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Issue Details

| Issue Details | |
|---|-----------|
| Issue Size (Value in ₹ million, Upper Band) | 12,500 |
| Fresh Issue (No. of Shares in Lakhs) | Nil |
| Offer for Sale (No. of Shares in Lakhs) | 177.55 |
| Bid/Issue opens on | 20-Dec-24 |
| Bid/Issue closes on | 24-Dec-24 |
| Face Value | ₹ 10 |
| Price Band | 668-704 |
| Minimum Lot | 21 |

Objects of the Issue

- **Fresh Issue: NIL**
- **Offer for sale: ₹12,500 million**

| Book Running Lead Managers | |
|-----------------------------------|--|
| Axis Capital Limited | |
| BNP Paribas | |
| Nuvama Wealth Management Limited | |
| Registrar to the Offer | |
| Link Intime India Private Limited | |

| Capital Structure (₹ million) | Aggregate Value |
|--|-----------------|
| Authorized share capital | 1,760.01 |
| Subscribed paid up capital (Pre-Offer) | 568.52 |
| Paid up capital (Post - Offer) | 568.52 |

| Share Holding Pattern % | Pre-Issue | Post Issue |
|----------------------------|-----------|------------|
| Promoters & Promoter group | 100.0 | 68.8 |
| Public | 0.0 | 31.2 |
| Total | 100 | 100 |

Financials

| Particulars (₹ In million) | H1 FY25 | H1 FY24 | FY24 | FY23 | FY22 |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|
| Revenue from operations | 9,146 | 9,610 | 17,890 | 17,131 | 14,975 |
| Operating expenses | 8,216 | 9,050 | 16,566 | 16,085 | 14,372 |
| EBITDA | 930 | 560 | 1,324 | 1,047 | 604 |
| Other Income | 81 | 102 | 176 | 202 | 225 |
| Depreciation | 223 | 210 | 431 | 394 | 359 |
| EBIT | 788 | 451 | 1,069 | 854 | 470 |
| Interest | 119 | 111 | 225 | 198 | 162 |
| PBT | 669 | 340 | 844 | 656 | 307 |
| Tax | 172 | 90 | 218 | 171 | 83 |
| Consolidated PAT | 497 | 249 | 626 | 485 | 224 |
| EPS | 8.75 | 4.39 | 11.00 | 8.52 | 3.94 |
| Ratios | H1 FY25 | H1 FY24 | FY24 | FY23 | FY22 |
| EBITDAM | 10.17% | 5.83% | 7.40% | 6.11% | 4.03% |
| PATM | 5.44% | 2.59% | 3.50% | 2.83% | 1.50% |
| Sales growth | -4.83% | | 4.43% | 14.40% | |

Sector- Auto and Auto Ancillary

Company Description

Carraro India Ltd are a technology-driven integrated supplier that develops complex engineering products and solutions for their original equipment manufacturer (“OEM”) customers. They are an independent tier 1 solution provider of axles, transmission systems, and gears for the agricultural tractor and construction vehicle industries in India. Company support the full value chain of services as a solution provider for axles, transmission systems, gears, and other related components with in-house product design manufacturing capabilities. Their Promoter, Carraro S.p.A., is the parent company of the Carraro Group, which designs, manufactures, and sells transmission systems (axles, transmissions, and drives) mainly for agricultural and construction equipment for off-highway vehicles, in addition to marketing a wide range of gears for diverse sectors, from automotive to trucks to agricultural and construction vehicles. The Carraro brand is owned by Carraro S.p.A. and licensed to them pursuant to a licensing agreement with Carraro S.p.A.

Their company was among the pioneers to enter the agricultural tractor and construction vehicle component market with its dedicated R&D team and center as the Carraro Group entered India in 1997 and established its manufacturing facility in Pune and R&D center in 2006. They have been present in India for 27 years and have developed an extensive network with local and international customers and suppliers based in India. As an early mover, they have had more time than their competitors to understand the market, identify customer needs, and develop lasting customer relationships. As a result of their customized products, they believe their customers are subject to high switching costs in case of a change of manufacturer. Company primarily manufacture axles and transmission systems for agricultural tractors and construction vehicles such as backhoe loaders, soil compactors, cranes, self-loading concrete mixers, and small motor graders.

Their products are mission-critical for their customers, as their products constitute important components of their customers’ final products. They provide a diverse range of products, including axles and transmission systems of different HP ranges for off-highway vehicles in the agricultural tractor and construction vehicle sectors, as well as gears, shafts, and ring gears for industrial and automotive vehicles. Company also supply gears mainly used in industrial and automotive markets, spare parts which are primarily loose components of agricultural tractors and construction vehicles, and other products which are non-core parts of agricultural tractors and construction vehicles. Established in 1997, their company started manufacturing transmission systems and axles in 1999 and 2000, respectively.

Valuation

Carraro India Ltd is one of the leading tier 1 suppliers of transmissions systems and a key supplier of axles in the agricultural tractor and construction vehicle industries in India with competitive moat for mission critical and complex driveline components with customer-centric, one-stop shop offering customized solutions to a longstanding OEM customer base and strong, in-house R&D capabilities with proprietary IP rights to facilitate innovation of future-ready products along with longstanding relationships with marquee local and international supplier base

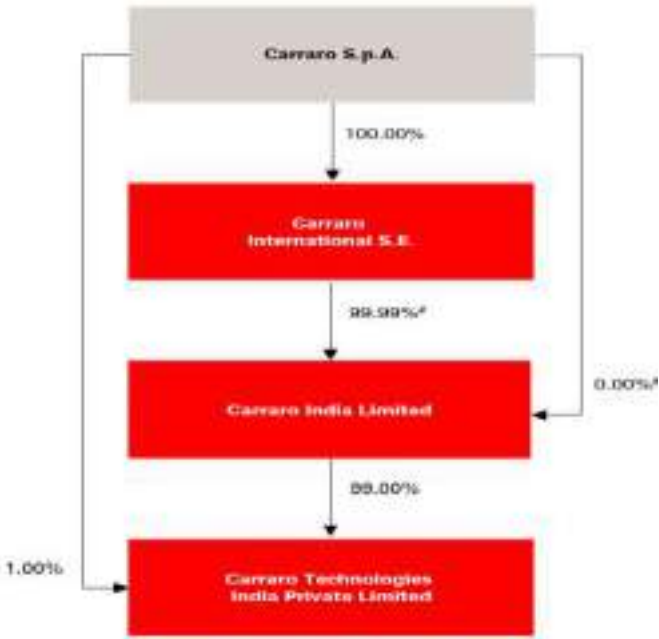
At the upper price band company is valuing at P/E of 45.83x, with an EV/EBITDA of 31.6x and market cap of ₹ 40,023 million post issue of equity shares and return on net worth of 16.92%.

