SME IPO Note

# BONANZA RESEARCH – SME IPO

Bonanza

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# IC Electricals Company Limited - NEUTRAL

## Company Overview

IC Electricals Company Limited is a New Delhi headquartered engineering solutions provider, operating predominantly under a Business-to-Government (B2G) model serving the Indian Railways ecosystem. Originally incorporated on August 5, 2005 as a private limited company, it was converted into a public limited company on September 23, 2024 in preparation for its IPO.

## Investment Rationale

- **Aligned with the Railway Capex Upcycle:** Positioned as a beneficiary of structural spending under Indian Railways electrification drive, Mission Raftaar, the Dedicated Freight Corridors and the Vande Bharat rollout, supported by the Atmanirbhar Bharat localisation push.
- **RDSO Approval as an Entry Barrier:** Approved-vendor status with the Research Designs and Standards Organisation is difficult to secure, lends technical credibility and supports repeat orders across railway zones.
- **Revenue and Earnings Growth:** Revenue compounded at a 20% CAGR over FY24–FY26, from Rs. 9,925 Lakh to Rs. 14,304 Lakh, while PAT grew at a 76% CAGR, from Rs. 453 Lakh to Rs. 1,408 Lakh.
- **Margin Expansion:** EBITDA margin widened to 17.96% (from 12.06%), and PAT margin more than doubled to 9.84% (from 4.56%) over the same period.
- **Order-Book Visibility:** An order book of over Rs. 18,105 Lakh provide near-term revenue visibility of roughly 1.3x FY26 revenue.
- **Diversified Three-Segment mix:** Operations spanning Electronics, Rotating Machines and EPC Contracts reduce dependence on any single segment and cushion segment-specific cyclicality.
- **Return Ratios:** RoE improved to 24.88% in FY26 (from 15.79% in FY24), with RoCE at 18.47%.
- **Promoter Experience:** Promoters bring a combined 60+ years across electrical engineering and the railway sector.

## Valuation

At the issue price of Rs. 99, IC Electricals is priced on the back of a healthy 24.88% ROE and steady growth in net worth. However, a part of these returns is supported by higher borrowings, and the business ties up most of its capital in inventory funded largely by short-term debt. IPO proceeds should help reduce debt and ease balance sheet pressure. Overall, the pricing appears fair rather than cheap. Hence, we have a **NEUTRAL** stance to this SME IPO.

| IPO Details | |
|---|---|
| Industry | Industrial Products |
| Issue Open Date | 03-Jul-26 |
| Issue Close Date | 07-Jul-26 |
| Price Band | Rs. 94-99 |
| Issue Size* | Rs. 4,791 Lakh |
| Issue Size (Shares) | 48,39,600 |
| Bid Lot | 1,200 Shares |
| Listing Exchanges | NSE SME |
| Face Value | Rs. 10/- |

*At highest price band

| Issue Details | |
|---|---|
| Fresh Issue* | Rs. 4,551 Lakh |
| Issue Type | Fresh capital only |
| Lead Manager | NEXGEN Financial Solutions |
| Registrar | Skyline Financial Services |
| Issue structure | Market Maker: 5.01%<br>QIB: 47.24%<br>NII: 14.43%<br>Retail: 33.33% |
| Allotment | 08-Jul-26 |
| Credit of Shares | 09-Jul-26 |
| Listing Date | 10-Jul-26 |

| Objective of Issue | |
|---|---|
| **Particular** | **Estimated Amt (in Lakh)** |
| Working Capital | 3,360 |
| General Corporate Purposes | - |

| Shareholding Pattern | | |
|---|---|---|
| **Shareholding (%)** | **Pre (%)** | **Post (%)** |
| Promoter | 82.92 | 60.94 |
| Public & Others | 17.08 | 39.06 |

## Business Highlights

**Product Portfolio:**

| Division | Focus Area | FY26 Revenue Mix |
|---|---|---|
| Contracts (EPC) | Turnkey 25 kV AC railway electrification & OHE systems | 41.20% |
| Electronics | ERRU, VCD, battery chargers, microprocessor-based control systems, PA/PIS | 30.56% |
| Rotating Machines | Traction motors, alternators, stators, rotors, PMG systems | 28.24% |

- **Manufacturing Facility:** Haridwar, Uttarakhand - equipped with VPI chambers, dynamic balancing machines, ultrasonic flaw detectors and full-load testing systems.
- **Installed Capacity:** 30,384 units/year.
- **FY26 Capacity Utilisation:** 48.64%.
- **Track Record:** Successfully electrified 700+ track kilometers under the Contracts Division.
- **Order Book:** Rs. 18,105 lakhs as of May 2026.

