

| | |
|--------------------------------|----------------------------|
| Retail Research | IPO Note |
| Sector: Capital Goods | Price Band (Rs): 745 – 785 |
| 20 th December 2024 | Recommendation: Subscribe |

Unimech Aerospace and Manufacturing Ltd

Company Overview:

Unimech Aerospace and Manufacturing Ltd is an engineering solutions company specializing in manufacturing and supply of critical parts and other precision engineered components for aerospace, defence, energy and semiconductor industries. The company possesses “build to print” and “build to specifications” capabilities and supplies high precision and critical components to major OEMs and their licensees worldwide. The company houses two manufacturing facilities in Bangalore with an aggregate installed capacity of 1,65,945 hours per annum spanning across an area of over 1,20,000 square feet.

Key Highlights:

1. Advanced manufacturing capabilities: Unimech Aerospace is a global high precision engineering solutions company specializing in manufacturing of complex products with “build to print” and “build to specifications” offerings. Under the build to print model, the company manufactures tools and components on the basis of specific designs and drawings shared by the clients, while the build to specifications model is targeted to assist clients in product designing by adhering to specifications and descriptions of client’s requirements.

2. Export driven business: The company is one of the leading exporters of aerospace components, catering to a global customer base across USA, Germany and United Kingdom. As of 1HFY25/FY24, export sales accounted for ~96%/98% of the total revenue, of which the share of sales to USA based customers stood at ~83%/92% respectively.

3. Portfolio of complex “high-mix, low volume” products: The company manufactures and supplies critical parts such as aero tooling, ground support equipment, electro-mechanical sub-assemblies and other precision engineered components finding applications in the aerospace, defence, energy and semiconductor industries. These products are characterized by their manufacturing complexity and high-mix, low volume nature.

4. Established player in a sector with high-entry barriers: The company operates in an industry which is characterized by complex production process and lengthy approval process from clients, making it difficult for a new entrant to set up any meaningful business. Apart from this, it becomes difficult for clients to shift to another vendor once their requirements are fulfilled with the onboarded vendor.

Valuation: The company is operating in a niche segment of aero tools and precision component manufacturing with applications in the aircraft Maintenance, Repair and Overhaul (MRO), defence, semiconductor and energy industries. The global MRO market is poised for significant growth in the next 4-5 years driven by rapid addition of new aircraft to the fleet and the setting up of a domestic MRO and manufacturing ecosystem in India. The company is looking to expand its designing and manufacturing capabilities through acquisitions (recent acqn of 30% stake in Dheya Engg). It is also scouting for organic/inorganic opportunities in USA which will expand its capacity and ability to service customers in its key market. At the upper price band of Rs 785, the company is valued at FY25 annualized P/E multiple of 51.6x on post issue capital which is at a discount to its peers. We recommend investors to subscribe to the issue at cut-off price.

| Issue Details | |
|-------------------------------|---|
| Date of Opening | 23 rd December 2024 |
| Date of Closing | 26 th December 2024 |
| Price Band (Rs) | 745 – 785 |
| Offer for sale (Rs cr) | 250.0 |
| Fresh Issue (Rs cr) | 250.0 |
| Issue Size (Rs cr) | 500.0 |
| No. of shares | 63,69,427 @upper price band |
| Face Value (Rs) | 5 |
| Post Issue Market Cap (Rs cr) | 3,802 – 3,992 |
| BRLMs | Anand Rathi Advisors Ltd, Equirus Capital Pvt Ltd |
| Registrar | KFin Technologies Ltd |
| Bid Lot | 19 shares and in multiple thereof |
| QIB shares | 50% |
| Retail shares | 35% |
| NII shares | 15% |

| Objects of Issue | |
|--|---|
| Particulars | Estimated utilization from net proceeds (Rs cr) |
| Funding of capital expenditure for expansion through purchase of machineries and equipment (Company + Material subsidiary) | 80.3 |
| Funding working capital requirements (Company + Material subsidiary) | 70.0 |
| Investment in material subsidiary for repayment/prepayment, in full or part, of certain borrowings | 40.0 |
| General Corporate Purposes | 59.7 |
| Total proceeds from fresh issue | 250.0 |

