

The Issue	
<b>Type of Issue</b>	<b>Issue size Rs. Mn</b>
Fresh Issue	1353
Offer for Sale	326
<b>Total</b>	<b>1,679</b>
<b>Post issue mkt cap (Rs. mn)*</b>	<b>6702</b>
<b>Lot size</b>	<b>28 shares</b>

\*At Upper Price Band

Issue Break-Up	
<b>Reservation for</b>	<b>% of Issue</b>
QIB	50%
NIB	15%
Retail	35%
<b>Total</b>	<b>100%</b>
Indicative Offer Timeline	
<b>Indicative Date</b>	
Bid/Offer Opening Date	Sept 2, 2024
Bid/Offer Closing Date	Sept 4, 2024
Finalization of the Basis of Allotment	Sept 5, 2024
Credit of shares	Sept 6, 2024
Initiation of refunds	Sept 6, 2024
Listing Date	Sept 9, 2024
Use of Proceeds	
New facility in Tamil Nadu	Rs 370 Mn
Capex towards PP&E	Rs 111 Mn
Repayment of borrowings	Rs 454 Mn
Lead Bankers	
<b>Manager</b>	PL Capital Markets Pvt. Ltd.
<b>Registrar</b>	Link Intime India Pvt. Ltd.

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### Leading player in the DSS & WLW market with focus on expansion and debt reduction

- Gala Precision Engineering manufactures precision components, specializing in technical springs such as **disc and strip springs (DSS), wedge lock washers (WLW), special fastening solutions (SFS), and coil and spiral springs (CSS)**. They supply these components to OEMs and Tier 1 customers both within India and internationally.
- The company offers approximately 750 SKUs, with 200 of these developed over the past five years. They also specialize in in-house designing and provide customized packaging and knitting solutions for their customers.
- It's business revolves around the **Spring Technology Division (80% of sales)**, supplying disc and strip springs (DSS) for renewable energy, railways, automobiles, heavy machinery, and electrical equipment, as well as coil and spiral springs (CSS) for vehicles and industrial infrastructure. They've also introduced retractor springs and produce make-to-order **special fastening solutions (19% of sales)**, like studs, anchor bolts, and nuts, for various industries including renewable energy, railways, and heavy machinery.
- GPEL commands 2% market share in the global DSS & WLW market, while it has 10% market share in the Indian Disc spring market. Company also has 70% domestic market share and 3% global market share in the DSS market for renewable industry.
- Gala Precision Engineering operates two manufacturing facilities in Wada, Palghar, with an annual production capacity of 246.46 million units and 0.42 million units for fasteners. They are setting up a new facility in Tamil Nadu, adding 10.07 million units of capacity for high-tensile fasteners and bolts.
- Gala Precision Engineering serves a global clientele of over 175 customers and exports to more than 25 countries, including Germany, Denmark, China, Italy, Brazil, the USA, Sweden, and Switzerland. These countries contribute 37.53% to the company's total sales.
- In FY24, they generated Rs 2,025 Mn in revenue, with 63% (Rs 1,265 Mn) from India and 37% (Rs 760 Mn) from international sales. The industrial sector contributed 40% of revenue, renewable energy 31%, and mobility 29%.

**Valuation and Outlook:** At the upper price band of Rs. 529, the IPO is valued at a Post issue P/Ex of 27.2x and EV/EBITDAX of 17.5x, i.e. at 32% and 23% discount respectively to its peers. Gala Precision Engineering Ltd is one of the major precision engineering manufacturers that specializes in DSS & WLW and CSS. The company enjoys 2% market share in the global DSS & WLW and 10% market share in the Indian Disc Market. Going forward the company is going to set up a new capacity in the Tamil Nadu and expand the capacity of DSS & WLW in its existing facilities. Over FY22-24, Company has grown its Revenue/EBITDA/PAT at CAGR of 18%/40%/93% respectively. Additionally, the company since inception has followed a strategy to move to products that have a high TAM, this has helped the company to consistently grow. Furthermore, the DSS and WLW industries are expected to grow at a CAGR of 6.4% over the period of FY24-27. This growth will be driven by the government's push for renewable energy and infrastructure development, as well as the growing demand for automobiles. **Therefore, expansion in SFS, robust financial track record, debt reduction and positive industry factors make this IPO an attractive proposition. We thus issue SUBSCRIBE rating on the issue.**

