

Recommendation	Subscribe	BACKGROUND																																																		
Price Band	Rs 503-529	<p>Gala Precision is a manufacturer of technical springs (DSS, CSS) and special fastening solutions (SFS), serving OEMs and various industries globally, including renewable energy and automotive sectors. The company holds significant market shares, especially in the renewable industry, and exports to over 25 countries. With advanced manufacturing facilities in Maharashtra and a new plant under development in Tamil Nadu, Gala emphasizes innovation, quality, and customer-focused design.</p> <p>Objects and Details of the Issue:</p> <p>The public issue consists of Offer For Sale aggregating up to Rs 33 Cr. And fresh issue up to Rs 135 Cr. Company proposes to utilize the Net Proceeds towards:-</p> <p>(i) Setting up a new facility at Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu for manufacturing high tensile fasteners and hex bolts:- 37 Cr.</p> <p>(ii) Funding capex requirements towards purchase of equipment, plant and machinery at Wada:- 11 Cr.</p> <p>(iii) Repayment of certain borrowings:- 45 Cr.</p> <p>Investment Rationale:</p> <ul style="list-style-type: none"> Well-established manufacturer of precision engineering components with a diversified product portfolio and market presence. Long-standing customer relationships with Indian and global OEMs. Moving up the value chain from niche markets to large addressable markets. Leveraging in-house design and development capabilities to grow product offerings and capitalize on future trends. Expanding manufacturing capacity at existing facilities and setting up an additional strategically located facility. <p>Valuation and Recommendation:-</p> <p>Over the last decade, Gala has strategically moved up the value chain and expanded into larger addressable markets which are growing at faster rates and strengthened its position in the Indian and global markets. This is also reflected in its robust revenue CAGR of 18% over FY22-24. Further, with high entry barriers such as lengthy approval process and customer stickiness due to criticality of products, Gala commands superior EBITDA margins of ~19% compared to peer average of ~17%. Given the company's positioning with respect to future growth opportunities (focus on renewable energy sector), superior financials and undemanding valuations, we recommend 'Subscribe' to the issue.</p>																																																		
Bidding Date	2 Sep - 4 Sep 2024																																																			
Book Running Lead Manager	PL Capital Markets Private Limited																																																			
Registrar	Link Intime India Private Limited																																																			
Sector	Capital goods																																																			
Minimum Retail Application- Detail At Cut off Price																																																				
Number of Shares	28																																																			
Minimum Application Money	Rs. 14812																																																			
