

IPO ANALYSIS AND OVERVIEW

JYOTI CNC AUTOMATION



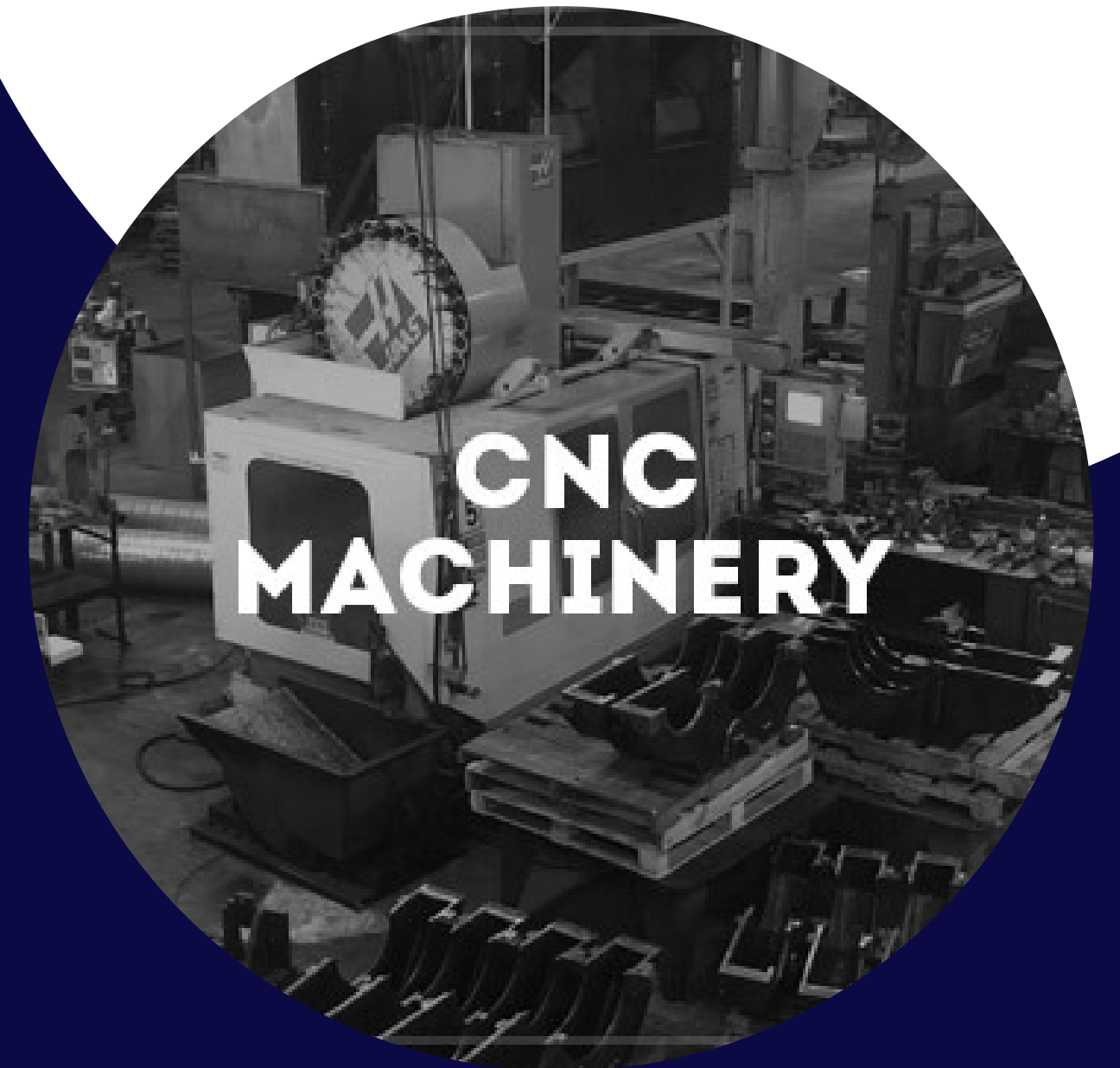
A photograph of a modern, white industrial building with a teal-colored section. The building has a sign on the roof that reads "JYOTI CNC" with a logo to the left. The building is surrounded by greenery and a paved area.

