



IPO Note

Kalana Ispat Limited

Recommendation: **AVOID!**

Company Background -

- Kalana Ispat Limited was originally formed and incorporated on October 15, 2012. The registered office is located at Ahmedabad, Gujarat, India.
- The Company is primarily engaged in manufacturing of M.S. Billets and Alloy Steel Billets of various grades.
- The company operates in two major segments, viz. Sale of Products, and Sale of Services
- The company had 18 employees including 3 KMP's as of September 12, 2024.

Objects of the Issue -

- Capital Expenditure for Installation Solar Power Plant.
- Capital expenditure for setting up of rolling mill.
- General Corporate Purposes.

Promoters Name -

Aftabhusen S Khandwawala, Varghese Joseph Pottakerry, Gurubaxsing Jamiatsing Bagga and Sadik Nannabhai Qureshi

Rationale for recommendation -

- ✓ The company is operating at a High P/E.
- ✓ The company has seen a decrease in its topline for FY 2024
- ✓ The company's margin does not seem sustainable going forward.
- ✓ The company has high concentration with suppliers and customers.
- ✓ The company has had negative operating cashflow.
- ✓ The company has not performed better than its one of the peers.
- ✓ The management overview is not very satisfactory.

IPO Details

Opening Date	Sep 19, 2024
Closing Date	Sep 23, 2024
Allotment Date	Sep 24, 2024
Listing Date	Sep 26, 2024
Stock Exchange	NSE SME
Lot Size	2,000 Shares
Issue Price Per Share	₹66
Issue Size	32.59 Cr.
Fresh Issue	32.59 Cr.
Offer for Sale	-
Application Amt	₹ 1,32,000 (2,000 shares)

INDUSTRY - Steel Industry

P/E Average - 36.17 times

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	5,774.88	8,303.86	7,372.64
EBITDA	64.58	126.51	373.30
Net Profit	13.68	50.08	236.72
RoCE	6.04%	18.87%	29.81%
ROE	3.51%	11.39%	21.89%
P/E	48.18	13.17	21.78

Promoter Share Holding Pattern

Pre-Issue	Post Issue
100%	62.13%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	3.03	1.82
BVPS	7.27	33.29
P/E	21.78	36.35
P/BV	9.08	1.98
Mkt Cap (In Cr)	53.47	86.06

Lead Managers -

Jawa Capital Services Private Limited

Registrar -

Skyline Financial Services Private Limited

Business Overview -

Kalana Ispat Limited was originally incorporated on October 15, 2012. The company initially was engaged in the trading of metal scraps, procured from imports from various countries, and sourced from ship breaking yards and local markets.

The company is currently engaged in the manufacturing of M.S. Billets and Alloy Steels of various grades.

The company operates through two segments –

1. **Sale of Products** – Includes sale of products manufactured by the company and sale of traded goods. The company under this segment has two sub-segments named sale of products and sale of traded goods.

Sale of Products –

- i) M S Billets –

Mild steel billets are semi-finished products that are used as raw materials by rolling mills.



- ii) Alloy Steel Billets –

Metal bars are made out of melted molten metals of various kinds. Further processed into useful products such as bars, rods, wire, etc.



Sale of Traded Goods –

The company is engaged in the trading of Iron Scrap, Iron ore and Ingots.

2. **Sale of Services** – The company based on its spare capacity available often undertakes job work for the casting of M.S. Billets and Alloy Steel Billets on behalf of its client companies.

The raw materials required for the same are provided by the client and the company solely provides casting solutions and charges service cost from the client.

Manufacturing Unit –

The operates through one manufacturing facility situated at Mouje Kala Village, Ahmedabad.

The Raw material usually required by the company is MS Scrap considered a major raw material which is available widely and locally. Other raw materials also include Sponge Iron, Silicon Manganese, and Aluminium Ingots.

Capacity Utilization –

For Furnace for melting MS Scrap and other raw materials. The company operates at 61.94%, 63.87%, 66.73%, and 62.81% for FY ended 2021, 2022, 2023, and 2024 respectively and has enough capacity remaining.

For CCM (CASTER) Continuous Casting Machine. The company operates at 52.72%, 60.26%, 63.76%, and 82.65% for FY ended 2021, 2022, 2023, and 2024 respectively. The company believes they are operating at a maximum capacity as of December 2024.

Financial Performance –

The company generates the majority of its revenue from the sale of manufactured goods but has seen a slight dip for FY 2024. The sale of traded goods recently saw an increase from FY 2023 and the Sale of services from FY 2024.

