

IPO NOTE



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GALA PRECISION ENGINEERING LIMITED

Date: 30.08.2024

Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



- ◆ The Company was incorporated as 'Gala Precision Engineering Pvt. Ltd' in February 23, 2009. The name of the Company was subsequently changed to 'Gala Precision Engineering Ltd', upon conversion into a public company, in October 2023.
- ◆ Company is a manufacturer of precision components such as disc and strip springs (DSS), coil and spiral springs (CSS), and special fastening solutions (SFS). The company supplies these products to original equipment manufacturers (OEMs).
- ◆ The company's products are used in sectors such as electrical, off-highway equipment, infrastructure, and general engineering, as well as in mobility segments such as automotive and railway.
- ◆ The company has supplied its technical springs and high-tensile fasteners to customers in several countries including Germany, Denmark, China, Italy, Brazil, USA, Sweden, and Switzerland, making it a crucial link in the global supply chain for OEMs.
- ◆ The company had a share of nearly 2% of the global DSS & WLW market, as of CY2023. The company is a key disc springs manufacturer in domestic market and has nearly 10% market share in the Indian disc springs market.
- ◆ The company has a significant presence in the DSS market for renewable industry with near to 70% share in the domestic market and near to 3% share in the global market.
- ◆ Additionally, a new manufacturing facility is being set up in Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu, focusing on developing high-tensile fasteners to expand the product portfolio with new products like bolts.
- ◆ The company's total income grew CAGR of 17.53% between FY2022-2024. The total income increased to ₹ 204.38 Cr in FY2024 from ₹ 147.96 Cr in FY 2022. The company's gross profit remained consistent at 59.26 % in FY 2022 to 59.15 % in FY 2024.

Objects of the Offer

The Company proposes to utilize the Net Proceeds towards the following objects:

- ◆ Setting up a new facility at Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu for manufacturing high tensile fasteners and hex bolts at a cost of 37.00 Crore.
- ◆ Funding capital expenditure requirements towards the purchase of equipment, plant and machinery at Wada, Palghar, Maharashtra at a cost of 11.06 Crore.
- ◆ Repayment/ prepayment, in full or part, of certain borrowings availed by the company upto 45.43 Crore.
- ◆ General corporate purposes.

Issue Details

Price Band (in ₹ per share)	503-529
Issue size (in ₹ Crore)	159.67-167.93
Fresh Issue (in ₹ Crore)	128.69-135.34
OFS (in ₹ Crore)	30.98-32.59
Issue open date	02.09.2024
Issue close date	04.09.2024
Tentative date of Allotment	05.09.2024
Tentative date of Listing	09.09.2024
Total number of shares (lakhs)	31.74
No. of shares for QIBs (50%) (lakhs)	15.87
No. of shares for NII (15%) (lakhs)	4.76
No. of shares for S-HNI (33%)(lakhs)	1.59
No. of shares for B-HNI (66%)(lakhs)	3.17
No. of shares for retail investors (35%) (lakhs)	11.11
No of shares for Employee Reservation (lakhs)	NA*
Minimum order quantity	28
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14084-14812
Maximum no. of shares for Retail investors at Lower Band	392 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	364 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	197176-192556
Minimum no. of shares for sHNI (2 Lakhs) at upper band	392 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	1876 (67 lots)
Minimum number of shares for bHNI at upper band	1904 (68 lots)
Exchanges to be listed on	BSE, NSE

* proportion of eligible employees bidding size is not available in RHP

Promoters

- KIRIT VISHANJI GALA
- SMEET KIRIT GALA

Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital^^ (Rs. Cr)	10.11	2.52	2.52
Net Worth (Rs. Cr)	104.44	83.65	59.31
Revenue from Operations (Rs. Cr)	202.55	165.47	145.28
EBITDA (Rs. Cr)	40.58	28.94	22.35
EBITDA Margin (%)	19.86	17.32	15.11
Profit/(Loss) After Tax (Rs. Cr)	22.33	24.21	6.63
EPS (in Rs) without exceptional item**	24.37	14.31	6.56
EPS (in Rs) with exceptional item**	22.09	23.98	6.56
Net Asset Value (Rs)	103.30	82.85	58.66
Total Borrowing (Rs. Cr)	55.02	58.59	56.82
P/E# -W/O exceptional item**	21.71	NA	NA
P/B#	5.12	NA	NA

