

Rhetan TMT Limited

A REVIEW REPORT ON RHETAN TMT LIMITED IPO

IPO Details

Opening Date	Aug 22, 2022
Closing Date	Aug 25, 2022
Stock Exchange	BSE SME
Lot Size	2000 Shares
Issue Price	₹ 70 per share
Issue Size	80,00,000 Equity Shares
Application Amount	₹ 1,40,000

IPO Objective

- To meet Capital Expenditure Requirements
- To meet the Working Capital Requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,32,00,000	99.62%
Public	50,000	0.38%

Company Background

- Company was incorporated in the year 1984 as 'Shivani Rolling Mills Private Limited'. Later on it was changed to 'Shree Ghantakarna Rolling Mills Private Limited' in 1996 and eventually in 2022 its name was changed to Rhetan TMT Limited.
- It is a part of Gujarat based diversified group promoted by Mr. Shalin Ashok Shah and Family.
- Company is engaged in the business of manufacturing TMT Bars and Round Bars.
- The company has a manufacturing unit at Mehsana, Gujarat.
- As on the 31st March 2022, company has a total of 42 employees on its payroll.

Promoter of the Company

1. Ashoka Metcast Limited
2. Shalin Shah

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Company Overview

Rhetan TMT Limited was incorporated in the year 1984 as “Shivani Rolling Mills Private Limited” in Gujarat. The company is a part of a group promoted by Mr. Shalin Ashok Shah and Family. The company has a Steel Rolling Mill in Gujarat and is engaged in the manufacturing of TMT Bars and Round Bars.

Analysis

Established in the year 1984, the company has a good track record of existence. The company has a manufacturing unit in Gujarat with an installed capacity of 35,000 MTPA and is expecting to increase it to 45,000 MTPA with a part of the amount raised through IPO. Looking at other companies in the same sector, 45,000 MTPA is also not competitive as other companies have much higher steel producing capacity unit in their names. The company is currently utilising around 74% of its installed capacity and is therefore looking to increase its overall capacity to increase production without facing any capacity crunch.

The manufacturing unit has been operating since 2019 and the revenue has been increasing since then. But the increase in Revenue and EBITDA seems to be supernormal as the revenue has grown at a CAGR of around 83% and EBITDA has grown at around 167%. Such a growth rate is very difficult to sustain in future.

Company is in a sweet spot considering the product base of the company. The products of the company are primarily used in the construction industry. The growth of the industry could be clearly visible as government aims to boost the infrastructure of the country with new Highway and Railway projects already in pipeline. But the steel industry providing similar products for construction purposes is filled with some reputed and big companies and also with various small players. The company has to deal with a heavy competition centric industry and has to come out with strategies for competing and surviving the market.

Industry Charts

Exhibit 1: Infographics on total crude steel production from FY 18 to FY 22 (till Jan)

Total Crude Steel Production (Mn Tonnes)

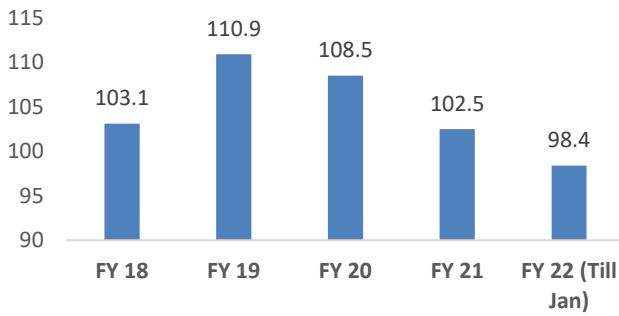


Exhibit 2: Per capita consumption of Steel grew at a CAGR of 3.94% from FY 16 to FY 20

Per capita consumption of Finished Steel (In kgs)

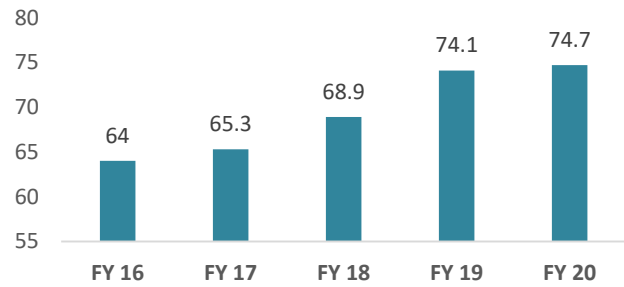


Exhibit 3: Infographics on Consumption of Finished Steel from FY 18 to FY 22 (till Jan)

