

India

IPO Details

Issue Opens	23/12/2024
Issue Closes	26/12/2024
Total Issue Size (m shares)	6.4
OFS (m shares)	3.2
Price Band (Rs)	745-785
Face Value (Rs)	5
Implied Market Cap. (Rs bn)	40

Unimech Aerospace

Leveraging on aerospace opportunities

- Unimech makes complex tools and components for aerospace & defence sectors, including mechanical assemblies & electro-mechanical systems.
- Revenue/EBITDA/PAT clocked CAGR of 79%/117%/158%, respectively, in FY22-24. The EBITDA margin expanded from 21.3% in FY22 to 37.9% in FY24.
- Recommend subscribing to the IPO, given its presence in niche aerospace & defence biz, healthy margin profile, diversified capabilities & higher return ratios.

Overview

Unimech Aerospace Manufacturing (Unimech) specializes in manufacturing complex tools and components for aerospace and defence sectors, including mechanical assemblies and electro-mechanical systems. The company offers engineering solutions through 'build to print' and 'build to specifications' services, encompassing machining, fabrication, assembly, testing, and product development tailored to client needs. Over 2022 and 2024, Unimech manufactured 2,356 stock-keeping units or SKUs in tooling and precision sub-assemblies and 624 SKUs in precision machined parts, serving over 26 customers across seven countries. As of FY24-end, it operates two ISO-registered manufacturing facilities in Bengaluru, totaling over 120,000 sq.ft., and has 384 employees. The company is coming up with an initial public offer (IPO) comprising a fresh issue of 3.2m equity shares and an offer for sale (OFS) of 3.2m shares, aggregating to an issue size of Rs5bn. The price band is Rs745-785 per share having a face value of Rs5.

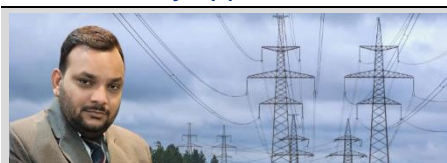
Diverse range of capabilities

As a comprehensive engineering solutions provider, Unimech offers a wide range of capabilities that cover the entire product lifecycle, from conceptualization to final assembly. The company's services include advanced design and engineering using high-end software, various manufacturing processes, such as turning and milling etc. It also provides electrical and electronic integration services, including wire harnesses and control panel development. Unimech is well-placed in aerospace and defence sectors and precision component manufacturing in India, catering to global OEMs and their approved licensees. The Asian region is poised to witness the largest fleet expansion, with 11,925 aircraft slated for addition by 2042F, and become a global aviation powerhouse. In the energy sector, currently there are 22 operational nuclear reactors in India and another 11 nuclear stations are expected to be commissioned with a cumulative capacity of 8,700MW.

Outlook

The onboarding process for new customers is time-consuming and requires technical expertise and competitive pricing, creating high entry barriers for competitors. Unimech has reported strong numbers, with revenue/EBITDA/PAT clocking a CAGR of 79%/117%/158%, respectively, in FY22/23/24 while the EBITDA margin expanded by 21.3% in FY22 to 37.9% in FY24 led by a high-mix, high-complexity, low-volume business. In FY24, RoE and RoCE stood at ~54% each. Unimech usually works with 8-16 weeks of orders. We recommend subscribing to the IPO, given its presence in niche aerospace & defence sectors, healthy margin profile, diversified capabilities and higher return ratios.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24A	1HFY25
Revenue (Rsm)	363	942	2,088	1,207
EBITDA (Rsm)	77	346	792	488
EBITDA margin	21.3%	36.7%	37.9%	40.5%
Net Profit (Rsm)	34	228	581	387
Core EPS (Rs)	0.7	4.5	11.4	7.6
P/E (x)	1,177.0	175.0	68.7	25.8
RoE (%)	12.3%	46.7%	53.5%	19.8%
RoCE (%)	9.6%	39.0%	54.4%	19.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key Investment Rationale

- Advanced manufacturing capabilities:** Unimech's manufacturing capabilities are extensive and include advanced machining processes such as turning, milling, electro discharge machining (EDM), and grinding. The company can handle large assemblies up to 10 metres in length and utilize various assembly techniques with capacities up to 3,000 components. The rigorous quality assurance includes load testing up to 70t and non-destructive testing methods. With two manufacturing facilities in Bengaluru, totaling over 120,000 sq. ft., and a higher capacity utilization rate of nearly 95%, the company is well-equipped to deliver high-quality products efficiently. Its commitment to engineering excellence is further supported by in-house training for employees to keep their skills updated with the latest manufacturing technologies.

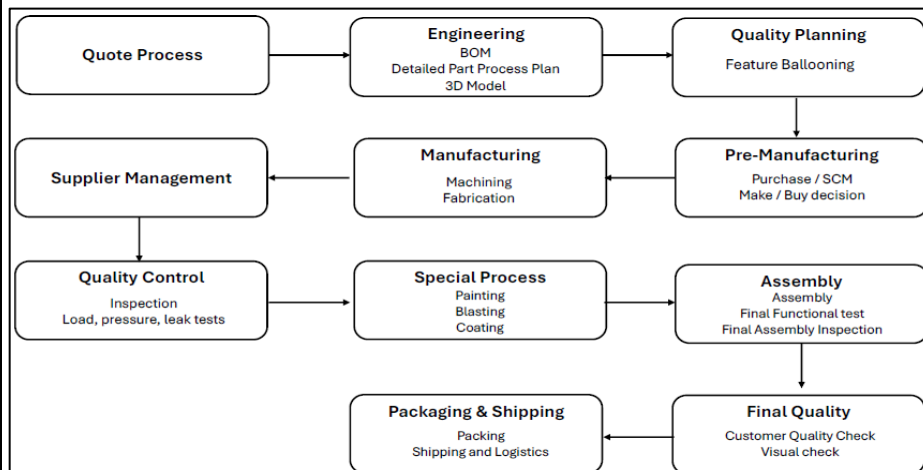
Figure 1: Diversified product offering and competitive benchmarking

	Azad Engineering	Dynamatic Technologies	MTAR	Paras Defence	Data Patterns	Unimech	Jaivel Aerospace	Jendamar India	Jaisara Tooling	TechEra Engineering
Aircraft MRO Tools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Engine MRO Tools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Line Maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Engine Stands	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Module Transportation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Precision Manufacturing Capability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

- Focus on digitalization:** Unimech utilizes a comprehensive digital manufacturing system that integrates the entire process - from order origination to delivery - maintaining high quality through meticulous inspection and measurement tracking. The company's in-house ERP system is essential for planning and monitoring every step of manufacturing, including the movement of components to external vendors, facilitating timely product delivery. The process begins with the quotation phase, leading to the creation of a Bill of Materials (BoM) and detailed part process plans, followed by 3D modelling using industry-standard software. In pre-manufacturing, decisions about in-house production versus supplier sourcing are managed through the ERP system to enhance supply chain coordination. The manufacturing phase features automated CNC programming and quality planning supported by feature ballooning software to ensure precise specifications. This holistic approach guarantees efficient operations and timely project delivery, positioning the company as a trusted supplier for industry leaders in aerospace, defence, semiconductor and energy sectors.

