

## IPO Note

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# DIVGI TORQ TRANSFER SYSTEM LIMITED

March 01, 2023





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**Details of the Issue**

Price Band	₹ 560 - ₹ 590
Issue Size	₹ 400 Cr - ₹ 412 Cr
Face Value	₹ 5
Bid Lot	25
Listing on	BSE, NSE
Post Issue Mcap	₹ 1,722 Cr - ₹ 1,804 Cr
Investment Range	₹ 14,000 - ₹ 14,705

**Important Indicative Dates (2022)**

Opening	01 - Mar
Closing	03 - Mar
Basis of Allotment	09 - Mar
Refund Initiation	10 - Mar
Credit to Demat	13 - Mar
Listing Date	14 - Mar

**Lead Manager**

Inga Ventures Private Limited
Equirus Capital Private Limited

**No of shares (Mn)**

Fresh Issue of Shares	3.21
Offer for Sales	3.93
Total No of Shares	7.14

**Offer Details**

Offer Size	₹ 412 Cr
Fresh Issue	₹ 180 Cr
OFS	₹ 232 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	309.09	5.23	5.36	75%
NIB	61.82	1.04	1.07	15%
Retail	41.21	0.69	0.71	10%
Empl.	-	-	-	-
Total	412	6.98	7.14	100%

Type (In MN)	Pre-Issue		Post-Issue	
	No. Shares	% of Total	No. of Shares	% of Total
Promoter	17.25	62.64	17.25	56.39
Promoter Group	1.25	4.55	1.25	4.09
Public	9.04	32.82	12.08	39.51
Employee Trust	-	-	-	-
Total	27.53	100	30.58	100

**Invest Now****Company Profile**

Divgi TorqTransfer Systems Limited is an automotive component entity incorporated in 1964. They specialize in developing and providing system-level transfer cases, torque couplers, and dual-clutch automatic transmission solutions. They are the leading supplier of transfer case systems to passenger vehicle manufacturers in India and the only player manufacturing and exporting transfer cases to global OEMs from India. They also manufacture torque couplers and supply a wide range of products including torque transfer systems, synchronizer systems for manual transmissions and DCT, and components for these products. Additionally, they have developed transmission systems for EVs, DCT systems, and rear-wheel-drive manual transmissions. They serve as both systems-level solution providers and component kit suppliers to global OEMs and Tier I transmission systems suppliers.

**Business Highlights & Services**

Divgi Torq Transfer system 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 (Source: CRISIL Report). 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. They 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. Therefore, They will be the only manufacturer of DCT systems in India (Source: CRISIL Report). Very few component suppliers as well as OEMs globally have the capability to develop the system integration software solutions in-house (Source: CRISIL Report). Given this, They believe that system level solution providers such as they are likely to be highly valued by vehicle manufacturers globally.

They have diverse capabilities enable them to service customers across segments in the automotive industry, including passenger vehicles, utility vehicles and commercial vehicles. They believe that having the ability to provide end-to-end solutions under one roof enables them to provide value added offerings, and increases their operational efficiency, resource optimization, and customer retention. They supply to and have long term relationships with OEMs such as Mahindra & Mahindra, an Indian supplier to global auto



an motive OEM, and a USA based multi-national automotive supplier. The company has entered into a product development agreement and technology transfer agreement with a German automotive company, with exclusive rights for India and non-exclusive rights for markets outside India. The agreement will continue for 13 years from the date of signing. The company has also entered into a license agreement with BorgWarner, with exclusive rights to manufacture transfer cases and automatic locking hubs, and non-exclusive rights to manufacture manual transmissions and synchronizers for manual transmissions. The validity of these contracts is longer as the products are still in the development phase. The company has an exclusive distribution agreement with a Japanese automotive supply chain company. The company has received investments from NRJN Family Trust in 2016 and Oman India Joint Investment Fund II in 2018. These collaborations have contributed to the company's growth and development.

#### Manufacturing Facilities and Location:

The company has three manufacturing and assembling facilities in India located in Karnataka and Maharashtra, with one under-construction facility at Shirwal. The Shirwal facility is expected to be completed by Fiscal 2024. The company manufactures transmission, transfer case, and synchronizer components at its Sirsi facility, while its Shivare facility houses grinding and superfinishing equipment for precision and accuracy in EV and DCT applications globally. The Bhosari facility is used for assembling, lab testing, and packing of components and systems, and is strategically located near key customers such as Tata Motors and Mahindra & Mahindra.

Their manufacturing facilities have been duly certified in accordance with international standards of quality management systems, environmental management systems, health and safety management systems and specialized processes such as IATF 16949:2016, ISO 45001:2018 and ISO 14001:2015. They have been awarded the "Innovation Award for ECU" by BorgWarner for the year 2008, and "Zero Defect Supplies" by Toyota Kirloskar Auto Parts for the years 2017 and 2020 in recognition of their outstanding contribution by achieving zero defect supplies.

They have an under construction manufacturing facility at Shirwal, in Maharashtra which is situated on a freehold property. 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.

The map below sets out map shows the locations of manufacturing facilities.



#### Customer:

Company serves customers both in India and overseas, with a reduction in global sales due to various factors but an increase in domestic sales due to the launch of a new product. They have established long-term relationships with top global and domestic OEMs, including Tata Motors and Mahindra & Mahindra, dating back over two decades. Their strong business relations are built with upper management and start from the design and development stage.

Their top five customers as of September 2022 are listed in the table below.:-

Customer	Sep 30,2022	FY 2022	FY 2021	FY 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	0.00%	11.71%	15.79%	14.12%
<b>Total</b>	<b>94.40%</b>	<b>94.80%</b>	<b>96.56%</b>	<b>90.77%</b>





## Product Portfolios:

**Torque Transfer Systems:-** Company make transfer cases for RWD vehicles and AWD systems for FWD vehicles. Their transfer cases come in two types, geared and chain driven, with manual, electric, and automatic shift options. Their AWD system uses a torque coupler to transfer torque to the rear wheels on low-friction surfaces. They specialize in multidisc wet clutch type AWD systems. Their products improve vehicle handling and torque in challenging driving conditions.



