

### IPO Details

<b>Opening Date</b>	June 26, 2023
<b>Closing Date</b>	June 30, 2023
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	2000 shares
<b>Issue Price</b>	₹ 70 per share
<b>Issue Size</b>	23,10,000 Equity Shares
<b>Application Amount</b>	₹ 1,40,000
<b>Amount Raised (Issue Type)</b>	₹16.17 Cr (Fresh Issue- ₹16.17 Cr)

### IPO Objective

1. Working capital requirements
2. General Corporate Purposes.

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	54,00,000	100%
Public	-	-

### Promoter of the Company

1. Mr. Ashish Jain
2. Mr. Anil Jain
3. Mr. Saurabh Jain
4. Mr. Lalit Jain

### Competitive Strengths

1. Quality Assurance and Quality Control of the Products
2. Scalable Business Model
3. Existing client relationship
4. Experienced Promoters and Management team.

### Company Background

- Pentagon Rubber Limited was incorporated in the year 2004.
- The Registered Office of the Company is situated at Punjab.
- The company is engaged in manufacturing of Rubber Conveyor Belt, Transmission Belts, Rubber Sheets and Elevator Belts.
- They have a modern laboratory of international standards that can produce conveyor belts as per DIN, BS, IS, ISO, SABS, AS, GOST, and CAN standards.
- They have a wide-spread network of stockiest and importers and have expanded their business relations across boundaries.
- As on the date of Red Herring Prospectus the company have 63 employees on their payroll.

### Financial Summary

(INR In Lacs.)

For the Period Ended	Mar-21	Mar-22	Dec-22
<b>Total Assets</b>	2,588.99	2,802.18	2,956.70
<b>Net Assets</b>	245.78	554.43	770.30
<b>Total Borrowings</b>	1649.42	1,758.61	1,669.79
<b>Total Revenue</b>	2,319.69	3,511.59	2,997.88
<b>Profit After Tax</b>	110.30	308.66	215.86

### Tentative Timeline

<b>Opening Date</b>	June 26, 2023
<b>Closing Date</b>	June 30, 2023
<b>Basis of Allotment</b>	July 05, 2023
<b>Initiation of Refunds</b>	July 06, 2023
<b>Credit of Shares to Demat</b>	July 07, 2023
<b>Listing Date</b>	July 10, 2023

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## Company Overview

The company is in operation since 2004 and has a good track record of existence. Pentagon Rubber Limited is an ISO 9001:2015 and is engaged in the manufacturing of Rubber Conveyor Belts, Transmission Belts, Rubber sheets, and Elevator Belts. Their products are ever-evolving & continually perfected using the latest developments in raw materials. The manufacturing unit of Pentagon Rubber Limited is in Dera Bassi, Punjab. The company has installed one of the largest conveyor belting presses in India with a product capacity of 21mtr in a single stroke. This technology allows them to produce conveyor rubber belting up to 3150KN/m, making them one of the top manufacturers in India. The company has invested in top-of-the-line infrastructure and facilities to ensure the highest quality products. They have expanded their business relations across boundaries which has earned them a good clientele in many countries.

## Analysis

The company is in the business of manufacturing conveyor belts and has a manufacturing facility which can produce new generation conveyor belts that can withstand highly abrasive, razor-sharp materials to ozone resistance, from extreme heat to extreme cold, from low rolling resistance to anti-stick surfaces. The company has a strong client base in India in addition to government tenders participating and Outside India with South America, Europe, Africa, Middle East & Asia being their major buyers globally.

Pentagon Rubber Limited revenue bifurcation: -

Particulars	December 31, 2022		Fiscal 2022		Fiscal 2021	
	(In lakhs)	(In%)	(In lakhs)	(In%)	(In lakhs)	(In%)
Rubber Belting	1,949.57	65.07	2,581.88	73.72	2,188.43	94.48
Rubber Chemicals	1,043.94	34.84	918.65	26.22	118.22	5.10
Rubber Scrap	2.12	0.07	0.68	0.02	-	-
Fabric	0.49	0.02	1.46	0.04	-	-
Rubber Compound	-	-	-	-	8.09	0.35
Metal Scrap	-	-	-	-	1.65	0.07
Total	2,996.12	100.00	3,502.67	100.00	2,316.39	100.00

The company majorly produces Conveyor Rubber Belts furthermore they also manufacture elevator belting, rubber sheets etc., They have variety of rubber belts to name a few –

1. General Purpose Belts
2. Heat Resistance
3. Fire Resistance
4. Pipe Conveyor Belts

The major raw materials for manufacturing their products are not imported but are sourced from approved vendors across India. For the present the company is generating power through state electricity and diesel generator but are also planning to upgrade to solar power systems.

