



**IPO Report**

30<sup>th</sup> Mar' 22

**Snapshot**

Hariom is an integrated manufacturer of Mild Steel (MS) Pipes, Scaffolding, HR Strips, MS Billets, and Sponge Iron. Company use iron ore to produce Sponge Iron which is then processed across various stages to manufacture final products viz. MS Pipes and Scaffolding making company's manufacturing process cost-effective

**VALUATION**

Company is bringing the issue at price band of Rs 144-153 per share at p/e multiple of 16-17x on pre issue FY21 eps basis. Company with its integrated nature of the operations has environment friendly manufacturing process with strategic location of manufacturing units & competitive pricing of the products . Looking after financial performance of company & valuations, issue looks decent . Hence we recommend "Subscribe" on issue.

<b>Price Band (Rs./Share)</b>	<b>144-153</b>
<b>Opening date of the issue</b>	<b>30<sup>th</sup> Mar 2022</b>
<b>Closing Date of the issue</b>	<b>05<sup>th</sup> April 2022</b>
<b>No of shares pre issue</b>	16976204 Eq Shares
<b>Issue Size</b>	85,00,000 Eq Shares
<b>Issue size</b>	Rs 130.05 Cr
<b>Face Value (Rs/ share)</b>	10
<b>Bid Lot</b>	98

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	30% of the offer (Approx 25,50,000 Eq Shares)
<b>Non-Institutional</b>	35% of the offer ( Approx 29,75,000 Eq Shares)
<b>Retail</b>	35% of the offer ( Approx 29,75,000 Eq Shares)
<b>Lead managers</b>	ITI Capital Ltd
<b>Registrar to the issue</b>	Bigshare Services.Pvt Ltd.

**KEY HIGHLIGHTS**

**Competitive pricing of products**

Company is able to face competition from other industry players effectively as its products are a result of backward integration which leads up to the Sponge Iron stage of manufacturing. Backward integration has its own cost and savings advantages which company's competitors may be lacking giving company a competitive advantage as to price. In addition to the pricing advantage, company have also built in its manufacturing process some flexibility as to thickness, length and quality of its products which enables customisation leading to better margins for company's products. Due to the flexibility in manufacturing a range of products having specific thickness, length and quality, the demand of company's products is higher as compared to competitors who manufacture and sell standard industry sizes or dimensions of products.

**Strategic location of manufacturing Units**

Unit I is located around seventy (70) kms from Hyderabad in the Mahabubnagar District, State of Telangana and close to Jadcherla industrial area. This proximity enables ease of logistics, power, water supply and raw materials for company's operations in Unit I. Skilled personnel for Unit I also come from Hyderabad. Unit II is located at Anantapur District, Andhra Pradesh which is around eighteen (18) kms from Bellary, which is one of the hubs in South India for iron ore production. The connectivity between Unit I and southern markets provides the benefits of logistics considering accessibility and proximity.

**Integrated nature of company's operations**

Company use iron ore to produce Sponge Iron which is then processed across various stages to manufacture its final products viz. MS Pipes and Scaffolding making company's manufacturing process cost-effective. The integrated nature of operations is one of the major strengths and differentiators of the Company. All intermediate products required for the manufacturing of company's final products are produced in-house viz. Sponge Iron, MS Billets and HR Strips. Company's ability to change the product mix as per market demand and supply dynamics gives company the flexibility to serve a wider spectrum of customers across various sectors. In addition to the seamless and flexible operations, integration of company's production process provides company a cost advantage over its competitors.



## COMPANY BACKGROUND

Company cater to the southern and western Indian markets for its products. Company's MS Pipes are marketed and sold in these geographies under the brand name "Hariom Pipes". Substantial portion of the Sponge Iron, MS Billets and HR Strips produced by company are used for captive consumption in the manufacturing MS Pipes and Scaffolding.

Company manufacture MS Pipes and Scaffoldings of more than one hundred fifty (150) different specifications and cater, directly and indirectly, to customer requirements in various sectors such as housing, infrastructure, agriculture, automotive, power, cement, mining, solar power and engineering. Company's integrated plant at Mahabubnagar District in Telangana (Unit I) manufactures finished steel products from iron scrap and Sponge Iron and its other plant at Anantapur District, Andhra Pradesh (Unit II) exclusively manufactures Sponge Iron. Unit II is located near Bellary, which is one of the hubs in South India for iron ore production. The iron ore required to produce Sponge Iron at Unit II is mostly procured through the online bidding process. Most of the Sponge Iron produced at the Unit II is transported to the Unit I and used as a raw material for manufacturing MS Billets, HR Strips, MS Pipes and Scaffolding.