Consumption of Finished Steel (Mn tonnes)

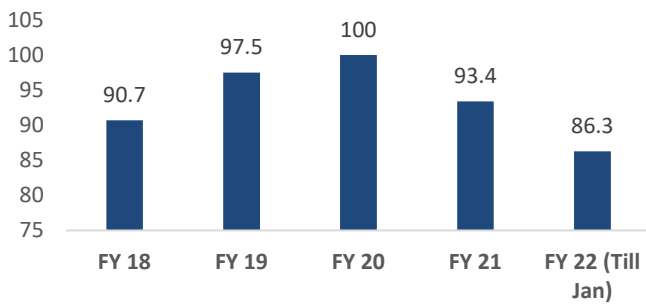
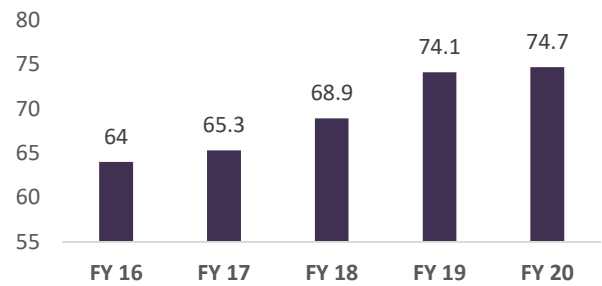


Exhibit 4: Finished Steel Exports grew at a CAGR of 3.94% from FY 18 to FY 22 (till Jan)

Finished Steel Exports (Mn Tonnes)



(Source: ibef.org)

Investment Overview

Steel Industry

As of October 2021, India was the world's second-largest producer of crude steel, with an output of 9.8 MT. In FY22 (till January), the production of crude steel and finished steel stood at 98.39 MT and 92.82 MT, respectively. In FY22, crude steel production in India is estimated to increase by 18%, to reach 120 million tonnes, driven by rising demand from customers. The growth in the Indian steel sector has been driven by the domestic availability of raw materials such as iron ore and cost-effective labour. Consequently, the steel sector has been a major contributor to India's manufacturing output.

The Indian steel industry is modern, with state-of-the-art steel mills. It has always strived for continuous modernisation of older plants and up-gradation to higher energy efficiency levels. The Indian steel industry is classified into three categories - major producers, main producers and secondary producers.

India's finished steel consumption is anticipated to increase to 230 MT by 2030-31 from 86.3 MT in FY22 (till January). The industry is witnessing consolidation of players, which has led to investment by entities from other sectors. The ongoing consolidation also presents an opportunity to global players to enter the Indian market.

In October 2021, the government announced guidelines for the approved specialty steel production-linked incentive (PLI) scheme. Under the Union Budget 2022-23, the government allocated Rs. 47 crores (US\$ 6.2 million) to the Ministry of Steel.

(Source: ibef.org)

Addressable Market for Rhetan TMT Limited

The company is currently operating in the state of Gujarat and is catering mainly to domestic states nearby Gujarat. The company in its prospectus has mentioned to increase its presence in other states of India as well where the transportation cost is low and demand for their product is high.

Competition

The steel industry in India is highly competitive with many small and large players in the market. The company is operating in an environment where the customers have higher bargaining power and price becomes the main factor along with the quality. The company faces competition from its peers which may have one or more division of its business. Also the company has to deal with the brand and reputation which some large companies has already built for themselves.

Peer Analysis

As Mentioned in the prospectus, the company has 4 peer companies viz. Incredible Industries Ltd, Hariom Pipe Industries Limited, Supershakti Metaliks Limited and Kamdhenu Limited. A comparison of the same has been depicted in the table below –

Company	Rhetan TMT Limited	Incredible Industries Ltd	Hariom Pipe Industries Limited	Supershakti Metaliks Limited	Kamdhenu Limited
Net Profit (INR Cr)	2.35	5.92	31.96	17.72	26.31
EBITDA (INR Cr)	4.60	17.19	58.84	32.02	60.27
Return on Capital Employed	10.97%	7.60%	36.49%	13.89%	20.07%
Return on Equity	10.16%	4.87%	31.64%	9.91%	12.06%
EPS (INR)#	1.19	0.77	18.83	11.81	10.00
P/E* (Times)	58.82	34.58	18.71	23.42	17.84

***P/E has been calculated as on 16/08/2022**

#Post IPO Basis

The company has performed below average when compared to its peers. The P/E of around 58 times with a sector P/E of around 20 times makes the listing price of the company overvalued.

