Jyoti CNC Automation Limited

Company Overview:

Jyoti CNC Automation Limited is one of the world's leading manufacturers of metal cutting computer numerical control (CNC) machines with the third largest market share in India accounting approximately 10% of the market share in India in FY23 and twelfth largest market share globally accounting for 0.4% of the market share globally in CY22. The company is a prominent manufacturer of simultaneous 5-Axis CNC machines in India and a supplier of one of the most diverse portfolios of CNC machines in India, including CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMCs), CNC Horizontal Machining Centers (HMCs), simultaneous 3-Axis CNC machining Centers, simultaneous 5-Axis CNC machining Centers and multi-tasking machines.

Key Highlights:

1. Manufacturing Facility: The company operates out of three manufacturing facilities, two in Rajkot, Gujarat and one in Strasbourg, France, which is equipped with capabilities to design, develop and manufacture a product portfolio. The Indian manufacturing facilities has obtained ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certification and manufacturing facility in Strasbourg, France has also obtained ISO 9001:2015 certification. As of 1HFY24, the company could manufacture 4,400 machines p.a. in India and 121 machines p.a. in France.

2. Marquee customers across various industries: The company has diversified customers across various industrial areas such as aerospace and defence, auto and auto components, general engineering, EMS, dies and moulds, and others. Some of the marquee customers are ISRO, BrahMos Aerospace Thiruvananthapuram Ltd., Tata Advances System Ltd., Bharat Forge Ltd., Bosch Ltd., Harsha Engineers International Limited, Uniparts India Ltd.

3. Geographical presence across domestic as well as international territory: During the last three financial years the company has sold products in India and 16 other countries across the globe through principal offices in India, France, Germany, Turkey and Canada. The company sells products in Romania, France, Poland, Belgium, Italy, and United Kingdom through Huron's established dealer network and also has 29 sales and service centres (including sales offices located within the precincts of one of the Manufacturing Facilities in Rajkot, Gujrat) spread across 12 states in India.

4. Well established track record & Robust order book: The company offers over 200 variants across 44 series. During 1HFY24 and last three financial years, the company has supplied over 8,400 CNC machines to more than 3,500 customers in India and across Asia (excluding India), Europe, North America and rest of the world. As of 1HFY24, the company had an order book of Rs 3,315.3 cr including an order of Rs 305.2 cr from an entity in the electronics manufacturing services (EMS) industry.

Valuation: The company is valued at FY23 EV/EBITDA multiple of 85.6x based on the upper price band on post-issue capital. The company currently holds a market share of over 10% in India, making them the third largest player in the country. Globally, the company accounts for a 0.4% market share. The company will use the proceeds of the IPO to repay the debt to the tune of Rs 475 cr, thereby reducing its long term debt on the balance sheet by ~50%. Post IPO, leverage on the balance sheet is likely to reduce significantly, as the company will utilise Rs 360 cr from the IPO proceeds to fund its working capital requirement.

Issue Details

Issue Details	
Date of Opening	9th January 24
Date of Closing	11th January 24
Price Band (Rs)	315 -331
Fresh Issue (Rs cr)	1,000
Issue Size (Rs cr)	1,000
No. of shares	3,17,46,032 – 3,02,11,480
Face Value (Rs)	2.0
Post Issue Market Cap (Rs cr)	7,212 – 7,527
BRLMs	Equirus Capital Private Limited, ICICI Securities Limited, SBI Capital Markets Limited
Registrar	Link Intime India Private Limited
Bid Lot	45 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%
Employee Reservation	Equity Shares aggregating up to Rs 5 cr

Objects of Issue

Objects of Issue	Estimated utilization from net proceeds (Rs cr)
Repayment and/or pre-payment, in full or part, of certain borrowings availed by the company	475.0
Funding long-term working capital requirements of the company	360.0
General corporate purposes^	-
Net proceeds	-

^ The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds

Shareholding Pattern

Shareholding Pattern		
Pre-Issue	**No. of Shares**	**%**
Promoter & Promoter Group	14,22,46,495	72.1
Public & Others	5,49,57,952	27.9
Total	**19,72,04,447**	**100.0**

