Divgi TorqTransfer Systems Limited

01-March-23

Subscribe- Long term

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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	4,120
Fresh Issue (No. of Shares in Lakhs)	30.5
Offer for Sale (No. of Shares in Lakhs)	39.3
Bid/Issue opens on	01-Mar-23
Bid/Issue closes on	03-Mar-23
Face Value	₹ 5
Price Band	560-590
Minimum Lot	25

Objects of the Issue

- **Fresh issue : ₹ 1,800 million**
  - Funding capital expenditure requirement for the purchase of equipment/machineries of their manufacturing facilities.
  - General corporate purposes.
- **Offer for sale : ₹2,320 million**

Book Running Lead Managers
Inga ventures private limited
Equirus capital private limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	200.00
Subscribed paid up capital (Pre-Offer)	137.66
Paid up capital (Post - Offer)	152.91

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	67.2	60.5
Public	32.8	39.5
Total	**100**	**100**

Financials

Particulars (₹ In million)	H1 FY23	FY22	FY21	FY20
Revenue from operations	**1,337**	**2,338**	**1,866**	**1,591**
Operating expenses	966	1,682	1,347	1,221
EBITDA	**371**	**656**	**519**	**369**
Other Income	38	81	85	117
Depreciation	63	114	76	64
EBIT	**346**	**623**	**527**	**422**
Interest	1	2	2	45
PBT	**345**	**622**	**526**	**378**
Tax	88	160	145	97
Consolidated PAT	**257**	**462**	**380**	**280**
EPS	**8.39**	**15.09**	**12.44**	**9.17**
Ratios	**H1 FY23**	**FY22**	**FY21**	**FY20**
EBITDAM	27.74%	28.07%	27.82%	23.22%
PATM	19.19%	19.74%	20.39%	17.63%
Sales growth	-	25.30%	17.29%	-

Company Description

Company is amongst the very few suppliers in India who have the capability to develop and provide system level transfer case, torque coupler and DCT solutions. They are one of the leading players supplying transfer case systems to automotive OEMs in India and the largest supplier of transfer case systems to passenger vehicle manufacturers in India. They are also the only player manufacturing and exporting transfer cases to global OEMs from India, and the only manufacturer of torque couplers in India. They also have the capability to develop and provide transmission systems for electric vehicles ("EVs"). They are in the process of designing and developing prototypes of transmission systems for EVs pursuant to receipt of a business award for this purpose. As on the date of this Red Herring Prospectus, they have been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India. However, supply pursuant to this contract has not started as on the date of this red herring prospectus. Further, they have been awarded a contract for supply of components for Hybrid Vehicles for a global OEM, however, this does not constitute as one of the top five customers of the company. Company actively collaborates with Europe's transmission engineering consulting firms like FEV and Hofer.

Company manufacture and supply a variety of products under the broad categories of:

- torque transfer systems (which includes four wheel- drive ("4WD") and all-wheel-drive ("AWD") products)
- synchronizer systems for manual transmissions and DCT
- Components for the above-mentioned product categories for torque transfer systems and synchronizer systems in manual transmission, DCT, and EVs.

Company have an in-house software development capability which helps them in providing system level solutions offering software that controls the vehicle dynamics. They are also one of the first few suppliers of steel and carbon-based synchronizer systems for the Indian markets, and are one of the leading manufacturers of steel synchronizers in India. They have achieved leading positions for select products in their portfolio through focus on innovation; offering of customized solutions in distinctive products; in-house software development capability; and product development and production at quality standards acceptable to their clients and at optimized costs. They are in the process of launching domestically manufactured DCT systems for the Indian market. Given this, company believe that system level solution providers such as they are likely to be highly valued by vehicle manufacturers globally.

Valuation

Divgi TorqTransfer systems limited are one of the very few suppliers in India having the capability to develop and provide system level transfer case, torque coupler, DCT solutions and transmission systems for EVs across a wide array of automotive vehicles and geographies with strategically located manufacturing facilities capable of producing high precision components meeting system-level design intent and long-term relationships with marquee domestic and global customers

At the upper price band company is valuing at P/E of 39x with a market cap of ₹ 18,043 million post issue of equity shares and return on net worth of 13.6%.

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

Company's Operations:-

Company design, develop, manufacture and supply engineered, turnkey solutions and components to automotive OEMs across India, USA, China, Korea, Russia and others. With their strong focus on research and development and advanced in-house hardware and software capabilities, they have also been providing turnkey solutions across the automotive industry, including passenger vehicles, utility vehicles, and commercial vehicles from their facilities at Bhosari and Shivare near Pune in Maharashtra and Sirsi, in Karnataka. Their customer base includes leading automotive OEMs such as Tata Motors, Mahindra & Mahindra, BorgWarner, a Japanese automotive supply chain company, a Chinese automobile manufacturer, an Indian automotive manufacturing company, and an Indian supplier to global automotive OEM, amongst others.

Their systems and component offerings include four-wheel drive and synchronizer system solutions. They manufacture and supply a variety of products under the broad categories of (i) torque transfer systems (which includes 4 wheel-drive ("4WD")/ all-wheel- drive ("AWD") products); (ii) synchronizer systems for manual transmissions and DCT; and (iii) components for the above-mentioned product categories as well as for EVs. They have also developed (i) transmission systems for EVs; (ii) DCT systems; and (iii) rear wheel drive manual transmissions.

Set out below is a tabular representation and description of the primary automotive systems and components offered by them.

