

### IPO Details

<b>Opening Date</b>	Apr 28, 2023
<b>Closing Date</b>	May 3, 2023
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	1200 shares
<b>Issue Price</b>	₹ 95 - ₹101 per share
<b>Issue Size</b>	22,76,400 Equity Shares
<b>Application Amount</b>	₹ 1,21,200

### IPO Objective

- To meet the working capital requirements of the company.
- For general corporate purposes and to meet the issue expenses.

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	57,69,000	91.14%
Public	5,61,000	8.86%

### Promoter of the Company

1	Mr. Neeraj Kumar Aggarwal
2	Mrs. Shilpy Aggarwal
3	Mr. Kanav Gupta

### Competitive Strengths

- Experienced directors and management team
- Distribution system
- Quality and safety of products
- Repeat orders and strong supply chain

### Company Background

- Company was incorporated in the year 2018 as “De Neers Tools Limited”.
- The brand “De Neers” is based on the determination to provide the best quality hand tools available in India. Company has approximately 250 dealers throughout India and also looking for export possibilities.
- Over seven decades generation on generations, they have learned and adopted new and improved systems to increase dealership network, customer reach and the best practices to satisfy customers’ needs to the fullest.
- They are also specialized in providing safety tools like non- sparking tools, insulated steel tools, non-sparking insulated tools, stainless steel & magnetic tools, titanium tools along with multiple other hand tools. As of November 30, 2022, it had 92 employees on its payroll.

### Financial Summary

For the Period Ended	(In Lacs)		
	Mar-21	Mar-22	Oct-22
<b>Total Assets</b>	6,111.28	9,933.52	12,558.14
<b>Net Assets</b>	320.47	2,382.27	3,044.13
<b>Total Borrowings</b>	1,147.84	2,435.85	2,406.42
<b>Total Revenue</b>	6,211.77	8,008.68	5,602.65
<b>Profit After Tax</b>	65.77	504.42	386.98

### Tentative Timeline

<b>Opening Date</b>	Apr 28, 2023
<b>Closing Date</b>	May 3, 2023
<b>Basis of Allotment</b>	May 8, 2023
<b>Initiation of Refunds</b>	May 9, 2023
<b>Credit of Shares to Demat</b>	May 10, 2023
<b>Listing Date</b>	May 11, 2023

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## Company Overview

De Neers Tools Ltd. (DNLT) was originally promoted as De Neers Tools LLP and it took over Deewan Chand Madanlal & Sons as a going concern in June 2021. This merged firm was converted into a public limited company as of July 26, 2021. The company sells its products under the "De Neers" brand. DNLT is among the few key players in the hand tool industry as per the industry report of CareEdge. It provides a very broad range of hand tools in India with approximately two-thirds of revenue geographically concentrated in the states of Delhi NCR, Gujarat, Telangana, Bihar & Uttar Pradesh (UP). Its extensive range of products includes spanners, wrenches, pliers, cutters, Allen keys, hammers, socketry, screwdrivers, tool kits, tool cabinets, trolleys, etc. The company is also specialized in providing safety tools like non-sparking tools, insulated steel tools, non-sparking insulated tools, stainless steel & magnetic tools, titanium tools along with multiple other hand tools.

