



IPO Note

H.M. Electro Mech Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** H.M. Electro Mech Limited was originally established in Year of 2003 as a partnership firm named as 'M/s H.M. Engineers'. The registered office is located at Ahmedabad, Gujarat, India.
- **Business Activity:** The company is Engaged in the field of turnkey projects of supply, installation, testing and commissioning of pumping machineries along with comprehensive operation and maintenance.
- **Revenue Stream:** The company derives majority of its Revenue from Work Contract Services.
- **Human Resource:** The company has 137 employees (including Contractual Employees) as on September 30, 2024.

Objects of the Issue -

- To Meet Working Capital Requirements.
- General Corporate Purpose.

Promoters Name -

Dipak Padmakant Pandya, Mahendra Ramabhai Patel, Varsha Mahendra Patel, Mita Dipak Pandya and Harshal Mahendra Patel

Rationale for recommendation -

- ✓ The company's management is competent but lacks a robust structure for scaling and agility.
- ✓ Sustaining high growth requires addressing competition, liquidity challenges, and market diversification.
- ✓ The E&C industry is competitive, with organized and unorganized players creating pricing pressures.
- ✓ The company's operations are largely confined to one state, limiting its market reach.

IPO Details

Opening Date	Jan 24, 2025
Closing Date	Jan 28, 2025
Allotment Date	Jan 29, 2025
Listing Date	Jan 31, 2025
Stock Exchange	BSE SME
Lot Size	1,600 Shares
Issue Price Per Share	₹71 to ₹75
Issue Size	27.74 Cr.
Fresh Issue	27.74 Cr.
Offer for Sale	-
Application Amt	₹ 1,20,000 (1,600 shares)

INDUSTRY - Engineering & Construction (E&C) Industry

Average Industry PE as per RHP - 14.63

KPI's	KPIs (In Lakhs)			
	FY 22	FY 23	FY 24	Sep-24
Revenue	6,184.32	10,148.70	11,703.4	4,539.59
EBITDA	349.45	890.76	1,255.87	545.81
Net Profit	258.00	601.14	818.59	333.88
RoCE	18.51%	30.95%	35.22%	14.88%
ROE	14.28%	24.96%	25.37%	9.43%
P/E	29.07	12.48	9.16	15.39*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
97.47%	71.15%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	8.19	4.87
BVPS	32.27	48.54
P/E	9.16	15.39
P/BV	2.32	1.55
Mkt Cap (In Cr)	75.00	102.74

*Annualized

Lead Managers -

Beeline Capital Advisors Pvt Ltd

Registrar -

Cameo Corporate Services Limited

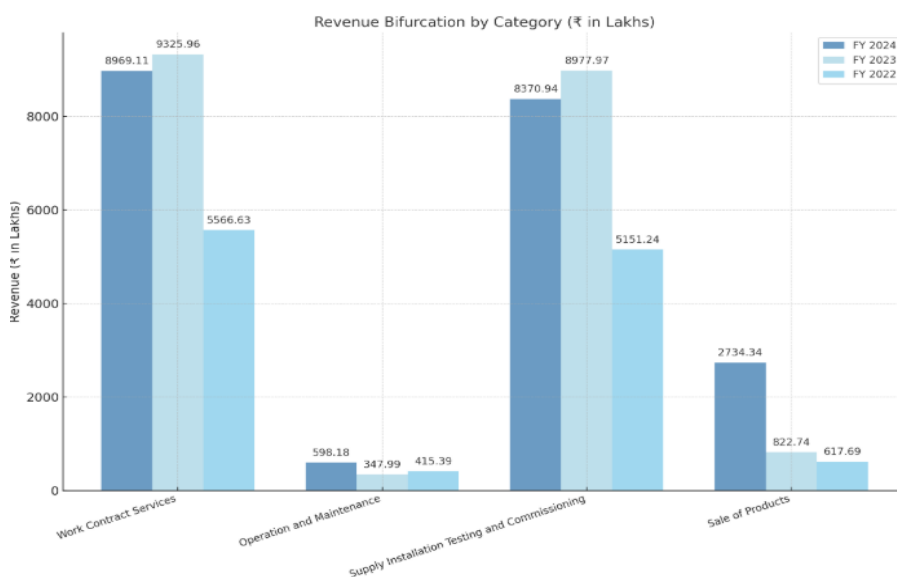
Business Overview -

H.M. Electro Mech Limited has shown consistent growth in its diversified portfolio of engineering and infrastructure projects since its establishment. The company specializes in turnkey solutions for water supply, waste management, and electrification projects while expanding into EPC services in collaboration with industry partners. Below is a summarized analysis of its business:

Key Observations:

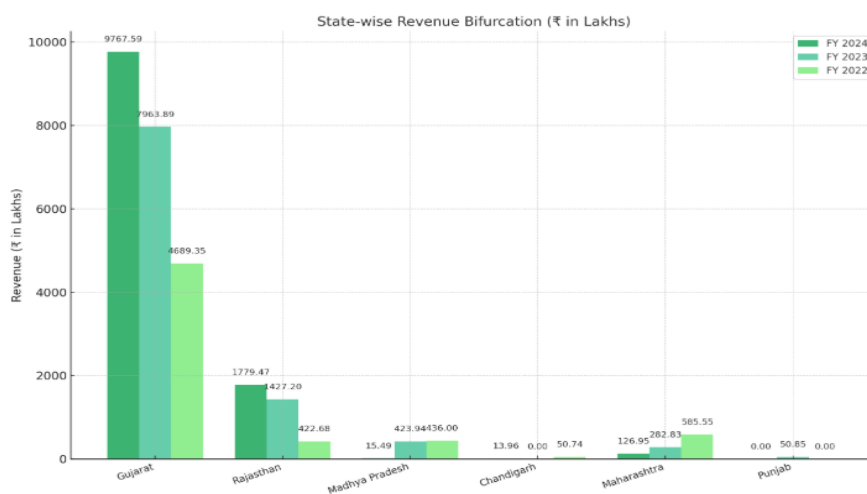
1. Revenue by Category:

- Work Contract Services remains the largest revenue contributor across all fiscal years, with notable growth in the Supply, Installation, Testing, and Commissioning segment.
- Sale of Products witnessed a surge in FY 2024, reflecting enhanced focus on product-based revenue streams.



2. Geographical Performance:

- Gujarat is the dominant market, contributing over 80% of the revenue consistently, showcasing a strategic advantage in the region.
- Rajasthan has emerged as a secondary market, while other states like Madhya Pradesh and Maharashtra provide diversification.



3. Operational Excellence:

- The company’s strategic bidding process, meticulous project execution, and robust vendor relations underline its operational strength.
- Its association with reputable manufacturers like WIL0 Mather and Platt Pumps further enhances product quality and after-sales service.

Competition -

- 1. Market Competition:** The industry is highly competitive, with H.M. Electro Mech facing competition from both established domestic players and international companies. Smaller, unorganized local competitors further intensify pricing pressures and operational challenges, making it essential to maintain quality and timely project execution to retain and grow market share.
- 2. Geographic Competition:** Competition spans multiple regions across India, with significant challenges from domestic and regional players. However, H.M. Electro Mech's strong presence in Gujarat, where 84.44% of its revenue is concentrated (FY 2024), provides a competitive advantage in this core region.
- 3. Barriers to entry:** Moderate, driven by the technical expertise, reputation, and client relationships required in the Electromechanical Engineering segment.
- 4. Threat of Substitutes:** Moderate, as clients can opt for competing providers or unorganized players offering lower prices.
- 5. Bargaining Power of Buyers:** High, as clients, including government and institutional customers, have multiple options.
- 6. Bargaining Power of Supplier:** Moderate, as the company is a dealer of M/s WILO Mather and Platt Pumps Pvt. Ltd. and procures raw materials from other vendors.

Business Strategies -

- H.M. Electro Mech continues to focus in enhancing project execution capabilities so as to derive twin benefits of client satisfaction and improvements in operating margins.
- The company intends to expand its geographical footprint and grow business by increasing orders from outside of Gujarat. To control diversification risks, it may at first, limit expansion to other states to undertaking projects first in the areas where core competencies lie.

