



IPO Details

Opening Date	Jan 04, 2023
Closing Date	Jan 06, 2023
Stock Exchange	NSE SME
Lot Size	3000 Shares
Issue Price	₹ 38 per share
Issue Size	63,72,000 Equity Shares
Application Amount	₹ 1,14,000

IPO Objective

Funding Working Capital Requirement of the company
General Corporate Purpose
Issue Expenses

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,77,62,764	100%
Public	-	-

Promoter of the Company

1	Mr. Chetan Kumar Agrawal
2	Mr. Keshav Kumar Agrawal
3	G.R. Sponge and Power Limited
4	N.R. Sponge Private Limited

Competitive Strengths

1	Strategically located manufacturing unit.
2	Stringent quality control mechanism ensuring standardized product quality.
3	Long-standing relationship with customers.
4	Long-standing relationship with our customers.

Company Background

- Company was incorporated in the year 2003 in Maharashtra.
- Company is engaged in the manufacturing of sponge iron or Direct Reduced Iron.
- The company was a part of MSGP Group till 2019 after which it was acquired by GR Group which has been in steel business since 1996.
- The manufacturing facility of the company is situated in Chandrapur, Maharashtra and is spread across 63 acres of land.
- Company had a capacity to produce 72,000 MT of sponge iron as on 30th September 2022.

Financial Summary

For the Period Ended	(In Lacs)		
	Mar-21	Mar-22	Sep-22
Total Assets	5,872.40	7,378.59	9,085.52
Net Assets	2,873.29	3,807.94	4,473.17
Total Borrowings	1,392.81	2,515.81	1,608.18
Total Revenue	14,075.89	18,546.32	11,182.43
Profit After Tax	523.07	934.65	681.74

Tentative Timeline

Opening Date	Jan 04, 2023
Closing Date	Jan 06, 2023
Basis of Allotment	Jan 11, 2023
Initiation of Refunds	Jan 12, 2023
Credit of Shares to Demat	Jan 13, 2023
Listing Date	Jan 16, 2023



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Company Overview

Incorporated in the year 2003, the company is engaged in the manufacturing of sponge iron at its manufacturing unit situated at Chandrapur, Maharashtra admeasuring 63 acres of land. The company was a part of MSP Group until 2019 after which it was acquired by the GR Group which has been in the steel business since 1996.

Analysis

Being incorporated in the year 2003, the company is very well possessed with experience in manufacturing of sponge iron. Sponge iron is used as a raw material for making steel in electric arc furnaces and induction furnaces. Company produces sponge iron through 2 Rotary Kilns at its manufacturing capacity which has an installed capacity of 72,000 MT. The company also has plans to enhance its production capacity by installing the below mentioned plans -

Expansion	Incremental Capacity (p.a.)
Sponge Iron Plant	1,15,500 TPA
Induction Furnace Plant (Steel Melting Unit for Silico Manganese and Ferro Silicon)	1,98,000 TPA
Arc Furnace Plant (Cast Iron unit for Billets)	39,200 TPA
Captive Power Plant	30 MW

The company has been planning to expand its existing Sponge Iron Plant and also looking forward to set up Induction Furnace Plant, Arc Furnace Plant and Captive Power Plant which would further help the company to increase its revenue from existing as well as newer product line. With its expansion, the company would be able to enter new verticals through manufacturing of Silico Manganese, Ferro Silicon and Billets. The company is currently operating at around 75% as shown in the table below -

Particulars	2019-20	2020-21	2021-22	Existing Installed Capacity (p.a.)
Installed capacity (in MT)	72,000	72,000	72,000	72,000
Actual Production (in MT)	33,447.76	61,000.5	56,294.21	
Capacity Utilization (in %)	46.46%	84.72%	78.19%	

The revenue of the company has been promising with a growth of around 25% CAGR over 2 years. Company's primary source of revenue is the sponge iron which



has constituted around 98% of its total revenues up to Sep'22. The other sources of revenue are the by-products which gets produced during the manufacturing processes. The table set forth shows the revenue bifurcation over the years –

(Rs. In Lakhs)

Particulars	HalfYear ended September30, 2022	% of Revenue	2021-22	% of Revenue	2020-21	% of Revenue
Primary Product						
- Sponge Iron	10,952.14	98.26%	18,106.59	97.94 %	13,836.69	98.44%
By-Products						
- Dolochar	147.25	1.32%	183.73	0.99%	58.08	0.41%
- Iron Ore Fines	41.82	0.38%	175.97	0.95%	152.61	1.09%
- Dust	2.78	0.02%	18.83	0.10%	3.93	0.03%
Others						
- Waste & Scrap	1.56	0.01%	1.66	0.01%	4.78	0.03%
Revenue from Operations	11,145.56	100%	18,486.79	100%	14,056.08	100%

Dolochar, by-product of the company, is used in manufacturing steel billets, ingots and re-rolled products. To conclude, the company has fared well in recent years and also seems to do well in coming times with its customer base and product expertise.



