

Rating: Avoid

Issue Offer

Fresh Issue of 30,211,480 equity shares up to INR 10,000 Mn

Issue Summary

Price Band (INR)	315-331
Face Value (INR)	2
Implied Market Cap (INR Mn)	75,275
Market Lot	45
Issue Opens on	Jan, 9, 2024
Issue Close on	Jan, 11, 2024
No. of share pre-issue	19,72,04,447
No. of share post issue	22,74,15,927
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≥75
NIB Portion	≤15
Retail Portion	≤10

Book Running Lead Managers

ICICI Securities Ltd
Equirus Capital Private Ltd
SBI Capital Markets Ltd

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	72.66%	63.01%
Public & Others	27.34%	36.99%

Objects of the issue

- Repayment and/ or pre-payment, in full or part, of certain borrowings.
- Funding long-term working capital requirements.
- General corporate purposes.

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Jyoti CNC Automation Ltd is a leading global CNC machine manufacturer, holding the 12th largest market share globally and 2nd largest in India (10% market share in India in FY23). The company has a diverse portfolio of CNC machines which comprises CNC turning centers, CNC turn mill center, CNC Horizontal machining center, CNC simultaneous 5-axis machining centers and CNC Multitasking centers etc. The company has supplied more than 30,000 machines since 2004 and supplied more than 8,400 machines to >3,500 customers over the past three years. The company has vertically integrated operations, three manufacturing facilities, and a robust R&D center, Jyoti CNC aims to provide technologically relevant and customized solutions. The order book stood at INR 33,153.3mn as of Sep-23, majorly for aerospace and defence (57.2%) and remaining to others.

Investment Rationale

Leading CNC Machine Manufacturer with a Strong Market Presence: The company stands as the 12th largest CNC machine manufacturer globally and 2nd largest manufacturer in India with 8% market share as of Sep-30. The company has a diverse range of CNC machines with a choice of 200 variants in 44 series. The company is focused on capitalizing on the anticipated 12.1% CAGR of global growth and 17.4% CAGR of Indian growth in 4-6-axis machining centers from FY22-27E. The company aims to benefit from government initiatives like 'Make in India,' 'Atma Nirbhar Bharat,' and PLI schemes, which are driving substantial growth in domestic production in a big way in the next 3-5 years.

Strong order book shows potential revenue visibility: The order book stood at INR 33,153.3mn as of Sep-23, majorly for aerospace and defence (57.2%), Auto & Auto components (12.2%), General Engineering (11.9%), EMS (9.2%) and others. The order book is executable over the next 2-3 years which shows potential revenue visibility going forward. The manufacturing industry has cutting applications (85%) and casting and formation (15%) and the company has majorly catered into cutting applications, we believe increase in the capex for across sectors including EMS shows potential business visibility going forward.

Focused to expand and diversify customer base and geographical reach: The company has supplied 30,000 CNC machines globally and supplied 7,200 machines to >3,500 customers across India, Asia (excluding India), Europe, North America and others. The EMS industry is growing at a faster pace and order book share stood at 9.2% as of Sep-23. The company is focused on aerospace and defence sectors where margins are higher and focused on EMS, Semiconductors and Electric Vehicles industries.

Huron acquisition led to sophisticated technology player across the globe: The company acquired Huron Graffenstaden SAS in Nov-2007. Huron is the pioneer of 5-axis machining technology globally and covers global customers based across defence, aerospace and other high end engineering application industries. The company is selling its products to various countries through Huron's established dealership network.

