

November 29, 2022

Precision component player, healthy financial profile

About the Company: UniParts India (UPI), incorporated in 1994, is a leading supplier of systems and components for the off-highway market in the agriculture and construction, forestry and mining and aftermarket sectors. It has presence in over 25 countries. UPI has 6 manufacturing facilities (5 in India, 1 in USA)

- Its key product includes 3-point linkage systems (3PL) & precision machined parts (PMP) which together constitute over 90% of its sales. It also manufactures adjacent products like Hydraulics, PTO & fabrications.
- In terms of value, as of FY22, UPI has an estimated 16.7% market share of the global 3PL market and an estimated 5.9% market share in the global PMP market in the CFM (construction, forestry and mining) sector.

Key triggers/Highlights:

- Leading market presence in critical vehicle systems & components space catering to global off-highway segment (tractors, construction equipment)
- Engineering driven, vertically integrated precision solutions provider
- Strategically located manufacturing & warehousing units across the globe to ensure seamless delivery of its products that offer scale & flexibility
- Long term relationship with key customers including global OEM's with outside India sales constituting ~80%+ of its sales
- Healthy financials: Double digit EBITDA margin (~22%) and Return ratios profile (RoCE >25%) with Debt: Equity at 0.2x as of FY22

What should investors do? Sales/PAT at UPI has grown at a CAGR of 16.3%/63.2% respectively over FY20-22, led by impressive improvement in EBITDA margin profile. UPI clocked EBITDA margins of 21.8% in FY22 with RoCE placed at ~27%. At the upper end of the price band it is valued at ~15.6x P/E on FY22, which we believe is reasonable given the healthy financials at the company and high single digit growth prospects across its key serving segments (3PL and PMP).

- We assign **SUBSCRIBE** rating on UPI amidst healthy financials, precision component product profile and inexpensive valuations

Key risk & concerns

- Segment concentration risk with agriculture and CFM segments together constituting ~95% of revenues as of FY22
- Product concentration risk with 3PL and PMP constituting over 90% of sales
- High share of international sales (>80%) making it susceptible to foreign currency risks as well as exposed to global macro uncertainty
- Low growth (single digit CAGR) prospects in the base 3PL & PMP business

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	Q1FY23	CAGR (FY20-22)
Net Sales	907.2	903.1	1,227.4	346.8	16.3%
EBITDA	96.2	119.4	268.0	75.2	66.9%
EBITDA Margins (%)	10.6	13.2	21.8	21.7	
Net Profit	62.6	93.1	166.9	50.5	63.2%
Reported EPS (₹)	13.9	20.7	37.0	11.2	
P/E	41.5	27.9	15.6	12.9	
RoNW (%)	13.5	16.6	24.4	28.3	
RoCE (%)	7.8	11.0	26.9	30.0	

Source: RHP, ICICI Direct Research; Ratios annualised for Q1FY23



IPO Details

Issue Details

Issue Opens	30th Nov 2022
Issue Closes	2nd Dec 2022
Issue Size	~₹ 835 crore
QIB (Institutional) Share	~50% of issue
Non-Institutional Share	~15% of issue
Retail Share	~35% of issue
Issue Type	OFS
Price Band (₹/share)	₹ 548-577
Market Lot	25 shares
Face value (₹/share)	₹ 10
Listing Market Cap @	~₹ 2,600 crore
Upper price band	

Shareholding pattern

	Pre-Issue	Post-Issue
Promoters	75.5	65.8
Public	24.5	34.2
Total	100.0	100.0

Objects of the issue

Objects of the issue

This is a pure offer for sale (OFS) with company receiving no proceeds from IPO. The company wants to achieve the benefits of listing Equity shares on stock exchanges

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Company Background

UPI is a global manufacturer & supplier of precision engineering components and systems for the off-highway segments which include tractors and construction, forestry and mining (CFM) space with presence in over 25 countries. Company’s key product portfolio includes: 3-point linkage systems (3PL) and precision machined parts (PMP) as well as adjacent product verticals of power take off, fabrications and hydraulic cylinders among others. As of FY22, in terms of value, company had an estimated 16.7% market share of the global 3PL market and an estimated 5.9% market share in the global PMP market in the CFM sector. Company also cater to the aftermarket segment especially for 3PL product range & provide replacements of 3PL parts to organized aftermarket retailers and distributors in North America, Europe, South Africa and Australia.

