IPO NOTE

Uniparts India Ltd

29th November, 2022

Recommendation	Subscribe
Price Band	Rs 548 – 577
Bidding Date	30th Nov – 02nd Dec
Book Running Lead Manager	Axis Capital,DAM Capital, JM Financial
Registrar	Link Intime
Sector	Auto Ancillary

Minimum Retail Application- Detail At Cut off Price	
Number of Shares	72
Minimum Application Money	Rs 14904
Discount to retail	0
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY21	FY22
Total Income	903	1227
EBITDA	119	268
Adj PAT	93	167

Valuations(FY22)	Upper Band
Market Cap (Rs Cr)	2604
Adj EPS	37
PE	15.6
EV/ EBITDA	10.1
Enterprise Value (Rs Cr)	2717

Post Issue Shareholding Pattern	
Promoters	20.4%
Promoter Group	45.4%
Public	34.2%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	45.13
Issue Size (Rs in cr)	836
Face Value (Rs)	10

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BACKGROUND

Uniparts is a global manufacturer of engineered systems and components for the off-highway market in the agriculture, construction, forestry, mining (CFM) and aftermarket with presence across over 25 countries. Its core product portfolio includes (i) 3-point linkage systems (3PL) and (ii) precision machined parts (PMP).

Objects and Details of the Issue:

The public issue consists of Offer for sale of 1.45 cr Equity Shares aggregating upto ₹ 836 Cr.

The company will not receive any proceeds from the Offer and all such proceeds will go to the Selling Shareholders.

Investment Rationale:

- Global 3-point linkages (3PL) market is expected to grow at 7% over 2021-26
- Global Precision Machine Part (PMP) market is expected to grow at 7% over 2021-26
- Engineering driven, vertically integrated precision solutions provider
- Global business model optimizing cost-competitiveness and customer supply chain risks
- Long-term relationships with key global customers, including major OEMs, resulting in a well-diversified revenue base
- Focus on higher value addition products and enhanced service offerings to improve the margin profile
- Strategically located manufacturing and warehousing facilities that offer scale and flexibility

Valuation and Recommendation:-

Uniparts has demonstrated its scalability and execution with the topline growth at 12% CAGR over FY17-22 and has scaled revenue of Rs. 1227 Cr in FY22. The company has reduced their debt from Rs. 330 cr in FY19 to Rs. 83 cr as of June 2022, which has helped Uniparts to improve its bottom line performance. A global player of engineered systems and components for the off-highway market in the agriculture, CFM and aftermarket, is anticipated to increase its market share from present 8% in higher than 70 HP segment. We believe Uniparts is being offered at reasonable valuations at 15.6x FY22 earnings considering peer valuations and future growth opportunities in the 3-PL and PMP industry. **We recommend subscribing to the issue.**

Financials (Rs Cr)	FY20	FY21	FY22
Net Revenues	907	903	1227
Growth	*-14%*	*0%*	*36%*
EBIDTA	96	119	268
EBITDA Margins	*10.6%*	*13.2%*	*21.8%*
PBT	74	119	229
Adjusted PAT	63	93	167
EPS	13.9	20.6	37
ROCE	13%	18%	29%
EV/Sales	-	-	2.2
EV/EBITDA	-	-	10.1
P/E	-	-	15.6

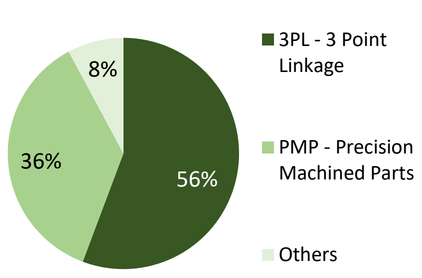
Source: Company data, NBRR

Company Background

Uniparts is a global manufacturer of engineered systems and components for the off-highway market in the agriculture, construction, forestry, mining (CFM) and aftermarket with presence across over 25 countries. Its core product portfolio includes (i) 3-point linkage systems (3PL) and (ii) precision machined parts (PMP).

