

IPO NOTE



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UNIMECH AEROSPACE AND MANUFACTURING LIMITED
20.12.2024



Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



Company Overview

- ◆ Incorporated in 2016, Unitech Aerospace and Manufacturing Limited is engaging in the manufacturing of complex tools like mechanical assemblies, electro-mechanical systems, and components for aeroengine and airframe production.
- ◆ The company is an engineering solutions provider specializing in the manufacturing of complex products with "build to print" and "build to specifications" offerings. This involves machining, fabrication, assembly, testing, and creating new products based on the specific requirements of clients in the aerospace, defense, energy, and semiconductor industries.
- ◆ Between Year 2022 and Year 2024, They have manufactured 2,356 SKUs in tooling and precision complex sub-assemblies category and 624 SKUs in the precision machined parts category, supplying to more than 26 customers across 7 countries.
- ◆ As of March 31, 2024, the company operates two manufacturing facilities in Bangalore, covering a total area of over 1,20,000 sq ft. Unit I, located in Peenya, spans over 30,000 sq ft, while Unit II, situated in a Special Economic Zone near Bangalore International Airport, covers over 90,000 sq ft. These facilities are registered with ISO.
- ◆ As of March 31, 2024, The Company had 384 employees.

Promoters

- ANIL KUMAR P,
- RAMAKRISHNA KAMOJHALA
- MANI P
- RAJANIKANTH BALARAMAN
- PREETHAM S V

Objects of the Offer

- ◆ Funding of capital expenditure for expansion through purchase of machineries and equipment by the Company.
- ◆ Funding working capital requirements of the Company
- ◆ Investment in the Material Subsidiary for: (i) purchase of machineries and equipment; (ii) funding its working capital requirements; and (iii) repayment / prepayment, in full or part, of certain borrowings availed by their Material Subsidiary

General corporate purposes.

Issue Details

Price Band (in ₹ per share)	745-785
Issue size (in ₹ Crore)	500.00
Fresh Issue (in ₹ Crore)	250.00
OFS (in ₹ Crore)	250.00
Issue open date	23-12-24
Issue close date	26-12-24
Tentative date of Allotment	27-12-24
Tentative date of Listing	31-12-24
Total number of shares (lakhs)	67.11-63.69
No. of shares for QIBs (50%) (lakhs)	33.46-31.75
No. of shares for NII (15%) (lakhs)	10.04-9.53
No. of shares for S-HNI (33%) (lakhs)	3.35-3.18
No. of shares for B-HNI (66%) (lakhs)	6.69-6.35
No. of shares for retail investors (35%) (lakhs)	23.42-22.23
No of shares for Employee Reservation (lakhs)	0.20-0.19
Minimum order quantity	19
Face value (in ₹)	5.00
Amount for retail investors (1 lot) (in ₹)	14155-14915
Maximum no. of shares for Retail investors at Lower Band	266 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	247 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	198170-193895
Minimum no. of shares for sHNI (2 Lakhs) at upper band	266 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	1273 (67 lots)
Minimum number of shares for bHNI at upper band	1292 (68 lots)
Exchanges to be listed on	BSE & NSE



BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	H1FY25	FY24	FY23	FY22
Share Capital	23.83	22.00	1.04	1.04
Net Worth	390.09	108.59	48.84	27.65
Revenue from Operations	120.65	208.77	94.16	36.34
EBITDA	48.82	79.18	34.56	7.72
EBITDA Margin (%)	40.47	37.93	36.70	21.25
Profit/(Loss) After Tax	38.68	58.04	21.18	3.39
EPS (in Rs.)	16.98 [^]	13.23	5.19	0.77
Net Asset Value (in Rs.)	85.65	24.71	11.11	6.29
Total borrowings	74.71	28.85	22.25	17.11
P/E [#]	46.23	59.33	NA	NA
P/B [#]	9.17	31.77	NA	NA

