



Refractory Shapes Limited

IPO Note

Recco – **APPLY**



IPO Details	
Opening Date	May 06, 2024
Closing Date	May 09, 2024
Stock Exchange	NSE SME
Lot Size	4,000 Shares
Issue Price	₹27 to ₹31 per share
Issue Size	Aggregating up to 18.60 Cr.
Fresh Issue	Aggregating up to 18.60 Cr.
Offer for Sale	-
Application Amount	₹1,24,000

IPO Objective	
1.	Funding of Capital expenditure towards civil construction required for Expanding and setting up a new manufacturing unit.
2.	Funding of Capital expenditure towards the purchase of Plant and machinery for Expanding and setting up a new manufacturing unit.
3.	Purchase of a commercial vehicle.
4.	General corporate purposes.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,58,00,000	100.00%
Public	-	-

Promoter of the Company	
1.	Dayashankar Krishna Shetty
2.	Pratibha Dayashankar Shetty
3.	Prajna Shravan Shetty
4.	Suraj Sadanand Shetty

Competitive Strengths	
1.	Vast experience and track record in the Industry.
2.	Raw Material Excellence.
3.	Having enlisted by Engineer India Limited ("EIL") as an Approved Vendor.
4.	Wide & strong Customer base.
5.	Product & service quality along with Safety

Company Background	
○	Formed in 1973, Refractory Shapes Limited has its registered office in Mumbai, Maharashtra, India.
○	The company is primarily engaged in the manufacturing of different types of Bricks, Castables, High Alumina Catalysts and Ceramic Balls which include Pre Cast & Pre Fired Blocks ("PCPF"), Burner Blocks, Special shaped Refractory bricks, Dense & Insulating Castables & Mortars.
○	The company also engages in trading goods, such as metallic anchors that provide support during the installation of refractory castables.
○	As of December 31, 2023, the company had a total of 38 employees on its payroll.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 49	₹ 68

Financial Summary (In Lacs.)				
For the Period Ended	Mar-21	Mar-22	Mar-23	Dec-23
Total Assets	2,723.72	3,684.82	5,003.81	5,289.90
Net Assets	1,189.86	1,476.90	1,668.64	1,976.58
Total Borrowing	1,234.18	1,570.12	2,048.63	2,341.80
Total Revenue	2,179.67	2,621.67	3,872.23	2,999.04
Profit After Tax	156.38	287.05	191.73	307.95

Tentative Timeline	
Opening Date	May 06, 2024
Closing Date	May 09, 2024
Basis of Allotment	May 10, 2024
Initiation of Refunds	May 13, 2024
Credit of Shares to Demat	May 13, 2024
Listing Date	May 14, 2024



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Company Background and Analysis

Refractory Shapes Limited was established in the year 1973 as a Proprietary Firm. The company is primarily engaged in the production of various kinds of bricks, castables, ceramic balls, high alumina catalysts, and pre-cast and pre-fired blocks (also known as "PCPF"), burner blocks, special-shaped refractory bricks, dense and insulating castables, and mortars. A wide range of industries, including steel, cement, glass, petrochemicals, refineries, fertilizers, and others, use the company's custom-made products.

Engineer India Limited (EIL) has approved the company for the first time, and the company was also enlisted with EIL for "High Alumina Refractory Bricks." The company is the Original Equipment Manufacturer in many projects that EIL completes, which has expanded the company's opportunities in many green field projects. This EIL enlistment is revalidated every three years.