The manufacturing of Sponge Iron at company's Unit II has reduced its dependence on external sources for raw materials since its acquisition in September, 2020. The integration of Unit I and II has optimized company's operations and profitability through backward integration which helps with efficient logistics, inventory management, procurement, energy savings and quality control. Company's quality control team led by qualified chemists and engineers ensure that its raw materials as well as end products are tested on all quality parameters to ensure that company is compliant with the required market standards. Company mainly sell MS Pipes through more than two hundred (200) distributors and dealers. Company also sell MS Pipes and Scaffoldings to certain developers and contractors directly as B2B sales.

Company's key differentiator is its range of product specifications in terms of thickness, length, quality, availability and customised products. Company's Promoters Mr. Rupesh Kumar Gupta and Mr. Sailesh Gupta are third generation entrepreneurs and individually have more than a decade of experience in the iron and steel industry. They have been instrumental in the growth and management of company.

Source:RHP



**INVESTMENT RATIONALE**

<p><i>Environment friendly manufacturing process</i></p>	<p>Company consciously preferred and installed the hot charging process of manufacturing its products as it significantly reduces the usage of coal and power. Company have synchronized its manufacturing processes to ensure smooth transition from one process to the other including environmental considerations. For example, company for shifting raw materials inside its Unit I company have laid down rail trolley system to eliminate the usage of diesel trucks and other polluting vehicles. Company have installed pollution control equipment at its smoke emanating chimney's that collect the dust particles which are then stored in filter bags for disposal. These filter bags are sold to cement and other industries for their operations. Company have also planted over 3,000 trees in and around its manufacturing units and installed drip irrigation to maintenance of the plantation. As regards water conservation and treatment, company have made the provision for rainwater harvesting with pits in both Unit I &amp; II and have also installed a RO Plant having a capacity of 10,000 liters per hour. Company recycle the water used in its manufacturing process to minimize wastage and water pollution.</p>
<p><i>Cost advantage in manufacturing products</i></p>	<p>Company has established a manufacturing process which keeps costs low, leading to a competitive price advantage as compared to others in the industry. Company have synchronized its processes in such a manner that one product follows the other without any break leading to costs and time efficiencies. Company have 32 KVA dedicated feeder for its furnace at its Unit I which makes company eligible for obtaining private power from IEX through the online bidding process, against company's contracted load of 9,999 KVA with TSSPDCL with fixed power cost. In peak season for agriculture where there is shortage of supply of power from TSSPDCL, company have the alternative facility of receiving uninterrupted supply of power from IEX at competitive rates. Company have installed multiple operations at a single location i.e. Unit I where company manufacture the entire range of its products viz. MS Billets to Mild Steel (MS) Pipes and Scaffolding. The hot charging process installed in company's Unit I enables the MS Billets produced to be directly fed into the rolling mill for producing HR Strips leading to savings in the cost of coal and power. Further, by using a crusher company crush the slag and extract iron content from the slag which is again recycled in furnaces for producing MS Billets.</p>
<p><i>Experienced &amp; Qualified Team</i></p>	<p>Company's Promoters and senior management team is well experienced in this industry both from marketing and distribution of products in this sector. Company's Promoter, Mr. Rupesh Kumar Gupta has been the main guiding force behind the growth and business strategy of company and has more than a decade of experience in the iron and steel industry. Company's Promoter, Mr. Sailesh Gupta also has over a decade experience in iron and steel industry and is actively involved in day to day business, administration and marketing of the Company. Company's management team's experience and their understanding of the industry will enable to continue to take advantage of both current and future opportunities. A large number of company's senior management personnel have worked with it for a significant period of time, resulting in effective operational coordination and continuity of business strategies. They have led the organization through acquisitions, development of new systems and components etc.</p>



## OBJECTS OF ISSUE

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

1. Funding capital expenditure requirements;
2. Funding the working capital requirements of company; and
3. General corporate purposes.