Valuation and View: Jyoti CNC Automation has an order book of INR 33.15bn (~3.6x of FY23 revenue) which is executable over next 2-3 years shows potential revenue visibility. The company is 12th largest player globally and 2nd largest player in India with 8% market share as of Sep-23. The IPO funds of INR 4.75bn will be utilized for debt repayments leading to reduction in finance cost and improvement in bottom-line going forward. The vertically integrated operations, diverse range of CNC machines, diversified customer base across industries, dedicated R&D centers and capex in the manufacturing industry will lead business growth going forward. At the upper band of INR 331, the issue is valued at an EV/EBITDA of 64.5x based on FY23 EBITDA and PE of 343.1x based on FY23 EPS of INR 9.8. We are recommending "AVOID" for this issue due to higher valuations.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	5,801	7,465	9,293
Operating expenses	3,190	4,197	5,326
Gross Profit	2,611	3,268	3,966
Gross Margin (%)	45.0%	43.8%	42.7%
Employee Cost	1,314	1,418	1,662
Other Expenses	980	1,123	1,330
EBITDA	317	727	974
EBITDA Margin (%)	5.5%	9.7%	10.5%
Depreciation	(378)	(358)	(336)
Interest expense	(755)	(822)	(897)
Other income	100	36	233
Share of profits associate & JV	-	0.1	0.1
Profit before tax	(716)	(417)	279
Taxes	15	(66)	(128)
PAT	(700)	(483)	151
PAT Margin (%)	-12.1%	-6.5%	1.6%
EPS (INR)	(5.1)	(3.8)	1.0

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	295	295	329
Reserves	831	117	491
Net worth	1,126	412	821
Minority Interest	-	-	-
Provisions	250	140	145
Debt	7,880	8,230	8,747
Other non-current liabilities	207	208	202
Total Liabilities	9,463	8,990	9,915
Fixed assets	2,992	2,746	2,689
Capital Work In Progress	511	9	83
Other Intangible assets	246	225	213
Goodwill	-	-	-
Investments	137	69	134
Other non current assets	109	244	241
Net working capital	4,730	5,139	4,862
Inventories	6,447	6,340	8,199
Sundry debtors	2,166	2,002	1,459
Loans & Advances	47	49	59
Other current assets	489	621	383
Sundry creditors	(3,119)	(2,954)	(4,130)
Other current liabilities & Prov	(1,300)	(919)	(1,109)
Cash	225	226	283
Other Financial Assets	513	331	1,411
Total Assets	9,463	8,990	9,915

Source: Company Reports, Arianth Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	(716)	(417)	279
Depreciation	378	358	336
Tax paid	15	(66)	(128)
Working capital Δ	(4,730)	(409)	277
Change in Goodwill	-	-	-
Operating cashflow	(5,053)	(534)	764
Capital expenditure	(3,880)	390	(353)
Free cash flow	(8,933)	(144)	411
Equity raised	1,826	(231)	258
Investments	(137)	68	(65)
Others	(868)	67	(1,064)
Debt financing/disposal	7,880	350	517
Dividends paid	-	-	-
Other items	457	(109)	(0)
Net Δ in cash	225	1	57
Opening Cash Flow	-	225	226
Closing Cash Flow	225	226	283

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		28.7%	24.5%
Op profit growth		129.3%	34.0%
Profitability ratios (%)			
OPM	5.5%	9.7%	10.5%
Net profit margin	-12.1%	-6.5%	1.6%
RoCE	0.4%	5.2%	5.1%
RoNW	-62.2%	-62.8%	24.5%
RoA	-7.4%	-5.4%	1.5%
Per share ratios (INR)			
EPS	(5.1)	(3.8)	1.0
Cash EPS	(2.2)	(0.8)	3.0
Book value per share	7.6	2.8	5.0
Valuation ratios (x)			
P/E	(65.2)	(86.9)	343.1
P/CEPS	(151.3)	(390.1)	111.9
P/B	43.3	118.6	66.4
EV/EBITDA	177.7	78.1	64.5
Payout (%)			
Dividend payout	0.0%	0.0%	0.0%
Tax payout	2.2%	-15.7%	45.9%
Liquidity ratios			
Debtor days	136	102	68
Inventory days	738	556	498
Creditor days	208	164	155
WC Days	666	493	411

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 1: Jyoti CNC revenue grew at a CAGR of 26.6% over the period of FY21-FY23. The company has order book of INR 33,153mn (~3.6x of FY23 revenue) shows potential revenue visibility going forward.