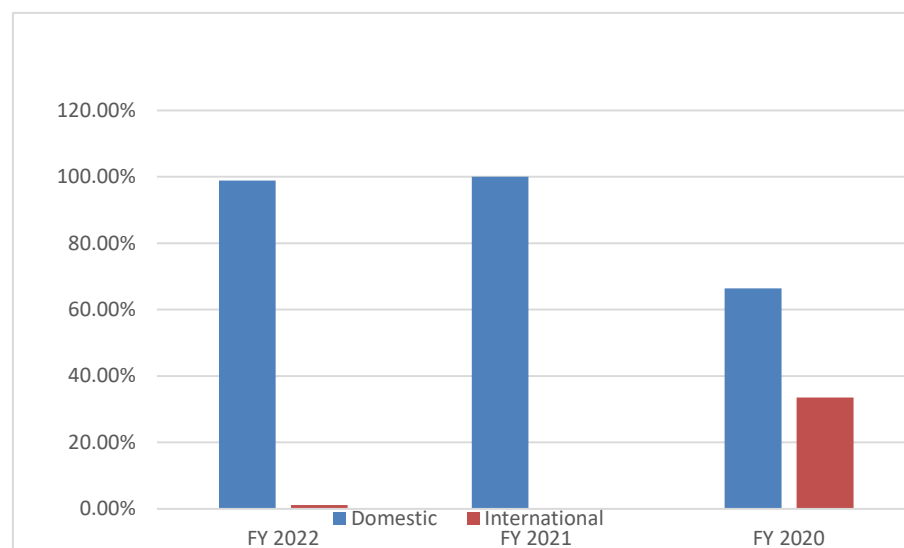
## Analysis

The brand "De Neers" is based on the determination to provide the best quality hand tools available in India. All these years they focused on customer needs and therefore established a brand having an aim to satisfy the customer to the fullest. At present, company has approximately 250 dealers throughout India and also looking for export.

De Neers is among the few key players in the hand tool industry as per the industry report of CareEdge and provide a very broad range of hand tools in India with approximately two-third of revenue geographically concentrated in the states of Delhi NCR, Gujarat, Telangana, Bihar & Uttar Pradesh (UP). Extensive range of products includes spanners, wrenches, pliers, cutters, allen keys, hammers, socketry, screw drivers, tool kits, tool cabinets, trolleys, etc and also specialized in providing safety tools like non- sparking tools, insulated steel tools, non-sparking insulated tools, stainless steel & magnetic tools, titanium tools along with multiple other hand tools.

A comparison of its geographical revenue for FY 22 vis-à-vis FY 21 &20 is given in the table below –

### Geographical Revenue:

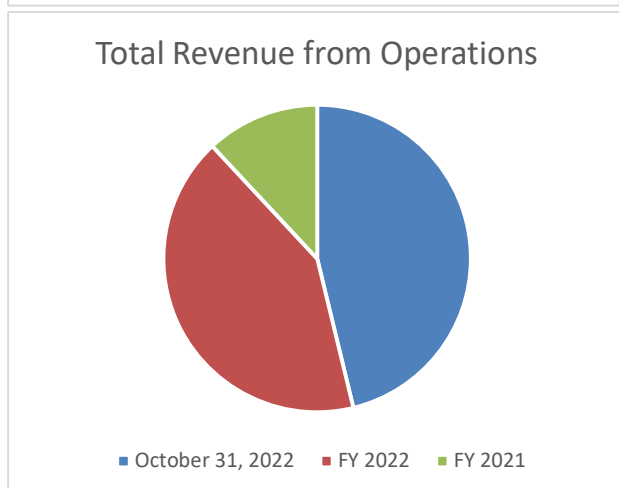
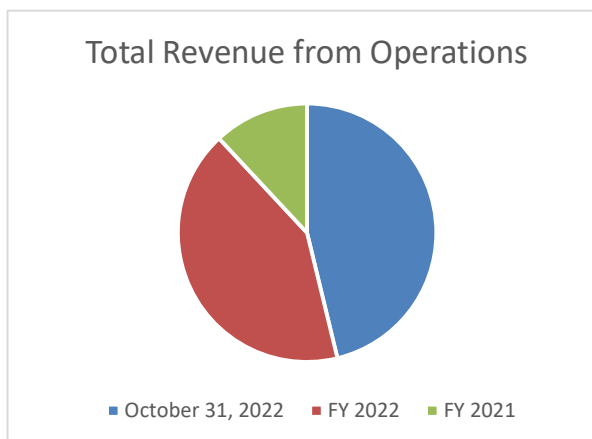
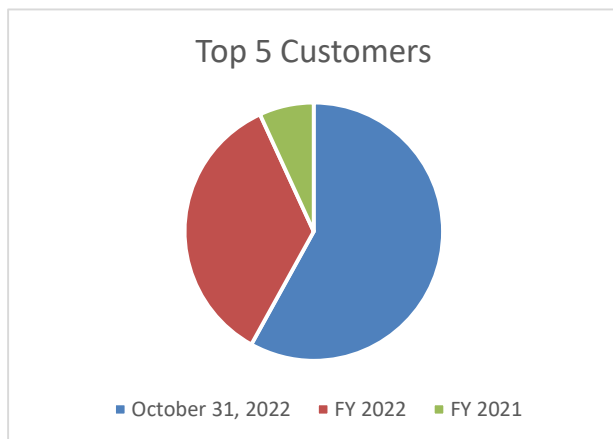