We believe that the IPO is fairly priced and recommend a “**Subscribe-Long term**” rating to the IPO.

Description of Business

Corporate Structure

The following chart shows the corporate structure of their company as of the date of this Red Herring Prospectus:



Products

Company provide a diverse range of products including axles and transmission systems of different HP ranges for off-highway vehicles in the agricultural tractor and construction vehicle sectors, as well as gears, shafts and ring gears for industrial and automotive vehicles.

The following table sets forth their revenue by product sector, for the periods indicated:

| Particulars | H1FY25 | H1FY24 | FY24 | FY23 | FY22 |
|---------------------------|----------|----------|-----------|-----------|-----------|
| Revenue by product sector | 9,027.87 | 9,458.87 | 17,611.93 | 16,857.21 | 14,743.27 |
| Agricultural Tractor | 4,250.34 | 4,263.90 | 7,933.86 | 8,323.09 | 7,459.03 |
| Construction Vehicle | 3,576.03 | 3,965.72 | 7,271.77 | 6,477.44 | 5,325.70 |
| Others | 1,201.50 | 1,229.25 | 2,406.30 | 2,056.68 | 1,958.54 |

Manufacturing Plants

Company own and operate two manufacturing plants in Pune, Maharashtra, India, which are the driveline manufacturing plant occupying a plot area of approximately 84,000 square meters and the gears manufacturing plant occupying a plot area of approximately 78,000 square meters. The manufacturing plants are equipped with their technologies, including casting machining, assembly, prototyping, testing, and painting in their driveline manufacturing plant and gears machining, heat treatment (carburizing, induction, hardening, and nitriding) technologies in their gears manufacturing plant.

Driveline Manufacturing Plant

Company commenced operations at their driveline manufacturing plant in 1999. They manufacture agricultural and construction equipment, axles, and transmission systems at their driveline manufacturing plant. This plant is equipped with machining facilities, assembly facilities, and painting facilities, supported by technologies such as casting machining, assembly, prototyping, testing, and painting. Their driveline manufacturing plant holds the ISO 9001:2015 quality management system accreditation and the ISO 14001:2015 environmental management system accreditation, and its quality has been recognized by their customers.

The following are photos of their driveline manufacturing plant:



Gears Manufacturing Plant

Company commenced operations at their gears manufacturing plant in 2005. They manufacture various types of gears and gear shafts for captive consumption and third-party customers at their gears manufacturing plant. Their gears manufacturing plant is equipped with soft machining facilities, heat treatment facilities, and hard machining facilities, supported by technologies such as gears machining and heat treatment (carburizing, induction, hardening, and nitriding) technologies. Their gears manufacturing plant holds the ISO 9001:2015 quality management system accreditation and the International Automotive Task Force 16949:2016 quality management system accreditation.



Strengths:

- **One of the leading tier 1 suppliers of transmission systems and a key supplier of axles in the agricultural tractor and construction vehicle industries in India with competitive moat for mission critical and complex driveline components.**

Company is one of the leading independent tier 1 suppliers of axles, transmission systems, and gears for the agricultural tractor and construction vehicle industries in India, and as of March 31, 2024, their company has established itself as the market leader in providing transmission systems for tractors up to 150HP and four-wheel drive capabilities. As of 2023, their company is the leading sole supplier in the non-captive segment of the agriculture tractors transmission market and the market leader with a 60-65% share of the non-captive construction vehicle transmission market. Company have leveraged their deep understanding of the Indian market based on their early-mover advantage, long-term relationships with customers, and diversified product offering with established reliability to provide themselves with a competitive moat as a tier 1 solution provider of choice for their Indian customers. Their axles and transmission system products are mission-critical for their customers, as their products constitute important components of their customers' final products.

Company's axles and transmission system products are not easily replaceable with components from other suppliers due to the complexity of these components and the time required to adapt them for use by an OEM customer in its products. They believe the complexity of their products and the length of their customer relationships therefore position them favorably vis-à-vis competition from other suppliers. Their Promoter, Carraro S.p.A., is the parent company of the Carraro Group, which designs, manufactures, and sells transmission systems (axles, transmissions, and drives) mainly for agricultural and construction vehicles for off-highway vehicles, in addition to marketing a wide range of gears for very diverse sectors, from automotive to trucks to agricultural and construction vehicles. Company have maintained a close relationship and strong synergy with other entities in the Carraro Group, through which they are able to benefit from the Carraro Group's in-depth understanding of the OEMs' needs due to their presence in the product sectors and collaborate with the Carraro Group's global R&D centers for know-how and technologies. They also export to some of their international customers through Carraro Drive Tech Italia S.p.A., the Carraro Group's driveline business leader.