Refractory Shapes frequently handles orders for items from clients that are not related to the company's production operations, in addition to the manufacturing activity the company performs. These products include metallic anchors, which provide support during the installation of refractory castables that call for raw materials such as insulating bricks, tabular alumina, and low alumina bricks, among others. This falls under the trading vertical of the company

The company's revenue bifurcation is as follows -

(Amount in Lacs)

Particulars	Mar-21		Mar-22		Mar-23		Dec-23	
	Amt	%	Amt	%	Amt	%	Amt	%
Manufacture Goods	1,757.32	84.13	1,747.47	68.52	2,906.45	76.55	2,570.77	87.38
Trading Goods	331.58	15.87	802.85	31.48	890.47	23.45	371.38	12.62
Total (A+B)	2,088.90	100.00	2,550.32	100.00	3,796.92	100.00	2,942.15	100.00

The company's product portfolio is as follows -

1. Castables – Refralite, Refracast, Refracrete, Refratab, Reframon LC, Refraplast, Refracoat, Refrachem.
2. Bricks – Kyanex, Kyanex Super, Reframul, Refra Zirmul, Refra SC, Slip Cast Shapes, Xlite Insulating Bricks, Refractory Shapes.
3. Ceramic Balls – Inert Catalyst Support Ceramic Balls.

The revenue bifurcation as per the product portfolio is as follows -

(Amount in Lacs)

Particulars	Mar-21		Mar-22		Mar-23		Dec-23	
	Amt	%	Amt	%	Amt	%	Amt	%
Refractory Bricks	1,565.10	74.92	1,545.49	60.60	2,189.19	57.66	1,808.60	61.47
Refractory Castable	523.80	25.08	1,004.83	39.40	1,283.44	33.80	910.20	30.94
Ceramic Balls	-	-	-	-	324.29	8.54	223.35	7.59
Total	2,088.90	100.00	2,550.32	100.00	3,796.92	100.00	2,942.15	100.00

To conclude, The business has a great deal of experience in the business area, having been in the industry since 1973. In addition to production, the company engages in trading. The vertical ceramic balls are a new source of income for the corporation. In the domestic market, the company's clientele is spread across 17 states and 2 Union territories.



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Business Strategies

1. Expansion of the Manufacturing Facility -

The company as a part of its strategy enlarged the manufacturing plant to bring it closer to the source of its Raw Material in Gujarat. The Company became the OEM manufacturer in numerous projects carried out by EIL.

2. Target new product & customer segments -

The Company is working to gain the approval of reputable licensors, KBR USA & Haldor Topsoe Denmark, for its refractory bricks & castables, in order to increase the capacity and broaden the customer base and product offers.

3. Introduce Innovative techniques -

The company is applying newer technologies into production to improve the efficiency of manufacturing by using higher capacity press machines, and automatic loading mechanisms for the castable-making machine.

4. Increase value addition by changing the Product mix -

The Company is creating a number of exclusive goods that are now being sold to the steel and refinery industries, providing far higher performance. While producing items, the company is engineering the raw material mix and creating unique shapes based on the specifications and client feedback.



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Competitive Scenario and Peer Mapping

Competition

The industry is competitive. The company faces competition from the domestic market. The company faces pricing pressures from companies, that are able to manufacture Refractory products at competitive costs and consequently, may supply their products at cheaper prices. The company has low entry barriers. The bargaining power with the suppliers is high and the bargaining power with the customer is also slightly high in the industry 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	Refractory Shapes Limited	SP Refractories Limited	IFGL Refractories Limited
	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	5%	2%	6%
EBITDA Margin	10%	5%	12%
Return on Capital Employed	11%	11%	10%
Return on Equity	11%	7%	8%
EPS (INR)	1.21	3.41	21.98

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

Particulars	Refractory Shapes Limited	SP Refractories Limited	IFGL Refractories Limited
	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	11%	3%	6%
EBITDA Margin	14%	6%	12%
Return on Capital Employed	13%	19%	11%
Return on Equity	19%	12%	8%
EPS (INR)	1.82	5.97	21.50

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

Particulars	Refractory Shapes Limited	SP Refractories Limited	IFGL Refractories Limited
	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	7%	3%	6%
EBITDA Margin	11%	6%	17%
Return on Capital Employed	9%	25%	13%
Return on Equity	13%	16%	7%
EPS (INR)	0.99	5.03	18.20