Exhibit 1: Product-wise revenue split at UPI over the years

Particular (₹ crore)	FY20	% of total	FY21	% of total	FY22	% of total	Q1FY23	% of total
3PL	428.0	47.2	506.7	56.1	684.0	55.7	199.8	57.6
PMP	432.3	47.7	339.7	37.6	447.1	36.4	123.0	35.5
PTO applications	6.4	0.7	8.2	0.9	12.2	1.0	2.9	0.9
Fabrications	7.7	0.9	8.4	0.9	13.0	1.1	2.7	0.8
Hydraulics Cylinder	0.7	0.1	0.8	0.1	0.7	0.1	0.1	0.0
Others	32.1	3.5	39.4	4.4	70.4	5.7	18.3	5.3
Total	907.2	100.0	903.1	100.0	1227.4	100.0	346.8	100.0

Source: RHP, ICICI Direct Research; Others include Scrap sales and export incentives

Sales Model

Company classified its sales in regions outside India as “**International Sales**”; sales from its manufacturing facilities in their respective domestic markets as “**Local Deliveries**”; export sales from Indian locations directly to overseas customers as “**Direct Exports**”; and sales from its warehousing facilities in their respective domestic markets as “**Warehouse Sales**”. This varied sales model enables the company to serve multiple delivery locations and provide multiple delivery options with flexible lead times and costs. It also helps the company to better serve their customers with multiple price points based on different delivery models.

Exhibit 2: UPI’s dual-shore multiple delivery model details



Source: RHP, ICICI Direct Research

Exhibit 3: Contribution by different channels to top line

Particular (₹ crore)	FY20	% of total	FY21	% of total	FY22	% of total	Q1FY23	% of total
International Sales	758.0	83.6	725.5	80.3	1012.1	82.5	285.0	82.2
Local Deliveries	294.6	32.5	254.7	28.2	296.6	24.2	86.4	24.9
Direct Exports	206.5	22.8	242.8	26.9	389.4	31.7	105.1	30.3
Warehouse Sales	371.5	41.0	371.3	41.1	490.8	40.0	142.4	41.1

Source: RHP, ICICI Direct Research

Manufacturing Capacities

Its manufacturing facilities are located in Noida, Vishakhapatnam-Andhra Pradesh, Ludhiana & USA with cumulative production capacity of 66,960 tonnes as of FY22 with utilization at ~82% on blended basis.

Exhibit 4: UPI capacities, production and utilisation trends

Particular	FY20			FY21			FY22			Q1FY23		
	Installed Capacity (in tonnes)	Production (in tonnes)	Utilization (in %)	Installed Capacity (in tonnes)	Production (in tonnes)	Utilization (in %)	Installed Capacity (in tonnes)	Production (in tonnes)	Utilization (in %)	Installed Capacity (in tonnes)	Production (in tonnes)	Utilization (in %)
B-208 Noida	16,500	8,944	54.2	15,000	9,551	63.7	15,000	12,357	82.4	3,750	2,538	67.7
GFPL Noida	6,600	4,629	70.1	7,200	5,045	70.1	8,400	7,028	83.7	2,100	1,623	77.3
Vishakhapatnam, AP	13,440	8,380	62.4	13,440	7,911	58.9	13,440	11,046	82.2	3,360	2,456	73.1
Farmparts, Ludhiana	9,000	6,250	69.4	9,500	7,698	81.0	10,020	10,133	101.1	2,595	2,338	90.1
SKG, Ludhiana	12,000	8,137	67.8	13,500	9,602	71.1	15,000	11,746	78.3	3,750	2,808	74.9
Elridge, Iowa	7,200	3,959	55.0	5,100	2,397	47.0	5,100	2,486	48.7	1,275	559	43.8
Total	64,740	40,299	62.2	63,740	42,204	66.2	66,960	54,796	81.8	16,830	12,322	73.2

Source: RHP, ICICI Direct Research

As of FY22, sales from agriculture segment constituted ~70% of revenues from operations, with sales from CFM segment constituting ~25%.

