



IPO Note

Royal Arc Electrodes Limited

Recommendation: **APPLY!**

Company Background -

- **Incorporation:** Royal Arc Electrodes Limited was originally incorporated on Jan 15, 1996. The registered office is located at Mumbai, Maharashtra.
- **Business Activity:** The company is engaged in the business of manufacturing of welding consumables such as, welding electrodes, flux cored wire, MIG/TIG wires.
- **Revenue Stream:** The company derives majority of its revenue from sale of welding electrodes and flux cored wires.
- **Human Resource:** The company has 144 permanent employees as on Dec 31, 2024.

Objects of the Issue -

- Funding towards the expansion of the existing manufacturing facility situated at Village Zaroli, Umbergaon Valsad, Gujarat, Bharat
- Funding of working capital requirements of the Company
- General Corporate Expenses

Promoters Name -

Bipin Sanghvi, Tarulata Sanghvi, Hardik Sanghvi and Swagat Sanghvi

Rationale for recommendation -

- ✓ The PE ratio is 20.98 times post issue annualized basis makes it fairly priced.
- ✓ The company's top line, bottom line and profitability margins have seen a sudden increase in FY23 which should not be a major concern. (Refer Recommendation - Page 10)
- ✓ The company had positive cash flow from operations for the last three years.
- ✓ The company is expanding their manufacturing facility.
- ✓ The company has good global presence.
- ✓ The company has vast experience in the industry.
- ✓ The management of the company is decent.

IPO Details

Opening Date	Feb 14, 2025
Closing Date	Feb 18, 2025
Allotment Date	Feb 19, 2025
Listing Date	Feb 21, 2025
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price Per Share	₹114 to ₹120
Issue Size	36.00 Cr.
Fresh Issue	21.60 Cr.
Offer for Sale	14.40 Cr.
Application Amt	₹ 1,44,000 (1,200 shares)

INDUSTRY - Welding Consumables

Avg. P/E ratio as per RHP - 31.41

KPI's	KPIs (In Lakhs)			
	FY 22	FY 23	FY 24	Sep-24
Revenue	6,290.97	9,694.02	9,978.75	4,560.47
EBITDA	364.51	1,441.01	1,696.11	523.34
Net Profit	212.13	956.82	1,192.63	317.50
RoCE	7.62%	38.41%	34.64%	11.04%*
ROE	10.21%	31.53%	28.21%	9.04%*
P/E	52.63	11.66	9.36	20.98*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
99.99%	72.96%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	12.82	5.72
BVPS	45.45	63.26
P/E	9.36	20.98
P/BV	2.64	1.90
Mkt Cap (In Cr)	111.60	133.20

*Annualized

Lead Managers -

Fedex Securities Private Limited

Registrar -

KFin Technologies Limited

Business Overview -

Royal Arc Electrodes Limited is engaged in the business of manufacturing of welding consumables such as, welding electrodes, flux cored wire, MIG/TIG wires, which finds its application in the welding of tanks, boilers, heavy structures, beams, pipes, cylinders, pressure vessels, etc. which are used in industries like railways, roadways, airport infrastructure, refineries, shipyards, mines, sugar industries, telecom industries, thermal power stations, PEB sectors, etc. Further, the Company is also engaged in the business of trading of ancillary/incidental products like wheels, electro slag, welding flux cored wire, electro slag strip cladding, saw flux and TIG /MIG wires. The company exports to 20+ countries and exports contributed to 14.44% to revenue in FY24.

