

IPO Details	
<b>Opening Date</b>	May 30, 2023
<b>Closing Date</b>	June 02, 2023
<b>Stock Exchange</b>	BSE SME
<b>Lot Size</b>	800 shares
<b>Issue Price</b>	₹ 165 per share
<b>Issue Size</b>	52,00,000 Equity Shares
<b>Application Amount</b>	₹ 1,32,000
<b>Amount Raised (Issue Type)</b>	₹85.80 Cr (Fresh Issue- ₹85.80 Cr)

IPO Objective	
1.	Funding Working Capital Requirement.
2.	Repayment of Loan.
3.	Purchase of machinery and equipment.
4.	Acquire Technology of " Towed Wire Antenna (TWA)".
5.	General Corporate Purposes.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,42,73,300	99.99%
Public	800	0.01%

Promoter of the Company	
1.	Mr. Sunil Menon
2.	Mr. Gautam Makkar

Competitive Strengths	
1.	Experienced Promoters and Management Team.
2.	Visible growth through Robust Order Book Position.
3.	Strong Financial Performance.
4.	Technical Capabilities, registrations and empanelment.
5.	Focus on Navy Defence Sector.
6.	Long standing strategic Partnerships.

Company Background	
○	CFF Fluid Control Limited was incorporated in the year 2012 and has its registered office at Raigarh.
○	The company is engaged into the manufacturing and servicing of shipboard machinery, critical component systems and tests facilities for submarines and surface shops for the Indian Navy
○	The Company is also engaged in manufacturing and servicing of mechanical equipment and system for industries like Nuclear and Clean Energy.
○	Company was incorporated with a purpose of having dedicated new entity focussed on meeting the growing requirements of Indian Navy, Mazagaon Dockyard and Shipbuilders Limited (MDL) for manufacturing and supplying mechanical equipment for the "Scorpene" Submarine Program of India.
○	As on 31 <sup>st</sup> December 2022, company have 33 employees on their payroll.

Financial Summary (INR In Lacs.)			
For the Period Ended	Mar-21	Mar-22	Dec-22
<b>Total Assets</b>	4,232.32	5,593.59	7,165.57
<b>Net Assets</b>	703.71	1,483.22	2,201.33
<b>Total Borrowings</b>	2,261.21	1,659.17	2,693.09
<b>Total Revenue</b>	1,481.28	4,712.39	5,085.37
<b>Profit After Tax</b>	24.60	779.51	718.11

Tentative Timeline	
<b>Opening Date</b>	May 30, 2023
<b>Closing Date</b>	June 02, 2023
<b>Basis of Allotment</b>	June 07, 2023
<b>Initiation of Refunds</b>	June 08, 2023
<b>Credit of Shares to Demat</b>	June 09, 2023
<b>Listing Date</b>	June 12, 2023

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## Company Overview

Company was incorporated in the year 2012 and has its manufacturing facility at Khupli where it designs manufacture and service fluid control systems, distributor and air panels, Weapons and Control Systems, Steering gear, Propulsion Systems, High Pressure Air Systems, Hydraulics Systems, Breathing and Diving Air Systems and Integrated Platform Management Systems for submarines and surface ships for the Indian Navy and its OEMs. The company was incorporated with a purpose of having dedicated new entity focussed on meeting the growing requirements of Indian Navy, Mazagaon Dockyard and Shipbuilders Limited (MDL) for manufacturing and supplying mechanical equipment for the “Scorpene” Submarine Program of India.

## Analysis

Being incorporated in the year 2012, the company has a decent track record of existence. The company is majorly serving the Indian Navy where it manufactures and services various accessories related to submarines. In the year 2022, the company served 89.43% of its product to the defence sector and 10.57% to the non-defence sector. The company has a good product base which has good future prospect looking at the government’s support to the defence sector of the country. The product and service base of the company includes –

1. Fluid Control Products
2. Distributors and Air Panels
3. Nuclear Sampling System
4. Components of Akash Missiles and T92 Tanks
5. System Integration
6. Repairs and Maintenance Service

The products of the company are used for fluid systems, controlling and distribution of fluid pressure, collect liquid & gaseous sample and moving the wings of missile. The company is into the process of developing Towered Wire Antenna in India and has entered in to LOI with various companies. The company also has around Rs. 9,004.00 lakhs as on 31<sup>st</sup> December 2022 which would further help to increase the revenue of the company. The company is also Authorized Equipment Manufacturers for the following: (a) Mechanical Equipment for Scorpene submarines (Authorized Equipment Manufacturer) (b) Underwater communication equipment for Scorpene Submarines (Authorized Equipment Manufacturer).