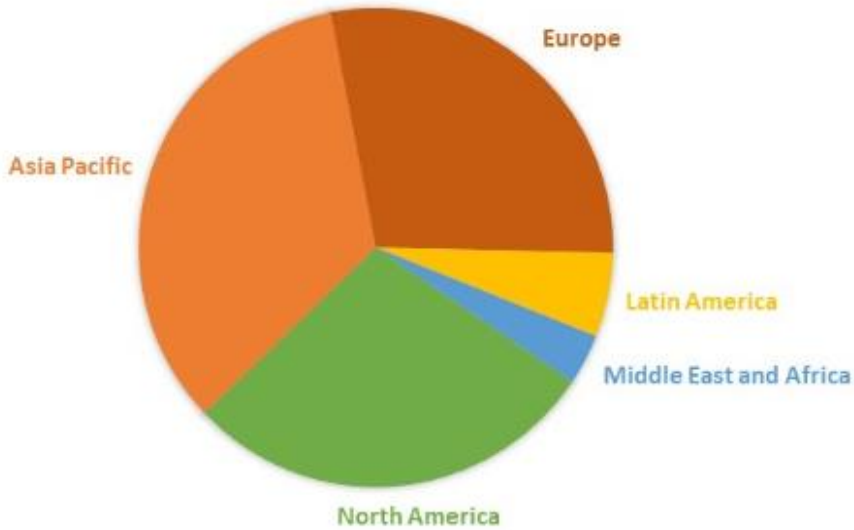
Pentagon Rubber Limited Utilization Capacity -

Name of Product	Total Capacity Installed Annual (in mtr)	Up to December 2022		2021 - 22		2020 - 21	
		Total Production (Metre)	Capacity Utilization (in %)	Total Production (Metre)	Capacity Utilization (in %)	Total Production (Metre)	Capacity Utilization (in %)
Rubber Belting/ Rubber Sheet	240000	96377	40.16%	141233	59%	120714.7	50%

To Conclude, the rubber belting industry is unorganized and highly fragmented in India. During the COVID – 19 the entire rubber industry took a downfall but is recovering and with growth in the E-Commerce sector and mining industry it is aggregating to the increase in demand for conveyor rubber belts globally as well as domestically. The add-on advantage for the increase in demand for conveyor belts also arises from the potential growth towards Agricultural Sector, EV Batteries, and power and cement industries.

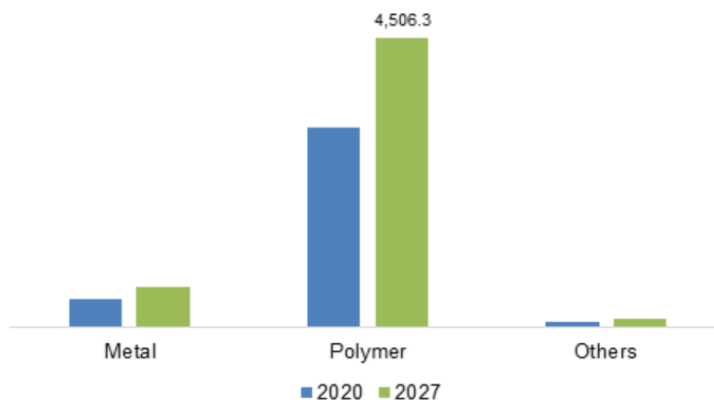
**Industry Charts**

**Exhibit 1 - Global Conveyor Belt Market Share (in %) Segmented Region, 2030**



*(Source- Research Nester)*

**Exhibit 2 - Conveyor Belt Market, By Material, FY 2020 & FY 2027 (USD Million)**



*(Source- gminsights.com)*

## Investment Overview

### Indian Rubber Industry

Indian rubber industry is characterized by the co-existence of a well-established rubber production sector and a fast-growing rubber products manufacturing and consuming sector. The Rubber Industry value chain begins from Natural Rubber plantations and ends with a huge range of dry rubber and latex based products. Historically, Natural Rubber was a regulated commodity with strong tariff protection and domestic market regulations. The key factors which have contributed to the growth of Indian rubber industry are positive intervention of institutional agencies aiming at self-sufficiency and import substitution.

