

IPO Details			Company Background				
Opening Date	Jan 29, 2024		<ul style="list-style-type: none"> ○ Megatherm Induction Limited was originally incorporated in the year 2010 and had its registered office in Kolkata, West Bengal, India. ○ The company is engaged in the business of manufacturing induction heating and melting products by means of electric induction like induction melting furnaces and induction heating equipment. ○ The company exports its products to South America (e.g. Argentina, Brazil, etc), Africa (e.g. South Africa, Kenya, Tanzania, Ghana, Nigeria), Gulf (e.g. Saudi Arabia, UAE), Europe (e.g. Poland, France), SAARC (e.g. Bangladesh, Nepal, Bhutan) and Southeast Asia (e.g. Indonesia, Malaysia). ○ As of 30th September 2023, the Company had 278 employees on its payroll. 				
Closing Date	Jan 31, 2024						
Stock Exchange	NSE SME						
Lot Size	1,200 Shares						
Issue Price	₹ 100 to ₹ 108 per share						
Issue Size	Aggregating up to 53.91 Cr.						
Fresh Issue	Aggregating up to 53.91 Cr.						
Offer for Sale	-						
Application Amount	₹ 1,29,600						
IPO Objective			Market Capitalization (In Cr.)				
Funding capital expenditure towards the construction of factory shed and installation of additional plant and machinery.			Pre-Issue		Post-Issue		
Funding working capital requirements			₹ 150		₹ 203		
General corporate purposes.			Financial Summary (In Lacs)				
Pre-Issue Shareholding			For the Period Ended	Mar-21	Mar-22	Mar-23	Sep-23
Category	No. of Shares	% of Total Shares		Total Assets	Net Assets	Total Borrowings	Total Revenue
Promoter & Promoter Group	1,36,98,729	98.92 %		14,645.6	3,512.13	4,327.04	10,927.0
Public	1,50,000	1.08 %	17,262.76	3,662.23	4,038.80	18,846.92	
Promoter of the Company			Tentative Timeline				
1	Shesadri Bhusan Chanda		Opening Date		Jan 29, 2024		
2	Satadri Chanda		Closing Date		Jan 31, 2024		
3	Megatherm Electronics Private Limited		Basis of Allotment		Feb 01, 2024		
Competitive Strengths			Initiation of Refunds		Feb 02, 2024		
1	Established manufacturing facility.		Credit of Shares to Demat		Feb 02, 2024		
2	Technical capabilities for complex applications.		Listing Date		Feb 05, 2024		
3	Long-standing relationship with the customers.						
4	Delivering financial performance with a strong order book.						
5	Experienced and qualified promoters and management team.						

Company Background and Analysis

Megatherm Induction Limited was originally incorporated on October 22, 2010. The company is engaged in the business of manufacturing induction heating and melting products by means of electric induction like induction melting furnaces and induction heating equipment. Besides induction melting & heating equipment the company produces various up-stream & down-stream plants & machinery associated with steel melt shops such as transformers, ladle refining furnaces, continuous casting machines, fume extraction systems etc.

The Company also manufactures electric arc furnaces for alloys & special steel-making industries, the services portfolio includes turnkey solutions for steel plants, which involves the design, engineering, supply, erection & commissioning of the steel melt shops using both insourced & outsourced plant & machinery and after-sales service, involving maintenance contracts & spare parts business.

The company exports the products to South America (e.g. Argentina, Brazil, etc), Africa (e.g. South Africa, Kenya, Tanzania, Ghana, Nigeria), the Gulf (e.g. Saudi Arabia, UAE), Europe (e.g. Poland, France), SAARC (e.g. Bangladesh, Nepal, Bhutan) and Southeast Asia (e.g. Indonesia, Malaysia). Revenue bifurcation for the sales made geographically are as follows -

(Amount in Lacs)

