

IPO NOTE



CARRARO INDIA LIMITED

19.12.2024

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Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



- ◆ Incorporated in 1997, Carraro India Ltd is engaging in manufacturing components ranging from the smallest gear to complete tractor manufacturing.
- ◆ The company designs, manufactures, and sells transmission systems (axles, transmissions, and drives) primarily for agricultural and construction equipment for off-highway vehicles. It also offers a wide range of gears for various sectors, including automotive, trucks agricultural, and construction vehicles.
- ◆ The company owns and operates two manufacturing plants in Pune, Maharashtra, India. The driveline manufacturing plant occupies a plot area of approximately 84,000 square meters, while the gear manufacturing plant covers an area of approximately 78,000 square meters.
- ◆ The driveline plant has technologies including casting, machining, assembly, prototyping, testing, and painting. The gears plant features machining and heat treatment technologies such as carburizing, induction, hardening, and nitriding.
- ◆ They manufacture axles and transmission systems for agricultural tractors which include special requirements on technical specifications, use cases, and mechanical and structural design.
- ◆ They manufacture gears and transmission systems for backhoe loaders, compact wheel loaders, telehandlers, cranes, forklifts, aerial working platforms, etc.
- ◆ They 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.
- ◆ The company has developed expertise in the agricultural tractor and construction vehicle industry in India and has established a network of 220 suppliers across eight states in India, along with 58 suppliers internationally.
- ◆ As of September 30, 2024, the company's local quality and after-sales team consisted of 87 full-time employees and 53 contractual temporary employees.

Issue Details

Price Band (in ₹ per share)	668-704
Issue size (in ₹ Crore)	1250.00
Fresh Issue (in ₹ Crore)	NA
OFS (in ₹ Crore)	1250.00
Issue open date	20.12.2024
Issue close date	24.12.2024
Tentative date of Allotment	26.12.2024
Tentative date of Listing	30.12.2024
Total number of shares (lakhs)	187.13-177.56
No. of shares for QIBs (50%) (lakhs)	93.56-88.78
No. of shares for NII (15%) (lakhs)	28.07-26.63
No. of shares for S-HNI (33%) (lakhs)	9.36-8.88
No. of shares for B-HNI (66%) (lakhs)	18.71-17.76
No. of shares for retail investors (10%) (lakhs)	65.49-62.14
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	21
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14028-14784
Maximum no. of shares for Retail investors at Lower Band	294 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	273 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	196392-192192
Minimum no. of shares for sHNI (2 Lakhs) at upper band	294 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	1407 (67 lots)
Minimum number of shares for bHNI at upper band	1428 (68 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- TOMASO CARRARO
- ENRICO CARRARO
- CARRARO S.P.A.
- CARRARO INTERNATIONAL S.E.

Objects of the Offer

- ◆ Achieve the benefits of listing the Equity Shares
- ◆ Carry out the Offer for Sale of Equity Shares of the face value of ₹ 10 each aggregating up to ₹12,50.00 Cr by the Promoter Selling Shareholder.

BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	H1FY25	FY24	FY23	FY22
Share Capital	56.85	56.85	56.85	56.85
Net Worth	419.44	369.81	337.37	292.49
Revenue from Operations	914.61	1788.96	1713.14	1497.54
EBITDA	101.09	149.99	124.81	82.86
EBITDA Margin (%)	10.96	8.30	7.20	5.45
Profit/(Loss) After Tax	49.73	62.56	48.45	22.42
EPS (in Rs.)	8.75	11.00	8.52	3.94
Net Asset Value (in Rs.)	73.78	65.05	59.34	51.45
Total borrowings	195.77	212.54	188.33	178.13
P/E [#]	40.23	64.00	NA	NA
P/B [#]	9.54	10.82	NA	NA

