Unless born to illustrious parents, all great companies start life as SMEs !!

Micro Cap Multibagger

macpower

MACPOWER CNC MACHINES LIMITED

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Date: 3rd Aug, 2021 (CMP = 162)

Inside the Report

Company Snapshot

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- **Total Weightage % in Micro Cap Portfolio = 6% (CMP = 162).**
- **Two Phase Buying Strategy = Buy 3% between Rs 160-180 & average down buying 3% between Rs 150-160.**
- **Price Target = Around Rs 350-500 in next 12-18 months; Rs 1600+ in next 5 years. If everything goes well it can be 50-100x in next 10-12 years!!!**
- **NSE Code - MACPOWER**
- **Market Cap (INR Cr.) – 162 Crores**
- **52 Week High / Low – 172.00 / 46.40**
- **Promoter's Holding – 72.56%**
- **Pledged Percentage - 0%**
- **PEG Ratio = 0.52**
- **Market Cap / Sales = 1.43**

Business: Established in 2003, Macpower CNC Machines Limited is engaged in the manufacture of Computerized Numerically Controlled (CNC) machines under 9 different product categories. It has a CNC Machine manufacturing unit in an area of around 4 acres at Gujarat (India). Macpower currently offers the widest range of 9 different product categories with 27 versions and 60+ different models serving 27 industry segment with 8000+ installations to date.

Management: Mr. Rupesh Mehta is a promoter, Chairman & Managing Director of the company. He has experience of more than 25 years in the Machine tool industry. Mr. Mehta holds a degree in Bachelor of Commerce. He looks after all the corporate decision and is responsible for the entire business operations of the company.

Valuation: The company is currently available at the P/E of 25 considering the EPS of 6.03 in the FY21. The decline in the EPS is mainly because of reduction in revenues and profits on the account of low demand for CNC machines. However, we feel the demand is affected mainly due to lockdown and the slow down in the automobile sector. We believe soon the company will witnessed the growth in its revenue. Hence, considering the 3-years average EPS i.e. 7.66, the P/E would be 22. Comparing the 5 years CAGR of net profits that is 65.83% with the current P/E of 22 the PEG would be 0.37.

Business Overview

- Established in 2003, Macpower (ISO 9001:2005 CERTIFIED) is engaged in manufacturing of CNC Machines.
- It also offered Robotic Automation integrated with CNC machines to cope up the demand of technology driven machining excellence.
- CNC Machining is a process used in the manufacturing sector that involves the use of computers to control machine tools. Tools that can be controlled in this manner include lathes, mills, routers and grinders.
- The CNC in CNC Machining stands for Computer Numerical Control. On the surface, it may look like a normal PC that control the machines, but the computer's unique software and control console are what really sets the system apart for use in CNC machining.
- Under CNC Machining, machine tools function through numerical control. A computer program is customized for an object and the machines are programmed with CNC machining language (called G-code) that essentially controls all features like feed rate, coordination, Position and RPM. With CNC machining, the computer can control exact positioning and speed.

R&D Centre

Hyderabad Tech Centre

Ahmedabad Tech Centre

Source: Q4FY21 Company Presentation

Potential of India’s Machine Tool Sector (1/3)

Machine tools are a subset of the manufacturing sector which in turn is a subset of the Industry sector. From fiscal year 2006 to fiscal year 2012, India’s manufacturing-sector GDP grew by an average of 9.5 percent per year. Then, over the next six years, growth declined to 7.4 percent.

The machine tool industry is broad, but in the context of this it is restricted to mean only the metal cutting and metal forming machine tools (together called metal working machines). **Annual consumption of machine tools is estimated to be about Rs. 20,000 crores in India and it has grown at a rapid pace over the past decade**. **Private investment is the key to drive manufacturing growth in India.**

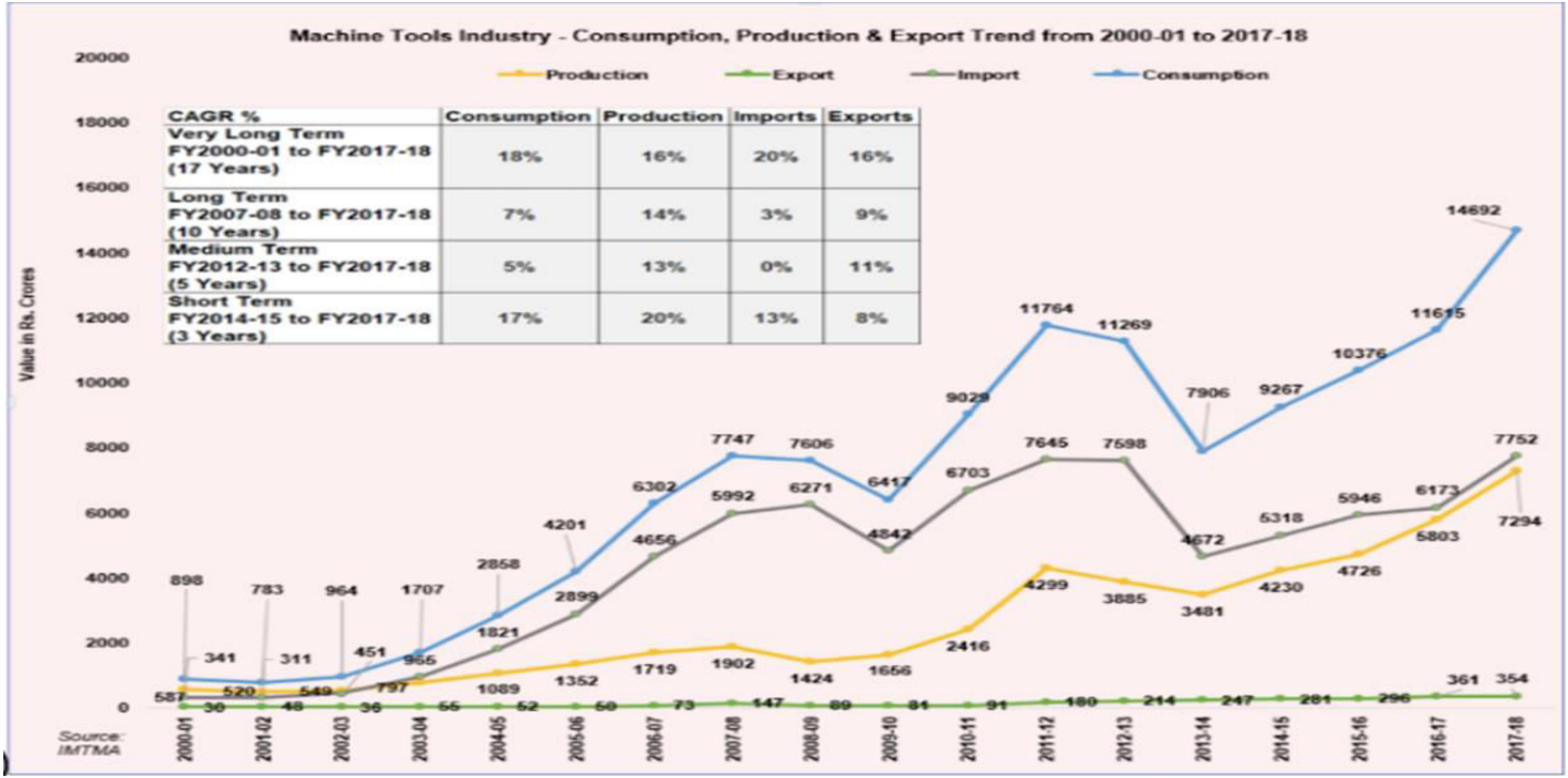
The manufacturing sector has been lagging India’s growth rate for quite a while now and there has been a gradual decline in volume of production since Q1 FY2020. India’s manufacturing sector was stressed even before the pandemic struck.

