Uniparts India Limited

29-November-22

Subscribe-Long Term

Research Team

Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	8,356.1
Fresh Issue (No. of Shares in Lakhs)	-
Offer for Sale (No. of Shares in Lakhs)	144.8
Bid/Issue opens on	30-Nov-22
Bid/Issue closes on	2-Dec-22
Face Value	Rs. 10
Price Band	548-577
Minimum Lot	25

Objects of the Issue

Fresh Issue : NIL

Offer for Sale: Rs. 8356.1 Million

- The company will not receive any proceeds from the Offer for Sale

Book Running Lead Managers
Axis Capital Limited
DAM Capital Advisors Limited
JM Financial Limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	600.00
Subscribed paid up capital (Pre-Offer)	451.34
Paid up capital (Post - Offer)	451.34

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	75.5	65.8
Public	24.5	34.2
Total	**100.0**	**100.0**

Financials

Particulars (Rs. In Million)	Q1FY23	FY22	FY21	FY20
Revenue from operations	**3468**	**12274**	**9031**	**9072**
Operating expenses	2716	9594	7838	8110
EBITDA	**752**	**2680**	**1194**	**962**
Other Income	9	36	445	316
Interest	13	57	81	180
Depreciation	96	366	373	354
PBT	**652**	**2293**	**1186**	**744**
Tax	147	624	254	118
Consolidated PAT	**505**	**1669**	**931**	**626**
EPS	13	37.0	20.6	13.9
Ratio	**Q1FY23**	**FY22**	**FY21**	**FY20**
EBITDAM	21.7%	21.8%	13.2%	10.6%
PATM	14.6%	13.6%	10.3%	6.9%
Sales growth	-	35.9%	-0.4%	-

Company Description

Uniparts India ltd is a global manufacturer of engineered systems and solutions and is one of the leading suppliers of systems and components for the off-highway market in the agriculture and construction, forestry and mining ("CFM") and aftermarket sectors on account of their presence across over 25 countries.

The company is a concept-to-supply player for precision products for off-highway vehicles ("OHVs") with presence across the value chain. Their product portfolio includes core product verticals of 3-point linkage systems ("3PL") and precision machined parts ("PMP") as well as adjacent product verticals of power take off ("PTO"), fabrications and hydraulic cylinders or components thereof. They have a leading presence in the manufacture of 3PL and PMP products globally on account of them serving some of the largest global companies. Most of their products are structural and load bearing parts of the equipment and are subject to strict tolerances, specifications and process controls. A series of precision engineering process steps converge in to manufacturing of these products.

They had an estimated 16.68% market share of the global 3PL market in Fiscal 2022 in terms of value and an estimated 5.92% market share in the global PMP market in the CFM sector in Fiscal 2022 in terms of value. Uniparts India ltd also caters to the aftermarket segment especially for 3PL product range. The company provides replacements of 3PL parts to organized aftermarket retailers and distributors in North America, Europe, South Africa and Australia.

In India, Uniparts have five manufacturing facilities, two at Ludhiana, Punjab, one at Visakhapatnam, Andhra Pradesh, and two at Noida, Uttar Pradesh. They have also set-up a distribution facility in Noida, Uttar Pradesh. In the United States, they have a manufacturing, warehousing and distribution facility at Eldridge, Iowa, acquired pursuant to its acquisition in 2005 of Olsen Engineering LLC, now known as Uniparts Olsen Inc. ("UOI") and a warehousing and distribution facility at Augusta, Georgia. The Company have also set up a warehousing and distribution facility in Hennef, Germany, which serves as their base for serving its key European customers. Each of their facilities are strategically located in proximity to several global OEMs in the OHV industry.

Valuation

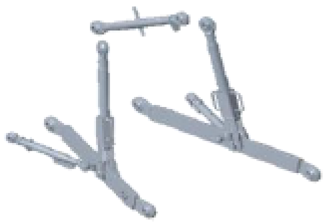
Uniparts India Ltd is a global manufacturer of engineered systems and solutions and is one of the leading suppliers of systems and components for the off-highway market in the agriculture and CFM and aftermarket sectors. The company enjoys significant Global Market share and has presence in key markets worldwide, including North and South America, Europe, Australia, Japan and India. It also serves some of the largest global companies and has long-term relationships with key global customers, including major original equipment manufacturers.

The company is available at the upper end of the IPO price band at 15.6x its FY22 earnings attributable to post issue equity demanding a market cap of Rs. 26,042.2 million. At the upper end of the IPO price band, the issue is priced at a P/BV of 3.6x based on its NAV of Rs. 158.2 as of June 30, 2022.

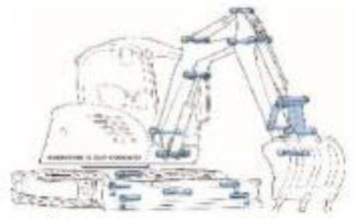
The Company intends to expand into newer geographies, adjacent product verticals, acquire additional customer accounts and increase wallet share of existing customers. It also plans to grow inorganically through strategic acquisitions and alliances. When compared to its listed peers, the issue appears to be reasonably priced. We recommend a "**Subscribe-Long Term**" rating to this IPO.

