



Arrowhead Separation Engineering Limited

IPO Note



IPO Details			Company Background				
Opening Date	Nov 16, 2023		<ul style="list-style-type: none">○ Arrowhead Separation Engineering Limited was originally incorporated in the year 1991 and has its registered office in Tal Igatpuri, Nashik.○ The company is engaged in the design and manufacture of various chemical process equipment with a specialization in continuous drying and cooling system equipment.○ The company has the vision to develop Equipment and provide a solution which matches the global standard.○ As of 30th June 2023, the Company had 54 employees on its payroll.				
Closing Date	Nov 20, 2023						
Stock Exchange	BSE SME						
Lot Size	600 Shares						
Issue Price	₹ 233 per share						
Issue Size	Aggregating up to 13.00 Cr.						
Fresh Issue	Aggregating up to 13.00 Cr.						
Offer for Sale	-						
Application Amount	₹ 1,39,800						
IPO Objective			Market Capitalization (In Cr.)				
Repayment of Loan from NBFC's.			Pre-Issue		Post-Issue		
Funding the working capital requirements.			₹ 31		₹ 44		
General Corporate Expenses.			Financial Summary (In Lacs)				
Pre-Issue Shareholding							
Category	No. of Shares	% of Total Shares	For the Period Ended	Mar-21	Mar-22	Mar-23	Jun-23
Promoter & Promoter Group	6,56,663	50.00%	Total Assets	1,567.43	1,832.23	2,070.54	2,180.64
Public	6,56,662	50.00%	Net Assets	68.09	77.26	246.07	310.41
Promoter of the Company			Total Borrowings	600.58	699.45	812.67	896.02
1	Ajit Mundle		Total Revenue	916.63	1,091.73	2,171.57	881.71
2	Jyoti Mundle		Profit After Tax	-179.19	9.17	169.18	64.32
Competitive Strengths			Tentative Timeline				
1	Customized Product for each Client.		Opening Date		Nov 16, 2023		
2	Qualified and experienced Executive Directors.		Closing Date		Nov 20, 2023		
3	Relationship with Customers and Suppliers.		Basis of Allotment		Nov 23, 2023		
4	Location of the Manufacturing Unit.		Initiation of Refunds		Nov 24, 2023		
5	Wide range of products.		Credit of Shares to Demat		Nov 28, 2023		
			Listing Date		Nov 29, 2023		



Company Background and Analysis

The Company was originally incorporated on July 25, 1991. The company is primarily engaged in the design and manufacture of various chemical process Equipment with a specialization in continuous drying and cooling system equipment. The company has the vision to develop Equipment and provide a solution which matches the global standard. The company has its registered office with a manufacturing facility at Survey No 39, Village Mundhegaon, Tal Igatpuri, Nashik, 422403, Maharashtra.

The company's product portfolio is as follows –

1. Rotary Tube Bundle Dryers – These are effective in handling granular free-flowing solids. Its typical application is seeds, husk, oats, coal and mica.
2. Flaker Systems - Double Drum Flaker consists of two drums internally cooled & rotating in opposite directions. Its typical application is drug intermediates, Phenol, Waxes, Resins and Benzoic Acid.
3. Zero Liquid Discharge (ZLD) Systems - Zero liquid discharge is an advanced water treatment process which purifies and recycles the wastewater at the end of the industrial process with zero liquid waste at the end.
4. Operating Principle Paddle Dryer – It is suitable for processing an entire range of feeds, except liquids. Its typical applications are agro waste in sludge form, biological sludge, and Nylon granules.
5. Vacuum Double Drum Dryer - The system consists of a Vacuum Double Drum Dryer, Condenser, Receiver, Feed Vessel with Valve, Accessories, Skid etc.

