

# IPO Snapshot

September 25, 2024

## Diffusion Engineers Limited



SELL BULLMARKET  
BROKER OFFERING  
COMPANY STOCK  
GROWTH  
UNDER WRITER IPO PROCESS  
FLOW SHARES PROFIT  
VALUE LARGE  
TRADING PRICE MARKET DISCOUNT VENTURE  
CAPITAL PERIOD  
INVESTOR  
MONEY SELLING  
PUBLIC OFFERING  
UNDER PRICING  
OPPORTUNITY  
SECURITY  
FIRST



**Issue Snapshot:**

Issue Open: September 26 – September 30, 2024

Price Band: Rs. 159 – 168 (Discount of Rs 8 per share for all eligible employees)

\*Issue Size: Up to 9,405,000 eq sh (including employee reservation of upto 50,000 eq sh)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh
((including 1/3 <sup>rd</sup> for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 68.06 (March 31, 2024)

Bid size: - 88 equity shares and in multiples thereof

100% Book built Issue

**Capital Structure:**

Pre Issue Equity:	Rs.	28.02 cr
*Post issue Equity:	Rs.	37.43 cr

Listing: BSE & NSE

Book Running Lead Managers: Unistone Capital Private Limited

Sponsor Bank: HDFC Bank Ltd & ICICI Bank

Registrar to issue: Bigshare Services Private Limited

**Shareholding Pattern**

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	93.10	69.70
Public & Employees	6.90	30.30
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*=assuming issue subscribed at higher band  
Source for this Note: RHP

**Background & Operations:**

Diffusion Engineers Ltd. (DEL) is engaged in the business of manufacturing welding consumables, wear plates and wear parts and heavy engineering machinery for core industries. With over four decades of experience, the Company is dedicated to providing specialized repairs and reconditioning services for heavy machinery and equipment. Additionally, it is also involved in trading of anti-wear powders and welding and cutting machinery. It provides super conditioning process at its manufacturing facilities, a surface treatment solution for machine components that enhances wear resistance, eliminates stress and improves their reparability ultimately extending their lifespan and reducing production costs.

DEL has developed a synergistic system of forward integration whereby it manufactures special purpose electrodes and flux cored wires which are utilized for manufacturing wear resistance plates (commonly known as wear plates). These wear plates then become an integral part of majority of large industrial equipment which are made in its heavy engineering division and are significant contributor in manufacturing of industrial equipment used in core industries like cement, steel, power, mining, engineering, oil & gas, sugar, etc. This forward integration helps DEL in achieving efficiency in the production process and gaining competitive advantage, reducing product costs, enhancing supply chain control and reducing dependency on third-party suppliers for its operations.

Amongst the players considered for the industry between fiscal 2021-2024, DEL recorded third highest CAGR of 21% in operating income, second highest CAGR of 38% in profit after tax and third highest CAGR of 33% in EBITDA. (Source: CRISIL Report). It invests in R&D activities to create a differentiating factor and sustainability in its welding consumables products vis-à-vis its competitors and to meet company's clients' specific requirements. Its dedicated DSIR-approved R&D facility at Unit I is equipped with laboratory infrastructure for various developmental activities, including process refinement, finished products testing and other raw materials analysis. As of July 31, 2024, it had 654 employees on its payroll and additional 564 contract workers in various departments.

On the financial performance front, for the last three fiscals, the company has (on a consolidated basis) posted a total income/net profit of Rs. 208.75 cr. / Rs. 17.05 cr. (FY22), Rs. 258.67 cr. / Rs. 22.15 cr. (FY23), and Rs. 285.56 cr. / Rs. 30.80 cr. (FY24).

**Objects of Issue:**

DEL proposes to utilize the Net Proceeds from the Issue towards funding the following objects:

- Funding capital expenditure requirements towards expansion of existing manufacturing facility at Khasra No. 36, 38/1, 38/2, 38/3, Khapri (Uma), Nagpur-441 501, Maharashtra, India ("Proposed Expansion")
- Setting up of a new manufacturing facility located at Plot Nos. 33-B/1/1/ & 33-B/1/1/Part, MIDC, Hingna, Sonegaon District, Nagpur – 440 016, Maharashtra ("Proposed Facility")
- Funding working capital requirements of the Company; and
- General Corporate Purposes



**Utilisation of Net Proceeds**

DEL proposes to utilise the Net Proceeds towards the following objects:

(Rs in million)

S.No	Particulars	Amount to be funded from Net Proceeds
1	Funding capital expenditure requirements towards Proposed Expansion of existing manufacturing facility at Unit IV	713.80
2	Setting up of a new manufacturing facility at Hingna, Sonegaon District, Nagpur, Maharashtra ("Proposed Facility")	303.85
3	Funding working capital requirements of the Company	220.00
4	General corporate purposes	*
	<b>Grand Total</b>	*

**Competitive Strengths**

- Synergistic business models focused on forward integration.
- Serving industry major players directly as well as through OEMs
- Long-standing relationships with customers across industries
- Consistent financial performance
- Experienced promoters and strong management team
- Strategically located manufacturing facilities

**Business Strategy:**

- Strategic expansion by venturing into nickel, cobalt and iron-based powder manufacturing for enhanced welding consumables portfolio
- Expanding geographical reach
- Strategic Leasing and Maintenance Business Model for Heavy Equipment
- Diversifying Anti Wear Solutions and Heavy Engineering Equipment business into new industries

**Key Concerns**

- DEL is increasingly dependent on a domestic market for its sales and any a downturn in it could dent the market share;
- The Company had negative cash flows during certain fiscal years in relation to its operating, investing and financing activities. Sustained negative cash flows in the future would adversely affect the results of operations and financial condition.
- Operates from four Manufacturing Facilities all of which are located in Nagpur, Maharashtra and therefore, any localized social unrest, natural disaster or breakdown of services or any other natural disaster in and around, Nagpur, Maharashtra or any disruption in production at, or shutdown of, all manufacturing units could have material adverse effect on the business and financial condition.
- Business is dependent on the performance of certain other industries. Economic cyclicity coupled with reduced demand in these other industries, in India or globally, could adversely affect the business, results of operations and financial condition.
- Proposed plans with respect to funding the capital expenditure requirements as per Objects of the Issue is subject to the risk of unanticipated delays in obtaining approvals and implementation.
- If there are delays in setting up the Proposed Facility or Proposed Expansion or if the costs of setting up and the possible time or cost overruns related to the Proposed Facilities or the purchase of plant and machinery for the Proposed Facilities are higher than expected, it could have a material adverse effect on the financial condition, results of operations and growth prospects.
- Business and profitability is substantially dependent on the availability and cost of raw materials and any disruption to the timely and adequate supply or volatility in the prices of raw materials may adversely impact the business, results of operations, cash flows and financial condition
- Company had made allotment of equity shares in the past which was allotted to more than 49 investors, which may have been in non-compliance with the Companies Act, 1956.



- Conflict of interest may arise as some of the Group Companies and Subsidiaries are authorized to carry on similar line of business as DEL which may lead to real or potential conflicts of interest for its Promoters or Directors.
- Inability to collect receivables and default in payment from customers could result in the reduction of profits and affect its cash flows.

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