Industry Charts

Exhibit 1: Indian Steel Market Size

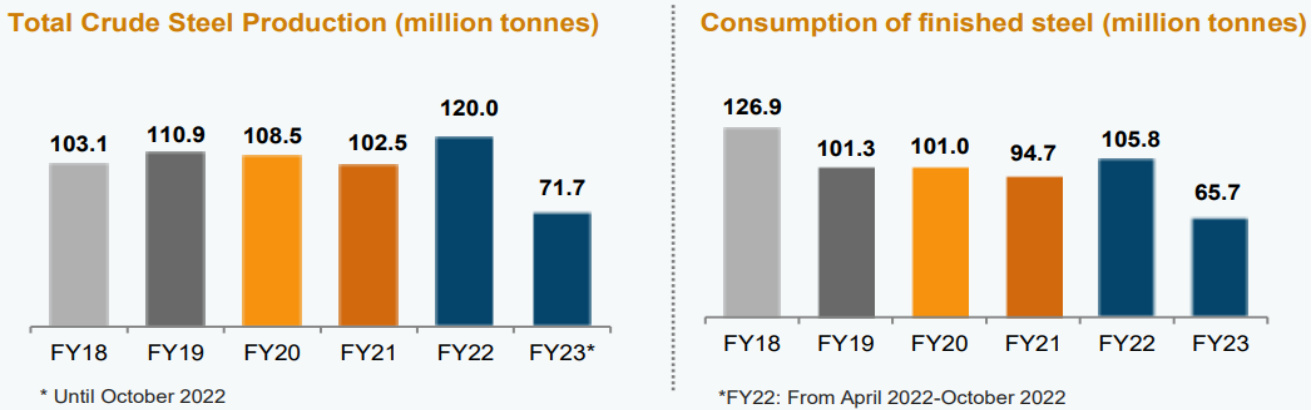


Exhibit 2: Indian Steel Sector Composition

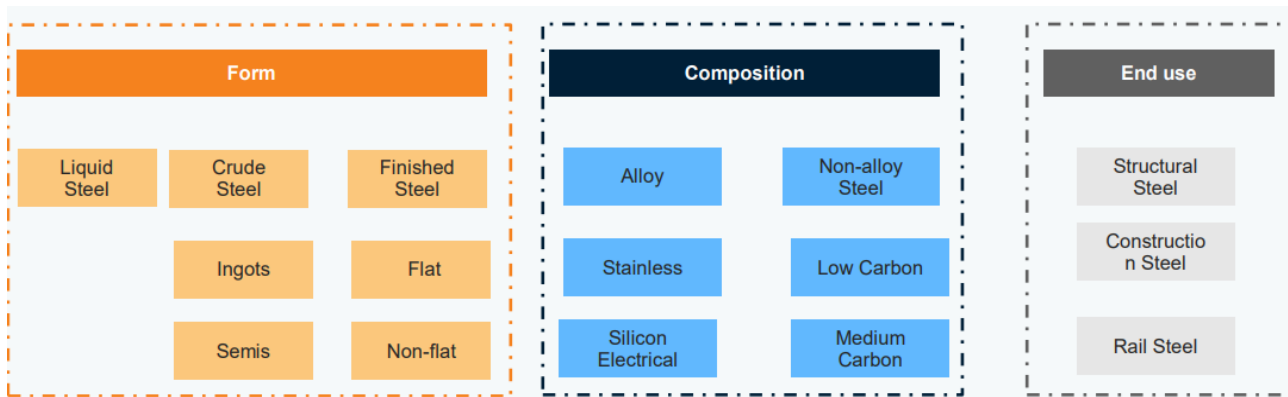
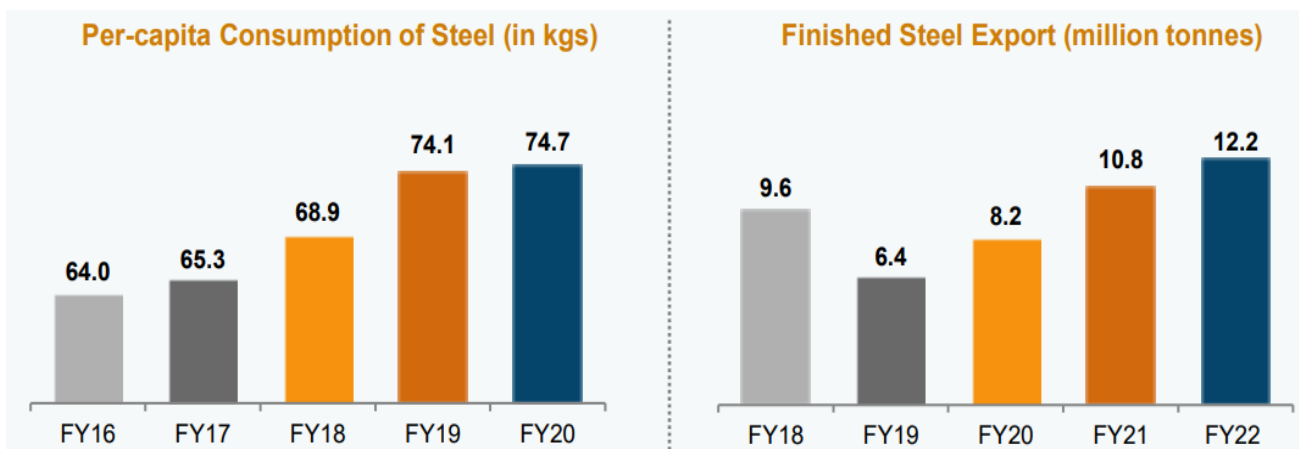