| Shareholding Pattern | | |
|---------------------------|--------------------|--------------|
| Pre-Issue | No. of Shares | % |
| Promoter & Promoter Group | 4,37,76,600 | 91.8 |
| Public & Others | 38,95,570 | 8.2 |
| Total | 4,76,72,170 | 100.0 |

| Post Issue @ Lower Price Band | No. of Shares | % |
|-------------------------------|--------------------|--------------|
| Promoter & Promoter Group | 4,04,20,895 | 79.2 |
| Public & Others | 1,06,06,979 | 20.8 |
| Total | 5,10,27,875 | 100.0 |

| Post Issue @ Upper Price Band | No. of Shares | % |
|-------------------------------|--------------------|--------------|
| Promoter & Promoter Group | 4,05,91,887 | 79.8 |
| Public & Others | 1,02,64,997 | 20.2 |
| Total | 5,08,56,883 | 100.0 |

Source: RHP, SSL Research

Key Financials

| Particulars (Rs cr) | FY22 | FY23 | FY24 | 1HFY25 |
|-------------------------|---------|-------|-------|--------|
| Revenue from operations | 36.3 | 94.2 | 208.8 | 120.7 |
| EBITDA | 7.7 | 34.6 | 79.2 | 48.8 |
| PAT | 3.4 | 22.8 | 58.1 | 38.7 |
| EBITDA Margin (%) | 21.3 | 36.7 | 37.9 | 40.5 |
| PAT Margin (%) | 9.3 | 24.2 | 27.8 | 32.1 |
| RoE (%) | 12.3 | 46.7 | 53.5 | - |
| RoCE (%) | 12.0 | 43.9 | 58.0 | - |
| P/E (x)* | 1,103.3 | 164.0 | 64.4 | - |

**Note: Pre-issue P/E based on upper price band*

Source: RHP, SSL Research

Risk Factors

- **Customer concentration:** As of 1HFY25/FY24, the company's revenue from its top five customers accounted for ~95%/97% of the total revenue respectively, of which the top 3 customers had a share of ~85%/94% respectively. Thus, the demand from these customers has a strong influence on the company's revenue as the sales are directly impacted by the production and inventory levels of the customer's products.
- **Long gestation period:** The company's business model is characterized by a lengthy order-to-cash cycle. From the receipt of purchase orders, the manufacturing process typically spans between 4 to 16 weeks, depending on product complexity. Post which, the product delivery and customer acceptance can take an additional 2 to 8 weeks. Subsequently, the collection period extends from 30 to 120 days. This extended cycle significantly impacts the working capital requirements and overall cash flow.
- **Export risk:** The company is primarily an export-oriented business with a majority of its revenue being derived from exports. As of 1HFY25/FY24, export sales accounted for ~96%/98% of the company's total revenue. The primary export markets for the company include USA, Germany and United Kingdom. Thus, any adverse changes in the conditions affecting the industries in global markets can impact the company's business and financial performance.

Growth Strategies

- Enhancing global footprint in strategic regions
- Capturing higher market share and increase in wallet shares from customers
- Expanding manufacturing capacity and collaborative manufacturing with global and local manufacturers for growth
- Focus on growth by opportunistic inorganic acquisitions and partnerships with customers
- Expanding product development and market presence across high-mix, low volume industries

Revenue split – Segment wise

| Segment | FY22 | | FY23 | | FY24 | | 1HFY25 | |
|-------------------------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | Rs cr | % of OR* | Rs cr | % of OR | Rs cr | % of OR | Rs cr | % of OR |
| Aero-tooling | 34.8 | 95.8 | 89.2 | 94.7 | 207.4 | 99.3 | 118.5 | 98.2 |
| Precision components & others | 1.5 | 4.2 | 5.0 | 5.3 | 1.4 | 0.7 | 2.1 | 1.8 |
| Total revenue | 36.3 | 100.0 | 94.2 | 100.0 | 208.8 | 100.0 | 120.7 | 100.0 |