*Restated consolidated financials; #Calculated at upper price band [^]Annualised*** On July 1,2023 the company sub-divided equity shares from ₹100 to ₹5, increasing shares from 104,774 to 2,095,480 while maintaining capital at ₹10,477,400. December 28, 2023 Bonus issue in the ratio of 20 Equity Shares for every 1 Equity Share held. July 19,2024 Allotted 1,466,836 shares each to ValueQuest SCALE Fund and Evolve India Fund IV, and 733,418 shares to Steadview Capital.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Revenue from operations			
Revenue from operations	36.35	94.17	208.78
Other income	0.73	0.76	5.01
Total income	37.08	94.93	213.79
YoY Growth (%)		156.01%	125.20%
Expenses			
Cost of materials consumed	8.93	29.75	48.63
Cost of materials consumed-% of Revenue	24.09%	31.34%	22.75%
Employee benefit expenses	8.27	15.61	32.44
Employee Expenses-% of Revenue	22.29%	16.44%	15.17%
Purchases of stock-in-trade	1.05	0.61	
Purchases of stock-in-trade-% of Revenue	2.83%	0.64%	0.00%
Changes in inventories of finished goods, stock in trade, work-in-progress	-1.80	-11.82	-4.97
Changes in inventories of finished goods, stock in trade, work-in-progress-% of Rev	-4.86%	-12.45%	-2.33%
Subcontractors' charges	2.89	7.41	26.91
Subcontractors' charges-% of Revenue	7.79%	7.81%	12.59%
Other expenses	33.36	65.57	137.29
EBITDA	7.73	34.56	79.19
EBITDA Margin (%)	20.83%	36.41%	37.04%
Depreciation and amortisation expense	3.10	4.08	4.46
EBIT	4.63	30.48	74.72
EBIT Margin (%)	12.49%	32.11%	34.95%
Finance cost	1.64	1.88	3.23
Profit before tax	3.72	29.37	76.50
Tax expenses	37.18	293.65	765
Current tax			
Tax for the year/ period	0.98	5.78	15.46
Tax expenses pertaining to earlier year	0.00	0.00	2.90
Deferred Tax	-0.66	0.78	0.01
Total tax expenses	0.33	6.55	18.37
Profit for the year	3.39	22.81	58.13
PAT Margin (%)	9.15%	24.03%	27.19%
Earnings per share			
Basic earnings per share (₹)	0.77	5.19	13.23

Cashflow Statement

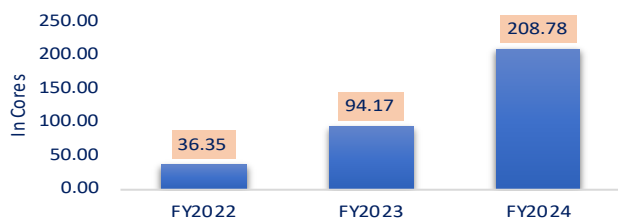
Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	1.39	6.23	47.91
Income tax paid (net of refunds)	0.14	-4.88	-24.28
Net cash generated from operating activities	1.53	1.35	23.63
Net cash used in investing activities	0.82	-5.92	-23.92
Net cash used in financing activities	-0.17	2.94	5.58
Net increase/(decrease) in cash and cash equivalents	2.18	-1.63	5.29
Cash and cash equivalent as at 1 April	1.30	3.45	1.88
Effects of exchange rate changes on cash and cash equivalents	-0.03	0.06	0.01
Cash and cash equivalent as at year end	3.45	1.88	7.18