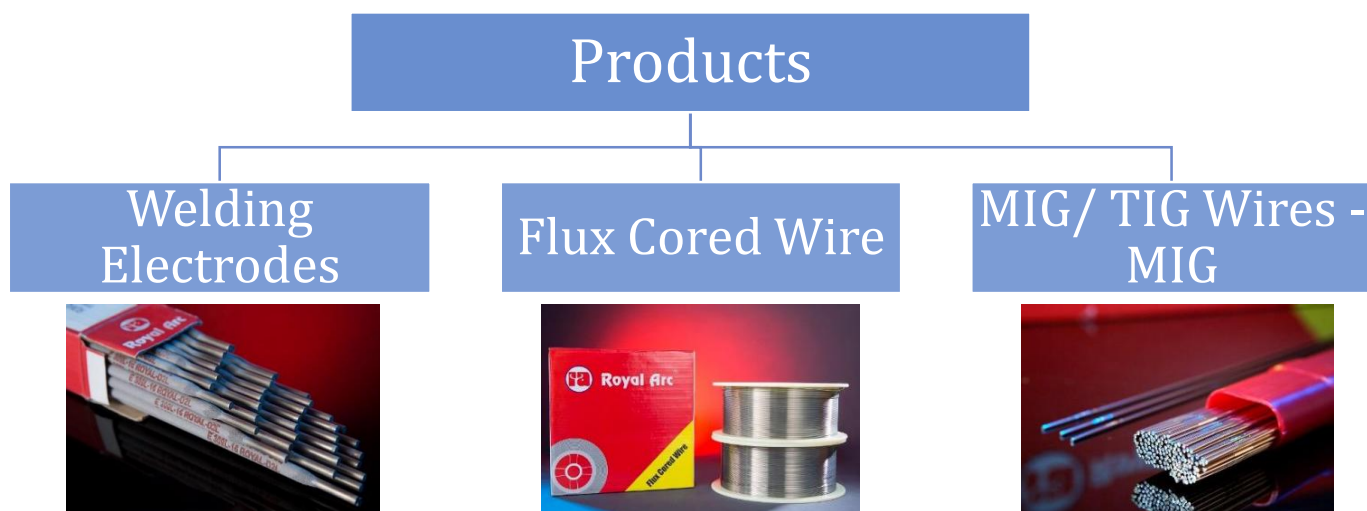
Manufacturing Unit: The company has one manufacturing unit located at Gujarat covering an area of 25,082.61 sq. mtr.



The following table shows the capacity utilization details:

Particulars	FY22	FY23	FY24	Sep-24
Welding Electrodes	32.61%	27.26%	32.03%	36.13%
Flux Cored Wire	22.79%	40.49%	39.99%	41.67%

Product Portfolio:



Revenue Bifurcation –

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024		Sep-2024	
	Amt	%	Amt	%	Amt	%	Amt	%
Welding Electrodes (kgs)	1,996.63	33.14%	2,883.89	30.74%	3,303.42	33.07%	1,860.17	40.91%
Welding Electrodes (Pcs)	1,307.84	21.71%	941.65	10.04%	670.41	6.71%	10.76	0.24%
Welding Electrodes (MTRs)	-	-	-	-	0.67	0.01%	0.24	0.01%
Flux Cored wire	2,336.86	38.79%	4,833.88	51.53%	5,074.77	50.81%	2,095.37	46.08%
Trading								
Abrasive Wheels	5.39	0.09%	12.19	0.13%	16.41	0.16%	8.40	0.18%

Electro Slag Welding	-	-	0.01	-	6.63	0.07%	12.33	0.27%
Saw Flux	-	-	-	-	15.62	0.16%	36.08	0.79%
Tig Mig Wire	377.68	6.27%	567.95	6.05%	858.70	8.597%	477.42	10.50%
Packing Material	0.08	-	0.01	-	5.54	0.06%	4.47	0.10%
Powder	-	-	140.57	1.50%	36.34	0.36%	5.86	0.13%
M S Wire	-	-	-	-	0.15	-	36.15	0.79%
Testing Equipment	20.13	0.33%	140.08	1.49%	-	-	-	-
S S Strip	1.99	0.03%	-	-	-	-	-	-
Saw Wire	-	-	-	-	14.85	0.15%	-	-
Total	6,024.48	100.00%	9,380.15	100.00%	9,988.66	100.00%	4,547.25	100.00%

Competition -

- 1. Market Competition:** The industry is competitive where the key factors of competition primarily comprise of product quality and price, availability, timely delivery of products etc.
- 2. Geographic Competition:** The company faces competition from small and large players in both organized and unorganized sector.
- 3. Barriers to entry:** Low barriers to entry.
- 4. Threat of Substitutes:** High threat of substitutes.
- 5. Bargaining Power of Buyers:** The bargaining power is high with the customers.
- 6. Bargaining Power of Supplier:** The bargaining power is low with the suppliers.