*OR = Overall Revenue

Source: RHP, SSL Research

Revenue split – Geography wise

| Country | FY22 | | FY23 | | FY24 | | 1HFY25 | |
|------------------------------|-------------|--------------|-------------|--------------|--------------|---------------|--------------|---------------|
| | Rs cr | % of OR* | Rs cr | % of OR | Rs cr | % of OR | Rs cr | % of OR |
| India | 3.2 | 8.9 | 4.5 | 4.8 | 4.9 | 2.4 | 5.2 | 4.3 |
| United States (incl. Canada) | 27.8 | 76.4 | 72.4 | 76.9 | 192.5 | 92.2 | 99.6 | 82.5 |
| Germany | 5.2 | 14.2 | 17.2 | 18.3 | 11.3 | 5.4 | 15.8 | 13.1 |
| United Kingdom | 0.1 | 0.3 | - | 0.0 | - | 0.0 | 0.0 | 0.0 |
| Others | 0.1 | 0.3 | - | 0.0 | 0.1 | 0.0 | - | 0.0 |
| Total | 36.3 | 100.0 | 94.2 | 100.0 | 208.8 | 100.0% | 120.7 | 100.0% |

*OR = Overall Revenue

Source: RHP, SSL Research

Operational Metrics

| Particulars | FY22 | FY23 | FY24 | 1HFY25 |
|-----------------------------------|--------|----------|----------|-----------|
| Installed Capacity (no. of hours) | 99,810 | 1,25,100 | 2,22,990 | 3,31,890* |
| Customers | 18 | 15 | 16 | 16 |
| Countries | 5 | 5 | 5 | 5 |

*Annualized

Source: RHP, SSL Research

Customer concentration

| Customers | FY22 | | FY23 | | FY24 | | 1HFY25 | |
|------------|-------|----------|-------|---------|-------|---------|--------|---------|
| | Rs cr | % of OR* | Rs cr | % of OR | Rs cr | % of OR | Rs cr | % of OR |
| Customer 1 | 16.2 | 44.5 | 56.0 | 59.5 | 124.9 | 59.8 | 71.1 | 58.9 |
| Customer 2 | 4.6 | 12.6 | 10.7 | 11.4 | 60.5 | 29.0 | 16.3 | 13.5 |
| Customer 3 | 3.6 | 9.9 | 2.6 | 2.8 | 11.0 | 5.3 | 15.8 | 13.1 |
| Customer 4 | 5.5 | 15.1 | 17.3 | 18.4 | 4.5 | 2.1 | 6.7 | 5.6 |

*OR = Overall Revenue

Source: RHP, SSL Research

Industry Overview

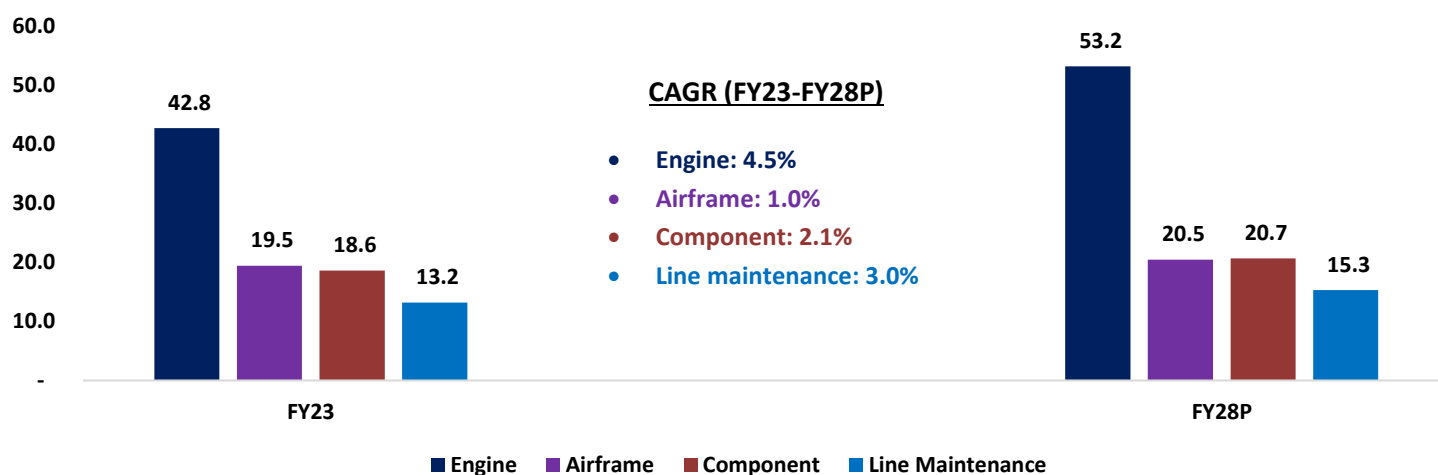
Global Maintenance, Repair and Operations (MRO) market:

The global aircraft Maintenance, Repair and Overhaul (MRO) market is a vital sector supporting the safety, reliability, and efficiency of commercial aircraft. The commercial aircraft MRO activities can be categorized into four main types, such as engine, airframe, line maintenance and component maintenance.

The Engine MRO segment accounted for ~46% of the total MRO revenue in FY23 and is expected to grow to 49% by FY28. In absolute terms, the share of engine MRO stood at USD 42.8 bn in FY23 and is expected to grow at a CAGR of 4.5% between FY23-FY28P to reach USD 53.2 bn by FY28.

The second fastest growing market is the line maintenance market which is expected to grow at a CAGR of 3.0% during the forecast period FY23-FY28P to reach USD 15.3 bn in FY28 from USD 13.2 in FY23. The type wise growth trend of the global MRO market is provided in the chart below:

Global MRO market by type (USD bn)

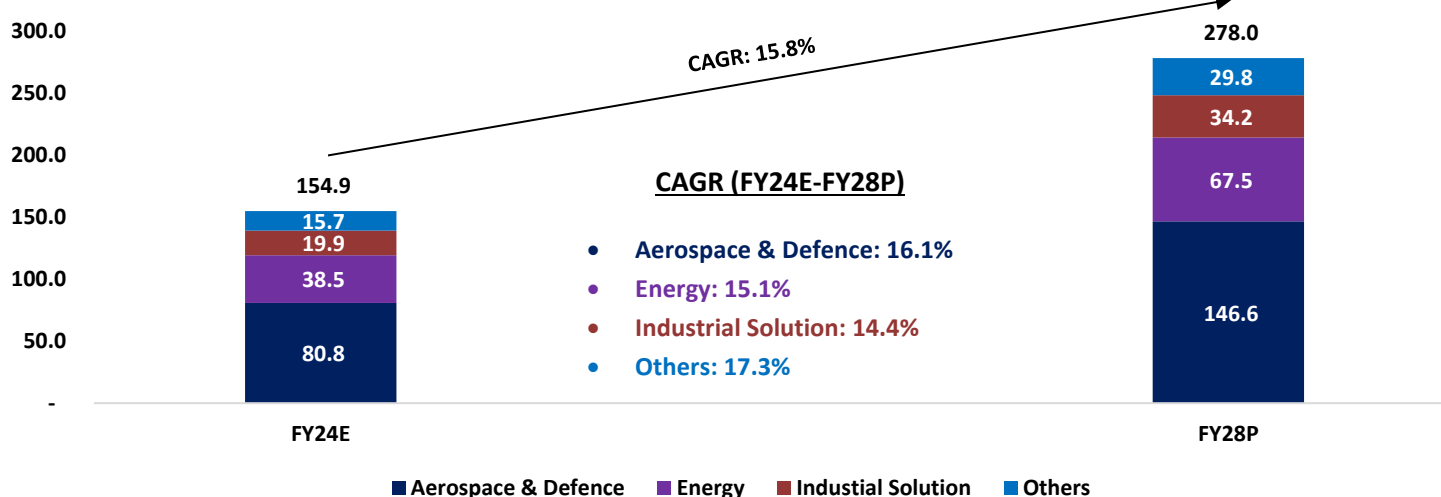


Source: RHP, SSL Research

Global Precision Tooling market:

The Global Precision Tooling market is expected to grow from USD 154.9 bn in FY24 to USD 278.0 bn in FY28, marking a CAGR of 15.8% during the forecast period FY24-FY28P.

