr. Rajkumar Kamat

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Company Overview

EP Biocomposites Limited was incorporated on January 17th 2020 in Goa. The company manufactures and provides fibre re-inforced polymers (FRP) products such as door shutters, frames, Biodigestor Tanks, Bio toilets and allied products for construction and Industrial applications. The Company got into highly potential sector of waste water recycling in 2021.

Analysis

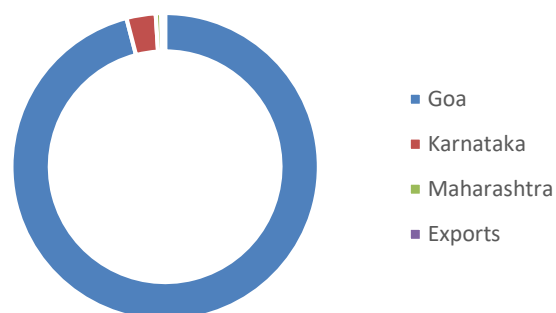
Established in the year 2020, the company does not have a good track record of existence. The company is mainly into providing Effluent Treatment Plant, Sewage Treatment Plant and FRP Doors. The company's segment relating to bio-composites has a good prospect and is also now-a-days mandated by the regulatory authorities for various industries.

Being started on January 17, 2020, the company did not have much of operations in FY 20 and so the revenue from operations was only Rs. 56.81 lacs. Thereafter, the revenue from operations has been increasing multi-folds to Rs. 294.80 lacs in FY 21 and Rs. 805.96 lacs in FY 22 showing an extra-ordinary growth of 173% Y-o-Y basis.

The company is in process of adding delivery of clean water dispenser in its portfolio in partnership with Wayout International AB, a foreign entity. The company is still into the initial stage and working on the feasibility of the product.

Being based out of Goa the company majorly sells its products in Goa. A summary reflecting the major geography wise sales in given below –

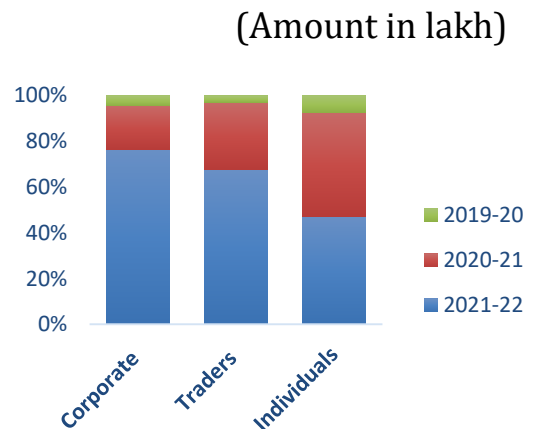
State	Amount (In Lacs)
Goa	773.27
Karnataka	24.80
Maharashtra	4.61
Exports	3.28



It can be seen that more than 95% of the sales is happening in the state of Goa followed by Karnataka. Maharashtra and Exports market has been penetrated only in FY 22 showing company is trying to expand in other regions as well.

Company has earlier been supplying a significant portion to individuals, but year by year the focus had been shifted to from individuals to traders and corporates. In FY 20, the company supplied around 62.89% to corporates and 31.81% to individuals but in recent year, the supply to corporates was 77.30% and to individuals was 14.03%. A summary of the same is provided below –

Particulars	2021-22	2020-21	2019-20
Corporate	623.01	155.98	35.73
Traders	69.87	30.33	3.02
Individuals	113.08	108.50	18.07



To conclude the company's product segment has good prospect, but the experience that the company holds in this segment is not enough and that is very important to get the company enough orders for itself from government and other corporates. **The objective of the company is to raise money for taking land on lease from its promoter and part paying promoters loan which raises question of bringing the IPO in good faith.**