## Gala Precision Engineering Ltd

### Key financial summary

Financial summary (Rs. mn)	FY22	FY23	FY24
Revenue	1,453	1,655	2,025
Reported EBITDA	197	273	388
Reported EBITDA margin (%)	13.5%	16.5%	19.1%
Adj. PAT	66	145	246
ROE	6.3%	17.3x	41.5%

### Pre-issue and post-issue holding structure

\* At upper price band

	No. of Shares	% of total equity capital	No. of shares	% of total equity capital
	Pre-IPO		Post-IPO	
Promoter	7,538,864	74.56%	7,024,464	55.44%
Public	2,572,720	25.44%	5,645,536	44.56%
Employee trust	-	0%	-	0%
<b>Total</b>	<b>10,111,584</b>	<b>100.00%</b>	<b>12,670,000</b>	<b>100.00%</b>

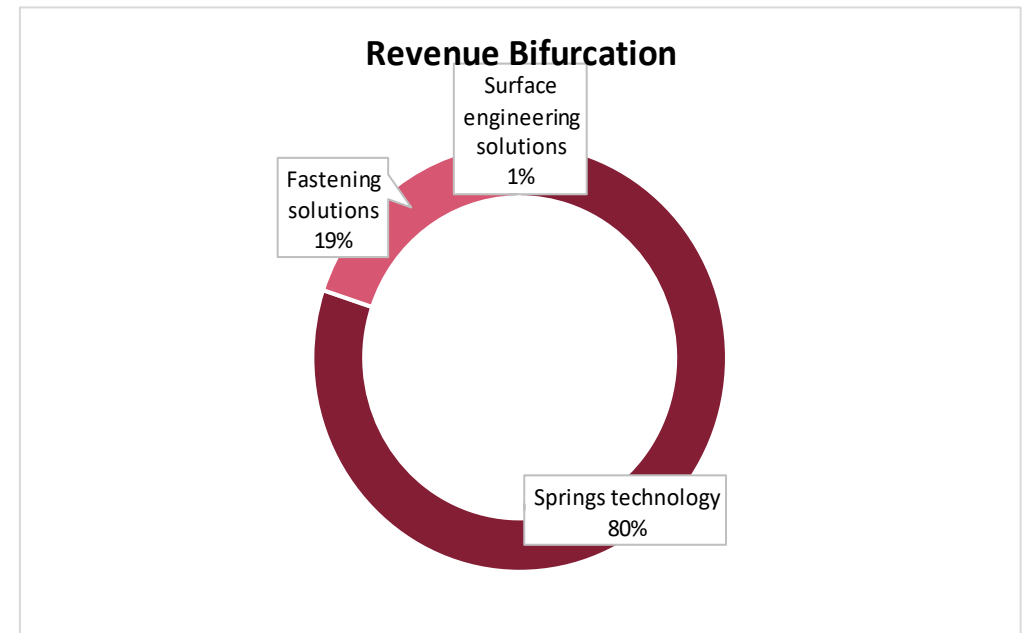
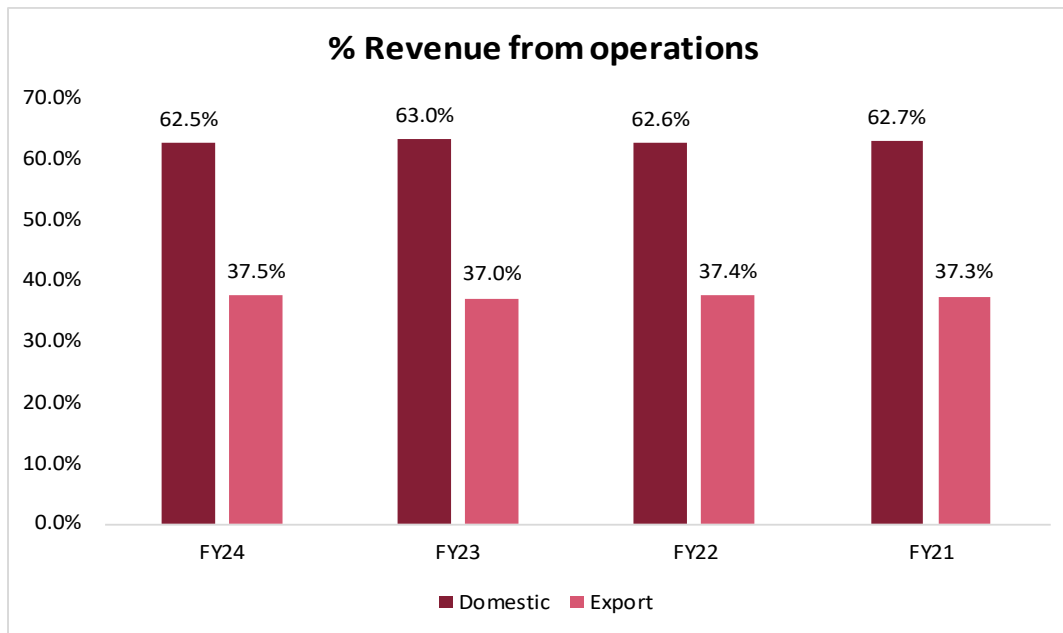
Selling shareholders	Promoter & Promoter group / Others	No. of shares
Taramati V Gala	Promoter	385,200
Kirti Vishanji Gala (HUF)	Promoter	79,200
Nayna Gala	Promoter	50,000
Satish Kotwani	Individual	40,000
Hemlata Dhiraj Shah	Individual	23,600
Dhiraj Nanchand Shah	Individual	28,000
Rupa Sunil Mehta	Individual	10,000