Particulars	FY 2022	Contribution(%)	FY 2021	Contribution(%)	FY 2020	Contribution(%)
Domestic	2,515.31	98.83%	727.26	100.00%	176.71	66.46%
International	29.85	1.17%	-	0.00%	89.19	33.54%
Total	2,545.16	100.00%	727.26	100.00%	265.89	100.00%

When compared with 2020 sales there is no international sales from the company in the year 2021 and 2022. Company 98.83% of the sales is from India and that too most of the revenue is from few states.

### Revenue Distribution:

Particulars	October 31, 2022	FY 2022	FY 2021	FY 2020
Top 5 Customers	1,816.97	1,098.42	214.66	127.42
% of Revenue from Operations	64.60%	43.16%	29.52%	47.92%
Top 10 Customers	2,284.42	1,601.09	217.52	129.4
% of Revenue from Operations	81.22%	62.91%	29.91%	48.67%
Total Revenue from Operations	2,812.60	2545.16	727.26	265.89



Most of the percentage revenue is from top 5 customers 64.60% and 81.22% in year 2022 and in year in 2021 from top 5 is 43.16% and from top ten 62.91% there is no consistency in revenues.

The tools and hardware industry comprises of tools that are used by both households for daily activities and by manufacturing industries. Tools are extensively used in the manufacturing sector of an economy. The more sophisticated the tools, the better their performance in the production of high-quality precision machinery used in every industrial activity. The tools and hardware industry churns out basic machinery for all major industries and determines competitiveness in other sectors such as defense, heavy electricals, construction and automobiles.

**Industry Charts**

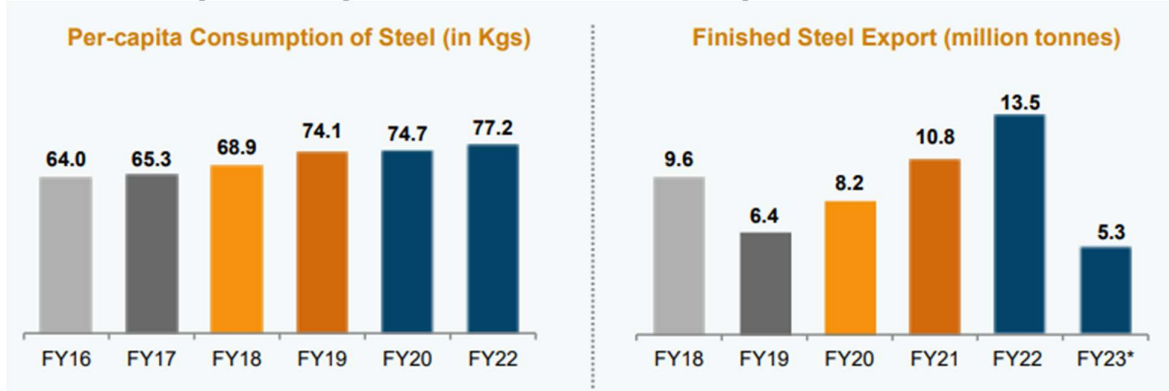
Exhibit 1: Total crude steel production and consumption of finished steel



Exhibit 2: Steel



Exhibit 3: Per capita consumption of steel and finished steel exports



(Source: ibef.org)

## Investment Overview

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 December 2022, India was the world's second-largest producer of crude steel. In FY22, the production of crude steel and finished steel stood at 133.596 MT and 120.01 MT, respectively. In April-November 2022, the production of crude steel and finished steel stood at 81.96 MT and 78.09 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.

