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IPO Report

01st Sept '24

Snapshot

Company is a precision component manufacturer of technical springs like disc & strip springs (“DSS”) including wedge lock washers; coil & spiral springs (“CSS”) and special fastening solution (“SFS”) supplying to original equipment manufacturers (“OEMs”), Tier 1 and channel partners; used in sectors like renewable energy including wind turbine and hydro power plants, various industrial sectors such as electrical, off highway equipments, infrastructure and general engineering, mobility segments such as automotive and railways. Company’s technical springs and high tensile fasteners have been supplied to customers in countries such as Germany, Denmark, China, Italy, Brazil, USA, Sweden, Switzerland etc. Accordingly, company is a key link in the global supply chain for OEMs. Company’s business primarily comprises of (i) springs technology division, under which it manufacture DSS including wedge lock washers (“WLW”), CSS and (ii) SFS in which company manufacture anchor bolts, studs and nuts.

VALUATION

Company is bringing the issue at price band of Rs 503-529 per share at p/e multiple of 29x on post issue FY24 PAT basis. Company is a well-established manufacturer of precision engineering solutions with diverse product portfolio for multiple user industries. & have long-standing relationships of over 15 years with both Indian and global OEM and Tier 1 customers. Company have a track record from incorporation of consistent financial growth and performance characterized by operational efficiency and high repeat business. Hence, looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	503-529
Opening date of the issue	02nd Sept '2024
Closing Date of the issue	04th Sept '2024
No of shares pre issue	1,01,11,584 Eq Shares
Issue Size	Rs 160-168 Cr
No of shares	31,74,416 Eq Shares
Fresh issue	25,58,415 Eq Shares
Offer For Sale	6,16,000 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	28

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 15,84,296 Eq Shares)
Non-Institutional	15% of the offer (Approx 4,75,300 Eq Shares)
Retail	35% of the offer (Approx 11,09,024 Eq Shares)
Employee Reservation	5796 Eq Shares
Lead managers	PL Capital Markets Pvt. Ltd
Registrar to the issue	Link Intime India Pvt. Ltd

WHAT WE LIKE

Well established manufacturer of precision engineering components with diversified product portfolio and diverse market

Company’s products include disc and strip springs, wedge lock washers, coil and spirals springs, fastening solutions like anchor bolts, nuts and studs, etc. Company’s precision components and high tensile fasteners are used in sectors like renewable energy (including wind turbine and hydro plants), in various industrial sector such as electrical, off highway equipment, infrastructure and general engineering, in mobility segments such as automotive and railways.

Track record of consistent financial growth and performance characterized by operational efficiency and high repeat business

Company have showcased a consistent track record of growth and profitability. During Fiscal 2022 to Fiscal 2024, company’s total income registered CAGR of 17.53% to reach ₹2043.77 million in fiscal 2024. From Fiscal 2022 to Fiscal 2024 company’s gross profit margins has remained consistent at 59.26 % in Fiscal 2022 to 59.15 % in Fiscal 2024..

Well-equipped manufacturing facilities along with in-house design and other capabilities which offer scale, flexibility, and comprehensive solutions

Company operate in two manufacturing facilities at Wada District Palghar, Maharashtra, which are equipped with capabilities to design, develop, and manufacture diverse product portfolio. Further, company is setting up new manufacturing facility in Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu for developing various high tensile fasteners in order to add to its existing product portfolio



COMPANY BACKGROUND

Company's DSS products find applications in renewable energy, railways, automobiles, off highway vehicles, heavy machinery, electrical and power equipments. The global DSS & WLW market is valued at ~US\$ 891M in calendar year 2023 witnessing a CAGR of ~6% during calendar year 2020 – 2023 in which company have a global market share of ~2% as of calendar year 2023. Company is major disc springs manufacturer in domestic market and have ~10% market share in the Indian disc springs market. Company have a significant presence in the DSS market for renewable industry with ~70% share in the domestic market and ~3% share in the global market. Company's disc springs conform to German DIN 2093 standards, bearing series, and customized specifications featuring variety of raw materials and surface coating options. Company manufacture strip springs customised for high fatigue applications. Company is mainly competing with Muhr und Bender KG, Schnorr GmbH, Christian Bauer GmbH + Co. KG in the global disc springs market and with International Industrial Springs in disc springs in India.

