



Company Overview

Gala Precision Engineering Ltd (GPEL) is a precision component manufacturer of technical springs like disc & strip springs (DSS) including wedge lock washers (WLW); coil & spiral springs (CSS) and special fastening solutions (SFS) with over thirty years of experience. These components are supplied to OEMs, Tier-1 and channel partners. The company caters to various sectors like renewable energy including wind turbine and hydro power plants, automotive, railways and various industrial segments such as electrical, off highway equipment, infrastructure and general engineering. GPEL's business is primarily divided into two divisions; the springs technology division, which manufactures DSS, WLW & CSS and the SFS, which produces anchor bolts, studs and nuts. The spring technology contributes 80.11% of the company's revenue, while fastening and surface engineering solutions contributes 19.34% and 0.54% respectively in FY24. The company operates from its two manufacturing units in Wada, Palghar, Maharashtra, and holds all the certifications required to manufacture and supply its products including IATF16949 and ISO 9001:2015. These certificates enable the company to serve both domestic as well as international customers. The company generates the majority of its business from India, with 37.5% coming from the international market. GPEL has a global client base of over 175 customers and exports to 25 countries. The company has an annual production capacity of 246.46 million units of springs & washers and 0.42 million units of fasteners. GPEL plans to establish a new manufacturing facility in Vallam-Vadagal, SIPCOT, Sriperumbuddur, Tamil Nadu, to develop various high tensile fasteners and new products like bolts, with the motive to expand its existing portfolio.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Setting up a new facility at Vallam-Vadagal, SIPCOT, Sriperumbuddur, Tamil Nadu for manufacturing high tensile fasteners and hex bolts;
- ⇒ Funding capital expenditure requirements towards purchase of equipment, plant and machinery at Wada, Palghar, Maharashtra;
- ⇒ Repayment/ prepayment, in full or part, of certain borrowings availed by our company; and
- ⇒ General corporate purposes.

Investment Rationale

Comprehensive manufacturing facilities offering higher scale and flexibility

The company's two manufacturing facilities in Wada are well-equipped with machinery, enabling them to design, develop, and produce a wide range of products. These facilities are certified with international standard including IATF 16949 for manufacturing of disc springs, spring band clamp, stamped components, coil springs and spiral springs, and ISO 9001:2015 for manufacturing and supply of disc springs, brush springs, spiral springs, retractor springs, spring cassette assemblies and special fasteners. The company also hosts state-of-the-art CNC machines, wafio Coiler from Germany and multi-side machines to meet to ensure that the company meets up to clients' expectations. Additionally, the company also integrates software into its manufacturing processes which enables them eliminate production errors. GPEL's ability to supply high precision and multi-purpose products can be largely attributed to its in-house product development team, which is situated in the manufacturing facility. The team currently uses design and development tools such as CAD software and iQbestspeed software to detect the ideal production speed and process safety of the springs to be produced. The company's in-house process also includes tool design and development, blanking and forming, coiling, heat treatment, shot peening, surface finishing, springs grinding and chamfering, scragging, load testing along with inspection, quality control and surface treatments and coatings. All these processes enables the company to provide comprehensive solutions to their clients, while maintaining a strong hold over production. Such kind of integrated production process helps the company gain an edge over other competitors in terms of cost and scale.

Issue Details

Offer Period	02nd Sept, 2024 - 04th Sept, 2024
Price Band	Rs. 503 to Rs. 529
Bid Lot	28
Listing	BSE & NSE
Issue Size (no. of shares in mn)	3.2
Issue Size (Rs. in bn)	1.7
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM Link Intime India Pvt. Ltd

Registrar PL Capital Markets Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	74.6%	55.4%
Public	25.4%	45.4%
Total	100.0	100.0

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Gala Precision Engineering Ltd.

Long-standing customer relationships and a diversified product portfolio

GPEL has over three decades of operational experience, which has allowed the company to establish many long standing relationships with their clients. This healthy supplier-customer relationship indicates the company's strong commitment to providing quality and comprehensive solutions to its customers. Key factors that help the company maintain these relationships are high quality products, reliable supplies, development collaboration and adherence international standards. The company also engages with their clients through different stages of product development - from the design and validation stages to testing, final manufacturing, and delivery. The company also provides customized packaging and kitting services to its customers, which helps the company better understand the clients' requirement and provide increased customer satisfaction. Moreover, the company also boasts a de-risked revenue break-up with its customers, with top five customers contributing 32% of the revenue and top 10 contributes to 47% of the revenue. GPEL's wide range of products and their varied application have also helped them to develop a broad consumer base across geographies and industries. Owing to the company's capability to design and develop various product according to the customer's needs and specification, as well as cross sell multiple products to them, the company has successfully increased its wallet-share in the market.

