



IPO Note

Newmalayalam Steel Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** Newmalayalam Steel Limited was originally incorporated on March 31, 2017, for taking over the entire business of M/s. Demac Steel. The registered office is located at Thrissur, Kerala, India.
- **Business Activity:** The company is engaged in the business of manufacturing galvanised pipes, tubes, and sheets.
- **Human Resource:** The company has 140 full-time employees as on September 30, 2024.

Objects of the Issue -

- IT / Technological Upgradation of existing manufacturing facility.
- Expansion of the existing solar facility for power generation.
- Funding of expenditure towards civil construction of new factory shed cum storage facility within the existing factory premises situated at Kerala.
- Advertising, Marketing and Brand Building
- Funding incremental working capital requirement of the company
- Issue related expenses
- General Corporate Purposes.

Promoters Name -

Vazhappily Davis Varghese, Divyakumar Jain, Ankur Jain, Mahendra Kumar Jain, Molly Varghese and Cyriac Varghese

Rationale for recommendation -

- ✓ The company has a P/E of 14.98 times post-issue which is fairly valued
- ✓ The company has a high concentration towards state wise and operates in Kerala.
- ✓ The company has had negative operating cash flows.
- ✓ The company does not have any unique strategies planned for the future.
- ✓ The management overview of the company is not very satisfactory.
- ✓ The company has very low Return Ratios

IPO Details

Opening Date	Dec 19, 2024
Closing Date	Dec 23, 2024
Allotment Date	Dec 24, 2024
Listing Date	Dec 27, 2024
Stock Exchange	NSE SME
Lot Size	1,600 Shares
Issue Price Per Share	₹85 to ₹90
Issue Size	41.76 Cr.
Fresh Issue	41.76 Cr.
Offer for Sale	-
Application Amt	₹ 1,44,000 (1,600 shares)

INDUSTRY - Steel

Avg. P/E ratio of peers - 39.1

KPI's	KPIs			(In Lakhs)
	FY 22	FY 23	FY 24	Sep-24*
Revenue	31,791.7	35,479.8	30,016.0	30,842.8
EBITDA	733.45	708.04	728.55	1,513.64
Net Profit	673.07	600.47	426.85	1,038.60
RoCE	12.43%	11.34%	11.57%	14.81%
ROE	22.29%	16.59%	10.55%	11.88%
P/E	16.92	18.95	26.63	14.98

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
99.80%	73.02%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	3.38	6.01
BVPS	32.00	50.57
P/E	26.63	14.98
P/BV	2.81	1.78
Mkt Cap (In Cr)	113.83	155.59

*Annualized

Lead Managers -

Khandwala Securities Limited

Registrar -

Kfin Technologies Limited

Business Overview -

Newmalayalam Steel Limited was incorporated in 2017, for taking over the entire business of M/s. Demac Steel. The company is engaged in the business of manufacturing galvanized pipes, tubes, and sheets.

Usage - Galvanized pipes and tubes are used for building roofs to reduce heat and avoid leakage, further the galvanization process offers the added advantage of increasing the life of the product and enhancing its quality by making it rust-free.

Product Portfolio -

Product	Usage
GP Pipes	Building Construction / Architecture, Automobiles & related equipment manufacturing, Industrial Equipment, Solar Panel Frames, Interior Works, Furniture & Décor, Signage, Agricultural Equipment's Etc
GI Pipes	Building Construction / Architecture, Automobiles & related equipment manufacturing, Industrial Equipment, Solar Panel Frames, Interior Works, Furniture & Décor, Signage, Agricultural Equipment's Etc
Coil	Coil is the raw material used for the production of Pipes.
Sheet	Gate works, General Engineering, Construction, Vehicle body works, Fencing & Barricade Etc
Slit	Coils are slitted into different widths, which is required for producing different sizes of tubes or pipes.
Others	It includes Scraps & Rejected pipes.