Market opportunity and offerings in each sector is as follows:

- **Agricultural tractors:** Company manufacture axles and transmission systems for agricultural tractors in India based on their customers' specifications, which include customized requirements on technical specifications, use case, mechanical and structural design, among others. They also export these products. The sales volume of the agricultural tractor market in India grew at a CAGR of 5.9%, increasing from 804,000 units in CY2019 to 1,011,697 units in CY2023, and it is projected to continue growing at a CAGR of 8.2% from CY2024 to CY2029. Their revenue from the agricultural tractors sector increased at a CAGR of 3.13% from ₹7,459.03 million in Fiscal 2022 to ₹7,933.86 million in Fiscal 2024 and remained stable at ₹4,263.90 million and ₹4,250.34 million in the six months ended September 30, 2023, and 2024, respectively.
- **Construction vehicles:** Company manufacture gears and transmission systems for backhoe loaders, compact wheel loaders, telehandlers, cranes, forklifts, aerial working platforms, self-loading concrete mixers, and soil compactors for use in construction. The sales volume of the construction vehicle market in India increased at a CAGR of 4.2% from 92.5 thousand units in CY2019 to 109.0 thousand units in CY2023 and is expected to grow at a CAGR of 5.0% from CY2024 to CY2029. Their revenue from the construction vehicle sector increased at a CAGR of 16.85% from ₹5,325.70 million in Fiscal 2022 to ₹7,271.77 million in Fiscal 2024 and remained stable at ₹3,965.72 million and ₹3,576.03 million in the six months ended September 30, 2023, and 2024, respectively.
- **Others:** Company also manufacture a diverse range of products beyond their core offerings of axles and transmissions for agricultural and construction equipment, which include additional products such as gears, shafts, and ring gears for industrial and automotive vehicles. Their revenue from the others sector increased at a CAGR of 10.84% from ₹1,958.54 million in Fiscal 2022 to ₹2,406.30 million in Fiscal 2024 and remained stable at ₹1,229.25 million and ₹1,201.50 million in the six months ended September 30, 2023, and 2024, respectively.

➤ **Customer-centric offering of customized solutions to a longstanding OEM customer base.**

Their products constitute an indispensable mission-critical component of the final product sold by their OEM customers. They are a one-stop-shop tier 1 OEM supplier that develops customized solutions for their India-based customers, including customers in India and international customers with Indian subsidiaries or operations, by covering the full value chain from R&D to manufacturing of axles and transmission systems. Company endeavor to identify emerging customers' needs and provide a comprehensive solution to their customers from planning to launching and maintaining their off-highway vehicles and gears.

The following sets out case studies of their solutions provided to customers in the past:

Mahindra Motor Graders – RoadMaster G75 & G90 Smart

In the reference market of motor graders with less than 100 HP, Mahindra identified a demand for customized models. The Carraro Group worked with Mahindra, their customer, from the concept stage of launching a product to address such demand. With a year-long market study of Indian roads and its infrastructure, the Carraro Group innovatively proposed a modified version of backhoe loader drivelines (Transmission TCB80 with two rigid axles per vehicle) in 2016 to produce a more cost-efficient result than the traditional bogie axles. The product was defined after R&D, prototyping (including virtual validation and finite element analysis), and more than six months of field validation at various customer-end locations.



Mahindra Haulage Tractor (Haul Master)

To meet the emerging need for tractors that are suitable for haulage use with lower costs of ownership and performance stability, the Carraro Group proposed the use of Transmission TCB80SPS (servo power shift), which is a semi-automatic transmission instead of the full automatic transmission available in the reference market, with front steering and a rigid rear axle, making the product suitable for wider tracks. To achieve brake efficiency in long haulage operations and maintain low oil temperature around oil-immersed brakes, the Carraro Group designed a recirculating braking cooling system by using the transmission as the oil reservoir and circulating oil between the transmission and rear axle.



Bull Machines backhoe loader and loaders series

Company manufacture and supply front and rear axles as well as transmission systems for two-wheel drive, four-wheel drive and servo power shift (SPS) for Bull Machines' backhoe loader and loaders series:



Company usually enter into long-term contracts with their customers of at least five years, with additional schedules executed based on each new order received. The contracts provide for product specification, delivery terms, and payment terms. Since they manufacture products tailored for the type of agricultural tractor and construction vehicle, their customers may therefore need to incur high costs to develop and test products from other suppliers as substitutes for their products, resulting in their longstanding and deep relationships with customers. Company have long-term relationships with their top 10 customers, which have continuously engaged them for at least 15 years as of September 30, 2024. The following table sets forth details of their customers for the six months ended September 30, 2024 and 2023, and the past three Fiscals, which shows their customer base:

| Particulars | H1FY25 | H1FY24 | FY24 | FY23 | FY22 |
|--|----------|----------|-----------|-----------|-----------|
| Number of customers | 44.00 | 41.00 | 44.00 | 41.00 | 42.00 |
| Agricultural tractor sector only | 12.00 | 11.00 | 12.00 | 9.00 | 10.00 |
| Construction vehicle sector only | 18.00 | 16.00 | 16.00 | 17.00 | 15.00 |
| Agricultural tractor and construction vehicle sectors | 5.00 | 5.00 | 6.00 | 6.00 | 6.00 |
| Others sector | 9.00 | 9.00 | 10.00 | 9.00 | 11.00 |
| Revenue from operations contribution from customers (in ₹ million) | 9,146.19 | 9,610.27 | 17,889.65 | 17,131.45 | 14,975.43 |
| Customers of less than five years | 3,657.10 | 4,339.96 | 8,075.19 | 7,040.49 | 5,458.27 |
| Customers of more than five years but less than 10 years | 1,255.67 | 991.64 | 2,004.06 | 2,012.43 | 1,359.17 |
| Customers of more than 10 years | 4,233.45 | 4,278.67 | 7,810.40 | 8,078.53 | 8,157.99 |

➤ **Longstanding relationships with marquee local and international supplier base.**

