

The Issue

Type of Issue	Issue size Rs. Mn
Fresh Issue	2,500
Offer for sale	2,500
Total	5,000
Post issue mkt cap*	39,923
Lot size	19 shares

*At Upper Price Band

Issue Break-Up

Reservation for	% of Issue
QIB	50%
NII	15%
Retail	35%
Total	100%

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	23 Dec, 2024
Bid/Offer Closing Date	26 Dec, 2024
Finalization of the Basis of Allotment	27 Dec, 2024
Credit of shares	30 Dec, 2024
Listing Date	31 Dec, 2024

Use of Proceeds	Rs. Mn
Capex for machineries and equipment	364
Working capital requirements	253
Capex in Subsidiary	439
Working capital requirements of Sub-sidiary	447
Payment of borrowing of subsidiary	400
General Corporate Purpose	

BRLM & Registrar

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Emerging player in Aerospace industry marked by high entry barriers...

Company Overview:

- Unimech Aerospace and Manufacturing Ltd. specializes in manufacturing and supply of aero tooling, ground support equipment, electro-mechanical sub-assemblies and other precision engineered components critical for aerospace, defence, energy, and semiconductor industries.
- The company manufactures products on “build to print” (based on clients’ design) and “build to specification” (the company assists clients in designing) basis.
- The company’s product portfolio includes engine lifting and balancing beams, assembly, disassembly and calibration tooling, ground support equipment, airframe assembly platforms, engine transportation stands, mechanical & electro-mechanical turnkey systems, and precision components.
- As on September 30, 2024, our order in-hand was Rs 807.52 million, with a delivery timeline ranging between 4 to 16 weeks.
- The company offers 2,999 SKU’s in tooling and precision complex sub-assemblies’ category and 760 SKUs in the precision machined parts category catering to more than 26 customers across 7 countries.
- They operate with two manufacturing units – Unit I and Unit II – both of which are in Bangalore and are accredited with AS 9001D, BS EN ISO 9001 and ISO 45001:2018.
- Recently, the company raised growth funding of Rs. 2,500mn by allotting equity stake through private placement for inorganic growth in the USA.

Valuation and Outlook: At an upper price band of Rs 785, Unimech Aerospace is valued at an EV/EBITDA of ~40x on annualized FY25 basis vs average valuation of 49.8x for its listed peers. The company is engaged in manufacturing of aero engine tools and airframe tools and components required in aerospace industry. They also manufacture products as per energy, semiconductor and defence customer requirements. Over FY22-24, the company reported Rev/EBITDA/PAT CAGR of 139.7%/220.2%/314% respectively though over low base. Operating Margin in FY24 stood at ~38% as the company produces high mix of low volume and high margin products. High entry barrier and critical parts manufacturing does offer sustenance of high operating margin. Order in hand is worth Rs 807.52mn as of 30 Sept 24. Growing demand from aviation industry and allied sector, high entry barrier and strategic collaboration with Dheya Engineering for mini-gas turbine manufacturing all augurs well for future growth. We thereby assign “**Subscribe**” rating to the IPO.

Unimech Aerospace and Manufacturing Ltd.

Shareholding Pattern	Holding (%)	
	Pre Issue	Post Issue*
Promoters & Promoter Group	91.8	79.8
Others/Public	8.2	20.2
Total	100.0	100.0

* At upper price band

Issue Structure (Rs. Mn)	Floor	Cap
Net Offer	5,000	5,000
QIB Portion (50% of Offer)	2,500	2,500
Non Institutional portion (15% of Offer)	750	750
Retail portion (35% of Offer)	1,750	1,750

Selling Shareholders	Type	% of Total Shareholding	
		Pre Issue	Post Issue
Ramakrishna Kamojhala	Promoter	28.0%	25.1%
Mani P	Promoter	16.5%	14.4%
Rajanikanth Balaraman	Promoter	16.5%	14.4%
Preetham S V	Promoter	16.5%	14.7%
Rasmi Anil Kumar	Promoter Group	11.0%	8.2%

Key Financial Summary (Rs. Mn)	FY22	FY23	FY24
Revenue	363	942	2,088
EBITDA	77	346	792
<i>EBITDA margin (%)</i>	<i>21.3</i>	<i>36.7</i>	<i>37.9</i>
Adj. PAT	34	228	581
<i>Adj. PAT margin (%)</i>	<i>9.3</i>	<i>24.2</i>	<i>27.8</i>
EPS (Adj for issue)	0.7	4.5	11.4

Capacity expansion table

Particulars	Proposed Capacity Addition (in hours)	
	Fiscal 2025	Fiscal 2026
Company	1,12,500	22,500
Material Subsidiary	1,17,000	31,500
Total Proposed Capacity Addition	2,29,500	54,000

Unimech Aerospace and Manufacturing Ltd.

