



IPO Note

Rajputana Industries Limited

Recommendation: **AVOID**

Company Background -

- Incorporated in 2011, The company specializes in manufacturing non-ferrous metal products (copper, aluminium, brass, etc.) from recycled scrap metal and has its registered office in Jaipur, Rajasthan.
- Company caters to the following industries - Electrical and Electronics Industry, Automotive Industry, Plumbing and Sanitary Industry, Construction and Architecture Industry, Industrial Equipment Manufacturing, HVAC and Refrigeration Industry and Renewable Energy Industry.
- **Acquisition:** Shera Energy Limited acquired RIL in 2017, leveraging forward integration as RIL's metal billets serve as raw material for Shera Energy's winding wires and strips production.
- The company's certifications include: ISO9001:2015: Quality Management System, ISO45001:2018: Occupational Health and Safety Management System, ISO14001:2015: Environmental Management System
- The company had 98 permanent employees as of July 10, 2024.

Objects of the Issue -

- Funding the working capital requirements of the Company.
- Purchase of Grid Solar Power Generating System
- General Corporate Purposes.

Promoters Name -

M/s Shera Energy Limited, M/s Isha Infrapower Private Limited, Mrs. Shivani Sheikh, and Mr. Sheikh Naseem

Rationale for recommendation -

- ✓ Related Party Transactions forming almost 50% of revenue.
- ✓ Increasing inventory and debtor days with low liquidity along with negative cashflows.

IPO Details

Opening Date	July 30, 2024
Closing Date	August 1, 2024
Allotment Date	August 2, 2024
Listing Date	August 6, 2024
Stock Exchange	NSE SME
Lot Size	3,000 Shares
Issue Price Per Share	₹36 to ₹38
Issue Size	23.88 Cr.
Fresh Issue	23.88 Cr.
Offer for Sale	-
Application Amt	₹ 1,14,000 (2,000 shares)

KPIs

(Amt in Lakhs.)

KPI's	FY 22	FY 23	FY 24
Revenue	24,435.08	25,466.50	32,650.56
EBITDA	1,187.47	1,240.88	1,765.05
Net Profit	354.28	420.78	686.18
RoCE	25.96%	20.38%	27.09%
ROE	20.69%	15.34%	21.07%
P/E	20.32	17.35	11.38

Promoter Share Holding Pattern

Pre-Issue	Post Issue
92.15%	66.08%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	3.34	3.09
BVPS	20.45	25.41
P/E	11.38	12.30
P/BV	1.86	1.50
Mkt Cap (In Cr)	60.53	84.42

Lead Managers -

Holani Consultants Pvt. Ltd.

Registrar -

Bigshare Services Pvt Ltd

Business Overview -

Company Overview

Incorporation and Evolution: Rajputana Industries Limited (RIL), formerly Rajputana Industries Private Limited, was incorporated in 2011 and converted to a public limited company in 2023.

Revenue Concentration: In FY24, copper rods and brass rods accounted for 25.42% and 20.63% of the company's total revenue, respectively.

Business Model: RIL operates a vertically integrated business model, controlling processes from raw material procurement to sales, ensuring quality and responsiveness to customer needs.

Annual Installed Capacity: As of March 31, 2023, RIL's annual installed capacity is 9,860 MT. While some products like copper rods and brass rods saw high utilization (over 90%) in FY24, others like copper ingots remained underutilized (4.17%). Overall, the facility did not consistently operate at full capacity.

Manufacturing Plant: Rajputana Industries Limited's manufacturing unit in Sikar, Rajasthan, recycles scrap metal into billets and produces various non-ferrous metal products. It features a quality control lab and is currently expanding to include a cable plant.