Payment Mode	ASBA																																																			
Financials (Rs Cr)	FY23	FY24																																																		
Total Income	165	203																																																		
EBITDA	27	39																																																		
PAT for the year	24	22																																																		
Valuations (FY24)	Upper Band																																																			
Market Cap (Rs Cr)	670																																																			
Adj EPS	17.4																																																			
PE	30.5																																																			
EV/ EBITDA	18																																																			
Enterprise Value(Cr)	723																																																			
Post Issue Shareholding Pattern																																																				
Promoters	55.4%																																																			
Public/Other	44.6%																																																			
Offer structure for different categories																																																				
QIB	50%																																																			
Non-Institutional	35%																																																			
Retail	15%																																																			
Post Issue Equity (cr)	12.7																																																			
Issue Size (Rs in cr)	168																																																			
Face Value (Rs)	10																																																			
<p>Jehan Bhadha Research Analyst (+91 22 6273 8174) jehankersi.bhadha@nirmalbang.com</p> <p>Devendra Pawar Research Associate (+91 22 6273 8149) devendra.pawar@nirmalbang.com</p>		<table border="1"> <thead> <tr> <th>Financials</th> <th>FY22</th> <th>FY23</th> <th>FY24</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>145</td> <td>165</td> <td>203</td> </tr> <tr> <td>Growth (%)</td> <td>37.9%</td> <td>13.9%</td> <td>22.4%</td> </tr> <tr> <td>EBITDA</td> <td>20</td> <td>27</td> <td>39</td> </tr> <tr> <td>EBITDA Margin (%)</td> <td>13.5%</td> <td>16.5%</td> <td>19.1%</td> </tr> <tr> <td>PBT</td> <td>11</td> <td>18</td> <td>28</td> </tr> <tr> <td>Adjusted PAT</td> <td>7</td> <td>24</td> <td>22</td> </tr> <tr> <td>EPS</td> <td>5.23</td> <td>19.11</td> <td>17.09</td> </tr> <tr> <td>ROCE</td> <td>13.8%</td> <td>15.9%</td> <td>21.0%</td> </tr> <tr> <td>EV/Sales</td> <td>5.0</td> <td>4.4</td> <td>3.6</td> </tr> <tr> <td>EV/EBITDA</td> <td>36.7</td> <td>26.4</td> <td>18.6</td> </tr> <tr> <td>P/E</td> <td>101.1</td> <td>27.7</td> <td>31.0</td> </tr> </tbody> </table> <p>Source: Company data, NBRR</p>			Financials	FY22	FY23	FY24	Net Revenues	145	165	203	Growth (%)	37.9%	13.9%	22.4%	EBITDA	20	27	39	EBITDA Margin (%)	13.5%	16.5%	19.1%	PBT	11	18	28	Adjusted PAT	7	24	22	EPS	5.23	19.11	17.09	ROCE	13.8%	15.9%	21.0%	EV/Sales	5.0	4.4	3.6	EV/EBITDA	36.7	26.4	18.6	P/E	101.1	27.7	31.0
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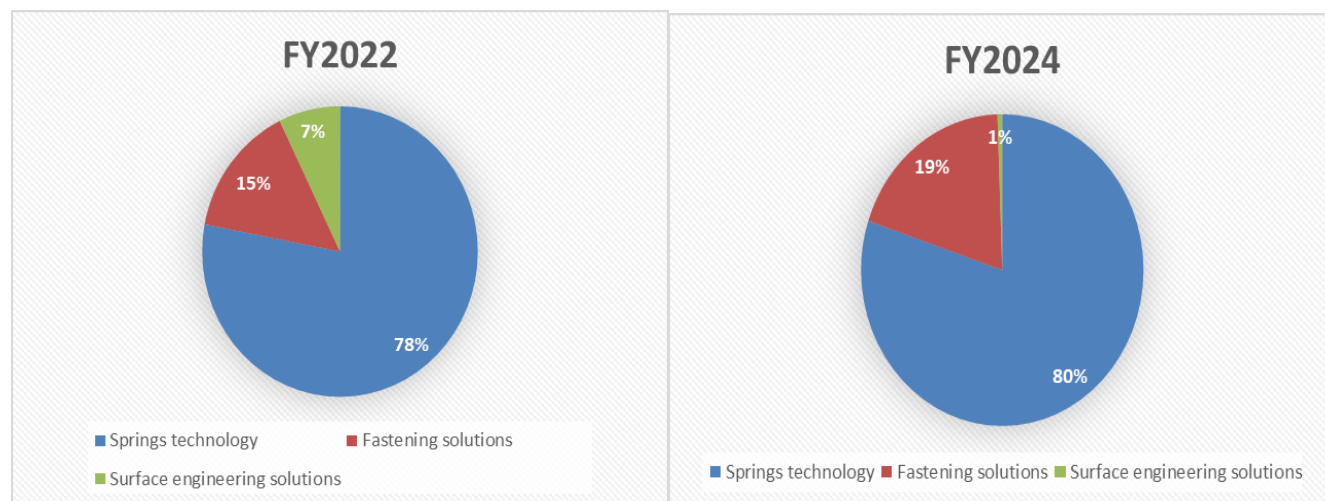
Company Background

