

## IPO Note

20th December, 2024

## Company Overview

Incorporated in 2016, Unimech Aerospace and Manufacturing Limited is an engineering solutions provider specializing in the manufacturing and supply of critical parts such as aero tooling, ground support equipment, electro-mechanical sub-assemblies, and other precision-engineered components for the aerospace, defence, energy, and semiconductor industries. The company possesses “build to print” capabilities, manufacturing products based on client designs and “build to specifications” capabilities, assisting clients in designing products to be manufactured based on specifications. It supplies high-precision and critical components to major OEMs and their licensees worldwide. The company's export-oriented business features a diverse product portfolio with a strong focus on quality and timely delivery. Its product portfolio includes, among other items, engine lifting and balancing beams, assembly, disassembly, and calibration tooling, ground support equipment, airframe assembly platforms, engine transportation stands, mechanical and electro-mechanical turnkey systems, and precision components. The company is a key link in the global supply chain for aerospace, defence, semiconductor, and energy OEMs and their licensees. The company's diverse capabilities enable it to serve customers globally, establishing it as an export-oriented business with clients in the USA, Germany, and the United Kingdom. The company is one of the entities well-positioned in both Aerospace and Defence GSTE and precision component manufacturing in India, catering to global OEMs and their approved licensees. As of the six-month period ended September 30, 2024, the company has two manufacturing facilities, Unit I and Unit II, in Bangalore, spread across an aggregate area of over 1,20,000 sq. ft. These facilities have a combined annual installed capacity of 1,65,945 hours per annum, and an annual actual production of 1,57,123 hours per annum.

## Objects of the issue

The company proposes to utilize net proceeds towards funding the following objects:

- ⇒ Funding of capital expenditure for expansion through the purchase of machinery and equipment by the company;
- ⇒ Funding working capital requirements of the company;
- ⇒ Investment in the company's Material Subsidiary for:
  - purchase of machinery and equipment;
  - funding its working capital requirements; and
  - repayment/prepayment, in full or part, of certain borrowings availed by the company's Material Subsidiary; and
- ⇒ General corporate purposes.

## Investment Rationale

## Advanced manufacturing capabilities capable of delivering high-precision engineering solutions

The company is a global high-precision engineering solutions provider specializing in manufacturing complex products with “build to print” and “build to specifications” offerings. This involves machining, fabrication, assembly, testing, and creating new products based on the specific requirements of its clients in the aerospace, defense, energy, and semiconductor industries.

## The company offers unique dual capabilities:

**Build to Print:** Manufacturing complex, high-mix, low-volume tools and components based on client designs. Between FY22 and H1FY25, it produced 2,999 tooling and sub-assembly SKUs and 760 precision machined part SKUs for over 26 customers across seven countries.

**Build to Specification:** Assisting clients in product design by meeting specifications and ensuring functionality to deliver a satisfactory product experience.

The company's manufacturing capabilities include machining processes such as turning, milling, double-column milling, electro-discharge machining (EDM), and grinding. The company's end-to-end solutions under one roof enhance value-added offerings, improve operational efficiency, optimize resources, and strengthen customer retention.

## Issue Details

Offer Period	23rd Dec, 2024 - 26th Dec, 2024
Price Band	Rs. 745 to Rs. 785
Bid Lot	19
Listing	BSE & NSE
Issue Size (no. of shares in mn)	6.4
Issue Size (Rs. in bn)	5.0
Face Value (Rs.)	5

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Equirus Capital Pvt. Ltd., Anand Rath Securities Ltd.
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Registrar	Kfin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	91.8%	79.8%
Public	8.2%	20.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