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	14,22,46,495	62.1
Public & Others	8,67,03,984	37.9
Total	**22,89,50,479**	**100.0**

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	14,22,46,495	62.5
Public & Others	8,51,69,432	37.5
Total	**22,74,15,927**	**100.0**

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	1HFY24
Revenue from operation (Rs cr)	580	746	929	510
EBITDA (Rs cr)	32	73	97	74
Adj. PAT (Rs cr)	(70)	(48)	(15)	3
EBITDA Margin (%)	5.5	9.7	10.5	14.6
Adj. PAT Margin (%)	(12.1)	(6.5)	(1.7)	0.7
EPS (Rs)	(3.5)	(2.4)	(0.8)	0.2*
ROE (%)	(62.2)	(117.4)	(18.8)	1.3*
ROCE (%)	0.5	4.9	9.5	5.5*
Total Debt / Equity (x)	6.4	19.2	10.2	3.2*

Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Customer relationship:** The company's success is dependent on the relationship with the customers and it does not generally enter into long-term purchase contracts. This exposes the company to risk emanating from the inability to retain established customers as clients.

- **Raw material:** The company does not have long-term agreements with suppliers for the input materials and a significant increase in the cost or a shortfall in the availability and deterioration in the quality of such input materials could have an adverse effect on the results of operations.

- **Competitive market:** The company operates in a competitive industry. Any inability to compete effectively may lead to a lower market share or reduced operating margins.

- **Higher working capital requirement:** The company has a high working capital requirement and if the company is unable to raise sufficient working capital the operations will be adversely affected.

Growth Strategy

- **Improving market share:** Focus on improving market share and taking advantage of the growing industry demand.
- **Diversifying customer base:** Expanding presence across other end-user industries and diversifying customer base and geographical reach.
- **Strong order book:** Continuously augmenting capacity in line with expected business growth. As of 1HFY24, the company had an order book of Rs 3,315.3 cr including an order of Rs 305.2 cr from an entity in the electronics manufacturing services (EMS) industry.
- **Financial risk:** Improving financial risk profile.

Revenue from operations – End User Industry

End User Industries*	Order Book* as 1HFY24 (Rs cr)	FY21		FY22		FY23		1HFY24	
		Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation
Aerospace & Defence	1,896.1	97.8	19.0	51.2	7.5	173.1	20.3	179.1	37.2
Auto & Auto Components	405.7	183.7	35.7	269.0	39.5	397.6	46.7	166.9	34.7
General Engineering	395.9	125.4	24.4	190.0	27.9	166.8	19.6	88.8	18.5
Dies & Moulds	154.3	32.2	6.3	66.0	9.7	76.6	9.0	20.7	4.3
EMS	304.2	-	-	-	-	0.2	0.0	-	-
Others	158.5	75.1	14.6	105.3	15.5	37.6	4.4	25.7	5.3
Total	**3,315.3**	**514.2**	**100.0**	**681.6**	**100.0**	**851.7**	**100.0**	**481.2**	**100.0**

As per the end-user industries as specified to us at the time of supply of machines.

Source: RHP, SSL Research

| End User Industries*	FY21		FY22		FY23		1HFY24	
	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation	Amount in Rs cr	% of Revenue from Operation
India	365.2	71.0	562.9	82.6	742.8	87.2	403.8	83.9
Asia (excl. India)	61.9	12.0	77.3	11.3	60.0	7.1	6.9	1.4
Europe	83.5	16.2	33.9	5.0	41.9	4.9	70.2	14.6
North America	3.6	0.7	4.7	0.7	6.4	0.8	0.4	0.1
Rest of the World	-	-	2.8	0.4	0.6	0.1	-	-
Total	**514.2**	**100.0**	**681.6**	**100.0**	**851.7**	**100.0**	**481.2**	**100.0**

As per the end-user industries as specified to us at the time of supply of machines.