Particulars	Mar-21		Mar-22		Mar-23		Sep-23	
	Amt	%	Amt	%	Amt	%	Amt	%
India	7,116.15	65.28	15,039.73	80.07	19,761.95	74.33	11,598.99	78.97
Other countries	3,784.77	34.72	3,743.40	19.93	6,826.20	25.67	3,088.51	21.03
Total	10,900.92	100.00	18,783.13	100.00	26,588.15	100.00	14,687.50	100.00

The company's product portfolio -

1. Induction melting furnace – The company manufactures a wide range of induction furnaces with different weight categories. This furnace enables it to fulfil the requirements of various metal industry segments.
2. Induction Billet Heaters – The company also supplies supplementary equipment like bin tippers, step loading feeders, inclined indexing loaders, side transfer loaders, hot billet extraction, pyrometric temperature detection and automatic billet rejection systems.
3. Induction Hardening and Heat-Treating Equipment – These machines are widely used in manufacturing air/gas cylinders, annealing of tube and pipe, pipe stress relieving, heating of billets for tube manufacturing etc.
4. Induction Heating Power Source (Static Frequency Converter) – The conversion process is affected through Power Electronics Technology using Power Semiconductor Devices
5. Transformer – Company manufactures different transformers to cater to various load requirements of customers.
6. Ladle Refining Furnace - Ladle Refining Furnaces (LRF) are also used to hold the molten steel for casting operations.
7. Electric Arc Furnace - The company manufactures electric arc furnaces with the capacity for producing different heat sizes.
8. Continuous Casting Machine (CCM) - The Continuous Casting Machine is an equipment used to convert liquid steel into cast semis of the desired size such as billets, blooms, slabs or strips.

To conclude, the company has good experience in the industry in which it operates. The company does not generate much revenue from the export business. The company is raising total gross proceeds of Rs. 5,391 lakhs.

Business Strategies

1. Expanding the customer base -

The company intends to leverage its long-standing relationship with the customers by capitalizing on the demand in the market. The company plans to utilize its geographical footprint to address the sourcing requirements of the existing multinational customers as and when they enter new markets, thereby consolidating the position across geographies.

2. Increasing the global presence -

The company's primary focus is to offer diversified and customized products based on the customer's specifications and requirements through a combination of increased capacities, reduced costs, a wider range of product specifications and services adhering to global standards, marketing initiatives, competitive pricing and more efficient use of the resources, company intends to expand its global footprint with diversified applications for the products in various industries.

3. Focus on increasing operational efficiencies to improve returns -

The company intends to use a variety of other manufacturing strategies, sourcing strategies and cost reduction strategies to continue to improve operational efficiencies. The company continues to invest in operational excellence throughout the organization.

4. Focus on consistently meeting quality standards -

The company intends to focus on adhering to the quality standards of the products by undertaking further research and development initiatives and making the products more energy efficient and compliant with industry norms.

Competitive Scenario and Peer Mapping

Competition

The company operates in a highly competitive market and faces competition primarily from domestic and international manufacturers. The competitors include companies which are engaged in the manufacturing of transformers and metal heating and heat treatment machinery. Company competes primarily on the basis of product quality, technology, cost, product efficiencies, delivery and service, as well as quality and depth of senior-level relationships. The company has no specific barriers to entry. The bargaining power with the customers is high in the sector in which the company operates.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given below -

Particulars	Megatherm Induction Limited	Electrotherm (India) Limited
	31st Mar 2023	31st Mar 2023
Net Profit Margin	5%	0%
EBITDA Margin	10%	4%
Return on Capital Employed	37%	-10%
Return on Equity	28%	1%
EPS (INR)	10.11	-9.28

The comparison of the key performance indicators of the listed peers as of Mar-22 is given below -

Particulars	Megatherm Induction Limited	Electrotherm (India) Limited
	31st Mar 2022	31st Mar 2022
Net Profit Margin	0.59%	-1.41%
EBITDA Margin	4%	3%
Return on Capital Employed	12%	0%
Return on Equity	3%	4%
EPS (INR)	0.80	-31.67

The comparison of the key performance indicators of the listed peers as of Mar-21 is given below -