Financials vs Peers

Particulars	Market Cap (Rs Mn)	FY22-24			FY24				
		Revenue CAGR	EBITDA CAGR	PAT CAGR	Revenue (Rs Mn)	ROE	ROCE	EV/EBITDA (x)	PE (x)
Unimech Aerospace and Manufacturing Limited	39,923	139.7%	220.2%	314.0%	2,088	53.5%	48.0%	50.7	68.7
Listed Peers									
MTAR Technologies Limited	52,291	34.2%	9.2%	-4.3%	5,808	8.3%	11.9%	35.5	63.2
Azad Engineering Limited	1,00,415	32.6%	37.4%	32.6%	3,408	9.1%	18.3%	102.0	26.7
Paras Defence & Space Technologies Limited	40,012	17.8%	1.0%	5.3%	2,535	7.2%	9.8%	40.5	76.5
Dynamic Technologies Limited	56,190	6.8%	-3.0%	103.3%	14,293	18.2%	13.6%	25.1	71.2
Data Patterns (India) Limited	1,39,344	29.3%	25.5%	37.6%	5,198	13.8%	18.7%	55.1	81.7
Average								51.6	63.9

Key Risks:

- **High dependency on Aerospace:** The business is concentrated on manufacturing products pertaining to aero engine tooling and airframe tooling and is heavily dependent on the performance of aerospace sector. On an average, the company generates over 95% of its revenue from operations by catering to aerospace sector. Any adverse changes in the aerospace sector will have adverse impact on business and financial performance.
- **Working Capital Intensive:** The company carries out operation by executing accumulated orders and subsequent payments to be received post completion. Order to manufacturing cycle spans between 4-16 weeks with additional 2-8 weeks required by delivery and customer acceptance. To keep functioning and secure additional order, the company is required to raise funds through working capital debts which is generally at high cost. Working capital stretch could adversely impact profitability and margins.
- **Export Oriented Business:** Over 90% of its revenue is derived from Exports. Within Exports, the company heavily supplies to the United States (incl Canada) which contributed over 75%, followed by Germany 13-14% and United Kingdom 0.25%-0.5%. Thereby the company is subject to challenges faced by industries in these markets and currency risk.
- **Commodity Risk:** Being in the manufacturing business, the company raw material consumed forms over 22% and 27% of revenue and total expenses respectively. Additionally, they don't have long-term contracts or exclusive arrangement with their supplies for procurement of raw materials. This subjects them to supply chain risk and adverse price volatility.
- **No Long-term agreements with Clients:** They do not have long-term contracts with most of their customers. Top 5 customer contributes over 90% of their revenue from operations. Discontinuation on part of the customer and no long-term contracts for supply would adversely impact their business.

Unimech Aerospace and Manufacturing Ltd.

Strengths:

- ⇒ **Providing highly precise engineering solutions through manufacturing capabilities:** The company specializes in manufacturing complex products having “build to print” and “build to specification” capabilities. The former includes manufacturing tools and components as specified by the client while the later includes assisting clients with designing the product followed by manufacturing process for them. The company’s manufacturing capabilities include turning, milling, double column milling, electro discharge machining and grinding.
- ⇒ **Integrated operations through digital infrastructure:** The company has developed in house ERP system which plans and tracks all the product manufacturing processes from inception to completion. The ERP system helps in managing supply chain, tracking procurement and timely deliveries integrating all aspects of purchases and supply chain management. The system also tracks manufacturing operations within the vendor network ensuring transparency and real time monitoring.
- ⇒ **Established player in a sector with barriers to entry:** The company is engaged in the business of manufacturing complex tooling, mechanical assemblies, electro-mechanical turnkey systems, and precision components. Given the complex production process, adherence to stringent quality standards is a must. Establishing relationships with original equipment manufacturers (OEMs) and on boarding them is a time-consuming process, often taking several years. Further, once the customer onboards a vendor, shifting to another vendor is not cost efficient. The company have established themselves as an approved supplier for various industry leaders in aerospace, defence, semi-conductor and energy sectors.
- ⇒ **Vendor ecosystem with sub-contractor:** As of 30th September 2024, the company has an ecosystem of 42 vendors with 118 machines, who are selected on quality and performance criteria. Further, the sub-contractor ecosystem with the vendors undertakes manufacturing processes with limited complexity, enabling the company to focus on critical aspects. Sub-contractors are selected based on their technical capabilities, quality standards, and reliability.

