Retail Research	IPO Note
Sector: Auto Components	Price Band (Rs): 560 - 590
1st March 2023	Recommendation: Subscribe (for long term horizon)

Divgi TorqTransfer Systems Limited (DDTS)

Company Overview:

Divgi TorqTransfer Systems Ltd. (DDTS) was established in 1964 as a small scale manufacturing enterprise and has 58+ years of experience in auto component industry. The company is the amongst the very few suppliers in India who have the capability to develop and provide system level Transfer Case, Torque Coupler, Dual Clutch Transmission (DCT) solutions. They are the largest supplier of Transfer Case System to passenger vehicles manufacturers in India and the only player manufacturing and exporting transfer cases to global OEMs from India. The company has long term relationships with marquee domestic and global OEMs like M&M, Tata Motors, Force Motors, Toyota Kirloskar Auto etc. The company has technical tie up with BorgWarner (German auto company) for Dual Clutch Transmission (DCT) applications.

Key Highlights:

Strong product portfolio for PV, UV and CV: The company supply a variety of products under the broad categories of Torque Transfer System, Dual Clutch Transmission (DCT), Transmission for BEV & components for Hybrid EV, Manual Transmission, Synchronizer Systems and related components. The company offer range of products to customers across passenger vehicles, utility vehicles and commercial vehicles. The product has applications across wide range of vehicle platforms like ICE – 4WD/AWD, ICE – Manual, ICE – Automatic, Hybrid vehicle and Battery Electric Vehicle (BEV).

Strong focus on R&D and advance in-house hardware and software capabilities: With the help of the global partner, the company has invested in defining its own logic, control algorithm, and application software. Successful R&D initiatives on software development by DDTS are transfer case control logic, NexTrac torque intervention logic, thermal shut down logic to protect the applications, and park lock-in EV application logic and control. The company is expected to bring in mechatronic expertise in the overall design and development phase of the transfer case.

Strategically located manufacturing facilities: The company's manufacturing facilities are strategically located close to its key customers and are spread across Maharashtra (Bhosari & Shivare) and Karnataka (Sirsi). In addition, the company has commenced construction of new manufacturing facility at Shirwal near Pune, Maharashtra (purchased 10 acres of land and commenced construction) which will add manufacturing capacity for DCT and EV transmissions and is expected to be fully completed by FY24.

Valuation:

The issue is valued at P/E multiple of 33.5x (at lower price band of Rs 560/share) and 35.2x (at upper price band of Rs 590) of its 6MFY23 annualised earnings. DDTS is one of the rare auto ancillary businesses where EBITDA margin is more than 25%, PAT margin is more than 19% and generates healthy mid-teens return ratios. We recommend investors to subscribe the issue at Cut-Off Price with long term investment horizon.

Issue Details	
Date of Opening	1st Mar 23
Date of Closing	3rd Mar 23
Price Band (Rs)	560 – 590
Issue Size (Rs cr)	400 - 412
No. of shares	71,48,529 – 69,85,090
Face Value (Rs)	5
Post Issue Market Cap (Rs cr)	1,722 – 1,804
BRLMs	Inga Venture Equirus Capital
Registrar	Link Intime India Pvt Ltd
Bid Lot	25 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB (HNI) shares	15%
Employee Reservation	-
Employee Discount	-

Objects of Issue	(Rs Cr.)
Gross Proceed From Fresh Issue	180
(Less) Funding Capex and General Corporate expenses*	-
Net Proceeds*	-

*To be finalised upon determination of the Offer Price and updated in the prospectus at the time of filing with the RoC

Shareholding Pattern

Pre Issue	No. of Shares	%
Promoter & Promoter Group	184,97,200	67.2
Public & Others	90,34,880	32.8
Total	**2,75,32,080**	**100.0**

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	1,84,97,200	60.2
Public & Others	1,22,49,166	39.8
Total	**3,07,46,366**	**100.0**

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	184,97,200	60.50
Public & Others	1,20,85,727	39.5
Total	**3,05,82,927**	**100.0**

Source: RHP, SSL Research

Risk factors

- The company's 93% of revenue comes from the top 5 customers. Any loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on the business.
- The company's overseas sales (9-10% of the total sales) are highly concentrated in two countries i.e. China and Russia. These countries contribute around 54.13% of the overall export volumes. The company has made investments in debt instruments that are not secured.
- Volatility in the raw material prices and unavailability of the raw material can adversely affect the business.
- The company depends on some third-party suppliers for certain key components and raw materials for the manufacturing of systems and components. The raw material purchased from South Korea/USA/CHINA as a percentage of total raw materials purchased is 9.8%/9.8%/4.4%.
- Fluctuation in forex can adversely affects business operations and finance.