Particulars	Megatherm Induction Limited	Electrotherm (India) Limited
	31st Mar 2021	31st Mar 2021
Net Profit Margin	2.84%	1.9%
EBITDA Margin	12.1%	8.7%
Return on Capital Employed	19.7%	-825.0%
Return on Equity	8.8%	-4.7%
EPS (INR)	2.25	38.84

Industry Overview

Exhibit 1: Consumption of finished steel (million tonnes)

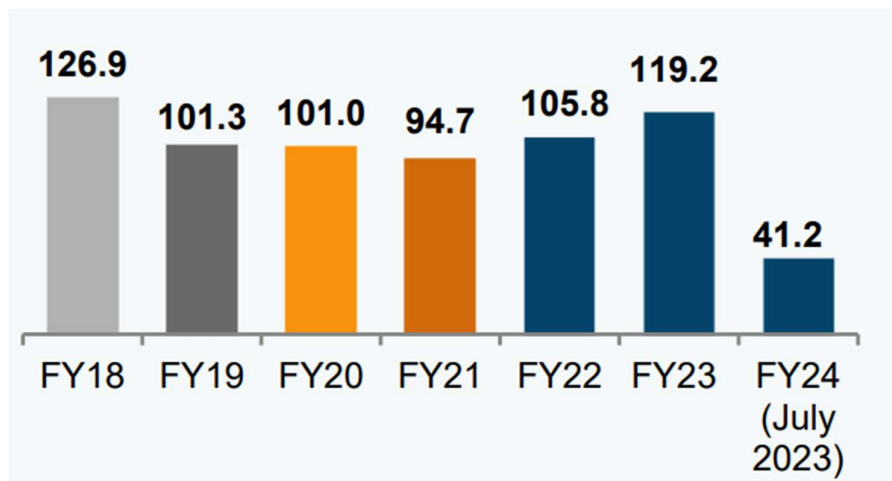
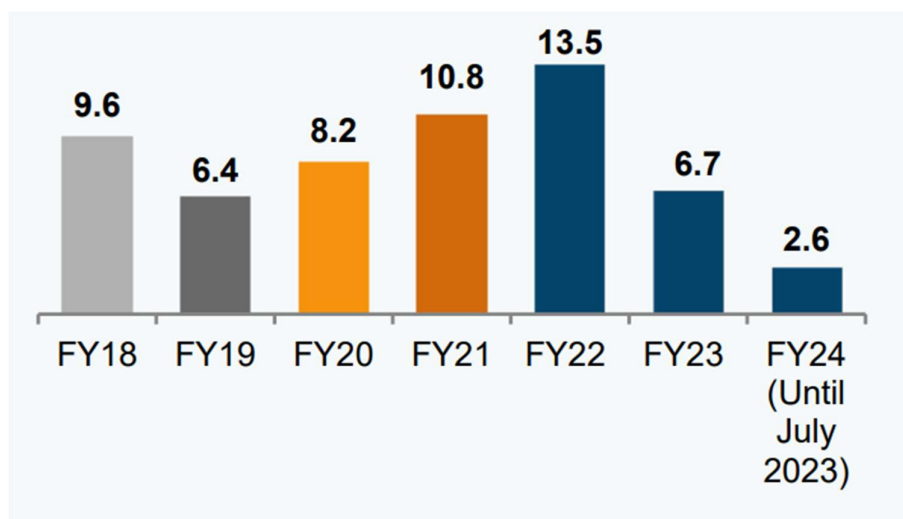


Exhibit 2: Finished Steel Export (million tonnes)



(Source: ibef.org)

India's Finished Steel Production -

Engineering is the largest industrial sector in India and accounts for 3.53% of the country's Gross Domestic Product (GDP). The country's engineering sector comprises manufacturing iron, steel, related products, non-ferrous metals, industrial machinery, automobiles, auto components, and other engineering products. The key goods exported under the industrial machinery category are IC (Internal combustion) engines and parts, industrial machinery for dairy, food processing, textiles, industrial machinery like boilers, parts, machinery for injecting moulding, valves, and ATMs.

