

Divgi TorqTransfer Systems Ltd.

CAPEX to drive growth



Kyon ki bhaiya, sabse bada rupaiya.

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CAPEX to drive growth.

Divgi TorqTransfer (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 passenger vehicle 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 Systems Limited manufactures and supplies a wide range which includes:

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

The company is in the process of designing and developing prototypes of transmission systems for EVs, it received a business award for this. The company has an in-house software development capability which helps it 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.

The company has three manufacturing and assembling facilities across India located at Sirsi in Karnataka, and Shivare and Bhosari near Pune. The manufacturing facilities at Shivare and Bhosari are strategically located in proximity to its key clients. It also has one under-construction manufacturing facility located at Shirwal, Maharashtra. The company has purchased 10 acres of land at Shirwal near Pune in Maharashtra and commenced construction. This will help it in expanding its manufacturing capacity including for manufacture of DCT and EV transmissions.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Adj PAT	EBITDA (%)	Net (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	159.0	36.9	28.0	23.2	16.4	11.6	76.1	16.2	29.8	50.8	7.7	43.5
FY21	186.6	51.9	38.0	27.8	19.5	13.8	107.5	15.1	32.4	42.7	5.5	30.9
FY22	233.8	65.6	46.1	28.1	19.1	16.8	123.5	14.5	33.4	35.1	4.8	24.5

Industry Services

Issue Details

Listing	BSE & NSE
Open Date	1st Mar 2023
Close Date	3 rd Mar 2023
Price Band	INR 560-590
Face Value	INR 5
Market Lot	25 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	57.33%
Fresh Issue	43.67%
Issue Size (Amt)	INR 180cr
Issue Size (Shares)	39,34,243
QIB Share (%)	≤ 75%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 10%
Pre-issue sh (nos)	2,75,32,080
Post-issue sh (nos)	3,05,82,927
Post issue M Cap	INR 1,800 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	62.6	56.4
Promoter Group	4.5	4.0
Public	32.8	39.5
TOTAL	100.0	100.0



FY20-22 performance: Pandemic affected the sale of vehicles in India which directly affected the sales of components required in the vehicles

The summary of performance of the company from FY20 to FY22 is as follows

- Revenue from operations increase from ₹1,590.65 as at March 31, 2020 to ₹1,865.75 as at March 31, 2021 primarily on account of increase in sale of products by ₹ 271.11 million led by an increase in value of transfer case sold.
- Profit increased from ₹ 380.44 million as at March 31, 2021 to ₹ 461.53 million as at March 31, 2022 primarily due to increase in total income.
- EBITDA increased from ₹ 518.99 million as at March 31, 2021 to ₹ 656.13 million as at March 31, 2022 primarily due to increase in revenue from operations. EBITDA increased from ₹ 369.35 million as at March 31, 2020 to ₹ 518.99 million as at March 31, 2021 primarily due to increase in revenue from operations.
- ROCE increased from 27.41% as at March 31, 2021 to 29.47% as at March 31, 2022 primarily due to increase in profit.
- ROE decreased from 15.05% as at March 31, 2021 to 14.52% as at March 31, 2022 primarily due to increase in net worth.

EBITDA and adjusted PAT grew at a CAGR of 20.9% to INR 656.1 cr and 28.3% to INR 256.6 cr respectively, while EBITDA and adjusted PAT margins improved by 490 bps to 28.1% and 270 bps to 19.1% respectively. Subsequently, return ratios – RoE and RoIC – decreased by 170 bps to 14.5% and 360 bps to 36.4%, respectively.

H1FY23 performance: Strong revenue performance sustained

- Revenue from operation was ₹1,337.16 million for the six months period ended on September 30, 2022.
- Revenue from operations increase from ₹1,590.65 as at March 31, 2020 to ₹1,865.75 as at March 31, 2021 primarily on account of increase in sale of products by ₹ 271.11 million led by an increase in value of transfer case sold.

