



IPO Note

Premium Plast Limited

Recommendation: **AVOID!**

- Established in 1995 the company has their registered office in Thane, Vasai, Maharashtra, India.
- Business Activity:** The company primarily engages in the design, manufacturing, and supply of exterior plastic components, interior cabin components, and under-the-hood components for commercial vehicles. It also manufactures industrial plastic parts and molded industrial packaging. The company serves domestic and international OEMs, ear buds and cotton manufacturers, and industrial tool manufacturers.
- Revenue Mix:** The company's primary revenue driver is Automotive Plastic Components, accounting for 83% of total revenue in FY2024. Industrial Plastic Parts contribute 9%, while Molded Industrial Packaging makes up the remaining 8%.
- Geographic Concentration:** The company's operations are primarily focused in India, with three manufacturing units strategically located in Vasai, Maharashtra, and Pithampur, Madhya Pradesh. The total installed capacity of these production facilities is 1,975 MTPA.
- As of September 30, 2024, the company had a total of 42 employees on its payroll.

Objects of the Issue -

- Expansion of Existing Manufacturing facility at Pithampur, Madhya Pradesh, and Purchase of Machineries;
- Funding of capital expenditure requirement of the Company towards Set up of Rooftop Grid Solar Power Plant at the existing Manufacturing facility;
- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company;
- Offer related expenses;
- General Corporate Purposes.

Promoters Name -

Chetan Nagendra Dave and Dr. Lopa Chetan Dave

Rationale for recommendation -

- ✓ Slowdown of Automotive Components Industry with growth projected at just 4-5% in FY 25.
- ✓ Underutilised manufacturing facility and low D/E.

IPO Details

| | |
|-----------------------|-------------------------|
| Opening Date | October 21, 2024 |
| Closing Date | October 23, 2024 |
| Allotment Date | October 24, 2024 |
| Listing Date | October 28, 2024 |
| Stock Exchange | NSE SME |
| Lot Size | 3000 Shares |
| Issue Price Per Share | ₹46 to ₹49 per share |
| Issue Size | ₹26.20 Cr |
| Fresh Issue | ₹26.20 Cr |
| Offer for Sale | - |
| Application Amt | ₹1,47,000 (3000 shares) |

INDUSTRY – Automotive Components Average P/E of Peers – 40.45

| KPI's | KPIs (In Lakhs) | | | |
|------------|-----------------|----------|----------|----------|
| | FY 22 | FY 23 | FY 24 | Jun 24 |
| Revenue | 3,099.15 | 4,404.12 | 4,670.69 | 1,212.81 |
| EBITDA | 453.93 | 544.72 | 1,026.85 | 206.55 |
| Net Profit | 77.71 | 159.32 | 477.66 | 141.16 |
| RoCE | 17.54% | 24.09% | 36.38% | 6.40% |
| ROE | 7.65% | 13.56% | 28.91% | 6.37% |
| P/E | 30.06 | 14.63 | 4.89 | 11.87* |

*Annualised

Promoter Share Holding Pattern

95.45% 68.73%

Valuation Parameters

| Particulars | Pre-Issue | Post Issue |
|-----------------|-----------|------------|
| EPS | 10.03 | 2.50 |
| BVPS | 34.71 | 39.26 |
| P/E | 4.89 | 19.59 |
| P/BV | 1.41 | 1.29 |
| Mkt Cap (In Cr) | 67.38 | 93.58 |

Lead Managers -


Khandwala Securities Limited

Registrar -

Bigshare Services Pvt Ltd

Business Overview -

The Company is a B2B supplier of products and it’s mission is to provide superior quality automotive components to OEMs, contributing to the safety and performance of commercial vehicles. The company values customer satisfaction, technological advancement, and sustainability.

| Particulars | Details |
|---|--|
| OEM Auto Parts and Accessories | |
| Steering wheels | Injection moulded Steering wheels, made from PP Compounds with metal inserts. Sizes from 380mm to 500mm, mainly used in Commercial Vehicles. |
|  | |
| Vehicle Interior Components | Various Vehicle interior components such as Instrument Panel Trims, Lids, Storage Bins, Bezels, Handles, Gear Shifter Knobs Etc Mainly used in Commercial Vehicles. |
| Logos & branding | Different types of Logos, Brandings & Badgings, used in Commercial Vehicles exteriors. These are highly aesthetic Chrome plated parts, which gives OEM their brand presence on vehicles. |
| Vehicle Exterior | These are various components used on the exterior side of Commercial Vehicles, like Grills, Bumper corners, Fenders, Foot Steps, Mudguards Etc. |
| Tanks | These are various components, used in functional applications such as Clutch/Brake Oil Reservoirs, Condensor Tanks etc. Very Critical and complex parts. |
| Vehicle under the hood components | These are the components of Commercial Vehicles, which are functional in nature & are used for under the hood/bonnet applications. These are parts like, Radiator Fans, Shrouds, Belt Covers, Shafting bushes, Clips, Clamps etc. Very specific functional parts with critical applications. |
| Ducts | These are all types of hollow components of Commercial Vehicles used in conveyance of air to and from Engine, like Air intake Snorkels, Dirty side ducts, air cleaner and inlet ducts, air duct TC assy etc |