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The company has a framework agreement with Naval Group (France) and M/s Issartel (France) which will enable it to support various other equipment and systems for the 30-year life cycle of the submarines. The client base of the company is also good which includes good companies and has the necessary certifications and registrations with various clients with whom regular business is undertaken. These include Defence PSU shipyards such as Mazagaon Dockyard and Shipbuilders Limited (MDL), Naval Dockyards at Mumbai, Visakhapatnam, and Karwar. The company is also in the process of registration with Garden Reach Shipbuilders and Engineers (GRSE), Hindustan Shipyard (HSL), Cochin Shipyard Limited (CSL).

To conclude, the company has a good product base and client base, with good track record of existence and good top line.

**Industry Charts**

Exhibit 1: Market Size of Defence Manufacturing in India

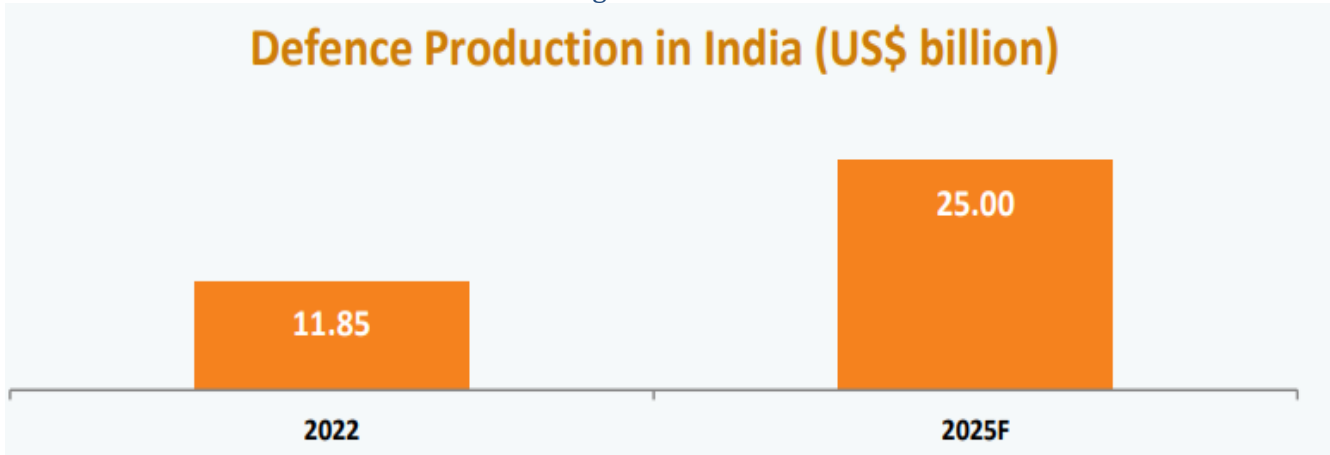


Exhibit 2: Sector Composition of Defence Manufacturing in India

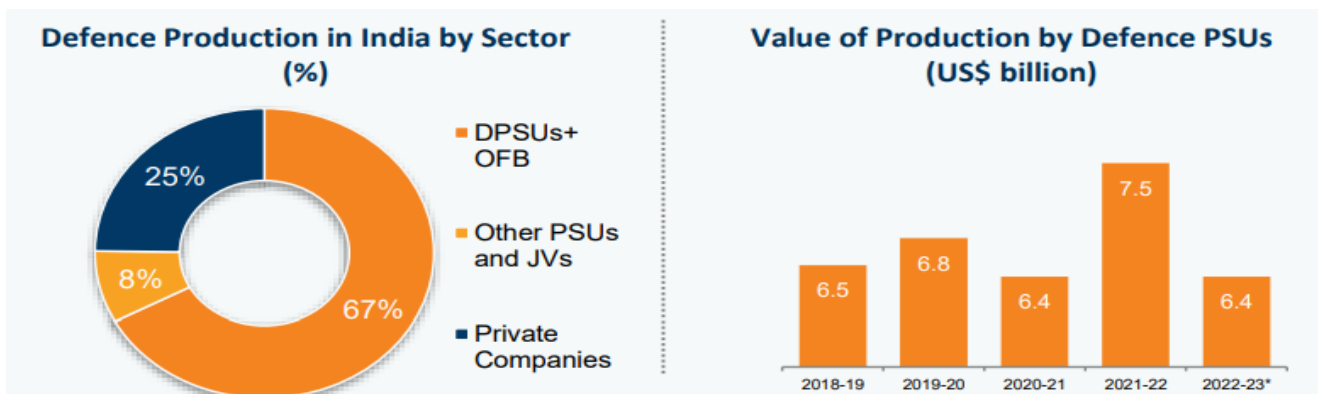
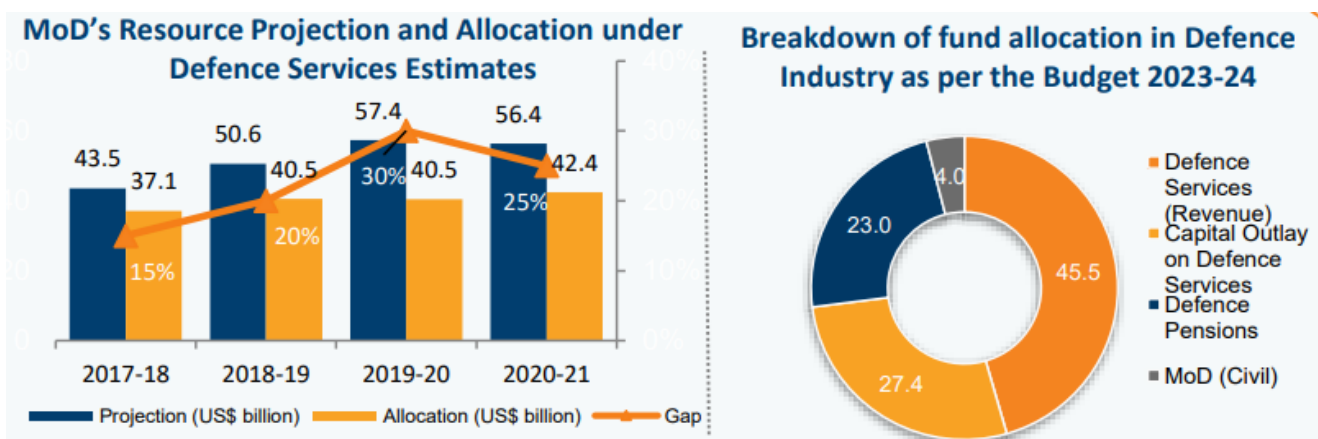


Exhibit 3: Key Trends in Defence Manufacturing Industry in India



(Source- IBEF)

## Investment Overview

### **Indian Defence Manufacturing**

According to the global power index, the Indian defence sector ranks fourth in terms of firepower with a score of 0.0979 (with 0.0 being the perfect score). The Indian government has set the defence production target at US\$ 25 billion by 2025 (including US\$ 5 billion from exports by 2025). India is one of the world's biggest defence spenders with a total outlay of Rs. 5.25 lakh crore (US\$ 66 billion), accounting for 13.31% of the total budget and indicating an increase over the budget estimates of 2021-22 by Rs. 46,970 crore (US\$ 5.9 billion).

India is one of the strongest military forces in the world and holds a place of strategic importance for the Indian government. The top three largest market segments of the Indian defense sector are military fixed wing, naval vessels and surface combatants, and missiles and missile defense systems. Military rotorcraft, submarines, artillery, tactical communications, electronic warfare, and military land vehicles are some of the other well-known segments. Some of the major defence manufacturing companies in India are Bharat Earth Movers Ltd. (BEML), Bharat Electronics Ltd. (BEL), and Hindustan Aeronautics Ltd. (HAL).