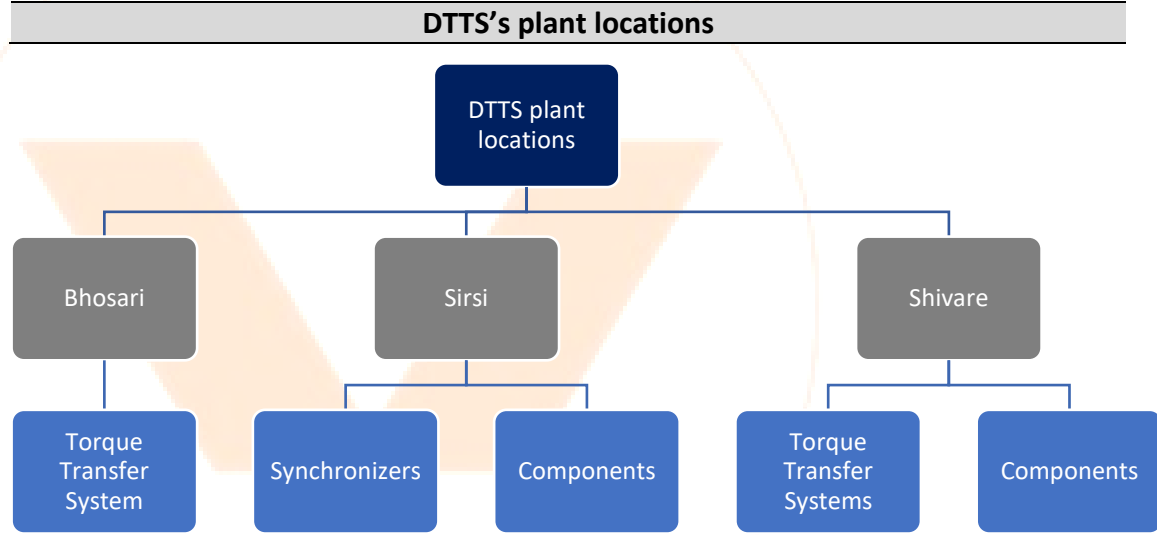
Issue details and valuations

Oman India Joint Venture Investment Fund II (OIJVIF) is the promoter of DTTS and holds 21.71% of the company. In the upcoming OFS, OIJVIF is selling 59,77,360, which will reduce its shareholding to 12.19%. At the IPO price of INR 590 (upper price band), DTTS is trading at a TTM P/E of 35.1X, which is lower than its peers – Bosch (TTM P/E of 38.6X) and Tube Investments (I) Ltd (66.2X).

DTTS’s key strengths

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.

The company is amongst the very few suppliers in India who have the capability to develop and provide system-level transfer case, torque couplers and DCT solutions as it has in-house software development capability (Source: CRISIL Report). It has designed, developed, manufactured and supplied software embedded electronically controlled transfer cases and torque couplers for OEMs like Tata Motors, Mahindra & Mahindra Limited, amongst others. The company has, in the past, worked with Indian OEMs as development partners for new projects.



Source: Company Reports

Strategically located manufacturing facilities capable of producing high-precision components meeting system-level design intent.

The facilities are equipped with advanced machinery and certain of its facilities are located in close proximity to key customers to enable meeting their demand schedules and provide logistical advantages to their customers, and to insulate them from local suppliers or other disruptions. The company has 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 its key clients, and one under-construction manufacturing facility located at Shirwal. As on February 3, 2023, the construction of the facility at Shirwal, Maharashtra was 80.00% completed, and is expected to be fully completed by Fiscal 2024.



It endeavours to combine modern manufacturing technology and engineering expertise with prudent operational management processes to deliver quality products in an efficient manner which has enabled it to penetrate markets like USA, China, Korea, Russia, and others. Further, it believes that the manufacturing strength enables localization of critical torque transfer components which helps its customers achieve quality and supply chain security at optimized costs. For instance, Divgi TTS is the only manufacturer of torque couplers in India (Source: CRISIL Report).

It manufactures transmission, transfer case and synchronizer components at its facility in Sirsi. The company's facility at Shivare, Maharashtra houses grinding and superfinishing equipment to achieve standards in precision and accuracy including those demanded by EV and DCT applications globally and transmission components. The facility at Bhosari, Maharashtra which is the assembling, lab testing and packing unit for the manufactured components and systems, and the facility at Shivare are both strategically located in proximity to its key customers as well as the port for export located at New Mumbai, Maharashtra.

Long-term relationships with marquee domestic and global customers.

The company has 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. For instance, it has been in continued business with BorgWarner, Tata Motors and Mahindra & Mahindra for over two decades. Its positioning as a system and solution provider entrenches it into the OEM eco-system, reduces the risk of purely price-based competition, and aids it to develop a deeper interface with its customers' product development and senior management teams. With its track record and wide product portfolio, it has been able to retain existing customers and have also attract new one.