Industrial Plastic Parts

| | |
|--------------------------------|---|
| Electronic / Electrical | Various plastic components used in Electrical distribution systems such as Holders, Covers, Bushings, Clamps, Locators etc. Various Electronic casings like Modem covers, snaps etc. Safety Limit Switches for Elevators. |
|--------------------------------|---|

Solar Connectors

| | |
|-------------------------|--|
| Solar Connectors | India's power sector is highly diversified, with sources of power generation ranging from conventional (coal, lignite, natural gas, oil, hydro and nuclear power) to viable, non-conventional sources (such as wind, solar, and biomass and municipal waste). Transmission and Distribution infrastructure has expanded over the years for evacuation of power Apart from its core products, our Company has now diversified into Solar Connectors. Solar connectors are most used to connect solar panels together in series or in parallel. They are sometimes used to connect solar panels to junction boxes and other solar components. Solar connectors facilitate electrical connectivity in solar energy systems. |
|-------------------------|--|

The company holds **ISO 9001:2015, ISO 14001:2015, and IATF-16949** certifications for automotive component manufacturing. To ensure raw material quality, extensive testing is conducted, including met flow index, density, and izod impact tests. Materials tested include HDPE, HMHDPE, PP, ABS, PA6, and master batches. Supplier certificates and NABL-accredited lab reports are obtained as per customer requirements.

Customer Base: VE Commercial Vehicles Limited being its largest customer, accounted for 83.50% of revenue in fiscal 2024. Other significant customers include Varroc Polymers Limited, Lavino Kapur Cottons Private Limited, Tafe Motors and Tractors Limited, and MAS Industries Private Limited.

Capacity Utilisation:

The Vasai, Maharashtra plant's capacity utilization increased from 67% in 2022 to 70% in 2023, but reached a significant improvement of 80% in 2024, suggesting efficient operations.

The Plot 36 Pithampur, M.P. plant's capacity utilization increased from 67% in 2022 to 75% in 2023 but decreased slightly to 74% in 2024, indicating room for optimization.

The Plot S3/5 Pithampur, M.P. plant's capacity utilization increased from 62.5% in 2022 to 65% in 2023 and further to 70% in 2024, showing a positive trend but remaining below optimal levels.

Business Strategies –

- The company has expanded its manufacturing capacity through consistent growth and innovation. In 2013 and 2019, new plants were established in Pithampur, Madhya Pradesh, to meet growing demand. To further increase capacity and cater to new customers, the company plans to invest in new machinery at its existing Pithampur facility. This expansion will enable the company to meet increasing demand, add new products, capitalize on market growth, and increase revenues and profit margins.
- The company plans to diversify its product portfolio, including adding bushings and components for electronic commercial vehicles. It also aims to expand its mold manufacturing capabilities. These strategic initiatives will help attract new customers, retain existing ones, and expand into new sectors and geographies.
- The company has incorporated sustainable practices in its manufacturing processes, such as reusing residual plastic as raw material. This reduces plastic waste, lowers raw material costs, and helps achieve economies of scale. Additionally, the company plans to install solar plants at its manufacturing units to partly source electricity, reducing its carbon footprint and promoting sustainability.

Competition -

Company Adaptability:

The company operates in a highly competitive automotive components industry, facing challenges from both organized and unorganized markets, domestically and internationally. Its ability to adapt to changes in technology, social trends, and macroeconomic conditions will significantly impact its long-term success.

Porter's Five Forces Analysis:

- **Competitive Rivalry:** High levels of competition exist due to the presence of numerous players in the Indian automotive components market. This intensifies price pressures and reduces profit margins.
- **Bargaining Power of Buyers:** OEMs, as major customers, have significant bargaining power, potentially influencing pricing and product specifications.
- **Bargaining Power of Suppliers:** The bargaining power of suppliers, such as raw material providers, can impact the company's costs and profitability.
- **Threat of New Entrants:** While there are entry barriers, new players may enter the market, especially with advances in technology and changes in regulations.
- **Threat of Substitute Products:** The availability of substitute materials or manufacturing processes can pose a threat to the company's market position.

Industry Life Cycle and Business Cycle Analysis:

The automotive components industry is in the **maturity stage** of its life cycle, characterized by intense competition, price pressures, and product differentiation. The business cycle also influences demand for automotive components, with fluctuations affecting the company's sales and profitability.