## RISKS

Raw materials and stores consumed constitute a significant percentage of the total expenses of company. The cost of raw materials consumed accounted for 82.06%, 77.18%, 73.11% and 68.78% of total expenses for the six months period ended September 30, 2021 and for Fiscals 2021, 2020 and 2019 respectively. The inventories includes materials, finished goods, stores, spares and consumables which have average holding period of 80-85 days. Company is exposed to the price risk associated with purchasing its raw materials or stores consumed, which form the highest component of company's expenses. Company mainly secure Iron Ore from the MSTC bidding portal and some local suppliers and place company's orders based on demand estimates and orders in hand.

Source:RHP

## INDUSTRY OVERVIEW

### Market Analysis of steel industry for India and Regional

#### Market driver

- Infusion of funds for capacity creation and modernization
- Indian Infrastructure initiative by the Government of India to support the GDP Growth roadmap
- Growing oil & gas exploration in the country
- Urban infrastructure programme under Public Private Partnership
- Growing demand for intermediate products

#### MARKET restraints

- Threat of alternative from other materials
- Over dependency on domestic consumption
- Fluctuating raw material prices
- High capital requirement for new entrant
- Lack of Technology
- Shortage of metallurgical coal

#### Competitive trends in the home market

- Increase in global manufacturing activity
- Resilient growth driven by supply side reforms
- Consumption led growth influenced by Government policies and investments Factors that make India an attractive region for steel products
- Low per capita consumption
- Declining steel demand in China can benefit India to become a leading steel products producer and consumer
- Positive outlook for automotive and construction sector
- Healthy growth of 7% to 8% is anticipated in the next few year for steel sector in India
- Make in India and smart city implementation is further influencing the demand in India

#### key demand drivers

Asia Pacific region is expected to be the largest consumer of carbon steel during the forecast period, and this is attributed to the fact that countries in this region like China, India, and Southeast Asian countries are focusing more on infrastructural development. Rapid urbanization has changed the lifestyle of the people and, in turn, has increased the prevalence of secure infrastructure over a broad aspect, thus, augmenting product demand. Ministry of Steel of the Indian government is laying emphasis on utilization of steel for industrial purposes, as India contributes to the list of top manufacturers of steel across the globe, which is creating a demand in the market. Moreover, the government in nations such as China, Japan, and the United States are also supporting steel sales, thereby driving the market growth. Resuming operations after taking control of the Covid-19 pandemic, China announced an increase in the export rebates for cold-rolled steel, stainless steel strip, and other products from present 10.0% to 13.0% for a variety of steel products. This may prompt Indian steelmakers to seek higher border tariffs on imports.



**(Rs in Lakhs)**

<b>Financials</b>	<b>As at Sept 30,2021</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>
Total Revenue (A)	<b>20087.10</b>	<b>25413.89</b>	<b>16077.69</b>	<b>13359.61</b>
Total Expenditure (B)	17529.97	21985.59	<b>13729.14</b>	11656.71
EBIDTA	<b>2557.13</b>	<b>3428.30</b>	<b>2348.55</b>	<b>1702.90</b>
EBIDTA Margin	12.73	13.49	14.61	12.75
Other Income	28.90	68.42	37.36	31.95
Depreciation	398.30	625.77	516.37	215.43
EBIT	<b>2187.73</b>	<b>2870.95</b>	<b>1869.54</b>	<b>1519.42</b>
Interest	417.11	751.21	737.07	354.63
PBIT	<b>1770.62</b>	<b>2119.74</b>	<b>1132.47</b>	<b>1164.79</b>
E/O Items	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
PBT	<b>1770.62</b>	<b>2119.74</b>	<b>1132.47</b>	<b>1164.79</b>
Tax	483.72	606.54	341.64	362.79
PAT	<b>1286.90</b>	<b>1513.20</b>	<b>790.83</b>	<b>802.00</b>
NPM	<b>6.41</b>	<b>5.95</b>	<b>4.92</b>	<b>6.00</b>
ROE %	<b>15.37</b>	<b>21.38</b>	<b>16.37</b>	<b>22.22</b>
EPS	7.58	8.92	5.98	6.06
Eq Cap	1,697.62	1,696.12	1,323.34	1,323.34
Net Worth	<b>8372.17</b>	<b>7078.94</b>	<b>4829.89</b>	<b>3609.03</b>



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