Product	Composition	Applications	Product Image
Brass Rods	Copper and zinc with alloying elements	Electrical connectors, automotive components, plumbing fittings, decorative trims	
Copper Rods	High-quality copper	Busbars, electrical wiring, power cables, transformers, motors, household appliances, connectors, gaskets	
Aluminium Rods	High-quality aluminium alloy	Electrical wiring, power transmission lines, architectural framework, window frames, automotive components	
Copper Billets	Pure copper	Raw material for extrusion, forging, rolling processes	
Brass Billets	Copper and zinc alloy	Producing bars, rods, tubes, other brass products	
Brass Wires	Copper and zinc alloy	Electrical connectors, jewellery, automotive components, plumbing fittings, musical instruments	
Copper Mother Tube	Pure copper	Raw material for pipes, tubes, hollow busbars	
Super Enamelled Aluminium Conductor	Solid aluminium core with enamel insulation	Motors, transformers, generators, solenoids, inductors, automotive electrical systems, renewable energy, aerospace	
Super Enamelled Copper Conductor	Solid copper core with enamel insulation	Motors, transformers, generators, solenoids, inductors, automotive electrical systems, renewable energy, aerospace, power generation, telecommunications	
Aluminium Busbars	High-quality aluminium alloy	Electrical power distribution, renewable energy systems, electrical equipment, automotive, industrial automation, data centres, construction	
Copper Busbars	High-purity copper	Electrical power distribution, electrical equipment, renewable energy systems, automotive, industrial automation, data centres, construction	

Competition -

- **Technological Influences:** Advancements in recycling and production techniques constantly reshape the industry, requiring RIL to adapt and innovate.
- **Social Influences:** Growing environmental consciousness and demand for sustainable products create opportunities for RIL's recycled-based production model.
- **Macroeconomic Influences:** Fluctuations in metal prices and economic cycles significantly impact RIL's profitability and growth potential.

Porter's Five Forces Analysis:

- **Rivalry:** Intense competition, driven by price sensitivity and numerous players in the market.
- **Supplier Power:** Moderate, with scrap metal availability being a key factor.
- **Buyer Power:** High, as customers have multiple options and prioritize cost-effectiveness.
- **Threat of New Entrants:** Moderate, due to moderate barriers to entry and existing competition.
- **Threat of Substitutes:** Low, as non-ferrous metals have limited substitutes in various applications.

RIL's competitive advantage lies in its experience, vertical integration, and commitment to quality. However, navigating the price-sensitive market remains a key challenge.

Risk Factors -

The company has derived 51.33%, 90.60%, and 93.66% of its revenue from promoter group companies (Shera Energy Limited, Shera Metal Private Limited, and Shree Khatu Shyamji Metal Industries) in FY24, FY23, and FY22, respectively. This heavy reliance on related party transactions, totaling ₹16,758.33 lakhs in FY24, may pose potential conflicts of interest and raise concerns about the company's ability to secure favourable terms with unrelated parties.

In FY24, FY23, and FY22, the company sourced 79.49%, 87.42%, and 92.75% of its total purchases, respectively, from its top 10 suppliers. Additionally, 45.98%, 52.35%, and 73.18% of purchases came from related parties, including Shera Energy Limited, Shera Metal Private Limited, and Shree Khatu Shyamji Metal Industries. This dependency on a limited number of suppliers, especially related parties, could pose risks to the company's supply chain and financial performance.

Company has experienced negative cashflows in FY ended 22.

Promoters Sheikh Naseem and Shivani Sheikh face pending court proceedings for alleged abetment of suicide. While a negative final report was filed, an adverse court order could reopen investigations and harm the company's reputation.

Company's production costs heavily depend on fluctuating raw material prices (82-97% of revenue), primarily copper, brass, and aluminum scrap.

Business Strategies -

Expanding the Customer Base

The company plans to expand its customer base by extending product distribution to new regions and meeting the growing demand for winding wires. With a manufacturing presence in both domestic and international markets, the company diversifies into various sizes and products to align with market trends. Focusing on quality, timely delivery, competitive pricing, and reliability, it aims to grow market share by building profitable relationships with key customer groups.

Increasing Operational Efficiencies

The company improves cost efficiency through enhanced manufacturing, sourcing, and cost reduction strategies while maintaining product quality.

Investing in Infrastructure and Technology

Investment in modern technology and upgraded machinery aims to meet diverse client specifications and sustain growth.

Product Enhancement and Quality Focus

Enhancing existing products and maintaining high quality ensures customer retention and repeat orders.

Customer Engagement for Brand Growth

Close customer relationships help understand market dynamics, ensuring sustained growth and brand value.

Company has ₹25 lakhs in contingent liabilities as of March 31, 2024.

Rajputana Industries Limited has ₹705.57 lakhs in unsecured loans from directors and related companies as of July 10, 2024, which could impact cash flows if recalled.