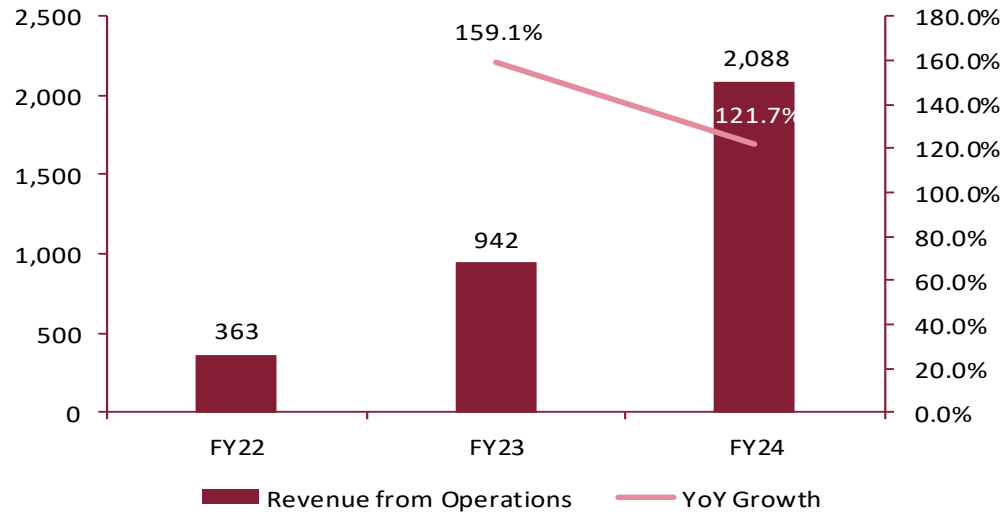
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Strategies:

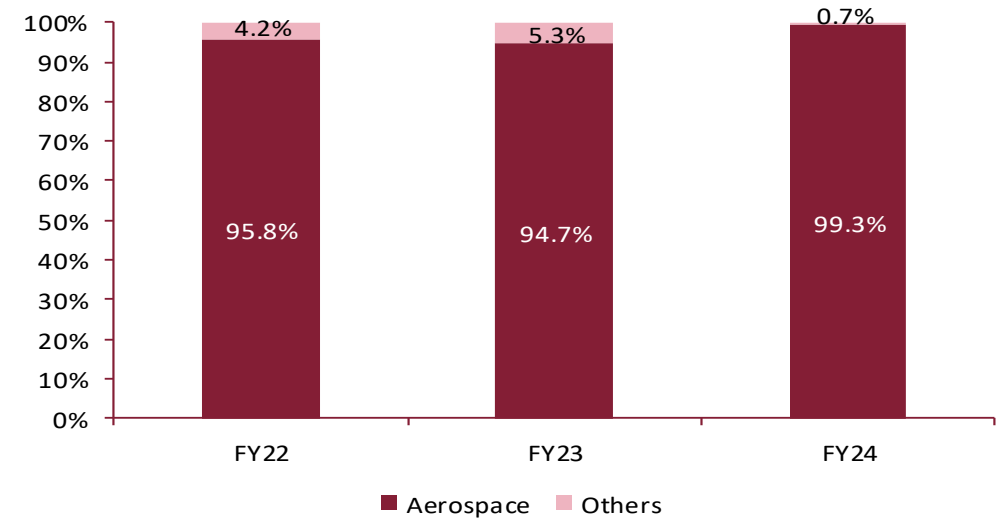
- ⇒ **Expanding foothold in the US:** The company earns more than 76% of its revenue from the USA (incl Canada) but lack direct access to the market. They plan to establish tooling inventory and warehousing in the USA and set up presence in the country organically or inorganically. This will reduce the lead time and reduce logistical challenges. Furthermore, the company plans to emphasize product innovation, process refinement, and customized engineering solutions for the European markets. These steps will help the company reduce lead time and establish global footprint to drive business growth.
- ⇒ **Improve market penetration by diversifying to geographies with large market share potential:** The company derives its revenue primarily from the USA and Europe. The company is exploring multiple opportunities in APAC and Eurasia to capture the market share in these regions. Expanding aircraft fleet and increasing air traffic in the APAC region has opened new opportunities for MRO supplies. Furthermore, increasing air traffic and potential addition of 4,720 and 11,925 aircrafts in Eurasia and Asia respectively should help company penetrate the markets to drive growth for the company.
- ⇒ **Collaborative capacity expansion:** Having utilized ~95% of installed capacity (in hours) at both the facilities, the company is planning to add more capacity to capture potential market demand. The company will set up a collaborative facility at Karnataka Industrial Area Development Board with an objective to collaborate by inviting partners to utilize the space. On November 11th, 2024, the company entered into an exclusive manufacturing agreement with Dheya Engineering Technologies Pvt. Ltd. to produce all current and future micro gas turbine engine models developed by Dheya and manufactured by the company which also includes orders for any subsystem's orders Dheya may receive. These expansions will not only enable the company to increase production capacity but also gain insights, diversify offering, exchange technological know-how and capture new markets.
- ⇒ **Inorganic acquisition to diversify offerings:** The company derives more than 76% of its revenue from the USA. To avoid supply chain issues and enhance client management and services, the company plans to inorganically acquire strategic facilities and form collaborative partnership. This will enable the company to access advance technologies and highly skilled labor. The company will also be able to build stronger relationship with OEMs and licensees. On 19th July 2024 the company raise Rs. 2,500mn through private placement to fund this inorganic expansion.
- ⇒ **Expanding product basket:** To reduce reliance on aerospace industry, the company plans to expand its product offerings across high-mix, low volume industries like semiconductor, medical devices, and robotics. As these industries also require high precision and quality equipment.