The Indian defence manufacturing industry is a significant sector for the economy. The industry is likely to accelerate with rising concerns of national security. Demand for defence equipment in India has been growing due to the ongoing territorial disputes with Pakistan and China over the ownership of the Northern State of Kashmir and the North Eastern State of Arunachal Pradesh, respectively. Over the last five years, India has been ranked among the top importers of defence equipment to gain technological advantages over rival countries such as China and Pakistan. To modernise its armed forces and reduce dependency over external dependence for defence procurement, several initiatives have been taken by the government to encourage 'Make in India' activities via policy support initiatives.

India has the world's third-largest defence expenditure, as of 2021, and expects to export equipment worth US\$ 15 billion by 2026.

As per the Union Budget 2022-23, 25% of defence R&D budget has been earmarked for private industry and start-ups which will pave the way for innovation of new defence technologies in India.

Till October 2022, a total of 595 Industrial Licences have been issued to 366 companies operating in Defence Sector. Defence exports grew by 334% in last five years; India now exporting to over 75 countries due to collaborative efforts.

*(Source- Prospectus)*

### **Addressable market for CFF Fluid Control Limited**

The company is currently operating with only one manufacturing set up and would require more plant and machinery to cater the demand. The company has plans to enter into manufacturing of Towered Wire Antenna in India and has entered in to LOI with various companies.

### **Competition**

Company faces high competition from some of the big and renowned players in the industry. The entry to barrier is although low and the threat of substitute product is also very less. The only concern in case of competition for the company is the existing players in the market.

## **PEER ANALYSIS**

As per the RHP, the company has mentioned 4 companies as its listed peers viz. Data Patterns (India), Mtar Technologies, Paras Defence and Space Technologies Limited and Bharat Electronics Limited. An analysis on the peer companies has been given below –

Particulars	CFF Fluid Control Limited			Data Patterns (India) Limited			MTAR Technologies Limited		
	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20
Net Profit Margin	17%	2%	4%	30%	25%	13%	19%	19%	15%
EBITDA Margin	27%	19%	16%	45%	41%	28%	29%	34%	27%
Return on Capital Employed	45%	10%	31%	22%	33%	21%	14%	14%	20%
Return on Equity	53%	3%	20%	16%	27%	14%	12%	10%	14%
EPS (INR)	5.46	0.17	0.93	18.11	326.86	123.84	19.79	14.98	11.70

Particulars	Paras Defence and Space Technologies Limited			Bharat Electronics Ltd		
	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20
Net Profit Margin	15%	10%	14%	16%	15%	14%
EBITDA Margin	28%	30%	27%	22%	23%	21%
Return on Capital Employed	11%	13%	13%	9%	10%	10%
Return on Equity	7%	7%	12%	20%	19%	18%
EPS (INR)	6.90	5.05	7.03	3.28	2.87	2.50

The company has performed on par with the peer companies in FY 21-22 but has underperformed its peers with respect to profitability margins in the years mentioned before that. The ROE and RoCE were on a good note in FY 22, but if we see the ratios after the IPO, a fall is estimated due to increase in equity base of the company.

## **CFF Fluid Control Limited**

Leading PE on post IPO basis – 33.56 times

Post IPO EPS – 4.92



## Promoters' Profile and Management Analysis

### Mr. Sunil Menon



- Sunil Menon, aged 55 years, is Promoter and also the Managing Director on Board.
- He completed his Diploma in Hotel Management, Catering and Nutrition from Board of Technical Education Delhi.
- He has more than 30 years' experience in Businesses like defence and in engineering company.

### Mr. Gautam Makkar



- Gautam Makkar, aged 53 years, is Promoter and Chairman of the company.
- He has completed his Bachelor of Electrical Engineering.
- He has more than 25 years of experience in the fields of sourcing and providing solutions to defence, power, and marine industry

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

**Mr. Sunil Menon**, aged 55, is the founding Promoter of the company. He completed his Diploma in Hotel Management, Catering and Nutrition from Board of Technical Education Delhi. He has more than 30 years' experience in Businesses like defence and in engineering company. He has contributed substantially to growth of business, and business strategy of the Company.