As a one-stop shop OEM supplier, they have an established presence in the agricultural tractor and construction vehicle markets, during which time they have developed longstanding relationships with local suppliers in India and leveraged the Carraro Group's support for their relationship with international suppliers. As of September 30, 2024, they have a supplier base of 220 suppliers spanning across eight states in India and 58 suppliers internationally. As they conduct assembly and machine castings in-house, all of their suppliers are component suppliers, from whom they source components such as bearings, forgings, castings, brakes and clutches, cylinders, and hydraulic rear lifts. Further, they focus on local sourcing to lower production costs, optimize supply chain logistics, and minimize lead times. For the six months ended September 30, 2024, and 2023, and Fiscals 2024, 2023, and 2022, 74.42%, 72.69%, 73.18%, 74.58%, and 73.67% of their materials were procured from domestic suppliers, respectively. They also source from international suppliers in Europe, the People's Republic of China, and Japan. Company endeavor to source from at least two suppliers for any given component or raw material to ensure supply at any given time, avoid dependency on a single source, mitigate potential supplier concentration risk, and retain flexibility in delivery and cost pressures. They select suppliers by reviewing them based on internal quality, cost, delivery, and development ("QCDD") metrics, including the number of defective parts, competitive pricing, adherence to deadlines, and overall past performance. They enter into long-term contracts with suppliers with maximum and minimum capacity rates and year-on-year discounts to ensure the stability of the supplier base and periodically provide rapid improvement workshops to their suppliers as a quality assurance measure. Their extensive and stable supplier base facilitates quality control, cost optimization, and risk mitigation, which in turn supports their business growth in the long run.

➤ **Technologically advanced manufacturing plants with large production capacities and in-house gear production capabilities.**

Company own and operate two manufacturing plants in Pune, Maharashtra, India, namely the driveline manufacturing plant and the gears manufacturing plant, which are in close proximity to their key suppliers.

Driveline Manufacturing Plant

Their driveline manufacturing plant, spanning approximately 84,000 square meters, primarily manufactures agricultural and construction equipment, axles, and transmission systems. This plant is equipped with machining, assembly, and painting facilities, supported by technologies such as casting machining, assembly, prototyping, testing, and painting. The driveline manufacturing plant holds the ISO 9001:2015 quality management system accreditation and the ISO 14001:2015 environmental management system accreditation, with its quality recognized by their customers.

The following table sets forth the production capabilities of their driveline manufacturing plant for the six months ended September 30, 2024, and 2023, as well as the past three Fiscals:

| Particulars | H1FY25 | H1FY24 | FY24 | FY23 | FY22 |
|--|--------|--------|--------|--------|--------|
| Number of axles produced | 42,144 | 36,223 | 68,961 | 74,342 | 72,654 |
| Number of transmission systems produced | 19,635 | 27,091 | 46,579 | 47,055 | 47,129 |
| Number of other components produced (loose trumpet and loose drop box) | 8,112 | 11,853 | 14,066 | 10,772 | 11,503 |
| Capacity utilization (%) | 76.83% | 88.84% | 81.07% | 80.20% | 82.27% |

Gears Manufacturing Plant

Their gears manufacturing plant, spanning 78,000 square meters, primarily manufactures various types of gears and gear shafts for captive consumption and third-party customers. This plant is equipped with soft machining facilities, heat treatment facilities, and hard machining facilities, supported by technologies such as gear machining and heat treatment processes (carburizing, induction, hardening, and nitriding). The gears manufacturing plant holds the ISO 9001:2015 quality management system accreditation and the International Automotive Task Force 16949:2016 quality management system accreditation.

The following table sets forth the production capabilities of their gears manufacturing plant for the six months ended September 30, 2024, and 2023, as well as the past three Fiscals:

| Particulars | H1FY25 | H1FY24 | FY24 | FY23 | FY22 |
|---|----------|----------|-----------|-----------|-----------|
| Number of gears, shafts, ring gears and other related components produced | 9,03,999 | 9,69,498 | 16,18,845 | 16,76,707 | 15,25,468 |
| Capacity utilization (%) | 71.42% | 89.77% | 89.94% | 93.15% | 84.75% |

Key Strategies:➤ **Maintain their strong positioning in axles and transmission systems with an aim to secure market position.**

Their growth strategy is rooted in innovation, operational excellence, and strategic expansion into new and existing markets. They are committed to securing and strengthening their market position by increasing their market share and driving their growth on a sustainable basis. As of 2023, their company is the leading sole supplier in the non-captive segment of the agriculture tractors transmission market and the market leader with a 60-65% share of the non-captive construction vehicle transmission market. They are dedicated to maintaining their leadership position in the non-captive segment of drivelines for backhoe loaders, soil compactors, agricultural transmission systems, and 4WD axles for agriculture tractors. With an aim to drive growth on a sustainable basis, they have introduced the “Industrial Design Cost Optimization” function, which works in a cross-functional team approach across their R&D, sourcing, sales, manufacturing, and engineering teams to enhance their capability to actively redefine their designs and costs, including reducing their share of imports and implementing a meticulous cost and design optimization process. Company plan to increase purchases and procurement from their existing local suppliers and widen their base of local suppliers to lower their production costs, optimize supply chain logistics, and minimize transportation lead times, as well as to develop strategic partnerships with their suppliers for cost control and maintenance of quality control and assurance standards.

Company believe their cost-saving initiatives would help them scale up sales volumes and increase margin benefits, which are instrumental in maintaining their competitive edge. The introduction of TREM-IV regulations is driving the shift from 2WD tractors to 4WD tractors and increasing demand for higher HP tractors. As per Markets and Markets, following the launch of TREM-V, the TREM-V ready tractors will likely increase the demand for higher HP tractors and the potential to export more tractors to emission-regulated countries, which is driving the demand for 4WD tractors. With optimized designs and costs, they aim to capitalize on these industry trends and the growing market size of 4WD tractors in India. By offering cost-efficient solutions without compromising functionality and quality, and with a wider product range, they believe they are well-positioned to significantly expand their market share in the 4WD tractor segment in India and grow their revenues from existing customers while adding revenues from new customers.