However, Covid 19 in many ways can be seen a blessing in disguise as it has made 2 things happen**: Huge Foreign investments have found their way to India and the Indian government has embarked on an ambitious plan of reviving the manufacturing sector in India**.

Most of the sectors that the machine tool industry depends on have favorable reforms being announced. The auto sector which is the largest consumer of machine tools too has seen improvement in demand over the last few months. In due course, these reforms will begin to roll out and improve consumption and exports. In turn capacity utilizations across manufacturing could see a sustained rise. This is a precursor to the next big capex cycle.

As Indian manufacturers begin to bridge the quality gap, perceptions will slowly change in favor of them (think of the mature auto sector where Indian brands are preferred by customers). However, there is a long way to go to eliminate the trade deficit as technology is rapidly advancing and it can get difficult to match pace with it. However, with key components such as ball-screw drives, spindles, translation stages, hydraulic systems, etc. now being indigenously made in high quality and low cost, there is massive potential.

Potential of India's Machine Tool Sector (2/3)



CAGR %	Consumption	Production	Imports	Exports
Very Long Term FY2000-01 to FY2017-18 (17 Years)	18%	16%	20%	16%
Long Term FY2007-08 to FY2017-18 (10 Years)	7%	14%	3%	9%
Medium Term FY2012-13 to FY2017-18 (5 Years)	5%	13%	0%	11%
Short Term FY2014-15 to FY2017-18 (3 Years)	17%	20%	13%	8%

Source: IMTA

Potential of India's Machine Tool Sector (3/3)

<u>In fiscal year 2020, manufacturing sector generated 17.4 percent of India's GDP, little more than the 15.3 percent it had contributed in 2000.</u> Covid 19 pandemic has not helped the cause. However, it has put a spotlight on the importance of manufacturing in driving the country's growth and employment

<u>It can be seen that this has been overall a high growth sector at a long term 18% CAGR growth rate</u>. One can also observe that half of the machine tool demand is filled by imports, although domestic manufacturing has grown considerably in the last decade. There is a good scope to reduce the imports and manufacture the machines in domestic country.

- Metal cutting machine tools constitute about 80% of the total demand for metal working machine tools in India. About 52% of metal cutting machines consumed in India are imported.

- About 55% of the metal cutting machines consumed in India are imported and about 45% of the machines sold are imported from Japan & Germany so there is a lot of opportunity for domestic companies.

Domestic manufacturer profile for machines & machine tools

Organized 33%	Unorganized 67%
ISO Certified 75%	Non-Certified 25%

Source: Indian Machine Tool Manufacturers' Association

Growth in market for machine tools vs growth in manufacturing share to GDP

Manf : GDP Tgt from 17% to 25%	Domestic Manufacturers 30-40% → 50%	Imports 60-70% → 50%
	Domestic Machine & Tools supply will need to grow from - ~Rs 8,000 cr → ~Rs 45,000 cr	

Growth Drivers

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- **Automobile sector -** Almost 40% of demand for CNC machines comes from Indian Automobile industry. It aims to become the third largest in the world by 2026. Automobile manufacturing to be the main driver of Make In India, contributing 12% of India's GDP by 2026.

- **Defence -** Indian Government has increased the budget allocation on defense due to the tough times with China. In the Union Budget a total of Rs **1,35,060** crore has been set aside for capital expenditure that includes purchasing new weapons, aircraft, warships and other military hardware. The capital outlay for 2021-22 is an increase of **18.75** percent compared to last year's allocation of Rs **1,13,734 crore.** Make in India initiative will be promoted in the defense sector aiming to make the country independent in terms of production. A list of weapons/platforms will be released which will be banned for import based on a year wise timeline

- **Education -** Demand for CNC machines may increase in the Education sector because of the current development of CNC syllabus in the curriculum of ITI, IIT, CIPET courses.

- **Railways -** The Indian Railways has offered business opportunities in the manufacturing sector worth **28,000 crore** (around USD4 billion) across various areas such as rolling-stock manufacturing, sub-assembly or component manufacturing, machinery and tool manufacturing, and project execution. Also various metro projects will likely boost the demand for the CNC machines.

- **General Engineering -** Capacity addition in various sectors is driving the demand of engineering segment in India. India may soon get a full-fledged opportunity to increase its exports and narrow its trade deficit. Impacting the engineering sector in machinery, chemical and textile sectors, which are likely to get surplus demand from the global market.

Current developments that can boost the manufacturing

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❑ China +1

The current global **"China+1"** as an alternative to manufacturing, coupled with preference for India as a large manufacturing hub is expected to change the manufacturing landscape in India, ultimately leading to sharp growth in demand for CNC Machines.

❑ Aatma Nirbhar Bharat Abhiyaan

Aatma Nirbhar Bharat aims at manufacturing of goods in the country so as to reduced the imports at the same time increase the exports of the country. Prime minister, wants India to become self sufficient and also strong global supplier. Under this scheme, 20 lakh package was announced to promote various sectors. Various incentives to be provided to help the business not only to sustain in tough times but also to expand its activities.

❑ Production Linked Incentive (PLI)

With the aim to increase the production in the country and reduce the dependency on imports, Modi government announced PLI which covered 9 sectors. To promote mass production 4% to 5% incentives would be given to the eligible companies.

❑ Industry 4.0

As Industry 4.0 continues to take the whole manufacturing world by storm, machine tools are also becoming a part of the smart system. In India too, the concept, though in nascent stages, is slowly gaining steam, especially among large machine tool players who are innovating in this direction. Primarily, machine tools industry is looking at Industry 4.0 to meet increasing customer requirement for improved productivity, reduced cycle time and greater quality.

❑ Bharat stage 6

As the country adopts the Bharat Stage 6 (BS6) emission norm, the engine technology has changed. This will necessitate considerable retooling of the engine that can cause an increase in the demand for CNC machinery.

3C Capitals (SEBI Registered RA), http://www.3ccapitals.com/wa/, mail@3ccapitals.com, Ph +91 9354179604

Product Portfolio (1/2)

Machine	Turning Centre	Vertical Machining Centre	Turn Mill Centre	Vertical Turret Lathe
				
Applications	Bearing, Valve, Pump industry, Tool room, Automobile, Process plant components, Agriculture, Textile and the Piping industry	Tool room, Die and Mould, Automobile Components, Pattern Making, Defense, Power and Railways	Special purpose components, Aeronautics Components, Defence, Agriculture Components, Medical Components	Valve body, Motor body, Engine liner and Railways
No. of Models	29	16	2	4
Output				

Source: Annual Report

3C Capitals (SEBI Registered RA), http://www.3ccapitals.com/wa/, mail@3ccapitals.com, Ph +91 9354179604

Product Portfolio (2/2)

Machine	Twin Spindle	Cylindrical Grinder	Multi-tasking Machine	Horizontal Machining Centre	Drill Tap Centre
					
Applications	Automobile Components & Textile Components	Special purpose components, Agriculture Components and Railway Components	Precision Aeronautics Components, Precision Defence Components and Precision Medical Components	Automobile Components, Die and mould, Defence Parts, Aeronautics Components, Textile Components, Medical and Railways	Electronics Components, Small Automobile Components and Textile Components
No. of Models	3	3	4	3	1
Output					