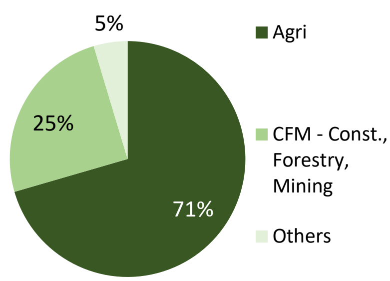
Most of the products are structural and load bearing parts of the equipment and are subject to strict tolerances, specifications and process controls. A series of precision engineering process steps converge in to manufacturing of these products. Uniparts had an estimated 16.68% market share of the global 3PL market in FY22 and an estimated 5.92% market share in the global PMP market in the CFM sector in FY22. Uniparts also caters to the aftermarket segment especially for 3PL product range.

Product Mix (FY22)



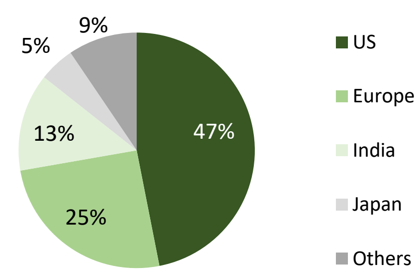
Source: RHP

Industry Mix (FY22)



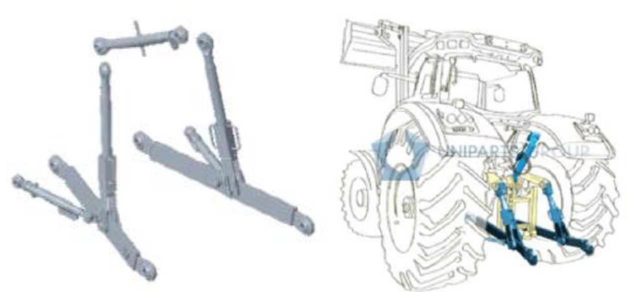
Source: RHP

Geographical Mix (FY22)



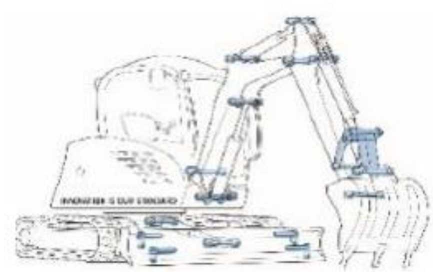
Source: RHP

3PL – 3 Point Linkage



Source: RHP

PMP – Precision Machined Parts



Source: RHP

3PL: The 3PL system forms a group of assemblies allowing attaching an implement like a plough to the tractor at 3 coupling points. The system is 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.

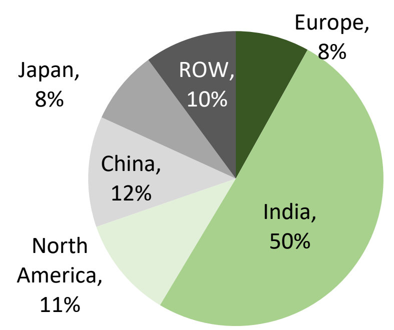
PMP: Precision Machined Parts is a group of products that are components requiring stringent material and manufacturing specifications and controls. These include pins, bushes and bosses used in articulated joints. These are structural and load bearing parts of the equipment and are subject to strict tolerances, specifications and process controls. The product varies in design and technical specification between different applications. The number of SKUs are high and varied in this product category.

