

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

DIFFUSION ENGINEERS LIMITED

Sep 26, 2024





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Details of the Issue

Price Band	₹ 159 - ₹ 168
Issue Size	₹ 158 Cr
Face Value	₹ 10
Bid Lot	88
Listing on	BSE, NSE
Post Issue Mcap	₹ 628.76 Cr
Investment Range	₹ 13,992 - ₹ 14,784

Important Indicative Dates (2024)

Opening	26 - Sep
Closing	30 - Sep
Basis of Allotment	01 - Oct
Refund Initiation	03 - Oct
Credit to Demat	03 - Oct
Listing Date	04 - Oct

Lead Manager

Unistone Capital Private Limited

Offer Details

Offer Size	₹ 158 Cr
Fresh Issue	₹ 158 Cr
OFS	-

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	79	4.70	4.96	50
NIB	24	1.41	1.49	15
Retail	55	3.29	3.47	35
Em- ploy.	-	-	-	-
Total	158	9.40	9.93	100

Invest NowCompany Profile

Founded in 1982, Diffusion Engineers Limited manufactures welding consumables, wear plates, parts, and heavy machinery for core industries. They specialize in repair and reconditioning services for machinery and trade in wear protection powders, welding, and cutting machines. Their "Super Conditioning" surface treatment extends machine life, improves reparability, and reduces production costs. The company operates 4 manufacturing units, 3 in Hingna and 1 in Khapri, Maharashtra: Unit I: Special-purpose welding electrodes, Unit II: Flux-cored wires, wear plates, and parts, Unit III: Abrasion and corrosion-resistant coatings, Unit IV: Heavy engineering and flux-cored wires. As of February 2024, the company employed over 130 engineers.

Business Highlights & Services

Company is engaged in manufacture welding consumables, wear plates, and heavy engineering machinery for core industries. With over 40 years of experience, they specialize in repairing and reconditioning heavy machinery. It also trade anti-wear powders and welding machinery. Our surface treatment, called super conditioning, enhances wear resistance and extends component life. Through forward integration, it produce special electrodes and flux-cored wires for wear plates, used in equipment for industries like cement, steel, and mining. This integration boosts production efficiency, lowers costs, and reduces reliance on third-party suppliers.

India's heavy engineering capital goods industry is valued at ₹3,100-3,200 billion in fiscal 2024, projected to grow at 7.5-8.5% CAGR to ₹3,800-3,900 billion by 2027 (CRISIL Report). To reduce the high costs of acquiring heavy equipment for sectors like cement, steel, and power, it offer a leasing and maintenance model. This approach helps customers avoid large upfront costs and ensures predictable fees, aiding financial planning and operational efficiency. The company leasing revenue has steadily grown, reaching ₹21 million in fiscal 2024, contributing around 0.82% to overall revenue.

Recognizing the universal demand for wear and tear solutions in heavy machinery, company is expanding beyond the current focus on cement, steel, and power sectors. Company strategy targets high-growth sectors like defense and mining, both reliant on heavy equipment. The defense sector, with production reaching ₹1,269 billion in fiscal 2024 and growing at an 8.0% CAGR (CRISIL Report), offers significant opportunities for specialized wear solutions. Similarly, the mining industry aligns with the expertise in abrasive conditions. By fostering innovation, it aim to deliver customized, technology-driven solutions tailored to sector-specific needs, driving future growth across industries.

To diversify the welding consumables portfolio, company plan to manufacture nickel, cobalt, and iron-based powders in-house, reducing reliance on imports. This move will boost profit margins, lower logistical costs, and align with India's "Make in India" initiative. In-house production offers competitive pricing, faster delivery, and economies of scale, enhancing market competitiveness. It will leverage their expertise in trading, customer demand, and supply chain management, supported by a technical collaboration with LSN Diffusion Ltd. This shift strengthens customer relationships and opens new market opportunities for high-demand powders used in surface coating applications.

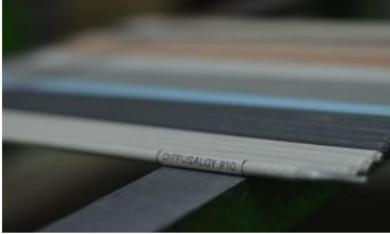
With subsidiaries in Singapore, Turkey, and the Philippines, and joint ventures in the UK and Malaysia, it have established a strong global presence. Over the past 3 years, it have exported to 27 countries, driving our company's growth. The global welding consumables market, valued at \$16.6 billion in 2023, is expected to grow at ~5% CAGR to ~\$20.5 billion by 2027, while the wear plates market is projected to expand from \$3.6 billion to \$4.4 billion.



Company aim to grow its market share in current geographies and expand further, with a key focus on enhancing the presence in Turkey.