Source: Company Website

Strong Network

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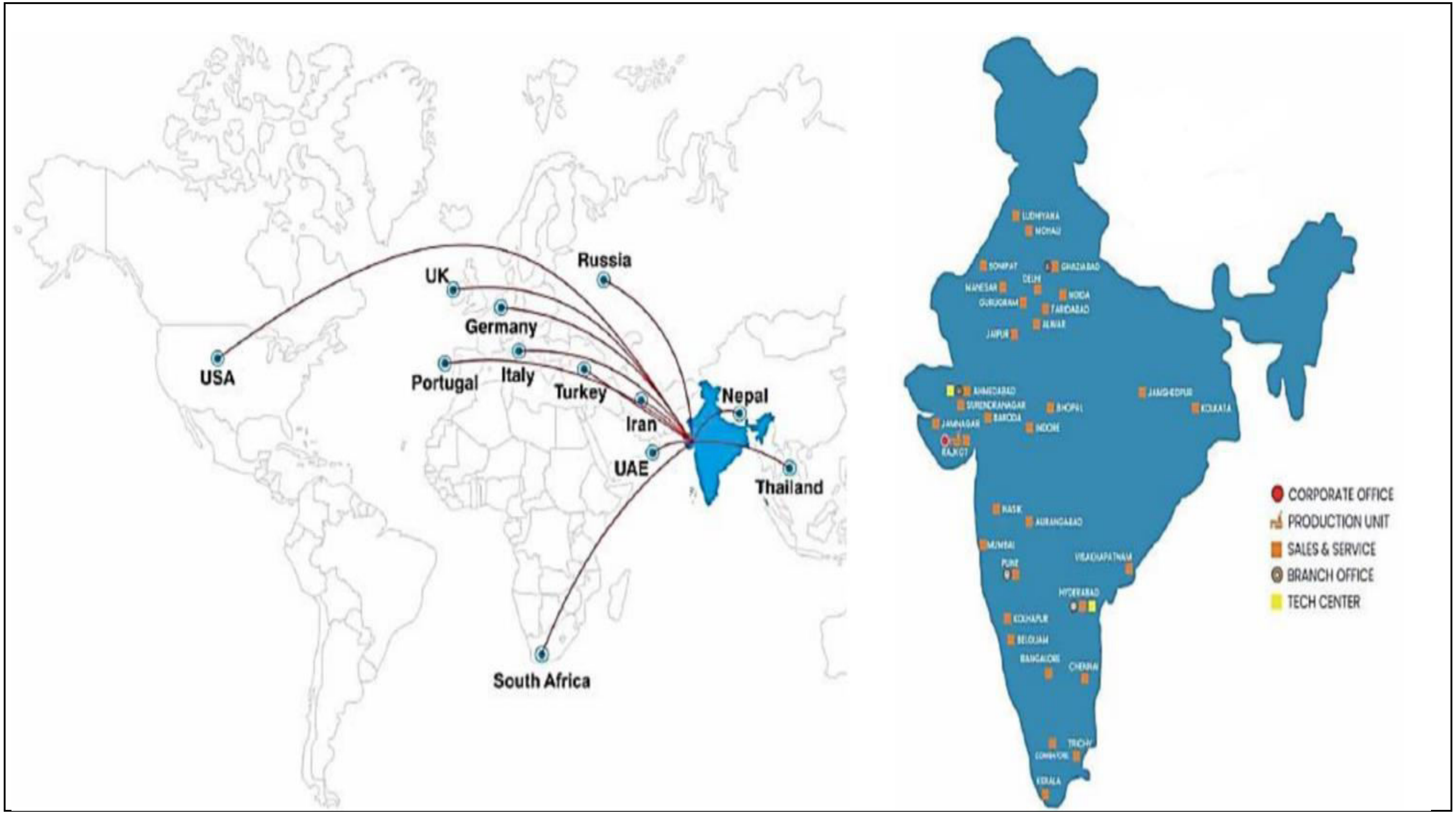
Presence in Cities
37

Tech Centres
2

Business Associates
10

Branch Offices
4

Sales & Service Engineers
107



Source: Q4FY21 Company Presentation

Diversified Clientele

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AUTOMOBILE SECTOR

KALYANI FORGE
varroc
SEINUMERO
Kanemitsu
TRW
SSB Engineers Pvt. Ltd
AN ISO 9001-2008 COMPANY TULSI INDUSTRIES

GENERAL ENGINEERING SECTOR

GI
NIRLEP
ENEROIL Offshore Drilling Ltd.
Pan
SUPREME INDUSTRIAL WORKS
CSL
CEASE FIRE
KONECRANES
Parshuram Technocraft
HIFLEX

DEFENCE SECTOR

GSF
DRDO
RFI
the Optoelectronics COMPANY

GOVERMENT PSU

इसरो isro
INDIAN RAILWAYS

GOVT. EDUCATION SECTOR

CIPET
GT&TC BANGALORE

AGRICULTURE SECTOR

Mel
RINOX

DIE MOULD SECTOR

Sigmarq
AXIS
PLASMA Alloys Pvt. Ltd.

EXPORT SECTOR

HinKell
MARLA
TRW

Source: Q4FY21 Company Presentation

Competitive Strengths (1/2)

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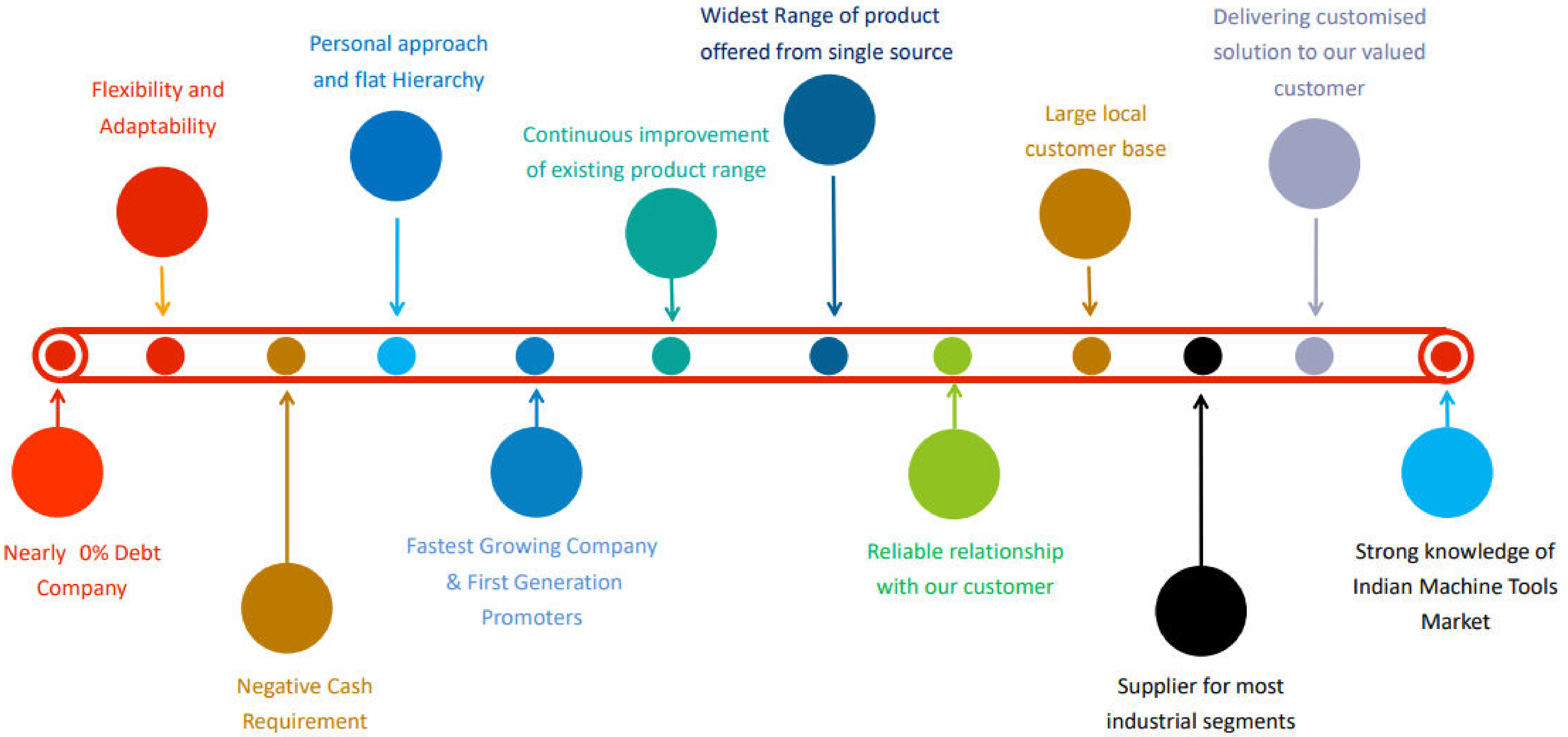

