

# Diffusion Engineers Ltd

## IPO Note



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**Manufacturer of welding consumables, wear plates and parts, and heavy machinery for core industries.**

Founded in 1982, Diffusion Engineers Limited is active in the manufacture of welding consumables, wear plates and parts, and heavy machinery for core industries.

The company offers specialized repair and reconditioning services for heavy machinery and equipment. The company also trades in wear protection powders and welding and cutting machines. At its production facilities, the company offers the Super Conditioning process, a surface treatment for machine components that increases wear resistance, eliminates stresses, and improves reparability, ultimately extending service life and reducing production costs.

Diffusion Engineers Limited has four manufacturing units:

- Unit I - Welding electrodes for special purpose.
- Unit II - Flux cored wires, wear plates and wear parts through fabrication and machining.
- Unit III - Coatings for abrasion and corrosion resistance.
- Unit IV - Flux-cored wires, wear plates, and heavy engineering.

which are located at Nagpur Industrial Area, Hingna, Nagpur, Maharashtra, and Unit IV at Khapri, Nagpur, Maharashtra is responsible for the processing and manufacturing of the products.

Welding consumables market in India is estimated at around Rs 51 bn in fiscal 2024, with fiscal 2027 projections around Rs 64-66 bn.

Co. possess the expertise to design, develop and manufacture complex and specialized industrial equipment and components for OEMs and end-user industries.

### Few Risks:

**Dependence on Domestic Market:** The company's reliance on the domestic market for approximately 90% of its sales poses a significant risk.

**Negative Cash Flows:** The company has experienced negative cash flows during certain fiscal years. If this trend continues, it could strain the company's liquidity and affect its ability to fund operations, investments, and debt obligations, leading to adverse effects on overall financial health.

### Key Consolidated Financial Data (INR Cr, unless specified):

	Revenue (INR)	EBITDA (INR)	Net Profit (INR)	EBITDA Margin(%)	Net Profit Margin(%)	EPS (INR)	ROE (%)	ROCE (%)	EV/EBITDA (X)	P/BV (X)
FY22	204.6	22.5	17.0	11	8	4.6	14	10	28.6	5.1
FY23	254.9	27.9	22.2	11	9	6.0	16	9	23.9	4.4
FY24	278.0	38.8	31.0	14	11	8.4	16	11	16.8	3.3

Source: Ventura Research & Company update

Industry	Welding consumables
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### Scrip Details

Listing	BSE & NSE
Open Date	Sept 26, 2024
Close Date	Sept 30, 2024
Price Band	INR 159 -168
Face Value	INR 10
Market Lot	88 Shares
Minimum Lot	1

### Issue Structure (%)

Issue Size (INR cr)	INR 158
Issue Size (Shares)	9405000
QIB Share (%)	< 50%
Non-Inst Share (%)	> 15%
Retail Share (%)	> 35%
Pre-Issue sh (in cr)	2.8
Post Issue sh (in cr)	3.7
Post Issue Market Cap (in cr)	628.76

### Shareholding (%)

	Pre (%)	Post (%)
Promoter	93.10	69.70
Public	6.90	30.30
<b>TOTAL</b>	<b>100</b>	<b>100</b>

### Issue Structure and Offer Details:

Diffusion Engineers IPO is a book-built issue of Rs 158.00 crores. The issue is entirely a fresh issue of 0.94 crore shares.

Issue Structure	
Investor Category	Allocation
QIB	Not more than 50.00% of the Offer
NII (HNI)	Not less than 15.00% of the Net issue
Retail	Not less than 35.00% of the Offer

*Number of shares based on a higher price band of INR 168*

*Source: Company Reports*

### Objects of the Issue:

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

- Funding capital expenditure requirements towards the expansion of existing manufacturing facility at Khasra, Khapri, Nagpur, Maharashtra, India.
- Setting up of a new manufacturing facility located at MIDC Hingna, Sonegaon District, Nagpur, Maharashtra.
- Funding working capital requirements of the Company
- General Corporate Purposes.