**Mr. Gautam Makkar**, aged 53, is the founding Promoter of the company. He has completed his Bachelor of Electrical Engineering. He has more than 25 years of experience in the fields of sourcing and providing solutions to defence, power, and marine industry. He is responsible for providing his expertise for growth and expansion of the Company.

**Mr. Priyanka Moondra Rathi**, aged 30 years is a Non-Executive Independent Director of the Company. She has completed Bachelor of Commerce degree, and Diploma in MBA in Finance. She is also a member of Institute of Company secretaries of India since 2017 and is currently pursuing Certified Public Accountants course. She has an experience of more than 4 years including internship in the field of Secretarial, Compliances and Legal work.

**Mr. RajnishPrakash**, aged 69, is a Non-Executive Independent Director of the Company. He has completed bachelor's degree of Science in Chemical Engineering, and Diploma in Chemical Engineering. He is associated with Nuclear Power Corporation of India Limited in capacity of Independent Director. He received INS Homi Bhabha Lifetime Achievement Award- 2014 from Indian Nuclear Society & Green tech foundation and Outstanding Engineer award from Institute of Engineer.

To conclude, there are executive directors of the company have been associated with the company since its incorporation, and they have vast experience in the industry to which the company belongs to. The Non -Executive independent directors have good cumulative experience which helps in the growth of the business.

## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 31st, Dec 2022
<b><u>Profit and Loss</u></b>			
Revenue from operations	1,452.41	4,698.77	5,077.32
Other income	28.87	13.62	8.05
Total Revenue	1,481.28	4,712.39	5,085.37
Expenses	1,174.24	3,452.49	3,854.95
Depreciation and Amortisation Cost	107.78	90.79	88.06
Finance Cost	173.33	125.17	181.48
Total Expenses	1,455.35	3,668.45	4,124.49
PBT	25.93	1,043.94	960.88
PBT Margin	1.79%	22.22%	18.92%
EBITDA	278.17	1,246.28	1,222.37
EBITDA Margin	19.15%	26.52%	24.08%
Net Profit	24.60	779.51	718.11
Net Profit Margin	1.69%	16.59%	14.14%
<b><u>Balance Sheet</u></b>			
Total Borrowings	2,261.21	1,659.17	2,693.09
Net Worth	703.71	1,483.22	2,201.33
Fixed Assets	903.70	812.91	1,664.77
Net Working Capital	818.86	1,776.94	746.09
<b><u>Financial Measures</u></b>			<b><u>(Annualised)</u></b>
Inventory Turnover Ratio	0.72	2.26	2.61
Receivables Turnover Ratio	2.20	3.57	3.25
Payables Turnover Ratio	1.72	1.67	3.17
Fixed Assets Turnover Ratio	1.61	5.78	4.38
Return on Capital Employed	9.86%	65.03%	13.72%
Return on Equity	3.50%	52.56%	8.69%
Debt-Equity Ratio	3.21	1.12	0.24

(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 increased from Rs. 278.17 lacs in 2021 to Rs. 1,246.28 lacs in 2022 and up to 31<sup>st</sup> Dec 2022 it was Rs. 1,222.47 lacs and if we annualise the same it would be around Rs. 1,629.83 lacs. The EBITDA on annualised basis has grown at a CAGR of 142.06%, but this includes poor performance in FY 21 due to covid. So, if we just look at the Y-o-Y growth after FY 22, it is around 30% which is sustainable. The EBITDA margin took a hit in FY 21 due to COVID but thereafter had increased to around 26% in FY 22 and on an annualised basis it is expected to be around 24%. The slight decrease is due to increase in employee benefit cost.