Category/ Product	ICE (4WD/AWD)	ICE (Manual)	ICE (Automatic)	Hybrid	BEV
Torque Transfer Systems (Transfer Case/Torque Coupler)	✓				
Manual Transmission		✓			
Synchronizer Systems	✓	✓	✓		
Dual Clutch Transmission			✓		
Transmissions for BEV					✓
Components	✓	✓	✓	✓	✓

Torque Transfer Systems


Mechanical Transfer Case


Electric Shift Transfer Case


Torque-on-Demand Transfer Case


Torque Coupler Transfer Case


Dual – offset Transfer Case


Dual – offset Transfer Case with bevel differential


Single – offset Transfer Case

Manual Transmission

Synchronizer Systems

Dual Clutch Transmission

Components:

Ring Gear

Sun Gear

Assembly Hub & Clutch Disc

Lock Up Collar & Clutch Disc

Final Drive Gear

Flange

Shaft

Customers:

The table below sets forth the breakdown of their income from sale of goods across geographic markets, as a percentage of their total sale of goods for the periods indicated:

Geographical Location	Six month ended September 30, 2022	Fiscal 2022	Fiscal 2021	Fiscal 2020
India	91.61%	73.70%	49.87%	48.12%
USA	3.82%	2.71%	10.66%	14.30%
China	4.54%	8.64%	16.46%	12.96%
Korea	-	3.24%	7.22%	10.49%
Russia	-	11.71%	15.79%	14.13%
Sweden	0.03%	-	-	-
Total	**100%**	**100%**	**100%**	**100%**

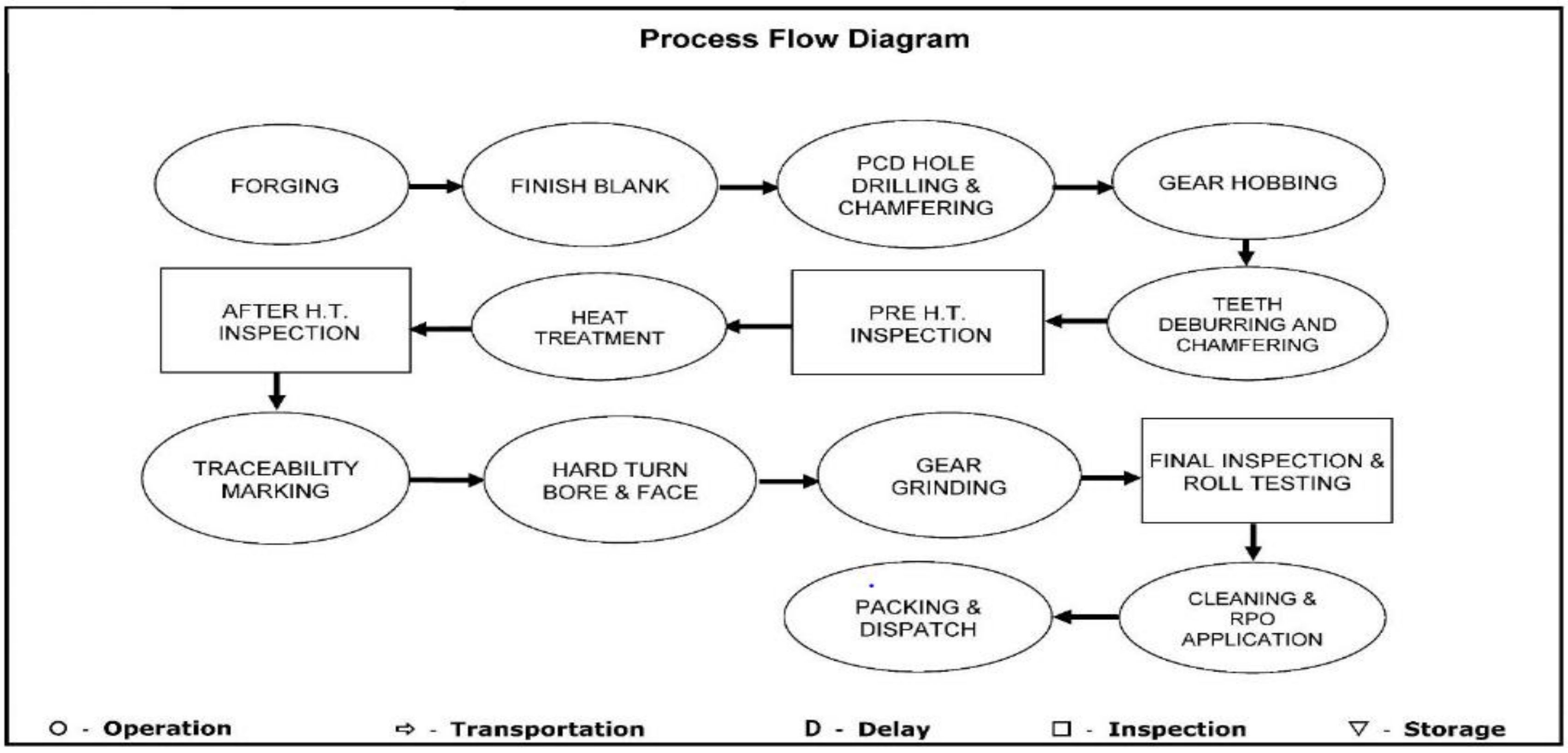
While their income from sale of goods across global geographic markets reduced from Fiscal 2021 to Fiscal 2022 due to factors such as end of certain programs and the war in Ukraine, their domestic sale increased due to the launch of the new Mahindra Thar. Further, they have developed long term relationships with marquee domestic and global OEMs in the automobile sector, such as BorgWarner, Tata Motors and Mahindra & Mahindra, amongst others, with some of whom they have had relationships for over two decades, including through their earlier joint ventures. For instance, they have been in strong, continued business with Tata Motors ever since 1992. Their relationship with customers has been built around firm business relations with the upper echelons of management. Their relationships with marquee global OEMs, start right from the stage of design and development.

The table below sets forth the breakdown of their income from sale of goods across their top five customers, as a percentage of their total sale of goods for the periods indicated. The order of their top five customers in the table below is based on information as of the six months period ended September 30, 2022.

Customers	Six month ended September 30, 2022	Fiscal 2022	Fiscal 2021	Fiscal 2020
Customer 1	75.31%	55.78%	37.08%	27.38%
Customer 2	5.03%	7.35%	4.78%	4.35%
Customer 3	5.67%	5.38%	4.57%	7.17%
Customer 4	8.39%	14.58%	34.34%	37.75%
Customer 5	Nil	11.71%	15.79%	14.12%
Total	**94.40%**	**94.80%**	**96.55%**	**90.78%**

Key Manufacturing Process:

Below is the process flow diagram which pictorially represents their manufacturing process.