Revenue Breakdown Product - Wise -

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024		Sep-24	
	Amt	%	Amt	%	Amt	%	Amt	%
GP Pipes	29,565.83	93.00	32,935.31	92.83	27,726.72	92.37	14,008.22	90.84
GI Pipes	462.84	1.46	416.50	1.17	255.67	0.85	139.93	0.91
Coil	65.68	0.21	12.10	0.03	429.61	1.43	240.74	1.56
Sheet	1,322.10	4.16	1,603.80	4.52	1,099.61	3.66	376.16	2.44
Slit	183.50	0.58	59.10	0.17	84.02	0.28	61.69	0.40
Others	191.77	0.60	453.03	1.28	420.44	1.40	594.68	3.86
Total	31,791.72	100.00	35,479.84	100.00	30,016.07	100.00	15,421.42	100.00

Particulars	FY 2022	FY 2023	FY 2024	Sep-24
Number of Dealers	127	144	139	121
Number of Direct Customers	335	397	378	214
Total	462	541	517	335

Manufacturing Facility -

The company has its manufacturing facility in Kerala with an installed capacity of 72,000 MT for FY ended 2024. For the FY ended 2024 the company's capacity utilisation stood at 62.83%

Competition -

1. **Market Competition, High** - Both organized and unorganized markets create intense competition, with pricing pressures and market share challenges.
2. **Threat of New Entrants, Moderate** - Entry barriers like capital requirements and regulatory approvals exist, but new players are still entering due to growth opportunities in India and abroad.
3. **Bargaining Power of Buyers, High** - Customers may shift to competitors or enter contract manufacturing arrangements, increasing pricing and payment term pressures.
4. **Bargaining Power of Suppliers, Moderate** - Competitors with better raw material procurement strategies or cost advantages can create disparities in pricing competitiveness.
5. **Threat of Substitutes, Low** - Steel has limited direct substitutes for industrial and construction applications, but alternative materials like aluminum or composites pose some risk

Business Strategies -

1. The company intends to expand its manufacturing capacity by establishing a new factory shed on the same premises as its manufacturing unit.
2. The company is focusing on expanding its dealership network by opening new marketing offices or by way of appointment of new dealers.
3. The company intends to improve efficiencies to achieve cost reductions so that they can be competitive.

Risk Factors -

The company has related party transaction namely with its promoter entity “Jaihind Steel Private Limited” through Sales, and Purchase of Raw Material.

- i) Sale of Goods – 33.92%, 44.15%, 33.67%, and 28.97% for FY ended 2022, 2023, 2024, and September – 2024 respectively.
- ii) Purchase of Raw Materials – 46.71%, 61.39%, 38.86%, and 36.71% for FY ended 2022, 2023, 2024, and September – 2024 respectively.

The company’s operations are geographically concentrated only to Kerala.

The company has had negative operating cash flow for the FY ended 2022, and 2024.