**Solutions in Manual Transmission:-** Company have developed manual transmissions for rear-wheel-drive applications with maximum input torque ranging between 220 Nm to 450 Nm. The designs are flexible to offer customers various shift linkage options such as direct shift, semi-remote shift or remote cable shift. They can be configured either in 4X2 or coupled with their transfer cases to offer 4X4 solutions. Primary market segment targeted is the pickup truck and rear wheel drive-based SUV segment.

Manual Transmission



**Synchronizer Systems:-** Company is specialize in designing and manufacturing synchronizer systems for manual and automatic transmissions in various vehicles, using carbon lining on steel for better performance and durability. Their range of synchronizers covers small hatchbacks to large SUVs, light to medium commercial vehicles, and agricultural tractors.

Synchronizer Systems



**Precision components for all of above products:-** In addition to designing and manufacturing automotive drivetrain systems, They also provide precision components needed for their production. They focus areas include precision gears and shafts, synchronizer components, and components for planetary reduction sets. This allows them to achieve economies of scale in component manufacturing, making their systems competitive even at modest volumes.



**Transmissions for Battery Electric Vehicles:-** Company had designed a series of transmissions for battery electric vehicles (BEVs) with the aim of enhancing transmission efficiency and reducing weight for a given torque. Their in-house design capabilities are bolstered by benchmarking some of the industry's best practices. They currently offer three transmissions that are suitable for motors with power ratings of 55 Kilowatts, 60 Kilowatts, and 95 Kilowatts. Additionally, they can integrate these transmissions with electronic park lock systems that they have developed based on customer requirements.





### Competition

The automotive component manufacturing industry is very competitive, and they face significant competition from both players from India as well as overseas. Technology, price, design, quality, delivery, engineering development and program launch support are the primary elements of competition in their markets. They compete worldwide with a number of other Indian and foreign manufacturers that produce and sell similar products. In addition to traditional competitors in the automotive sector, the trend towards advanced electronic integration and electrification has led to an increase in competition they face from technology focused new market entrants. In addition, a number of their major OEM customers manufacture for their own use and for others, products that compete with their systems and components. Other current OEM customers could elect to manufacture products to meet their own requirements or to compete with Company. For many of their products, their competitors include suppliers in parts of the world that enjoy economic advantages.

The table below sets forth their key competitors as per the CRISIL Report:

Product	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

### Industries Peers Comparison

Name of the company	Face Value (₹)	EPS	NAV (₹)	P/E	RoNW(%)
Divgi TorqTransfer Systems Limited	5	16.76	123.5	NA	13.57%
Peer Group					
Sona BLW Precision Forgings Limited	10	6.22	34.23	73.52	18.07%
Bosch Limited	10	413.10	3621.05	41.44	11.41%
ZF Commercial Vehicle Control Systems India Limited	5	74.90	1114.57	124.83	6.72%
Sundram Fasteners Limited	1	21.74	125.64	45.10	17.52%
Endurance Technologies Limited	10	32.75	278.68	44.61	11.75%

### Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Funding capital expenditure requirements for the purchase of equipment/machineries of their manufacturing facilities of ₹ 151 cr.
- General Purpose.

### Company's Promoter

Jitendra Bhaskar Divgi, Hirendra Bhaskar Divgi and Divgi Holdings Private Limited are the promoters of the company.

### Board of Directors

It boards of directors include Praveen Purushottam Kadle who is the Independent Director and chairman of the company. Jitendra Bhaskar Divgi who is the MD of the company. Hirendra Bhaskar Divgi who is the Whole Time Director. Sanjay Bhalchandra digvi, Pradip Vasant Dubhasi are the Non-Executive Non- Independent director of the company. Ajay Bhaskar Limaye the the Non-Executive Non- Nomi-nee Independent Director and Pundalik Dinkar Kudva, Geeta Prafullachandra Tolia is the Independent Director of the company.

Companies Competitive Strength :

- 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.
- Strategically located manufacturing facilities capable of producing high precision components meeting system-level design intent.
- Long-term relationships with marquee domestic and global customers.
- Experienced board of directors and senior management team supported by skilled and qualified workforce.
- Consistent financial performance with focus on innovation and R&D capabilities.

Key Strategies Implemented by Company

- 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.

Particulars (Rs Cr)	2022	2021	2020
Equity Share Capital	13.76	6.88	6.02
Reserves	326	289	204
Net worth as stated	340	296	210
Revenue from Operation	233.77	186.57	159.06
Revenue Growth (%)	25.30%	17.30%	-
EBITDA as Stated	65.61	51.89	36.93
EBITDA margin (%)	28%	27.81%	23.22%
Profit Before Tax	62.15	52.55	37.76
Net Profit for the period	46.15	38.04	28.03
Net Profit (%) as Stated	19.07%	19.51%	16.39%
EPS (₹ )	16.76	13.82	11.64
RoNW (%)	13.57	12.86	13.30
NAV (₹)	124	108	87

Valuations and Recommendation:

- Divgi Torq Transfer System limited annualized earning arrives at ₹ 51.32 Cr based on (6MFY23). Company is expected to have post Market cap of ₹ 1,804. Cr, Which implies a earning multiple (P/E) of 35.15(x).
- The valuation is in line with listed peers and company has a niches business model, which provide variety of product for OEM product with in a singe integrated system with strong track record of growth hence, We recommend “ Subscribe” rating to the issue.



## Notes

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