Source: Q4FY21 Company Presentation

Competitive Strengths (2/2)

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Lowest cost producer

Amongst all its peers, Macpower is the lowest cost producer, generating amongst the **highest EBITDA and PAT margin in the industry**

High Asset Turnover

Asset turnover for the company currently stands at ~3x and can go up to 5x in the current plant – **one of the highest amongst its peers**

Zero Debt, FCF Positive

Macpower is one of the few **net debt negative** companies in the sector and has generated **positive free cash flow** since FY2017-18

High promoter holding

Promoter holding stands at 72.56% as on Mar'21(4QFY21), up from 70.07% as of Dec'20 (3QFY21). In the past, promoter has been averse to taking dividend, even as minority shareholders were allotted the dividend

Best Return Ratios

ROE of +24% and ROCE of +30% is amongst the highest vis-a-vis peers and displays the working capital efficiency of the company.

Widest range of products

With 9 product categories, 27 variations and 60+ different models, the company has the widest range of offering amongst peers

Source: Q4FY21 Company Presentation

Capacity Utilization

Year	No. of Machines	% Growth in Units	Turnover in Crores	%Growth in Turnover	Realization per unit (Lacs)
2015-16	283	-	63.87	-	22.57
2016-17	343	21.20%	67.69	5.98%	19.73
2017-18	572	66.76%	105.06	55.21%	18.37
2018-19	797	39.34%	140.23	33.48%	17.59
2019-20	404	-49.31%	81.4	-41.95%	20.15
2020-21	650	60.89%	113	38.67%	17.38

- In 2018, the company came up with an IPO, with an aim of backward integration, expansion and In-house machining of components. The company had **raised 36.61 crore through IPO.**

- Backward integration enables the company to make almost **85% of the Machining of components in house.** With the backward integration assembly time & logistics cost will reduced and the company can dispatched goods on time.

- In- house manufacturing results in **4% to 5% cost reduction** and also **double the existing production** capacity to 1200 machines per year.

- During FY20, new machines from different countries have arrived in the company thus, **fixed assets increased to 37.27 Cr. from 5.37 Cr. in FY2019.**

- Before IPO the constructed area of your company was around 52,858/- sq. ft and after IPO Macpower added new construction of around 70,029/- sq ft and now **the total constructed area is around 1,22,887 square feet.**

Order Book (As on 31st March, 2021)

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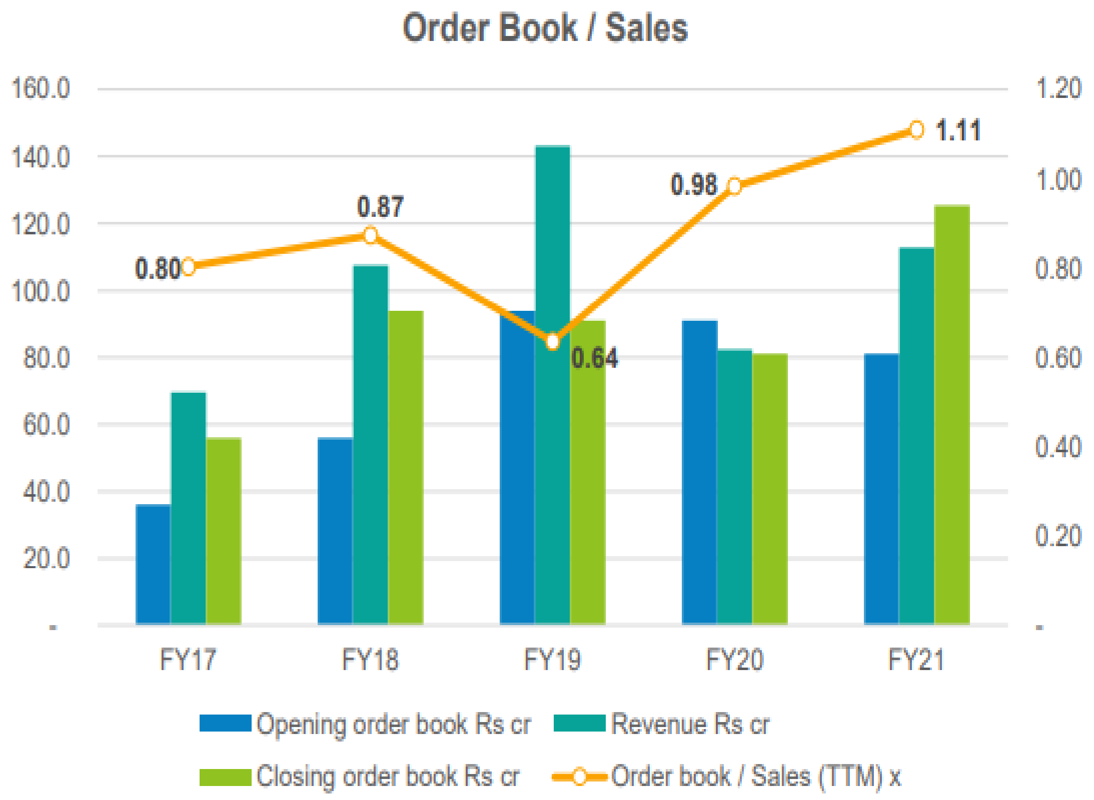
Description	No. of Units	Value (INR Mn)
Pending Order/Advance (Private)	663	1120
Govt. Supplied	58	67.9
Govt. Order Received	17	91.2
L1 Orders	7	43.3
Tenders bid (No of tenders)	129	1300



Source: Q4FY21 Company Presentation

Investment Rationale

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Return on Assets	Asset turnover currently stands at 3x and **can go up to 5x in the current plant**
Entry Barrier	Business requires various license to start the operations and also technological advancement required to provide different models and customized solutions as per the requirements.
2x Capacity	The company has **doubled its capacity to 1200 machines p.a** from earlier 600 machines. It is further debottlenecking to 1500 machines in a year.
Strong Order Book	Unexecuted order book at the end of Q4FY21 from the private sector stood at Rs.1120 mn. **Total order book is 1.1x FY21 Revenues**
Market Share	The company has about **3% to 5% of total market share** of the machines tool industry.
R & D	The Company has an in-house Research and Development Center establishment with a team of highly qualified **15 experienced design engineers headed by the President of R & D**, who has core experience of 40 years in Machine tool Design.
Backward Integration	The company has went for Backward integration that enables it to make almost **85% of the Machining of components in house.**
Expansion	The company has expanded its construction area by 1.3x and also increased its **fixed assets by 5x in the past two years.**