Strengths:

- **One of the very few suppliers in India having the capability to develop and provide system level transfer case, torque coupler, DCT solutions and transmission systems for EVs across a wide array of automotive vehicles and geographies, with leadership across select product categories.**

  They are amongst the very few suppliers in India who have the capability to develop and provide system level transfer case, torque coupler and DCT solutions as they have in-house software development capability. They have designed, developed, manufactured and supplied software embedded electronically controlled transfer cases and torque couplers for OEMs like Tata Motors, Mahindra & Mahindra Limited, amongst others. They have, in the past worked with Indian OEMs as development partners for new projects. They are one of the few companies who serve both as systems level solution provider as well as component kit supplier to global OEMs and Tier I transmission systems suppliers. Company believe that this has helped them in offering customized solutions to their OEM customers in a cost-effective manner and become the leading supplier of transfer cases, torque couplers and steel synchronizers in India. They are one of the leading players supplying transfer case systems to OEMs in India and the largest supplier of transfer case systems to passenger vehicle manufacturers in India. They are also the only player manufacturing and exporting transfer cases (including the dominant chain driven transfer cases and electronic shift-on-the-fly ("ESOF") transfer cases) to global OEMs from India.

  They design, develop, manufacture and supply engineered, turnkey solutions and components to automotive OEMs across India, USA, China, Korea and Russia, amongst others. They have developed transmission systems for EVs; DCT systems; and rear wheel drive manual transmissions. They are in the process of launching domestically manufactured DCT systems for the Indian market. Therefore, they will be the only manufacturer of DCT systems in India. They have been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India, however supply pursuant to the contract has not started as on the date of this red herring prospectus. Further, they have been awarded a contract for supply of components for Hybrid Vehicles for a global OEM, however, this does not constitute as one of the top five customers.

- **Strategically located manufacturing facilities capable of producing high precision components meeting system-level design intent.**

  Their facilities are equipped with advanced machinery and certain of their facilities are located in close proximity to their key customers to enable meeting their customers' demand schedules and logistical advantages for customers, and to insulate them from local supply or other disruptions. They have three manufacturing and assembling facilities across India located at Sirsi in Karnataka, and Shivare and Bhosari near Pune in Maharashtra, with the manufacturing facilities at Shivare and Bhosari being strategically located in proximity to their key clients, and one under-construction manufacturing facility located at Shirwal. As on February 3, 2023, the construction of their facility at Shirwal, Maharashtra is 80.00% completed, and is expected to be fully completed by Fiscal 2024. Company strive to ensure that their manufacturing facilities are aligned with emerging trends in automation and premiumization which is demonstrated in their on-going contracts for supplying components for EVs and Hybrid Vehicles. Their manufacturing facilities are capable of handling varying production volumes and the multipurpose nature of infrastructure, enabling them to use their machinery for manufacturing various precision automotive drivetrain systems.

  They manufacture transmission, transfer case and synchroniser components at their facility in Sirsi. Their facility at Shivare, Maharashtra houses grinding and superfinishing equipment to achieve standards in precision and accuracy including those demanded by EV and DCT applications globally and transmission components. Their facility at Bhosari, Maharashtra which is the assembling, lab testing and packing unit for their manufactured components and systems, and their facility at Shivare are both strategically located in proximity to their key customers as well as the port for export located at New Mumbai, Maharashtra. Their key customers in close proximity to their Bhosari, Maharashtra and Shivare, Maharashtra facilities include Tata Motors, Mahindra & Mahindra, an Indian automotive manufacturing company and an Indian supplier to global automotive OEM. They have purchased 10 acres of land at Shirwal near Pune in Maharashtra and commenced construction which will help them in expanding their manufacturing capacity including for manufacture of DCT and EV transmissions. As on February 3, 2023, the construction of their facility at Shirwal, Maharashtra is 80.00% completed, and is expected to be fully completed by Fiscal 2024.

- **Long-term relationships with marquee domestic and global customers.**

Company believe that they have strong and well established relationships with several marquee domestic and global OEMs in the automobile sector such as Tata Motors, Mahindra & Mahindra and with global suppliers such as BorgWarner. For instance, they have been in continued business with BorgWarner, Tata Motors and Mahindra & Mahindra for over two decades. They believe that their being positioning as a system and solution provider entrenches them into the OEM eco-system, reduces the risk of purely price-based competition, and aids them develop a deeper interface with their customers' product development and senior management teams. With their track record and wide product portfolio, they have been able to retain their existing customers and have also been able to attract new customers.

They have a client base of global OEMs and global transmission systems suppliers, and for the six months period ended September 30, 2022 and for Fiscal 2022, Fiscal 2021 and Fiscal 2020 their top five customers accounted for the following:

Six months ended September 30, 2022		March 31, 2022		March 31, 2021		March 31, 2020	
Contribution from top five customers (in ₹ million)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ million)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ million)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ million)	As a percentage of revenue from operations
1,239.05	92.66%	2,133.86	91.28%	1,732.60	92.86%	1,382.85	86.94%

- **Experienced board of directors and senior management team supported by skilled and qualified workforce.**

Company is led by a highly experienced board of directors, and a professional and experienced management team with extensive experience in the automotive industry. Their Promoters Jitendra Bhaskar Divgi and Hirendra Bhaskar Divgi, are mechanical engineers with considerable experience in the automotive industry. Jitendra Bhaskar Divgi, Managing Director and Promoter, has a Master of Science degree in manufacturing from the University of Massachusetts, USA. Hirendra Bhaskar Divgi, Whole-Time Director and Promoter, has over 30 years of experience in advanced gear manufacturing processes and their influence in drive train products while working as the development manager in their Company. Chairman, Praveen Purushottam Kadle has considerable experience in the automotive industry, and they are benefitted from his extensive experience. They are further supported by an experienced board of directors with diversified expertise, which actively contributes to and participates in their strategy.