Balance Sheet

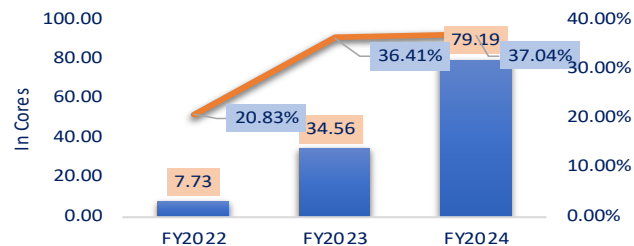
Particulars (In Crores)	FY2022	FY2023	FY2024
ASSETS			
Non-current assets			
Property, plant and equipment	16.03	21.57	45.07
Right to use assets	8.28	7.09	6.29
Intangible assets	0.36	0.27	0.64
Capital work-in progress	3.03	0.04	0.02
Investments			
Other financial assets	3.08	0.69	0.88
Other non-current assets	0.00	0.21	8.51
Income tax assets (net)	0.07	0.04	0.00
Deferred tax assets (net)	0.75	0.68	0.56
Total Non-Current Asset	31.59	30.57	61.98
Current assets			
Inventories	4.72	15.77	19.73
Investments			
Trade receivables	7.52	32.13	46.84
Cash and cash equivalents	3.45	1.88	7.18
Other bank balances	4.03	2.19	0.46
Loans			
Other financial assets	1.76	6.00	23.90
Current tax assets (net)	0.22	0.00	3.96
Other current assets	3.59	4.81	11.58
Total current Asset	25.28	62.77	113.66
Total assets	56.88	93.34	175.63
Equity and liabilities			
Equity			
Equity Share Capital	1.04	1.04	22.00
Other Equity	26.62	47.80	86.59
Total equity	27.66	48.85	108.60
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	5.77	4.59	12.52
Lease liabilities	1.77	0.95	0.00
Other financial liabilities			
Provisions	1.80	6.02	0.00
Deferred tax liabilities (net)	0.00	0.14	0.00
Other non-current liabilities			
Total Non -Current Liabilities	9.34	11.70	12.52
Current liabilities			
Financial liabilities			
Borrowings	11.35	17.67	16.34
Lease liabilities	1.07	0.82	1.04
Trade payable			
Due to MSME	0.97	1.66	2.33
Due to other Creditors	3.16	5.27	11.19
Other financial liabilities	1.07	3.44	3.37
Provisions	0.50	1.23	19.57
Current tax liabilities (net)	0.99	2.01	0.00
Other current liabilities	0.79	0.69	0.68
Total Current liabilities	19.88	32.80	54.52
Total liabilities	29.22	44.50	67.04
Total equity and liabilities	56.88	93.34	175.63

PERFORMANCE THROUGH CHARTS

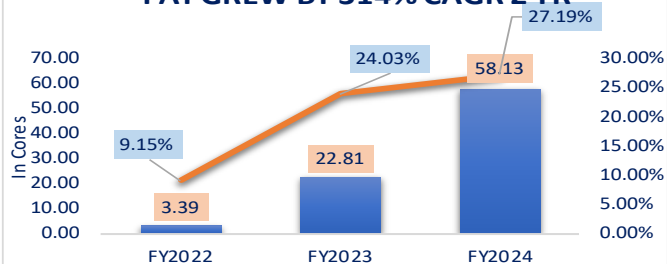
REVENUE HAS GROWN BY 140% CAGR 2 YR



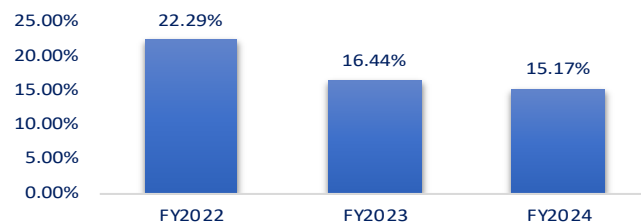
EBIDTA GREW BY 220% CAGR 2 YR



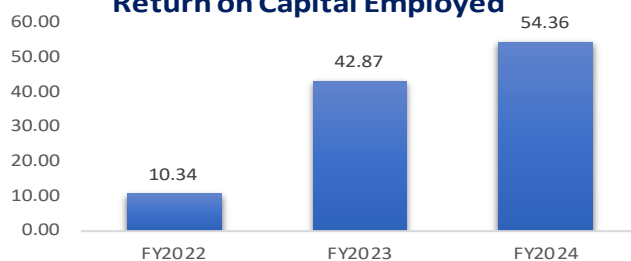
PAT GREW BY 314% CAGR 2 YR



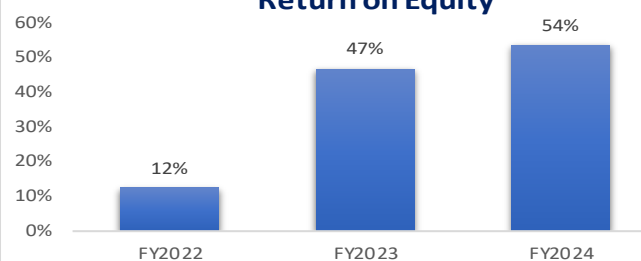
EMPLOYEE EXPENSE AS % TO REVENUE IS DECREASING