Business Strategies -

- The company intends to expand the manufacturing capacity by establishing a new factory shed in the same premises as manufacturing facility. They intend to incur expenditure towards pre-fabricated shed, plinth and cementing and other related expenses for factory construction and solar installation.
- The company intends to expand dealership network by opening new marketing offices in smaller town and rural areas.

Risk Factors -

The company is highly dependent on top 10 suppliers for raw materials constituting 57.08%, 64.36%, 71.81% and 68.36% for FY22, FY23, FY24 and Sep-24 respectively.

The company has 8 cases against it amounting to Rs. 225.16 lakhs and has filed 2 cases amounting to Rs. 6.60 lakhs.

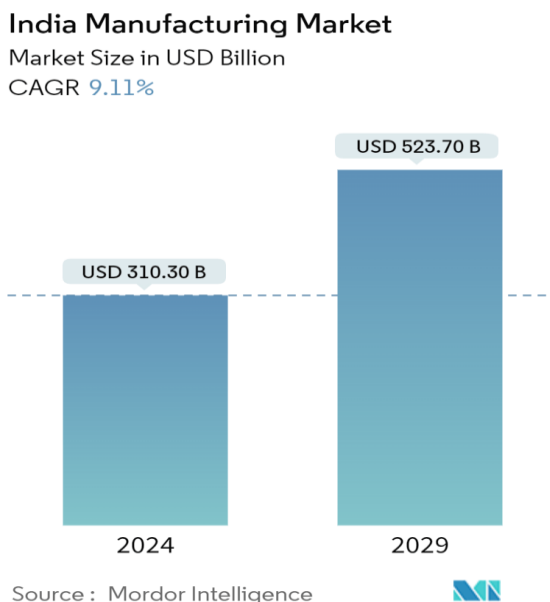
The promoters/ directors have 5 cases against them amounting to Rs. 2.09 lakhs.

The company has contingent liabilities of Rs. 130.25 lakhs as of Sep 30, 2024.

INDUSTRY OVERVIEW -

Indian Manufacturing Industry -

India's manufacturing sector has been experiencing robust growth, driven by government initiatives and increasing foreign investments. In 2025, the market size is projected to reach approximately USD 338.57 billion, with an expected Compound Annual Growth Rate (CAGR) of 9.11%, aiming to reach USD 523.56 billion by 2030.

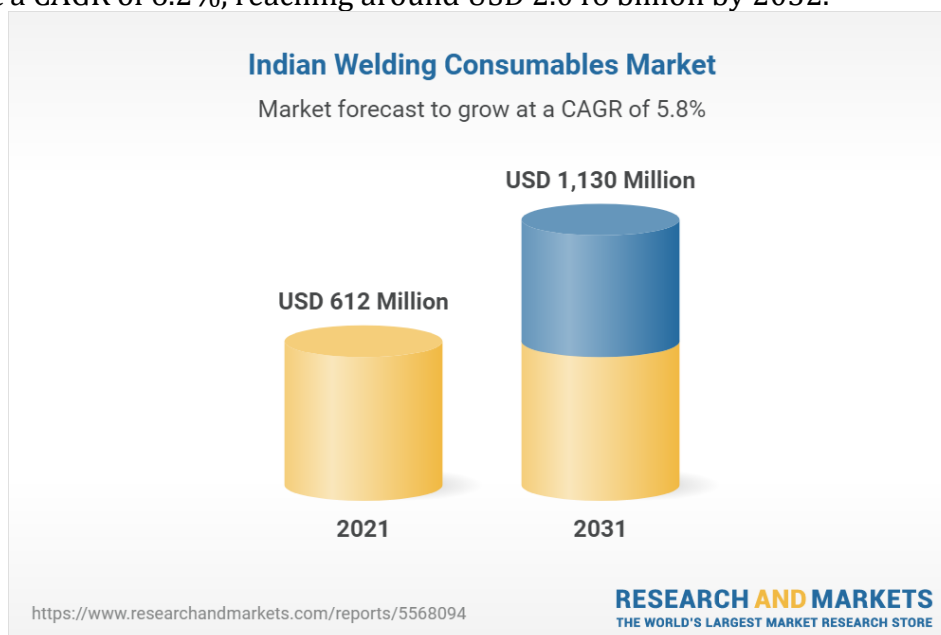


The National Manufacturing Policy aims to elevate the manufacturing sector's contribution to the Gross Domestic Product (GDP) to 25% by 2025, fostering an ecosystem conducive to Industry 4.0 adoption.