HIGHLIGHTS:

- Jyoti CNC Automation is coming out with a 100% book building; initial public offering (IPO) of 3,17,53,967 shares of Rs 2 each in a price band Rs 315-331 per equity share.
- Not less than 75% of the issue will be allocated to Qualified Institutional Buyers (QIBs), including 5% to the mutual funds. Further, not less than 15% of the issue will be available for the non-institutional bidders and the remaining 10% for the retail investors.
- The issue will open for subscription on January 9, 2024 and will close on January 11, 2024.
- The shares will be listed on BSE as well as NSE.
- The face value of the share is Rs 2 and is priced 157.50 times of its face value on the lower side and 165.50 times on the higher side.
- Book running lead managers to the issue are Equirus Capital, ICICI Securities and SBI Capital Markets.
- Compliance Officer for the issue is Maulik B Gandhi.

PROFILE OF THE COMPANY

The company 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 Fiscal 2023 and twelfth largest market share globally accounting for 0.4% of the market share globally in calendar year 2022. It is a prominent manufacturer of simultaneous 5-Axis CNC machines in India and supply a diverse portfolios of CNC machines including CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMCs) and CNC Horizontal Machining Centers (HMCs). The company relies on its expertise built over 2 decades of presence and strong R&D capabilities to deliver customised solutions to its customers across diverse set of industries including aerospace and defence, auto and auto components, general engineering, EMS, dies and moulds, and others. The company offers solutions suited for transitioning towards 'Industry 4.0', including its flagship multifunctional solutions package viz. '7th Sense' – which is geared towards automating sophisticated diagnostic and analytical functions enabling seamless management of productivity, health and tool life of the CNC machine.



The company offers over 200 variants across 44 series and during the last 6 months period ended September 30, 2023, and during the last 3 Fiscals, 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. Since April 1, 2004, it has supplied over 30,000 CNC machines globally. During the last 6 months period ended September 30, 2023, and during the last 3 Fiscals it has sold its products in India and 16 other countries across the globe through its principal offices in India, France, Germany, Turkey and Canada. It sells its 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 its sales offices located within the precincts of one of its Manufacturing Facilities in Rajkot, Gujrat) spread across 12 states in India. The company operates out of 3 manufacturing facilities, 2 in Rajkot, Gujarat, (Indian Manufacturing Facilities) and 1 in Strasbourg, France, which is equipped with capabilities to design, develop and manufacture its product portfolio. Its Indian manufacturing facilities have obtained ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certification and its manufacturing facility in Strasbourg, France has obtained ISO 9001:2015 certification.



PROCEED IS BEING USED FOR:

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





INDUSTRY OVERVIEW

The machine tool industry is a fundamental pillar of Indian engineering's industrial sector. Machine tools are widely utilized by businesses in a variety of applications, including die molding, component production, aircraft, shipbuilding, electricals and electronics, healthcare, and consumer durables. According to Gardner's World Machine Tools Output Survey, the Indian machine tool industry ranks 10th in terms of output and 8th in terms of consumption. Also, it is a component of the capital goods industry, which accounts for 12% of the manufacturing sector, and it represents a huge multi-disciplinary field with multiple end-use application sectors. In India, machine tools, accessories/attachments, subsystems, and components are manufactured by around 1,000 units in the machine tools sector of which, around 25 are large-scale units, which contribute to over 70% of the turnover, and the rest is contributed by the MSME sector.



CNC machines segment holds the major market share for the forecast period. Increasing demand from the manufacturing industries for innovations to increase the productivity of products is fostering the machine tools market. The growth of manufacturing sector is increasing the demand for CNC machines. Advancement in CNC technology is making the machines compact and equipped with automatic tool changers. Automation of CNC machines have increased the productivity drastically and eliminates the chances of human error. CNC machines use a single machine to carry out multiple operations. Based on end user industry, market is categorized into automotive, electrical & electronics, railways, consumer durables, government & defense, among others. Automotive industry is expected to dominate the market share for the next five years. Continuous advancements in automotive industry to upgrade the engines and satisfy the fuel efficiency standards. Increasing demand for different kind of vehicles is fostering the demand for machine tools market.

PROS AND STRENGTHS

- **ONE OF THE LEADING CNC MACHINE MANUFACTURING COMPANIES GLOBALLY AS WELL AS IN INDIA:**

The company 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 Fiscal 2023 and twelfth largest market share globally accounting for 0.4% of the market share globally in calendar year 2022. It is a prominent manufacturer of simultaneous 5-Axis CNC machines in India and supply a diverse portfolios of CNC machines including CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMCs) and CNC Horizontal Machining Centers (HMCs). Its standing in the Indian industry is demonstrated by the fact that it has been recognised as 'Best Brand in the Metal Cutting Industry' by Economic Times for 5 consecutive years from 2018 to 2022. It also operates through its step-down subsidiary, Huron Graffenstaden SAS, which is a pioneer across the world in the 5-Axis machining technology. The addition of Huron augments its technological capabilities and enables it access to a diverse global customer base, across aerospace, defence and other high end engineering application industries.