The Company's raw materials are as follows –

1. Mild Steel & Stainless Steel - Sheets, Plates, Channel, Angle, Beams, Patta, Patti, Pipes, Tubes, Flats etc
2. Castings
3. Gaskets Sheets, Nut bolts, Electrodes, Grinding Wheels, Cutting Wheels

Bifurcation of Revenue from Operations for the Financial Year ended 2021, 2022, 2023, and the Period ended June 2023 are as follows –

Particulars	March-21		March-22		March-23		Period ended June 2023	
	Amount	%	Amount	%	Amount	%	Amount	%
Local Sales	892.14	97.79	1,015.59	93.42	947.10	44.05	329.4	37.76
Export Sales	2.63	0.29	35.53	3.27	1,191.59	55.42	527.46	60.47
Sale of Service	17.52	1.92	36.01	3.31	11.42	0.53	15.4	1.77
Total	912.29	100.00	1,087.13	100.00	2,150.11	100.00	872.26	100.00

To conclude, the company was incorporated in the year 1991. The company has gradually increased its revenue contribution through export sales over the years. The company is raising total gross proceeds of Rs. 13.00 Cr. Out of the total net proceeds of Rs. 11.70 Cr, the amount to be utilized for repayment of loans from NBFC is Rs. 2 Cr. The amount of Rs. 6.50 Cr for working capital requirements. Amount of Rs. 3.20 Cr for general Corporate Purposes.



Business Strategies

1. Reduction of debt –

The company is planning to repay a loan of ₹ 200.00 lakhs from the net proceeds of the Issue. With the repayment, the company believes it will be able to decrease the interest cost which will lead to a better debt service coverage ratio and healthy profit before tax and cash flows. Further, the company wishes to achieve a well-funded balance sheet without significant debt on the liability side.

2. Augment the fund-based capacities in order to scale up business operations –

The company mostly purchase steel, angle, bar, and channel as raw materials; thus, must pay the suppliers on time in order to first prevent availability fluctuations and rate adjustments that could raise the costs. The company makes sure that funds are available continuously and at no expense to interest. The company believes this will allow it to grow its clientele and access new markets in addition to boosting the capacity of the current facilities.

3. Continue to strengthen relationships with key service providers and take benefit of scalability by outsourcing model –

The company intends to outsource or lease certain key equipment and machinery required for the process from outside vendors having the necessary abilities and bandwidth with respect to equipment, which will enable them to utilize advanced technologies, including system formworks, to increase productivity and maximize asset utilization in construction activities. The company believes that this will enhance the capability and execute projects with higher operational efficiency.

4. Focus on the international market with competitive pricing –

The company believes it will be able to offer competitive prices to its customers. This helps the company to sustain the competition and hold a strong position in the market.



Competitive Scenario and Peer Mapping

Competition

The company faces significant competition in this Industry. The company operates in a highly competitive sector, coupled with a large number of players. The company faces competition from the amortization players and national and international dryer manufacturers. The company faces competition in terms of timely delivery, quality, quick financing and overall customer relationship. The company has low entry barriers. The bargaining power with the customers is moderate in the sector in which the company operates.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given below –

Particulars	Arrowhead Separation Engineering Limited	Kilburn Engineering Limited	Praj Industries Limited
	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	8%	14%	8%
EBITDA Margin	14%	16%	9%
Return on Capital Employed	62%	20%	24%
Return on Equity	69%	29%	22%
EPS (INR)	12.88	8.66	12.94

The comparison of the key performance indicators of the listed peers as of Mar-22 is given below –

Particulars	Arrowhead Separation Engineering Limited	Kilburn Engineering Limited	Praj Industries Limited
	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	1%	1%	8%
EBITDA Margin	9%	11%	10%
Return on Capital Employed	30%	7%	20%
Return on Equity	12%	2%	18%
EPS (INR)	0.70	0.54	8.95

The comparison of the key performance indicators of the listed peers as of Mar-21 is given below –

Particulars	Arrowhead Separation Engineering Limited	Kilburn Engineering Limited	Praj Industries Limited
	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	-20%	-106%	7%
EBITDA Margin	-5%	-138%	9%
Return on Capital Employed	-18%	-99%	9%
Return on Equity	-263%	-192%	9%
EPS (INR)	-13.64	-68.75	3.89

Based on the above analysis, the company has performed slightly lower in terms of Profitability margins when compared with Kilburn Engineering Limited and has performed better when compared to Praj Industries Limited for FY 2023. The company has performed better than its peer companies in terms of RoCE, ROE, and EPS for the Financial Year 2023.