Net Proceeds Utilization –

The company is raising total gross proceeds of Rs. 3,259.08 lakhs out of which Rs. 100 lakhs are to be utilized for issue expenses and the remaining Rs. 3159.08 lakhs of net proceed bifurcation are provided below-

Particulars	Amount to be utilized
Capital Expenditure for Installation of Solar Plant	Rs. 2,298.75 lakhs
Capital expenditure for setting up of rolling mill	Rs. 799.45 lakhs
General Corporate Purposes	Rs. 60.88 lakhs
Total	Rs. 3,159.08 lakhs

The company under its Capex is raising net proceeds for the installation of 4 MW DC & 3.5 MW AC Ground Mounted Solar Power Plant which will source approximately 89% to 90% of its current power requirements.

The company is also utilizing its net proceeds to set up of rolling mill. This will lead to a new source of revenue generation with a different segment. The company will be manufacturing MS Rounds and MS Flats.

Competition -

Market Competition: High, Competition is intense, with both global giants and local players vying for prominence in the market

Rivalry Among Existing Competitors: High, the industry is highly competitive and fragmented, with numerous organized and unorganized players both domestically and internationally.

Barriers to entry: Moderate, New entrants can pose a threat, especially from smaller unorganized players.

Bargaining Power of Suppliers: Low, the presence of multiple suppliers in the market weakens their bargaining power,

Bargaining Power of Buyers: Moderate, Buyers hold strong leverage due to the availability of similar services, driving competition on price, quality, and delivery.

Business Strategies –

- The company intends to install a Solar Power Plant for generating solar energy for captive consumption.
- The company plans to capitalise by setting up a rolling mill plant.
- The company plans to grow its business primarily by growing the number of client relationships

Risk Factors –

The company has outstanding litigations amounting to Rs. 109.88 lakhs. Any adverse decision may make the company liable to liabilities or may adversely affect the reputation/ business/financial status.

The company's business operations are concentrated in the Gujarat region with 100% revenue from Gujarat for FY 2024.

The company's top 5 customers account for more than 74% of the revenue for FY 2024.

The company has had negative operating cashflow for three years from FY 2022 to FY 2024. A sustained CFO could impact the business.

The company's Top 5 Suppliers account to 40.70% for FY ended 2024.

PEER ANALYSIS

Particulars	Kalana Ispat Limited			Supershakti Metaliks Limited			Incredible Industries Limited			Gallantt Ispat Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	0.24%	0.60%	3.21%	2.79%	4.54%	1.81%	0.7%	0.7%	0.7%	5.7%	3.5%	5.3%
EBITDA Margin	1.12%	1.52%	5.06%	5.04%	7.26%	3.44%	3.2%	2.5%	2.6%	11.4%	9.0%	10.7%
RoCE	6.04%	18.87%	29.81%	13.89%	18.65%	7.61%	7.59%	8.41%	10.99%	11.6%	11.1%	12.7%
ROE	3.51%	11.39%	21.89%	9.91%	14.04%	5.35%	2.91%	3.88%	4.51%	1036.9%	219.2%	869.1%
EPS (INR)	1.37	5.01	3.03	15.38	28.90	11.63	0.76	1.05	1.28	21.62	8.74	9.34
P/E	48.18	13.17	21.78	22.76	12.98	42.99	28.75	17.38	28.75	2.86	6.53	20.56

Steel Sector -

Market Overview – Global Scenario –

In 2022, the world crude steel production reached 1885.4 million tonnes (MT). World Steel Association in its Short-Range Outlook, October 2023 forecasts that steel demand will grow by 1.8% in 2023 and reach 1,814.5 MT after contracting by 3.3% in 2022. In 2024, steel demand will see a further increase of 1.9% to 1,849.1 MT. India is the second largest producer of crude steel. China was world's largest crude steel producer in 2022 (1018.0 MT) followed by India (125.3 MT), Japan (89.2 MT) and the USA (80.5 MT). Per capita finished steel consumption in 2022 was 221.8 kg for world and 645.8 kg for China. The same for India was 86.7 kg in 2022-23.