India became a permanent member of the Washington Accord (WA) in June 2014. It is now part of an exclusive group of 17 countries that are permanent signatories of the WA, an elite international agreement on engineering studies and mobility of engineers. India's engineering sector has witnessed remarkable growth over the last few years, driven by increased investment in infrastructure and industrial production. In 2019, the government announced an investment of US\$ 1.5 trillion (Rs. 100 lakh crore) in infrastructure development over the next five years. In the Union Budget 2022-23, the government gave a massive push to the infrastructure sector by allocating US\$ 26.52 billion (Rs. 199,107 crore) to enhance the transport infrastructure. The engineering sector is an important component of the broader manufacturing sector, and the share of engineering products in overall manufacturing output is quite significant. It is also a highly organized sector dominated by large players employing over four million skilled and semi-skilled labor.

Indian Foundry Industry -

The Indian foundry industry manufacturers metal cast components for applications in Auto, Tractor, Railways, Machine tools, Sanitary, Pipe Fittings, Defence, Aerospace, Earth Moving, Textile, Cement, Electrical, Power machinery, Pumps / Valves, Wind turbine generators etc. Foundry Industry has a turnover of approx. USD 19 billion with export approx. USD 3.1 billion. However, Grey iron castings have the major share i.e. approx 68% of total castings produced. There are approx 4500 units out of which 90% can be classified as MSMEs. Approx 1500 units are having International Quality Accreditation. Several large foundries are modern & globally competitive. Many foundries use cupolas using LAM Coke. However, these are gradually shifting to Induction Melting. There is growing awareness about environment & many foundries are switching over to induction furnaces & some units in Agra are changing over to cokeless cupolas.

Automobile Component Industry -

Indian Auto Component industry exports, which are currently valued at \$20.1 Bn in FY21, are expected to reach \$80 Bn by 2026. USA, Germany, UK, Thailand and Italy are the top destinations for exports. India's auto component industry recorded its highest trade surplus of \$700 Mn in a financial year in 2021-22. Aftermarket segment which includes Tyre, battery, brake parts, is expected to reach \$32 Bn by 2026 from \$9.8 Bn FY20. Auto components industry grows 34.8% to INR 2.65 lakh Cr in H1 FY23. The overall Indian auto components industry, which accounts for 2.3% of India's GDP currently, is set to become the 3rd largest globally by 2025.

(Source: prospectus)

Key Managerial Personnel

Shesadri Bhusan Chanda, aged 66 years, is one of the Promoters, Chairman and Managing Director of the Company. He has been associated with the Company since incorporation. He has completed his Bachelor of Electrical Engineering. He has a work experience of around 45 years in the Induction, Electrical Industry & Metallurgical industries. He primarily looks after the overall business operations of the Company including strategic, operational, finance and formulation of policies for the business development.

Satadri Chanda, aged 34 years, is one of the Promoters, a Whole-Time Director and Chief Financial Officer of the Company. He has completed his Bachelor of Technology in Electronics & Communication Engineering, and Master of Science with a major in Industrial and Systems Engineering. He has 2 years of work experience in KPMG's Management Consulting (Strategy & Operations) division and over 7 years of work experience in the Induction, Electrical and Metallurgical equipment industry.

Christina Paulchowdhury, aged 32 years, is the Non-Executive Director of the Company. She has completed her Master of Business Administration specialization in Marketing and a degree of Master of Science in Business. She has over 7 years of experience in marketing & business promotion. She looks after the marketing & digital presence of the company.

Ankit Rathi, aged 31 years, is the Independent Director of the Company. He is a qualified member of the Institute of Chartered Accountants of India. He holds a post-qualification work experience of around 8 years in the audit field. He is currently engaged as a partner in a CA practising firm, A D V & Associates, Mumbai.