## **Net Profit**

The net profit of the company has increased from Rs 24.60 lacs in 2021 to Rs. 340.66 lacs in 2022 and up to Dec 2022 it was 718.11 lacs and if we annualise the same it would be around Rs. 957.48 lacs growing at a CAGR of 523.87%, but likewise EBITDA growth, the net profit growth should be seen only from FY 22 and not from FY 21 as the year was affected by COVID. The net profit margin in 2021 was 1.69%, 16.69% in 2022 and 14.14% on annualised basis. The increase of net profit margin in FY 21 and decrease of net profit margin in FY 22 can be attributed to same reasons as that of EBITDA margin.

## **Finance Cost.**

The company's financial cost is only due to Interest on Long-term & Short-term loan, related parties, and other financial charges.

## **Financial Measures/Ratios**

RoCE of the company up to 31<sup>st</sup> Dec 2022 was 152.03% vs 65.03% in 2022 and 9.86% in 2021. If we annualize the RoCE of FY 2022-2023, the RoCE is expected to be around 13.72%. With the increase in the equity base of the company through IPO, the ROCE on annualized basis is expected to fall.

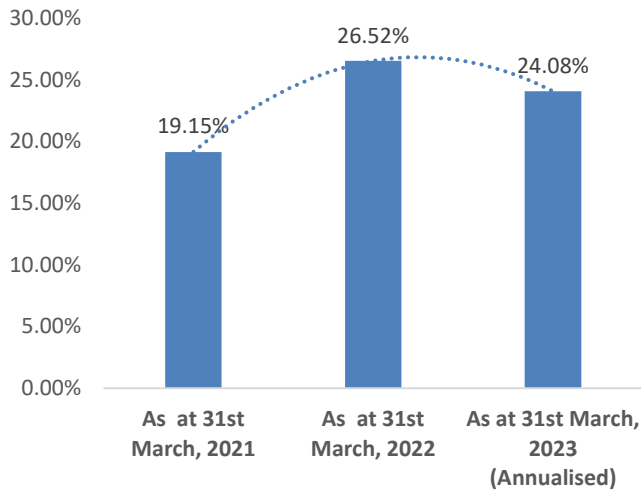
ROE of the company in 2021 was 3.50%, 52.56% in 2022, and 32.62% up to Dec 2022, if annualized ROE would be around 8.69%. With an increase in equity base, The ROE is expected to come further down on annualized basis.

The inventory turnover ratio and receivables turnover ratio of the company has been on an increasing trend showing effective management of inventory. The payables turnover ratio of the company has been also increasing which would be considered a not so effective working capital management.

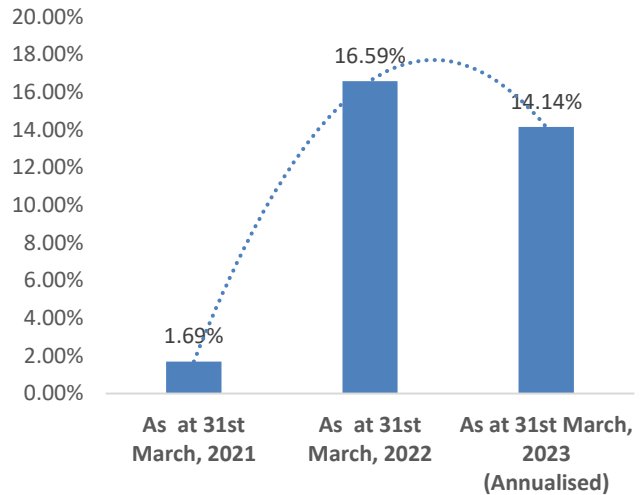
The debt-equity ratio of the company was 1.22 times as on 31<sup>st</sup> March 2022 which would come down to 0.24 times on annualised basis, so the company would have good opportunity to have more debt ceteris paribus.