*Restated consolidated financials; #Calculated at upper price band ^Annualised

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	1497.54	1713.15	1788.97
Other Operating Revenue	22.51	20.15	17.58
Total Income	1,520.05	1,733.30	1,806.55
YoY Growth (%)	-	14.40%	4.43%
Cost of Materials Consumed	1140.86	1290.51	1337.24
Cost of Materials Consumed-% of Revenue	75.05%	74.45%	74.02%
Changes in inventories of stock in trade	-18.78	-14.78	-24.09
Changes in inventories of stock in trade-% of Revenue	-1.24%	-0.85%	-1.33%
Employee benefit expenses	117.33	130.46	143.47
Employee Expenses-% of Revenue	7.72%	7.53%	7.94%
Other expenses	197.78	202.30	199.93
EBIDTA	82.86	124.81	150.00
EBIDTA Margin (%)	5.45%	7.20%	8.30%
Depreciation and amortisation expense	35.91	39.44	43.14
EBIT	46.96	85.38	106.86
EBIT Margin (%)	3.09%	4.93%	5.91%
Finance cost	16.22	19.79	22.49
Profit before tax	30.73	65.59	84.37
Tax expenses			
Current tax	9.20	18.94	24.36
Deferred Tax	-0.89	-1.81	-2.55
Total tax expenses	8.31	17.13	21.81
Profit for the year	22.43	48.46	62.56
PAT Margin (%)	1.50%	2.83%	3.50%
Earnings per share			
Basic earnings per share (₹)	3.94	8.52	11.00

Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	259.88	287.47	311.72
Right of use assets	16.03	14.97	13.74
Capital work in progress	10.12	9.06	0.00
Intangible asset	5.41	4.15	28.97
Financial assets			
Other non-current financial assets	2.70	3.87	4.77
Deferred tax assets (net)	0.60	1.17	3.45
Non current tax assets	29.21	31.38	31.97
Other non-current assets	13.80	3.86	7.34
Total non-current assets	337.75	355.92	401.95
Current assets			
Inventories	236.64	255.30	286.45
Financial Assets			
Investments			
Trade Receivables	257.04	303.39	242.72
Cash and Cash Equivalents	103.96	104.99	103.60
Other current financial assets	0.00	0.00	0.00
Other current assets	77.04	52.79	38.18
Total current Asset	674.69	716.47	670.94
Total assets	1012.44	1072.39	1072.89
Equity and liabilities			
Equity			
Equity Share Capital	56.85	56.85	56.85
Other Equity	235.64	280.52	312.97
Non controlling interest	0.14	0.16	0.09
Total equity	292.63	337.53	369.91
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	85.72	130.82	122.32
Lease liabilities	3.29	2.42	1.30
Provisions	39.14	46.30	47.38
Deferred tax liabilities (net)	0.76	0.00	0.00
Total Non-Current liabilities	128.91	179.54	171.00
Current liabilities			
Financial liabilities			
Borrowings	92.41	57.52	90.23
Lease liabilities	0.85	1.00	1.13
Trade payables			
Due to MSME	54.07	58.93	49.30
Due to other than MSME	374.59	369.16	316.20
Other financial liabilities	36.62	27.61	29.39
Other current liabilities	12.23	16.73	13.67
Provisions	19.13	21.59	32.05
Current tax liabilities (net)	0.99	2.79	0.03
Total Current liabilities	590.90	555.32	531.98
Total liabilities	719.81	734.86	702.98
Total equity and liabilities	1012.44	1072.39	1072.89

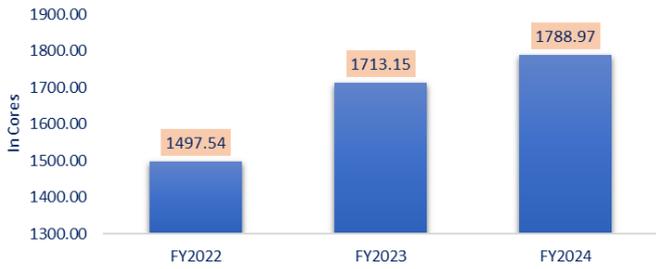
Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	105.21	99.52	139.94
Income tax paid (net of refunds)	-9.38	-19.30	-27.75
Net cash generated from operating activities	95.83	80.22	112.19
Net cash used in investing activities	-59.45	-61.77	-84.68
Net cash used in financing activities	8.53	-15.47	-30.18
Net increase/ (decrease) in cash and cash equivalents	44.91	2.98	-2.68
Balance as at beginning	59.49	103.96	104.99
Effect of exchange rate changes on cash and cash equivalent	-0.43	-1.96	1.29
Cash and cash equivalent as at year end	103.97	104.99	103.60