Finance Minister announcement in Budget of 2020 for Infrastructure development of Rs. 50,000 crores will be done for evacuation of enhanced Coal India Limited's (CIL) target of 1 billion tons coal production by 2023-24 plus coal production from private blocks. This will include Rs 18,000 crore worth of investment in mechanised transfer of coal (Conveyor Belts) from mines to railway sidings. This measure will also help reduce environmental impact. Most of the rubber products including tyres require blends of Natural Rubber and Synthetic Rubber. Consumption of SR is mainly determined by product composition, technological change and relative prices. Consumption of SR in India in rubber products manufacturing sector increased from 411,830 tonne in 2010-11 to 633,975 tonne in 2017-18. Currently, there are four companies producing SR and production increased from 110,340 tonne in 2010-11 to 331,221 tonne in 2017-18. Styrene Butadiene Rubber and Poly Butadiene Rubber accounted for 63% and 34% of SR production in the country. Import of SR amounted to 338,189 tonne in 2017-18. Consumption of SR in India is projected to reach 1.2 million tonnes by 2025.

*(Source- prospectus)*

## **Addressable market for Pentagon Rubber Limited**

The company currently is a supplier to many countries with majority of the supply going towards South America, Europe, Africa, Middle East & Asia. The company has a major scope in expanding their business to a larger domestic group and in global market as well, which can be a driving force for an increase in the revenue for the company. India is one of the highest producers of Conveyors globally and with Asia Pacific estimated to drive the market growth the company has immense potential in growth of the business and can be achieved by increasing their clientele base globally and domestically.

## **Competition**

The industry which the company operates in it faces competition from the unorganized players in the market and it is highly fragmented causing less barrier to entry. The company has an upper hand when it is down to global competition but does have high competition domestically with major players in action. The principal competitive factors for the company include services quality, reliability and the prices and in the vary towards requirements of different customer segments and customer needs.

## **PEER ANALYSIS**

As mentioned in the prospectus there are 2 peer company viz. Somi Conveyor Beltings Limited, and International Conveyors Limited. An analysis of the same has been given below-

Particulars	Pentagon Rubber Limited			Somi Conveyor Beltings Limited			International Conveyors Limited		
	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20	Mar-22	Mar-21	Mar-20
Net Profit Margin	9%	5%	5%	3%	4%	5%	8%	10%	6%
EBITDA Margin	12%	10%	11%	11%	14%	16%	10%	12%	11%
Return on Capital Employed	25%	15%	15%	7%	8%	9%	8%	12%	7%
Return on Equity	56%	45%	69%	3%	3%	4%	7%	11%	5%
EPS (INR)	5.72	2.04	1.74	1.46	1.49	2.06	2.40	2.46	0.94

Based on the above analysis, all the margins, ROE and RoCE are comparatively higher when compared to its peers for all the three consecutive years. The EPS of the company is high when compared to its peers.

### **Pentagon Rubber Limited**

- PE on post IPO basis – 18.75 times
- Post IPO EPS – 3.73



## Promoters' Profile and Management Analysis

### Mr. Ashish Jain



- Mr. Ashish Jain, aged 49 years is Chairman cum Managing Director and the Promoter of the Company.
- He holds a master's degree in business administration and Bachelor of Chemical Engineering.

### Mr. Anil Jain



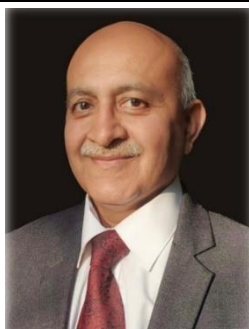
- Mr. Anil Jain, aged 68 years, is the Whole Time Director of the Company.
- He holds a bachelor's degree in commerce.
- He has an experience of 37 years in the industry.

### Mr. Saurabh Jain



- Mr. Saurabh Jain, aged 40 years, is the Whole-Time Director of the Company.
- He holds bachelor's degree in business administration (BBA)
- He has an experience of 19 years in the industry

### Mr. Lalit Jain



- Mr. Lalit Jain, aged 58 years, is the Non-Executive Director of the Company.
- He holds Diploma Certificate in Polymer Technology
- He has an experience of 27 years in the industry

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

Mr. Ashish Jain, aged 49, is Chairman, Managing Director and the Promoter of the Company. He holds a master's degree, and Bachelor of Chemical Engineering. He is having 23 years of experience in the Rubber Industry. He is responsible for the expansion and overall management of the business of the Company.

Mr. Anil Jain, aged 68, is the Whole Time Director and one of the promoters of the Company. He holds bachelor's degree in commerce. He is having experience of 37 years in Marketing and Sales.