INDUSTRY OVERVIEW -

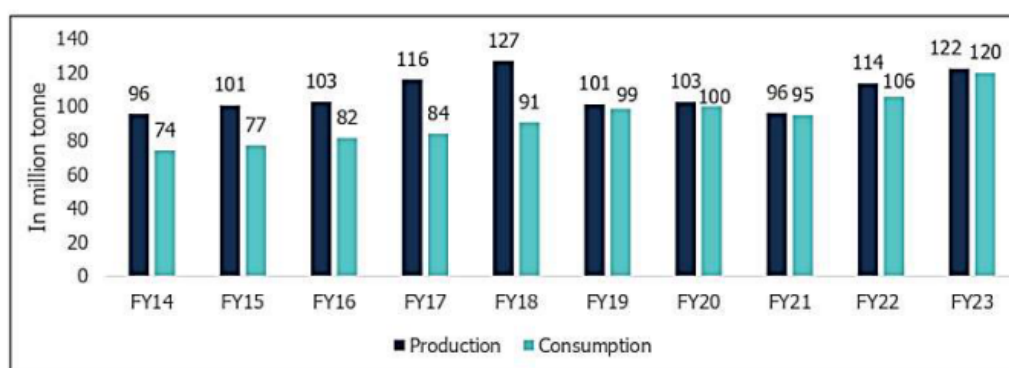
Indian Steel Industry –

India is the second largest steel producer in the world with an installed capacity of 154.1 MT in FY22. It is also the second-largest consumer of finished steel with a consumption of 120 MT in FY23. The Indian steel sector has been able to grow over the years due to domestic availability of raw materials such as iron ore and cost-effective labour. The industry has been driven by domestic steel demand from sectors such as construction, real estate, and automobiles, while the vast coastline has enabled exports and imports, making India one of the leading countries in the global steel industry.

In the last 10 years, finished steel production has grown at a CAGR of 2.8% to 122 MT in FY23 from 96 MT in FY14. The growth in production has been backed by a rise in domestic steel consumption on account of growing economic activities in the country supported by an increase in infrastructure and construction spending by the government, a rise in automobile and consumer durable demand, among others.

Domestic finished steel consumption in India has increased at a CAGR of 5.5% to 120 MT in FY23 from 74 MT in FY14. After witnessing an uptrend in steel production, India observed a de-growth of 20.2% y-o-y in FY19 due to lower exports. Further, the outbreak of covid-19 pandemic resulted in a decrease in steel production in FY21, a de-growth of 6.3%.

INDIA'S FINISHED STEEL PRODUCTION & CONSUMPTION



Indian Steel Prices -

Steel prices have remained range-bound from March 2018 to June 2019 and started to fall thereafter as the economy was hit by the pandemic. During FY21, the average domestic finished steel prices peaked at Rs 71,157 per tonne as on March 2021. Since then, the prices increased throughout CY21 on account of a revival in domestic demand as economic activities began to take place after the upliftment of restrictions and lockdowns. During CY22, prices have been impacted by the geo-political war between Russia and Ukraine (since February 2022) and stood at Rs 85,820 per tonne as of March 2022. The geopolitical crisis situation continued and the prices were further pushed to Rs. 88,498 per tonne in June 2022 quarter.

The escalation in prices was also because of the rise in coking coal and iron ore prices globally. However, after a sharp rise, the prices declined by around 16% in September 2022 as compared to the previous quarter. Furthermore, they fell to Rs 71,326 per tonne in December 2022. This decline was caused by the imposition of an export duty on a range of finished steel products from the period May 2022 to November 2022, leading to lower exports and an increase in domestic inventories. In addition to that, softening of iron ore prices also affected the steel prices in the domestic market.

(Source: RHP)

Key Management -

Key Management Persons Name -	Mahendra Kumar Jain
Age	65
Designation	Promoter, Chairman and Executive Director, three decades of experience in steel sector
Qualification	secondary school from the board of secondary education.
Responsibility	-
Other Directorships	Demac Roofing Private Limited, Vyttila Steel Private Limited
Key Management Persons Name -	Vazhappily Davis Varghese
Age	66
Designation and No. of years of experience	Promoter and Managing Director, nine years of experience in the steel industry
Qualification	does not hold any formal educational qualification
Responsibility	working capital management, procurement planning and sales & receivables management
Other Ventures	Demac Roofing Private Limited
Key Management Persons Name -	Molly Varghese
Age	60
Designation and No. of years of experience	Promoter and Whole-time Director, nine years in the area of finance
Qualification	bachelor's degree in science
Responsibility	internal review & verification of accounts.
Other Directorships	-
Key Management Persons Name -	Cyriac Varghese
Age	32
Designation and No. of years of experience	Promoter and Whole-time Director, nine years in inventory management and production management
Qualification	bachelor's degree in mechanical engineering
Responsibility	procurement and production
Other Directorships	Demac Roofing Private Limited
Key Management Persons Name -	Divyakumar Jain
Age	41
Designation and No. of years of experience	Promoter and Executive Director, experience of more than a decade in finance and accounts
Qualification	bachelor's degree in commerce
Responsibility	heads the finance and accounts division
Other Directorships	Starshine Aluminium Extrusions Private Limited, Jaihind Steel Private Limited