Unimech Aerospace and Manufacturing Ltd.

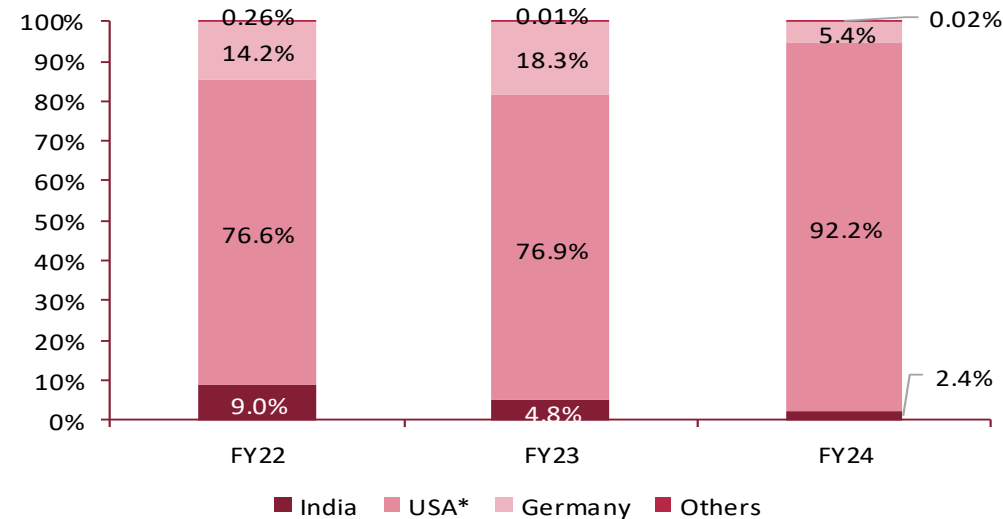
Revenue from Operations (Rs. Mn)



