

Recommendation	Subscribe
Price Band	Rs. 560 – 590
Bidding Date	1 st – 3 rd March
Book Running Lead Manager	Equirus, INGA
Registrar	Link Intime
Sector	Automobile

Minimum Retail Application- Detail At Cut off Price

Number of Shares	25
Minimum Application Money	Rs. 14750
Discount to retail	0
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY21	FY22
Total Income	187	234
EBITDA	52	66
Adj PAT	38	46

Valuations(FY22)	Upper Band
Market Cap (Rs Cr)	1804
Adj EPS	13.2
PE	39.1
EV/ EBITDA	27.2
Enterprise Value (Rs Cr)	1788

Post Issue Shareholding Pattern	
Promoters	60.5%
Public	39.5%

Offer structure for different categories	
QIB (Including Mutual Fund)	75%
Non-Institutional	15%
Retail	10%
Post Issue Equity (Rs. in Cr)	15.29
Issue Size (Rs in Cr)	412
Face Value (Rs)	5

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BACKGROUND

Divgi TorqTransfer Systems (DTTS) is one of the leading players supplying transfer case systems to automotive OEMs in India and the largest supplier of transfer case systems to PV manufacturers in India. It is the only player manufacturing and exporting transfer cases to global OEMs from India, and the only manufacturer of torque couplers in India. DTTS also has the capability to develop and provide transmission systems for EVs.

Objects and Details of the Issue:

The public issue consists of fresh Issue of Equity shares aggregating upto Rs. 180 Cr and Offer for sale of Equity Shares aggregating upto Rs. 232 Cr. The company proposes to utilise the Net Proceeds of the Fresh Issue towards capital expenditure requirements for the purchase of machineries required for manufacturing.

Investment Rationale:

- 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
- Capturing market opportunities in the growing EV space, and the fast-growing demand for automatic transmissions in the passenger UV segment
- Continued focus on R&D to manufacture diverse products and expand into products to serve new and emerging trends
- Experienced senior management team

Valuation and Recommendation:-

DTTS's edge is its ability to develop and provide system level solutions like transfer case, torque coupler and DCT (dual clutch transmission) solutions backed by in-house software development capability. DTTS intends to leverage its presence in the fast growing UV automatics segment. With OEMs entirely dependent on imports for DCT, DTTS will be the only manufacturer of DCT systems in India. Also recently, DTTS has been awarded a contract for supply of EV transmission systems. Further such wins could propel the company into a higher growth orbit. DTTS is being offered at reasonable valuations at 39.1x FY22 earnings, considering the future growth opportunities. We recommend subscribing to the issue from long term perspective.

Financial Snapshot	FY20	FY21	FY22	H1FY23 Ann
Net Revenues	159	187	234	267
Growth		17%	25%	14%
EBIDTA	37	52	66	74
EBITDA Margins	23.2%	27.8%	28.1%	27.7%
PBT	38	53	62	69
Adjusted PAT	28	38	46	51
EPS	9.2	12.4	15.1	16.8
ROCE	16%	18%	18%	19%
EV/Sales	11.5	9.6	7.6	6.7
EV/EBITDA	49.7	34.4	27.2	24.3
P/E	64.4	47.4	39.1	35.2

Source: Company data, NBRR

Company Background

Divgi TorqTransfer Systems (DTTS) is one of the leading players supplying transfer case systems to automotive OEMs in India and the largest supplier of transfer case systems to PV manufacturers in India. It is the only player exporting transfer cases to global OEMs from India, and the only manufacturer of torque couplers in India. DTTS also has the capability to develop and provide transmission systems for EVs. DTTS has been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India. DTTS is in the process of designing and developing prototypes of transmission systems for this. Further, DTTS has been awarded a contract for supply of components for Hybrid Vehicles for a global OEM.

DTTS manufactures and supplies a variety of products under the broad categories of

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

DTTS has also developed

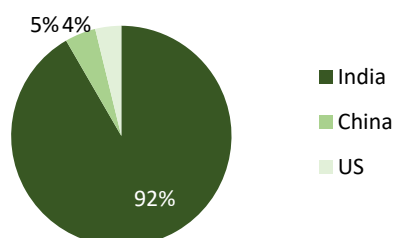
- (iv) Transmission systems for EVs.
- (v) DCT (dual clutch transmission) systems. DTSS will be the only manufacturer of DCT systems in India.
- (i) Rear wheel drive manual transmissions.