Investment Rationale

Global 3-point linkages (3PL) market is expected to grow at 7% over 2021-26

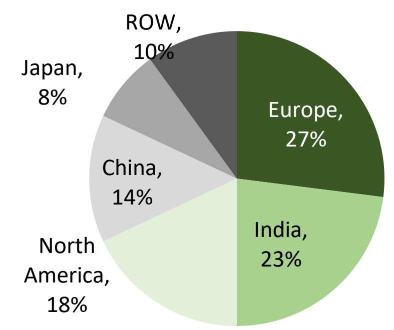
The world market for 3-point linkages (3PL) - estimated at USD 360-370 million in 2021 - is expected to grow at nearly 6%-8% in 2021-2026. Although India and China have a share of nearly 50% and 12% respectively of the world tractor production their combined share in global 3PL demand by value is only around 36%. This is primarily due to two key reasons: higher ratio of lower HP tractors in the total population and lower per assembly price of 3PL in these regions. North America, being one of the most mature tractor markets, contributes around 11% of world tractor demand, and is estimated to contribute almost 18% of the total demand for 3PL in the world in 2021. Europe, contributing nearly 8% of the world tractor volume, is one of the key demand geographies for 3PL - contributing almost 27% of the world demand for such parts in value. The global 3PL market (which is intricately linked to tractor demand) is set to grow at a steady pace of 7% CAGR over 2021-26. **Uniparts has a 16.7% market share of the global 3PL market in the CFM sector in FY22.**

World Tractor Market by volumes (CY21: 2.13 mn units)



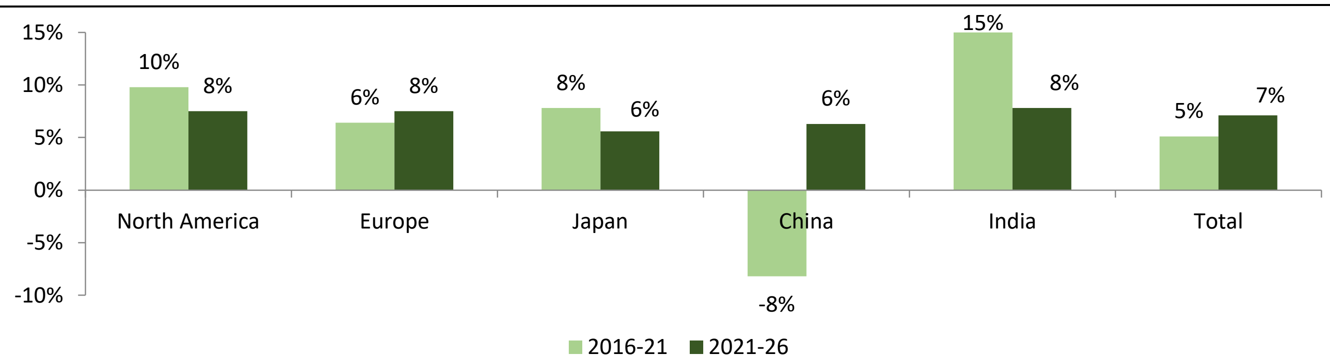
Source: RHP

World 3PL Market (CY21: USD ~360 mn)



Source: RHP

Global 3PL Market CAGR of 7% over 2021-26

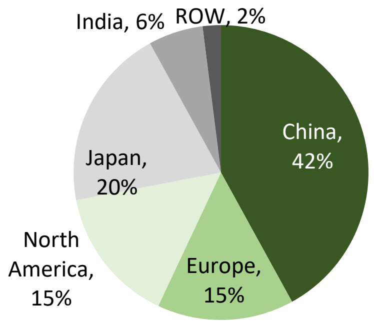


Source: RHP

Global Precision Machine Part (PMP) market is expected to grow at 7% over 2021-26

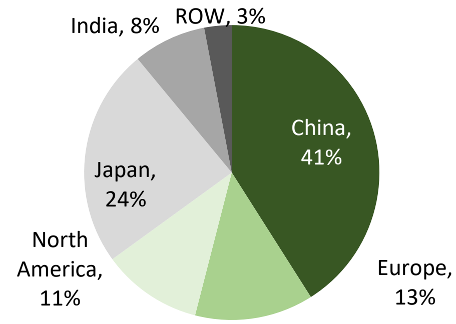
Global market of precision machined parts (PMP) for articulated joints was an estimated USD 648 million in 2021, with 85% and above of the demand from four key geographies China, Japan, Europe and North America. The demand for such products is expected to grow at a healthy 7% CAGR in the 5-year period 2021-2026, powered by strong volume growth in construction equipment production in markets such as Japan and India. **Uniparts has a 5.92% market share in the global PMP market in the CFM sector in FY22.**