A large number of their senior management personnel have worked with them for a significant period of time, resulting in effective operational coordination and continuity of business strategies. Team comprises a strong and experienced team of skilled professionals across senior and mid-level management. Majority of their key managerial personnel or senior management personnel have worked with them for over ten years, resulting in effective operational coordination and continuity of business strategies. They have led the organization through acquisition of new customers, development of new systems and components, and help them remain updated with emerging market trends. They believe that their team of engineers, as of the six months period ended September 30, 2022 and Fiscal 2022, 2021 and 2020, as given below, helps them focus on process innovation, design and implementation and together with their promoters, board of directors, key managerial personnel and senior management personnel provide them a key competitive advantage.

Key Strategies:

- **Capturing market opportunities in the growing EV space, and the fast-growing demand for automatic transmissions in the passenger UVs segment.**

The market opportunities in the growing EV space are ample, as the global trend towards electrification of vehicles continues to surge. The market for EV transmission is expected to increase by CAGR of 77-82% from Fiscal 2022 and 2027 in volume terms as well as value terms. The EV transmission market is expected to be around ₹ 42-44 billion with a volume of 435-440 thousand by Fiscal 2027. They believe that the key drivers of vehicle electrification include environmental concerns and public awareness of the importance to reduce CO2 emissions and other pollutants, progressive termination of fossil fuel vehicles by some countries, government support and fiscal incentives that support the trend towards vehicle electrification, stringent emission and fuel economy norms introduced by several countries to combat the impact of climate change and encourage alternate cleaner fuels, increasing investment in charging infrastructure for EVs and decline in price of EV batteries contributing towards adoption of EVs.

They have been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India, which will further their efforts in capitalizing on the expanding EV space. However, supply pursuant to this contract has not started as on the date of this Red Herring Prospectus. As part of their growth strategy, they plan to increase their market share in both the Indian and overseas markets by offering comprehensive transmission solutions and components to EV OEMs. As part of their strategy, they intend to enter into similar contracts with other customers across geographies. As part of their growth strategy to establish themselves prominently in the Indian EV segment, they aim to further increase their customer penetration and acquire new customers in this segment.

- **Improve their market share and wallet share by increasing customer and geographic diversification.**

They intend to strengthen their relationships with their existing customers and explore opportunities to grow along the value chain by expanding the array of their existing products and solutions that they supply to their customers across geographies, and to win new customer contracts by developing products and solutions aligned with their needs. Company aim to consolidate and strengthen their market share in domestic and global markets in their existing automotive powertrain solutions and products portfolio by leveraging their long-standing customer relationships to enter into new products and vehicle programs, expand into new geographies for existing customers and develop new customers. They believe that their long-term relationship with well recognized OEMs and global suppliers, focus on tailor-made precision components, well-accepted processes and global delivery model will help them in such endeavor's and will enable them to become the supplier of choice in the industry. Company believe that their comprehensive product portfolio and acceptance with large OEMs will help them expand their customer and geographical footprint.

For the six months period ended September 30, 2022 and for March 31, 2022, March 31, 2021 and March 31, 2020, their revenues from outside India contributed their revenues from operation as follows:

Six months ended September 30, 2022		March 31, 2022		March 31, 2021		March 31, 2020	
Revenue from outside India (in ₹ million)	As a percentage of revenue from operations	Revenue from outside India (in ₹ million)	As a percentage of revenue from operations	Revenue from outside India (in ₹ million)	As a percentage of revenue from operations	Revenue from outside India (in ₹ million)	As a percentage of revenue from operations
110.07	8.23%	591.94	25.32%	899.43	48.21%	792.57	49.83%

- **Cost optimization through product engineering and localization.**

Company believe that their component business complements their product systems and solutions. While their components business offers them economies of scale which helps them optimize costs for their product systems and solutions, their understanding of the vehicle dynamics through their engagement in product systems and solutions helps them offer components which are better suited to their customers. Currently OEMs in India are heavily dependent on imports for a large cross-section of products. They have and continue to engage with their customers to re-engineer products which help achieve better operational and cost efficiencies. For instance, they have independently developed a cost-effective 32-bit processor for BorgWarner towards their transfer case application in replacement of their existing 8-bit technology, with their team receiving an award of recognition from BorgWarner for this innovation.

They believe that they have a key advantage over their competitors in understanding the product, quality and customer requirements and are well positioned to be the manufacturer and supplier of choice for global suppliers and OEM suppliers for automotive transmission products and high precision components in India. Offering quality products at competitive prices is a key aspect of maintaining and expanding their relationships with their customers. They intend to continue enhancing their operational efficiencies, to increase economies of scale, better absorb their fixed costs, reduce their other operating costs and strengthen their competitive position. Company would focus on improving capacity utilization at their production facilities, through increase in their overall production volumes. They believe that their manufacturing technology, coupled with their technological and engineering expertise has enabled them to penetrate the market and cater to the requirements of globally renowned customers. They believe that this capability to manufacture automotive transmission products and critical precision products at a large scale, enables them to attract OEMs in India who currently import such products, thereby reducing their cost of overseas sourcing. They believe that the OEMs engaging with them anticipate additional benefits such as (i) lower unit costs when compared to imported products; (ii) optimized inventories; (iii) reduced risk of exchange rate fluctuation; (iv) price sustainability through the product life cycle; and (v) increased supply chain security.

