

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

DEE DEVELOPMENT ENGINEERS LTD

Jun 19, 2024





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Details of the Issue

Price Band	₹ 193 - ₹ 203
Issue Size	₹ 418.01 Cr
Face Value	₹ 10
Bid Lot	73
Listing on	BSE, NSE
Post Issue Mcap	₹ 1,401.69 Cr
Investment Range	₹ 14,089 - ₹ 14,819

Important Indicative Dates (2024)

Opening	19 - Jun
Closing	21 - Jun
Basis of Allotment	24 - Jun
Refund Initiation	25 - Jun
Credit to Demat	25 - Jun
Listing Date	26 - Jun

Lead Manager

SBI Capital Market Limited

Equius Capital Pvt Limited

Offer Details

Offer Size	₹ 418.01 Cr
Fresh Issue	₹ 325 Cr
OFS	₹ 93.01 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	209	10.30	10.83	50
NIB	62.7	3.09	3.25	15
Retail	146.3	7.21	7.58	35
Em- ploy.	-	-	-	-
Total	418.01	20.59	21.66	100

Invest NowCompany Profile

DEE Development Engineers Limited, established in 1988, specializes in process piping solutions for oil and gas, power, chemicals, and other industries. They provide engineering, procurement, and manufacturing services, offering a range of products like high-pressure piping systems, spools, pipe bends, fittings, pressure vessels, stacks, skids, and customized components. Operating across seven manufacturing sites in India and Thailand, their total installed capacity reached 70,875 MT by December 2023, with annual capacities of 94,500 MT, 91,500 MT, and 86,500 MT for the years ending in 2023, 2022, and 2021 respectively.

Recently, they diversified into pilot plant design and fabrication at their Palwal Facility III. With 1,061 employees, including 54 certified welders (CSWIP 3.0/3.1, AWS-CWI, CWV) and 53 skilled in non-destructive examination (NDE level II/III), DEE Development Engineers Limited is a leading player in the engineering and manufacturing sector.

Business Highlights & Services

DEEDEL IS an engineering company providing specialized process piping solutions for industries such as oil and gas, power (including nuclear), process industries, and chemicals. Company offerings include high-pressure piping systems, piping spools, high-frequency induction pipe bends, Longitudinally Submerged Arc Welding pipes, industrial pipe fittings, pressure vessels, industrial stacks, modular skids, boiler superheater coils, de-super heaters, and other customized components. Company currently operate at a 6,000 MT annual capacity and the New Anjar Facility I with a 3,000 MT capacity. They are developing the New Anjar Facility II to expand their total capacity to 15,000 MT annually. Its facilities, strategically located near key industrial projects, employ lean manufacturing and automation to enhance efficiency.

According to the D&B Report, India's market for process piping solutions is projected to reach ₹38.4 thousand crore by FY 2030, growing at a CAGR of 6.1%. The demand for these solutions is closely tied to industrial capital expenditure. The report indicates significant growth in India's crude oil demand, petroleum refining capacity, and chemical and petrochemical production by 2030, alongside an increase in electricity generation and investments in green hydrogen. To capitalize on these opportunities, it leverage their market leadership, customer relationships, expertise, and skilled manpower. Company is expanding its capacity and product portfolio through organic growth, aiming to serve new sectors like pharmaceuticals and hydrogen energy while increasing revenue from the chemical sector.

Company is focus on cost-effective technologies for diverse product volumes, providing comprehensive process piping solutions. Their low execution costs benefit from integrated operations, strategic locations, and technology investments. Skilled employees ensure quality, cost efficiency, and timely completion. It aim to expand via strategic alliances, such as their current collaboration with a multinational oil and gas company for pipe fabrication automation, and seek similar partnerships to enter new markets and reduce product cycle times.