Experience Curve:

The company's position on the experience curve is crucial. By leveraging its manufacturing expertise and economies of scale, it can achieve cost advantages and compete effectively. However, the rapid pace of technological advancements and changing customer preferences require continuous innovation to maintain a competitive edge.

Technological Influences:

The automotive industry is undergoing rapid technological changes, including electrification, autonomous driving, and advanced materials. The company's ability to adapt to these trends and invest in research and development will be critical for its long-term survival.

Social Influences:

Changing consumer preferences, increasing environmental awareness, and evolving regulatory requirements present both challenges and opportunities. The company must adapt its product offerings and manufacturing processes to meet these evolving social trends.

Macroeconomic Influences:

Economic factors such as GDP growth, interest rates, and exchange rates can significantly impact the automotive industry.

The company's ability to manage risks associated with macroeconomic fluctuations will be essential.

Risk Factors –

The company depends on a few major customers, primarily VE Commercial Vehicles Limited, which accounted for over 80% of sales consistently in the past three years. Loss of these customers or a reduction in their purchases could significantly harm the company's business and financial performance.

Company had negative operating cashflow for period ended June 24.

The company's revenue is heavily dependent on its automotive molding products division, which accounted for 83% of total revenue in June 2024. Any disruption or reduction in customers within this division could significantly impact the company's business and financial performance.

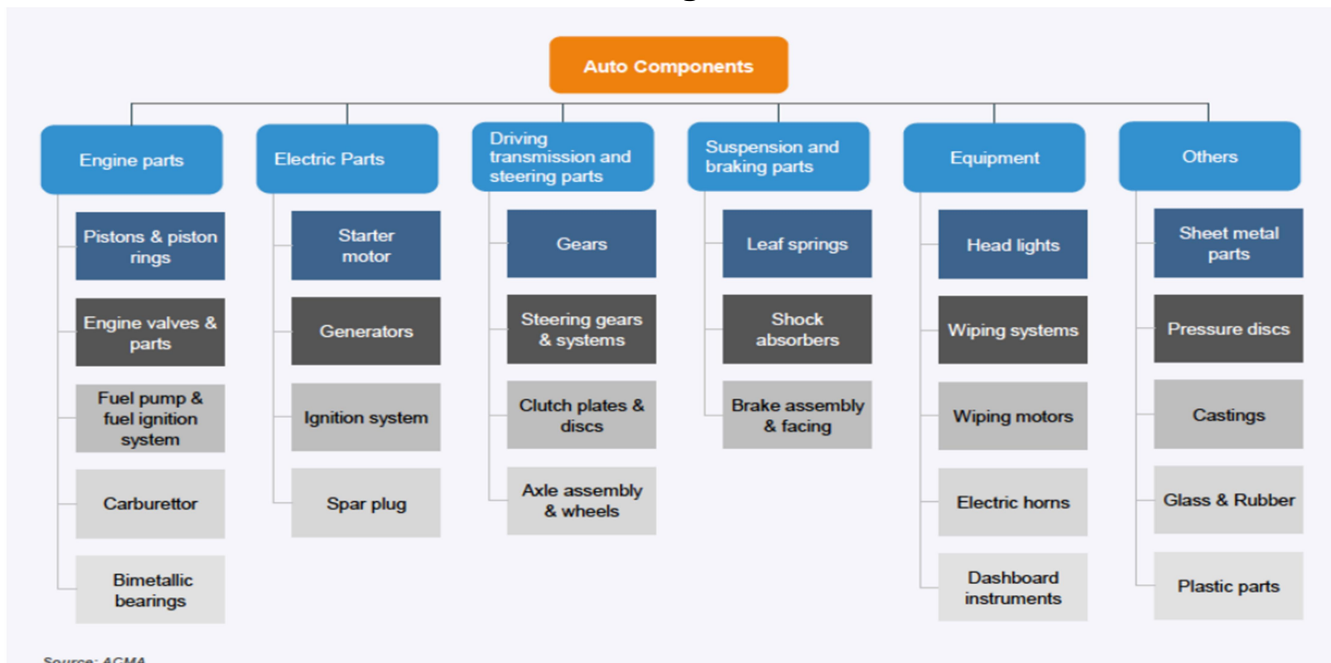
PEER ANALYSIS –

| Particulars | Premium Plast Ltd. | | | Varroc Engineering Ltd. | | | UNO Minda Ltd. | | |
|---------------|--------------------|--------|--------|-------------------------|---------|--------|----------------|--------|--------|
| | FY 22 | FY 23 | FY 24 | FY 22 | FY 23 | FY 24 | FY 22 | FY 23 | FY 24 |
| NP Margin | 2.51% | 3.62% | 10.23% | -18.88% | -11.84% | 6.89% | 4.25% | 5.74% | 6.16% |
| EBITDA Margin | 14.65% | 12.37% | 21.98% | -10.81% | -3.55% | 10.80% | 11.32% | 12.22% | 12.82% |
| RoCE | 17.54% | 24.09% | 36.38% | -37.42% | -33.50% | 20.57% | 12.49% | 18.08% | 21.01% |
| ROE | 7.65% | 13.56% | 28.91% | -55.11% | -81.65% | 34.47% | 42.70% | 78.91% | 76.61% |
| EPS (INR) | 1.63 | 3.35 | 10.03 | -72.64 | -53.66 | 34.43 | 6.38 | 11.42 | 15.35 |
| P/E | 30.06 | 14.63 | 4.89 | - | - | 14.63 | 73.02 | 42.12 | 44.61 |