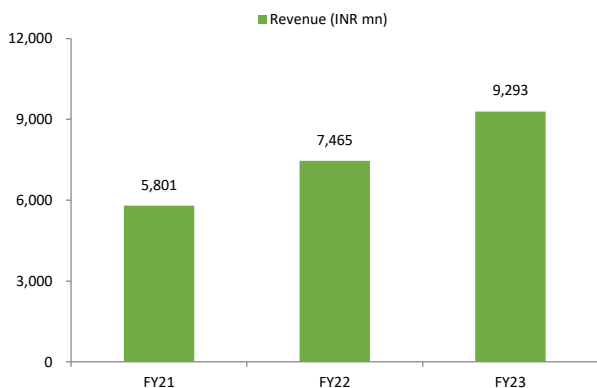


Exhibit 2: Gross margins were lowered due to higher raw material costs. Aerospace and defence orders has 55%-60% gross margins, with other orders has 30%-35% gross margins.

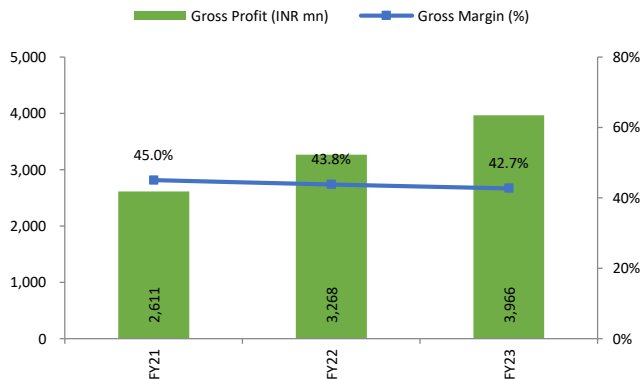


Exhibit 3: EBITDA margin reached to 10.5% and become profitable in bottom-line in FY23. The debt repayment would reduce the finance costs and improve the profitability going forward.

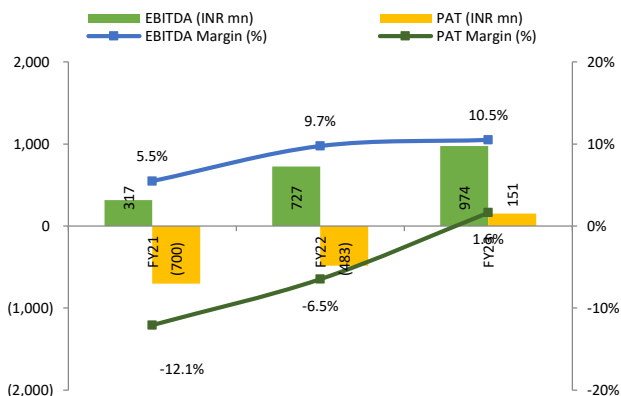


Exhibit 4: Working capital has reduced in terms of sales.

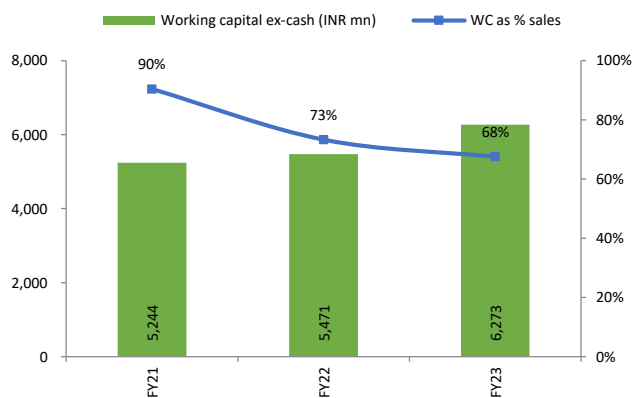


Exhibit 5: Post IPO, the company is expected to clear the debt which will lead to improve profitability and return ratios.