Initiatives such as "Make in India" and "Digital India" are pivotal in modernizing the industry, focusing on automation, artificial intelligence, and the Internet of Things. These efforts are complemented by significant investments, including over \$1 billion by U.S.-based Lam Research to bolster India's semiconductor ecosystem.

Indian Welding Consumables Industry -

The welding consumables market in India was valued at approximately USD 1.175 billion in 2023 and is projected to grow at a CAGR of 6.2%, reaching around USD 2.046 billion by 2032.



This growth is primarily driven by increasing demand from sectors such as automotive, construction, energy, and power. Government initiatives focusing on infrastructure development, including the construction of roads, bridges, ports, and airports, have significantly boosted the demand for welding consumables. The "Make in India" campaign further encourages domestic manufacturing, creating a favorable environment for the welding

Key Management -



Key Management Persons Name -	Bipin Sanghvi
Age	72
Designation and No. of years of experience	Promoter, Chairman and Managing Director, 35+ years of experience
Qualification	No formal education
Responsibility	Responsible for handling the overall management of the Company
Other Directorships	Royal Arc Infrastructure Private Limited

Key Management Persons Name -	Hardik Sanghvi
Age	42
Designation and No. of years of experience	Promoter, Whole-Time Director and CFO, 16+ years of experience
Qualification	Degree of master of business administration
Responsibility	Responsible for handling the sales & marketing strategy of the Company
Other Directorships	-

Key Management Persons Name -	Swagat Sanghvi
Age	38
Designation and No. of years of experience	Promoter and Whole-Time Director, 12+ years of experience
Qualification	No formal education
Responsibility	Responsible for handling production and strategic planning departments of the Company
Other Directorships	-

- The overall management of the company is decent.
- The promoter and management have good experience in the industry.
- There is an evidence of dual chairmanship, which is not favourable.
- Kunal Turakhia, Jayna Mehta, and Rahul Vattamparambil are Non-Executive Independent Directors of the Company. They have decent experience and education in their respective fields.
- Mansi Bagadiya (CS), aged 35 years, has 5+ years of experience.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Sep-24
Revenue from Operations	6,290.97	9,694.02	9,978.75	4,560.47
Other Income	191.26	109.46	120.50	45.23
Total Income	6,482.23	9,803.48	10,099.25	4,605.70
Expenses				
Cost of Material Consumed	4,837.61	6,468.15	6,383.68	3,609.34
Change in Inventories of Stock In Trade	-140.38	221.59	209.13	-291.51
Employee Benefit Expenses	422.80	691.66	773.57	352.04
Finance Cost	97.53	60.84	9.89	6.31
Depreciation and Amortization Expense	177.48	184.29	180.85	135.82
Other expenses	806.43	871.61	916.26	367.26
Total Expenses	6,201.47	8,498.14	8,473.38	4,179.26
EBITDA	364.51	1,441.01	1,696.11	523.34
EBITDA Margin	5.79%	14.86%	17.00%	11.48%
Profit/(Loss) before tax	280.76	1,305.34	1,625.87	426.44
Tax Expense				
Current tax	86.04	365.12	425.25	116.19
Excess/Short Provision for prior years	-18.12	-21.44	2.70	-7.25
Deferred Tax	0.71	4.84	5.29	-
Total Tax	68.63	348.52	433.24	108.94
Profit/(Loss) for the year	212.13	956.82	1,192.63	317.50
Net Profit Margin	3.37%	9.87%	11.95%	6.96%