Figure 2: Digitalized manufacturing process



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- High entry barriers:** Unimech specializes in manufacturing complex tooling, mechanical assemblies, electro-mechanical turnkey systems, and precision components for industries such as aerospace, defence, energy and semiconductors. Between FY22 and Sep 2024, the company produced 2,999 SKUs in tooling and precision sub-assemblies and 760 SKUs in precision machined parts for over 26 customers across seven countries. The product offerings include engine lifting equipment, balancing beams, ground support equipment, and airframe assembly platforms, all adhering to stringent quality standards. The growth of SKUs - from 932 in FY22 to 1,210 as of Sep 2024 - showcases its ability to meet evolving customer needs. The onboarding process for new customers is time-consuming and requires technical expertise and competitive pricing, creating high entry barriers for competitors. The company's skilled workforce and robust infrastructure allows it to maintain high-quality output in a high-mix, low-volume manufacturing environment. The commitment to getting it right the first time minimizes costly rework and delay, ensuring timely delivery and enhancing operational efficiency, solidifying its reputation as a trusted supplier for industry leaders.
- Export-driven and diversified geographical spread:** Unimech is a leading exporter of aerospace components, with over 90% of its sales derived from exports to global OEMs and their licensees significantly contributing to overall revenue. The company's diverse client base spans across the US, Germany, and the UK, supported by a global delivery service model that includes logistical support and direct exports. By utilizing logistics software for route optimization and collaborating closely with reliable carriers, the company ensures timely and cost-effective product delivery, which helps retain existing customers and attract new ones.
- Robust vendor system:** As of Sep 2024-end, the company's vendor ecosystem comprised 42 vendors with a total 118 machines, each selected to meet stringent quality and performance criteria, essential for the flexibility required in a high-mix, low-volume production environment. The company has developed a sub-contractor ecosystem that focuses on less complex manufacturing tasks, allowing it to concentrate on critical processes. A comprehensive selection and onboarding process ensures that sub-contractors meet technical capabilities and quality standards, with ongoing training provided to align them with the company's expectations. Some sub-contractors operate exclusively within the company's facility at Peenya in Bengaluru, enabling direct oversight and regular quality inspections. This diverse vendor network not only facilitates rapid adaptation to demand changes and mitigates supply chain risks, but also enhances overall operational efficiency. Unimech maintains two categories of vendor arrangements: in-house vendors who work collaboratively on-site under direct supervision, and external sub-contractors who handle non-critical machining tasks, allowing the company to optimize its core manufacturing competencies.

Figure 3: Geographical revenue split

(Rs m)	FY22	FY23	FY24	Sep 2024
India	32	45	49	52
Foreign	331	896	2,038	1,154
United States	278	724	1,925	996
Germany	52	172	113	158
United Kingdom	0.9	-	-	0.4
Others	1.0	0.1	0.5	-
Total	363	942	2,088	1,207
Share (%)				
India	8.9%	4.8%	2.4%	4.3%
Foreign	91.1%	95.2%	97.6%	95.7%
United States	76.4%	76.9%	92.2%	82.5%
Germany	14.2%	18.3%	5.4%	13.1%
United Kingdom	0.3%	0.0%	0.0%	0.0%
Others	0.3%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Around 90% of Unimech's revenue comes from its top four clients

(Rs m)	FY22	FY23	FY24	Sep'24
Customer 1	162	560	1,249	711
Customer 2	46	107	605	163
Customer 3	36	26	110	158
Customer 4	55	173	45	67
Others	65	76	79	108
Total	363	942	2,088	1,207
Share (%)				
Customer 1	44.5%	59.5%	59.8%	58.9%
Customer 2	12.6%	11.4%	29.0%	13.5%
Customer 3	9.9%	2.7%	5.3%	13.1%
Customer 4	15.1%	18.4%	2.1%	5.5%
Others	17.9%	8.0%	3.8%	9.0%
Total	100%	100%	100%	100%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Sub-contracting charges

	FY22	FY23	FY24	Sep 2024
Sub-contracting charges (Rs m)	29	74	269	94
% from sub-contractors to COGS	28.8%	28.1%	37.8%	26.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Industry-wise revenue split









(Rs m)	FY22	FY23	FY24	Sep 2024
Aero-tooling	348	892	2,074	1,185
Precision components & others	15	50	14	21
Total	363	942	2,088	1,207
Share (%)				
Aero-tooling	95.8%	94.7%	99.3%	98.2%
Precision components & others	4.2%	5.3%	0.7%	1.8%
Total	100%	100%	100%	100%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Business



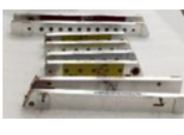





- **Diverse product portfolio:** Unimech manufactures a wide range of products for aerospace, defence, semiconductor, and energy sectors, including aero-tooling and precision parts, as well as electromechanical sub-systems for nuclear reactors and semiconductor manufacturing equipment. The company's product offerings are characterized by high complexity and low volume, adhering to stringent quality standards. The company's capabilities include 'build to print' and 'build to specifications', enabling it to meet specific client requirements while establishing itself as a significant player in the global supply chain for critical aerospace components.
- **US as a key market:** The US is a crucial market for Unimech, which primarily serves clients in the aerospace sector. To enhance product delivery efficiency and improve customer experience, the company plans to establish a significant manufacturing presence in the US.
 - Currently facing challenges such as high lead times due to geographical distance, for which the company is exploring two strategies: setting up tooling inventory and warehousing facilities in the US to reduce lead times and improve responsiveness, and also establish a manufacturing footprint either through acquisition or by organic growth.
 - By creating local warehousing, Unimech aims to ensure faster delivery and maintain readily available stock of essential components. The company's approach includes acquiring existing facilities for immediate market integration or building new ones tailored to client needs. Additionally, Europe remains a key market, particularly in the aero tooling sector, where major players hold strong positions.
- **High-growth industries like energy, semiconductor, aerospace & defence:** The company plays a vital role in aerospace, defence, semiconductor and energy sectors, with several key growth drivers shaping these industries.
 - **Growth in MRO market:** The Maintenance, Repair, and Overhaul (MRO) market is maturing in North America and Europe, while demand is rising in the Asia-Pacific region due to an increasing aircraft fleet. The Asian market accounts for about 33% of the global fleet, with major engine manufacturers establishing MRO facilities in India to meet growing needs.
 - **Expansion of aircraft fleet:** Across various regions, significant additions to the aircraft fleet are anticipated by 2040F, with the Americas region expecting 4,545 new aircraft and Eurasia adding 4,720. The Asia-Pacific region is projected to see the largest growth, with 11,925 new aircraft by 2042F.
 - **Semiconductor and nuclear energy growth:** The Asia-Pacific region dominates global semiconductor production, accounting for approximately 66.5% of the output from 2024 to 2028F. Additionally, India is expanding its nuclear power generation capacity with new reactors being commissioned.
 - The company aims to establish local MROs in India to enhance operational efficiency and market penetration by providing timely support.