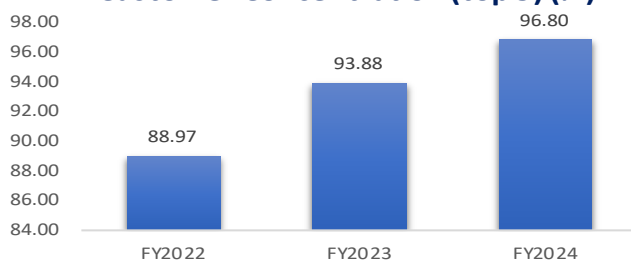
Return on Capital Employed



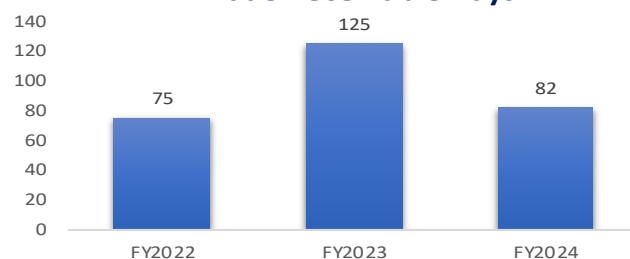
Return on Equity



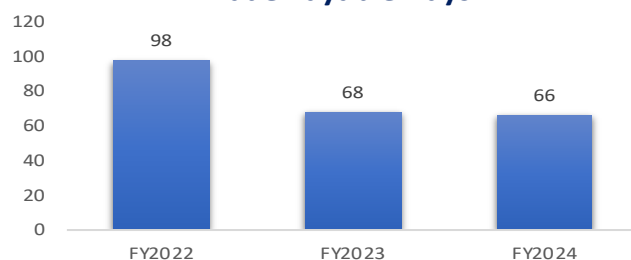
Customer Concentration (top 5) (%)



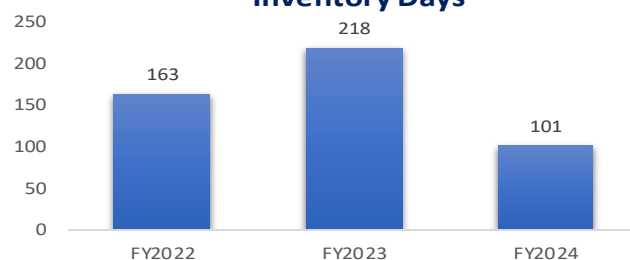
Trade Receivable Days



Trade Payable Days



Inventory Days



INDUSTRY REVIEW

AEROSPACE INDUSTRY

Investment trends in Aerospace and Focus on the UDAN scheme and Airport Development Projects

- UDAN scheme is a significantly successful initiative by the Government of India to improve the connectivity to rural and underserved regions of the country with simultaneous development of airport infrastructure and air connectivity.
- The scheme was launched in October 2017 and completed 6 years in October 2023, during which time it has facilitated the air travel of more than 13 million air travellers and is expected to grow to 500 million by 2027. Around 499 new air routes have been operationalized since the commence of this initiative.
- The budget allocation for the UDAN scheme was around USD 60.99 million crores in FY2024-25.
- International tourism has been significantly impacted by the COVID-19 pandemic, with global international tourist arrivals reaching 1.46 billion in 2019, a growth of 3.7% compared to 2018. In April 2023, WTTC has announced that the global Travel & Tourism sector has recovered 95% compared to pre-COVID.
- The total jobs in this sector globally amounted to 295 million in 2022, with an addition of 21.60 million jobs in 2022. One in 11 jobs globally are related to travel and tourism industry in 2022. As the world recovers from the pandemic, there is a focus on sustainable practices in the tourism industry, such as using the latest technology to find innovative solutions to challenges like overcrowding in popular tourist destinations.