Key Products :

- 3PL : The 3-PL systems consist of different assemblies that are attached to an agricultural tractor. It forms a group of assemblies allowing attaching an implement like a plough to the tractor at 3 coupling points. The systems are engineered customised to each tractor model and region in which the tractor is used as the specifications vary from region to region. These systems are subject to validation and have to comply with international standards.



- PMP : : PMP is a group of products that are components requiring stringent material and manufacturing specifications and controls. These include among others, precision machined components such as pins, bushes and bosses used in articulated joints. These are structural and load bearing parts of the equipment and are subject to strict tolerances, specifications and process controls. The product varies in design and technical specification between different applications. The number of SKUs are high and varied in this product category.



The world market for 3PL was between USD 360 million and USD 370 million in 2021 and is expected to grow at nearly 6% and 8% between 2021 – 2026, buoyed by robust growth in tractor production volumes in North America, India and Europe, steady growth in China and Japan. A major driver of 3PL demand is tractors and the demand for 3PL is set to grow at a steady, healthy pace. Although India and China have a share of nearly 62% of the world tractor production, their share in global 3PL demand is only around 36%. North America, being one of the most mature tractor markets, contributes around 11% of the world tractor demand, and contributed almost 18% of the total demand for 3PL in the world in 2021. The global market for PMP for articulated joints was USD 648 million in 2021, with 80% and above of the demand from four key geographies China, Japan, Europe and North America. The demand for PMP products is expected to grow at a healthy CAGR of 6% and 8% between 2021 and 2026, powered by strong volume growth in construction equipment production in key markets such as Japan and Europe. The Company believe they are well positioned to benefit from increasing mechanization in the agriculture and CFM sectors, in particular through leveraging their global business model, which allows them to efficiently serve OEMs across multiple global locations, contributing to their increasing efforts to rationalize their supply chain and asset/working capital management.

They offer fully integrated engineering solutions from conceptualization, development and validation to implementation and manufacturing of their products. The conceptualization stage involves acquiring market intelligence, assessing customer requirement and formulating customized strategy for individual customers. The development phase includes product designing, material procurement and processing. This is followed by the validation phase, which involves prototyping, testing and feasibility analysis. The company has in-house manufacturing and implementation competencies include forging, machining, fabrications, heat treatment, surface finish, logistics, quality and testing, design and validation. By means of servicing their aftermarket segment customers, their products find indirect access to a large set up of retail stores across geographies for aftermarket components. Within the aftermarket category, they are focused on the 'will-fit' parts segment, sold to distributors and retail chain stores.

In Fiscal 2020, 2021 and 2022, and in the three months ended June 30, 2022, revenue generated from the agriculture and CFM segments together constituted 95.74%, 96.07%, 95.35% and 95.13%, respectively, of its total revenue from operations. Their customer base comprises a number of the global OEMs and in their experience, their ability to serve such customers has allowed the company to scale its operations over the years. They have long-term relationships with global OEM players in the agriculture and CFM sectors, such as Tractors and Farm Equipment Limited ("TAFE"), Doosan Bobcat North America ("Bobcat"), Claas Agricultural Machinery Private Limited ("Claas Tractors"), Yanmar Global Expert Co., Ltd ("Yanmar") and LS Mtron Limited. They service several organized aftermarket players and large farm and fleet retail store chains in Europe and the US, such as Kramp Groep B.V. ("Kramp") and Tractor Supply Company ("TSC"). In Fiscal 2022, their customer base comprised over 125 customers in over 25 countries globally. Bobcat, TAFE and Kramp are some of the customers with whom the company have had relationships for over 15 years, while with customers like Yanmar, they have a relationship with for over 10 years. More recently, they have added TSC and Kobelco Construction Equipment India Private Limited ("Kobleco") as their customers. Customers they acquired in 2017 onwards, accounted for 6.97%, 11.13%, 9.73% and 9.46%, respectively, of its revenue from operations in Fiscal 2020, 2021 and 2022, and in the three months ended June 30, 2022.

As of June 30, 2022, the company have a global footprint and served customers across countries in North and South America, Europe, Asia and Australia, including India. They primarily serve OHV players including OEMs and aftermarket retail store chains, through their global business model based on its dual-shore integrated manufacturing, warehousing and supply chain management systems and solutions. Their global business model has contributed in the evolution of their relationships with its key customers, as they are able to serve multiple delivery locations and provide multiple delivery options with flexible lead times and costs, allowing them to better serve its customers with multiple price points based on different delivery models.

In India, Uniparts have five manufacturing facilities, two at Ludhiana, Punjab, one at Visakhapatnam, Andhra Pradesh, and two at Noida, Uttar Pradesh. They have also set-up a distribution facility in Noida, Uttar Pradesh. In the United States, they have a manufacturing, warehousing and distribution facility at Eldridge, Iowa, acquired pursuant to its acquisition in 2005 of Olsen Engineering LLC, now known as Uniparts Olsen Inc. ("UOI") and a warehousing and distribution facility at Augusta, Georgia. The Company have also set up a warehousing and distribution facility in Hennef, Germany, which serves as their base for serving its key European customers. Each of their facilities are strategically located in proximity to several global OEMs in the OHV industry.

