

# Diffusion Engineers Limited (DEL) IPO Analysis:

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## 1. Business Overview

Diffusion Engineers Limited (DEL), founded in 1982, is a well-established player in the manufacturing and engineering services industry. The company's core offerings include:

- **Welding Consumables:** These are specialized products for repair and maintenance, designed for various industrial applications.
- **Wear Plates and Wear Parts:** These are critical components in industries like cement, steel, and power generation, where heavy machinery is frequently exposed to wear and tear.
- **Heavy Engineering Equipment:** DEL also fabricates specialized equipment for key industries such as mining and power.

*Operating in the B2B space, DEL's clientele spans across heavy industries like steel, mining, and power. Its strategic location in Nagpur, Maharashtra, with multiple production facilities, gives the company a logistical advantage, allowing it to efficiently serve a wide range of clients. DEL's industrial solutions are crucial for clients operating in sectors requiring regular maintenance and wear solutions.*

## 2. Industry Overview

The industrial wear and welding consumables market is witnessing steady growth, driven by:

- **Core industries** like steel, mining, and cement: These industries are essential to infrastructure and development, especially in growing economies like India.
- **Increased Industrial Automation:** With the rise of automation in heavy industries, demand for wear-resistant products and specialized welding consumables has surged.
- **Infrastructure Development:** As governments invest heavily in infrastructure projects, there is a growing need for industrial wear solutions, positioning companies like DEL for future growth.

*Given the expansion of heavy industries, particularly in emerging markets, Diffusion Engineers is well-placed to benefit from this trend.*

### 3. Management Profile

Diffusion Engineers Limited is led by a capable management team, including:

- **Prashant Garg (Chairman and Managing Director):** Spearheading the company's strategic initiatives and growth.
- **Dr. Nitin Garg and Chitra Garg (Other Promoters):** Actively involved in overseeing the company's broader management and operational aspects.
- **Key Management Team:** Comprising experienced professionals across various disciplines, including finance, operations, and compliance, ensuring smooth day-to-day operations.

### 4. Top 5 Risk Factors

Investors should be aware of certain risks associated with DEL's business model, including:

- 1. Cyclicality:** DEL's business is closely tied to cyclical industries like steel, mining, and cement. Any downturn in these sectors could directly impact the company's revenues.
- 2. Raw Material Volatility:** The cost of raw materials, particularly metals, is subject to fluctuations. Any increase in these costs can squeeze profit margins unless passed on to customers.
- 3. Client Concentration:** A significant portion of DEL's revenue comes from a limited number of clients, creating a concentration risk. Losing one or more key clients could significantly impact revenue streams.
- 4. Competition:** DEL faces stiff competition from both local and international players in the industrial wear solutions market. Competitive pressures could impact the company's pricing strategies and market share.
- 5. Regulatory Changes:** Shifts in regulations governing the industries it serves could have an adverse effect on the company's operations or profitability.

### 5. Objects of the Issue

The company aims to raise funds through the IPO for the following key objectives:

- **Expansion of Manufacturing Facility in Nagpur (₹713.80 million):** This expansion will help DEL increase its production capacity to meet growing demand.
- **Setting Up a New Manufacturing Facility in Nagpur (₹303.85 million):** The company plans to establish a new unit to broaden its product offerings.
- **Working Capital Requirements (₹220.00 million):** A portion of the funds will go towards meeting the company's working capital needs.

- **General Corporate Purposes:** Additional funds will be used for corporate initiatives.

## 6. Financial Summary

DEL has exhibited steady growth in its financials, as shown in the table below:

Particulars	FY 2024	FY 2023	FY 2022
Revenue from Operations	₹ 278	₹ 254	₹ 204
Cost of Materials Consumed	₹ 129	₹ 137	₹ 116
Employee Benefit Expenses	₹ 36	₹ 30	₹ 26
Other Expenses	₹ 17	₹ 15	₹ 11
EBITDA	₹ 47	₹ 34	₹ 27
EBITDA Margin	17.04%	13.65%	13.45%
Net Profit (PAT)	₹ 30	₹ 22	₹ 17
Net Profit Margin (NPM)	10.79%	8.56%	8.16%

## 7. Valuation and P/E Calculation

The post-IPO number of shares is to be 3,74,26,259 shares, with a price of ₹168 per share.

Here's the valuation:

- **Market Capitalization:** 3,74,26,259 shares x ₹168 = ₹628 cr

- **Price to Earnings Ratio (P/E):** = 20x

A P/E ratio of 20x suggests the stock is reasonably priced compared to its peers within the industrial sector.