Domestic Scenario –

Steel is a de-regulated sector. The Government's role is that of a facilitator which lays down the policy guidelines and establishes the institutional mechanism/structure for creating conducive environment for improving efficiency and performance of the steel sector. In this role, the Government has released the National Steel Policy 2017, which has laid down the broad roadmap for encouraging long term growth for the Indian steel industry, both on demand and supply sides, by 2030-31. Government of India is implementing a Production-linked Incentive (PLI) Scheme for Specialty Steel. It is expected that the specialty steel production will reach 42 MT by the end of 2026-27. India's crude steel capacity was 161.3 mt in 2022-23.

Performance of Steel Sector -

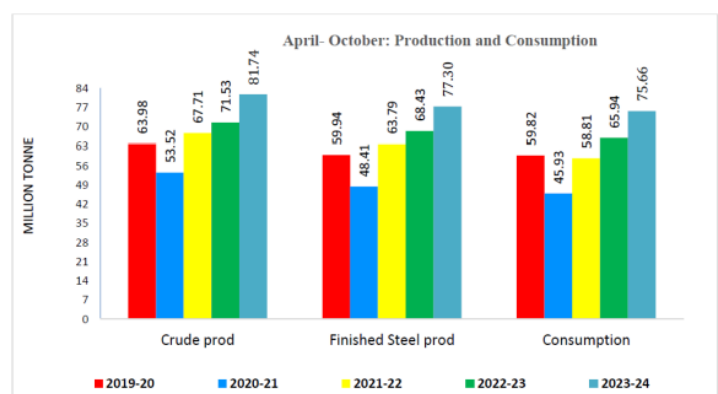
Production of pig iron, sponge iron and total finished steel (alloy/stainless + non-alloy) are given in table below for last five years and current year:

Category	2018-19	2019-20	2020-21	2021-22	2022-23	Apr-Oct 2023-24*
Pig Iron	6.41	5.42	4.88	6.26	5.86	4.14
Sponge Iron	34.71	37.10	34.38	39.20	43.62	29.10
Total Finished Steel	101.29	102.62	96.20	113.60	123.20	77.78

Source: Joint Plant Committee; *Provisional

Performance of Steel sector during April-October, FY '24 has been best ever in April-October of any fiscal year. Cumulative production and consumption of steel during April-October of last five financial years are given in the following table and graph below:

	2019-20	2020-21	2021-22	2022-23	2023-24
Crude prod	63.981	53.522	67.708	71.534	81.745
Finished Steel prod	59.944	48.405	63.787	68.433	77.302
Consumption	59.820	45.933	58.808	65.940	75.662



Key Management -

Key Management Persons Name -	Varghese Joseph Pottakerry
Age	68
Designation and No. of years of experience	Promoter and Managing Director, 28 years of experience in the metal industry.
Qualification	Master's in commerce
Roles and Responsibility	-
Other Directorships	M/s MIT Iron and Steel Private Limited
Key Management Persons Name -	Aftabhusen S Khandwawala
Age	46
Designation and No. of years of experience	Promoter and Executive Director, 26+ years of experience in the metal industry.
Qualification	Senior Secondary
Roles and Responsibility	-
Other Directorships	M/S Mit Iron and Steel Private Limited
Key Management Persons Name -	Gurubaxsing Jamiatsing Bagga
Age	76
Designation and No. of years of experience	Promoter and Non-Executive Director, 12 years of experience in the iron and steel industry
Qualification	Bachelor's degree in commerce, Law Graduate
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Nishant Bali
Age	38
Designation and No. of years of experience	Non-Executive Independent Director, 10 years of experience in the field of consultancy
Qualification	Master's in business
Roles and Responsibility	-
Other Ventures	partner with M/s Investmentor Securities Ltd
Key Management Persons Name -	Rachna Sandeep Luthra
Age	47
Designation and No. of years of experience	Non-Executive Independent Director, 22 Years of experience in the areas of Marketing, Sales & Management
Qualification	graduation in B.com
Roles and Responsibility	-
Other Ventures	-

FINANCIAL SNAPSHOT

Statement of Profit and Loss Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations (Net of Taxes)	5,774.88	8,303.86	7,372.64
Other Income	18.43	32.01	21.83
Total Income	5,793.31	8,335.87	7,394.47
Expenses			
Cost of Material Consumed	4,888.75	5,263.00	4,091.28
Purchase if stock-in-trade	299.68	2,033.19	2,058.51
Changes in Inventories of finished goods, work-in-progress and Stock in Trade	-88.26	89.26	15.17
Employee Benefit Expenses	34.73	48.90	44.64
Finance Cost	25.82	55.66	31.31
Depreciation and Amortization Expenses	38.27	35.03	38.10
Other expenses	575.40	743.00	789.74
Total Expenses	5,774.39	8,268.04	7,068.75
EBITDA	64.58	126.51	373.30
EBITDA Margin	1.12%	1.52%	5.06%
Profit/(Loss) before tax	18.92	67.83	325.72
Tax Expense			
Current tax	-6.06	-18.31	-91.78
Deferred Tax	0.90	0.58	2.06
Earlier Year Income Tax W/off	-0.08	-0.02	0.72
Total Tax	5.24	17.75	89.00
Profit/(Loss) for the year	13.68	50.08	236.72
Net Profit Margin	0.24%	0.60%	3.21%