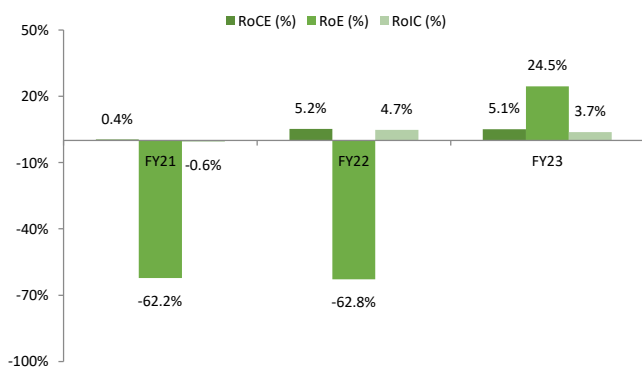
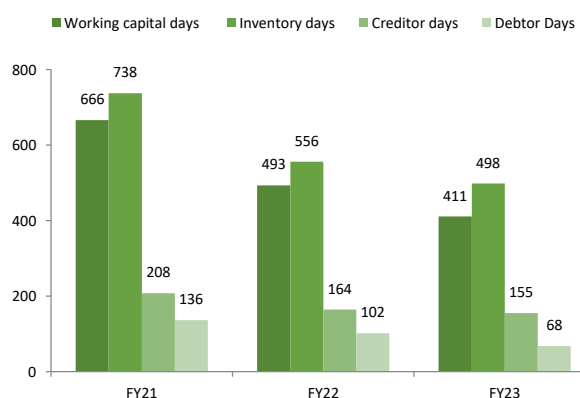


Exhibit 6: Working capital days were reduced.



Source: RHP, Company Reports, Arihant Capital Research

Story in Charts

Exhibit 7: The company has order book of INR 33,153mn (~3.6x of FY23 revenue) shows potential revenue visibility going forward.

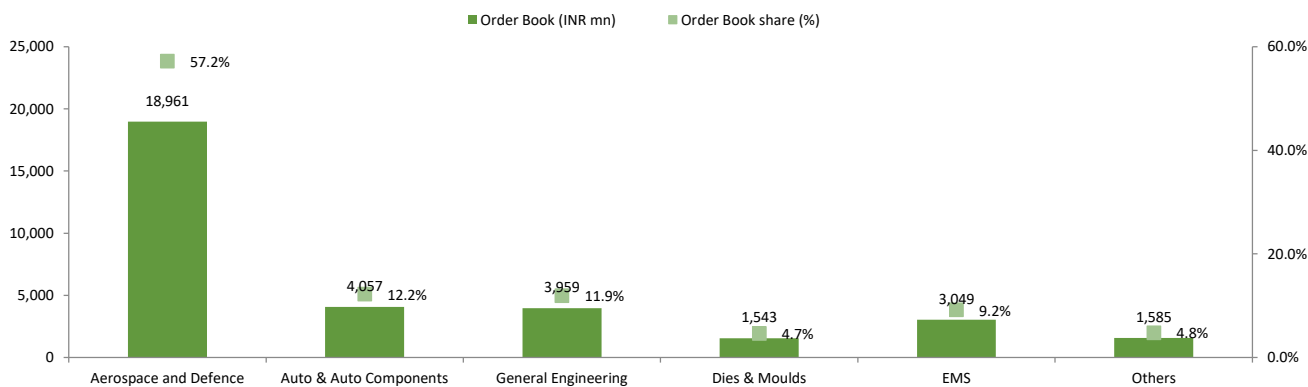


Exhibit 8: Top 10 customers are accounted ~20% of revenue in FY23. The company has more than 3,500 customers.