PEER ANALYSIS

Particulars	Rajputana Industries Limited			Nupur Recyclers Ltd.			Baheti Recycling Industries Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	1.4%	1.65%	2.10%	11.58%	6.32%	2.93%	1.46%	1.46%	1.68%
EBITDA Margin	4.86%	4.87%	5.41%	16.38%	9.99%	5.34%	3.33%	3.74%	4.76%
RoCE	25.96%	20.38%	27.09%	40.51%	29.37%	18.05%	32.36%	29.16%	36.89%
ROE	20.69%	15.34%	21.07%	29.06%	16.71%	8.44%	17.51%	15.31%	17.32%
EPS (INR)	1.87	2.19	3.34	4.09	1.53	1.05	4.23	5.86	6.94
P/E	20.32	17.35	11.38	20.32	45.90	86.38	-	15.09	27.88

Indian Overview -

Non-Ferrous Metals Industry Overview

Global Copper Market:

- **Production:** 22,052 thousand metric tonnes (TMT) from April 2022 to March 2023.
- **India's Share:** 0.11% of global production.
- **Refined Production vs. Consumption:** 26,108 TMT produced vs. 26,239 TMT consumed globally.
- **2023 LME Price (May 2023): Forecast:** 26,419 TMT production and 26,431 TMT consumption projected.
- **LME Price (May 2023):** US\$ 8,234.28 per tonne, a 12.05% decrease from May 2022.

Domestic Copper Market:

- **Size:** Approximately 6.6 lakh tonnes (3% of the global market).
- **Key Players:** Sterlite Industries, Hindalco Industries, Hindustan Copper Ltd.
- **Production:** Declined due to the closure of Vedanta's smelter/refinery plant in 2018.
- **Factors Influencing Prices:** LME rates, Rupee-USD exchange rate, economic growth of major consumers, infrastructure development, and supply-demand dynamics.

Global Aluminium Market:

- **Production:** 69.49 million tonnes in 2022-23, exceeding consumption by 1.24 million tonnes.
- **India's Share:** 5.8% of global primary aluminium production.
- **LME Price (May 2023):** US\$ 2,268 per tonne, a 19.8% decrease from May 2022.

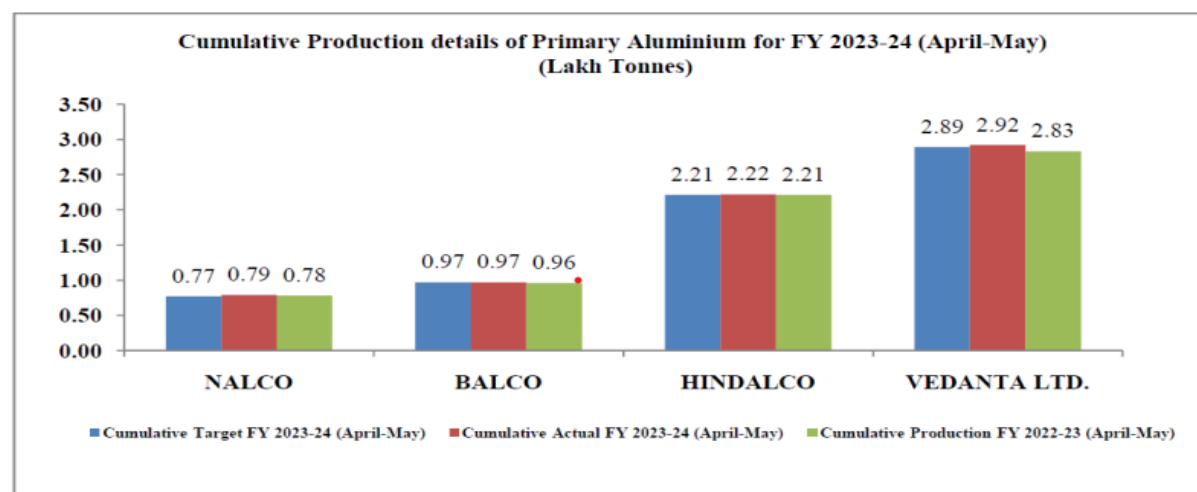
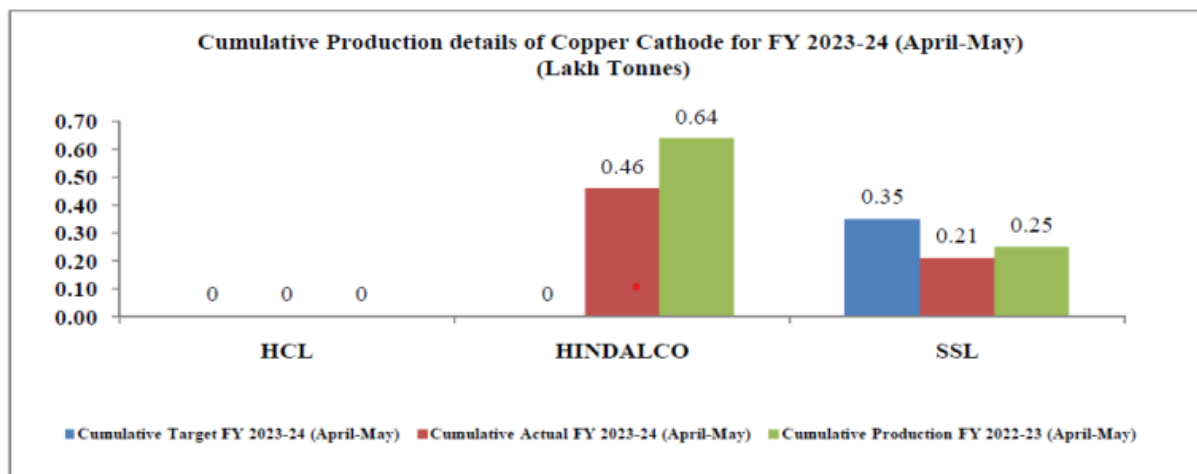
Domestic Aluminium Market:

