



IPO Note

Paramount Speciality Forgings Limited

Recommendation: **NEUTRAL!**

Company Background -

- Paramount Speciality Forgings Limited was originally formed and incorporated on June 28, 1962. The registered office is located at Mumbai, Maharashtra, India.
- The Company is a manufacturers of steel forgings in India offering a diverse range of forged products.
- The products are manufactured in accordance with National and International standards and is used in a wide range of industrial applications catering to the extensive requirements of Petrochemicals, Chemicals, Fertilizers, Oil and Gas, Nuclear Power, and other heavy engineering sectors.
- The company had 155 permanent employees as of August 31, 2024.

Objects of the Issue -

- Capital expenditure through the purchase of machinery and equipment required for expansion at the Khopoli Plant.
- General Corporate Purposes.

Promoters Name -

Aliasgar Roshan Hararwala, Aliasgar Abdulla Bhagat, Mohammed Salim Hararwala, Abdulla Aliasgar Bhagat, Hoozefa Saleem Hararwala, Abbasali Salim Hararwala, Zahid Mohamadi Hararwala, Roshan Alihusain Hararwala.

Rationale for recommendation -

- ✓ The company has a relatively low P/E.
- ✓ The company's management overview is satisfactory.
- ✓ The company operates in a growing industry.
- ✓ The operates in a very competitive segment.
- ✓ The company's operating margins do not seem sustainable going forward.
- ✓ The company's PAT margins are fluctuating.
- ✓ The company has had negative operating cash flow for two consecutive years.
- ✓ The company has a high concentration with the suppliers and medium with buyers.

IPO Details

Opening Date	Sep 17, 2024
Closing Date	Sep 19, 2024
Allotment Date	Sep 20, 2024
Listing Date	Sep 24, 2024
Stock Exchange	NSE SME
Lot Size	2,000 Shares
Issue Price Per Share	₹57 to ₹59
Issue Size	32.34 Cr.
Fresh Issue	28.33 Cr.
Offer for Sale	4.01 Cr.
Application Amt	₹ 1,18,000 (2,000 shares)

INDUSTRY - Forging Industry

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	8,758.25	11,035.77	11,275.65
EBITDA	332.98	574.48	1,323.55
Net Profit	313.44	275.84	725.36
RoCE	1.32%	18.64%	47.23%
ROE	15.91%	17.61%	31.65%
P/E	0.02	0.02	12.11

Promoter Share Holding Pattern

Pre-Issue	Post Issue
100%	72.15%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	4.87	3.69
BVPS	15.40	26.04
P/E	12.11	16.01
P/BV	3.83	2.27
Mkt Cap (In Cr)	87.79	116.12

Lead Managers -

Swaraj Shares and Securities Private Limited

Registrar -

Purva Shareregistry India Private Limited

Business Overview -

Paramount Speciality Forgings Limited was incorporated as a partnership on June 28, 1962, and initially started in the business of trading and supply of Plate Fabricated Products. The company is currently engaged in the manufacturing of steel forgings ranging from 1 kg to 4 metric tons in rough or finished machine condition.

Applications are in industries such as Petrochemicals, Chemicals, Fertilizers, OIL and Gas, Nuclear Power and Heavy Engineering Services.

Manufacturing Facility – The company operates through two manufacturing facilities one in Kamothe for Closed Die Forgings and one in Khalapur for Ring Rolling and Open Forgings 7,000 MTPA in Maharashtra.

The production capacity at Kamothe Plant is 5,000 MTPA and the utilization for FY 2022, 2023, and 2024 are 43.02%, 48.27%, and 45.58% respectively

The production capacity at Khalapur Plant is 7,000 MTPA the capacity utilization for FY 2022, 2023, and 2024 are 22.90%, 32.15%, and 36.89% respectively

The company’s product portfolio is as follows –

1. Tube Sheet Forgings / Blank Forgings
2. Forged Rings / Spacers / Girth Flanges / Tyre Rings / Venturies / Gear Rings / Slewing Rings, Forged Sleeves / Wind Tower Flanges
3. Self-Reinforced Nozzles
4. Long Weld Neck Flanges
5. Forged Valve Components
6. Forged Blocks / Forged Bars / Billets.