Promoters' Profile

Mr. Shalin Shah



- **Mr. Shalin Shah** is the Promoter and Managing Director of the Company.
- He is having more than 20 years of experience in various businesses like trading, real estate, oil and gas exploration etc.
- He is also the Managing Director of flagship company, Gujarat Natural Resources Limited, a BSE listed company engaged in the business of oil & gas exploration.
- He obtained degree in Civil Engineering from L.D. Engineering College, Ahmedabad in the year 2001.

Ashoka Metcast Limited

- The company was incorporated in the year 2009 as “Tanya Estates Private Limited”.
- It could not survive the Real Estate Industry so it changed its business model and entered the Steel Industry and the name of the company was changed to “Ashoka Metcast Private Limited”
- Later in the year 2018 the company got listed in the SME segment of BSE and is currently trading as “Ashoka Metcast Limited”

Analysis on the Company's Promoter and Board of Directors

Mr. Shalin Shah, Promoter and Managing Director, of the company is the guiding force behind the business decisions of the company. He is having more than 20 years of experience in various businesses like trading, real estate, oil and gas exploration etc. and also has exposure in the fields of management, finance, accounting, information technology and legal. He is also the Managing Director of flagship Company, Gujarat Natural Resources Limited, a BSE listed company engaged in the business of oil & gas exploration.

Ashoka Metcast Limited, is one of the promoters of the company. The company is promoted by Mr. Shalin Shah. The company is also engaged in steel industry and is trading on BSE SME since 2018. The company got listed at a price of Rs. 20 and is currently trading around Rs. 9. It has not been able to create good wealth for its shareholders. Also the company has not been able to generate revenue from its operations on standalone basis.

Mr. Ashok Shah, is the Non-Executive Director of the company. He has obtained his degree in Bachelor of Science from Ahmedabad and Bachelor 's Degree of Science in Chemical Engineering from University of Missouri, USA in the year 1968. He has over 5 decades of experience and has worked in various reputed companies.

To conclude the company is dependent on a single personnel, Mr. Shalin Shah, who takes all the strategic and tactical business decisions of the company. Other promoter, Ashoka Metcast Limited, is also promoted by Mr. Shalin which shows that Ashoka Metcast Limited has no standalone major influence on the business operations decisions of the company. Also Mr. Ashok Shah, although experienced is a Non-Executive Director and does not play a direct role in the day-to-day operation of the company.

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	2,000.84	5,208.90	6,702.87
Other income	7.42	4.12	0.58
Total Revenue	2,008.26	5,213.02	6,703.45
Expenses	1,943.64	5,050.19	6,243.78
Depreciation and Amortisation Cost	24.23	47.08	45.35
Finance Cost	29.85	97.72	126.96
Total Expenses	1,997.72	5,194.99	6,416.09
PBT	10.54	18.03	287.36
PBT Margin	0.53%	0.35%	4.29%
EBITDA	64.62	162.83	459.67
EBITDA Margin	3.23%	3.13%	6.86%
Net Profit	-58.04	13.44	234.57
Net Profit Margin	-2.90%	0.26%	3.50%
Balance Sheet			
Total Borrowings	2,394.01	2,542.21	2,649.61
Net Worth	30.21	783.65	2,313.21
Fixed Assets	836.41	806.31	770.85
Net Working Capital	453.2	1128.83	2770.77
Financial Measures			
Inventory Turnover Ratio	2.63	4.57	2.90
Receivables Turnover Ratio	2.73	3.71	3.05
Payables Turnover Ratio	0.55	0.39	0.24
Fixed Assets Turnover Ratio	2.39	6.46	8.70
Return on Capital Employed	2.46%	4.93%	10.97%
Return on Equity	-192.12%	1.72%	10.16%
Debt-Equity Ratio	79.25	3.24	1.15

(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. 64.62 lacs in 2020 to 459.67 lacs in 2022 growing at a CAGR of 166.71%. The EBITDA margin in 2022 was 6.86% from 3.23% in 2020 showing better management of operating expenses of the company. But such a supernormal growth in the EBITDA raises questions on its sustainability in the coming future.

