



## IPO Note

# Sunlite Recycling Industries Limited

Recommendation: **AVOID**

### Company Background -

- Incorporated in 2012, The company has its registered office in Kheda, Gujarat
- **Business Activity:** Manufactures copper rods and wires, copper earthing wires, copper earthing strips, copper conductors, copper wire rods etc. by recycling copper scrap for power generation, transmission, distribution and electronics industries.
- The company had 38 permanent employees as of March 31, 2024.

### Objects of the Issue -

- Funding of capital expenditure towards the installation of new Plant & Machinery.
- Repayment and/or pre-payment, in full or part, of certain borrowings availed by the company.
- General Corporate Purposes.

### Promoters Name -

Nitin Kumar Heda, Prahladrai Ramdayal Heda & Khushboo Manishkumar Heda

### Rationale for recommendation -

- ✓ Over-priced P/E.
- ✓ Dependence on key suppliers and customers, geographic concentration, a short operational history, potential substitution of copper wires, single business segment reliance, high volume-low margin business model.
- ✓ Low Net-Profit Margins.

### IPO Details

Opening Date	August 12, 2024
Closing Date	August 14, 2024
Allotment Date	August 16, 2024
Listing Date	August 20, 2024
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price Per Share	₹100 to ₹105
Issue Size	30.24 Cr.
Fresh Issue	30.24 Cr.
Offer for Sale	-
Application Amt	₹ 1,26,000 (1,200 shares)

### KPIs

(Amt in Lakhs.)

KPI's	FY 22	FY 23	FY 24
<b>Revenue</b>	93,719.32	1,15,018.88	1,16,627.09
<b>EBITDA</b>	1,002.82	1,446.38	1,863.50
<b>Net Profit</b>	426.03	560.27	890.36
<b>RoCE</b>	33.05%	45.26%	67.31%
<b>ROE</b>	36.77%	154.74%	44.43%
<b>P/E</b>	9.86	7.49	5.43

### Promoter Share Holding Pattern

Pre-Issue	Post Issue
100.00%	73.53%

### Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	19.35	2.66
BVPS	25.05	18.42
P/E	5.43	39.44
P/BV	4.19	5.70
Mkt Cap (In Cr)	84.00	114.24

### Lead Managers -

**Hem Securities Ltd.**

### Registrar -

**Cameo Corporate Services Pvt Ltd**

**Business Overview -**

**Incorporation and Business Activities:** Incorporated in 2012, Sunlite Recycling Industries is engaged in the manufacturing of copper products like rods, wires, and strips through the recycling of copper scrap. They also offer job work services for processing copper products for their customers.

**Capacity Utilization:** While overall capacity utilization has remained relatively stable around 82% in the last two fiscal years (FY2022-23: 82.50%, FY2023-24: 82.47%), there are significant variations between product lines.







- Copper rod production is near full capacity, reaching 87.18% in FY2023-24.
- However, copper wire and strip production show underutilization, with copper wire capacity utilization dropping to 37.23% in FY2023-24 and copper strip utilization at 43.41% in the same fiscal year.

**Focus on Expansion:** The company has consistently expanded its product portfolio and manufacturing capabilities over the years.

**Product Concentration:** While Sunlite Recycling Industries offers a diverse range of copper products, a significant portion of its revenue is concentrated in copper rods (89.66% in FY 2023-24).

**Geographic Concentration:** A substantial portion of the company's revenue comes from a few key states in India. Gujarat and Dadra & Nagar Haveli together accounted for 67.22% of total revenue in FY 2023-24.