Figure 7: Key aero engine tooling products, mainly in the aerospace industry

Product	Description	Product	Description
	Engine lifting and balancing beams		Fixture for LPT Assembly
	AFT Spool Fixture		Installation HPT FWD Outer Seal
	Oil Tubes Alignment Fixture		Hydraulic Manifold Kit
	Fixture to Torque Nut of Booster Shaft		Heater for adapter LPT Shaft installation

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Key airframe, precision parts, semiconductors and others used across automotive, defence, energy industries

Key Airframe Tools	Product	Description	Precision Sub System	Product	Description
	Lateral Spar Assembly	High-precision Drilling Jig, designed to accurately locate and drill holes on critical airframe components.		Rocker Arm - HMC CDA	Crucial valvetrain component designed to transfer the motion of a pushrod to the corresponding intake or exhaust valve.
	Drill Jig	For precision drilling in the assembly of the upper/nose skin panel, seal rib, upper attach strap, and wingtip stiffeners of model aircraft.		Complex Electro-Mechanical Assemblies	Integral to the control rod functionality within the reactor core, managing the insertion, withdrawal, and positioning of neutron absorbing control rods.
Precision Parts	Product	Description	Semiconductor	Product	Description
	Head End Dome	Tackles challenges including achieving concentricity of 0.1 mm across all diameters and a surface finish of 0.8 Ra on designated areas.		MTG block	Critical machined part used in machine that is used to produce Semiconductors. This part directs the flow of functional fluids.
	Missile Component	Specialized fixture has been designed to manage machining stresses and prevent deformation.		TCU Block	This part directs the flow of functional fluids. This is used in the R&D cycle of manufacturing to check their design feasibility.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

- Capacity expansion strategies:** As of Sep 2024-end, Unimech operates two manufacturing facilities in Bengaluru, encompassing over 120,000 sq. ft. Unit -I, located in Peenya, covers more than 30,000 sq. ft., while Unit-II is situated in a Special Economic Zone near Bengaluru International Airport and spans over 90,000 sq. ft. The company is currently expanding Unit-II to enhance production capacity in response to growing customer demand. Additionally, Unimech is developing a collaborative manufacturing and technology park in the Karnataka Industrial Area Development Board (KIADB) area, which will occupy four acres and aim to attract partners to utilize factory space, thereby increasing production capacity and fostering innovation.

- **Strategic alliances:** Unimech plans to form strategic alliances with global and local manufacturers to enhance capabilities and market presence, leveraging advanced technologies and regional insights.
- **Exclusive manufacturing agreement:** The company has entered into an exclusive agreement with Dheya Engineering Technologies to produce micro-gas turbine engine models, covering all stages from prototyping to full-scale manufacturing for various applications.
- **International collaboration:** Unimech is pursuing collaborative opportunities abroad to strengthen its market position, focusing on joint ventures that utilize local manufacturing expertise for faster market entry and improved service to European customers.

Figure 9: In-house capabilities

Machining



Large CNC Milling



Fabrication



Special Processes



Electrical and Electronics



Inspection



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Details of machinery used

Type of machinery	Number of machines
Vertical machining centre	48
Turning machine	25
Vertical turning lathes / milling centres	9
Coordinate measuring machine	4
Others	32

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Capacity utilization details

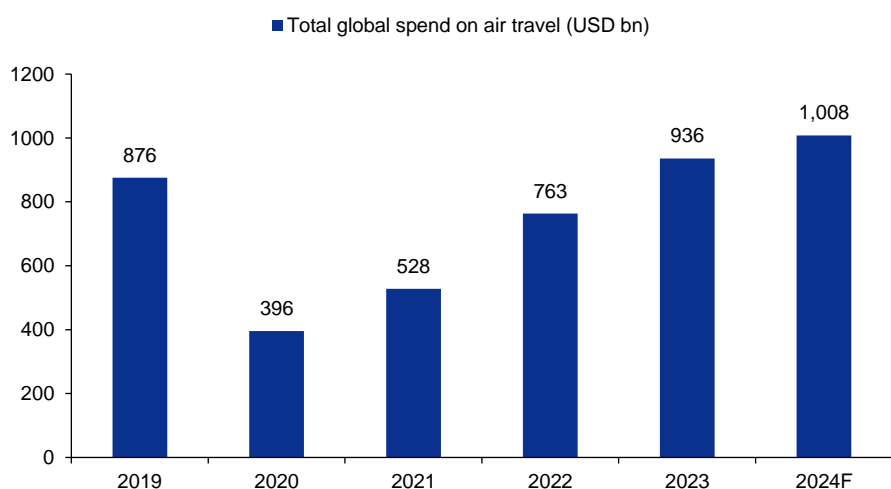
	Installed Capacity (hrs.)			Utilization (hrs.)					Utilization (%)			
	FY22	FY23	FY24	Sep 2024	FY22	FY23	FY24	Sep 2024	FY22	FY23	FY24	Sep 2024
Unit-I	38,220	43,170	43,170	21,585	35,781	40,964	41,114	20,575	93.6%	94.9%	95.2%	95.3%
Unit-II	61,590	81,930	1,79,820	1,44,360	58,592	77,442	1,68,349	1,36,548	95.1%	94.5%	93.6%	94.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Industry