- **WELL DIVERSIFIED GLOBAL CUSTOMER BASE SPREAD ACROSS END-USER INDUSTRIES:**

Since April 1, 2004, the company has supplied over 30,000 CNC machines globally, and during the 6 months period ended September 30, 2023, and the last 3 Fiscals, the company has supplied machines over 8,400 machines to more than 3,500 customers in India and across Asia (excluding India), Europe, North America and rest of the world. It has also recently forayed into supplying its products such as CNC Vertical Machining Centers (Model Tachyon 5FT with RT 200 direct drive rotary table) for companies in EMS industry in Fiscal 2023. As on September 30, 2023 its order book in EMS industry was Rs 3,049.17 million constituting around 9.20% of its order book of Rs 33,153.26 million. Accordingly, the company has set up 2 dedicated assembly lines for manufacturing of machines for EMS industry at its unit at 2839, Lodhika GIDC, Kalawad Road, Metoda, Rajkot, Gujarat. Its wide product basket helps it service a broad spectrum of customers and helps it maintain long term relationships with certain of its customers.



- **FOCUS ON TECHNOLOGY AND ABILITY TO DELIVER INNOVATIVE SOLUTIONS BOLSTERED BY DEDICATED R&D FACILITIES:**

The company has a diverse portfolio of products and supply a diverse portfolios of CNC machines including CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers (VMCs) and CNC Horizontal Machining Centers (HMCs). Currently, its product portfolio comprises entry level products to sophisticated machines including high speed simultaneous 5-Axis, multi-purpose, multi-tasking machines. The growth in its product ranges from entry level CNC machines to sophisticated multi-axis machines is a testament to its constant focus on technology and drive to continually provide customised solutions to its customers. In furtherance of this objective, in November 2007, it acquired Huron Graffenstaden SAS, a pioneer across the world in the 5-Axis machining technology. This acquisition, in particular, bolstered its technological capabilities and established its presence on the global scale including its access, and its ability to cater, to global customers across key industries such as aerospace, defence and other high-end engineering applications.

- **VERTICALLY INTEGRATED OPERATIONS WHICH ENABLES CUSTOMISATION AND PRODUCTION EFFICIENCIES:**

The company operates out of 3 manufacturing facilities 2 in Rajkot, Gujarat, and 1 in Strasbourg, France, which are equipped with capabilities to design, develop and manufacture its product portfolio. Its units are spread across 237,408.50 sq. meters of industrial land in India which comprises utilised land of 72,753.18 sq. meters and unutilised land of 164,655.32 sq. meters, and 16,414 sq. meters in France which comprises utilised land of 6,785 sq. meters and unutilised land of 9,629 sq. meters. It also has a captive foundry, machining, sheet metal unit, paint-shop and assembly unit. Its integrated operations enable it to manufacture some of the critical machine components such as spindles, tool-changers, pallet changers, rotary tables and universal heads in-house. This reduces its dependence on third parties, streamlines its production process and improves its operational efficiencies. In addition, it also enables the company to maintain control over the entire manufacturing process and also provide better delivery timelines to the customers at a more competitive cost.



RISKS AND CONCERNS

- **COMPLETELY RELIANT ON THIRD-PARTY LOGISTICS SERVICE PROVIDERS:**

The company procures input materials from domestic and international suppliers, which are brought to its manufacturing units through third party logistics providers including shipping companies and overland transport companies. Similarly, its finished products are transported from its manufacturing units to distribution points by sea and overland transport. The logistics service providers are, therefore, integral to the company's business operations. While it has over the years engaged the services of various logistics service providers for its business operations, it does not have, and it does not propose to enter into, contractual arrangements with such third-party logistics providers. While these third-party logistics service providers have generally, in the past, been reliable, it cannot assure that they will continue to be available to it as required. If such third-party logistics service providers discontinue their services for a reasonable length of time and, if it is unable to obtain the services of other service providers, its business operations could be adversely impacted, at times, significantly.