Mr. Saurabh Jain, aged 40, is the Whole-Time Director and one of the promoters of the Company. He holds bachelor's degree in business administration. He is having experience of 19 years of production and procurement.

Mr. Lalit Jain, aged 58, is the Non-Executive Director and one of the promoters of the Company. He holds Diploma Certificate in Polymer Technology. He is having experience of 27 years in Production and marketing.

Mr. Manish Verma, aged 49, is Independent Director of the Company. He holds bachelor's degree in mechanical engineering and having experience of 24 Years in field of banking, automobiles and in entrepreneurship.

Mrs. Preet Kamal Kaur Bhatia, aged 40, is Independent Director of the Company. She is a Chartered Accountant and having experience of 17 Years as a practicing Chartered Accountant.

To conclude there are 4 promoters for the company, all the promoters have vast experience and knowledge in the industry. All the remaining Directors of the company has good experience in the field 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	2,316.39	3,502.65	2,996.12
Other income	3.31	8.94	1.77
Total Revenue	2,319.70	3,511.59	2,997.89
Expenses	2,081.38	3,082.61	2,609.14
Depreciation and Amortisation Cost	54.97	39.10	20.42
Finance Cost	75.45	73.88	55.35
Total Expenses	2,211.80	3,195.59	2,684.91
PBT	107.90	316.00	312.98
PBT Margin	4.66%	9.02%	10.45%
EBITDA	235.01	420.04	386.98
EBITDA Margin	10.15%	11.99%	12.92%
Net Profit	110.30	308.66	215.86
Net Profit Margin	4.76%	8.81%	7.20%
<b><u>Balance Sheet</u></b>			
Total Borrowings	1,649.43	1,758.61	1,669.79
Net Worth	245.78	554.43	770.30
Fixed Assets	256.40	218.37	203.66
Net Working Capital	863.79	1,227.48	1,308.81
<b><u>Financial Measures (Annualised)</u></b>			
Inventory Turnover Ratio	2.43	3.04	2.79
Receivables Turnover Ratio	2.18	3.72	4.56
Payables Turnover Ratio	3.98	10.92	9.47
Fixed Assets Turnover Ratio	9.03	16.04	22.64
Return on Capital Employed	15.19%	24.77%	15.00%
Return on Equity	44.88%	55.67%	11.70%
Debt-Equity Ratio	6.71	3.17	0.67

(The data has been taken and calculated from the financials given in the prospectus)

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

The EBITDA has increased from Rs. 235.01 lacs to Rs. 420.04 lacs in 2021 to 2022 and as on 31<sup>st</sup> Dec 2022 it is at Rs. 386.98 lacs, and when annualized it is expected to be around Rs.515.97 lacs growing at a CAGR of 48.17%. The EBITDA margin in 2021 was at 10.15%, 11.99% in 2022, and as on 31<sup>st</sup> Dec 2022 it was at 12.92%. The EBITDA has increased in FY-22 due to a percentage increase in revenue from operation when compared to the percentage increase in expenses is more.

### **Net Profit**

The Net Profit of the company increased from Rs. 110.30 lacs in 2021 to Rs. 308.66 lacs in 2022, and as on 31<sup>st</sup> Dec 2022 it is at Rs. 215.86 lacs, when annualized it is expected to be at around Rs. 287.81 lacs growing at a CAGR of 61.54%. The Net Profit margin in 2021 was 4.76%, 8.81% in 2022, and as on 31<sup>st</sup> Dec 2022 it was at 7.20%. The increase in the Net Profit in FY-22 is due to the same reason as why the EBITDA has increased. The Net Profit margin has given a two-fold return in the FY-22.

### **Finance Cost.**

The company's finance cost mainly comprises of Interests paid on long term loans and Bank Charges & Commission.

### **Financial Measures/Ratios**

The RoCE of the company as on 31<sup>st</sup> Dec 2022 was 22.99% vs 24.77% in 2022 and 15.19% in 2021. The increase in the RoCE during FY-22 is due to an increase in the EBIT of the company. With the increase in the equity base of the company through IPO, the ROCE on Post-IPO basis is expected to fall.

The ROE of the company in 2021 was at 44.88%, 55.67% in 2022 and as on 31<sup>st</sup> Dec 2022 it was at 28.02%. The increase in the ROE for FY-22 is due to the increase in the net profit for the company. The ROE on post IPO basis is expected to come further down.