- **Key Players:** NALCO, BALCO, Vedanta Ltd.

Brass and Zinc Markets:

- **Brass:** Estimated annual production in India is close to 250,000 MT.
- **Zinc:** Hindustan Zinc Limited (HZL) is the main producer in India.

Overall: The non-ferrous metals industry, especially copper, is a global market influenced by multiple factors. India plays a significant role in both production and consumption, with companies like Rajputana Industries Limited contributing to the domestic landscape. The industry is sensitive to global economic conditions, technological advancements, and supply-demand dynamics, making it a dynamic and ever-evolving sector.



**Key Management -**

Key Management Persons Name -	Shivani Sheikh
Age	52
Designation and No. of years of experience	Promoter, Chairman and Managing Director, 25+ years of experience
Qualification	Bachelor of Engineering, Electrical, Honours degree from Pt. Ravishankar Shukla University, Raipur (M.P.).
Roles and Responsibility	Oversees the planning of Shera group finance and hedging strategic management as well as acts as a bridge between employees and management of the company.
Interest in other entities:	Isha Infrapower Private Limited, Shera Energy Limited and Shera Metal Limited

Key Management Persons Name -	Sheikh Naseem
Age	53
Designation and No. of years of experience	Promoter and Whole time Director, 25+ years of experience
Qualification	Bachelor of Engineering (Hons.), Electrical, from PT. Ravishankar Shukla University, Raipur (M.P.)
Roles and Responsibility	-
Interest in other entities:	Isha Infrapower Private Limited, Shera Energy Limited and Shera Metal Limited

Key Management Persons Name -	Sudhir Garg
Age	66
Designation and No. of years of experience	Non-Executive Director, 20+ years of experience
Qualification	Bachelor in Science from Government College, Ajmer year and Post Graduation in Master in Arts (Economics) from University of Rajasthan, Jaipur
Experience	SEBI Registered Sub-broker since 2001 and experience various sectors including metal and electrical industry

Key Management Persons Name -	Shubham Jain
Age	29
Designation and No. of years of experience	Independent Director, 4 years of experience
Qualification	Bachelor of Commerce (B.COM) and L.L.B. from University of Rajasthan, NISM Series XXIII, Social Auditors Certification as well as practicing company secretary from 2019
Roles and Responsibility	-
Interest in other entities:	Jajoo Rashmi Refractories Limited

Key Management Persons Name -	Vekas Kumar Garg
Age	-
Designation and No. of years of experience	Independent Director, 10+ years of experience
Qualification	Bachelors of Commerce and Master in Commerce from Choudhary Charan Singh University, Meerut, member of ICSI
Roles and Responsibility	-
Experience	Registered valuer and working as an Insolvency Professional with Insolvency and Bankruptcy Board of India since 2019