Company's CSS products are used in commercial vehicles, passenger vehicles, railways and industrial infrastructure. Company have positioned itself as a key import substitution for European springs suppliers and multinationals looking at PLI Schemes and other incentives offered by the Government. Company have also entered in a new related product category called retractor springs. These springs are a critical component for safety of the passenger. Company is mainly competing with Stumpp Schuele & Somappa Springs Private Limited, NHK Springs India Limited, and Muhr und Bender KG in the CSS market.

Under company's SFS, company manufacture make to order fasteners in the form of studs, anchor bolts and nuts which has end use applications in renewable energy, railways, off-highway vehicles, electrical and heavy machinery industries. The global fasteners market size stands at ~US\$ 97 bn growing at a ~6.7% CAGR between calendar year 2023 – 2026 in which global wind turbine OEM market is valued at ~US\$ 75 billion in calendar year 2023 which is growing at a CAGR of ~8% between calendar year 2023 – 2026. Company have ~15% market share in the domestic SFS market for wind turbines. Company have good growth prospects in the European and US wind turbine markets with the global wind turbine market growing at a CAGR of ~8% between calendar year 2023 – 2026. Company is mainly competing with Cooper & Turner Limited, Rose Holm A/S, August Friedberg GmbH in the global SFS market and with Randack Fasteners India Private Limited, Sundram Fasteners Limited and Hiten Fasteners Private Limited in the Indian SFS market.

As on date, company operate from two manufacturing facilities located in Wada, Palghar, Maharashtra. Company's manufacturing facilities at Wada, Palghar, Maharashtra are certified with international standards such as IATF 16949 for manufacturing of disc springs, spring band clamp, stamped components, coil springs and spiral springs and ISO 9001:2015 certification for manufacturing and supply of disc springs, brush springs, spiral springs, retractor springs and spring cassette assemblies, special fasteners, anchor stud, stud, kit set, belleville washers, conical springs, plate springs, serrated washers, disc washers, wedge lock washers (Gallock), spring assemblies, spring packs, bearing series. Further, company is setting up new manufacturing facility in Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu for developing various high tensile fasteners in order to add to company's existing product portfolio and new products like bolts. The electrical panel building and two security buildings have been constructed. The transformer yard, RMU/RMG/diesel generator yard, and boundary wall (front south and north-east side) are also completed. The Fire hydrant pump room, with a capacity of 1 lakh litre water tank is ready. The building's civil works are completed. Currently, the flooring/foundation and PEB/mezzanine floor work are in progress. Company is a technology driven company with a strong focus on quality, design and tool development, which has allowed it to develop products suited to its customers' requirements. Company have the expertise to design and develop advance tooling in-house which enables it to manufacture complex and specialised precision stamped components and have allowed it to diversify its business. Company's DSS operations commenced in the year 1989 by manufacturing disc and strip springs ("DSS") and have since diversified its operations to include coil and spiral springs ("CSS") in 2015 and special fastening solution ("SFS") in 2018.

Through a business transfer agreement in 2009 between Gala Precision Technology Private Limited ("Seller") and Company ("Buyer"), Company acquired the DS DTA and DS EOU (manufacturing of disc springs including approvals, immovable assets, liabilities, investment, movable assets, employees, contracts, intellectual property rights, accounts and funds, systems, know-how) and MFS (manufacture of mass finishing systems including approvals, immovable assets, liabilities, investment, movable assets, employees, contracts, intellectual property rights, accounts and funds, systems, know-how) along with benefits, goodwill, assets, rights, interests and loans and liabilities on a slump sale basis 'as a going concern'. Seller was involved in the manufacturing of DSS and MFS since 1989 and one of company's Promoters, namely, Kirit Vishanji Gala who was the Managing Director of Gala Precision Technology Private Limited is still involved as the Managing Director of Company.