**Product Portfolio:**

Product	Composition	Key Features	Applications	Product Image
Copper Rods	Oxygen Free Copper Rods (OFC)	High purity, excellent electrical/thermal conductivity, low embrittlement	Power generation, transmission, distribution, electronics	
	Fire-Refined High Conductivity Copper Rods (FRHC)	Excellent electrical/thermal conductivity, corrosion resistance	Roofing, flashing, chemical equipment, bus bars, brazing	
Copper Wires	Copper Earthing Wires	Low resistance, ensures electrical safety	Grounding electrical systems	
	Copper Conductors	High conductivity, corrosion resistance, malleable	Electrical wiring, power transmission, electronics, telecommunications	
	Copper Submersible Wires	Moisture and corrosion resistant, durable	Powering submersible pumps	
Copper Strips	Copper Strips	Excellent conductivity, corrosion resistance, malleable, durable	Various industrial and electrical applications	

## Competition -

Competition in the copper recycling industry is intense, with numerous players vying for market share based on factors like product quality, pricing, and delivery speed. Sunlite Recycling Industries holds a competitive edge due to its cost-effective operations and commitment to customer satisfaction. However, established competitors like Rajnandini Metal and Bhagyanagar India, with potentially wider market reach, pose a challenge.

Key competitive forces at play include:

- **High rivalry among existing players**, driven by price sensitivity and a fragmented market.
- **Moderate bargaining power of buyers**, who seek quality and competitive prices.
- **Moderate bargaining power of suppliers**, as the availability of copper scrap can fluctuate.
- **Low to moderate threat of new entrants** due to the capital-intensive nature of the industry.
- **Moderate threat of substitutes**, as aluminium is lighter and is being used more and more as an alternative.

While the copper recycling industry is mature, it holds growth potential due to increasing demand and a focus on sustainability.

## Business Strategies -

### Continue to Invest in Technological Capabilities

The Company plans to invest Rs. 404.55 Lakhs in advanced machinery to enhance copper component manufacturing. This includes machines like Hydraulic Drawing & Tension Straightening Machines, boosting production of high-demand copper products for power generation and electronics. The focus is on improving operational efficiency and cost-effectiveness, with continued investments in capacity expansion and modernization to strengthen its competitive position.

### Enhancing Brand Image & Meeting Quality Standards

The manufacturing unit is ISO 9001:2015 certified, emphasizing high quality while controlling costs. Continuous quality reviews are crucial for retaining customer trust and enhancing brand value. The Company aims to consistently deliver quality products through process analysis and technology upgrades.

### Expanding Geographical Presence

The Company plans to deepen its presence in key markets, explore new areas, and expand its reach and customer base by offering quality, timely delivery, and reliability.

### Strong Supplier Base

The Company benefits from a diversified global and domestic copper scrap supplier base.

## Risk Factors -

- **Raw Material Price Fluctuations:** Production costs are vulnerable to fluctuations in copper scrap prices (97% of revenue in FY2024). No long-term supply agreements exist, potentially impacting margins and profitability.
- **Dependence on Key Suppliers:** Reliance on a few key suppliers within a limited geographical area (Gujarat contributes 46.83% of raw materials in FY2024) increases supply chain vulnerability.
- **Geographic Concentration:** Major revenue is generated from specific regions (Gujarat contributes 45.73% of revenue in FY2024), increasing susceptibility to local economic and political disruptions.
- **Short Operational History:** Limited operating history may hinder the implementation of growth strategies and complicate investor evaluation.
- **Customer Concentration:** Dependence on a few key customers (top 10 contribute 40% of revenue in FY2024) poses risks if business is lost or reduced.
- **Substitution Risk:** Potential substitution of copper wires with aluminum wires due to lower cost and weight may impact the core business and profitability.
- **Single Business Segment Reliance:** Majority of revenue is from copper rods (89.66% in FY2024), making the company vulnerable to fluctuations in demand, competition, and technological changes within this segment.
- **High Volume-Low Margin Business:** The business model requires high sales volumes to achieve profitability (PBT margin of 1.01% in FY2024), making it susceptible to disruptions in turnover or growth.