Industry Overview

Exhibit 1: Annual Growth Rates of IIP (%) at Sectoral level

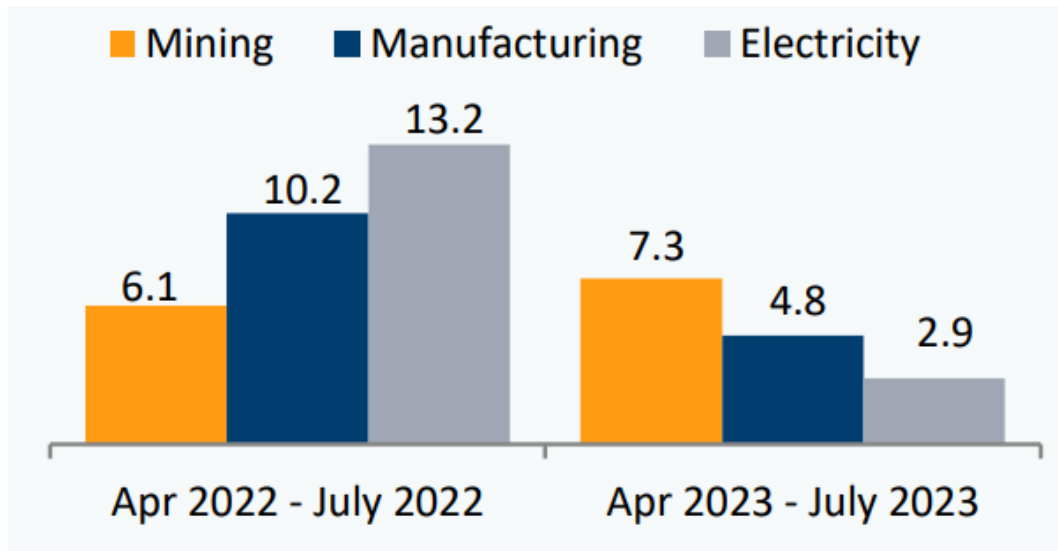
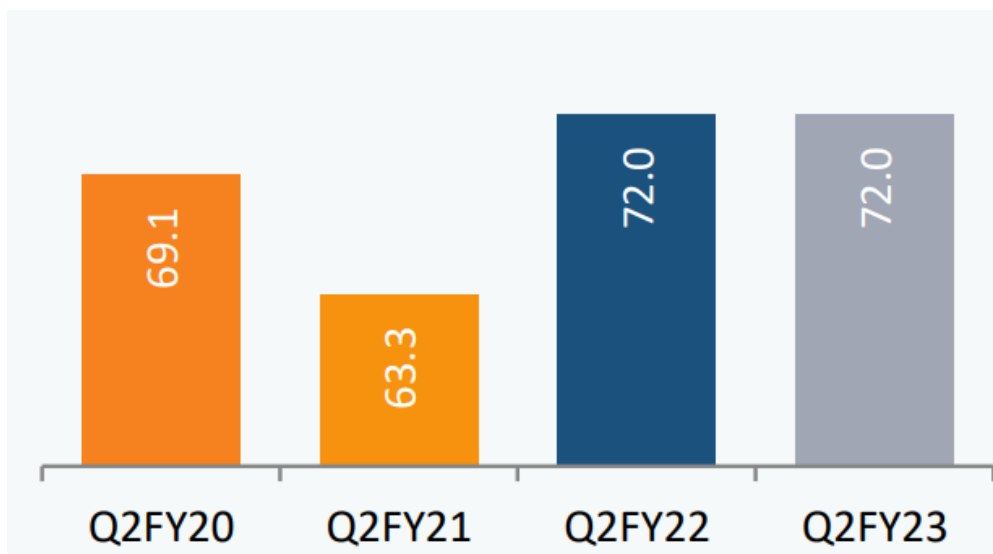


Exhibit 2: Capacity Utilization in Manufacturing Sector (%)



(Source: ibef.org)



Indian Manufacturing Industry -

Manufacturing is emerging as an integral pillar in the country's economic growth, thanks to the performance of key sectors like automotive, engineering, chemicals, pharmaceuticals, and consumer durables. The Indian manufacturing industry generated 16-17% of India's GDP pre-pandemic and is projected to be one of the fastest-growing sectors.