# Unimech Aerospace and Manufacturing Ltd.

## Established player with unique capabilities in a sector with high entry barriers

The company specializes in manufacturing complex tooling, mechanical assemblies, electro-mechanical turnkey systems, and precision components. Its diverse product range and ongoing product development have allowed it to serve multiple industries and attract new customers. Between FY22 and H1FY25, the company produced 2,999 SKUs in tooling and precision complex sub-assemblies and 760 SKUs in precision machined parts, serving over 26 customers across seven countries. The company offers a variety of high-mix, highly complex, low-volume products, including engine lifting and balancing beams, ground support equipment, airframe assembly platforms, and engine transportation stands. It adheres to strict quality standards, including AS9100D and BS EN ISO 9001:2015, which are recognized industry norms for aerospace manufacturing. The production process is complex, and the lengthy client approval procedures make it challenging for new entrants to establish facilities for manufacturing similar products. Winning bids require technical expertise, competitive pricing, and strict adherence to quality and delivery standards. Scaling operations in a high-mix, low-volume manufacturing environment is intricate, demanding a skilled workforce, robust infrastructure, and consistent execution. Maintaining this balance while ensuring high quality is a significant challenge for new entrants. The company has established itself as an approved supplier for various leaders in the aerospace, defense, semiconductor, and energy industries.

## Valuation

Incorporated in 2016, Unimech Aerospace and Manufacturing Limited specializes in the manufacture of complex tools, including mechanical assemblies, electromechanical systems, and components for aero-engine and airframe production. The company provides engineering solutions tailored to meet clients' specific requirements in industries such as aerospace, defense, energy, and semiconductors. Their offerings include "build to print" and "build to specifications," which encompass machining, fabrication, assembly, testing, and the development of new products. The Asian region is expected to witness the largest fleet expansion, with an anticipated addition of 11,925 aircrafts by 2042, solidifying its status as a global aviation leader. In the energy sector, there is a growing focus on renewable energy sources, including solar and wind, along with government support for cost-effective and environmentally friendly projects. Notable Asian countries with advanced semiconductor manufacturing capabilities include Taiwan, South Korea, China, and Japan, while India is emerging as a key player in the precision components sector for the chip manufacturing industry. Unimech's systems and processes ensure efficient order fulfillment and on-time delivery. As of September 2024, the company had an order backlog valued at Rs. 807.52 million, with delivery timelines ranging from 4 to 16 weeks. In terms of financial performance, Unimech is the fastest-growing company in its sector, having recorded an impressive compound annual growth rate (CAGR) of 139.7% in revenue between FY22 and FY24. Their EBITDA saw a remarkable growth rate of 220.2% during the same period. Additionally, Unimech achieved the third-highest PAT margin of approximately 27.9% in FY24, up from 24.2% in FY23. **The issue is valued at a price-to-earnings (P/E) ratio of 59.3x on the upper price band based on FY24 earnings, which is comparatively lower than its peers. Considering the company's strong financial performance, industry tailwinds & attractive valuation, we recommend a "SUBSCRIBE" rating for this issue.**

## Key Risks:

- ⇒ The company's business is heavily reliant on exports, with 95.6% and 97.6% of total revenue from operations in the six months ended September 30, 2024 and FY24, respectively, coming from exports. Adverse changes in global market conditions, particularly in key markets like the United States and Germany, could negatively affect the company's business, cash flows, operations, and financial condition
- ⇒ The customer on-boarding process can take up to three years, potentially causing delays in revenue generation. This reliance on trust-building for scaling operations may negatively impact the company's financial condition and future results.
- ⇒ The company's business operates on a longer gestation period, with a time gap of 7 to 28 weeks between receiving an order and receiving payment, impacting its working capital requirements.