Recommendation: **AVOID**

- **Outstanding Legal Proceedings:** Adverse outcomes in ongoing legal cases may impact cash flows, profitability, management focus, and reputation.
- **Under-utilization of Capacity:** Copper wire and strip production show underutilization, with copper wire capacity utilization dropping to 37.23% in FY2023-24 and copper strip utilization at 43.41% in the same fiscal year.
- **Contingent Liabilities:** Outstanding contingent liabilities of Rs 1716.16 lakhs (as of March 31, 2024) could negatively impact financial position if materialized.
- **Group Company Losses:** Past losses and potential future losses of Sunlite Aluminium Private Limited may affect the group's overall operations and financial health.
- **Negative Operating Cash Flow:** The company reported negative operating cash flow in recent fiscal years, which could impact business operations if sustained.

## PEER ANALYSIS

Particulars	Sunlite Recycling Industries Limited			Rajnandini Metal Limited			Bhagyanagar India Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	0.45%	0.49%	0.76%	0.97%	1.32%	1.25%	0.70%	0.55%	3.10%
EBITDA Margin	1.07%	1.26%	1.60%	1.87%	2.85%	2.45%	1.97%	1.93%	5.15%
RoCE	33.05%	45.26%	67.31%	42.19%	53.99%	44.41%	13.65%	14.40%	27.32%
ROE	36.77%	154.74%	44.43%	33.86%	33.02%	26.87%	8.05%	6.85%	23.65%
EPS (INR)	10.65	14.01	19.35	0.04	0.09	0.55	3.46	3.16	14.29
P/E	9.86	7.49	5.43	582.50	124.44	18.73	13.29	14.87	5.72

## Indian Overview -

### Manufacturing Sector:

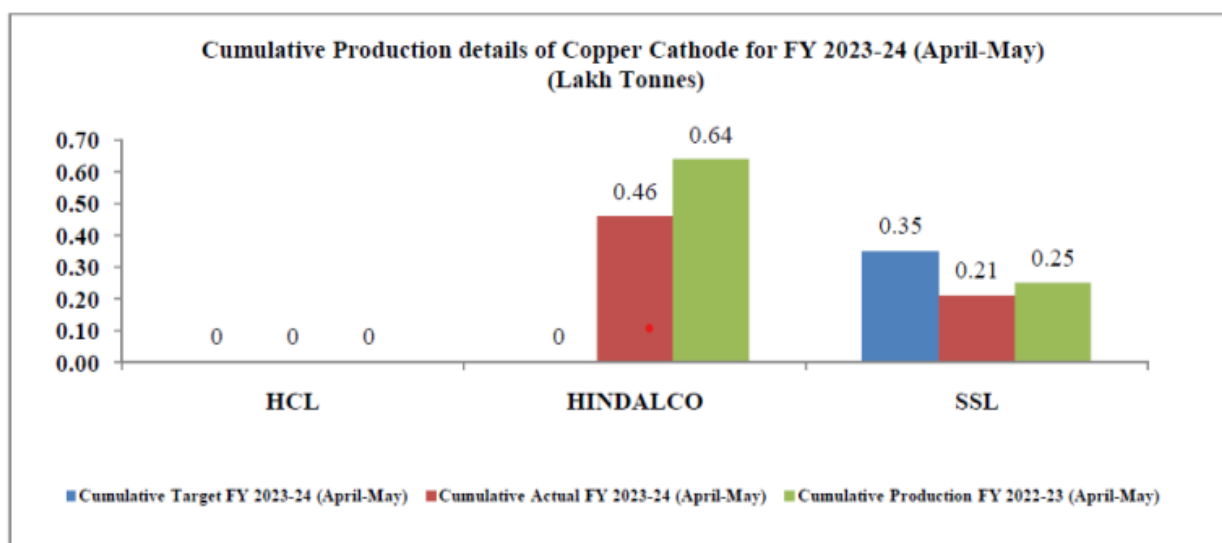
India's manufacturing sector is currently experiencing robust growth, with a notable 11.6% annual expansion observed in the October-December quarter of 2023, acting as a significant driver of GDP and job creation across the country.