DTTS is one of the few companies that serves both as systems level solution provider as well as component kit supplier to global OEMs and Tier I transmission systems suppliers. It has an in-house software development capability which helps it in providing system level solutions offering software that controls the vehicle dynamics. Very few component suppliers as well as OEMs globally have the capability to develop the system integration software solutions in-house. Given this, system level solution providers such as DTSS are likely to be highly valued by vehicle manufacturers globally.

DTTS's relationships with various collaborators have played an instrumental role in its success. DTTS has entered into a product development agreement (PDA) and a technology transfer agreement (TTA) with a German automotive company. Pursuant to the PDA and TTA, DTTS is co-developing critical components and systems for DCT applications with exclusive rights for India and non-exclusive rights for markets outside India. In connection to the PDA and TTA, the production of the products has not yet commenced. DTTS has also entered into a license agreement with BorgWarner in 2004, subsequently renewed in 2017, valid for a period of seven years from the date of renewal of the agreement. These agreements have bolstered the company's technological expertise. Agreement with BorgWarner provides DTTS exclusive rights to manufacture transfer cases & automatic locking hubs, and non-exclusive rights to manufacture manual transmissions & synchronizers for manual transmissions.

DTTS has three manufacturing facilities across India located at Sirsi in Karnataka, and Shivare and Bhosari near Pune in Maharashtra and one under-construction facility located at Shirwal, Maharashtra (expected to be fully completed by FY24).

Revenue Mix H2FY23



Source: RHP

Automotive systems and components offered by DTTS

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	√	√	√	√	√

Source: RHP

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



Transmissions for BEV



Components



Ring Gear



Sun Gear



Assembly Hub
& Clutch Disc



Lock Up Collar
& Clutch Disc



Final Drive
Gear



Flange



Shaft

Investment Rationale

One of the very few suppliers in India having the capability to develop and provide system level transfer case, torque coupler, DCT solutions & transmission systems for EVs across automotive vehicles and geographies

DTTS 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 as it has in-house software development capability. It has designed, developed, manufactured and supplied software embedded electronically controlled transfer cases and torque couplers for OEMs like Tata Motors, and Mahindra & Mahindra, amongst others. DTTS has recently also been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India (supply yet to start). Further, it has been awarded a contract for supply of components for Hybrid Vehicles for a global OEM.

DTTS has entered into a product development agreement as well as technology transfer agreement with a German automotive company for DCT systems, and is engaged with a German engineering and digital mobility company for validation of its design prototypes. These agreements are entered into, on a product to product basis. These products are yet to be commercialized. Given the complexity of the mechanical and electronic part integration, software development remains one of the defining fields in the automotive component development. Very few component suppliers as well as OEMs globally have the capability to develop these system integration software solutions in-house. Given this, we believe that system level solution providers such as DTTS are likely to be highly valued by vehicle manufacturers globally. DTTS is one of the few companies who serves both as systems level solution provider as well as component kit supplier to global OEMs and Tier I transmission systems suppliers. This has helped DTTS 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. DTTS is one of the leading players supplying transfer case systems to OEMs in India and the largest supplier of transfer case systems to PV manufacturers in India.

DTTS is 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. DTTS designs, develops, manufactures and supplies engineered, turnkey solutions and components to automotive OEMs across India, USA and China amongst others. DTTS has developed transmission systems for EVs; DCT systems; and rear wheel drive manual transmissions. DTTS will be the only manufacturer of DCT systems in India.

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

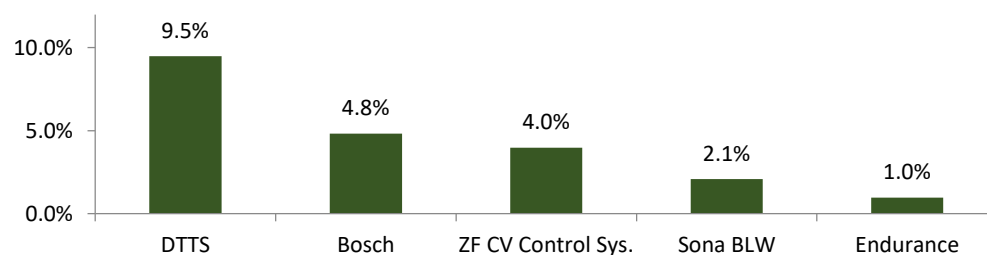
The market for EV transmission is expected to increase by a CAGR of 77-82% from FY22-27 in volume as well as value terms. The EV transmission market is expected to be around Rs. 42-44 billion with a volume of 435-440 thousand by FY27. DTTS has been awarded a contract for the supply of EV transmission systems for one of the leading providers of EVs in India, which will further its efforts in capitalising on the expanding EV space. As part of its growth strategy, DTTS plans to increase its market share in both the Indian and overseas markets by offering comprehensive transmission solutions and components to EV OEMs. As part of its strategy, it intends to enter into similar contracts with other customers across geographies.