Strengths:

- **Leading market presence in global off-highway vehicle systems and components segment**

  Uniparts india ltd is a global manufacturer of engineered systems and solutions and is one of the leading suppliers of systems and components for the off-highway market in the agriculture and CFM and aftermarket sectors on account of its presence across 25 countries. They have a leading presence in the manufacture of 3PL and PMP products globally on account of them serving some of the largest global companies, including Bobcat, TAFE and Yanmar. They have a presence in key markets worldwide, including North and South America, Europe, Australia, Japan and India. The company has an estimated 16.68% market share of the global 3PL market in Fiscal 2022 in terms of value and an estimated 5.92% market share in the global PMP market in the CFM sector in Fiscal 2022 in terms of value.

- **Engineering driven, vertically integrated precision solutions provider**

  The Company provide comprehensive solutions and manufacture high-quality, critical products and components for OHV industry. Most of their products are critical, structural and load bearing parts of equipment and are subject to strict tolerances and specifications. A series of precision engineering process steps converge to manufacture these products. Uniparts India ltd is present across various levels of the OHV component value chain, providing concept-to-supply solutions for its customers. Their offerings include 3PL and PMP and also address adjacent products such as PTO, fabrications and hydraulic cylinders. Their significant backward and forward integration reduces their dependence on external supply and support services and enables maintenance of quality controls required to service global OEMs and aftermarket players. The table below sets forth details of their revenues based on the product verticals for the periods indicated:

Industry	Fiscal						Three months ended June 30, 2022	
	2020		2021		2022			
	(₹ million)	Percentage of Revenue from Operations (%)	(₹ million)	Percentage of Revenue from Operations (%)	(₹ million)	Percentage of Revenue from Operations (%)	(₹ million)	Percentage of Revenue from Operations (%)
3PL	4,279.64	47.17	5,066.55	56.10	6,839.57	55.72	1,997.96	57.60
PMP	4,323.06	47.65	3,397.26	37.62	4,471.20	36.43	1,229.86	35.46
PTO Applications	64.48	0.71	82.14	0.91	122.29	1.00	29.45	0.85
Fabrications	77.18	0.85	84.08	0/93	130.04	1.06	27.36	0.79
Hydraulic Cylinders	6.66	0.07	7.87	0.09	7.16	0.06	1.28	0.04
Others	321.19	3.54	393.51	4.36	703.98	5.74	182.50	5.26
Total	**9,072.20**	**100.00**	**9,031.42**	**100.00**	**12,274.24**	**100.00**	**3,468.41**	**100.00**

- **Global business model optimizing cost-competitiveness and customer supply chain risks**

  Uniparts India ltd global business model serves as an effective solution for customers seeking to rationalize their global sourcing and supply chain by providing them multiple choices in the form of Local Deliveries, Direct Exports and Warehouse Sales, while at the same time helping them to manage costs and increase its margins. They have grown their global business model in a scalable manner, optimized to provide premium-priced Local Deliveries manufactured on-shore in smaller lots and with shorter lead times, as well as cost-competitive offshore deliveries from India with longer lead times and inventory cycles.

  The table below sets forth its revenues based on their International Sales, Local Deliveries, Direct Exports and Warehouse Sales for the periods indicated:

Particulars	Fiscal						Three months ended June 30, 2022	
	2020		2021		2022			
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)
International Sales	7,580.04	83.55	7,255.35	80.33	10,120.88	82.46	2,849.62	82.16
Local Deliveries	2,945.63	32.47	2,547.04	28.20	2,966.38	24.17	863.81	24.91
Direct Exports	2,065.04	22.76	2,428.49	26.89	3,893.63	31.72	1,051.21	30.31
Warehouse Sales	3,715.42	40.95	3,713.11	41.11	4,907.75	39.98	1,424.18	41.06

The Company's India-led manufacturing and overseas-led warehousing coupled with localized customer service capabilities have been a key driver for the growth of their operations. Their global business model also enables them to diversify its margins based on different delivery models for the same product. The Company maintain inventory in their warehouses which helps mitigate supply chain risks for their customers and reduces long lead time involved in transit of cargo internationally. They believe, their facilities in India, the United States and Europe are strategically located in proximity to several global OEMs in the OHV industry. They provide timely deliveries tailored to customer specifications in terms of their production schedules, geographical needs, applications, vehicle sizes and technical specifications, and also provide customized packing, warehousing and kitting solutions and logistical support to their customers. They serve their OEM customers from all of their manufacturing, warehousing and distribution facilities, across all its product verticals. OEM sales accounted for 81.12%, 77.31%, 76.64% and 77.93%, respectively, of its revenue from operations in Fiscal 2020, 2021 and 2022, and the three months ended June 30, 2022. As part of their offerings to the aftermarket segment, the Company provide product replacement and add-on parts to end users over the full life cycle of the equipment, after the original purchase is made. Their facility at Noida, Uttar Pradesh serves as a hub for their aftermarket sales globally and their aftermarket sales accounted for 15.06%, 18.89%, 19.23% and 18.41%, respectively, of its revenue from operations in Fiscal 2020, 2021 and 2022, and in the three months ended June 30, 2022.