Industry Charts

Exhibit 1: Indian Water and Sewage Treatment Capacity as on 31.03.2021

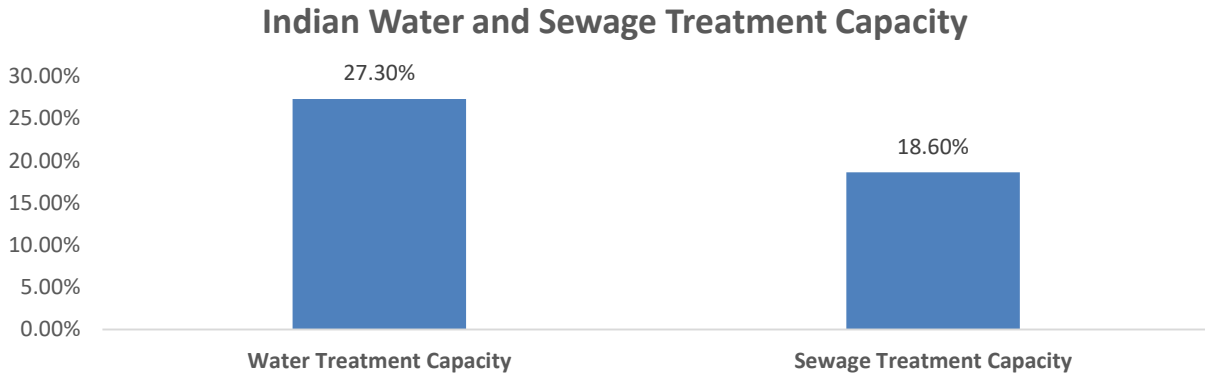


Exhibit 2: Indian waste water treatment plan market is expected to grow at a CAGR of 10% from FY 19 to FY 25

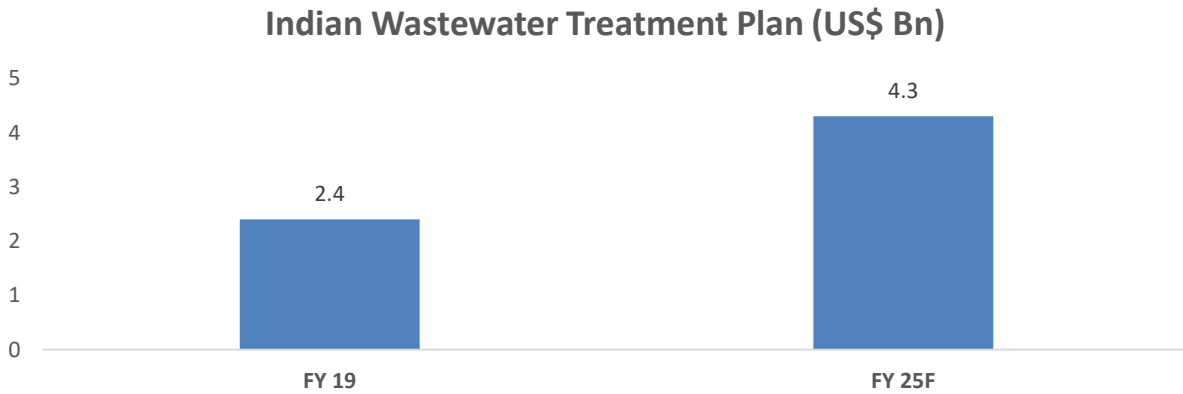
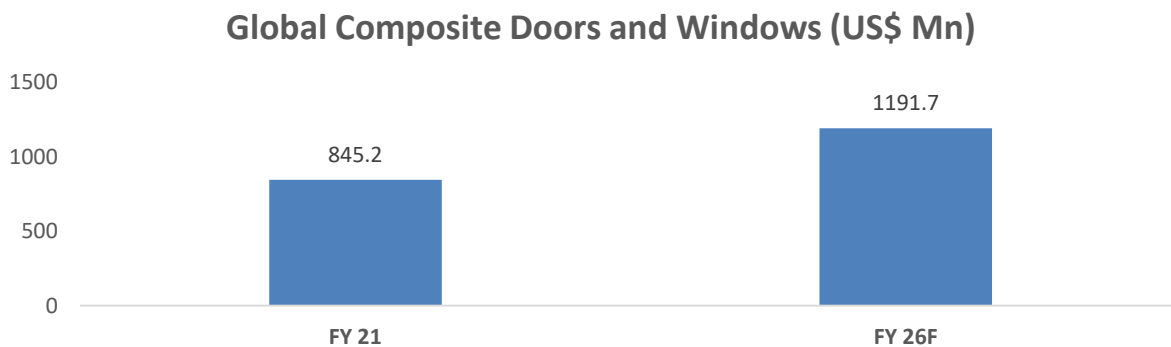