➤ **Drive their growth through introduction of new products and product application innovation.**

By leveraging their market knowledge and experience, they intend to focus on the introduction of new products and product applications to increase their market penetration and drive their growth. Their planned introduction of new products and innovations includes the following initiatives:

- **Introduction of New Product Offerings:** Company have expanded their manufacturing plants in Pune, Maharashtra, India, to introduce products tailored for both domestic and export markets, including advanced agricultural tractor drivelines (80-150 HP) and a newly launched family of telehandler axles and transmission systems for the construction vehicle sector. As of the date of this Red Herring Prospectus, to further develop their product offerings, they are initiating 16 tractor driveline projects in the agricultural tractors sector (for tractors of 40 HP, 50-90 HP, and 90-135 HP) and 11 projects in the construction vehicles sector (for backhoe loaders, telehandlers, soil compactors, and wheel loaders).
- **Entry into New Product Categories:** Company are working on expansion into new segments such as self-loading concrete mixers and the telehandler market. Company have initiated two special projects related to drivelines in mobile cranes and self-loading concrete mixers. Their competitive edge in these segments is bolstered by cost-effective solutions and a diversified portfolio of axles, customized to meet customer specifications.
- **Product Application Innovation:** To replicate their success in product application innovation, such as using backhoe loader drivelines in motor graders with less than 100 HP and chassis-based haulage tractors, they intend to leverage their R&D capabilities and future-ready technologies developed by the Carraro Group to capture new applications for their suite of products and seize new market opportunities.

➤ **Develop future-ready solutions for emerging technologies and potential entry into new market segments.**

As an innovation-driven tier 1 solution provider of axles and transmission systems, they intend to introduce future-ready technologies in their design, manufacturing concepts, and production lines, including advanced product designs or new materials compatible with future agricultural tractors and construction vehicles. The agricultural tractor and construction vehicle sectors are poised for significant growth, driven by emerging opportunities such as the increasing adoption of electric vehicles and the development of tractor and vehicle engineering solutions with more features and higher technological specifications. They aim to leverage their capabilities to meet the demand for these products.

In addition to their existing capabilities, they also aim to leverage future-ready technologies developed by the Carraro Group, including THE (Transmission-Hydrostatic-Electric) transmission—a new agricultural and off-road vehicle transmission compatible with both hydrostatic and full-electric versions, higher HP transmissions for tractors, independent front axle systems, specialized tractor capabilities, and axles for off-road 4x4 Grenadier. The key applications of the future-ready technologies they intend to leverage include:

- **Electric Off-Highway Vehicles:** The Carraro Group has developed future-ready technologies for electric off-highway vehicles, including transmission systems for electric tractors (40-75 HP). The "THE" transmission is a versatile plug-and-play solution, with its IP rights owned by Carraro S.p.A.
- **Higher HP Transmission Systems for Tractors:** There is rising demand for higher HP tractors due to TREM IV emission norms, and the Indian tractor market has experienced a notable shift from the 31-40 HP segment to the 41-50 HP segment over recent years. They have drivelines up to 150 HP in their tractor portfolio, with technology options suitable for OEMs in India to expand their product portfolios and for export markets where higher HP tractors are prevalent. With their future-ready technologies, they aim to cater to the emerging technological requirements in the Indian agricultural market in the long run.

➤ **Enhance and expand their production capabilities in India.**

To meet diverse market demands, they aim to enhance the production capabilities of their manufacturing plants in Pune, Maharashtra, India. They intend to continue leveraging the full-range production capabilities in their manufacturing plants, which include mechanical gear shifts, semi-power shift, and full-power shift capabilities. Their infrastructure includes the driveline manufacturing plant occupying a plot area of approximately 84,000 square meters and the gears manufacturing plant occupying a plot area of approximately 78,000 square meters, with free space of approximately 38,000 square meters available for potential future expansion, along with the requisite technology and manufacturing processes in place. With the objective of supporting an increase in their long-term production efficiency, they have started and intend to continue digitalizing their production flow to generate a visual shop flow for easier tracking and quality assurance.

This will enable them to switch from the current decentralized production flow, where reports are generated at different parts of production, to an integrated, digitalized production flow with tracking and reports generated in a centralized system in real time. In addition, they intend to expand their driveline and gears manufacturing plants, including expanding the driveline manufacturing plant by building a warehouse shed and a finished goods warehouse on the vacant plot of approximately 5,100 square meters. They also plan to expand with a high level of automation, using robotics and autonomous vehicles for internal logistics, while focusing on reducing their carbon balance as part of their sustainable manufacturing philosophy.

➤ **Increase share of localization and further improving efficiencies of their supply chain.**

Company regularly review their supply chain from a strategic perspective and endeavor to further localize their supplier base, which provides the two-fold benefit of (i) reducing reliance on imports to lower their production cost, optimizing supply chain logistics, and minimizing transportation lead times and (ii) expanding their supplier base by selecting suppliers based on cost management and risk mitigation. 74.42% and 25.58% of their cost of materials consumed in the six months ended September 30, 2024, and 73.18% and 26.82% of their cost of materials consumed in Fiscal 2024 were attributable to domestic suppliers and imports, respectively. They plan to increase purchases and procurements from their existing local suppliers, widen their local supplier base, and develop strategic partnerships with their suppliers. These initiatives allow them to benefit from a broader supplier base and to optimize cost and efficiency while maintaining quality control and assurance standards.

Industry Snapshot:

Indian Off-Highway Market

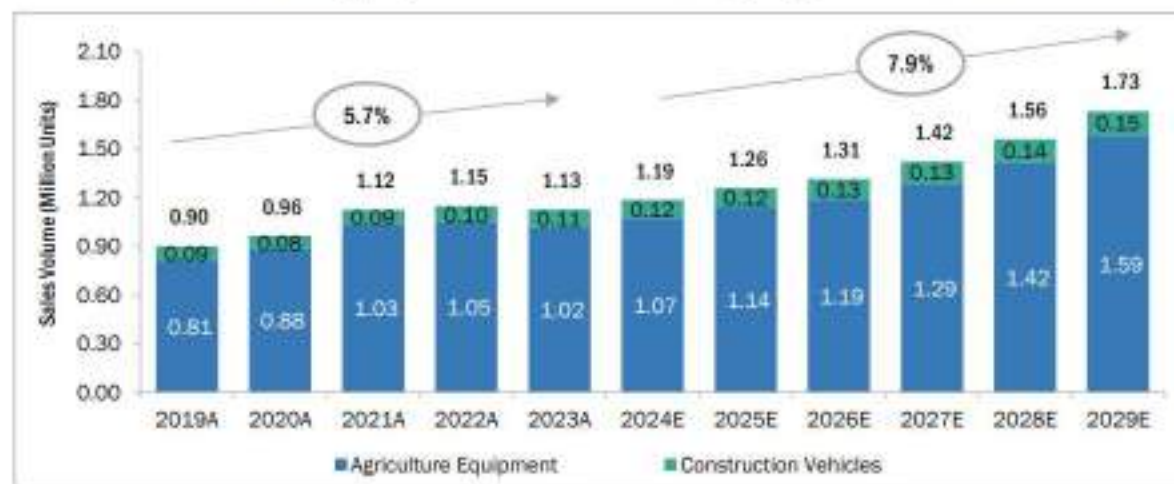
The India off-highway vehicles comprise construction vehicles and agricultural equipment (agricultural equipment includes tractors and harvesting equipment). According to the publications by Tractor Manufacturer's Association ("TMA") and Indian Construction Equipment Manufacturer's Association ("ICEMA"), the agricultural tractors sales are expected to increase by 5.2% whereas construction vehicle sales are expected to increase by 6.0% from CY2023 to CY2024. The sales of agricultural tractors and construction vehicle in India is estimated to increase by 5.3% from CY2023 to CY2024.

The factors influencing the sales of tractors include demand for farm mechanization, supporting government policies, technological advancements, better financing options, and others and for construction vehicles include increased infrastructure development, urbanization and real estate growth, growing rental and leasing market, technological advancements and others. Government policies impacting the agricultural tractors and construction vehicles industry, including those related to agricultural infrastructure and supply chain, self-reliant manufacturing, foreign direct investment, tax and environment policies also have a direct impact on vehicle supply and demand.

The Indian off-highway industry has undergone significant changes, with emerging technologies, climate change concerns leading to stringent emission regulations driving shifts in end-customer preferences. As a result, OEMs are now compelled to look beyond traditional purchasing factors like price, design, performance, brand image, and features and focus on new priorities such as fuel efficiency, environmental impact, and innovative features to meet evolving consumer demands. The off-highway vehicles market comprising of agricultural equipment (tractors and harvesting equipment) and construction vehicles registered almost 17% y-o-y growth in CY2021. The industry had shown a prominent decline in CY2019 and CY2020 due to the general elections and the Covid-19 pandemic. The market continued to grow in CY2022 and CY2023, driven by infrastructure investment.

The market is expected to grow in CY2024 and continue to grow steadily until CY2029. According to the TMA and ICEMA, in CY2023, construction vehicle sales increased by 9.9% y-o-y while agricultural equipment (tractors and harvesting equipment) sales decreased by 3.0% y-o-y. Agricultural tractors dominate the OHV equipment market with a 90% share in 2023, owing to the large number of small and marginal farmers who rely heavily on tractors for their farming operations. The increasing adoption of mechanized farming techniques and favorable government initiatives have further bolstered the demand for tractors. Construction vehicles hold a market share of 10% in India total off-highway vehicles industry. The 2023-24 budget includes a 33% increase in capital investment for infrastructure, amounting to ₹ 10 lakh crore (USD 122 billion), equivalent to 3.3% of GDP. Additionally, ₹ 75,000 crores has been allocated in the budget for the development of 100 projects crucial for enhancing multimodal logistics infrastructure. These initiatives are expected to stimulate sales and increase demand for construction vehicles across India.

Indian Off-Highway Vehicle Sales Market Size, by Segment and Volume



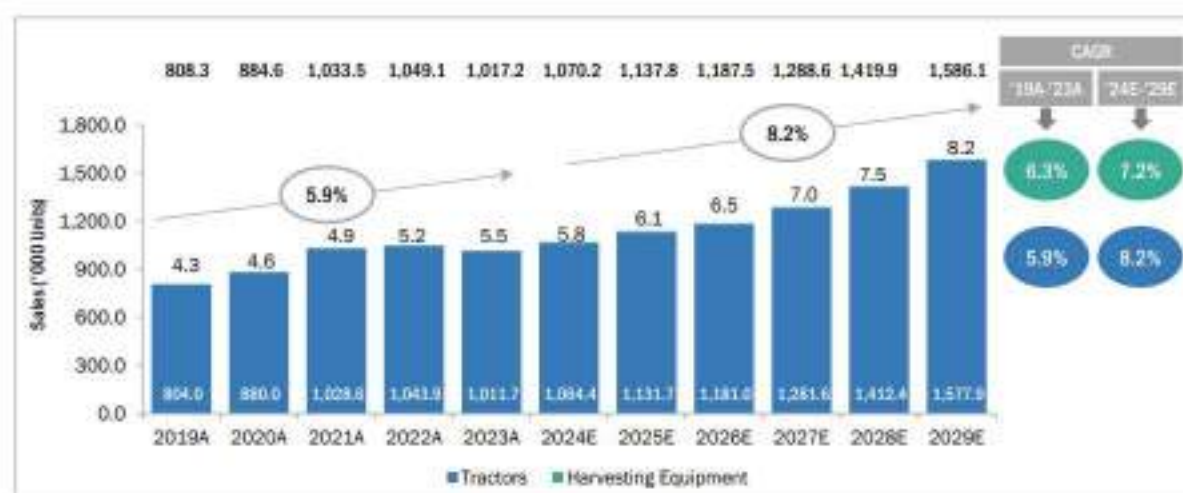
Indian Agriculture Market Equipment Market Overview

The Indian agricultural equipment market is expected to be driven by government initiatives. The Indian government's Minimum Support Price ("MSP") policy aims to ensure remunerative prices for agricultural produce, with the MSP fixed at a minimum of 1.5 times the cost of production to provide a reasonable profit to farmers, further incentivizing the adoption of modern farm equipment and contributing to the thriving tractor market in the country. The Indian government has announced several key initiatives in the Interim Budget FY2024-2025 to support the agricultural equipment market and promote mechanization in the sector:

- Allocation of ₹ 1,27,470 crore to the Ministry of Agriculture
- Raising the agriculture credit target to ₹ 20 lakh crore, emphasizing welfare initiatives for farmers
- Focus on research to develop high-yielding varieties of oilseeds.
- Establishment of five integrated aquaparks under the PM-Matsya Sampada Yojana to boost aquaculture productivity and double exports to ₹ 1 lakh crore.