Risk Factors -

- There are outstanding litigations involving Company, its Promoters and Directors (mostly relating to Tax Proceedings) amounting to ₹ 158.45 Lakhs.
- Company has reported certain negative cash flows from its operating activity in FY23, Sustained negative cash flow could impact growth and business.
- Company's business is dependent on the sale of products and services to certain key customers i.e., top 10 customers contributing up to 93.00% of revenue from operations for the period ended Sep 30, 2024.
- As on September 30, 2024, H.M. Electro Mech have contingent liability of ₹ 803.93 lakhs.

PEER ANALYSIS -

Particulars	H.M. Electro Mech Limited			HEC Infra Projects Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	4.17%	5.92%	6.99%	1.10%	1.49%	6.11%
EBITDA Margin	5.65%	8.78%	10.73%	7.60%	8.76%	11.17%
RoCE	18.51%	30.95%	35.22%	6.06%	8.58%	14.17%
ROE	14.28%	24.96%	25.37%	1.67%	2.62%	13.51%
EPS (INR)	2.58	6.01	8.19	0.16	0.78	4.65
P/E	29.07	12.48	9.16	208.44	37.23	17.53

- The post-issue market cap of the company is lower than its peer.
- The PE ratio of the company is low compared to its peer.
- The RoCE and RoE of H.M. Electro Mech is higher compared to its peer.
- The NP margin and EBITDA margin of the company is almost at par with its peers and has similar growth trend as HEC Infra.
- HEC Infra had better CCC as on FY24 (79.12) compared to H.M. Electro Mech (85.86).

INDUSTRY OVERVIEW -

Engineering & Construction (E&C) industry –

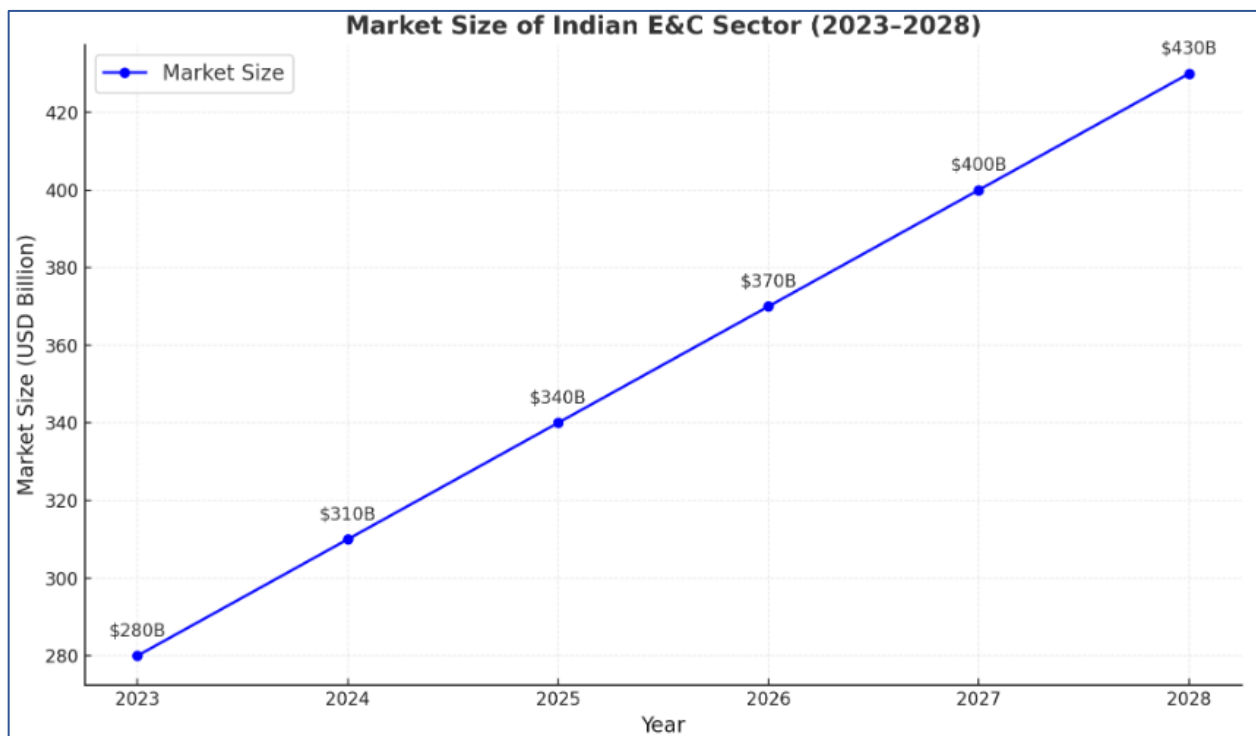
The Engineering & Construction (E&C) industry plays a crucial role in driving economic development, supporting infrastructure growth, and addressing industrial demands. The Indian E&C sector is a cornerstone of the country's infrastructure development initiatives, contributing significantly to GDP. It is driven by government initiatives, urbanization, and rising industrial and real estate development.