Today, technology has stimulated innovation with digital transformation a key aspect in gaining an edge in this highly competitive market. Technology has today encouraged creativity, with digital transformation being a critical element in gaining an advantage in this increasingly competitive industry. The Indian manufacturing sector is steadily moving toward more automated and process-driven manufacturing, which is projected to improve efficiency and enhance productivity.

India has the capacity to export goods worth US\$ 1 trillion by 2030 and is on the road to becoming a major global manufacturing hub. With 17% of the nation's GDP and over 27.3 million workers, the manufacturing sector plays a significant role in the Indian economy. Through the implementation of different programmes and policies, the Indian government hopes to have 25% of the economy's output come from manufacturing by 2025.

Indian Engineering Industry –

The engineering sector is the largest of the industrial sectors in India. It accounts for 27% of the total factories in the industrial sector and represents 63% of the overall foreign collaborations. Demand for engineering sector services is being driven by capacity expansion in industries like infrastructure, electricity, mining, oil and gas, refinery, steel, automobiles, and consumer durables.

India has a competitive advantage in terms of manufacturing costs, market knowledge, technology, and innovation in various engineering sub-sectors. India's engineering sector has witnessed remarkable growth over the last few years, driven by increased investment in infrastructure and industrial production. The engineering sector, being closely associated with the manufacturing and infrastructure sectors, is of huge strategic importance to India's economy.

Industrial Dryer Market –

Drying is an integral part of the process industry. Drying is used in the manufacturing of products. There are several industrial dryers available in the global market and they are vividly used in multiple industries. Flash dryers and Vacuum pump dryers are at a slow-growing stage in the product lifecycle owing to limited use in the industry. On the other hand, Rotary dryers which find application in construction materials, minerals, chemical industries etc. have reached a maturity stage whereas Fluidized bed dryers and Spray dryers are at a growing stage of the product lifecycle.

The average replacement rate of industrial dryers per year is expected to be around 7% to 9%. The global industrial dryer market was estimated to be valued at more than US\$ 2,500 million by 2016 end and is expected to touch nearly US\$ 3,415 million by the end of 2024, expanding at a CAGR of 3.5% over the forecast period. The global industrial dryer market is projected to represent an incremental opportunity of more than US\$ 830 million between 2016 and 2024.

(Source: prospectus)



Key Managerial Personnel

Ajit Mundle, aged 74, is one of the Promoters, Chairman and Managing Director of the company. He has completed his bachelor's degree in Bachelor of Science. He has over three decades of experience in the Engineering Industry. He is currently responsible for the overall working of the Company and is instrumental in making strategic decisions.

Jyoti Mundle, aged 77, is one of the Promoters, and a Whole-Time Director of the company. She has obtained her degree in Bachelor of Arts. She has over three decades of experience in the Engineering Industry. She is responsible for formulating various strategies and providing guidance for their implementation in the Company.

Priyanka Moondra Rathi, aged 30, is the Non-Executive Independent Director of the company. She has completed a Bachelor of Commerce degree and is a member of the Institute of Company Secretaries of India. She has completed a Diploma in MBA in Finance and is currently pursuing a Certified Public Accountants course. She has an experience of more than 4 years including an internship in the field of Secretarial, compliance and Legal work.

Mayuri Rupareliya, aged 29, is the Non-Executive Independent Director of the company. She holds a Bachelor of Commerce degree and is also a member of the Institute of Company Secretary. She has an experience of more than 3 years including internships in the field of Secretarial, Takeovers, mergers, Income Tax, GST Practitioner, compliance and Legal work.