- **Continued focus on R&D to manufacture diverse products and expand into products to serve new and emerging trends.**

Company's future growth depends on their ability to continue to design, develop and commercialize innovative, viable and sustainable new automotive systems and components in a timely and cost-effective manner, improve their existing systems and components, or to develop process improvements that can shorten production times, improve quality and cost efficiency. Company believe that they are an R&D led systems and solution provider offering differentiated and customized solutions to their customers as demonstrated by their recent contracts for EVs and Hybrid Vehicles. With the increasing penetration for automatics in passenger vehicles and with the emergence of EV, they believe that automotive drivetrains will shift from just mechanical systems to electronics control with embedded software to control the operation of these systems. Company aim to capture this growing trend by continuously investing in R&D to develop and deliver new and innovative systems and components. With OEMs continuously focusing on weight reduction in PVs and EVs to enhance the range, augment the vehicle's acceleration and improve overall efficiency, they aim to develop solutions and alternatives for improving the torque density and reducing the weight of their DCT systems and EV transmission units through their R&D effort

The details of their aggregate expenditure on R&D and royalty, along with their expenditure on R&D and royalty as a percentage of their total income, for the six months period ended September 30, 2022 and Fiscal 2022, Fiscal 2021 and Fiscal 2020 are given below:

Six months ended September 30, 2022		March 31, 2022		March 31, 2021		March 31, 2020	
Aggregate expenditure (in ₹ million)	As a percentage of total income	Aggregate expenditure (in ₹ million)	As a percentage of total income	Aggregate expenditure (in ₹ million)	As a percentage of total income	Aggregate expenditure (in ₹ million)	As a percentage of total income
69.91	5.08%	229.19	9.48%	124.66	6.39%	58.29	3.41%

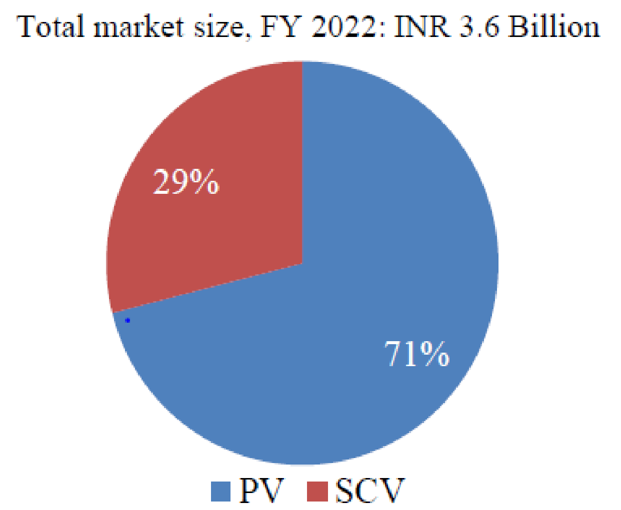
Industry Snapshot:

MARKET SIZING AND OUTLOOK OF RELEVANT AUTO COMPONENT SEGMENTS

Transfer case

Estimates says the size of the transfer case market (catering to OEM demand) at 89 thousand units by volumes and Rs 3.6 billion in terms of value in fiscal 2022. Passenger vehicle (PV) segment occupies the primary share of 71%, followed by small commercial vehicle (SCV) segment contributing the rest.

Transfer case industry split by application in value terms, fiscal 2022



Outlook, fiscals 2022- 2027

Market for transfer case is expected to increase by 24-27% CAGR from fiscal 2022 and 2027 that is from 89 thousand units to 270-275 thousand units in volume terms and by 25-28% CAGR in value terms i.e. from Rs 3.6 billion to Rs 11-13 billion.

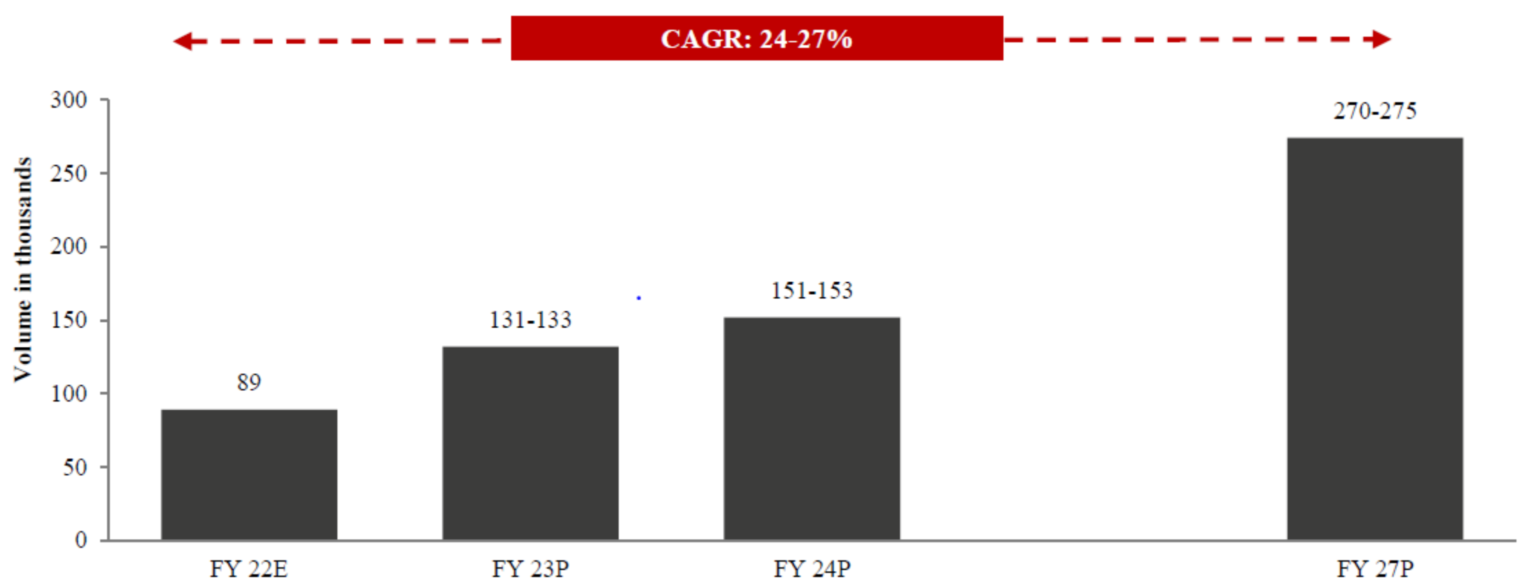
Estimates says overall PV production to grow at 8-10% CAGR from fiscal 2022 to 2027 and reach 5.5-6 million units by fiscal 2027. Over short to mid-term, easing of supply issues, intermittent launches to support PV sales, over mid to long-term, moderate macroeconomic growth, increasing disposable income, relatively stable cost of vehicle ownership, and lower fuel prices are likely to drive demand for passenger vehicles.