The Company's revenues are diversified across geographies, given their presence in Indian and international markets, across industry sectors and across product verticals. Their global presence has allowed them to deepen their relationships with its customers over time. The table below sets forth details of their revenues based on their key geographies served by them for the periods indicated:

Particulars	Fiscal						Three months ended June 30, 2022	
	2020		2021		2022			
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations
USA	5,189.85	57.21	4,349.15	48.16	5,757.69	46.91	1,697.29	48.94
Europe	1,650.28	18.19	2,106.30	23.32	3,109.28	25.33	793.80	22.89
India	11,46.04	12.63	1,433.28	15.87	1,646.88	13.42	489.58	14,12
Japan	420.77	4.64	408.30	4.52	599.54	4.88	165.28	4.77
Asia-Pacific	166.78	1.84	169.28	1.87	272.44	2.22	89.47	2.58
Rest of the World	152.37	1.68	222.33	2.46	381.93	3.11	103.78	2.99
Total	**8,726.09**	**96.18**	**8,688.64**	**96.20**	**11,767.75**	**95.87**	**3,339.20**	**86.27**

- **Long-term relationships with key global customers, including major original equipment manufacturers, resulting in a well-diversified revenue base**

The company has developed long-term relationships with global customers in the agriculture and CFM sectors, such as TAFE, Claas Tractors and Kramp. Four of their top five customers (based on contribution to their revenue from operations during Fiscal 2021) have been their customers for over 10 years. TAFE and Kramp are some of the customers with whom they have had relationships for over 15 years, while with customers like Yanmar, they have developed relationships for over 10 years. Customers they acquired in 2017 onwards, accounted for 6.97%, 11.13%, 9.73% and 9.46%, respectively, of the revenue from operations in Fiscal 2020, 2021 and 2022 in and the three months ended June 30, 2022, with one such customers being a part of the company's top five customers by revenue in Fiscal 2022, reflecting their ability to develop and strengthen relationships with customers.

The Company's single largest customer generated ₹ 3,345.33 million, ₹ 3,084.25 million, ₹ 4,023.88 million and ₹ 1,221.24 million in revenues and accounted for 36.87%, 34.15%, 32.78% and 35.21% of its revenue from operations in Fiscal 2020, 2021 and 2022, and in the three months ended June 30, 2022, respectively. In addition, sales to their top five customers were ₹ 5,550.43 million, ₹ 5,267.19 million, ₹ 6,885.57 million and ₹ 1,957.98 million and accounted for 61.18%, 58.32%, 56.10% and 56.45% of its revenue from operations in Fiscal 2020, 2021 and 2022, and in the three months ended June 30, 2022, respectively, while sales to their top 10 customers were ₹ 6,769.73 million, ₹ 6,600.07 million, ₹ 8,643.15 million and ₹ 2,472.98 million and accounted for 74.62%, 73.08%, 70.42% and 71.30% of its revenue from operations, respectively, in such periods. The strength of their customer relationships is attributable to their ability to customize to customer specifications and requirements, as well as their track record of consistent delivery of quality and cost-effective products and solutions through their strategic alignment with its key customers' goals and specifications over the years.

- **Strategically located manufacturing and warehousing facilities that offer scale and flexibility.**

The Company operate six strategically located manufacturing facilities spread across India and the United States. As on June 30, 2022, their aggregate installed capacity across these manufacturing facilities was 67,320 metric tonne per annum. Uniparts India ltd dual-shore capabilities, which is their ability to undertake manufacturing products at different locations, allow them to service customer requirements from alternate locations, providing customers the benefit of regular supply and cost-competitive manufacturing operations.

Over the years, they have built significant in-house end-to-end manufacturing process capabilities and expertise ranging from a forge shop, precision machining on computer numerical control ("CNC") and vertical machining center ("VMC"), welding (including butt and robotic welding), induction hardening, grinding, thread rolling, hobbing, broaching, shot blasting, heat treatment (continuous furnace, pit furnace and sealed quench furnace), surface finishing (including plating and painting) and electrophoretic deposition ("ED") coating amongst others.

They also have three international warehousing facilities in Germany and the United States. Their presence in these locations allows them to service and grow in these markets more efficiently by becoming a local supplier to global OEMs. Proximity to their key customer groups provides them with a strategic advantage in ensuring cost effectiveness, quicker delivery and faster turnaround times. In their experience, the Company's presence across geographies has enabled them to diversify its revenues and also enhanced their position as a global supplier

- **Healthy financial position with robust financial performance metrics.**

Over the years, the company's revenue from operations has remained stable despite the impact of the COVID-19 pandemic on their business operations. The revenue from operations were ₹ 9,072.20 million, ₹ 9,031.42 million, ₹ 12,274.24 million, and ₹ 3,468.41 million in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2022, respectively.