### 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: Currently, India faces a deficit in refined copper production,** leading to a reliance on imports, which have witnessed a substantial increase of 180% in the first half of FY2024.
- The upcoming Adani Group copper smelter, expected to be operational from FY2025, has the potential to alleviate this shortage and rebalance the supply-demand dynamics in the domestic market.
- **Factors Influencing Prices:** LME rates, Rupee-USD exchange rate, economic growth of major consumers, infrastructure development, and supply-demand dynamics.





**Key Management -**

<b>Key Management Persons Name -</b>	<b>Nitin Kumar Heda</b>
<b>Age</b>	36
<b>Designation and No. of years of experience</b>	Promoter and Managing Director, 17+ years of experience
<b>Qualification</b>	Bachelor's degree in commerce from University of Delhi.
<b>Roles and Responsibility</b>	Business development, Legal operations & Compliance and overall management of the business
<b>Interest in other entities:</b>	<i>Company:</i> Santram Metals and Alloys Private Limited. <i>HUF:</i> Nitinkumar Akshaykumar Heda HUF and Akshaykumar Ramdayal Heda HUF (Member)

<b>Key Management Persons Name -</b>	<b>Prahladrai Ramdayal Heda</b>
<b>Age</b>	64
<b>Designation and No. of years of experience</b>	Promoter and Whole time Director, 15+ years of experience
<b>Qualification</b>	Eight (VIIIth) Standard from Rajkiya Senior Uch Madhyamik Vidyalaya, Kapasan, chittorgarh in 2008.
<b>Roles and Responsibility</b>	General business and administration functions in the Company
<b>Interest in other entities:</b>	<i>Company:</i> Heda Sanghatan Seva Foundation. <i>HUF:</i> Prahladrai Ramdayal Heda HUF

<b>Key Management Persons Name -</b>	<b>Khushboo Manishkumar Heda</b>
<b>Age</b>	35
<b>Designation and No. of years of experience</b>	Non-Executive Director, 6+ years of experience
<b>Qualification</b>	Master's degree in Master of Business Administration from Sikkim Manipal University, Gangtok
<b>Roles and Responsibility</b>	general business and administration functions
<b>Experience</b>	<i>HUF:</i> Manishkumar Akshaykumar Heda HUF (Member)

<b>Key Management Persons Name -</b>	<b>Manish Kumar Heda</b>
<b>Age</b>	35
<b>Designation and No. of years of experience</b>	Promoter & Chief Financial Officer, 15 years of experience
<b>Qualification</b>	Bachelor of Commerce
<b>Roles and Responsibility</b>	-
<b>Interest in other entities:</b>	<i>Company:</i> Sunlite Aluminium Private Limited. <i>HUF:</i> Manishkumar Akshaykumar Heda HUF(Karta)

<b>Key Management Persons Name -</b>	<b>Ronak Ashokbhai Mehta</b>
<b>Age</b>	-
<b>Designation and No. of years of experience</b>	Independent Director, 3+ years of experience
<b>Qualification</b>	Member of ICSI
<b>Roles and Responsibility</b>	-

<b>Key Management Persons Name -</b>	<b>Jaimish Govindbhai Patel</b>
<b>Age</b>	-
<b>Designation and No. of years of experience</b>	Independent Director, 8+ years of experience
<b>Qualification</b>	Member of ICSI
<b>Experience</b>	Related to Legal & Regulatory compliances, Corporate Governance, Corporate Laws and Financial Management