Exhibit 5: Sales bifurcation across major served segments

Particulars	FY20		FY21		FY22		Q1FY23	
	(₹ crore)	% of total	(₹ crore)	% of total	(₹ crore)	% of total	(₹ crore)	% of total
Agriculture segment	544.2	60.0	630.4	69.8	865.5	70.5	244.7	70.6
CFM segment	324.5	35.8	237.3	26.3	304.9	24.8	85.2	24.6

Source: RHP, ICICI Direct Research

Among geographies as of FY22, sales to North America & Europe forms ~47% & ~25% of revenues respectively. India's share of sales is pegged at ~13-14% with Japan constituting ~5% of sales

Exhibit 6: Product wise - Geography wise breakup trend

Particular (₹ crore)	FY20	% of Total (in %)	FY21	% of Total (in %)	FY22	% of Total (in %)	Q1FY23	% of Total (in %)
Americas	519.0	57.2	434.9	48.2	575.8	46.9	169.7	48.9
3PL	183.2	20.2	189.8	21.0	259.7	21.2	78.2	22.5
PMP	334.8	36.9	240.2	26.6	297.4	24.2	85.8	24.7
PTO applications	3.2	0.4	2.1	0.2	4.7	0.4	1.4	0.4
Fabrication	-	-	0.1	0.0	0.2	0.0	0.1	0.0
Hydraulic cylinders	0.5	0.1	0.7	0.1	0.7	0.1	0.1	0.0
Europe	165.0	18.2	210.6	23.3	310.9	25.3	79.4	22.9
3PL	106.0	11.7	139.5	15.5	196.1	16.0	53.2	15.3
PMP	49.2	5.4	55.4	6.1	89.0	7.3	20.9	6.0
Fabrication	5.8	0.6	7.3	0.8	12.1	1.0	2.6	0.8
PTO applications	3.2	0.4	5.8	0.6	7.3	0.6	1.5	0.4
India	114.6	12.6	143.3	15.9	164.7	13.4	49.0	14.1
3PL	103.9	11.5	130.7	14.5	151.4	12.3	45.6	13.1
PMP	9.1	1.0	11.5	1.3	12.7	1.0	3.4	1.0
Fabrication	1.9	0.2	1.0	0.1	0.7	0.1	0.0	0.0
PTO applications	-	-	0.2	0.0	-	-	-	-
Japan	42.1	4.6	40.8	4.5	60.0	4.9	16.5	4.8
PMP	30.1	3.3	29.0	3.2	40.2	3.3	10.7	3.1
3PL	12.2	1.3	12.0	1.3	19.9	1.6	5.9	1.7
Asia-Pacific	16.7	1.8	16.9	1.9	27.2	2.2	8.9	2.6
3PL	11.4	1.3	15.5	1.7	23.7	1.9	7.9	2.3
PMP	5.5	0.6	1.1	0.1	3.5	0.3	1.1	0.3
PTO applications	0.0	-	-	-	-	-	-	-

Source: RHP, ICICI Direct Research

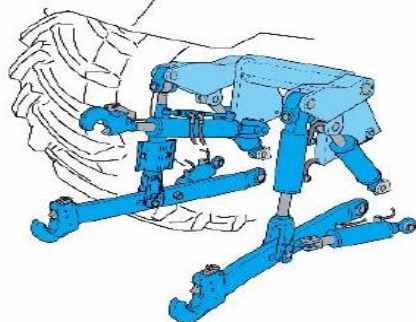
Key Product Offerings

- 3-Point Linkage (3PL):** It consist of different assemblies that are attached to an agricultural tractor. It forms a group of assemblies allowing to attach an implement like a plough to the tractor at 3 coupling points. The systems are engineered customised to each tractor model and region in which the tractor is used as the specifications vary from region to region. These systems are subject to validation and have to comply with international standards. It resembles either a triangle or the letter A.

3PL manufacturing facility: Company has four manufacturing facilities in India, producing 3PL i.e. two facilities in Noida (UP) serving domestic market and export customers, Visakhapatnam (AP) facility serving export customers, Ludhiana facility in Punjab serving domestic 3PL market.

3PL Manufacturing process: Manufacturing processes ranges from pre-machining processes like die-forging, upset-forging, pressing, punching, bending and cold drawing to machining processes performed on conventional or CNC equipment for turning, milling, thread rolling and cutting, spline rolling, grinding as well as laser cutting, welding, heat treatment, surface finishing and assembly.

Exhibit 7: 3-Point Linkage System (3PL)



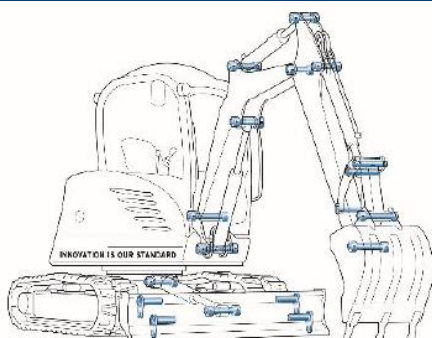
Source: RHP, ICICI Direct Research

- Precision Machined Parts (PMP):** They are a group of components that require stringent material and manufacturing specifications and controls, used in applications across OHVs, ranging from engine parts and transmission components to particular parts for joints in agricultural and construction applications. The size varies in terms of weight from <1kg per part to >100kg per part depending on the application. PMP parts are predominantly individual parts with significant load bearing capability.

