



**IPO Report**

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30<sup>th</sup> Oct' 21

**Snapshot**

Company is one of the leading players in the Indian decorative aesthetics industry in terms of revenue in Fiscal 2020 and as at March 31, 2021, offered the widest range of aesthetics products in India. Company is a “design-to-delivery” aesthetics solutions provider with the ability to design, develop and manufacture a diverse product portfolio for a wide range of customers primarily in the automotive and consumer appliance industries.

**VALUATION**

Company is bringing the issue at price band of Rs 531-542 per share at p/e multiple of 35 on FY21 eps. Company being leading aesthetics solution provider with an extensive suite of premium products in a growing industry, has strong manufacturing capabilities supported by an established supply chain and delivery mechanism. Company has strong innovation and product design and development capabilities with long-standing customer relationships & has strong financial position and track record of financial performance. Hence we recommend “Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>531-542</b>
<b>Opening date of the issue</b>	<b>01<sup>st</sup> Nov 2021</b>
<b>Closing Date of the issue</b>	<b>03<sup>rd</sup> Nov 2021</b>
<b>No of shares pre issue</b>	30,437,904 Eq Shares
<b>Issue size</b>	Rs 800 Cr
<b>Offer For Sale</b>	Rs 800 Cr
<b>Face Value (Rs/ share)</b>	10
<b>Bid Lot</b>	27

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 7380072 Cr Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 2214023 Cr Eq Shares)
<b>Retail</b>	35 % of the offer (Approx 5166052 Cr Eq Shares)
<b>Lead managers</b>	Axis Capital, Edelweiss Financial, IIFL Securities
<b>Registrar to the issue</b>	Link Intime India Pvt. Ltd.

**WHAT WE LIKE**

**Long-standing customer relationships**

Company’s key customer base includes automotive OEMs, global Tier-1 automotive component suppliers, consumer durables/appliances manufacturers, medical devices manufacturers and sanitary ware manufacturers. As at June 30, 2021, company’s relationship with its 10 largest customers in terms of revenue averaged approximately 15 years. Company expanded its product offerings and geographical reach to its customer including in the U.S., Brazil, Mexico, Russia, Slovakia, Thailand, Tunisia and Vietnam. Company have received several awards from its key customers including Whirlpool, Suzuki, Honda Motorcycle and Samsung, for supplier excellence, quality performance, price competitiveness, support and valuable contribution.

**Offer Advanced technology products**

Company is the one of the few aesthetics product manufacturers in India to offer advanced technology products such as capacitive overlays and optical plastics. Over the last few years, Company has introduced new, premium products, some of which were developed in-house, such as IML/IMDs (which are used in interior panels for vehicles and in consumer appliances), aluminium badges, 3D dials, tactile overlays and lens mask assemblies. Company’s subsidiary also has the capability to develop rapid prototypes to support its customers. Company’s Subsidiary manufactures approximately 50 to 60 injection moulding tools per year to meet the customization requirements of the customers.

**Leading aesthetics solution provider with an extensive suite of premium products in a growing industry**

Company supplied over 115 million parts with more than 6,000 SKUs in Fiscal 2021 to around 170 customers in approximately 90 cities across 20 countries. Company’s product offerings include decals and body graphics, 2D appliques and dials, 3D appliques and dials, 3D lux badges, domes, overlays, aluminium badges, IML/IMD, lens mask assembly and chrome-plated, printed and painted injection moulded plastic parts. Company also offer a variety of accessories for the two-wheelers’ and passenger vehicles’ aftermarket under its “Transform” brand. Company have developed capabilities to engineer products across multiple substrates (or materials such as plastic and metal), from styling and tooling to injection moulding, lens moulding, high end printing, metal forming and plastic chrome-plating. The Exotech Acquisition is synergistic to its business and provides company with opportunities to cross-sell its products across a diversified customer base, while expanding into the growing chrome-plated parts business.



## COMPANY BACKGROUND

Company differentiate on the basis of the wide range of its product portfolio, quality of its product offerings, company's product design and development capabilities and the strength of its relationships with customers located across various industries globally.

In addition to manufacturing aesthetics products that cater to the requirements for two-wheeler, passenger vehicle and consumer appliance industries, company also manufacture a wide range of aesthetics products that cater to the requirements of the commercial vehicles, medical devices, farm equipment and sanitary ware industries. Company's product offerings include decals and body graphics, 2D appliques and dials, 3D appliques and dials, 3D lux badges, domes, overlays, aluminium badges, "In-mould" label or decoration parts ("IML/IMD(s)"), lens mask assembly and chrome-plated, printed and painted injection moulded plastic parts.