1. Market Size & Growth:

The E&C market in India is projected to grow at a CAGR of 8%-10% during 2023–2028, supported by:

- **Government Infrastructure Push:** Programs like Nal se Jal, Smart Cities Mission, and PM Gati Shakti fuel demand for water supply, waste management, and energy-efficient projects.
- **Private Investments:** Increased participation by private players in large-scale projects, particularly in urban infrastructure and renewable energy.
- **Key Sectors Driving Growth:** Urban development, railways, highways, and water management projects.

Below is a representation of the estimated growth of the Indian E&C market size (in USD billion) over the next few years –



2. Key Trends:

- **Adoption of Technology:** Integration of AI, IoT, and automation for project management, SCADA systems, and energy-efficient designs.
- **Sustainable Development:** Focus on renewable energy, water recycling systems, and green infrastructure.
- **EPC and Turnkey Projects:** Increased preference for end-to-end solutions, including engineering, procurement, and construction under one contract.

3. Challenges:

- Intense competition from unorganized players leading to pricing pressures.
- Dependence on raw material prices and supply chain dynamics.
- Regulatory hurdles and project execution delays due to land acquisition and approvals.

Key Management -

Key Management Persons Name - Age	Dipak Padmakant Pandya 61 years
Designation and No. of years of experience	Promoter, Chairman and Managing Director, he is having more than 20 years of experience in electro-mechanical Instrumentation
Qualification	Bachelor of Engineering in Mechanical
Responsibility	He looks Projects, Operations & Maintenance and HR department of the company.
Key Management Persons Name - Age	Mahendra Ramabhai Patel 57 years
Designation and No. of years of experience	Promoter and Whole Time Director, he is having more than 20 years of experience in electro-mechanical Instrumentation.
Qualification	Completed his secondary examination
Responsibility	He looks Overall Tendering, Designing & Engineering and Procurement department of the company.
Other Directorships	International Council of Ayush; and Renam Retail Private Limited
Key Management Persons Name - Age	Mita Dipak Pandya 59 years
Designation and No. of years of experience	Promoter and Whole Time Director, she is having more than 15 years of experience in office management work.
Qualification	Bachelors of Science
Other Directorships	Indcon Panels Private Limited
Key Management Persons Name - Age	Bhavisha Kunal Chauhan 31 years
Designation and No. of years of experience	Independent Director, she is having professional experience of more than 8 years in various Security market issues such as IPOs, FPOs, Bonus Issue, Migration, Voluntary Liquidation of Private Company.
Qualification	CS and Bachelor of Commerce
Other Directorships	Piotex Industries Limited and Fonebox Retail Limited
Key Management Persons Name - Age	Aayush Kamleshbhai Shah 33 years
Designation and No. of years of experience	Independent Director, he is having professional experience of more than 8 years in Corporate Law, Security law, Capital market, Corporate Governance, FEMA Compliances, Listing Process, liaison with Regulatory authorities as well as Various Compliances under Financial Services.
Qualification	CS, Bachelor of Commerce and Bachelor of Law (L.L.B)
Other Directorships	Katex Exim Limited, Siddhi Cotspin Limited, DCG Cables & Wires Limited, Fonebox Retail Limited and Invicta Diagnostic Limited
Key Management Persons Name - Age	Harshal Mahendra Patel 31 years
Designation and No. of years of experience	Promoter and Non-Executive Director, He is having more than 5 years of experience as civil, electro-mechanical & Instrumental works.
Qualification	Diploma in Mechanical Engineering