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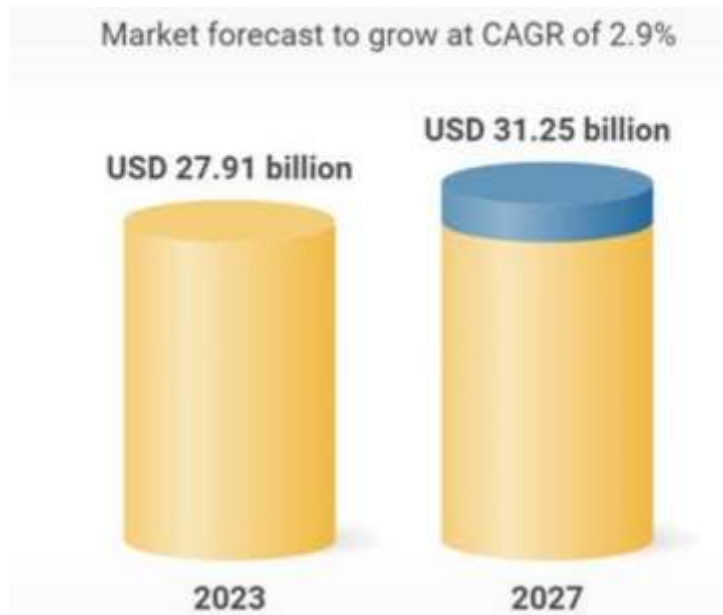
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Industry Overview

Exhibit 1: Global Refractories Market.



(Source: prospectus)

Exhibit 2: Quarterly estimates of GVA at current prices (US\$ billion).



(Source: ibef.org)



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Indian manufacturing industry -

Manufacturing is emerging as an integral pillar in the country's economic growth, thanks to the performance of key sectors like automotive, engineering, chemicals, pharmaceuticals, and consumer durables. The Indian manufacturing industry generated 16-17% of India's GDP pre-pandemic and is projected to be one of the fastest growing sectors. The machine tool industry was literally the nuts and bolts of the manufacturing industry in India. Today, technology has stimulated innovation with digital transformation a key aspect in gaining an edge in this highly competitive market.

Technology has today encouraged creativity, with digital transformation being a critical element in gaining an advantage in this increasingly competitive industry. The Indian manufacturing sector is steadily moving toward more automated and process-driven manufacturing, which is projected to improve efficiency and enhance productivity. India has the capacity to export goods worth US\$ 1 trillion by 2030 and is on the road to becoming a major global manufacturing hub. With 17% of the nation's GDP and over 27.3 million workers, the manufacturing sector plays a significant role in the Indian economy. Through the implementation of different programmes and policies, the Indian government hopes to have 25% of the economy's output come from manufacturing by 2025.

India now has the physical and digital infrastructure to raise the share of the manufacturing sector in the economy and make a realistic bid to be an important player in global supply chains. A globally competitive manufacturing sector is India's greatest potential to drive economic growth and job creation this decade. Due to factors like power growth, long-term employment prospects, and skill routes for millions of people, India has a significant potential to engage in international markets. Several factors contribute to their potential. First off, these value chains are well positioned to benefit from India's advantages in terms of raw materials, industrial expertise, and entrepreneurship.

Indian Refractory Industry-

Refractory materials are used in various fields of the national economy, such as iron and steel, nonferrous metal, glass, cement, ceramics, petrochemicals, machinery, boilers, light industry, electric power, military industry, etc. It is an essential basic material to ensure the production and operation of the above-mentioned industries and the development of technology.

Refractory materials generally refer to inorganic nonmetal materials with a refractory degree of 15800°C or above. Refractory materials include natural ores and various products made for certain purposes and requirements through certain processes, which have certain high-temperature mechanical properties and good volume stability. They are the necessary materials for various high-temperature equipment.