Industry Overview – Indian Automotive Component

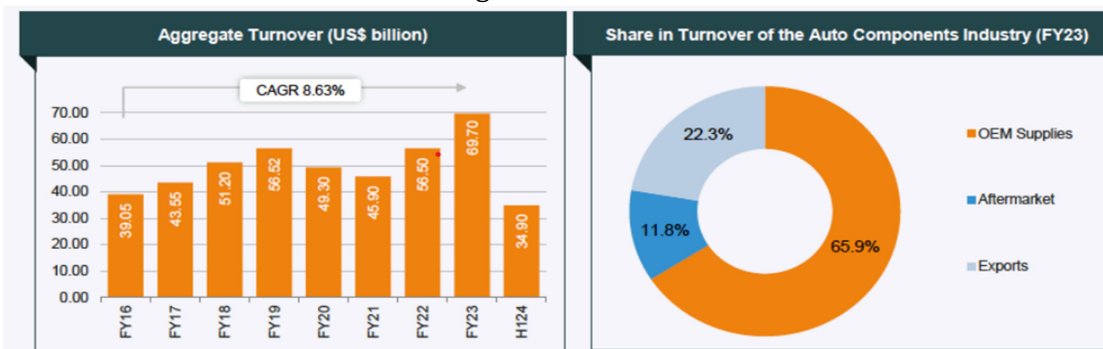
The industry has witnessed robust growth, with turnover reaching US\$ 36.1 billion in H1 2023-24, a 12.6% increase from the previous year. Domestic OEM supplies account for 66% of industry turnover, followed by domestic aftermarket (12%) and exports (22.3%).

Product Segment

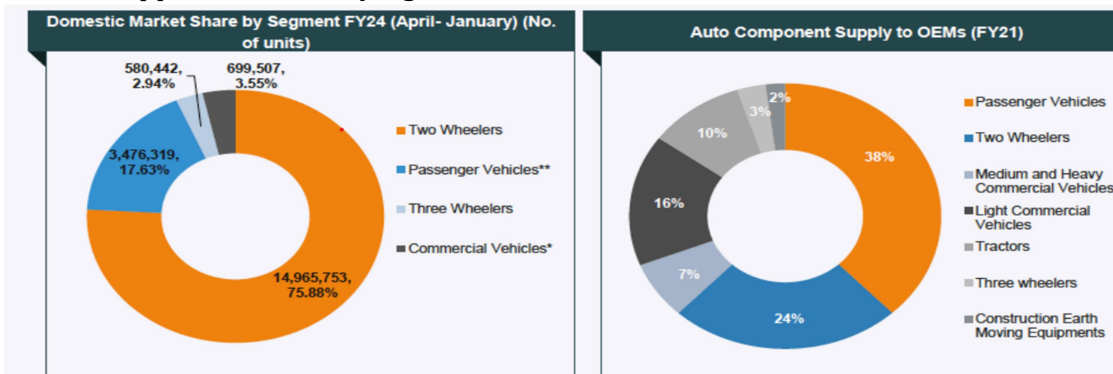


Key Trends:

- **Domestic Growth:** Sales to domestic OEMs grew 13.9% to US\$ 30.57 billion.



- **Export Growth:** Auto component exports increased 2.7% to US\$ 10.33 billion in H1 2023-24, with a forecast of US\$ 30 billion by 2026. India achieved a trade surplus of US\$ 700 million in FY22.
- **Aftermarket Growth:** The aftermarket grew 7.5% to US\$ 5.43 billion in H1 2023-24, projected to reach US\$ 32 billion by 2026.
- **Product Categories:** Drive transmission and steering, engine components, body/chassis, suspension, and braking systems are key export items.
- **Geographical Focus:** North America accounts for 33% of exports, followed by Europe (33%) and Asia (24%).
- **Government Support:** India's FAME-II program, 100% FDI under the automatic route, PLI schemes, and BNCAP initiative support the industry's growth.



