

Gala Precision Engineering Limited

Component | India

IPO | 31 August 2024

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About the Company

Gala Precision Engineering Limited (GPEL) is a precision component manufacturer specializing in technical springs, including disc and strip springs (DSS), wedge lock washers, coil and spiral springs (CSS), and special fastening solutions (SFS). GPEL supplies its products to original equipment manufacturers (OEMs), Tier 1 suppliers, and channel partners and their products are used in various sectors, including renewable energy (such as wind turbines and hydro power plants), industrial applications (like electrical systems, off-highway equipment, infrastructure, and general engineering), and mobility segments (including automotive and railways).

Products applications in multiple industries

GPEL has a comprehensive product portfolio with more than 750 SKUs, diversified customer profile with more than 175 customers catering to diverse regions across geographies to more than 25 countries with exports contribution in the range of 35-40% over the past few years. GPEL is moving up the value chain from niche markets to large addressable markets as the DSS markets is expected to grow at 6% CAGR, CSS at 9% CAGR and high growth in SFS markets with 18% in domestic market and 6.5% for the global markets over FY24-27E.

Long-standing customer relationships with both Indian and Global OEMs

GPEL has a strong customer base with stickiness in products as it meets stringent specifications & technical requirements, reliability in supplies, and cooperation with German and Indian institutes for new product development. GPEL is strengthening relationships with our existing customers and expanding customer base leveraging its in-house design and development capabilities to grow our product offerings and capitalize on future trends with introduction of new products in SFS over the past few years as a major growth driver going forward.

Expanding capacities with new plant

GPEL is expanding its new capacity at Vallam, near Chennai with a proposed capacity of 4600 MT developing high tensile fasteners and bolts catering to OEMs in the renewable energy sector located in South India. It will also ramp up its capacity in its existing facility at Wada increasing the wallet share from the existing customers, growth drivers remain strong for each segment going forward providing consistent visibility multifold increase in revenues with various capex being announced by the Government and its customers in its respective industries.

Financials in brief

GPEL financials have seen an increase in revenue from 145 Cr in FY22 to 202 Cr in FY24 which grew by a CAGR of 18% while EBITDA and PAT margins improved with higher growth of 35% and 92% in the same period on improvement in automation of manufacturing costs and projects, reduction in SGA expenses as the revenues expanded. Revenues contribution in industry wise for Industrials (40%), Renewables (31%) and Mobility (29%) for FY24 with the highest contribution product wise from the DSS segments.

Our View

GPEL has strengthened its core capabilities in precision engineering for a sustainable growth with innovative new product offerings developing more than 200 new products in the last few years and winning various awards and accreditations from its global OEM proving a mark fostering higher growth in the coming years with increased capacities. GPEL has a significant market share with a diverse product range and possess significant entry barriers for new players, experienced management team supported by large diverse skilled force and track record of consistent financial growth. **Hence, we recommend a SUBSCRIBE to the issue.**

IPO Details

Price Band (Rs)	503-529
Face Value (Rs)	10
Issue Open/Closing Date	2-Sep-24/04-Sep-24
Fresh Issues (Cr)	135.3
OFS (Cr)	32.6
Total Issue (Cr)	167.93
Minimum Bid Qty. (Nos)	28
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs Crs)*	670

*At higher band

Object of the Issue

- ▶ Financing the capital expenditure of new plant and upgradation of existing Wada plant.
- ▶ Repayment of borrowings.
- ▶ General corporate purposes.

Strengths

- ▶ Well established manufacturer of precision engineering components with diversified product portfolio and diverse market
- ▶ Track record of consistent financial growth and performance characterized by operational efficiency
- ▶ Well-equipped manufacturing facilities along with in-house design and other capabilities
- ▶ Long-standing customer relationships with both Indian and global OEM and Tier 1 players

Key Risks

- ▶ Top 10 customers contribute 48% and failure in any of these customers could dent revenues.
- ▶ Downturn in Spring technology business.