- **Overview of the manufacturing sector in India:** India's manufacturing sector is poised for significant growth, with its contribution to real GDP expected to increase from 15% in 2022 to 22% by 2030F. The 'Make in India' initiative aims to bolster manufacturing across 25 sectors, including aerospace and defence, by attracting foreign investments and enhancing domestic capabilities. Major global companies are establishing manufacturing facilities and R&D centres in India, contributing to a robust industrial landscape. Despite challenges posed by the Covid-19 pandemic, the sector has shown resilience, recovering from a contraction in 2020 to achieve an impressive growth rate of 11.1% in 2022. However, the momentum faced a slight deceleration in 2023 due to global economic uncertainties. Here are the key growth drivers:
 - **China+1 policy:** This strategy encourages companies to diversify their manufacturing bases beyond China, reducing dependency and mitigating risks. Countries like India are benefiting from this shift, with high-tech companies, such as Foxconn and Apple, establishing operations in India.
 - **'Make in India' initiative:** Aimed at transforming India's manufacturing landscape through policy interventions, infrastructure development, and skill enhancement, this initiative has successfully attracted foreign direct investment (FDI) and promoted indigenous manufacturing across sectors like railways, defence, and automotive.
 - **Production-linked incentive or PLI scheme:** Launched to enhance manufacturing competitiveness and reduce import reliance, the PLI scheme incentivizes companies based on their production and sales growth. It aims to foster self-sufficiency and position India as a global manufacturing hub.
 - **Improved ease of doing business:** India's rise in the ease of doing business rankings reflects government reforms that streamline regulatory processes and attract investments. The country improved its ranking from 142nd in 2014 to 63rd in 2019.
 - **Deindustrialization of Europe:** As traditional manufacturing sectors decline in Europe, India can capitalize on this trend by positioning itself as an alternative high-quality manufacturing base, leveraging its workforce and lower costs to attract global manufacturers.
- **Aerospace industry:** International tourism has been significantly affected by the Covid-19 pandemic, with global tourist arrivals dropping to 1.46bn in 2019 before the crisis. By Apr 2023, the World Travel & Tourism Council (WTTC) reported that the sector had recovered to 95% of pre-pandemic levels, with the travel and tourism industry supporting 295m jobs globally in 2022, an increase of 21.6m jobs from the previous year. As the recovery continues, there is a strong emphasis on sustainable practices within industry, leveraging technology to address challenges like overcrowding in popular destinations. Developing countries, particularly in the Asia-Pacific region, are becoming more competitive by improving visa regulations to enhance economic opportunities. The aviation sector remains vital for international tourism, with over half of global tourists traveling by air, underscoring its importance for sustainable growth. The tourism sector generated US\$8.8tr in gross domestic product or GDP (10.4% of the global economy) in 2019 and is projected to grow to US\$15.5tr by 2033F, contributing to ~ 11.6% of the global economy and creating around 430m jobs. This growth in tourism is expected to drive demand in the aerospace market, leading to a strong forecast on new passengers and freighter aircraft orders and increased requirement of aero-tooling and components.

Figure 12: Trend in global air travel



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Growth in the commercial aircraft sector:** The commercial aircraft sector is experiencing a robust recovery post-Covid, with passenger volume projected to reach 4.7bn in 2024F, according to the International Air Transport Association (IATA). Passenger revenue is expected to rise to US\$717bn, compared to US\$642bn in 2023, while airline profits are forecasted to increase to US\$49.3bn in 2024F, up from US\$40.7bn in 2023. This growth is driven by a resurgence in tourism, business travel, and religious tourism over the past three years.
- **Global fleet size:** The aircraft market is dominated by Airbus and Boeing, which collectively account for over 22,500 aircraft globally—Airbus with more than 12,500 and Boeing with around 10,000. The most popular aircraft families include the Airbus A320 and Boeing B737. After a significant decline in deliveries during the pandemic years, fleet delivery rebounded from just 723 aircraft in 2020 to an anticipated 1,850 by 2028F, supported by increased production rate of narrow-body aircraft.
- **Regional fleet distribution:** Developed economies, particularly North America and Europe, held about 50% of the total active fleet in 2022, with approximately 9,060 commercial aircraft in the Americas region and 5,920 in Eurasia. The Asia-Pacific region accounted for around 30% of the global fleet size (3,520 aircraft) and is poised for rapid growth due to the emergence of low-cost carriers (LCCs) and rising passenger demand. By 2042F, the Asia-Pacific region is expected to add approximately 11,925 new aircraft.
- **Fleet retirement:** An estimated 5,000-5,500 aircraft are projected to retire between 2024 and 2028F, resulting in a retirement rate of approximately 3.5% by 2028F. The active fleet is expected to comprise around 96.5% of all commercial aircraft in operation during this period. Many retired aircraft are likely to be converted into freighters to extend their operational life by an additional five-to-ten years.
- **Average age of fleet:** The average age of commercial aircraft varies significantly by region due to differing market dynamics and investment levels. Advanced economies like North America (average age of 13.4 years) and Europe (11.5 years) have shorter fleet lives due to consistent investments in new aircraft. In contrast, regions like Africa have older fleets (16.5 years) due to limited investment capabilities. The Asian region's fleet is expected to benefit from new additions driven by demand from LCCs like Indigo (Interglobe Aviation), which order aircraft in bulk.
- Overall, the commercial aircraft sector is poised for significant growth driven by increased demand for air travel, strategic investments in new technologies, and an expanding global middle class that fuels the need for more efficient and

environmentally friendly aircraft. This growth presents opportunities for manufacturers and suppliers within the aerospace industry as they adapt to evolving consumer needs and technological advancements.