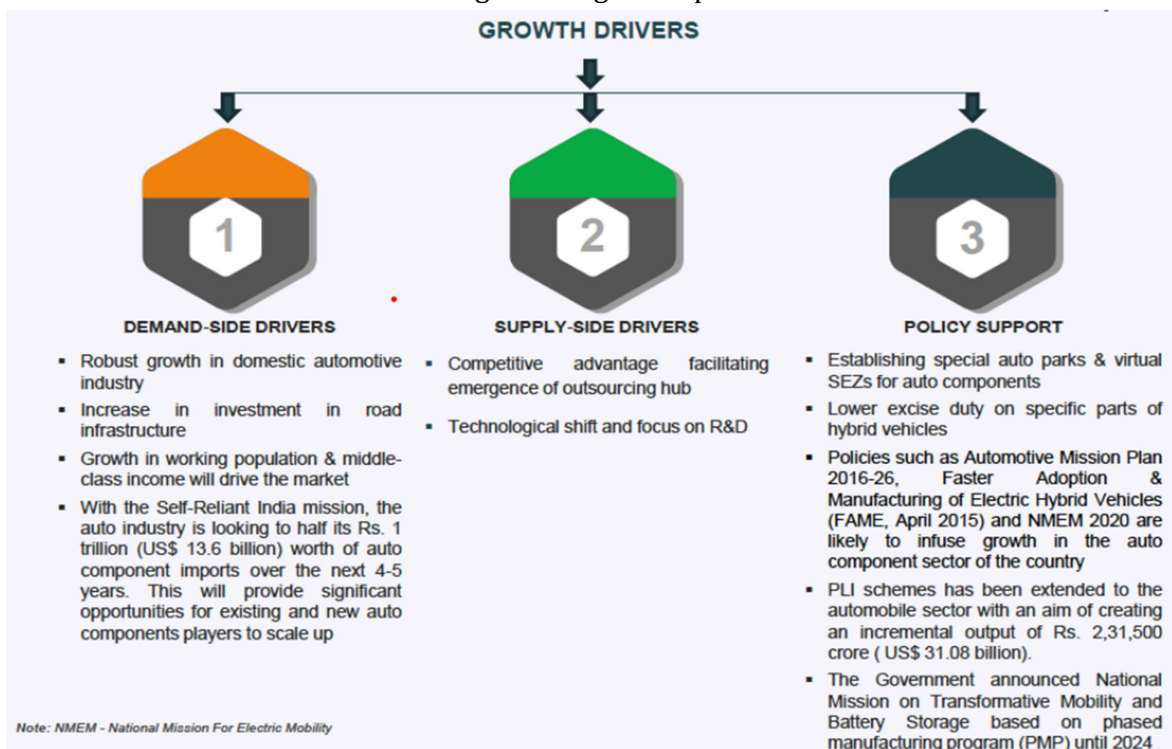
Major Players by segment

| Engine & engine parts | Transmission & steering parts | Suspension & braking parts | Electrical | Equipment |
|---|---|--|---|---|
| <ul style="list-style-type: none"> ▪ Pistons - Goetze, Shriram Pistons & Rings, India Pistons, Anand I-Power Ltd. ▪ Engine Valves - Rane Engine Valves, Shriram Pistons and Rings, SSV Valves ▪ Carburetors - UCAL Fuel Systems and Spaco Carburetors & Escorts Auto Components ▪ Diesel-based fuel-injection systems - MICO, Delphi-TVS Diesel System and Tata Cummins | <ul style="list-style-type: none"> ▪ Steering Systems - Sona Koyo Steering Systems, Rane NSK Steering Systems and Rane TRW Systems ▪ Gears - Bharat Gears, Gajra Bevel Gears, ZF Steering Gear (India) Ltd, Eicher, Graziano Trasmissioni and SIAP Gears India ▪ Clutch - Clutch Auto, Ceekay Daikin, Amalgamations Repco, LuK Clutches ▪ Driveshafts - Gkn Driveshafts, Spicer India Private Ltd., Delphi and Sona Koyo Steering Systems | <ul style="list-style-type: none"> ▪ Brake Systems - Brakes India, Kalyani Brakes, Mando India Ltd. & Automotive Axles and GNA Axles Limited ▪ Brake Lining - Rane Brake Lining, Sundaram Brake Lining, Hindustan Composites and Allied Nippon ▪ Leaf Springs - Jamna Auto & Jai Parabolic ▪ Shock Absorbers - Gabriel India, Delphi, Mando India Ltd. and Munjal Showa, Rane Holdings Limited | <ul style="list-style-type: none"> ▪ Lucas TVS, DENSO, Delco Remy Electricals, Varroc Group and Nippon Electricals are key players in this segment | <ul style="list-style-type: none"> ▪ Headlights - Lumax, Autolite and Phoenix Lamps ▪ Dashboard - Premiere Instruments & Controls ▪ Sheet metal parts - Jay Bharat Maruti, Omax Auto and JBM Tools ▪ Sensors - Pricol Limited |

*Note: OEM means Original Equipment Manufacturer
Source: Media sources*

Growth Drivers and Opportunities:

- **Robust Demand:** Growing working population, expanding middle class, and increasing EV adoption drive demand.
- **Competitive Advantages:** Cost-effective manufacturing, skilled workforce, and proximity to key markets position India as a global sourcing hub.
- **Export Opportunities:** India's auto component exports are expected to reach US\$ 30 billion by 2026, with a focus on advanced components like electric motors and automatic transmissions.
- **Product Opportunities:** Engine & Exhaust parts, Transmission & Steering parts, Suspension & Braking parts, and Electronics and Electricals offer significant growth potential.