#Calculated at upper price band * Restated consolidated financials ^ Bonus issue in the ratio of 3:1 issued on 27th September, 2023. **Exceptional item includes one-time loss of scrap of assets in China amounting to 2.30Cr and one time income of sale of property amounting to 9.75Cr.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	145.28	165.47	202.55
Other income	2.69	1.62	1.83
Total income	147.96	167.08	204.38
YoY Growth (%)	-	12.92%	22.32%
Employee benefit expenses	21.51	23.23	24.78
Employee Expenses-% of Revenue	15%	14%	12%
Cost of raw material and components consumed	60.08	71.36	90.03
Cost of Material-% of Revenue	41%	43%	44%
Changes in inventories of finished goods and work in progress	-0.89	-4.58	-7.28
Other expenses	44.91	48.12	56.27
EBITDA	22.35	28.94	40.59
EBITDA Margin (%)	15.39%	17.49%	20.04%
Depreciation and amortisation expense	6.26	6.08	6.86
EBIT	16.09	22.86	33.73
EBIT Margin (%)	11.08%	13.81%	16.65%
Finance cost	4.86	5.16	6.14
Profit before tax and Exceptional items	11.23	17.70	27.59
Exceptional items	0.00	9.76	-2.31
PROFIT BEFORE TAX AND AFTER EXCEPTIONAL ITEMS	11.23	27.46	25.28
Tax expenses			
Current tax	3.25	3.00	5.41
Deferred tax (credit)/charge	0.15	-0.62	-2.84
Tax adjustments of earlier years	1.20	0.86	0.72
Total tax expenses	4.60	3.25	3.29
NON-CONTROLLING INTEREST	0.00	0.00	-0.34
Profit for the year (W/O Exceptional Items)	6.63	24.21	22.33
PAT Margin (%)	4.56%	14.63%	11.03%
Earnings per share			
Without exceptional item**	6.56	14.31	24.37
With exceptional item**	6.56	23.98	22.09

Cashflow Statement

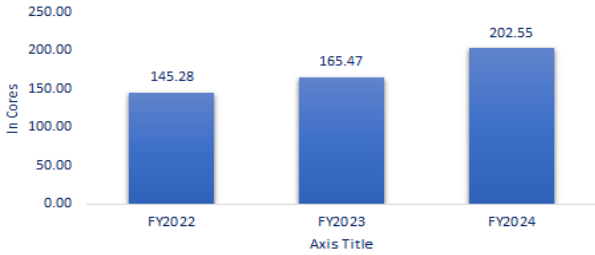
Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	13.46	20.41	21.35
Income tax paid (net of refunds)	-1.87	-4.39	-5.70
Net cash generated from operating activities	11.59	16.02	15.65
Net cash used in investing activities	-6.63	-12.40	-2.99
Net cash used in financing activities	-6.93	-3.62	-11.81
Net increase/ (decrease) in cash and cash equivalents	-1.96	0.01	0.85
Cash and cash equivalent as at 1 April	2.48	0.53	0.53
Cash and cash equivalent as at year end	0.53	0.53	1.38