Demand for transfer cases is expected to be driven by growing demand for 4WD vehicles which will be supported by growing interests in off-roading. Penetration for 4WD technology is expected to reach 1-3% by fiscal 2027 from current level of 1-2%, witnessing higher traction in SUV segment. While share of AWD is expected to reach 1-2% by fiscal 2027 from ~1% levels in fiscal 2022. Improvement in 4WD and AWD penetration is expected mainly in the UV segment while small cars are expected to continue with the FWD drivetrain.

Production of SCVs in India is expected to increase at 10-12% CAGR over fiscals 2022 to 2027. SCV growth will be driven by higher private consumption, low penetration levels providing headroom for growth, greater availability of redistribution freight, and improved finance availability. SCV PV production is expected to grow at a faster pace and clock 19-21% CAGR between fiscal 2022 and fiscal 2027.

While SCV GV production is projected to rise at slower pace of 10-12% CAGR till fiscal 2027 over a high base of fiscal 2022. In SCV category, pickups such as Mahindra Bolero is available in 4WD option. It is mainly used in rough terrain such as tea plantation in North East or in desert region. Here, the application of 4WD SCV is not expected to materially change over the forecast period. Hence, by fiscal 2027 we expect the penetration of 4WD to remain stable at current levels penetration of ~5%.

Indian Transfer cases market outlook (fiscal 2022-2027P) - Volumes



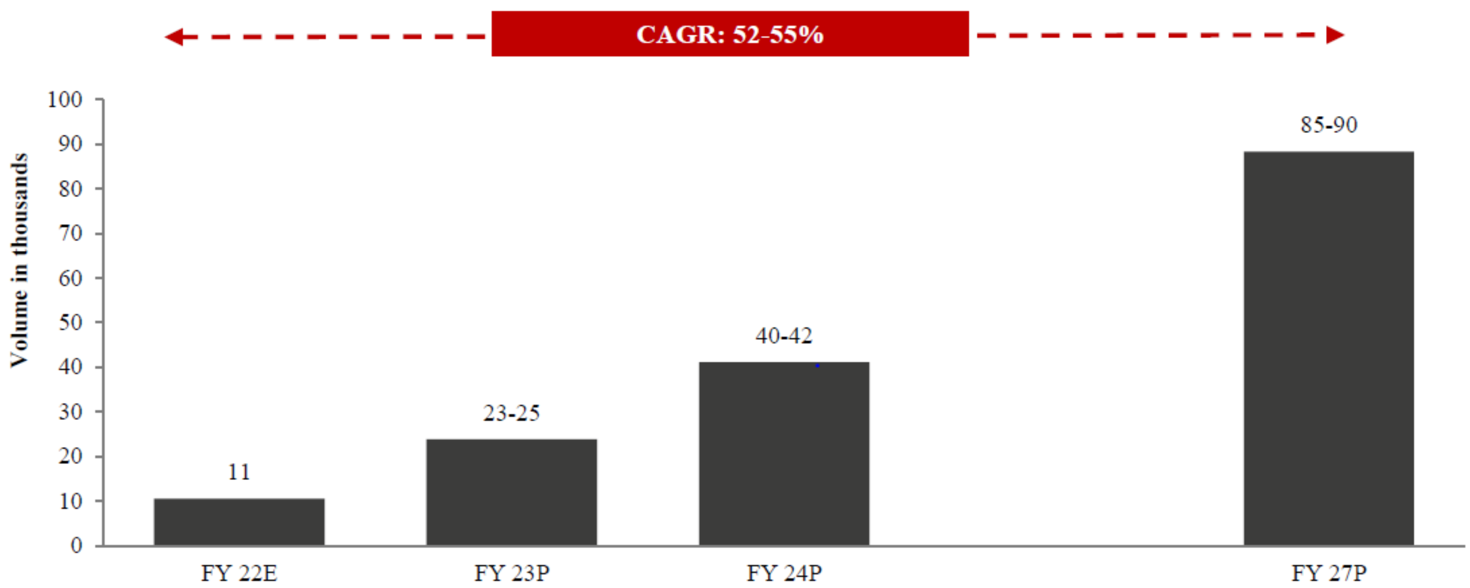
Torque coupler

Outlook, fiscals 2022- 2027

Market for torque coupler is expected to increase by 52-55% CAGR from fiscal 2022 and 2027 in volume terms and by 54- 57% CAGR in value terms. Demand for torque couplers is expected to grow from 11 thousand units in fiscal 2022 to 85-90 thousand units by fiscal 2027. CRISIL estimates overall PV production to grow at 8-10% CAGR from fiscal 2022 to 2027 and reach 5.5-6 million units by fiscal 2027.

The growth is projected to be led by UV segment which is expected to grow at 12-14% CAGR. Because of the higher cost associated with AWD drive train, AWD segment is expected to remain niche and the penetration of FWD based AWD is expected to be in the range of 1-2% by fiscal 2027. Again, the offering is expected to be in UV category. Drive type is not impacted by the type of fuel required to drive a vehicle. Hence, EV penetration will not have any impact on transfer case industry.