Valuation

GPEL has a rich 30 years of experience in designing, manufacturing and application engineering of high-performance standardised and customised disc springs and strip springs. The industry in which the company operates has a significant entry barrier, owing to the stringent and lengthy qualification process for production of technical springs and fasteners due to the criticality of their usage. With the help of GPEL's rich experience as precision component manufacturer, the company is a qualified and established supplier to OEMs, Tier 1 and channel partners. With its highly equipped manufacturing units, GPEL is able to meet its clients' different requirements, simultaneously enjoying the competitive advantage it gains owing to the in-house facilities that it hosts alongside technological integration. With the Indian DSS, CSS, and WLW market expected to grow driven by key sectors like industrials, mobility and renewables, and with the rapid growth trend witnessed in urban and rural economy, the company is well positioned to benefit from the economic tailwinds. The company's plan to set up a new manufacturing unit, purchase of new machinery for its existing units as well as the aim to replace European imports in the market aligns well with the economic development and paves way for the company to enjoy increased market-share. On the financial front, company's Revenue/EBITDA/PAT grew at a CAGR of 18.1%/40.4%/83.5%, respectively between FY22 and FY24. The company maintains a ROCE of 21.15% and ROE of 23.27 (before exceptional item). The company has a D/E ratio of 0.53, and further plans to reduce its debt by using the amount raised to pay off its debt and make prepayments of some of the borrowings the company availed. **On the upper price band, the issue is valued at a P/E of 24.3x based on FY24 earnings which we feel is fairly valued compared to its listed peers. Therefore, we recommend a SUBSCRIBE rating to the issue from a medium to long term perspective.**

Key Risks:

- ⇒ The company does not have any exclusive arrangements with its customers, which means long-term supply orders are not guaranteed. As a result, its sales may fluctuate significantly from period to period due to changes in customer vendor preferences, and the company may be unable to secure repeat orders.
- ⇒ GPEL do not have long term contracts or exclusive arrangements with any of its suppliers, and a significant increase in the cost of, or a shortfall in the availability, or deterioration in the quality, of such input materials could have an adverse effect on our business and results of operations.
- ⇒ Failure to obtain or renew approvals, licenses, registrations and permits to operate its business in a timely manner, or at all, may adversely affect the business.

Gala Precision Engineering Ltd.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Revenue			
Revenue from operations	1,453	1,655	2,025
Total revenue	1,453	1,655	2,025
Expenses			
Cost of Materials Consumed	601	714	900
Changes in inventories of Finished Goods, Stock-in Trade and Work-in-Progress	-9	-46	-73
Employee Benefits Expenses	215	232	248
Other Expenses	449	481	563
Total operating expenses	1,256	1,381	1,638
EBITDA	197	273	388
Depreciation & amortization	63	61	69
EBIT	134	212	319
Finance costs	49	52	61
Exceptional Items	0	98	-23
Other Income	27	16	18
PBT	112	275	253
Current Tax	33	30	54
Deferred tax charge	1	-6	-28
Tax adjustments of earlier years	12	9	7
Total tax	46	32	33
Non-Controlling Interest	0	0	-3
Net Profit	66	242	223
Diluted EPS	6	24	22

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24
Cash Flow from operating activities	116	160	156
Cash flow from/(used in) investing activities	-66	-124	-30
Net cash flows (used in) / from financing activities	-69	-36	-118
Net increase/(decrease) in cash and cash equivalents	-20	0	8
Cash and cash equivalents at the beginning of the period	25	5	5
Cash and cash equivalents at the end of the period	5	5	14

Source: RHP, BP Equities Research

Gala Precision Engineering Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24
Assets			
Non-Current Assets			
Property, plant and equipment	384	382	413
Right-of-use assets	11	50	45
Capital Work-in-Progress	1	13	32
Other Intangible Assets	168	177	186
Intangible assets under development	29	35	33
Financial Assets			
(i) Other financial assets	6	9	11
Non-Current Tax assets (net)	1	11	7
Other non-current assets	4	7	16
Total Non Current assets	605	682	744
Current Assets			
Inventories	497	558	577
Financial Assets			
(i) Trade Receivables	255	300	470
(ii) Cash and Cash Equivalents	5	5	14
(iii) Other bank balances	21	115	27
(v) Loans	3	6	1
(vi) Other Financial Assets	21	4	17
Other current assets	48	34	37
Total Current Assets	851	1,022	1,143
Total Assets	1,456	1,704	1,887
Equity and Liabilities			
Equity Share Capital	25	25	101
Other equity	568	811	947
Non Controlling Interest	0	0	-3
Total Equity	593	837	1,044
Liabilities			
Non-Current Liabilities			
Financial Liabilities	238	220	103
Provisions	40	46	53
Deferred tax liabilities (Net)	21	37	9
Total Non-Current Liabilities	299	303	165
Current Liabilities			
Financial Liabilities			
(i) Borrowings	331	381	458
(ii) Lease Liabilities	0	3	3
(iii) Trade Payables	138	81	137
(iv) Other financial liabilities	57	84	64
Other current liabilities	12	9	10
Provisions	10	6	5
Current tax liabilities (Net)	17	0	0
Total Current Liabilities	565	565	677
Total Liabilities	863	867	842
Total Equity and Liabilities	1,456	1,704	1,887

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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