Growth strategy

- Capturing market opportunities in the growing EV space, and the fast-growing demand for automatic transmissions in the passenger UVs segment.
- Improve market share and wallet share by increasing customer and geographic diversification.
- Cost optimization through product engineering and localisation
- Continued focus on R&D to manufacture diverse products and expand into products to serve new and emerging trends.

Product-wise Revenue Break-up (Rs cr)

Category	6MFY23	% Contribution	FY22	% Contribution	FY21	% Contribution	FY20	% Contribution
Transfer Cases	95.5	72.7%	153.2	68.1%	87.4	48.7%	49.8	32.7%
Transmission components	31.5	24.0%	66.8	29.7%	89.7	50.0%	99.4	65.3%
Auto locking hubs	4.2	3.2%	5.1	2.3%	2.3	1.3%	3.1	2.0%
Total	131.2	100.0%	225.1	100.0%	179.4	100.0%	152.3	100.0%

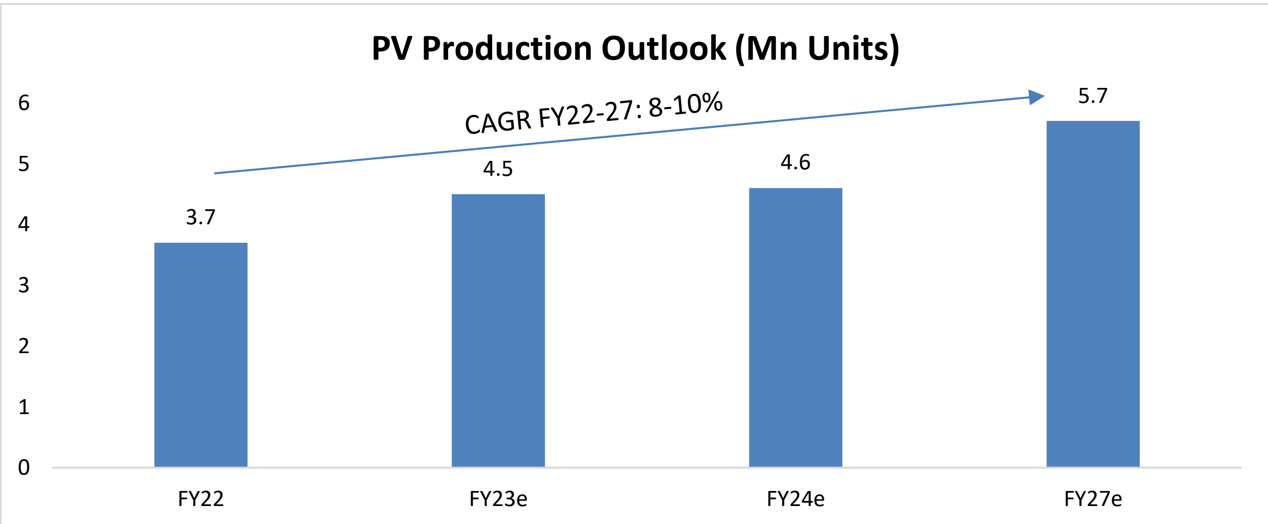
Installed Capacity & Capacity Utilisation %