### Market Size

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. Between April-December 2022, India's finished steel consumption stood at 75.34 MT. In April-July 2022, the production of crude steel and finished steel stood at 40.95 MT and 38.55 MT respectively. In FY23 (until January 2023), the exports of finished steel stood at 5.33 MT, while the imports stood at 5 MT. 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 December 2022 exports of finished steel stood at 4.42 lakh tonnes. 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.

### **Road Ahead**

The steel industry has emerged as a major focus area given the dependence of a diverse range of sectors on its output as India works to become a manufacturing powerhouse through policy initiatives like Make in India. With the industry accounting for about 2% of the nation's GDP, India ranks as the world's second-largest producer of steel and is poised to overtake China as the world's second-largest consumer of steel. Both the industry and the nation's export manufacturing capacity have the potential to help India regain its favourable steel trade balance. The National Steel Policy, 2017 envisage 300 million tonnes of production capacity by 2030-31. The per capita consumption of steel has increased from 57.6 kgs to 74.1 kgs during the last five years. The government has a fixed objective of increasing rural consumption of steel from the current 19.6 kg/per capita to 38 kg/per capita by 2030-31. As per Indian Steel Association (ISA), steel demand will grow by 7.2% in 2019-20 and 2020-21.

Huge scope for growth is offered by India's comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.

(Source: ibef.org)

### **Addressable market for De Neers Tools Limited**

Company operational efficiencies have been established and refined over the years through an emphasis on economies of scale, incorporating the learnings and have acquired as part of business operations, and supply chain developed for sourcing products and intend to continue to maintain and improve operational efficiencies, with a focus on supply chain and intend to expand business more with organized dealers/distributors. Currently they have a network of over 250 dealers/distributors and exploring more dealers/distributors that have the desired spread and reach. They benefit from their distribution network which will give a significant strength to business as it will allow to market and sell products across India and plan to appoint a dealer or sub dealer at a stretch of 40 km each



throughout major cities across India. They are also working on major e-commerce platform like Amazon, Industry buying, Udaan and more such portals.

### **Competition**

There are many competitors for this business and the company doesn't have any long-term agreements with the top customers to whom they are supplying most of their products so it is very difficult for them to sustain in this competitive business. Company products are prepared by steel so steel is a commodity and if prices of steel goes up, to compete with the peers might result in having losses. The threat of entry is not high and the bargaining power of the company also seems to be low.

The Competitors of the company as given in the prospectus are: -

1. Apex Tool Group
2. Gardex India Private Ltd.
3. Taparia Tools Ltd

### **Peer Analysis**

As per the prospectus, the company has only 1 listed peer viz., Taparia Tolls Limited. An analysis of the same has been given in the table below -

<b>Company</b>	<b>De Neers Tools Limited</b>	<b>Taparia Tools Ltd</b>
Net Profit (INR Cr)	5.04	65
EBITDA (INR Cr)	7.42	85
ROCE	14,51%	38.50%
ROE	21.17%	28.70%
EPS#	7.71	214.41
Leading P/E (Times)	13.1*	0.04

**\*Leading PE Post IPO shares**

**#EPS is on Post IPO Basis**

(Source of data: screener and prospectus)

## Promoters' Profile and Management Analysis

### Mr. Neeraj Kumar Aggarwal



- Mr. Neeraj Kumar Aggarwal is the Promoter and Managing Director of the Company.
- He holds degree in Commerce from Shri Ram Lal College of Commerce. He has experience around 30 years.
- He was Appointed as Managing Director from July 28, 2021

### Mrs. Shilpy Aggarwal



- Mrs. Shilpy Aggarwa is the Promoter and Co-Founder of the company.
- She has pursued her graduation from Anwar-ul-loom college, Hyderabad.
- She has experience of more than 10 years, she is now looking after Marketing and Human Resources.
- Appointed as Whole Time Director from July 28<sup>th</sup> 2021.