Q4FY21 Result Update

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	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	FY19	FY20	FY21	FY22 (E)
Sales	21.16	22.22	13.81	24.21	6.76	21.49	34.64	49.99	140	81.40	112.88	**158.03**
Sales Growth		5.01%	-37.85%	75.31%	-72.08%	217.90%	61.19%	44.31%	33.48%	-41.95%	38.67%	**40.00%**
Expenses	20.31	20.32	13.97	23.25	6.66	19.54	31.66	45.84	124	77.85	103.70	**142.23**
Operating Profit	0.85	1.90	-0.16	0.96	0.10	1.95	2.98	4.15	17	3.55	9.18	**15.80**
OPM %	4.02%	8.55%	-1.16%	-7.05%	1.48%	9.07%	8.60%	8.60%	12%	4.36%	8.13%	**10.00%**
Other Income	-0.15	0.47	0.48	2.70	0.05	-0.01	0.16	0.14	3	3.50	0.34	**0.34**
Interest	0.09	0.09	0.12	-0.01	0.03	0.08	0.03	0.03	0	0.29	0.17	**0.17**
Depreciation	0.23	0.26	0.25	0.25	0.66	0.67	0.65	0.62	1	0.99	2.60	**2.60**
Profit before tax	0.38	2.02	-0.05	3.42	-0.54	1.19	2.46	3.64	18	5.77	6.75	**13.37**
Net Profit	0.45	2.00	-0.08	1.75	0.46	0.88	1.24	3.45	13	4.12	6.03	**9.36**
NPM %	2.13%	9.00%	-0.58%	7.23%	6.80%	4.09%	3.58%	6.90%	9.29%	5.06%	5.34%	**5.92%**
EPS in Rs	0.45	2.00	-0.08	1.75	0.46	0.88	1.24	3.45	13	4.12	6.03	**9.36**

- Because of the lockdown and global slowdown in automobile sector, the 1st quarter of the FY21 witnessed the sharp decline in sales. Revenues jumped in the 3rd and the 4th quarter of the FY21. The company witnessed a sharp jump in Revenues, EBITDA and Net Profit during Q4, **growing at 101.65% / 86.94% / 858.33% YoY** respectively after a dull H1 due to the national lockdown.

- Backward integration efforts taken in FY20 have started to bear fruit with improvement in EBITDA margins to ~9% levels and poised to move to 10% and higher with growing execution on the back of **strong visibility in order book.** Government sector and Private sector orders seeing steady demand. Unexecuted order book at the end of Q4FY21 from the private sector stood at Rs.1120 mn. Total order book is 1.1x FY21 Revenues.

- A separate vertical called “NEXA” was formed for the import substitution of high end premium products such as HMC, VTL etc. which have already been developed by R&D Team. **It is estimated that the sales in the FY22 will grow by 40% YOY basis and operating margins would increase to 10%, thus estimated EPS would around be Rs. 9.36**

Profit & Loss Analysis

	2015	2016	2017	2018	2019	2020	2021
Revenue (INR Cr.)	63.73	63.87	67.69	105.06	140.23	81.4	113
Revenue Growth (YOY)		0.22%	5.98%	55.21%	33.48%	-41.95%	38.82%
Operating Profit (INR Cr.)	1.6	2.15	1.61	11.51	16.61	3.55	9
Operating Profit Margins (%)	2.51%	3.37%	2.38%	10.96%	11.84%	4.36%	8.00%
Net Profits (INR Cr.)	0.29	0.49	0.78	7.04	12.64	4.12	6.03
Net Profit Margins (%)	0.46%	0.77%	1.15%	6.70%	9.01%	5.06%	5.34%
EPS (INR)	0.29	0.49	0.78	7.04	12.64	4.12	6.03
EPS Growth (YOY)		68.97%	59.18%	802.56%	79.55%	-67.41%	46.36%

- The entire machine tools industry in India has sold nearly 22,000-24000 machines in the financial year 2018-2019, where in the FY20 it came down to 11000-12000 machines, which shows decline of nearly 50%. **Demand has declined mainly because of global slow down in the Auto mobile sectors.**

- Revenues have grown at a CAGR of 10.2% and the Net profits have grown at a CAGR of 65.83% during FY15-21. The sales have declined due to reduction in demand of auto mobile sector. In the FY19, automobile sector alone contributed 34% in the total revenue. **Hence, decline in the demand of the automobile sector impacted the revenues.**

- Due to the backward integration and in-house manufacturing it is expected that the **operating profit margins will increase by 4% to 5% at the same level of output.** The in-housing manufacturing enables to reduce logistics cost, assembly time and the overall cost.

- The 5-years average operating margins is 7.51% and the net profit margins is 5.45%. **The net profit margins have declined due to the rise in the depreciation because of CAPEX.**

Balance Sheet Analysis

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	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Share Capital	0.5	0.6	0.6	9.81	9.81	9.81	10.00
Reserves	1.37	2.26	3.02	43.47	55.76	59.52	62.00
Borrowings	7.84	4.21	4.01	0.46	0.25	0	0.00
Trade Payables	14.79	15.41	20.52	29.92	32.28	23.47	45.51
Fixed Assets	3.48	2.82	2.95	4.53	5.93	37.27	38.00
Investments	1.09	0.01	0	7.51	1	1.25	20.00
Inventories	16.23	10.09	17.31	27.68	47.37	46.22	61.00
Trade receivables	2.35	3.29	10.38	4.16	8.66	3.26	4.00
Cash Equivalents	0.56	6.23	0.06	39.16	27.88	5.87	5.00
Loans n Advances	2.99	2.56	0.78	8.81	10.22	4.41	0.00
Working capital requirement	5.14	4.24	4.68	41.64	53.37	30.05	14.00

- The company has issued bonus shares by passing board resolution dated 22nd May 2020 wherein **2 bonus shares have been given for every 100 equity shares** resulting into total paid up capital of Rs. 10 crores divided into 1 crore equity shares of Rs. 10 each.

- The funds raised through IPO has been used for importing machinery and increasing the constructed area thus the fixed assets of the company has expanded by 6x in the FY20. **In the FY21 the company have purchased the investments of 20 Cr.**

- Reserves and the IPO funds have been kept in the bank account which is reflected in cash equivalents of the FY18. **During the Mar-20, the company utilized all the IPO funds on expansion and backward integration.**

- The company has a good control on its trade receivables but the inventory needs to be managed properly. On an average company's inventory is about 45%- 50% of COGS. **Before the FY21 the overall working capital requirement ranges between 45 Cr. and 50 Cr. but in the FY21 the trade payables have increased by 2x thus the working capital requirement have came down to 14 Cr.**