Siddhartha Sen, aged 65 years, is the Independent Director of the Company. He has completed his Bachelor of Electrical Engineering, Master of Technology in Electrical Engineering, and Doctor of Philosophy. He has an experience of around 45 years in Electrical Engineering and academics.

To conclude, the company has 3 promoters, out of which 2 of them are individual promoters and they are involved in the operations of the business they have vast experience in the industry in which the company operates. The Directors of the company have good experience in fields which help in the growth of the company.

Financial Snapshot

Profit and Loss Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Sep-23
Revenue from Operations	10,900.92	18,783.13	26,588.15	14,687.50
Other Income	26.11	63.79	55.69	44.81
Total Income	10,927.03	18,846.92	26,643.84	14,732.31
Expenses				
Cost of materials consumed	7,646.17	14,808.65	20,329.04	11,773.71
Change in inventories	-43.38	283.43	-218.78	-608.50
Employee benefits expense	669.19	1,032.76	1,305.03	777.75
Finance costs	706.48	499.35	583.80	250.49
Depreciation and Amortization expense	210.44	206.02	242.82	161.72
Other expenses	1,312.61	1,864.71	2,418.46	1,368.46
Total Expenses	10,501.51	18,694.92	24,660.37	13,723.63
Earnings Before Interest, Taxes, Depreciation & Amortization	1,316.33	793.58	2,754.40	1,376.08
EBITDA Margin	12%	4%	10%	9%
Profit/(Loss) before exceptional items and tax	425.52	152.00	1,983.47	1,008.68
Prior period items	-	-	-0.25	-
Profit/(Loss) before tax	425.52	152.00	1,983.72	1,008.68
Tax Expense				
Current Tax	86.93	98.67	530.97	240.84
Deferred Tax	29.47	-56.77	52.09	8.50
MAT Credit Entitlement				
Total Tax Expense	116.40	41.90	583.06	249.34
Profit/(Loss) for the year	309.12	110.10	1,400.66	759.34
Net Profit Margin	2.83%	0.58%	5.26%	5.15%