Balance Sheet

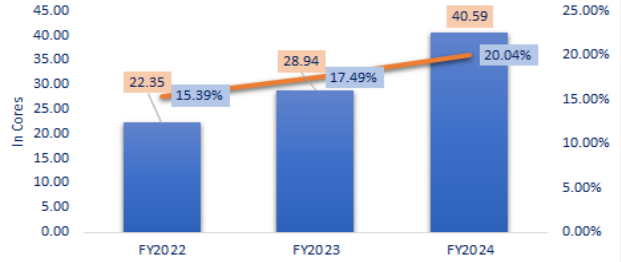
	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, plant and equipment	38.35	38.15	41.27
Right-of-use assets	1.11	4.97	4.52
Capital work in progress	0.13	1.25	3.23
Goodwill	-	0.01	-
Other intangible assets	16.84	17.68	18.60
Intangible asset under development	2.93	3.46	3.33
Financial assets			
Other financial asset	0.61	0.90	1.11
Non-Current Tax assets (net)	0.13	1.09	0.72
Other non-current assets	0.44	0.69	1.57
Total non-current assets	60.54	68.19	74.36
Current assets			
Inventories	49.72	55.76	57.65
Financial assets			
Trade receivables	25.46	29.96	46.97
Cash and cash equivalents	0.53	0.53	1.38
Bank balances other than	2.14	11.47	2.72
Loans	0.30	0.63	0.12
Other financial assets	2.10	0.40	1.75
Other current assets	4.83	3.44	3.74
Total Current Assets	85.07	102.20	114.33
Total assets	145.62	170.39	188.69
Equity and Liabilities			
Equity			
Equity share capital	2.53	2.52	10.11
Other equity	56.79	81.13	94.67
Non controlling interest		0.00	-0.34
Total equity	59.32	83.65	104.45
Liabilities			
Non-Current liabilities			
Financial liabilities			
Borrowings	23.77	20.50	9.21
Lease liabilities	-	1.49	1.14
Provision	3.96	4.60	5.26
Deferred tax assets (net)	2.11	3.69	0.93
Total Non-Current liabilities	29.85	30.28	16.53
Current liabilities			
Financial liabilities			
Borrowings	33.12	38.10	45.82
Lease liabilities	-	0.29	0.35
Trade payables			
Total outstanding dues of micro and small enterprises	0.31	0.68	0.33
Total outstanding dues of creditors other than micro and small enterprises	13.49	7.43	13.34
Other financial liabilities	5.69	8.43	6.37
Other current liabilities	1.15	0.90	1.00
Provision	1.00	0.62	0.50
Current Tax Liabilities (Net)	1.69	0.01	-
Total Current liabilities	56.45	56.45	67.70
Total liabilities	86.30	86.73	84.24
Total equity and liabilities	145.62	170.39	188.69

STORY IN CHARTS

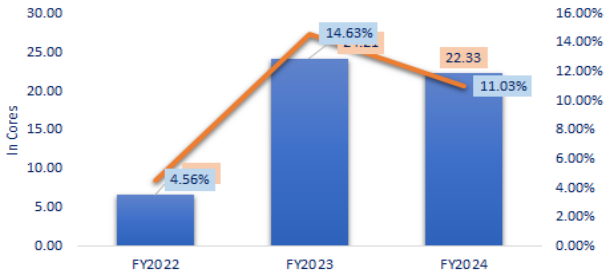
Revenue shows steady growth of 18% CAGR-2 yr



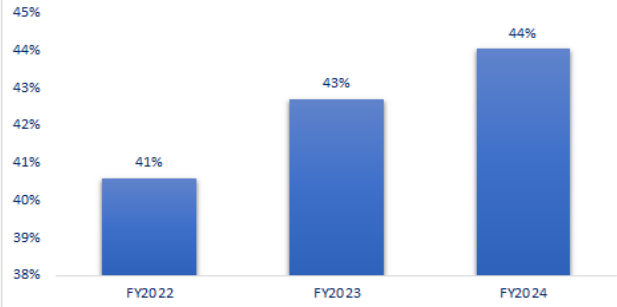
EBIDTA grew by 35% in terms of 2 yr CAGR with steady EBITDA Margin



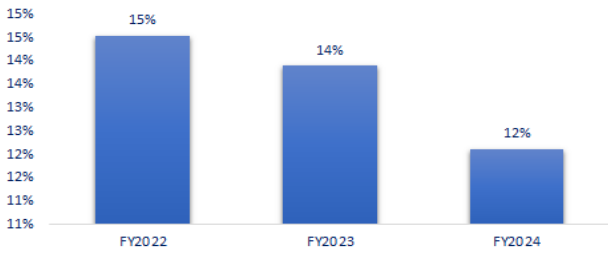
PAT shows robust growth of 84% CAGR-2 yr