Company also offer a variety of accessories for the two-wheelers' and passenger vehicles' aftermarket under its "Transform" brand. Company's key customer base includes:

- well-known automotive original equipment manufacturers ("OEMs") such as Suzuki, Mahindra & Mahindra, John Deere, Volkswagen, Ashok Leyland, Honda Motorcycle, Bajaj Auto, Royal Enfield and TVS Motors;
- Tier-1 automotive component suppliers such as Marelli, Visteon, Brembo and Mindarika;
- well-known consumer durables/appliances manufacturers such as Whirlpool, Panasonic, Samsung, Eureka Forbes, Godrej and Liebherr;
- medical devices manufacturers such as Sensa Core; and
- sanitary ware manufacturers such as Geberit.

Company's Subsidiary, Exotech, which it acquired on April 5, 2021, caters to requirements in the two-wheelers, passenger vehicles, consumer durables/appliances, farm equipment and sanitary ware industries for chrome-plated, printed and painted injection moulded plastic parts. The acquisition has enhanced company's product suite and customer base and provided it cross-selling opportunities to its existing and future customer base.

Company manufacture its products from modern manufacturing facilities located in Bengaluru and Pune in India, with the facility in Pune acquired as part of the recent acquisition of company's Subsidiary. As at June 30, 2021, the annual production capacity of the Bengaluru and Pune facilities was 209.70 million and 29.50 million products, respectively. In the three month period ended June 30, 2021, company and its subsidiary produced 21.27 million and 3.95 million products, respectively, resulting in capacity utilization rates of 10.14% and 13.38% respectively, and their revenue from operations during the three month period ended June 30, 2021 were ₹568.07 million and ₹174.62 million, respectively. Further, in Fiscal 2021, company and its subsidiary produced 91.94 million and 15.60 million products, respectively, resulting in capacity utilization rates of 44.07% and 52.88% respectively, and their revenue from operations during Fiscal 2021 were ₹2,516.16 million and ₹685.26 million, respectively. Company incurred capital expenditure in Fiscals 2018 and 2019 for its Bengaluru facility, with advanced equipment and technology systems. As a result, the annual production capacity at its Bengaluru facility can be increased to 209.70 million products without significant additional capital expenditure.