- The overall management of the company is decent.
- The promoters and management have vast experience in the industry.
- Nitinbhai Pragajibhai Dhorajiya is the Chief Financial Officer (CFO) of the Company and holds a Bachelor's degree in Commerce. He is having more than 6 years of experience in the field of finance.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 2022	FY 2023	FY 2024	Sep-24
Revenue from Operations	6,184.32	10,148.70	11,703.45	4,539.59
Other Income	18.45	17.83	26.52	3.26
Total Income	6,202.77	10,166.53	11,729.97	4,542.85
Expenses				
Cost of Material Consumed	4,827.83	8,439.64	7,124.95	2,858.93
Purchases of stock-in-trade	441.88	247.09	2,725.94	711.32
Employee Benefit Expenses	249.27	272.84	273.40	159.07
Finance Cost	3.72	87.35	172.88	90.68
Depreciation and Amortization Expense	10.07	13.35	12.10	5.58
Other expenses	315.89	298.37	323.29	264.46
Total Expenses	5,848.66	9,358.64	10,632.56	4,090.04
EBITDA	349.45	890.76	1,255.87	545.81
EBITDA Margin	5.65%	8.78%	10.73%	12.02%
Profit/(Loss) before tax	354.11	807.89	1,097.41	452.81
Tax Expense				
Current tax	96.17	209.54	280.26	114.93
Deferred Tax	-0.06	-2.79	-1.44	4.00
Total Tax	96.11	206.75	278.82	118.93
Profit/(Loss) for the year	258.00	601.14	818.59	333.88
Net Profit Margin	4.17%	5.92%	6.99%	7.35%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 2022	FY 2023	FY 2024	Sep-24
EQUITY AND LIABILITIES				
Share Capital	1,000.00	1,000.00	1,000.00	1,000.00
Reserves and surplus	806.88	1,408.03	2,226.64	2,540.86
Total Shareholder's Fund	1,806.88	2,408.03	3,226.64	3,540.86
Minority Interest	-	-	-	-
Total Equity	1,806.88	2,408.03	3,226.64	3,540.86
NON-CURRENT LIABILITIES				
Long-term borrowings	13.59	403.80	297.41	78.80
Long-Term Provisions	12.85	22.99	7.33	10.06
Total Non-current liabilities	26.44	426.79	304.74	88.86
CURRENT LIABILITIES				
Financial Liabilities				
Short-term Borrowings	4.59	235.79	928.00	654.64
Trade Payables				
(i) Total outstanding dues of MSME	1,714.31	2,401.24	2,223.49	2,944.38
(ii) Total outstanding dues of creditors other than MSME	627.43	717.02	38.54	539.57
Other Current Liabilities	130.52	82.55	149.52	167.09
Short-term provisions	124.08	136.59	343.78	664.09
Total Current liabilities	2,600.93	3,573.19	3,683.33	4,969.77
Total Liabilities	2,627.37	3,999.98	3,988.07	5,058.63
Total Equity and Liabilities	4,434.25	6,408.01	7,214.71	8,599.49
ASSETS				
NON-CURRENT ASSETS				
Property, Plant and Equipment	43.63	34.59	32.51	45.05

Particulars	FY 2022	FY 2023	FY 2024	Sep-24
Capital work-in-progress	-	-	-	61.71
Non-Current Investments	-	-	31.50	31.50
Deferred Tax Assets (Net)	8.88	11.68	13.12	9.12
Other non-current assets	871.27	1,022.86	1,589.59	1,116.92
Total Non-Current assets	923.78	1,069.13	1,666.72	1,264.30
CURRENT ASSETS				
Inventories	641.79	1,539.30	2,356.99	3,158.30
Trade Receivables	2,079.97	3,131.72	2,870.10	3,453.05
Cash & Cash equivalents	204.89	196.75	16.10	58.44
Short term loans and advances	512.81	442.05	295.72	629.13
Other Current Assets	71.00	29.07	9.07	36.26
Total Current assets	3,510.46	5,338.89	5,547.98	7,335.18
Total Assets	4,434.24	6,408.02	7,214.70	8,599.48

Cash Flow Statement

Amt in Lakhs.