# Unimech Aerospace and Manufacturing Ltd.

## Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
<b>Revenue</b>				
Revenue from operations	363	942	2,088	1,207
<b>Total revenue</b>	<b>363</b>	<b>942</b>	<b>2,088</b>	<b>1,207</b>
<b>Expenses</b>				
Cost of Material Consumed	89	298	486	267
Purchases of stock-in-trade	0	10	6	0
Changes in inventories of finished goods, work-in-progress and stock-in-trade	-18	-118	-50	-8
Subcontracting charges	29	74	269	94
Employee Benefits Expenses	83	156	324	236
Other expenses	103	176	260	130
<b>Total operating expenses</b>	<b>286</b>	<b>596</b>	<b>1,296</b>	<b>718</b>
<b>EBITDA</b>	<b>77</b>	<b>346</b>	<b>792</b>	<b>488</b>
Depreciation & amortization	31	41	45	38
<b>EBIT</b>	<b>46</b>	<b>305</b>	<b>747</b>	<b>451</b>
Finance costs	16	19	32	22
Other Income	7	8	50	69
<b>PBT</b>	<b>37</b>	<b>294</b>	<b>765</b>	<b>498</b>
Current Tax	10	58	184	112
Deferred tax	-7	8	0	-1
<b>Total tax</b>	<b>3</b>	<b>66</b>	<b>184</b>	<b>111</b>
<b>Net Profit</b>	<b>34</b>	<b>228</b>	<b>581</b>	<b>387</b>
<b>Diluted EPS</b>	<b>0.8</b>	<b>5.2</b>	<b>13.2</b>	<b>8.5</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Cash Flow from operating activities	15	14	236	500
Cash flow from/(used in) investing activities	8	-59	-239	-3,360
Net cash flows (used in) / from financing activities	-2	29	56	2,863
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>22</b>	<b>-16</b>	<b>53</b>	<b>4</b>
<b>Cash and cash equivalents at the beginning of the period*</b>	<b>13</b>	<b>34</b>	<b>19</b>	<b>72</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>34</b>	<b>19</b>	<b>72</b>	<b>75</b>

Source: RHP, BP Equities Research

\*Cash & cash equivalent includes balances with Bank

# Unimech Aerospace and Manufacturing Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	160	216	451	622
Right of Use Assets	83	71	63	83
Capital Work-in-Progress	30	0	0	219
Intangible assets	4	3	6	5
<b>Financial Assets</b>				
(i) Investments	0	0	0	780
(ii) Other financial assets	31	7	9	12
Other Non-Current Assets	8	9	91	272
<b>Total Non Current assets</b>	<b>316</b>	<b>306</b>	<b>620</b>	<b>1,993</b>
<b>Current Assets</b>				
Inventories	47	158	197	201
<b>Financial Assets</b>				
(i) Investments	0	0	0	2,247
(ii) Trade Receivables	75	321	468	425
(iii) Cash and cash equivalents	34	19	72	75
(iv) Bank balances other than (ii) above	40	22	5	25
(vi) Other financial assets	18	60	239	2
Current Tax Assets (Net)	2	0	40	7
Other current assets	36	48	116	118
<b>Total Current Assets</b>	<b>253</b>	<b>628</b>	<b>1,137</b>	<b>3,100</b>
<b>Total Assets</b>	<b>569</b>	<b>933</b>	<b>1,756</b>	<b>5,093</b>
<b>Equity and Liabilities</b>				
Equity Share Capital	10	10	220	238
Other Equity	266	478	866	3,663
<b>Total Equity</b>	<b>277</b>	<b>488</b>	<b>1,086</b>	<b>3,901</b>
<b>Non-Current Liabilities</b>				
<b>Financial Liabilities</b>				
(i) Borrowings	58	46	125	396
(ii) Lease Liabilities	18	10	0	19
Provisions	18	60	0	2
Deferred tax liabilities (net)	0	1	0	0
<b>Total Non-Current Liabilities</b>	<b>93</b>	<b>117</b>	<b>125</b>	<b>416</b>
<b>Current Liabilities</b>				
<b>Financial Liabilities</b>				
(i) Borrowings	113	177	163	351
(ii) Lease Liabilities	11	8	10	10
(iii) Trade Payables	41	69	135	170
(iv) Other financial liabilities	11	34	34	160
Provisions	5	12	196	56
Current tax liabilities (Net)	10	20	0	11
Other current liabilities	8	7	7	16
<b>Total Current Liabilities</b>	<b>199</b>	<b>328</b>	<b>545</b>	<b>776</b>
<b>Total Liabilities</b>	<b>292</b>	<b>445</b>	<b>670</b>	<b>1,192</b>
<b>Total Equity and Liabilities</b>	<b>569</b>	<b>933</b>	<b>1,756</b>	<b>5,093</b>

Source: RHP, BP Equities Research

## Disclaimer Appendix

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

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