Their EBITDA was ₹ 1,278.10 million, ₹ 1,639.27 million, ₹ 2,716.63 million, and ₹ 761.16 million in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2022, respectively, while their EBITDA margin was 14.09%, 18.15%, 22.13% and 21.95%, respectively, for such periods. The restated profit for the year / period was ₹ 626.42 million, ₹ 931.47 million, ₹ 1,668.87 million, ₹ 505.17 million in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2022, respectively while the restated profit for the year / period margin was 6.90%, 10.31%, 13.60% and 14.56%, respectively, for such periods. As of March 31, 2020, 2021 and 2022, and as of June 30, 2022, its RoCE was 13.98%, 19.78%, 31.00% and 8.83% (non-annualized), respectively, while their RoAE was 14.12%, 18.19%, 26.80% and 7.22% (non-annualized), respectively.

Uniparts India ltd have a healthy balance sheet position with net worth of ₹ 7,139.31 million as of June 30, 2022 and have been able to maintain a low debt position. As of March 31, 2020, 2021 and 2022, and as of June 30, 2022, their net debt equity ratio was 0.52, 0.21, 0.17 and 0.12, respectively. They have prudently utilized their resources, which has enabled them to fund the capital expenditure through internal accruals and have been able to reduce its total debt. Further the net debt to EBITDA ratio was 1.87, 0.71, 0.42 and 1.09 (non-annualized), as of March 31, 2020, 2021 and 2022 and as of June 30, 2022, respectively.

The company believes that their operating leverage, which impacts their EBITDA margins and cash flow generation, is driven by the efficient business model which promotes continuity in cash flows. The net cash flow from / used in operating activities was ₹ 1304.95 million, ₹ 1,527.55 million, ₹ 848.79 million, and ₹ 552.31 million, in Fiscal 2020, 2021 and 2022 and in the three months ended June 30, 2022, respectively. They expect that their operational and financial performance will allow them to capitalize on the tailwinds in the engineering solutions industry.

- **Experienced Promoters and qualified senior management team.**

The Company benefit significantly from their experienced management and technical teams, including, in particular, their Promoter and Chairman and Managing Director, Gurdeep Soni, who is in charge of its aftermarket business, their Promoter and one of their Executive Directors and Vice Chairman, Paramjit Singh Soni, who is in charge of OEM business, inorganic growth and strategic initiatives, who each have over three decades of experience in this business. Their Group Chief Operating Officer, Sudhakar S Kolli, is in charge of their overall operations, business development and marketing and has over 25 years of experience in the areas including general management with leadership role and operations and product development. One of its Directors, Herbert Coenen, is in charge of business development, marketing and technology advancement has more than 35 years of experience in the international OHV market, and in the industry and the markets in which they operate. Their management team is strategically located in key end markets with Paramjit Singh Soni in the United States, Gurdeep Soni and Sudhakar S Kolli in India and Herbert Coenen in Germany. Their senior management has extensive experience in operations, business development and quality, customer relationship and human resource management and have held leadership positions with multinational corporations.

Key Strategies:

- **Leverage integrated precision engineering capabilities and established global business model, to tap additional business opportunities and expand addressable market**

The global 3PL market is estimated to be between USD 505 million and USD 525 million in 2026. Tractor demand from North America and Europe, the two important 3PL markets contributing close to 45% of world demand, is estimated to grow at a CAGR of around 3% - 5% between 2021 and 2026. The global market for PMP for articulated joints was USD 648 million in 2021, with 80% and above of the demand from four key geographies China, Japan, Europe and North America. The company has established an end-to-end and scalable business model which caters to a number of requirements of its customers in the OHV market. Uniparts India ltd intend to leverage its manufacturing and warehousing infrastructure, global footprint and value proposition to expand further in newer geographies, adjacent product verticals, acquire additional customer accounts as well as increase wallet share among their existing customers. They intend to achieve this by focussing on increasing the share of customer spend per vehicle by manufacturing additional 3PL products for more than 60 horsepower vehicles, PMP products for large construction equipment, fabrication solutions such as agriculture implements and construction attachments, and new PTO applications. They are also actively exploring adjacent vehicle and equipment types such as utility task vehicles and all-terrain vehicles where they have developed prototypes of system solutions that are currently in trial phase. The company believes there are opportunities for these solutions both in the aftermarket segment as well as with OEMs.

- **Focus on higher value addition products and enhanced service offerings to improve the margin profile.**

Uniparts India ltd continually evaluate product and service opportunities enabling movement towards higher value-addition and improving margin profile of its revenue portfolio. Their EBITDA margins have increased from 14.09% in Fiscal 2020, to 18.15% in Fiscal 2021, and to 22.13% in Fiscal 2022. Further, in the three months ended June 30, 2022, their EBITDA margin was 21.95%. They endeavour to ensure that new business opportunities are margin accretive. The company intends to continue to increase the proportion of their warehousing sales in their overall sales model mix, as this delivery model carries premium and is margin accretive. They regularly evaluate existing manufacturing portfolio as well and undertake calibrated relocation of manufacturing any identified products to optimize cost structure and resulting margins. As part of their strategy of improving the margin profile of its portfolio, they intend to further expand their product portfolio with solutions for adjacent vehicle and equipment types such as utility task vehicles and all-terrain vehicles as well as focus on PMP products with a technology focus, such as, plungers and transmission components.