PMP Manufacturing facility: Company has four manufacturing facilities producing PMP in India, one at Visakhapatnam, Andhra Pradesh and Farmparts, Ludhiana, Punjab, and two at Noida, Uttar Pradesh. In addition, UPI's facility at Eldridge, Iowa, (USA) serves the North American market.

PMP Manufacturing process: The standard production process for PMP products ranges from precision machining (on CNC or VMC or conventional machines), heat treatment and grinding, followed by welding, if required, and finishing operations such as hardening and plating. The raw material used in the PMP products primarily includes steel bars, steel plates.

Exhibit 8: Precision Machined Parts for Articulated Joints



Source: RHP, ICICI Direct Research

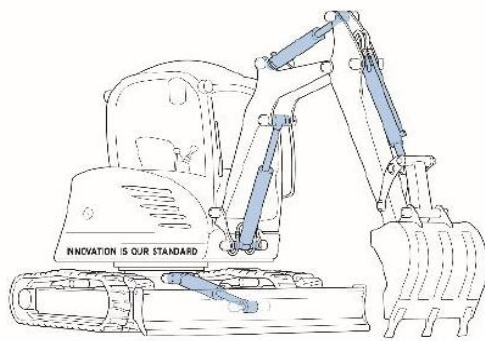
Majority of PMP's at UPI are used in articulated joints (hinges) where arms, booms and cylinders are attached to each other.

- **Hydraulics Cylinders:** These are used as actuators to move mechanized components, by generating linear motion along an axis. Hydraulic cylinders are powered by a fluid, typically oil. Hydraulic cylinders may be 'double acting' hydraulic cylinders, which are powered to extend or reduce the length, or 'single acting' hydraulic cylinders, which are only powered to move in one direction. Plunger cylinders form a subcategory of single acting cylinders, using the rod as a piston, where the rod is only slightly smaller than the inner diameter of the tube.

Hydraulic cylinder manufacturing: Company has capabilities at their Visakhapatnam, Andhra Pradesh facility to manufacture the same.

Hydraulic cylinder manufacturing process: Manufacturing process is split into machining, including turning, milling and welding (where standard machines are used, fine-tuned to cater to the length of the component), followed by assembly and testing.

Exhibit 9: Hydraulic cylinders usage in off highway vehicles



Source: RHP, ICICI Direct Research

- **PTO:** It is a device used to drive implements such as rotary tillers, mowers and other equipment requiring a mechanical drive by the tractor. The PTO transmits power from the tractor to the implement and is used to distribute the power within the machine. The PTO is implement-specific and part of the implement and, therefore, each implement has one main shaft and, in many cases, secondary shafts to distribute the power within the implement.

PTO Manufacturing Facilities: Company has PTO components manufacturing capabilities at Farmparts, Ludhiana, Punjab facility as well as at Noida, Uttar Pradesh.

PTO Manufacturing Process The production processes include turning and milling of castings and forgings used in joints and flanges, followed by broaching and hobbing. The machining of components is followed by painting and assembly with a guarding shielding all rotating items which prevent accidents.

Exhibit 10: PTO application



Source: RHP, ICICI Direct Research

Industry Overview

3-point linkage (3PL) is a system used to hitch apparatus to tractors. The three-point linkage most often refers to the way ploughs and other apparatus are attached to an agricultural tractor. The three points resemble either a triangle, or the letter A. Three point attachments system is the simplest way of joining two bodies in engineering.

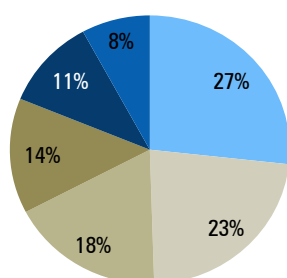
3PL is a play on tractor sales (more tilted towards higher HP segment) wherein the global tractor production is pegged at ~ 2.1 million units as of CY21, of which ~ 70% is contributed by < 60 HP segment, which is driven by India, China, Japan and other developing economies. The remaining 30% of the world tractor demand comes from >60 HP segment driven by the economies in Europe and North America. India and China constitute ~62% of world tractor production while their share in global 3PL demand by value is only ~36%. This is primarily due to (i) higher ratio of lower HP tractors in the total population (ii) lower per assembly price of 3PL in these regions.