Revenue Mix by Segment



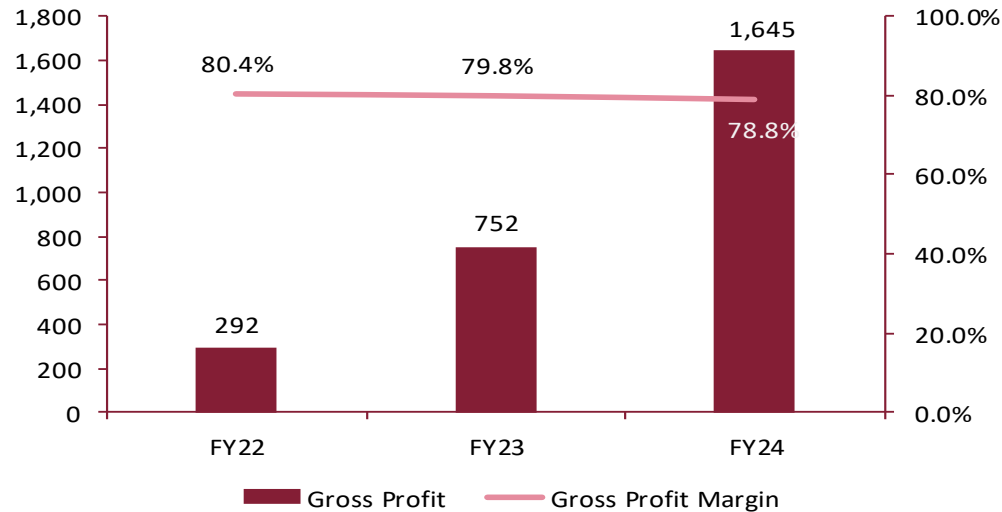
Revenue Mix by Geography



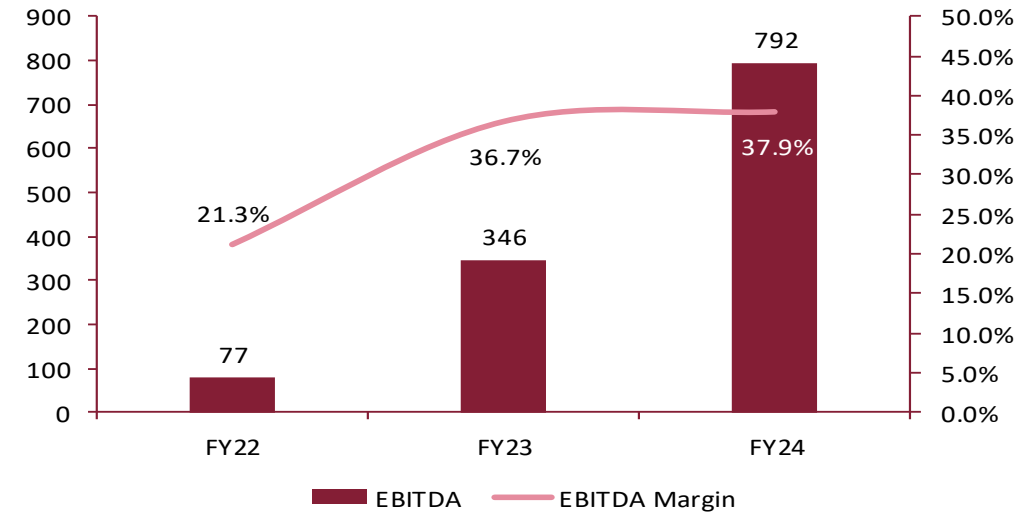
*including Canada

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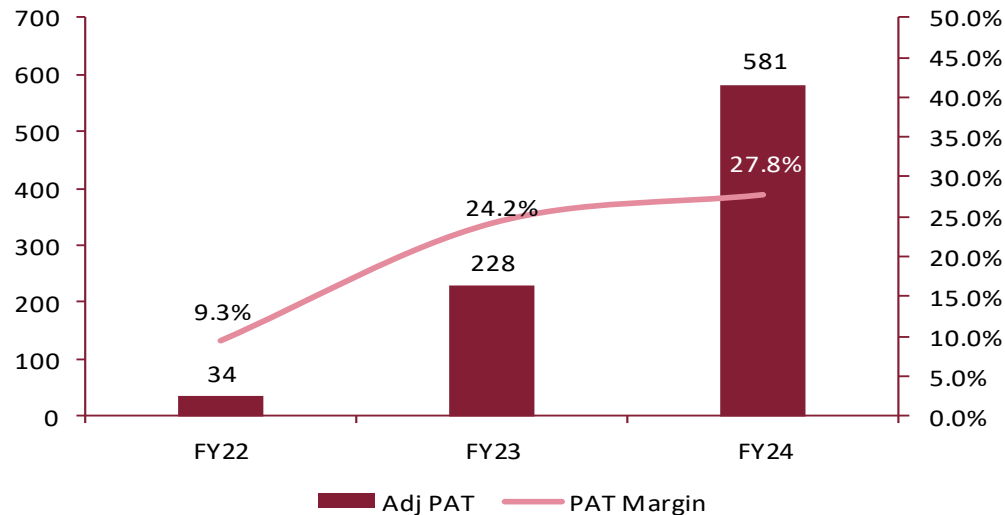
Gross Profit (Rs. Mn) & Gross Profit Margin (%)