Experienced board of directors and senior management team supported by skilled and qualified workforce.

The company is led by a highly experienced board of directors, and a 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, our 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. The Chairman, Praveen Purushottam Kadle has considerable experience in the automotive industry, and it is benefitted from his extensive experience.



Top clients across various businesses

Top Clients	Duration of the relationship
BorgWarner	>20years
TATA Motors	>30years
Mahindra & Mahindra	>20years
TOYOTA Kirloskar Auto Parts	>20years

Source: Company Reports

DTTS's future growth strategies

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

The company's focus on continuous efficiency improvements, improved productivity and cost rationalization has enabled it to deliver consistent and strong financial and operational performance. The business model is supported by stable and recurring revenues, with a consistent track record of revenue growth and profitability. The company has established a track record of growth and financial performance with steady cash flows from its operations. Between Fiscal 2020 and Fiscal 2022, the profit after tax increased at a CAGR of 28.30%, as per its Restated Financial Statements. The strong balance sheet and positive operating cash flows enable it to fund strategic initiatives, pursue opportunities for growth and manage unanticipated cash flow variations. Despite the overall slowdown in the global automotive sector in Fiscal 2020 and the impact of the COVID-19 pandemic, it was able to maintain the EBITDA margins.

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

The market opportunities in the growing EV space are ample, as the global trend towards electrification of vehicles continues to surge. The market for EV transmission is expected to increase by CAGR of 77-82% from Fiscal 2022 and 2027 in volume terms as well as value terms (Source: CRISIL Report). The EV transmission market is expected to be around ₹ 42-44 billion with a volume of 435-440 thousand by Fiscal 2027 (Source: CRISIL Report). The belief is that the key drivers of vehicle electrification include environmental concerns and public awareness of the importance to reduce CO2 emissions and other pollutants, progressive termination of fossil fuel vehicles by some countries, government support and fiscal incentives that support the trend towards vehicle electrification, stringent emission and fuel economy norms introduced by several countries to combat the impact of climate change and encourage alternate cleaner fuels, increasing investment in charging infrastructure for EVs and decline in price of EV batteries contributing towards adoption of EVs.

Improve the market share and wallet share by increasing customer and geographic diversification.

The company intends to strengthen the relationships with its existing customers and explore opportunities to grow along the value chain by expanding the array of the existing products and solutions that we supply to the customers across geographies, and to win new customer



contracts by developing products and solutions aligned with their needs. The aim is to consolidate and strengthen its market share in domestic and global markets in its existing automotive powertrain solutions and products portfolio by leveraging its long-standing customer relationships to enter into new products and vehicle programs, expand into new geographies for existing customers and develop new customers. The company believes that its long-term relationship with well-recognized OEMs and global supplier, focus on tailor-made precision components, well-accepted processes, and global delivery model will help them in such endeavors and will enable them to become the supplier of choice in the industry.

Cost optimization through product engineering and localisation.

The company's component business complements the product systems and solutions. While its components business offers economies of scale which helps optimize costs for the product systems and solutions, its understanding of the vehicle dynamics through its engagement in product systems and solutions helps offer components which are better suited to its customers. Currently, OEMs in India are heavily dependent on imports for a large cross-section of products. The entity has and continues to engage with customers to re-engineer products which helps achieve better operational and cost efficiencies. For instance, it has independently developed a cost-effective 32-bit processor for BorgWarner towards their transfer case application in replacement of their existing 8-bit technology, with the team receiving an award of recognition from BorgWarner for this innovation.

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

Future growth depends on the company's ability to continue to design, develop and commercialize innovative, viable, and sustainable new automotive systems and components in a timely and cost-effective manner, improve the existing systems and components or develop process improvements that can shorten production times, improve quality and cost efficiency. It believes that it is an R&D-led systems and solution provider offering differentiated and customized solutions to customers as demonstrated by recent contracts for EVs and Hybrid Vehicles. With the increasing penetration of automatics in passenger vehicles and with the emergence of EVs, automotive drivetrains will shift from just mechanical systems to electronics control with embedded software to control the operation of these systems. The company aims to capture this growing trend by continuously investing in R&D to develop and deliver new and innovative systems and components.