Net Profit

The net profit of the company has grown from Rs. -58.04 lacs in 2020 to Rs. 234.57 lacs in 2022 growing at a CAGR of 101%. The net profit margin has grown from -2.90% in 2020 to 3.50% in 2022. But again like EBITDA, the net profit has shown a supernormal growth and to maintain such a good growth looks unrealistic in coming times.

Finance Cost.

The company have finance cost majorly on Term loan and Short Term Loan taken from bank for financing the working capital requirements of the company

Financial Measures/Ratios

The financial ratios of the company have been increasing in the recent years.

RoCE of the company in FY 22 was 10.97% vs 2.46% in FY 20 despite increase in the operating margins. The same is below the average RoCE of its peer companies and is also expected to come down with the introduction of new capital.

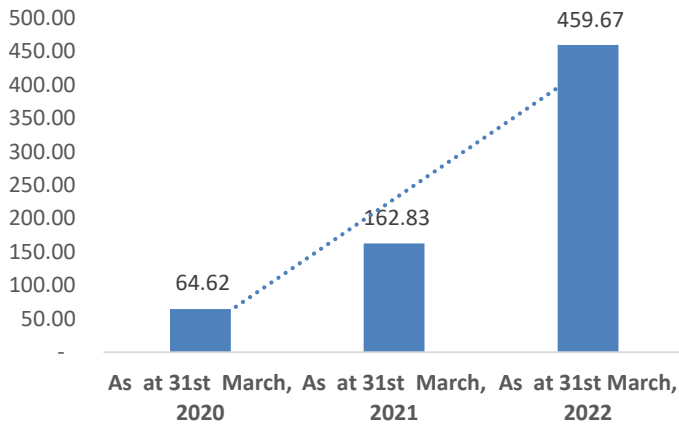
Return on Equity (ROE) of the company was 10.16%. The same can be set forward with similar assumptions as that of ROE.

The company has not been able to effectively manage its Inventory and Receivables Turnover Ratios as it has been decreasing. However, company has been able to manage its payables as evident from decreasing payables turnover ratio.

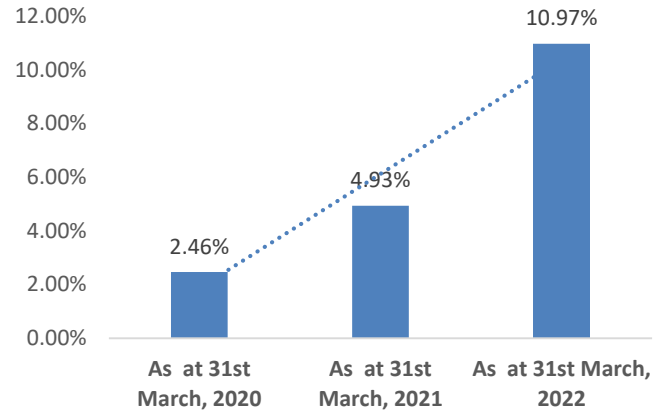
The company has debt-equity ratio of around 1.15 mainly due to Term Loan and Working Capital Loan availed from bank. The ratio is expected to fall in the near future as the company would raise equity capital through IPO and also repay its Term Loan.

Financial Graph

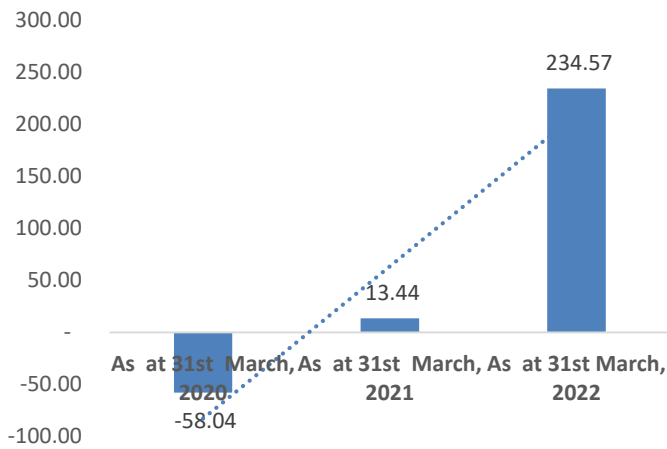
EBITDA (In Lacs)