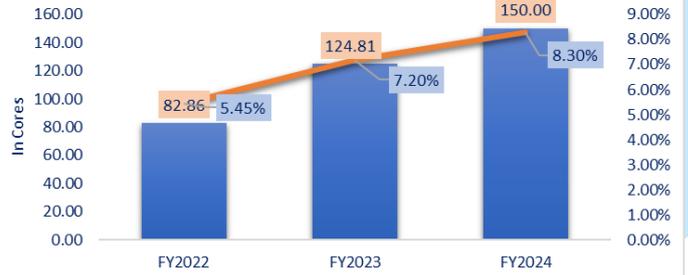


PERFORMANCE THROUGH CHARTS

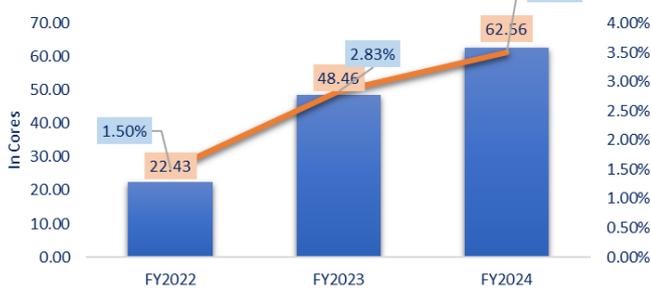
REVENUE HAS GROWN BY 9% CAGR 2 YR



EBIDTA GREW BY 35% CAGR 2 YR



PAT GREW BY 67% CAGR 2 YR



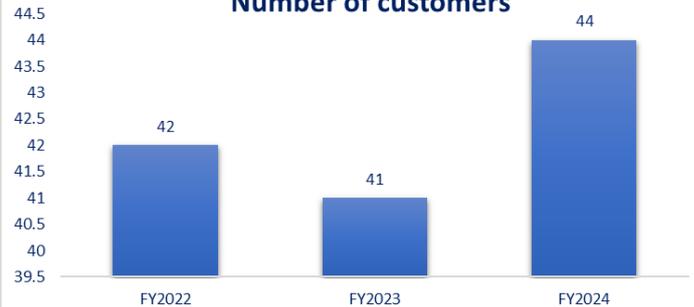
EMPLOYEE EXPENSE AS % TO REVENUE IS DECREASING



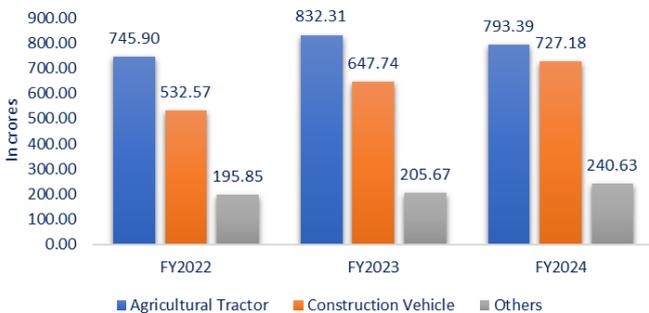
Number of axles produced at driveline manufacturing plant