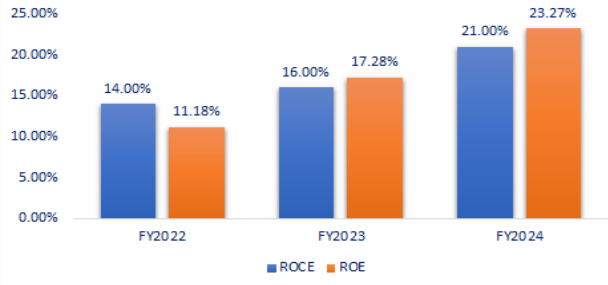
Cost of Material-% of Revenue



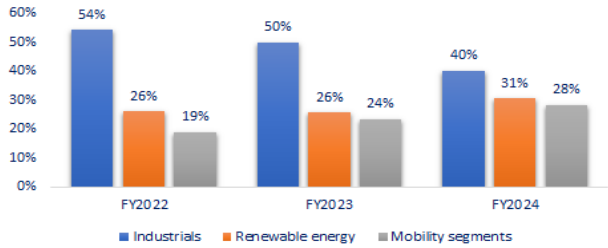
Employee expense as % of Revenue is decreasing



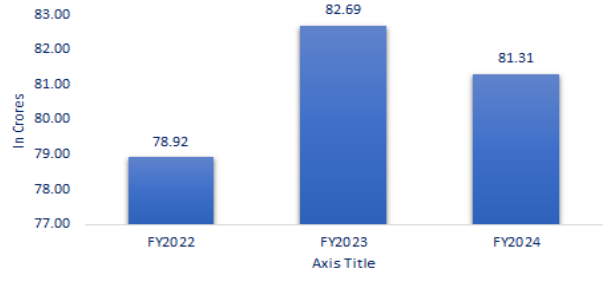
Strong Return Ratios (%)



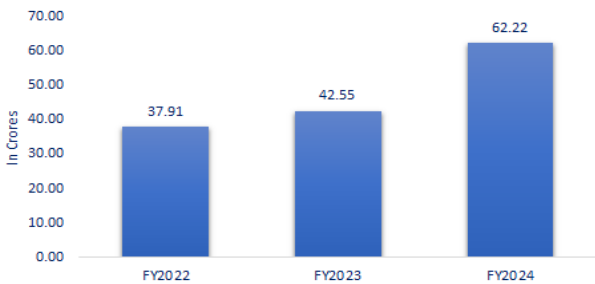
Segmental Breakup Calc (% of Revenue)- Shift to Renewables and Mobility space



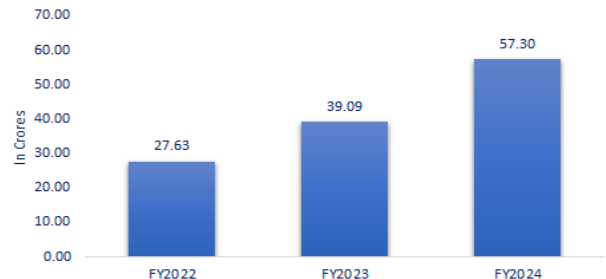
Industrials Segment grown by 2% CAGR



Renewable Segment grown by 28% CAGR



Mobility Segment grown by 44% CAGR



Industry Review

GLOBAL MARKET FOR DISC & STRIP SPRINGS AND WEDGE LOCK WASHERS (DSS & WLW)