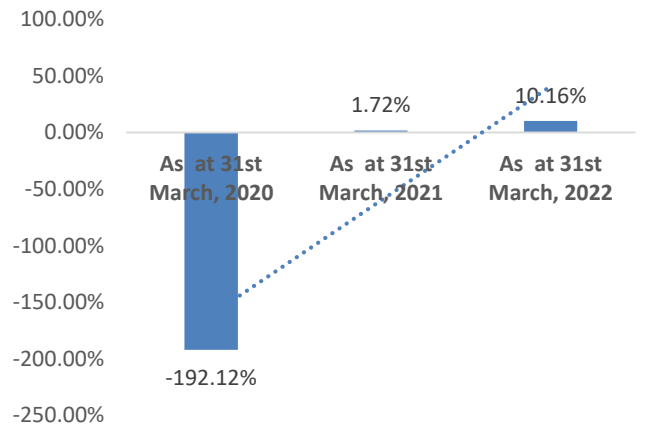
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. Promoters, Directors, Company and Group Company are involved in certain litigations as depicted in the table below –

Sr. No.	Nature of Case	No. of Outstanding cases	Amount in dispute/demanded to the extent quantifiable (Amount in Lakhs)
I.	Litigations filed by the Company		
a.	Litigation involving Criminal Matters	Nil	Nil
b.	Litigation involving Civil Matters	Nil	Nil
c.	Litigation Involving Tax Liabilities	Nil	Nil
II	Litigations filed against the Company		
a.	Litigation involving Criminal Matters	Nil	Nil
b.	Litigation involving Civil Matters	Nil	Nil
c.	Litigation Involving Tax Liabilities	Nil	Nil
III.	Litigations filed against the Promoters		
a.	Litigation involving Criminal Matters	1	Unascertainable
b.	Litigation involving Civil Matters	1	Unascertainable
IV.	Litigations filed by the Promoters		
a.	Litigation involving Criminal Matters	1	Unascertainable
V.	Litigations filed against the Group Companies		
a.	Litigation Involving Direct Tax Liabilities	3	14.8
b.	Litigation involving Criminal Matters	7	Unascertainable
c.	Litigation involving Civil Matters	1	Unascertainable
VI.	Litigations filed by the Group Companies		
a.	Litigation involving Criminal Matters	7	Unascertainable
b.	Litigation involving Civil Matters	1	Unascertainable
c.	Litigation Involving Direct Tax Liabilities	3	Unascertainable
VII.	Litigations filed against the Directors		
a.	Litigation involving Criminal Matters	7	Unascertainable
VIII.	Litigations filed by the Directors		
a.	Litigation involving Criminal Matters	7	Unascertainable

Any unfavourable decisions on the above mentioned litigations would adversely affect the company.

2. The company is also dependent on few customers making the bargaining power of buyers higher than the company.
3. Company deals in a product segment with high price fluctuations and any fluctuation against the company could result in financial loss.
4. The trading of some of its group companies had been suspended for some period of time as mentioned in the table below –

Name of the Company	Listed on	Reason for suspension	Suspended / Trading Restricted from	Date of revocation	Commencement of trading
Lesha Industries Limited	BSE Limited	Procedural reasons pertaining to the on-going scheme of arrangement.	August 16, 2017	December 12, 2017	December 14, 2017
Gujarat Natural Resources Limited	BSE Limited	Penal reason for Non-compliances with certain clauses of the Listing Agreement and non-payment of Listing fees.	September 10, 2001	February 13, 2007	February 13, 2007
Ashnisha Industries Limited	BSE Limited	Trading Restricted - On account of GSM	March 21, 2022	N. A.	Trading is not suspended however it is restricted - On account of GSM

5. Promoters/Promoter Group of the company had faced penal actions by SEBI in the past as given in below –

Sr. No.	Date of Action / Event	Particulars of the action / event	Current Status
1	SEBI Order dated October 10, 2003	GNRL and its directors Mr. Shalin A. Shah, Ms. Shivani A. Shah, Mr. Ashok C. Shah, Mr. Jaswant Ray Shah, Mr. Ramesh K. Gupta, Mr. J. S. Varshnay and Mr. Mahesh Parikh were directed to dissociate from the securities market for a period of 5 years for pending Investor grievances.	The SEBI has dropped the instant proceedings Against Mr. Mahesh Parikh, Mr. Shalin A. Shah, Ms. Shivani A. Shah, Mr. Ashok C. Shah vide its order dated May 15, 2007.