Location	Owned /Leased		Product Type	Installed Capacity (In Pieces)*				Capacity Utilisation %			
				6MFY23	FY22	FY21	FY20	6MFY 23	FY22	FY21	FY20
Bhosari	Leased	A	Torque Transfer System								
		1	Transfer Case- ESOF	16,500	30,000	18,000	18,000	58	58	74	72
		2	Transfer Case-Mech	16,500	30,000	18,000	18,000	129	130	102	15
		3	ITM Coupler-Nextrac	11,150	23,100	-	-	20.5	6	-	-
Sirsi	Owned	1	Syncronisers Synchro Assembly	2,52,000	5,04,000	5,04,000	5,04,000	27	28	37	37
		2	Components Gears (including Planetary Sun Gear, Piece Gear, Ring Gear, Gear for Reverse Idler, Gears for main and counter shaft etc.)	7,29,300	1,45,86,000	13,12,740	13,12,740	49	59	87	92
Shivare	Owned	3	Torq Transfer System Auto Locking Hub	84,000	1,68,000	1,68,000	1,68,000	13	8	5	6
		4	Components Gears (including Planetary Sun Gear, Piece Gear, Ring Gear, Gear for Reverse Idler, Gears for main and counter shaft etc.)	2,94,000	5,88,000	5,29,200	4,49,820	53	34	16	34

Industry Overview

Outlook on the Indian Passenger Vehicle Industry (FY22- 27E)

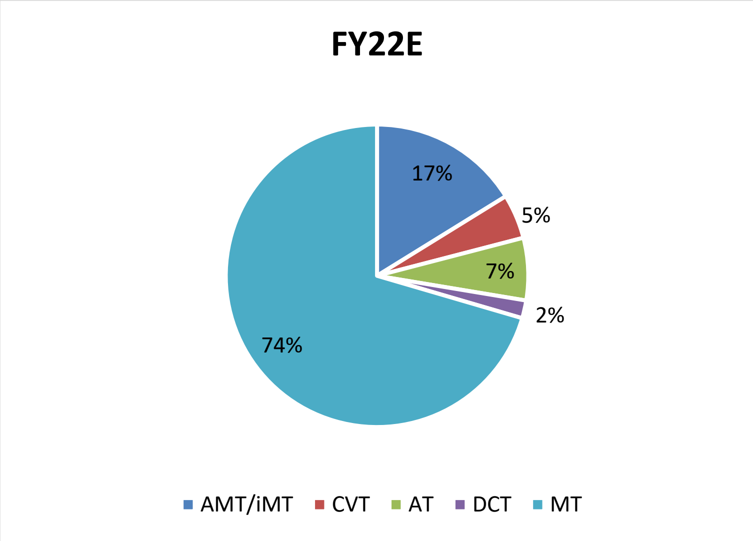
On a long-term horizon, CRISIL estimates overall PV production to grow at 8-10% CAGR from FY22 to FY27E to reach 5.5-6.0 million units by FY27E. Domestic sales are estimated to reach 4.8-5.0 million units growing at 9-11% CAGR while exports are projected to clock 5-7% CAGR growth in FY22- FY27E period.

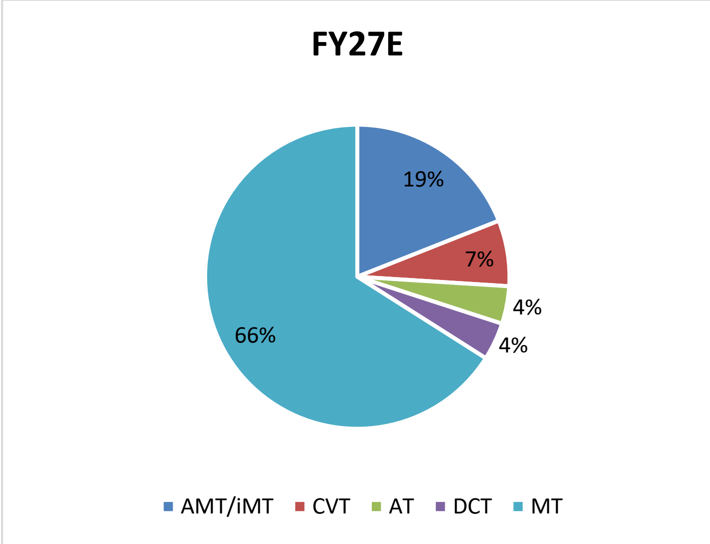


Source: SIAM, CRISIL MI&A

Trend in the Transmission Mix

CRISIL estimates AMT/iMT to account for 17-19% of domestic sales, CVT to account for 5-7% of domestic production. The premium technologies AT and DCT to account for remaining 4-8%. These transmissions are primarily imported in India where some localization is currently happening in the DCT transmission. Strong localization of DCT going ahead has the potential of replacing the AT transmission given the price advantage.