### Mr. Kanav Gupta



- Mr. Kanav Gupta is the Promoter and Co-Founder of company.
- He is a CFO and Whole Time Director of the company also. He has completed his Bachelors in Commerce degree from Delhi University and 7years experience in industry.
- Appointed as Chief Financial Officer and Whole Time Director from July 28<sup>th</sup> 2021.

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

**Mr. Neeraj Kumar Aggarwal** aged 48 years, is the promoter and co-founder of the company. He is acting as the Managing Director of the Company. He has completed his honours degree in Commerce from Shri Ram College of Commerce, Delhi University in 1994. With over 30 years of experience in the industry and with a vision to create high-end brand, Mr. Neeraj formed 'De Neers'. In company, Mr. Neeraj manages business development and procurement whilst meeting global standards and targeting to be a market leader.

**Mrs. Shilpy Aggarwal** , aged 46 years, is the Promoter and Co-Founder of company and Appointed as Whole Time Director. She has pursued her graduation from Anwar-ul-loom college, Hyderabad. She has experience of more than 10 years, she is now looking after Marketing and Human Resources.

**Mr. Kanav Gupta** , aged 29 years, is the promoter and co-founder of the company. He is the Chief Financial Officer and the Whole-Time Director of company. He has completed his Bachelor's degree in Commerce from Delhi University. He further attended a short course in strategic management from London School of Economics, United Kingdom. Mr. Kanav began widening his grass root industry view early on in his career specifically focusing on tools industry. Three years later De Neers tool was formed envisioning a quality hand tools brand. He is having 6 years of experience in the hand tools industry. Mr. Kanav is now managing Finance and all India sales and is keen to make De Neers a global name.

All the three, Chairman and Managing director and Executive director has good education qualification and independent directors are experienced personnel and also well educated. None of Promoters or Directors of Company are a fugitive economic offender and none of them are defaulters and fraudulent borrowers.

**Financial Snapshot**

**(Amount in Lakhs)**

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 31th Oct, 2022
<b><u>Profit and Loss</u></b>			
Revenue from operations	6,211.77	7,898.72	5,602.27
Other income	-	109.96	0.38
Total Revenue	6,211.77	8,008.68	5,602.65
Expenses	5,955.48	7,157.15	4,911.00
Depreciation and Amortisation Cost	18.64	41.68	37.05
Finance Cost	143.14	102.87	101.77
Total Expenses	6,117.26	7,301.70	5,049.82
PBT	94.51	706.98	552.83
PBT Margin	1.52%	8.95%	9.87%
EBITDA	256.29	741.57	691.27
EBITDA Margin	4.13%	9.39%	12.34%
Net Profit	65.77	504.43	386.98
Net Profit Margin	1.06%	6.39%	6.91%
<b><u>Balance Sheet</u></b>			
Total Borrowings	2,169.89	3,644.26	4,508.58
Net Worth	320.42	2,382.27	3,044.13
Fixed Assets	59.37	182.15	178.11
Net Working Capital	1,385.29	4,610.90	5,221.96
<b><u>Financial Measures</u></b>			<b>(Annualised)</b>
Inventory Turnover Ratio	2.32	-	-
Receivables Turnover Ratio	2.08	2.27	1.25
Payables Turnover Ratio	1.94	1.99	1.26
Fixed Assets Turnover Ratio	104.63	43.36	31.45
Return on Capital Employed	16.19%	14.51%	11.99%
Return on Equity	20.53%	21.17%	12.71%
Debt-Equity Ratio	6.77	1.53	1.48

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

The EBITDA of the company has increased from Rs. 256.29 lacs in 2021 to Rs. 741.47 lacs in 2022 and on 31st Oct 2022 it was Rs. 691.27 lacs and if we annualise the same it would be around Rs. 1185.03 lacs. The EBITDA on annualised basis has grown at a CAGR of 115.03%. The EBITDA margin in 2021 was 4.13%, 9.39% in 2022 and 12.34% up to 31st Oct 2022. CAGR is very high. EBITDA in 2022 has increased due to increase in revenue and not similar increase in the expenses of the company.