Key Management



| | |
|---|---|
| Key Management Persons Name - | Chetan Nagendra Dave |
| Age | 56 |
| Designation and No. of years of experience | Promoter and Managing Director, 18+ years of experience in the field of manufacturing and product development |
| Qualification | Diploma in plastic engineering from Board of Technical Examination, Maharashtra State. Attended Indian Society for Technical Education to pursue a course on quality management |
| Roles and Responsibilities | Heads product development, business development and customer relations divisions of the Company |

| | |
|---|--|
| Key Management Persons Name - | Lopa Chetan Dave |
| Age | 54 |
| Designation and No. of years of experience | Promoter and Non-Executive Director, 30+ years of experience in homeopathic medicine |
| Qualification | Bachelor's degree in homoeopathic medicine and surgery from University of Bombay |

Uday Devendra Sanghvi, aged **56 years**, is a **Non-Executive Director** of the Company. He does not hold any formal educational qualification. He is a partner at Daybreak Technologies and has more than a decade of experience in engineering of products.

Keyur Atul Shah, aged **30 years**, is an **Independent Director** of the Company. He holds bachelor's degree in commerce from University of Mumbai. He is a partner at Vyavsayik Consultancy LLP and has more than 5 years of experience in financial consultancy and management consultancy.

Unnati Vishnubhai Zala, aged **26 years**, is an **Independent Director** of the Company. She holds bachelor's degree in commerce from University of Mumbai. Currently, she is associated with Vyavsayik Consultancy LLP in the capacity of Secretarial Compliance Consultant and has more than 5 years of experience in secretarial compliance.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

| Particulars | FY 22 | FY 23 | FY 24 | June 24 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenue from Operations | 3,099.15 | 4,404.12 | 4,670.69 | 1,212.81 |
| Other Income | 5.63 | 0.71 | - | - |
| Total Income | 3,104.78 | 4,404.83 | 4,670.69 | 1,212.81 |
| Expenses | | | | |
| Cost of Material Consumed | 2,217.97 | 3,353.89 | 3,051.54 | 806.47 |
| Operating Cost | 188.97 | 198.34 | 240.28 | 54.09 |
| Employee Benefit Expenses | 180.11 | 222.02 | 242.81 | 51.03 |
| Finance Cost | 140.69 | 138.92 | 162.67 | 41.95 |
| Depreciation and Amortization Expense | 221.63 | 185.74 | 218.74 | 52.72 |
| Other expenses | 58.17 | 85.15 | 109.21 | 12.04 |
| Total Expenses | 3,007.54 | 4,184.06 | 4,025.25 | 1,018.30 |
| EBITDA | 453.93 | 544.72 | 1,026.85 | 206.55 |
| EBITDA Margin | 14.65% | 12.37% | 21.98% | 17.03% |
| Profit/(Loss) before tax | 97.24 | 220.77 | 645.44 | 194.51 |
| Tax Expense | | | | |
| Current tax | 17.5 | 55.19 | 161.33 | 48.63 |
| Deferred Tax | 2.03 | 6.26 | 6.45 | 4.72 |
| Total Tax | 19.53 | 61.45 | 167.78 | 53.35 |
| Profit/(Loss) for the year | 77.71 | 159.32 | 477.66 | 141.16 |
| Net Profit Margin | 2.51% | 3.62% | 10.23% | 11.64% |

Statement of Assets and Liabilities

Amt in Lakhs.