Global MRO (Maintenance, Repair & Overhaul): Market Sizing and Forecast: by MRO Type

- The Engine MRO segment accounted to USD 42.75 billion or 46% of the total MRO revenue in 2023 and expected to grow to 49% by 2028 to reach USD billion 53.20 by 2028.
- The engine MRO market is expected to grow at a CAGR of 4.5% and is the fastest growing market.

Indian MRO: Market Sizing and Forecast

- The Indian airlines have been taking aircraft to Southeast Asian countries and Middle East to cater to the MRO needs, predominantly due to the taxation issues and lack of skilled labour in India.
- Even though the basic checks take place in India, the major MRO works are conducted outside India. The Indian MRO commercial market has experienced a rebound post the COVID-19.

Growth in MRO centres globally

- The traditional MRO centres have been in Europe and North America, which were dominant in terms of the total global fleet. However, the rise in air travel in populated countries like China and India in the Asia continent has shifted the fleet dominance towards Asia.

Overview of Global Precision Tooling Market

- The global precision tooling market was estimated at USD 130.45 billion in 2018 which grew to USD 151.26 in 2023.
- The market reduced by around 50% during the COVID period in 2020 and 2021. However, the backlog of orders in aerospace, defence industries and automotive industries coupled with the continued demand in the post COVID environment helped the precision tooling industry bounce back in 2023.
- The market is expected to grow from USD 154.88 billion in 2024 at an estimated CAGR of 15.8% to reach USD 278.00 billion in 2028.

Overview of Global Ground Support Equipment Market

- Airport ground support equipment (GSE) comprises an essential array of vehicles and machinery vital for the efficient functioning of airport operations. GSE plays a critical role in facilitating the safe and timely servicing of aircraft on the ground. The Ground Support Equipment vary based on their functional needs.
- The ground support equipment is used for tasks like guiding aircraft to and from parking positions to the taxiway, ground power units, providing crucial electricity supply to parked planes, to name a few.

COMPETITIVE STRENGTHS OF THE COMPANY

Digital-first manufacturing company with a robust infrastructure facilitating seamless integration of operations.

- They deploy a range of digital manufacturing systems which integrates the complete process from order origination to order delivery.
- Their digital manufacturing system captures all inspection requirements and measurements underpinning their commitment to the high standards of quality.
- They developed an in-house ERP system which plans and tracks every step of the product manufacturing process, from inception to completion, including the movement of all components to external vendors, thereby assisting in timely delivery of their products.

Established player with unique capabilities in a sector with high barriers to entry.

- They manufacture complex tooling, mechanical assemblies, electro-mechanical turnkey systems, and precision components.
- Their varied product offerings and continuous product development efforts have enabled them to cater to multiple industries and customers, enhancing their ability to attract new customers. Between Fiscals 2022- and six-months period ended September 30, 2024, they have manufactured 2,999 SKUs in tooling and precision complex sub-assemblies' category and 760 SKUs in the precision machined parts category, supplying to more than 26 customers across 7 countries.
- They supply an array of products including engine lifting, balancing beams, ground support equipment, airframe assembly platforms, complex electromechanical assemblies, engine transportation stands etc. which are of high mix, and are highly complex and of low volume in nature.
- They adhere to stringent quality standards and measures for their products as per AS9100D & BS EN ISO 9001:2015, being the industry norms for aerospace.

Export driven player with a global delivery service model

- They are a leading exporter of aerospace components, with exports significantly contributing to their overall revenue. Over 90% of their sales come from export to global OEMs and their licensees.
- Their revenue from sales to global customers were 1,154.27 million, 2,038.49 million, 896.45 million, and 331.01 million as of six months period ended September 30, 2024 and for Fiscal Years 2024, 2023 and 2022 respectively.
- They cater to a diverse range of clientele spanning across both domestic and international markets.

