

21 June 2024

Dee Development Engineers – SUBSCRIBE

Investment Thesis

Dee Development Engineers Ltd. (DDEL) is coming out with an initial public offering (IPO) on June 19, 2024. The issue comprises of fresh issue of 16,009,852 equity shares at highest price band worth Rs.3,250mn and offer for sale of 4,582,000 equity share worth Rs.930.1mn. Objective of the issue is to fund prepayment or repayment of all or a portion of outstanding debt, funding working capital requirements and for general corporate purposes.

DDEL provides comprehensive specialized process piping solutions including engineering services such as pre bid engineering, basic engineering, detailed engineering and support engineering, which include engineering of process/power piping systems for projects, and pre-fabrication services such as cutting and beveling on conventional and CNC machines, welding services on semi-automatic and fully automatic robotic welding machines, conventional and digital radiography, post weld heat treatment using CNG fired fully calibrated furnaces and induction heating process, hydro testing, pickling and passivation, grit blasting (manual and semiautomatic) and painting (manual and semiautomatic). It also specializes in handling complex metals such as varying grades of carbon steel, stainless steel, super duplex stainless steel, alloy steel and other materials including inconel and hastelloy in manufacturing processes.

DDEL has seven strategically located manufacturing facilities at Haryana, Gujarat, Rajasthan and Assam in India and one in Bangkok in Thailand. It also operates a heavy fabrication facility at Anjar, Gujarat and a dedicated engineering facility at Chennai, Tamil Nadu. Its 7 manufacturing facilities, the Anjar heavy fabrication facility and Chennai engineering facility together have a cumulative installed capacity of 94500 MT/annum. Recently it started operations at the New Anjar Facility-I, which has an installed capacity of 3,000 MT/annum, and is in the process of enhancing its manufacturing capabilities by setting up a new manufacturing facility at the New Anjar Facility-II with a proposed installed capacity of 9,000 MT/annum, which will increase the total installed production capacity of Anjar facilities (excluding its heavy fabrication capacity) from 3,000 MT/annum to 15,000 MT/annum.

Financials

- During the past 2 years, revenue of DDEL grew at a CAGR of 9.7% while PAT de-grew at CAGR of 4.5% in same period.

Consol. (Rs.Mn.)	FY21	FY22	FY23	9MFY24
Revenue	4,952	4,609	5,955	5,456
EBITDA	537	646	692	679
EBITDA Margin(%)	10.8%	14.0%	11.6%	12.5%
PAT	142	82	130	143
EPS (Rs.) #	2.1	1.2	1.9	2.1
P/E (x) *#	98.6	170.9	108.1	
RoE (%) #	2.8%	1.7%	2.7%	

* At highest price band # Post listing

IPO Details

Issue Open Date	19 June 2024
Issue Close Date	21 June 2024
Price Band (Rs.)	Rs.193 – Rs. 203
Issue Size*	Rs. 4,180.1 Mn
Issue Size (Shares)	20,591,852
Market Lot	73 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 3,250.0 Mn
Issue Type	Book Building
Book Running Lead Manager	SBI Capital Markets, Equirus Capital
Issue structure	QIB: 20% Non Institutional: 15% Retail: 35% Anchor Investors: 30%
Credit of Shares to Demat Account	25 June 2024
Issue Listing Date	26 June 2024

* At highest price band

Key Business Highlights

- DDEL is an engineering company providing specialized process piping solutions for industries such as oil & gas, power (including nuclear), chemicals and other process industries through engineering, procurement and manufacturing.
- DDEL manufactures and supplies piping products such as 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 and accessories including, boiler superheater coils, de-super heaters and other customized components.
- DDEL has seven strategically located manufacturing facilities located at Palwal in Haryana (3 manufacturing facilities), Anjar in Gujarat, Barmer in Rajasthan, Numaligarh in Assam and Bangkok in Thailand with a cumulative installed capacity of 94500 MT/annum.