## Financial Summary

Fig in INR Cr (unless specified)	FY22	FY23	FY24	Fig in INR Cr (unless specified)	FY22	FY23	FY24
<b>Income Statement</b>				<b>Per share data &amp; Yields</b>			
Revenue	204.6	254.9	278.0	Adjusted EPS (INR)	4.6	6.0	8.4
<i>YoY Growth (%)</i>	<i>31.8</i>	<i>24.6</i>	<i>9.1</i>	Adjusted Cash EPS (INR)	5.7	7.0	9.6
Raw Material Cost	117.1	147.6	146.9	Adjusted BVPS (INR)	32.7	38.4	51.6
<i>RM Cost to Sales (%)</i>	<i>57.2</i>	<i>57.9</i>	<i>52.9</i>	Adjusted CFO per share (INR)	3.0	(1.3)	10.2
Employee Cost	26.1	30.0	36.0	CFO Yield (%)	1.8	(0.8)	6.1
<i>Employee Cost to Sales (%)</i>	<i>12.8</i>	<i>11.8</i>	<i>12.9</i>	Adjusted FCF per share (INR)	1.2	(2.7)	2.0
Other Expenses	38.9	49.4	56.3	FCF Yield (%)	0.7	(1.6)	1.2
<i>Other Exp to Sales (%)</i>	<i>19.0</i>	<i>19.4</i>	<i>20.3</i>	<b>Solvency Ratio (X)</b>			
EBITDA	22.5	27.9	38.8	Total Debt to Equity	0.2	0.3	0.2
<i>Margin (%)</i>	<i>11.0</i>	<i>10.9</i>	<i>13.9</i>	Net Debt to Equity	0.2	0.3	0.2
<i>YoY Growth (%)</i>	<i>9.2</i>	<i>24.0</i>	<i>39.1</i>	Net Debt to EBITDA	0.9	1.6	0.7
Depreciation & Amortization	4.2	3.8	4.5	<b>Return Ratios (%)</b>			
EBIT	18.3	24.0	34.2	Return on Equity	14.1	15.6	16.3
<i>Margin (%)</i>	<i>9.0</i>	<i>9.4</i>	<i>12.3</i>	Return on Capital Employed	9.7	9.4	11.2
<i>YoY Growth (%)</i>	<i>9.8</i>	<i>31.2</i>	<i>42.4</i>	Return on Invested Capital	12.9	13.0	15.6
Other Income	4.2	3.8	7.4	<b>Working Capital Ratios</b>			
Bill discounting & other charges	1.4	2.3	1.8	Payable Days (Nos)	55	35	41
Fin Charges Coverage (X)	13.2	10.5	19.5	Inventory Days (Nos)	79	74	70
Exceptional Item	0.0	0.0	0.0	Receivable Days (Nos)	90	100	88
PBT	21.1	25.5	39.9	Net Working Capital Days (Nos)	114	139	117
<i>Margin (%)</i>	<i>10.3</i>	<i>10.0</i>	<i>14.3</i>	Net Working Capital to Sales (%)	31.2	38.1	32.0
<i>YoY Growth (%)</i>	<i>28.4</i>	<i>21.0</i>	<i>56.1</i>	<b>Valuation (X)</b>			
Tax Expense	4.9	6.5	10.2	P/E	36.5	28.0	20.0
<i>Tax Rate (%)</i>	<i>23.4</i>	<i>25.5</i>	<i>25.5</i>	P/BV	5.1	4.4	3.3
PAT	16.2	19.0	29.7	EV/EBITDA	28.6	23.9	16.8
<i>Margin (%)</i>	<i>7.9</i>	<i>7.5</i>	<i>10.7</i>	EV/Sales	3.1	2.6	2.3
<i>YoY Growth (%)</i>	<i>42.4</i>	<i>17.6</i>	<i>56.1</i>	<b>Cash Flow Statement</b>			
Min Int/Sh of Assoc	0.9	3.1	1.4	PBT	21.1	25.5	39.9
Net Profit	17.0	22.2	31.0	Adjustments	7.2	9.5	(0.0)
<i>Margin (%)</i>	<i>8.3</i>	<i>8.7</i>	<i>11.2</i>	Change in Working Capital	(12.4)	(33.2)	8.2
<i>YoY Growth (%)</i>	<i>81.5</i>	<i>30.2</i>	<i>40.1</i>	Less: Tax Paid	(4.9)	(6.5)	(10.2)
<b>Balance Sheet</b>				Cash Flow from Operations	11.1	(4.7)	37.9
Share Capital	3.7	3.7	28.0	Net Capital Expenditure	(7.5)	(7.1)	(32.8)
Total Reserves	117.1	138.4	163.0	Change in Investments	(7.7)	(6.3)	(7.3)
Shareholders Fund	120.8	142.2	191.0	Cash Flow from Investing	(15.2)	(13.4)	(40.1)
Long Term Borrowings	2.8	1.7	0.9	Change in Borrowings	4.9	23.5	(13.9)
Deferred Tax Assets / Liabilities	3.4	3.8	5.2	Less: Finance Cost	(1.4)	(2.3)	(1.8)
Other Long Term Liabilities	0.7	0.8	0.0	Proceeds from Equity	0.0	0.0	20.2
Long Term Trade Payables	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Long Term Provisions	0.0	0.0	0.0	Dividend Paid	(1.0)	(1.6)	(1.8)
Total Liabilities	127.6	148.4	197.1	Cash flow from Financing	2.5	19.6	2.7
Net Block	60.3	63.5	90.6	Net Cash Flow	(1.6)	1.5	0.5
Capital Work in Progress	0.0	1.8	1.1	Forex Effect	0.0	0.0	0.0
Intangible assets under development	0.0	0.0	0.4	Opening Balance of Cash	4.7	3.1	4.5
Non Current Investments	18.9	19.5	29.2	Closing Balance of Cash	3.1	4.5	5.1
Long Term Loans & Advances	1.1	1.2	0.0				
Other Non Current Assets	4.7	5.2	6.2				
Net Current Assets	42.6	57.2	69.6				
Total Assets	127.6	148.4	197.1				

Source: Ventura Research

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