Exhibit 3: Indian Steel Market Key Trends



(Source: ibef.org)



Investment Overview

Gaskets and Seals Industry

One of the primary forces behind industrialization has been the use of metals. Steel has traditionally occupied a top spot among metals. Steel production and consumption are frequently seen as measures of a country's economic development because it is both a raw material and an intermediary product. Therefore, it would not be an exaggeration to argue that the steel sector has always been at the forefront of industrial progress and that it is the foundation of any economy. The Indian steel industry is classified into three categories - major producers, main producers and secondary producers.

As of April 2022, India was the world's second-largest producer of crude steel, with an output of 10.14 MT. In FY22, the production of crude steel and finished steel stood at 133.596 MT and 120.01 MT, respectively. In April-Oct 2022, the production of crude steel and finished steel stood at 71.56 MT and 68.17 MT respectively. 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.

In the past 10–12 years, India's steel sector has expanded significantly. Production has increased by 75% since 2008, while domestic steel demand has increased by almost 80%. The capacity for producing steel has grown concurrently, and the rise has been largely organic.

In FY22, the production of crude steel and finished steel stood at 133.596 MT and 120.01 MT, respectively. The consumption of finished steel stood at 105.751 MT in FY22. In April 2022, India's finished steel consumption stood at 9.072 MT. In April-July 2022, the production of crude steel and finished steel stood at 40.95 MT and 38.55 MT respectively.

In FY22, exports and imports of finished steel stood at 13.49 MT and 4.67 MT, respectively. In FY22, India's export rose by 25.1% YoY, compared with 2021. In FY21, India exported 9.49 MT of finished steel. In July 2022 exports of finished steel stood at 3.80 lakh MT.



The annual production of steel is anticipated to exceed 300 million tonnes by 2030–2031. By 2030–31, crude steel production is projected to reach 255 million tonnes at 85% capacity utilisation achieving 230 million tonnes of finished steel production, assuming a 10% yield loss or a 90% conversion ratio for the conversion of raw steel to finished steel. With net exports of 24 million tonnes, consumption is expected to reach 206 million tonnes by the years 2030–1931. As a result, it is anticipated that per-person steel consumption will grow to 160 kg.

(Source: Prospectus)



Addressable Market for Chaman Metalics Limited

The company sells its products primarily in the state of Maharashtra, Odhisa and Chhattisgarh. Some of the company's customers include Rajesh Steel & Wire Industries (New), R.K. Steel Sales, SMW Ispat Pvt Ltd, Gajkesari Steels & Alloys Pvt. Ltd etc. Company has a very good potential and could definitely increase its geographic expansion in the coming years by selling its products in other parts of the country as well.

Competition

Company operates in a highly competitive environment. There are many small and unorganised players in the market along with some players having better penetration in some geographical areas in which the company operates. The threat of new entrant is not low. The companies in this industry seems to have moderate bargaining power and is also dependent on the bargaining power of its suppliers.