World Construction Equipment Market (CY21: 1.29 mn units)



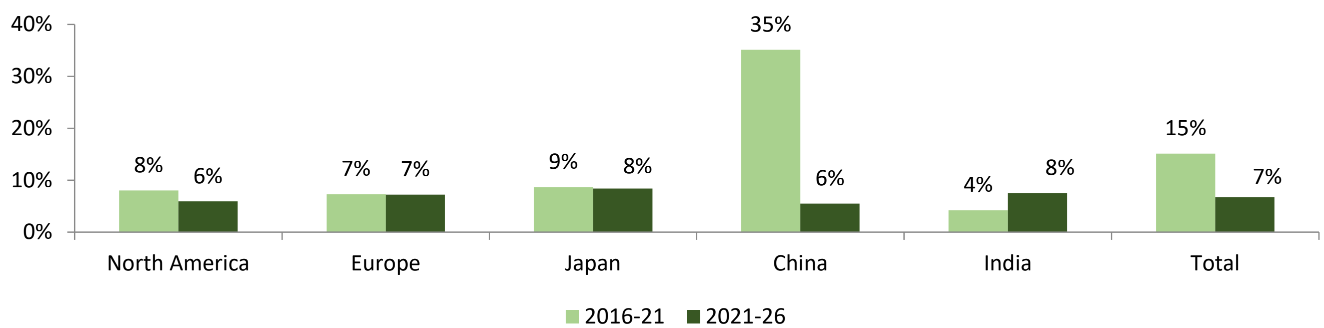
Source: RHP

World PMP Market (CY21: USD ~648 mn)



Source: RHP

Global PMP Market CAGR of 7% over 2021-26



Source: RHP

Engineering driven, vertically integrated precision solutions provider

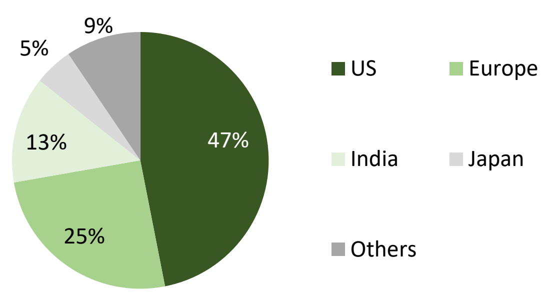
Uniparts provides comprehensive solutions and manufactures high-quality, critical products and components for OHV (off highway vehicle) industry. Most of its products are critical, structural and load bearing parts of equipment and are subject to strict tolerances and specifications. A series of precision engineering process steps converge to manufacture these products. Company's significant backward and forward integration reduces its dependence on external supply and support services and enables maintenance of quality controls required to service global OEMs and aftermarket clients. The company collaborates with customers on an on-going basis, on joint product development and process innovation programs, to upgrade and customize its products in tandem with customer specifications and requirements.

Global business model optimizing cost-competitiveness and customer supply chain risks

Company’s global business model serves as an effective solution for customers seeking to rationalize their global sourcing and supply chain by providing them multiple choices in the form of local deliveries and direct exports, while at the same time helping Uniparts to manage its costs and increase margins. Uniparts has grown its global business model in a scalable manner, optimized to provide premium-priced local deliveries manufactured on-shore in smaller lots and with shorter lead times, as well as cost-competitive offshore deliveries from India with longer lead times and inventory cycles.

The company’s facilities in India, the United States and Europe are strategically located in proximity to several global OEMs in the OHV industry. In India, Uniparts has five manufacturing facilities, two at Ludhiana, Punjab, one at Visakhapatnam, Andhra Pradesh, and two at Noida, Uttar Pradesh. In the United States, it has one manufacturing, warehousing and distribution facility at Eldridge, Iowa and a warehousing and distribution facility at Augusta, Georgia. The company has also set up a warehousing and distribution facility in Hennef, Germany, which serves as a base for serving its European customers.