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	182.00	182.00	930.02	930.02
Reserves and surplus	1,895.74	2,852.56	3,297.16	3,614.66
Total Equity	2,077.74	3,034.56	4,227.18	4,544.68
NON-CURRENT LIABILITIES				
Long-term borrowings	152.07	43.03	-	-
Deferred Tax liability	94.71	73.26	75.96	68.71
Other Long Term Liabilities	98.83	83.94	26.65	25.65
Long-Term Provisions	29.58	36.92	44.45	52.12
Total Non-current liabilities	375.19	237.15	147.06	146.48
CURRENT LIABILITIES				
Short-term Borrowings	629.18	98.68	19.71	202.47
Trade Payables				
(i) Total outstanding dues of MSME	-	258.97	350.86	221.51
(ii) Total outstanding dues of creditors other than MSME	1,022.39	519.92	187.41	236.32
Other Current Liabilities	77.20	110.03	157.90	130.79
Short-term provisions	66.14	126.09	134.49	86.48
Total Current liabilities	1,794.91	1,113.69	850.37	877.57
Total Liabilities	2,170.10	1,350.84	997.43	1,024.05
Total Equity and Liabilities	4,247.84	4,385.40	5,224.61	5,568.73
ASSETS				
NON-CURRENT ASSETS				
Property, Plant and Equipment	1,452.51	1,392.27	1,625.02	1,857.99

Particulars	FY 22	FY 23	FY 24	Sep-24
Intangible Assets	1.03	1.13	0.45	0.31
Capital Work in Progress	34.91	2.65	98.56	129.76
Non-Current Investments	2.03	135.52	222.57	151.96
Other Non- current Assets	77.22	55.29	71.65	77.45
Total Non-Current assets	1,567.70	1,586.86	2,018.25	2,217.47
CURRENT ASSETS				
Inventories	1,083.92	606.69	904.22	1,030.24
Trade Receivables	1,308.69	1,643.72	2,067.72	2,059.18
Cash & Cash equivalents	5.12	301.83	95.62	56.01
Short term loans and advances	137.48	202.20	122.83	191.65
Other Current Assets	144.94	44.10	15.98	14.18
Total Current assets	2,680.15	2,798.54	3,206.37	3,351.26
Total Assets	4,247.85	4,385.40	5,224.62	5,568.73

Cash Flow Statement				Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24	Sep-24
Net Cash Flow from Operating Activities	240.43	1,258.59	562.54	94.55
Net Cash Flow from Investing Activities	-111.12	-246.61	-579.58	-309.60
Net Cash Flow from Financing Activities	-154.55	-715.27	-189.17	175.44

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	FY 25*
Diluted EPS	2.28	10.29	12.82	5.72	EV/EBITDA	7.83	1.99	2.45	0.23
BV per share	114.16	166.73	45.45	63.26	Market Cap / Sales	0.35	0.23	1.12	1.46
Operating Ratios					P/E	52.63	11.66	9.36	20.98
EBITDA Margins	5.79%	14.86%	17.00%	11.48%	Price to Book Value	1.05	0.72	2.64	1.90
PAT Margins	3.37%	9.87%	11.95%	6.96%	Solvency Ratios				
Inventory days	63.06	22.91	33.16	40.12	Debt / Equity	0.38	0.05	0.005	0.03
Debtor days	76.14	62.06	75.84	74.17	Current Ratio	1.49	2.51	3.77	3.77
Creditor days	76.25	45.89	28.59	43.76	Quick Ratio	0.89	1.97	2.71	2.71
Return Ratios					Asset Turnover	1.48	2.21	1.91	1.75
RoCE	7.62%	38.41%	34.64%	11.04%	Interest Coverage Ratio	1.92	20.66	153.21	61.41
RoE	10.21%	31.53%	28.21%	9.04%					

*Annualized

INTERPRETATION –

1. The top line has increased over the years. It increased by 54.09% in FY23 which was due to increase in raw materials which was passed on to the customers by increasing price of the product. Also, the traded sales increased. Then it increased by 2.94% in FY24 which was due to after sales services and technical support provided to customers assisting them with welding solutions.
2. The net profit also increased over the years. It increased by 351.05% in FY23 and increased by 24.65% in FY24.
3. The EBITDA margin and PAT margin also increased over the years. The sudden jump in FY23 was due to decrease in cost of materials consumed in FY23 in comparison to revenue generated.