### **Net Profit**

The net profit of the company has grown from Rs 65.77 lacs in 2021 to Rs. 504.43 lacs in 2022 and as on 31st Oct 2022 it was Rs. 386.98 lacs and if we annualise the same it would be around Rs. 663.39 lacs growing at a CAGR of 217.59 %. The net profit margin in 2021 was 1.06%, 6.39% in 2022 and 6.91% up to 31<sup>st</sup> Oct 2022. The Net Profit Margin of the company has increased over the years.

### **Finance Cost.**

The company's finance cost is mainly due to short terms borrowings and long-term borrowings availed by the company.

### **Financial Measures/Ratios**

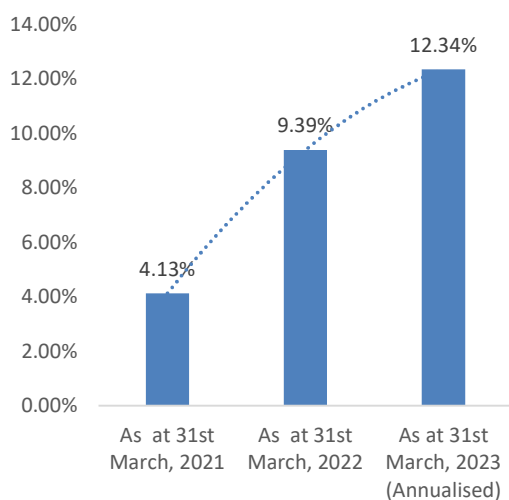
RoCE of the company up to 31st Oct 2022 is 11.99% vs 14.51 % in 2022 and 16.19% in 2021. If we annualise the ROCE of FY 2022-2023, the ROCE is expected to be around 18.93%.

ROE of the company in 2021 was 20.53%, 21.17% in 2022 and 12.71% up to Oct 2022, if annualised, ROE would be around 11.81%. The ROE has seen a decrease and the ROE is expected to come further down on annualised basis resulting in an estimated CAGR of -24.16%.

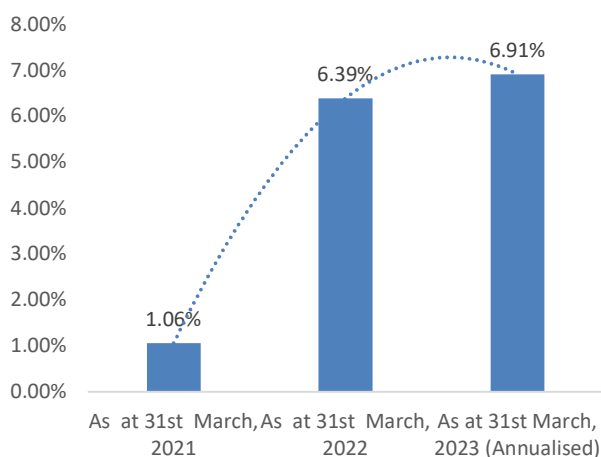
The company has a debt-equity ratio of 1.48 which shows the company is leveraged properly. The debt-equity ratio is going to go down to around 0.43 times post IPO.

