Vendor-base expansion by global cos, rising infra spends in US good for co, but it needs to sustain high profits to bridge valuation gap with peers

Export-focused Uniparts may Suit Investors with High-risk Appetite

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ET Intelligence Group: Uniparts India, a component supplier to global agriculture and construction equipment makers, plans to raise ₹836 crore through an offer for sale. After the initial public offering (IPO), the promoter group's stake will reduce to 65.8% from 75.5%. The company is benefiting from expansion of vendor base by global clients and increasing infrastructure spending in the US. It, however, needs to sustain the double-digit profitability to bridge the valuation difference with peers amid rising recessionary pressure in the western economies. Given these factors, the issue looks more suitable for investors with a high-risk appetite.

Issue Highlights

Dates: Nov30-Dec 2, 2022
Price band: ₹548-577 per share
Bid lot: 25 shares
Size: Up to ₹836 cr
Implied m-cap: Up to ₹ 2,604 cr
Face value: ₹10
Retail portion: 35%

IPO WATCH

BUSINESS

Noida-based Uniparts manufactures three-point linkage systems (3PL) used to attach ploughs and implements to tractors and precision machine parts (PMP). It derives nearly 55% of revenue from sales of 3PL to leading global farm equipment makers and 36% from PMP for various construction and agriculture equipment companies. Exports form around 80% of revenue. Some of its clients include TAFE, Bobcat Company, Yanmar and Claas.

The global 3PL market is worth $350-375 million and Uniparts commands 16.8% share. To diversify business, it is gradually increasing exposure to adjacent products in segments including power take-off (PTO) used in rotary tillers, mowers and hydraulic cylinders.

FINANCIALS

Revenue grew by 18% annually to ₹1,274 crore between FY20 and FY22 while net profit rose by 62% to ₹166 crore. Operating margin before depreciation and amortisation (Ebitda margin) expanded to 22.1% in FY22 compared with 14.1% in FY20 on account of an increase in the share of the high-margin warehousing delivery model in total revenue to 40% from 31% four years ago. Under this model, the company maintains inventory for about two months at a warehouse close to the client's factory, which improves supply assurance.

RISKS

With increasing share of the warehousing model, the company's inventory days are elevated. In the previous three fiscal years, it had inventory days of 131-145. A high client concentration may affect financials if the business momentum from large clients moderates.

VALUATION

The company demands trailing P/E multiple of 15. Based on the June 2022 quarter annualised earnings, the P/E works out to be 13. Some of the export-focused auto ancillary companies such as Bharat Forge, Ramkrishna Forgings and Balkrishna Industries with return on equity (RoE) of 16-20% trade at P/E between 18 and 36. Uniparts had return on capital employed (RoCE) and RoE of 31% and 27%, respectively, in FY22.