Cash Flow Analysis

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	2016	2017	2018	2019	2020	2021	Total
Operating Profits	**2.15**	**1.61**	**11.51**	**16.61**	**3.55**	**9.00**	**44.43**
Cash flow from Operating Activities	**6.48**	**-1.79**	**10.42**	**-10.62**	**-2.44**	**23.00**	**25.05**
Changes in following items as compared to previous year (PY)-							
A. Inventories	6.15	-7.22	-10.37	-19.69	1.15	-14.71	-44.69
B. Trade Receivables	-0.94	-7.09	6.21	-4.49	5.4	-0.55	-1.46
C. Trade Payables	0.63	5.11	15.66	2.37	-13.16	31.14	41.75
Total (A+B+C)	5.84	-9.2	11.5	-21.81	-6.61	15.88	-4.40
Cash flow from Investing Activities	**1.16**	**-0.73**	**-10.09**	**-2.59**	**-19.50**	**-20.00**	**-51.75**
Fixed Assets Purchased	-0.2	-0.82	-2.68	-8.04	-25.13	-4.54	-41.41
Investment	0	0	-7.5	0	-0.25	-18.41	-26.16
Cash flow from Financing Activities	**-1.97**	**-3.65**	**38.77**	**1.92**	**-0.07**	**-1.00**	**34.00**
Net Cash Flow	5.67	-6.17	39.10	-11.29	-22.01	2.00	7.30

- During the period from 2018-21, the cumulative operating profits of the company is 30 crores while the cumulative CFO for the same period is 66.66% of it that is 20 crores. **The main reason for unrealized cash is due to rise in the inventory stock.**

- During the aforesaid period, the cumulative increase in the stock of inventory alone is around 61 crores and it can be seen that company might be getting longer credit period or may be because of increase in demand there is increase in trade payables.

- FY18-19 plays major role in the discrepancy between the operating profits and CFO as it can be seen that there was an increase in current assets (inventory- 19.69 Cr., Debtors- 4.49 Cr., Direct tax- 5.36 Cr.) by 27.25 crores as compared to PY17-18.

- The company has expanded its business by increasing its land & building, machinery and thus in the FY20, total fixed assets of the company has increased by 6x from the previous year. **The company is almost a debt free and hence CFF are marginal.**

Ratio Analysis

	2015	2016	2017	2018	2019	2020	2021
Debt to Equity	4.19	1.47	1.11	0.01	0.00	0.00	0.00
ROCE (%)	16%	30%	21%	21%	25%	5%	13%
ROIC (%)	19.26%	26.77%	18.61%	16.89%	18.84%	2.82%	15.83%
ROE (%)	16%	17%	22%	13%	19%	6%	8%
Asset Turnover	18.31	22.65	22.95	23.19	23.65	2.18	2.97
Cash Conversion Cycle (Days)	22	5	13	15	36	115	79
Current Assets (CA/CL)	1.30	1.24	1.19	2.02	2.23	1.96	1.23

- The company has been reducing its debt from the year 2016. **Now, it has become a debt free company.**

- The company has utilised its funds appropriately. **They have generated appropriate returns over the years (except FY20).** It is expected that the company will provide higher returns because of the expansion in capacity and reduction in the manufacturing cost on account of in-house manufacturing.

- **Macpower is really efficient in terms of usage of fixed assets.** In the FY20, the assets turnover ratio drops to 2.18 due to increase in the fixed assets by 6x and decline in the revenues by 40%.

- **The company is really efficient in terms of collecting its dues.** The collection period is ranging between 15 to 20 days. In the case of private orders, it receives a certain proportion of advance payment before execution of order and balanced payment one week before delivering the goods.

- **Company's cash conversion cycle is long because of the longer inventory days.** On an average the company holds inventory for about 122 days this may be due to huge number of components (more than 1000) require to manufacture one CNC machine and also customized solutions are to provided as per requirements, this will increase the stock of inventory.

Key Charts

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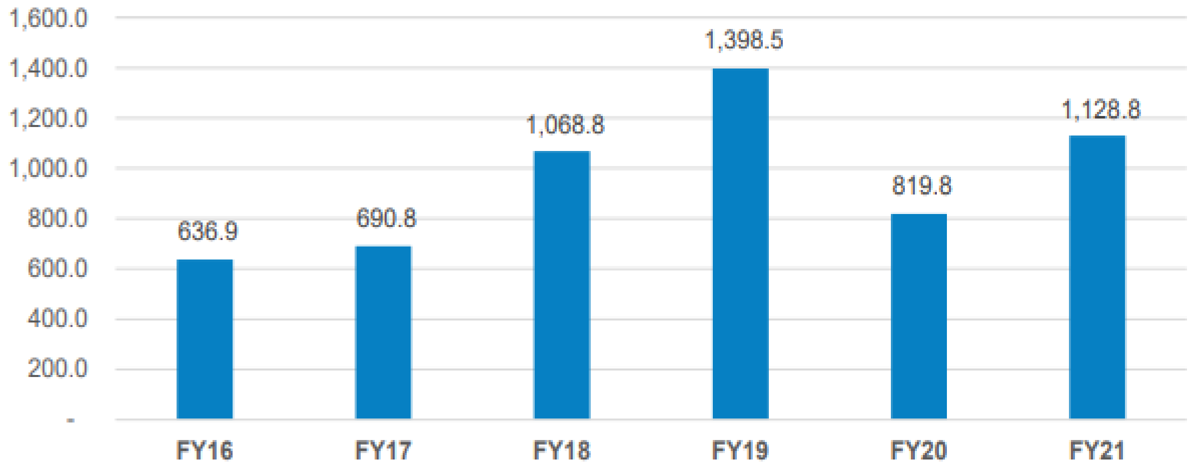
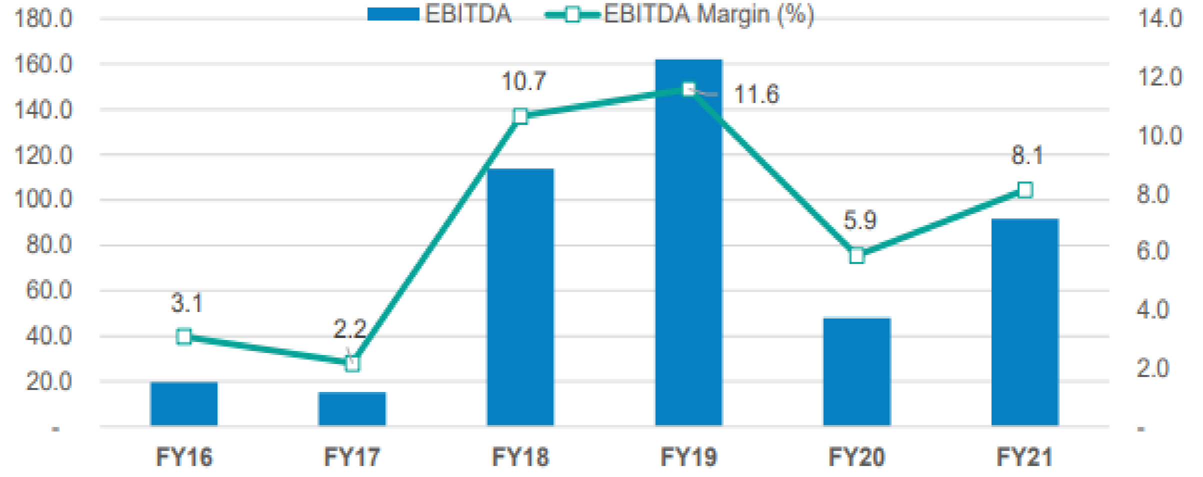
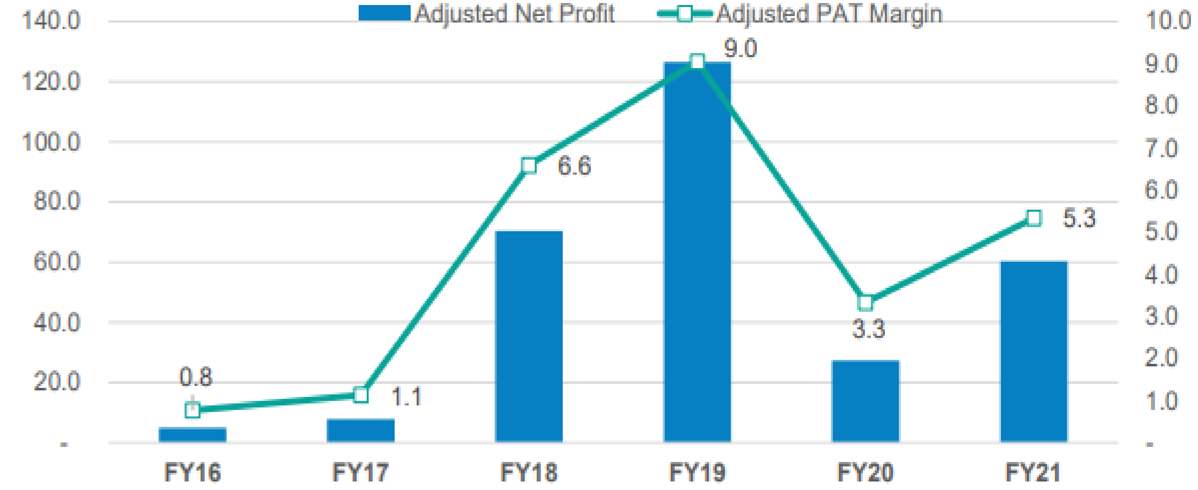
Revenue from Operations (INR Mn)