Global Precision Tooling market (USD bn)



Source: RHP, SSL Research

Financial Snapshot

| INCOME STATEMENT | | | | |
|-----------------------------------|-------|--------|--------|--------|
| (Rs cr) | FY22 | FY23 | FY24 | 1HFY25 |
| Revenue from Operations | 36 | 94 | 209 | 121 |
| YoY growth (%) | - | 159.1% | 121.7% | - |
| Cost Of Revenues (incl Stock Adj) | 10 | 26 | 71 | 35 |
| Gross Profit | 26 | 68 | 138 | 85 |
| Gross margins (%) | 72.4% | 72.0% | 65.9% | 70.8% |
| Employee Cost | 8 | 16 | 32 | 24 |
| Other Operating Expenses | 10 | 18 | 26 | 13 |
| EBITDA | 8 | 35 | 79 | 49 |
| EBITDA margins (%) | 21.3% | 36.7% | 37.9% | 40.5% |
| Other Income | 1 | 1 | 5 | 7 |
| Interest Exp. | 2 | 2 | 3 | 2 |
| Depreciation | 3 | 4 | 4 | 4 |
| PBT | 4 | 29 | 77 | 50 |
| Tax | - | 7 | 18 | 11 |
| PAT | 3 | 23 | 58 | 39 |
| PAT margin (%) | 9.3% | 24.2% | 27.8% | 32.1% |
| EPS (Rs) | 0.7 | 4.8 | 12.2 | 8.1 |

| BALANCE SHEET | | | | |
|---|-----------|-----------|------------|------------|
| (Rs cr) | FY22 | FY23 | FY24 | 1HFY25 |
| Assets | | | | |
| Net Block | 16 | 22 | 45 | 62 |
| Capital WIP | 3 | - | - | 22 |
| Right of use assets | 8 | 7 | 6 | 8 |
| Intangible Assets | - | - | 1 | 1 |
| Other Non-current Assets | 4 | 2 | 10 | 106 |
| Current Assets | | | | |
| Inventories | 5 | 16 | 20 | 20 |
| Current Investment | - | - | - | 225 |
| Trade receivables | 8 | 32 | 47 | 43 |
| Cash and Bank Balances | 7 | 4 | 8 | 10 |
| Other Current Assets | 6 | 11 | 39 | 13 |
| Total Current Assets | 25 | 63 | 114 | 310 |
| Current Liabilities & Provisions | | | | |
| Trade payables | 4 | 7 | 14 | 17 |
| Other current liabilities | 3 | 6 | 4 | 19 |
| Short-term provisions | - | 1 | 20 | 6 |
| Total Current Liabilities | 7 | 14 | 37 | 41 |
| Net Current Assets | 18 | 48 | 77 | 269 |
| Total Assets | 49 | 79 | 138 | 468 |
| Liabilities | | | | |
| Share Capital | 1 | 1 | 22 | 24 |
| Reserves and Surplus | 27 | 48 | 87 | 366 |
| Total Shareholders Funds | 28 | 49 | 109 | 390 |
| Total Debt | 17 | 22 | 29 | 75 |
| Long Term Provisions | 2 | 6 | - | 0 |
| Lease Liabilities | 3 | 2 | 1 | 3 |
| Total Liabilities | 49 | 79 | 138 | 468 |

| Cash Flow (Rs cr) | FY22 | FY23 | FY24 |
|-------------------------------------|------|------|------|
| Cash flow from Operating Activities | 2 | 1 | 24 |
| Cash flow from Investing Activities | 1 | (6) | (24) |
| Cash flow from Financing Activities | (0) | 3 | 6 |
| Free Cash Flow | (1) | (4) | (4) |