Statement of Assets and Liabilities Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	100.00	100.00	810.12
Reserves and surplus	289.61	339.70	271.46
Total Shareholder's Fund	389.61	439.70	1,081.58
3. Non-current liabilities			
Long-term borrowings			
Deferred Tax Liabilities (Net)	39.78	39.19	37.14
Long-term provisions	6.31	5.81	5.62
Total Non-current liabilities	46.09	45.00	42.76
4. Current liabilities			
Short-term borrowings	260.57	861.79	461.38
Trade Payables			
Total outstanding dues of MSME	-	-	130.64
Total outstanding dues of creditors other than MSME	519.55	226.82	32.45
Other Current Liabilities	25.68	9.09	49.33
Short-term provisions	23.38	35.07	87.57
Total Current liabilities	829.18	1,132.77	761.37
Total Liabilities	875.27	1,177.77	804.13
Total Equity and Liabilities	1,264.88	1,617.47	1,885.71
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	412.00	404.38	367.98
Total Non-Current assets	412.00	404.38	367.98
2. Current assets			
Inventories	364.09	864.33	540.90
Trade Receivables	165.78	128.49	618.60

Particulars	FY 22	FY 23	FY 24
Cash & Cash equivalents	80.71	137.84	109.62
Other Current Assets	242.31	82.43	248.61
Total Current assets	852.89	1,213.09	1,517.73
Total Assets	1,264.89	1,617.47	1,885.71

Cash Flow Statement Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	-224.34	-467.55	-3.78
Net Cash Flow from Investing Activities	4.56	-20.88	2.10
Net Cash Flow from Financing Activities	-28.17	545.56	-26.54

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24
Diluted EPS	1.37	5.01	3.03	EV/EBITDA	8.82	9.20	3.84
BV per share	38.96	43.97	13.35	Market Cap / Sales	1.49	1.04	1.17
<u>Operating Ratios</u>				P/E	48.18	13.17	21.78
EBITDA Margins	1.12%	1.52%	5.06%	Price to Book Value	1.69	1.50	4.94
PAT Margins	0.24%	0.60%	3.21%	<u>Solvency Ratios</u>			
Inventory days	23.01	37.99	26.78	Debt / Equity	0.67	1.96	0.43
Debtor days	10.48	5.65	30.63	Current Ratio	1.03	1.07	1.99
Creditor days	36.35	10.64	10.24	Quick Ratio	0.59	0.31	1.28
<u>Return Ratios</u>				Asset Turnover	4.57	5.13	3.91
RoCE	6.04%	18.87%	29.81%	Interest Coverage Ratio	1.02	1.64	10.71
RoE	3.51%	11.39%	21.89%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Jawa Capital Services 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 –

Jawa Capital Services Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Mandeep Auto Industries Limited	25.25	67.00	May 21, 2024	49
2.	Slone Infosystems Limited	11.06	79.00	May 10, 2024	167

The company has had 2 mandates in the past three years including the current Year.

*CMP for the above-mentioned companies is taken as of 18th September 2024.

As per the offer document, from the above-mentioned mandates, one mandate has opened at a discount and the other one opened at premiums on the listing date.

Recommendation -

Kalana Ispat Limited has been in the industry since 2012 and has good experience in the industry. The management overview of the company is not very satisfactory.

The P/E on a post-IPO basis is around 36.35 times which makes it highly priced by looking at the performance of the company.

The company operates in a competitive and fragmented industry. The company has seen a decrease in revenue from operations for FY 2024. The company's bottom line and margin have seen a sudden jump and do not seem sustainable going forward. The management overview is not very satisfactory as they have not provided clear roles and responsibilities.

The company faces high concentration with both its suppliers and customers which is not a favourable point. The company's financial outlook and management outlook are not very satisfactory. The company has also not performed as per its peers.

Thus, we have a **AVOID** opinion to this IPO

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