**Financial Charts**

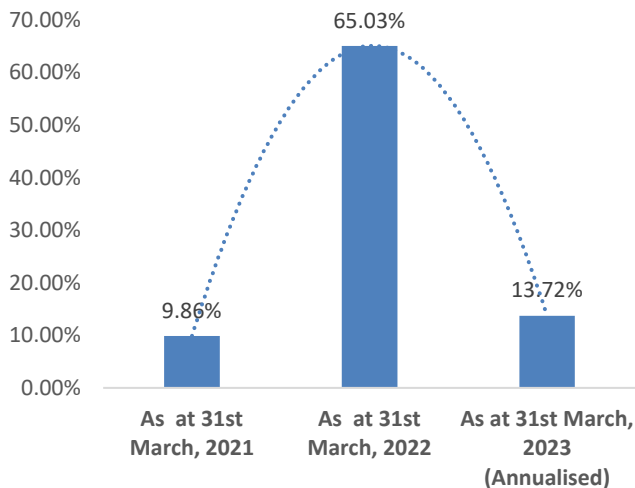
**EBITDA Margin**



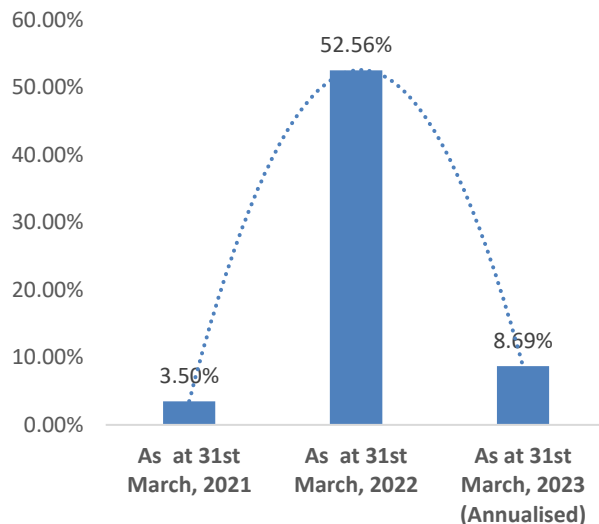
**Net Profit Margin**



**Return on Capital Employed**



**Return on Equity**



## Key Risk Factors

1. Company, Group Company, Its Promoters and Directors are parties involved in certain litigations including tax related litigations amounting to Rs. 1,346.57 lacs, which if determined against the company, can affect financial conditions of the company.
2. The company is highly dependent of Indian Navy for majority of its revenue.
3. The company has negative cash flow from operations in 2 years out of past 3 years.
4. The top 5 suppliers contributed to more than 97% of its total purchase.
5. The company is exposed to foreign exchange fluctuations risk.

## Track Record of Lead Manager

The lead manager to the issue is Aryaman Financial Services Limited. A table has been set below highlighting the details of the IPO of the last 10 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.	Command Polymers Limited	7.09	28.00	March 29, 2023	25.45
2.	Rex Sealing and Packing Industries Limited	8.09	135.00	January 12, 2023	140.65
3.	Abans Holdings Limited	345.60	270.00	December 23, 2022	275.65
4.	EP Biocomposites Limited	6.35	126.00	September 13, 2022	207.50
5.	Rhetan TMT Limited	56.00	70.00	September 05, 2022	10.82
6.	Modi's Navnirman Limited	22.68	180.00	July 06, 2022	156.50
7.	SP Refractories Limited	4.92	90.00	March 22, 2022	86.00
8.	Fabino Life Sciences Limited	3.24	36.00	January 13, 2022	32.50
9.	Suyog Gurbaxani Funicular Ropeways Limited	29.50	45.00	November 16, 2021	45.10
10.	CWD Limited	18.01	180.00	October 13, 2021	1,350.00

### #CMP is taken as on 29<sup>th</sup> May 2023

As per the offer document Aryaman Financial Services Limited have had 17 mandates in the last three fiscals (including the ongoing one). For Aryaman Financial Services Limited out of the last 10, 1 at discount (4.46%), 2 at par, and the rest 7 listed at premiums ranging from 0.22% to 27.18% on the listing date. Thus, it has a decent track record.



## Recommendation

The company has been into this industry since 2012 and have a decent track record. The revenue of the company has been good with good profit margins.

The management of the company is well educated with good years of experience which would help the company to progress in future.

Looking at the ongoing government support in the defence sector as well as the product and clientele of the company, the company is expected to do well in the coming future.

The Leading PE of the company is on a higher side, but overall the company looks good and 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.**