Over the years company have emphasised on developing manufacturing systems that comply with health and safety parameters, as well as environmental and social governance requirements. Company's manufacturing facilities are certified by ISO 9001:2015 and IATF16949 from which it is able to serve both domestic and international customers. Company's facilities also comply with stringent qualification process imposed by its customers which include supplier audit, testing, trial runs, periodic reviews and inspections of company's procurement, manufacturing, logistical and other capabilities, and performance, after which company have been approved as their supplier. Company have developed several in-house processes such as blanking for precision components and finishing, that help it reduce reliance on third-party vendors and work closely with its customers at all stages of product design and development and application engineering. With a global clientele exceeding 175 customers, company export to over 25 countries, encompassing major markets such as Germany, Denmark, China, Italy, Brazil, USA, Sweden, Switzerland, contributing 37.53% to total sales as of March 31, 2024. Further, company is adding new customers for springs and fasteners in high potential markets such as Europe and USA.



INVESTMENT RATIONALE

<p><i>Long-standing customer relationships with both Indian and global OEM and Tier 1 players</i></p>	<p>Over three decades of operations, company have established long standing relationships with its customers. Company’s business originally commenced in the year 1989 and subsequently taken over by Company through a BTA in the year 2009. Company’s diverse product portfolio helps cater to a broad range of customers and company have served over 175 customers in 25 countries. Company’s long-standing relationships with its customers indicate its commitment to high quality products and comprehensive solutions. Key factors leading to strong customer relationships are high quality products, reliability in supplies, development collaboration and meeting international standards. Company engage with its clients through the different stages of product development, from the design and validation stages, until testing, final manufacturing, and delivery. Company also provide customised packaging and kitting solutions to its customers. This helps company identify their requirements better and results in increased customer satisfaction. Company’s manufacturing facilities undergo a rigorous qualification process mandated by its customers. This process encompasses supplier audits, testing, trial runs, periodic reviews, and audit of its procurement, manufacturing, logistical, and other capabilities and performance. Company’s customers benefit from a faster product development time on account of its in-house tooling and prototyping capabilities. The industry company operate in has a significant entry barrier due to a lengthy and stringent qualification process for the technical springs and high tensile fasteners due to criticality of their usage. The vendors are required to go through separate qualification processes for each component that they supply. The qualification process for a new vendor is stringent and includes multiple steps including identification and understanding the vendor, assessment and audit of the technical capabilities for the vendor, evaluation and test of the product qualifications and final negotiations. This entire process is time intensive and often takes 12 to 24 months to qualify as a supplier during which the vendor is evaluated by the OEM and Tier 1. The vendors also need to institute quality and tracking procedures for all products that are supplied which demands a higher order quality control. With its substantial experience as precision component manufacturer of technical springs and high tensile fasteners, company is a qualified and established supplier to OEMs, Tier 1 and channel partners.</p>
<p><i>Well-equipped manufacturing facilities along with in-house design and other capabilities which offer scale, flexibility, and comprehensive solutions</i></p>	<p>Company’s in-house process includes tool design and development, blanking and forming, coiling, heat treatment, shot peening, surface finishing, springs grinding and chamfering, scragging, load testing along with inspection, quality control and surface treatments and coatings. This helps company to provide comprehensive solutions to its customers and manufacture high precision components with control over the processes. Company’s manufacturing facilities being in India, company hold a significant cost advantage in comparison to its European competitors. Company is focused on undertaking dedicated design and development activity in its existing products and development of new products and designs in areas where there is significant growth potential and would cater to needs of company’s customers.</p>
<p><i>Experienced management team supported by large, diverse and skilled work force</i></p>	<p>Company is led by its Promoter, Chairman and Managing Director, Kirit Vishanji Gala who has helped expand company’s operations within India and globally and has been associated with Company since incorporation. Kirit Vishanji Gala has more than three decades of experience in engineering and manufacturing activities. Under his leadership company have been able to expand its operations and have established a significant presence in Indian and global markets.</p>



OBJECTS OF OFFER

Offer for Sale

The Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale after deducting their proportion of the Offer related expenses and relevant taxes thereon.