Nikhil Malpani, aged 32, is the Non-Executive Independent Director of the company. He has completed a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants of India. His work experience includes various practices such as conducting Audit, exposure to Direct and Indirect Taxes, etc.

To conclude, the company has 2 promoters, and they have vast experience in the fields directly linked to the operations. The Remaining Directors of the company have good knowledge and experience in their respective fields which helps in the overall growth of the company.



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Financial Snapshot

Profit and Loss Statement				(In Lacs.)
Particulars	FY 21	FY 22	FY 23	Jun-23
Revenue from Operations	912.29	1,087.13	2,150.10	872.26
Other Income	4.34	4.6	21.47	9.45
Total Income	916.63	1,091.73	2,171.57	881.71
Expenses				
Cost of Materials Consumed	636.15	831.37	1,188.15	348.22
Changes in inventories	-20.55	-272.45	135.01	215
Employee benefits expense	249.65	318.18	314.16	76.28
Finance costs	72.69	89.04	142.96	26.53
Depreciation and Amortization expense	6.46	5.75	3.75	0.54
Other expenses	95.28	106.92	203.73	129.17
Total Expenses	1,039.68	1,078.81	1,987.76	795.74
Earnings Before Interest, Taxes, Depreciation & Amortization	-48.24	103.11	309.05	103.59
EBITDA Margin	-5%	9%	14%	12%
Profit/(Loss) before tax	-123.05	12.92	183.81	85.97
Tax Expense				
Current Tax	-	-	13.91	21.64
Deferred tax	-0.04	1.09	0.28	-0.01
Short/Excess provision	56.1	4.84	1.00	-
Total Tax Expense	56.14	3.75	14.63	21.65
Profit/(Loss) for the year	-179.19	9.17	169.18	64.32
Net Profit Margin	-20%	0.84%	7.79%	7.29%

Balance Sheet				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Jun-23
EQUITY AND LIABILITIES				
1. Shareholders' funds				
(a) Share Capital	80.82	80.82	131.33	131.33
(b) Reserves and surplus	(12.73)	(3.56)	114.74	179.08
Total Equity	68.09	77.26	246.07	310.41
2. non-current liabilities				
(a) Long Term Borrowings	115.09	113.31	108.44	119.40
(b) Long Term Provisions	123.95	137.19	138.91	133.76
(c) Deferred Tax Liabilities (Net)	-	-	-	-
Total Non-current liabilities	239.04	250.50	247.35	253.16
3. Current liabilities				
(a) Financial Liabilities				
(i) Short-term borrowings	485.49	586.14	704.23	776.62
(ii) Trade payables				
Due to MSME	229.16	115.45	273.15	292.09
Due to Others	78.15	171.33	103.35	109.00
(b) Other Current Liabilities	341.25	499.58	366.84	287.39
(c) Short-term provisions	126.25	131.96	129.55	151.96
Total Current liabilities	1,260.30	1,504.46	1,577.12	1,617.06
Total Liabilities	1,499.34	1,754.96	1,824.47	1,870.22
Total Equity and Liabilities	1,567.43	1,832.22	2,070.54	2,180.63
ASSETS				
1. non-current assets				
(a) Property, Plant and Equipment				
(i) Tangible Assets	34.39	32.41	29.27	28.73
(ii) Intangible assets	3.19	0.98	-	0.01
(iii) Capital Work-In-Progress	-	-	-	-
(b) Financial Assets				
(i) Investments	-	-	-	-



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Balance Sheet					(In Lacs)
(c) Deferred tax assets (net)	1.27	2.36	2.65	2.64	
(c) Long-term loans and advances	36.34	36.65	12.76	6.71	
(d) Other Non-Current Assets	-	-	-	-	
Total Non-Current assets	75.19	72.40	44.68	38.09	
2. Current assets					
(a) Inventories	637.41	933.48	843.78	608.52	
(a) Trade receivables	649.44	644.68	899.85	1,267.11	
(b) Cash and cash equivalents	135.54	51.72	81.67	90.55	
(d) Short-term loans and advances	69.85	129.95	200.56	176.37	
(e) Other Current Assets	-	-	-	-	
Total Current assets	1,492.24	1,759.83	2,025.86	2,142.55	
Total Assets	1,567.43	1,832.23	2,070.54	2,180.64	

