11TH NOV 2022

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

RAGHAV PRODUCTIVITY ENHANCERS LTD (RPEL)

WHAT WE LIKE

LARGEST SILICA RAMMING MASS PRODUCER IN THE WORLD

Established in 2009, RPEL is the largest silica ramming mass producer in the world and the only listed and organized ramming mass manufacturing company in India.

STRATEGIC LOCATION OF PLANTS & COST LEADERSHIP

Their plant located in Newai (Rajasthan) is home to one of the densest quartz in the world, which is their primary raw material. Moreover, their upcoming plant is also strategically located in Tonk Dist. of Rajasthan which enjoys a locational advantage of easy availability of raw materials and faster operations. This along with economies of scale and automation they enjoy a significant cost leadership in the market.

VALUE-ADDED PRODUCTS & THEIR BENEFITS

Along with silica ramming mass, RPEL also produces value-added products.

AGGRESSIVE EXPANSION STRATEGY

3 Aggressive expansion plans that if executed well will give RPEL a substantial competitive advantage.

- Capex: Expanding the ramming mass production capacity by **108,000 TPA** adjacent to their existing plant in Tonk (Rajasthan).
- Exports: Intends to increase exports substantially going ahead.
- Foraying into Foundry & Other Segments: Exploring the foundry and quartz processing markets. They are also developing high-value-added refractory items like tundish board, castables, etc.

STRONG GROWTH IN NUMBERS & HIGH ROE

Compounded Sales Growth	
10 Years:	25%
5 Years:	19%
3 Years:	21%
TTM:	48%

Compounded Profit Growth	
10 Years:	63%
5 Years:	48%
3 Years:	31%
TTM:	40%

Stock Price CAGR	
10 Years:	%
5 Years:	60%
3 Years:	107%
1 Year:	25%

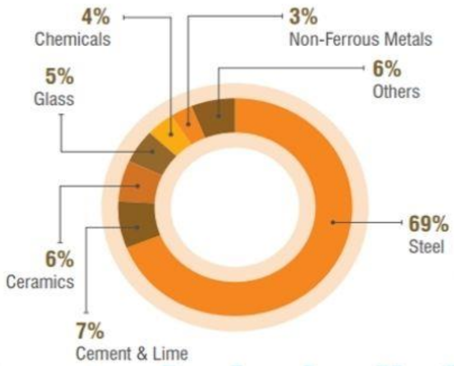
Return on Equity	
10 Years:	23%
5 Years:	24%
3 Years:	22%
Last Year:	24%

WHAT WE DON'T LIKE

HIGH DEPENDENCY ON STEEL SECTOR

Dependency on Steel sector is very high. So any issues with the steel sector will directly or indirectly affect RPEL.

Silica ramming mass consumption in different industries



STRETCHED WORKING CAPITAL

If you look at the average numbers of the last 3 years, debtor days and creditor days are north of 100 individually and inventory days is close to 150. With such kind of elongated working capital cycle, any weakness in demand or any other short term pressure can put a lot of strain on the Balance Sheet.

HIGH INCREASE IN PROFITS NOT TRANSLATED INTO CASH FLOWS

- Most of the profits earned in recent times is sitting in the form of inventory or debtors. Cash realization has been extremely slow. From FY21 to FY22:
- Sales increased from **65 Cr to 101 Cr**
- Profits jumped from **9 Cr to 19 Cr**
- However, CFO went down from **11 Cr to 8 Cr**

FIXED ASSET TURNOVER CONSISTENTLY FALLING

While the company is growing in size, the fixed asset turnover is consistently going down. This means incremental capex are adding sales at a slower pace.

	FY14	FY17	FY22
FAT	15.1	3.4	3.8

FAT: Fixed Asset Turnover

STRETCHED VALUATION

At 47 times price to earnings (TTM), the price bakes in a lot of growth in earnings in the near term. **We at SSS believe that if for any reason growth disappoints, you can expect multiples to come down sharply.**

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