### Risks:

- **Risk from international market exposure:** Exporting to multiple countries exposes the company to potential risks such as exchange rate fluctuations, depreciation of the Indian Rupee, and the need to comply with diverse regulatory requirements and foreign laws. Any adverse events in these countries could negatively impact the company's business, financial condition, and operational results.
- **Patent Infringement Risk:** The company faces a patent infringement lawsuit involving a total claim of Rs.48.12 mn, representing 2% of its revenue. The plaintiffs seek a permanent injunction and have initially claimed Rs.20 mn in damages. This amount is subject to increase based on future sales assessments.
- **Volatility in Steel Prices and Supply Chain Risks:** They source steel, their primary raw material, from various vendors, with 20.83% imported from Europe, China, and South Korea. In FY24, raw material costs were ~41% of revenue, making profit margins sensitive to steel price fluctuations. To mitigate risk, they rely on multiple vendors both in India and abroad.

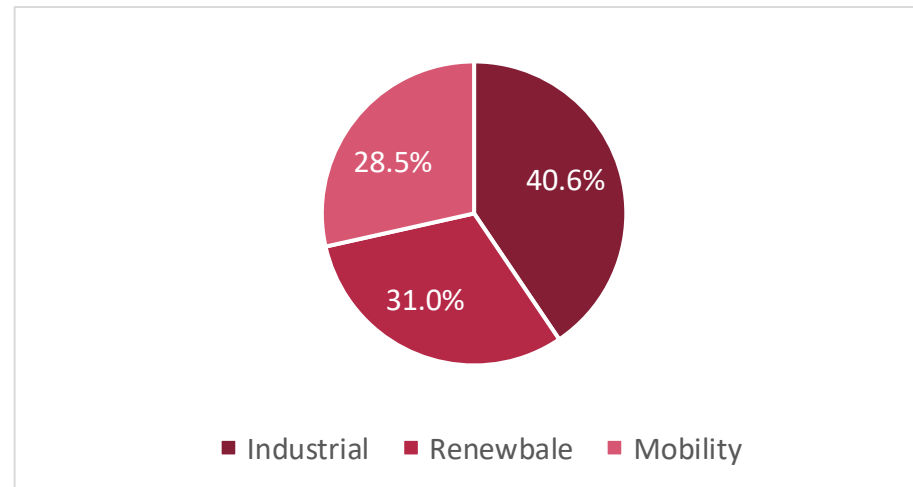
## KPI's

Facility	As of and for the financial year ended March 31,								
	2024			2023			2022		
	Installed Capacity (Numbers)	Actual Production (Numbers)	Utilisation (%)	Installed Capacity (Numbers)	Actual Production (Numbers)	Utilisation (%)	Installed Capacity (Numbers)	Actual Production (Numbers)	Utilisation (%)
<b>DSS facility, Wada, Palghar, Maharashtra</b>	22,55,17,000	19,13,26,820	84.8%	17,90,23,589	15,21,70,051	85.0%	14,31,84,773	12,17,07,057	85.0%
<b>CSS facility, Wada, Palghar, Maharashtra</b>	2,09,41,200	1,63,09,200	77.9%	2,03,69,245	1,18,14,162	58.0%	1,82,39,271	1,05,78,777	58.0%
<b>SFS facility, Wada, Palghar, Maharashtra</b>	4,20,000	2,92,500	69.6%	1,49,643	1,12,232	75.0%	1,07,693	80,770	75.0%



**Strengths:**

- **Diversified product portfolio and diverse market:** The company specializes in high-performance standardized and customized disc and strip springs, wedge lock washers, coil and spiral springs, and fastening solutions. Their precision components and high-tensile fasteners are used in sectors including renewable energy (wind and hydro), industrial applications (electrical, off-highway equipment, infrastructure), and mobility (automotive and railways).