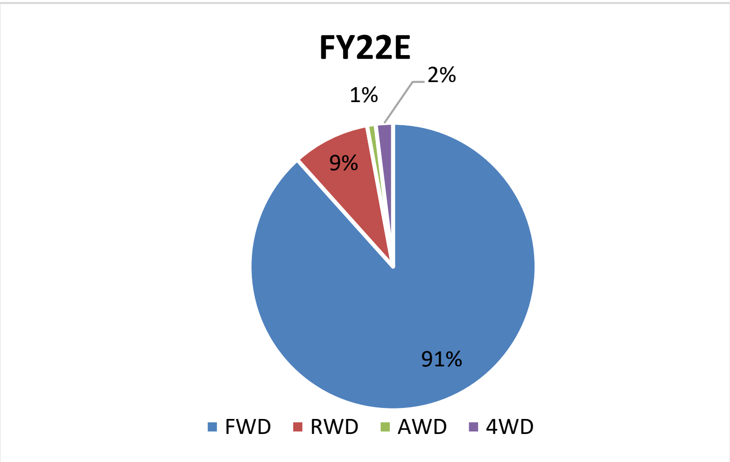


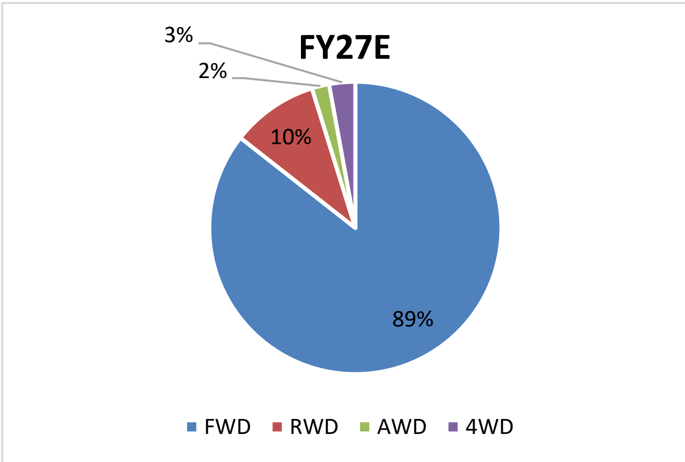
Source: SIAM, CRISIL MI&A

Source: SIAM, CRISIL MI&A

Split of PV Production by Drivetrain Type

Expected higher growth of UVs as compared to passenger cars will drive the growth of RWD and 4WD. Share of RWD and 4WD is expected to increase by 1-2% by FY27 driven by need for long distance driving, growing interests in off-roading. Share of AWD is expected to expand gradually by 1% by FY27 mainly due to its high initial cost as compared to other drivetrain categories. Accordingly, CRISIL estimates FWD vehicles to account for 87-89% of production in FY26, followed by 8-10% for RWD, 1-3% 4WD and 1-2% AWD. The all-wheel drive market is expected to remain niche in the next 5 years.