The inventory turnover ratio has decreased in the FY-23 from 3.04 times in 2022 to 2.10 times in Dec-22, indicating an increase in the inventory in hand, showing not so effective management.

Receivables turnover ratio has increased in FY-22 from 2.18 times in 2021 to 3.72 times in 2022. Payables turnover ratio has increased significantly from 3.98 times in 2021 to 10.92 times in 2022, showing not so effective working capital management of the company.

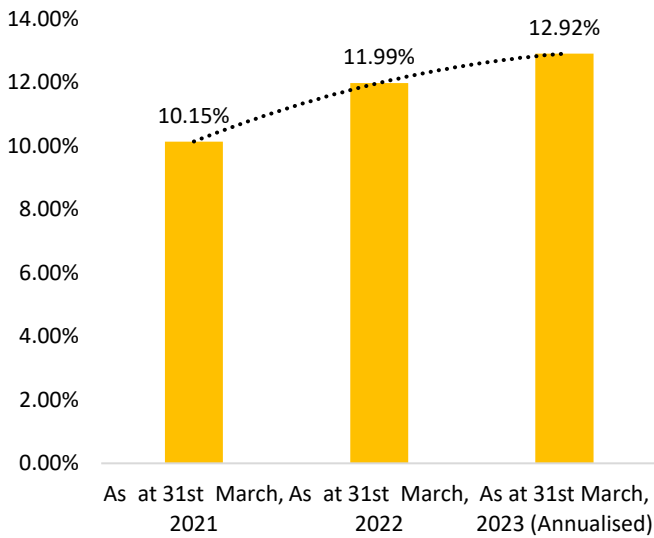
The fixed asset turnover ratio has decreased in FY-23 from 16.04 times in 2022 to 14.71 times in Dec-22, indicating the decrease in revenue from operations, but is expected to increase to 22.64 times on an annualized basis.

The Debt-Equity ratio of the company as on Dec-2022 is at 2.17 times. 3.17 times in 2022, and 6.71 times in 2021. The Debt-Equity ratio for the FY-22 is high i.e., the company is highly leveraged, whereas with new inclusion of equity capital, the debt-equity ratio is expected to come down.