## FINANCIAL SNAPSHOT

Statement of Profit and Loss Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	93,719.32	1,15,018.88	1,16,627.09
Other Income	72.48	21.03	28
<b>Total Income</b>	<b>93,791.8</b>	<b>1,15,039.91</b>	<b>1,16,655.09</b>
<b>Expenses</b>			
Cost of Material Consumed	90,290.65	1,10,097.69	1,10,513.26
Purchase of Stock-in-Trade	693.04	1,553.49	1,934.21
Change in Inventories of WIP, Finished Goods & Packing Material	-35.37	-370.86	-653.18
Employee Benefit Expenses	156.05	229.44	249.81
Finance Cost	290.79	472.76	468.23
Depreciation and Amortisation	219.98	239.16	243.26
Other expenses	1,612.13	2,062.74	2,719.49
<b>Total Expenses</b>	<b>93,227.27</b>	<b>1,14,284.42</b>	<b>1,15,475.08</b>
<b>EBITDA</b>	<b>1,002.82</b>	<b>1,446.38</b>	<b>1,863.50</b>
<b>EBITDA Margin</b>	<b>1.07%</b>	<b>1.26%</b>	<b>1.60%</b>
<b>Profit/(Loss) before tax</b>	<b>564.53</b>	<b>755.49</b>	<b>1,180.01</b>
<b>Tax Expense</b>			
Current tax	148.12	204.31	297.18
Deferred Tax Expenses	-9.62	-9.09	-7.53
<b>Total Tax</b>	<b>138.50</b>	<b>195.22</b>	<b>289.65</b>
<b>Profit/(Loss) for the year</b>	<b>426.03</b>	<b>560.27</b>	<b>890.36</b>
<b>Net Profit Margin</b>	<b>0.45%</b>	<b>0.49%</b>	<b>0.76%</b>

Statement of Equity, Assets and Liabilities Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
<b>EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' funds</b>			
Share Capital	1,158.58	50.00	800.00
Reserves and surplus		312.08	1,203.90
<b>Total Equity</b>	<b>1,158.58</b>	<b>362.08</b>	<b>2,003.90</b>
<b>3. Non-current liabilities</b>			
Long-term borrowings	1,135.52	2,238.38	342.83
Long term Provisions	2.28	3.71	4.71
Deferred Tax Liabilities (net)	72.42	63.33	55.81
<b>Total Non-current liabilities</b>	<b>1,210.22</b>	<b>2,305.42</b>	<b>403.35</b>
<b>4. Current liabilities</b>			
Short -term borrowings	1,396.86	2,408.44	3,148.91
Trade Payables			
Total outstanding dues of micro enterprises & small enterprises	188.31	436.62	0.8
Total outstanding dues of creditors other than micro enterprises & small enterprises	658.79	1,167.37	49.75
Other Current Liabilities	30.85	277.21	397.66
Short term provisions	158.43	205.42	316.87
<b>Total Current liabilities</b>	<b>2,433.24</b>	<b>4,495.06</b>	<b>3,913.99</b>
<b>Total Liabilities</b>	<b>3,643.46</b>	<b>6,800.48</b>	<b>4,317.34</b>
<b>Total Equity and Liabilities</b>	<b>4,802.04</b>	<b>7,162.56</b>	<b>6,321.24</b>

Recommendation: **AVOID****ASSETS****1. Non-current assets**

Property, Plant & Equipment	1,334.64	1,387.82	1,386.07
Long Term Loans & Advances	0.3		
Other non-current assets	48.44	84.17	25.82
<b>Total Non-Current assets</b>	<b>1,383.38</b>	<b>1,471.99</b>	<b>1,411.89</b>

**2. Current assets**

Inventories	2,404.54	3,875.67	2,969.56
Trade Receivables	505.35	1,167.75	1,422.40
Cash & Cash equivalents	4.75	203.22	7.34
Short-term loans and advances	299.63	123.46	162.51
Other Current Assets	204.39	320.47	347.54
<b>Total Current assets</b>	<b>3,418.66</b>	<b>5,690.57</b>	<b>4,909.35</b>
<b>Total Assets</b>	<b>4,802.04</b>	<b>7,162.56</b>	<b>6,321.24</b>

**Cash Flow Statement****Amt in Lakhs.**

<b>Particulars</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 24</b>
Net Cash Flow from Operating Activities	-787.74	238.16	1,128.99
Net Cash Flow from Investing Activities	-228.83	-324.6	-173.16
Net Cash Flow from Financing Activities	640.57	284.89	-1,151.71