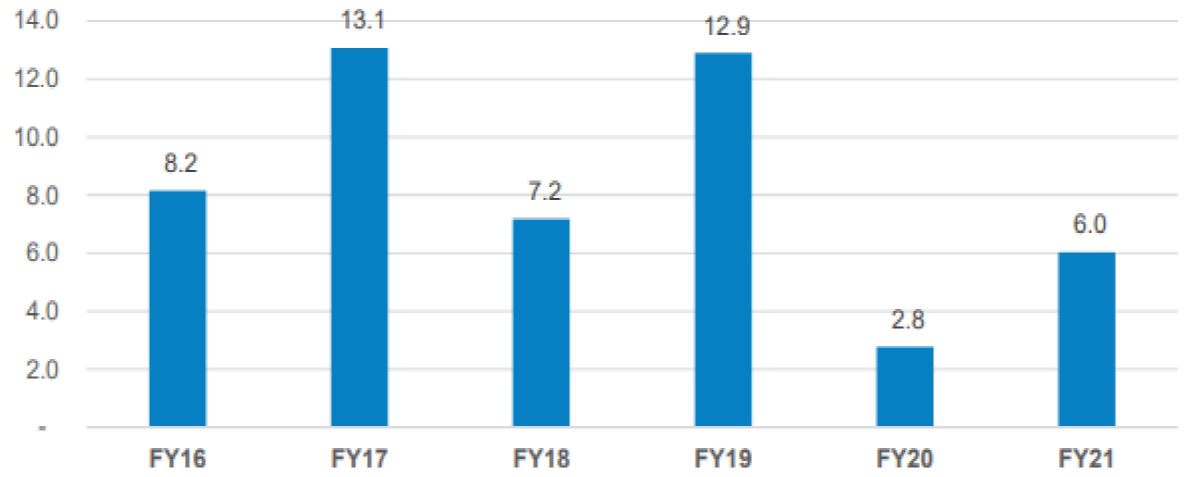
EBITDA (INR Mn) and EBITDA Margins (%)



Adjusted PAT (INR Mn) and Adjusted PAT Margins (%)



Adjusted EPS (INR)



Source: Q4FY21 Company Presentation

3C Capitals (SEBI Registered RA), http://www.3ccapitals.com/wa/, mail@3ccapitals.com, Ph +91 9354179604

Peer Comparison (1/2)

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	ITL Ltd	Lokesh Machines	Marshall Machines	Macpower CNC Ltd
Growth Analysis				
Compounded Sales growth 5yrs	5.60%	1.27%	7.24%	5.02%
Compounded Profit growth 5yrs	11.60%	-244.40%	64.15%	52.10%
Operating Margins Avg. 5yrs	10.03%	15.00%	19.16%	6.58%
Net Profit Margins Avg 5yrs	5.44%	1.15%	5.09%	4.54%
Financial Stability				
Current ratio	1.71	1.2	1.13	2.03
Quick ratio	0.69	0.35	0.37	0.48
Debt to Equity ratio	0.44	0.54	0.86	0.04
Interest coverage ratio	5.05	0.31	2	20.87

- In the FY20, there was a sharp decline of about 50% in the demand for CNC machines, this has hampered the 5-yrs CAGR of sales. With the improvement in economy and the country's GDP is it expected that the capital expenditure will take place in the Automobile, Defense, Education, Agriculture, Manufacturing sector and this will likely to boost the sales of CNC machines.

- **Marshall Machines have higher sales and profit growth than its peers.** Its operating profit margins are significantly higher than its peer because of higher sales growth and lower operating cost.

- **Macpower's net profit have grown by 52% y-o-y during 2016-20,** which is a good sign. Operating and net profits margins may increase with the rise in demand from automobiles and other sectors.

- **Considering the financial stability, Macpower seems to be the clear winner than its peers.** It can meet its short term and long term liabilities. Its interest expense is marginal because of financially low levered. **On the other hand Marshall is highly levered its debt to equity is 0.86 against it interest coverage ratio is very minimal.**

Peer Comparison (2/2)

	ITL Ltd	Lokesh Machines	Marshall Machines	Macpower CNC Ltd
Efficiency Ratio				
Assets Turnover	0.88	0.52	0.61	0.78
Inventory Days	177.88	239.97	222.85	209.61
Receivables In Days	83.58	84	68.63	14.62
Cash Cycle	181.75	223.62	476	210
Returns Analysis (5 Yrs.' Average)				
Earnings per share (EPS)	13.64	1.3	7.57	9.38
Return on Equity (ROE)	16.01%	1.77%	16.17%	20.53%
Return on Capital Employed (ROCE)	13.57%	7.77%	16.73%	21.88%
Return on Assets (ROA)	5.95%	0.76%	3.63%	6.56%

- Asset turnover ratio of the companies are aligned with each others. In case of the Macpower it has reduced due to reduction in sales and the expansion of fixed assets in the FY20. **If we exclude FY20, sales was more than 10x of total fixed assets.**

- **Macpower is efficient in collecting its dues,** it receives advance payments for its order and delivers the goods within one week after the full payment received from the clients.

- The company's inventory days and cash conversion cycle is long mainly due to variations and the customization of products as per the requirements and also more than 1000 of components required to make 1 CNC machine which increases the inventory stock. With in-house manufacturing, assembly time, logistics cost, lead time may reduce, and thus its inventory days and cash conversion cycle can be shortened.

- **Comparing the returns on the capital invested, Macpower is ahead of its peers.** With the expansion and backward integration it is expected, it will increase in the future.