- **Target new customer accounts and expand existing customer accounts.**

Uniparts India ltd intend to increase the sales and customer penetration by targeting new customer accounts and expanding their existing customer accounts in their principal markets by offering their entire range of products. Customers they acquired in 2017 onwards, accounted for 6.97%, 11.13%, 9.73% and 9.46%, respectively, of the revenue from operations in Fiscal 2020, 2021 and 2022 and the three months ended June 30, 2022. They intend to continue to consolidate and develop their relationships with large and renowned global OEMs whose product portfolios are spread across industries such as agriculture, CFM and industrial equipment, as well as their value engineering and process innovation competencies so as to be able to enter new and related markets and acquire, evolve and strengthen their customer relationships. The company intend to offer the customers additional 3PL and PMP products to meet their customers' requirements and thereby growing their share of customers' spend per vehicle. In particular, the company believe that the CFM sector offers them the opportunity to target new customers for their products. Between 2021 and 2026, growth is expected to be driven by Europe and India due to higher expected investment in infrastructure projects. The Company believe that they will be able to capitalize on the reputation for quality, consistent performance.

- **Grow inorganically through strategic acquisitions and alliances**

Uniparts India ltd intend to continue their strategy to explore opportunities for forward integration, including selectively evaluating targets for strategic acquisitions and investments, in order to strengthen the position as an integrated, full system solutions provider for the agriculture and CFM sectors. Through this objective the company seek to strengthen their product platform and customer portfolio.

They have in the past benefited from their strategic acquisition in 2005 of UOI, which catalyzed the growth of the PMP product vertical and their sales to the CFM sector. In addition, the investment in Kavee (a joint venture with Kramp, a long-term customer that they continue to supply to), which ceased to be their subsidiary with effect from April 1, 2012, also contributed significantly to its acquisition of product and process knowledge for their hydraulic cylinders vertical.

They intend to focus on acquiring businesses with high growth and performance potential, along with their existing customer relationships and product and process competencies, and to integrate and grow their businesses through enhanced quality and delivery parameters, engineering support, integration of IT systems and ERP platforms with manufacturing support from India, coupled with their management know-how and experience. While they will also evaluate any opportunistic acquisitions that are viable, the primary strategy is to focus on identifying financially stable and performing assets for acquisition. In particular, the company intend to explore opportunities in Europe, which would give them a manufacturing base in the continent, as well as opportunities in the United States to complement their existing business. They may also seek to expand their international warehousing and distribution operations, based on demand and delivery logistics in various geographies, to fuel the growth going forward. Uniparts India ltd believe that they have been successful in acquiring and integrating overseas assets and ventures in the past and will continue to benefit from such initiatives, thereby expanding their product portfolio, market share, customer base and geographical footprint.

- **Enhance engineering, innovation and design competence**

The Company endeavor to focus on process and product innovation and value engineering solutions in order to meet the requirements of a wider range of vehicles, geographies, applications and other customer specifications, so as to strengthen and diversify their customer and product portfolio. Towards this objective, they seek to continue to improve their in-house value engineering, testing, design and process innovation capabilities through human resource and technical development, as well as exploring opportunities for collaboration and inorganic growth and continuing to work closely with their key customers to upgrade and customize their products, in particular, to increase sales of 3PL products in the higher horsepower (more than 60HP) tractor segment and of PMP, hydraulic cylinders and PTO applications, while maintaining and improving their market share in the 3PL and PMP verticals.

Industry Snapshot:

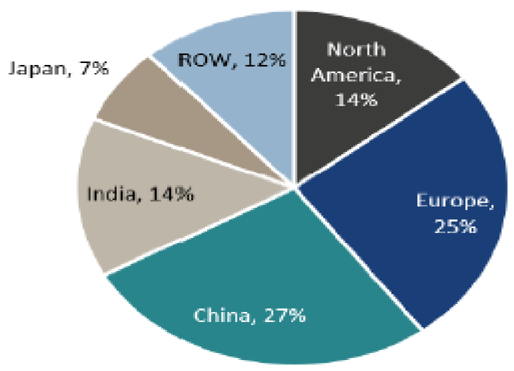
- **Market Size and Outlook by Region (3PL)**

The world market for 3-point linkages (3PL) is estimated at USD 350-375 million in 2021, grew at a CAGR of around 5% during 2016-2021. Europe, contributing nearly 8% of the world tractor volume, is one of the key demand geographies for 3PL - contributing almost 27% of the world demand for such parts in value. India and China together account for around 62% of world tractor production but generate an estimated demand of only 36% for 3PL by value. This is primarily due to:

  - higher ratio of lower HP tractors in the total population
  - lower prices of 3PL in these regions

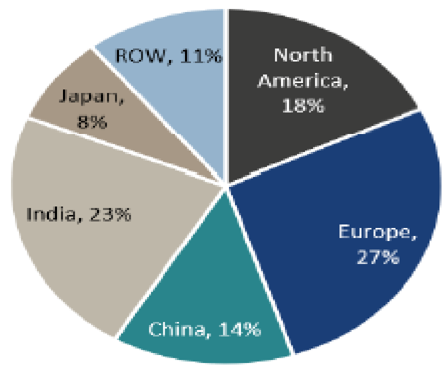
North America being one of the most mature tractor markets contributes around 11% of world tractor demand and is estimated to contribute around 18% of the total demand for 3PL in the world.