Exhibit 3: Global composite doors and market is expected to grow at a CAGR of 7% from FY 21 to FY 26



(Source: indiawaterportal.org, ficci.in, marketdataforecast.com)

Investment Overview

Sanitation Industry

India has made rapid progress in ending open defecation across the Country which is having a huge impact on improving water, sanitation and hygiene (WASH). Just a few years ago, in 2015, nearly half of India's population of around 568 million people suffered the indignity of defecating in fields, forests, bodies of water, or other public spaces due to lack of access to toilets. India alone accounted for 90 per cent of the people in South Asia and half of the 1.2 billion people in the world that defecated in the open. On the 150th birth anniversary of Mahatma Gandhi, India celebrated the end of the five-year Swachh Bharat Mission (SBM), the world's biggest behaviour change programme to eliminate open defecation. While the country was commended for having gone from 39 per cent to almost universal toilet coverage in just five years, a lot was remained to be accomplished. According to the national statistics, over 100 million household toilets were constructed by the deadline benefitting 500 million people across 630,000 villages, but the government acknowledged that more had to be done. Consistent reinvestment in building up and strengthening the rest of the sanitation cycle and reaching last-mile populations remained a priority in the way forward.

India Water and Wastewater Treatment (WWT) Technology Market

The Indian water and wastewater treatment (WWT) technology market was valued at USD 2,042.91 million in 2020. The COVID-19 outbreak has been negatively affecting the economy of India. The pandemic negatively affected the operations of several end-user industries of the market studied, which reduced the outflow of industrial wastewater. The COVID-19 pandemic resulted in a huge drop in oil demand. The drop in demand resulted in the futures market for oil turning negative. This resulted in the decreased investments and a major scaling back in the drilling activities. As a result, the demand for water treatment technologies in the industry declined. In the food and beverage industry, labour shortage and the shutdown of plants reduced the food production levels in 2020. The food and beverages industry accounts for ~3% of India's GDP, and it is the single largest employer in the country, with more than 7.3 million workforces. Food items other than staple food and ready-to-eat food witnessed a significant decline, owing to the decreased food consumption in restaurants and hotels. These trends

negatively impacted the growth of the food industry. Furthermore, in the pulp and paper industry, reduced imports of packaging material by major consumers resulted in a domestic oversupply of pulp and paper products in the manufacturing countries.

Fibre Reinforced Plastic (FRP) Composite Market

Global Fibre-reinforced Polymer (FRP) Composites Market is valued at 6,194 kilotons in 2020. The market was negatively impacted by COVID-19 in 2020. Considering the pandemic scenario, the construction activities were stopped temporarily during the lockdown in order to curb the spread of COVID-19. For instance, the construction output had decreased by 28.4% in the euro area (EU-19 member countries) and by 24% in the European Union (EU-27 member countries) in April 2020 compared to April 2019, mainly due to the impact of the COVID-19. This decreased the demand for FRP composites materials in the construction sector. However, the demand for FRP composites has increased significantly to construct medical shelters for COVID-19 patients across different parts of the globe, including the United States, India, and others. For instance, in June 2020, Tata Steel introduced FRP composites based 500-bed Greenfield hospital for quarantining COVID-19 patients in Kasargod, Kerala, India.

(Source: Prospectus)

Addressable Market for EP Biocomposites Limited

The company is currently catering mainly the domestic market and also the export market but on minority scale. The company aims to cater to various Builders & Contractors, Hotel and Industries, Government and Institutions and Individuals in the coming times.

Competition

Company faces competition from various domestic and international players. The main competition comes from unorganised players in the market. But currently there are not many companies in the field of providing bio-toilets, ETF and STF plants services but numerous players in the field of providing FRP Doors.

Peer Analysis

As Mentioned in the prospectus, the company has no peer company.

Promoters' Profile

Mr. Rajkumar Kamat



- **Mr. Rajkumar Kamat** is the Promoter, Chairperson and Managing Director of the Company.
- He is having more than 3 decades of experience in manufacturing and Processing Business.
- He graduated with a Diploma degree in the field of Science from University of Goa in the year 1981.
- He was previously associated with OM Ventures where he was responsible to oversee entire operations of the company.