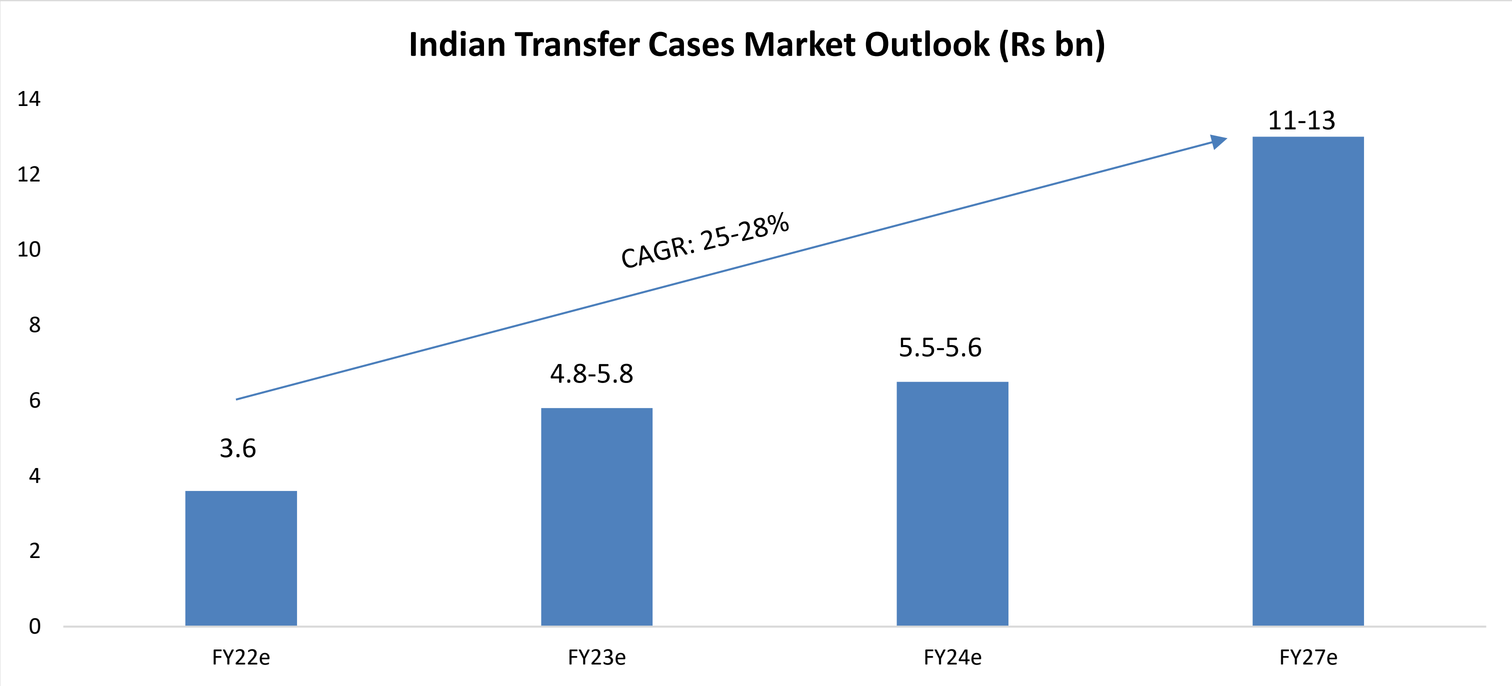


Source: SIAM, CRISIL MI&A

Source: SIAM, CRISIL MI&A

Transfer case industry split by application in value terms, (FY22- 27E)

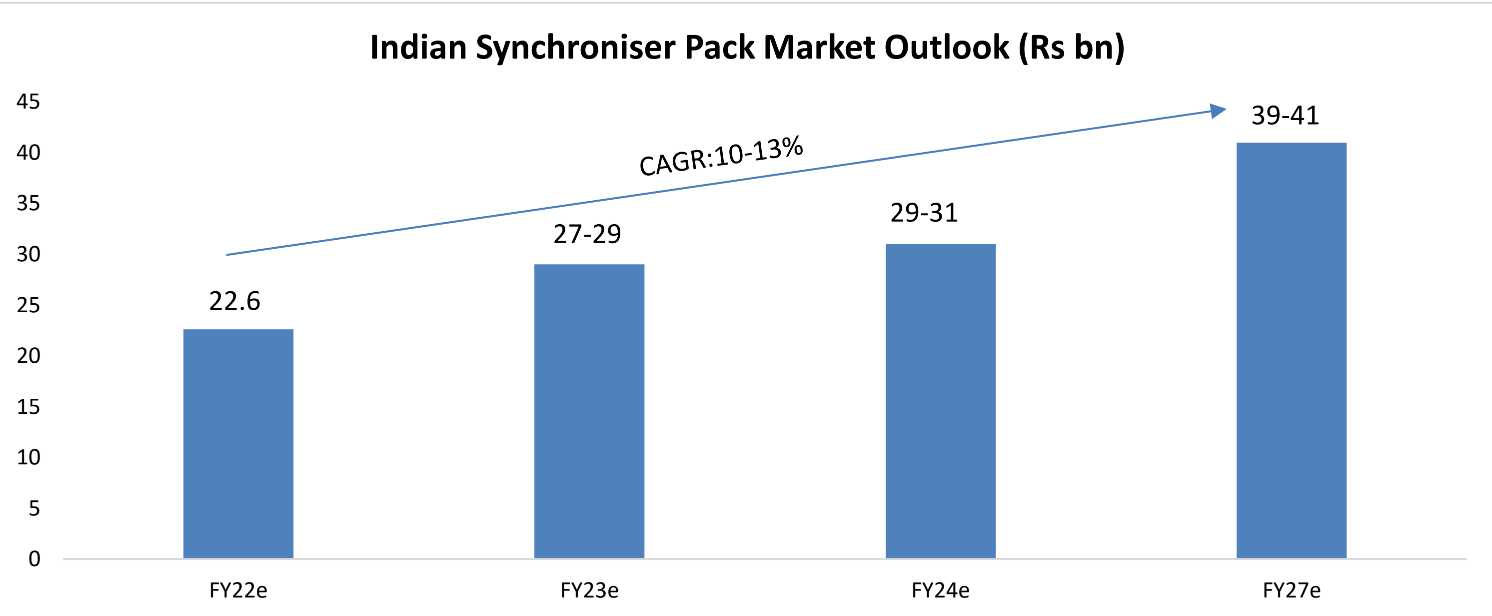
Market for transfer case is expected to increase by 24-27% CAGR from FY22 and FY27 that is from 89,000 units to 2,70,000-2,75,000 units in volume terms and by 25-28% CAGR in value terms i.e. from Rs 3.6 billion to Rs 11-13 billion.