World 3PL Market (275-295 million USD) in 2016



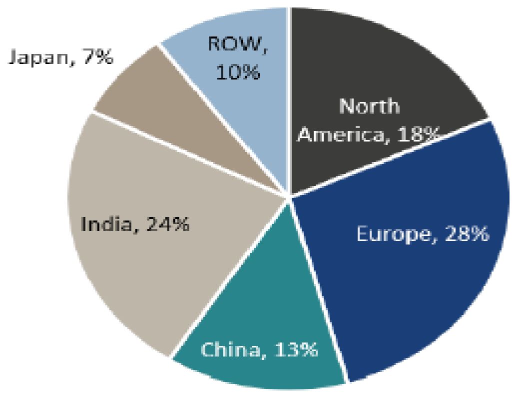
Source: Markets & Markets, Off-highway, CRISIL Research

World 3PL Market (350-375 million USD) in 2021

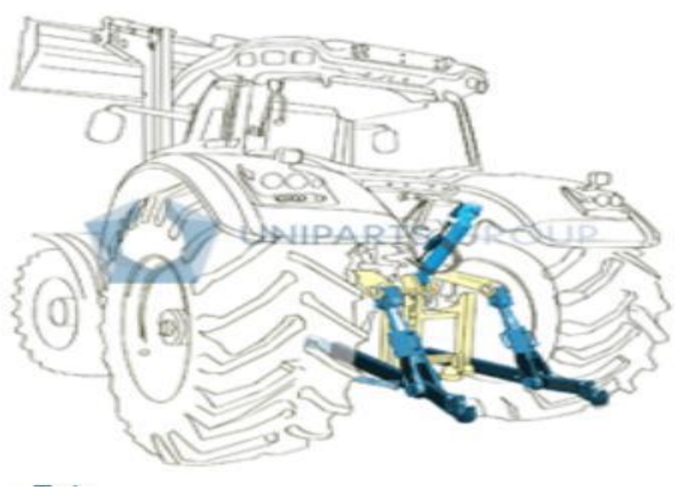


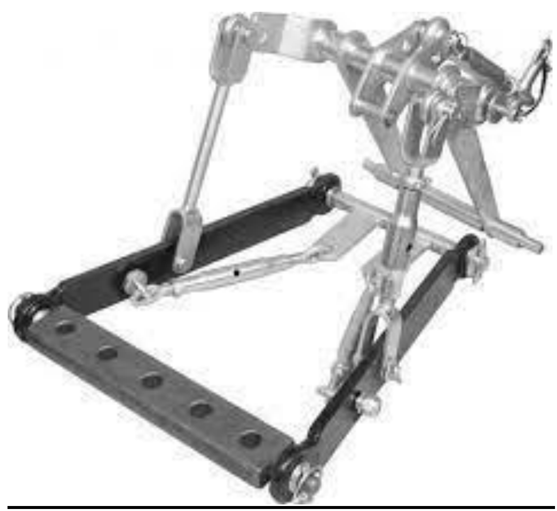
Source:Markets & Markets, Off-highway, CRISIL Research

World 3PL Market (505-525 million USD) in 2026P



Tractor demand from North America and Europe, the two important 3PL markets contributing close to 45% of world demand, is estimated to grow at a CAGR of around 3% - 5% between 2021 and 2026. The three-point linkage most often refers to the way ploughs and other implements are attached to an agricultural tractor. The three points resemble either a triangle, or the letter A. Three point attachments is the simplest and the only statically determinate way of joining two bodies in engineering. The three-point linkage systems consist of different assemblies that are attached to an agricultural tractor. It forms a group of assemblies allowing attaching an implement like a plough to the tractor at 3 coupling points forming a triangle. It connects the implement in a manner to the tractor that the tractor and implement becomes one unit allowing the tractor to operate the implement. The 3-point linkage transfers the entire load which can be a multiple of the implement weight between the tractors and implement.