Revenue Bifurcation for the Period ended FY 2022, 2023, and 2024 are as follows –

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Export	1,864.26	21.36	2,541.19	23.11	2,573.41	22.90
Domestic	6,864.21	78.64	8,454.32	76.89	8,663.73	77.10
Total	8,728.47	100.00	10,995.51	100.00	11,237.14	100.00

Net Proceeds Utilization -

The company is utilising approximately Rs. 2,381.28 lakhs for capital expenditure through purchase of machinery and equipment required for expansion in the Khalapur Plant.

The company is purchasing various machinery such as Civil and Structural Works, Cutting Swas, Forging Machinery, CNC Machining Centres, Forging Manipulators & O/H Cranes, and Laboratory Equipment.

The company current after its forgings is completed the next step of operations are heat treatment, machining and drilling. The company states the process of machining is far more time consuming and takes approx. 10-20-30 days of time to complete the batch after the forgings are produced in one single day. The company for the above reasons intends to purchase CNC, VMC and large Dia VTL Machines to boost productivity and convert those forgings into finished products within 3-7 days.

Competition -

Market Competition and Geographic Competition: High, Competition is intense, especially from established players like Viraj Profiles, CHW Forge both in domestic and international markets.

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, while technical expertise and capital investment are required, new entrants can still 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, though specific material shortages could raise pressure.

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 strengthen the relationships with the existing customers and explore opportunities to grow by expanding the array of products and solutions that company offers to its customers.
- The company propose to purchase new machinery and equipment to build up additional capacity for the forging operations from the Net Offer Proceeds.
- The company intends to expand the geographical footprint.

Risk Factors -

The company's top 10 suppliers contributed to Rs. 85.15%, 54.39%, and 86.58% for FY ended 2022, 2023, and 2024 respectively.

The company has experienced negative operating cash flow for the FY ended 2023 and 2024 respectively.

The company has certain litigations amounting to Rs. 33.62 lakhs.

The company has contingent liabilities amounting to Rs. 115.16 lakhs.

The top 5 Customers contribute to 26%, 28%, and 31% for FY 2022, 2023, and 2024 respectively.

PEER ANALYSIS

The company believes they do not have any listed peers for comparison thus peer analysis cannot be conducted.

Forging Industry -

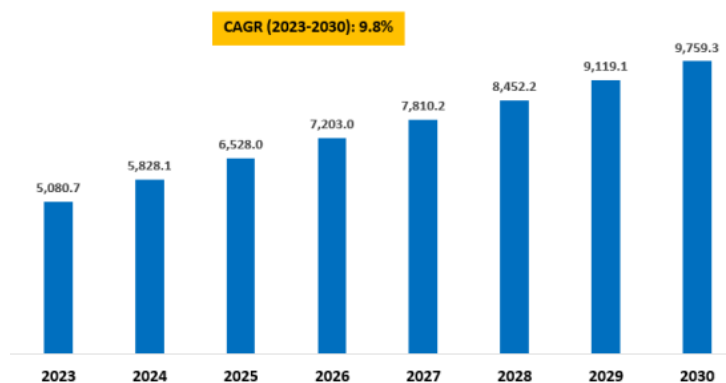
Market Overview -

The forging industry is a key link between critical manufacturing segments--metal suppliers (both ferrous and nonferrous) and end user industries.

Since the automobile industry is the main customer for forgings the industry's continuous efforts in upgrading technologies and diversifying product range has enabled it to expand its base of customers to foreign markets. The Indian forgings industry has made rapid strides and currently, not only meets almost all the domestic demand, but has also emerged as a large exporter of forgings. The industry is increasingly addressing opportunities arising out of the growing trend among global automotive OEM's (Original Equipment Manufacturers) to outsource components from manufacturers in low-cost countries.

As a result, the industry has been making significant contributions to country's growing exports. The forging industry needs to leverage the market opportunity through focused approach on increasing productivity, upgrade of technology rather than mere capacity expansion. The industry has to constantly look for opportunities to increase productivity. The future of the industry does not look as dismal as it was 2-3 years back.

India Market Forecast -



(source: RHP)

Forging Industry -

Forging has unique value among manufacturing processes. The industry is a key link between critical manufacturing segments--metal suppliers (both ferro)\and nonferrous) and end user industries. Forgings are intermediate products used widely by original equipment manufacturers in the production of durable goods.