Key Management Persons Name -	Arpit Kumar Dotasra
Age	-
Designation and No. of years of experience	Non-Executive Independent Director, 4+ years of experience

Qualification	B. A., L.L.B. (Hons.) from National University of Study and Research in Law, Ranchi, Jharkhand.
Experience	Member of 402 Bar Council of Rajasthan since August, 2019
Previous Associations	Associate Political Consultant in Pollxperts Consulting Private Limited, Assembly Constituency Manager in Telangana, M.P., Karnataka and Rajasthan during 2018 Assembly Election, Parliamentary Constituency Manager on seat of Karakat (Bihar) and Mirzapur (U.P.) in the 2019 General Election

FINANCIAL SNAPSHOT

Statement of Profit and Loss Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	24,435.08	25,466.50	32,650.56
Other Income	15.88	58.48	50.73
Total Income	24450.96	25524.98	32701.29
Expenses			
Cost of Materials Consumed	23,720.07	24,492.35	29,686.14
Changes in Inventories of finished goods, work-in-progress and stock-in-trade	-1,298.40	-1,310.54	-551.53
Employee Benefit Expenses	154.31	180.31	274.10
Finance Cost	623.49	645.88	877.8
Depreciation and Amortisation	226.85	234.5	251.09
Other expenses	671.63	863.5	1476.8
Total Expenses	24,097.95	25,106.00	32,014.40
EBITDA	1,187.47	1,240.88	1,765.05
EBITDA Margin	4.86%	4.87%	5.41%
Profit/(Loss) before tax	353.01	418.98	686.89
Tax Expense			
Current tax	-1.69	-2.4	0.95
Deferred Tax Expenses/(credit)	0.42	0.6	-0.24
Total Tax	-1.27	-1.80	0.71
Profit/(Loss) for the year	354.28	420.78	686.18
Net Profit Margin	1.45%	1.65%	2.10%

Statement of Equity, Assets and Liabilities Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	42.98	42.98	915.73
Reserves and surplus	620.91	729.50	250.62
Total Equity	663.89	772.48	1,166.35
3. Non-current liabilities			
Long-term borrowings	1053.31	719.08	871.21
Other long term liabilities	2.70	2.70	2.70
Other long term Provisions	66.32	73.3	92.49
Total Non-current liabilities	1,122.33	795.08	966.40
4. Current liabilities			
Short -term borrowings	679.36	1048.62	1025.7
Trade Payables			
Total outstanding dues of micro enterprises & small enterprises	5546.72	4,290.45	6536.05

Recommendation: **AVOID**

Total outstanding dues of creditors other than micro enterprises & small enterprises	237.09	1,372.54	73.13
Other financial Liabilities			1496.19
Other Current Liabilities	26.33	44.15	89
Short term provisions	46.25	86.63	165.54
Total Current liabilities	6,535.75	6,842.39	9,385.61
Total Liabilities	8,524.27	9,037.42	11,717.61
Total Equity and Liabilities	10,236.66	11,781.27	14,974.81
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	4286.28	4257.58	4,463.40
Capital Work-in-Progress			248.15
Other Financial Assets	40.77	40.77	106.93
Total Non-Current assets	4,327.05	4,298.35	4,818.48
2. Current assets			
Inventories	5578	6995.65	8298.31
Financial Assets			
Trade Receivables	14.42	139.39	1,306.66
Cash & Cash equivalents	16.92	5.54	22.11
Other balances with Bank	105.14	124.16	166.93
Loans	1.39	0.93	3.85
Other financial assets	5.55	6.12	11.38
Other Current Assets	150.40	158.35	294.85
Other Tax Assets (net)	37.79	52.78	52.24
Total Current assets	5,909.61	7,482.92	10,156.33
Total Assets	10,236.66	11,781.27	14,974.81

Cash Flow Statement**Amt in Lakhs.**

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	881.96	-338.23	1754.98
Net Cash Flow from Investing Activities	-63.94	-212.84	-801.88
Net Cash Flow from Financing Activities	-819.34	539.69	-936.53