On the other hand, North America, which is counted as one of the most mature tractor markets, contributes ~11% of world tractor demand, and is estimated to contribute ~18% of the total global 3PL demand as of CY21

World market for 3PL is estimated at USD\$ 350-375 million (~₹ 3,000 crore) as of CY21 and is expected to grow at a CAGR of ~7% during CY21-26 to ~₹ 4,200 crore by CY26, riding on mid-single digit (~4%) CAGR growth in tractor production globally in the same time period. It will also be supported by shift towards higher HP tractor segment in the developing economies with higher HP tractor eventually resulting in higher ASP's for 3PL system.

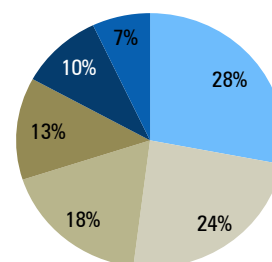
Exhibit 11: World 3PL market geography wise breakup

World 3PL market in 2021 (US\$ 350-375 million)



■ Europe ■ India ■ North America ■ China ■ ROW ■ Japan

World 3PL market in 2026E (US\$ 505-525 million)



■ Europe ■ India ■ North America ■ China ■ ROW ■ Japan

Source: RHP, Crisil Research, ICICI Direct Research

Exhibit 12: Growth forecast for Global Tractor industry

CAGR	CAGR Rates - Tractors					
	North America	Europe	Japan	China	India	Total
Review (2016-2021)	6.9%	3.3%	4.6%	-10.0%	11.7%	4.4%
Outlook (2021-2026)	4.0%	4.4%	2.4%	3.0%	4.7%	4.1%

Source: RHP, Crisil Research, ICICI Direct Research

Exhibit 13: Growth Forecast for Global 3PL Industry

CAGR	CAGR Rates - 3PL					
	North America	Europe	Japan	China	India	Total
Review (2016-2021)	9.8%	6.4%	7.8%	-8.2%	15.0%	5.1%
Outlook (2021-2026)	7.5%	7.5%	5.6%	6.3%	7.8%	7.1%

Source: RHP, Crisil Research, ICICI Direct Research

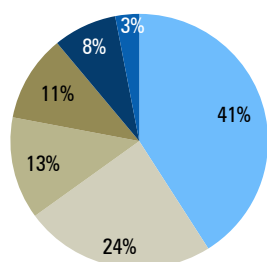
Precision components (PMP) are highly precise machinery parts manufactured based on custom specifications of customers, used for industrial and machine-based companies in different applications, like CNC turning. PMP are components that requires stringent material control and precise manufacturing specifications. These include, precision machined components such as pins, bushes and bosses used in articulated joints across the construction, forestry and mining equipment.

PMP products are a play on construction equipment space which are in turn driven by investment in infrastructure projects. On a healthy base, global construction equipment industry is seen growing at a CAGR of 3.3% during CY21-26 from 1.3 lakh units in CY21 to 1.5 lakh units in CY26.

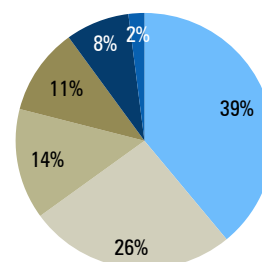
World market for PMP for Articulated joints is estimated to be ~USD 648 million (~₹ 5,200 crore) as of CY21 with 85%+ demand constituted by four key geographies namely China, Japan, Europe and North America. This segment is expected to grow at CAGR of ~7% during CY21–26 to ~USD 897 million in CY26, with projected growth rate at a decline vs. 15% CAGR witnessed during CY16–21. Future growth will be driven by the regions such as North America and India, where construction spending, especially on infrastructure projects, continues to increase. China, being the largest market globally, contributes around 41% to the total market share and is expected to grow at a CAGR of 5%-7% during CY21-26. India, contributing around 8%, is expected to grow at a CAGR of 7%-9% during CY21-26 due to higher investments towards infrastructure activities and expansion plans by various construction equipment manufacturers. Japan and Europe are the second and third largest consumers of PMP for AJ parts respectively, contributing approximately 37% of the world market.