Robust vendor ecosystem and strong sub-contractor management with proven execution capabilities

- Their quality and performance criteria. This diverse network is essential for providing the flexibility needed in their high-mix, low-volume production environment.
- They have established a sub-contractor ecosystem with vendors who undertake aspects of their manufacturing process with limited complexity, enabling them to concentrate on critical aspects of the manufacturing process.
- They have a well-defined arrangement with the sub-contractors, guiding the selection, on-boarding, training, and growth of their sub-contractors.
- Their 210-selection process evaluates potential sub-contractors based on their technical capabilities, quality standards, and reliability.
- Once selected, sub-contractors undergo a comprehensive on-boarding program, which includes training on their processes, quality requirements, and safety standards, fully equipping them to meet their high expectations.
- Their team of over 20 supply chain management employees plays a crucial role in this process, managing, training, and fostering the growth of their sub-contractors.

RISK FACTORS

Objects of the Fresh Issue for which the funds are being raised have not been appraised by any bank or financial institutions. Any variation in the utilization of their Net Proceeds as disclosed in this Red Herring Prospectus would be subject to certain compliance requirements, including prior Shareholders' approval.

- They propose to use the Net Proceeds for (i) Purchase of machineries & equipment by their Company; (ii) Funding working capital requirements of their Company; (iii) Investment in their Material Subsidiary for: (a) purchase of machineries & equipment; (b) funding its working capital requirements; and (c) repayment / prepayment, in full or part, of certain borrowings availed by their Material Subsidiary; and (iv) general corporate purposes
- The proposed deployment of Net Proceeds has not been appraised by any bank or financial institution or other independent agency and is based on internal management estimates based on current market conditions and historic level of expenditures.

Cyber threats and non-compliance with and changes in privacy laws and regulations, failure or disruption of their Information Technology systems may adversely affect their business, financial condition, results of operations and prospects.

- They have implemented various Information Technology ("IT") systems that cover key areas of their operations, procurement, inventory, sales and dispatch and accounting. They rely on various IT systems for key operations, including procurement, inventory, sales, dispatch, and accounting.
- These systems are vulnerable to damage or disruptions from natural disasters, power outages, hardware, software, or network issues, which could adversely affect their operations and data security.
- While they haven't experienced major disruptions in the past, future incidents can't be ruled out. Cyber threats such as phishing, hacking, data theft, and advanced persistent threats pose significant risks, potentially leading to unauthorized access and the disclosure of sensitive information.
- They also face challenges related to information security and privacy, including handling personal and financial data of employees and customers. Although they implement security measures and rely on third-party vendors for cyber-security, they cannot guarantee complete protection against all threats.

Any downward revision of their credit ratings could result in an increase in the interest rates they would pay on any new borrowings and could decrease their ability to borrow as much money as they require to finance their business.

- The cost and availability of capital, among other factors, depends on their credit rating. Their credit rating reflects, amongst other things, the rating agency's opinion of their financial strength, operating performance, strategic position, and ability to meet their obligations.
- They have received credit ratings of "A- with a stable outlook" from CRISIL Ratings, reflecting their strong market position, experienced management, and robust financial profile on July 31, 2024.
- They may not be able to maintain their credit ratings in future and any downgrade in their ratings may increase borrowing costs and constrain their access to capital and lending markets and, as a result, could adversely affect their business and results of operations. In addition, non-availability of credit ratings could increase the possibility of additional terms and conditions being added to any new or replacement financing arrangements.

They may undertake technical collaboration, joint ventures, alliances and acquisitions in the future, which may be difficult to integrate and manage, and non-performance of any of their strategic investments etc. might expose them to risks that could adversely affect their business.

- They may pursue technical collaborations, joint ventures, strategic investments and alliances as a mode of expanding their operations. However, they do not have any such technical collaborations subsisting on the date of this Red Herring Prospectus.
- Such technical collaboration agreements may enable the providers of such technical assistance to terminate their arrangements with them.
- An inability to continue these arrangements may impact their ability to carry out certain design and manufacturing processes, or commercially manufacture certain types of products which could adversely affect their ability to cater to their customers' requirements

PEER COMPARISON

Name of the company	Total income (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoE (%)	P/E*	P/B*
Unimech Aerospace and Manufacturing Limited	120.65	5.00	8.49	85.65	9.92	59.33	31.77
MTAR Technologies Limited	318.45	10.00	7.54	227.42	3.32	221.75	7.35
Azad Engineering Limited	209.94	2.00	6.45	115.50	5.57	268.86	15.01
Paras Defence & Space Technologies Limited	170.66	10.00	7.36	120.45	5.71	141.01	8.62
Dynamatic Technologies Limited	707.70	10.00	34.49	1038.98	3.32	243.63	8.09
Data Patterns (India) Limited	195.10	2.00	11.27	241.07	4.67	220.74	10.32

*P/E & P/B ratio based on closing market price as of December 19th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.

