

**Rating: Subscribe for long term**

### Issue Offer

An Offer for Sale of 616,000 equity shares amounting to INR 325.9 Mn, and a Fresh Issue of 2,558,416 equity shares amounting to INR 1,353.4 Mn.

### Issue Summary

Price Band INR	503-529
Face Value INR	10
Implied Market Cap INR mn.	6,702.4
Market Lot	28
Issue Opens on	Sep 2, 2024
Issue Close on	Sep 4, 2024
No. of share pre-issue	10,111,584
No. of share post issue	12,670,000
Listing	NSE, BSE

### Issue Break-up %

QIB Portion	≤ 50
Retail Portion	≥ 35
NII Portion	≥ 15

### Registrar

Link Intime India Private Ltd

### Book Running Lead Managers

PI Capital Markets Private Limited

### Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	74.56%	55.44%
Public & Others	25.44%	44.56%

### Objects of the issue

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

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Incorporated in 2009, Gala Precision Engineering is a leading manufacturer of precision components, specializing in technical springs such as disc and strip springs (DSS), coil and spiral springs (CSS), and special fastening solutions (SFS). The company serves original equipment manufacturers (OEMs), Tier 1 suppliers, and channel partners across sectors like renewable energy, industrial applications, automotive, and railways. Company holds a significant position in both domestic and global markets. In the domestic market, the company commands a 10% share in the disc springs market and an impressive 70% share in the renewable energy segment. Globally, the DSS & WLW market is valued at approximately USD 891 Mn in 2023, with Gala Precision holding a 2% share. With over 175 global clients, the company exports to more than 25 countries, contributing 37.53% of its revenue from outside India as of FY24.

### Investment Rationale

**Market Growth and Precision Engineering Leadership:** The company specializes in the design, manufacturing, and application engineering of high-performance disc and strip springs, as well as high-tensile fasteners. Their precision components serve diverse sectors, including renewable energy, industrial machinery, automotive, and railways. The company has consistently shown growth, registering a CAGR of 17.53% and reaching INR 2,043.77 mn in total revenue. The EBITDA margin stood at 19.86% in FY24. The company is estimated to grow by INR 1,200 mn in revenue over the next 3-4 years, supported by the proposed project. The company benefits from in-house tool design, heat treatment, and quality control processes, ensuring the delivery of high-precision products tailored to customer specifications. Additionally, the company holds a 15% market share in India's wind turbine fasteners market and is expanding into Europe and the US.

**Building Long-Term Customer Relationships for Sustainable Growth:** The company's long-term customer relationships reflect its commitment to high-quality products and reliable solutions. Top five customers account for 32.46% of revenue from operations, and the top ten contribute 47.48%. The company's manufacturing facilities undergoing a with qualification process required by customers. The industry has entry barriers, stringent qualification process for technical springs and high-tensile fasteners. The company is a qualified supplier to OEMs, Tier 1 suppliers, and channel partners, highlighting its established position in the market.

**Expansion into High-Tensile Fasteners with New Manufacturing Facility:** The company is establishing a new manufacturing facility in Vallam-Vadagal, SIPCOT, Sriperumbudhur, Tamil Nadu, which will start operating in Jan-25 with a proposed capacity of 4,600 MT to expand its product line with high-tensile fasteners and new products like bolts. The total project cost is INR 483 mn, with INR 100 mn already deployed, and the company plans to infuse net proceeds of INR 370 mn through funding. The in-house production process includes tool design, blanking, forming, heat treatment, surface finishing, and rigorous quality control. With its manufacturing base in India, the company aims to capitalize on the cost advantage against European competitors. Also, the company utilizes automation software to enhance efficiency and reduce manufacturing errors.

**Diversified Product and Expanding Man Force:** The company produced and delivered 750 SKUs of products to meet the needs of its customers. With the setting up of an in-house automation team, the company has taken steps to improve resource use while also expanding its skilled labor force to ensure zero defect products. The company plans to increase its focus on emerging sectors, including renewable energy like wind turbines and hydro power plants, as well as industrial sectors such as electrical, off-highway equipment, and mobility segments like automotive and railways.

**Valuation and View :** The company is strengthening its capabilities in renewable energy, industrial, and mobility sectors by focusing on precision. With global offshore wind capacity expected to 3x by FY26, the demand for wedge lock washers and high-tensile fasteners will increase. The company has expanded its fastening solutions for the wind segment, developed fasteners for global OEMs, and plans further expansion in wind, industrial, and railways. It is setting up a new facility in Tamil Nadu and increasing DSS and CSS production in Maharashtra, utilizing INR 110.69 mn from the Net Proceeds. At the upper price band of INR 529, the issue is priced at a P/E of 30.01x based on the FY24 EPS of INR 17.6. We have a "Subscribe for long term" rating for the issue.

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**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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