Exhibit 14: World PMP geography wise breakup (for Articulated Joints i.e. AJ)

World PMP market in 2021 (US\$ 648 million)



World PMP market in 2026E (US\$ 897 million)



China Japan Europe North America India Others

China Japan Europe North America India Others

Source: RHP, Crisil Research, ICICI Direct Research

Exhibit 15: Growth forecast for Global Construction equipment industry

CAGR Rates - Construction Equipments						
CAGR	North America	Europe	Japan	China	India	Total
Review (2016-2021)	4.3%	1.8%	5.5%	30.0%	1.2%	6.9%
Outlook (2021-2026)	2.7%	4.0%	2.3%	2.2%	4.4%	3.3%

Source: RHP, Crisil Research, ICICI Direct Research

Exhibit 16: Growth forecast for Global PMP products (for Articulated Joints i.e. AJ)

CAGR Rates - PMP						
CAGR	North America	Europe	Japan	China	India	Total
Review (2016-2021)	8.0%	7.3%	8.6%	35.1%	4.2%	15.1%
Outlook (2021-2026)	5.9%	7.2%	8.4%	5.5%	7.5%	6.7%

Source: RHP, Crisil Research, ICICI Direct Research

Investment Rationale

Leading market presence in global off-highway segment

Company is a prominent supplier of engineered system/components to off-highway segment (tractor and construction equipment space) with presence across 25 countries. In terms of value, as of FY22, UPI has an estimated 16.7% market share of the global 3PL market and an estimated 5.9% market share in the global PMP market in the CFM (construction, forestry and mining) space. In the 3PL space the company stands to benefit from steady tractor demand in higher HP segment in the developed world and increasing farm mechanisation trend in the developing economies amid pressure on farm yields and shortage of farm labour. In the PMP space, the company stands to benefit from the infrastructural spending across key global economies on variety of segments like transport, logistics among others. These are all critical components commanding high load bearing capacities and hence require precision to manufacture as per the specified parameters

Engineering driven, vertically integrated solutions provider

Over a period of time, UPI has evolved from being just a component supplier to a total solution provider encompassing complete assemblies of precision engineered products. It's in house capabilities based on customer requirement include product conceptualization, designing, prototyping, testing, development and assembly to customized packaging and delivery. Its ultimate aim is to be an integral part of its customers' global supply chain. Over the years it has built significant in-house end-to-end manufacturing process capabilities and expertise ranging from a forge shop, precision machining on computer numerical control ("CNC"), vertical machining centre ("VMC"), welding (including butt and robotic welding), induction hardening, grinding, thread rolling, hobbing, broaching, shot blasting, heat treatment, surface finishing (including plating and painting) and electrophoretic deposition ("ED") coating amongst others. These capabilities bode well for UPI as it comes as a solutions provider and not just another component supplier from a customer standpoint.

Long term relationship with key customers incl. global OEM's

The company's key clients in agriculture and CFM sector includes Tractors and Farm Equipment Limited ("TAFE"), Doosan Bobcat North America ("Bobcat"), Claas Agricultural Machinery Private Limited ("Claas Tractors"), Yanmar Global Expert Co., Ltd ("Yanmar") and LS Mtron Limited among others. Four of company's top five customers have been customers for over 10 years. TAFE and Kramp are some of the customers with whom it has relationships for over 15 years. In the farm machinery/tractor space, UPI count all top 10 players as its customers while in the CFM domain, it counts 5 out of top 10 players at its customers. Its key customers in the farm machinery space in the domestic market include Mahindra & Mahindra, International Tractors (ITL), TAFE, Kubota-Escorts among others.