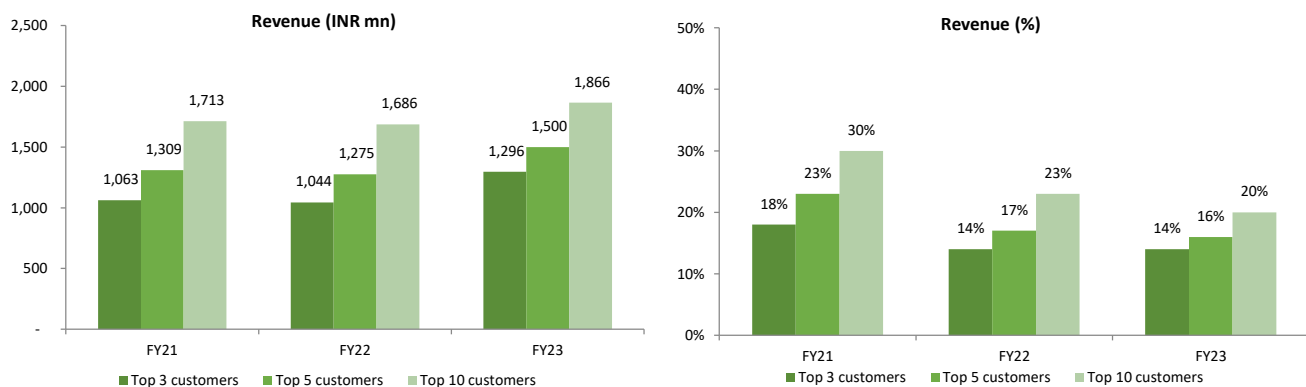
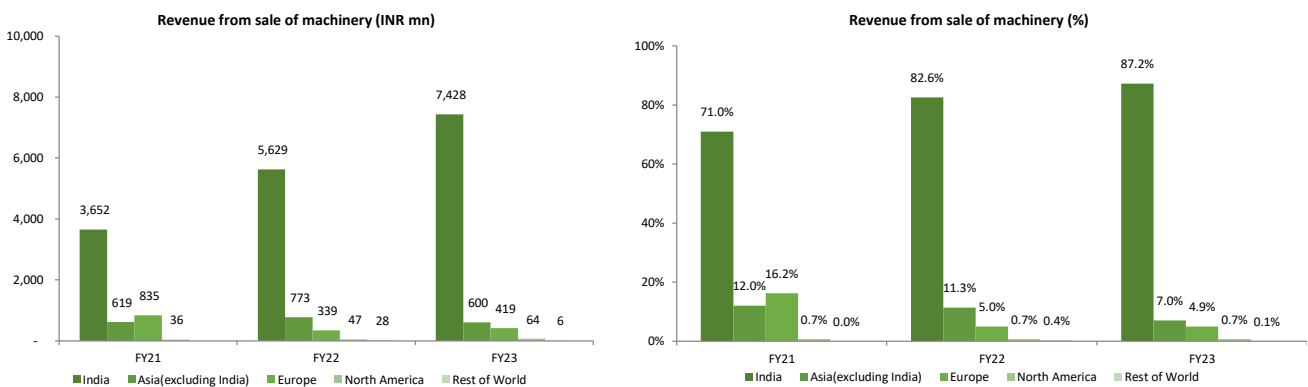


Exhibit 9: Majority of revenue comes from India. The company is focusing on expanding the geography.



Source: RHP, Company Reports, Aриhant Capital Research

Story in Charts

Exhibit 10: CNC machine production share is expected to increase going forward.