Company is focus on high-margin products to boost revenue and profitability. By optimizing processes and procurement, it improve margins and profits. It grow it's piping division with modular skid components, high-grade materials, and strong customer retention. Their modular skids, used in petrochemicals and energy projects, offer safer, faster installation and cost efficiency. It aim to increase high-grade materials like Inconel and Hastelloy in the products to enhance profitability.



Company has recently diversified into designing, engineering, fabricating and manufacturing pilot plants, with an order book of ₹106.08 million as of Dec 31, 2023. These plants help evaluate processes before full-scale production, with applications in various sectors. Their comprehensive services include 3-D modeling, process simulation, design, fabrication, and installation. With their expertise in modular skids and specialized piping, they are well-positioned to capitalize on this market. As of April 15, 2024, its outstanding debt is ₹7,710.47 million. They plan to use ₹1,750.00 million of net proceeds to repay part of the debt, reducing interest costs and enhancing profitability. It aim to maintain an efficient, flexible capital structure.

Segment wise Revenue Breakup

Particulars	Nine months ended December 31, 2023		Fiscal 2023		Fiscal 2022		Fiscal 2021	
	In ₹ million	As a percentage of total revenue from operations (%)	In ₹ million	As a percentage of total revenue from operations (%)	In ₹ million	As a percentage of total revenue from operations (%)	In ₹ million	As a percentage of total revenue from operations (%)
Piping Division	4,753.31	87.13%	5,291.23	88.85%	3,706.96	80.42%	4,180.82	84.42%
Power Division	615.03	11.27%	740.36	12.43%	785.79	17.05%	667.05	13.47%
Heavy Fabrication Division	185.14	3.39%	181.79	3.05%	223.84	4.86%	158.73	3.21%
Elimination*	(97.94)	(1.80%)	(258.43)	(4.33%)	(107.43)	(2.33%)	(54.43)	(1.10%)
Total	5,455.54	100.00%	5,954.95	100.00%	4,609.16	100.00%	4,952.17	100.00%

