

Atam Valves Ltd.

SSIS IPO GRADE 2.5/5 (Below Average)
17th September, 2020

Rating Overview

Incorporated in 1982, ATAM Valves limited is engaged in the business of various types of valves. The company's product range includes boiler mountings and various types of valves and fittings, steam traps and strainers.

Company manufactures bronze, cast iron, cast steel, carbon steel, stainless-steel, forged steel as well as gun metal industrial valves in various sizes. Also, they can alter the size as per customer requirement. The company sell its product under two brand names, viz., ATAM and FEBI. Under the brand ATAM, they deal in Valves and fittings, steam traps and strainers. Under brand FEBI, they deal in Ball-Valves.

If we attribute FY20 earnings on fully diluted post issue equity, then asking price is at a P/E of around 33.61 against the industry average of 10.86, making it a costly offer. Our overall fundamental rating of Atam Valves is Below Average Financials. The offer price is costly and the company has decent growth prospects. We initiate a avoid recommendation for the foreseeable future.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Atam Valves Ltd. (AVL) is a manufacturer of reliable and quality valves. Both its manufacturing facilities in Jalandhar suit most of the manufacturing related requirements. Most of the valves are tailored to meet customers' specific requirements. It works in close tandem with clients to match valves to their most complex applications.

Many of AVL's design innovations have been the direct result of working closely with customers to solve difficult applications at their end. Its products are supplied in India as well as all over the world under two brands, viz., ATAM and FEBI. Under brand ATAM, it deals in Valves and fittings, steam traps and strainers. Under brand FEBI, it deals in Ball-Valves. AVL exports its products to more than 13 regions, viz., United States, Kuwait,

Kenya, South Africa, Malaysia, Dubai, Indonesia, Australia, Oman, Philippines, Ethiopia, Nepal and United Kingdom.

Financial Performance

On the financial performance front, for the last three fiscals, AVL has posted turnover/net profits of Rs. 17.32 cr. / Rs. 0.51 cr. (FY18), Rs. 18.34 cr. / Rs. 0.65 cr. (FY19) and Rs. 16.33 cr. / Rs. 0.49 cr. (FY20). It has posted inconsistency in the top and bottom lines.

For the last three fiscals, AVL has posted an average EPS of Rs. 1.87 and an average RoNW of 12.37%. The issue is priced at a P/BV of 2.47 on the basis of its NAV of Rs. 16.19 as on March 31, 2020, and at a P/BV of 1.76 on the basis of post-issue NAV of Rs. 22.68.

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Summary of financial Information			
Particulars	For the year/period ended (Rs in Million)		
	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	1617.39	1,726.20	1,855.90
Total Revenue	1632.54	1,841.34	1,732.23
Profit After Tax	49.43	65.21	51.02

Issue Details

To meet its plans for repayment/prepayment of certain borrowings (Rs.3.14 cr.) and general corpus fund (Rs. 1.03 cr.) needs, AVL is coming out with a maiden IPO of 1125000 equity shares of Rs.10 each at a fixed price of Rs. 40 per share to mobilize Rs. 4.50 cr. The issue opens for subscription on September 18, 2020, and will close on September 25, 2020. Minimum application is to be made for 3000 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE SME platform.

Issue constitutes 27.27% of the post issue paid-up capital of the company. The company will be spending Rs. 0.33 cr. for this IPO process. The issue is solely lead managed by Fedex Securities Pvt. Ltd. and Bigshare Services Pvt. Ltd. is the registrar to the issue. Rikhav Securities Ltd. is acting as a Market Maker for this company. Having raised entire equity at par, AVL issued bonus shares in the ratio of 2 shares for 1 share held in September 2017.

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The average cost of acquisition of shares by the promoters is Rs.2.55 and Rs. 6.09 per share. Post issue, AVL's current paid-up equity capital of Rs. 3.00 cr. will stand enhanced to Rs. 4.13 cr. With this IPO, the company is looking for a market cap of Rs. 16.50 cr.

Application Dates	Sep 18, 2020 – Sep 25, 2020
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹40 per equity share
Market Lot	3000 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹4.50 Cr)

Issue Timeline

Basis of Allotment Date	Sep 30, 2020
Initiation of Refunds	Oct 1, 2020
Credit of Shares to Demat Account	Oct 5, 2020
IPO Listing Date	Oct 6, 2020

Investment Strategy

AVL has posted inconsistency in its top and bottom lines for the last three fiscals. The issue is priced aggressively compared to a listed peer. There is no harm in giving this costly offer a "MISS".