Particulars	FY 2022	FY 2023	FY 2024	Sep-24
Net Cash Flow from Operating Activities	503.87	-414.21	3.89	226.16
Net Cash Flow from Investing Activities	-308.90	-138.13	-581.82	396.10
Net Cash Flow from Financing Activities	-136.61	544.21	397.27	-579.92

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24	FY 25*	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24	FY25*
Diluted EPS	2.58	6.01	8.19	4.87	EV/EBITDA	4.64	3.20	3.53	0.73
BV per share	18.07	24.08	32.27	48.54	Market Cap / Sales	1.21	0.74	0.64	1.13
<u>Operating Ratios</u>					P/E	29.07	12.48	9.16	15.39
EBITDA Margins	5.65%	8.78%	10.73%	12.02%	Price to Book Value	4.15	3.11	2.32	1.55
PAT Margins	4.17%	5.92%	6.99%	7.35%	<u>Solvency Ratios</u>				
Inventory days	37.98	55.51	73.71	73.63	Debt / Equity	0.01	0.27	0.38	0.11
Debtor days	123.10	112.94	89.76	116.25	Current Ratio	1.35	1.49	1.51	1.51
Creditor days	145.49	119.08	77.60	122.00	Quick Ratio	1.10	1.06	0.87	0.87
<u>Return Ratios</u>					Asset Turnover	1.39	1.58	1.62	1.26
RoCE	18.51%	30.95%	35.22%	15.57%	Interest coverage Ratio	91.23	10.04	7.19	5.96
RoE	14.28%	24.96%	25.37%	10.04%					

*Annualised

INTERPRETATION –

1. Revenue has grown at an impressive rate of over 35% annually, with a peak surge in FY 2023 due to increased client acquisitions and service diversification. However, growth has moderated in recent periods, indicating a shift from exponential to steady expansion.
2. Both EBITDA and net profit margins have increased exponentially with over CAGR of 75% over the years, showcasing improved operational efficiencies and cost control, though sustaining further margin gains may be challenging in a competitive market.
3. Operating cash flow has fluctuated, reflecting the strain of managing working capital during rapid growth phases. Recent improvements suggest better cash generation, but liquidity may remain under pressure with ongoing investments.
4. Return on equity and capital employed have seen significant improvements, indicating efficient capital utilization. However, rising inventory and reduced creditor days point to growing working capital needs.
5. The debt-to-equity ratio increased with growth but has recently declined, reflecting better financial discipline. Valuation metrics have become more attractive due to rising profitability.

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is Beeline Capital Advisors 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 –

Beeline Capital Advisors Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	B.R.Goyal Infrastructure Limited	85.21	135.00	Jan 14, 2025	151.25
2.	Parmeshwar Metal Limited	24.74	61.00	Jan 09, 2025	72.50
3.	Anya Polytech & Fertilizers Limited	44.80	14.00	Jan 02, 2025	25.05
4.	Mamata Machinery Limited	179.39	243.00	Dec 27, 2024	432.75
5.	Toss The Coin Limited	9.17	182.00	Dec 17, 2024	632.10
6.	Nisus Finance Services Co Limited	114.24	180.00	Dec 11, 2024	530.60
7.	C2C Advanced Systems Limited	99.07	226.00	Dec 03, 2024	780.70
8.	SD Retail Limited	64.98	131.00	Sep 27, 2024	154.70
9.	Mach Conferences and Events Limited	125.28	225.00	Sep 11, 2024	228.10
10.	Indian Phosphate Limited	67.36	99.00	Sep 03, 2024	77.80

The company has handled 56 mandates in the last three years (including current year).

*CMP for the above-mentioned companies is taken as of 23rd Jan 2025.

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

Recommendation -

H.M. Electro Mech Limited has been in the industry since 2003 and has good experience.

The P/E on a post-IPO annualized basis is around 15.39 times which makes it look fully price.

The company's management is competent, with promoters and leadership bringing extensive industry experience. While the management is effective, it is not exceptional.

H.M. Electro Mech has demonstrated strong revenue and profitability growth, underpinned by operational efficiencies and effective management strategies. However, challenges such as rising competition, liquidity management, and sustaining high growth rates must be addressed to maintain momentum in the long term.

The Engineering & Construction (E&C) industry is witnessing steady growth driven by infrastructure development, urbanization, and government initiatives. The sector is highly competitive, with significant participation from both organized players and unorganized local entities.

Thus, investors may **AVOID** for this IPO.

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