Production Capacity

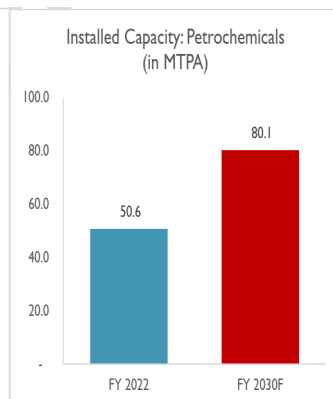
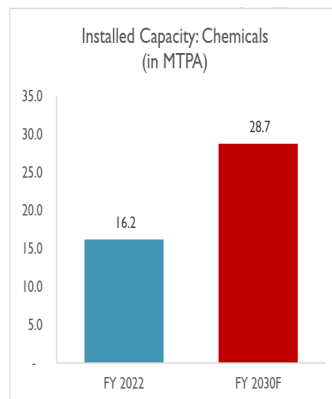
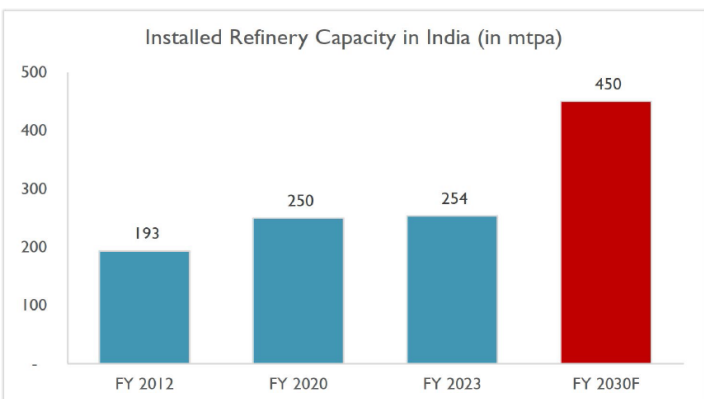
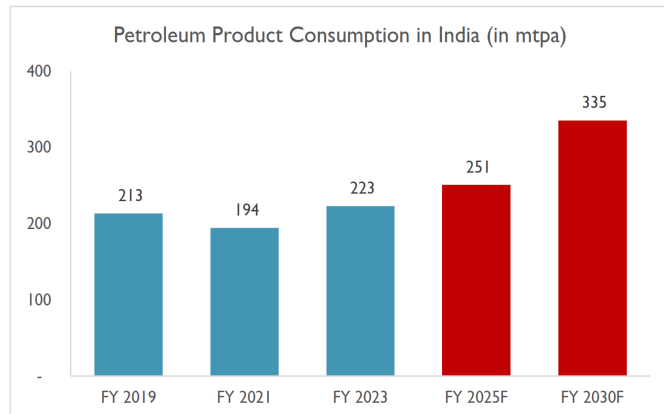
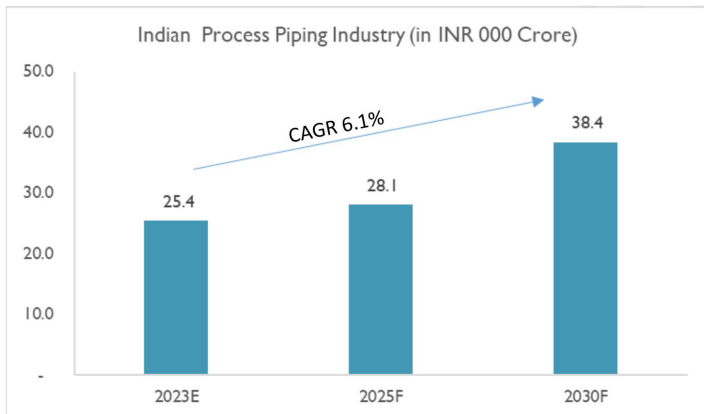
Manufacturing Facilities	Product Name	For the period ended, December 31, 2023		For the year ended, March 31, 2023		For the year ended, March 31, 2022		For the year ended, March 31, 2021	
		Production Volume (in MT)	Sale Volume (in MT)	Production Volume (in MT)	Sale Volume (in MT)	Production Volume (in MT)	Sale Volume (in MT)	Production Volume (in MT)	Sale Volume (in MT)
Palwal Facility I	Induction Bends	368.00	368.00	506.00	518.46	501.00	471.86	471.00	508.81
Palwal Facility II	Pipe Fittings	1,134.69	1,067.35	2,014.00	2,063.59	1,823.00	1,716.96	1,273.00	1,375.20
Palwal Facility III	Piping Spools	19,259.63	19,148.90	18,921.00	19,386.90	10,097.00	9,509.65	11,736.00	12,678.21
Barmer Facility	Piping Spools	2,962.00	2,962.00	2,751.94	2,751.94	1,564.44	1,564.44	-	-
Anjar Facility I	Piping Spools	1,458.64	1,458.64	1,248.00	1,248.00	-	-	-	-
Anjar Heavy Fabrication Facility	Wind Turbine Towers	7,014.52	7,014.52	9,586.06	9,586.06	7,628.00	7,628.00	7,748.40	7,748.40
Bangkok Facility	Piping Spools	4,326.90	4,280.58	5,703.77	5,727.82	3,456.43	3,401.57	2,796.09	2,550.62
Total Volume		36,524.38	36,299.99	40,730.77	41,282.76	25,069.87	24,292.49	24,024.49	24,861.24

Biomass Power Plants	Product Name	For the nine months ended December 31, 2023		For the year ended, March 31, 2023		For the year ended, March 31, 2022		For the year ended, March 31, 2021	
		Production Volume (in MW)	Sale Volume (in MW)	Production Volume (in MW)	Sale Volume (in MW)	Production Volume (in MW)	Sale Volume (in MW)	Production Volume (in MW)	Sale Volume (in MW)
Abohar Biomass Power Plant	Electricity	41,479,662	41,479,662	55,387,488	55,387,488	58,313,938	58,313,938	50,148,813	50,148,813
Muktsar Biomass Power Plant	Electricity	38,534,500	38,534,500	45,140,500	45,140,500	52,071,500	52,071,500	47,012,900	47,012,900
Total		80,014,162	80,014,162	100,527,988	100,527,988	110,385,438	110,385,438	97,161,713	97,161,713