| Particulars | FY 22 | FY 23 | FY 24 | June 24 |
|--|-----------------|-----------------|-----------------|-----------------|
| EQUITY AND LIABILITIES | | | | |
| 1. Shareholders' funds | | | | |
| Share Capital | 476.06 | 476.08 | 476.06 | 1,375.11 |
| Reserves and surplus | 539.59 | 698.91 | 1,176.45 | 841.56 |
| Total Equity | 1,015.65 | 1,174.99 | 1,652.51 | 2,216.67 |
| 2. Non-current liabilities | | | | |
| Long-term borrowings | 255.78 | 255.8 | 503.04 | 116.45 |
| Long-term provisions | 53.26 | 69.51 | 86.98 | 70.69 |
| Total Non-current liabilities | 309.04 | 325.31 | 590.02 | 187.14 |
| 3. Current liabilities | | | | |
| Short-term Borrowings | 256.49 | 249.55 | 327.95 | 391.39 |
| Trade Payables | | | | |
| (i) Total outstanding dues of MSME | 629.9 | 799.12 | 296.22 | 270.92 |
| (ii) Total outstanding dues of creditors other than MSME | 83.84 | 197.35 | 283.73 | 233.74 |
| Other Current Liabilities | 205.42 | 144.03 | 553.1 | 528.25 |
| Short-term provisions | 16.61 | 25.14 | 126.72 | 179.21 |
| Total Current liabilities | 1,192.26 | 1,415.19 | 1,587.72 | 1,603.51 |
| Total Liabilities | 1,501.30 | 1,740.50 | 2,177.74 | 1,790.65 |
| Total Equity and Liabilities | 2,516.95 | 2,905.45 | 3,809.22 | 4,006.32 |
| ASSETS | | | | |
| 1. Non-current assets | | | | |
| Property, Plant & Equipment | 1,124.62 | 1,166.05 | 1,270.87 | 1,218.15 |
| Total Non-Current assets | 282.88 | 299.07 | 1,031.93 | 1,087.58 |
| Inventories | 871.72 | 992.67 | 1,526.88 | 1,713.16 |
| Trade Receivables | 274.5 | 617 | 470.64 | 513.71 |
| Cash & Cash equivalents | 23.11 | 9.74 | 20.44 | 26.96 |
| Short-term loans and advances | 223 | 119.99 | 520.39 | 534.34 |

| Particulars | FY 22 | FY 23 | FY 24 | June 24 |
|----------------------|----------|----------|----------|----------|
| Total Current assets | 1,392.33 | 1,739.40 | 2,538.35 | 2,788.17 |
| Total Assets | 2,516.95 | 2,905.45 | 3,809.22 | 4,006.32 |

| Cash Flow Statement | | Amt in Lakhs. | | | |
|---|---------|---------------|---------|---------|--|
| Particulars | FY 22 | FY 23 | FY 24 | June 24 | |
| Net Cash Flow from Operating Activities | 538.22 | 359.65 | 171.29 | -50.39 | |
| Net Cash Flow from Investing Activities | -169.35 | -227.17 | -323.56 | - | |
| Net Cash Flow from Financing Activities | -350.09 | -145.86 | 162.97 | 56.91 | |

Key Ratios

| Per Share Data | | | | | Valuation Ratios (x) | | | | |
|-------------------------|--------|--------|--------|--------|-------------------------|-------|-------|-------|--------|
| | FY 22 | FY 23 | FY 24 | Aug 24 | | FY 22 | FY 23 | FY 24 | Aug 24 |
| Diluted EPS | 1.63 | 3.35 | 10.03 | 1.03 | EV/EBITDA | 3.32 | 3.07 | 2.40 | 13.06 |
| BV per share | 21.33 | 24.68 | 34.71 | 16.12 | Market Cap / Sales | 3.02 | 2.12 | 2.00 | 7.72 |
| Operating Ratios | | | | | P/E | 30.06 | 14.63 | 4.89 | 47.57 |
| EBITDA Margins | 14.65% | 12.37% | 21.98% | 17.03% | Price to Book Value | 2.30 | 1.99 | 1.41 | 3.04 |
| PAT Margins | 2.51% | 3.62% | 10.23% | 11.64% | Solvency Ratios | | | | |
| Inventory days | 102.67 | 82.27 | 119.32 | 128.54 | Debt / Equity | 0.50 | 0.43 | 0.50 | 0.23 |
| Debtor days | 32.33 | 51.14 | 36.78 | 38.54 | Current Ratio | 1.17 | 1.23 | 1.60 | 1.74 |
| Creditor days | 112.00 | 104.67 | 59.87 | 75.53 | Quick Ratio | 0.44 | 0.53 | 0.64 | 0.67 |
| Return Ratios | | | | | Asset Turnover | 1.23 | 1.52 | 1.23 | 0.30 |
| RoCE | 17.54% | 24.09% | 36.38% | 6.40% | Interest Coverage Ratio | 1.65 | 2.58 | 4.97 | 3.67 |
| RoE | 7.65% | 13.56% | 28.91% | 6.37% | | | | | |

Interpretation –

Profitability Ratios

- **Significant Improvement:** The company's profitability has significantly improved, as evidenced by the increase in EBITDA margins, PAT margins, and return on equity (RoE) from FY22 to FY24. This improvement is primarily attributed to increased sales, cost reduction measures, and operational efficiencies.
- **FY24 Highlights:** The company achieved a remarkable 28.91% RoE in FY24, indicating strong returns on shareholder investments. The increase in PAT margins to 10.23% and EBITDA margins to 21.98% further underscore the company's improved profitability. These increases were driven by factors such as higher production capacity, reduced rejection rates, optimized procurement practices, and increased efficiency.