6. The company has previously defaulted on the financial liabilities and electricity related dues to UGVCL as depicted in the table below –

UGVCL –

Sr. No.	Date of Action /Event	Particulars of the action / event	Current Status
1.	1992	Uttar Gujrat Vij Company Limited filed special civil suit No. 49 of 1992 for recovery of electricity charges incurred at the factory site.	As on the date of this Prospectus RTL has availed high-tension (HT) load of 1500 KVA for
2.	2002	Electricity connection was discontinued at the factory site.	

3.	2012	State of Gujarat vide notification dated March 29, 2012 had declared Amnesty Scheme for settlement of outstanding claims of consumers. At that time Company had applied for the Amnesty Scheme which was rejected by the UGVCL/Industries' Commissioner stating that the Company does not come under the said Scheme.	carrying out Manufacturing process at the factory site. Further, Company made the stipulated payment as required under the Scheme
4.	2017	Company again applied to the UGVCL/ Industries' Commissioner to re-consider it for eligibility under the Scheme.	

Financial Default –

Sr. No.	Date of Action / Event	Particulars of the action / event	Current Status
1	1998-2001	Company had availed loan in different tranches from Charotar Nagrik Sahakari Bank Limited against rolling mill factory situated at Kadi.	As on date of this Prospectus the outstanding loan availed from Charotar Nagrik Sahakari Bank Limited stands repaid in full along with interest
2	2001	Charotar Nagrik Sahakari Bank Limited went into liquidation in the year 2001. The operations of the Company were shut down due to market conditions and also due internal financial constraints and could not repay the loan of Charotar Sahakari Bank Limited at the time of liquidation of the Bank.	
3	2012	As per the Government's one time settlement (OTS) scheme, the outstanding loan of Charotar Nagrik Sahakari Bank Limited was repaid along with interest. No dues certificate of the bank was obtained in this reference.	

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.	Fabino Life Sciences Limited	3.24	36	Jan 13, 2022	26.00
2.	Suyog Gurbaxani Funicular Ropeways Limited	29.5	45	Nov 16, 2021	45.50
3.	CWD Limited	18.01	180	Oct 13, 2021	1520.00
4.	Gretex Corporate Services Ltd	5.13	170	Aug 09, 2021	217.80
5.	Times Green Energy (India) Ltd	4.05	61	Jun 30, 2021	62.60
6.	Adeshwar Meditex Limited	9.75	25	Jun 28, 2021	26.00
7.	Pavna Industries Limited	29.7	165	Mar 09, 2021	430.00
8.	Net Pix Shorts Digital Media Limited	2.7	30	Dec 02, 2020	34.00
9.	Atal Realtech Ltd	10.83	72	Oct 15, 2020	166.80
10.	Modi's Navnirman Limited	22.68	180	July 06, 2022	333.00

#CMP is taken as on 28th June 2022

Out of the last 10 listings of the lead manager, all opened at premium

Recommendation

The company has been into the business since 1984 showing good track record of existence. The company is into a niche product segment which has applicability in variety of industries. The government's outlook for infrastructure is positive as it has targeted to build new highways, railways, airports, bridges etc. in the coming times.

However, the company has not been able to generate enough profit margins and has been performing below the industry standards. Although the profit has shot up on the previous year but the same looks supernormal and the sustainability of the same is in question.

The management of the company is currently dependent on Mr. Shalin, and there is no proper segregation of the Board of Directors of the company.

Also the company has been listing at a P/E of 58.85 times on post IPO basis which is quite high looking at the sector PE of just around 20 times.

One important point to note is that the risk factors of the company puts the company into unethical business operations criteria as there have been certain criminal litigations, suspension of group companies and financial defaults.

So to conclude, the company has been performing below average industry standards, the management of the company is not properly built up, there have been certain defaults and suspension in the past which makes the company not worthy to invest and one **should avoid** 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.