- ◆ The Indian manufacturing sector is a vital component of the country's economic landscape, contributing significantly to GDP growth, employment generation, and overall Industrials development. Marked by a diverse range of industries, including automobile, textiles, pharmaceuticals, electronics, and more, the sector reflects India's multifaceted Industrials prowess. Initiatives like the 'Make in India' campaign attracted foreign investment and positioned India as a global manufacturing hub. The government's strategic focus on ease of doing business, policy reforms, and the introduction of schemes such as the Production Linked Incentive (PLI) further emphasizes its commitment to nurturing a robust manufacturing ecosystem.
- ◆ The growth of Indian manufacturing sector is influenced by several factors, primarily driven by government initiatives. "Make in India", creating a favorable environment for Industrials expansion. Global companies' "China Plus One" strategy, which involves diversifying supply chains and considering India as an alternative manufacturing hub, makes India more attractive to companies around the world.
- ◆ High demand for disc & strip springs (DSS) and wedge lock washers (WLW) in Industrials will lead the market growth for DSS & WLW.
- ◆ The global DSS & WLW market was valued at ~US\$ 891M in CY23 and is projected to grow at a CAGR of 6.1% during CY23-26. The Indian DSS & WLW market is showing the similar growth trajectory and is expected to register a CAGR of 6.6% during FY24-27, with the market value in FY24 being ~US\$ 115M.
- ◆ Industrials sector comprising of heavy machinery like equipments used in manufacturing, infrastructure & others, contribute the maximum revenue share in the DSS & WLW market. The growth is largely accreditable to the increase in steel demand to fulfill the growing urbanization & construction needs.
- ◆ After Industrials, mobility sector consisting of automobiles (such as four-wheelers and two-wheelers) & railways is the biggest contributor to the revenue of DSS & WLW. In automobile sector, demand is fueled by the growing consumption of passenger cars in countries like India & Brazil.
- ◆ The renewable sector comprising of wind & hydro energy is another key growing market. Here, the focus on government policies to mitigate international climate change will boost growth.
- ◆ As per 1Lattice analysis, The Indian market for coil & spiral springs (CSS) was valued at ~US\$ 459M in FY24 and is expected to grow at a CAGR of 9.8% during FY24-27. The market growth is credited to factors like growing automobile industry & rapid urbanization.
- ◆ The major consumption of CSS happens in the mobility largely applied in the commercial vehicles, automobiles & railways. Coil springs are used in EVs to reduce the overall vehicle weight. Penetration of EVs in the 2-wheeler market stands at ~5% and in 4-wheeler market is ~1% as of FY23 in India. This growing penetration will largely increase the demand. After mobility, the major consumption happens in the Industrials sector. Here, the focus on Indian government to develop India's Industrials participation through schemes like PLI, Urban Infrastructure Development scheme is boosting growth.
- ◆ The renewable energy industry is subjected to growth due to government policies focusing on mitigating international climate change. Regions like the European Union and China have aimed to increase their renewable energy production capacity significantly. This increase in demand for renewables will lead to an increase in consumption of DSS & WLW.

Competitive Strengths of the Company

Well-established manufacturer of precision engineering components with a diversified product portfolio and diverse market

- ◆ They have experience in designing, manufacturing and application engineering of high-performance standardized and customized disc springs and strip springs.
- ◆ Their products include disc and strip springs, wedge lock washers, coil and spiral springs, fastening solutions like anchor bolts, nuts and studs, etc.
- ◆ Their precision components and high tensile fasteners are used in sectors like renewable energy (including wind turbine and hydro plants), in various industrial sectors such as electrical, off-highway equipment, infrastructure and general engineering, and mobility segments such as automotive and railways.
- ◆ Their disc springs are of high-quality meeting German DIN 2093 standards.
- ◆ They cooperate with global research institutes in Germany and India for new product testing and new process validations.

