



**LONG TERM SUBSCRIBE**

**IPO Report**

28<sup>th</sup> Feb'23

**Snapshot**

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. Company is 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. Company is also the only player manufacturing and exporting transfer cases to global OEMs from India, and the only manufacturer of torque couplers in India

**VALUATION**

Company is bringing the issue at price band of Rs 560-590 per share at p/e multiple of more than 354x on post issue annualized 6mFY23 basis.

Company being 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. Company's strategically located manufacturing facilities are capable of producing high precision components meeting system-level design intent. Also company enjoys long-term relationships with marquee domestic and global customers along with consistent financial performance with focus on innovation and R&D capabilities

Hence, we recommend "Long Term Subscribe" on issue.

Price Band (Rs./Share)	560-590
Opening date of the issue	01 <sup>st</sup> March 2023
Closing Date of the issue	03 <sup>rd</sup> March 2023
No of shares pre issue	27,532,080 Eq Shares
Issue Size	Rs 400-412 Cr
Fresh Issue	Rs 180 Cr
Offer For Sale	3,934,243 Equity Shares
Face Value (Rs/ share)	Rs 5/share
Bid Lot	25

BIDDING DETAILS	
QIBs (Including Anchor)	75% of the offer (Approx 5,238,818 Eq Shares)
Non-Institutional	15% of the offer ( Approx 1,047,763 Eq Shares)
Retail	10 % of the offer ( Approx 6,98,508 Eq Shares)
Pre Issue Promoter & Group Holding	67.19%
Post Issue Promoter & Group Holding	60.48%
Lead managers	Inga Ventures, Equirus Capital
Registrar to the issue	Link Intime India Pvt Ltd.

**KEY HIGHLIGHTS**

***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.***

Divgi Torqtransfer Systems is 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. This has helped company in offering customized solutions to its OEM customers in a cost-effective manner and become the leading supplier of transfer cases, torque couplers and steel synchronizers in India. Company is 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.

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

Company 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. Company have been in continued business with BorgWarner, Tata Motors and Mahindra & Mahindra for over two decades. Company is engaged with few of leading OEMs in India, right from the stage of design and development and also providing product development support in the process. Based on the intensity of engagement, some of these engagements should fructify into long-term relationships across geographies and vehicle platforms.

***Consistent financial performance with focus on innovation and R&D capabilities.***

Company have established a track record of growth and financial performance with steady cash flows from operations. Between Fiscal 2020 and Fiscal 2022, company's profit after tax increased at a CAGR of 28.30%, as per Restated Financial Statements. Company's strong balance sheet and positive operating cash flows enable it to fund its strategic initiatives, pursue opportunities for growth and manage unanticipated cash flow variations.



## COMPANY BACKGROUND

Company have the capability to develop and provide transmission systems for electric vehicles (“EVs”). Company is 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, company 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. Further, company 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 (i) torque transfer systems (which includes fourwheel-drive (“4WD”) and all-wheel-drive (“AWD”) products); (ii) synchronizer systems for manual transmissions and DCT; and (iii) components for the above-mentioned product categories for torque transfer systems and synchronizer systems in manual transmission, DCT, and EVs. Company have also developed (i) transmission systems for EVs; (ii) DCT systems; and (iii) rear wheel drive manual transmissions. Divgi Torqtransfer Systems is 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’s diverse capabilities enable it to service customers across segments in the automotive industry, including passenger vehicles, utility vehicles and commercial vehicles. Having the ability to provide end-to-end solutions under one roof enables company to provide value added offerings, and increases its operational efficiency, resource optimization, and customer retention. Company supply to and have long term relationships with OEMs such as Mahindra & Mahindra, an Indian supplier to global automotive OEM, and a USA based multi-national automotive supplier. Company have a client base of global OEMs and global transmission systems suppliers.

Company have entered into a product development agreement (“PDA”) and a technology transfer agreement (“TTA”) with a German automotive company. Pursuant to the PDA and TTA, the Company is co-developing critical components and systems for DCT applications with exclusive rights for India and non-exclusive rights for markets outside India. The German automotive company is entitled to an earned royalty from company during the term of the TTA. The licensing arrangement pursuant to the TTA will continue for a period of 13 years from the date of signing till 2033. In connection to the PDA and TTA, the production of the products has not yet commenced. Company have also entered into a license agreement with BorgWarner on October 4, 2004, subsequently renewed on March 1, 2017, valid for a period of seven years from the date of renewal of the agreement. These agreements have bolstered company’s technological expertise and experience.