Strong financials with robust return ratios & lean B/S

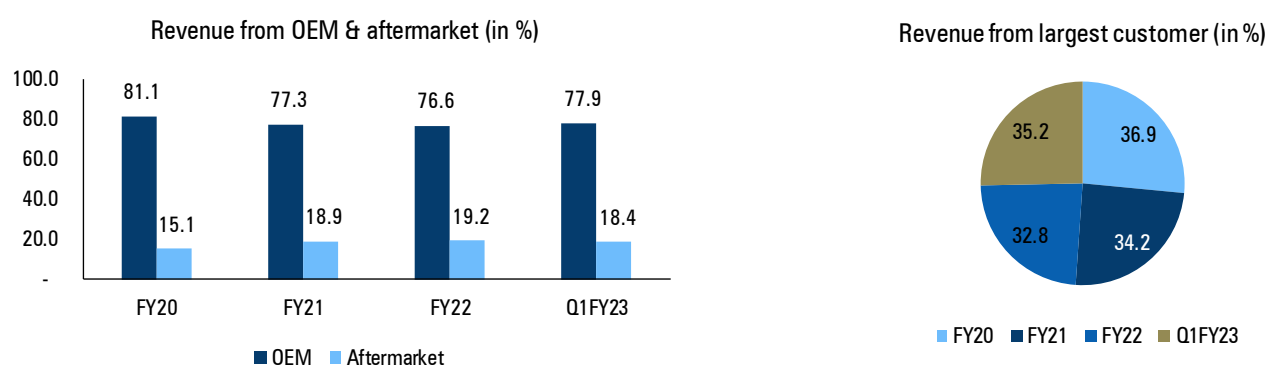
Sales/PAT at UPI has grown at a CAGR of 16.3%/63.2% respectively over FY20-22, led by impressive improvement in EBITDA margin profile. UPI clocked EBITDA margins of 21.8% in FY22 vs. sub 15% levels clocked in earlier years, primarily driven by structural changes wherein it has lowered its manufacturing output in US from ~27% some years ago to ~13% now and focussed more upon manufacturing in India. It is also a function of higher warehousing sale (maintain inventory for customers at specified locations for just in time delivery) wherein UPI realises maximum margins. Q1FY23 margin run-rate has been maintained at ~22% with management guiding this as a new sustainable run-rate for the company going forward. Consequent RoCE profile is also impressive at UPI with current reading placed at healthy 25%+. UPI has a healthy balance sheet with gross debt as of Q1FY23 pegged at ₹115 crore with Debt/Equity healthily placed at 0.2x.

Key Risk

Client, segment and product concentration

Sales mix is a bit skewed at UPI in terms of channel mix, segments that it serves as well as product mix. UPI realises majority of sales from OEM channel with share of sales from this space pegged at 75%+ thereby limiting margin improvement prospects given the high bargaining power that OEM possess. Further, the company’s top 10 customers accounted for ~75.7% and 89.6% of FY22 sales, respectively for 3PL & PMP segments. The company’s client exposure is fairly concentrated, opening it up to the risk of significant impact on revenues in case of reduction in demand or loss of any key customer (largest customer accounted for ~33-35% of sales). Further UPI has high exposure in agricultural segment (~70% of top line) which itself is seasonal in nature, an inherent risk to its business profile. UPI also has product concentration risk with 3PL and PMP constituting over 90% of sales.

Exhibit 17: Share of revenues from OEM’s & largest customer



Source: RHP, ICICI Direct Research

Inorganic growth

UPI intends to grow inorganically through acquisitions which we believe possess an execution as well as valuation risk. Execution risk in terms of potential high cost structure at target company and UPI’s ability to turnaround the entity in a time bound manner. While valuation risk pertains to company overpaying for an asset for growth ambitions thereby denting the overall return ratios and b/s profile (leverage) at the consolidated level.

Slowdown in North America, Europe to impact demand

UPI realises >80% of sales from outside India and hence is susceptible to business risk due to slowdown in foreign economies as well as exposed to foreign currency risks. North America & Europe can materially affect company’s performance as it derives substantial sales from these two geographies i.e. 47% & 25% respectively as of FY22.

Low growth (single digit CAGR) prospects in the base business

UPI realises majority (90%+) of its revenues from 3PL and PMP segments which are projected to grow at a CAGR of 7% over CY21-26 thereby limiting the organic growth prospects for the company. Moreover, the segment size in total for 3PL and PMP as of CY21 is pegged at ~US\$ 1 billion which itself limits the opportunity pie. The company however in the recent past has diversified into other product categories like Hydraulics, Power take-off (PTO) and fabrications with growth in these segment a key monitorable to gauge the overall growth prospects for the company going forward.

Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Total operating Income	907.2	903.1	1,227.4	346.8
Growth (%)	(14.5)	(0.4)	35.9	(71.7)
Raw Material Expenses	328.8	352.9	401.6	123.3
Employee Expenses	211.8	185.4	219.7	58.7
Other Expenses	270.5	245.4	338.1	89.6
Total Operating Expenditure	811.0	783.8	959.4	271.6
EBITDA	96.2	119.4	268.0	75.2
Growth (%)	(30.3)	24.1	124.5	(71.9)
Depreciation	35.4	37.3	36.6	9.6
Interest	18.0	8.1	5.7	1.3
Other Income	31.6	44.5	3.6	0.9
PBT	74.4	118.6	229.3	65.2
Total Tax	11.8	25.4	62.4	14.7
Reported PAT	62.6	93.1	166.9	50.5
Growth (%)	(10.0)	48.7	79.2	(69.7)
Reported EPS (₹)	13.9	20.7	37.0	11.2