Key Management & Promoters Holding

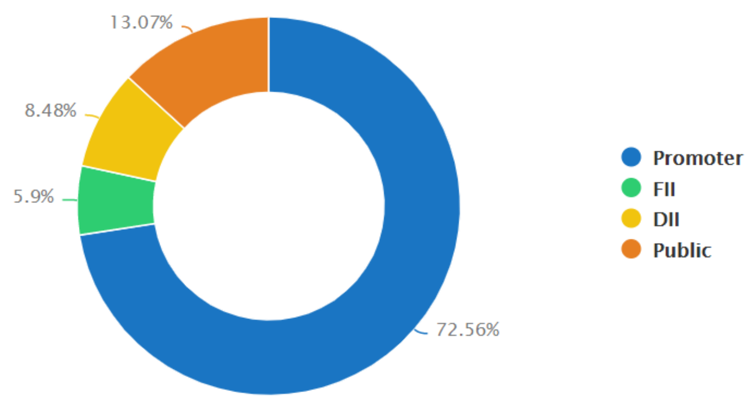
Mr. Rupesh Mehta is a promoter, Chairman & Managing Director of the company. He has experience of more than 25 years in the Machine tool industry. He holds a degree in Bachelor of Commerce. He looks after all the corporate decision and is responsible for the entire business operations of the company. He is an Executive Director of the Indian Machine Tools Manufacturers Association and also Former President of Rajkot Machine Tool Association.

Mr. Nikesh Mehta is a promoter and whole time Director of the company. He has an experience of around 14 years in the Machine Tool Industry. Nikesh Mehta holds a degree in Bachelors of Commerce from Saurashtra University. His scope of work includes looking after the Machine Shop, Application Department (conducting trials on machines) and the Purchase department of the company. He is also looking after production related activities to streamline them to meet growing demand.

Quarter Ended	Sep-19	Mar-20	Sep-20	Dec-20	Mar-21
Promoter's Shareholding %	69.73	69.82	70.04	70.07	72.56

- **Promoters Shareholding**: As on Mar-21, Promoters hold 72.56% of the total shares. Promoters has gradually increased their share holding by 2.83% from the quarter ended Sept-19 to Mar-21 thru market buying in the range of 90-120rs.
- **Management compensation:** under 10% of the net profits.
- **Shareholder Communication**: Adequate
- **Pledged Shares:** Nil

Shareholding Pattern %



Descent FII/DII holding

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- Vantage Equity Fund (**Fund manager Kenneth Andrade of Old Bridge Capital Management**) holds 5.9% (Source AR 19-20)
- FII (**Massachusetts Institute Of Technology** ~6%; Roha Emerging Companies Fund ~2.11% & Micro Strategies Fund ~2%) holds 6.92%
- Reputed investors & institutions are already endorsing this micro cap stock, **it shows credibility of management & sustainability of business.**

Know more about Macpower CNC Machines Ltd

- Only 8 to 9 prominent players (E.g. ACE Micromatic, Bharat Fritz Werner, HMT Machine Tools, Jyoti CNC Automation, Macpower CNC, Lokesh Machines etc.) in the CNC manufacturing business enjoy ~70% of the total market share.
- Few listed peers are HMT Ltd, ITL Industries, Marshall Machines, Lokesh Machines & Macpower CNC Machines. Considering the financial stability & strength of balance sheet, Macpower CNC seems to be the clear winner than its peers.
- **IPO Project Completion Video -** www.youtube.com/watch?v=Q9KPpQDXKwg
- **Corporate Video of Macpower CNC Machines Limited -** www.youtube.com/watch?v=dpXq3t_gfg4
- **Macpower CNC Machines Ltd (2021-06-30) Q4FY21 Conf Call -** www.youtube.com/watch?v=Km6mUVv22PA

Awards

- MSE-1 certification for highest financial strength and operational ability by CRISIL
- FIE Foundation Award at IMTEX 2017 for Twin Spindle VMC V855 Twin Head
- FIE Foundation Award at IMTEX 2015 for Multi Tasking Machine Turn O' Mill Y S
- FIE Foundation Award at IMTEX 2013, Bangalore for designing excellence for model TURN 'O' MILL 200
- 4th Ranked in highest excise tax pay in the year 2010 -11
- Best Product Award for LX 200 Super at Engineering Expo in 2004

Source: Q4FY21 Company Presentation

Risk & Concerns

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Dependence on other sectors

Demand for the products depends on demand and capital spending by customers in the industries like Automobile, Agriculture, Earth Moving Equipment's, Bearings, General Engineering, Aerospace, Metal, Defense.

Forex Volatility

Macpower source its CNC System controllers largely from key suppliers like Fanuc (Japan), Siemens (Germany), and Mitsubishi Electric India Private Limited (Japan). Any fluctuations in the dollar rupee rate affects the total cost

Change in technology

Change is the only constant thing in today's world. With the advancement in technology new innovations are happening rapidly. Hence any sudden change in technology or innovation may affect the business adversely

Dependence on few Suppliers

Dependency on a few suppliers for key components may require the company to procure them from other suppliers at higher cost and cause operational interruptions, underutilization of capacity and affect the delivery capacity.

Cost of Raw Materials

Some of the principal raw materials require for manufacturing of CNC machines are CNC System, Steel, Sheet, Spindle (turning), Lubricant Unit, Coolant Pump, etc. Any change in the prices of these components affects the profits

Way Forward – To achieve 25% CAGR over next 5 years.

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In House Foundry

The company is considering to setup an in-house foundry to produce castings for cost optimisation and product quality improvement.

Incr. capacity by 25%

The company is debottlenecking to increase machine manufacturing from 1000-1200 machine per annum to 1300-1400 machines per annum

Growing order book

Import replacement & growing domestic demand auger well for a growing order book

Plant COO

The company has hired a COO for the manufacturing unit to create impetus on improving productivity and operational efficiency of manufacturing operations

All efforts are targeted to achieve a growth of +25% CAGR over the next 5 years

Automation

Increasing share of electrical components, general engineering and automation with a vision towards industry 4.0

Government initiatives

- Domestic manufacturers to get preference for govt. tenders below Rs 200 cr
- PLI scheme and import substitution to drive demand for CNC machines

Source: Q4FY21 Company Presentation

Future Outlook

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FY20 & FY21 - Worst period for Manufacturers of CNC Machines; But Expect FY22 & FY23 to be the BEST years ahead.

- ❑ In the FY20, there was a sharp decline of about 50% in the demand for CNC machines & FY21 was impacted by Covid-19. **During FY21 (Covid-19 year) they manufactured ~ 650 CNC machines.** In fact they have capacity to produce double the FY21 numbers (~1200 Machines).
- ❑ **Revenue growth for Q4FY21 has been the highest ever.** This is in spite of the challenges faces due to (national) lock-down at the beginning of FY21 and (state wise) lock-downs towards the end of FY21.
- ❑ Fixed asset increased from 6Cr in 2019 to 38Cr in 2021, a jump of ~ 500% in last 2 years. **The company has shown tremendous growth in output, they have doubled their capacity to 1200 machines from 600 machines.**

Expect ~100% growth in sales; ~200% growth in profit in next 3 years due to capex & margin expansion.

❑ Capacity doubled (completed) through backward integration & in house manufacturing. Because of the expansion, **operating margins are expected to rise by 5% to 6% at the same level of output.**

❑ FY21 Sales was 113Cr, NP 6Cr & EPS 6.03; **during FY22 if they are able to deliver 800-900 CNC Machines** they can do sales ~150-200 Cr and due to increase in operating margin by 5-6bps, net profit will be around 10-15Cr hence EPS 10-15.

❑ FY22 expected EPS of 10-15 with average PE of 20-25, **we can expect stock price ~ 300-350 in next 12-18 months.** Asset turnover for the company currently stands at 3x and can go up to 5x in the current plant. **Big boost in EPS growth & PE re-rating will push stock price up by 300% in next 3 years.**

Statutory Disclosure

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SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, **the analyst have no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.