- The overall management of the company is not very satisfactory.
- The promoter and management have decent experience in the industry.
- Rahul Jain, 32, Chief Financial Officer. He holds a bachelor's degree in commerce. He has been associated with the Company since April 1, 2018, in the capacity of accounts manager.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Sep-24
Revenue from Operations	31,791.72	35,479.84	30,016.06	15,421.42
Other Income	569.20	515.87	298.74	112.40
Total Income	32,360.92	35,995.71	30,314.80	15,533.82
Expenses				
Cost of Material Consumed	30,207.70	34,000.59	31,049.23	12,276.69
Change in Inventories of Stock in Trade	466.31	12.82	-0.40	-2.52
Changes in Inventories of Finished Goods	-197.22	112.32	-2,358.26	2,100.03
Employee Benefit Expenses	352.84	444.19	361.91	108.99
Finance Cost	266.37	273.48	304.32	181.41
Depreciation and Amortization Expenses	131.80	145.37	155.96	80.06
Other expenses	228.64	201.88	235.03	92.29
Total Expenses	31,456.44	35,190.65	29,747.79	14,836.95
EBITDA	733.45	708.04	728.55	845.94
EBITDA Margin	2.31%	2.00%	2.43%	5.49%
Profit/(Loss) before tax	904.48	805.06	567.01	696.87
Tax Expense				
Current tax	214.06	188.37	130.66	175.39
Deferred Tax	17.35	16.22	9.50	2.18
Total Tax	231.41	204.59	140.16	177.57
Profit/(Loss) for the year	673.07	600.47	426.85	519.30
Net Profit Margin	2.12%	1.69%	1.42%	3.34%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Sep-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	1,264.76	1,264.76	1,264.76	1,264.76
Reserves and surplus	1,755.03	2,355.52	2,782.38	3,301.68
Total Equity	3,019.79	3,620.28	4,047.14	4,566.44
2. Non-current liabilities				
Long-term borrowings	1,706.48	1,209.22	762.96	399.87
Deferred Tax liability	115.14	131.36	140.86	143.05
Total Non-current liabilities	1,821.62	1,340.58	903.82	542.92
3. Current liabilities				
Short-term Borrowings	3,213.58	1,606.01	5,148.19	3,518.07
Trade Payables	645.99	1,777.67	857.65	2,093.11
Other Current Liabilities	86.63	201.93	120.73	136.85
Short-term provisions	214.06	188.37	130.66	175.39
Total Current liabilities	4,160.26	3,773.98	6,257.23	5,923.42
Total Liabilities	5,981.88	5,114.56	7,161.05	6,466.34
Total Equity and Liabilities	9,001.67	8,734.84	11,208.19	11,032.78
ASSETS				
1. Non-current assets				
Property, Plant and Equipment	2,063.75	2,152.96	2,032.45	1,964.71
Intangible Assets	0.03	0.03	0.03	0.48
Capital Work in Progress	214.05	29.71	53.53	53.21
Intangible assets under development				
Non Current Investments				
Long-Term Loans and Advances	30.31	40.75	44.39	44.39
Total Non-Current assets	2,308.14	2,223.45	2,130.40	2,062.79
2. Current assets				

Particulars	FY 22	FY 23	FY 24	Sep-24
Current Investments				
Inventories	3,322.15	3,664.28	4,753.59	4,956.48
Trade Receivables	1,827.81	1,066.37	2,117.81	1,602.03
Cash & Cash equivalents	10.58	679.85	1,277.44	1,445.65
Short term loans and advances	1,053.79	530.00	140.40	678.61
Other Current Assets	479.19	570.89	788.56	287.21
Total Current assets	6,693.52	6,511.39	9,077.80	8,969.98
Total Assets	9,001.66	8,734.84	11,208.20	11,032.77