Key Financials

(Rs Crs)	FY22(12)	FY23(12)	FY24(12)
Domestic Revenues %	63.0	63.0	62.0
Export Revenues %	37.0	37.0	38.0
Revenue	145.3	165.4	202.5
EBITDA	22.4	28.9	40.6
EBITDA Margin (%)	15.4	17.5	20.0
Adj. PAT	6.6	14.5	24.3
PAT Margin (%)	4.5	8.8	12.0
Diluted EPS (Rs)	5.2	11.5	19.2
RoE (%)	11.0	17.0	24.0
RoCE (%)	14.0	16.0	21.0

Source: RHP

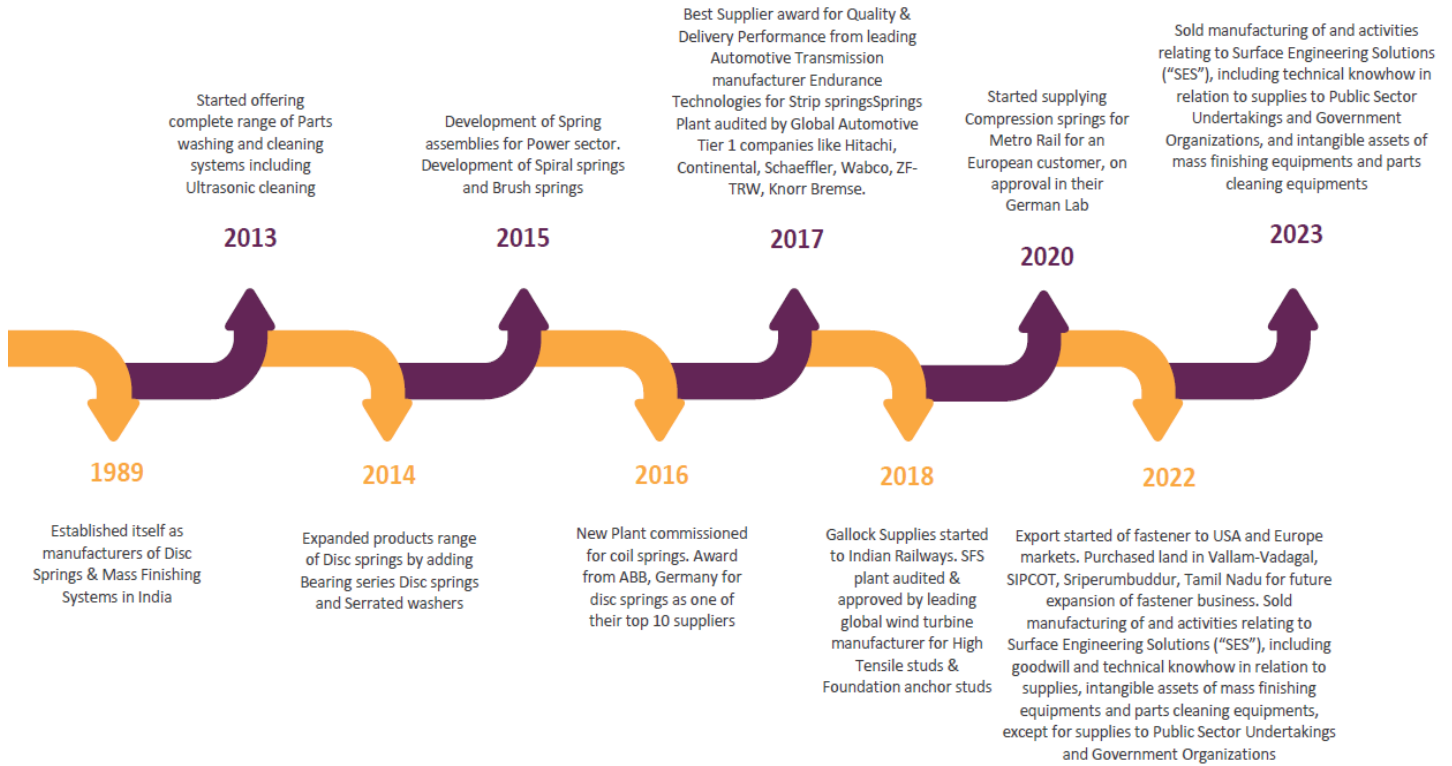
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Exhibit 1: Gala Precision Engineering Limited: Evolution as Company



Source: RHP

Exhibit 2: Reputed and Preferred brand of critical precision component manufacturer



End User Industry	Applications
	<ul style="list-style-type: none"> ▪ Wind Turbines ▪ Hydroelectric Generators
	<ul style="list-style-type: none"> ▪ Electrical Power Equipment ▪ Off-Highway Equipment ▪ Infrastructure ▪ General Engineering
	<ul style="list-style-type: none"> ▪ Automotive ▪ Railways

Source: RHP; Company Presentation

Exhibit 3: Diversified Product Portfolio, Market Size and Growth



Source: RHP

Exhibit 4: Ramping up existing capacity at Wada, near Mumbai



Source: RHP

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