Peer Analysis

As provided in the prospectus, the company has 2 listed peers viz. Bihar Sponge Iron Limited and Lloyds Metals and Energy Limited.

Company	Chaman Metalics Limited	Bihar Sponge Iron Limited	Lloyds Metals and Energy Limited
Net Profit (INR Cr)	9.35	8.27	97.38
EBITDA (INR Cr)	15.57	11.19	175.28
Return on Capital Employed	24.66%	-79.08%	20.21%
Return on Equity	24.54%	-7.09%	22.29%
EPS# (INR)	3.64	0.92	3.00
P/E* (Times)	10.43	10.87	81.77

*PE has been calculated as on 30/12/2022

Post IPO Basis



Promoters' Profile and Management Analysis

Mr. Chetan Kumar Agrawal



- Mr. Chetan Kumar Agrawal is an individual promoter, chairman and managing director of the company.
- He holds a Bachelor's degree in Industrial Engineering from University of Pune.
- He has been associated with the company since 2019.

Mr. Kesav Kumar Agrawal



- Mr. Kesav Kumar Agrawal is an individual promoter, Joint Managing Director and CFO of the company.
- He has been associated with the company since 2019.
- He is a chartered accountant from the Institute of Chartered Accountants of India and holds Bachelor's degree in Business Administrations from University of Mumbai.

G.R. Sponge and Power Limited

- G.R. Sponge and Power Limited is a corporate promoter.
- The company has been established in the year 1996 in Chhattisgarh.
- The company is engaged in the business of manufacturing of Iron and Steel products, Synthetic Slag and Binding wire, steel products and generation of electricity for captive consumption and sale.



N.R. Sponge Private Limited

- N.R. Sponge Private Limited is the corporate promoter of the company.
- The company was incorporated in the year 2002 in Chhattisgarh.
- The company is engaged in the manufacturing of Sponge Iron and Generation of Power.



Analysis on the Company's Promoter and Board of Directors

Chetan Kumar Agrawal is the Chairman and Managing Director of the Company. He holds a Bachelor's degree in Industrial Engineering from University of Pune. He has been associated with the Company since June 17, 2019. He has over 16 years of experience in the steel industry.

Keshav Kumar Agrawal is the Joint Managing Director and Chief Financial Officer of the Company. He has been associated with the Company since June 17, 2019. He is a chartered accountant from the Institute of Chartered Accountants of India and holds Bachelor's degree in Business Administrations from University of Mumbai. He has a work experience of over 13 years in the steel industry.

Ramesh Kumar Agrawal is the Non- Executive Director of the Company. He holds a Bachelor's degree in Commerce. He has been associated with the Company since June 17, 2019. He has a work experience of almost 30 years in the steel industry.

To conclude, the company's individual promoters along with the corporate promoters have a good experience in the industry in which the company belongs to. The corporate promoters are in the similar line of business and has vast experience in the field of sponge iron and other steel products. The independent directors of the company are also well experienced and could be a good driving force for the company.



Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th Sep, 2022
Profit and Loss			
Revenue from operations	14,056.08	18,486.79	11,145.56
Other income	19.81	59.53	36.87
Total Revenue	14,075.89	18,546.32	11,182.43
Expenses	12,972.90	16,930.12	10,103.97
Depreciation and Amortisation Cost	152.47	171.64	86.06
Finance Cost	208.44	189.46	98.91
Total Expenses	13,333.81	17,291.22	10,288.94
PBT	742.08	1,255.10	893.49
PBT Margin	5.28%	6.79%	8.02%
EBITDA	1,083.18	1,556.67	1,041.59
EBITDA Margin	7.71%	8.42%	9.35%
Net Profit	523.07	934.65	681.74
Net Profit Margin	3.72%	5.06%	6.12%
Balance Sheet			
Total Borrowings	1,392.81	2,515.81	1,608.18
Net Worth	2,873.29	3,807.94	4,473.17
Fixed Assets	2,793.67	2,877.44	2,918.49
Net Working Capital	521.64	1,940.77	1,693.90
Financial Measures (Annualised)			
Inventory Turnover Ratio	8.60	10.09	10.24
Receivables Turnover Ratio	30.68	15.48	18.88
Payables Turnover Ratio	9.62	31.85	9.51
Fixed Assets Turnover Ratio	5.03	6.42	8.12
Return on Capital Employed	27.02%	24.66%	23.48%
Return on Equity	18.20%	24.54%	18.00%
Debt-Equity Ratio	0.48	0.66	0.21

(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. 1,083.18 lacs in 2021 to Rs. 1,556.67 lacs in 2022 and on 30th Sep 2022 it was Rs. 1,041.59 lacs and if we annualise the same it would be around Rs. 2,083.18 lacs. The EBITDA on annualised basis has grown at a CAGR of 38.68%. The EBITDA margin in 2021 was 7.71%, 8.42% in 2022 and 9.35% up to 30th Sep 2022.