DTTS intends to leverage its presence in yet another fast-developing trend, which is the increasing demand for automatics observed across the entire UV segment. The share of UVs in PV production has increased to 35% over the years. Penetration of DCT is expected to remain at the higher level in the compact UV and UV segments. Therefore, the size of DCT market is expected to grow at a CAGR of 27-30% to Rs. 26-28 billion by FY27. Currently OEMs in India are heavily dependent on imports for DCT. DTTS is amongst the very few suppliers in India who has the capability to develop and provide system level transfer case, torque coupler and DCT solutions as the company has in-house software development capability. Therefore, DTTS will be the only manufacturer of DCT systems in India.

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

DTTS's future growth depends on its ability to continue to design, develop and commercialize innovative, viable and sustainable new automotive systems and components in a timely and cost-effective manner. DTTS is an R&D led systems and solution provider offering differentiated and customized solutions to its customers as demonstrated by its recent contracts for EVs and Hybrid Vehicles. With the increasing penetration for automatics in PVs and with the emergence of EV, we believe that automotive drivetrains will shift from just mechanical systems to electronics control with embedded software to control the operation of these systems. DTTS aims 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, DTTS aims to develop solutions and alternatives for improving the torque density and reducing the weight of its DCT systems and EV transmission units through its R&D efforts. DTTS aims to leverage its core engineering competence to enter newer areas with similar technology intensity and margin profile such as defence applications and precision components for non-automotive segments. DTTS has developed extensive in-house capability to develop embedded systems and application software, along with integration capabilities to offer customers a complete solution. The aggregate expenditure on R&D and royalty as percent of revenue for DTTS is higher than most other peers.

R&D and royalty expenses as % of revenue (FY22)



Source: NBRR

Experienced senior management team

DTTS is led by a highly professional and experienced management team with extensive experience in the automotive industry. Its Promoters Jitendra Bhaskar Divgi and Hirendra Bhaskar Divgi, are mechanical engineers with considerable experience in the automotive industry. Jitendra Bhaskar Divgi, the Managing Director and Promoter, has a Master of Science degree in manufacturing from the University of Massachusetts, USA. Hirendra Bhaskar Divgi, the 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 the company. Majority of the key managerial personnel or senior management personnel have worked with DTTS for over ten years, resulting in effective operational coordination and continuity of business strategies. They have led the organization through acquisition of new customers and development of new systems and components.

Concerns

High dependence on top most client at 75%

The company derived 93% of revenue from top 5 clients during H1FY23. However the dependence on top most client (M&M) stood at 75.3% which seems extremely high. Loss of sales to this client due to loss of contracts, loss of market share of this client, adverse change in financial condition of this customer, including possible bankruptcy or other financial hardships could have an adverse impact on the business of DTTS.

Competition

DTTS faces competition from both Indian as well as overseas players. In addition to traditional competitors in the automotive sector, the trend towards advanced electronic integration and electrification has led to an increase in competition DTTS faces from technology focused new market entrants. In addition, a number of its major OEM customers manufacture for their own use and for others, products that compete with DTTS's systems and components. Other current OEM customers could elect to manufacture products to meet their own requirements or to compete with DTTS. For many of its products, its competitors include suppliers in parts of the world that enjoy economic advantages. Key competitors for DTTS include the following:

Products	Competitors
Transfer Case	Aisin, BorgWarner, Dana, Magna, Univance
Torque Coupler	Aisin, BorgWarner, Schaeffler, Valeo, ZF
Synchroniser Pack	Anand CY Myuteck Automotive, Natesan Synchrocones, Yugal Precision

Source: RHP

Valuation and Recommendation

DTTS's edge is its capability to develop and provide system level solutions like transfer case, torque coupler and DCT solutions backed by in-house software development capability. DTTS intends to leverage its presence in the fast growing UV automatics segment. With OEMs entirely dependent on imports for DCT (dual clutch transmission), DTTS will be the only manufacturer of DCT systems in India. Also recently, DTTS has been awarded a contract for supply of EV transmission systems. Further such wins could propel the company into a higher growth orbit. DTTS is being offered at reasonable valuations at 39.1x FY22 earnings, considering the future growth opportunities. We recommend subscribing to the issue from long term perspective.