Geographical Mix (FY22)



Source: RHP

Long-term relationships with key global customers, including major original equipment manufacturers, resulting in a well-diversified revenue base

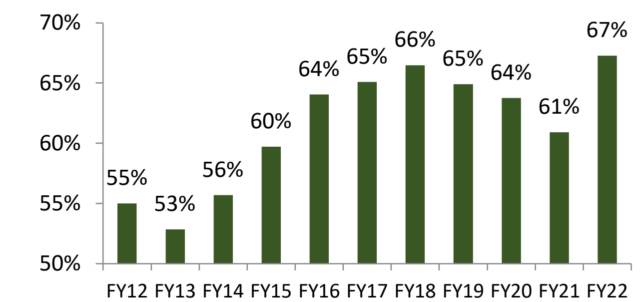
Uniparts has developed long-term relationships with global customers in the agriculture and CFM sectors, such as TAFE, Claas Tractors and Kramp. Four of their top five customers have been its customers for over 10 years. TAFE and Kramp are some of the
customers with whom Uniparts has had relationships for over 15 years, while with customers like Yanmar, it has developed relationships for over 10 years. It has acquired many customers since 2017 that accounted for 9.7% of FY22 revenue; of which one such customer has become a part of its top five customers, reflecting its ability to strengthen relationships with customers. Uniparts has been recognized by its customers as a key supplier and was awarded the “Most Versatile Supplier 2020” by Kubota India. **Its entrenched relationship with its customers resulting from its global business model, dual-shore manufacturing, along with the criticality, volume and type of components it supplies, act as effective barriers to entry for other suppliers.**

The single largest customer accounted for 33% of revenue in FY22. In addition, sales to top five customers accounted for 56% of revenue in FY22, while sales to top 10 customers accounted for 70% of revenue in FY22.

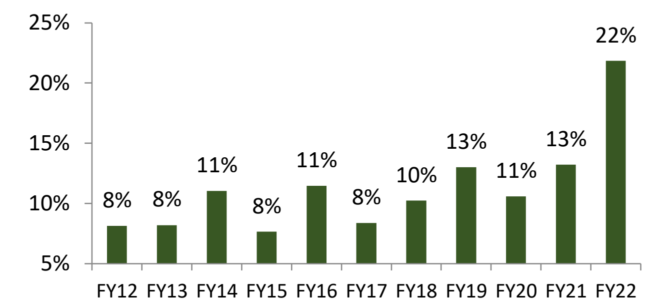
Focus on higher value addition products and enhanced service offerings to improve the margin profile

Unpiarts continually evaluates product and service opportunities enabling movement towards higher value-addition and improving margin profile. Its Gross and EBITDA margins have increased considerably over the last decade. Uniparts is working towards ensuring that new business opportunities are margin accretive. It intends to continue to increase the proportion of warehousing sales in overall sales model mix, as this delivery model carries premium and is margin accretive. It regularly evaluates existing manufacturing portfolio as well and undertakes calibrated relocation of manufacturing any identified products to optimize cost structure and resulting margins. As part of its strategy of improving the margin profile, it intends to further expand its product portfolio with solutions for adjacent vehicle and equipment types such as utility task vehicles and all-terrain vehicles as well as focus on PMP products with a technology focus, such as, plungers and transmission components.