They range in size from less than an ounce to more than 150 tons and are found in the machines, vehicles and equipment used to generate the industrial economy. Forgings are found in 20% of the products representing the Gross Domestic Product of the United States. The products of the forging industry are essential to the U.S. industrial economy, to its society, and to its national security. Forging imparts advantages that few processes can duplicate. The industry's future is based on improving upon these advantages

Market Restraints -

- Steel is a highly used raw material in the Indian metal forging industry. Therefore, rising steel prices due to the shortage of iron ore in India are anticipated to hinder market growth in the near future.
- Iron ore is the major raw material utilized in the steel-making process. Hence, the low production of iron ore during the pandemic has caused a shortage of iron ore in India. Additionally, a good number of mines that changed hands through auctions in February 2020 have not yet started production in Odisha at full capacity. Odisha auctioned 19 mines, out of which five were captive, and 14 were open category.
- Therefore, the shortage of iron ore, which is responsible for elevated iron ore prices, is directly impacting on rates of steel.
- The increased steel prices have leveled up the barrier for new entrances along with capacity and scope expansion for metal forging companies in India. Moreover, the forging companies were already experiencing setbacks due to low demand for forging products during the pandemic and this steel price hike further worsened the situation for all the small and medium-sized forging companies in India.

Key Management -



Key Management Persons Name -	Aliasgar Roshan Hararwala
Age	45
Designation and No. of years of experience	Promoter and Managing Director, Founding Director, 27+ years of experience.
Qualification	Business Entrepreneurship
Roles and Responsibility	Focus on quality improvement, safety initiatives, and operational efficiency
Other Directorships	-
Key Management Persons Name -	Mohammed Salim Hararwala
Age	45
Designation and No. of years of experience	Promoter and Whole-time Director, 25+ years of experience
Qualification	diploma in Computer Technology
Roles and Responsibility	oversees manufacturing operations, ensuring alignment with customer requirements and organizational objectives.
Other Directorships	-
Key Management Persons Name -	Aliasgar Abdulla Bhagat
Age	69
Designation and No. of years of experience	Promoter and Director, 50+ years of experience in forging and flange production.
Qualification	Mechanical Engineer
Roles and Responsibility	client communication, strategic planning, and setting organizational goals.
Other Directorships	-
Key Management Persons Name -	Kurian Pallathuseril Chandy
Age	58
Designation and No. of years of experience	Independent Director, 33 years of experience in Finance, Accounting, and Operations,
Qualification	Chartered Accountant, qualified from the Institute of Chartered Accountants of India and B.com
Roles and Responsibility	-
Other Directorships	Creative Newtech Limited.
Key Management Persons Name -	Apurva Pradeep Joshi
Age	34
Designation and No. of years of experience	Independent Director, 10 years of experience in Forensic Accounting, Due Diligence, and Management.
Qualification	Certified Management Consultant designation from IIM Bangalore and is recognized as the youngest Certified Forensic Accounting Professional and Certified Fraud Examiner in the country
Roles and Responsibility	-
Other Ventures	Riskpro Management Consulting Private Limited
Key Management Persons Name -	Nimesh Mukerji
Age	78
Designation and No. of years of experience	Independent Director.
Qualification	Bachelor's degree in mechanical engineering (B.E. Hons), Post-Graduate Diploma in Business Management (D.B.M.)
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	8,758.25	11,035.77	11,275.65
Other Income	484.91	188.33	87.97
Total Income	9,243.16	11,224.10	11,363.62
Expenses			
Cost of Material Consumed	6,093.05	8,367.18	7,405.17
Changes in Inventories of finished goods, work-in-progress and Stock in Trade	3.57	-790.70	-502.15
Employee Benefit Expenses	529.77	629.09	727.82
Finance Cost	130.35	143.25	203.25
Depreciation and Amortization Expense	304.28	261.47	202.34
Other expenses	1,798.88	2,255.72	2,321.26
Total Expenses	8,859.90	10,866.01	10,357.69
EBITDA	332.98	574.48	1,323.55
EBITDA Margin	3.80%	5.21%	11.74%
Share of Profit of associates			
Profit/(Loss) before tax	383.26	358.09	1,005.93
Tax Expense			
Current tax	101.70	91.70	308.95
Prior year tax adjustments	-	9.50	-
Deferred Tax	-31.88	-18.95	-28.38
Total Tax	69.82	82.25	280.57
Profit/(Loss) for the year	313.44	275.84	725.36
Net Profit Margin	3.58%	2.50%	6.43%