Source: RHP, SSL Research

Industry Overview – Aerospace and Defense Market
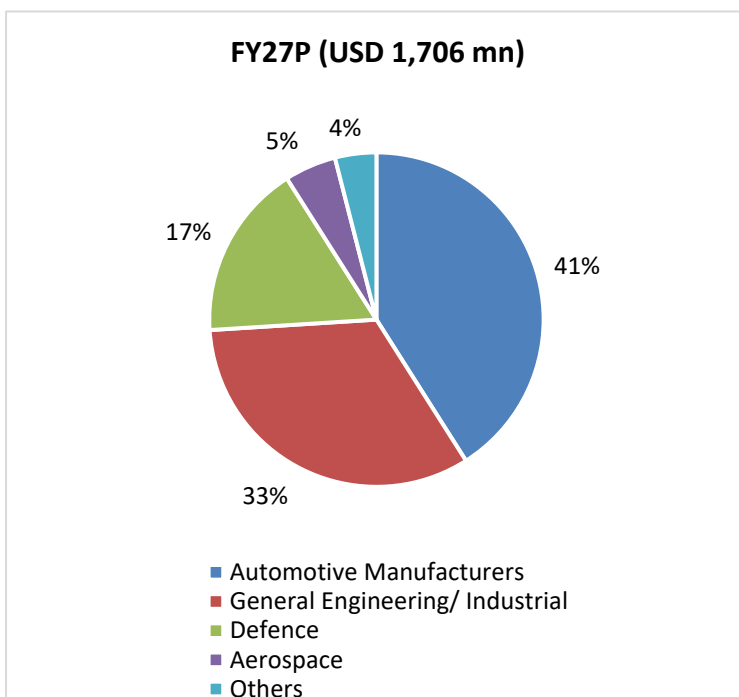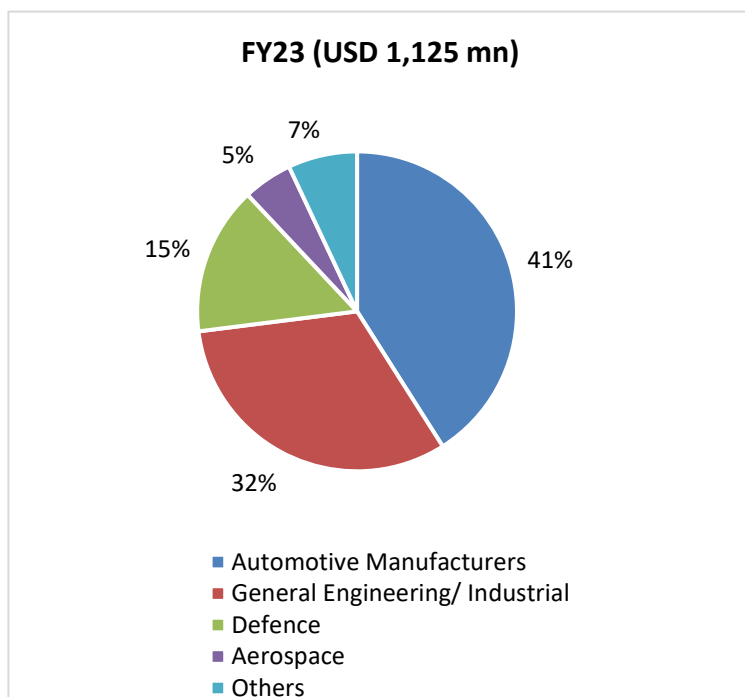
Global CNC Machining Centers Market

The global CNC machining centers market was ~USD 31.6 bn in 2022. The global CNC machining centers market is estimated to be ~ USD 51.5 bn by 2027. This market is majorly driven by global automotive and heavy industries manufacturers, who are embracing automation and advanced software solutions to meet their customers' needs. In addition, shortage of skilled labor, working hour limits, and labor costs are on the rise. Thus, there is a rapid growth in the demand for automated precision machines.