(Source: prospectus)



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Key Managerial Personnel

Prajna Shravan Shetty, aged 35 years, is one of the Promoters, Chairperson & Managing Director of the Company. She holds a Master of Science Degree in International Finance from the University of Leeds Business School. She has around 12 years of experience in Refractory Business including 4 years of experience in ReFractory Shapes. She is responsible for the overall Business Development of the Company, managing client relations, overlooking the company finances and overall operations of the business.

Dayashankar Krishna Shetty, aged 75 years, is one of the Promoters and Executive Director of the Company. He holds a degree of Bachelor's in Chemical Engineering. He has around 37 years of experience in the Refractory Business including 27 years of experience in ReFractory Shapes. He oversees the overall Business Operations of the company and is responsible for Product Quality, Operational Efficiencies and Strategy Execution which includes purchase, production, logistics and sales strategies for the Products.

Pratibha Dayashankar Shetty, aged 65 years, is one of the Promoters of the Company. She holds a Bachelor of Law Degree. She had been associated with the company as a director since 1996 and was overlooking the finances and the business operations of the company and has resigned from recently. She has experience of around 37 years in Refractory business.

M Jothiprakash, aged 61 years, is the Whole Time Director of the Company. He holds a Bachelor's Degree in Mechanical Engineering and a Bachelor's Degree in Maths. He has also completed an Executive Programme on Leading and Managing from the Indian Institute of Management Calcutta. He has over total experience of 33 years in the fields of Manufacturing Projects, Engineering & Maintenance, and Operations including 18 years of experience in ReFractory Shapes. He is responsible for overlooking the technical & production activities. He is also responsible for maintaining the ISO certification. In addition, he also overlooks the overall upkeep and maintenance of the factory equipment

Suraj Sadanand Shetty, aged 37 years, is one of the Promoters and Executive Director of the Company. He has done his post-graduation in Advanced Construction Management and holds a bachelor's degree in Civil Engineering. He has a total experience of 12 years in the construction industry. In ReFractory Shapes, he is involved in technical discussions with clients for the prequalification process, & overseeing the expansion work of the Company in Wankaner Gujarat.

Ammar Huseni Rangwala, aged 59 years, is the Executive Director and Chief Financial Officer of the Company. He holds Bachelors of Commerce Degree in Advanced, Accounting and Auditing. He has a total experience of 39 years in the company and overlooks the HR compliances and finances of the company. He overlooks the purchase of Raw Materials and Debtor-Creditor finances. He is also in charge of approving the raw material supplier and finalizing the rate for placing the raw material order.

Siddharth Kumar, aged 69 years, is the Non-Executive Independent Director of the Company. He holds a Bachelor of Technology in Ceramic Engineering. He has a vast experience of 30 years in the field of the Refractory Industry and is a consultant in the field of Refractory.

Abhay Yatin Naik, aged 38 years, is the Non-Executive Independent Director of the Company. He has done his post-graduation in Advanced Construction Management. He has a total experience of 11 years in the field of Construction Industry.

Kemmannu Shashidhara Rao, aged 70 years, is the Non-Executive Independent Director of the Company. He holds a Bachelor of Science degree. He has around 40 years of experience in the field of Public Sector Bank.



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Mr. Dhananjay Mayur Dave, aged 56 years, is the Non-Executive Independent Director of the Company. He holds Degree of Doctor of Excellence Honoris Causa (Management) from Young Scientists University. He has vast experience and knowledge in various fields of petrochemicals, infrastructure, oil & gas and many more.

Mr. Ravindra Venkatesh Hulyalkar, aged 58 years, is the Non-Executive Independent Director of the Company. He holds a Bachelor of Technology Degree in Textile. He has completed his Executive Programme in Global Economics from IIM Calcutta.