Ms. Leema Kamat



- **Ms. Leena Kamat** is the Promoter and Non-Executive Director of the company.
- She has completed her Bachelor's Degree in the field of Science (B.SC.) from University of Bombay, Mumbai in the year 1988.
- She is into Manufacturing Business and is also responsible for Overseeing Operations of OM Ventures which is into Manufacture of Composite, Bio and Metal products since 2002 in addition to her own business

Analysis on the Company's Promoter and Board of Directors

Mr. Rajkumar Kamat, Promoter, Chairperson and Managing Director, of the company is the guiding force behind the business decisions of the company. He is having more than 30 years of experience in manufacturing and processing business. He graduated with a Diploma degree in the field of Science from University of Goa in the year 1981. He has been associated with "Om ventures" which is into manufacturing of Composites, Bio and Metal Products since 2002. He has been into various good level positions in Goa State Industries Association (GSIA), Fire & Security Association of India, Goa Industrial Development Corporation (GIDC), Goa Chamber of Commerce & Industry (GCCCI) and Goa Investment Promotion Board (IPB).

Ms. Leena Kamat is a Non- Executive Director of the company. She has completed her Bachelor's Degree in the field of Science (B.SC.) from University of Bombay, Mumbai in the year 1988. She is into Manufacturing Business and is also responsible for Overseeing Operations of OM Ventures which is into Manufacture of Composite, Bio and Metal products since 2002 in addition to her own business. She is not included in the day to day operations of the business.

Mr. Shreyas Nadkarni is an Executive Director of the company. He has completed Post Graduate Diploma in Business Administration (PGDBA) Specialization - Operations Management Welinkar Institute of Management Development & Research, Mumbai. His current role is not mentioned in the prospectus, but looking at his educational background it seems like he has been associated with marketing and business administration of the company.

To conclude the company's management outlook is decent. Looking at the profiles of the managerial persons, it looks like all the strategic and tactical business decisions are being taken by Mr. Rajkumar as he seems to have necessary education background and experience. Also his past positions in various reputed organizational bodies seems to help the business growth. Mr. Shreyas being an executive director seems to be involved in the day to day operations of the business and help the company is business administration.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st March, 2022
Profit and Loss			
Revenue from operation	56.81	294.80	805.96
Other income	0.02	0.43	1.59
Total Revenue	56.83	295.23	807.55
Expenses	52.52	248.78	668.73
Depreciation and Amortisation Cost	-	0.03	6.60
Finance Cost	-	-	15.62
Total Expenses	52.52	248.81	690.95
PBT	4.31	46.42	116.60
PBT Margin	7.59%	15.75%	14.47%
EBITDA	4.31	46.45	138.82
EBITDA Margin	7.59%	15.76%	17.22%
Net Profit	3.15	35.80	80.94
Net Profit Margin	5.54%	12.14%	10.04%
Balance Sheet			
Total Borrowings	0.25	-	411.11
Net Worth	2.85	38.65	199.84
Fixed Assets	-	0.24	41.05
Net Working Capital	2.9	36.37	349.6
Financial Measures			
Inventory Turnover Ratio	4.77	4.61	4.82
Receivables Turnover Ratio	1.88	4.56	1.14
Payables Turnover Ratio	1.14	3.22	2.59
Fixed Assets Turnover Ratio	-	1,228.33	19.63
Return on Capital Employed	139.03%	120.10%	31.51%
Return on Equity	110.53%	92.63%	40.50%
Debt-Equity Ratio	0.09	-	2.06

(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. 46.45 lacs in 2021 to 138.82 lacs in 2022 growing at 199% Y-o-Y basis. The EBITDA margin in 2022 was 17.22% from 15.76% in 2021 and 7.59% in 2020. Although the EBITDA margin has shown decent growth, the EBITDA on absolute terms has increased super-normally and the sustainability of the same is in question.

Net Profit

The net profit of the company has grown from Rs. 35.80 lacs in 2021 to Rs. 80.94 lacs in 2022 at 126% on Y-o-Y basis. The net profit margin has fallen from 12.14% in 2021 to 10.04% in 2022. The Net profit on absolute terms has again grown substantially. The decrease in net profit margin can be attributable to increase in finance cost and depreciation cost in FY 22.

Finance Cost.