KEY BUSINESS INSIGHTS

- ◆ **Specialization:** Unimech is a leading manufacturer and supplier of critical components, including aero tooling, ground support equipment, electro-mechanical sub-assemblies, and precision-engineered parts for the aerospace, defense, energy, and semiconductor industries.
- ◆ **Global Presence:** The company serves 26 customers across 7 countries, highlighting its strong international footprint. It operates on a high-mix, low-volume production strategy, offering an extensive portfolio of 2,999 SKUs in tooling and complex sub-assemblies, and 760 SKUs in precision-machined parts. It supplies vital components to global OEMs and their approved licensees in the aerospace sector, reinforcing its global presence.
- ◆ **Financial Performance:** The company boasts some of the highest EBITDA and PAT margins among its listed peers, demonstrating superior operational efficiency and profitability. In July 2024, the company raised ₹250 crores through a private placement to fund inorganic growth opportunities, including acquisitions and partnerships.
- ◆ **Market Position:** Positioned as a key player in India's aerospace and defense GSE (Ground Support Equipment) and precision component manufacturing sector, Unimech focuses on expanding its global footprint in strategic regions to enhance customer experiences and enter new markets.
- ◆ **Growth Strategy:** The company aims to increase market share and wallet share within its existing customer base. It is also exploring opportunities in semiconductor manufacturing equipment, thereby diversifying its portfolio to address emerging industries. It plans to expand its manufacturing capabilities to meet rising demand and improve production efficiency.
- ◆ **Partnerships and Acquisitions:** Engaging in strategic partnerships with global and local manufacturers, Unimech enhances operational and market synergies. The company is actively pursuing inorganic acquisitions and strategic partnerships to drive growth.
- ◆ **Product Diversification:** Unimech offers a wide range of products across the aerospace, defense, energy, and semiconductor sectors, mitigating dependency on any single vertical. The company is committed to long-term growth through innovation, customer-centric strategies, and a focus on high-margin, high-value products in critical industries.
- ◆ **Strong Financials:** Unimech Aerospace demonstrates strong financial performance with an EBITDA margin of 37.93% for FY 2024, up from 36.70% in FY 2023. The company's return on net worth (RoNW) has significantly improved to 53.53%, reflecting effective management and operational efficiency. Additionally, the debt-to-equity ratio has decreased to a healthy 0.32, indicating reduced leverage and enhanced financial stability, positioning Unimech favorably for future growth in the aerospace sector.

OUR VIEW

Unimech Aerospace and Manufacturing Limited is an emerging entity in the aerospace and manufacturing industry. As of FY2024, the company's Price-to-Earnings (P/E) ratio stands at 59.33x, significantly lower than the peer average of 219.20x, suggesting relatively attractive valuations. Over the past two years, the company has demonstrated robust financial performance, with a Compound Annual Growth Rate (CAGR) of 140% in Revenue from operations, 220% in EBITDA, and 314% in Profit After Tax (PAT), indicating strong financial fundamentals.

As the aerospace sector anticipates growth, Unimech's focus on manufacturing critical components positions it favorably to meet increasing demand from global original equipment manufacturers (OEMs). The proceeds from the IPO are earmarked for capital expenditures and working capital needs, enhancing its production capabilities and market reach. Overall, Unimech Aerospace's IPO presents an appealing opportunity for investors in the engineering and aerospace sectors, given its competitive valuation metrics and growth prospects.

We recommend to **SUBSCRIBE** to the issue for both listing and long-term gains.

Sources: Company website and red herring prospectus

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Canara Bank Securities Ltd.

(A Wholly Owned Subsidiary of Canara Bank)



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Analyst Certification

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