Net Profit

The net profit of the company has grown from Rs 523.07 lacs in 2021 to Rs. 934.65 lacs in 2022 and as on 30th Sep 2022 it was Rs. 681.74 lacs and if we annualise the same it would be around Rs. 1,363.48 lacs growing at a CAGR of 61.45%. The net profit margin in 2021 was 3.72%, 5.06% in 2022 and 6.12% up to 30th Sep 2022. The net profit margin of the company has shown good strength and has grown at a very good pace. However, the growth rate is expected to come down to a sustainable level in coming times.

Finance Cost.

The company's finance cost mainly due to short terms borrowings availed by the company.

Financial Measures/Ratios

RoCE of the company up to 30th Sep 2022 is 17.49% vs 24.66% in 2022 and 27.02% in 2021. If we annualise the ROCE of FY 2022-2023, the ROCE is expected to be around 23.48%. The RoCE has been at good levels for the company and it is expected to be at these levels in the coming times.

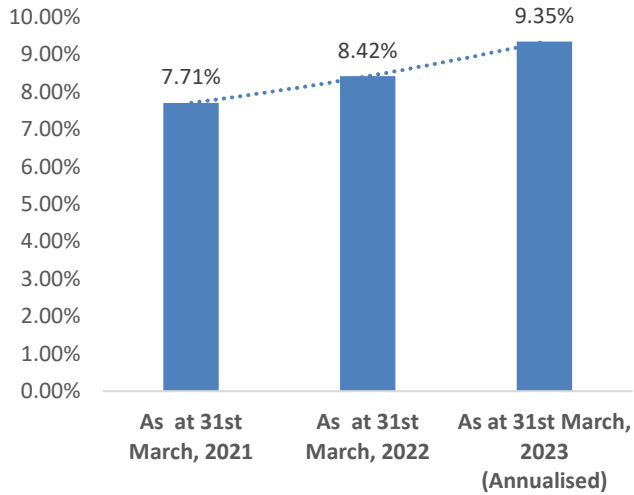
ROE of the company in 2021 was 18.20%, 24.54% in 2022 and 15.24% up to Sep 2022, if annualised, ROE would be around 18.00%. The ROE likewise RoCE has been at good levels for the company. With increase of equity base, the ROE is expected to come down on annualised basis, but with passage of time, the ROE is again expected to go beyond 20%.

The company has a debt-equity ratio of 0.36 which shows the company is decently leveraged but could better utilise debts in their favour. The debt-equity ratio is going to go further down to around 0.21 times post IPO.