The company has incurred finance cost mainly on the loan taken from related parties. Since the loan has been planned to be repaid partly from issue proceeds, the finance cost is expected to decrease in future. But since the company would need new loan to erect plant and machinery and other equipment on the land taken on lease for manufacturing facilities, the finance cost would increase. So ultimately the finance cost is expected to be on the same levels in coming times.

Financial Measures/Ratios

The financial ratios of the company have been decreasing over the years but since the company started operating in 2020, the trend cannot be trusted.

RoCE of the company in FY22 was 31.51% vs 120.10% in FY 21. The RoCE had fallen in FY 22 because of additional shares been issued in the year. But to be fair, the trend of RoCE again cannot be commented upon with limited track record of the business. The same is expected to fall in coming year with increase of capital base being increased through IPO.

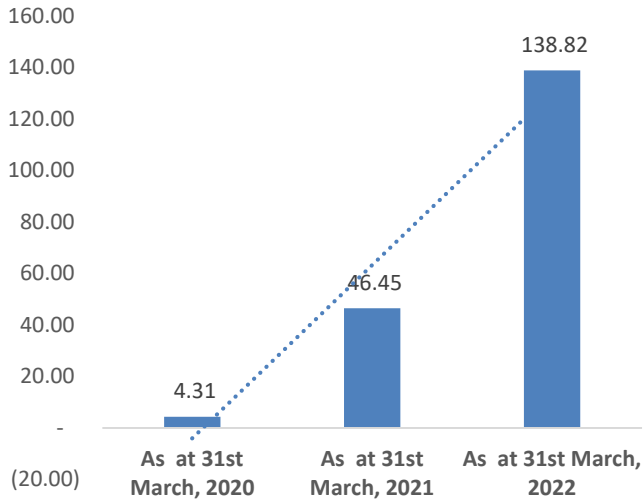
Return on Equity (ROE) of the company in FY 22 was 40.50% showing an increase from 92.63% in FY 21. The same can be set forward with similar assumptions as that of ROCE.

The company has been maintaining its inventory turnover ratio at stable rate, but the receivables turnover ratio and payables turnover ratio has been fluctuating over the years.

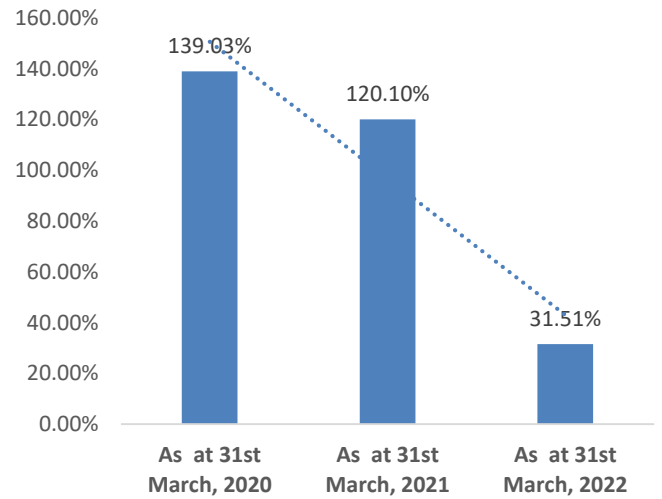
The company has debt-equity ratio of around 2.06 in FY 22. The same has increased from previous year because of loans from promoters. Since the loan has been planned to be repaid partly from issue proceeds, the Debt-Equity ratio is expected to decrease in future. But since the company would need new loan to erect plant and machinery and other equipment on the land taken on lease for manufacturing facilities, the debt would increase. So ultimately the debt-equity is expected to be on the same levels in coming times.