To conclude, the company has 4 promoters and they all have vast experience which is in line with the Industry, as well as with the company. Apart from them, the Company has 5 Non-Executive Independent Directors who have decent knowledge and experience in their respective fields which helps in the overall growth of the company.



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Financial Snapshot

Profit and Loss Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23
Revenue from Operations	2,088.90	2,550.32	3,796.92	2,942.15
Other Income	90.77	71.35	75.31	56.89
Total Income	2,179.67	2,621.67	3,872.23	2,999.04
Expenses				
Cost of Material Consumed	925.36	1,028.92	2,214.36	1,903.24
Purchases of Stock in Trade	272.34	471.39	580.93	240.44
Changes in Inventories of WIP, Finished Goods & Stock in Trade	141.29	-38.53	-174.02	-626.98
Employee benefits expense	295.97	302.09	360.77	239.51
Finance costs	74.79	59.70	108.35	115.81
Depreciation and Amortization expense	38.68	34.99	105.93	148.61
Other expenses	219.46	425.07	427.17	577.40
Total Expenses	1,967.89	2,283.63	3,623.49	2,598.03
Earnings Before Interest, Taxes, Depreciation & Amortization	234.48	361.38	387.71	608.54
EBITDA Margin	11%	14%	10%	21%
Profit/(Loss) before exceptional items and tax	211.78	338.04	248.74	401.01
Exceptional items	-	31.91	10.43	-
Profit/(Loss) before tax	211.78	369.95	259.17	401.01
Tax Expense				
Current Tax	52.22	83.48	43.76	96.44
Earlier Year Tax	3.97	-	7.57	-
Deferred Tax	-0.79	-0.58	16.11	-3.38
Total Tax Expense	55.40	82.90	67.44	93.06
Profit/(Loss) for the year	156.38	287.05	191.73	307.95
Net Profit Margin	7%	11%	5%	10%

Balance Sheet				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	10.00	10.00	10.00	1,580.00
Reserves and surplus	1,179.86	1,466.90	1,658.64	396.58
Total Equity	1,189.86	1,476.90	1,668.64	1,976.58
2. Non-current liabilities				
Long Term Borrowings	880.06	1,054.28	929.24	1,107.06
Deferred tax liability/ (Assets) (Net)	-	-	14.99	11.61
Total Non-current liabilities	880.06	1,054.28	944.23	951.70
3. Current liabilities				
Short-term borrowings	354.12	515.84	1,119.39	1,234.74
Trade payables				
(i) MSME	-	-	-	-
(ii) Other than MSME	156.40	537.12	1,151.62	785.21
Other current liabilities	112.74	53.06	103.48	136.74
Short-term provisions	30.54	47.62	16.45	37.96
Total Current liabilities	653.80	1,153.64	2,390.94	2,194.65
Total Liabilities	1,533.86	2,207.92	3,335.17	3,313.32



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Balance Sheet				(In Lacs)
Total Equity and Liabilities	2,723.72	3,684.82	5,003.81	5,289.90
ASSETS				2,194.65
1. Non-current assets				
Fixed Assets				
Tangible Assets	697.07	759.85	1,893.38	1,887.63
Capital WIP	-	534.07	-	-
Non-Current Investment	1.36	613.52	623.95	623.95
Deferred Tax Assets (Net)	0.54	1.12	-	-
Long term Loans and Advances	8.61	10.61	37.92	38.32
Total Non-Current assets	707.58	1,919.17	2,555.25	2,405.05
2. Current assets				
Inventories	233.85	333.26	855.87	1,528.12
Trade receivables	753.13	616.61	785.35	694.33
Cash and cash equivalents	773.09	623.30	460.19	313.03
Short-term loans and advances	37.41	12.16	81.54	27.93
Other Current Assets	218.66	180.32	265.61	176.59
Total Current assets	2,016.14	1,765.65	2,448.56	2,740.00
Total Assets	2,723.72	3,684.82	5,003.81	5,289.90