| RATIOS | | | |
|---------------------------------|---------|-------|-------|
| | FY22 | FY23 | FY24 |
| Profitability | | | |
| Return on Assets | 6.0% | 24.4% | 33.1% |
| Return on Capital Employed | 12.0% | 43.9% | 58.0% |
| Return on Equity | 12.3% | 46.7% | 53.5% |
| Margin Analysis | | | |
| Gross Margin | 72.4% | 72.0% | 65.9% |
| EBITDA Margin | 21.3% | 36.7% | 37.9% |
| Net Profit Margin | 9.3% | 24.2% | 27.8% |
| Short-Term Liquidity | | | |
| Current Ratio (x) | 1.3 | 2.0 | 2.1 |
| Quick Ratio (x) | 1.1 | 1.5 | 1.8 |
| Avg. Days Sales Outstanding | 75 | 125 | 82 |
| Avg. Days Inventory Outstanding | 172 | 218 | 101 |
| Avg. Days Payables | 53 | 42 | 38 |
| Fixed asset turnover (x) | 2.3 | 4.4 | 4.6 |
| Debt-service coverage (x) | 0.3 | 1.3 | 2.5 |
| Long-Term Solvency | | | |
| Total Debt / Equity (x) | 0.6 | 0.5 | 0.3 |
| Interest Coverage Ratio (x) | 3.3 | 16.6 | 24.7 |
| Valuation Ratios* | | | |
| EV/EBITDA (x) | 485.7 | 108.8 | 47.5 |
| P/E (x) | 1,103.3 | 164.0 | 64.4 |
| P/B (x) | 135.3 | 76.6 | 34.5 |
| EV/Sales (x) | 103.2 | 39.9 | 18.0 |
| P/Sales (x) | 21.6 | 8.3 | 3.8 |

**Valuation ratios are based on pre-issue capital at the upper price band*

Source: RHP, SSL Research

Peer Comparison – FY24

| Particulars (Rs cr) | Unimech Aerospace | Azad Engineering | Dynamic Technologies | MTAR Technologies | Paras Defence & Space Technologies | Data Patterns (India) |
|-----------------------|-------------------|------------------|----------------------|-------------------|------------------------------------|-----------------------|
| CMP (Rs) | 785.0 | 1,728.0 | 8,445.0 | 1,628.0 | 1,039.0 | 2,500.0 |
| Sales | 208.8 | 341.0 | 1,429.0 | 581.0 | 254.0 | 520.0 |
| EBITDA | 79.2 | 117.0 | 162.0 | 113.0 | 53.0 | 222.0 |
| Net Profit | 58.1 | 59.0 | 122.0 | 56.0 | 30.0 | 182.0 |
| Mkt Cap. | 3,992.3 | 10,214.0 | 5,735.0 | 5,007.0 | 4,185.0 | 13,996.0 |
| Enterprise Value | 3,763.5 | 10,192.0 | 6,132.0 | 5,147.0 | 4,238.0 | 13,603.0 |
| EBITDA Margin (%) | 37.9 | 34.3 | 11.3 | 19.4 | 20.9 | 42.7 |
| Net Profit Margin (%) | 27.8 | 17.3 | 8.5 | 9.6 | 11.8 | 35.0 |
| P/E (x) | 68.7 | 174.4 | 44.0 | 89.3 | 126.4 | 77.0 |
| EV/EBITDA (x) | 47.5 | 87.1 | 37.9 | 45.5 | 80.0 | 61.3 |
| RoE (%) | 53.5 | 9.1 | 18.3 | 8.3 | 6.7 | 13.7 |
| RoCE (%) | 58.0 | 18.8 | 17.9 | 11.1 | 9.4 | 19.0 |
| EV/Sales (x) | 18.0 | 29.9 | 4.3 | 8.9 | 16.7 | 26.2 |

For Unimech Aerospace and Defence Ltd, the Market Cap, P/E (x), Enterprise Value, EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

RoE and RoCE calculated on Pre-issue capital

CMP of peer companies is as of 19th December, 2024.

Source: RHP, SSL Research

SBICAP Securities Limited

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Research Analyst : INH000000602 | IRDA : CA0103 | PFRDA Registration No: POP 26092018

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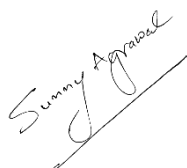
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