Gala Precision Engineering is a leading manufacturer of precision components, specialising in technical springs and special fastening solutions (SFS). The company produces disc and strip springs (DSS), coil and spiral springs (CSS), and various fastening solutions, serving sectors like renewable energy, automotive, railways, and general engineering. Their products are essential in industries such as wind turbines, hydro power plants, off-highway equipment, and heavy machinery. Gala Precision's global presence is significant, with a customer base in over 25 countries, including Germany, USA, and China, contributing 37.5% to their total sales as of March 2024. The company has a 10% market share in India's disc springs market and a dominant 70% share in the domestic renewable energy sector. On the global stage, they hold a 3% market share in DSS products.

Their operations are centred on two manufacturing facilities in Maharashtra, certified with international standards like IATF 16949 and ISO 9001:2015 and they are expanding their capabilities with a new plant in Tamil Nadu to enhance their product portfolio. The company prides itself on in-house design and development capabilities, enabling them to create customised solutions that meet the precise requirements of their clients. This focus on innovation has allowed Gala Precision to diversify and expand its product offerings. Their strategic approach includes reducing dependency on third-party vendors through in-house processes like blanking and precision finishing. With over 30 years of experience, Gala Precision continues to expand its market presence, driven by a professional management team under the leadership of Promoter, Chairman, and Managing Director, Kirit Vishanji Gala. The company is well-positioned for growth, particularly in high-potential markets in Europe and the USA, supported by strong customer relationships and a commitment to quality and technological advancement.

Company's DSS facility has an installed capacity of 2255.17 lakhs with an 84.84% utilization. The CSS facility has an installed capacity of 209.4 lakhs with 77.88% utilization, and the SFS facility has an installed capacity of 4.20 lakhs with 69.64% utilization. Company's top customers include Vestas Wind Technology India, Enrecon GmbH, GE India Industrial, L&T Electrical & Automation Products, Schneider Electric India, Brembo Brake India, Hitachi Astemo Chennai, and Faiveley Transport Rail Technologies.

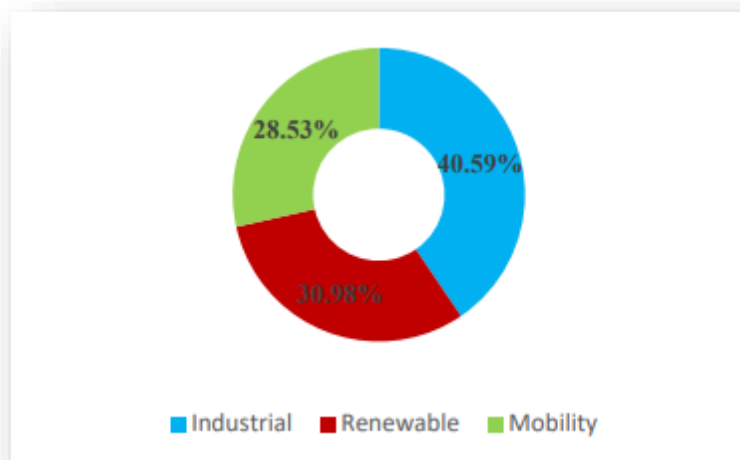
Revenue Mix



Investment Rationale

Well-established manufacturer of precision engineering components with a diversified product portfolio and market presence.

Gala Precision's strength lies in its extensive experience in designing and manufacturing high-performance disc and strip springs, as well as fastening solutions like wedge lock washers, coil, and spiral springs. The company's products are widely used across diverse sectors, including renewable energy, automotive, and industrial engineering. Gala collaborates with global research institutes for product testing and process validation, ensuring top-tier quality and innovation. Their in-house tool design, development capabilities, and broad product range allow them to meet the specific needs of a global clientele, with exports contributing 37.5% of total sales. Additionally, their expanding manufacturing capacity in Tamil Nadu will further enhance their ability to meet evolving customer demands and increase market competitiveness.



Long-standing customer relationships with Indian and global OEMs and Tier 1 players.

Over three decades, Gala Precision has built enduring relationships with its customers, starting from its inception in 1989 and expanding significantly after a business transfer in 2009. Serving over 175 customers across 25 countries, the company's diverse product portfolio and commitment to high-quality standards have been key to its success. Gala's strong customer relationships are driven by its reliable supply chain, collaborative product development, and adherence to international standards. The company engages with clients at every stage of product development, offering customized packaging and kitting solutions, which enhances customer satisfaction. With relationships spanning from 4 to over 15 years, Gala's manufacturing facilities undergo rigorous customer-mandated qualification processes, ensuring high standards of quality and performance. The industry's significant entry barriers, including lengthy vendor qualification processes (between 12-24 months), highlight Gala's established position as a trusted supplier of technical springs and high-tensile fasteners. Gala's in-house tooling and prototyping capabilities enable faster product development. Customers do not easily switch vendors to save 100-200 bps on margins owing to criticality of applications of products and the rigorous and costly onboarding efforts it has to undertake.

Moving up the value chain from niche markets to large addressable markets.