**Financial Charts**

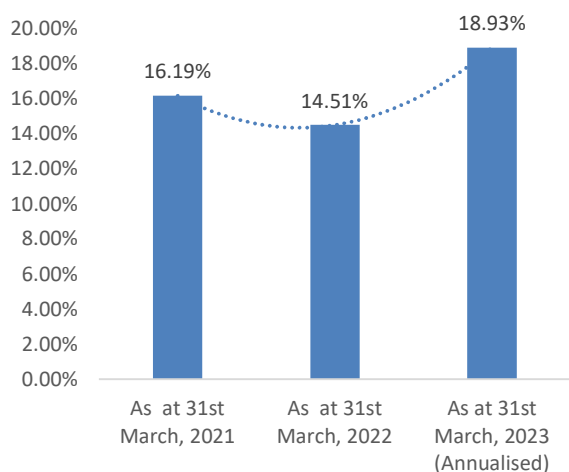
**EBITDA Margin**



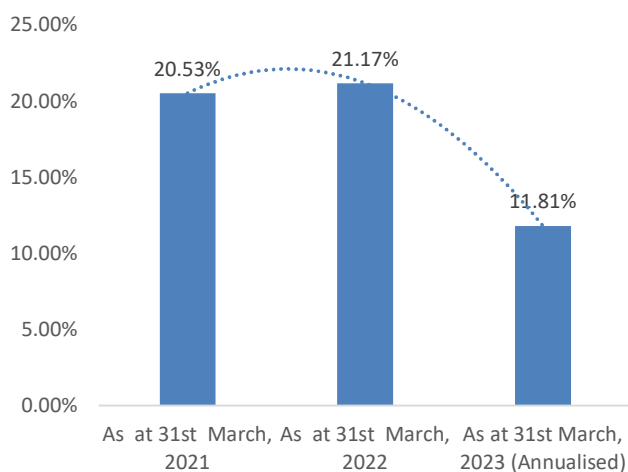
**Net Profit Margin**



**Return on Capital Employed**



**Return on Equity**



## Key Risk Factors

1. De Neers is at its initial stage.
2. Debtors constitute payments that are due from over 3 years.
3. The products marketed and sold by Company in relation to the “De Neers” brand are vulnerable to counterfeiting or imitation by third parties that may affect the reputation of Company.
4. Company have experienced negative cash flows in the past.
5. The Company has taken unsecured borrowings payable on demand from Promoters.
6. Company is dependent on a number of key personnel and services of the members of senior management and the loss of such persons, or company’s inability to attract and retain key personnel and senior management in the future, could adversely affect business, growth prospects, results of operations and cash flows.

## Track Record of Lead Manager

The lead manager to the issue is Khambatta Securities Limited and Share India Capital Services Private Limited. 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 -

### Khambatta Securities Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP# (INR)
1.	Quality Foils (India) Limited	4.52	60.00	March 24,2023	118.10
2.	VELS Film International Limited	33.74	99.00	March 22, 2023	97.50
3.	Gayatri Rubbers and Chemicals Limited	4.58	30.00	Feb 07, 2023	38.30
4.	Rudrabhishek Enterprises Limited	18.73	41.00	July 13, 2018	183.15

### Share India Capital Services Private Limited

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP# (INR)
1	A G Universal Limited	8.72	60	April 24, 2023	55.6
2	Exhicon Events Media Solutions Limited	21.12	64	April 17, 2023	104.11
3	Maiden Forgings Limited	23.84	63	April 06, 2023	64.02
4	Humming Bird Education Limited	2.15	132	March 28,2019	250.5
5	Anmol India Limited	10.23	33	Feb 21,2019	225.1



**CMP is taken as on 1<sup>st</sup> March 2023**

This is the 6th mandate from Khambatta Securities in the last six fiscals (including the ongoing one). Out of the last 4 listings, all opened at premiums ranging from 0.61% to 66.67% on the listing date.

This is the 7th mandate from Share India Capital in the last six fiscals (including the ongoing one). Out of the last 5 listings, 4 opened at par and the rest with a premium of 1.82% on the listing date.

## Recommendation

Being formed in the year 2018, the company do not have a good track record of existence. The company also is dealing with products which are not unique and possesses high level of competition.

The company has shown super-normal growth in the recent year which might not be sustainable in the future which has resulted in making the issue fairly priced.

To conclude, the company does not look very promising and one should **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.**