Gross Margin

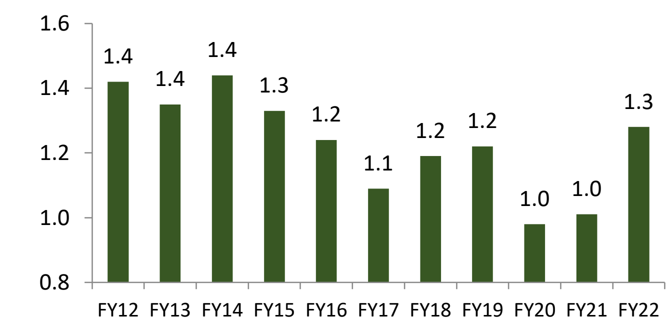


EBITDA Margin

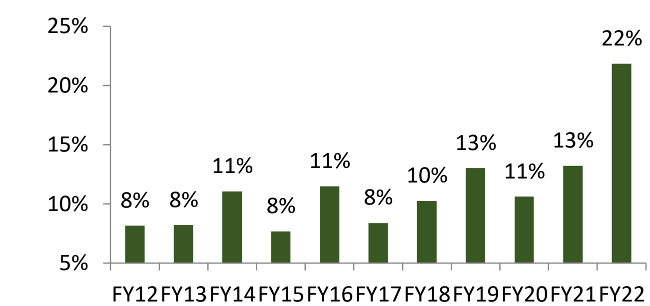


Source: RHP

Asset Turns



ROCE



Source: RHP

Strategically located manufacturing and warehousing facilities that offer scale and flexibility

Uniparts operates in six manufacturing facilities located across India and the United States. As on June 30, 2022, their aggregate installed capacity across these manufacturing facilities was 67,320 metric tonne per annum which includes a planned additional green field expansion at Ludhiana. The company's dual-shore capabilities, which is the ability to undertake manufacturing products at different locations, allows the company to service customer requirements from alternate locations, providing customers the benefit of regular supply and cost-competitive manufacturing operations. Uniparts also has three international warehousing facilities in Germany and the United States, which assists them to be a local supplier to global OEMs.

Concerns

High dependence on developed markets like US & Europe
The company has high dependence on developed markets like US and Europe and any slowdown or change in policies in these markets will severely impact the company's performance.

High dependence on top 10 clients
The company derived 70.4% of revenue from top 10 clients in FY22. Loss of sales to any of them due to loss of contracts, loss of market share of these clients, adverse change in financial condition of such customers, including due to possible bankruptcy or other financial hardships could have an adverse impact on the business of Uniparts India.

Forex volatility could result in losses
Based on the geographical presence and business operations worldwide, Uniparts primarily deals in USD. While the company partly hedges foreign currency risk, it may still suffer losses in the event of a sharp depreciation in INR against USD. Unipart's net foreign exchange (loss) for FY22/21/20 was Rs. 14.67 Cr/ 6.64 Cr / Rs.3.27 Cr.

Valuation and Recommendation

Uniparts has demonstrated its scalability and execution with the topline growth at 12% CAGR over FY17-22 and has scaled revenue of Rs. 1227 Cr in FY22. The company has reduced their debt from Rs. 330 cr in FY19 to Rs. 83 cr as of June 2022, which has helped Uniparts to improve its bottom line performance. A global player of engineered systems and components for the off-highway market in the agriculture, CFM and aftermarket, is anticipated to increase its market share from present 8% in higher than 70 HP segment.

We believe Uniparts is being offered at reasonable valuations at 15.6x FY22 earnings considering peer valuations and future growth opportunities in the 3-PL and PMP industry. **We recommend subscribing to the issue.**

Listed Comparable Peers

FY22 Figures	Balkrishna Industries	Ramkrishna Forgings	AVG.	Uniparts India	Bharat Forge
Revenue	8,267	2,285	5,276	1,227	6,255
3 Y CAGR (FY19-22)	16%	8%	12%	5%	-1%
5 Y CAGR (FY17-22)	17%	21%	19%	12%	10%
10 Y CAGR (FY12-22)	11%	16%	14%	4%	5%
EBITDA Margin	29.1%	23.2%	26.1%	21.8%	30.1%
Asset Turns (x)	0.9	0.7	0.8	1.2	0.5
Wkg Cap Days	30	60	45	64	151
ROCE	22%	16%	19%	29%	15%
ROE	22%	21%	21%	24%	17%
Debt/Equity	0.4	1.5	0.9	0.2	0.6
EV/EBITDA	20.7	14.5	17.6	10.1	38.4
P/E	27.2	17.8	22.5	15.6	36.5