Source: SIAM, CRISIL MI&A

Indian Synchroniser Pack Market Outlook (FY22-FY27E)

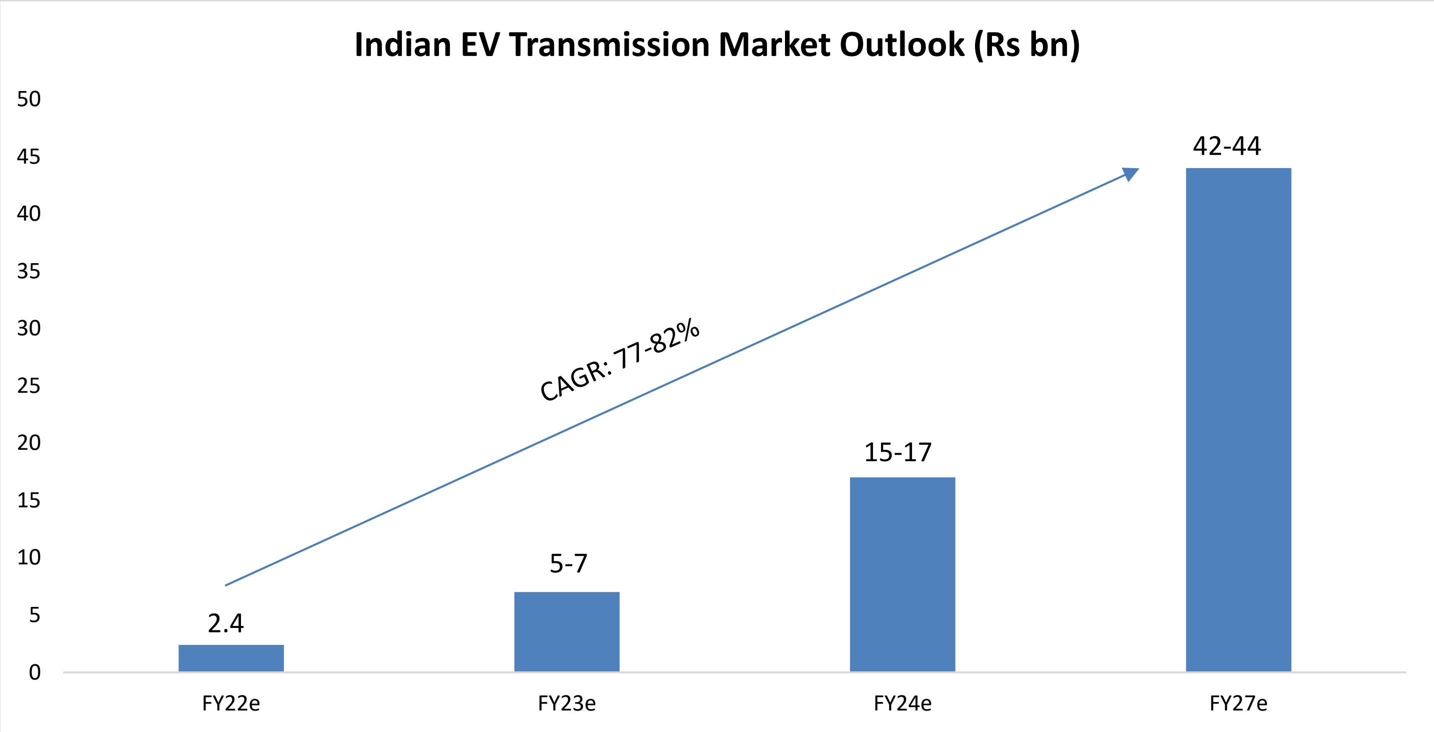
Market for synchroniser is expected to increase by 8-10% CAGR from FY22 and FY27 in volume terms and by 10-13% CAGR in value terms. Market for synchronizers is expected to touch Rs 39-41 billion by FY27.