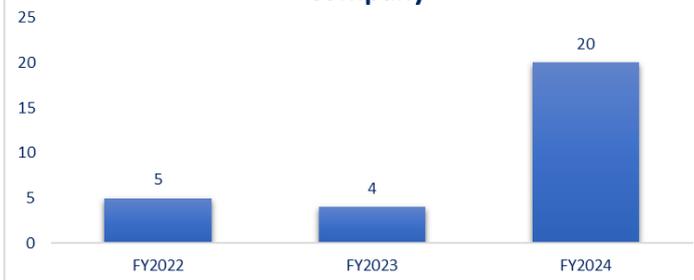
Number of customers



Revenue by product sector



Number of new prototypes developed by Company



INDUSTRY REVIEW

Global Agricultural Tractor Market

- The global agricultural tractors market is expected to expand from 2.50 million units in CY2024 to 3.24 million units by CY2029, achieving a projected CAGR of 5.4%.
- This anticipated growth is primarily driven by the increasing adoption of farm mechanization worldwide, which is being fueled by favourable government policies and schemes.
- Farm tractors have a major share in the agricultural equipment market. Farm mechanization encompasses the use of various equipment, such as tractors, combine harvesters, balers, and sprayers, to enhance agricultural productivity. By incorporating these advanced technologies, farmers can reduce labour-intensive tasks, save time, lower production costs, minimize post-harvest losses, and ultimately increase crop yields and farm income. Asia, which includes the major markets of China and India, leads agricultural tractor adoption.

Global Construction Vehicle Market

- The global construction vehicle market is projected to experience robust growth, expanding from an estimated 1.19 million units in CY2024 to 1.41 million units by CY2029, representing a CAGR of 3.5%. Advancements in autonomous machinery, infrastructure development projects, and a focus on energy-efficient construction practices are propelling market growth.
- Overall, the global construction vehicle market is expected to grow robustly, with China, India and the Rest of Asia driving global growth.
- India is expected to be a key contributor to this growth, with its construction vehicle market anticipated to grow from 0.12 million units in CY2024 to 0.15 million units by CY2029, at a CAGR of 5.0%.

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 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 Agriculture startups. This integrated approach is expected to drive growth in the agricultural equipment market and improve overall agricultural productivity in the country.

Indian Agricultural Tractor Market, by Power Output

- The agricultural tractors volume in India grew at a CAGR of 5.9%, increasing from 804.0 thousand units in CY2019 to 1,011.7 thousand units in CY2023.
- It is projected to continue growing at a projected CAGR of 8.2% from CY2024 to CY2029.
- The Indian agricultural tractor market is dominated by 41-50HP tractors contributing approximately 51% share of the total tractors sold in India.
- Owing to TREM IV regulations, many tractor OEMs shifted to 49.5HP tractors with the same power output as that of higher HP tractors and changed the vehicle design aesthetically. Below is the split of tractor sales by power output.

Growing Exports of Indian Tractors Driving Sales

- The Indian tractor industry is localizing its supply chain to the extent possible, to reduce reliance on imports and enhance domestic manufacturing capabilities.
- This move can help the OEMs with increased efficiency, cost savings, and improved product quality, as local suppliers can better cater to the customized needs of the market. Additionally, localization could also support the growth of the domestic manufacturing sector, creating new job opportunities and stimulating economic development.



COMPETITIVE STRENGTHS OF THE COMPANY

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 a competitive moat for mission-critical and complex driveline components

- According to the Markets and Markets Report, their 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.
- They 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.
- 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.

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 axles and transmission systems.
- They endeavour 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.

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 clutch, cylinders and hydraulic rear lifts. Further, they focus on local sourcing for supply to lower the production cost, optimize supply chain logistics and minimize lead times.

Stable and experienced senior management team with strong industry knowledge and a proven track record of growing the business and achieving margin optimization

- They have a stable management team, consisting of their Key Managerial Personnel and Senior Management, who have been with their Company for an average of more than 11.3 years.
- Their management team has diversified experience in business, manufacturing, supply chain and financial management. Tomaso Carraro, their Vice President and Non-Executive Director, has been with the Carraro Group since 1994 and has been fundamental in shaping the business and strategic market position of their Company today. Balaji Gopalan, their Managing Director, has been with the Carraro Group since 1998 and has experience in managing their Company's human resources department before becoming their managing director.
- Davide Grossi was appointed as their Whole-time Director and Chief Financial Officer in August 2024 and has experience in the financial sector in another manufacturing company. Sudhendra Mannikar, their Chief Operating Officer, has been with the Carraro Group since 1999.