The initiatives aim to enhance agricultural productivity in India by fortifying agricultural value chains, encouraging the adoption of cutting-edge technologies, and providing financial support to farmers and agri-startups. This integrated approach is expected to drive growth in the agricultural equipment market and improve overall agricultural productivity in the country.

Indian Agriculture Equipment Sales Market Size, by Volume



Export Market Size and Key Export Destinations

Indian Agriculture Equipment Sales (Export) Market Size, by Country and Value



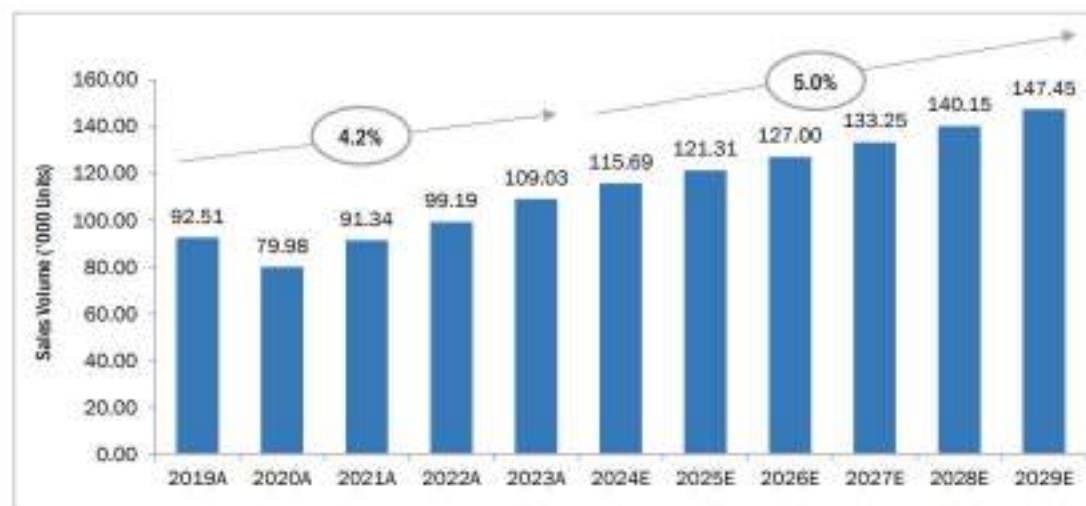
Indian Construction Vehicle Market

Indian Construction Vehicle Market Overview

Support from the Ministry of Road Construction and Highways ("MoRTH") has been instrumental in driving the demand for construction vehicles. The Central Government has committed over USD 1.3 trillion under its National Infrastructure Pipeline ("NIP") Vision 2025, and sectors such as energy, roads, urban areas, and railways are expected to constitute nearly 70% of the projected capex in infrastructure. The interim budget FY2024-2025 allocated significant resources towards road construction and highway development.

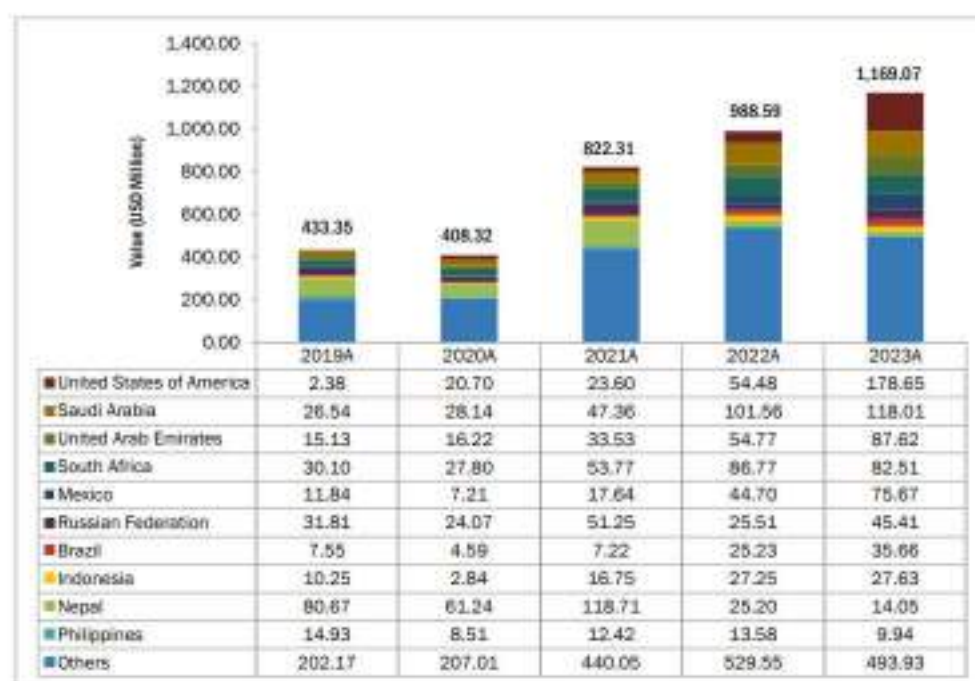
- Roads and Highways: approximately ₹ 7 lakh crores worth of projects planned in the next 2-3 years
- Real Estate and Infrastructure: ₹ 27 lakhs worth of projected investments in real estate and infra sector under NIP by FY2025
- Ports and Airways: ₹ 3 lakh crore worth of planned investments in port projects with a 10-year blueprint under Maritime India Vision-MIY 2030
- Railways: ₹ 13.6 lakh crores capital expenditure is planned in Indian railways up to FY2025