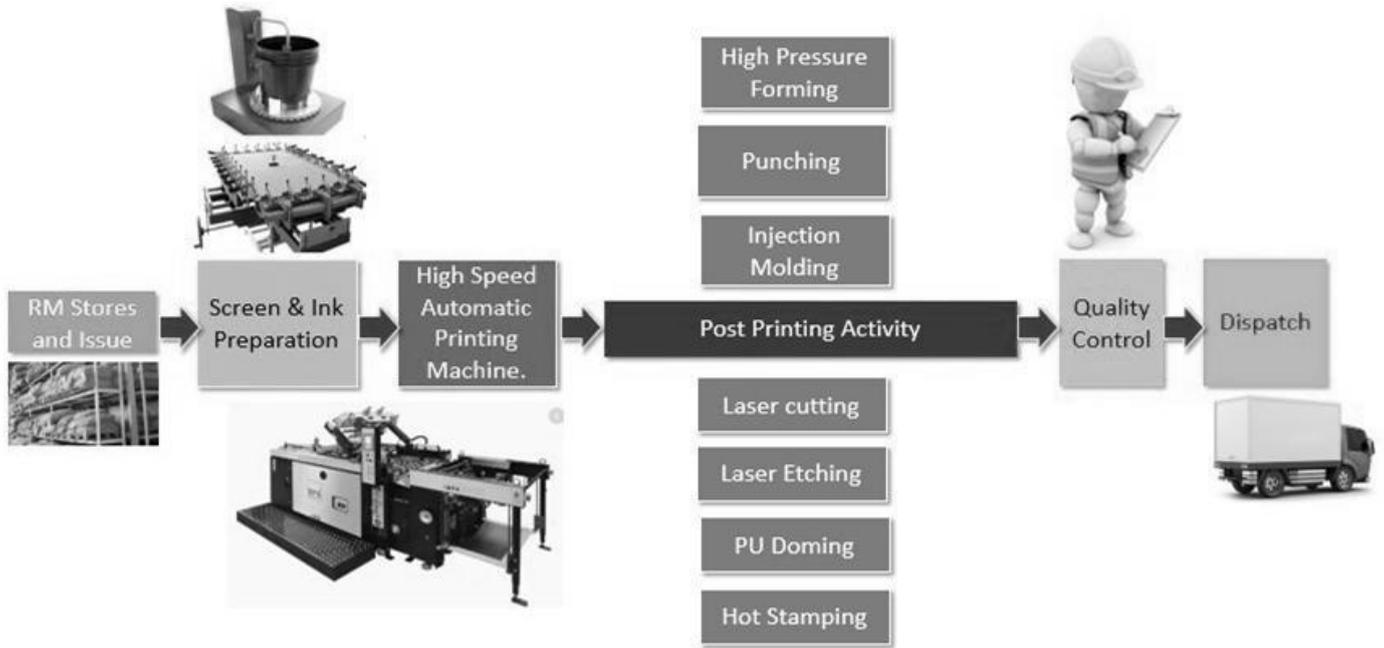


## INVESTMENT RATIONALE

<p><i>Strong manufacturing capabilities supported by an established supply chain and delivery mechanism</i></p>	<p>Company manufacture its aesthetics products from manufacturing facilities located in Bengaluru and Pune in India spread across an area of approximately 235,000 and 68,350 square feet, respectively. As at June 30, 2021, the annual production capacity of company's and its subsidiary's manufacturing facility was 209.70 million and 29.50 million products, respectively and their capacity utilization rates were of 10.14% and 13.38%, respectively, during the three month period ended June 30, 2021, and their revenue from operations during this period were ₹568.07 million and ₹174.62 million, respectively. Further, as at March 31, 2021, the annual production capacity of Company's and its Subsidiary's manufacturing facility was 208.61 million and 29.50 million products, respectively and their capacity utilization rates were of 44.07% and 52.88%, respectively, in Fiscal 2021, and their revenue from operations during Fiscal 2021 were ₹2,516.16 million and ₹685.26 million, respectively . Company incurred capital expenditure in Fiscals 2018 and 2019 for its Bengaluru facility, and its annual production capacity can be increased to 209.70 million products without significant additional capital expenditure. Also, company's Bengaluru facility has additional land to undertake further expansion, if required, to capitalize on the growth of company's industry.</p>
<p><i>Strong innovation and product design and development capabilities</i></p>	<p>As at June 30, 2021, Company had a team of 44 personnel for NPD, representing approximately 8.64% of its total on-roll manpower as at that date. This included a dedicated design and development team of six personnel, which primarily works on the design, development and prototypes of new products and certain product upgrades. Company's Subsidiary also has a design department which includes computer-aided-design ("CAD") engineers, program managers and tooling managers to manage any new product lifecycle. Company have developed capabilities to engineer products using multiple material substrates (or materials such as plastic and metal) and processes, from injection moulding to metal forming, with support (for analysis, simulation and equipment supply) from dedicated suppliers that adhere to company's stringent quality standards.</p>
<p><i>Experienced and qualified management team</i></p>	<p>Company benefit from the experience and industry expertise of its senior management. K.A. Joseph, its Managing Director and one of company's Promoters, has been instrumental in the establishment and growth of company's business. He has been associated with Company for the last 34 years. K.A. Joseph oversees company's manufacturing operations and has significant experience in the aesthetics industry. Sanjay Thapar, company's Chief Executive Officer, has over 30 years of experience in the automotive industry and has been associated with company since 2015. He has led, and has shaped, company's product strategy and international business expansion in recent years.</p>



**Key Manufacturing Capabilities**



Source : RHP

**OBJECTS OF ISSUE**

Company will not directly receive any proceeds from the Offer and all the Offer Proceeds will be received by the Selling Shareholders, in proportion to the Offered Shares sold by the respective Selling Shareholders as part of the Offer.

**RISKS**

Sales to company’s top five customers (based on revenue in three month period ended June30, 2021) represented 63.91% of company’s revenue from operations in that period. Sales to company’s top five customers (based on revenue in Fiscal 2021) represented 62.66%, 59.73% and 65.90% of its revenue from operations in Fiscals 2021, 2020 and 2019, respectively, and sales to company’s top 10 customers (based on revenue in Fiscal 2021) represented 87.33%, 86.40% and 85.66% of its revenue from operations in Fiscals 2021, 2020 and 2019, respectively.

Company’s key customers operate primarily in the two-wheeler, passenger vehicle and consumer appliance industries

Source:RHP



## INDUSTRY OVERVIEW

Superior demand for decorative aesthetics will be driven by the following factors:

### ***Growth in the underlying application segments***

India is one of the fastest growing market for passenger vehicles and consumer durables in the world. CRISIL Research projects two-wheelers and passenger vehicle production to grow at a CAGR of 10.00% to 12.00% each, over Fiscals 2021 to 2026. Even the demand for consumer durables is expected to grow at a 10.00% to 12.00% CAGR over the same period. India is one of the fastest-growing markets in the world for passenger vehicle, two-wheeler and consumer durables. Demand for passenger vehicles is expected to be aided by low current penetration, rising disposable income, increment and improvement in road connectivity. Whereas demand for two-wheelers is also expected to be aided by rising disposable income, increment and improvement in road connectivity. Production of passenger vehicles and two-wheelers will be aided by the emergence of India as an export hub to developed as well as developing economies. Whereas, the demand for consumer durables will be driven by low current penetration, especially in case of room ACs, washing machines, rising disposable income and improvement in the standard of living, rising urbanisation and nuclearisation of families.