Management Team

Key Person	Designation	Details
Praveen Purushottam Kadle	Chairman	He is an Independent Director on our Board. He has received a bachelors' degree in Commerce, Accounting and Auditing from the University of Bombay and has qualified as a Chartered Accountant in 1982, has qualified from the Institute of Cost and Works Accountants of India in 1983 and as a Company Secretary in 1983.
Jitendra Bhaskar Divgi	Managing Director	He has received a bachelors' degree in Mechanical Engineer (Honours) from The Birla Institute of Technology & Science, Pilani in the year 1985 and has received a Master's of Science Degree in Manufacturing from the University of Massachusetts, USA in the year 1986. Before joining Divgi Metalwares in 1994, he worked at Digital Equipment Corporation, Massachusetts.
Bharat Bhalchandra Divgi	Director	He is Hons. Graduate in Commerce from Indian Institute of Management & Commerce, Hyderabad. He served in various capacities at the Company since 1981 including the position of Deputy Manager, finance in 1985. He has over 20 years of experience with the Company.
Sanjay Bhalchandra Divgi	Director	Non-Executive Director on the Board. He served in various capacities at the Company since 1986 which included new product development and managing manufacturing operations.
Ajay Bhaskar Limaye	Nominee Director	Appointed by Oman India Joint Investment Fund II. He is a CFA Charter holder with prior qualification as a Production Engineer from Amravati University. He was previously associated with CEAT Limited as a senior executive (systems); Gujarat Venture Finance Limited as a deputy manager (projects)

Source: Company Reports

Key Risks & Concerns

- The business largely depends upon its top five customers, and the loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on the business.
- The geographical concentration of its exports to certain countries and the inability to operate and grow the business in such countries may have a material adverse effect on its business, financial condition, results of operations, cash flows, and future business prospects.
- The business could be adversely affected by volatility in the price or availability of raw materials and components.
- It depends on some third-party suppliers for certain key components and raw materials used for manufacturing its systems and components. A disruption in the supply of these key components and raw materials and failure of its suppliers and third-party logistics service providers to meet their obligations and could impact its on-time supplies and input cost, if sourced from other suppliers.

Issue Structure and Offer Details

The proposed OFS size of DTTS is INR 232 cr and the price band for the issue is in the range of INR 560-590 and the bid lot is 25 shares and multiples thereof.

Issue Structure		
Category	Allocation	No of Shares
QIB	Not less than 75% of public	29,50,682
Non Institutional buyers	Not more than 15%	5,90,136
Retail	Not more than 10%	3,93,424
Total		39,34,243

Number of share based on higher price band of INR 590

Source: Company Reports

Details of selling shareholders		
Name of selling shareholder	Type	No of Shares
Oman India Joint Investment Fund II	Investors	22,50,000
NRJN Family Trust	Investors	14,41,441
Kishore Mangesh Kalbag	Investors	15,232
Bharat Bhalchandra Divgi	Investors	49,430
Ashish Anant Divgi	Investors	1,04,020
Arun Ramdas Idgunji	Investors	33,660
Sanjay Bhalchandra Divgi	Investors	40,460