**Long-Standing Relationships with customers:**

- Over three decades of operations, company have established long standing relationships with its customers. Key factors leading to strong customer relationships are high quality products, reliability in supplies, development collaboration and meeting international standards. Company engages with its clients through the different stages of product development, from the design and validation stages, until testing, final manufacturing, and delivery. Company also provides customized packaging and kitting solutions to its customers.
- Company has a long-standing relationships with OEMs, Tier 1 and channel partners customers ranging from **4 years to more than 15 years**.
- Additionally the Company operates in an industry where there significant barriers to entry due to a lengthy and stringent qualification process for the technical springs and high tensile fasteners due to criticality of their usage. This entire process is time intensive and **often takes 12 to 24 months** to qualify as a supplier during which the vendor is evaluated by the OEM.

## Gala Precision Engineering Ltd

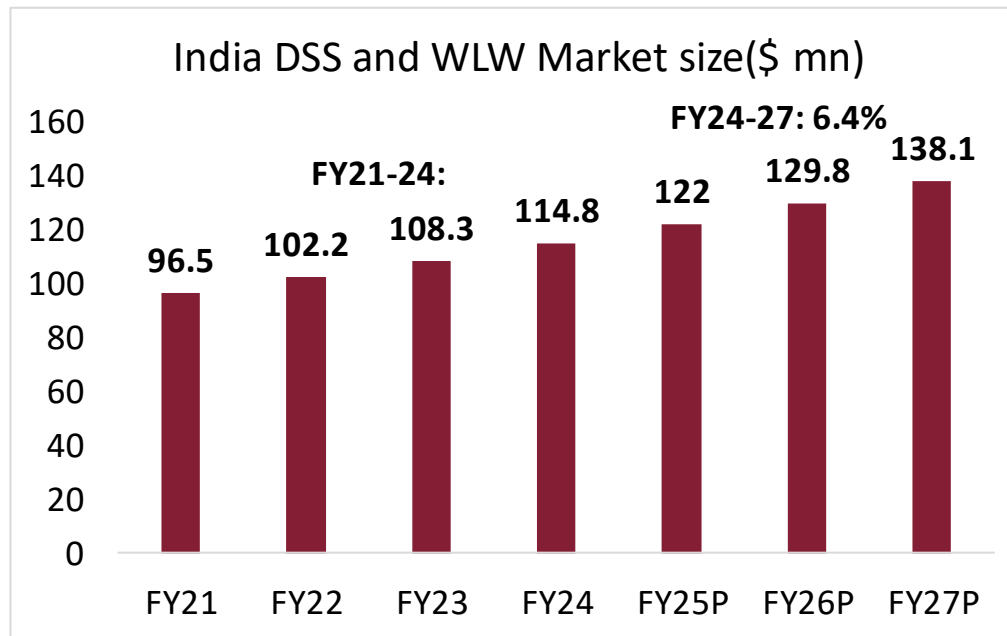
### Strategies:

**Strengthen core capabilities in precision engineering for sustainability:** . Company have a significant presence in the DSS market for renewable industry with ~70% share in the domestic market and ~3% share in the global market. Company is manufacturing disc springs for more than 15 years used in yaw brakes of wind turbine and supplied to global OEMs and brake manufacturers in India and overseas. Further, the company have diversified their business almost 6 years ago and introduced fastening element products such as wedge lock washers and high tensile fasteners used in wind energy and hydro power plants. Its strip springs are also used in brakes of two wheelers EVs. **Going forward Company intends to continue to enhance its capabilities across the focus industries renewable energy, industrial and mobility by continuing to strengthen their capabilities in precision engineering for sustainability.**

**Moving up the value chain from niche markets to large addressable markets:** Company commenced its operations in 1989 by manufacturing disc and strip springs (market size: global \$891.20 mn and domestic \$114.80 mn) and have since diversified to include coil and spiral springs in 2015 (market size 458.50 mn) and special fastening solution (market size: global \$98 bn and India \$6.6 bn) in 2018. Company intends to further expand its products in wind segment, industrial and Railways for India and global markets and increase serviceable obtainable market substantially in coming years by setting up new manufacturing facility in Tamil Nadu for developing various high tensile fasteners in order to add to their existing product portfolio and new products like bolts.