**Key Ratios**

<b>Particulars</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 24</b>
<b><u>Per Share Data</u></b>			
Diluted EPS	10.65	14.01	19.35
BV per share	14.48	4.53	25.05
<b><u>Operating Ratios</u></b>			
EBITDA Margins	1.07%	1.26%	1.60%
PAT Margins	0.45%	0.49%	0.76%
Inventory days	9.36	12.30	9.29
Debtor days	1.97	3.71	4.45
Creditor days	3.35	5.19	0.17
<b><u>Return Ratios</u></b>			
RoCE	33.05%	45.26%	67.31%
RoE	36.77%	154.74%	44.43%
<b><u>Valuation Ratios (x)</u></b>			
EV/EBITDA	3.68	3.32	2.95
Market Cap / Sales	0.12	0.10	0.10
P/E	9.86	7.49	5.43
Price to Book Value	7.25	23.20	4.19
<b><u>Solvency Ratios</u></b>			
Debt / Equity	2.19	12.83	1.74
Current Ratio	1.40	1.27	1.25
Quick Ratio	0.42	0.40	0.50
Asset Turnover	19.52	16.06	18.45
Interest Coverage Ratio	2.69	2.55	3.46



**LEAD MANAGER TRACK RECORD -**

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 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.	Aprameya Engineering Limited	29.23	58.00	August 01, 2024	78.00
2.	Chetana Education Limited	45.90	85.00	July 31, 2024	82.50
3.	Ganesh Green Bharat Limited	125.23	190.00	July 12, 2024	445.25
4.	Aimtron Electronics Limited	87.02	161.00	June 06, 2024	484.45
5.	Vilas Transcore Limited	95.26	147.00	June 03, 2024	480.00
6.	Aztec Fluids & Machinery Limited	24.12	67.00	May 17, 2024	91.50
7.	Premier Roadlines Limited	40.36	67.00	May 17, 2024	130.25
8.	Energy-Mission Machineries (India) Limited	41.15	138.00	May 16, 2024	363.00
9.	TGIF Agribusiness Limited	6.39	93.00	May 15, 2024	89.50
10.	Amkay Products Limited	12.61	55.00	May 08, 2024	80.73

The company has handled 48 mandates in the past three years (including the current year).

\*CMP for the above-mentioned companies is taken as of 10<sup>th</sup> August 2024.

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

**Recommendation -****Financial Performance:**

- **Profit & Loss:** Revenue has grown steadily (at a CAGR of 12%), increasing from ₹937 Cr. in FY22 to ₹1166 Cr. in FY24. However, increasing expenses have impacted net profit margins, although they have shown improvement, rising from 0.45% in FY22 to 0.76% in FY24. Improved EBITDA margins, increasing from 1.07% in FY22 to 1.60% in FY24, indicate better operational efficiency.
- **Balance Sheet:** The company exhibits a healthier capital structure with reduced long-term debt. However, an increase in short-term borrowings and trade receivables, along with a decline in cash reserves, warrants attention.
- **Cash Flow:** Operating cash flow has significantly improved, reaching ₹1,128.99 lakhs in FY24, a turnaround from the negative cash flow of -₹787.74 lakhs in FY22. This demonstrates the ability to generate cash from core operations.
- **Peer Analysis:** Company has demonstrated a mixed performance compared to its peers. While there are areas of improvement, particularly in profitability, it lags behind its peers in some efficiency and valuation metrics.
- The P/E on a post-IPO is around 39.44 times which makes it over-priced by looking at the performance of the company and sector.

**Key risks** include dependence on key suppliers and customers, geographic concentration, a short operational history, potential substitution of copper wires, single business segment reliance, high volume-low margin business model, outstanding legal proceedings, contingent liabilities, group company losses, negative operating cash flow in certain years, and unsecured loans.

For the above stated reasons, while the company displays potential for growth, we would recommend to **AVOID** this IPO for the time being.

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