Cash Flow Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23
Net Cash Flow from Operating Activities	517.77	757.03	170.15	-210.64
Net Cash Flow from Investing Activities	35.16	-1,181.06	-676.11	-113.48
Net Cash Flow from Financing Activities	-536.07	274.24	342.85	176.96

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Dec-23*
Per Share Data				
Diluted EPS	1,563.90	2,870.40	1,917.40	1.84
BV per share	5.46	6.77	7.65	18.03
Operating Ratios				
EBITDA Margins	11.23%	14.17%	10.21%	20.68%
PAT Margins	7.17%	10.95%	4.95%	10.01%
Inventory days	40.86	47.70	82.28	142.31
Debtor days	131.60	88.25	75.50	64.66
Creditor days	144.20	332.51	269.65	147.12
Return Ratios				
RoCE	9%	13%	11%	12%
RoE	13%	19%	11%	10%
Valuation Ratios (x)**				
EV/EBITDA	7.04	6.71	8.40	7.31
Market Cap / Sales	3.24	2.65	1.78	1.72
P/E	0.02	0.01	0.02	16.86
Price to Book Value	5.68	4.58	4.05	1.72
Solvency Ratios				
Debt / Equity	1.04	1.06	1.23	0.59
Current Ratio	3.08	1.53	1.02	1.25
Quick Ratio	2.73	1.24	0.67	0.55
Asset Turnover	0.77	0.69	0.76	0.56
Interest Coverage Ratio	2.62	5.47	2.60	3.97

*Annualized Figures

**Valuation Ratios are calculated considering the Issue Price



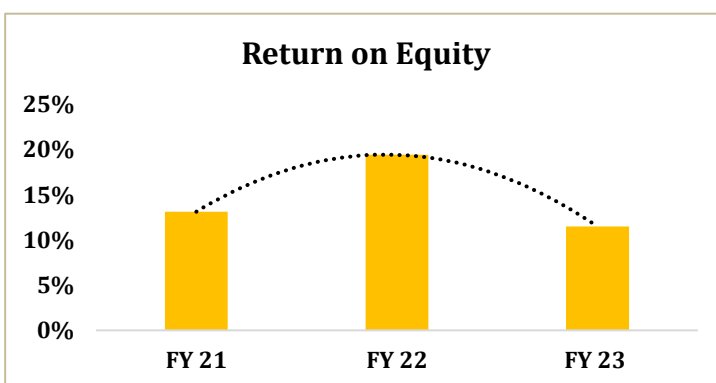
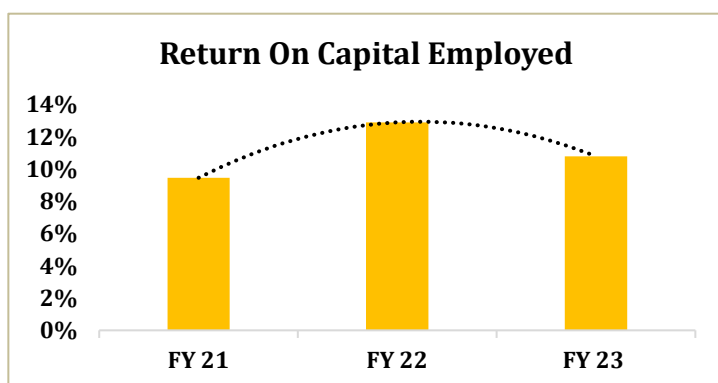
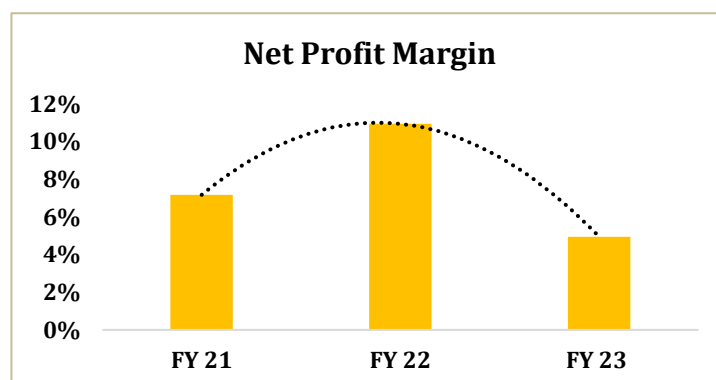
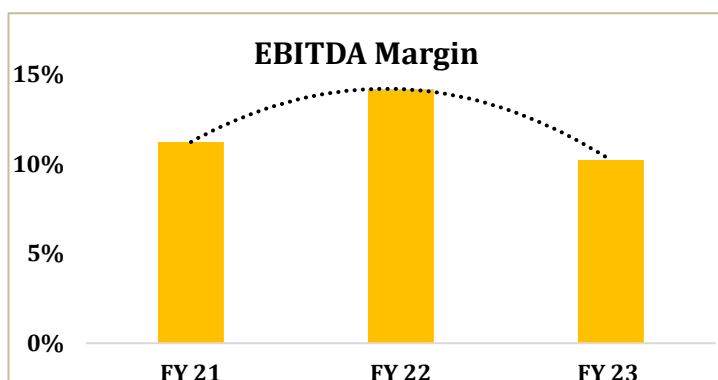
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Financial Charts