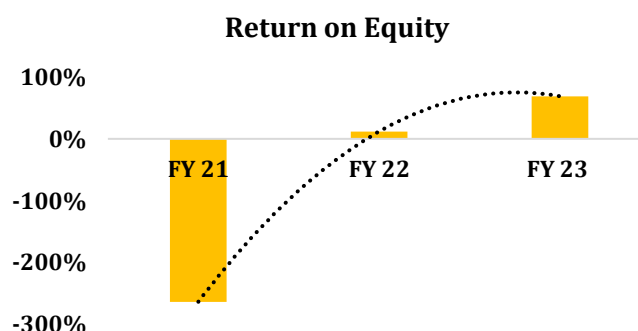
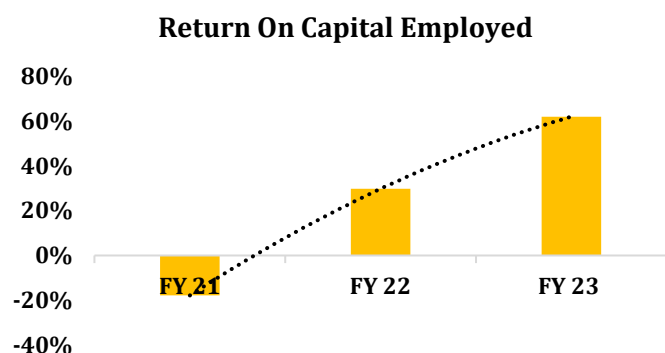
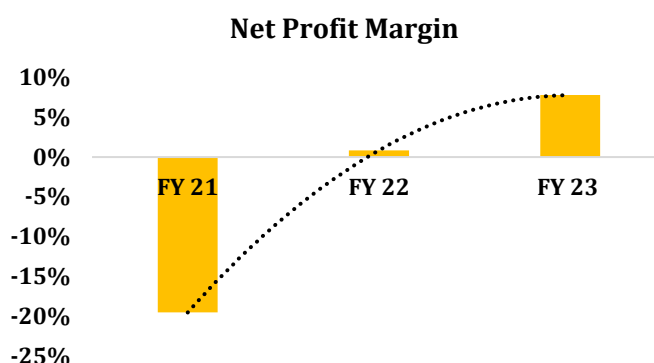
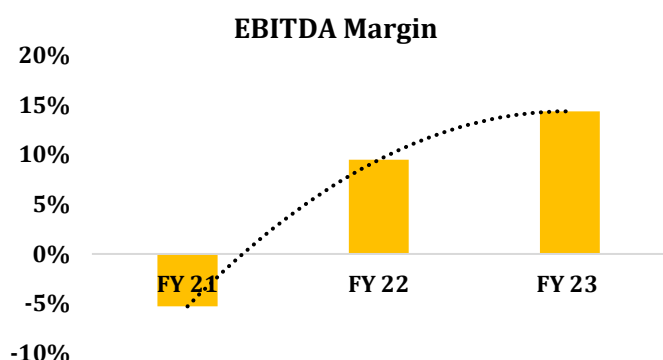
Cash Flow Statement					(In Lacs)
Particulars	FY 21	FY 22	FY 23	Jun-23	
Net Cash Flow from Operating Activities	91.21	-96.70	57.28	-48.99	
Net Cash Flow from Investing Activities	-	-1.55	-	-	
Net Cash Flow from Financing Activities	-38.67	14.44	-27.33	57.87	