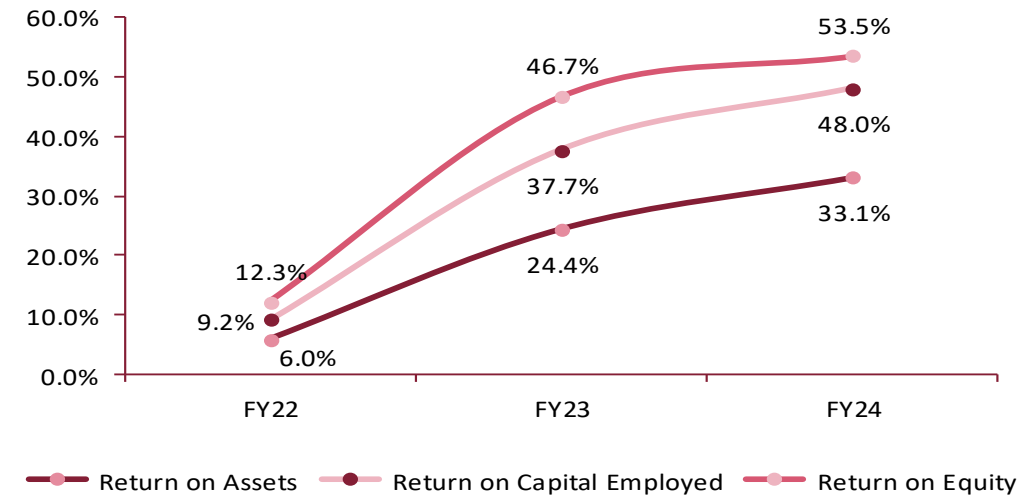
EBITDA (Rs. Mn) & EBITDA Margin (%)



Adj. Profit after Tax (Rs. Mn) & Net Profit Margin (%)

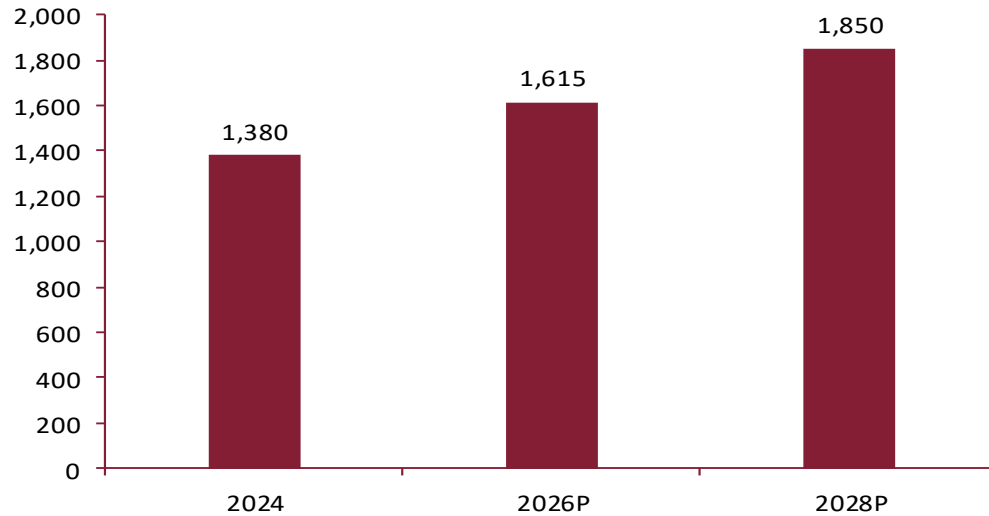


Profitability Ratios (%)