Listed Auto Ancillary Players

FY22 Figures	Sona BLW	Bosch	ZF CV Control Sys	Endurance Tech.	Bharat Forge	Sundram Fasteners	Average	DTTS
Key Presence	Differential Gears & Starter Motors for EVs	Powertrain	Air Actuation Systems	Aluminum Diecast Products	Steel Forgings	Fasteners		Torque Transfer Systems
Revenue	2,131	11,782	2,543	7,549	10,461	4,902	6,561	234
CAGR (FY20-22)	43%	9%	15%	4%	14%	15%	17%	21%
Gross Margin	55.6%	38.1%	35.4%	41.5%	59.7%	58.0%	48.0%	59.9%
EBITDA Margin	26.3%	12.4%	9.9%	12.8%	18.8%	16.4%	16.1%	28.1%
Asset Turns (x)	0.9	1.1	2.1	1.6	0.8	1.4	1.3	0.7
ROE	17%	11%	12%	11%	16%	18%	14%	14%
ROCE	19%	14%	16%	13%	12%	19%	16%	18%
EV/Sales	12.8	4.2	7.5	2.4	4.2	4.3	5.9	7.6
EV/EBITDA	48.6	34.3	75.5	18.7	22.2	26.5	37.6	27.2
P/E	74.5	43.1	138.1	39.1	34.6	44.9	62.4	39.1

Source: NBRR

Financials

P&L (Rs. Cr)	FY20	FY21	FY22	H1FY23	H1FY23 Ann.
Net Revenue	159	187	234	134	267
% Growth		17%	25%		14%
Raw Materials	58	67	94	55	110
% of Revenues	36.6%	35.9%	40.1%	41.1%	41.1%
Employee Cost	20	22	23	13	27
% of Revenues	12.4%	11.7%	9.6%	9.9%	9.9%
Other expenses	44	46	52	28	57
% of Revenues	27.8%	24.6%	22.2%	21.2%	21.2%
EBITDA	37	52	66	37	74
EBITDA Margin	23.2%	27.8%	28.1%	27.7%	27.7%
Depreciation	6	8	11	6	13
Other Income	12	8	8	4	8
Interest	4	0	0	0	0
PBT	38	53	62	35	69
Tax	10	15	16	9	18
Tax rate	26%	28%	26%	26%	26%
PAT	28	38	46	26	51
% Growth		36%	21%		11%
EPS (Post Issue)	9.2	12.4	15.1	8.4	16.8

Return Ratios	FY20	FY21	FY22	H1FY23	H1FY23 Ann.
ROE (%)	13%	13%	14%		14%
ROCE (%)	16%	18%	18%		19%

Turnover Ratios	FY20	FY21	FY22	H1FY23	H1FY23 Ann.
Debtors Days	54	107	82		94
Inventory Days	48	52	47		44
Creditor Days	53	78	62		50
Asset Turnover (x)	0.6	0.6	0.7		0.7

Valuation Ratios	FY20	FY21	FY22	H1FY23	H1FY23 Ann.
Price/Earnings (x)	64.4	47.4	39.1		35.2
EV/EBITDA (x)	49.7	34.4	27.2		24.3
EV/Sales (x)	11.5	9.6	7.6		6.7
Price/BV (x)	28.2	19.9	17.4		16.6

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY20	FY21	FY22	H1FY23
Share Capital	6.0	6.9	13.8	13.8
Reserve & Surplus	204	289	326	342
Networth	210	296	340	356
Total Loans & Lease Liab.	51	1	0	2
Other non-curr liab.	5	6	5	5
Trade payable	23	40	40	37
Other Current Liab	15	20	20	30
Total Current Liab.	38	60	60	67
Total Equity & Liab.	304	363	405	430
Fixed Assets	96	112	140	156
Inventory	21	27	30	32
Other non Curr. assets	4	2	2	3
Cash	21	20	17	7
Bank Balance	129	139	156	155
Debtors	23	55	53	69
Other Current assets	10	9	8	9
Total Assets	304	363	405	430
Cash Flow (Rs. Cr)	FY20	FY21	FY22	H1FY23
EBITDA	37	52	66	37
Provisions & Others	3	5	2	0
Op. profit before WC	40	57	67	37
Change in WC	10	(17)	(1)	(20)
Less: Tax	12	12	16	7
CF from operations	38	27	51	10
Addition to assets	(13)	(26)	(40)	(17)
Term deposit with banks,	(16)	(9)	(17)	1
Interest Received	5	10	6	4
CF from Investing	(24)	(25)	(51)	(11)
Dividend & Lease Rentals	(5)	(2)	(3)	(10)
Proceeds from borrowing	(0)	(0)	(0)	0
Interest Paid	(0)	(0)	(0)	(0)
CF from Financing	(6)	(3)	(3)	(9)
Net Change in cash	8	(0)	(3)	(10)
Cash at beginning	12	21	20	17
Cash at end	21	20	17	7

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