Number of share based on higher price band of INR 590

Source: Company Reports


DTTS financial summary and analysis

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22	Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22
Income Statement					Per share data & Yields				
Revenue	186.9	159.1	186.6	233.8	Adjusted EPS (INR)	13.2	9.2	12.4	15.1
YoY Growth (%)		(14.9)	17.3	25.3	Adjusted Cash EPS (INR)	15.2	11.3	14.9	18.8
Raw Material Cost	66.6	0.0	0.0	0.0	Adjusted BVPS (INR)	76.4	68.5	96.7	111.2
RM Cost to Sales (%)	35.6	0.0	0.0	0.0	Adjusted CFO per share (INR)	15.0	12.6	8.8	16.7
Employee Cost	16.3	17.4	21.8	22.5	CFO Yield (%)	2.5	2.1	1.5	2.8
Employee Cost to Sales (%)	8.7	10.9	11.7	9.6	Adjusted FCF per share (INR)	8.0	8.3	0.5	3.6
Other Expenses	50.1	104.5	112.7	145.4	FCF Yield (%)	1.4	1.4	0.1	0.6
Other Exp to Sales (%)	26.8	65.7	60.4	62.2	Solvency Ratio (X)				
EBITDA	53.9	37.1	52.1	65.8	Total Debt to Equity	0.0	0.0	0.0	0.0
Margin (%)	28.9	23.3	27.9	28.2	Net Debt to Equity	(0.5)	(0.7)	(0.5)	(0.5)
YoY Growth (%)		(31.2)	40.3	26.5	Net Debt to EBITDA	(2.3)	(4.0)	(3.0)	(2.6)
Depreciation & Amortization	6.2	6.4	7.6	11.4	Return Ratios (%)				
EBIT	47.8	30.7	44.5	54.5	Return on Equity	17.2	13.4	12.9	13.6
Margin (%)	25.6	19.3	23.8	23.3	Return on Capital Employed	14.7	10.9	10.9	11.9
YoY Growth (%)		(35.7)	44.7	22.5	Return on Invested Capital	43.9	51.4	32.4	32.6
Other Income	8.8	11.7	8.5	8.1	Working Capital Ratios				
Finance Cost	0.8	4.6	0.3	0.4	Payable Days (Nos)	40	53	78	62
Interest Coverage (X)	58.0	6.6	127.4	136.5	Inventory Days (Nos)	39	48	52	47
Exceptional Item	0.0	0.0	0.0	0.0	Receivable Days (Nos)	74	54	107	82
PBT	55.8	37.8	52.6	62.2	Net Working Capital Days (Nos)	73	49	81	67
Margin (%)	29.8	23.7	28.2	26.6	Net Working Capital to Sales (%)	19.9	13.3	22.3	18.4
YoY Growth (%)		(32.3)	39.2	18.3	Valuation (X)				
Tax Expense	15.5	9.7	14.5	16.0	P/E	44.8	64.4	47.4	39.1
Tax Rate (%)	27.8	25.7	27.6	25.7	P/BV	7.7	8.6	6.1	5.3
PAT	40.3	28.0	38.0	46.2	EV/EBITDA	31.1	44.6	31.6	24.8
Margin (%)	21.6	17.6	20.4	19.7	EV/Sales	9.0	10.4	8.8	7.0
YoY Growth (%)		(30.4)	35.7	21.3	Cash Flow Statement				
Min Int/Sh of Assoc	0.0	0.0	0.0	0.0	PBT	55.8	37.8	52.6	62.2
Net Profit	40.3	28.0	38.0	46.2	Adjustments	9.3	(5.7)	9.4	6.3
Margin (%)	21.6	17.6	20.4	19.7	Change in Working Capital	(3.6)	16.1	(20.5)	(1.4)
YoY Growth (%)		(30.4)	35.7	21.3	Less: Tax Paid	(15.5)	(9.7)	(14.5)	(16.0)
Balance Sheet					Cash Flow from Operations	46.0	38.4	27.0	51.1
Share Capital	6.9	6.0	6.9	13.8	Net Capital Expenditure	(21.6)	(13.1)	(25.5)	(39.9)
Total Reserves	226.6	203.5	289.0	326.2	Change in Investments	(68.4)	(11.2)	0.9	(11.2)
Shareholders Fund	233.6	209.5	295.9	340.0	Cash Flow from Investing	(90.0)	(24.3)	(24.6)	(51.1)
Long Term Borrowings	0.4	0.2	0.1	0.0	Change in Borrowings	(47.8)	2.9	(0.6)	(0.4)
Deferred Tax Assets / Liabilities	1.0	0.6	0.7	0.5	Less: Finance Cost	(0.8)	(4.6)	(0.3)	(0.4)
Other Long Term Liabilities	0.0	0.3	0.3	0.2	Proceeds from Equity	96.9	0.0	0.0	0.0
Long Term Trade Payables	0.0	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0	0.0
Long Term Provisions	2.7	4.4	4.8	4.8	Dividend Paid	0.0	(4.0)	(1.7)	(2.1)
Total Liabilities	237.7	215.1	301.9	345.5	Cash flow from Financing	48.3	(5.8)	(2.6)	(2.9)
Net Block	78.4	89.4	105.4	111.8	Net Cash Flow	4.3	8.3	(0.2)	(2.9)
Capital Work in Progress	6.1	1.0	2.8	16.8	Forex Effect	0.0	0.0	0.0	0.0
Intangible assets under development	2.8	5.2	3.4	11.7	Opening Balance of Cash	8.0	12.3	20.5	20.3
Non Current Investments	0.0	0.0	0.0	0.0	Closing Balance of Cash	12.3	20.5	20.3	17.4
Long Term Loans & Advances	3.9	3.5	1.6	1.5					
Other Non Current Assets	0.0	0.0	0.0	0.0					
Net Current Assets	146.5	116.0	188.6	203.7					
Total Assets	237.7	215.1	301.9	345.5					

Source: Ventura Research

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