Indian torque coupler market outlook (fiscal 2022-2027P)-Volumes



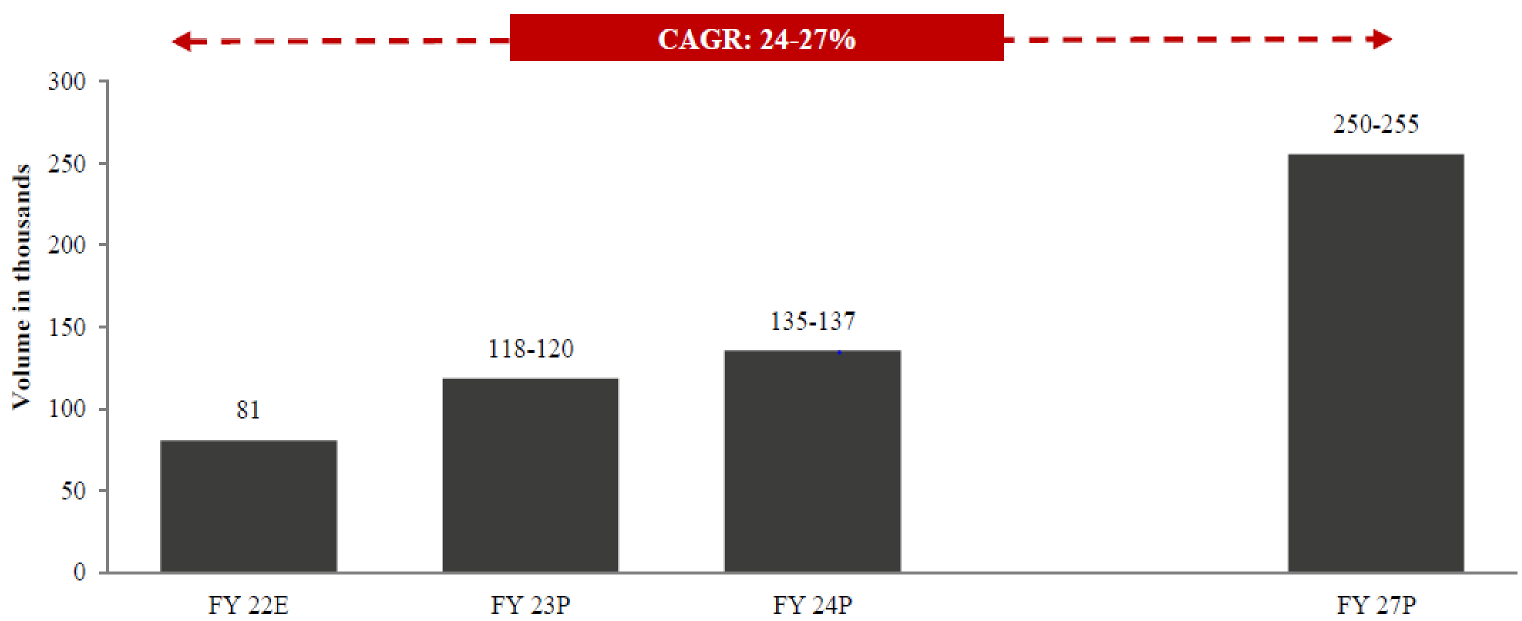
Dual Clutch Transmission

Outlook, fiscals 2022- 2027

Rising preference for automatic vehicles coupled with reduction in the cost of DCT technology is likely to back the demand for DCTs going ahead. Increasing customer preference towards premium specifications and driving performance will also support demand. Rise in local JV operations will provide an added advantage.

CRISIL projects production of DCT to clock 24-27% CAGR during the fiscal 2022 to 2027. Penetration of DCT is expected to improve from 1-2% in fiscal 2022 to 2-4% by fiscal 2027. Penetration of DCT is expected to remain at higher levels in the compact UV and UV segments. The size of DCT market is expected to grow at a CAGR of 27-30% to Rs. 26-28 billion by fiscal 2027.

Indian dual clutch transmission market outlook (fiscal 2022-2027P)-Volumes



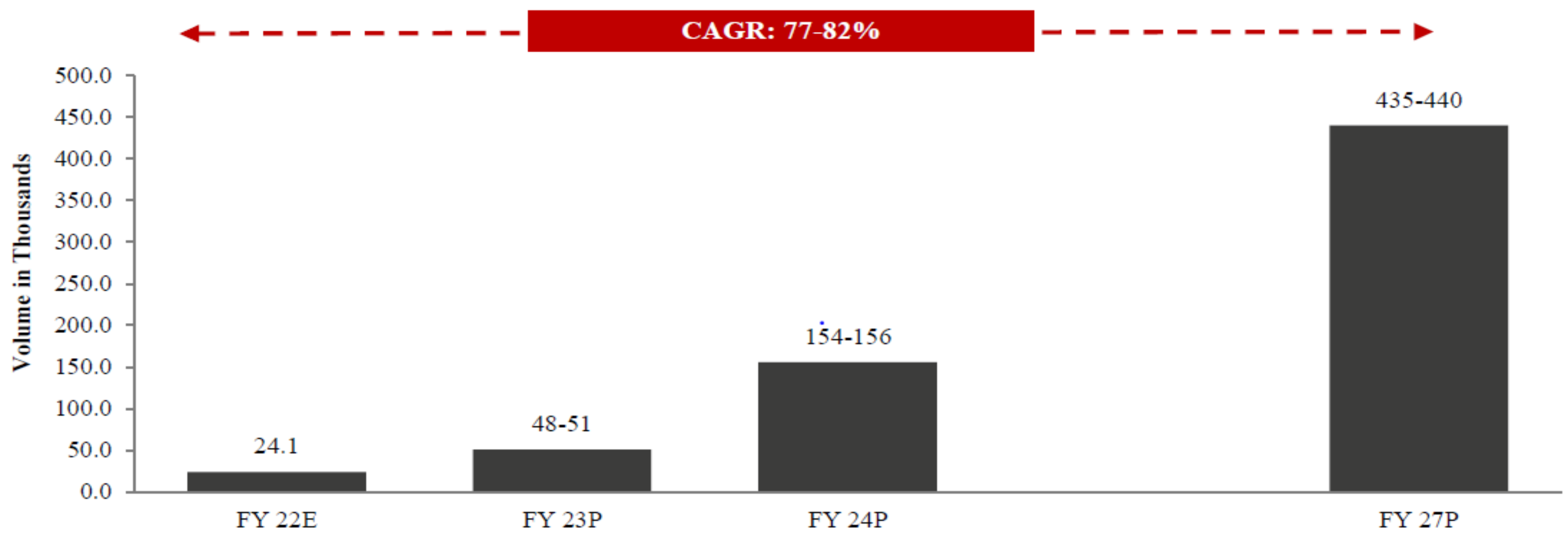
EV transmission market

Outlook, fiscals 2022- 2027

Market for EV transmission is expected to increase by 77-82% CAGR from fiscal 2022 and 2027 in volume terms as well as value terms. EV transmission market is expected to be around Rs 42-44 billion with a volume of 435-440 thousand by fiscal 2027. CRISIL expects the share of EVs in total passenger car sales to accelerate to 6-8% by fiscal 2027 from ~0.7% in fiscal 2022.