Valuation

- DDEL focuses on cost-effective technology for a wide range of product quantities, offering full process piping solutions. Integrated operations, attractive locations, and technological investments all contribute to its low execution costs. Skilled staff assure quality, cost-effectiveness, and timely completion. It intends to develop through strategic alliances, such as its present relationship with a global oil & gas business for pipe fabrication automation, and hopes to form similar partnerships to penetrate new industries and shorten product cycle times.
- DDEL is emphasizing more on high-margin products to boost revenue and profitability. By optimizing processes and procurement, it improves margins and profits. DDEL is developing its piping division with modular skid components, high-grade materials, and strong customer retention. Its modular skids, used in petrochemicals and energy projects, offer safer, faster installation and cost efficiency. It targeting to increase uses of high-grade materials like Inconel and Hastelloy in the products to enhance profitability.
- Process pipe solutions sector in India has significant entry barrier due to the need for specialized labor, complicated manufacturing technologies, a large capital investment, and strong design and execution capabilities. Given the nature of its use in crucial sectors such as oil & gas and electricity (including nuclear), DDEL's products and engineering processes are subject to and assessed against high-quality standards and rigorous client demands. Furthermore, the level of technical skill and expertise required for developing in-house engineering processes and handling complex metals requires extensive training that can only be obtained over time and involves a significant initial investment as well as recurring costs, creating an additional entry barrier for new entrants.
- With a key leader in specialized process piping solutions including engineering services, seven strategically located manufacturing facilities, capacity addition with setting up a new manufacturing facility at the New Anjar Facility-II and focuses on cost-effective technology for a wide range of product, we are recommending **SUBSCRIBE** rating to the IPO of Dee Development Engineers Ltd. (DDEL) for medium to long term perspective.

Risk & Concern

- Any downturn in the oil & gas, power (including nuclear), process industries and chemical sectors may adversely impact future growth prospect of DDEL.
- DDEL derive a significant portion of revenue from some customers and it do not have long-term contracts with a majority of these customers. If any one or more of such customers choose not to source their requirements from DDEL or to terminate their contracts or purchase orders, it may adversely affect the company.
- Any underutilization of DDEL's manufacturing capacities may have an adverse effect on the profitability of the company.

Graphs & Charts

Figure 1: Net Sales Trend

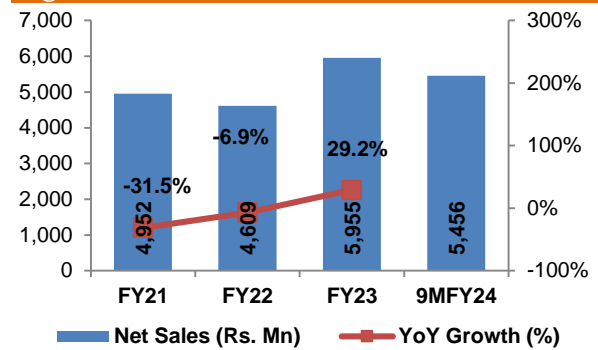


Figure 2: EBITDA & EBITDA Margin Trend

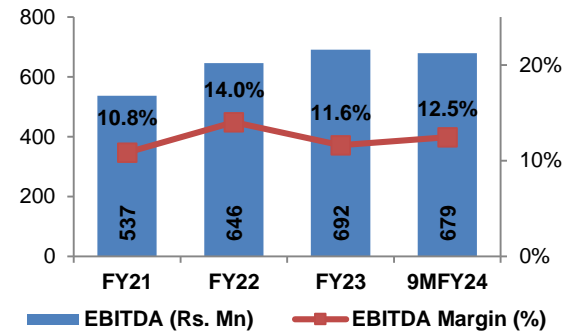


Figure 3: PAT & PAT Margins

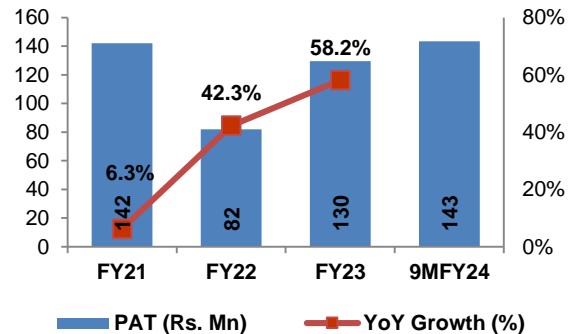
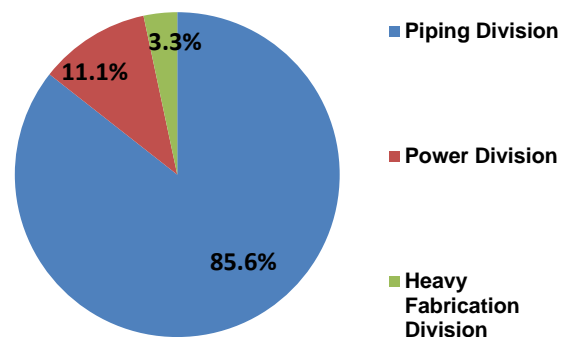


Figure 4: Segment-wise Revenue (9MFY24)



Name
Rajesh Sinha

Designation
Sr. Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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