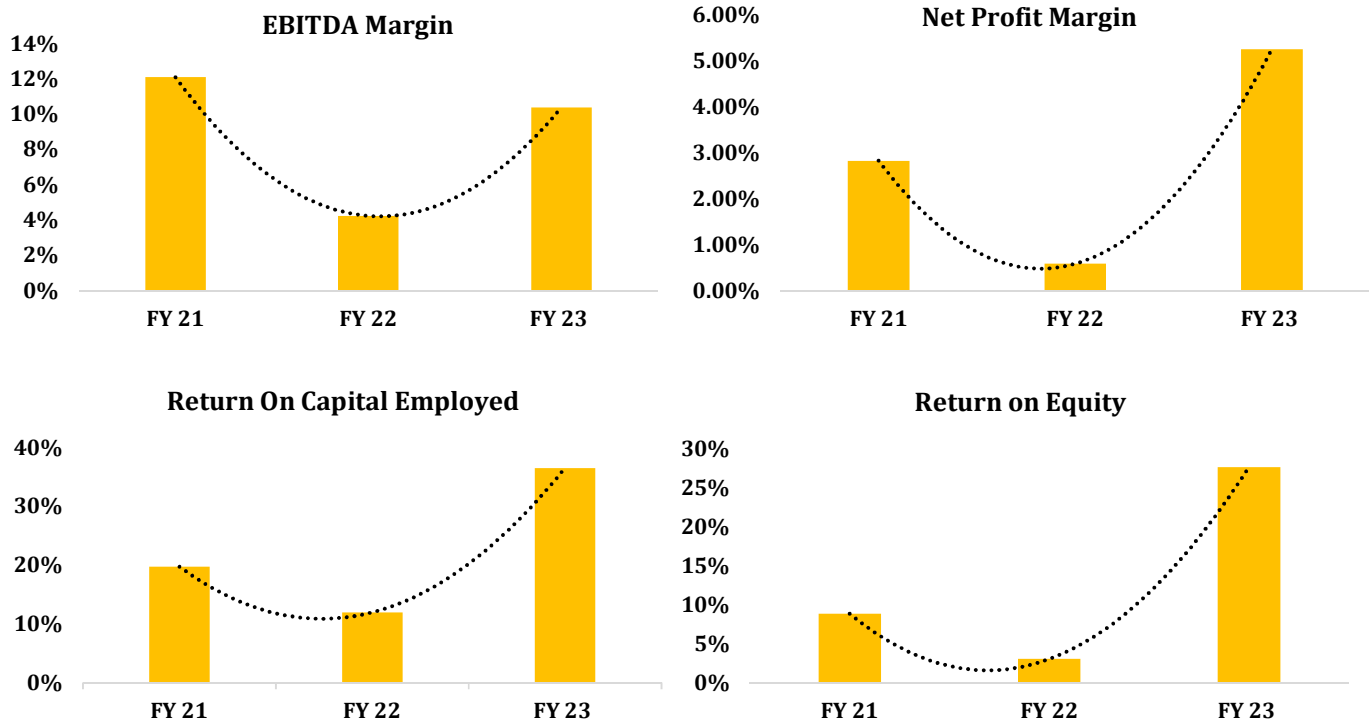
Balance Sheet				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Sep-23
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	913.25	923.25	923.25	1,384.87
Reserve and Surplus	2,598.88	2,738.98	4,139.39	4,437.11
Total Equity	3,512.13	3,662.23	5,062.64	5,821.98
2. Non-current liabilities				
Long Term Borrowings	1,686.94	877.01	1,372.23	1,144.79
Deferred Tax Liabilities (Net)	311.74	254.97	307.06	315.56
Long Term Provisions	103.84	137.11	137.88	146.60
Total Non-current liabilities	2,102.52	1,269.09	1,817.17	1,606.95
3. Current liabilities				
Financial Liabilities				
Short-term borrowings	2,640.10	3,161.79	2,909.81	3,335.67
Trade payables				
Due to MSME	1,326.05	1,449.91	1,830.68	1,482.57
Due to Others	1,570.38	2,298.96	2,296.60	2,920.91
Other Current Liabilities	3,386.94	5,303.02	5,117.97	5,651.35
Short-term Provisions	106.94	117.76	163.00	220.81
Total Current liabilities	9,030.41	12,331.44	12,318.06	13,611.31
Total Liabilities	11,132.93	13,600.53	14,135.23	15,218.26
Total Equity and Liabilities	14,645.06	17,262.76	19,197.87	21,040.24
ASSETS				
1. Non-current assets				
Property, Plant and Equipment				
Tangible Assets	4,295.87	3,938.56	5,733.75	6,119.50
Intangible Assets	-	15.61	68.05	78.47

Balance Sheet				(In Lacs)
Capital work on progress	13.43	247.89	61.52	160.83
Other Non-current assets	149.96	157.38	934.55	1,053.62
Total Non-Current assets	4,459.26	4,359.44	6,797.87	7,412.42
2. Current assets				
Current Investments	-	-	-	300.00
Inventories	5,336.69	6,851.11	7,109.34	7,856.00
Trade receivables	2,462.34	2,508.25	2,322.00	2,177.39
Cash and Bank Balances	759.62	1,430.30	1,690.06	794.13
Other bank balances	228.35	374.41	412.44	494.76
Short-term loans and advances	1,376.89	1,677.22	843.67	1,700.16
Other Current Assets	21.91	62.03	22.49	305.42
Total Current assets	10,185.80	12,903.32	12,400.00	13,627.86
Total Assets	14,645.06	17,262.76	19,197.87	21,040.28

Cash Flow Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Sep-23
Net Cash Flow from Operating Activities	1,395.23	1,722.37	2,577.64	149.83
Net Cash Flow from Investing Activities	-453.71	-304.11	-1,977.32	-993.69
Net Cash Flow from Financing Activities	-569.59	-747.58	-340.56	-52.07