Global CNC Machines Market (USD bn)
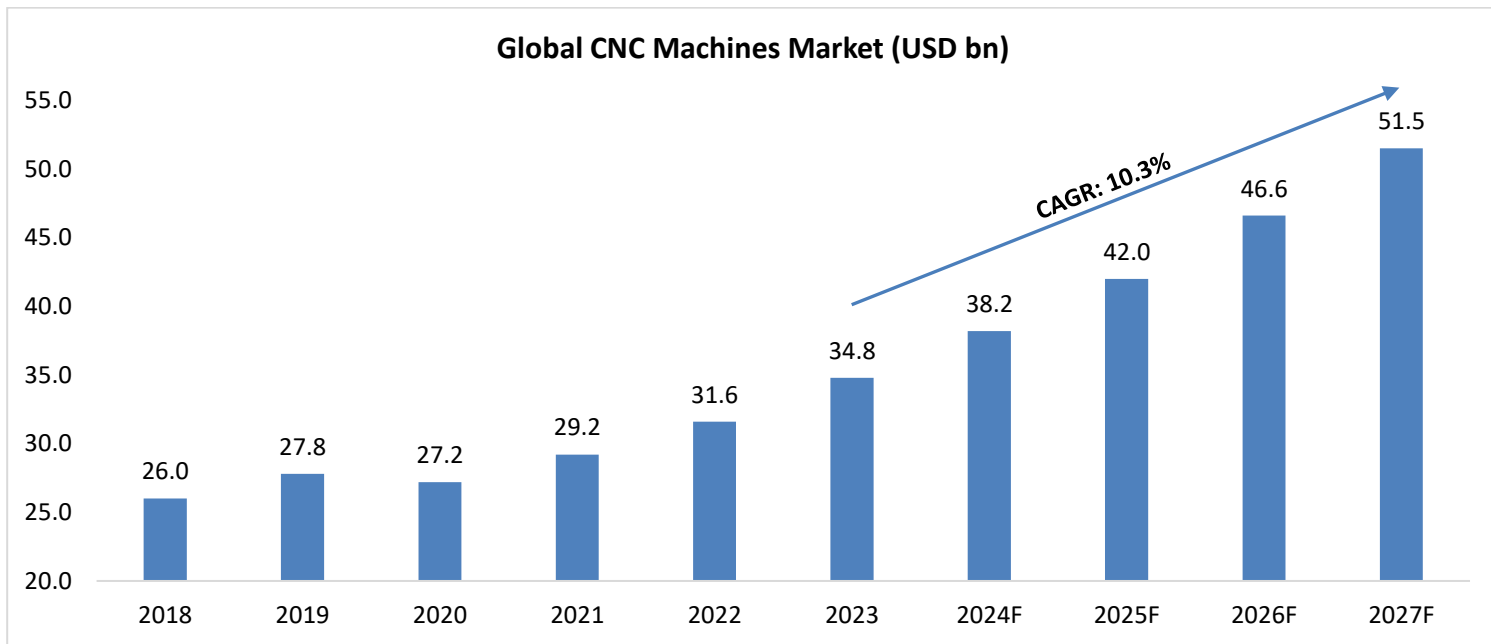
Source: RHP, SSL Research

India's CNC Machines Consumption Market Value, by End User Industry FY23 Vs. FY27F

Increased demand for highly productive, automated CNC machines has come from the growth of the Indian manufacturing industry. The demand for sophisticated components is increasing in industries such as automotive, agriculture, defense, general engineering, aerospace, and others.

FY23 (USD 1,125 mn)
- 41% Automotive Manufacturers
- 32% General Engineering/ Industrial
- 15% Defence
- 5% Aerospace
- 7% Others

FY27P (USD 1,706 mn)
- 41% Automotive Manufacturers
- 33% General Engineering/ Industrial
- 17% Defence
- 5% Aerospace
- 4% Others

Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	**580**	**746**	**929**
YoY growth (%)	-	28.7%	24.5%
Cost Of Revenues (incl Stock Adj)	319	420	533
Gross Profit	**261**	**327**	**397**
Gross margins (%)	**45.0**	**43.8**	**42.7**
Employee Cost	131	142	166
Other Operating Expenses	98	112	133
EBITDA	**32**	**73**	**97**
EBITDA margins (%)	**5.5**	**9.7**	**10.5**
Other Income	10	4	23
Net Interest Exp.	76	82	90
Depreciation	38	36	34
(+) Exceptional Items	0	0	30
PBT	**(72)**	**(42)**	**28**
Tax	-2	7	13
Reported PAT	**(70)**	**(48)**	**15**
(-) Exceptional Items	0	0	30
Adj. PAT	**(70)**	**(48)**	**(15)**
Adj. PAT margin (%)	**(12.1)**	**(6.5)**	**(1.7)**
Adj. EPS	**(3.5)**	**(2.4)**	**(0.8)**