Financial Graph

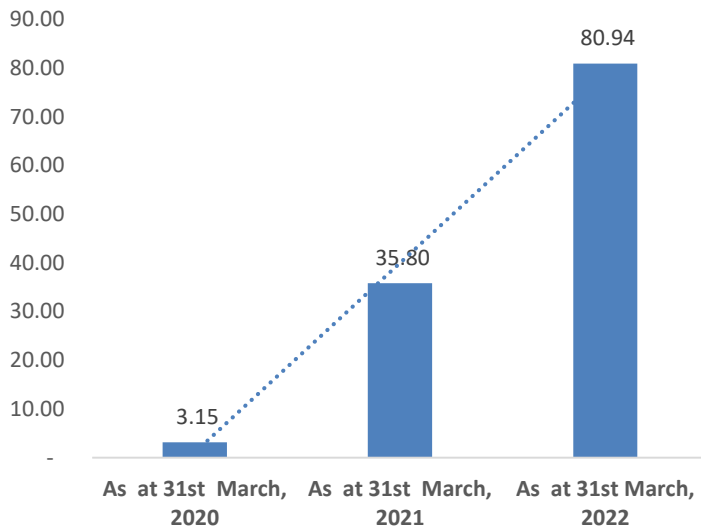
EBITDA (In Lacs)



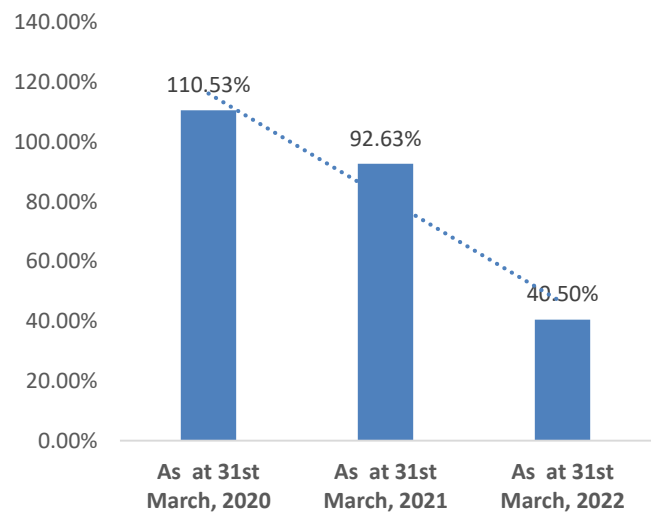
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. Several products of the company are based on license from DRDO and any failure in retaining the license would adversely affect the company.
2. The company is dependent on continuous technology upgradation and require to update its plant and machinery.
3. The company has obtained issue proceeds for lease deposit on land where it plans to set up manufacturing facilities and if the project.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Aryaman Financial Services Limited and the previous issue details have been taken from the Lead Manager's Website. 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 (In INR)	Listing date	CMP# (INR)
1.	SP Refractories Limited	4.92	90	Mar 22, 2022	81.00
2.	Fabino Life Sciences Limited	3.24	36	Jan 13, 2022	26.00
3.	Suyog Gurbaxani Funicular Ropeways Limited	29.5	45	Nov 16, 2021	45.50
4.	CWD Limited	18.01	180	Oct 13, 2021	1,695.70
5.	Gretex Corporate Services Ltd	5.13	170	Aug 09, 2021	217.80
6.	Times Green Energy (India) Ltd	4.05	61	Jun 30, 2021	62.60
7.	Adeshwar Meditex Limited	9.75	25	Jun 28, 2021	25.00
8.	Pavna Industries Limited	29.7	165	Mar 09, 2021	425.00
9.	Net Pix Shorts Digital Media Limited	2.7	30	Dec 02, 2020	34.00
10.	Atal Realtech Ltd	10.83	72	Oct 15, 2020	177.30
11.	Modi's Navnirman Limited	22.68	180	July 06, 2022	305.50

#CMP is taken as on 27th August 2022

Out of the last 10 Listings the Lead Manager has made all had positive listing.

Recommendation

The company has been into the business since 2020 which shows that the company does not have a good track record. The industry is good but with the lack of experience it would become quite difficult for the company to receive orders from government and other corporate bodies.

The management of the company is good with the Managing Director being an influential person and having relevant experience in the field in which the company operates. However, the company again seems to be mostly influenced by the decision of a single personnel.

The revenue of the company has shown extra-ordinary growth with supernormal profits. But the margins of the company have not shown good strength and the company has to be more efficient in maintaining its profit margins.

The objectives of the company to pay lease deposit on land to promoter and part-pay unsecured loans of the promoter raises questions on the good faith of the IPO.

To conclude, since the company has been established very recently, it is difficult to identify trends in its performance. Therefore, it seems to be quite early for this company to go for an IPO and so one must look to safeguard and capital and **avoid** applying in the IPO.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.