Key Ratios

Particulars	FY 22	FY 23	FY 24
<u>Per Share Data</u>			
Diluted EPS	1.87	2.19	3.34
BV per share	10.75	17.22	20.45
<u>Operating Ratios</u>			
EBITDA Margins	4.86%	4.87%	5.41%
PAT Margins	1.45%	1.65%	2.10%
Inventory days	0.94	7.27	57.47
Debtor days	0.22	2.00	14.61
Creditor days	85.93	98.07	79.26
<u>Return Ratios</u>			
RoCE	25.96%	20.38%	27.09%
RoE	20.69%	15.34%	21.07%
<u>Valuation Ratios (x)</u>			
EV/EBITDA	3.57	4.63	3.50
Market Cap / Sales	0.35	0.33	0.26
P/E	20.32	17.35	11.38
Price to Book Value	3.54	2.21	1.86

Recommendation: **AVOID****Solvency Ratios**

Debt / Equity	1.48	1.09	0.90
Current Ratio	0.90	1.09	1.08
Quick Ratio	0.05	0.07	0.20
Asset Turnover	2.39	2.16	2.18
Interest Coverage Ratio	1.54	1.56	1.72

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Holani Consultants Private 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 –

Holani Consultants Private Limited–

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Signoria Creation Limited	9.28	65.00	March 19, 2024	135.00
2.	Purv Flexipack Limited	40.21	71.00	March 05, 2024	167.10
3.	Motisons Jewellers Limited	151.09	55.00	December 26, 2023	156.55
4.	Goyal Salt Limited	18.62	38.00	October 11, 2023	192.90
5.	Infollion Research Services Limited	21.45	82.00	June 08, 2023	307.40
6.	Shera Energy Limited	35.20	57.00	February 17, 2023	186.85
7.	Insolation Energy Limited	22.16	38.00	October 10, 2022	3,496.35
8.	Cool Caps Industries Limited	11.63	38.00	March 24, 2022	357.00

The company has handled 8 mandates in the past three years (including the current year)

*CMP for the above-mentioned companies is taken as of 29th July 2024.

As per the offer document, from the above-mentioned mandates only one mandate has opened at a discount and rest all have opened at premium on the listing day.

Recommendation -

The company has been in the industry since 2011 and has a decent amount of experience in the industry with an experienced management.

Revenue: Consistent growth with a CAGR of 16%. Total revenue increased from ₹24,435.08 lakhs in FY22 to ₹32,650.56 lakhs in FY24 but 51.33% of revenue came from promoter group companies in FY24 amounting to ₹16,758.33 lakhs in related party transactions in FY24.

Peer Comparison: The company outperforms its peers (Nupur Recyclers Ltd. and Baheti Recycling Industries Limited) in terms of consistent profitability growth, operational efficiency, and return on investment.

The P/E on a post-IPO is around 11.38 times which makes it fairly priced by looking at the performance of the company and sector.

Aside from negative cashflows, unsecured loans, litigations etc These red flags potential risks indicate:

- **Corporate Governance:** Related party transactions and supplier concentration (79.49% of total purchases from top 10 suppliers in FY24 and 45.98% of purchases from related parties in FY24) raise concerns about transparency and fair dealing.
- **Financial Stability:** Negative cash flow, pending legal issues, and high raw material dependency (82-97% of revenue is dependent on fluctuating raw material prices) pose risks to the company's financial health.
- **Operational Efficiency:** Increasing inventory (from 48 days in FY22 to 88 days in FY24) and debtor days (from 50 days in FY22 to 96 days in FY24) suggest potential inefficiencies in working capital management.
- **Liquidity:** The low current ratio (0.93) indicates potential challenges in meeting short-term obligations.

For the above stated reasons, we would recommend to **AVOID** this IPO.

Disclaimer

We are not registered research analysts with SEBI and are not subject to the regulations governing research analysts. This research report is for educational purposes only and should not be construed as investment advice. The information contained in this report is based on publicly available information and is believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy or completeness. Also, some of the employees of our organization may have or may in the future hold investments in the company that is the subject of this research report. This may create a conflict of interest, and you should be aware of this when considering the information contained in this report. You should consult with your financial advisor before making any investment decisions.

OUR WEBSITE:

www.tiareconsilium.com

OUR APP AVAILABLE ON:



CONNECT WITH US ON :