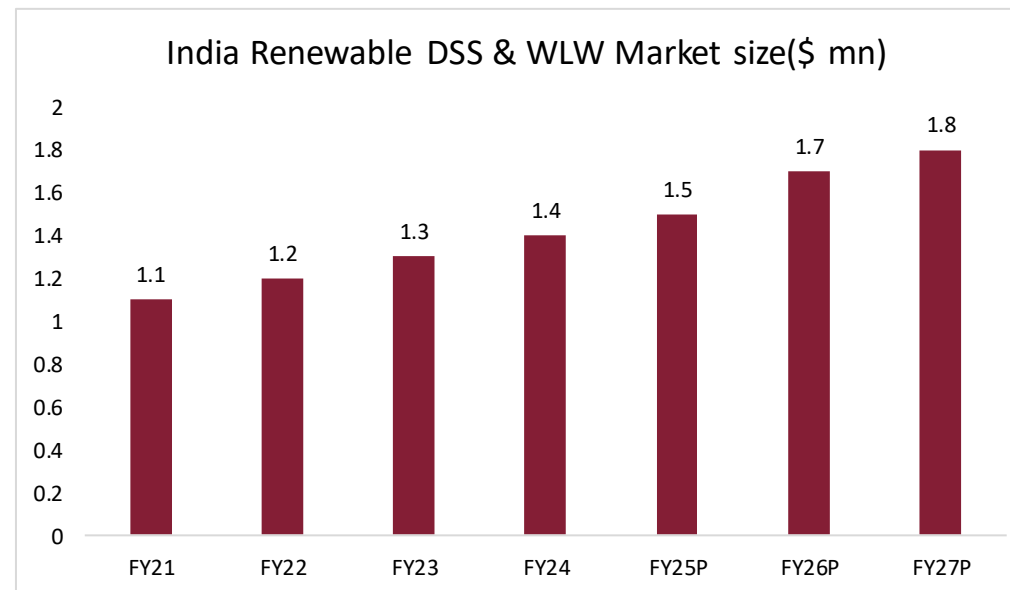
**Expand manufacturing facilities at their existing facilities and set-up new facilities:** As of June 30, 2024, the company have two manufacturing facilities located in Wada, Palghar, Maharashtra. In order to support their growth strategy across India, company intends to set up an additional manufacturing facility at Tamil Nadu for developing various high tensile fasteners in order to add to its existing product portfolio and new products like bolts .Additionally the company also intend to increase manufacturing capacity of DSS and CSS products at their existing manufacturing facilities in Maharashtra.