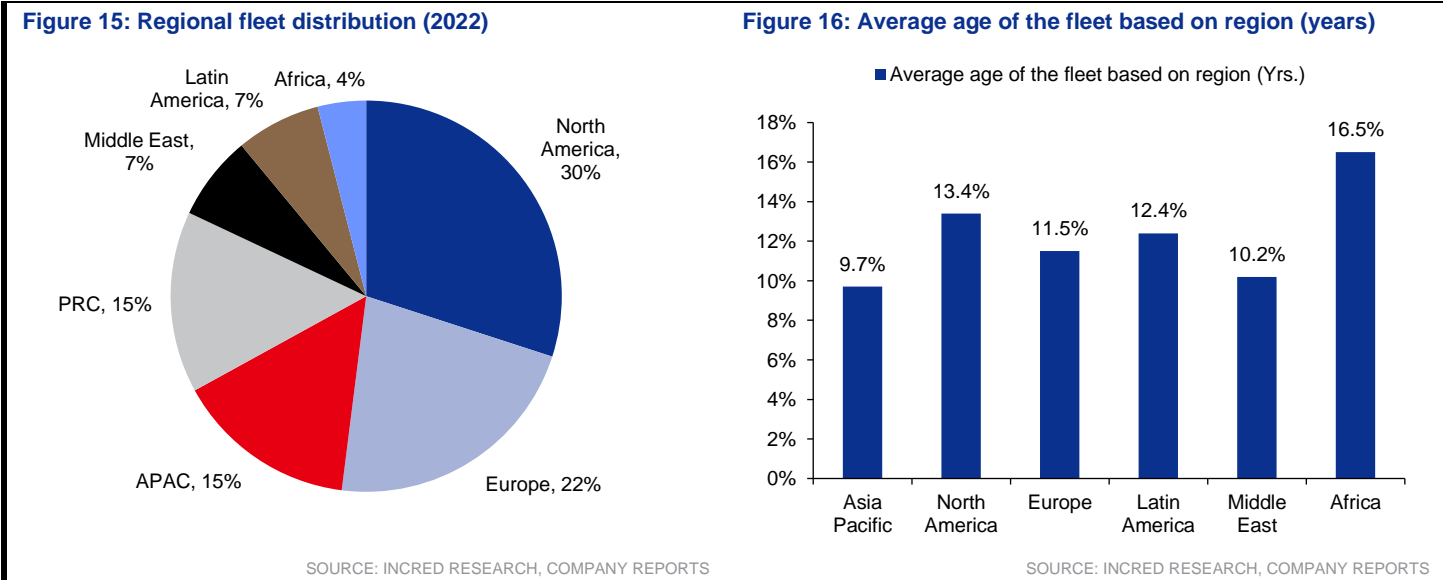
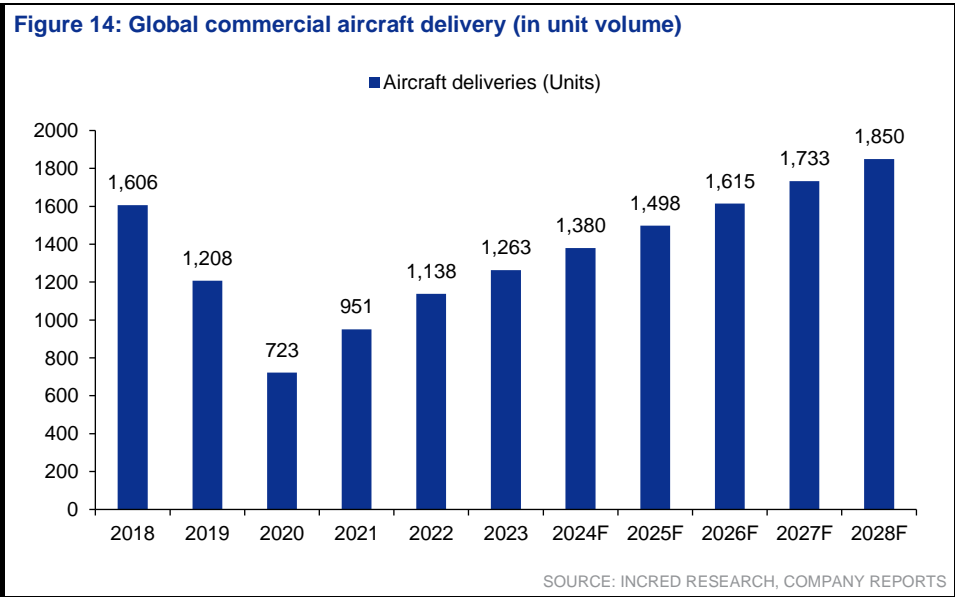
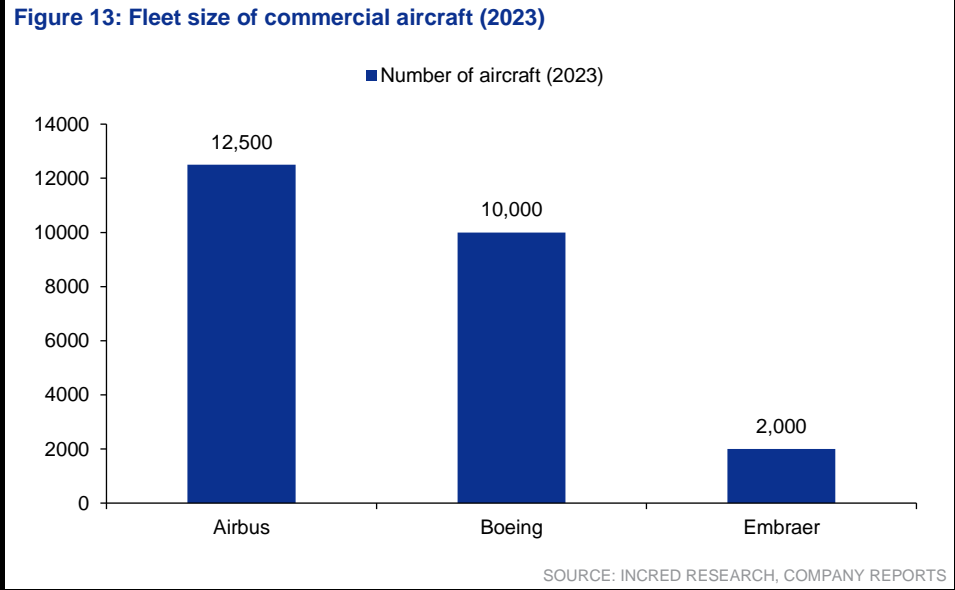
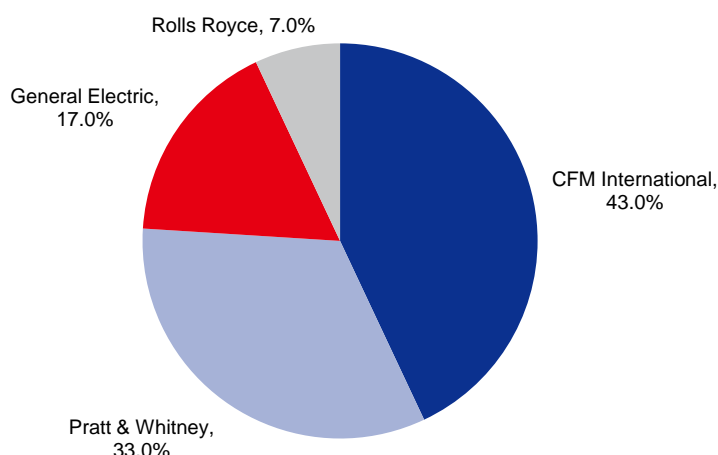