Gala Precision began operations in 1989, initially manufacturing disc and strip springs, and has since expanded to include coil and spiral springs in 2015 and special fastening solutions in 2018. Today, Gala is a precision component manufacturer supplying technical springs and high tensile fasteners to OEMs, Tier 1 suppliers, and channel partners. The disc springs market, a niche segment, is valued at USD 115 million in India and USD 891 million globally. Gala expanded into the larger coil springs market, valued at USD 459 million in India, and ventured into fastening solutions, focusing on renewable energy and industrial applications. The global fastener market, valued at USD 97236 million in 2023, is expected to grow at a CAGR of 6.7% between 2023-2026, while the Indian special fasteners market is projected to grow at a CAGR of 18% between FY24-27. Gala has strengthened its position by offering high tensile fasteners as import substitutes for global wind turbine manufacturers in India, with plans to further expand in the wind, industrial, and railway sectors. With a new manufacturing facility underway in Tamil Nadu, Gala aims to significantly increase its market presence and product offerings.

Leveraging in-house design & development capabilities to grow product offerings and capitalize on future trends.

Gala Precision is a technology-driven company focused on leveraging cost-effective technologies to provide comprehensive solutions for technical springs and high tensile fasteners. The company's design and development teams are committed to adopting emerging technologies to enhance efficiency and align with customer expectations and industry standards. Gala plans to expand its capabilities in development, engineering, tool design, and process improvements while automating processes to ensure zero defects. The product development center at Wada, Palghar, has created over 200 products in the past five years and manages over 750 SKUs to adapt to customer needs. The company emphasizes automation to optimize resources, reduce errors, and achieve higher precision. Gala is also setting up a new facility in Tamil Nadu to develop high tensile fasteners and bolts, aiming to bolster its technological capabilities and expand its talent pool to stay ahead of market trends.

Expanding manufacturing capacity at existing facilities and setting up an additional strategically located facility.

As of June 30, 2024, Gala Precision operates two manufacturing facilities in Wada, Palghar, Maharashtra. To support growth, the company plans to establish a new facility in Vallam-Vadagal, SIPCOT, Sriperumbudur, Tamil Nadu, focusing on high tensile fasteners and new products like bolts. ₹37 Cr from the net proceeds of IPO will fund this expansion, which aims to cater to OEMs in South India and reduce transportation costs due to its proximity to a port. Additionally, Gala will invest ₹11.07 Cr to increase the manufacturing capacity of disc and strip springs at its existing Wada facility. The new facility and capacity expansion are expected to enhance service to existing customers, meet the needs of large clients, and facilitate entry into new business verticals.

Key Risks and Challenges

- **Steel Price Volatility:** Susceptibility to demand-supply imbalances and international events, leading to fluctuating steel prices and profitability issues.
- **Technological Obsolescence:** Rapid technological shifts in end-use sectors, like the transition to electric vehicles, may render existing designs and processes obsolete.
- **Substitute Technologies:** Emerging alternatives like structural adhesives and innovative welding techniques pose a threat to traditional fastener and spring markets by offering weight reduction and simplified assembly.

Valuation and Recommendation

Over the last decade, Gala has strategically moved up the value chain and expanded into larger addressable markets which are growing at faster rates and strengthened its position in the Indian and global markets. This is also reflected in its robust revenue CAGR of 18 % over FY22-24. Further, with high entry barriers such as lengthy approval process and customer stickiness due to criticality of products, Gala commands superior EBITDA margins of ~19% compared to peer average of ~17%. Given the company's positioning with respect to future growth opportunities (focus on renewable energy sector), superior financials and undemanding valuations, we recommend 'Subscribe' to the issue.

Listed Peers

FY24 Figures	Harsha Enginee	SKF India Limite	Sundram Faster	Rolex Rings Lim	Average	Gala Precision E
Revenue	1,081	4,570	5,666	1,222	3,135	203
CAGR (FY22-24)	6%	12%	8%	10%	9%	18%
EBITDA Margin	16%	16%	16%	21%	17%	19%
Asset Turns (x)	0.8	1.7	1.4	1.3	1.3	1.1
Wkg Cap Days	159	48	104	103	103	84
ROCE	13%	6%	4%	19%	11%	20%
ROE	10%	21%	15%	17%	16%	21%
Debt/Equity	0.1	0.0	0.2	0.0	0.1	0.5
EV/EBITDA	28	34	33	26	30	19
P/E	38	47	54	44	46	32