Liquidity Ratios

- **Healthy Liquidity:** The company's current ratio and quick ratio have remained relatively stable, suggesting adequate liquidity to meet short-term obligations.
- **Inventory Management:** The inventory days have fluctuated, with a significant increase in FY24. This may indicate challenges in inventory management or potential stockpiling.

Solvency Ratios

- **Debt Reduction:** The debt-to-equity ratio has decreased from FY22 to FY24, indicating a reduction in leverage and improved financial stability. This was likely achieved through strategic debt management and increased equity financing.
- **Interest Coverage:** The interest coverage ratio has increased, suggesting the company's ability to comfortably meet its debt obligations. This improvement could be attributed to increased profitability and reduced debt levels.

Efficiency Ratios

- **Mixed Performance:** Asset turnover has fluctuated, with a decrease in FY24. This may indicate inefficiencies in asset utilization or a need to optimize capital allocation. Debtor days have improved, suggesting better collection practices. Creditor days have increased, indicating slower payments to suppliers.

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Khandwala 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 –

Khandwala Securities Limited –

| Sr. No. | Company Name | Issue Size in Cr. | Issue Price/Share (In INR) | Listing Date | CMP* (INR) |
|---------|--|-------------------|----------------------------|--------------|------------|
| 1. | BikeWo GreenTech Limited | 24.09 | 62.00 | Sep 27, 2024 | 33.60 |
| 2. | Phoenix Overseas Limited | 36.03 | 64.00 | Sep 27, 2024 | 35.70 |
| 3. | QVC Exports Limited | 24.07 | 86.00 | Aug 28, 2024 | 52.80 |
| 4. | Euphoria Infotech India Limited | 9.60 | 100.00 | Jan 30, 2024 | 67.00 |
| 5. | Kaushalya Logistics Limited | 36.60 | 75.00 | Jan 08, 2024 | 127.05 |
| 6. | Vishnusurya Projects and Infra Limited | 49.98 | 68.00 | Oct 10, 2023 | 299.95 |

The company has handled 6 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 19th October 2024.

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

Recommendation -

The company has been in the industry since 1995 and has a good amount of experience in the industry.

The management structure of the company is not ideal. While Mr. Rajesh Anne brings relevant experience, only one other board member has expertise specific to this field. Given the fast-evolving, technology-driven nature of the industry, it would be beneficial to have more members with relevant experience, particularly since the company has emphasized the importance of its management team's expertise as a competitive advantage. Additionally, the company has noted its heavy reliance on the leadership of these key individuals, acknowledging that the loss of any of them could pose significant challenges.

The company's financial performance has improved over the past three years (growing at a CAGR of 23%), with notable increases in profitability, efficiency, and return on investment. The sudden boost and the growth in the bottom line do raise concerns about sustainability though. The company should focus on optimizing inventory levels to improve efficiency and reduce costs.

The P/E on a post-issue annualised basis is around 11.87 times which makes it slightly undervalued compared to its peers PE. Company has performed at-par or better than it's peers as well in most metrics with the exception of RoE.

Here's a breakdown of how the funds will be used:

- Expansion of Manufacturing Facility and Purchase of Machinery (Rs. 1,655.44 lakh):**
 - Increase production capacity to meet growing demand and Examples of new customers: VE Commercial Vehicles, Hettick, Premium Plast, CVG. Out of these VE Commercial Vehicles Limited already accounts for over 80% of sales consistently in the past three years, company needs to diversify their customer base. They haven't reached full capacity in their current manufacturing plants so expansion plans at a time when the industry is slowing down is concerning.
- Rooftop Solar Power Plant (Rs. 104.4 lakh):**
 - Reduce electricity costs by up to 50% and Generate power for the manufacturing facilities.

3. Prepayment of Debt (Rs. 223.12 lakh):

- Improve debt-to-equity ratio and reduce interest expenses. This objective hardly makes sense looking at the current Debt/Equity ratio of 0.5. Company should have some amount of debt to avail tax benefits. They could look at taking loan for the above given purposes.

Timeline for using the funds:

- Expansion and machinery purchase: November 2024 - February 2025
- Solar power plant installation: November 2024 - February 2025
- Debt prepayment: Fiscal 2025 (exact timing not specified)

The Indian auto component industry is projected to see its revenue growth slow to 5-7% in FY2025, following a robust 14% growth in FY2024, according to ICRA. This forecast is based on a sample of 46 auto ancillaries with combined annual revenues exceeding Rs 3,00,000 crore in FY2024.

Thus, for the above-stated reasons, knowledgeable investors can AVOID this IPO for the time being. It would be more prudent to wait and observe when demand in the industry begins to recover. At that point, it would be worth assessing whether the company has diversified its product offerings, successfully increasing revenue across multiple segments, and expanded its customer base.

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