Source: RHP, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Profit after Tax	62.6	93.1	166.9	50.5
Add: Depreciation & Interest	51.0	44.4	41.3	10.7
(Inc)/dec in Current Assets	51.8	(19.7)	(131.7)	(17.4)
Inc/(dec) in CL and Provisions	(14.3)	39.5	20.0	16.4
Others	(20.7)	(4.6)	(11.7)	(4.9)
CF from operating activities	130.5	152.8	84.9	55.2
(Inc)/dec in Investments	-	(1.3)	1.3	-
(Inc)/dec in Fixed Assets	(65.2)	(16.1)	(34.8)	(7.7)
Others	11.3	1.6	1.0	1.1
CF from investing activities	(53.8)	(15.7)	(32.6)	(6.6)
Proceeds from Issuance of Equity	2.1	(1.8)	0.2	1.4
Others	(70.4)	(141.4)	(8.8)	(16.2)
Dividend paid & dividend tax	(6.5)	-	(40.5)	(16.2)
CF from financing activities	(74.8)	(143.2)	(49.1)	(31.1)
Net Cash flow	1.8	(6.1)	3.2	17.6
Opening Cash	15.1	16.9	10.8	14.0
Closing Cash	16.9	10.8	14.0	31.6

Source: RHP, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Liabilities				
Equity Capital	44.6	44.6	44.6	44.6
Reserve and Surplus	419.5	515.5	640.6	669.3
Total Shareholders funds	464.2	560.1	685.2	713.9
Total Debt	256.5	127.8	127.3	114.7
Deferred Tax Liability	24.1	27.6	24.8	22.2
Minority Interest / Others	13.8	15.6	16.7	16.8
Total Liabilities	794.2	759.8	878.5	891.5
Assets				
Gross Block	520.5	514.7	551.0	557.2
Less: Acc Depreciation	247.3	256.7	291.6	302.7
Net Block	273.2	258.0	259.4	254.5
Capital WIP	9.3	2.3	2.2	6.6
Total Fixed Assets	282.6	260.3	261.6	261.1
Goodwill & Investments	67.2	65.7	65.3	66.0
Inventory	352.9	339.1	441.9	464.8
Debtors	122.8	167.5	194.2	194.0
Other Current Assets	39.3	31.6	31.6	32.8
Cash	16.9	10.8	14.0	31.6
Total Current Assets	532.0	549.0	681.8	723.2
Creditors	52.7	90.1	89.6	103.7
Provisions	6.3	5.5	5.5	6.4
Other current liabilities	45.6	37.8	57.7	62.0
Total Current Liabilities	104.6	133.4	152.7	172.0
Net Current Assets	427.5	415.6	529.1	551.2
Others	16.7	18.0	22.2	12.9
Application of Funds	794.2	759.9	878.5	891.5

Source: RHP, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY20	FY21	FY22	Q1FY23
Per share data (₹)				
EPS	13.9	20.7	37.0	11.2
Cash EPS	21.7	28.9	45.1	13.3
BV	102.9	124.2	151.9	158.3
Cash Per Share	3.8	2.4	3.1	7.0
Operating Ratios (%)				
EBITDA Margin	10.6	13.2	21.8	21.7
PBT / Net sales	6.7	9.1	18.9	18.9
PAT Margin	6.9	10.3	13.6	14.6
Inventory days	142.0	137.0	131.4	122.3
Debtor days	49.4	67.7	57.8	51.0
Creditor days	21.2	36.4	26.6	27.3
Return Ratios (%)				
RoE	13.5	16.6	24.4	28.3
RoCE	7.8	11.0	26.9	30.0
RoIC	8.1	11.3	27.4	31.4
Valuation Ratios (x)				
P/E	41.5	27.9	15.6	12.9
EV / EBITDA	26.9	21.7	9.7	8.6
EV / Net Sales	2.9	2.9	2.1	1.9
Market Cap / Sales	2.9	2.9	2.1	1.9
Price to Book Value	5.6	4.6	3.8	3.6
Solvency Ratios				
Debt/EBITDA	2.7	1.1	0.5	0.4
Debt / Equity	0.6	0.2	0.2	0.2
Current Ratio	8.7	5.6	7.0	6.3
Quick Ratio	2.8	2.1	2.4	2.1

Source: RHP, ICICI Direct Research, Ratios annualised for Q1FY23

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