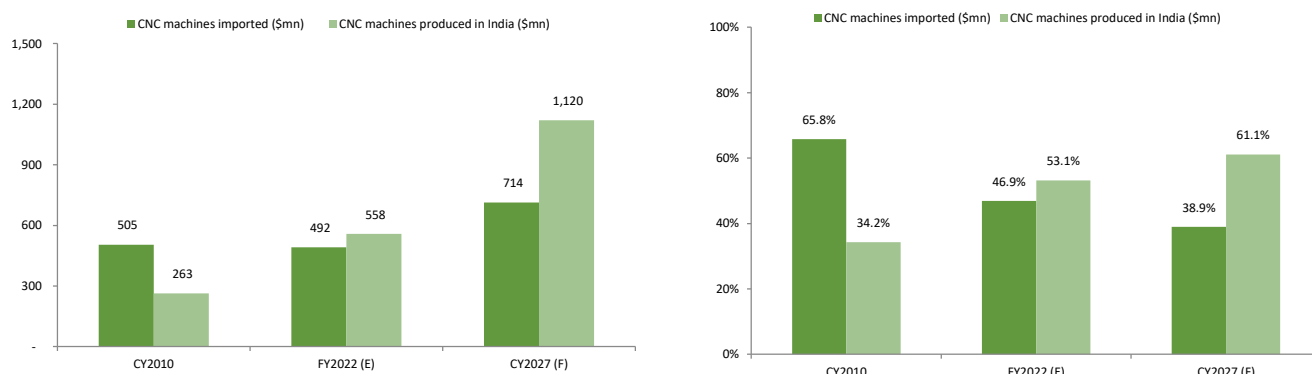
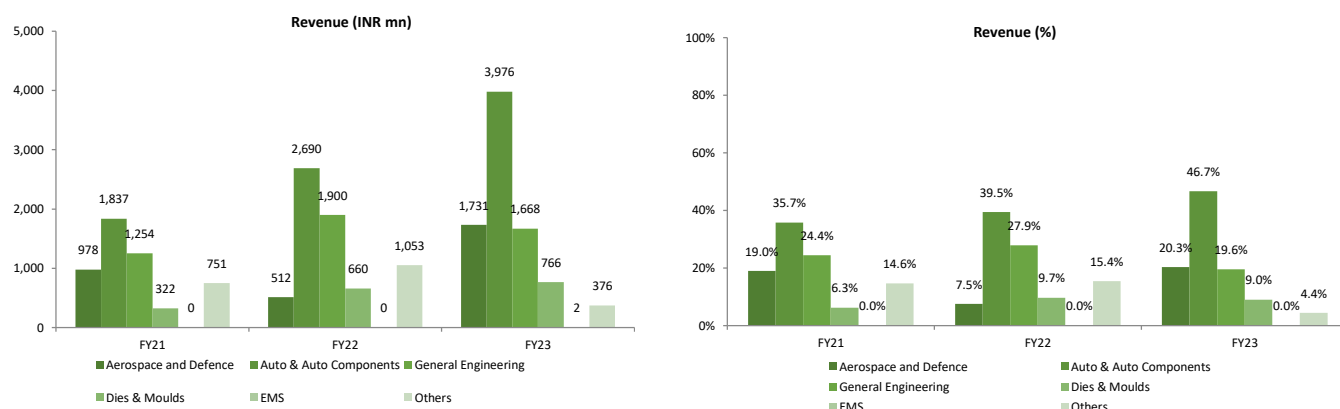


Exhibit 11: Aerospace and Defence has accounted for 20.3% of revenue in FY23. Aerospace and Defence order book share stood at 57.2% as of Sep-23. Aerospace and Defence has higher gross margins.



Source: RHP, Company Reports, Arihant Capital Research

Exhibit 12: Jyoti CNC's product portfolio

Turning Centres	Turn Mill Centres	Vertical Machining Centres	Horizontal Machining Centres	5-Axis Machines	Multi-Tasking Machines
AT/ATM Series	ATM Series	EX Series	HP Series	ABX Series	MTX Series
AX Series	AX Series	K MILL NVU Series	HSX Series	KX Five Series	MX Series
Chucker	TMC Large Series	KX/K2X Series	HX Series	KX Large Series	TMX Series
CNC Chucker	TMC NVU Series	Mill Tap Series		KXG Series	
DX 200 Series	TMC Series	NX Series		MU Tech Series	
DX Large Series	VTL Series (TMC)	PX NVU Series		MX 4 Series	
DX NVU Series	RDX Series			U MILL Series	
DX Series	RX Series				
DXG Series	TACHYON Series				
Linear Tooling	VMC NVU Series				
	VMC Perf. Large Series				
Oval Turning	Series				
TS Series	VMC Perf. Series				
Vertical Shaft Series					
VTL Series					

Source: RHP, Arihant Capital Research

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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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