Ratio Sheet					
Particulars	FY 21	FY 22	FY 23	Jun-23	
Per Share Data					
Diluted EPS	-13.64	0.7	12.88	11.76	
BV per share	3.64	4.13	13.15	94.39	
Operating Ratios					
EBITDA Margins	-5.29%	9.48%	14.37%	11.88%	
PAT Margins	-19.55%	0.84%	7.79%	7.29%	
Inventory days	255.02	313.41	143.24	63.48	
Debtor days	259.84	216.45	152.76	132.19	
Creditor days	64.52	89.32	38.23	36.59	
Return Ratios					
RoCE	-18%	30%	62%	8%	
RoE	-263%	12%	69%	12%	
Valuation Ratios (x)					
EV/EBITDA	-11.05	7.03	3.16	6.18	
Market Cap / Sales	4.78	4.01	2.03	1.25	
P/E	-17.08	332.86	18.09	19.81	
Price to Book Value	64.04	56.44	17.72	2.47	
Solvency Ratios					
Debt / Equity	8.82	9.05	3.30	2.89	
Current Ratio	1.18	1.17	1.28	1.32	
Quick Ratio	0.68	0.55	0.75	0.95	
Asset Turnover	0.58	0.59	1.04	1.60	
Interest Coverage Ratio	-0.75	1.09	2.14	15.54	

*Ratio sheet for June-23 is annualized.



Financial Charts



Key Risk Factors

1. The company's top 10 customers contributed to 82.15%, and 95.89% of the total revenue for the Financial Year Ended 2022, and 2023 respectively. The loss of any one or more of such customers may have a material effect on the business operations and profitability.
2. The company has incurred losses in the Fiscal 2021, and any such loss in future periods could adversely affect the operations, and financial conditions of the company.
3. The company's top 10 suppliers comprised 62.52%, and 72.77% of the total purchases for the financial year ended 2023, and 2022 respectively. Any disruption of supply from such entities may affect the business operations.
4. The company's contingent liabilities amounted to Rs. 52.11 lakhs and if materialized could adversely affect the results of operations.
5. The company had negative operating cash flow for the FY ended 2022, and the Period Ended June 30, 2023.

**Track Record of Lead Manager**

The lead manager to the issue is Aryaman Financial Services Limited. A table has been set below highlighting the details of the IPO of the recent companies handled by the Lead Manager in recent times –

Aryaman Financial Services Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Mish Designs Limited	9.76	122.00	November 07, 2023	130.00
2.	Sunita Tools Limited	22.04	145.00	October 11, 2023	158.00
3.	Master Components Limited	15.43	140.00	September 29, 2023	141.00
4.	HMA Agro Industries Limited	480.00	585.00	July 04, 2023	672.00
5.	CFF Fluid Control Limited	85.80	165.00	June 12, 2023	454.00
6.	Command Polymers Limited	7.09	28.00	March 29, 2023	25.4
7.	Rex Sealing and Packing Industries Limited	8.09	135.00	January 12, 2023	120.00
8.	Abans Holdings Limited	345.60	270.00	December 23, 2022	318.00
9.	EP Biocomposites Limited	6.35	126.00	September 13, 2022	202.00
10.	Rhetan TMT Limited	56.00	70.00	September 05, 2022	8.10

*CMP for the above-mentioned companies is taken as of 10th November 2023.

As per the offer document, Aryaman Financial Services Limited has had 21 mandates in the last three fiscal years. Aryaman Financial Services Limited's above-mentioned mandates 4 have opened at discount and the remaining all have opened at premiums on the listing day.



Recommendation

The company has been in the industry since 1991 and has vast experience in the industry. The company has seen consistency in the increase in its top line but had a negative bottom line for FY 2021. The company operates in a highly competitive segment. The management overview is satisfactory.

The P/E on a post-IPO basis is 25.77 times which seems to be highly priced by looking at the performance of the company. The Sector P/E is 34.3 times.

The company operates in a competitive segment with many competitors and the company has also had a negative bottom line for FY 2021, had negative operating cash flows for FY 22, and the Period ended June 23. The company does not manufacture any unique products and from being in the industry since 1991 the company's overall performance is not satisfactory. Thus, by all the points mentioned above, we recommend **AVOID** applying to this IPO.



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