Government support, entry of global players, competitive launches, technological developments in battery technology, expanding EV infrastructure and rising awareness to support EV segment growth. Moreover, OEMs have strong EV plans for the next 5 years. During fiscal 2023, Tata Motors, the leading provider of electric vehicles in India (~81% share in EV retail sales in fiscal 2023 April-Dec), has achieved its target of 50k EV sales since entry (fiscal 2020) and is planning number of launches in the coming years. All major OEMs including Mahindra, Hyundai, Maruti also have a strong EV line up planned for the next 5 years. Global OEMs including BYD, Renault, MG, Tesla have EV vehicles planned to be launched in India.

Indian EV transmissions market outlook (fiscal 2022-2027P)



- **Accounting ratios**

Particulars	Six month ended September 30, 2022	Fiscal 2022	Fiscal 2021	Fiscal 2020
	(Amounts in ₹ millions, except EPS, %, and ratios)			
Revenue from operations	1,337.16	2,337.77	1,865.75	1,590.65
Revenue CAGR (From FY2020 to FY2022)	21.23%			
Total Income	1,375.47	2,418.74	1,950.25	1,707.40
EBITDA	370.87	656.13	518.99	369.35
EBITDA (%) of Revenue from Operations	27.74%	28.07%	27.82%	23.22%
EBITDA CAGR (From Fiscal 2020 to Fiscal 2022) (%)	33.28%			
EBIT	346.43	623.2	527.4	422.21
EBIT (%) of Total Revenue	25.19%	25.77%	27.04%	24.73%
PAT	256.64	461.51	380.44	280.39
PAT (%) of Total Revenue	18.66%	19.08%	19.51%	16.42%
PAT CAGR (From Fiscal 2020 to Fiscal 2022) (%)	28.30%			
Earnings Per Share (Basic)	9.32	16.76	13.82	11.64
Earnings Per Share (Diluted)	9.32	16.76	13.82	10.18
Debt Equity Ratio	0.01	0	0	0.24
Fixed Asset Turnover Ratio (Times)	0.71	1.3	1.16	1.12
ROE (%)	7.37%	14.52%	15.05%	16.20%
Adjusted ROCE (%)	14.96%	29.47%	27.41%	24.35%
Net Working Capital turnover Ratio	2.49	5.52	5.96	5.46
Current Ratio	4.03	4.4	4.09	2.31

Comparison with listed entity

Name of the company	Latest fiscal	Face value	P/E	EPS (Basic) (₹)	EPS (Diluted) (₹)	RONW (%)	NAV per equity share (₹)
Divgi TorqTransfer Systems Limited	Standalone	5	39.10*	15.09**	15.09	13.57	123.5
Listed peers							
Sona BLW Precision Forgings Limited	Consolidated	10	73.52	6.22	6.21	18.07	34.23
Bosch Limited	Consolidated	10	41.44	413.1	413.1	11.41	3,621.05
ZF Commercial Vehicle Control Systems India Limited	Consolidated	5	124.83	74.90	74.90	6.72	1114.57
Sundram Fasteners Limited	Consolidated	1	45.10	21.74	21.74	17.52	125.46
Endurance Technologies Limited	Consolidated	10	44.61	32.75	32.75	11.75	278.68

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on February 01, 2023.
2) */** P/E and EPS of company is calculated on basis TTM and post issue no. of equity shares issued.

Key Risk:

- Their business largely depends upon their top five customers, and the loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on their business.
- The geographical concentration of their exports to certain countries and the inability to operate and grow their business in such countries may have a material adverse effect on their business, financial condition, results of operations, cash flows and future business prospects.
- Their business could be adversely affected by volatility in the price or availability of raw materials and components.
- They depend on some third party suppliers for certain key components and raw materials used for manufacturing their systems and components. A disruption in the supply of these key components and raw materials and failure of their suppliers and third- party logistics service providers to meet their obligations could impact their on time supplies and input cost, if resourced from other suppliers.
- They may not be able to complete, or achieve the expected benefits from, current or future dealership acquisitions which could materially adversely affect their business, results of operations and financial condition.
- They have not yet placed orders in relation to the capital expenditure for the purchase of equipment's/machineries for their manufacturing facilities. In the event of any delay in placing the orders, or in the event the vendor is not able to provide the equipment's in a timely manner, or at all, it may result in time and cost overruns and their business, prospects and results of operations may be adversely affected.
- They may not be successful in implementing their growth strategies, including their strategy to capture market opportunity in the growing EV market and other new initiatives.
- Development of their technologically advanced systems and components involves a lengthy and expensive process with uncertain timelines and uncertain outcomes. They are dependent on the success of their R&D and the failure to develop new or improved products or process improvements, or production techniques could subject them to write-offs or otherwise adversely affect their business, financial condition and results of operations and have a negative impact on their competitive position.
- Their business faces substantial competition, and their success depends on their ability to understand evolving industry trends and to fulfil the changing preferences of their customers.
- One of their manufacturing facilities is leased. If they are unable to renew existing leases or relocate their operations on commercially reasonable terms, there may be an adverse effect on their business, financial condition and operations.

Valuation:

Divgi TorqTransfer systems limited are one of the very few suppliers in India having the capability to develop and provide system level transfer case, torque coupler, DCT solutions and transmission systems for EVs across a wide array of automotive vehicles and geographies with strategically located manufacturing facilities capable of producing high precision components meeting system-level design intent and long-term relationships with marquee domestic and global customers

At the upper price band company is valuing at P/E of 39x with a market cap of ₹ 18,043 million post issue of equity shares and return on net worth of 13.6%.

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

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- Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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