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



**INVESTMENT RATIONALE**

<p><i>Strategically located manufacturing facilities capable of producing high precision components meeting system-level design intent.</i></p>	<p>Company’s facilities are equipped with advanced machinery and certain of its facilities are located in close proximity to its key customers to enable meeting its customers’ demand schedules and logistical advantages for its customers, and to insulate them from local supply or other disruptions. Company 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 company’s key clients, and one under-construction manufacturing facility located at Shirwal. As on February 3, 2023, the construction of company’s facility at Shirwal, Maharashtra is 80.00% completed, and is expected to be fully completed by Fiscal 2024. Company strive to ensure that its manufacturing facilities are aligned with emerging trends in automation and premiumization which is demonstrated in its on-going contracts for supplying components for EVs and Hybrid Vehicles. Company’s manufacturing facilities are capable of handling varying production volumes and the multipurpose nature of infrastructure, enabling it to use its machinery for manufacturing various precision automotive drivetrain systems.</p>
<p><i>Experienced board of directors and senior management team supported by skilled and qualified workforce.</i></p>	<p>Company is led by a highly experienced board of directors, and a professional and experienced management team with extensive experience in the automotive industry. Company’s Promoters Jitendra Bhaskar Divgi and Hirendra Bhaskar Divgi, are mechanical engineers with considerable experience in the automotive industry. Jitendra Bhaskar Divgi, company’s Managing Director and Promoter, has a Master of Science degree in manufacturing from the University of Massachusetts, USA. Hirendra Bhaskar Divgi, company’s 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 company. Company’s Chairman, Praveen Purushottam Kadle has considerable experience in the automotive industry, and company is benefitted from his extensive experience.</p>
<p><i>Long-term relationships with marquee domestic and global customers.</i></p>	<p>Company have strong and well established relationships with several marquee domestic and global OEMs in the automobile sector such as Tata Motors, Mahindra &amp; Mahindra and with global suppliers such as BorgWarner. For instance, company have been in continued business with BorgWarner, Tata Motors and Mahindra &amp; Mahindra for over two decades. Company’s positioning as a system and solution provider entrenches it into the OEM eco-system, reduces the risk of purely price-based competition, and aids develop a deeper interface with its customers’ product development and senior management teams. With company’s track record and wide product portfolio, company have been able to retain its existing customers and have also been able to attract new customers. Company have a client base of global OEMs and global transmission systems suppliers.</p>



## OBJECTS OF OFFER

Company proposes to utilise the Net Proceeds from the Fresh Issue towards the following objects:

1. Funding capital expenditure requirements for the purchase of equipments/machineries of company's manufacturing facilities("Capital Expenditure"); and
2. General corporate purposes

## RISKS

Company derive a significant portion of its revenue from its top five customers, namely, Mahindra & Mahindra, Tata Motors, Toyota Kirloskar Auto Parts, BorgWarner and a Russian automobile manufacturer. Further, company is highly dependent on the revenue generated from M&M. Company derived a significant portion of its revenue from operations, i.e., ₹ 988.45 million or 73.92% for the six months period ended September 30, 2022, from M&M. Loss of all or a substantial portion of sales to any of company's top five customers, for any reason (including, due to loss of contracts or failure to negotiate acceptable terms in contract renewals, loss of market share of these customers, lack of commercial success of a product whose key parts company manufacture, disputes with customers, adverse change in the financial condition of such customers, including due to possible bankruptcy or liquidation or other financial hardship, merger or decline in their sales, reduced or delayed customer requirements, facility shutdowns, labour strikes, geopolitical reasons or other work stoppages affecting production by such customers) and/or, continued reduction of prices for the aforementioned customers which is not off-set by an increase in volumes, could have a material adverse impact on company's business, results of operations, financial condition and cash flows.