- **BUSINESS DEPENDENT ON PERFORMANCE OF APPLICATION INDUSTRIES:**

The company's business is reliant on various Application Industries such as automobile, general engineering, defence, aerospace, EMS and dies & moulds. Out of the Application Industries that it caters to, a large portion of its revenue during 6 months period ended September 30, 2023 and during Fiscals 2023, 2022 and 2021 was derived from Aerospace and Defence, Auto & Auto Components and General Engineering. Any downturn or lack of demand for its products in any or all of the Application Industries or macro economic conditions impacting the Application Industries, more importantly in Aerospace and Defence, Auto & Auto Components and General Engineering, could have an adverse impact on its business, results of operations, cash flow and financial condition. It also cannot assure that a lack of demand for its products in Aerospace and Defence, Auto & Auto Components and General Engineering could potentially be off-set by sales to other Application Industries.

- **DO NOT HAVE REPEAT ORDERS FROM CUSTOMERS ON ANNUAL OR BI-ANNUAL BASIS**

The company relies on its long-standing relationship with its customers and it strive, constantly, to cater to, and anticipate, the needs of its customers. By their very nature, though, CNC machines are not consumer products and, therefore, it does not, generally, have repeat customers on an annual basis or bi-annual basis. While its business relationships with its customers have been built over time, it does not enter into long term contracts with its customers and, the absence of long-term contracts with its customers exposes it to a significant risk of customer attrition. The company's customer such as Rolex Rings has been associated with it for last 20 years, and its customers such as Omnitech Engineering, Harsha Engineers International, and Shreeram Aerospace & Defence LLP have been associated with it for over 15 years, 10 years, and over 6 years, respectively. It cannot assure that it will be able to retain the business of its existing key customers or maintain the current level of business with each of these customers.

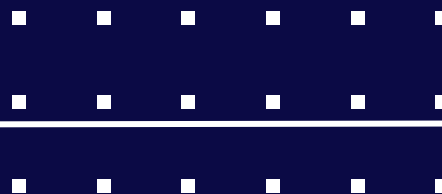


- **HIGH WORKING CAPITAL REQUIREMENT:**

The company's business operations are subject to high working capital requirements. Currently, the company meets its working capital requirements through a mix of internal accruals and working capital facilities from scheduled commercial banks. While its internal accruals and working capital facilities availed from its lenders will be sufficient to address its working capital requirements, it cannot assure that it will continue to generate sufficient internal accruals and / or be able to raise adequate working capital from lenders to address its future needs. Its inability to meet its present working capital requirements or its enhanced working capital requirements will have an adverse impact on its results of operation, business and financial condition. In addition, its Promoters have also extended personal and corporate guarantees, as applicable, for some of the debt facilities availed by the company.

OUTLOOK

Jyoti CNC Automation was incorporated in 1991 and it is one of the largest multinationals. Since inception company has grown manifold from manufacturing gear boxes for machines to developing precision all-g geared head lathe machines. Later on, the company has identified shift from conventional machines to highly sophisticated CNC machines. The company has a product basket consisting of series of CNC Turning Centers, CNC Turn Mill Centers, CNC Vertical Machining Centers, CNC Horizontal Machining Centers, CNC Vertical Line Machines and High-tech CNC 3 axis and 5 axis machining centers. The company decided to compete at the global level and started exporting CNC machines by establishing distribution networks in various continents around the globe. It sells its products in Romania, France, Poland, Belgium, Italy, and United Kingdom through Huron's established dealer network and also have 29 sales and service centres (including its sales offices located within the precincts of one of its Manufacturing Facilities in Rajkot, Gujrat) spread across 12 states in India. On the concern side, the company's manufacturing operations are subject to operating risks, such as the breakdown or failure of equipment, power supply interruptions, facility obsolescence or disrepair, labour disputes, natural disasters and industrial accidents. The occurrence of any of these risks could affect the company's operations by causing production at its manufacturing units to shut down or slowdown.



The company is coming out with an IPO of 3,02,11,480 equity shares of face value of Rs 2 each. The issue has been offered in a price band of Rs 315-331 per equity share. The aggregate size of the offer is around Rs 1000.25 crore to Rs 1051.06 crore based on lower and upper price band respectively. On performance front, the company's total income increased by 27% from Rs 7,500.61 million in Fiscal 2022 to Rs 9,526.00 million in Fiscal 2023. The company's profit for the year was Rs 150.60 million in Fiscal 2023 as compared to loss of Rs 483.00 million in Fiscal 2023. Meanwhile, the company intends to increase its market share in the end use industries to which it currently offers its CNC machines and also intend to diversify its customer base. It also intends to deepen its penetration in the Aerospace and Defence industries which are expected to grow, both in India and globally. Moreover, it is proposing to venture into manufacturing high precision stages, which are a crucial ingredient in semi-conductor manufacturing.





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