## Industry Overview

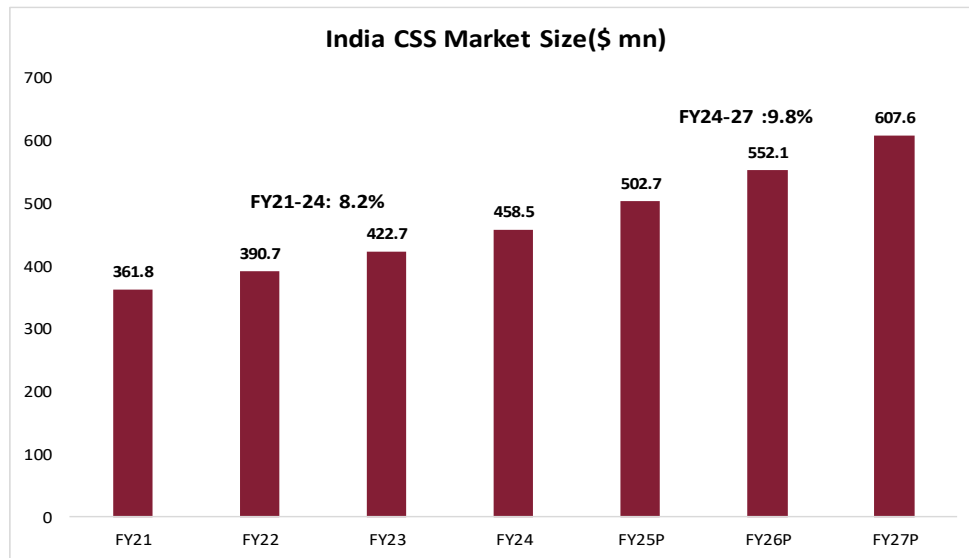


### India Market size for DSS & WLW

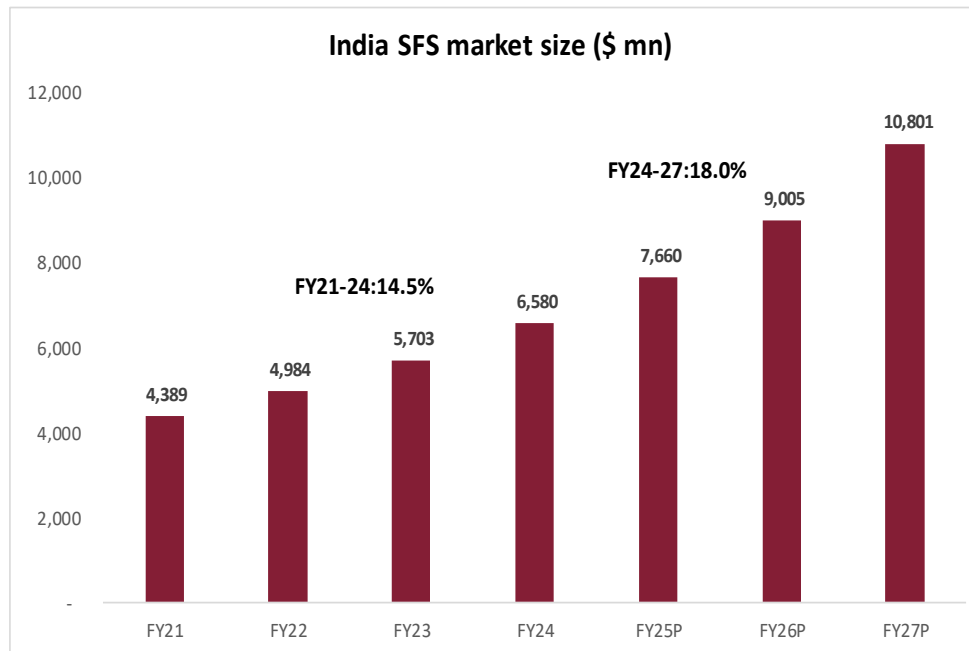
Industry	Market Size (US\$ M)		
	FY21	FY24	FY27
<b>Renewables</b>	1	1	2
<b>Industrials</b>	<b>Off-highway</b>	67	77
	<b>Electrical Equipment</b>	14	18
	<b>Heavy Machinery</b>	1	1
<b>Mobility</b>	<b>Automobiles</b>	14	18
<b>Total</b>		<b>97</b>	<b>115</b>



## Industry Overview (Cont)



Indian market size for CSS				
Industry		Market Size (US\$ M)		
		CY21	CY24	CY27
Industrials	Off-highway	18	21	25
	Industrial Infra	9	11	13
Mobility	Commercial Vehicles	19	23	26
	Automobiles	315	404	544
<b>Total</b>		<b>362</b>	<b>459</b>	<b>608</b>



Indian market size for SFS				
Industry		Market Size (US\$ M)		
		CY21	CY24	CY27
Renewables		183	424	1,243
Industrials	Off-highway	466	540	627
	Electrical & Power	50	62	76
	Infra & Heavy Machinery	1,609	2,198	3,119
Mobility	Railway	588	1,236	2,598
	Automobiles	1,439	1,981	2,783
Others		55	139	335
<b>Total</b>		<b>4,389</b>	<b>6,580</b>	<b>10,781</b>

**Peers**

Company Name	Revenue	EBITDA	EBITDA Margins	D/E	P/E	EV/EBITDA
Gala Precision Engineering	2,025	388	19.1%	0.50	27.2	17.5
Harsha Engineers International	14,218	2,008	14.1%	0.08	44.33	22.7
SKF India	46,641	8,116	17.4%	-	48.5	30.3
Sundaram Fasteners	57,205	9,409	16.4%	0.19	54.49	30.3
Rolex Rings	12,368	2,770	22.4%	0.02	40.83	23.8
Sterling Tools	9,385	1,143	12.2%	0.26	24.7	14.8
Ratnaveer Precision Engineering	6,024	570	9.5%	0.82	24.69	14.9

As stated in the RHP



## INDSEC Rating Distribution

**BUY** : Expected total return of over 15% within the next 12-18 months.

**HOLD** : Expected total return between 0% to 15% within the next 12-18 months.

**SELL** : Expected total return is negative within the next 12-18 months.

**NEUTRAL**: No investment opinion, stock under review.

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