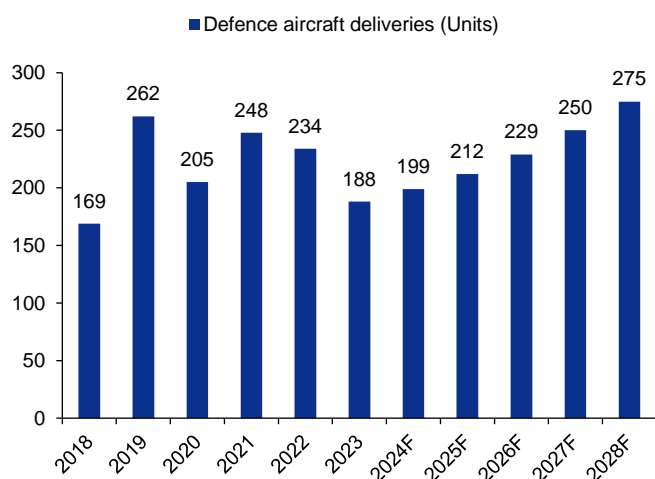
Figure 17: Market share of commercial aircraft engines in service (2023)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

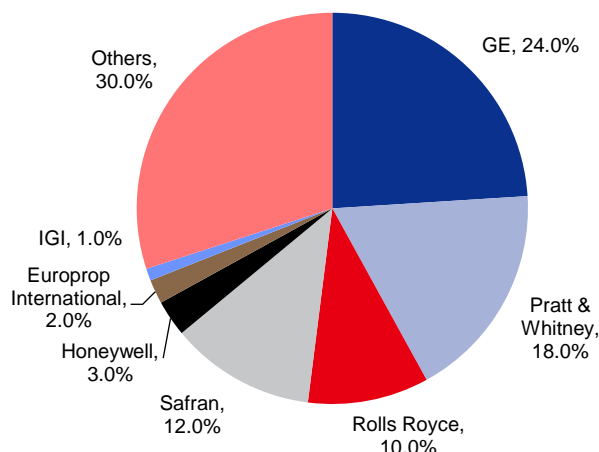
- **Defence industry:** In 2023, a total of 188 defence aircraft were delivered globally, including 155 fighter aircraft from the F-35 program to the US, 22 units of the F-18, and 11 P-8 aircraft from Boeing. The increase in geopolitical conflicts and the development of indigenous programs, particularly in countries like India and South Korea, are key drivers of growth in this market. India is actively developing its own fighter jets, such as the HAL Tejas, as part of its 'Make in India' initiative to reduce its reliance on imports. Additionally, there is a trend toward indigenization of components for imported platforms across multiple countries in the Asia-Pacific region. The global defence aircraft engine market is highly concentrated, with seven companies controlling 70% of the market share in 2023.
 - **Market leaders:** General Electric (GE) Aviation holds a significant 24% share of the military aircraft engine market, supplying engines like the F110 and F414 for various military aircraft, including the F-15EX Advanced Eagle. Pratt & Whitney follows with an 18% market share and produces engines for advanced fighters such as the F-35 Lightning II and F-22 Raptor. Pratt & Whitney has also secured a sole-source contract for upgrades to the F-35 engine, with testing scheduled to begin in 2026.
 - **Other key players:** Significant competitors include Safran and Rolls Royce, holding 12% and 10% market share, respectively. Smaller players such as Honeywell, Europrop International, and IGI account for between 1% to 3% of the market.
- The defence aircraft sector is poised for growth driven by rising demand for advanced military capabilities and indigenous manufacturing efforts. The focus on developing local production capabilities and reducing dependency on foreign suppliers is likely to shape the future trend in defence aviation.

Figure 18: Defence aircraft delivery details



SOURCE: INCRED RESEARCH, COMPANY REPORTS

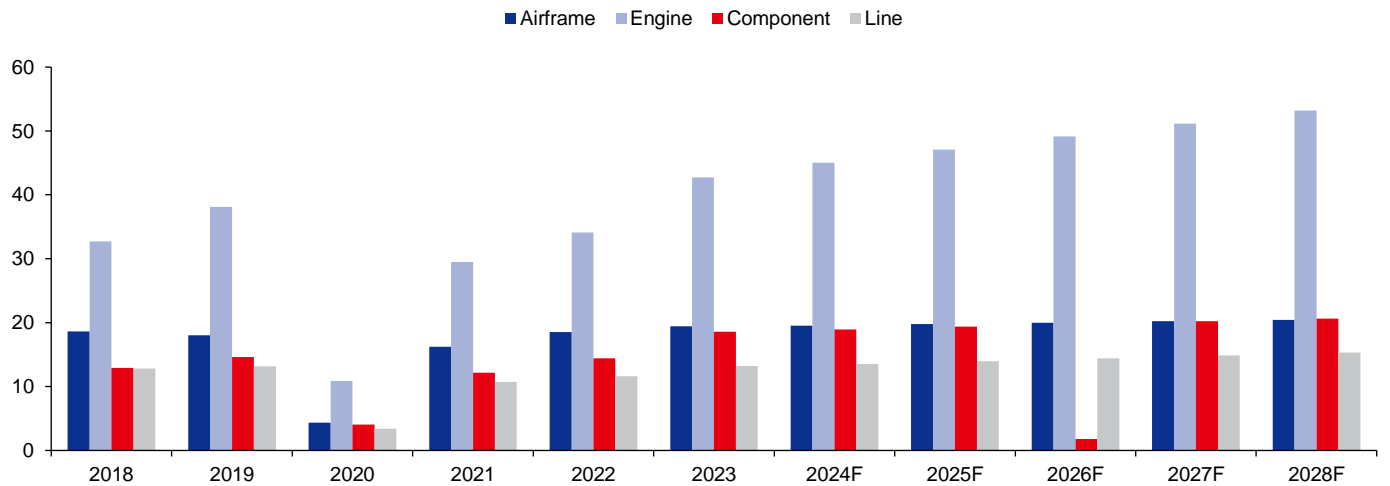
Figure 19: Defence aircraft engines in service (2023)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