Source: Company Data, NBRR

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	FY24
Net Revenue	105	145	165	203
% Growth		38%	14%	22%
Cost of goods sold	41	59	67	83
% of Revenues	38.7%	40.7%	40.4%	40.9%
Employee Cost	19	22	23	25
% of Revenues	18.2%	14.8%	14.0%	12.2%
Other expenses	33	45	48	56
% of Revenues	31.7%	30.9%	29.1%	27.8%
EBITDA	12	20	27	39
EBITDA Margin	11.5%	13.5%	16.5%	19.1%
Depreciation	6	6	6	7
Other Income	1	3	2	2
Interest	6	5	5	6
Exceptional Loss	0	0	-10	2
PBT	2	11	27	25
Tax	-0.2	5	3	4
Tax rate	-10%	41%	12%	14%
PAT	2	7	24	22
Less: Minority Int	0	0	0	-0
Reported PAT	2	7	24	22
% Growth	-	182%	265%	-9%
Adj. PAT (for excep. & norm. tax)	2	8	13	21
% Growth	-	427%	58%	56%
EPS (Post Issue)	1.3	6.6	10.4	16.3

Ratios & Others	FY21	FY22	FY23	FY24
Debt / Equity	1.1	1.0	0.7	0.5
EBITDA Margin (%)	11.5%	13.5%	16.5%	19.1%
PAT Margin (%)	2.2%	4.6%	14.6%	10.9%
ROE (%)	4.4%	11.2%	28.9%	21.1%
ROCE (%)	6.9%	13.8%	22.6%	19.5%

Turnover Ratios	FY21	FY22	FY23	FY24
Debtors Days	74	64	66	85
Inventory Days	137	125	123	104
Creditor Days	36	35	18	25
Asset Turnover (x)	0.8	1.0	1.0	1.1

Valuation Ratios	FY21	FY22	FY23	FY24
Price/Earnings (x)	420.3	79.8	50.6	32.5
EV/EBITDA (x)	59.7	36.7	26.4	18.6
EV/Sales (x)	6.9	5.0	4.4	3.6
Price/BV (x)	12.6	11.3	8.0	6.4

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23	FY24
Share Capital	3	3	3	10
Other Equity	50	57	81	95
Minority Interest	0	0	0	-0
Networth	53	59	84	104
Total Loans	59	57	60	57
Other non-curr liab.	5	6	8	6
Trade payable	10	14	8	14
Other Current Liab	7	10	10	8
Total Equity & Liab.	134	146	170	189
Property, Plant and Equipment	39	38	38	41
CWIP	0	0	1	3
Other Intangible assets / Right o	22	21	26	26
Non Currrent Financial assets	1	1	2	2
Other non Curr. assets	1	0.4	1	2
Inventories	40	50	56	58
Cash and cash equivalents	2	1	1	1
Bank balances	2	2	11	3
Investments+loans	0	0	1	0
Trade receivables(debtor)	21	25	30	47
Other Current assets	6	7	4	5
Total Assets	134	146	170	189
Cash Flow (Rs. Cr)	FY21	FY22	FY23	FY24
Profit Before Tax	2	11	27	25
Provisions & Others				
Op. profit before WC	15	26	33	40
Change in WC	0	-13	-13	-18
Less: Tax	0	-2	-4	-6
CF from operations	15	12	16	16
Purchase of PPE	-8	-7	-10	-11
Capital Work in Progress And Ca	3	0	-2	-2
Proceeds from Sale of ROU Asse	0	0	9	0
Deposits/Balances with Banks/Li	-0	-0	-10	9
Interest Income	0	0	0	1
CF from Investing	-5	-6	-12	-3
(Repayments) / Proceeds from V	-9	-4	-2	-8
Proceeds from Term Loans	7	2	3	4
Payment of Lease Liabilities/Pay	0	0	-0	-0
Change in share of Non Controlli	0	0	0	-0
interest	-6	-5	-5	-8
CF from Financing	-8	-7	-4	-12
Net Change in cash	2	(2)	0	1
Cash & Bank at beginning	0	2	1	1
Cash & Bank at end	2	1	1	1

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