Source: Company, NBRR

Financials

P&L (Rs. Cr)	FY20	FY21	FY22	Q1FY23	Q1FY23A
Net Revenue	**907**	**903**	**1227**	**347**	**1387**
% Growth	*-14%*	*0%*	*36%*		*13%*
Raw Materials	329	353	402	123	493
% of Revenues	*36.2%*	*39.1%*	*32.7%*	*35.6%*	*35.6%*
Employee Cost	212	185	220	59	235
% of Revenues	*23.3%*	*20.5%*	*17.9%*	*16.9%*	*16.9%*
Other expenses	270	245	338	90	358
% of Revenues	*29.8%*	*27.2%*	*27.5%*	*25.8%*	*25.8%*
EBITDA	**96**	**119**	**268**	**75**	**301**
EBITDA Margin	*10.6%*	*13.2%*	*21.8%*	*21.7%*	*21.7%*
Depreciation	35.4	37.3	36.6	9.6	38.3
Other Income	32	45	4	1	4
Interest	18	8	6	1	5
Exceptional item					
PBT	**74**	**119**	**229**	**65**	**261**
Tax	12	25	62	15	59
Tax rate	*16%*	*21%*	*27%*	*23%*	*23%*
Adj. PAT (norm. Tax)	**63**	**93**	**167**	**51**	**202**
% Growth	*-10%*	*49%*	*79%*		*21%*
EPS (Post Issue)	**13.9**	**20.6**	**37.0**	**11.2**	**44.8**

Ratios & Others	FY20	FY21	FY22	Q1FY23
EBITDA Margin (%)	10.6%	13.2%	21.8%	21.7%
PAT Margin (%)	6.9%	10.3%	13.6%	14.6%
ROE (%)	13%	17%	24%	7%
ROCE (%)	13%	18%	29%	8%

Turnover Ratios	FY20	FY21	FY22	Q1FY23
Debtors Days	49	68	58	204
Inventory Days	142	137	131	489
Creditor Days	21	36	27	94
Asset Turnover (x)	1.0	1.0	1.2	0.3

Valuation Ratios	FY20	FY21	FY22	Q1FY23
Price/Earnings (x)			15.6	
EV/EBITDA (x)			10.1	
EV/Sales (x)			2.2	
Price/BV (x)			0.8	

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY20	FY21	FY22	Q1FY23
Share Capital	45	45	45	45
Reserve & Surplus	420	516	641	669
Networth	**464**	**560**	**685**	**714**
Total Loans	**256**	**128**	**127**	**115**
Other non-curr liab.	74	72	66	63
Trade payable	53	90	90	104
Other Current Liab	52	43	63	68
Total Equity & Liab.	**899**	**893**	**1,031**	**1,064**
Fixed Assets & CWIP	216	202	208	209
Goodwill & Other intangi	133	122	118	118
Tax assets	11	11	15	6
Inventories	353	339	442	465
Other non Curr. assets	5	7	7	7
Cash & Bank	17	11	14	32
Debtors	123	168	194	194
Other Current assets	40	33	32	33
Total Assets	**899**	**893**	**1,031**	**1,064**

Cash Flow (Rs. Cr)	FY20	FY21	FY22	Q1FY23
EBITDA	96	119	268	75
Provisions & Others	6	39	(8)	(4)
Op. profit before WC	**102**	**158**	**260**	**71**
Change in WC	40	20	(113)	(1)
Less: Tax	(12)	(25)	(62)	(15)
CF from operations	**130**	**153**	**85**	**55**
Addition to assets	(55)	(15)	(35)	(7)
(Purchase)/Sale of invst.	-	(1)	1	-
Int & Div Received	1	1	1	0
CF from Investing	**(54)**	**(16)**	**(33)**	**(7)**
Long term borrowings	(26)	(16)	(1)	(0)
Short term borrowings	(71)	(111)	0	(14)
Lease liabilties	40	(9)	(5)	(1)
Int & Div Paid	(20)	(5)	(44)	(17)
CF from Financing	**(77)**	**(141)**	**(49)**	**(32)**
Net Change in cash	**(0)**	**(4)**	**3**	**16**
Cash at beginning	15	17	11	14
Additions	2	(2)	0	1
Cash at end	17	11	14	32

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