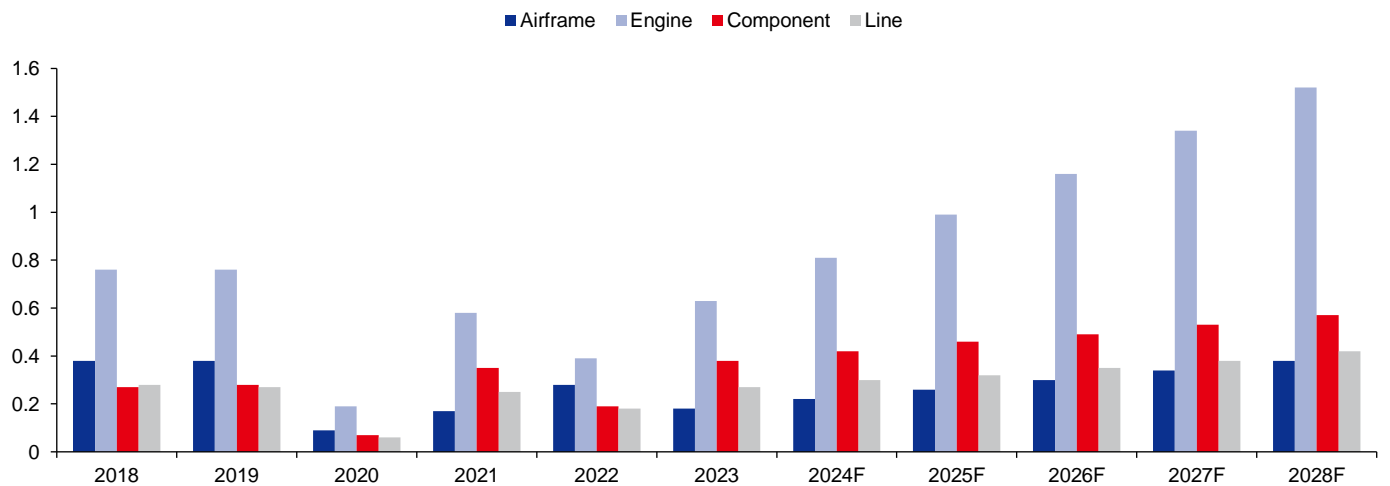
- Global MRO industry:** The engine MRO segment accounted for US\$ 42.75bn, or 46% of the total maintenance, repair, and overhaul (MRO) revenue in 2023, and is projected to grow to 49% by 2028F, touching US\$ 53.20bn. This market is expected to expand at a CAGR of 4.5%, making it the fastest-growing segment within the MRO industry. The line maintenance market follows closely, anticipated to grow at a CAGR of 3.0%, increasing from US\$13.2bn in 2023 to US\$15.30bn by 2028F, and is expected to represent 14% of the total MRO market by that year. The maintenance phase for engines like the CFM 56 and Leap has increased the demand for tools in MRO shops, while new MRO facilities, such as Safran's upcoming aero-engine MRO facility at Hyderabad, India, are expected to drive additional demand and result in significant cost savings related to supply and logistics.
- Indian MRO industry:** Indian airlines have increasingly been outsourcing their MRO needs to Southeast Asian countries and the Middle East due to taxation issues and lack of skilled labour domestically. While basic checks are performed in India, major MRO activities are conducted abroad. The Indian MRO commercial market has shown signs of a recovery post-Covid-19 pandemic, rebounding from US\$0.41bn in 2020 to US\$1.46bn in 2023, with projections to post a CAGR of 14.6%, touching US\$2.89bn by 2028F. The engine MRO segment is anticipated to grow even faster at a CAGR of 19.3%, increasing from US\$ 0.63bn in 2023 to US\$1.52bn in 2028F. With the need for approximately 2,210 aircraft between 2022 and 2042F to accommodate rising passenger numbers, the growth in fleet size and the entry of new airlines are set to drive demand in the Indian MRO market. Although there are currently no international engine MRO players operating in India, major manufacturers like Safran are establishing facilities, presenting significant opportunities for growth in the sector.

Figure 20: Global MRO market (US\$bn)



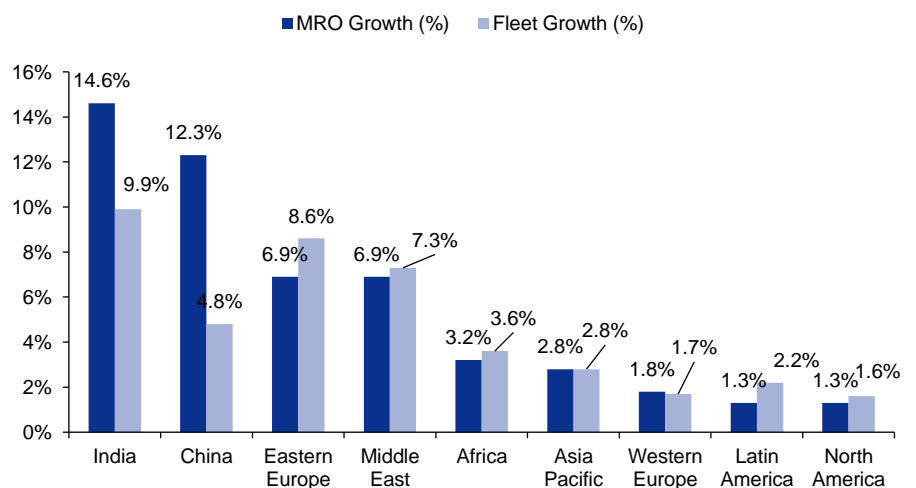
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Indian MRO market (US\$bn)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: Growth of MRO vs. growth of fleet



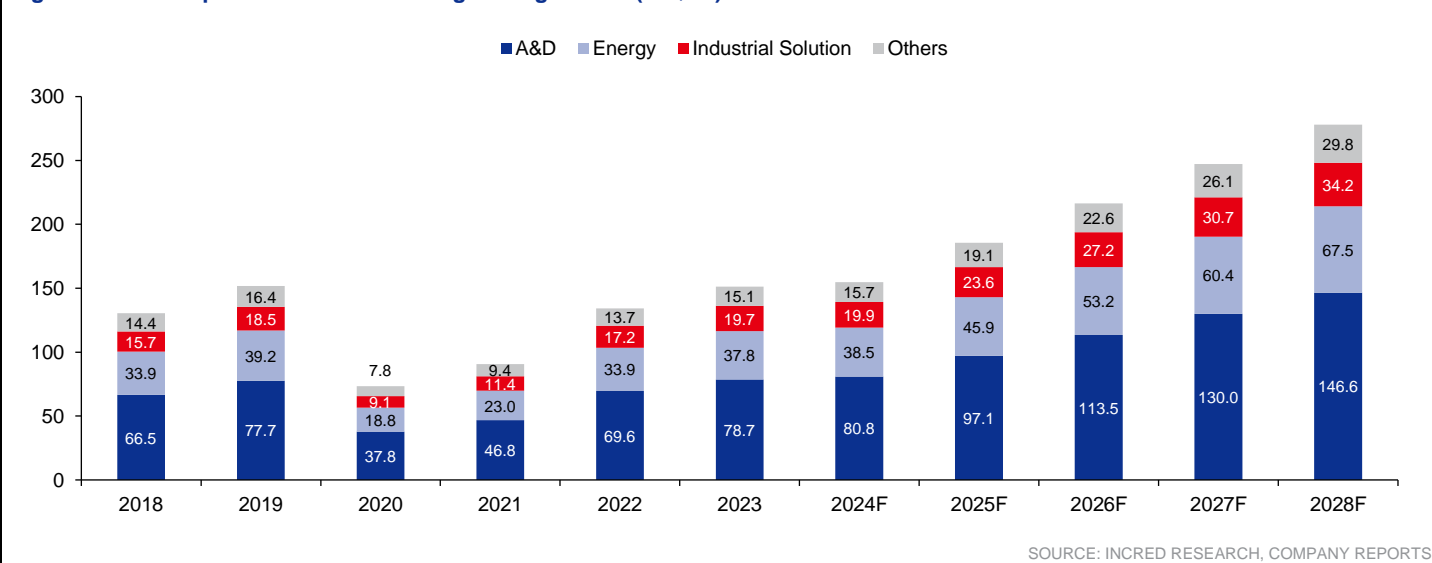
SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Global precision tooling market:** The global precision tooling market was valued at US\$130.45bn in 2018 and grew to US\$151.26bn in 2023, recovering