Statement of Assets and Liabilities			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	1.00	1.00	1,488.00
Reserves and surplus	1,969.49	1,565.14	803.49
Total Shareholder's Fund	1,970.49	1,566.14	2,291.49
2. Minority Interest			
Total Equity	1,970.49	1,566.14	2,291.49
3. Non-current liabilities			
Long-term borrowings	176.99	70.66	25.47
Long-term provisions	31.87	42.83	56.83
Total Non-current liabilities	208.86	113.49	82.30
4. Current liabilities			
Short-term borrowings	999.93	1,956.99	2,467.35
Trade Payables	1,766.32	3,216.12	2,762.73
Other Current Liabilities	427.80	345.07	232.94
Short-term provisions	77.07	26.06	342.26
Total Current liabilities	3,271.12	5,544.24	5,805.28
Total Liabilities	3,479.98	5,657.73	5,887.58
Total Equity and Liabilities	5,450.47	7,223.87	8,179.07
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	1,207.06	1,088.26	914.55
Intangible Assets	1.20	2.33	8.64
Capital Work-In-Progress	35.59	-	4.19
Deffered Tax Asses	41.51	60.46	88.84
Non-current investment	0.09	0.09	0.09
Long term Loans and Advances	70.83	87.23	157.63
Other Non-current Assets	102.44	31.75	24.80

Particulars	FY 22	FY 23	FY 24
Total Non-Current assets	1,458.72	1,270.12	1,198.74
2. Current assets			
Current Investments	5.00	5.00	5.00
Inventories	1,758.07	2,942.21	3,854.21
Trade Receivables	1,265.32	1,720.76	1,634.77
Cash & Cash equivalents	132.90	106.39	30.78
Short term loans and advances	771.35	1,164.53	1,443.26
Other Current Assets	59.12	14.85	12.42
Total Current assets	3,991.76	5,953.74	6,980.44
Total Assets	5,450.48	7,223.86	8,179.18

Cash Flow Statement Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	40.19	-40.82	-251.72
Net Cash Flow from Investing Activities	254.00	-91.87	-24.33
Net Cash Flow from Financing Activities	-542.58	27.07	261.92

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	3,134.37	2758.4	4.87	EV/EBITDA	9.05	6.07	3.59
BV per share	19,704.90	15,661.40	15.40	Market Cap / Sales	1.33	1.05	1.03
<u>Operating Ratios</u>				P/E	0.02	0.02	12.11
EBITDA Margins	3.80%	5.21%	11.74%	Price to Book Value	0.003	0.004	3.831
PAT Margins	3.58%	2.50%	6.43%	<u>Solvency Ratios</u>			
Inventory days	73.27	97.31	124.76	Debt / Equity	0.60	1.29	1.09
Debtor days	52.73	56.91	52.92	Current Ratio	1.22	1.07	1.20
Creditor days	104.70	134.00	129.03	Quick Ratio	0.68	0.54	0.54
<u>Return Ratios</u>				Asset Turnover	1.61	1.53	1.38
RoCE	1.32%	18.64%	47.23%	Interest Coverage Ratio	0.22	2.19	5.52
RoE	15.91%	17.61%	31.65%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Swaraj Shares and Securities 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 –

Swaraj Shares and Securities Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Jay Bee Laminations Limited	88.96	146.00	September 03, 2024	323
2.	Manoj Ceramic Limited	14.47	62.00	January 03, 2024	120
3.	Sahara Maritime Limited	6.88	81.00	December 26, 2023	67
4.	Marinetrans India Limited	10.92	31.00	December 08, 2023	26
5.	ROX Hi-Tech Limited	54.49	83.00	November 16, 2023	122
6.	Micropro Software Solutions Limited	30.70	81.00	November 10, 2023	43
7.	Shoora Designs Limited	2.03	48.00	August 29, 2023	71.4

The company has had 7 mandates in the past three years including the current Year.

*CMP for the above-mentioned companies is taken as of 16th September 2024.

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

Recommendation -

Popular Foundation Limited has been in the industry since 1996 and has vast experience in the industry. The management overview of the company is satisfactory.

The P/E on a post-IPO basis is around 16.01 times which makes it fairly priced by looking at the performance of the company.

The company operates in a competitive and fragmented industry. The company believes they do not have any listed peers in the industry. The company has had negative operating cash flow for two consecutive years. The company has seen a fluctuating bottom line margin which does not seem sustainable going forward. The financial outlook of the company is not very satisfactory.

The company's management overview is good. The company has seen a good increase in the top line of its financials. The company operates in a growing industry and has relatively low P/E for the sector. The company also has a good objective in capex increase which may impact the top-line growth of the company in the future.

Thus, we have a **NEUTRAL** opinion of this IPO and interested, and industry-knowledgeable investors can look for investment opportunities.

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