Long-standing customer relationships with both Indian and global OEM and Tier 1 players

- ◆ Over three decades of operations, they have established long-standing relationships with their customers. Their business originally commenced in the year 1989 and was subsequently taken over by their Company through a BTA in the year 2009. Their diverse product portfolio helps cater to a broad range of customers and they have served over 175 customers in 25 countries.
- ◆ Their long-standing relationships with their customers indicate their commitment to high-quality products and comprehensive solutions.
- ◆ Key factors leading to strong customer relationships are high-quality products, reliability in supplies, development collaboration and meeting international standards.
- ◆ They engage with their clients through the different stages of product development, from the design and validation stages to testing, final manufacturing, and delivery.
- ◆ They also provide customised packaging and kitting solutions to their customers.
- ◆ This helps them identify their requirements better and results in increased customer

Well-equipped manufacturing facilities along with in-house design and other capabilities offer scale, flexibility, and comprehensive solutions

- ◆ They operate in two manufacturing facilities at Wada District Palghar, Maharashtra, which are equipped with capabilities to design, develop, and manufacture diverse product portfolios.
- ◆ Further, they are setting up a new manufacturing facility in Vallam-Vadagal, SIPCOT, Sriperumbuddur, Tamil Nadu for developing various high tensile fasteners to add to their existing product portfolio and new products like bolts.

Experienced management team supported by a large, diverse and skilled workforce.

- ◆ They are led by their Promoter, Chairman and Managing Director, Kirit Vishanji Gala who has helped expand their operations within India and globally and has been associated with their Company since incorporation.
- ◆ Kirit Vishanji Gala has more than three decades of experience in engineering and manufacturing activities.
- ◆ Under his leadership, they have been able to expand their operations and have established a significant presence in Indian and global markets.

Track record of consistent financial growth and performance characterized by operational efficiency and high repeat business

- ◆ The company's total income grew CAGR of 17.53% between FY2022-2024. The total income increased to ₹ 204.38 Cr in FY2024 from ₹ 147.96 Cr in FY 2022. The company's gross profit remained consistent at 59.26 % in FY 2022 to 59.15 % in FY 2024.



Risk Factors

They do not have any Exclusivity Arrangements with the customers and with the suppliers

- ◆ They do not have a firm commitment to long-term supply agreements with their customers and instead rely on purchase orders and forecasts to govern the volume and other terms of their sales of products.
- ◆ Many of the purchase orders they receive from their customers specify a price per unit and delivery schedule.
- ◆ Further, they do not typically have exclusivity arrangements with their customers.

Their business relies on customer demand; reduced purchases due to decreased demand can negatively impact them.

- ◆ In fiscal, 2024, 2023, and 2022, revenue from their top five customers represented 32.46%, 29.03% and 35.26% respectively, of their total revenue from operations in such periods.
- ◆ Larger contracts from a few customers may represent a larger part of their portfolio, increasing the potential volatility of their results and exposure to individual contract risks.
- ◆ Such concentration of their business on a few projects or clients may hurt their results of operations if they do not achieve their expected margins or suffer losses on one or more of these large contracts.

Their Company is involved in certain legal proceedings, and an adverse outcome in any such proceedings may adversely affect their business, financial condition and growth strategy.

- ◆ Their Company and one of their Director is involved in certain legal proceedings, in the ordinary course of business, which are pending at varying levels of adjudication at different fora, from time to time.
- ◆ All pending litigation involving their Company, Directors, Promoters and Subsidiaries, other than criminal proceedings, statutory or regulatory actions and taxation matters, are considered “material” if the monetary amount of claim by or against the entity or person, in any such pending litigation exceeds 5% of the consolidated profit after tax of their Company, as per the Restated Financial Information, for the latest fiscal i.e. Fiscal 2024, amounting to ₹ 11.17 million, or any such litigation, an adverse outcome of which would materially and adversely affect their Company’s business, prospects, operations, financial condition or reputation, irrespective of the amount involved in such litigation.

Their Company’s operations are subject to varied business risks and their Company’s insurance cover may prove inadequate to cover the economic losses of their Company.

- ◆ Their Company’s operations are subject to various risks and hazards which may adversely affect revenue generation and profitability of their Company.
- ◆ While the Company believes that it has taken adequate safeguards to protect its Company’s assets from various risks inherent in their Company’s business, including by purchasing and maintaining relevant insurance cover, it is possible that their Company’s insurance cover may not provide adequate coverage in certain circumstances.