Source:RHP

## INDUSTRY OVERVIEW

### MARKET SIZING AND OUTLOOK OF RELEVANT AUTO COMPONENT SEGMENTS

Transfer case Transfer case system is used in four-wheel drive (4WD) or commonly known as 4X4 vehicle that has four driven wheels. In a 4X4 configuration the first 4 indicates that the vehicle has four wheels and the second 4 indicates that all four wheels are driven. A vehicle will have more pulling power and traction if all of its wheels are driven. This requires a transfer case system. Transfer case system involves the mechanical transfer case components and electronic components ECU & sensors. The transfer case system transfers power from the transmission to the front and rear axles by means of drive shafts. It also synchronizes the difference between the rotation of the front and rear wheels, and may contain one or more sets of low range gears. Set of reduction gear is used for low-speed and high-torque applications, such as for off-roading. When set of reduction gear are not used but torque is transferred to all 4-wheels, this is known as 4WD high. When 4WD low is engaged, it activates the reduction set in the transfer case and gives the extreme deep ratio which helps the vehicle drive in extreme conditions. In two-wheel drive (2WD) high, torque is transferred only to rear wheels, making a drive type as rear wheel drive (RWD). To shift between 4WD high, 4WD low and 2W options, in case of a mechanical shift on-the-fly transfer case, a selector lever is to be manually adjusted by the driver. In case of Electronic Shift On-the-Fly (ESOF) transfer case, a dash mounted selector switch or buttons is to be pushed by the driver to change the setting. In ESOF, the transfer case is installed along with an Electronic Control Unit (ECU), it provides a mechanism to select among above three options. Transfer cases systems are either chain driven, or gear driven. Gear-driven transfer cases use systems sets of gears to drive either the front or both the front and rear driveshafts. These are generally strong, heavy units that are used in large trucks. Chain-driven transfer cases systems use a chain to drive most often only one axle but can drive both axles. Chain-driven transfer cases are quieter and lighter than gear-driven ones. They are used in vehicles such as low-tonnage trucks, cars and SUVs. Some offroad driving enthusiasts modify their vehicles to use gear-driven transfer cases, accepting the additional weight and noise to gain the extra strength they generally provide. In India, except for few high-end models, the industry is dominated by chain driven transfer case systems in PV and SCV segment.

#### Transfer case market

##### 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. 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. 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 it is expected the penetration of 4WD to remain stable at current levels penetration of ~5%.

### **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. I

### **Synchroniser pack market**

#### **Outlook, fiscals 2022- 2027**

Market for synchroniser is expected to increase by 8-10% CAGR from fiscal 2022 and 2027 in volume terms and by 10-13% CAGR in value terms. Market for synchronizers is expected to touch Rs 39-41 billion by fiscal 2027. 87% 13% PV SCV Total market size, Fiscal 2022: INR 22.6 Billion 138 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. 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. 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.

### **Manual Transmission**

#### **Outlook, fiscals 2022- 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. SCV production is projected to clock 10-12% CAGR during the same period. From a high base, shift to automatic transmission coupled with reduction in the cost of technology is likely to impact the demand for manual transmission going ahead. Although it is expected to be the dominant transmission system even in fiscal 2027, the penetration levels are expected to come down compared to the current levels. Penetration of manual transmission in PV is expected to reduce from 72-74% in fiscal 2022 to 64-66% by fiscal 2027. However, in SCV segment, it is expected the penetration of manual transmission to remain at current levels of 100% even in fiscal 2027.

### **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.

### **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.



**Consolidated Financials**

(Rs in Cr)

<b>Financials</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>H1FY23</b>
Total Revenue (A)	1590.65	1865.75	2337.77	1337.16
Total Expenditure (B)	1221.3	1346.76	1681.64	966.29
EBIDTA	369.35	518.99	656.13	370.87
EBIDTA Margin	23.22	27.82	28.07	27.74
Other Income	116.75	84.50	80.97	38.31
Depreciation	63.89	76.09	113.91	62.75
EBIT	422.21	527.40	623.19	346.43
Interest	44.59	1.84	1.66	1.41
PBT	377.62	525.56	621.53	345.02
Extraordinary item	0.00	0.00	0.00	
PBT	377.62	525.56	621.53	345.02
Tax	97.23	145.12	160.02	88.38
PAT	280.39	380.44	461.51	256.64
Share of Profit in Associates	0.00	0.00	0.00	
PAT	280.39	380.44	461.51	256.64
NPM%	17.63	20.39	19.74	19.19
ROE %	13.38	12.86	13.57	7.20
EPS	11.64	13.82	16.76	9.32
Book Value	173.94	214.93	123.50	129.38
Eq Cap	60.23	68.83	137.66	137.66
Net Worth	2,095.33	2,958.76	3,400.15	3,562.04

(Source: RHP)



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