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	299	275	269
Capital WIP	51	1	8
Intangible Assets under development	25	23	21
Other Non current Assets	25	31	38
Current Assets			
Inventories	645	634	820
Trade receivables	217	200	146
Cash and Bank Balances	22	23	28
Short-term loans and advances	5	5	6
Other Current Assets	100	95	179
Total Current Assets	**989**	**957**	**1,179**
Current Liabilities & Provisions			
Trade payables	312	295	413
Other current liabilities	193	123	151
Short-term provisions	2	2	2
Total Current Liabilities	**506**	**420**	**565**
Net Current Assets	**482**	**537**	**614**
Total Assets	**882**	**866**	**950**
Liabilities			
Share Capital	29	29	33
Reserves and Surplus	83	12	49
Total Shareholders Funds	**113**	**41**	**82**
Total Debt	725	792	835
Long Term Provisions	23	12	13
Net Deffered Tax Liability	21	21	20
Total Liabilities	**882**	**866**	**950**

Cash Flow (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	4	21	-10
Cash flow from Investing Activities	-35	-114	-101
Cash flow from Financing Activities	24	96	126
Free Cash Flow	-16	-96	-96

RATIOS			
	FY21	**FY22**	**FY23**
Profitability			
Return on Assets (%)	(5.0)	(3.8)	(1.0)
Return on Capital (%)	0.5	4.9	9.5
Return on Equity (%)	(62.2)	(117.4)	(18.8)
Margin Analysis			
Gross Margin (%)	45.0	43.8	42.7
EBITDA Margin (%)	5.5	9.7	10.5
Net Income Margin (%)	(12.1)	(6.5)	(1.7)
Short-Term Liquidity			
Current Ratio (x)	0.9	0.9	0.9
Quick Ratio (x)	0.3	0.3	0.3
Avg. Days Sales Outstanding	136	98	57
Avg. Days Inventory Outstanding	406	310	322
Avg. Days Payables	196	144	162
Fixed asset turnover (x)	1.9	2.7	3.5
Debt-service coverage (x)	0.0	0.1	0.1
Long-Term Solvency			
Total Debt / Equity (x)	6.4	19.2	10.2
Interest Coverage Ratio (x)	0.1	0.5	1.0
Valuation Ratios			
EV/EBITDA (x)	228.7	100.7	75.5
P/E (x)	-	-	-
P/B (x)	58.1	159.0	79.8

Source: RHP, SSL Research

Peer Comparison

	Jyoti CNC Automation Limited	Elgi Equipments Limited	Lakshmi Machine Works Limited	Triveni Turbine Limited	TD Power Systems Limited	Macpower CNC Machines Limited
CMP (Rs)	331.0	536.0	13,650.0	421.0	276.0	716.0
Sales (Rs cr)	929.3	3,041.0	4,719.0	1,248.0	872.0	202.0
EBITDA (Rs cr)	97.4	437.0	450.0	235.0	134.0	21.0
Adj. PAT (Rs cr)	(15.4)	371.0	384.0	193.0	97.0	13.0
M.Cap (Rs cr)	7,527.5	16,985.0	14,583.0	13,395.0	4,310.0	716.0
Enterprise Value (Rs cr)	8,334.2	16,978.0	13,859.0	13,042.0	4,118.0	699.0
EBITDA Margin (%)	10.5	14.4	9.5	18.8	15.4	10.4
Adj. PAT Margin (%)	(1.7)	12.2	8.1	15.5	11.1	6.4
PE(x)	-	45.8	38.0	69.4	44.4	55.1
EV/EBITDA (x)	85.6	38.9	30.8	55.5	30.7	33.3
RoE (%)	(18.8)	23.8	17.0	21.5	16.9	14.2
RoCE (%)	9.5	24.4	22.9	28.7	22.1	19.3

The data is based on FY23 financial data.

For Jyoti CNC Automation Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 4th January 2024.

Source: RHP, SSL Research

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