PEER ANALYSIS –

Particulars	Royal Arc Electrodes Limited			ESAB India Limited			Ador Welding Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	3.37%	9.87%	11.95%	9.36%	12.35%	13.04%	6.66%	7.57%	7.05%
EBITDA Margin	5.79%	14.86%	17.00%	13.93%	17.72%	18.74%	11.08%	12.06%	11.63%
RoCE	7.62%	38.41%	34.64%	45.56%	67.61%	69.58%	22.17%	25.01%	24.46%
ROE	10.21%	31.53%	28.21%	34.52%	52.13%	53.25%	15.97%	18.33%	17.44%
EPS (INR)	2.28	10.29	12.82	54.77	88.14	105.88	33.11	43.60	46.47
P/E	52.63	11.66	9.36	55.79	40.08	49.60	19.38	21.11	29.50

Particulars	Royal Arc Electrodes Limited			Gee Limited			Rasi Electrodes Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	3.37%	9.87%	11.95%	4.6%	2.1%	3.5%	2.93%	3.38%	3.81%
EBITDA Margin	5.79%	14.86%	17.00%	9.1%	6.2%	8.2%	5.64%	5.98%	6.06%
RoCE	7.62%	38.41%	34.64%	12.6%	9.9%	12.0%	11.84%	15.27%	12.98%
ROE	10.21%	31.53%	28.21%	8.1%	4.4%	6.3%	7.72%	10.23%	9.91%
EPS (INR)	2.28	10.29	12.82	5.80	3.27	4.94	0.66	0.97	1.04
P/E	52.63	11.66	9.36	11.57	19.90	26.52	12.59	12.27	21.04

- The company has more market cap compared to Rasi Electrodes.
- The PE ratio of the company is better than its peers.
- The NP and EBITDA margin of the company is better compared to Gee Ltd and Rasi Electrodes.
- The cash conversion cycle of the company is better than Ador Welding, Gee Ltd and Rasi Electrodes.

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is **Fedex 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 –

Fedex Securities Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Deepak Builders & Engineers India Limited	260.04	203.00	Oct 28, 2024	143.15
2.	HVAX Technologies Limited	33.53	458.00	Oct 07, 2024	630.00
3.	Naturewings Holidays Limited	7.03	74.00	Sep 10, 2024	64.00
4.	Boss Packaging Solutions Limited	8.41	66.00	Sep 06, 2024	47.35
5.	Broach Lifecare Hospital Limited	4.02	25.00	Aug 21, 2024	22.84
6.	Magenta Lifecare Limited	7.00	35.00	July 12, 2024	22.35
7.	Finelistings Technologies Limited	13.53	123.00	May 14, 2024	40.48
8.	Vruddhi Engineering Limited	4.76	70.00	April 03, 2024	31.97
9.	GConnect Logitech and Supply Chain Limited	5.60	40.00	April 03, 2024	242.45
10.	Mukka Proteins Limited	224.00	28.00	Mar 07, 2024	33.79

The company has handled 30 mandates in the last three years (including current year).

*CMP for the above-mentioned companies is taken as of 15th Feb 2025.

As per the offer document, all the above-mentioned mandates Deepak Builders & Engineers India has opened at a discount and remaining all have opened at a premium on the listing day.

Recommendation -

Royal Arc Electrodes Limited has been in the industry since 1996 and has vast experience in the industry.

The P/E on a post-IPO annualized basis is around 20.98 times which makes it fairly priced.

The company's management is decent and the promoters have good experience in the industry.

The company's top line of the company had seen a slight jump in FY23 which should not be a major concern. The bottom line and profitability margins have also saw a sudden jump in FY23 which was due to decrease in cost of materials consumed in FY23 in comparison to revenue generated. The company has positive cash flow from operations for the last three years. Overall, the financials of the company looks sustainable.

The company has good global presence in more than 20+ countries. It is looking for expansion and intends to use a part of issue proceeds towards establishing a new factory shed which will help in growth of the top line in future.

Although, the company is operating in a very fragmented and competitive industry, overall performance of the company is decent.

Thus, investors can **APPLY** to this IPO and monitor post-listing performance.

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