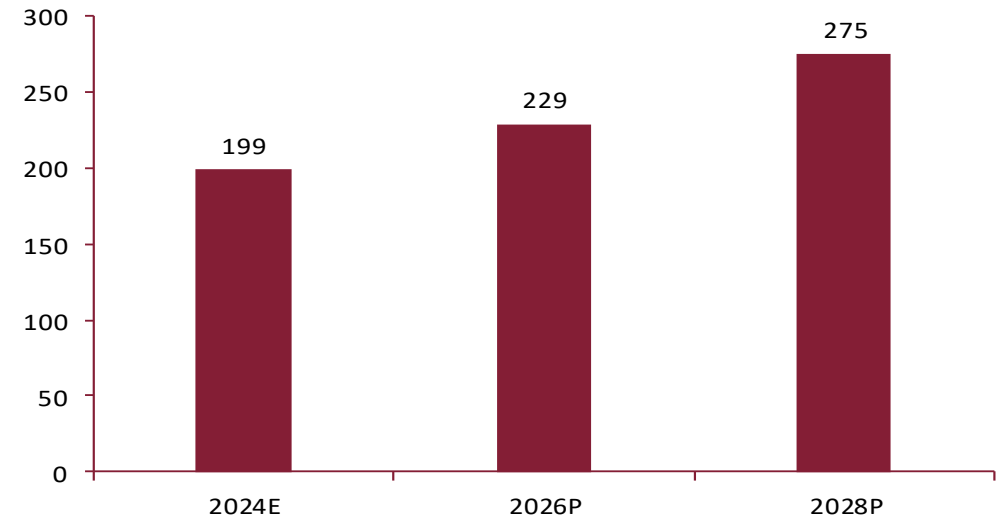


Industry overview

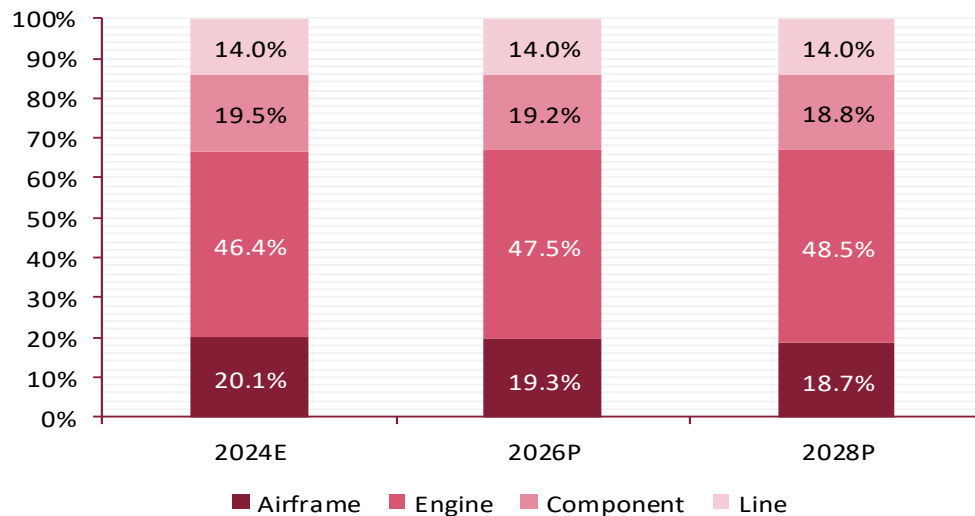
Global Commercial Aircraft Deliveries (in Unit Volume)