India Construction Vehicle Sales Market Size, by Volume



Export Market Size and Key Export Destinations

Indian Construction Vehicle Sales (Export) Market Size, by Country and Value



➤ **Accounting ratios****(₹ in millions, except percentages)**

| Particulars | H1FY25 | H1FY24 | FY24 | FY23 | FY22 |
|-----------------------------------|------------|------------|------------|------------|------------|
| Revenue from Operations | 9,146.19 | 9,610.27 | 17,889.65 | 17,131.45 | 14,975.43 |
| Revenue growth (yoy) | -4.83% | NA | 4.43% | 14.40% | - |
| EBIT | 788.11 | 450.96 | 1,068.57 | 853.75 | 469.58 |
| EBIT Margin (%) | 8.54% | 4.64% | 5.91% | 4.93% | 3.09% |
| EBITDA | 1,010.96 | 661.45 | 1,499.95 | 1,248.11 | 828.63 |
| EBITDA Margin (%) | 10.96% | 6.81% | 8.30% | 7.20% | 5.45% |
| PAT | 497.34 | 249.37 | 625.63 | 484.59 | 224.26 |
| PAT Margin (%) | 5.44% | 2.59% | 3.50% | 2.83% | 1.50% |
| ROE (%) | 12.60% | 7.12% | 17.69% | 15.39% | 7.93% |
| ROCE (%) | 13.13% | 8.14% | 19.35% | 16.30% | 10.00% |
| Net Financial Position (Net Debt) | (1,056.86) | (1,670.18) | (1,359.94) | (1,105.08) | (1,122.35) |
| Net Debt/EBITDA | (1.05) | (2.53) | (0.91) | (0.89) | (1.35) |
| Net Working Capital | 2,175.63 | 1,512.95 | 1,389.61 | 1,611.48 | 837.91 |
| Operating Working Capital | 1,900.74 | 2,111.53 | 1,636.70 | 1,305.98 | 650.21 |

Comparison with listed entity

| Name of the company | Face Value (₹ per share) | P/E | Basic EPS 2024 (₹) | Diluted EPS 2024 (₹) | RONW (%) | NAV (₹) |
|---------------------------------------|--------------------------|--------|--------------------|----------------------|----------|---------|
| Carraro India Limited | 10 | 45.83* | 11.00** | 11.00** | 16.92% | 65.05 |
| Listed Peers | | | | | | |
| Escorts Kubota Limited | 10 | 43.21 | 96.80 | 96.64 | 11.43% | 830.45 |
| Schaeffler India Limited | 2 | 74.22 | 57.50 | 57.5 | 18.71% | 307.44 |
| Sona BLW Precision Forgings Limited | 10 | 76.93 | 8.83 | 8.83 | 18.49% | 47.75 |
| Ramakrishna Forgings Limited | 2 | 42.82 | 20.27 | 20.09 | 12.72% | 148.48 |
| Happy Forgings Limited | 2 | 47.08 | 26.78 | 26.75 | 15.07% | 171.17 |
| Action Construction Equipment Limited | 10 | 50.56 | 27.56 | 27.56 | 26.69% | 307.44 |

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on July 31, 2024.

2) */** P/E and EPS of company is calculated on basis TTM and post issue no. of equity shares issued.

Key Risk:

- Company derived 69.55% and 87.88% of their revenue in the six months ended September 30, 2024 and 69.37% and 85.39% of their revenue in Fiscal 2024 from their top five and top 10 customers, respectively, and any inability to retain their key customers or attract new customers and expand their customer network, could negatively affect their business and results of operations.
- Company depend partially on other entities in the Carraro Group for their operations, such as the license of the Carraro brand, customer sourcing, procurement, R&D and general support of their operations. The Carraro Group was their largest customer in the six months ended September 30, 2024 and 2023 and Fiscals 2024, 2023 and 2022. For the six months ended September 30, 2024 and Fiscal 2024, they derived 33.27% and 33.91% of their total revenue from the Carraro Group and have purchased 3.81% and 4.91% of their raw materials from the Carraro Group, respectively. Any disruption in this relationship could have a material adverse impact on their operations.
- Company have entered into and may continue to enter into related party transactions with the Carraro Group, Directors and Key Managerial Personnel. They incurred 33.89% and 34.67% of their total income and 6.70% and 8.63% of their total expenses in transactions with related parties in the six months ended September 30, 2024 and Fiscal 2024, respectively. Such transactions may require significant capital outlay and there can be no assurance that they will be able to make a return on these transactions or investments.
- Company's agricultural tractor business is seasonal in nature and a decrease in their sales during some quarters could have an adverse impact on their financial performance.
- Company and certain of their group companies have common pursuits as they are engaged in similar business or segments within the automotive components industry and may compete with them, and that there may be conflict of interest in allocating business opportunities between them and such Group Companies.
- Promoters and certain of their Directors may be involved in ventures which are engaged in the same line of activity or business as that of company and this may result in conflicts of interest with them. Directors, Key Managerial Personnel and Senior Management may have interests in their company in addition to their remuneration and reimbursement of expenses.
- EBITDA margins and PAT margins were lower than the EBITDA margins and PAT margins of their industry peers in the six months ended September 30, 2024 and September 30, 2023 and Fiscals 2024, 2023 and 2022, as disclosed in this Red Herring Prospectus, and company cannot assure you that they will be able to continue to improve their EBITDA margins and PAT margins in comparison to their competitors or at all.

Valuation:

Carraro India Ltd is one of the leading tier 1 suppliers of transmissions systems and a key supplier of axles in the agricultural tractor and construction vehicle industries in India with competitive moat for mission critical and complex driveline components with customer-centric, one-stop shop offering customized solutions to a longstanding OEM customer base and strong, in-house R&D capabilities with proprietary IP rights to facilitate innovation of future-ready products along with longstanding relationships with marquee local and international supplier base

At the upper price band company is valuing at P/E of 45.83x, with an EV/EBITDA of 31.6x and market cap of ₹ 40,023 million post issue of equity shares and return on net worth of 16.92%.

We believe that the IPO is fairly priced and recommend a “**Subscribe-Long term**” rating to the IPO.

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|--|------|--------|----------|
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