In addition, India has emerged as manufacturing hub for key global OEMs which are increasingly considering to cater to their global customer base with passenger vehicles manufactured in India. Indian passenger vehicle exports which accounted for approximately 13.00% of domestic passenger vehicle production in Fiscal 2021, are projected to grow at a CAGR of 11.00% to 13.00% between Fiscals 2021 and 2026. Similarly, aesthetic product suppliers are expected to gain from export potential of other automobile segments such as two wheelers, three wheelers, tractors, and commercial vehicle as well as consumer appliances in future.

### ***Shift towards premium products/variants***

Consumers are increasingly preferring premium, aesthetically superior and technology savvy products, driven by rising disposable income and exposure to developed markets. Consumers are emotionally attached with discretionary products, such as passenger vehicles, two-wheelers, where such products often symbolize their lifestyle. Therefore, consumers are increasingly willing to pay for aesthetically superior and differentiated products. Consumer preference is shifting towards bigger cars. Demand for small cars have declined from approximately 63.00% in 2015 to approximately 53.00% in 2021. In addition, the demand for mid and top variants of passenger vehicle models has seen a gradual increase over years. CRISIL Research further expects the contribution of mid plus top variant to increase 5.00% to 10.00% in the small car segment, followed by 15.00% in the large car and UV segment by 2026. Notably, manufacturers of automobiles and consumer durables are not only trying to add features but also trying to increase the aesthetic value of their products.

### ***Increasing penetration of superior aesthetic products across product categories***

The value content of the decorative aesthetic across the applications with increasing penetration and intensity of superior aesthetics across two wheelers, passenger vehicles and consumer durables. For instance, the penetration of optical plastics, chrome-plated parts, IML/IMD parts is currently limited to specific variants across select models across passenger vehicles.

### ***Technology shift towards higher costing newer aesthetic products***

Advancement in technology is resulting in use of newer and higher value aesthetic components in end industries and consequently increased realizations for aesthetic product manufacturers. Technologically superior aesthetic products are also gaining preference among vehicle or equipment manufacturers as it is not only helping them differentiate their product offerings from their competition but also create freshness in their offering. Even customers are showing appreciation for these aesthetically enhanced products.



**(Rs in Mn)**

<b>Financials</b>	<b>Q1FY22</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>
Total Revenue (A)	742.69	2516.16	2161.73	2372.52
Total Expenditure (B)	567.08	1754.5	1526.64	1691.22
EBIDTA	175.61	761.66	635.09	681.30
EBIDTA Margin	23.65	30.27	29.38	28.72
Other Income	10.25	35.38	51.00	35.11
Depreciation	51.05	147.49	127.69	96.96
EBIT	134.81	649.55	558.40	619.45
Interest	7.17	7.77	14.90	16.63
PBT	127.64	641.78	543.50	602.82
Tax	32.68	164.13	130.65	153.59
PAT	94.96	477.65	412.85	376.01
NPM	12.79	18.98	19.10	15.85
ROE %	2.97	15.15	14.76	15.76
EPS	3.12	15.69	13.56	12.35
Eq Cap	304.38	304.38	304.38	304.38
Net Worth	3197.61	3152.16	2796.5	2385.57



**PEERS ANALYSIS**

Following is peer group analysis:

Summary financial indicators for key aesthetics industry players

Companies	Operating Income	Exports	Operating EBITDA Margin	PAT margin	ROCE	ROE	Gearing Ratio	
	Fiscal 2020	CAGR Fiscal 2014-2020	Fiscal 2020					
	(Rs million)	(%)	(%)	(%)	(%)	(%)	(%)	
Polyplastics Industries India Private Limited	4504.00	13.44	8.00	12.20	4.90	13.30	11.80	0.6
Classic Stripes Private Limited*	3588.00	1.50	0.00	28.90	11.80	26.30	19.20	0.5
S.J.S. Enterprises Limited	2155.00	15.11	15.00	31.90	18.00	22.80	16.50	0.0
PRS Permacel Private Limited	1351.00	8.61	0.00	1.90	(1.5)	2.70	(22.10)	3.6
Monochem Graphics Private Limited	1080.00	11.05	0.00	24.20	28.00	17.90	13.20	0.00
Galva Deco Parts Private Limited	1070.00	23.61	0.00	22.70	(3.60)	6.10	(10.00)	2.90
Kongovi Private Limited	969.00	9.80	25.00	17.20	7.00	9.90	12.10	1.00
Average	2102.43	9.37		19.20	8.80	14.40	6.10	1.20

Source: RHP



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