## Financials

**Profit & Loss Statement:**

| Particulars (in Lakh) | FY24 | FY25 | FY26 | CAGR (FY24-26) |
|---|---|---|---|---|
| Revenue from Operations | 9,925 | 12,189 | 14,304 | 20% |
| EBITDA | 1,197 | 1,849 | 2,569 | 47% |
| EBITDA Margin | 12.06% | 15.17% | 17.96% | |
| PAT | 453 | 937 | 1,408 | 76% |
| PAT Margin | 4.56% | 7.69% | 9.84% | |

- Revenue CAGR: 20% strong demand visibility from railway capex.
- EBITDA more than doubled in 2 years from Rs. 1,197 Lakh to Rs. 2,569 Lakh.
- PAT tripled from Rs. 453 Lakh to Rs. 1,408 Lakh on operational leverage and improved working capital efficiency.

**Balance Sheet:**

| Particulars | FY24 | FY25 | FY26 | Particulars | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|
| **Equity & Liabilities** | | | | **Assets** | | | |
| Net Worth | 3,096 | 4,954 | 6,362 | PPE | 265 | 281 | 307 |
| Long Term Debt | 301 | 192 | 231 | Inventories | 7,562 | 8,560 | 9,771 |
| Short Term Debt | 4,480 | 5,387 | 7,312 | Trade Rec. | 3,575 | 2,767 | 3,546 |
| Trade Payables | 5,196 | 3,613 | 3,867 | Cash | 22 | 54 | 40 |

- **Net Worth:** More than doubled in two years; strong internal accrual.
- **Short Term Debt:** Up 63%; rising sharply to fund working capital.
- **Trade Payables:** Declining; supplier credit being replaced by costlier bank ST debt.

**Cash Flow:**

| Particulars | FY24 | FY25 | FY26 |
|---|---|---|---|
| Operating Cash Flow | (147.48) | (965.40) | (1,109.55) |
| Investing Cash Flow | 10.15 | (26.45) | (59.65) |
| Financing Cash Flow | 151.21 | 1,023.17 | 1,155.45 |
| Net Cash Flow | 13.87 | 31.32 | (13.75) |

- **Major Concern:** Persistently Negative Operating Cash Flow across all three years, worsening each year.
- **Profits not translating to cash:** PAT grew but CFO deteriorated, entirely a function of expanding inventory and receivables.
- **Growth being funded by borrowings:** CFF positive Rs. 1,155 Lakh (FY26), confirms heavy reliance on debt to plug operating gap.
- **Closing cash position** is minimal (Rs. 40 Lakh), minimal liquidity buffer.
- **The IPO proceeds** (Rs. 3,360 Lakh) for working capital are critically needed to reduce debt dependency.

**Key Ratios:**

| Ratio | FY26 |
|---|---|
| Return on Equity | 24.88% |
| Return on Capital Employed | 18.47% |
| Debt-Equity Ratio | 1.19x |
| Current Ratio | 1.46x |
| EPS (Rs.) | 10.49 |
| NAV (Rs.) | 47.40 |

- **ROE:** Strong return generation; notably, ROE exceeds ROCE, confirming that financial leverage is amplifying equity returns rather than pure operating performance.
- **ROCE:** Healthy capital efficiency; the gap below ROE confirms debt is boosting returns.
- **D/E:** Borrowings exceed net worth; on the higher side - IPO proceeds should de-lever.
- **Current Ratio:** Adequate, not comfortable; typical working-capital-heavy profile; leaves limited cushion if receivables or inventory cycles stretch.

## Peer Comparison

| Metrics | IC Electricals | Hind Rectifiers |
|---|---|---|
| Revenue | 14,304 | 99,913 |
| EBITDA | 2,569 | 8,208 |
| PAT | 1,408 | 3,859 |
| EPS (Rs.) | 10.49 | 13.1 |
| RONW | 24.88% | 24.62% |
| NAV (Rs.) | 47.40 | 59.88 |
| P/E Ratio | 9.44 | 88.85 |

## Risk & Concerns

- **Customer Concentration:** 82.01% of FY26 revenue from Government clients (primarily Indian Railways), any policy/budgetary shift directly hits revenues.
- **Geographical Concentration:** 59.01% of revenue from Uttarakhand operations.
- **Supplier Concentration:** 49.28% of raw materials sourced from Delhi, Top 10 suppliers are 52.59% of purchases.
- **Cash Flow Risk:** Persistent Negative Operating Cash Flows (Rs. 1,110 Lakh in FY26), biggest red flag.
- **Contingent Liabilities (Mar 2026):** Claims Rs. 1,153 Lakh + Guarantees/LC Rs. 3,734 Lakh = Rs. 4,887 Lakh (0.77x net worth).

| Name | Designation |
| --- | --- |
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