Peer Comparison

Name of the company	Total Income (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Gala Precision Engineering Limited (EPS & RoNW before exceptional items)**	204.37	10	24.37	103.30	23.27	21.71	5.12
Gala Precision Engineering Limited (EPS & RoNW after exceptional items)**	204.37	10	22.09	103.30	21.38	23.95	5.12
Harsha Engineers International Limited	1421.79	10	12.24	129.09	9.48	44.04	4.18
SKF India Limited	4664.14	10	111.60	542.63	20.57	44.89	9.65
Sundram Fasteners Limited	5720.47	1	24.83	162.81	15.37	55.19	8.42
Rolex Rings Limited	1236.81	10	57.30	329.81	17.37	42.54	7.39
Sterling Tools Limited	935.50	2	15.37	124.11	12.38	35.95	4.45
Ratnaveer Precision	602.40	10	7.61	51.78	12.32	23.11	3.40

*P/E & P/B ratio based on closing market price as of August 28th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24. **Exceptional item includes one time loss of scrap of assets in China amounting to 2.30Cr and one time income of sale of property amounting to 9.75Cr.

Our Views

- ◆ Gala Precision Engineering Limited is a key player in the precision engineering sector, producing high-quality components for automotive, industrial, and agricultural markets.
- ◆ The company has a significant presence in the DSS market for renewable industry with nearly 70% share in the domestic market and nearly 3% share in the global market.
- ◆ The company exports its products to 25+ countries to global clientele exceeding 175 customers in major markets such as Germany, Denmark, China, Italy, Brazil, USA, Sweden, Switzerland. Exports contributed 37.53% to total sales as of March 31, 2024.
- ◆ The company has developed and delivering over 750 stock keeping units of products to meet customer requirements. Further, it has developed more than 200 products for different technical springs and high tensile fasteners, over the last 5 years.
- ◆ The company exports to over 25 countries, with exports contributing one-third of its revenue in FY24. Gala Precision serves over 175 customers, with the top 5 customers accounting for 32.46% of FY24 revenue.
- ◆ The company is expanding its manufacturing capacity with new facilities in Tamil Nadu and, focusing on high-tensile fasteners and hex bolts. Ongoing investments in new equipment and facilities are expected to drive future revenue and capacity growth IN WADA, Palghar.
- ◆ Revenue from operations increased from ₹147.96 crore in FY22 to ₹204.37 crore in FY24, with a CAGR of approximately 24%. The EBITDA margin improved from 15.11% in FY22 to 19.86% in FY24, reflecting strong operational performance.
- ◆ PAT rose sharply from ₹6.63 crore in FY22 to ₹24.30 crore in FY24, indicating a significant improvement in profitability. EPS before exceptional items was ₹24.37 in FY24, up from ₹6.56 in FY22, showing strong earnings growth.
- ◆ The company's net worth grew from ₹59.31 crore in FY22 to ₹104.44 crore in FY24, indicating robust financial health. Total borrowings were stable at around ₹55 crore, with an improving debt-to-equity ratio due to rising net worth.
- ◆ The RoE based on EPS before exceptional items stood at 23.27% in FY24, highlighting efficient use of equity.
- ◆ The DSS market is expected to grow at a CAGR of 6.6%, CSS products at 9.8%, and SFS products at 18% from FY24-27.
- ◆ The company operates in a market with high entry barriers, including long supplier qualification periods of 12-24 months. Strong international presence provides a hedge against domestic market fluctuations and opportunities for growth.
- ◆ Increased demand in automotive and industrial sectors is expected to support Gala Precision's product offerings. Consistent revenue and profit growth, alongside expanding margins, demonstrate financial stability and operational efficiency. Strong financial performance, strategic expansion, robust export growth, and reasonable valuation make the IPO attractive.
- ◆ The IPO is priced at a P/E ratio of 21.71x, which is attractive compared to peers like Harsha Engineers (P/E 44.04x) and SKF India (P/E 44.89x).

Hence, We recommend to **SUBSCRIBE** the IPO for listing as well as long-term gains.

Sources: Company website and red herring prospectus

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