Objects of the Fresh Issue

Company proposes to utilise the Net Proceeds towards funding the following objects:

1. Setting up a new facility at Vallam-Vadagal, SIPCOT, Sriperumbuddur, Tamil Nadu for manufacturing high tensile fasteners and hex bolts;
2. Funding capital expenditure requirements towards purchase of equipment, plant and machinery at Wada, Palghar, Maharashtra;
3. Repayment/ prepayment, in full or part, of certain borrowings availed by Company; and
4. General corporate purposes

RISKS

The loss of any of company’s key customers or significant reduction in company’s productions and sales of, or demand for its products from company’s significant customers may adversely affect company’s business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

GLOBAL MARKET FOR DISC & STRIP SPRINGS AND WEDGE LOCK WASHERS (DSS & WLW)

4.1 Industry overview DSS & WLW consists of disc springs & strip springs and wedge lock washers represented below:

DSS & WLW are spring and fastening solutions used for Industrial applications when mechanical devices are required to apply force. Disc springs deliver powerful spring forces in a compact space. Their unique layouts in stacks boost both forces and deflections. Adjusting component geometry allows precise control of the load/deflection curve—a major advantage. WLW are washers with wedge-lock technology, a cutting-edge solution, transform bolted joints by emphasizing tension over friction. They ensure a secure, vibration-resistant joint with exceptional longevity and reliability. These components are used in different industries like renewables, railway infrastructure, automobiles, and others. The application varies as per the requirement from load control & regulation, vibration dampers or to provide a damping effect in vehicle transmission, braking systems of wind turbines, and shock absorption depending on industry. Gala Precision Engineering’s Wedge Lock Washer has been tested successfully in Germany and is in conformity with the requirements of Standard DIN 25201-4 with the clamp force staying constant after almost 2,000 cycles of the junker test. The global DSS & WLW market is valued at ~ US\$ 891M in CY23 witnessing a CAGR of ~6% during CY20-23. Gala Precision Engineering has a market share of ~2% in the global DSS market as of CY23*. In this, WLW is contributing ~ US\$ 260M as of CY23.

MARKET FORECAST AND GROWTH DRIVERS

Increase in renewable energy capacity: As part of the world’s climate goals, the leaders of the G20 summit have pledged to triple their installed renewable energy capacity by CY30 from the current capacity of CY23. The focus will be on developing wind, hydroelectric power, and solar energy.

- Rise in Infrastructure spending: Infrastructure spending is projected to increase to ~US\$ 3T annually from CY15 to CY40, compared to ~US\$ 2T per year from CY07 to CY15. The development of infrastructure requires extensive use of off-highway vehicles, with DSS & WLW used extensively in the off-highway vehicles.
- Automobile: Increasing population, urbanization, demand for high-end passenger vehicles, and rising infrastructure spending are expected to drive automobile market growth all over the world. DSS & WLW are used extensively in vehicles like cars, buses & 2-wheelers, for applications in clutches, brakes, or axle lift systems (for buses). Thus, the growth in automobile sector will present itself as a tailwind for the DSS & WLW market.
- Growth of railways: Railways offer an efficient mass transportation solution, facilitating cost-effective and seamless travel for both passengers and freight. As the global population and economic activities continue to rise, global railroad



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24
Total Revenue (A)	1452.77	1654.65	2025.45
Total Expenditure (B)	1256.12	1381.41	1637.88
EBIDTA	196.65	273.24	387.57
EBIDTA Margin	13.54	16.51	19.14
Other Income	26.86	16.17	18.32
Depreciation	62.61	60.83	68.62
EBIT	160.90	228.58	337.27
Interest	48.62	51.60	61.40
PBT	112.28	176.98	275.87
Share of profit in Asso	0.00	0.00	0.00
PBIT	112.28	176.98	275.87
Exceptional	0.00	97.59	-23.09
PBT	112.28	274.57	252.78
Tax	45.97	32.45	29.46
PAT	66.31	242.12	223.32
NPM	4.56	14.63	11.03
ROE%	11.18	28.94	21.38
EPS	6.56	23.98	22.09
Eq Cap	25.28	25.24	101.11
Net Worth	593.16	836.54	1,044.48

(Source: RHP)

Peer Comparison

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
Gala Precision Engineering Limited		2043.77	22.09	103.30	21.38
Peers					
Harsha Engineers International Limited	44.33	14217.90	12.24	129.09	9.48
SKF India Limited	48.50	46641.40	111.60	542.633	20.57
Sundram Fasteners Limited	54.49	57204.70	24.83	162.81	15.37
Rolex Rings Limited	40.83	12368.19	57.30	329.81	17.37
Sterling Tools Limited	24.70	9385.11	15.37	124.11	12.38
Ratnaveer Precision Engineering Limited	24.69	6024.00	7.61	51.78	12.32

(Source: RHP)



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