RISK FACTORS

They engaged in related party transactions with the Carraro Group, Directors, and Key Managerial Personnel, accounting for 33.89% and 34.67% of total income and 6.70% and 8.63% of total expenses for H1 FY2025 and FY2024, respectively. These transactions may require substantial capital and carry no guarantee of returns.

- They have entered into and will continue to enter into transactions with several related parties of their Company in compliance with the Companies Act, 2013. Such related parties include certain of their Corporate Promoters, Carraro S.p.A., Carraro International S.E., Carraro Drive Tech Italia and other fellow subsidiaries in the Carraro Group, their Directors and Key Managerial Personnel.
- These related party transactions have been carried out in the ordinary course of business and on an arm's length basis, in compliance with the requirements stipulated in the Companies Act, 2013, relevant Accounting Standards and other statutory compliances.
- Their related party transactions include, among others, the sale of goods and fixed assets, purchase of raw materials, purchase of intangible, semi-finished and fixed assets, royalty payments for the use of the Carraro corporate name, logo and trademarks, royalty payments for the use of IP rights of products which belong to Carraro S.p.A., fees for services rendered or availed, fees for R&D services, professional fees, corporate service charges, warranty claims paid and managerial remuneration.

Their agricultural tractor business is seasonal and a decrease in their sales during some quarters could hurt their financial performance.

- The sales of their agricultural tractor products are influenced by the cyclicity and seasonality of demand in the countries in which they operate. According to the Markets and Markets Report, in the Indian agricultural market, tractor demand typically peaks between June and November, which is driven by the arrival of the monsoon, the Kharif crop season, preparations for the upcoming rabi planting season, increased harvesting activities, and improved rural cash flow during this period.
- They also expect their period-to-period results of operations to vary based on their operating costs, which they anticipate will increase significantly in future periods as they, among other things, design, develop, and manufacture newer products, expand and further equip their manufacturing plant to manufacture such products, open new manufacturing plants, increase their sales and marketing activities, and increase their general and administrative functions to support their growing operations.

They and certain of their Group Companies have common pursuits as they are engaged in similar businesses or segments within the automotive components industry and may compete with them, and there may be a conflict of interest in allocating business opportunities between them and such Group Companies.

- Certain of their Group Companies, Siap S.p.A., Carraro Drive Tech Italia S.p.A., Carraro China Drive Systems Co. Ltd. and Carraro Argentina S.A. are engaged in businesses that are similar to their business. While exercising their rights as their shareholders, Carraro International S.E., Carraro S.p.A. and Siap S.p.A. may take into account not just their interests but also their interests and the interests of their affiliates, including other companies forming a part of the Carraro Group.
- They have not entered into any non-compete agreements with such Group Companies and there can be no assurance that such entities will not compete with their existing business or any future business that they might undertake or that they will be able to suitably resolve such a conflict without hurting their business and financial performance.

They currently manufacture their axles, transmissions and gears at their manufacturing plants in Pune, India. Any disruptions or stoppages at their manufacturing plants could adversely impact their operations, financial condition and results of operations.

- They manufacture all of their axles and transmissions at their driveline and gear manufacturing plants. They own and operate two manufacturing plants in Pune, India, and events impacting this geographical area may disrupt their 33 production and operations.
- Their manufacturing plants are also subject to operating risks such as the breakdown or failure of equipment, disruption in power supply or processes, severe weather conditions, performance below expected levels of efficiency, obsolescence, labour disputes, natural disasters, industrial accidents, infectious diseases, political instability, the need to comply with the directives of relevant government authorities and the requirement to obtain certain material approvals to operate their manufacturing plants. Although they have experienced delays and increased transit time in container deliveries amidst the Red Sea crisis, they have not encountered any instances of disruption in power supply or processes, labour disputes, industrial accidents and other material operational risks in the past.