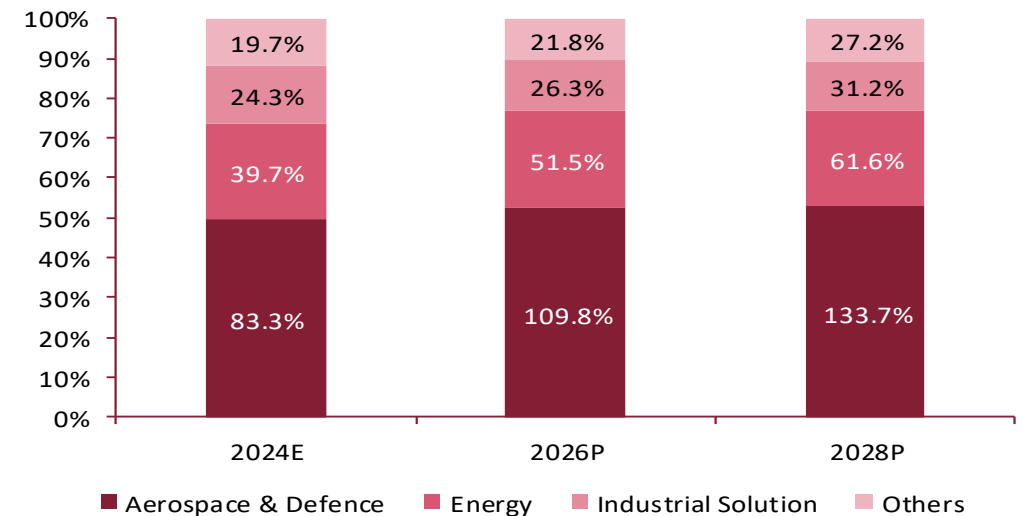
Defence Aircraft Deliveries



Global MRO Market, By MRO Type (in USD Bn.)

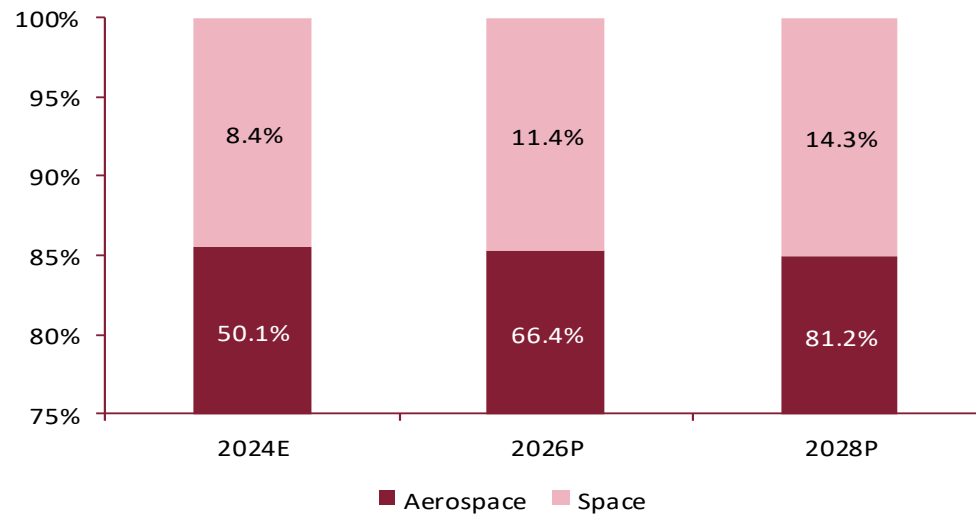


Global Precision Manufacturing Tooling Market, (By USD Billion)

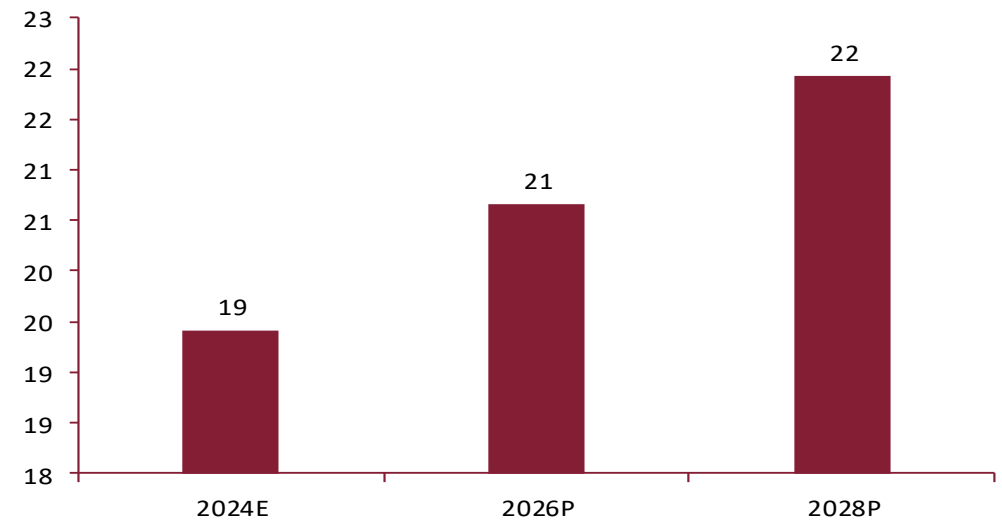


Industry overview

Global Aerospace Segment, Precision Tooling Market



Global MRO Tooling, (By USD Billion)



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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DISCLOSURE

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