Key Risk Factors

1. There are outstanding legal proceedings involving the Company, Directors and Promoters, and Group Companies amounting to ₹106.18 Lakhs regarding Taxation Matters. Any adverse decision in such proceedings may have a material adverse effect on the business, results of operations and financial condition.
2. Few Important Historical Records of the Company have gone missing.
3. The Company is having Negative Cash Flow from Operating Activities for the Current FY as mentioned in the Restated Financial Statement which is prepared till 31st December 2023.



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Track Record of Lead Manager

The lead manager to the issue is Shreni Shares Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Shreni Shares Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Yash Optics & Lens Limited	53.15	81.00	April 08, 2024	93.2
2.	Gabriel Pet Straps Limited	8.06	101.00	February 07, 2024	140.00
3.	DelaPlex Limited	46.08	192.00	February 02, 2024	233.00
4.	AIK Pipes and Polymers Limited	15.02	89.00	January 02, 2024	120.00
5.	Net Avenue Technologies Limited	10.25	18.00	December 08, 2023	20.00
6.	Swashtik Plascon Limited	40.76	86.00	December 05, 2023	78.00
7.	KK Shah Hospitals Limited	8.78	45.00	November 06, 2023	55.00
8.	Marco Cables and Conductors Limited	18.73	36.00	September 28, 2023	49.5
9.	Meson Valves India Limited	31.09	102.00	September 21, 2023	949.00
10.	CPS Shapers Limited	11.10	185.00	September 07, 2023	374.00

The company has had 29 mandates in the past three years including the current Year.

*CMP for the above-mentioned companies is taken as of May 4th, 2024.

As per the offer document, from the above-mentioned mandates, all the mandates are opened at a premium, on the listing date.



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Recommendation

The company has been in the industry since 1973 and has very vast experience in the industry. The management overview of the company is good.

The P/E on a post-IPO and annualised basis is around 16.86 times which makes it fairly priced by looking at the performance of the company and sector. The Sector P/E is 38.5 times.

The business works in a divided and competitive market. The top line of the financials has been trending upward, but the bottom line and profitability margins have been volatile, which has been the same or comparable for peers in the industry.

The company is investing its net proceeds in manufacturing facility development as well as the acquisition of equipment and machinery for the same, which we believe will result in strong future growth. In addition to its positive attributes, the organization enjoys a good spread of clientele. Given the fluctuations in the company's margins over time, we think investors should exercise a little caution, but overall, this is a good investment. Thus, at the current P/E, we recommend **APPLY** to this IPO



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