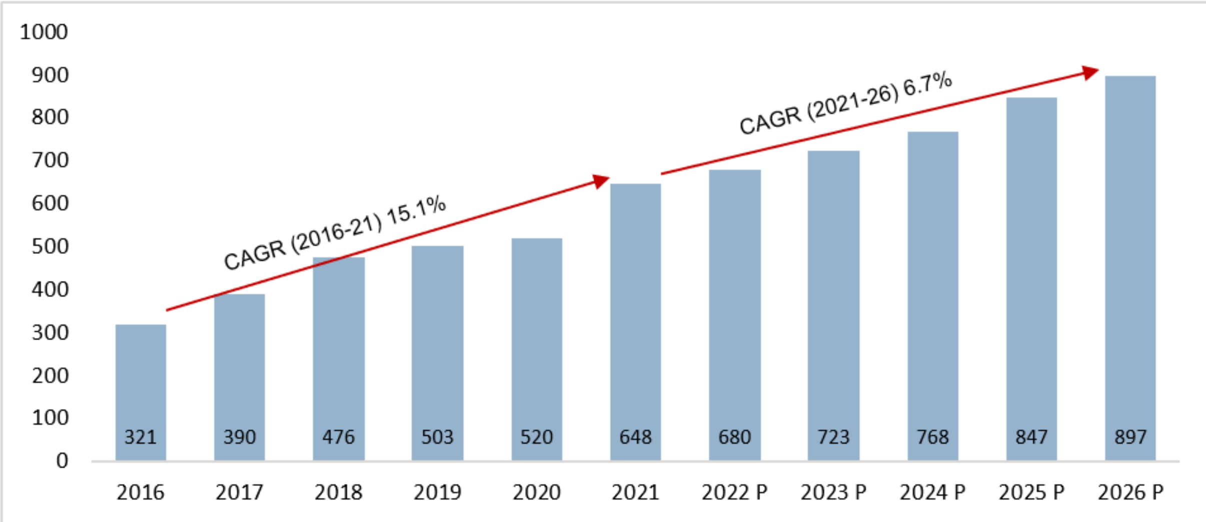


The hitch lifting arms are powered by the tractor's own hydraulic system. The hydraulic system is controlled by the operator, and usually a variety of settings are available. A draft control mechanism is present in all three-point linkage systems

- **Market size and outlook by region (PMP)**

The world market for PMP for AJ is estimated to be USD 648 million in 2021. Global production value for PMP for AJ is expected to grow at CAGR of 6% - 8% during 2021-2026, registering a decrease in the growth rate compared to 2016-2021 period which was a CAGR of 15.1%. This expansion will be fuelled primarily by growth in North America and India, where construction spending, especially on infrastructure projects, continues to increase. China, being the largest market globally, contributes around 41% to the total market share and is expected to grow at a CAGR of 5% - 7% from 2021-2026. India, contributing around 8%, is expected to grow at a CAGR of 7% - 9% from 2021-2026 due to higher investments towards infrastructure activities and expansion plans by various construction equipment manufacturers. Japan and Europe are the second and third largest consumers of PMP for AJ parts respectively, contributing approximately 37% of the world market.

Precision Machine Parts for AJ - Market Value (USD Million)



Key Risk:

- The Company depend on a limited number of customers for a significant portion of their revenues. The loss of a major customer or significant reduction in production and sales of, or demand for their products from, any of its major customers may adversely affect the business, financial condition, results of operations and prospects.
- They are exposed to foreign currency exchange rate fluctuations, which may harm their results of operations and cause their results to fluctuate.
- The Company's business is impacted by cyclical effects in the global and domestic economy, specifically in the agriculture and CFM sectors, which may have an adverse effect on the business, financial condition, results of operations and prospects. Further, its business is also impacted by tractor production volumes globally.
- Their reliance on third parties for certain aspects of their business, including raw material suppliers, transporters of their raw materials and products and logistic / warehouse service providers, exposes them to certain risks.
- They are subject to risks arising from interest rate fluctuations which could adversely affect the results of operations, planned expenditures and cash flows.
- The Company outsource a portion of its manufacturing processes to certain sub-contractors, which presents numerous risks.

Valuation:

Uniparts India Ltd is a global manufacturer of engineered systems and solutions and is one of the leading suppliers of systems and components for the off-highway market in the agriculture and CFM and aftermarket sectors. The company enjoys significant Global Market share and has presence in key markets worldwide, including North and South America, Europe, Australia, Japan and India. It also serves some of the largest global companies and has long-term relationships with key global customers, including major original equipment manufacturers.

The company is available at the upper end of the IPO price band at 15.6x its FY22 earnings attributable to post issue equity demanding a market cap of Rs. 26,042.2 million. At the upper end of the IPO price band, the issue is priced at a P/BV of 3.6x based on its NAV of Rs. 158.2 as of June 30, 2022.

The Company intends to expand into newer geographies, adjacent product verticals, acquire additional customer accounts and increase wallet share of existing customers. It also plans to grow inorganically through strategic acquisitions and alliances. When compared to its listed peers, the issue appears to be reasonably priced. We recommend a "**Subscribe-Long Term**" rating to this IPO.

Comparison of Accounting Ratios with Listed Industry Peers as at/for the year ended March 31, 2022

Name of the company	Total Income (₹ in million)	Face Value (₹)	P/E	Earnings per share (Basic) (₹)	Earnings per share (Diluted) (₹)	RoNW (%)	Net asset value per equity share (₹)
Uniparts India Limited	12,310.39	10	15.6	37.74	36.98	24.35	151.82
Peers							
Balkrishna Industries Limited	87,330.40	2	26.44	74.25	74.25	20.7	358.63
Bharat Forge Limited	106,569.78	2	36.73	23.23	23.23	16.25	142.33
Ramkrishna Forgings Limited	23,217.06	2	18.6	12.43	12.43	18.36	67.45

1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on November 15, 2022.
2) P/E and EPS of Uniparts India Limited is calculated on FY22 EPS attributable to post issue equity.

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Ratings Methodology

- Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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