Source: SIAM, CRISIL MI&A

Indian EV Transmissions Market Outlook (FY22-FY27E)

Market for EV transmission is expected to increase by 77-82% CAGR from FY22 and FY27 in volume terms as well as value terms. EV transmission market is expected to be around Rs 42-44 billion with a volume of 4,35,000-4,40,000 by FY27.



Source: SIAM, CRISIL MI&A

Financial Snapshot

Divgi TorqTransfer Systems Limited (DDTS)			
(Rs. Cr.)	**Pre Issue**	**Post Issue**	
	FY22	**6MFY23 (Annualised)**	
Particulars		**Price Band**	
		560 (Lower)	590 (Upper)
Net Sales	233.8	267.4	267.4
Total Income	241.9	275.1	275.1
EBIDTA	65.6	74.2	74.2
PAT#	46.2	51.3	51.3
Equity Share Capital	13.8	15.4	15.3
No of Equity Shares (in crs)	2.8	3.1*	3.1*
Face Value	5.0	5.0	5.0
EPS	**16.8**	**16.7**	**16.8**
CMP	560.0	560.0	590.0
Cash and Bank	173.2	341.7	341.7
Debt	0.1	0.5	0.5
Market Cap	1,541.8	1,721.8	1,804.4
BV per share (Rs)	123.5	174.4	175.3
PE(x)	33.4	33.5	35.2
P/BV (x)	4.5	3.2	3.4
Enterprise Value	1,368.7	1,380.6	1,463.2
Mcap/Sales (x)	6.6	6.4	6.7
EV/Sales (x)	5.9	5.2	5.5
EV/EBIDTA (x)	20.9	18.6	19.7
EBITDA Margins (%)	28.1	27.7	27.7
Net Margins (%)	19.7	19.2	19.2
ROE (%)	15.1	14.5	11.7
ROCE (%)	19.0	19.6	15.8
Debt/Equity	0.0	0.0	0.0
Net worth	340.0	536.2	536.2

*(Source: RHP, SSL Research). *Post issue*

Year	FY20	FY21	FY22
Net Sales	159.1	186.6	233.8
EBITDA	36.9	51.9	65.6
Net Profit	28.0	38.0	46.2
EBITDA Margin (%)	23.2	27.8	28.1
Net Profit Margin (%)	17.6	20.4	19.7

(Source: RHP, SSL Research)

Peer Comparison

Particulars (Rs cr)	Divgi TorqTransfer System Ltd	Sundram Fasten.	Sona BLW Precis.	ZF Commercial	Endurance Tech.
CMP (Rs)	590.0	983.5	448.1	10551.3	1248.9
Sales	233.8	4902.1	2130.6	2543.4	7549.1
EBITDA	65.6	801.4	559.1	252.5	933.2
Net Profit	46.2	456.7	361.5	142.1	460.7
PE (x)	35.2	45.2	72.6	140.8	38.1
M.Cap (Rs Crs)	1624.4	20666.1	26232.0	20005.3	17566.7
EBITDA Margin (%)	28.1	16.3	26.2	9.9	12.4
RoE (%)	15.1	18.6	21.4	6.7	12.3
RoCE (%)	19.0	20.0	22.6	9.2	13.6

(Source: RHP, SSL Research, The valuation is based on FY22 financial data)

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