from a significant decline during the Covid-19 pandemic when it dropped by around 50%. The market is projected to continue its growth, reaching US\$154.88bn in 2024F and expand at a CAGR of 15.8% to hit US\$278.00bn by 2028F. Aerospace and defence sectors are expected to dominate the market, accounting for over 50% of the overall demand and growing at a CAGR of 16.1%. Precision tooling is essential across various industries, including aerospace and defence, for high-performance components, energy for optimal fabrication, and industrial solutions for automation and manufacturing efficiency.

- The precision tooling market rebounded post-Covid, growing from US\$130.45bn in 2018 to US\$151.26bn in 2023. Expected to reach US\$154.88bn in 2024F, with a projected CAGR of 15.8%, culminating in US\$278.00bn by 2028F.
- This sector is anticipated to account for more than 50% of the market, driven by the need for precision components like turbine blades and engines. Precision tooling is crucial for fabricating components such as turbine blades and drilling equipment, ensuring safety and efficiency in energy production.
- Precision tools are integral to automation processes, enhancing manufacturing accuracy and efficiency across various industries, including medical device manufacturing and robotics. The industry is incorporating advanced technologies like 3D printing and automation to improve production processes while maintaining high standards required by critical sectors.
- **Aerospace precision tooling:** The aerospace market is divided into two primary segments: space and commercial aviation. The space segment, which includes launch vehicles and satellite systems, is projected to grow from US\$8.19bn in 2024F to US\$15.70bn by 2028F, at a CAGR of 17.66%. The commercial aviation segment is expected to expand from US\$48.57bn in 2024F to US\$88.97bn in 2028F. Key drivers for growth in the space sector include the privatization of space services, allowing increased participation from private players. In commercial aviation, order backlogs and plans by manufacturers like Airbus and Boeing to ramp up production, such as Airbus's goal to produce around 75 A320 aircraft monthly starting in 2026—are significant growth factors. Additionally, the anticipated growth in the maintenance, repair, and overhaul (MRO) sector in countries like India and China will further boost this market.

Figure 23: Global precision manufacturing tooling market (US\$bn)



BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	1HFY25
Total Net Revenues	363	942	2,088	1,207
Gross Profit	263	678	1,376	854
Operating EBITDA	77	346	792	488
Depreciation And Amortisation	31	41	45	38
Operating EBIT	46	305	747	451
Financial Income/(Expense)	16	19	32	22
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	7	8	50	69
Profit Before Tax (pre-EI)	37	294	765	498
Exceptional Items				
Pre-tax Profit	37	294	765	498
Taxation	3	66	184	111
Exceptional Income - post-tax				
Profit After Tax	34	228	581	387
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	34	228	581	387
Recurring Net Profit				
Fully Diluted Recurring Net Profit				

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	1HFY25
EBITDA	37	294	765	498
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(74)	(302)	(344)	71
(Incr)/Decr in Total Provisions	31	41	45	38
Other Non-Cash (Income)/Expense	(4)	(7)	(16)	(37)
Other Operating Cashflow	7	18	(3)	(16)
Net Interest (Paid)/Received	16	19	32	22
Tax Paid	1	(49)	(243)	(75)
Cashflow From Operations	15	14	236	500
Capex	(26)	(53)	(274)	(593)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	34	(6)	35	(2,767)
Cash Flow From Investing	8	(59)	(239)	(3,360)
Debt Raised/(repaid)	27	49	97	439
Proceeds From Issue Of Shares	-	10	-	2,500
Shares Repurchased				
Dividends Paid	-	-	-	-
Preferred Dividends				
Other Financing Cashflow	(29)	(30)	(41)	(76)
Cash Flow From Financing	(2)	29	56	2,863
Total Cash Generated	22	(16)	53	4
Free Cashflow To Equity				
Free Cashflow To Firm				

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	1HFY25
Total Cash And Equivalents	75	41	76	101
Total Debtors	75	321	468	425
Inventories	47	158	197	201
Total Other Current Assets	56	108	394	127
Total Current Assets	253	628	1,137	853
Fixed Assets	277	290	520	929
Total Investments				3,027
Intangible Assets				
Total Other Non-Current Assets	38	16	100	283
Total Non-current Assets	315	306	620	4,239
Short-term Debt	113	177	163	351
Current Portion of Long-Term Debt				
Total Creditors	41	69	135	170
Other Current Liabilities	38	70	51	198
Total Current Liabilities	193	316	349	719
Total Long-term Debt	57.70	45.90	125.18	395.72
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	36	71		20
Total Non-current Liabilities	93	117	125	416
Total Provisions	5	12	196	56
Total Liabilities	291	445	670	1,192
Shareholders Equity	277	488	1,086	3,901
Minority Interests	-	-	-	-
Total Equity	277	488	1,086	3,901

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	1HFY25
Revenue Growth	NA	159.1%	121.7%	
Operating EBITDA Growth	NA	347.4%	129.1%	
Operating EBITDA Margin	21.3%	36.7%	37.9%	40.5%
Net Cash Per Share (Rs)	-1.90	-3.58	-4.17	-12.71
BVPS (Rs)	5.4	9.6	21.4	76.7
Gross Interest Cover				
Effective Tax Rate	8.8%	22.3%	24.0%	22.3%
Net Dividend Payout Ratio	0.0	0.0	0.0	0.0
Accounts Receivables Days	75.5	124.5	81.9	64.3
Inventory Days	47.4	61.1	34.5	30.3
Accounts Payables Days	41.4	26.9	23.6	25.8
ROIC (%)	10.3%	31.9%	43.7%	30.2%
ROCE (%)	9.6%	39.0%	54.4%	19.3%
Return On Average Assets	6.0%	24.4%	33.1%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.