Cash Flow Statement

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Sep-24
Net Cash Flow from Operating Activities	-628.25	3,109.41	-2,131.11	2,355.28
Net Cash Flow from Investing Activities	-377.70	-61.82	-62.91	-12.45
Net Cash Flow from Financing Activities	1,013.07	-2,378.31	2,791.61	-2,174.62

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Sep-24	Valuation Ratios (x)	FY 22	FY 23	FY 24	Sep-24
Diluted EPS	5.32	4.75	3.38	6.01	EV/EBITDA	10.81	8.13	11.92	7.41
BV per share	2,387.64	2,862.42	32.00	69.12	Market Cap / Sales	0.49	0.44	0.52	0.50
					P/E	16.92	18.95	26.63	14.98
Operating Ratios					Price to Book Value	0.04	0.03	2.81	1.30
EBITDA Margins	2.31%	2.00%	2.43%	4.91%					
PAT Margins	2.12%	1.69%	1.42%	3.34%					
Inventory days	38.25	37.80	57.96	58.82	Solvency Ratios				
Debtor days	20.99	10.97	25.75	19.01	Debt / Equity	1.63	0.78	1.46	0.45
Creditor days	7.47	19.13	10.78	26.99	Current Ratio	1.61	1.73	1.45	1.51
Return Ratios					Quick Ratio	0.81	0.75	0.69	1.24
RoCE	12.43%	11.34%	11.57%	14.81%	Asset Turnover	3.53	4.06	2.68	1.40
RoE	22.29%	16.59%	10.55%	11.88%	Interest Coverage Ratio	2.26	2.06	1.88	3.73

PEER ANALYSIS –

Particulars	Newmalayalam Steel Limited			Apollo Pipes Limited			Hariom Pipe Industries Steels Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	2.12%	1.69%	1.42%	6.35%	2.61%	4.34%	7.38%	7.17%	4.90%
EBITDA Margin	2.31%	2.00%	2.43%	11.91%	7.44%	9.71%	13.58%	12.82%	12.41%
RoCE	12.43%	11.34%	11.57%	16.22%	8.55%	9.62%	36.49%	14.47%	18.52%
ROE	22.29%	16.59%	10.55%	12.28%	5.23%	7.46%	31.27%	12.28%	12.21%
EPS (INR)	5.32	4.75	3.38	12.65	6.08	10.59	18.83	20.73	20.12
P/E	16.92	18.95	26.63	38.81	90.12	60.05	-	23.09	22.52

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.	Supreme Facility Management Limited	50.00	76.00	Dec 18, 2024	64.4
2.	Premium Plast Limited	26.20	49.00	Oct 28, 2024	47.6
3.	BikeWo GreenTech Limited	24.09	62.00	Sep 27, 2024	29.0
4.	Phoenix Overseas Limited	36.03	64.00	Sep 27, 2024	26.9
5.	QVC Exports Limited	24.07	86.00	Aug 28, 2024	43.6
6.	Euphoria Infotech India Limited	9.60	100.00	Jan 30, 2024	59.4
7.	Kaushalya Logistics Limited	36.60	75.00	Jan 08, 2024	110
8.	Vishnusurya Projects and Infra Limited	49.98	68.00	Oct 10, 2023	281

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 20th December 2024.

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

Recommendation -

Newmalayalam Steel Limited has been in the industry since 2017 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 14.98 times which makes it highly priced compared to the peer companies.

Newmalayalam Steel Limited operates in a very highly competitive and fragmented business. The company's raw material prices are highly fluctuating. The company's return ratios are not very satisfactory.

The company also has had negative operating cash flow. The company has high related party transactions in the business along with high concentration state-wise. The company has performed low compared to its peer companies.

Investors can **AVOID** this company.

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.

The analysis and recommendations are based on the current market and company-specific scenario, along with the data available in the prospectus. Market and company-specific conditions may change after the company's listing, potentially impacting its performance and outlook. We will not be providing any follow-up reports or updates on this analysis post-listing.

OUR WEBSITE:

www.tiareconsilium.com

OUR APP AVAILABLE ON:



CONNECT WITH US ON :