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Sep-23*
<u>Per Share Data</u>				
Diluted EPS	2.25	0.8	10.11	8.01
BV per share	18.64	19.44	26.87	63.50
<u>Operating Ratios</u>				
EBITDA Margins	12.08%	4.22%	10.36%	9.37%
PAT Margins	2.83%	0.58%	5.26%	5.12%
Inventory days	178.69	133.13	97.60	97.88
Debtor days	82.45	48.74	31.88	27.13
Creditor days	133.36	82.40	73.96	67.65
<u>Return Ratios</u>				
RoCE	20%	12%	37%	19%
RoE	9%	3%	28%	13%
<u>Valuation Ratios (x)</u>				
EV/EBITDA	5.38	7.90	2.78	5.60
Market Cap / Sales	1.87	1.08	0.77	0.69
P/E	48.00	135.00	10.68	13.48
Price to Book Value	5.79	5.56	4.02	1.70
<u>Solvency Ratios</u>				
Debt / Equity	1.23	1.10	0.85	0.77
Current Ratio	1.13	1.05	1.01	1.00
Quick Ratio	0.54	0.49	0.43	0.42
Asset Turnover	0.74	1.09	1.38	0.70
Interest Coverage Ratio	1.57	1.18	4.30	4.85

*Ratio sheet for Sep-23 is annualized.

Financial Charts

Key Risk Factors

1. The group company have incurred losses in past and any operating losses in the future could adversely affect the results of operations and financial conditions of the group company. Group company had losses for FY 2021, 2022, and 2023 (One of the companies for 2023). Corporate Promoter had loss for the FY 2021, and 2022.
2. There are certain outstanding legal proceedings involving the Company, Promoters, Directors and Group Companies amounting to Rs. 1,040.29 Lakhs. Any failure to defend these proceedings successfully may have an adverse effect on the business prospects, reputation, financial conditions and the result of ongoing operations.
3. The company has certain contingent liabilities and commitments amounting to Rs. 3,442.48 lakhs.

Track Record of Lead Manager

The lead manager to the issue is Hem Securities 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 –

Hem Securities Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	New Swan Multitech Limited	33.11	66.00	January 18, 2024	124.00
2.	Shri Balaji Valve Components Limited	21.60	100.00	January 03, 2024	267.00
3.	Shanti Spintex Limited	31.25	70.00	December 27, 2023	76.9
4.	Siyaram Recycling Industries Limited	22.96	46.00	December 21, 2023	103.00
5.	S J Logistics (India) Limited	48.00	125.00	December 19, 2023	221.00
6.	Deepak Chemtex Limited	23.04	80.00	December 06, 2023	110.00
7.	Paragon Fine and Speciality Chemicals Limited	51.66	100.00	November 03, 2023	164.00
8.	E Factor Experiences Limited	25.92	75.00	October 09, 2023	158.00
9.	Arabian Petroleum Limited	20.24	70.00	October 09, 2023	94.8
10.	Saakshi Medtech and Panels Limited	45.16	97.00	October 03, 2023	233.00

The company has had 38 mandates in the past three years including the current Year.

*CMP for the above-mentioned companies is taken as of 25th January 2024.

As per the offer document, from the above-mentioned mandates, all the mandates have opened at premiums on the listing date.

Recommendation

The company has been in the industry since 2010 and has good experience in the industry. The company's management overview is satisfactory. The company also faces significant competition in the industry.

The P/E on an annualized and post-IPO basis is 13.48 times which seems to be fully priced by looking at the performance of the company and the sector. The Sector P/E is 22.0 times.

The industry in which the company operates is highly competitive. The company has seen an increase in the top line of its financials but raises concerns over sustainability when looking at the bottom line where a sudden steep increase can be identified. The industry in which the company operates has good growth potential which may impact the overall growth of the company. The strategies planned can be good for the company. But the company's bottom line increase is slightly raising concerns. Thus, for now, we recommend **Risk Averse - Should Wait Risk Seekers - Should Apply** but need to be cautious about the sustainability of its financials.

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