Product Portfolio Details:

Welding and Anti-Wear consumables



Flux Cored Wire



Cold Repair Compounds



Wear Plates





Industry wise Revenue

(₹ in Million, except percentages)

End-use segment	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	(₹)	(%)	(₹)	(%)	(₹)	(%)
Cement	942.59	36.66%	747.09	30.61%	719.13	36.74%
Engineering	357.93	13.92%	262.36	10.75%	145.50	7.43%
Power	188.02	7.31%	325.82	13.35%	291.76	14.90%
Steel	332.12	12.92%	291.19	11.93%	213.35	10.90%
Sugar	114.97	4.47%	104.00	4.26%	91.60	4.68%
Others ⁽¹⁾	635.63	24.72%	710.24	29.10%	496.24	25.35%
Total	2,571.26	100.00%	2,440.70	100.00%	1,957.58	100.00%

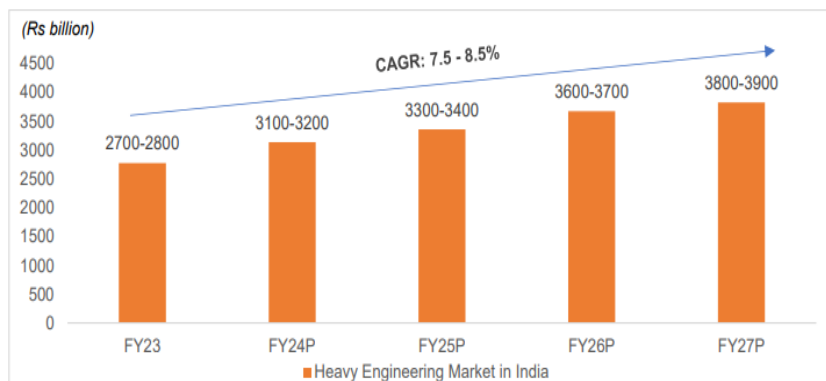
Revenue from Product

Product Category	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	(₹ in million)	%	(₹ in million)	%	(₹ in million)	%
Welding and Anti-wear Consumables	780.85	28.07	978.70	38.40	721.94	35.29
Wear plate / Wear parts	834.23	29.99	756.14	29.67	544.17	26.60
Heavy Engineering Equipment	722.73	25.98	531.34	20.85	550.11	26.89
Trading	233.44	8.39	174.55	6.85	141.36	6.91
Sub-total (A)	2,571.26	92.44	2,440.73	95.77	1,957.58	95.69
Revenue from Subsidiaries						
Welding and Anti-wear Consumables	63.80	2.29	65.85	2.58	50.36	2.46
Wear plate / Wear parts	136.62	4.91	8.80	0.35	25.56	1.25
Trading	9.78	0.35	33.37	1.31	12.39	0.61
Sub-total (B)	210.20	7.56	108.02	4.24	88.31	4.32
Total (A+B)	2,781.44	100.00	2,548.76	100.00	2,045.89	100.00

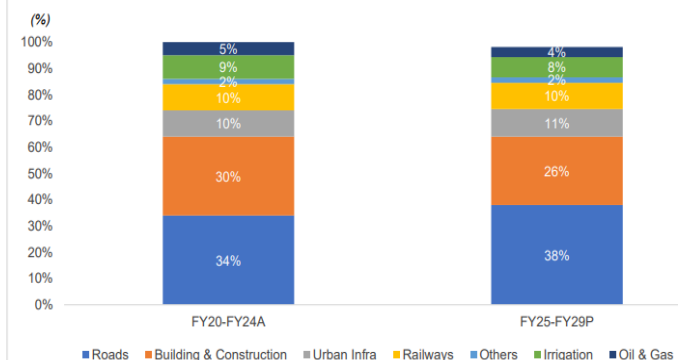
Industry Outlook

India's heavy engineering capital goods industry, valued at Rs 3,100-3,200 billion in FY24, is projected to grow at 7.5-8.5% CAGR, reaching Rs 3,800-3,900 billion by FY27. Key drivers include rising manufacturing, construction activities, FDI, technological advancements, government initiatives, the PLI scheme, and infrastructure investments.

Market size of Heavy engineering capital goods Industry in India, FY23 to FY27



Construction spends – fiscal 2020 to 2029



**Companies Competitive Strength :**

- 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.

Key Strategies Implemented by Company

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

Particular (INR in Cr)	FY24	FY23	FY22
Equity Capital	28	4	3
Reserves and Surplus	163	138	117
Net Worth	191	142	121
Revenue	278	255	205
Growth (%)	9%	24%	
EBITDA	47	35	28
EBITDAM (%)	17%	14%	13%
PAT	30	22	17
PATM (%)	11%	9%	8%
ROCE (%)	21%	18%	17%
ROE (%)	19%	17%	15%

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 33.58X. Thus the issue appears to be fairly priced compared to earning and growth of the business.
- Diffusion Engineers Limited specializes in manufacturing welding consumables, wear plates, and heavy machinery for core industries. They also offer repair and reconditioning services for heavy equipment and trade in wear protection powders and welding machines. The company aims to enhance service delivery through robust growth and operational efficiency, focusing on forward integration and diversification for future growth. It has demonstrated strong financial growth, with revenue and PAT growing at CAGRs of 11% and 22%, respectively, while maintaining stable margins. India's heavy engineering capital goods industry, valued at ₹3,100-3,200 billion in FY24, is expected to grow at 7.5-8.5% CAGR, reaching ₹3,800-3,900 billion by FY27. With a solid customer base, diverse product portfolio, and strong domestic and international presence, DEL is well-positioned for feature growth. Hence, we recommend a “Subscribe” rating for the issue.



Notes

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