Industry Outlook

By 2030, Indian market for process piping is expected to reach INR 38.4 thousand crores, increasing by a CAGR of nearly 6.1% between 2023 and 2030. Demand from all user segments, except power plants is expected to display strong growth. The ongoing energy transition - from coal to renewable power - is expected to moderate demand from power plant segment. However, opportunities emerging in alternative energy generation like ethanol and green hydrogen is expected to make up for this slower growth. Chemicals and petroleum refining is expected to retain its dominance. Both these sectors are expected to witness strong capital inflows, to fund the capacity expansion plans. In chemical sector, specialty chemicals is one segment which could emerge as a key demand driver. In petroleum refining, initiatives by refineries to change their product mix (in favour of petrochemical feedstock) would be the key demand driver.



Peer Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
DEE Development Engineers Ltd	10	614	2.45	79.87	NA	3.14%
Peers Group						
ISGEC Heavy Engineering Ltd	1	6,412	26.72	313.39	30	8.96%



Companies Competitive Strength :

- Leading player in an industry with significant barriers to entry.
- Largest player in process piping solutions in India, in terms of installed capacity, providing specialized process piping solutions with strategically located state-of-the-art Manufacturing Facilities.
- Long standing customer relationships with a strong order book.
- Wide range of specialized product offerings and services making them a comprehensive solution provider for their diversified customers spread across geographies and sectors.
- Strong focus on automation and process excellence with an experienced engineering team to drive operational efficiencies.
- Experienced and dedicated promoter and professional management team with extensive domain knowledge.

Key Strategies Implemented by Company

- Leverage the market leading position in the industry to capitalize on the revival of capital expenditure cycle in the sectors which it service which will drive the next phase of the growth.
- Drive automation across the facilities and processes to bring in operational efficiencies.
- Forging technology tie-ups with select global OEMs to derive consistent order flow and making them a preferred partner.
- Increasing the focus on high margin products with additional contributions from modular skids and usage of high-grade materials which offers a better margin contribution to profitability.
- Launch the pilot plant offerings in the near-future
- Focus on deleveraging and maintaining financial flexibility.

Particular (INR in ₹)	9MFY24	FY23	FY22	FY21
Equity Capital	47.96	5.53	5.52	15.69
Reserves and Surplus	380.23	408.17	395.85	432.81
Net Worth	428.19	413.70	401.37	448.5
Revenue	557.86	614.32	470.84	513.03
Growth (%)		30%	-8%	
EBITDA	67.94	61.80	64.61	53.68
EBITDAM (%)	12%	10%	14%	10%
PAT	14.34	12.97	8.20	14.21
PATM (%)	3%	2%	2%	3%
ROCE (%)	3.91%	3.91%	3.99%	2.47%
ROE (%)	3.35%	3.14%	2.04%	3.17%

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/E of 73X. Thus the issue appears to be fairly priced compared to peers.
- DEE, a leading player in process piping solutions, emphasizes automation and operational excellence. Backed by a seasoned management team and a focus on high-margin products and partnerships with global OEMs, DEE aims to solidify its position as a preferred partner for clients. DEE has shown a robust 10%/ CAGR in revenue from FY21 to FY23. With expansion plans underway and a strategic reduction of debt, the company is poised for improved financial performance. The Indian pipe process industry is set to grow at a 6.1% CAGR from FY23 to FY30, driven by sectors like Oil and Gas, Chemicals/Petrochemicals, and renewable energy sources. DEE is well poised to capitalized this growth. Hence, we recommend an "Subscribe" rating for the issue.



Notes

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