PEER COMPARISON

Name of the company	Revenue from Operations (in Cr.)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Carraro India Limited	914.61	10	11.0	65.05	16.92	64.00	10.82
Escorts Kubota Limited	5306.88	10	96.80	830.45	11.43	34.66	4.04
Schaeffler India Limited	3979.97	2	57.50	307.44	18.71	58.85	11.01
Sona BLW Precision Forgings Limited	1813.36	10	8.83	47.75	18.49	69.66	12.88
Ramakrishna Forgings Limited	2013.11	2	20.27	148.48	12.72	44.72	6.10
Action Construction Equipment Limited	1490.95	10	27.56	307.44	26.69	54.57	4.89
Happy Forgings Limited	702.59	2	26.78	171.17	15.07	38.78	6.07

*P/E & P/B ratio based on closing market price as of December 18th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.

KEY BUSINESS INSIGHTS

- ◆ **Specialization:** Carraro India excels in the engineering and manufacture of axles, drives, and transmission systems, primarily serving the agriculture and construction sectors. The company's operations extend to both domestic and international markets, bolstering its reputation as a reliable global supplier.
- ◆ **Market Leadership:**
 - ⇒ Sole leading supplier in the non-captive segment of the agricultural tractors transmission market.
 - ⇒ Commands a significant 60-65% market share in the non-captive construction vehicle transmission segment.
- ◆ **Experience and Infrastructure:** With over 27 years of presence in India, Carraro India showcases extensive experience and a deep understanding of market dynamics. The company operates two state-of-the-art manufacturing plants, ensuring high production capacity and technological advancement.
- ◆ **Workforce and R&D:** Employing 1,600 full-time employees, Carraro India emphasizes operational excellence and technical expertise. The dedicated R&D team consists of 56 professionals supported by an advanced R&D centre, driving continuous innovation.
- ◆ **Product Complexity and Customization:** Axles and transmission systems are highly intricate and customized, making them irreplaceable components for Original Equipment Manufacturers (OEMs). Carraro India provides comprehensive, end-to-end solutions, enhancing convenience and efficiency for customers. The company is a market leader in transmission systems for tractors with up to 150 HP and 4WD capabilities.
- ◆ **Strategic Insights:** Carraro India benefits from the Carraro Group's extensive understanding of OEM requirements through its global presence. The company possesses deep insights into Indian market dynamics, enabling the development of tailored strategies.
- ◆ **OEM Collaboration:** As a Tier-1 OEM supplier, Carraro India delivers customized solutions to meet diverse customer needs. The company maintains strong collaborations with OEMs, ensuring alignment with their product development and innovation objectives.
- ◆ **Product Quality and Integration:** Renowned for producing high-quality, durable transmission systems, Carraro India is a trusted partner for OEMs. The company offers integrated solutions that enhance OEM customer satisfaction and foster long-term partnerships.
- ◆ **Industry Recognition:** Carraro India has received prestigious awards such as the Caterpillar Supplier Excellence Recognition and the Mahindra & Mahindra Superior Performance Award, underscoring its commitment to quality and strong customer relations.

OUR VIEW

Carraro India Limited is a leading player in the transmission systems segment for agricultural and construction vehicles. The company is currently valued at a P/E ratio of 64x and a P/B ratio of 10.82x, which are significantly higher than the peer averages of 50.21x and 7.50x, respectively, reflecting its premium valuation.

The company has demonstrated solid growth, with a Compound Annual Growth Rate (CAGR) of 9% in topline over the past two years and an impressive 35% CAGR in bottom line over the same period. The EBITDA margin has shown a consistent increase from 5.45% in FY2022 to 10.96% in H1FY2025, indicating strong operational efficiency and profitability improvements.

Despite the higher valuations compared to peers such as Escorts Kubota and Ramakrishna Forgings, Carraro India's niche market leadership and robust growth prospects make it an attractive investment opportunity for investors with a higher risk appetite.

Also, this offering is purely an Offer for Sale (OFS), meaning the proceeds will not be reinvested into the company's growth initiatives or operational development. This structure should be carefully considered by potential investors.

We recommend to **SUBSCRIBE** for long term this issue for investors willing to take on higher risks, given the company's growth potential and market positioning.

Sources: Company website and red herring prospectus

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Canara Bank Securities Ltd.

(A Wholly Owned Subsidiary of Canara Bank)



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