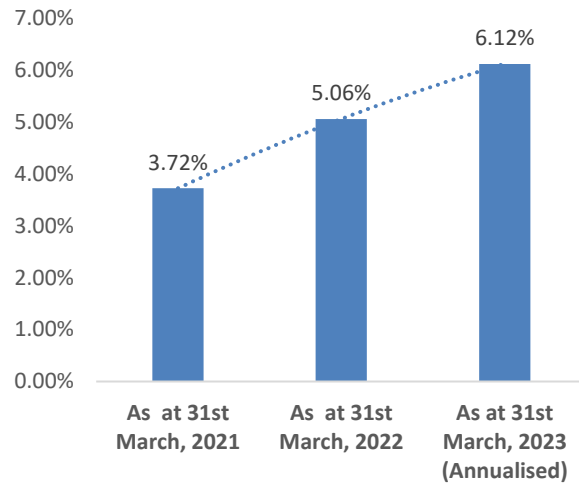


Financial Charts

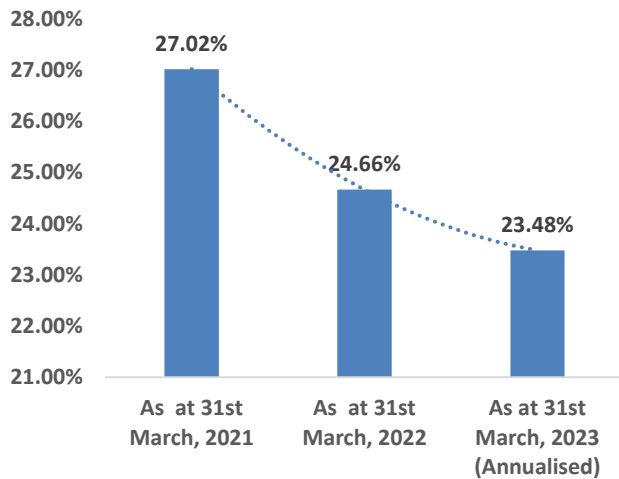
EBITDA Margin



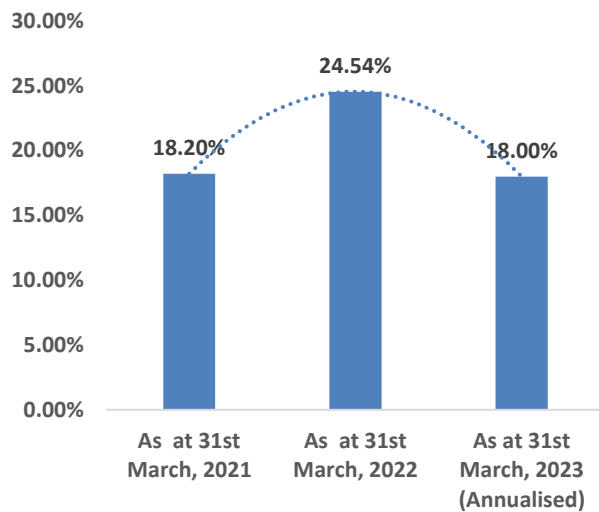
Net Profit Margin



Return on Capital Employed



Return on Equity





Key Risk Factors

1. Company, Promoters, Directors and group Companies are involved in certain litigations including tax related litigations amounting to Rs. 1,117.17 lacs along with 4 litigations having unascertainable amount, which if determined against the company, can affect financial conditions of the company.
2. Erstwhile Statutory auditor has provided qualifications in the Financial Statements for Financial Years ended on March 31, 2021 and 2020 pertaining to some deposits ascertained by the management as recoverable and no impairment been made.
3. Top 5 customers of the company contribute to around 79% of sales.
4. Company has contingent liabilities amounting to Rs. 244.66 lacs for the period ended up to Sep 2022.
5. Company had negative cash flow from operating activities in FY 22 and FY 20.



Track Record of Lead Manager

The lead manager to the issue is Hem Securities and this is the 19th mandate in the last three fiscals. 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#
1.	Prevest Denpro Limited	26.61	84/-	27-09-2021	360.50
2.	Jainam Ferro Alloys (I) Limited	19.61	70/-	08-10-2021	187.45
3.	Shri Venkatesh Refineries Ltd.	11.71	40/-	11-10-2021	191.50
4.	KN Agri Resources Limited	49.38	75/-	28-03-2022	145.00
5.	Krishna Defence and Allied Industries Limited	11.89	39/-	06-04-2022	157.80
6.	Eighty Jewellers Limited	11.07	41/-	13-04-2022	60.00
7.	Kesar India Limited	15.82	170/-	12-07-2022	172.00
8.	Concord Control Systems Limited	8.32	55/-	10-10-2022	229.30
9.	Lloyds Luxuries Limited	24.00	40/-	11-10-2022	42.50
10.	Silicon Rental Solutions Limited	21.15	78/-	10-10-2022	157.80
11.	Cargosol Logistics Limited	7.56	28/-	10-10-2022	62.90
12.	Vedant Asset Limited	3.00	40/-	12-10-2022	58.75
13.	Cargotrans Maritime Limited	4.86	45/-	10-10-2022	105.05
14.	Baheti Recycling Industries Limited	12.42	45/-	08-12-2022	143.15

#CMP is taken as on 30th December 2022

Out of the last 10 listings, all opened with premiums ranging from 3.24% to 153.33% on the day of listing.



Recommendation

The company has been into this industry from 2003 and possess very good experience in the field of producing sponge iron. The company forms a part of GR Group which has established itself in the year 1996 and has vast experience in similar line of business.

The revenue and profit margins of the company has shown some good growth in the recent years and the mixed ratios of the company has also been increasing.

The management outlook of the company is also good.

The company is getting listed at a PE of around 11 times on post IPO basis and looking at the size of the company, it is fairly priced.

So, the company seems to have a good prospect with expansion plans in process and so one **should apply** 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.