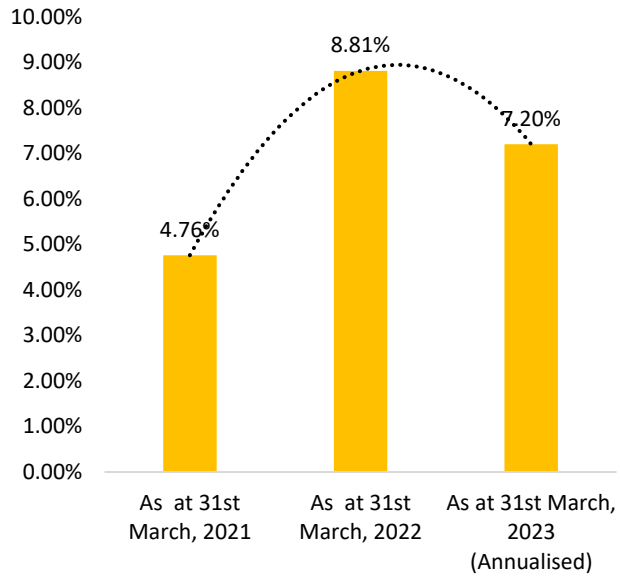


## Financial Charts

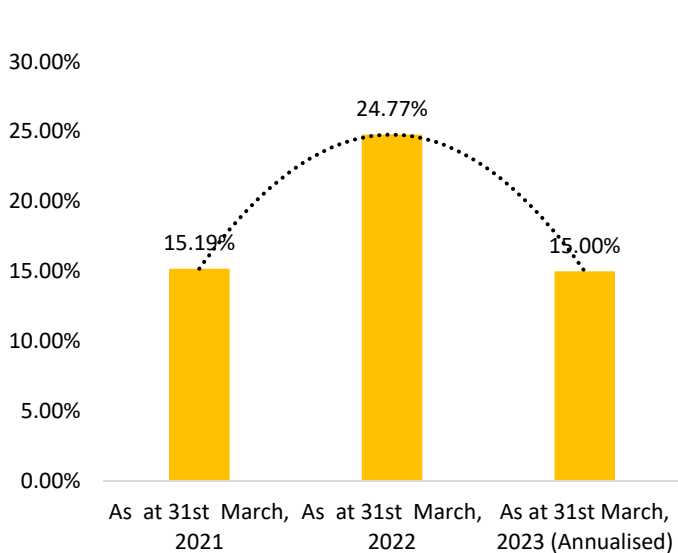
### EBITDA Margin



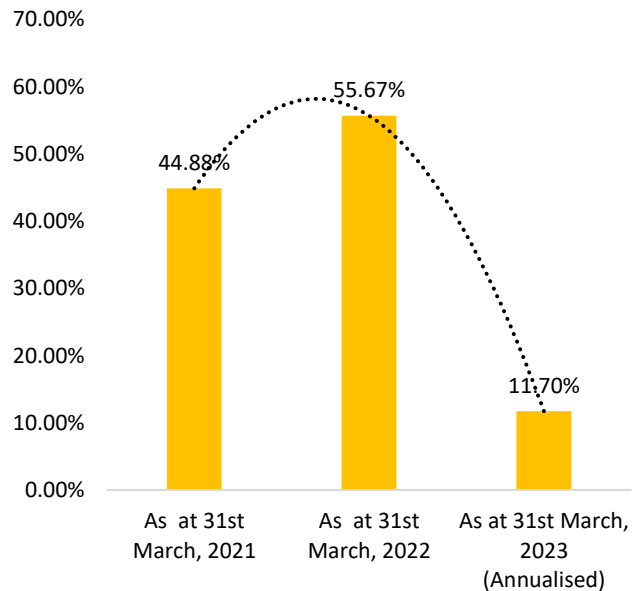
### Net Profit Margin



### Return on Capital Employed



### Return on Equity



## Key Risk Factors

1. The company is involved in certain legal proceedings which are pending at different levels of adjudication before various courts, tribunals, enquiry officers, and appellate authorities. The total amount involved is Rs 7.89 lacs. Any adverse decision in such proceedings may have a material adverse effect on the business, results of operations and financial condition.
2. The top ten customers have contributed 91.42%, 72.55%, 64.50% & 57.52% of the revenues for the period ended December 31, 2022, and Fiscal 2022, 2021, 2020. Any loss of business from one or more of them may adversely affect the revenues and profitability.
3. The top ten suppliers contributed approximately 66.23%, 72.96%, 78.72% & 86.74% of the total purchases for the period ended December 31, 2022. Any loss of business with one or more of them may adversely affect the business operations and profitability.

## Track Record of Lead Manager

The lead manager to the issue is Beeline Capital Advisors Private 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.	Remus Pharmaceuticals Limited	47.69	1,229.00	May 29, 2023	2835.20
2.	Sotac Pharmaceuticals Limited	33.30	111.00	April 13, 2023	128
3.	Dev Labtech Venture Limited	11.22	51.00	March 29, 2023	63.6
4.	Vertexplus Technologies Limited	14.20	96.00	March 15, 2023	123
5.	Viaz Tyres Limited	20.00	62.00	March 01, 2023	47
6.	Transvoy Logistics India Limited	5.11	71.00	February 02, 2023	75
7.	Aristo Bio-Tech and Lifescience Limited	13.05	72.00	January 30, 2023	59.25
8.	RBM Infracon Limited	8.37	36.00	January 04, 2023	59.25
9.	Vital Chemtech Limited	64.64	101.00	November 14, 2022	107.60
10.	Trident Lifeline Limited	35.34	101.00	October 10, 2022	140

\*CMP is taken as on 19<sup>th</sup> June 2023

As per the offer document Beeline Capital Advisors Private Limited have had 13 mandates in the last 4 fiscal years. For Beeline Capital Advisors Private Limited out of the last 10 that are mentioned above, 1 opened at par, and remaining all opened at premiums ranging from 0.39% to 39.23%. Thus, it has a good track record.



## Recommendation

The company has been into this industry since 2004 and has a good track record. The company has shown a consistence growth in revenues, along with a decent growth in the margins.

The company is in a very fragmented industry and face high competition with the big players domestically and yet has performed relatively higher when compared to their peers.

The management of the company is good, and they have immense knowledge and experience in the industry.

The company is getting listed with a leading P/E of around 18.75 times highlighting the overall performance of the company.

In conclusion, the company has shown a good growth in revenue, but have shown exponential growth in the margins, which will be difficult to sustain going forward. The company operates in a very highly competitive and highly fragmented business. As mentioned in the financial analysis company is highly leveraged i.e., they have more of debt when compared to its equity and this places the company in a not so favourable position making it a risky buy. Thus, **therefore Risk Averse Investors should wait and Risk Seekers should apply.**

## 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.**